THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in doubt as to any aspect of this circular or as to the action to be taken, you should consult a stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in **China Mining Resources Group Limited** (the "Company"), you should at once hand this circular, together with the enclosed form of proxy, to the purchaser or the transferee or to the bank or stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

This circular sets out the information with respect to the very substantial acquisition, continuing connected transactions and specific mandate to issue new shares and is for information only and does not constitute an invitation or offer to acquire, purchase or subscribe for any securities.

CHINA MINING RESOURCES GROUP LIMITED

中國礦業資源集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 00340)

VERY SUBSTANTIAL ACQUISITION: ACQUISITION OF 75.08% EQUITY INTERESTS IN HARBIN SONGJIANG, CONTINUING CONNECTED TRANSACTIONS, SPECIFIC MANDATE TO ISSUE NEW SHARES AND NOTICE OF SPECIAL GENERAL MEETING

Financial adviser to China Mining Resources Group Limited

ABN·AMRO

ABN AMRO Corporate Finance Asia Limited

Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders

VC CAPITAL LIMITED
滙盈融資有限公司

VC Capital Limited

A notice convening the special general meeting of the Company to be held on Friday, 8 June 2007 at 10:30 a.m. at Harcourt Room, Lower Lobby, Conrad Hong Kong, Pacific Place, 88 Queensway, Hong Kong is set out on pages 264 to 267 of this circular.

Whether or not you are able to attend the meeting, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Company's share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Room 1806–7, 18/F., Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the meeting or any adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending and voting at the meeting if you so wish.

* *For identification purposes only*

23 May 2007

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DEFINITIONS

In this circular, unless the context otherwise require, the following expressions have the following meanings:

"2006 After-tax Profit"	the audited consolidated profit after taxation of Harbin Songjiang Group as set forth in the audited consolidated accounts of Harbin Songjiang Group for the financial year ended 31 December 2006 which will be prepared in accordance with all applicable Hong Kong Financial Reporting Standards
"Acquisition"	the acquisition of the Sale Interests by the Company from the Vendors pursuant to the Sale and Purchase Agreement
"Announcement"	the Company's announcement dated 11 March 2007 in relation to the Acquisition
"associate(s)"	has the meaning ascribed to it in the Listing Rules
"Balinyouqi"	巴林右旗諾爾蓋銅礦有限公司 (Balinyouqi Nuoergai Copper Mining Co. Ltd.), a wholly-owned subsidiary of Chifeng Mining and indirectly owned as to 60% by Harbin Songjiang
"Board"	the board of Directors
"Chifeng Mining"	赤峰松江金劍礦業有限責任公司 (Chifeng Songjiang Jinjian Mining Limited Liability Company), a company incorporated in the PRC with limited liability, which is owned as to 60% by Harbin Songjiang and as to 40% by the Corporate Vendor
"Company"	China Mining Resources Group Limited (中國礦業資源集團有限公司*), an exempted company incorporated in Bermuda with limited liability, the Shares of which are listed on the Stock Exchange
"Completion"	completion of the Acquisition in accordance with the terms and conditions of the Sale and Purchase Agreement or such other date as the parties may agree in writing
"Completion Date"	the date on which Completion takes place being the third business day after the conditions precedent under the Sale and Purchase Agreement have been satisfied or waived as the case may be
"connected person(s)"	has the meaning ascribed to it under the Listing Rules
"Consideration"	the consideration for the Acquisition, being RMB1,807,881,000 (subject to downward adjustments)
"Continuing Connected Transactions"	Exempted Connected Transaction and Non-exempt Continuing Connected Transactions
"Corporate Vendor"	赤峰金劍銅業有限公司 (Chi Feng Jin Jian Copper Company Limited), a company incorporated in the PRC with limited liability, holding 3.24% equity interests in Harbin Songjiang

* *For identification purposes only*

"Cu"	Copper
"Director(s)"	the director(s) of the Company
"EBITDA"	being the earnings before interest, taxes, depreciation and amortization
"Enlarged Group"	the Group and Harbin Songjiang Group
"EV"	enterprise value which is defined as the sum of market capitalization, net debt, minority interests and preferred shares
"Exempted Connected Transaction"	provision of guarantee by the Corporate Vendor for the benefit of Harbin Songjiang
"Group"	collectively, the Company and its subsidiaries from time to time
"Harbin Songjiang"	哈爾濱松江銅業(集團)有限公司 (Harbin Songjiang Copper (Group) Company Limited), a company incorporated in the PRC with limited liability
"Harbin Songjiang Group"	collectively, Harbin Songjiang and its subsidiaries
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Independent Board Committee"	an independent committee of the Board appointed by the Directors to advise the Independent Shareholders in respect of the Non-exempt Continuing Connected Transactions
"Independent Shareholders"	such Shareholders who do not have a material interest in the Non-exempt Continuing Connected Transactions
"Independent Valuer"	Greater China Appraisal Limited, independent chartered valuation surveyors and property consultants
"Individual Vendors"	蘇慶玉 (Su Qingyu), 王世遠 (Wang Shiyuan), 吳延忠 (Wu Yanzhong), 賀啟奎 (He Qikui), 劉曉波 (Liu Xiaobo), 矯海龍 (Jiao Hailong), 韓殿生 (Han Diansheng), 鞠海坤 (Ju Haikun), 陳旭東 (Chen Xudong), 李洪勝 (Li Hongsheng), 董文學 (Dong Wenxue) and 陳士忠 (Chen Shizhong), together holding 71.84% equity interests in Harbin Songjiang
"kt"	kilo tonne
"Latest Practicable Date"	17 May 2007, being the latest practicable date for ascertaining certain information for inclusion in this circular
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange

"Master Supply Agreement"	a master supply agreement entered into by Harbin Songjiang (for itself and on behalf of its subsidiaries) with the Corporate Vendor on 26 April 2007 in relation to the supply of copper concentrates by Harbin Songjiang Group to the Corporate Vendor
"Mo"	Molybdenum
"Morgan Stanley"	Morgan Stanley Dean Witter Asia Limited and/or its affiliates
"Non-exempt Continuing Connected Transactions"	supply of copper concentrates by Harbin Songjiang Group to the Corporate Vendor
"PER"	price earnings ratio, being calculated by dividing the Company's current share price by its earnings per share. Earnings per share is defined as the net earnings divided by outstanding number of shares
"PRC"	the People's Republic of China
"Proposed Share Issue"	the proposed issue of not more than 1,135,539,885 new Shares (representing approximately 24.05% of all the issued Shares and 19.39% of the enlarged share capital of the Company as at the Latest Practicable Date) to professional and institutional investors, by way of private placement of new Shares which are proposed to be listed on the Stock Exchange
"RMB"	Renminbi yuan, the lawful currency of the PRC
"Sale and Purchase Agreement"	the sale and purchase agreement dated 11 March 2007 entered into between the Company and the Vendors under which the Vendors conditionally agreed to sell and the Company conditionally agreed to purchase the Sale Interests
"Sale Interests"	75.08% of the equity interests in Harbin Songjiang to be acquired from the Vendors
"SFO"	Securities and Futures Ordinance (Cap. 571) of the Laws of Hong Kong
"SGM"	a special general meeting of the Company to be held at Harcourt Room, Lower Lobby, Conrad Hong Kong, Pacific Place, 88 Queensway, Hong Kong at 10:30 a.m. on Friday, 8 June 2007 to approve the Acquisition, Non-exempt Continuing Connected Transactions and grant of specific mandate to allot and issue not more than 1,135,539,885 new Shares under the Proposed Share Issue
"Shareholders"	holders of Shares
"Shares"	ordinary shares of HK$0.10 each in the share capital of the Company
"Songjiang Copper Mine"	哈爾濱松江銅業股份有限公司 (Harbin Songjiang Copper Joint Stock Company Limited)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited

"t"	tonne
"Target Mining Sites"	the mining sites to be acquired under the Sale and Purchase Agreement, being 哈爾濱松江銅業(集團)有限公司五道嶺鉬礦 (Harbin Songjiang Copper (Group) Company Limited Wu Dao Ling Molybdenum Mine), 哈爾濱松江銅業股份有限公司 (Harbin Songjiang Copper Joint Stock Company Limited), 哈爾濱松江銅業(集團)有限公司小嶺鐵鋅礦 (Harbin Songjiang Copper (Group) Company Limited Xiao Ling Iron Zinc Mine), 額濟納旗喬倫恩格茨石英礦 (Ejinaqi Qiaolun Engeci Quartz Mine), 興安盟松江礦業有限責任公司察爾森硅石礦 (Xinganmeng Songjiang Mining Co. Ltd. Chaersen Silica Mine), 興安盟松江礦業有限責任公司查幹楚魯硅石礦 (Xinganmeng Songjiang Mining Co. Ltd. Zhaganchulu Silica Mine), 興安盟松江礦業有限責任公司五龍山硅石礦 (Xinganmeng Songjiang Mining Co. Ltd. Wulongshan Silica Mine), 河南省嵩縣凡台溝金礦詳查項目 (Detailed Investigation Project on Henan Provincial Song County Fan Tai Gou Gold Mine), 內蒙古興安盟科右前旗大橫山鉬鉛鋅多金屬普查項目 (General Investigation Project on Inner Mongolia Xinganmeng Ke You Qian Qi Da Heng Shan Molybdenum Lead Zinc Multi Metals), 內蒙古興安盟科右前旗呼合達坂鉛多金屬普查項目 (General Investigation Project on Inner Mongolia Xinganmeng Ke You Qian Qi Hu He Da Ban Lead Multi Metals), 內蒙古科右前旗海勒斯台護林站鉛多金屬普查項目 (General Investigation Project on Inner Mongolia Ke You Qian Qi Hai Le Si Tai Hu Lin Zhan Lead Multi Metals), 內蒙古自治區翁牛特旗小朝陽溝銅礦普查項目 (General Investigation Project on Inner Mongolia Weng Niu Te Qi Xiao Zhao Yang Gou Copper Mine), 黑龍江省哈爾濱市阿城區松峰山鎮二道河子銅鋅普查項目 (General Investigation Project on Heilongjiang Province Harbin City Acheng District Song Feng Shan Er Dao He Zi Copper Zinc) and 黑龍江省賓縣平坊鎮南搶子銅鋅普查項目 (General Investigation Project on Heilongjiang Province Bin County Ping Fang Zhen Nan Qiang Zi Copper Zinc)
"VAT"	Value Added Tax
"Vendors"	the Corporate Vendor and the Individual Vendors
"Wudaoling Molybdenum Mine"	哈爾濱松江銅業(集團)有限公司五道嶺鉬礦 (Harbin Songjiang Copper (Group) Company Limited Wu Dao Ling Molybdenum Mine)
"Xiao Ling Iron Zinc Mine"	哈爾濱松江銅業(集團)有限公司小嶺鐵鋅礦 (Harbin Songjiang Copper (Group) Company Limited Xiao Ling Iron Zinc Mine)
"Zn"	Zinc
"%"	per cent.

Translation of RMB into Hong Kong dollars are based on the exchange rates of RMB0.9909 to HK$1.00 for information purpose only. Such translations should not be construed as a representation that the relevant amounts have been, could have been, or could be converted at that or any other rate or at all.

CHINA MINING RESOURCES GROUP LIMITED
中國礦業資源集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 00340)

Executive Directors:
Mr. Cai Yuan
Mr. Luk Kin Peter Joseph
Mr. Yeung Kwok Kuen

Non-executive Director:
Mr. Lam Ming Yung

Independent Non-executive Directors:
Mr. Chan Siu Tat
Mr. Wong Hon Sum
Mr. Chu Kang Nam

Registered Office:
Clarendon House
Church Street
Hamilton, HM11
Bermuda

Principal place of business in Hong Kong:
Suites 3206–3211, 32/F
One International Finance Centre
1 Harbour View Street
Hong Kong

23 May 2007

To the Shareholders

Dear Sir or Madam,

VERY SUBSTANTIAL ACQUISITION: ACQUISITION OF 75.08% EQUITY INTERESTS IN HARBIN SONGJIANG, CONTINUING CONNECTED TRANSACTIONS, SPECIFIC MANDATE TO ISSUE NEW SHARES AND NOTICE OF SPECIAL GENERAL MEETING

INTRODUCTION

On 11 March 2007, the Board announced that on 11 March 2007, the Company entered into the Sale and Purchase Agreement with the Vendors, pursuant to which the Vendors have conditionally agreed to sell to the Company directly or through a wholly-owned subsidiary, and the Company has conditionally agreed to acquire directly or through a wholly-owned subsidiary, 75.08% equity interests in Harbin Songjiang at the Consideration of RMB1,807,881,000 (subject to downward adjustments). The Board would like to seek Shareholders' approval in respect of the Acquisition.

* *For identification purposes only*

In connection with the Acquisition, the Board has also announced on 22 May 2007 that the Board would also like to seek Shareholders' approval in respect of the Non-exempt Continuing Connected Transactions and grant of specific mandate to allot and issue not more than 1,135,539,885 new Shares (representing approximately 24.05% of the issued Shares and 19.39% of the enlarged share capital of the Company as at the Latest Practicable Date) under the Proposed Share Issue.

This circular is issued to provide to the Shareholders further details in relation to the Acquisition, Continuing Connected Transactions and Proposed Share Issue. The notice of the SGM is also contained in this circular.

THE SALE AND PURCHASE AGREEMENT

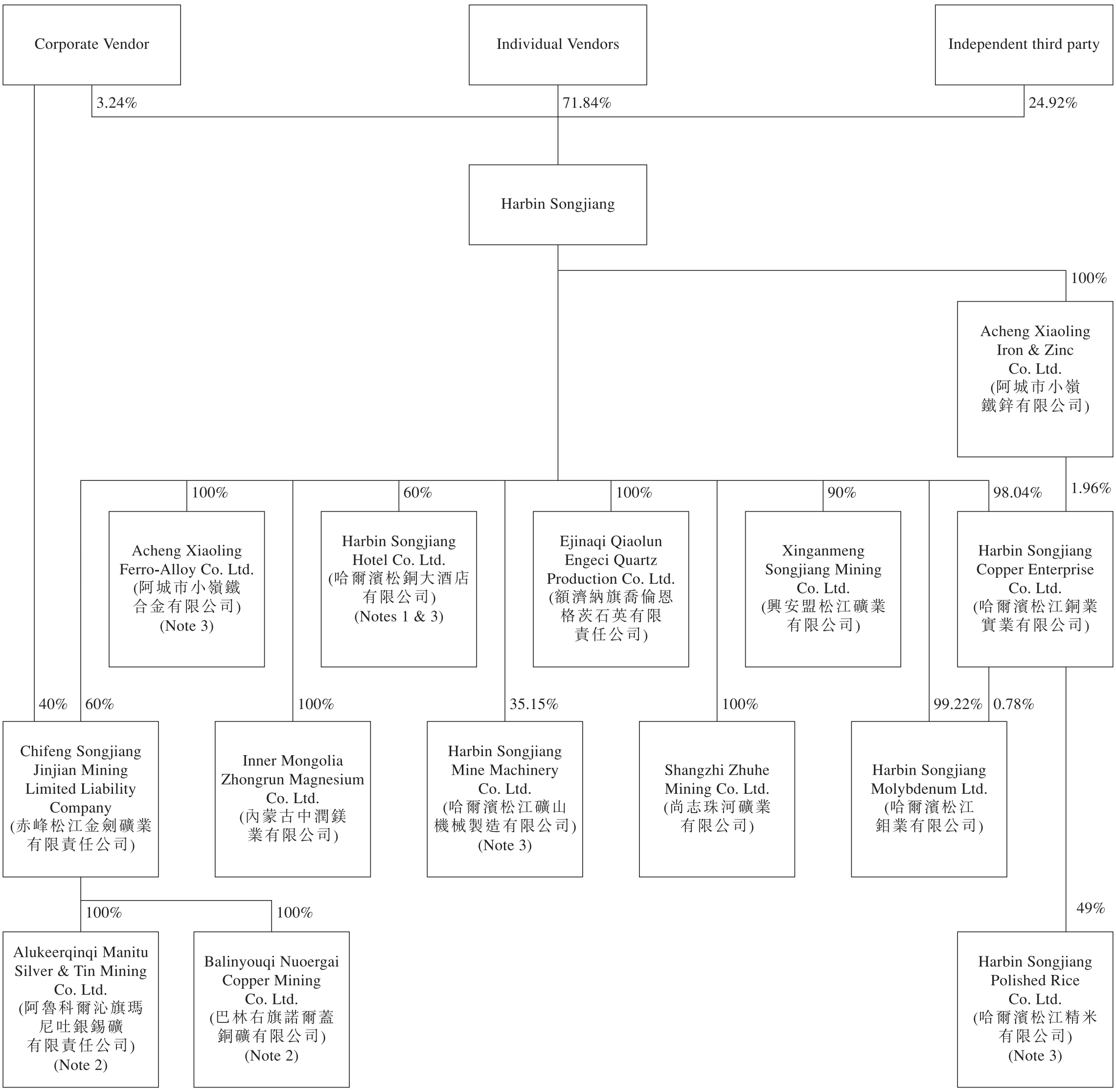
Date	11 March 2007
Parties	The Company, as purchaser. The Individual Vendors and the Corporate Vendor, as vendors. The Individual Vendors are, as at the Latest Practical Date, employees of Harbin Songjiang. The Corporate Vendor is a company incorporated in the PRC with limited liability. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Individual Vendors and the Corporate Vendor and their respective ultimate beneficial owners are third parties independent of the Company and the connected persons of the Company.

Subject matters

Subject to fulfillment of the conditions precedent described below, the Company has agreed to purchase directly or through a wholly-owned subsidiary, and the Vendors have agreed to sell to the Company directly or through a wholly-owned subsidiary, the Sale Interests at a total consideration for RMB1,807,881,000 (subject to downward adjustments as described in the section headed 'Consideration' below). The Consideration is to be paid in cash on the Completion Date.

Upon Completion, the Company will own 75.08% of the equity interests in Harbin Songjiang and the remaining 24.92% of the equity interests will continue to be held by an independent third party. The following charts show the approximate shareholding structure of Harbin Songjiang Group immediately before and after Completion:

Shareholding structure of Harbin Songjiang Group immediately before Completion

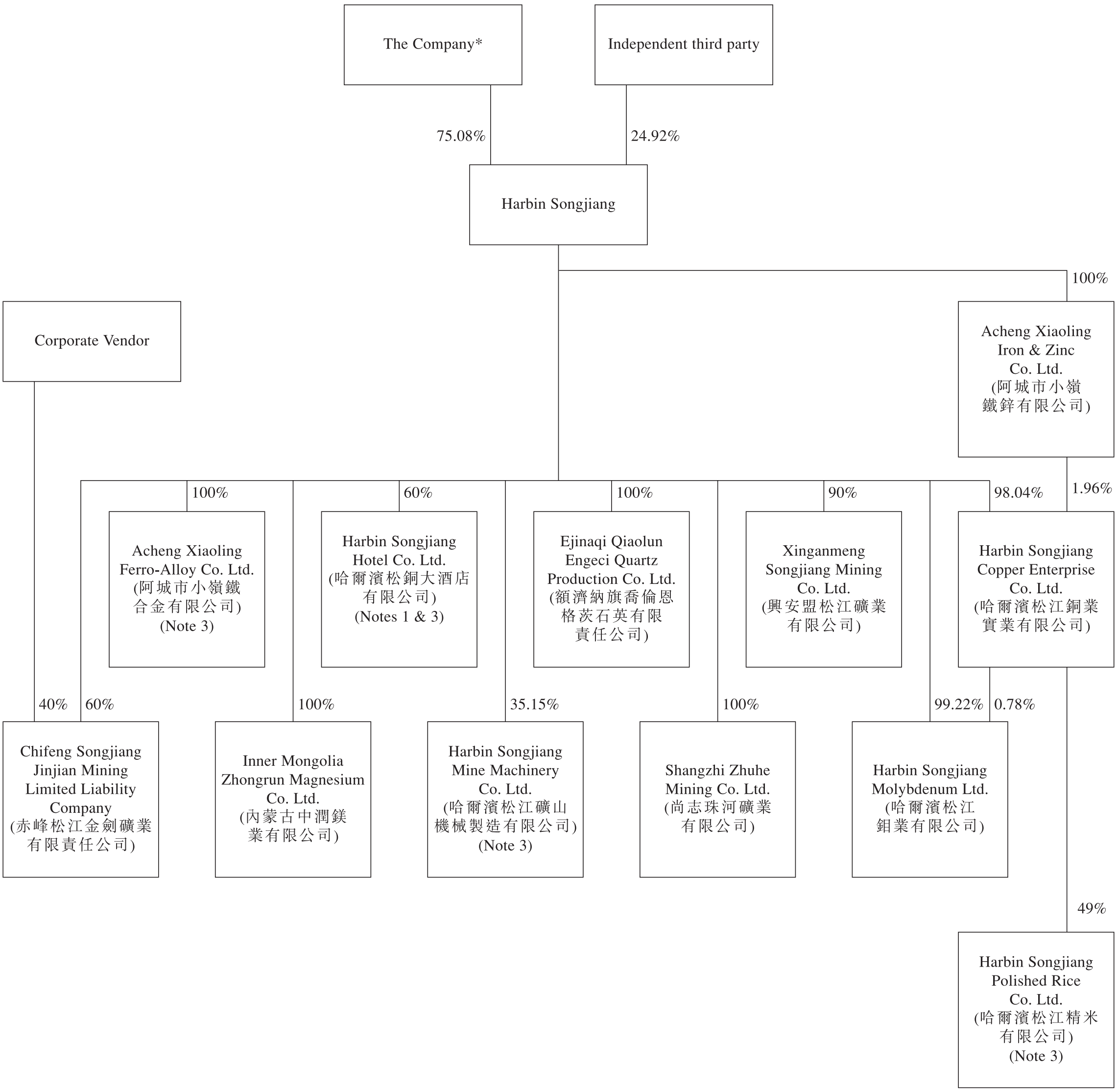


Note 1: Harbin Songjiang Hotel Co. Ltd. is in the process of being de-registered with the State Administration for Industry and Commerce. It presently does not have any business operation.

Note 2: It is one of the conditions precedent in the Sale and Purchase Agreement that this company will be disposed of before Completion.

Note 3: Pursuant to the Sale and Purchase Agreement, the Vendors undertake to dispose of this company before Completion. If the disposal has not been completed before Completion, the Vendors shall use their best endeavours to assist the Company to complete such disposal. The Company is not required to pay additional consideration if the disposal cannot be made before Completion.

Shareholding structure of Harbin Songjiang Group immediately after Completion



* *The Company may acquire and hold such interests through a wholly-owned subsidiary.*

Notes 1 and 3: please refer to the notes above.

Sale Interests to be acquired

The Sale Interests represent 75.08% of the equity interests in Harbin Songjiang to be acquired from the Corporate Vendor and the Individual Vendors. As at the Latest Practicable Date, the equity interests in Harbin Songjiang are held as to 71.84% by the Individual Vendors, 3.24% by the Corporate Vendor and 24.92% by an independent third party. The Company has agreed to acquire all (but not some part only) of the equity interests held by the Individual Vendors and the Corporate Vendor in Harbin Songjiang, and the independent third party has waived in favor of the Company its pre-emptive rights under the articles of association of Harbin Songjiang in respect of such transfers of equity interests by the Individual Vendors and the Corporate Vendor to the Company. Other than the independent third party's shareholding in Harbin

Songjiang, the Company does not have any relationship with the independent third party. The Company does not currently have any intention to acquire the remaining 24.92% interest in Harbin Songjiang Group from the independent third party.

Consideration

The total consideration for the Sale Interests is RMB1,807,881,000, payable in cash on the Completion Date and in Hong Kong dollars at the mid-range of the exchange rate quoted by the People's Bank of China on the business day prior to the Completion Date, provided that in the event that the 2006 After-tax Profit of Harbin Songjiang Group is less than RMB280,000,000, such Consideration will be adjusted downwards by applying a factor of 2006 After-tax Profit/RMB280,000,000.

The Consideration was determined after arm's length negotiations between the Vendors and the Company after undertaking a valuation which reflected, among other factors, the remaining life of Songjiang Copper Mine and Wudaoling Molybdenum Mine and their reserve base and resources, the financial position of Harbin Songjiang Group, the cost structure of Harbin Songjiang Group mining operation and the outlook for molybdenum, copper and zinc prices. The Consideration has also taken into account the capitalisation of earnings multiples (2006 PER and EV/EBITDA) for comparable international and PRC molybdenum, copper and zinc producers. Capitalisation of earnings multiples were assessed with respect to the comparability of companies to Harbin Songjiang Group. Key considerations included remaining life of operations and the relative earnings contribution of specific commodities. In determining Consideration, no value has been attributed to the additional five mining licenses and seven exploration licences. The reasoning for not attributing value included the absence of earnings contribution and defined ore reserves and mineral resources. The Consideration has further taken into account the technical expertise of the management team and their intention to stay with Harbin Songjiang Group and integrate into other mining operations of the Group including but not limited to the rutile mine in Shanxi, the PRC which the Group acquired in October 2006 after Completion. The Directors (including independent non-executive Directors) are of the opinion that the Consideration is fair and reasonable and on normal commercial terms.

Based on the exchange rate of RMB0.9909 to HK$1.00, the Consideration in Hong Kong dollars will be approximately HK$1,824,484,000.

Details of the pro forma information of the Enlarged Group are set out in Appendix III to this circular. Upon completion of the Acquisition, the intangible assets of the Enlarged Group increase by approximately HK$3,165,567,000 as a result of the fair value adjustments. It represents the adjustment on fair value of the mining rights of Songjiang Copper Mine and Wudaoling Molybdenum Mine and is based on the valuation of the enterprise value of Harbin Songjiang Group by reference to the current trading multiples of its peer group. No fair value adjustment was made to other intangible assets, including other exploitation licences and exploration licences, held by Harbin Songjiang Group.

The Company intends to focus on the mining operation of Songjiang Copper Mine and Wudaoling Molybdenum Mine. It has no current intention or plan to carry out any exploration activities under the seven exploration licences held by the relevant members of Harbin Songjiang Group.

Based on the information available to the Company and after making reasonable enquiries, the Company confirms that it and its subsidiaries do not have any prior transaction or relationship with each of the Vendors that would require aggregation under Rule 14.22 of the Listing Rules.

Conditions precedent

Completion is subject to, among other things, certain conditions precedent set out in the Sale and Purchase Agreement being satisfied or waived, including but not limited to the following:

(a) the Company being satisfied with the results of due diligence conducted on Harbin Songjiang Group in respect of their mining resources and their business operation, financial status, sales, assets, development prospects and other issues, including but not limited to receiving in form and content satisfactory to the Company the PRC legal opinion(s), technical review report, accountants' report and asset valuation report;

(b) all necessary consents, and approvals from and notices to any governmental authority for the performance of, and all third party consents, notices and waivers from third parties in respect of, the Sale and Purchase Agreement having been obtained;

(c) the passing of resolutions of the shareholders of Harbin Songjiang approving the Acquisition;

(d) the passing of resolutions of the board of directors or the shareholders of the Corporate Vendor approving the sale to the Company of the equity interest held by the Corporate Vendor in Harbin Songjiang as required by its Articles of Association;

(e) Harbin Songjiang receiving the approval certificate of foreign investment enterprise and the Sino-foreign joint venture business licence showing the Company as the foreign investor (such Sino-foreign joint venture business licence setting out a business scope for Harbin Songjiang which is satisfactory to the Company);

(f) the passing of resolutions of the Shareholders at the SGM approving the Acquisition;

(g) the Company having obtained sufficient funding to pay for the Consideration;

(h) the titles to all the properties and assets as set out in the Sale and Purchase Agreement having been registered under the names of the relevant subsidiaries of Harbin Songjiang Group;

(i) all the certificates and licences necessary for the business operation of Harbin Songjiang Group having been obtained and properly, legally and validly transferred and registered under the names of relevant members of Harbin Songjiang Group, as the case may be, and the consideration and expenses for the transfer and registration of such certificates and licences having been paid by instalments and/or fully paid;

(j) the intellectual property rights as set out in the Sale and Purchase Agreement having been registered under the names of the relevant subsidiaries of Harbin Songjiang Group;

(k) the representations and warranties contained in the Sale and Purchase Agreement being true and correct at all times;

(l) the execution of the service contracts by certain key management staff of Harbin Songjiang Group for a term of at least 3 years on terms satisfactory to the Company;

(m) all agreements for the restructuring have been signed and all internal approvals and third party consents (if any) for such restructuring have been obtained, and the disposal of 阿魯科爾沁瑪尼吐銀錫礦有限責任公司 (Alukeerqinqi Manitu Silver & Tin Mining Co. Ltd.) and Balinyouqi having been completed in accordance with the relevant PRC laws and regulations to the satisfaction of the Purchaser;

(n) any other conditions precedent to be proposed by the Purchaser after receiving the PRC legal opinion from its PRC legal advisers and completion of its due diligence on Harbin Songjiang Group; and

(o) there having not occurred since 1 January 2007 in relation to the business, assets and operations of any of Harbin Songjiang or its subsidiaries any unusual operations or any significant incidents involving liability for safe production or any material adverse changes or any material risks which were not previously disclosed.

As at the Latest Practicable Date, none of the conditions precedent above had been satisfied or waived by any party for the purpose of Completion.

If the conditions are not satisfied or waived (only by the Company for conditions (a), (g), (h), (i), (j), (l), (m), (n) and (o)) on or before 31 December 2007, the Company has the right to terminate the Sale and Purchase Agreement and neither party shall have any liability or obligation under the Sale and Purchase Agreement. In the event that any of the above conditions is waived, further announcement will be made by the Company as and when appropriate.

As disclosed above, condition (g) above may be waived by the Company. The Directors believe that such right provides flexibility to the Company to cater for the situation where the Vendors may accept deferred payment or payment by instalments in respect of the Consideration at a later stage.

The Sale and Purchase Agreement contains restrictions, amongst other things, with respect to the operation of the business of Harbin Songjiang Group from the date of the Sale and Purchase Agreement until Completion Date.

Completion

Completion shall take place on the third business day after the conditions precedent to the Sale and Purchase Agreement are all fulfilled or waived (as the case may be) or such other date as the parties shall agree in writing. The Acquisition will lapse if the conditions precedent are not fulfilled or waived (as the case may be) by 31 December 2007 or such other date as the parties shall agree in writing. In the event that Completion has not taken place by 31 December 2007, further announcement will be made by the Company.

INFORMATION ON THE GROUP

The Group is principally engaged in mining business including exploration and exploitation of natural rutile and processing and trading of rutile and titanium related products as well as provision of umbilical cord blood storage service.

The Group commenced its business in mining since November 2006 and the proposed Acquisition will further strengthen the Group's mining business. The Group has discontinued its businesses of trading of investments and trading of pharmaceutical ingredients and chemicals since July 2006 and has discontinued its business of property investment since November 2006. Notwithstanding that the Group has no current intentions to dispose of its umbilical cord blood storage business, the Directors will from time to time review the strategic direction of the Group and explore options to make further acquisitions or disposal of the Group's businesses for the benefits of the Shareholders, including the umbilical cord blood storage business.

INFORMATION ON HARBIN SONGJIANG GROUP

Harbin Songjiang was established in the PRC in January 1972 under the name of 松江銅礦 (Songjiang Copper Mine) as a state owned enterprise. In April 2005, Harbin Songjiang was converted into a non-state-owned limited liability company. It is currently owned as to 3.24% by the Corporate Vendor, 71.84% by the Individual Vendors and 24.92% by an independent third party, details of which are set out in the section headed "The Sale and Purchase Agreement" above.

Harbin Songjiang Group is principally engaged in mining and processing of molybdenum, copper and zinc, of which molybdenum accounts for the majority of its production and earnings. Molybdenum is a metal which has an exceptionally high melting point (approximately 2,625°C) and is principally used as an alloy agent in steel, cast iron and super alloy to enhance hardness, strength, toughness and resistance to wear and corrosion. Due to the limited number of substitutes for molybdenum in steel, alloying and other chemicals application, molybdenum remains a highly competitive commodity. Copper is a highly ductile metal with excellent electrical conductivity, and is used extensively in electrical, automotive and chemical industries. Zinc is a moderately-reactive metal and is primarily used in the production of galvanished steel (to prevent corrosion), metal alloys such as brass and various pigments.

Financial information of Harbin Songjiang Group

The audited consolidated financial information of Harbin Songjiang Group prepared in accordance with generally accepted accounting principles in Hong Kong from 16 March 2005 (being the date of 國有股權轉讓協議 (the agreement for transfer of state-owned shares) and 增資合同 (the agreement for increase of registered capital) entered into amongst the original and existing shareholders of Harbin Songjiang for the purpose of converting Harbin Songjiang into a limited liability company as described above) to 31 December 2005 and the financial year ended 31 December 2006 is set out in Appendix II to this circular.

Upon Completion, Harbin Songjiang will be owned as to 75.08% by the Company and 24.92% by an independent third party and will become a Sino-foreign equity joint venture company established under the laws of the PRC. Further, it will become a non-wholly owned subsidiary of the Company and its financial results will be consolidated with those of the Group.

Upon Completion, the board of directors of Harbin Songjiang will comprise 5 directors, of whom 4 will be appointed by the Group and 1 will be appointed by an independent third party. Although the Company has not decided the identities of the proposed directors of Harbin Songjiang, the directors to be appointed by the Group will be responsible for overseeing Harbin Songjiang's overall operations, the financial matters and the mining operations.

Dividend of RMB53,864,000 attributable to the year ended 31 December 2006 was proposed and paid by Harbin Songjiang in 2007.

It is one of the conditions precedent under the Sale and Purchase Agreement that the mining licences of Harbin Songjiang Group be properly, legally and validly transferred and registered under the names of relevant members of Harbin Songjiang Group. To the best of the Company's knowledge and understanding, an amount of RMB225,000,000 (approximately HK$227,066,000) for transfer of mining licenses of Songjiang Copper Mine, Wudaoling Molybdenum Mine and Xiao Ling Iron Zinc Mine from state-owned to privately-owned is the material additional amount that has to be incurred by Harbin Songjiang for its continuous operation. Save for the aforesaid amount, there is no further material expenditure required to be incurred by Harbin Songjiang for its continuous operation. Notwithstanding the aforesaid payment for the transfer of mining licence of Xiao Ling Iron Zinc Mine, the Company currently does not intend to carry out any mining operation in Xiao Ling Iron Zinc Mine.

Information on the Target Mining Sites

1. *Mining rights*

Pursuant to the Sale and Purchase Agreement, the relevant members of Harbin Songjiang Group have mining rights in the following mining sites which are located in the PRC upon Completion:

Target Mining Sites	Location	Area *(kilometers^2)*	Metals	Term of the mining rights	Holder of mining rights
Wudaoling Molybdenum Mine *(Note 1)*	Harbin, Heilongjiang Province	0.2799	Molybdenum	Expires in December 2009	Harbin Songjiang
Songjiang Copper Mine *(Note 1)*	Harbin, Heilongjiang Province	0.6555	Copper, zinc and lead	Expires in December 2019	Harbin Songjiang
Xiao Ling Iron Zinc Mine *(Note 1)*	Harbin, Heilongjiang Province	0.1213	Iron and zinc	Expires in February 2010	Harbin Songjiang
額濟納旗喬倫恩格茨石英礦 (Ejinaqi Qiaolun Engeci Quartz Mine) *(Notes 2 and 3)*	Inner Mongolia Autonomous Region	0.85	Quartz	Expires in March 2007	Ejinaqi Qiaolun Engeci Quartz Production Co. Ltd.
興安盟松江礦業有限責任公司察爾森硅石礦 (Xinganmeng Songjiang Mining Co. Ltd. Chaersen Silica Mine) *(Note 2)*	Inner Mongolia Autonomous Region	0.0181	Limestone	Expires in December 2009	Xinganmeng Songjiang Mining Co. Ltd.
興安盟松江礦業有限責任公司查幹楚魯硅石礦 (Xinganmeng Songjiang Mining Co. Ltd. Zhaganchulu Silica Mine) *(Note 2)*	Inner Mongolia Autonomous Region	0.01	Limestone	Expires in December 2009	Xinganmeng Songjiang Mining Co. Ltd.
興安盟松江礦業有限責任公司五龍山硅石礦 (Xinganmeng Songjiang Mining Co. Ltd. Wulongshan Silica Mine) *(Note 2)*	Inner Mongolia Autonomous Region	0.4348	Limestone	Expires in December 2009	Xinganmeng Songjiang Mining Co. Ltd.

Note 1: The mining rights are state-owned and Harbin Songjiang has submitted an application to 黑龍江省國土資源廳 (Geological and Resources Department of Heilongjiang Province) for the transfer of the mining rights to privately-owned rights held by the relevant subsidiaries of Harbin Songjiang. Pursuant to condition precedent (i) of the Sale and Purchase Agreement as stated above, such transfer of mining rights is intended to be completed before the Completion. The estimated transfer costs for Wudaoling Molybdenum Mine, Songjiang Copper Mine and Xiao Ling Iron Zinc Mine are RMB160,000,000, RMB60,000,000 and RMB5,000,000, respectively.

Note 2: The mining rights are privately-owned.

Note 3: The mining rights in respect of 額濟納旗喬倫恩格茨石英礦 (Ejinaqi Qiaolun Engeci Quartz Mine) expired in March 2007 and the relevant member of Harbin Songjiang Group is in the process of renewing the mining rights.

2. *Exploration rights*

As at the Latest Practicable Date, relevant members of Harbin Songjiang Group have exploration rights in the following mining sites in the PRC:

Target Mining Sites	Location	Area *(kilometers^2)*	Term of the exploration rights	Holder of exploration rights
河南省嵩縣凡台溝金礦詳查項目 (Detailed Investigation Project on Henan Provincial Song County Fan Tai Gou Gold Mine)	Henan	4.62	Expires on 30 December 2007	Harbin Songjiang
內蒙古興安盟科右前旗大橫山鉬鉛鋅多金屬普查項目 (General Investigation Project on Inner Mongolia Xinganmeng Ke You Qian Qi Da Heng Shan Molybdenum Lead Zinc Multi Metals)	Inner Mongolia Autonomous Region	8.34	Expires on 20 September 2008	Harbin Songjiang
內蒙古興安盟科右前旗呼合達坂鉛多金屬普查項目 (General Investigation Project on Inner Mongolia Xinganmeng Ke You Qian Qi Hu He Da Ban Lead Multi Metals)	Inner Mongolia Autonomous Region	53.73	Expires on 20 September 2008	Harbin Songjiang
內蒙古科右前旗海勒斯台護林站鉛多金屬普查項目 (General Investigation Project on Inner Mongolia Ke You Qian Qi Hai Le Si Tai Hu Lin Zhan Lead Multi Metals)	Inner Mongolia Autonomous Region	5.32	Expires on 20 September 2008	Harbin Songjiang
內蒙古自治區翁牛特旗小朝陽溝銅礦普查項目 (General Investigation Project on Inner Mongolia Weng Niu Te Qi Xiao Zhao Yang Gou Copper Mine)	Inner Mongolia Autonomous Region	12.62	Expires on 30 December 2007	Harbin Songjiang
黑龍江省哈爾濱市阿城區松峰山鎮二道河子銅鋅普查項目 (General Investigation Project on Heilongjiang Province Harbin City Acheng District Song Fang Shan Er Dao He Zi Copper Zinc)	Harbin, Heilongjiang Province	2.41	Expires on 27 March 2009	Harbin Songjiang
黑龍江省賓縣平坊鎮南搶子銅鋅普查項目 (General Investigation Project on Heilongjiang Province Bin County Ping Fang Zhen Nan Qiang Zi Copper Zinc)	Harbin, Heilongjiang Province	3.61	Expires on 27 March 2009	Harbin Songjiang

The Company's PRC legal advisers have confirmed that the Vendors are the registered owners of their respective interests in Harbin Songjiang. Save as disclosed above, the relevant members of Harbin Songjiang Group are the registered holders of the above mining rights and exploration rights as at the date of this circular. As disclosed above, certain mining rights are state-owned and the Company understands that Harbin Songjiang has submitted an application to 黑龍江省國土資源廳 (Geological and Resources Department of Heilongjiang Province) for the transfer of those mining rights to privately-owned rights held by the relevant subsidiaries of Harbin Songjiang. It is one of the conditions precedent of the Sale and Purchase Agreement that all the certificates and licences necessary for the business operation of Harbin Songjiang Group having been obtained and properly, legally and validly transferred and registered under the names of relevant members of Harbin Songjiang Group. Pursuant to the Sale and Purchase Agreement, the Company may waive such condition precedent. So far as the Company is aware having made all reasonable enquiries, there is no claim in relation to the exploration rights made or notified by third parties against the Company or vice versa.

The Company's PRC legal advisers have advised that since 16 March 2005, Harbin Songjiang Group has complied with the relevant laws and regulations in relation to environmental protection and pollution prevention and the national standards for discharging pollutants from its operating activities and does not have any record for being penalized for breach of any laws and regulations in relation to the environmental protection and pollution prevention.

According to technical assessment report issued by Behre Dolbear Asia, Inc., an independent technical advisor, which has been commissioned by the Company to review relevant aspects of the Target Mining Sites as set out in Appendix VI to this circular, the summary of estimated mineral resources of molybdenum, copper and zinc of Songjiang Copper Mine and Wudaoling Molybdenum Mine as at 31 December 2006 are as follows:

Wudaoling Molybdenum Mine

JORC Mineral Resource Category	Tonnage (kt)	Grades (%) Mo	Contained Metals (t) Mo
Measured	10,720	0.382	40,900
Indicated	12,830	0.213	27,400
Subtotal	**23,550**	**0.290**	**68,300**
Inferred	4,040	0.150	6,100
Total	**27,590**	**0.270**	**74,400**

Songjiang Copper Mine

JORC Mineral Resource Category	Tonnage	Grades (%)		Contained Metals (t)	
	(kt)	Cu	Zn	Cu	Zn
Sulfide Resources					
Measured	1,940	1.17	1.65	22,700	31,900
Indicated	330	1.01	1.54	3,300	5,100
Subtotal	**2,270**	**1.15**	**1.63**	**26,000**	**37,000**
Inferred	250	1.19	0.15	3,000	400
Total	**2,520**	**1.15**	**1.48**	**29,000**	**37,400**
Oxide Resources					
Inferred	**490**	**1.45**	**0.80**	**7,100**	**3,900**

Summary of key steps required for application for, and renewal of, mining and exploration licences

The ownership of all mineral resources in the PRC belongs to the PRC government. A qualified exploration or mining company may apply for licences of exploration rights or mining rights in a designated area for a specific period of time for production purposes. The licensing of mining rights also grants exploration rights within the designated mine area for the licensee's production purposes. The validity of a mining right can be extended until the mining of proved reserves within a designated area has been completed, subject to the approval of the relevant regulatory authorities.

As advised by the PRC legal advisers to the Company, after Completion, the relevant members of Harbin Songjiang Group may (1) apply for mining licences in respect of those Target Mining Sites with exploration rights, (2) renew the mining licences in respect of those Target Mining Sites with mining rights and (3) renew the exploration licences in respect of those Target Mining Sites with exploration rights in accordance with the following key steps under the PRC laws after Completion:

1. *Application for mining licences*

The relevant members of Harbin Songjiang Group may apply for mining licences in respect of those Target Mining Sites with exploration rights. It is necessary for the relevant members of Harbin Songjiang Group to apply for mining licences by way of lodging an application with the relevant authority. They shall apply to the registration and administration authority for designated mining areas based on the approved geological exploration and reserves report together with relevant documents such as their qualifications certificate, proposal for development and use of mineral resources and environmental report. When the application for registration is approved, they shall pay the royalty for the mining rights.

2. *Renewal of mining licences*

According to the Administrative Measures on Registration of Mineral Resources Exploitation (礦產資源開採登記管理辦法), the relevant members of Harbin Songjiang Group shall apply for the renewal of the mining licence at least 30 days prior to the expiry date of the mining licence. Pursuant to the Written Reply Regarding the Matters on the Registration Procedures of Renewal of Mining Licence (關於辦理採礦許可證延續登記手續有關問題的復函) issued by the Bureau of Land Resources, the relevant PRC authority may consider various matters including the conduct of the applicant and the term of the mining licence in approving the application.

3. *Renewal of exploration licences*

According to the Administrative Measures on Registration of Mineral Resources Investigated Area (礦產資源勘查區塊登記管理辦法), the relevant members of Harbin Songjiang Group shall apply for the renewal of the exploration licence at least 30 days prior to the expiry date of the exploration licence. The term of each renewal will not be longer than 2 years.

The PRC legal advisers are of the view that the relevant members of Harbin Songjiang Group would not face any major legal obstacles in obtaining and renewing the mining and exploration licences in respect of the Target Mining Sites. If Harbin Songjiang Group is able to comply with the requirements under the applicable PRC laws and regulations, which include, inter alia, (1) Harbin Songjiang Group wishes to exploit the natural resources upon the expiry of the relevant mining licence; (2) there is no dispute in respect of the relevant mining rights; (3) the holder of the mining rights has paid the relevant fees; and (4) the original mining rights held by the holder is legal and valid, then Harbin Songjiang Group should be able to renew the mining rights. Based on the information available to the PRC legal advisers to Harbin Songjiang Group, they are not aware of any matters that would hinder it from renewing the relevant mining rights. Save for the mining rights in respect of Songjiang Copper Mine, Wudaoling Molybdenum Mine and Xiao Ling Iron Zinc Mine which are State-owned, the PRC legal advisers confirm that the rest of the exploration and mining rights held by the respective holders are legal and valid. The applications to transfer the mining rights from state-owned to privately-owned are being processed by the relevant authorities in relation to Songjiang Copper Mine, Wudaoling Molybdenum Mine and Xiao Ling Iron Zinc Mine.

REASONS FOR THE ACQUISITION

As stated in its 2006 interim report, the Group plans to be dynamic and strive for strategic acquisitions, which can enhance the performance of the Group.

In view of the increase in demand for natural resources and energy in the world and the increase in the prices of metals over the past years, the Directors are optimistic about the future prospect of the demand for natural resources and the energy industry taking into account that the sustainable economic growth of the PRC and the national consumption of the metals. The Directors therefore believe that the Acquisition provides an opportunity for the Group to enhance investment returns for the Group. To strengthen the expertise of the Group's management in the mining business, the Company currently intends to appoint some of the key senior management of Harbin Songjiang Group, including Mr. Dong Wenxue (董文學) and Mr. Wang Hui (王輝), as Directors upon Completion and contribute their knowledge and experience to the Group in its development and expansion in the mining industry. Mr. Dong is the chairman and managing director of Harbin Songjiang and will be the key person responsible for the management and day to day supervision of the operation of the Target Mining Sites. Mr. Wang has been the chief advisor of Harbin Songjiang since 2002 and has since assisted Harbin Songjiang in its strategic planning and development and assessing and procuring suitable mining acquisition opportunities. The Board considers the Group can benefit from their expertise after the Completion. The Directors, including the independent non-executive Directors, consider that the terms of the Acquisition (including the Consideration and the payment methods thereof) are fair and reasonable and on normal commercial terms and in the interest of the Company and the Shareholders as a whole.

FINANCING OF THE ACQUISITION

The Company intends to fund the Acquisition by issuance and placement of new Shares. Morgan Stanley has been appointed as financial advisor to the Company in respect of placement of new Shares. The Company proposes to seek Shareholders' approval in respect of a specific mandate to issue new Shares, details of which are set out in the section headed "Specific Mandate for Fund Raising" below.

MANAGEMENT DISCUSSIONS AND ANALYSIS ON THE GROUP AND HARBIN SONGJIANG GROUP

The management discussion and analysis of the Group and Harbin Songjiang Group are set out in Appendix I and Appendix IV to this circular respectively.

FINANCIAL EFFECTS OF THE ACQUISITION

Upon Completion, Harbin Songjiang Group will become a non-wholly owned subsidiary of the Company and its financial results will be consolidated with those of the Group.

Set out below is a summary of the unaudited pro forma financial information of the Group before and after the Completion, prepared on the bases set out on page 150 of this circular and details of which are set out in Appendix III to this circular:

	Before Completion	After Completion
	HK$'000	*HK$'000*
Total assets	2,172,179	6,825,423
Total liabilities	239,759	2,251,097
Total net assets	1,932,420	4,574,326
Net current assets	256,710	367,283
Gearing ratio (total liabilities/total assets)	11%	33%

As set out above, upon Completion:

(i) the total assets of the Enlarged Group will increase by 214%, mainly attributable to the acquisition of assets from Harbin Songjiang Group including property, plant and equipment, leasehold land, intangible assets and trade receivables;

(ii) the total liabilities of the Enlarged Group will increase by 839%, mainly attributable to the acquisition of Harbin Songjiang Group. The major components of the liabilities acquired including bank loans, trade payables and taxation payables;

(iii) the net current assets of the Enlarged Group will increase by 43% as a result of the acquisition of Harbin Songjiang Group. The main components including trade receivables, cash and cash equivalents, trade payables, bank loans and current taxation payables; and

(iv) the gearing ratio of the Enlarged Group will increase from 11% before the Completion to 33% after Completion because of the increase of the total liabilities and the total assets of the Enlarged Group mentioned above.

For details of the unaudited pro forma financial information on the Enlarged Group after Completion and its basis of preparation, please refer to Appendix III to this circular.

BUSINESS PROSPECTS OF THE ENLARGED GROUP

Upon Completion, the Group will be engaged in the mining business in the PRC, including the exploitation and processing of molybdenum, copper and zinc as well as exploration and exploitation of natural rutile and processing and trading of rutile and titanium related products. As stated in the section headed "Reasons for the Acquisition" above, the Directors consider that with the continued increase in the demand in natural resources, the Acquisition will strengthen the Group's development in the mining business and enhance the overall performance and returns to the Shareholders. The Company will continue to pursue any investment opportunities which can enhance the development and growth of business of the Group.

The Group will also continue its business in provision of umbilical cord blood storage service. Notwithstanding that the Company has no current intentions to dispose of its umbilical cord blood storage business, the Directors will from time to time review the strategic direction of the Group and explore options to make further acquisitions or disposal of the Group's businesses for the benefits of the Shareholders, including the umbilical cord blood storage business.

RISKS RELATING TO THE ACQUISITION

Risks relating to the Acquisition are set out as below. Additional risks and uncertainties that are not presently known to the Enlarged Group, or not expressed or implied below, or that it currently deems to be immaterial, could also have a material adverse effect on the Enlarged Group's business, financial condition and results of operations.

1. As set out under the section headed "Summary of key steps required for application for, and renewal of, mining and exploration licences" above, after Completion, the relevant members of Harbin Songjiang Group may renew the mining licences in respect of Songjiang Copper Mine and Wudaoling Molybdenum Mine. As advised by the PRC legal advisers to the Company, the relevant members of Harbin Songjiang Group would not face any major legal obstacles in obtaining and renewing the mining licences in respect of Songjiang Copper Mine and Wudaoling Molybdenum Mine and based on the information available to the Company's PRC legal advisers, they are not aware of any matters that would hinder the relevant members of Harbin Songjiang Group from renewing the relevant mining licences. However, there can be no assurance that the relevant members of Harbin Songjiang Group will be able to renew their mining licences on favorable terms, or at all, once such mining rights expire. Any problems, delay, rejection arises in renewing the relevant mining licences may in turn materially and adversely affect the mining operations of the Enlarged Group.

2. The reserves and resources data set forth in this circular represent estimates and is based on a number of assumptions conforming to the JORC Code. Ore resources and reserves estimates are inherently prone to variability. They involve expressions of judgment with regard to the presence and grade of mineralization and the ability to extract and process the mineralization economically. These judgments are based on a variety of factors, such as knowledge, experience and industry practice. The accuracy of these estimates may be affected by many factors, including the quality of the results of drilling and sampling of the orebodies and analysis of the ore samples and the procedures adopted and experience of the person(s) making the estimates. The estimated mineral resources and ore reserve may differ from the actual mine reserves in tonnage, quality and feasibility. One should not assume that the resources estimates are capable of being directly reclassified as reserves under the JORC Code. The inclusion of resources estimates should not be regarded as a representation that these amounts can be exploited economically. Any material discrepancies will adversely affect the profitability of the Enlarged Group's mining operations.

3. The profitability of the Enlarged Group's mining operations may be affected by fluctuations in the market price of molybdenum, copper and zinc and cyclical nature of the domestic and international market. As most of the future revenue from the operations of Songjiang Copper Mine and Wudaoling Molybdenum Mine will come from the sale of molybdenum, copper and zinc and their related products, the earnings from these operations will be closely related to both global and domestic prices and demand for such metals. These fluctuations may be influenced by numerous factors which are beyond the control of the Enlarged Group, including the global mine production, global and PRC economics conditions and industrial demand. Any sustained adverse movements in molybdenum, copper and zinc prices are expected to have a negative impact on the Enlarged Group's financial condition and results of operations of Songjiang Copper Mine and Wudaoling Molybdenum Mine.

4. The Enlarged Group's operations are subject to a variety of regulations of the PRC government. These regulations affect many aspects of the Enlarged Group's mining operations and include export quota, export tariff rate, export duty reimbursement, industry-specific taxes and fees,

custom duties, business qualifications, and environmental and safety standards. As a result, the Enlarged Group may face significant constraints on its ability to implement its business strategies, develop or expand its business operations or maximize its profitability. Its mining business may also be materially and adversely affected by future changes in regulations and policies of the PRC Government applicable to the molybdenum, copper and zinc industries.

5. The Enlarged Group faces increasing competition from both domestic and international molybdenum, copper and zinc producers. Should there be any significant increases in the number of project for such metals in the PRC, competition would be intensified. Increase in competition may have adverse effects on the sales, the selling prices and the competitiveness of the Enlarged Group's mining products. Should the Enlarged Group be unable to cope with the changing market conditions or satisfy the standard and preference of its customers, the business, financial condition and profitability of the Enlarged Group's mining operation will be adversely affected.

6. The Enlarged Group's mining operations are subject to PRC environmental laws and regulations relating to land, forest, air and water quality, waste management and public health and safety. The Enlarged Group is also subject to pollutant discharge fees for the discharge or emission of various substances including waste water. The costs and expenditures for environmental regulatory compliance will increase if the environment protection laws and regulations become more stringent. The Enlarged Group's operating and other expenses may materially increase for the compliance with new environmental laws or regulations in the future or the measures to be taken to tackle unanticipated environmental effect resulted from the Enlarged Group's mining operation. Any failure to comply with the environmental laws and regulations or the occurrence of any unanticipated environmental effect resulted from the Enlarged Group's mining operations could subject the Enlarged Group to governmental measures and penalties, including warnings, orders to carry out remedial actions within a prescribed period, orders to suspend production and operation, closure of business, and civil claims for losses suffered.

7. The operations of Songjiang Copper Mine and Wudaoling Molybdenum Mine are carried out in the PRC. Any adverse changes in economic policy, political situation and legal development in the PRC will affect the revenue generated therefrom.

8. The Enlarged Group's mining and processing operations of Songjiang Copper Mine and Wudaoling Molybdenum Mine are subject to a number of operating risks and hazards including unexpected maintenance or technical problems, industrial accidents, periodic interruptions due to hazardous weather conditions and natural disasters, fires, earthquakes, flooding and unusual or unexpected variations in mineralization, geological or mining conditions. Such risks and hazards could result in disruptions to the mining operation, delay the production and delivery of molybdenum, copper and zinc products or increase the costs of mining and processing operations or personal injuries and therefore adversely affect the Enlarged Group's financial condition and results of mining operation.

9. Electricity is one of the main energy sources used for mining operation. As there can be no assurance that the Enlarged Group will always have adequate and uninterrupted supply of electricity in the future, any suspension or shortage of electricity supply may result in interruption to the mining operations. In addition, increase in the price of electricity may result in the increase in the mining operating costs of the Enlarged Group.

10. Any occurrence of accidents may disrupt the mining operation of the Enlarged Group and may result in mandatory suspension of operation, financial losses, compensatory claims, fines, penalties or damage to the reputation of the Enlarged Group.

11. The Enlarged Group's mining operation involves significant risks. For instance, improper handling and storage of dangerous articles such as explosives may lead to explosions which could lead to injury or death or economic loss of the Enlarged Group. Should there be any accidents occur or should the Enlarged Group be liable for such accidents, it may result in economic loss to and penalty for the Enlarged Group.

Please also refer to the section headed "Risk Analysis" in the technical assessment report as set out in Appendix VI to this circular.

APPOINTMENT OF DIRECTORS

The Company currently intends to appoint some of the key senior management of Harbin Songjiang Group, including Mr. Dong Wenxue (董文學) and Mr. Wang Hui (王輝), as Directors upon Completion. Further announcement will be made as and when appropriate.

Mr. Dong Wenxue (董文學), aged 55, is the chairman and managing director of Harbin Songjiang. He graduated from Harbin Institute of Technology in 1996. Mr. Dong is a mining expert and has had over 30 years of experience in the mining industry. He has been the head of 松江銅業股份公司銅礦 (Songjiang Copper Joint Stock Company Copper Mine) from 1991 to 1997 and has been the chairman and managing director of Harbin Songjiang since 1997. He is responsible for the overall strategies, management and operations of the Harbin Songjiang Group's mining business. Mr. Dong is a senior political work professional and an engineer. He has been the Secretary of the Party Committee from 1991 to 2005. He was granted the title of National Model Worker in the Nonferrous Industry in 1993, Outstanding Middle-aged and Youth Expert of Heilongjiang Province in 1996, Model Worker of Harbin City in 1996, Top 10 Entrepreneurs of Harbin City in 1997 and 1998 and Outstanding Member of the Communist Party in 1995. Mr. Dong is one of the Individual Vendors and owns 1.62% equity interest in Harbin Songjiang as at the Latest Practicable Date.

Mr. Wang Hui (王輝), aged 48, is the deputy managing director of Harbin Songjiang. He graduated from Harbin Normal University in 1984. He has been the chief advisor of Harbin Songjiang since April 2002 who has mainly assisted Harbin Songjiang in assessing and procuring exploration and mining projects, evaluating scale of mining operations and improving corporate governance of the then state-owned enterprise. He officially joined Harbin Songjiang in November 2005 and has extended his responsibilities to formulation and execution of Harbin Songjiang Group's overall business strategies and policies and spearheading the growth of Harbin Songjiang Group's business. He is a senior economist. Save as his above roles in Harbin Songjiang, Mr. Wang is independent from any of the Vendors.

The Board currently does not have any intention to change its chairman or deputy chairman immediately upon Completion. The Board may from time to time discuss the future development of the Company and it may consider the possible change in position of its chairman or deputy chairman if that is to the best benefit and interest of the Company.

CONTINUING CONNECTED TRANSACTIONS

The Company has been conducting its due diligence on Harbin Songjiang Group pursuant to condition precedent (a) of the Sale and Purchase Agreement. During the course of due diligence, the Directors have identified the following Exempted Connected Transaction and Non-exempt Continuing Connected

Transactions with Harbin Songjiang Group which are, if applicable, subject to the reporting, announcement and shareholders' approval requirements under Chapter 14A of the Listing Rules that may arise after Completion.

The Shareholders are reminded that the following Exempted Connected Transaction and Non-exempt Continuing Connected Transactions will only arise upon Completion. The Exempted Connected Transaction and Non-exempt Continuing Connected Transactions may or may not arise, depending on Completion.

Exempted Connected Transaction

(A) ***Provision of guarantee by the Corporate Vendor for the benefit of Harbin Songjiang***

Prior to the Acquisition, the Corporate Vendor executed a guarantee dated 27 January 2007 in favour of China Construction Bank, Acheng sub-branch with an amount of guarantee of up to an amount of RMB120,000,000 without charging for any guarantee fee or obtaining any counter-indemnity. Such guarantee was provided in connection with an underlying RMB loan contract up to an amount of RMB120,000,000 between China Construction Bank, Acheng sub-branch as lender and Harbin Songjiang as borrower. The maturity date of the guarantee would be two years after the deadline for performance in respect of the underlying RMB loan contract. The loan and credit facilities under the underlying RMB loan contract are necessary to support the business of Harbin Songjiang Group.

As the Corporate Vendor owns a 40% equity interest in Chifeng Mining, it will become a connected person of the Company immediately following Completion and such guarantee will constitute financial assistance and connected transaction for the Company. However, upon Completion, the financial assistance will be provided by a connected person for the benefit of the Group on normal commercial terms (or better to the Group) where no security over the assets of the Group will be granted in respect of the financial assistance and it will therefore be exempt from the reporting, announcement and independent shareholders' approval requirements pursuant to Rule 14A.65(4) of the Listing Rules.

Non-exempt Continuing Connected Transactions

(B) ***Supply of copper concentrates by Harbin Songjiang Group to the Corporate Vendor***

Since 1992, members of Harbin Songjiang Group have been supplying copper concentrates to the Corporate Vendor under certain mining products purchase/sale contracts. Such mining products purchase/sale contracts have already expired in April 2007.

Such supply of copper concentrates will continue after Completion and will be governed by the Master Supply Agreement under which:

(1) Harbin Songjiang Group has agreed to supply copper concentrates to the Corporate Vendor;

(2) its term shall commence from the date of Completion to 31 December 2009;

(3) the purchase price will be determined based on arm's length negotiations between the Corporate Vendor and Harbin Songjiang Group with reference to the market value of copper, gold and silver contents in the copper concentrates, grades of metals and parameters reflecting the treatment and refining charges incurred to produce copper anodes from copper concentrates; and

(4) the purchase price will be paid by the Corporate Vendor within 10 days after the end of each monthly in arrears.

The Master Supply Agreement is non-exclusive on the part of Harbin Songjiang Group and the Corporate Vendor.

The Corporate Vendor is principally engaged in the businesses of smelting of copper and production and sales of copper anode. Save for the Acquisition, there are no prior transactions or relationship between the Corporate Vendor and the Group before Completion which require aggregation under 14A.25 of the Listing Rules.

The Master Supply Agreement will take effect upon fulfillment of the following conditions:

(a) Completion; and

(b) the approval of the Master Supply Agreement by the Independent Shareholders by way of an ordinary resolution passed at the SGM having been obtained.

As the Corporate Vendor owns a 40% equity interest in Chifeng Mining, it will become a connected person of the Company immediately following Completion and the transactions contemplated under the Master Supply Agreement will constitute non-exempt continuing connected transactions for the Company under Rule 14A.16(5) of the Listing Rules by virtue of the fact that each of the relevant percentage ratios (other than the profit ratio) in respect of the purchase price is more than 2.5% on an annual basis. The Master Supply Agreement is therefore subject to the reporting, announcement and independent shareholders' approval requirements by way of poll under Chapter 14A of the Listing Rules.

Historical transaction records

For (a) the period from 16 March 2005 to 31 December 2005, (b) the twelve months ended 31 December 2006, and (c) the period from 1 January 2007 to 30 April 2007, the aggregate purchase amount (VAT inclusive) by the Corporate Vendor to Harbin Songjiang Group for the supply of copper concentrates amounted to approximately RMB122.734 million, RMB243.521 million and RMB60.215 million respectively.

Annual caps

Based on the historical transaction values between the Corporate Vendor and Harbin Songjiang Group and the production and selling plans of Harbin Songjiang Group, the Directors project that the supply of copper concentrates (VAT inclusive) for the period from Completion to 31 December 2007 and for the two years ending 31 December 2009 will reach approximately RMB139.151 million, RMB243.368 million and RMB243.368 million respectively.

Pursuant to condition precedent (m) of the Sale and Purchase Agreement, amongst other things, the disposal of Balinyouqi shall have been completed in accordance with the relevant PRC laws and regulations to the satisfaction of the Company prior to Completion. However, the Company has been advised by the PRC legal advisers that, based on the present circumstances, as such disposal would involve lengthy PRC government approval process, this may not be completed before the date of Completion. In such case, the Company may consider granting a temporary waiver for this condition precedent such that the disposal of Balinyouqi shall be completed on or before 31 December 2007. Therefore, it is contemplated that the annual caps in respect of the period from the date of Completion (assuming that Completion would have taken place on around 30 June 2007) to 31 December 2007 shall include the supply of copper concentrates by Balinyouqi to the Corporate Vendor, whilst the annual caps for the two years ending 31 December 2009 shall not include the purchase amount of copper concentrates to be so supplied by Balinyouqi to the Corporate Vendor.

Since Harbin Songjiang Group will sell most of its copper concentrates to the Corporate Vendor under the Master Supply Agreement, Harbin Songjiang Group will be heavily relying on the Corporate Vendor to sell its copper concentrates.

Reasons for the Non-exempt Continuing Connected Transactions

Since 1992, Harbin Songjiang Group has been the supplier of copper concentrates to the Corporate Vendor. Given that the manufacturing plants of Harbin Songjiang Group are located in close proximity to the Corporate Vendor and the price offered by the Corporate Vendor to Harbin Songjiang Group has been the fair market price based on arm's length negotiations between the Corporate Vendor and Harbin Songjiang Group, it is considered to be reasonable for the Group to continue supplying copper concentrates to the Corporate Vendor after Completion.

The Directors (including the independent non-executive Directors) are of the opinion that the terms of the Master Supply Agreement and the annual caps are fair and reasonable and that they are arrived at after arm's length negotiations, upon normal commercial terms and in the interests of the Shareholders as a whole. Subject to obtaining the Independent Shareholders' approval on the Master Supply Agreement, the Master Supply Agreement will be subject to the annual review and the reporting requirements under Rules 14A.37 to 14A.41 and Rules 14A.45 and 14A.46 of the Listing Rules respectively.

An Independent Board Committee comprising the independent non-executive Directors has been formed to advise the Independent Shareholders on the terms of the Master Supply Agreement. Please refer to the "Letter from the Independent Board Committee" on page 31 of this circular for more information. In addition, VC Capital Limited has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on the terms of the Master Supply Agreement. Please refer to the "Letter from the Independent Financial Adviser" on pages 32 to 38 of this circular for more information.

SPECIFIC MANDATE FOR FUND RAISING

(1) Proposed Share Issue

The Board announced that it has proposed issue of up to 1,135,539,885 new Shares (representing approximately not more than 24.05% of the issued Shares as at the Latest Practicable Date) to professional and institutional investors by way of private placement of Shares subject to Shareholders' approval. Such Shares are proposed to be listed on the Stock Exchange and it is expected that they will not be allotted and issued to connected persons (as defined under the Listing Rules) of the Company. The proceeds from the Proposed Share Issue are intended to be used to finance the cash consideration of RMB1,807,881,000 with respect to the Acquisition and related expenses.

If any of such investors is a connected person of the Company, the Company will take steps to comply with the relevant requirements under the Listing Rules. Morgan Stanley has been appointed as financial advisor to the Company in respect of the Proposed Share Issue.

The Acquisition and the proposed private placement of Shares are not inter-conditional upon each other.

(2) Structure of the Proposed Share Issue

Type of securities to be issued:	Ordinary Shares
Maximum number of Shares to be issued:	Not more than 1,135,539,885 new Shares (representing approximately 24.05% of the issued Shares and 19.39% of the enlarged share capital of the Company as at the Latest Practicable Date). The final number of Shares to be issued is subject to the adjustments (if any) made by the Board as may be authorised by the Shareholders at the SGM.
Nominal value:	HK$0.10
Rights attached to Share:	The Shares will rank pari passu with the existing Shares in all respects
Target subscribers:	Professional and institutional investors
Method of issue:	The issue will be conducted by way of private placement with professional and institutional investors
Basis for determining the issue price:	The price shall be determined by agreement between the Company and Morgan Stanley and will be subject to a number of considerations, including prevailing market conditions, the prevailing market price of the Shares and investor demand for the Shares at the relevant time. In any event, the issue price must not be lower than 80% or more of the higher of: (i) the closing price of the Shares quoted on the Stock Exchange on the date of the launch of the Proposed Share Issue; or (ii) the average closing price of the Shares quoted on the Stock Exchange in the five trading days immediately prior to the earliest of: (1) the date of announcement of the launch of the Proposed Share Issue; (2) the date of the placing agreement involving the Proposed Share Issue; and (3) the date on which the price is fixed. The price for the Proposed Share Issue shall be no less than HK$1.73.
Minimum net proceeds to be raised:	The Proposed Share Issue must raise a minimum amount of HK$1,964,484,000.

Application will be made to the Stock Exchange for the listing of, and permission to deal in, the Shares to be issued pursuant to the Proposed Share Issue.

The Company will make a further announcement on the number of shares, placing price and information relating to the placees upon the launch of the Proposed Share Issue.

(3) Conditions to the Proposed Share Issue

The Proposed Share Issue will be subject to the following conditions:

- the Proposed Share Issue will only proceed after all of the conditions precedent to completion of the Acquisition under the Sale and Purchase Agreement (other than the condition relating to the Company having obtained sufficient funding to pay for the consideration of the Acquisition) having been fulfilled (or otherwise waived) in accordance with the terms thereof.

- the special mandate to conduct the Proposed Share Issue shall expire upon the date of completion of the Acquisition.

- the raising of a net minimum of amount of HK$1,964,484,000.

Under the Sale and Purchase Agreement, completion of the Acquisition shall take place on the third business days after all the conditions precedent are fulfilled or satisfied. It is expected that Completion will take place within 3 months after all the conditions precedent under the Sale and Purchase Agreement (other than the condition relating to the Company having obtained sufficient funding to pay for the consideration of the Acquisition) having been fulfilled (or otherwise waived).

(4) Purpose of the Proposed Share Issue

The Company is proposing to acquire 75.08% of the equity interests in Harbin Songjiang. The Acquisition will constitute a very substantial acquisition of the Company under Chapter 14 of the Listing Rules. The purchase price for the Acquisition is RMB1,807,881,000. The purpose of the Proposed Share Issue is for the raising of finance for the funding of the purchase price for the Acquisition and related expenses.

(5) Uses of the proceeds from the Proposed Share Issue

The Company intends to use the proceeds for the following purposes:

- HK$1,824,484,000 for the purpose of paying the purchase price for the Acquisition; and

- Approximately HK$140,000,000 as the Company's estimated expenses with respect to the Acquisition and the Proposed Share Issue, including any fees and commissions payable to Morgan Stanley in connection with the Proposed Share Issue.

The Directors believe that the transactions contemplated under the Specific Mandate are fair and reasonable to the Shareholders as a whole.

(6) Fund raising activity of the Company in the 12 months immediately preceding the Latest Practicable Date

Other than the placing of Shares as announced in the Company's announcements dated 10 July 2006 and 26 October 2006, there was no fund raising activity conducted by the Company in the 12 months immediately preceding the Latest Practicable Date. The Company's announcements dated 10 July 2006 and 26 October 2006 were made in respect of the placing of 1,000,000,000 shares and the exercise of the over-allotment option of 150,000,000 shares respectively. Accordingly, the total number of shares issued was 1,150,000,000 shares and the net proceeds raised were approximately HK$456 million. The proceeds were used to finance the acquisition of Lead Sun Investments Limited and its subsidiaries and further development of the accompanying rutile mine, details of which were included in the Company's circular dated 9 October 2006. The actual use of proceeds of the said placing of Shares are summarized below, which is in line with the intended use of proceeds as disclosed in the relevant announcements of the Company:

Date of Announcement	**Number of Shares Placed**	**Approximate Net Proceeds Raised** *(HK$) million*	**Actual Use of Proceeds**
10 July 2006 (the "**July 10 Announcement**")	1,000,000,000 Shares (subject to over-allotment options)	397	Financing of acquisition of Lead Sun Investments Limited and its subsidiaries (the "**Lead Sun Group**") and further development of the rutile mine as referred to the announcement of the Company dated 6 July 2006
26 October 2006 (namely, the over-allotment options referred to in the July 10 Announcement)	150,000,000 Shares	59	Financing of acquisition of Lead Sun Group and further development of the rutile mine as referred to the announcements of the Company dated 6 July 2006, 10 July 2006 and 10 August 2006 and the circular of the Company dated 9 October 2006
	Total	456	

(7) Validity of the Specific Mandate

The specific mandate, if granted, will commence only after all of the conditions precedent to the Completion (other than the condition relating to the Company having obtained sufficient funding to pay for the Consideration) having been fulfilled (or otherwise waived) in accordance with the terms thereof. It will lapse on the date of Completion.

EFFECT OF THE SHARE ISSUE ON THE COMPANY'S SHAREHOLDING STRUCTURE

Set out below is the shareholding structure of the Company as at the Latest Practicable Date and immediately upon completion of the Proposed Share Issue based on the assumption that a maximum aggregate of 1,135,539,885 new Shares (representing approximately 24.05% of the issued Shares and 19.39% of the enlarged share capital of the Company as at the Latest Practicable Date) will be issued under the Proposed Share Issue:

Substantial shareholders	As at the Latest Practicable Date *shares*	%	Immediately upon completion of the Proposed Share Issue *shares*	%
Cai Yuan *(note 1)*	508,650,000	10.77%	508,650,000	8.68%
Luk Kin Peter Joseph *(note 2)*	235,234,000	4.98%	235,234,000	4.02%
Existing public Shareholders	3,976,896,853	84.25%	3,976,896,853	67.91%
Shares to be issued according to the Proposed Share Issue	—	n/a	1,135,539,885	19.39%
	4,720,780,853	100.00%	5,856,320,738	100.00%

1. Mr. Cai Yuan, the chairman and executive Director, is the 100% beneficial owner of Greater Increase Investments Limited which holds 500,000,000 Shares. Mr. Cai also holds 8,650,000 Shares under his name.

2. Mr. Luk Kin Peter Joseph, an executive Director, is the 100% beneficial owner of Equity Valley Investments Limited which holds 226,584,000 Shares. Mr. Luk also holds 8,650,000 Shares under his name.

SGM

The SGM will be held at Harcourt Room, Lower Lobby, Conrad Hong Kong, Pacific Place, 88 Queensway, Hong Kong at 10:30 a.m. on Friday, 8 June 2007 to consider and, if thought fit, approve, among other matters, the Acquisition, Non-exempt Continuing Connected Transactions, the Proposed Share Issue, the grant of a specific mandate to allot and issue new Shares in connection with the Proposed Share Issue and to authorise the Board to determine and deal with at its discretion and with full authority, matters relating thereto (including but not limited to the specific timing of the issue, final number of new Shares to be issued (not more than 1,135,539,885 new Shares representing approximately 24.05% of the issued Shares as at the Latest Practicable Date and 19.39% of the enlarged share capital of the Company), offering mechanism, pricing mechanism, issue price, target subscribers and the number and proportion of Shares to be issued to each subscriber). It should be noted that the Proposed Share Issue, upon approval by the Shareholders at the SGM, is still subject to the approval of the Stock Exchange as to the listing and dealings in the new Shares on the Stock Exchange.

A notice convening the SGM is set out on pages 264 to 267 of this circular. Whether or not you are able to attend the meeting, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Room 1806–7, 18/F., Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the meeting or any adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending and voting at the SGM if you so wish.

The Acquisition constitutes a very substantial acquisition for the Company under Chapter 14 of the Listing Rules. Pursuant to Rule 14.49 of the Listing Rules, the Acquisition is therefore subject to the approval of the Shareholders at the SGM. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, each of the Vendors and their respective associates do not hold any Shares as at the Latest Practicable Date and no Shareholder has a material interest in the Acquisition. Pursuant to the Listing Rules, any Shareholder who has a material interest in the Acquisition is required to abstain from voting on all resolutions proposed at the SGM.

As no Shareholders have a material interest in the Non-exempt Continuing Connecting Transactions, no Shareholders will abstain from voting on the resolution to approve the Non-exempt Continuing Connected Transactions at the SGM.

Based on the foregoing, and having made all reasonable enquiries, as at the Latest Practicable Date, the Company is not aware of any Shareholder who is required to abstain from voting on the resolutions proposed at the SGM.

The Independent Board Committee has been constituted to make recommendation to the Shareholders in respect of the resolution to approve the Non-exempt Continuing Connected Transactions and the annual caps. VC Capital Limited has been appointed by the Company to advise the Independent Board Committee and the Shareholders as to whether the terms of the Non-exempt Continuing Connected Transactions and the annual caps are fair and reasonable so far as the Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

PROCEDURE TO DEMAND A POLL AT GENERAL MEETING

Pursuant to Bye-law 66 of the bye-laws of the Company, a resolution put to the vote of a meeting shall be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded:

(i) by the chairman of such meeting; or

(ii) by at least three Shareholders present in person (or, in the case of a Shareholder being a corporation, by its duly authorised representative) or by proxy for the time being entitled to vote at the meeting; or

(iii) by a Shareholder or Shareholders present in person (or, in the case of a Shareholder being a corporation, by its duly authorised representative) or by proxy and representing not less than one-tenth of the total voting rights of all Shareholders having the right to vote at the meeting; or

(iv) by a Shareholder or Shareholders present in person (or, in the case of a Shareholder being a corporation, by its duly authorised representative) or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all shares conferring that right.

RECOMMENDATION

The Directors consider that the terms of the Acquisition, Non-exempt Continuing Connected Transactions and the Proposed Share Issue are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of the ordinary resolutions to be proposed at the SGM.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the Appendices to this circular.

Yours faithfully,
For and on behalf of the Board
China Mining Resources Group Limited
Luk Kin Peter Joseph
Deputy Chairman & Chief Executive Officer

CHINA MINING RESOURCES GROUP LIMITED

中國礦業資源集團有限公司*

(Incorporated in Bermuda with limited liability))

(Stock Code: 00340)

23 May 2007

To the Independent Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS

We have been appointed as members of the Independent Board Committee to advise the Independent Shareholders of China Mining Resources Group Limited in respect of the resolution to approve the Non-exempt Continuing Connected Transactions and the annual caps, details of which are set out in the "Letter from the Board" contained in the circular of the Company (the "Circular") of which this letter forms part. Unless the context otherwise requires, terms defined in the Circular shall have the same meanings when used in this letter.

Your attention is drawn to the "Letter from the Board", the advice of VC Capital Limited in its capacity as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of whether the terms of the Non-exempt Continuing Connected Transactions and the annual caps are fair and reasonable and in the interest of the Company and the Independent Shareholders as a whole, as set out in the "Letter from the Independent Financial Adviser" as well as other additional information set out in other parts of the Circular.

Having taken into account the advice of, and the principal factors and reasons considered by VC Capital Limited in relation thereto as stated in its letter, we consider the Non-exempt Continuing Connected Transactions and the annual caps to be fair and reasonable and are in the interests of the Company and the Independent Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the SGM to approve the Non-exempt Continuing Connected Transactions and the annual caps.

Yours faithfully,
Independent Board Committee
Mr. Chan Siu Tat, Mr. Wong Hon Sum
and Mr. Chu Kang Nam
Independent Non-Executive Directors

* *For identification purposes only*

The following is the text of a letter to the Independent Board Committee and the Independent Shareholders from VC Capital Limited in respect of the proposed Non-exempt Continuing Connected Transactions, prepared for the purpose of incorporation in this circular.

VC CAPITAL LIMITED
滙盈融資有限公司

23 May 2007

To the Independent Board Committee and
the Independent Shareholders

Dear Sir or Madam,

PROPOSED NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our engagement as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders as to whether the terms of the Master Supply Agreement and the annual cap amounts related thereto are on normal commercial terms, in the ordinary and usual course of business, fair and reasonable and the interests of the Company and the Independent Shareholders as a whole. Details of the Non-exempt Continuing Connected Transactions are set out in the letter from the Board contained in the circular of the Company (the "Circular"), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

On 11 March 2007, the Company announced that it had entered into a sale and purchase agreement to acquire 75.08% of equity interests in Harbin Songjiang. Before Completion, Harbin Songjiang Group have been supplying copper concentrates to the Corporate Vendor since 1992. On 26 April 2007, Harbin Songjiang entered into the Master Supply Agreement with the Corporate Vendor to continue to supply copper concentrates to the Corporate Vendor.

Upon Completion, the Corporate Vendor will own 40% equity interest in Chifeng Mining, and thus become a connected person of the Company. The transactions contemplated under the Master Supply Agreement will constitute non-exempt continuing connected transactions for the Company under Chapter 14A.16(5) of the Listing Rules and therefore subject to the Independent Shareholders' approval by way of poll pursuant to the requirements of Chapter 14A of the Listing Rules.

The Company has formed the Independent Board Committee comprising Mr. Chan Siu Tat, Mr. Wong Hon Sum and Mr. Chu Kang Nam, being all the independent non-executive Directors, to advise the Independent Shareholders as to whether the terms of the Master Supply Agreement and the annual caps related thereto are on normal commercial terms, in the ordinary and usual course of business, fair and reasonable in the interests of the Company and the Independent Shareholders as a whole. No Shareholders are required to abstain from voting on the resolution to approve the Master Supply Agreement and the annual caps related thereto at the SGM.

VC Capital Limited is not associated with the Company and its substantial Shareholders or any party acting, or presumed to be acting, in concert with any of them and, accordingly, is considered eligible to give independent advice on the terms of the Master Supply Agreement and the annual caps related thereto. Apart from normal professional fee payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Company or its substantial Shareholders or any party acting, or presumed to be acting, in concert with any of them.

In formulating our recommendations, we have relied on the accuracy of the information and representations including those contained in the Circular and the production and selling plans of Harbin Songjiang Group prepared by the senior management of Harbin Songjiang Group (the "Information") which have been provided by the executive Directors and the senior management of Harbin Songjiang Group and have assumed that the Information are true and accurate in all material respects at the time they were made and will remain so up to the date of the SGM. We have no reason to doubt the truth, accuracy and completeness of the Information and have been advised by the executive Directors and the senior management of Harbin Songjiang Group that no material facts have been omitted from the Information. We consider that we have reviewed sufficient information to reach an informed view and to provide a reasonable basis for our advice. We have not, however, conducted any independent investigation into the business and affairs or the future prospects of the Group, nor have we carried out any independent verification of the information supplied.

TERMS OF THE MASTER SUPPLY AGREEMENT

The key terms of the Master Supply Agreement are summarized as follow:

(i) Harbin Songjiang Group has agreed to supply copper concentrates to the Corporate Vendor commencing from the date of Completion to 31 December 2009;

(ii) the purchase price will be determined between the Corporate Vendor and Harbin Songjiang Group with reference to the market value of copper, gold and silver contents in the copper concentrates, grades of metals and parameters reflecting the treatment and refining charges incurred to produce copper anodes from copper concentrates; and

(iii) the purchase price will be paid by the Corporate Vendor within 10 days after the end of each month in arrears.

The Master Supply Agreement is non-exclusive on the part of Harbin Songjiang Group and the Corporate Vendor.

PRINCIPAL FACTORS AND REASONS CONSIDERED

To assess whether the Master Supply Agreement and the annual caps related thereto are on normal commercial terms, in the ordinary and usual course of business and in the interests of the Company and the Independent Shareholders as a whole, we have taken into account the following principal factors and reasons:

I. Reasons for and benefits of entering into of the Master Supply Agreement

As stated in the letter from the Board, Harbin Songjiang Group has been supplying copper concentrates to the Corporate Vendor, which is principally engaged in the business of smelting of copper and production and sales of copper anode, since 1992.

The senior management of Harbin Songjiang Group advised us that for the each of the two years ended 31 December 2006, the sales of copper concentrates from Harbin Songjiang Group to the Corporate Vendor accounted for approximately 21% and 23% of the Corporate Vendor's total purchase of copper concentrates respectively and will account for approximately 16% of the Corporate Vendor's total purchase of copper concentrates for the three years ending 31 December 2009. The Harbin Songjiang Group was one of the major suppliers of the Corporate Vendor which formed part of supply chain of the Corporate Vendor to produce its products and the Corporate Vendor also relies on the stable supplies of copper concentrates from Harbin Songjiang Group for its production.

For each of the period from 16 March 2005 to 31 December 2005, the twelve months ended 31 December 2006 and the period from 1 January 2007 to 30 April 2007 (the "Review Period"), we noted that Harbin Songjiang Group had two customers for the sale of copper concentrates and the Corporate Vendor was the major customer which accounted for approximately 22.3%, 26.9% and 35.0% of the total sales of Harbin Songjiang Group, respectively. The executive Directors considered it beneficial to the Group to continue to supply copper concentrates to the Corporate Vendor after the Completion since the manufacturing plants of Harbin Songjiang Group are located in the close proximity to manufacturing plants of the Corporate Vendor, thus minimizing the transportation costs to be incurred by Harbin Songjiang Group in delivering the products to the Corporate Vendor and increasing the group's profit margin in selling the copper concentrates.

Having compared the transportation costs to be incurred to deliver the copper concentrates to potential independent customers, which are smelters located close to the manufacturing plants of Harbin Songjiang Group with the costs to deliver copper concentrates to the Corporate Vendor, we noted that the transportation costs to deliver each ton of copper concentrate to the Corporate Vendor is the lowest among the samples. We noted that Harbin Songjiang Group can enjoy 50% or above saving in transportation costs if it sold the copper concentrates to the Corporate Vendor instead of selling the copper concentrates to other potential independent customers. As Harbin Songjiang Group bears the transportation costs to deliver the products to the customers, we concur with the executive Directors' view that selling the copper concentrates to the Corporate Vendor, whom are located in the close proximity to the manufacturing plants of Harbin Songjiang Group, can minimize the transportation costs to be incurred in delivering the products and increasing Harbin Songjiang Group's profit margin in selling the copper concentrates.

Having reviewed the management accounts of Harbin Songjiang Copper Enterprise Co., Ltd. and Chifeng Mining, the subsidiaries of Harbin Songjiang Group selling copper concentrates to the Corporate Vendor, for the Review Period, we noted that the Corporate Vendor had no record of default on its payment to Harbin Songjiang Group. For each of the period from 16 March 2005 to 31 December 2005 and the year ended 31 December 2006, the average trade and bills receivables days of Harbin Songjiang were approximately 38 days and 39 days respectively. Thus, we concur with the senior management of Harbin Songjiang Group's view that the Corporate Vendor is a stable customer with good repayment record.

As such, we consider it logical for the Group to continue to trade with the Corporate Vendor after the Completion and the Corporate Vendor to be the best alternatives in the market for the Group to sell its copper concentrates.

Given that Harbin Songjiang Group sold over 90% of the copper concentrates produced to the Corporate Vendor during the Review Period and will sell most of its copper concentrates to the Corporate Vendor under the Master Supply Agreement, the Independent Shareholders should note that Harbin Songjiang Group has been and will be heavily relying on the Corporate Vendor to sell its copper concentrates. Despite the fact that Harbin Songjiang Group's reliance on the Corporate Vendor, the risk is manageable and justifiable for the reasons that (i) Harbin Songjiang Group can minimize its transportation cost by selling its products to a customer nearby and increase its profit margin; and (ii) the supplies of the Harbin Songjiang Group form part of supply chain of the Corporate

Vendor to produce its products and the Corporate Vendor also relies on the stable supplies from Harbin Songjiang Group; and (iii) Harbin Songjiang Group will not encounter difficulties in selling copper concentrates as there are customers approaching them to purchase the copper concentrates continuously and Harbin Songjiang Group can sell the copper concentrates to other customers without incurring additional costs to modify the products.

II. Payment term and pricing mechanism

Pursuant to the Master Supply Agreement, the purchase price will be payable by the Corporate Vendor within 10 days after the end of each month in arrears, and will be determined between the Corporate Vendor and Harbin Songjiang Group with reference to the market value of copper, gold and silver contents in the copper concentrates, grades of metals, parameters reflecting the treatment and refining charges incurred to produce copper anodes from copper concentrates.

Payment term

To assess whether the payment term offered to the Corporate Vendor is reasonable, we have obtained and reviewed all copper concentrate supply contracts of Harbin Songjiang Group in the Review Period. We noted that Harbin Songjiang Group (i) required its independent customer to pay the deposit before the copper concentrates were delivered and the remaining balance to Harbin Songjiang Group within 10 days after the copper concentrates were delivered and tested; and (ii) allowed the Corporate Vendor to settle the transactions on a monthly basis. As explained by the senior management of Harbin Songjiang Group, Harbin Songjiang Group commenced selling copper concentrates to the independent customer since 2006 and it is prudent for Harbin Songjiang Group to request the independent customer to place deposits before delivery. On the other hand, Harbin Songjiang Group has been supplying copper concentrates to the Corporate Vendor on a continuing basis since 1992; and the Corporate Vendor maintained a good settlement record with it. It is beneficial for Harbin Songjiang Group to settle with the Corporate Vendor on a monthly basis in order to avoid excessive administrative cost.

Given a long term trading relationship between these two parties and our findings on review that the Corporate Vendor has maintained a good settlement record with Harbin Songjiang Group during the Review Period, we consider that the payment term offered to the Corporate Vendor is reasonable.

Pricing mechanism

Copper concentrate prices can not be quoted on the recognized metal exchanges and as an industry practice, sellers of copper concentrates will adopt a market reference pricing mechanism to determine the price of the copper concentrates. They pay the copper concentrate prices with reference to the then prevailing market prices of the metals contained in the copper concentrates quoted on the recognized exchanges and spot markets with adjustments on the grades of metals and parameters reflecting the treatment and refining charges incurred to produce copper anodes from copper concentrates.

To assess whether the purchase price of the copper concentrates is fairly determined for the transactions contemplated under the Master Supply Agreement, we have obtained and reviewed all copper concentrate supply agreements of Harbin Songjiang Group in the Review Period. We noted that Harbin Songjiang Group adopted similar approach, i.e. determining the copper concentrates price with reference to the then prevailing market price of copper, silver and gold quoted on the Shanghai Futures Exchange, Shanghai Gold Exchange and spot markets of silver in various provinces of the

PRC, grades of metals and parameters reflecting the treatment and refining charges incurred to produce copper anodes from copper concentrates, to price the copper concentrates selling to another independent customer.

Having reviewed the Master Supply Agreement and the most recent supply contract entered between Harbin Songjiang Group and the independent customer, we noted that Harbin Songjiang Group adopted the same approach to price the copper concentrates selling to both customers. The executive Directors advised us that they would adopt the same approach to price the copper concentrates selling to any other new customers of Harbin Songjiang Group in future.

We considered that the pricing mechanism under the Master Supply Agreement is fair and reasonable as it will base on the prevailing market prices of metals contained in the copper concentrates to determine the prices of the copper concentrates.

III. Historical transaction value and the proposed annual caps

For each of the period from 16 March 2005 to 31 December 2005, the twelve months ended 31 December 2006 and the period from 1 January 2007 to 30 April 2007, the aggregate amounts (VAT inclusive) sold to the Corporate Vendor by Harbin Songjiang Group were approximately RMB122.734 million, RMB243.521 million and RMB60.215 million respectively. Pursuant to the Master Supply Agreement, the supply of copper concentrates (VAT inclusive) for the period from Completion to 31 December 2007 and for the two years ending 31 December 2009 (the "Cap Period") are approximately RMB139.151 million, RMB243.368 million and RMB243.368 million respectively (together known as the "Supply Cap").

In determining the Supply Cap, the senior management of Harbin Songjiang Group have considered (i) the existing production capacity of Harbin Songjiang Group in producing copper concentrates; (ii) the production and selling plans of Harbin Songjiang Group for the Cap Period; (iii) the historical transaction value of copper concentrates with the Corporate Vendor; and (iv) the prevailing market prices of copper, gold and silver contained in the copper concentrates, grades of metals and parameters reflecting the treatment and refining charges incurred to produce copper anodes from copper concentrates.

Set out below are calculations of the Supply Cap and the assumptions made as follows:

	The period from Completion to 31 December 2007	**Year ending 31 December 2008**	**2009**
Approximate number of tons of copper concentrates to be sold to the Corporate Vendor (tons) *(Note 1)*	2,390	4,180	4,180
Estimated price of copper concentrates per ton (VAT inclusive) (RMB) *(Note 2)*	58,222	58,222	58,222
Annual sales (RMB)	139,150,580	243,367,960	243,367,960
Amount of annual cap (RMB)	139,151,000	243,368,000	243,368,000

Notes:

1. Amount of copper concentrates to be sold to the Corporate Vendor is based on (i) the production capacity of Harbin Songjiang Group in producing copper concentrates during the Cap Period; and (ii) the production and selling plans of Harbin Songjiang Group.

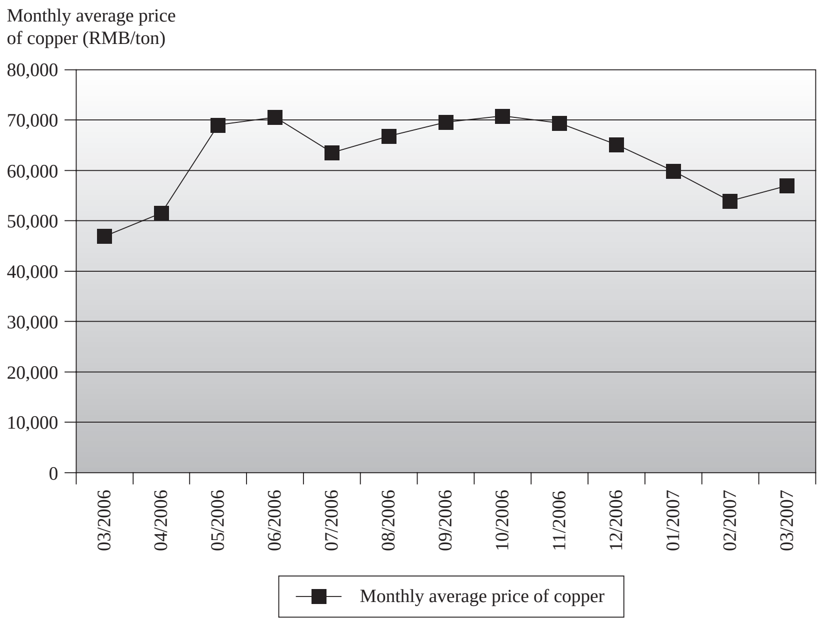
2. The projected price of copper concentrates is based on monthly average price of copper, gold and silver for month of March 2007 quoted from Shanghai Futures Exchange, Shanghai Gold Exchange and spot markets of silver in various provinces of the PRC, grades of metals and parameters reflecting the treatment and refining charges incurred to produce copper anodes from copper concentrates.

Currently, Harbin Songjiang Group produces copper concentrates with copper, gold and silver contents in its maximum capacity of approximately 5,000 tons per annum. After the disposal of Balinyouqi, an indirect non-wholly owned subsidiary of Harbin Songjiang that can produce 600 tons of copper concentrates per annum before the Completion, the annual maximum production capacity of Harbin Songjiang Group in producing copper concentrates will be approximately 4,400 tons per annum. After the disposal of Balinyouqi, the senior management of Harbin Songjiang Group plan to sell 95% of the copper concentrates produced by Harbin Songjiang Group to the Corporate Vendor for the Cap Period. In consideration of the maximum production capacity of Harbin Songjiang Group, the production and selling plans of Harbin Songjiang Group and the historical transaction amounts of copper concentrates with the Corporate Vendor, we consider the estimated number of tons of copper concentrates to be sold to the Corporate Vendor during the Cap Period is fair and reasonable.

With regard to the estimated price of copper concentrates, the executive Directors advised that the price of copper concentrates has been rising in general over the past years, which was attributable to the rapid economic growth of the PRC. To determine the selling price of copper concentrates during the Cap Period, the executive Directors have made reference to the monthly average price of metals contained in the copper concentrates (i.e. copper, gold and silver) quoted from Shanghai Futures Exchange, Shanghai Gold Exchange and spot markets of silver in various provinces in the PRC for the month of March 2007, being the month immediately before the entering into of the Master Supply Agreement.

Since the copper concentrates are mainly composed of copper, we have reviewed the monthly average price of copper per ton traded on the Shanghai Futures Exchange for a period of twelve months prior to March 2007. We noted that the monthly average copper price in March 2007 of RMB56,952 per ton falls within the range between the lowest and highest monthly average copper prices of approximately RMB46,958 per ton in March 2006 and RMB70,808 per ton in October 2006 and is close to the average monthly copper price of approximately RMB63,104 per ton during the period under review. We also noted that a fluctuating pattern in the copper price chart below. From March 2006 to June 2006, the monthly average price of copper surged up by 50% from RMB46,958 per ton to RMB70,571 per ton. After a retreat in July 2006, it went up and peaked at RMB70,808 in October 2006. Thereafter, it kept going down to RMB53,968 per ton in February 2007 until February 2007.

Monthly average price of copper for the period of twelve months prior to March 2007



Source: Shanghai Futures Exchange

In consideration of the volatility of the copper price, it is justifiable to adopt the latest monthly average price of the copper concentrates, which is close to the average monthly copper price of approximately RMB63,104 per ton during the period under review and reflects the latest market condition of the copper price, immediately before the entering into the Master Supply Agreement to estimate the Supply Cap.

Having reviewed the above information and assumptions, we are of the view that the proposed Supply Cap is fair and reasonable.

RECOMMENDATION

Having considered the above-mentioned principal factors and reasons, in particular the Group can secure a stable and long term customers with good repayment history, the payment term and pricing mechanism of the Master Supply Agreement and the assumptions made in determining the Supply Cap, we consider that the terms of the Master Supply Agreement and the Supply Cap are on normal commercial terms, in the ordinary and usual course of business, fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolution in relation to the Master Supply Agreement together with the related Supply Cap at the SGM.

Yours faithfully
For and on behalf of
VC Capital Limited
Philip Chau — *Managing Director*
Keith Lou — *Director*

1. SUMMARY OF FINANCIAL INFORMATION

There is no qualified opinion for the Group for each of the 3 years ended 31 December 2006. A summary of the published results and of the assets and liabilities of the Group for the last three financial years, as extracted from the audited financial statements, is set out below.

	For the year ended 31 December		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
RESULTS			
Turnover			
Continuing operations	11,724	15,634	17,366
Discontinued operations	230,735	175,204	138,207
	242,459	190,838	155,573
Profit/(loss) before taxation			
Continuing operations	(86,385)	(25,134)	(20,558)
Discontinued operations	345	(30,725)	12,267
	(86,040)	(55,859)	(8,291)
Taxation credit/(charge)			
Continuing operations	—	(75)	366
Discontinued operations	(175)	734	(1,317)
	(175)	659	(951)
Profit/(loss) for the year			
Continuing operations	(86,385)	(25,209)	(20,192)
Discontinued operations	170	(29,991)	10,950
	(86,215)	(55,200)	(9,242)
Attributable to:			
Equity shareholders of the company	(86,215)	(55,200)	(8,244)
Minority interests	—	—	(998)
	(86,215)	(55,200)	(9,242)

	As at 31 December		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Total assets	484,225	297,041	2,172,179
Total liabilities	(203,971)	(69,614)	(239,759)
NET ASSETS	280,254	227,427	1,932,420
REPRESENTED BY:			
Equity attributable to shareholders of the company	280,254	227,427	1,121,572
Minority interests	—	—	810,848
TOTAL EQUITY	280,254	227,427	1,932,420

2. REPORT OF THE AUDITORS FOR THE FINANCIAL STATEMENTS OF THE GROUP FOR THE YEAR ENDED 31 DECEMBER 2006

The following is the report of KPMG for the year ended 31 December 2006 as extracted from the annual report of the Company for the year ended 31 December 2006 ("2006 Annual Report"). The page reference in this report are the same as those in the 2006 Annual Report. The audited financial statements together with the relevant notes to the financial statements of the Group as extracted from the 2006 Annual Report are also out below.

KPMG

Independent auditor's report to the shareholders of
China Mining Resources Group Limited
(Formerly known as INNOMAXX Biotechnology Group Limited)
(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of China Mining Resources Group Limited (formerly known as INNOMAXX Biotechnology Group Limited) (the "company") set out on pages 23 to 86, which comprise the consolidated and company balance sheets as at 31 December 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, in accordance with section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the company and of the group as at 31 December 2006 and of the group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

10 April 2007

Consolidated Income Statement for the year ended 31 December 2006
(Expressed in Hong Kong dollars)

	Note	2006 $'000	2005 $'000 (restated)
Continuing operations			
Turnover	2, 11	17,366	15,634
Cost of sales		(8,060)	(7,047)
Gross profit		9,306	8,587
Other revenue	3	4,250	1,231
Selling expenses		(4,276)	(3,149)
Administrative expenses		(21,269)	(29,657)
Impairment loss of goodwill		(7,400)	(2,126)
Loss from operations		(19,389)	(25,114)
Finance costs	4(a)	(1,169)	(20)
Share of profits less losses of an associate		—	1,373
Loss on disposal of an associate		—	(1,373)
Loss before taxation	4	(20,558)	(25,134)
Income tax	5	366	(75)
Loss for the year from continuing operations		(20,192)	(25,209)
Discontinued operations			
Profit/(loss) for the year from discontinued operations	8	10,950	(29,991)
Loss for the year		(9,242)	(55,200)
Attributable to:			
Equity shareholders of the company	9, 30	(8,244)	(55,200)
Minority interests	30	(998)	—
Loss for the year	30	(9,242)	(55,200)
(Loss)/earnings per share — basic	10		
From continuing and discontinued operations		(0.29) cents	(2.24) cents
From continuing operations		(0.67) cents	(1.02) cents
From discontinued operations		0.38 cents	(1.22) cents

Consolidated Balance Sheet at 31 December 2006
(Expressed in Hong Kong dollars)

	Note	2006 $'000	2005 $'000
Non-current assets			
Fixed assets	12(a)		
— Investment properties		—	124,800
— Other property, plant and equipment		4,432	3,399
		4,432	128,199
Intangible assets	13	1,694,615	—
Goodwill	14	8,200	15,600
Interest in associates	16	—	—
Available-for-sale equity investments	17	—	—
Deferred tax assets	28(b)	366	—
		1,707,613	143,799
Current assets			
Trading securities	18	—	2,268
Inventories		430	375
Trade and other receivables	19	15,049	53,331
Pledged bank deposits		—	5,099
Pledged deposits in financial institutions		—	8,412
Cash and cash equivalents	20	449,087	83,757
		464,566	153,242
Current liabilities			
Trade and other payables	21	22,517	7,751
Deferred income	22	34,839	21,983
Secured bank loan	23	—	4,000
Loans from minority shareholders	24	150,500	—
Obligations under a finance lease	25	—	117
Current taxation	28(a)	—	488
		207,856	34,339

	Note	2006 *$'000*	2005 *$'000*
Net current assets		256,710	118,903
Total assets less current liabilities		1,964,323	262,702
Non-current liabilities			
Other payables	29	31,903	—
Secured bank loan	23	—	28,910
Deferred tax liabilities	28(b)	—	6,365
		31,903	35,275
NET ASSETS		1,932,420	227,427
CAPITAL AND RESERVES	30(a)		
Share capital		472,078	246,481
Reserves		649,494	(19,054)
Total equity attributable to equity shareholders of the company		1,121,572	227,427
Minority interests		810,848	—
TOTAL EQUITY		1,932,420	227,427

Balance Sheet at 31 December 2006
(Expressed in Hong Kong dollars)

	Note	**2006** *$'000*	**2005** *$'000*
Non-current assets			
Property, plant and equipment	12(b)	426	—
Investments in subsidiaries	15	823,231	179,900
		823,657	179,900
Current assets			
Trade and other receivables	19	15,129	69,653
Cash and cash equivalents	20	266,813	62,193
		281,942	131,846
Current liabilities			
Trade and other payables	21	5,898	57,884
Net current assets		276,044	73,962
NET ASSETS		1,099,701	253,862
CAPITAL AND RESERVES	30(b)		
Share capital		472,078	246,481
Reserves		627,623	7,381
TOTAL EQUITY		1,099,701	253,862

Consolidated Statement of Changes in Equity for the year ended 31 December 2006

(Expressed in Hong Kong dollars)

		Attributable to equity shareholders of the company								
		Share capital	Share premium	Contributed surplus	Share options reserve	Exchange reserve	Accumulated losses	Subtotal	Minority interests	Total
		(Note 30(c)(i))	*(Note 30(d)(i))*	*(Note 30(d)(ii))*	*(Note 30(c)(v))*	*(Note 30(d)(iii))*				
	Note	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
At 1 January 2005		246,481	177,179	152,150	—	—	(295,556)	280,254	—	280,254
Net loss for the year		—	—	—	—	—	(55,200)	(55,200)	—	(55,200)
Equity settled share-based transactions		—	—	—	2,373	—	—	2,373	—	2,373
At 31 December 2005		246,481	177,179	152,150	2,373	—	(350,756)	227,427	—	227,427
At 1 January 2006		246,481	177,179	152,150	2,373	—	(350,756)	227,427	—	227,427
Exchange difference on translation of financial statements of subsidiaries outside Hong Kong		—	—	—	—	9,631	—	9,631	8,036	17,667
Net loss for the year		—	—	—	—	—	(8,244)	(8,244)	(998)	(9,242)
Shares issued in respect of:										
— purchase of net assets	31	108,148	324,444	—	—	—	—	432,592	—	432,592
— share placing		115,000	345,000	—	—	—	—	460,000	—	460,000
— share options scheme		2,449	3,842	—	(2,373)	—	—	3,918	—	3,918
Share issue expenses		—	(3,752)	—	—	—	—	(3,752)	—	(3,752)
Purchase of net assets	31	—	—	—	—	—	—	—	795,414	795,414
Capital contribution from a minority shareholder		—	—	—	—	—	—	—	8,396	8,396
At 31 December 2006		472,078	846,713	152,150	—	9,631	(359,000)	1,121,572	810,848	1,932,420

Consolidated Cash Flow Statement for the year ended 31 December 2006
(Expressed in Hong Kong dollars)

	Note	2006 $'000	2005 $'000
Operating activities			
Profit/(loss) before taxation			
— From continuing operations		(20,558)	(25,134)
— From discontinued operations		12,267	(30,725)
		(8,291)	(55,859)
Adjustments for:			
— Valuation (gain)/loss on investment properties		(15,794)	31,000
— Depreciation		1,369	1,568
— Impairment loss on trade and other receivables		877	3,866
— Impairment of goodwill		7,400	2,126
— Finance costs		3,645	1,919
— Dividend income from trading securities		(182)	(150)
— Interest income		(4,502)	(1,282)
— Share of profits less losses of an associate		—	(1,373)
— Loss on disposal of an associate		—	1,373
— Loss on disposal of property, plant and equipment		18	—
— Equity-settled share-based payment expenses		—	2,373
Operating loss before changes in working capital		(15,460)	(14,439)
Increase in inventories		(55)	(13)
Decrease in trade and other receivables		7,601	7,253
Decrease in trading securities		2,268	5,371
Decrease in trade and other payables		(26,831)	(29,531)
Increase in deferred income		13,330	9,568
Cash used in operations		(19,147)	(21,791)
Tax paid			
— PRC tax paid		(568)	(524)
Net cash used in operating activities		(19,715)	(22,315)

	Note	2006 $'000	2005 $'000
Investing activities			
Purchase of net assets, net of cash acquired	31	(215,559)	—
Payment for the purchase of property, plant and equipment		(1,836)	(345)
Proceeds from sale of an associate		—	46,698
Interest received		4,502	1,282
Dividends received from trading securities		182	150
Net cash (used in)/generated from investing activities		(212,711)	47,785
Financing activities			
Repayment of amount due from a minority shareholder		14,204	—
Proceeds from loans from minority shareholders		150,500	—
Capital injection from a minority shareholder		8,396	—
Proceeds from shares issued under placing		460,000	—
Proceeds from shares issued under share options scheme		3,918	—
Payment of transaction costs on issue of shares		(3,752)	—
Repayment of obligations under a finance lease		(117)	(249)
Repayment of bank loan		(32,910)	(4,000)
(Increase)/decrease in pledged bank deposits		(9,317)	5,243
Decrease/(increase) in pledged deposits in financial institutions		8,412	(2,204)
Interest paid		(2,479)	(1,919)
Net cash generated from/(used in) financing activities		596,855	(3,129)
Net increase in cash and cash equivalents		364,429	22,341
Cash and cash equivalents at 1 January		83,757	61,416
Effect of foreign exchange rate changes		901	—
Cash and cash equivalents at 31 December	20	449,087	83,757

NOTES TO THE FINANCIAL STATEMENTS
(EXPRESSED IN HONG KONG DOLLARS)

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the group is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the group and the company. The adoption of these new and revised HKFRSs did not result in significant changes to the company's accounting policies applied in these financial statements and has no significant impact on the group's financial statements for the current and prior accounting periods.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2006 comprise the company and its subsidiaries (together referred to as the "group") and the group's interest in associates.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the following assets and liabilities are stated at their fair value as explained in the accounting policies set out below:

— investment properties (see note 1(h));

— financial instruments classified as available-for-sale or as trading securities (see note 1(f)); and

— derivative financial instruments (see note 1(g)).

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 36.

(c) Subsidiaries and minority interests

Subsidiaries are entities controlled by the group. Control exists when the group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Minority interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the company, whether directly or indirectly through subsidiaries, and in respect of which the group has not agreed any additional terms with the holders of those interests which would result in the group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Minority interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity shareholders of the company. Minority interests in the results of the group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of the company.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the group's interest is allocated all such profits until the minority's share of losses previously absorbed by the group has been recovered.

Loans from holders of minority interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated balance sheet in accordance with notes 1(o) or (p) depending on the nature of the liability.

In the company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (see note 1(l)).

(d) Associates

An associate is an entity in which the group or company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the group's share of the associate's net assets. The consolidated income statement includes the group's share of the post-acquisition, post-tax results of the associates for the year (see note 1(l)).

When the group's share of losses exceeds its interest in the associate, the group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the group has incurred legal or constructive obligations or made payments on behalf of the associate. For this purpose, the group's interest in the associate is the carrying amount of the investment under the equity method together with the group's long-term interests that in substance form part of the group's net investment in the associate.

Unrealised profits and losses resulting from transactions between the group and its associates are eliminated to the extent of the group's interest in the associate, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

In the company's balance sheet, its investments in associates are stated at cost less impairment losses (see note 1(l)).

(e) Goodwill

Goodwill represents the excess of the cost of a business combination over the group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (see note 1(l)).

Any excess of the group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination or an investment in an associate is recognised immediately in profit or loss.

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(f) Other investments in equity securities

The group's and the company's policies for investments in equity securities, other than investments in subsidiaries and associates, are as follows:

Investments in equity securities are initially stated at cost, which is their transaction price unless fair value can be more reliably estimated using valuation techniques whose variables include only data from observable markets. Cost includes attributable transaction costs, except where indicated otherwise below. These investments are subsequently accounted for as follows, depending on their classification.

Investments in securities held for trading are classified as current assets. Any attributable transaction costs are recognised in profit or loss as incurred. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised in profit or loss.

Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the balance sheet at cost less impairment losses (see note 1(l)).

Investments in securities which do not fall into any of the above categories are classified as available-for-sale securities. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised directly in equity. When these investments are derecognised or impaired (see note 1(l)), the cumulative gain or loss previously recognised directly in equity is recognised in profit or loss.

Investments are recognised/derecognised on the date the group commits to purchase/sell the investments or they expire.

(g) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At each balance sheet date the fair value is remeasured. The gain or loss on remeasurement to fair value is charged immediately to profit or loss.

(h) Investment properties

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see note 1(k)) to earn rental income and/or for capital appreciation. These include land held for a currently undetermined future use.

Investment properties are stated in the balance sheet at fair value. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in profit or loss. Rental income from investment properties is accounted for as described in note 1(u)(iii).

When the group holds a property interest under an operating lease to earn rental income and/or for capital appreciation, the interest is classified and accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it were held under a finance lease (see note 1(k)), and the same accounting policies are applied to that interest as are applied to other investment properties leased under finance leases. Lease payments are accounted for as described in note 1(k).

(i) Property, plant and equipment

Property, plant and equipment, other than investment property (see note 1(h)) are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see note 1(l)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

—	Leasehold improvements	5 years or over the unexpired terms of the lease, whichever is shorter
—	Furniture, fixtures and equipment	5–10 years
—	Motor vehicles	5–10 years

Where parts of an item of property, plant and equipment have different useful lives, the cost or the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

(j) Intangible assets (other than goodwill)

Mining rights

Mining rights are stated at cost less accumulated amortisation and impairment losses (see note 1(l)). The mining rights are amortised using the units of production method based on the proven and probable mineral reserves.

(k) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) *Classification of assets leased to the group*

Assets that are held by group under leases which transfer to the group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the group are classified as operating leases.

(ii) *Assets acquired under finance leases*

Where the group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost or valuation of the assets over the term of the relevant lease or, where it is likely the group will obtain ownership of the asset, the life of the asset, as set out in note 1(i). Impairment losses are accounted for in accordance with the accounting policy as set out in note 1(l). Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(iii) *Operating lease charges*

Where the group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term except where the property is classified as an investment property (see note 1(h)).

(l) Impairment of assets

(i) *Impairment of investments in equity securities and other receivables*

Investments in equity securities and other current receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, any impairment loss is determined and recognised as follows:

— For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities are not reversed.

— For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is immaterial.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

— For available-for-sale securities, the cumulative loss that has been recognised directly in equity is removed from equity and is recognised in profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

Impairment losses recognised in profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised directly in equity.

(ii) *Impairment of other assets*

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

— property, plant and equipment;

— intangible assets;

— investments in subsidiaries and associates; and

— goodwill.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

— Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

— Recognition of impairment losses

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

— Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(m) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the first-in, first-out method and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(n) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts (see note 1(l)), except where the effect of discounting would be immaterial.

(o) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(p) Trade and other payables

Trade and other payables are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(q) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(r) Employee benefits

(i) *Short term employee benefits and contributions to defined contribution retirement plans*

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) *Share based payments*

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a share options reserve within equity. The fair value is measured at the grant date using the Black-Scholes option pricing model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On the vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the company's shares. The equity amount is recognised in the share options reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

(s) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if the company or the group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

— in the case of current tax assets and liabilities, the company or the group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

— in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  — the same taxable entity; or

  — different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(t) Provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the group or the company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(u) Revenue recognition

Provided it is probable that the economic benefits will flow to the group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) *Sale of goods*

Revenue is recognised when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(ii) *Processing, storage and enrolment fees*

Processing and storage fees are recognised when services are rendered. Enrolment fees are recognised upon the signing of the enrolment contract.

(iii) *Rental income from operating leases*

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

(iv) *Dividends*

Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

(v) *Interest income*

Interest income is recognised as it accrues using the effective interest method.

(v) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non- monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of operations outside Hong Kong are translated into Hong Kong dollars at the exchange rates approximating the exchange rates ruling at the dates of the transactions. Balance sheet items, including goodwill arising on consolidation of operations outside Hong Kong are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised directly in a separate component of equity.

On disposal of an operation outside Hong Kong, the cumulative amount of the exchange differences recognised in equity which relate to that operation is included in the calculation of the profit or loss on disposal.

(w) Borrowing costs

Borrowing costs are expensed in profit or loss in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(x) Discontinued operations

A discontinued operation is a component of the group's business, the operations and cash flows of which can be clearly distinguished from the rest of the group and which represents a separate major line of business or geographical area of operations, or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. It also occurs when the operation is abandoned.

Where an operation is classified as discontinued, a single amount is presented on the face of the income statement, which comprises:

— the post-tax profit or loss of the discontinued operation; and

— the post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal group(s) constituting the discontinued operation.

(y) Related parties

For the purposes of these financial statements, a party is considered to be related to the group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the group or exercise significant influence over the group in making financial and operating policy decisions, or has joint control over the group;

(ii) the group and the party are subject to common control;

(iii) the party is an associate of the group or a joint venture in which the group is a venturer;

(iv) the party is a member of key management personnel of the group or the group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the group or of any entity that is a related party of the group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

(z) Segment reporting

A segment is a distinguishable component of the group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the group's internal financial reporting system, the group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these financial statements.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group entities within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, tax balances, corporate and financing expenses.

(aa) Deferred income

Deferred income represents the receipt in advance for the provision of storage services. The amount is amortised over the remaining service period.

(ab) Equity-settled share-based payment transactions

For equity-settled share-based payment transactions, the goods or services received are recognised at fair value with a corresponding increase in equity, unless fair value cannot be estimated reliably. If the fair value of the goods or services received cannot be estimated reliably, their values are indirectly measured by reference to the fair value of the equity instruments granted.

Share-based payment in respect of employee benefits is dealt with in accordance with the accounting policy set out in note 1(r)(ii).

2. TURNOVER

The principal activities of the group are processing and storage of cord blood, mining, property investment, trading of investments and trading of pharmaceutical ingredients, chemicals and other miscellaneous products.

Turnover recognised during the year is as follows:

	2006	**2005**
	$'000	*$'000*
Continuing operations:		
Processing and storage of cord blood	17,366	15,634
Discontinued operations: (note 8)		
Sales of trading securities	116,234	36,108
Dividend income from trading securities	182	150
Sales of products	13,995	130,262
Rental income	7,796	8,684
	138,207	175,204
	155,573	190,838

3. OTHER REVENUE

	2006	**2005**
	$'000	*$'000*
Continuing operations:		
Bad debt recovery	49	49
Interest income on bank deposits	4,128	1,012
Sundry revenue	73	170
	4,250	1,231
Discontinued operations: (note 8)		
Bad debt recovery	167	90
Interest income on bank deposits	240	161
Interest income from securities accounts	134	109
	541	360
	4,791	1,591

4. PROFIT/(LOSS) BEFORE TAXATION

Profit/(loss) before taxation is arrived at after charging/(crediting):

		2006	2005
		$'000	*$'000*
(a)	Finance costs:		
	Continuing operations:		
	— Finance charges on obligations under a finance lease	3	20
	— Interest expense on financial liabilities measured at amortised cost	1,166	—
		1,169	20
	Discontinued operations: (note 8)		
	— Interest on bank loan wholly repayable within five years	1,978	1,740
	— Interest paid for margin financing	498	159
		2,476	1,899
		3,645	1,919
(b)	Staff costs (excluding directors):		
	Continuing operations:		
	— Salaries, wages and other benefits	8,001	8,429
	— Contributions to defined contribution retirement plan	208	325
	— Equity-settled share-based payment expenses	—	697
		8,209	9,451
	Discontinued operations: (note 8)		
	— Salaries, wages and other benefits	299	155
	— Contributions to defined contribution retirement plan	18	6
		317	161
		8,526	9,612
(c)	Other items:		
	Continuing operations:		
	— Auditors' remuneration	1,436	637
	— Depreciation on property, plant and equipment		
	— owned by the group	1,255	1,001
	— held under a finance lease	—	430
	— Net foreign exchange loss	449	49
	— Operating lease charges		
	— land and buildings	3,084	2,656
	— office equipment	17	17
	— Loss on disposal of property, plant and equipment	18	—
	— Impairment loss on trade and other receivables	877	—
	Discontinued operations:		
	— Auditors' remuneration	42	113
	— Depreciation on property, plant and equipment owned by the group	114	137
	— Net foreign exchange loss	(28)	10
	— Operating lease charges for land and buildings	—	94
	— Rentals receivable from investment properties less direct outgoings of $2,812,000 (2005: $3,305,000)	(4,984)	(5,379)
	— Impairment loss on trade and other receivables	—	3,866

5. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) Continuing operations:

(i) Taxation in the consolidated income statement represents:

	2006	2005
	$'000	*$'000*
Current tax — PRC Income Tax		
Provision for the year	—	75
Deferred tax		
Origination and reversal of temporary differences	(366)	—
Tax (credit)/charge	(366)	75

The provision for PRC Income Tax has been calculated based on the estimated taxable income at the appropriate current rates of taxation ruling in the PRC.

No provision for Hong Kong Profits Tax has been made as the companies comprising the continuing operations have no assessable profit during the year.

(ii) Reconciliation between tax (credit)/charge and accounting loss at applicable tax rates:

	2006	2005
	$'000	*$'000*
Loss before taxation	(20,558)	(25,134)
Notional tax credit on loss before taxation, calculated at Hong Kong Profits Tax rate of 17.5%	(3,598)	(4,398)
Tax effect of non-taxable income	(728)	(418)
Tax effect of non-deductible expenses	3,935	1,568
Tax effect of tax losses not recognised	—	3,509
Tax effect of prior year's unrecognised tax losses recognised in current year	(364)	—
Tax effect of prior year's unrecognised tax losses utilised in current year	—	(304)
Effect of different taxation rate used in other jurisdictions	389	—
Others	—	118
Actual tax (credit)/charge	(366)	75

(b) Discontinued operations: (note 8)

(i) Taxation in the consolidated income statement represents:

	2006	2005
	$'000	*$'000*
Current tax — PRC Income Tax		
Provision for the year	512	847
Deferred tax		
Origination and reversal of temporary differences	805	(1,581)
Tax charge/(credit)	1,317	(734)

The provision for PRC Income Tax has been calculated based on the estimated taxable income at the appropriate current rates of taxation ruling in the PRC.

No provision for Hong Kong Profits Tax has been made as the companies comprising the discontinued operations either have no assessable profit during the year or have sufficient tax losses brought forward from previous years to fully set off the assessable profits.

(ii) Reconciliation between tax charge/(credit) and accounting profit/(loss) at applicable tax rates:

	2006	**2005**
	$'000	*$'000*
Profit/(loss) before taxation	12,267	(30,725)
Notional tax charge/(credit) on profit/(loss) before taxation, calculated at Hong Kong Profits Tax rate of 17.5%	2,147	(5,377)
Tax effect of non-taxable income	(526)	(89)
Tax effect of non-deductible expenses	892	736
Tax effect of tax losses not recognised	1,159	408
Tax effect of prior year's unrecognised tax losses utilised in current year	(13)	(189)
Effect of different taxation rate used in other jurisdictions	(2,342)	4,042
Others	—	(265)
Actual tax charge/(credit)	1,317	(734)

6. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

	Directors' fees	**Salaries, allowances and benefits in kind**	**Retirement scheme contributions**	**Sub-total**	**Share-based payments** *(note)*	**2006 Total**
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Chairman						
Cai Yuan	—	1,140	46	1,186	—	1,186
Executive directors						
Luk Kin Peter Joseph	—	1,100	57	1,157	—	1,157
Yeung Kwok Kuen	—	—	—	—	—	—
Non-executive director						
Lam Ming Yung	—	—	—	—	—	—
Independent non-executive directors						
Tang Tin Sek	240	—	—	240	—	240
Lee Kwan Hung	240	—	—	240	—	240
Poon Chiu Kwok (resigned on 8 November 2006)	165	—	—	165	—	165
Chan Siu Tat	7	—	—	7	—	7
Wong Hon Sum	—	—	—	—	—	—
	652	2,240	103	2,995	—	2,995

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

	Directors' fees	Salaries, allowances and benefits in kind	Retirement scheme contributions	Sub-total	Share-based payments *(note)*	2005 Total
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Chairman						
Cai Yuan	—	—	—	—	838	838
Executive directors						
Luk Kin Peter Joseph	—	540	25	565	838	1,403
Fu Weimin	—	237	—	237	—	237
Zhao Linye	—	237	5	242	—	242
Qi Xianchao	—	1,423	49	1,472	—	1,472
Zhou Yucheng	—	1,620	—	1,620	—	1,620
Independent non-executive directors						
Tang Tin Sek	211	—	—	211	—	211
Lee Kwan Hung	129	—	—	129	—	129
Julia Frances Charlton-Stevens	32	—	—	32	—	32
Wang Yiming	180	—	—	180	—	180
	552	4,057	79	4,688	1,676	6,364

Note: These represent the estimated value of share options granted to the directors under the company's share options scheme. The value of these share options is measured according to the group's accounting policies for share-based payment transactions as set out in note 1(r)(ii) and, in accordance with that policy, includes adjustments to reverse amounts accrued in previous years where grants of equity instruments are forfeited prior to vesting.

Details of these benefits in kind, including the principal terms and number of options granted, are disclosed under the paragraph "Share options scheme" in the directors' report and note 27.

7. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, two (2005: three) are directors whose emoluments are disclosed in note 6. The aggregate of the emoluments in respect of the other three (2005: two) individuals are as follows:

	2006	2005
	$'000	*$'000*
Salaries and other emoluments	1,357	1,261
Share-based payments	—	291
Retirement scheme contributions	61	38
	1,418	1,590

The emoluments of the three (2005: two) individuals with the highest emoluments fall within the band of less than $1,000,000.

During the year, no emoluments (2005: Nil) were paid by the group to any of the directors or the five highest paid individuals as an inducement to join or upon joining the group or as a compensation for loss of office.

For the year ended 31 December 2006, Mr. Cai Yuan and Mr. Luk Kin Peter Joseph agreed to waive their discretionary bonus, which they were entitled to in accordance with their service contracts with the company.

By an ordinary resolution passed at the meeting of the remuneration committee held on 6 December 2006, Mr. Cai Yuan agreed to reduce his basic salary by $40,000 to $40,000 and his housing allowance by $20,000 to nil per month respectively with effect from 1 December 2006. Mr. Luk Kin Peter Joseph agreed to waive his basic salary to nil per month with effect from 1 December 2006.

8. DISCONTINUED OPERATIONS

The group's trading of investment and trading of pharmaceutical ingredients and chemicals operations were discontinued during the year.

Following the cessation of the trading activities, the group commenced the de-registration process with the Companies Registry in Hong Kong of the two subsidiaries, namely Fullgain International Investment Limited and INNOMAXX International Trading Company Limited.

In November 2006, the group's property investment operation was discontinued following the disposal of two subsidiaries, namely INNOMAXX Property (BVI) Limited and GITIC Properties Limited, as part of the considerations in connection with the acquisition of 57% equity interest in Lead Sun Investments Limited (see note 31).

(a) The results of the discontinued operations for the years ended 31 December 2006 and 2005 are as follows:

	Note	2006 *$'000*	2005 *$'000*
Turnover	2, 11	138,207	175,204
Cost of sales		(138,580)	(163,513)
Gross (loss)/profit		(373)	11,691
Valuation gain/(loss) on investment properties	12(a)	15,794	(31,000)
Other revenue	3	541	360
Impairment loss of trade and other receivables		—	(3,866)
Selling expenses		—	(4,042)
Administrative expenses		(1,219)	(1,969)
Profit/(loss) from operations		14,743	(28,826)
Finance costs	4(a)	(2,476)	(1,899)
Profit/(loss) before taxation	4	12,267	(30,725)
Income tax	5	(1,317)	734
Profit/(loss) for the year		10,950	(29,991)

(b) The net cash flows of the discontinued operations for the years ended 31 December 2006 and 2005 are as follows:

	2006 *$'000*	2005 *$'000*
Net cash (outflow)/inflow from operating activities	(6,874)	4,749
Net cash outflow from investing activities	(1,832)	(1,683)
Net cash outflow from financing activities	(32,910)	(4,000)
Net cash outflow incurred by the discontinued operations	(41,616)	(934)

9. LOSS ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated loss attributable to equity shareholders of the company includes a loss of $46,919,000 (2005: a loss of $36,546,000) which has been dealt with in the financial statements of the company.

10. (LOSS)/EARNINGS PER SHARE

(a) Basic (loss)/earnings per share

The calculation of basic (loss)/earnings per share is based on the profit/(loss) attributable to ordinary equity shareholders of the company and the weighted average number of ordinary shares in issue during the year, calculated as follows:

(i) *Loss attributable to ordinary equity shareholders of the company*

	2006	**2005**
	$'000	*$'000*
Continuing operations	(19,194)	(25,209)
Discontinued operations	10,950	(29,991)
	(8,244)	(55,200)

(ii) *Weighted average number of ordinary shares*

	2006	**2005**
	'000	*'000*
Issued ordinary shares at 1 January	2,464,813	2,464,813
Effect of shares issued *(note 30(c))*	373,120	—
Effect of share options exercised *(note 30(c))*	7,310	—
Weighted average number of ordinary shares at 31 December	2,845,243	2,464,813

(b) Diluted loss per share

The diluted loss per share for both years is not presented as the company's potential ordinary shares outstanding during the year had an anti-dilutive effect on the basic loss per share from continuing operations.

11. SEGMENT REPORTING

Segment information is presented in respect of the group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the group's internal financial reporting.

Business segments

The group is currently engaged in processing and storage of cord blood and mining operations. The group was also involved in the trading of investments, sales of products and property investment which were discontinued as set out in note 8. There are no sales or trading transactions between the business segments. These segments are the basis on which the group reports its primary segment information.

Segment information about these businesses is set out as follows:

For the year ended 31 December 2006

	Continuing operations			Discontinued operations				
	Processing and storage of cord blood	Mining	Sub-total	Property investment	Trading of investments	Sales of products	Sub-total	Total
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Segment revenue:								
Turnover from external customers	17,366	—	17,366	7,796	116,416	13,995	138,207	155,573
Other revenue	—	—	—	—	—	77	77	77
Total	17,366	—	17,366	7,796	116,416	14,072	138,284	155,650
Segment result	(7,409)	(1,130)	(8,539)	20,245	(5,809)	68	14,504	5,965
Unallocated operating income and expenses			(10,850)				239	(10,611)
(Loss)/profit from operations			(19,389)				14,743	(4,646)
Finance costs			(1,169)				(2,476)	(3,645)
Taxation			366				(1,317)	(951)
(Loss)/profit after taxation			(20,192)				10,950	(9,242)
Assets and liabilities								
Segment assets	24,344	1,695,875	1,720,219	—	—	—	—	1,720,219
Unallocated assets								451,960
Total assets								2,172,179
Segment liabilities	36,334	46,953	83,287	—	18	10	28	83,315
Unallocated liabilities								156,444
Total liabilities								239,759

	Continuing operations			Discontinued operations					
	Processing and storage of cord blood	Mining	Sub-total	Property investment	Trading of investments	Sales of products	Sub-total	Un-allocated	Total
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Other segment information									
Depreciation	647	17	664	114	—	—	114	591	1,369
Loss on disposal of property, plant and equipment	—	18	18	—	—	—	—	—	18
Valuation gain on investment properties	—	—	—	(15,794)	—	—	(15,794)	—	(15,794)
Impairment loss of goodwill	7,400	—	7,400	—	—	—	—	—	7,400
Capital expenditure incurred during the year	1,813	1,678,623	1,680,436	7	—	—	7	3	1,680,446
Recovery of bad debt	—	—	—	(90)	—	(77)	(167)	(49)	(216)

For the year ended 31 December 2005

	Continuing operations			Discontinued operations				
	Processing and storage of cord blood	Mining	Sub-total	Property investment	Trading of investments	Sales of products	Sub-total	Total
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Segment revenue:								
Turnover from external customers	15,634	—	15,634	8,684	36,258	130,262	175,204	190,838
Segment result	(95)	—	(95)	(29,934)	1,101	(381)	(29,214)	(29,309)
Unallocated operating income and expenses			(25,019)				388	(24,631)
Loss from operations			(25,114)				(28,826)	(53,940)
Finance costs			(20)				(1,899)	(1,919)
Share of profits less losses of an associate			1,373				—	1,373
Loss on disposal of an associate			(1,373)				—	(1,373)
Taxation			(75)				734	659
Loss after taxation			(25,209)				(29,991)	(55,200)
Assets and liabilities								
Segment assets	25,675	—	25,675	153,385	3,334	—	156,719	182,394
Unallocated assets								114,647
Total assets								297,041
Segment liabilities	23,280	—	23,280	3,069	—	—	3,069	26,349
Unallocated liabilities								43,265
Total liabilities								69,614

	Continuing operations			Discontinued operations					
	Processing and storage of cord blood	Mining	Sub-total	Property investment	Trading of investments	Sales of products	Sub-total	Un-allocated	Total
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Other segment information									
Depreciation	509	—	509	137	—	—	137	922	1,568
Valuation loss on investment properties	—	—	—	31,000	—	—	31,000	—	31,000
Impairment loss of trade and other receivables	—	—	—	3,866	—	—	3,866	—	3,866
Impairment loss of goodwill	2,126	—	2,126	—	—	—	—	—	2,126
Capital expenditure incurred during the year	328	—	328	5	—	—	5	12	345
Recovery of bad debt	—	—	—	(90)	—	—	(90)	(49)	(139)

Geographical segments

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets and capital expenditure are based on the geographical location of the assets.

For the year ended 31 December 2006

	Hong Kong	The PRC	New Zealand	Total
	$'000	*$'000*	*$'000*	*$'000*
Segment revenue				
Revenue from external customers	147,777	7,796	—	155,573
Attributable to discontinued operations	(130,411)	(7,796)	—	(138,207)
Revenue from continuing operations	17,366	—	—	17,366
Segment assets				
— Continuing operations	24,344	1,695,875	—	1,720,219
— Discontinued operations	—	—	—	—
	24,344	1,695,875	—	1,720,219
— Unallocated assets	295,198	156,762	—	451,960
	319,542	1,852,637	—	2,172,179
Capital expenditure incurred during the year				
— Continuing operations	1,813	1,678,623	—	1,680,436
— Discontinued operations	—	7	—	7
	1,813	1,678,630	—	1,680,443
— Unallocated	3	—	—	3
	1,816	1,678,630	—	1,680,446

For the year ended 31 December 2005

	Hong Kong	The PRC	New Zealand	Total
	$'000	*$'000*	*$'000*	*$'000*
Segment revenue				
Revenue from external customers	106,593	8,684	75,561	190,838
Attributable to discontinued operations	(90,959)	(8,684)	(75,561)	(175,204)
Revenue from continuing operations	15,634	—	—	15,634
Segment assets				
— Continuing operations	25,675	—	—	25,675
— Discontinued operations	3,334	153,385	—	156,719
	29,009	153,385	—	182,394
— Unallocated assets	114,647	—	—	114,647
	143,656	153,385	—	297,041
Capital expenditure incurred during the year				
— Continuing operations	328	—	—	328
— Discontinued operations	—	5	—	5
	328	5	—	333
— Unallocated	12	—	—	12
	340	5	—	345

12. FIXED ASSETS

(a) The group

	Leasehold improvements $'000	Furniture, fixtures and equipment $'000	Motor vehicles $'000	Sub-total $'000	Investment properties $'000	Total $'000
Cost or valuation:						
At 1 January 2005	1,339	4,828	2,711	8,878	155,800	164,678
Additions	—	345	—	345	—	345
Fair value adjustment	—	—	—	—	(31,000)	(31,000)
At 31 December 2005	1,339	5,173	2,711	9,223	124,800	134,023
Representing:						
Cost	1,339	5,173	2,711	9,223	—	9,223
Valuation — 2005	—	—	—	—	124,800	124,800
	1,339	5,173	2,711	9,223	124,800	134,023
At 1 January 2006	1,339	5,173	2,711	9,223	124,800	134,023
Exchange adjustments	—	3	5	8	—	8
Purchase of net assets *(note 31)*	—	259	494	753	—	753
Additions	307	1,529	—	1,836	—	1,836
Disposals	—	(167)	—	(167)	—	(167)
Fair value adjustment	—	—	—	—	15,794	15,794
Disposal of subsidiaries	(549)	(147)	—	(696)	(140,594)	(141,290)
At 31 December 2006	1,097	6,650	3,210	10,957	—	10,957
Representing:						
Cost	1,097	6,650	3,210	10,957	—	10,957
Valuation — 2006	—	—	—	—	—	—
	1,097	6,650	3,210	10,957	—	10,957

	Leasehold improvements $'000	Furniture, fixtures and equipment $'000	Motor vehicles $'000	Sub-total $'000	Investment properties $'000	Total $'000
Accumulated depreciation:						
At 1 January 2005	416	2,154	1,686	4,256	—	4,256
Charge for the year	325	739	504	1,568	—	1,568
At 31 December 2005	741	2,893	2,190	5,824	—	5,824
At 1 January 2006	741	2,893	2,190	5,824	—	5,824
Charge for the year	409	720	240	1,369	—	1,369
Disposals	—	(149)	—	(149)	—	(149)
Disposal of subsidiaries	(384)	(135)	—	(519)	—	(519)
At 31 December 2006	766	3,329	2,430	6,525	—	6,525
Net book value:						
At 31 December 2006	331	3,321	780	4,432	—	4,432
At 31 December 2005	598	2,280	521	3,399	124,800	128,199

(b) The company

	Leasehold improvements $'000	Furniture, fixtures and equipment $'000	Total $'000
Cost:			
At 1 January 2005, 31 December 2005 and 1 January 2006	—	—	—
Additions	180	338	518
At 31 December 2006	180	338	518
Accumulated depreciation:			
At 1 January 2005, 31 December 2005 and 1 January 2006	—	—	—
Charge for the year	54	38	92
At 31 December 2006	54	38	92
Net book value:			
At 31 December 2006	126	300	426
At 31 December 2005	—	—	—

13. INTANGIBLE ASSETS

The group

	Mining right *$'000*
Cost:	
At 1 January 2005, 31 December 2005 and 1 January 2006	—
Purchase of net assets *(note 31)*	1,675,784
Additions	2,073
Exchange adjustments	16,758
At 31 December 2006	1,694,615
Accumulated amortisation and impairment:	
At 1 January 2005, 31 December 2005 and 31 December 2006	—
Net book value:	
At 31 December 2006	1,694,615
At 31 December 2005	—

The mining assets and liabilities of the group were acquired in October 2006 following the purchase of net assets as discussed in note 31.

The mining right represents the fair value of the right for mining, in a natural rutile mine known as 山西代縣金紅石礦 (the "Mine") located at Dai County, Shanxi Province of the PRC, which is expiring in September 2009.

As the mining of the Mine has not commenced at the year end, no amortisation was charged to profit and loss for the year ended 31 December 2006 in accordance with the accounting policy set out in note 1(j).

14. GOODWILL

The group

	$'000
Cost:	
At 1 January 2005, 31 December 2005 and 31 December 2006	17,726
Accumulated impairment losses:	
At 1 January 2005	—
Impairment loss	2,126
At 31 December 2005	2,126
At 1 January 2006	2,126
Impairment loss	7,400
At 31 December 2006	9,526
Carrying amount:	
At 31 December 2006	8,200
At 31 December 2005	15,600

Impairment tests for cash-generating units containing goodwill

Goodwill is allocated to the group's processing and storage of cord blood cash-generating-units (CGU).

The recoverable amounts of the processing and storage of cord blood CGU is determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the year. Management estimates discount rates using a risk-free rate, the market return and company-specific factors. The growth rates are based on the estimation on the historical annual growth rates of the processing and storage of cord blood CGU and the comparable companies industry growth forecasts. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

During the year, the group performed an impairment review for goodwill with reference to the valuation carried out by BMI Appraisals Limited, independent qualified professional valuers not connected with the group. The valuation is based on cash flow forecasts derived from the most recent financial budgets approved by management for the next year and extrapolated cash flows for the following ten years based on an estimated growth rate of 5% to 25% plus a terminal value. The rate used to discount the forecast cash flow is 10.56%. Due to the fact that there were new competitors entered into the market in recent years, the value in use calculated by using the discount rate is lower than the carrying amount of the CGU and accordingly, an impairment loss of $7,400,000 was considered necessary.

15. INVESTMENTS IN SUBSIDIARIES

The company

	2006	**2005**
	$'000	*$'000*
Unlisted shares, at cost	823,231	180,357
Less: impairment loss	—	(457)
	823,231	179,900

The following list contains only the particulars of subsidiaries which principally affect the results, assets and liabilities of the group. The class of shares held is ordinary unless otherwise stated.

			Proportion of ownership interest			
Name of company	**Place of incorporation/ operation**	**Particulars of issued and paid up capital**	**Group's effective interest**	**Held by the company**	**Held by a subsidiary**	**Principal activity**
Biogrowth Assets Limited	British Virgin Islands/ Hong Kong	1 share of US$1	100%	100%	—	Investment holding
Cell Therapy Technologies Centre Limited	Hong Kong/ Hong Kong	20,000,000 shares of $0.01 each	100%	—	100%	Provision of cord blood bank and its relevant laboratory service
China Kent Development Limited	Hong Kong/ Hong Kong	2 ordinary shares and 10,000 non-voting deferred shares of $1 each	100%	—	100%	Provision of administrative support to group companies
Fullgain International Investment Limited	Hong Kong/ Hong Kong	2 shares of $1 each	100%	—	100%	Securities investment holding and trading of securities investment

Name of company	Place of incorporation/ operation	Particulars of issued and paid up capital	Proportion of ownership interest: Group's effective interest	Held by the company	Held by a subsidiary	Principal activity
GITIC Properties Limited#	Hong Kong/ PRC	10,000 shares of $1 each	100%	—	100%	Property investment
INNOMAXX International Trading Company Limited	Hong Kong/ Hong Kong	1 share of $1	100%	—	100%	Trading of pharmaceutical ingredients and chemicals
INNOMAXX Investment Holdings Limited	Hong Kong/ Hong Kong	2 shares of $1 each	100%	100%	—	Investment holding
INNOMAXX Property (BVI) Limited#	British Virgin Islands/ Hong Kong	2 shares of US$1 each	100%	100%	—	Investment holding
Lead Sun Investments Limited	British Virgin Islands/ Hong Kong	1,000 shares of US$1 each	57%	57%	—	Investment holding
Longship Limited	British Virgin Islands/ Hong Kong/	1 share of US$1	100%	—	100%	Investment holding
New Legend International Group Limited	Hong Kong/ Hong Kong	1 share of $1	100%	100%	—	Provision of administrative support to group companies
Offspring Investments Limited	British Virgin Islands/ Hong Kong	1 share of US$1	100%	100%	—	Inactive
Shanxi Shenli Aerospace Titanium Company Limited ("Shanxi Shenli")	PRC/PRC	Registered capital RMB184,800,000	51.3%	—	90%	Rutile mining
Sinorich Technology Development Limited	Hong Kong/ Hong Kong	2 shares of $1 each	100%	—	100%	Inactive
Titanspeed Investments Limited	British Virgin Islands/ Hong Kong	1 share of US$1	100%	100%	—	Inactive

Name of company	Place of incorporation/ operation	Particulars of issued and paid up capital	Proportion of ownership interest: Group's effective interest	Held by the company	Held by a subsidiary	Principal activity
Top Rank International Group Limited	British Virgin Islands/ Hong Kong	50,000 shares of US$1 each	57%	—	100%	Investment holding
United Profit Investment Limited	British Virgin Islands/ Hong Kong	1 share of US$1	100%	100%	—	Investment holding

Disposed of during the year

16. INTEREST IN ASSOCIATES

The group

	2006 $'000	2005 $'000
Unlisted shares, at cost	—	40,285
Share of net assets	—	(40,285)
	—	—

Details of the group's associates as at 31 December 2005 stated in prior year's audited consolidated financial statements were as follows:

Name of associate	Form of business structure	Place of incorporation/ operation	Proportion of ownership interest: Group's effective interest	Held by the company	Held by a subsidiary	Principal activity
Happy Bright Holdings Limited ("Happy Bright")	Incorporated	Hong Kong	20%	—	20%	Investment holding
Guangzhou Huakang Dikong Development Company Limited ("GHDDCL")	Incorporated	PRC	17%	—	17%	Property, development and investments

The group acquired the equity interest of Happy Bright in 2002, which held an 85% equity interest in GHDDCL. In prior years, the carrying value had been written down to nil through the share of their losses. After considering the poor operating performance, the directors are of the view that these associates would not have any value to the group and the investment is fully written off.

17. OTHER NON-CURRENT FINANCIAL ASSETS

The group

	2006	2005
	$'000	*$'000*
Available-for-sale equity securities:		
Unlisted shares, at cost	—	30,000
Less: impairment loss	—	(30,000)
	—	—

As stated in the audited consolidated financial statements for the year ended 31 December 2005, the available-for-sale investments represent the Group's 10% shareholding in Universal Biotech Company Limited which was incorporated in Taiwan and engaged in the provision of research and development, production and sales of Chinese medical health food and Chinese pharmaceutical products.

The group acquired the equity investments in 2003. In prior years, the carrying value had been written down to nil through the recognition of impairment loss. After considering the poor operating performance, the directors are of the view that this investment would not have any value to the group and the investment is fully written off.

18. TRADING SECURITIES

The group

	2006	2005
	$'000	*$'000*
Listed equity securities in Hong Kong (at market value)	—	2,268

19. TRADE AND OTHER RECEIVABLES

	The group		The company	
	2006	2005	2006	2005
	$'000	*$'000*	*$'000*	*$'000*
Amounts due from subsidiaries	—	—	12,704	67,541
Trade receivables	11,128	35,360	—	—
Other receivables	354	2,079	846	602
Deposits and prepayments	3,567	15,892	1,579	1,510
	15,049	53,331	15,129	69,653

The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

Included in trade and other receivables are trade receivables (net of impairment losses for bad and doubtful debts) with the following ageing analysis as of the balance sheet date:

	The group		The company	
	2006	2005	2006	2005
	$'000	*$'000*	*$'000*	*$'000*
0 to 30 days	2,309	3,033	—	—
31 to 60 days	1,469	962	—	—
61 to 90 days	1,435	817	—	—
Over 90 days	5,915	30,548	—	—
	11,128	35,360	—	—

20. CASH AND CASH EQUIVALENTS

	The group		The company	
	2006	**2005**	**2006**	**2005**
	$'000	*$'000*	*$'000*	*$'000*
Fixed deposits with banks	414,934	71,488	265,812	57,469
Cash at bank and in hand	34,153	12,269	1,001	4,724
Cash and cash equivalents	449,087	83,757	266,813	62,193

Included in cash and cash equivalents in the balance sheet are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	The group		The company	
	2006	**2005**	**2006**	**2005**
	$'000	*$'000*	*$'000*	*$'000*
Hong Kong Dollars	$132,757	$5,099	$ —	$ —
Renminbi	RMB —	RMB 648	RMB —	RMB 648
United States Dollars	USD 2	USD 134	USD 2	USD 134

21. TRADE AND OTHER PAYABLES

	The group		The company	
	2006	**2005**	**2006**	**2005**
	$'000	*$'000*	*$'000*	*$'000*
Amount due to a minority shareholder	170	—	—	—
Amounts due to subsidiaries	—	—	20	55,940
Trade payables	754	583	—	—
Receipts in advance	160	397	—	—
Accrued charges	8,958	6,771	5,878	1,944
Current portion of mining right payables *(note 29)*	12,475	—	—	—
	22,517	7,751	5,898	57,884

The amount due to a minority shareholder and the amounts due to subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

Included in trade and other payables are trade payables with the following ageing analysis as of the balance sheet date:

	The group		The company	
	2006	**2005**	**2006**	**2005**
	$'000	*$'000*	*$'000*	*$'000*
0 to 30 days	467	543	—	—
31 to 60 days	270	16	—	—
Over 60 days	17	24	—	—
	754	583	—	—

22. DEFERRED INCOME

Deferred income represents fees received in advance for the provision of storage services. The amount is amortised over the remaining service period.

23. SECURED BANK LOAN

The secured bank loan was repayable as follows:

The group

	2006	**2005**
	$'000	*$'000*
Within one year or on demand	—	4,000
After 1 year but within 2 years	—	4,200
After 2 years but within 5 years	—	14,400
After 5 years	—	10,310
	—	28,910
	—	32,910

The bank loan was denominated in Hong Kong dollars and carried interest rate at HIBOR plus 2.65% per annum. The secured bank loan was fully repaid during the year.

24. LOANS FROM MINORITY SHAREHOLDERS

The loans are unsecured, interest-free and have no fixed terms of repayment.

25. OBLIGATION UNDER A FINANCE LEASE

The finance lease was fully repaid during the year.

26. EMPLOYEE RETIREMENT BENEFITS

(a) The group operates a Mandatory Provident Fund Scheme ("the MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of $20,000. Contributions to the plan vest immediately.

In addition, the group makes voluntary contributions for certain eligible directors and employees. The amount of voluntary contributions is calculated at 5% of their relevant monthly income in excess of $20,000.

(b) Pursuant to the relevant labour rules and regulations in the PRC, the group participates in defined contribution retirement benefit schemes (the "Schemes") organised by the relevant local government authorities, whereby the group is required to make contributions to the Schemes at a rate ranging from 18% to 22% of the eligible employees' salaries. The local government authorities are responsible for the entire pension obligations payable to retired employees.

27. EQUITY SETTLED SHARE-BASED TRANSACTIONS

The company has a share options scheme which was adopted on 26 June 2002 whereby the directors of the company may, at their discretion, invite directors and employees of the company or its subsidiaries to subscribe for shares in the company subject to terms and conditions stipulated therein. The options which were granted on 20 December 2005 were vested immediately at the date of grant and were exercisable within a period of three years. Each option gives the holder the right to subscribe for one ordinary share in the company.

(a) The terms and conditions of the grants that existed during the years are as follows, whereby all options are settled by physical delivery of shares:

	Number of instruments	**Vesting conditions**	**Contractual life of options**
Options granted to directors — on 20 December 2005	17,300,000	Immediately	3 years
Options granted to employees — on 20 December 2005	7,188,000	Immediately	3 years
Total share options	24,488,000		

(b) The number and exercise price of share options are as follows:

	2006		**2005**	
	Exercise price	**Number of options** *'000*	**Exercise price**	**Number of options** *'000*
Outstanding at the beginning of the period	$0.160	24,488	$ 0.145	17,500
Exercised during the period	$0.160	(24,488)	—	—
Lapsed during the period	—	—	$ 0.145	(17,500)
Granted during the period	—	—	$ 0.160	24,488
Outstanding at the end of the period	—	—	$0.160	24,488
Exercisable at the end of the period	—	—	—	—

The weighted average share price at the date of exercise for share options exercised during the year was $1.3 (2005: not applicable).

Upon the exercise of the share options, the resulting shares issued are recorded by the company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the share and the corresponding share options reserve are recorded by the company in the share premium account.

28. INCOME TAX IN THE BALANCE SHEET

(a) Current taxation in the balance sheets represents:

	The group		**The company**	
	2006 *$'000*	**2005** *$'000*	**2006** *$'000*	**2005** *$'000*
Provision for PRC Income Tax for the year	—	432	—	—
Balance of Hong Kong Profits Tax provision relating to prior years	—	56	—	—
Current taxation payable	—	488	—	—

(b) Deferred tax assets and liabilities recognised:

The components of deferred tax (assets)/liabilities recognised in the consolidated balance sheet and the movements during the year are as follows:

The group

Deferred tax arising from:	Depreciation allowances in excess of the related depreciation	Revaluation of investment properties	Accumulated losses	Total
	$'000	*$'000*	*$'000*	*$'000*
At 1 January 2005	—	7,946	—	7,946
Credited to profit or loss	—	(1,581)	—	(1,581)
At 31 December 2005	—	6,365	—	6,365
At 1 January 2006	—	6,365	—	6,365
Charged/(credited) to profit or loss	312	805	(678)	439
Disposal of subsidiaries *(note 32)*	—	(7,170)	—	(7,170)
At 31 December 2006	312	—	(678)	(366)

	2006	**2005**
	$'000	*$'000*
Net deferred tax assets recognised on the balance sheet	(366)	—
Net deferred tax liabilities recognised on the balance sheet	—	6,365
	(366)	6,365

(c) Deferred tax assets not recognised:

In accordance with the accounting policy set out in note 1(s), the group has not recognised deferred tax assets in respect of cumulative tax losses of approximately $36,776,000 (2005: $110,019,000) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. The tax losses do not expire under the current tax legislation.

29. OTHER PAYABLES

The group

	2006	**2005**
	$'000	*$'000*
Mining right payables	44,378	—
Less: amount included under "current liabilities" *(note 21)*	(12,475)	—
	31,903	—

Pursuant to a mining rights premium agreement entered into between the group and Xinzhou Bureau of Land and Resources of the PRC, the mining rights premium in respect of the mining rights of the Mine amounted to approximately $65,510,000. During the year, partial payment was made in accordance with the payment schedule. As at 31 December 2006, the remaining balance of the mining rights premium of $44,378,000 shall be settled in five instalments. The final instalment is payable on or before 30 June 2012.

30. CAPITAL AND RESERVES

(a) The group

The amounts of the group's capital and reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity of these financial statements.

(b) The company

	Note	Share capital $'000	Share premium $'000	Contributed surplus $'000	Share options reserve $'000	Accumulated losses $'000	Total $'000
At 1 January 2005		246,481	177,179	234,944	—	(370,569)	288,035
Loss for the year		—	—	—	—	(36,546)	(36,546)
Equity settled share-based transactions		—	—	—	2,373	—	2,373
At 31 December 2005		246,481	177,179	234,944	2,373	(407,115)	253,862
At 1 January 2006		246,481	177,179	234,944	2,373	(407,115)	253,862
Loss for the year		—	—	—	—	(46,919)	(46,919)
Shares issued under:							
— purchase of net assets	31	108,148	324,444	—	—	—	432,592
— share placing		115,000	345,000	—	—	—	460,000
— share options scheme		2,449	3,842	—	(2,373)	—	3,918
Share issue expenses		—	(3,752)	—	—	—	(3,752)
At 31 December 2006		472,078	846,713	234,944	—	(454,034)	1,099,701

(c) Share capital

(i) *Authorised and issued share capital*

	2006 Number of shares ('000)	2006 $'000	2005 Number of shares ('000)	2005 $'000
Authorised:				
Ordinary shares of $0.1 each	10,000,000	1,000,000	4,000,000	400,000
Ordinary shares issued and fully paid:				
At 1 January	2,464,813	246,481	2,464,813	246,481
Shares issued under:				
— purchase of net assets	1,081,480	108,148	—	—
— share placing	1,150,000	115,000	—	—
— share options scheme	24,488	2,449	—	—
At 31 December	4,720,781	472,078	2,464,813	246,481

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the company. All ordinary shares rank equally with regard to the company's residual assets.

(ii) *Increase in authorised share capital*

By an ordinary resolution passed at the special general meeting held on 25 October 2006, the company's authorised ordinary share capital was increased to $1,000,000,000 by the creation of an additional 6,000,000,000 ordinary shares of $0.1 each, ranking pari passu with the existing ordinary shares of the company in all respects.

(iii) *Shares issued under purchase of net assets*

On 2 November 2006, the company issued 1,081,480,000 new shares as part of the consideration payable for the purchase of net assets as set out in note 31.

(iv) *Shares issued under placing*

On 31 October 2006, the company issued 1,150,000,000 new shares pursuant to a placing agreement entered into with and an over-allotment option granted to a placing agent on 7 July 2006 at $0.4 per share to finance the purchase of net assets and further development of the mining operations as set out in note 31.

(v) *Shares issued under share options scheme*

On 1 June 2006, 26 October 2006 and 3 November 2006, options were exercised to subscribe for 24,488,000 ordinary shares in the company at a consideration of $3,918,000 of which $2,449,000 was credited to share capital and the balance of $1,469,000 was credited to the share premium account. $2,373,000 has been transferred from the share options reserve to the share premium account in accordance with policy set out in note 1(r)(ii).

(vi) *Terms of unexpired and unexercised share options at the balance sheet date*

Exercise period	Exercise price	2006 Number	2005 Number
3 January 2006 to 2 January 2009	HK$0.160	—	24,488,000

Each option entitles the holder to subscribe for one ordinary share in the company. Further details of these options are set out in note 27 to the financial statements.

(d) Nature and purpose of reserves

(i) *Share premium*

The application of the share premium account is governed by Section 40 of the Bermuda Companies Act 1981.

(ii) *Contributed surplus*

The group's contributed surplus represents the special reserve arising upon the group reorganisation in March 1997.

(iii) *Exchange reserve*

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policy set out in note 1(v).

(e) Distributability of reserves

The company had no reserve available for distribution to equity shareholders of the company as at 31 December 2006 and 2005.

31. PURCHASE OF NET ASSETS

During the year, the group acquired a 57% equity interest in Lead Sun Investments Limited and its subsidiaries ("Lead Sun Group") from independent third parties.

Lead Sun Group holds primarily a mining right of an unexploited natural rutile mine with no established infrastructure and no significant mining equipment at the date of acquisition. The underlying set of assets acquired was not integrated in forming a business to generate revenues. As such, the directors are of the opinion that the acquisition of Lead Sun Group is a purchase of net assets which does not constitute a business combination for accounting purposes.

The aggregate purchase consideration of $811,625,000 was in the form of (i) 1,081,480,000 new shares of the company at $0.4 per share amounted to $432,592,000; (ii) disposal of subsidiaries at their carrying values of $174,033,000; and (iii) a cash consideration of $205,000,000.

The directors considered that the total purchase consideration paid represented the fair value of net assets acquired and the fair value of mining rights, which is presented as intangible assets below, is considered as the excess of fair value of net assets acquired over the fair value of net tangible assets acquired.

The purchase had the following effect on the group's assets and liabilities:

	Carrying values prior to purchase	**Fair value adjustments**	**Carrying values upon purchase**
	$'000	*$'000*	*$'000*
Acquiree's net assets at the date of acquisition			
Property, plant and equipment	753	—	753
Intangible assets	69,122	1,606,662	1,675,784
Trade and other receivables	217	—	217
Cash and cash equivalents	1,047	—	1,047
Amount due from a minority shareholder	14,204	—	14,204
Trade and other payables	(73,360)	—	(73,360)
Minority interests	(13,226)	(782,188)	(795,414)
Net assets acquired	(1,243)	824,474	823,231
Satisfied by:			
— Shares issued			432,592
— Carrying values of subsidiaries disposed *(note 32)*			174,033
— Cash paid			205,000
— Costs directly attributable to the purchase			11,606
Total purchase consideration			823,231
Cash and cash equivalents acquired			1,047
Purchase consideration settled in cash			(216,606)
Net outflow of cash and cash equivalents in respect of the purchase of net assets			(215,559)

32. DISPOSAL OF SUBSIDIARIES

During the year, the group disposed of two subsidiaries at their carrying values of $174,033,000 upon purchase of net assets of Lead Sun Group as set out in note 31. There is no gain or loss on disposal.

Net assets disposed of at the date of disposal:

	$'000
Property, plant and equipment	177
Investment properties	140,594
Trade and other receivables	29,548
Pledged bank deposits	14,416
Trade and other payables	(3,100)
Current taxation	(432)
Deferred tax liabilities	(7,170)
Net assets disposed	174,033

The investment properties were revalued as at 31 July 2006 on an open market value basis. The valuation was carried out by an independent firm of surveyors, Greater China Appraisal Limited, who has among their staff Registered Professional Surveyors in Hong Kong with substantial experience in valuation of property interest in the PRC since 1992. Accordingly, a valuation gain of $15,794,000 was recognised in the profit for the year from discontinued operations.

33. FINANCIAL INSTRUMENTS

Exposure to credit, liquidity and currency risks arises in the normal course of the group's business. These risks are limited by the group's financial management policies and practices described below.

(a) Credit risk

The group's credit risk is primarily attributable to trade and other receivables. The maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations as at 31 December 2006 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the group has reviewed the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made to irrecoverable amounts. In this regard, the directors of the company consider that the group's credit risk is significantly reduced.

The group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

(b) Liquidity risk

The group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

(c) Foreign currency risk

The group is exposed to foreign currency risk primarily through cash and cash equivalents held in currencies other than the functional currency of the operations to which they relate. To manage the foreign currency risk, the group aims to utilise the fund for transactions that are denominated in the same currency.

(d) Interest rate risk

In respect of income-earning financial assets, the following table indicates their effective interest rates at the balance sheet date and the periods in which they reprice or the maturity dates, if earlier.

The group

	2006			2005		
	Effective interest *rate %*	**Total** *$'000*	**One year or less** *$'000*	**Effective interest** *rate %*	**Total** *$'000*	**One year or less** *$'000*
Repricing dates for assets which reprice before maturity						
Cash and cash equivalents	3.22	449,087	449,087	3.95	83,757	83,757

The company

	2006			2005		
	Effective interest *rate %*	**Total** *$'000*	**One year or less** *$'000*	**Effective interest** *rate %*	**Total** *$'000*	**One year or less** *$'000*
Repricing dates for assets which reprice before maturity						
Cash and cash equivalents	3.90	266,813	266,813	3.98	62,193	62,193

(e) Fair values

The fair values of all financial assets and liabilities are not materially different from their carrying amounts.

34. COMMITMENTS

(a) Capital commitments outstanding at 31 December 2006 not provided for in the financial statements were as follows:

	The group		The company	
	2006 *$'000*	**2005** *$'000*	**2006** *$'000*	**2005** *$'000*
Contracted for	4,872	—	—	—
Authorised but not contracted for	788,801	—	—	—
	793,673	—	—	—

(b) Operating lease commitments

As lessee

At 31 December 2006, the total future minimum lease payments under non-cancellable operating leases in respect of rented premises are payable as follows:

	The group		The company	
	2006	**2005**	**2006**	**2005**
	$'000	*$'000*	*$'000*	*$'000*
Within 1 year	2,847	2,250	1,247	2,045
After 1 year but within 5 years	194	1,221	—	1,108
	3,041	3,471	1,247	3,153

As lessor

At 31 December 2006, the total future minimum lease payments contracted with tenants are as follows:

	The group		The company	
	2006	**2005**	**2006**	**2005**
	$'000	*$'000*	*$'000*	*$'000*
Within 1 year	300	8,151	300	300
After 1 year but within 5 years	—	23,016	—	—
After 5 years	—	47,910	—	—
	300	79,077	300	300

35. MATERIAL RELATED PARTY TRANSACTIONS

The group has entered into the following related party transactions:

	2006	**2005**
	$'000	*$'000*
Sales of goods to a former associate	—	945

Transactions between the company and its subsidiaries, which are related parties of the company, have been eliminated on consolidation and are not disclosed in this note.

The company's directors are also the key management of the group. Details of their remuneration paid during the year are set out in note 6.

In addition, at 31 December 2005, the former director, Mr Tong Nai Kan, has given an unlimited personal guarantee to the bank to secure the credit facilities granted to the group. The personal guarantee was released in October 2006.

36. ACCOUNTING ESTIMATES AND JUDGEMENTS

Key sources of estimation uncertainty

Notes 14, 32 and 33 contain information about the assumptions and their risk factors relating to valuation of investment properties, goodwill impairment and fair value of financial instruments. Other key sources of estimation uncertainty are as follows:

(i) *Impairments*

In considering the impairment losses that may be required for certain of the group's assets which include property, plant and equipment, intangible assets, available-for-sale equity investments and investments in its subsidiaries and associates, recoverable amount of the asset needs to be determined. The recoverable amount is the greater of the net selling prices and the value in use. It is difficult to precisely estimate selling prices because quoted market prices for these assets may not be readily available. In determining the value in use, expected cash flows generated by the assets are discounted to their present value, which requires significant judgement relating to items such as level of sale volume, selling price and amount of operating costs. The group uses all readily available information in determining an amount that is reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of items such as sale volume, selling price and amount of operating costs.

In considering the impairment losses that may be required for current receivables, future cash flows need to be determined. One of the key assumptions that has to be applied is about the ability of the debtors to settle the receivables. Despite that the group has used all available information to make this estimation, inherent uncertainty exists and actual write-offs may be higher than the amount estimated.

(ii) *Depreciation*

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives, after taking into account the estimated residual value. The group reviews annually the useful life of an asset and its residual value, if any. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

(iii) *Impairment losses for goodwill*

Internal and external sources of information are reviewed by the group at each balance sheet date to assess whether there is any indication that goodwill may be impaired. If any such indication exists, the recoverable amount of the goodwill is estimated. Changes in facts and circumstances may result in revisions to the conclusion of whether an indication of impairment exists and revised estimates of recoverable amounts, which would affect profit or loss in future years.

(iv) *Recognition of deferred tax assets*

Deferred tax assets in respect of tax losses carried forward are recognised and measured based on the expected manner of realisation or settlement of the carrying amount of the assets, using tax rates enacted or substantively enacted at the balance sheet date. In determining the carrying amounts of deferred tax assets, expected taxable profits are estimated which involves a number of assumptions relating to the operating environment of the Group and requires significant level of judgement exercised by the directors. Any change in such assumptions and judgement would affect the carrying amounts of deferred tax assets to be recognised and hence the net profit in future years.

37. NON-ADJUSTING POST BALANCE SHEET EVENTS

(a) On 11 March 2007, the company announced that it entered into a sale and purchase agreement with independent parties to acquire 75.08% equity interests in Harbin Songjiang Copper (Group) Company Limited, a company incorporated in the PRC with limited liability, which principally engaged in mining and processing of molybdenum, copper and zinc operation, for a total consideration of RMB1,807,881,000 (subject to downward adjustments). The completion of the acquisition is conditional upon the fulfilment of a number of conditions precedent.

(b) On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the People's Republic of China ("new tax law") which will take effect on 1 January 2008. On 22 March 2007, Shanxi Shenli has been granted the two-year exemption and subsequent three-year 50 percent reduction of applicable tax rate ("five-year tax holiday") from the tax authorities in the PRC. As a result of the new tax law, it is expected that the income tax rate applicable to Shanxi Shenli will be reduced from 33% to 25% after the five-year tax holiday. The expected financial effect of the new tax law, if any, will be reflected in the company's 2007 financial statements. The enactment of the new tax law is not expected to have any financial effect on the amounts accrued in the balance sheet in respect of current tax payable.

38. COMPARATIVE FIGURES

Certain comparative figures have been re-classified due to the following:

(i) additions of "selling expenses" on the face of the consolidated income statement which management of the group considers that it would better reflect the substance of the underlying transactions; and

(ii) compliance with the disclosure requirements of HKFRS 3, Non-current assets held for sale and discontinued operations.

39. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2006

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2006 and which have not been adopted in these financial statements.

The group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the company's results of operations and financial position.

In addition, the following developments may result in new or amended disclosures in the financial statements:

	Effective for accounting periods beginning on or after
HKFRS 7, Financial instruments: disclosures	1 January 2007
Amendments to HKAS 1, Presentation of financial statements: capital disclosures	1 January 2007

3. MANAGEMENT DISCUSSION AND ANALYSIS

For the year ended 31 December 2004

Business Review

For the year under review, the Group reported a turnover of HK$242,459,000 (2003: HK$18,109,000), representing a remarkable increase of 13.4 times as compared with 2003. The substantial increase in turnover was mainly due to the commencement of trading business during the year 2004. The Group's loss attributable to shareholders for the year was HK$86,215,000 (2003: HK$35,290,000). Umbilical cord blood storage The Group has devoted much of its efforts in increasing the public awareness of the benefits of umbilical cord blood storage during the recent years. During the year 2004, the enrolment of our umbilical cord blood storage services has reached a record high, representing a growth rate of 26%, and a turnover of HK$11,724,000 (2003: HK$9,287,000) was reported.

In the second half of 2004, the Group has successfully introduced its umbilical cord blood storage services into Macau and it is expected that the business in Macau will grow in a faster pace in 2005.

Investment

The Group has been holding an investment property, being Level 2, GITIC Plaza, 339 Huanshi Road East, Guangzhou, Guangdong Province, the PRC (the "GITIC Plaza"), since 3 March 1997 under medium term lease in the PRC. The value of GITIC Plaza was stated as approximately HK$155,800,000 at a professional valuation made by Savills (Hong Kong) Limited, an independent valuer, on 31 December 2004 on an open market basis. GITIC Plaza has generated a rental income of HK$8,805,000 (2003: HK$8,807,000) for the year ended 31 December 2004.

In addition, the Group has invested in some listed securities during the year, which has realised a profit of HK$2,450,000 (2003: Nil) for the year ended 31 December 2004.

International trade

The Group commenced trading business in the second half of 2004 which mainly involved in the sourcing and distribution of pharmaceutical ingredients and chemicals. A turnover of HK$163,730,000 (2003: Nil) was reported for the year.

Shanghai Worldbest Treeful Pharmaceuticals (Group) Company Limited

On 5 March 2004, Offspring Investments Limited ("Offspring"), a wholly-owned subsidiary of the Company, entered into a conditional agreement to acquire 30% equity interest in Shanghai Worldbest Treeful Pharmaceuticals (Group) Company Limited ("SW Treeful") a transfusion agent manufacturer and distributor in the PRC from China Worldbest Life Industries Company Limited ("CWGC Life"), a subsidiary of China Worldbest Group Company Limited, a substantial shareholder of the Company, at a consideration of RMB165,000,000 (approximately HK$156,000,000), subject to adjustment (the "Agreement").

By 30 July 2004, all conditions in the Agreement were satisfied and the formalities in transferring the 30% equity interest in SW Treeful from CWGC Life to Offspring have been completed according to the terms of the Agreement. Pursuant to the Agreement, Offspring should within 3 months after the effective date of the Agreement, being 30 July 2004, pay an aggregate sum of RMB165 million by 3 instalments to CWGC Life as consideration for the acquisition. CWGC Life has subsequently agreed to extend the payment period in respect of the second and third instalments to 31 March 2005.

As disclosed in the announcement of the Company made on 1 April 2005, since the Group had failed to raise sufficient fund to pay the second and third instalments on or before 31 March 2005, CWGC Life and Offspring had entered into a rescission agreement to rescind the Agreement on 1 April 2005 (the "Rescission Agreement"). Pursuant to the Rescission Agreement, Offspring shall sign the necessary documents to transfer the 30% equity interest in SW Treeful back to CWGC Life and within 10 working days after the completion of such transfer, CWGC Life shall return RMB49.5 million, being the first instalment previously paid to CWGC Life under the Agreement, to Offspring. The Rescission Agreement will be completed when the necessary statutory approvals and registration procedures in the PRC are properly obtained and completed.

Liquidity, Financial Resources and Capital Structure

As at 31 December 2004, the Group had net current liabilities of HK$12,581,000 (2003: Net current assets of HK$166,993,000) and the current ratio was 0.92 (2003: 11.5). Current liabilities increased by HK$147,121,000 or 927%, mainly due to the outstanding balance of the consideration for the acquisition of 30% equity interest in SW Treeful as at the year end date. Upon signing of the Rescission Agreement on 1 April 2005, the Group's payment obligation under the Agreement was released and the first instalment paid to CWGC Life, being RMB49,500,000 (equivalent to approximately HK$46,698,000) will be returned to the Group after completion of the transfer of shares back to CWGC Life. The current ratio will be improved thereafter. As at 31 December 2004, the Group had bank balances and cash, pledged deposits and investments in securities amounted to HK$85,605,000, of which all of them were denominated in Hong Kong dollars. The Group had total borrowings of HK$37,276,000 (2003: HK$41,597,000) which were all interest bearing loans. The gearing ratio, as a ratio of total borrowings to shareholders' fund was 13.3% (2003: 12.6%). As most of the Group's assets and liabilities are denominated in Hong Kong dollars, the Group does not expect significant exposure to foreign exchange fluctuation.

On 9 December 2003, the Group issued a convertible bond of HK$36,000,000 at par. The bond carried interest at 4% per annum, payable half yearly in arrears, and a right to convert into new shares of HK$0.10 each in the issued share capital of the Company at a conversion price of HK$0.10 per share, subject to adjustment, at any time from 9 March 2004 to 8 December 2005. The bond was fully converted into 360,000,000 ordinary shares of the Company on 27 September 2004.

Charges on Assets

At the balance sheet date, the Group had pledged the investment property, the receivable in amount of approximately HK$31,725,000 (2003: HK$33,506,000) from Guangdong International Building Enterprises Company Limited and certain unlisted securities for secured bank loan, which was denominated in Hong Kong dollars and carried interest rate at 2.65% above HIBOR, amounted to HK$36,910,000 (2003: HK$40,910,000). The Group had also pledged the deposits and investments in securities, amounted to HK$24,189,000 (2003: HK$1,414,000) to bank and financial institutions in securing the credit facilities granted to the Group.

Contingent Liabilities

The Group did not have any material contingent liabilities as at 31 December 2004.

Material Acquisitions and Disposals of Subsidiaries and Associated Companies

Save as disclosed above under the heading "Shanghai Worldbest Treeful Pharmaceuticals (Group) Company Limited", there were no material acquisitions or disposals of subsidiaries and associated companies during the year.

Human Resources

As at 31 December 2004, the Group had 35 and 6 employees in Hong Kong and the PRC respectively. Employees are remunerated at a competitive level and are rewarded according to their performance. Our Group's remuneration packages include medical scheme, group insurance, mandatory provident fund and performance bonus.

According to the share options scheme adopted by the Company on 26 June 2002, share options may be granted to Directors and employees of the Group to subscribe for shares in the Company in accordance with the terms and conditions stipulated therein.

For the year ended 31 December 2005

Business Review

For the year under review, the Group reported a consolidated turnover of HK$190,838,000 (2004: HK$242,459,000), representing a decrease of 21% as compared with last year. The Group's gross profit improved to HK$24,124,000, representing an increase of 24% as compared with last year and the profit margin was 13% (2004: 8%). The Group's loss attributable to shareholders and loss per share for the year was HK$55,200,000 (2004: HK$86,215,000) and 2.24 HK cents (2004: 3.92 HK cents) respectively.

Umbilical cord blood storage

Notwithstanding the entrance of competitors in the umbilical cord blood storage service in Hong Kong during the year, the Group is still the market leader in Hong Kong to provide such service. During the year, income from the umbilical cord blood storage service amounted to HK$15,634,000 (2004: HK$11,724,000), with a significant increase of 33%.

Investment

The Group has been holding an investment property, being Level 2, GITIC Plaza, 339 Huanshi Road East, Guangzhou, Guangdong Province, PRC (the "GITIC Plaza"), since 3 March 1997 under medium term lease in Mainland China. The value of GITIC Plaza was stated as HK$124,800,000 (2004: HK$155,800,000) at a professional valuation made by Malcolm & Associates Appraisal Limited, an independent valuer, on 31 December 2005. In the current year, the Group has, for the first time, applied HKAS 40 Investment Property and elected to use the fair value model to account for its investment property which requires decrease in fair value of investment property of HK$31,000,000 to be charged directly in the income statement for the year.

GITIC Plaza has generated a steady rental income of HK$8,684,000 (2004: HK$8,805,000) for the Group for the year ended 31 December 2005. The Group continued to invest in some listed securities during the year and has realized a profit of HK$1,064,000 (2004: HK$2,450,000) for the year ended 31 December 2005.

International Trade

The Group has involved in the trading of pharmaceutical ingredients and chemicals during the year and a turnover of HK$130,262,000 (2004: HK$163,730,000) was reported for the year. The change of management has affected the international trading business of the Group during the year, especially on the trading of pharmaceutical ingredients. The Group has been restructuring its strategies on the trading business during the current year.

Liquidity, Financial Resources, Charges on Assets and Capital Structure

As at 31 December 2005, the Group had total assets and net assets amounted to HK$297,041,000 (2004: HK$484,225,000) and HK$227,427,000 (2004: HK$280,254,000) respectively. The current ratio was improved at 4.5, as compared to 0.9 as of last year end. The Group had bank balances and cash, pledged deposits and investment in securities amounted to HK$99,536,000 (2004: HK$85,605,000), of which all of them were denominated in Hong Kong dollars. The Group had total borrowings of HK$33,027,000 (2004: HK$37,276,000) which represented a decrease of 11% over that of last year end. The gearing ratio, as a ratio of total borrowings to shareholders' fund was 14.5% (2004: 13.3%). As most of the Group's assets and liabilities are denominated in Hong Kong dollars, the Group does not expect significant exposure to foreign exchange fluctuation.

Material Acquisitions and Disposals of Subsidiaries and Associated Companies

As disclosed in the announcement of the Company made on 1 April 2005, Offspring Investments Limited, a wholly-owned subsidiary of the Company, entered into the Rescission Agreement with China Worldbest Life Industries Company Limited to rescind the conditional agreement to acquire 30% equity interest in Shanghai Worldbest Treeful Pharmaceuticals (Group) Company Limited. The Rescission Agreement has been completed during the year. There were no material acquisitions or disposals of subsidiaries during the year.

Charges on Assets

At the balance sheet date, the Group had pledged the investment property, the receivable in amount of approximately HK$28,299,000 from Guangdong International Building Enterprises Company Limited and certain unlisted securities for secured bank loan, which was denominated in Hong Kong dollars and carried interest rate at 2.65% above HIBOR, amount to HK$32,910,000. The Group had also pledged the deposits and investments in securities, amounted to HK$13,511,000 to bank and financial institutions in securing the credit facilities granted to the Group.

Contingent Liabilities

The Group did not have material contingent liabilities as at 31 December 2005.

Human Resources

As at 31 December 2005, the Group had 27 and 4 employees in Hong Kong and the PRC respectively. Employees are remunerated at a competitive level and are rewarded according to their performance. Our Group's remuneration packages include medical scheme, group insurance, mandatory provident fund and performance bonus.

According to the share options scheme adopted by the Company on 26 June 2002, share options may be granted to directors, employees and other eligible participants of the Group to subscribe for shares in the Company in accordance with the terms and conditions stipulated therein.

For the year ended 31 December 2006

Review

For the year under review, the Group reported a consolidated turnover of HK$17,366,000 (2005: HK$15,634,000) and gross profit of HK$9,306,000 (2005: HK$8,587,000) from continuing operations, representing an increase of 11% and 8% respectively as compared with last year. In line with the redefined corporate strategy on high-value added products, the trading activities and property investment operation were discontinued during the year and the profit from discontinued operations attributable to the Group amounted to HK$10,950,000 (2005: loss of HK$29,991,000). The Group performed an impairment review for goodwill which is allocated to the processing and storage of cord blood business. Due to the fact that there were new competitors entered into the market in recent years, an impairment loss of HK$7,400,000 was made during the year. The Group's loss attributable to shareholders was HK$8,244,000 (2005: HK$55,200,000).

Continuing Operations

Rutile Mining

The Group commenced its business in mining since November 2006 upon the acquisition of 57% of Lead Sun Investments Limited and its subsidiaries ("Lead Sun Group"). Lead Sun Group is principally engaged in exploration and exploitation of natural rutile and processing and trading of rutile and titanium related products. The rutile mine covering an area of two square kilometers with an estimated exploration potential of approximately 1.9 million tonnes and plans to develop an annual production capacity of 21,400 tonnes of rutile concentrate. The Group also plans to build a facility to produce titanium tetrachloride and titanium sponge from rutile concentrate. The rutile mine is under construction and did not generate revenue to the Group during the year.

Umbilical Cord Blood Storage

During the year, revenue from the umbilical cord blood storage service amounted to HK$17,366,000 (2005: HK$15,634,000), with an increase of 11%.

Discontinued Operations

Investment

The rental income generated from GITIC Plaza was HK$7,796,000 for the ten months (2005: HK$8,684,000). Upon the completion of the transfer of the entire issued share capital of a subsidiary which ultimately owns 100% interest of the GITIC Plaza as partial consideration for the acquisition of Lead Sun Group, the Group's property investment operation was discontinued in November 2006.

During the year under review, the Group invested in some listed securities. In line with the redefined corporate strategy, the trading of investment was discontinued during the year.

International Trade

Due to the low profit margin for the trading of pharmaceutical ingredients and chemicals and other miscellaneous products, the Group also discontinued the trading business during the year.

Prospects

In view of the sustaining reliance on the sufficient sources of natural resources for the development of China over the couple of years. The Group had acquired 57% of equity interest in Lead Sun Group which is principally engaged in rutile related business. Rutile is the raw material for titanium tetrachloride and titanium sponge. Titanium has a wide range of applications including aerospace, military, and industrial and consumer products. Given the continuing increase in the demand and application of titanium, we are confident that the investment will produce considerable return to the Group in the future.

Apart from the aforesaid acquisition of Lead Sun Group, the rutile operation, the Group continue to strive for strategic acquisition and had entered into an acquisition agreement to acquire a 75.08% equity interest in Harbin Songjiang Copper (Group) Company Limited ("Harbin Songjiang"), a PRC-based company which specializes in mining and processing of molybdenum, copper and zinc, as announced on 11 March 2007.

The completion of the acquisition of Harbin Songjiang will provide the Group with an immediate stream of revenue and brings in a team of experts in the mining industry which will strengthen our operational capabilities in mining activities.

The Group will be continuously searching for other opportunity to build a portfolio of strong mining businesses with an emphasis on high value added products. This is crucial for the Group's transformation into a substantial participant and ultimately a leading player in the mining sector.

Liquidity, Financial Resources and Capital Structure

As at 31 December 2006, the Group had total assets and net assets amounted to HK$2,172,179,000 (2005: HK$297,041,000) and HK$1,932,420,000 (2005: HK$227,427,000) respectively. The current ratio was 2.2, as compared to 4.5 as of last year end. The Group had bank balances and cash, amounted to HK$449,087,000 (2005: bank balance, cash and pledged deposits amounted to HK$97,268,000), of which most of them were denominated in Hong Kong dollars. The Group had a total borrowing from minority shareholders of HK$150,500,000 as at the balance sheet date and the total bank borrowing of HK$32,910,000 as of last year end were fully repaid during the year. The gearing ratio, as a ratio of total borrowings to shareholders' fund was 13.4% (2005: 14.5%). As part of the Group's assets and liabilities are denominated in Renminbi, in order to minimize the foreign currency risk, the Group aims to utilize the fund for transactions that are denominated in the same currency.

Material Acquisitions and Disposals of Subsidiaries and Associated Companies

Save as disclosed above for the acquisition of Lead Sun Group, disposal of a subsidiary which ultimately owns 100% of interests in GITIC Plaza as part of the consideration for acquiring Lead Sun Group which has been completed during the year, and other discontinued businesses, there were no material acquisitions or disposals of subsidiaries during the year.

Human Resources

As at 31 December 2006, the Group had 33 and 28 employees in Hong Kong and Mainland China respectively. Employees are remunerated at a competitive level and are rewarded according to their performance. Our Group's remuneration packages include medical scheme, group insurance, mandatory provident fund and performance bonus.

According to the share options scheme adopted by the Company on 26 June 2002, share options may be granted to directors, employees and other eligible participants of the Group to subscribe for shares in the Company in accordance with the terms and conditions stipulated therein.

INDEBTEDNESS, LIQUIDITY AND FINANCIAL RESOURCES

At the close of businesses on 31 March 2007, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group and the Enlarged Group had the following indebtedness:

	The Group	The Enlarged Group
	HK$'000	*HK$'000*
Secured bank borrowings		
— due within one year	—	70,643
— due after one year	—	151,377
Unsecured bank borrowings		
— due within one year	—	10,092
— due after one year	—	49,955
Loan from minority shareholders		
— due within one year	150,500	150,500
Other loan	—	1,009
Total borrowings	150,500	433,576

Finance Lease

As at 31 March 2007, the Group and the Enlarged Group had no finance lease.

Securities and guarantees

As at 31 March 2007, the secured bank borrowings of the Enlarged Group are denominated in Renminbi yuan. The secured bank borrowings of HK$100,918,000 and HK$121,102,000 were guaranteed by a third party and an equity owner respectively.

Contingent liabilities

As at 31 March 2007, the Group had no material contingent liabilities. Meanwhile the Enlarged Group had provided guarantees for a banking facility up to HK$50,459,000 and certain bank loans totaling HK$50,459,000 in favour of a third party who had provided guarantees on bank loans to the Enlarged Group in return. As at 31 March 2007, banking facilities to the extent of HK$39,861,000 were utilised by the third party.

Commitments

Capital commitments outstanding at 31 March 2007 not provided for in the financial statements were as follows:

	The Group	**Enlarged Group**
	HK$'000	*HK$'000*
Contracted for	4,808	124,971
Authorised but not contracted for	794,242	1,435,313
	799,050	1,560,284

As at 31 March 2007, the Group and the Enlarged Group had operating lease commitments of approximately HK$1,178,000 and HK$1,198,000, respectively, in respect of rental premises, which were not provided for in the Group and the Enlarged Group's pro forma financial information.

WORKING CAPITAL

The Directors are of the opinion that the Enlarged Group will, following the Completion and taking into account the existing banking facilities available and the existing cash and bank balances, have sufficient working capital for its requirements in next 12 months from the date of this circular in the absence of unforeseeable circumstances.

NO MATERIAL ADVERSE CHANGE

To the best knowledge of the Directors, the Directors have confirmed that there has been no material adverse change in the financial or trading position of the Group and the Enlarged Group since 31 December 2006, being the date of the latest audited consolidated financial results as set out herein.

Disclaimers

To the best knowledge of the Directors, save as aforesaid and apart from intra-group liabilities, none of the companies in the Enlarged Group has outstanding mortgages, charges, debentures, or other loan capital, loans or other similar indebtedness or acceptance credits or hire purchase commitments or any guarantees or other material contingent liabilities as at the close of business on 31 March 2007 and since 31 March 2007, up to and including the Latest Practicable Date.

The Directors have confirmed that, save as disclosed above, there has not been any material change in the indebtedness and contingent liabilities of the Group and the Enlarged Group since 31 March 2007 and up to and including the Latest Practicable Date.

KPMG

8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

23 May 2007

The Directors
China Mining Resources Group Limited
(formerly known as INNOMAXX Biotechnology Group Limited)

Dear Sirs,

INTRODUCTION

We set out below our report on the financial information relating to Harbin Songjiang Copper (Group) Company Limited (the "Company") and its subsidiaries (collectively, the "Group") including the consolidated income statements, consolidated statements of changes in equity and consolidated cash flow statements of the Group and statements of changes in equity of the Company for the period from 16 March 2005 (date of establishment) to 31 December 2005 and the year ended 31 December 2006 (the "relevant period") and the consolidated balance sheets and the Company's balance sheets as at 31 December 2005 and 31 December 2006 and the notes thereto (collectively the "Financial Information") for inclusion in the circular of China Mining Resources Group Limited (formerly known as INNOMAXX Biotechnology Group Limited) ("CMR Group") dated 23 May 2007 (the "Circular") in connection with the proposed acquisition of a 75.08% equity interest in the Company by CMR Group (the "Acquisition") as described more fully in the section headed "Letter from the Board" contained in the Circular.

The Company was established in the People's Republic of China (the "PRC") on 16 March 2005 as a company with limited liability pursuant to the PRC Company Law. The principal activities of the Group are the mining, processing and sales of copper, zinc, molybdenum and other nonferrous metals.

At 31 December 2006, the Company had direct or indirect interests in the following subsidiaries and associates, all of which are private companies, particulars of which are set out below:

Name of company	Place and date of incorporation/ establishment	Fully paid up/ registered capital	Attributable equity interest Direct	Indirect	Principal activities
Subsidiaries					
Harbin Songjiang Copper Enterprise Co. Ltd.# (哈爾濱松江銅業實業有限公司)	The PRC 8 December 1999	RMB50,962,500	98%	2%	Mining, processing and sales of copper and zinc
Acheng Xiaoling Iron & Zinc Co. Ltd.# (阿城市小嶺鐵鋅有限公司)	The PRC 21 November 1984	RMB3,866,000	100%	—	Processing of molybdenum

Name of company	Place and date of incorporation/ establishment	Fully paid up/ registered capital	Attributable equity interest Direct	Indirect	Principal activities
Harbin Songjiang Molybdenum Ltd.# (哈爾濱松江銅業股份有限公司)	The PRC 18 December 2001	RMB128,782,900	99%	1%	Mining, processing and sales of molybdenum
Shangzhi Zhuhe Mining Co. Ltd.# (尚志珠河礦業有限公司)	The PRC 26 June 2006	RMB50,000,000	100%	—	Not yet commenced business
Inner Mongolia Zhongrun Magnesium Co. Ltd.# (內蒙古中潤鎂業有限公司)	The PRC 28 February 2006	RMB50,000,000	100%	—	Smelting of magnesium
Acheng Xiaoling Ferro-Alloy Co. Ltd.# (阿城市小嶺鐵合金有限公司)	The PRC 11 December 1998	RMB251,000	100%	—	Smelting and sales of silicon
Ejinaqi Qiaolun Engeci Quartz Production Co. Ltd.# (額濟納旗喬倫恩格茨石英有限責任公司)	The PRC 21 August 2006	RMB500,000	100%	—	Not yet commenced business
Chifeng Songjiang Jinjian Mining Limited Liability Company# (赤峰松江金劍礦業有限責任公司)	The PRC 23 December 2005	RMB10,000,000	60%	—	Investment holding
Xinganmeng Songjiang Mining Co. Ltd.# (興安盟松江礦業有限公司)	The PRC 26 December 2005	RMB10,000,000	90%	—	Exploration of mineral reserves
Harbin Songjiang Hotel Co. Ltd.# (哈爾濱松銅大酒店有限公司)	The PRC 9 June 2006	RMB500,000	60%	—	Not yet commenced business
Alukeerqinqi Manitu Silver & Tin Mining Co. Ltd.# (阿魯科爾沁旗瑪尼吐銀錫礦有限責任公司)	The PRC 15 March 2005	RMB500,000	—	60%	Not yet commenced business
Balinyouqi Nuoergai Copper Mining Co. Ltd.# (巴林右旗諾爾蓋銅礦有限公司)	The PRC 28 June 2003	RMB500,000	—	60%	Mining, processing and sales of copper
Harbin Songjiang Polished Rice Co. Ltd.# (哈爾濱松江精米有限公司)	The PRC 9 May 2006	RMB500,000	49%	—	Not yet commenced business
Associate					
Harbin Songjiang Mine Machinery Co. Ltd.# (哈爾濱松江礦山機械製造有限公司)	The PRC 23 August 1995	RMB520,000	35.15%	—	Manufacturing of mining machineries and provision of repair and maintenance services

A limited liability company established in the PRC.

The statutory financial statements of the Company and its subsidiaries for the relevant period, which were prepared in accordance with the relevant accounting rules and regulations applicable to enterprises in the PRC, were audited by Harbin Zhengda Certified Public Accountants Co., Ltd. (哈爾濱正大會計師事務所有限公司).

No financial statements of the Group have been audited subsequent to 31 December 2006.

BASIS OF PREPARATION

The Financial Information has been prepared by the directors of the Company (the "Directors") based on the audited financial statements of the Group, after making such adjustments as are appropriate (the "Underlying Financial Information"). Adjustments have been made, for the purpose of this report, to restate the Underlying Financial Information to conform with accounting policies as referred to Section I below, which are in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND REPORTING ACCOUNTANTS

The Directors are responsible for the preparation and true and fair presentation of the Financial Information in accordance with HKFRSs issued by the HKICPA. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of Financial Information that are free form material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Our responsibility is to form an opinion on these Financial Information based on our audit.

BASIS OF OPINION

As a basis for forming an opinion on the Financial Information, for the purpose of this report, we have carried out appropriate audit procedures in respect of the audited financial statements of the Group for the relevant period in accordance with Hong Kong Standards on Auditing issued by the HKICPA and have carried out such additional procedures as we considered necessary in accordance with Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the Financial Information is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Financial Information. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Financial Information, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the Financial Information.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, for the purpose of this report, all adjustments considered necessary have been made and the Financial Information gives a true and fair view of the consolidated results, changes in equity and cash flows of the Group for relevant period and of the state of the affairs of the Company and the Group as at 31 December 2005 and 31 December 2006.

I FINANCIAL INFORMATION

(Expressed in Renminbi)

Consolidated income statements

	Note	**Period from 16 March 2005 (date of establishment) to 31 December 2005** *RMB'000*	**Year ended 31 December 2006** *RMB'000*
Turnover	2	488,535	801,518
Cost of sales	3	(217,565)	(230,062)
Gross profit		270,970	571,456
Other revenue	4	5,097	18,458
Other net income	4	31,332	1,277
Selling expenses		(5,705)	(10,198)
Administrative expenses		(34,257)	(65,928)
Profit from operations		267,437	515,065
Finance costs	5(a)	(3,140)	(15,569)
Share of profit of associate		2,130	104
Profit before taxation	5	266,427	499,600
Income tax	6(a)	(93,700)	(168,135)
Profit for the period/year		172,727	331,465
Attributable to:			
Equity owners of the Company		172,727	328,218
Minority interests		—	3,247
Profit for the period/year		172,727	331,465
Dividends attributable to the period/year	7(a)		
Final dividends proposed after the balance sheet date		240,788	53,864
		240,788	53,864

The accompanying notes form part of the Financial Information.

Consolidated balance sheets

	Note	As at 31 December 2005 RMB'000	As at 31 December 2006 RMB'000
Non-current assets			
Fixed assets			
— Property, plant and equipment	11	229,586	286,353
— Interests in leasehold land held for own use under operating leases	11	—	36,778
Intangible assets	12	—	10,820
Construction in progress	13	14,105	49,234
Interest in associate	15	2,130	2,234
Deferred tax assets	28(b)	41,560	28,541
		287,381	413,960
Current assets			
Trading securities	16	—	5,936
Inventories	17	68,924	35,770
Trade and other receivables	18	191,844	220,241
Amount due from associate	19	—	2,677
Amounts due from related parties	21(a)	43,843	81,414
Amounts due from minority shareholders	22	1,000	1,255
Loan to equity owner	23	51,583	—
Cash and cash equivalents	24	66,800	356,678
		423,994	703,971
Current liabilities			
Bank loans	25	50,000	120,000
Other loans	26	19,346	1,000
Trade and other payables	27	79,488	99,675
Amount due to associate	19	2,946	—
Amount due to a related party	21(b)	—	35,366
Current taxation	28(a)	113,819	130,426
		265,599	386,467
Net current assets		158,395	317,504
Total assets less current liabilities		445,776	731,464

	Note	As at 31 December 2005 RMB'000	As at 31 December 2006 RMB'000
Non-current liabilities			
Deferred income	29	—	46,816
Bank loans	25	—	199,500
Deferred tax liabilities	28(b)	1,140	3,976
		1,140	250,292
NET ASSETS		444,636	481,172
Capital and reserves			
Paid in capital	31	240,788	240,788
Reserves	32	178,848	231,682
Total equity attributable to equity owners of the Company		419,636	472,470
Minority interests		25,000	8,702
TOTAL EQUITY		444,636	481,172

The accompanying notes form part of the Financial Information.

Balance sheets

	Note	As at 31 December 2005 RMB'000	As at 31 December 2006 RMB'000
Non-current assets			
Fixed assets			
— Property, plant and equipment	11	39,669	85,147
— Interests in leasehold land held for own use under operating leases	11	—	25,087
Intangible assets	12	—	10,754
Construction in progress	13	7,984	10,325
Investment in subsidiaries	14	332,695	399,260
Interest in associate	15	183	183
Deferred tax assets	28(b)	10,412	11,259
		390,943	542,015
Current assets			
Trading securities	16	—	5,936
Inventories	17	613	747
Trade and other receivables	18	117,983	97,607
Amount due from associate	19	—	2,677
Amounts due from subsidiaries	20	39,794	68,138
Amount due from related parties	21(a)	30,404	53,143
Amounts due from minority shareholder	22	1,000	1,255
Loan to equity owner	23	51,583	—
Cash and cash equivalents	24	63,330	324,541
		304,707	554,044
Current liabilities			
Bank loans	25	—	110,000
Other loans	26	19,346	1,000
Trade and other payables	27	14,859	21,599
Amount due to associate	19	2,946	—
Amounts due to subsidiaries	20	216,857	343,431
Amount due to a related party	21(b)	—	35,366
Current taxation	28(a)	50	6,449
		254,058	517,845
Net current assets		50,649	36,199
Total assets less current liabilities		441,592	578,214

	Note	As at 31 December 2005 RMB'000	As at 31 December 2006 RMB'000
Non-current liabilities			
Deferred income	29	—	15,789
Bank loans	25	—	150,000
		—	165,789
NET ASSETS		441,592	412,425
Capital and reserves			
Paid in capital	31	240,788	240,788
Reserves	32	200,804	171,637
TOTAL EQUITY		441,592	412,425

The accompanying notes form part of the Financial Information.

Consolidated statements of changes in equity

		Attributable to equity owners of the Company							
	Note	Paid-in capital RMB'000	Statutory surplus reserve RMB'000 *(note (i))*	Statutory public welfare fund RMB'000 *(note (ii))*	Capital reserve RMB'000 *(note (iii))*	Retained profits RMB'000	Total RMB'000	Minority interests RMB'000	Total equity RMB'000
At 16 March 2005 (date of establishment)		—	—	—	—	—	—	—	—
Capital injection by equity owners		240,788	—	—	—	—	240,788	—	240,788
Net profit for the period		—	—	—	—	172,727	172,727	—	172,727
Appropriations		—	28,794	14,397	—	(43,191)	—	—	—
Capital contribution by equity owner/minority shareholder		—	—	—	6,121	—	6,121	25,000	31,121
At 31 December 2005		240,788	28,794	14,397	6,121	129,536	419,636	25,000	444,636
At 1 January 2006		240,788	28,794	14,397	6,121	129,536	419,636	25,000	444,636
Capital reduction of a subsidiary *(note 37)*		—	—	—	—	—	—	(20,000)	(20,000)
Net profit for the year		—	—	—	—	328,218	328,218	3,247	331,465
Appropriation		—	22,811	—	—	(22,811)	—	—	—
Final dividend approved in respect of the previous period	7(b)	—	—	—	—	(275,384)	(275,384)	—	(275,384)
Transfer of reserves *(note (ii))*		—	14,397	(14,397)	—	—	—	—	—
Capital contribution by minority shareholder		—	—	—	—	—	—	455	455
At 31 December 2006		240,788	66,002	—	6,121	159,559	472,470	8,702	481,172

Statements of changes in equity

	Note	**Paid-in capital** *RMB'000*	**Statutory surplus reserve** *RMB'000* *(note (i))*	**Statutory public welfare fund** *RMB'000* *(note (ii))*	**Capital Reserve** *RMB'000* *(note (iii))*	**Retained profits** *RMB'000*	**Total** *RMB'000*
At 16 March 2005 (date of establishment)		—	—	—	—	—	—
Capital injection		240,788	—	—	—	—	240,788
Net profit for the period		—	—	—	—	194,804	194,804
Appropriation		—	28,794	14,397	—	(43,191)	—
Capital contribution by equity owner/ minority shareholder		—	—	—	6,000	—	6,000
At 31 December 2005		240,788	28,794	14,397	6,000	151,613	441,592
At 1 January 2006		240,788	28,794	14,397	6,000	151,613	441,592
Net profit for the year		—	—	—	—	246,217	246,217
Final dividend approved in respect of the previous period	7(b)	—	—	—	—	(275,384)	(275,384)
Transfer of reserves *(note (ii))*		—	14,397	(14,397)	—	—	—
Appropriation		—	22,811	—	—	(22,811)	—
At 31 December 2006		240,788	66,002	—	6,000	99,635	412,425

Notes:

(i) Statutory surplus reserve

According to the relevant PRC rules and regulations, the Company and its subsidiaries are required to transfer 10% of their net profit, as determined in accordance with the PRC accounting standards and regulations, to the statutory surplus reserve until the balance of the reserve reaches 50% of their respective registered capital. The transfer to this reserve must be made before distribution of dividends to equity owners.

Statutory surplus reserve can be used to make good previous years' losses, if any, and may be converted into capital in proportion to existing equity owners' equity percentage, provided that the balance after such issuance is not less than 25% of their registered capital.

(ii) Statutory public welfare fund

According to the PRC relevant rules and regulations and each company's articles of association, the Company and its subsidiaries are required to transfer 5% to 10% of their net profit, as determined in accordance with the PRC accounting standards and regulations, to the statutory public welfare fund. This fund can only be used on capital items for the collective benefit of employees such as the construction of dormitories, canteen and other staff welfare facilities. This fund is non-distributable other than on liquidation. The transfer to this fund must be made before distribution of dividends to equity owners.

Pursuant to the revised Company Law of the PRC which was revised on 27 October 2005, the Company and its subsidiaries are no longer required to make profit appropriations to the statutory public welfare fund commencing from 1 January 2006. Pursuant to the notice "Cai Qi [2006] No. 67" issued by the Ministry of Finance, the balance of this fund as at 31 December 2005 was transferred to the statutory surplus reserve.

(iii) Capital reserve

The balance arises from capital contribution of RMB30,121,000 by an equity owner of the Company, the then minority shareholder of the Group, in excess of its share of paid-in capital to a subsidiary amounting to RMB24,000,000. Such capital contribution was made in the form of property, plant and equipment and prepayments.

The accompanying notes form part of the Financial Information.

Consolidated cash flow statements

	Note	Period from 16 March 2005 (date of establishment) to 31 December 2005	Year ended 31 December 2006
		RMB'000	*RMB'000*
Operating activities			
Profit before taxation		266,427	499,600
Adjustments for:			
— Depreciation		9,543	14,544
— Amortisation of land lease premium		—	394
— Amortisation of intangible assets		—	3,177
— Finance costs		3,140	15,569
— Interest income		(3,013)	(2,170)
— Government grants		(2,084)	(3,089)
— Wavier of loan		—	(12,956)
— Loss on disposal of fixed assets		337	1,539
— Negative goodwill		(31,487)	—
— Share of profit of associate		(2,130)	(104)
— Net realised and unrealised gain on trading securities		—	(2,710)
Operating profit before changes in working capital		240,733	513,794
Decrease in inventories		62,727	33,176
Increase in trade and other receivables		(72,136)	(30,673)
Decrease/(increase) in amount due from associate		4,329	(5,623)
Increase in net amounts due from related parties		(34,207)	(2,205)
(Decrease)/increase in trade and other payables		(39,624)	5,316
Cash generated from operations		161,822	513,785
Income tax paid		(79,309)	(135,673)
Net cash generated from operating activities		82,513	378,112

	Note	Period from 16 March 2005 (date of establishment) to 31 December 2005 RMB'000	Year ended 31 December 2006 RMB'000
Net cash generated from operating activities brought forward		82,513	378,112
Investing activities			
Payment for purchase of fixed assets		(31,991)	(87,283)
Proceeds from disposal of fixed assets		297	147
Payment for construction in progress		(20,462)	(53,898)
Payment for purchase of intangible assets		—	(13,997)
Interest income		1,220	3,753
Payment for acquisition of subsidiaries, net of cash acquired	36(b)	—	(6,992)
Loan to equity owner		(50,000)	—
Loan repaid by equity owner		—	50,000
Receipt of government grants		2,084	49,905
Payment for purchase of trading securities		—	(20,303)
Proceeds from sale of trading securities		—	17,077
Net cash used in investing activities		(98,852)	(61,591)
Financing activities			
Capital injection by equity owner		60,000	—
Capital contribution by minority shareholder		—	200
Repayment of bank loans		(30,000)	(55,600)
Proceeds from new bank loans		—	319,500
Interest paid		(2,868)	(15,359)
Dividends paid to equity owners of the Company		—	(275,384)
Net cash generated from/(used in) financing activities		27,132	(26,643)
Net increase in cash and cash equivalents		10,793	289,878
Cash and cash equivalents at 16 March/1 January		56,007	66,800
Cash and cash equivalents at 31 December	24	66,800	356,678

The accompanying notes form part of the Financial Information.

Notes on the Financial Information
(Expressed in Renminbi)

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

The Financial Information has been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and accounting principles generally accepted in Hong Kong. A summary of the significant accounting policies adopted by the Group is set out below.

The Financial Information also complies with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange.

The Group has not applied any new standard or interpretation that is not yet effective for the relevant period (see note 41), except for HKFRS 6, Exploration for and evaluation of mineral resources that has been early adopted at 16 March 2005.

(b) Basis of preparation of the Financial Information

The measurement basis used in the preparation of the Financial Information is the historical cost basis except that trading securities are stated at their fair value as explained in note 1(f).

HKFRS 1, "First-time adoption of Hong Kong Financial Reporting Standards", has been applied in preparing the Financial Information. The Financial Information is the first set of the Company's Financial Information prepared in accordance with HKFRSs. Reconciliation and description of the effect of transition from PRC GAAP to HKFRSs on the Group's total equity as at 16 March 2005 and 31 December 2005 and the Group's net profit for the period from 16 March 2005 (date of establishment) to 31 December 2005 are given in note 40.

The preparation of the Financial Information in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the Financial Information and estimates with a significant risk of material adjustment in the future period are discussed in note 39.

(c) Subsidiaries and minority interests

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of the entities, so as to obtain benefits from their activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the Financial Information of the Group from the date the control commences until the date that control ceases.

Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the Financial Information of the Group. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Minority interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Company, whether directly or indirectly through subsidiaries, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Minority interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity owners of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the equity owners of the Company.

Where losses attributable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses attributable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (see note 1(n)).

(d) Associates

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the Financial Information of the Group under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the associate's net assets. The consolidated income statement includes the Group's share of the post-acquisition, post-tax results of the associates for the period.

When the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate. For this purpose, the Group's interest in the associate is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate.

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associate, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

In the Company's balance sheet, its investments in associates are stated at cost less impairment losses (see note 1(n)).

(e) Goodwill

Goodwill represents the excess of the cost of a business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (see note 1(n)).

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination is recognised immediately in profit or loss.

On disposal of a cash generating unit, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(f) Other investments in equity securities

The Group's policies for investments in equity securities, other than investments in subsidiaries and associates are as follows:

Investments in securities held for trading are classified as current assets. Any attributable transaction costs are recognised in profit or loss as incurred. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised in profit or loss.

Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments or they expire.

(g) Property, plant and equipment

Property, plant and equipment are stated in the consolidated balance sheets at cost less accumulated depreciation and impairment losses (see note 1(n)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

—	Buildings held for own use which are situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful life, being no more than 40 years after completion	
—	Plant and machinery	12–14 years
—	Motor vehicles	10 years
—	Office equipment	7 years

Included in property, plant and equipment are mining shafts located at the mining site. Depreciation is provided to write off the cost of mining shafts using the units of production method based on the proven and probable mineral reserves.

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

(h) Construction in progress

Construction in progress represents property, plant and equipment under construction and equipment pending installation and is stated at cost less impairment losses (see note 1(n)). Cost comprises direct costs of construction. Capitalisation of these costs ceases and the construction in progress is transferred to property, plant and equipment when substantially all of the activities necessary to prepare the assets for their intended use are complete.

No depreciation is provided in respect of construction in progress until it is substantially completed and ready for its intended use.

(i) Mining rights

Mining rights are stated at cost less accumulated amortisation and impairment losses (see note 1(n)). The mining rights are amortised using the units of production method based on the proven and probable mineral reserves.

(j) Exploration rights

Exploration rights are stated at cost less accumulated amortisation and impairment losses (see note 1(n)). The exploration rights are amortised on a straight-line basis over the respective periods of the rights which are 1–2 years.

(k) Exploration and evaluation assets

Exploration and evaluation assets are stated at cost less accumulated amortisation and impairment losses (see note 1(n)). Exploration and evaluation assets include exploration and development costs.

Exploration and development costs include expenditure incurred to secure further mineralisation in existing ore bodies and to expand the capacity of a mine. Expenditure during the initial exploration stage is written off as incurred. When it can be reasonably ascertained that a mining property is capable of commercial production, exploration and development costs are capitalised and amortised using the units of production method based on the proven and probable mineral reserves.

(l) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) *Classification of assets leased to the Group*

Assets that are held by Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases except for the land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee.

(ii) *Operating lease charges*

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term.

(m) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts (see note 1(n)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts (see note 1(n)).

(n) Impairment of assets

(i) *Impairment of trade and other receivables*

Current and non-current receivables that are stated at cost or amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, any impairment loss is determined and recognised as the difference between the assets' carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

(ii) *Impairment of other assets*

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

— property, plant and equipment;

— construction in progress;

— pre-paid interests in leasehold land classified as being held under an operating lease;

— intangible assets; and

— investments in subsidiaries and associate.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for intangible assets that are not yet available for use, the recoverable amount is estimated annually whether or not there is any indication of impairment.

— Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

— Recognition of impairment losses

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

— Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(o) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(p) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fee payable, using the effective interest method.

(q) Trade and other payables

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with note 1(u)(i), trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(r) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

(s) Employee benefits

(i) Salaries, annual bonuses, paid annual leave and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Contributions to appropriate local retirement schemes pursuant to the relevant labour rules and regulations in the PRC are recognised as an expense in profit or loss as incurred, except to the extent that they are included in the cost of inventories not yet recognised as an expense.

(t) Income tax

Income tax for the period comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous periods.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purpose, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

— in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

— in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  — the same taxable entity; or

  — different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(u) Financial guarantees issued, provisions and contingent liabilities

(i) *Financial guarantees issued*

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) is initially recognised as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 1(u)(iii) if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

(ii) *Contingent liabilities acquired in business combinations*

Contingent liabilities acquired as part of a business combination are initially recognised at fair value, provided the fair value can be reliably measured. After their initial recognition at fair value, such contingent liabilities are recognised at the higher of the amount initially recognised, less accumulated amortisation where appropriate, and the amount that would be determined in accordance with note 1(u)(iii). Contingent liabilities acquired in a business combination that cannot be reliably fair valued are disclosed in accordance with note 1(u)(iii).

(iii) *Other provision and contingent liabilities*

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(v) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) *Sale of goods*

Revenue is recognised when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(ii) *Interest income*

Interest income is recognised as it accrues using the effective interest method.

(iii) *Dividends*

— Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

— Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

(w) Translation of foreign currencies

Foreign currency transactions during the period are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

(x) Government grants

Government grants are recognised in the balance sheet initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are recognised in profit or loss as revenue on a systematic basis over the useful life of the asset.

(y) Borrowing costs

Borrowing costs are expensed in profit or loss in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(z) Related parties

For the purposes of the Financial Information, a party is considered to be related to the Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

(iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

(aa) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products (business segment), or in providing products within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting system, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of the Financial Information.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories, trade receivables and property, plant and equipment. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between Group entities within a single segment. Intra-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, tax balances, corporate and financing expenses.

2 TURNOVER

The principal activities of the Group are mining, processing and sales of copper, molybdenum and other nonferrous metals. Turnover represents the sales value of goods supplied to customers less returns, discounts and value added taxes during the period/year as follows:

	Period from 16 March 2005 (date of establishment) to 31 December 2005	**Year ended 31 December 2006**
	RMB'000	*RMB'000*
Sales of:		
— Molybdenum	363,471	509,150
— Copper	92,188	203,034
— Zinc	17,105	50,803
— Silicon	8,071	17,710
— Others	17,040	30,837
Less: Sales tax and levies	(9,340)	(10,016)
	488,535	801,518

3 COST OF SALES

	Period from 16 March 2005 (date of establishment) to 31 December 2005	Year ended 31 December 2006
	RMB'000	*RMB'000*
Direct materials	19,750	33,725
Direct labour	36,921	45,155
Electricity	22,965	30,431
Depreciation	6,793	10,228
Processing and smelting expenses	8,877	10,991
Resource compensation fee	8,508	9,883
Export levies	44,023	42,929
Movements in inventories	61,432	34,600
Others	8,296	12,120
	217,565	230,062

4 OTHER REVENUE AND NET INCOME

	Note	Period from 16 March 2005 (date of establishment) to 31 December 2005	Year ended 31 December 2006
		RMB'000	*RMB'000*
Other revenue			
Interest income		3,013	2,170
Waiver of loan	26	—	12,956
Government grants	29	2,084	3,089
Others		—	243
		5,097	18,458
Other net income			
Net exchange loss		(50)	(493)
Sales of scrap materials		232	599
Negative goodwill		31,487	—
Net loss on disposal of property, plant and equipment		(337)	(1,539)
Net realised and unrealised gain on trading securities		—	2,710
		31,332	1,277

5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

		Period from 16 March 2005 (date of establishment) to 31 December 2005	Year ended 31 December 2006
		RMB'000	*RMB'000*
(a)	Finance costs:		
	Interest on bank borrowings wholly repayable within five years	2,868	15,359
	Interest on other loans	272	210
		3,140	15,569
(b)	Staff costs:		
	Salaries, wages and bonus	48,200	62,002
	Staff welfare	3,699	2,898
	Contributions to retirement benefits schemes	4,236	7,012
		56,135	71,912
(c)	Other items:		
	Auditors' remuneration	32	30
	Depreciation	9,543	14,544
	Amortisation		
	— land lease premium	—	394
	— intangible assets	—	3,177
	Impairment loss on trade and other receivables	131	993
	Environmental costs	400	512
	Carrying amount of inventories sold	217,565	230,062

6 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENTS

(a) Taxation in the consolidated income statements represents:

	Period from 16 March 2005 (date of establishment) to 31 December 2005	Year ended 31 December 2006
	RMB'000	*RMB'000*
Current tax — PRC Enterprise Income Tax		
Provision for the period/year	142,864	152,280
Deferred tax		
Origination and reversal of temporary differences	(49,164)	15,855
	93,700	168,135

Pursuant to the income tax rules and regulations of the PRC, the Company and its subsidiaries incorporated in the PRC are subject to the PRC income tax at a rate of 33% during the relevant period.

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	Period from 16 March 2005 (date of establishment) to 31 December 2005	Year ended 31 December 2006
	RMB'000	*RMB'000*
Profit before taxation	266,427	499,600
Notional tax on profit before tax, calculated at the rates applicable to the profits in the tax jurisdiction concerned	87,218	164,834
Tax effect of non-deductible expenses	17,700	5,767
Tax effect of non-taxable income	(11,543)	(3,353)
Tax effect of unused tax losses not recognised	325	887
Actual tax expense	93,700	168,135

7 DIVIDENDS

(a) Dividends payable to equity owners of the Company attributable to the period/year:

	Period from 16 March 2005 (date of establishment) to 31 December 2005	Year ended 31 December 2006
	RMB'000	*RMB'000*
Final dividends proposed after the balance sheet date	240,788	53,864

The dividends proposed after the balance sheet date have not been recognised as liability at the respective balance sheet dates.

Pursuant to a resolution passed at the equity owners' meeting on 10 January 2006 and 28 April 2007, dividend of RMB240,788,000 and RMB53,864,000 attributable to the period from 16 March 2005 to 31 December 2005 and the year ended 31 December 2006 respectively were paid by the Company to its equity owners.

The Directors consider that the dividend payments made during the relevant period are not indicative of the future dividend policy of the Company.

(b) Dividends payable to equity owner of the Company attributable to the previous period, approved and paid during the period/year:

	Period from 16 March 2005 (date of establishment) to 31 December 2005	Year ended 31 December 2006
	RMB'000	*RMB'000*
Final dividends in respect of the previous period, approval and paid during the period/year	—	275,384

The dividends paid to equity owners included individual income taxes of RMB34,596,000 on the final dividends attributable to the period from 16 March 2005 to 31 December 2005 and received by equity owners during the year ended 31 December 2006. Such individual income taxes were paid by the Company for its equity owners during the year ended 31 December 2006.

8 DIRECTORS' REMUNERATION

Details of Directors' remuneration are as follows:

	Fees	Basic salaries, allowances and other benefits	Contributions to retirement benefit scheme	Bonuses	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
For the period from 16 March 2005 (date of establishment) to 31 December 2005:					
Dong Wen Xue (董文學)	266	151	2	419	838
Qiao Hong Bo (喬洪波)	105	61	2	169	337
Yin Guang Yuan (尹光遠)	104	63	2	169	338
Wang Shi Yuan (王世遠)	—	—	—	—	—
Yu Hao Ming (俞浩明)	—	—	—	—	—
Total	475	275	6	757	1,513
For the year ended 31 December 2006:					
Dong Wen Xue (董文學)	300	200	3	506	1,009
Qiao Hong Bo (喬洪波)	120	80	3	206	409
Yin Guang Yuan (尹光遠)	120	80	3	206	409
Wang Shi Yuan (王世遠)	—	—	—	—	—
Yu Hao Ming (俞浩明)	—	—	—	—	—
Total	540	360	9	918	1,827

The remuneration of the Directors is within the following bands:

	Period from 16 March 2005 (date of establishment) to 31 December 2005 Number of directors	Year ended 31 December 2006 Number of directors
RMBNil–RMB1,000,000	5	4
RMB1,000,001–RMB1,500,000	—	1

Save as disclosed above, no emoluments were paid by the Group to the Directors or any of the five highest paid individuals (note 9) during the relevant period as an inducement to join or upon joining the Group or as compensation for loss of office. No Directors have waived or agreed to waive any emoluments during the relevant period.

9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

The five highest paid individuals of the Group for the relevant period include three directors (2005: three directors) of the Company whose emolument are disclosed in note 8. Details of emolument paid to the remaining highest paid individuals of the Group are as follows:

	Period from 16 March 2005 (date of establishment) to 31 December 2005	Year ended 31 December 2006
Basic salaries, allowances and other benefits	251	400
Contributions to retirement benefit schemes	2	5
Bonuses	255	412
	508	817
Number of senior management	2	2

The emoluments of the remaining individuals with the highest emoluments are within the following bands:

	Period from 16 March 2005 (date of establishment) to 31 December 2005	Year ended 31 December 2006
RMBNil–RMB1,000,000	2	2

10 EARNINGS PER SHARE

No earnings per share is presented as the paid-in capital of the Company is not divisible into per share basis for calculation purpose.

11 FIXED ASSETS

The Group

	Buildings	Plant and machinery	Motor vehicles	Office equipment	Mining shafts	Interests in leasehold land held for own use under operating leases	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost:							
At 16 March 2005 (date of establishment)	—	—	—	—	—	—	—
Acquisition through business combination *(note 36(a))*	86,758	39,947	4,620	1,115	39,743	—	172,183
Additions	21,153	19,332	3,352	312	7,908	—	52,057
Transfer from construction in progress *(note 13)*	15,523	—	—	—	—	—	15,523
Disposals	(433)	(325)	—	—	—	—	(758)
At 31 December 2005	123,001	58,954	7,972	1,427	47,651	—	239,005
Accumulated amortisation and depreciation:							
At 16 March 2005 (date of establishment)	—	—	—	—	—	—	—
Charge for the period	3,048	3,935	642	200	1,718	—	9,543
Written back on disposal	(95)	(29)	—	—	—	—	(124)
At 31 December 2005	2,953	3,906	642	200	1,718	—	9,419
Net book value:							
At 31 December 2005	120,048	55,048	7,330	1,227	45,933	—	229,586
Cost:							
At 1 January 2006	123,001	58,954	7,972	1,427	47,651	—	239,005
Additions	36,463	9,657	731	596	2,664	37,172	87,283
Acquisition through business combination *(note 36(b))*	—	989	706	33	—	—	1,728
Transfer from construction in progress *(note 13)*	24,329	1,051	—	—	6,645	—	32,025
Disposals	(110)	(9,299)	(2,984)	(92)	(2,529)	—	(15,014)
At 31 December 2006	183,683	61,352	6,425	1,964	54,431	37,172	345,027
Accumulated amortisation and depreciation:							
At 1 January 2006	2,953	3,906	642	200	1,718	—	9,419
Charge for the year	4,883	6,375	1,036	289	1,961	394	14,938
Written back on disposal	(27)	(1,061)	(1,264)	(75)	(34)	—	(2,461)
At 31 December 2006	7,809	9,220	414	414	3,645	394	21,896
Net book value:							
At 31 December 2006	175,874	52,132	6,011	1,550	50,786	36,778	323,131

All fixed assets are located in the PRC. The interests in leasehold land held for own use under operating leases are held on a medium-term lease of 50 years in the PRC.

The applications for property ownership certificates of certain buildings and land use right certificates of certain leasehold lands located in Harbin and Inner Mongolia, the PRC, with net book value totalling RMB12,913,000 (2005: RMB13,166,000) and RMB5,756,000 (2005: RMB Nil) respectively are still in progress and these ownership have not yet been issued to the Group by the relevant local government authority as at 31 December 2006 and 31 December 2005. Notwithstanding this, the Directors are of the opinion that the Group has acquired the beneficial title to these buildings and leasehold lands as at 31 December 2006 and 31 December 2005, and the property ownership certificates and land use right certificates can be obtained.

The Company

	Buildings	Plant and machinery	Motor vehicles	Office equipment	Interests in leasehold land held for own use under operating leases	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost:						
At 16 March 2005 (date of establishment)	—	—	—	—	—	—
Acquisition through business combination	16,542	1,343	1,415	613	—	19,913
Additions	12,141	2,039	1,923	223	—	16,326
Transfer from construction in progress *(note 13)*	13,422	—	—	—	—	13,422
Disposals	(8,630)	(236)	(439)	(294)	—	(9,599)
At 31 December 2005	33,475	3,146	2,899	542	—	40,062
Accumulated amortisation and depreciation:						
At 16 March 2005 (date of establishment)	—	—	—	—	—	—
Charge for the period	546	117	213	125	—	1,001
Written back on disposal	(387)	(13)	(101)	(107)	—	(608)
At 31 December 2005	159	104	112	18	—	393
Net book value:						
At 31 December 2005	33,316	3,042	2,787	524	—	39,669
Cost:						
At 1 January 2006	33,475	3,146	2,899	542	—	40,062
Additions	29,153	6,922	1,621	584	25,470	63,750
Transfer from construction in progress *(note 13)*	13,377	1,017	—	—	—	14,394
Disposals	(4,632)	(998)	(401)	(161)	—	(6,192)
At 31 December 2006	71,373	10,087	4,119	965	25,470	112,014
Accumulated amortisation and depreciation:						
At 1 January 2006	159	104	112	18	—	393
Charge for the year	1,020	325	1,256	143	383	3,127
Written back on disposal	(907)	(412)	(345)	(76)	—	(1,740)
At 31 December 2006	272	17	1,023	85	383	1,780
Net book value:						
At 31 December 2006	71,101	10,070	3,096	880	25,087	110,234

All fixed assets are located in the PRC. The interests in leasehold land held for own use under operating leases are held on a medium-term lease of 50 years in the PRC.

The applications for property ownership certificates of certain buildings and land use right certificates of certain leasehold lands located in Harbin, the PRC, with net book value totalling RMB12,843,000 (2005: RMB13,166,000) and RMB5,756,000 (2005: RMB Nil) respectively are still in progress and these property ownership have not yet been issued to the Company by the relevant local government authority as at 31 December 2006 and 31 December 2005. Notwithstanding this, the Directors are of the opinion that the Company has acquired the beneficial title to these buildings and leasehold lands as at 31 December 2006 and 31 December 2005, and the property ownership certificates and land use right certificates can be obtained.

12 INTANGIBLE ASSETS

The Group

	Exploration and evaluation assets	Mining rights	Exploration Rights	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cost:				
At 31 December 2005 and 1 January 2006	—	—	—	—
Additions	2,350	3,066	8,581	13,997
At 31 December 2006	2,350	3,066	8,581	13,997
Accumulated amortisation:				
At 31 December 2005 and 1 January 2006	—	—	—	—
Charge for the year	—	—	3,177	3,177
At 31 December 2006	—	—	3,177	3,177
Net book value:				
At 31 December 2005	—	—	—	—
At 31 December 2006	2,350	3,066	5,404	10,820

The Company

	Exploration and evaluation assets	Mining rights	Exploration Rights	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cost:				
At 31 December 2005 and 1 January 2006	—	—	—	—
Additions	2,350	3,000	8,581	13,931
At 31 December 2006	2,350	3,000	8,581	13,931
Accumulated amortisation:				
At 31 December 2005 and 1 January 2006	—	—	—	—
Charge for the year	—	—	3,177	3,177
At 31 December 2006	—	—	3,177	3,177
Net book value:				
At 31 December 2005	—	—	—	—
At 31 December 2006	2,350	3,000	5,404	10,754

Mining rights represent the costs of acquiring the rights for mining in Ejinaqi Qiaolun Engeci Quartz Mine, Chaersen Silica Mine, Wulongshan Silica Mine and Zhaganchulu Silica Mine. These mining rights will expire in December 2009 except for Ejinaqi Qiaolun Engeci Quartz Mine, which will expire in March 2007 and the Group is in the process of renewing the mining right. No amortisation was made during the year ended 31 December 2006 as no mining activities are conducted in these mines.

Mining activities are conducted in Songjiang Copper Mine, Wudaoling Molybdenum Mine and Balinyouqi Nuoergai Copper Mine during the relevant period.

Historically, the mining rights of Songjiang Copper Mine, Wudaoling Molybdenum Mine and Xiaoling Iron Zinc Mine were state-owned and the mining right of Balinyouqi Nuoergai was collectively-owned. The Group has submitted an application to the respective government authorities for the transfer of the relevant mining rights to privately-owned at a consideration. The mining rights are yet to be transferred as at 31 December 2006. The estimated total consideration for the transfer of mining rights is about RMB225,000,000 and has been included in the capital commitments disclosed in note 35(a). The considerations for such transfers are estimated by the Directors based on their knowledge in the mining industry, the mineral ore reserve of each mine and with reference to the nonferrous metals market in the PRC. The Directors are of the opinion that the Group is entitled to conduct mining activities in these mines and the privately-owned mining licenses can be obtained. No mining activities are conducted in Xiaoling Iron Zinc Mine.

Exploration rights represent the rights for exploration in the certain locations in Inner Mongolia and Henan. The periods of the exploration rights are 1–2 years.

The amortisation charge for the year ended 31 December 2006 is included in "administrative expenses" in the consolidated income statements.

The mineral ore reserves of Songjiang Copper Mine and Wudaoling Molybdenum Mine, based on the new Chinese system (Rule 66) promulgated by the Ministry of Land and Resources, were reviewed and assessed by a firm of independent technical experts. The mineral ore reserve of Balinyouqi Nuoergai Copper Mine was assessed by the Directors based on the technical review performed by Inner Mongolia Autonomous Region 113 Exploration Team in 1994. Mineral ore reserves of other mines are not disclosed in the Financial Information as no mining activities are conducted in these mines. Details of mineral ore reserve as at 31 December 2006 are as follows:

	Reserves
	(tonnes)
Songjiang Copper — Zinc Mine	2,240,000
Wudaoling Molybdenum Mine	22,625,000
Balinyouqi Nuoergai Copper Mine	4,958,000
	29,823,000

13 CONSTRUCTION IN PROGRESS

	The Group		**The Company**	
	2005	**2006**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 16 March/1 January	—	14,105	7,621	7,984
Acquisition through business combination *(note 36)*	9,166	13,256	—	—
Additions	20,462	53,898	13,785	16,735
Transfer to property, plant and equipment *(note 11)*	(15,523)	(32,025)	(13,422)	(14,394)
At 31 December	14,105	49,234	7,984	10,325

Construction in progress comprises costs incurred on buildings, plant and machineries not yet completed at the respective balance sheet dates.

14 INVESTMENTS IN SUBSIDIARIES

The Company

	As at 31 December 2005 *RMB'000*	As at 31 December 2006 *RMB'000*
Unlisted investments, at cost	332,695	399,260

The particulars of subsidiaries of the Group have been disclosed in the introduction. All of these are controlled subsidiaries as defined under note 1(c) and have been consolidated into the Group's Financial Information.

15 INTEREST IN ASSOCIATE

	The Group		The Company	
	As at 31 December 2005 *RMB'000*	As at 31 December 2006 *RMB'000*	As at 31 December 2005 *RMB'000*	As at 31 December 2006 *RMB'000*
Unlisted investment, at cost	—	—	183	183
Share of net assets	2,130	2,234	—	—
	2,130	2,234	183	183

Particulars of the associate, which is an unlisted corporate entity, are as follows:

Name of associate	Form of business structure	Place of incorporation and operation	Particulars of issued and paid up capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by a subsidiary	Principal activity
Harbin Songjiang Mine Machinery Co. Ltd.	Incorporated	The PRC	RMB520,000	35.15%	35.15%	—	Production of mining machineries and provision of repair and maintenance services

Summary financial information on the associate

	Assets *RMB'000*	Liabilities *RMB'000*	Equity *RMB'000*	Revenues *RMB'000*	Profit/(loss) after taxation *RMB'000*
From 16 March 2005 to 31 December 2005					
100 per cent	12,877	6,817	6,060	5,281	6,060
Group's effective interest	4,526	2,396	2,130	1,856	2,130
Year ended 31 December 2006					
100 per cent	11,290	4,934	6,356	8,972	296
Group's effective interest	3,968	1,734	2,234	3,154	104

16 TRADING SECURITIES

	The Group		The Company	
	As at 31 December 2005	As at 31 December 2006	As at 31 December 2005	As at 31 December 2006
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Listed trading securities in the PRC (at market value)	—	5,936	—	5,936

17 INVENTORIES

Inventories in the balance sheets comprise:

	The Group		The Company	
	As at 31 December 2005	As at 31 December 2006	As at 31 December 2005	As at 31 December 2006
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Raw materials	9,956	11,402	613	747
Work in progress	12,675	15,717	—	—
Finished goods	46,293	8,651	—	—
	68,924	35,770	613	747

18 TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	As at 31 December 2005	As at 31 December 2006	As at 31 December 2005	As at 31 December 2006
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables	47,617	109,499	1,812	41,109
Bills receivable	3,699	11,343	—	11,343
Other receivables	33,127	15,661	26,577	13,900
Deposits and prepayments	107,401	83,738	89,594	31,255
	191,844	220,241	117,983	97,607

All of the trade and other receivables are expected to be recovered within one year.

Included in trade receivables are amount due from a minority shareholder of RMB64,389,000 (2005: RMB42,858,000), details of which are disclosed in note 33.

Included in other receivables are amounts totalling RMB9,419,000 (2005: RMB8,020,000) which represent loans to business associates. All loans are unsecured, interest fee and repayable within one year except for a loan with remaining balance of RMB4,689,000 (2005: RMB7,210,000) as at 31 December 2006 which is interest bearing with fixed interest rate of 10% per annum and secured by a building and a land use right located in Harbin, the PRC.

Included in trade and other receivables are trade receivables and bills receivables (net of impairment losses for bad and doubtful debts) with the following ageing analysis as of the balance sheet date:

	The Group		The Company	
	As at 31 December 2005	**As at 31 December 2006**	**As at 31 December 2005**	**As at 31 December 2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 3 months	48,592	109,266	817	10,753
Over 3 months but less than 6 months	383	7,417	1	640
Over 6 months but less than 1 year	—	3,260	907	3,260
Over 1 year	2,341	899	87	37,799
	51,316	120,842	1,812	52,452

The Group's credit policy is set out in note 34(a).

19 AMOUNT DUE FROM/(TO) ASSOCIATE

The amount is unsecured, interest-free and has no fixed terms of settlement/repayment.

20 AMOUNTS DUE FROM/(TO) SUBSIDIARIES

These amounts are unsecured, interest-free and have no fixed terms of settlement/repayment.

21 AMOUNTS DUE FROM/(TO) RELATED PARTIES

(a) These amounts are unsecured, interest-free and expected to be recovered within one year.

Included in amounts due from related parties are following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	The Group		The Company	
	As at 31 December 2005	**As at 31 December 2006**	**As at 31 December 2005**	**As at 31 December 2006**
	'000	*'000*	*'000*	*'000*
United States Dollars	USD1,665	USD3,621	USD —	USD —

(b) The amount is unsecured, interest free and expected to be repaid within one year.

22 AMOUNTS DUE FROM MINORITY SHAREHOLDERS

The amounts are unsecured, interest-free and have no fixed terms of settlement.

23 LOAN TO EQUITY OWNER

The loan is unsecured, interest bearing at a fixed interest rate of 6% per annum and recoverable within one year.

24 CASH AND CASH EQUIVALENTS

	The Group		The Company	
	As at 31 December 2005	As at 31 December 2006	As at 31 December 2005	As at 31 December 2006
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cash at bank and in hand	66,800	356,678	63,330	324,541
Effective interest rate per annum	0.72%	0.72%	0.72%	0.72%

Cash at bank of the Group and the Company is placed with banks in the PRC. Renminbi is not a freely convertible currency and the remittance of funds out of the PRC is subject to the exchange restrictions imposed by the PRC government.

25 BANK LOANS

Bank loans were repayable as follows:

	The Group		The Company	
	As at 31 December 2005	As at 31 December 2006	As at 31 December 2005	As at 31 December 2006
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 year or on demand	50,000	120,000	—	110,000
After 1 year but within 2 years	—	119,500	—	70,000
After 2 years but within 5 years	—	80,000	—	80,000
	—	199,500	—	150,000
	50,000	319,500	—	260,000

All of the Group's bank loans as at 31 December 2005 were interest-bearing at fixed rates. The interest rates of the Group's bank loans were 6.04% per annum as at 31 December 2005.

Except for certain of the Group's and the Company's bank loans of RMB50,000,000 and RMB40,000,000 respectively which were at fixed rates, all the Group's and the Company's bank loans as at 31 December 2006 were interest-bearing at floating rates with reference to the relevant borrowing rate of the People's Bank of China. The interest rates of the Group's and the Company's bank loans are from 4.97% to 6.63% and 5.85% to 6.12% per annum respectively as at 31 December 2006.

The Group's bank loans were secured as follows:

	The Group		The Company	
	As at 31 December 2005	As at 31 December 2006	As at 31 December 2005	As at 31 December 2006
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Bank loans				
— unsecured	50,000	59,500	—	—
— guaranteed by a third party *(note 35(c))*	—	100,000	—	100,000
— guaranteed by an equity owner *(note 33)*	—	160,000	—	160,000
	50,000	319,500	—	260,000

As at 31 December 2006, the Company has issued a guarantee in respect of a bank loan of RMB10,000,000 borrowed by a subsidiary of the Group.

26 OTHER LOANS

	The Group and the Company	
	As at 31 December 2005	As at 31 December 2006
	RMB'000	*RMB'000*
Loan from Provincial Governor's Fund *(note (a))*	18,346	—
Loan from Industry Development Fund *(note (b))*	1,000	1,000
	19,346	1,000

Notes:

(a) The loan was provided by the Provincial Governor's Fund (省長基金) of Harbin Finance Bureau in October 1998 with a principal of RMB16,000,000 and fixed interest rate of 2% per annum. A repayment agreement was signed with Harbin Finance Bureau on 25 August 2006, whereby the Company was required to settle a final amount of RMB5,600,000. The final settlement was made by the Company in August 2006. The remaining principal and interest payable totalling RMB12,956,000 were waived by Harbin Finance Bureau and such amount has been recognised as other revenue in the income statements.

(b) The loan was provided by the Industry Development Fund (工業發展基金) of Harbin Finance Bureau in December 1998 with a principal of RMB1,000,000. The loan is unsecured, interest free and repayable within one year.

Both loans are assumed by the Company as liabilities upon the business combination as disclosed in note 36(a).

27 TRADE AND OTHER PAYABLES

Trade and other payables comprise:

	The Group		The Company	
	As at 31 December 2005	As at 31 December 2006	As at 31 December 2005	As at 31 December 2006
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables	10,815	10,525	1,831	3,592
Other payables	47,894	54,557	11,159	13,156
Accruals	16,693	26,134	20	150
Receipts in advance	4,086	8,459	1,849	4,701
	79,488	99,675	14,859	21,599

Included in trade and other payables are trade payables with the following ageing analysis as of the balance sheet date:

	The Group		The Company	
	As at 31 December 2005	As at 31 December 2006	As at 31 December 2005	As at 31 December 2006
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 3 months	2,249	3,376	1,013	938
Over 3 months but less than 6 months	561	170	—	164
Over 6 months but less than 1 year	1,282	39	—	39
Over 1 year	6,723	6,940	818	2,451
	10,815	10,525	1,831	3,592

28 INCOME TAX IN THE BALANCE SHEETS

(a) Current taxation in the balance sheets represents:

	The Group		The Company	
	As at 31 December 2005	As at 31 December 2006	As at 31 December 2005	As at 31 December 2006
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Provision for PRC Enterprise Income Tax for the period/year	142,864	152,280	50	6,399
PRC tax paid	(30,046)	(27,966)	—	—
	112,818	124,314	50	6,399
Balance of PRC Enterprise Income Tax provision assumed in the business combination/relating to prior periods	1,001	6,112	—	50
	113,819	130,426	50	6,449

(b) Deferred tax assets and liabilities recognised:

(i) *The Group*

The components of deferred tax assets/(liabilities) recognised in the consolidated balance sheets and the movements during the relevant period are as follows:

	Impairment loss for bad and doubtful debts	Property, plant and equipment	Inventories	Accruals	Tax losses	Others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Deferred tax arising from:							
At 16 March 2005	—	—	—	—	—	—	—
Acquisition through business combination	3,032	645	(32,428)	20,992	2,610	(3,595)	(8,744)
Credited/(charged) to profit or loss	43	26	59,737	(8,262)	(2,610)	230	49,164
At 31 December 2005	3,075	671	27,309	12,730	—	(3,365)	40,420
At 1 January 2006	3,075	671	27,309	12,730	—	(3,365)	40,420
Credited/(charged) to profit or loss	328	157	(27,309)	3,050	—	7,919	(15,855)
At 31 December 2006	3,403	828	—	15,780	—	4,554	24,565

(ii) *The Company*

The components of deferred tax assets/(liabilities) recognised in the balance sheets and the movements during the relevant period are as follows:

	Impairment loss for bad and doubtful debts	**Property, plant and equipment**	**Inventories**	**Accruals**	**Tax losses**	**Others**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Deferred tax arising from:							
At 16 March 2005	—	—	—	—	—	—	—
Acquisition through business combination	2,305	6,142	—	4,904	2,498	(995)	14,854
Credited/(charged) to profit or loss	64	(196)	—	(1,333)	(2,498)	(479)	(4,442)
At 31 December 2005	2,369	5,946	—	3,571	—	(1,474)	10,412
At 1 January 2006	2,369	5,946	—	3,571	—	(1,474)	10,412
Credited/(charged) to profit or loss	510	1,164	—	(883)	—	56	847
At 31 December 2006	2,879	7,110	—	2,688	—	(1,418)	11,259

	The Group		**The Company**	
	As at 31 December 2005	**As at 31 December 2006**	**As at 31 December 2005**	**As at 31 December 2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Represented by:				
Net deferred tax asset	41,560	28,541	10,412	11,259
Net deferred tax liability	(1,140)	(3,976)	—	—
	40,420	24,565	10,412	11,259

(c) Deferred tax assets not recognised

In accordance with the accounting policy set out in note 1(t), the Group has not recognised deferred tax assets in respect of cumulative tax losses of a subsidiary of the Group of RMB986,000 and RMB3,674,000 as at 31 December 2005 and 31 December 2006 respectively as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. Tax losses of RMB3,674,000 will expire in the coming 5 years.

29 DEFERRED INCOME

	The Group	The Company
	RMB'000	*RMB'000*
At 31 March 2005	—	—
Received during the period	2,084	424
Recognised as other revenue during the period	(2,084)	(424)
At 31 December 2005	—	—
At 1 January 2006	—	—
Received during the year	49,905	15,828
Recognised as other revenue during the year	(3,089)	(39)
At 31 December 2006	46,816	15,789

Deferred income represents government grants received by the Group and the Company during the relevant period. Certain government grants are received by the Group and the Company in respect of property, plant and equipment and interest in leasehold land held for own use under operating leases. Such government grants are recognised in the balance sheet initially and recognised in the income statement as other revenue on a systematic basis over the useful life of the assets.

Government grants of RMB10,000,000 and RMB5,828,000 were received from local government authorities to support the smelting plants development project of the Group in Harbin, the PRC, during the year ended 31 December 2006. The government grant of RMB10,000,000 was received in respect of the construction of smelting plants and will be recognised in the income statement over the useful life of smelting plants. As the smelting plant is still in the construction period, no amount has been recognised in the income statement so far. The government grant of RMB5,828,000 was received for the acquisition of leasehold land under operating leases for the smelting plants development project. Such government grant are recognised in the income statement over the period of the lease term, which is 50 years. An amount of RMB39,000 has been recognised as other revenue for the year ended 31 December 2006.

Another government grant of RMB31,027,000 was also received during the year ended 31 December 2006 from local government authority for the acquisition of leasehold land under operating leases, for the construction of a smelting plant in Inner Mongolia. As the acquisition of the leasehold land was still in process, no amount has been recognised in the income statement.

Apart from the government grants as disclosed above, the Group has received several one-off government grants of RMB2,084,000 and RMB3,050,000 for the period from 16 March 2005 (date of establishment) to 31 December 2005 and the year ended 31 December 2006 respectively. Such government grants are received for the Group's contribution to the local economy and have been recognised as other revenue in the period/year of receipts.

30 RETIREMENT BENEFITS SCHEMES

Pursuant to the relevant labour rules and regulations in the PRC, the Company and the subsidiaries of the Group participate in defined contribution retirement schemes (the "Schemes") organised by the relevant government authorities whereby the subsidiaries are required to contribute to the Schemes to fund the retirement benefits of the eligible employees. Contributions made to the Schemes are calculated based on 22% of the payroll of the eligible employees for the relevant period. The local government authorities are responsible for the entire pension obligations payable to the retired employees. The Group is not liable to any retirement benefits payment in the PRC beyond the contributions to the Schemes.

31 PAID-IN CAPITAL

	The Group and the Company	
	2005	2006
	RMB'000	*RMB'000*
Registered capital:	240,788	240,788
Paid-in capital:		
At 16 March/1 January	—	240,788
Contributions by equity owners	240,788	—
At 31 December	240,788	240,788

The Company was established in the PRC on 16 March 2005 as a limited liability company with a registered capital of RMB240,788,000. The registered capital was contributed by equity owners in the form of cash of RMB60,000,000, 99.22% equity interest in Harbin Songjiang Molybdenum Ltd. and 51.93% equity interest in Harbin Songjiang Copper Enterprise Co. Ltd.

32 DISTRIBUTABLE RESERVES

The amount of retained profits available for distribution to equity owners of the Company is determined in accordance with the PRC Accounting Rules and Regulations. At 31 December 2005 and 31 December 2006, the amount of retained profits available for distribution was RMB172,300,000 and RMB137,589,000 respectively.

33 MATERIAL RELATED PARTY TRANSACTIONS

During the relevant period, transactions with the following parties are considered as related party transactions.

Name of party	**Relationship**
Chifeng Jinjian Copper Mining Ltd. ("Chifeng Jinjian")	Equity owner and minority shareholder
Shan Shan Investment & Stock Co. Ltd. ("Shan Shan")	Equity owner
Harbin Songjiang Mine Machinery Co. Ltd. ("Songjiang Mine Machinery")	Associate
Harbin Jinshangjing Science and Technology Investment Co. Ltd. ("Jinshangjing")	An entity controlled by certain equity owners of the Company
Dragon River Mining Ltd. ("Dragon River")	An entity controlled by a director of the Company

Particulars of significant transactions between the Group and the one of the above related parties during the relevant period are as follows:

(a) Recurring transactions

	Period from 16 March 2005 (date of establishment) to 31 December 2005	Year ended 31 December 2006
	RMB'000	*RMB'000*
Sales of goods to Chifeng Jinjian	108,799	215,874
Commission to Dragon River	1,330	4,799

Commission is paid to Dragon River for the provision of sales agency services to the Group in respect of export sales.

(b) Non-recurring transactions

	Period from 16 March 2005 (date of establishment) to 31 December 2005	Year ended 31 December 2006
	RMB'000	*RMB'000*
Acquisition of subsidiaries from Chifeng Jinjian	—	1,000
Loan to Shan Shan	50,000	—
Interest income from Shan Shan	1,583	417

A loan with principal of RMB50,000,000 and fixed interest rate of 6% per annum was advanced to Shan Shan in the period from 16 March 2005 (date of establishment) to 31 December 2005. Such loan was settled in the year ended 31 December 2006.

(c) Guarantees

Guarantee of RMB160,000,000 was given by Chifeng Jinjian to the Company against certain bank loans totalling RMB160,000,000 as at 31 December 2006 as disclosed in note 25.

(d) Exploration rights

Exploration in certain locations in Inner Mongolia are conducted by the Group during the year ended 31 December 2006. The exploration rights are provided by Chifeng Jinjian to the Group at no cost. Expenditure of RMB1,550,000 has been incurred for the exploration in such locations and capitalised as exploration and evaluation assets included in intangible assets (see note 12).

(e) Amounts due from related parties

	The Group		The Company	
	As at 31 December 2005	As at 31 December 2006	As at 31 December 2005	As at 31 December 2006
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Jinshangjing *(note i)*	30,404	53,143	30,404	53,143
Dragon River *(note ii)*	13,439	28,271	—	—
	43,843	81,414	30,404	53,143

Notes:

(i) Expenses of RMB20,768,000 and RMB22,739,000 were paid by the Group and the Company on behalf of Jinshangjing during the period from 16 March 2005 (date of establishment) to 31 December 2005 and the year ended 31 December 2006 respectively.

(ii) During the period from 16 March 2005 (date of establishment) to 31 December 2005 and the year ended 31 December 2006, Dragon River received the settlements of trade receivables from overseas customers totalling RMB158,988,000 and RMB416,316,000 respectively on behalf of the Group.

(f) Amount due to a related party

During the year ended 31 December 2006, the Group and the Company has received a total amount of RMB35,366,000 from certain equity owners for the purpose of capital injection to Jinshangjing.

Such amount has been injected to Jinshangjing by the Company on behalf of equity owners in March 2007.

(g) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Directors and certain of the highest paid employees as disclosed in note 8 and 9, is as follows:

	Period from 16 March 2005 (date of establishment) to 31 December 2005	**Year ended 31 December 2006**
	RMB'000	*RMB'000*
Short-term employee benefits	2,013	2,630
Post-employment benefits	8	14
Equity compensation benefits	—	—
	2,021	2,644

Total remuneration is included in "staff costs" (see note 5(b)).

34 FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. These risks are limited by the Group's financial management policies and practices described below.

(a) Credit risk

The Group's credit risk is primarily attributable to trade and bills receivables. Credit evaluations are performed on all customers requiring credit over a certain amount. These receivables are due within 90 days from the date of billing. Debtors with balances that are more than 3 months overdue are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers.

At the balance date, the Group has a certain concentration of credit risk as 22% and 46% of the total trade and other receivables were due from the Group's largest five customers as at 31 December 2005 and 31 December 2006 respectively within the molybdenum, copper and zinc segment.

Cash and cash equivalents are normally placed with licensed banks in the PRC that have a credit rating equal to or better than the Group. Given their high credit ratings, management does not expect any licensed bank to fail to meet its obligations.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated balance sheets. Except for the financial guarantees given by the Group as set out in note 35(c), the Group does not provide any other guarantees which would expose the Group to credit risk. The maximum exposure to credit risk in respect of these financial guarantees at the balance sheet date is disclosed in note 35(c).

(b) Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term. The Company also monitors closely the cash flows of its subsidiaries. Generally, the Company's subsidiaries are required to obtain the Company's approval for activities such as investment of surplus cash, raising of loans and fixed assets acquisitions beyond certain limits.

(c) Interest rate risk

Cash and cash equivalents and bank loans are the major types of the Group's financial instruments subject to interest rate risk.

Cash and cash equivalents comprise mainly bank deposits with fixed interest rates of 0.72% per annum and the maturity dates of these bank deposits are within 1 year.

The interest rates and maturity information of the Group's and the Company's bank loans are disclosed in note 25.

(d) Foreign currency risk

The Group is exposed to foreign currency risks through certain sales that are dominated in United States dollars ("USD"). The Group ensures that the net exposure is kept to an acceptable level by selling USD at spot rates where necessary.

(e) Fair values

All financial assets and liabilities are carried at amounts not materially different from their fair values as at 31 December 2005 and 31 December 2006.

(f) Estimation of fair value of financial guarantees

The fair value of financial guarantees issued is determined by reference to fees charged in an arm's length transaction for similar services, when such information is obtainable, or is otherwise estimated by reference to interest rate differentials, by comparing the actual rates charged by lenders when the guarantee is made available with the estimated rates that lenders would have charged, had the guarantees not been available, where reliable estimates of such information can be made.

(g) Business risk

During the relevant periods, the manufacturing procedures of ferro molybdenum, a major molybdenum product of the Group, are sub-contracted to two independent third party contractors. In addition, all export sales of the Group's products are made through the sole sales agent, Dragon River (a related party as disclosed in note 33). Although the Group believes that it maintains good relationships with these sub-contractors and sales agent, there can be no assurance that these parties will continue to provide the manufacturing and sales agent services to the Group on normal commercial terms as and when needed. In the event that these parties ceased to provide manufacturing and sales agent services to the Group and the Group could not secure the provision of such services, the Group's turnover and profitability might be affected.

As disclosed in note 12, the mining rights of the mines operated by the Group are state-owned and the Group is in the process in transferring the status of mining rights from state-owned to privately-owned. Although the Group believes that the status of mining rights can be transferred to privately-owned, there can be no assurance that the relevant government authorities will approve the transfer. In the event that the relevant government authorities decline the application made by the Group for the transfer of mining rights, the Group's operation might be adversely affected. In addition, the Group believes that no additional fee will be charged by the relevant government authorities for the exploitation of mineral resources during the relevant period, any additional fee charged will be adversely affected the results of the Group.

35 COMMITMENTS AND CONTINGENCIES

(a) Commitments outstanding at 31 December 2005 and 31 December 2006 not provided for in the Financial Information were as follows:

	The Group		The Company	
	As at 31 December 2005	As at 31 December 2006	As at 31 December 2005	As at 31 December 2006
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Contracted for	—	119,070	—	119,070
Authorised but not contracted for	257,981	641,362	250,501	295,674

(b) Environmental contingencies

To date, the Group has not incurred any significant expenditures for environment remediation and has not accrued any amounts for environmental remediation relating to its operations. Under existing legislation, management believes that there are no probable liabilities that will have a material adverse effect on the financial position or operating results of the Group. The PRC government, however, has moved and may move further towards more rigorous enforcement of applicable laws, and towards the adoption of more stringent environmental standards. Environmental liabilities are subject to considerable uncertainties which affect the Group's ability to estimate the ultimate cost of remediation efforts. These uncertainties include: (i) the exact nature and extent of the contamination at various sites including, but not limited to mines and processing plants whether operating, closed and sold; (ii) the extent of required cleanup efforts; (iii) varying costs of alternative remediation strategies; (iv) changes in environmental remediation requirements; and (v) the identification of new remediation sites. The amount of such future cost is indeterminable due to such factors as the unknown magnitude of possible contamination and the unknown timing and extent of the corrective actions that may be required. Accordingly, the outcome of environmental liabilities under proposed or future environmental legislation cannot reasonably be estimated at present and could be material. The Group has incurred RMB400,000 and RMB512,000 in respect of environment remediation for the relevant period.

(c) Financial guarantees issued

As at 31 December 2005, the Company has issued a guarantee in respect of a bank loan of RMB10,000,000 in favour of a previous equity owner of a subsidiary. Deferred income in respect of the guarantee has not been recognised as the Directors are of the opinion that the related amount is not material. During the year ended 31 December 2006, the guaranteed party defaulted the settlement of the bank loan and an amount of RMB5,105,000 has been paid by the Company to settle the claim made by the bank against the Company. The amount is included in "administrative expenses" in the consolidated income statement for the year ended 31 December 2006.

As disclosed in note 25, certain bank loans of the Group and the Company as at 31 December 2006 were guaranteed by a third party. In return, the Company and a subsidiary of the Group have provided guarantees for banking facilities up to RMB50,000,000 and certain bank loans totalling RMB50,000,000 respectively in favour of the same third party. As at 31 December 2006, banking facilities to the extent of RMB49,713,000 were drawn by the third party.

The guarantees cover the repayment of loan principal and related interest payments. If the guaranteed party defaults on debt payments, the Company is required to perform under the guarantees. As at 31 December 2006, the Director do not consider it probable that a claim will be made against the Company under the guarantees and the estimated fair value of the Group's standby commitment is not material.

36 BUSINESS COMBINATION

(a) For the period from 16 March 2005 (date of establishment) to 31 December 2005

The Company was established on 16 March 2005 under the agreement for transfer of state-owned assets and the capital injection agreements (the "agreements"). Pursuant to the agreements, the Company, with a legal form of private enterprise, was approved to be established by the relevant government authorities and to acquire the existing operations from the state-owned enterprise. The Directors are of the opinion that there were changes in both equity ownership and control from the state-owned enterprise to a private enterprise.

The acquisition had the following effect on the Group's assets and liabilities:

	Pre-acquisition carrying amounts *RMB'000*	Fair value adjustments *RMB'000*	Recognised values on Acquisition *RMB'000*
Acquiree's net assets at the acquisition date			
Property, plant and equipment	151,628	20,555	172,183
Construction in progress	9,166	—	9,166
Deferred tax assets	30,553	(10,593)	19,960
Inventories	33,383	98,268	131,651
Trade and other receivable	180,462	—	180,462
Cash and cash equivalents	56,007	—	56,007
Trade and other payables	(119,112)	—	(119,112)
Bank loans	(80,000)	—	(80,000)
Other loans	(19,074)	—	(19,074)
Current taxation	(50,264)	—	(50,264)
Deferred tax liabilities	(86)	(28,618)	(28,704)
Net identifiable assets	192,663	79,612	272,275
Negative goodwill arising on acquisition			(31,487)
Total purchase price consideration			240,788

The purchase price is satisfied by the capital injection from the equity owners of the Company as mentioned in note 31. The purchase price does not include the consideration for the acquisition of leasehold lands occupied by the Group at the time of acquisition and the consideration for the transfer of mining rights from state-owned to privately-owned as mentioned in note 12.

The excess of net fair value of identifiable assets, liabilities and contingent liabilities acquired over the costs of business combination (the "negative goodwill") was recognised in the income statement as other revenue. Such negative goodwill was resulted from the bargain purchase made by the equity owners of the Company with the state-owned equity owner in the business combination.

(b) For the year ended 31 December 2006

(i) *Acquisition of subsidiaries*

During the year ended 31 December 2006, the Group had the following acquisitions:

(1) 100% equity interest in Inner Mongolia Zhongrun Magnesium Co. Ltd. from two independent third parties; and

(2) 100% equity interest in Balinyouqi Nuoergai Copper Mining Co. Ltd. and Alukeerqinqi Manitu Silver & Tin Mining Co. Ltd. from Chifeng Jinjian, the equity owner of the Company and the minority shareholder of the Group, and other independent third parties.

The aggregate acquisition consideration was RMB8,000,000, satisfied in cash. The aggregate amounts recognised at the acquisition date of their assets and liabilities are RMB22,871,000 and RMB14,871,000 respectively. The acquired companies contributed an aggregate revenue of RMB24,056,000 and aggregate net profit of RMB3,018,000 since acquisition.

The acquisition had the following effect on the Group's assets and liabilities:

	RMB'000
Acquiree's net assets at the acquisition date	
Property, plant and equipment	1,728
Construction in progress	13,256
Inventories	22
Trade and other receivables	6,857
Cash and cash equivalents	1,008
Trade and other payables	(14,871)
Net identifiable assets	8,000
Goodwill arising on acquisition	—
Total purchase price consideration	8,000
Satisfied by	
Cash	8,000
Cash at bank and in hand acquired	1,008
Cash consideration paid	(8,000)
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	(6,992)

Management of the Group has assessed the fair value of assets and liabilities acquired are approximately equal to the carrying amounts before acquisitions. Accordingly, no fair value adjustment was made to the assets and liabilities acquired.

(ii) *Disposal of a subsidiary*

During the year ended 31 December 2006, the Group disposed of a subsidiary at RMB500,000.

Net assets disposed at the disposal date:

	RMB'000
Cash at bank, representing net assets disposed of	500
Satisfied by cash	500
Net inflow and outflow of cash and cash equivalents in respect of the disposal of a subsidiary	—

37 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Significant non-cash transactions

In December 2005, certain property, plant and equipment of approximately RMB20,066,000 and other receivables of approximately RMB10,055,000 were acquired through the capital injection from Chifeng Jinjian, the equity owner of the Company and the minority shareholder of the Group, to a subsidiary of the Group which is incorporated in December 2005.

In December 2006, certain property, plant and equipment of approximately RMB10,867,000 and prepayments of approximately RMB9,133,000 were disposed through a capital reduction by a subsidiary of the Group to Chifeng Jinjian, the equity owner of the Company and the minority shareholder of the Group.

38 SEGMENT REPORTING

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting.

(a) Business segments

The Group comprise the following main business segments:

Molybdenum:	Mining and processing molybdenum ore, production and sales of molybdenum concentrates and ferro-molybdenum.
Copper and zinc:	Mining and processing copper-zinc ore, production and sales of copper concentrate and zinc concentrate.
Others:	Production and sales of industrial silicon and magnesiumat, exploration of potential mining sites.

	Period from 16 March 2005 (date of establishment) to 31 December 2005					
	Molybdenum	**Copper and Zinc**	**Others**	**Inter-segment elimination**	**Unallocated**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue and expenses						
Revenue from external customers	356,653	107,242	24,640	—	—	488,535
Inter-segment revenue	—	37,180	25,589	(62,769)	—	—
Other revenue from external customers	—	—	—	—	2,084	2,084
Total	356,653	144,422	50,229	(62,769)	2,084	490,619
Segment results	176,096	34,810	31,717			242,623
Unallocated income and expenses						24,814
Profit from operations						267,437
Share of profit of associate						2,130
Finance costs						(3,140)
Income tax						(93,700)
Profit for the period						172,727
Depreciation and amortisation	4,449	3,963	599			

	As at 31 December 2005			
	Molybdenum	**Copper and Zinc**	**Others**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Assets and liabilities				
Segment assets	364,581	138,283	31,298	534,162
Unallocated assets				177,213
Total assets				711,375
Segment liabilities	198,355	34,490	8,584	241,429
Unallocated liabilities				25,310
Total liabilities				266,739
Capital expenditure	7,311	14,495	11,840	

	Year ended 31 December 2006					
	Molybdenum	Copper and Zinc	Others	Inter-segment elimination	Unallocated	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue and expenses						
Revenue from external customers	502,866	250,704	47,948	—	—	801,518
Inter-segment revenue	—	127,285	11,482	(138,767)	—	—
Other revenue from external customers	—	—	—	—	16,045	16,045
Total	502,866	377,989	59,430	(138,767)	16,045	817,563
Segment results	345,051	155,060	27,101	—	—	527,212
Unallocated income and expenses						(12,147)
Profit from operations						515,065
Share of profit of associate						104
Finance costs						(15,569)
Income tax						(168,135)
Profit for the year						331,465
Depreciation and amortisation	6,044	5,788	1,403			

	As at 31 December 2006			
	Molybdenum	Copper and Zinc	Others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Assets and liabilities				
Segment assets	579,051	158,659	155,776	893,486
Unallocated assets				224,445
Total assets				1,117,931
Segment liabilities	401,720	75,378	60,455	537,553
Unallocated liabilities				99,206
Total liabilities				636,759
Capital expenditure	113,985	10,389	40,975	

(b) Geographical segments

The Group's business participates in three principal geographical locations. The PRC is the major market for all of the Group's businesses. In the United States and Europe, the only business is the sale of ferro-molybdenum.

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets and capital expenditure are based on the geographical location of the assets.

	Period from 16 March 2005 (date of establishment) to 31 December 2005			Year ended 31 December 2006		
	The PRC	The United States	Europe	The PRC	The United States	Europe
Revenue from external customers	255,673	94,891	137,971	387,940	139,058	274,520
Segment assets	711,375	—	—	1,117,931	—	—
Capital expenditure incurred during the period/year	72,519	—	—	168,434	—	—

39 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

The methods, estimates and judgements the Directors use in applying the Group's accounting policies have a significant impact on the Group's financial position and operating results. Some of the accounting policies require the Group to apply estimates and judgements, on matters that are inherently uncertain. Certain critical accounting judgements in applying the Group's accounting policies are described below.

(a) Depreciation

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives, after taking into account the estimated residual value. The Group reviews annually the useful life of an asset and its residual value, if any. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

(b) Impairments

In identifying whether indications of impairment losses exist for property, plant and equipment, lease prepayments and construction in progress, the Directors are of the opinion that the privately-owned mining rights can be obtained. It is possible that the relevant government authorities may decline the Group's application for the transfer of mining rights from stated-owned to privately-owned, which would affect the conclusion of the above judgement, in which case impairment losses for such assets may be required.

In considering the impairment losses that may be required for certain of the Group's assets which include property, plant and equipment, lease prepayments, intangible assets, construction in progress and investments in its subsidiaries and associates, recoverable amount of the asset needs to be determined. The recoverable amount is the greater of the net selling price and the value in use. It is difficult to precisely estimate selling prices because quoted market prices for these assets may not be readily available. In determining the value in use, expected cash flows generated by the assets are discounted to their present value, which requires significant judgement relating to items such as level of sale volume, selling price and amount of operating costs. The Group uses all readily available information in determining an amount that is reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of items such as sale volume, selling price and amount of operating costs.

Impairment losses for bad and doubtful debts are assessed and provided based on the Group's regular review of ageing analysis and evaluation of collectibility. A considerable level of judgement is exercised by the management when assessing the credit worthiness and past collection history of each individual customer. Any increase or decrease in the impairment losses for bad and doubtful debts would affect the income statement in future years.

(c) Inventories

Inventories are stated at the lower of cost and net realisable value at balance sheet date. Net realisable value is determined on the basis of the estimated selling price less the estimated costs necessary to make the sale. The Group estimates the net realisable value for finished goods and work-in-process based primarily on the latest invoice prices and current market conditions.

(d) Recognition of deferred tax assets

Deferred tax assets in respect of tax losses carried forward are recognised and measured based on the expected manner of realisation or settlement of the carrying amount of the assets, using tax rates enacted or substantively enacted at the balance sheet date. In determining the carrying amounts of deferred tax assets, expected taxable profits are estimated which involves a number of assumptions relating to the operating environment of the Group and requires significant level of judgement exercised by the Directors. Any change in such assumptions and judgment would affect the carrying amounts of deferred tax assets to be recognised and hence the net profit in future years.

(e) Reserve estimates

As explained in policy notes 1(g), 1(i) and 1(k), mining shafts, mining rights and exploration and evaluation assets are amortised using a units of production method based on the proven and probable mineral reserve.

The reserves data set forth in the Financial Information represent estimates. Such estimates are judgements based on knowledge, experience and industry practice. Estimates which were valid when originally made may need to be updated when new information or techniques become available. By nature, reserves estimates depend to some extent on interpretations and deductions which may prove to be inaccurate. As further information becomes available, the estimates are likely to change. This may result in alternations to the Group's operations and development plans which may, in turn, adversely affect the Group's operations and performance.

The reserves estimates were reported in accordance with the Chinese system, which is the national standard set by the PRC Government.

40 FINANCIAL INFORMATION UNDER THE PRC GAAP

(a) Reconciliation of total equity at 16 March 2005 (date of transition to HKFRS) and 31 December 2005:

	As at 16 March 2005	**As at 31 December 2005**
	RMB'000	*RMB'000*
Total equity under PRC GAAP	240,788	442,780
Depreciation in respect of mining shaft *(Note i)*	—	1,856
Total equity under HKFRSs	240,788	444,636

Note:

(i) This represented the impact after adoption of HKAS 16 to calculate the depreciation under the units of production.

(b) Reconciliation of profit for the period from 16 March 2005 (date of establishment) to 31 December 2005:

	RMB'000
Profit for the period under PRC GAAP	137,300
Recognition of government grants *(Note i)*	2,084
Depreciation in respect of mining shaft *(Note ii)*	1,856
Negative goodwill *(Note iii)*	31,487
Profit for the period under HKFRSs	172,727

Note:

(i) Government grants received are credited to an equity reserve under PRC GAAP. Under HKAS 20, such government grants are recognised in profit or loss in accordance with note 1(x).

(ii) This represented the impact after adoption of HKAS 16 to calculate the depreciation under the units of production.

(iii) Negative goodwill are credited to reserve under PRC GAAP. Under HKFRS 3, negative goodwill is recognised immediately in profit or loss in accordance with note 1(e).

41 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE RELEVANT PERIOD

Up to the date of issue of the Financial Information, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the relevant period and which have not been adopted in this Financial Information.

Of these developments, the following relate to matters that may be relevant to the Group's operations and financial statements:

	Effective for accounting periods beginning on or after
HKFRS 7, Financial instruments: disclosures	1 January 2007
Amendments to HKAS 1, Presentation of financial statements: capital disclosures	1 January 2007

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

II SUBSEQUENT EVENTS

(a) Pursuant to the sale and purchase agreement entered into between CMR Group and certain equity owners of the Company on 11 March 2007, certain subsidiaries and associate ("disposal group") will be disposed of before the completion of the Acquisition.

As 31 December 2006, the disposal group comprised assets of RMB34,976,000 less liabilities of RMB23,444,000 and minority interests of RMB4,247,000. During the year ended 31 December 2006, the disposal group contributed sales revenue of RMB49,684,000, profit before tax of RMB10,872,000 and net profit attributable to minority interests of RMB3,392,000.

The list of subsidiaries and associate to be disposed of is as follows:

Harbin Songjiang Mine Machinery Co. Ltd. ("Songjiang Mine Machinery")

Harbin Songjiang Polished Rice Co. Ltd. ("Songjiang Polished Rice")

Harbin Songjiang Hotel Co. Ltd. ("Songjiang Hotel")

Acheng Xiaoling Ferro-Alloy Co. Ltd. ("Xiaoling Ferro-Alloy")

Alukeerqinqi Manitu Silver & Tin Mining Co. Ltd. ("Manitu Silver & Tin")

Balinyouqi Nuoergai Copper Mining Co. Ltd. ("Nuoergai Copper")

On 19 March 2007, the Company has entered into agreements to dispose of Songjiang Polished Rice, Manitu Silver & Tin and Nuoergai Copper to Jinshangjing at an aggregate consideration of RMB1,245,000 and Songjiang Mine Machinery and Xiaoling Ferro-Alloy to certain equity owners at an aggregate consideration of RMB2,039,000. Songjiang Hotel is in the process of being de-registered with the relevant local government authority.

(b) On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the People's Republic of China ("new tax law") which will take effect on 1 January 2008. As a result of the new tax law, it is expected that the income tax applicable to the Company and its subsidiaries will be reduced from 33% to 25% from 1 January 2008. If the new rates were used to measure the Company's deferred tax assets as at 31 December 2006, the balance would decrease by RMB2,729,000. If the new rates were used to measure the Group's deferred tax assets and deferred tax liabilities as at 31 December 2006, these balances would decrease by RMB6,919,000 and RMB964,000 respectively. These changes, together with the amounts utilized, will be reflected in the 2007 financial statements. The enactment of the new tax law is not expected to have any financial effect on the amounts accrued in the balance sheet in respect of current tax payable.

III SUBSEQUENT FINANCIAL STATEMENTS

No financial statements of the Group have been audited in respect of any period subsequent to 31 December 2006.

Yours faithfully,
KPMG
Certified Public Accountants
Hong Kong

For illustrative purpose only, set out below is the unaudited pro forma financial information of China Mining Resources Group Limited (the "Group") after completion of the Acquisition of Harbin Songjiang Group. The unaudited pro forma financial information is prepared in accordance with Paragraph 4.29(1) and Paragraph 14.69(4)(a)(ii) of the Listing Rules to illustrate the effect of the Acquisition on the Group's financial information.

(A) UNAUDITED PRO FORMA FINANCIAL INFORMATION

Introduction to the unaudited pro forma financial information

The accompanying unaudited pro forma financial information of the Enlarged Group, including the unaudited pro forma combined income statement and unaudited pro forma combined cash flow statement for the year ended 31 December 2006, which gives effect to the Acquisition as if the Acquisition had been completed on 1 January 2006, and the unaudited pro forma combined balance sheet prepared based on the consolidated balance sheets of the Group and Harbin Songjiang Group as at 31 December 2006, which gives effect to the Acquisition as if the Acquisition had been completed on 31 December 2006 (the "Unaudited Pro Forma Financial Information").

The unaudited pro forma combined income statement and unaudited pro forma combined cash flow statement of the Enlarged Group are prepared based upon the audited consolidated income statement and audited consolidated cash flow statement of the Group for the year ended 31 December 2006 as set out in Appendix I to this circular and the audited consolidated income statement and audited consolidated cash flow statement of Harbin Songjiang Group for the year ended 31 December 2006 as set out in Appendix II to this circular after having incorporated the unaudited pro forma adjustments described in the accompanying notes. The unaudited pro forma combined balance sheet of the Enlarged Group is prepared based upon the audited consolidated balance sheet of the Group as at 31 December 2006 as set out in Appendix I to this circular and the audited consolidated balance sheet of Harbin Songjiang Group as at 31 December 2006 as set out in Appendix II to this circular after having incorporated the unaudited pro forma adjustments described in the accompanying notes. A narrative description of the unaudited pro forma adjustments of the Acquisition that are (i) directly attributable to the transactions concerned and not relating to future events or decisions; (ii) expected to have a continuing impact on the Enlarged Group; and (iii) factually supportable, is summarised in the accompanying notes.

The Unaudited Pro Forma Financial Information of the Enlarged Group is based on a number of assumptions, estimates, uncertainties and currently available information. As a result of these assumptions, estimates and uncertainties, the accompanying Unaudited Pro Forma Financial Information of the Enlarged Group does not purport to describe the actual financial position of the Enlarged Group that would have been attained had the Acquisition been completed on 31 December 2006, or the results and cash flows of the Enlarged Group that would have been attained had the Acquisition been completed on 1 January 2006. Further, the accompanying Unaudited Pro Forma Financial Information of the Enlarged Group does not purport to predict the Enlarged Group's future financial position, results or cash flows.

The Unaudited Pro Forma Financial Information of the Enlarged Group should be read in conjunction with the financial information of the Group as set out in Appendix I to this circular, the financial information of the Harbin Songjiang Group as set out in Appendix II to this circular and other financial information included elsewhere in this circular.

1 Unaudited pro forma combined income statement for the year ended 31 December 2006

	(Audited) The Group	*(Audited)* Harbin Songjiang Group	Pro forma adjustments					Pro forma the Enlarged Group
	HK$'000	*HK$'000*	*HK$'000* *(Note 4(b))*	*HK$'000* *(Note 4(c))*	*HK$'000* *(Note 4(d))*	*HK$'000* *(Note 4(e))*	*HK$'000* *(Note 4(f))*	*HK$'000*
Turnover	17,366	785,802			(28,114)			775,054
Cost of sales	(8,060)	(225,551)		(205,811)	14,078			(425,344)
Gross profit	9,306	560,251						349,710
Other revenue	4,250	18,096	100,035		(43)			122,338
Other net income	—	1,252						1,252
Selling expenses	(4,276)	(9,998)			307			(13,967)
Administrative expenses	(21,269)	(64,635)			1,604			(84,300)
Impairment losses of goodwill	(7,400)	—						(7,400)
(Loss)/profit from operations	(19,389)	504,966						367,633
Finance costs	(1,169)	(15,264)						(16,433)
Share of profit of associate	—	102						102
(Loss)/profit before taxation	(20,558)	489,804						351,302
Income tax	366	(164,838)			3,856	67,918		(92,698)
(Loss)/profit for the year from continuing operations	(20,192)	324,966						258,604
Profit for the year from discontinued operations	10,950	—						10,950
(Loss)/profit for the year	(9,242)	324,966						269,554
Attributable to:								
Equity shareholders of the Company	(8,244)	321,783	100,035	(154,523)	(4,987)	50,993	(80,982)	224,075
Minority interests	(998)	3,183	—	(51,288)	(3,325)	16,925	80,982	45,479
(Loss)/profit for the year	(9,242)	324,966						269,554

See accompanying notes to the Unaudited Pro Forma Financial Information of the Enlarged Group.

2 Unaudited pro forma combined balance sheet

	The Group as at 31 Dec 2006	Harbin Songjiang Group as at 31 Dec 2006	Pro forma adjustments				Pro forma the Enlarged Group
	HK$'000	*HK$'000*	*HK$'000* *(Note 4(a))*	*HK$'000* *(Notes 4(b), (g) & (h))*	*HK$'000* *(Note 4(d))*	*HK$'000* *(Note 4(e))*	*HK$'000*
Non-current assets							
Fixed assets							
— Property, plant and equipment	4,432	288,983		13,069			306,484
— Interests in leasehold land held for own use under operating leases	—	37,116		53,378			90,494
Construction in progress	—	49,686					49,686
Goodwill	8,200	—					8,200
Intangible assets	1,694,615	10,919		3,392,633			5,098,167
Interest in associate	—	2,255					2,255
Deferred tax assets	366	28,803			(293)		28,876
	1,707,613	417,762					5,584,162
Current assets							
Trading securities	—	5,991					5,991
Inventories	430	36,098		80,273	(1,607)		115,194
Trade and other receivables	15,049	222,261			(11,970)		225,340
Amount due from associate	—	2,702					2,702
Amount due from related parties	—	82,162					82,162
Amount due from minority shareholders	—	1,267					1,267
Cash and cash equivalents	449,087	359,954	1,879,484	(1,878,843)	(1,077)		808,605
	464,566	710,435					1,241,261
Current liabilities							
Bank loans	—	(121,102)					(121,102)
Other loans	(150,500)	(1,009)					(151,509)
Trade and other payables	(22,517)	(100,590)		(282,066)	3,440		(401,733)
Deferred income	(34,839)	—					(34,839)
Amount due to a related party	—	(35,691)					(35,691)
Current taxation	—	(131,624)			2,520		(129,104)
	(207,856)	(390,016)					(873,978)
Net current assets	256,710	320,419					367,283
Total assets less current liabilities	1,964,323	738,181					5,951,445

	The Group as at 31 Dec 2006	Harbin Songjiang Group as at 31 Dec 2006	Pro forma adjustments				Pro forma the Enlarged Group
	HK$'000	*HK$'000*	*HK$'000* (Note 4(a))	*HK$'000* (Notes 4(b), (g) & (h))	*HK$'000* (Note 4(d))	*HK$'000* (Note 4(e))	*HK$'000*
Non-current liabilities							
Bank loans	—	(201,332)					(201,332)
Other payables	(31,903)	—					(31,903)
Deferred income	—	(47,246)					(47,246)
Deferred tax liabilities	—	(4,013)			430	(1,093,055)	(1,096,638)
	(31,903)	(252,591)					(1,377,119)
NET ASSETS	1,932,420	485,590					4,574,326
Capital and reserves							
Share capital	472,078	242,999		(242,999)			472,078
Reserves	649,494	233,809		(128,640)	(5,134)		749,529
Funds raising for the acquisition	—	—	1,879,484				1,879,484
Total equity attributable to equity shareholders of the Company	1,121,572	476,808					3,101,091
Minority interests	810,848	8,782		929,417	(3,423)	(272,389)	1,473,235
TOTAL EQUITY	1,932,420	485,590					4,574,326

See accompanying notes to the Unaudited Pro Forma Financial Information of the Enlarged Group.

3 Unaudited pro forma condensed combined cash flow statement for the year ended 31 December 2006

	The Group	Harbin Songjiang Group	Pro forma adjustments				Pro forma the Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
			(Note 4(a))	*(Note 4(b))*	*(Note 4(d))*	*(Note 4(h))*	
Net cash (used in)/generated from operating activities	(19,715)	336,780			(177)		316,888
Net cash used in investing activities	(212,711)	(60,385)		(1,824,484)	(68)		(2,097,648)
Net cash generated from financing activities	596,855	7,796	1,879,484			(54,359)	2,429,776
Net increase in cash and cash equivalents	364,429	284,191					649,016
Cash and cash equivalents at 1 January 2006	83,757	65,490			(832)		148,415
Effect of foreign exchange rate changes	901	—					901
Cash and cash equivalents at 31 December 2006	449,087	349,681					798,332

See accompanying notes to the Unaudited Pro Forma Financial Information of the Enlarged Group.

4 Notes to the Unaudited Pro Forma Financial Information of the Enlarged Group

(a) *Funding of the Acquisition*

Pursuant to the sales and purchase agreement dated 11 March 2006 entered into between the Company and the Vendors ("Sales and Purchase Agreement"), the consideration payable by the Company for the proposed acquisition of the 75.08% equity interest in Harbin Songjiang is RMB1,807,881,000 (equivalent to approximately HK$1,824,484,000) and to be satisfied by cash. The Company intends to finance the Acquisition by issuance and placement of new shares and the net cash proceeds from the Proposed Share Issues is estimated to be HK$1,879,484,000, after deducting the estimated issuing cost of HK$68,168,000. The unaudited pro forma adjustment reflects the recognition of additional cash and cash equivalents and capital and reserves of HK$1,879,484,000 from the Proposed Share Issues.

This unaudited pro forma adjustment will not have continuing income statement effect on the Enlarged Group, however the final amount of this adjustment will be determined on the completion date of the Proposed Share Issues which may be different from the amounts presented in this Appendix.

(b) *Excess of consideration of the Acquisition over the net fair value of the acquired net assets*

Upon completion of the Acquisition, identifiable assets and liabilities of the Harbin Songjiang Group will be accounted for in the consolidated financial statements of the Enlarged Group at their fair value under the purchase method of accounting. The identifiable assets and liabilities of the Harbin Songjiang Group are recorded in the unaudited pro forma combined balance sheet of the Enlarged Group at their fair value as if the Acquisition was completed on 31 December 2006. The leasehold land, buildings, mining shafts, intangible assets and inventories increase by approximately HK$53,378,000, HK$12,124,000, HK$945,000, HK$3,165,567,000 and HK$80,273,000 respectively as a result of the fair value adjustments.

The amount of excess of fair value of the acquired net assets of HK$100,035,000 over the cost of Acquisition (including the consideration of the Acquisition and the estimated costs of transaction of HK$55,000,000) is recognised as negative goodwill in the unaudited pro forma combined income statement as if the Acquisition had taken place on 1 January 2006.

The fair value adjustment on leasehold land, buildings and mining shafts is determined by the directors of the Company (the "Directors") based on the valuation performed by Greater China as at 28 February 2007. The Directors are of the opinion that no fair value adjustment is required for other fixed assets as the carrying value of other fixed assets approximates their fair value. The fair value adjustment on intangible assets represents the adjustment on fair value of the mining rights of the Songjiang Copper Mine and the Wudaoling Molybdenum Mine held by Harbin Songjiang Group and is based on the valuation of the enterprise value of Harbin Songjiang Group performed by the Directors, by reference to the current trading multiples of its peer group, after deducting the fair value adjustments and their respective deferred tax liabilities on inventories, leasehold land, buildings and intangible assets and the carrying amounts of net asset value of Harbin Songjiang Group as at 31 December 2006. No fair value adjustment was made to other intangible assets held by Harbin Songjiang Group as at 31 December 2006 as the Directors are of the opinion that the carrying value of other intangible assets approximates their fair value. The fair value adjustment on inventories is determined by the Directors with reference to the prevailing market price in December 2006 in both PRC and international markets.

These unaudited pro forma financial information adjustments will not have continuing income statement effect on the Enlarged Group, however the final amounts of these adjustments will be determined on the completion date of the Acquisition and the fair value adjustments as determined by the management of the Company which may be different from the amounts presented in this Appendix.

The above unaudited pro forma adjustments reflect the increase in the net assets of HK$1,378,444,000 of which HK$929,417,000 is attributable to the minority interests.

(c) *Cost of inventories, depreciation and amortisation*

As a result of the fair value adjustments mentioned in note 4(b) above, additional cost of inventories, annual depreciation on fixed assets and annual amortisation on intangible assets calculated in accordance with the Group's accounting policies and over each individual item's remaining estimated useful lives or using the unit of production method based on the proven and probable mineral reserves, will be approximately HK$80,273,000, HK$1,617,000 and HK$123,921,000 respectively. The unaudited pro forma adjustments reflect the additional cost of sales, depreciation and amortisation as if the Acquisition had taken place on 1 January 2006. This unaudited pro forma adjustment will have continuing income statement but no cash flow effect on the Enlarged Group, and the final amount of these adjustments will be determined on the completion date of the Acquisition and the fair value adjustments as determined by the management of the Company which may be different from the amounts presented in this Appendix.

The above unaudited pro forma adjustments reflect the decrease in the net profit for the year of HK$205,811,000, of which HK$51,288,000 is attributable to the minority interests.

(d) *Disposal of subsidiaries by Harbin Songjiang before Completion*

Pursuant to the conditions precedent to the Sales and Purchase Agreement, Alukeerqinqi Manitu Silver & Tin Mining Co. Ltd. and Balinyouqi Nuoergai Copper Mining Co. Ltd. ("disposal companies"), subsidiaries of Harbin Songjiang, will be disposed of before Completion.

The assets and liabilities of the disposal companies as at 31 December 2006 are deducted from the unaudited pro forma combined balance sheet as if the Acquisition was completed on 31 December 2006. The results of the disposal companies for the year ended 31 December 2006 are deducted from the unaudited pro forma combined income statement as if the Acquisition had taken place on 1 January 2006. The estimated proceeds for the disposal of disposal companies are HK$1,009,000.

These unaudited pro forma adjustments will not have continuing income statement effect on the Enlarged Group, however the final amounts of these adjustments will be determined on the completion date of the Acquisition which may be different from the amounts presented in this Appendix.

The above unaudited pro forma adjustment reflects the reduction in the profit for the year of HK$8,312,000, of which HK$3,325,000 is attributable to the minority interests; and the decrease in the net assets of HK$8,557,000, of which HK$3,423,000 is attributable to the minority interests.

Other than the aforesaid disposal companies, Harbin Songjiang has also undertaken to dispose of Harbin Songjiang Mine Machinery Co. Ltd., Harbin Songjiang Polished Rice Co. Ltd., Harbin Songjiang Hotel Co. Ltd. and Acheng Xiaoling Ferro-Alloy Co. Ltd. before Completion and the financial effect of these companies have not been taken into account in the pro forma financial information as they are not the conditions precedent to the Sales and Purchase Agreement. In the opinion of the Directors, the financial effect of the disposal of these companies to the Enlarged Group's pro forma combined profit and loss accounts, combined balance sheet, and combined cash flow statement would not be significant.

(e) *Deferred taxation*

As mentioned in note 4(b) above, upon completion of the Acquisition, the identifiable assets and liabilities of the Harbin Songjiang Group will be accounted for in the consolidated financial statements of the Enlarged Group at their fair values. According to the relevant PRC tax rules and regulations, the original carrying amounts of the fixed assets, intangible assets and inventories of the Harbin Songjiang Group will continue to serve as the tax base for future years. Accordingly, the unaudited pro forma adjustment reflects the increase in deferred tax liabilities of HK$1,093,055,000 as a result of the fair value adjustments on the fixed assets, intangible assets and inventories of the Harbin Songjiang Group as if the Acquisition was completed on 31 December 2006, of which HK$272,389,000 is attributable to the minority interests. The tax rate applicable for the calculation of the deferred tax liabilities is 33%.

On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the People's Republic of China ("new tax law") which will take effect on 1 January 2008. As a result of the new tax law, it is expected that the income tax applicable to the Harbin Songjiang Group will be reduced from 33% to 25% from 1 January 2008. If the new rates were used to measure the deferred tax liabilities relating to the fair value adjustments, the balance would decrease by HK$264,983,000.

The related deferred taxation effect of HK$67,918,000 on the additional cost of inventories, depreciation and amortisation as mentioned in note 4(c) respectively is adjustment in the unaudited pro forma income statement as if the Acquisition had taken place on 1 January 2006. This unaudited pro forma adjustment will have continuing income statement but no cash flow effect on the Enlarge Group, and the final amount of this adjustment will be determined on the completion date of the Acquisition which may different from the amount presented in this Appendix.

The above unaudited pro forma adjustment reflects the decrease in the net assets of HK$1,093,055,000, of which HK$272,389,000 is attributable to the minority interests; and the increase in the net profit for the year of HK$67,918,000, of which HK$16,925,000 is attributable to the minority interests.

(f) *Minority interests*

Upon completion of the Acquisition, 24.92% of equity interest of Harbin Songjiang Group is held by the minority shareholder of the Enlarged Group. The unaudited pro forma adjustment reflects the recognition of net profit for the year attributable to minority interests as if the Acquisition had taken place on 1 January 2006. This unaudited pro forma adjustment will not have continuing income statement and cash flow effect on the Enlarged Group.

(g) *Transfer of mining licences held by Harbin Songjiang Group before Completion*

Pursuant to the Sale and Purchase Agreement, all the certificates and licences necessary for the business operations of Harbin Songjiang Group will be obtained and properly, legally and validly transferred and registered under the relevant members of Harbin Songjiang Group. The estimated consideration for the transfer of certain mining licences of Songjiang Copper Mine, Wudaoling Molybdenum Mine and Xiao Ling Iron Zinc Mine from state-owned to privately-owned is approximately RMB225,000,000 (equivalent to approximately HK$227,066,000). The unaudited pro forma adjustment reflects the accruals for the consideration payable to the relevant PRC government authorities as if the Acquisition was completed on 31 December 2006 and the transfer of such mining licences had been completed on 31 December 2006. The final amount of this adjustment will be determined on the completion date of the Acquisition which may different from the amount presented in this Appendix.

(h) *Payment of dividend to equity shareholders*

Final dividend of RMB53,864,000 (equivalent to approximately HK$54,359,000) is declared by Harbin Songjiang for the year ended 31 December 2006. The unaudited pro forma adjustment reflects the payment of such dividend as if the Acquisition had taken place on 1 January 2006 and the dividend declared was settled during the year ended 31 December 2006.

(i) *Basis of translation*

Translation of RMB into HK$ is made in the Unaudited Pro Forma Financial Information of the Enlarged Group at the average rate of HK$1 = RMB1.02 for the preparation of unaudited pro forma combined income statement and combined cash flow statement and the closing rate of HK$1 = RMB0.9909 for the preparation of unaudited pro forma combined balance sheet.

(B) COMFORT LETTER ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The following is the text of a report, prepared from the sole purpose of inclusion in this circular, received from the independent reporting accountants, KPMG, Certified Public Accountants, Hong Kong. As described in the section headed "Documents available for inspection" in Appendix III, a copy of the following report is available for inspection.

KPMG

8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

23 May 2007

The Directors
China Mining Resources Group Limited
Hong Kong

Dear Sirs,

We report on the unaudited pro forma financial information (the "Unaudited Pro Forma Financial Information") of the Enlarged Group set out in Section A of Appendix III to the circular of China Mining Resources Group Limited (the "Company", together with its subsidiaries are referred to as the "Listed Group") dated 23 May 2007 which has been prepared by the directors of the Company solely for illustrative purposes to provide information about how the proposed acquisition of the 75.08% equity interest in Harbin Songjiang Copper (Group) Company Limited and its subsidiaries (the "Target Company"), might have affected the audited consolidated income statement and audited consolidated cash flow statement of the Listed Group for the year ended 31 December 2006 and the audited consolidated balance sheet of the Listed Group as at 31 December 2006. The basis of preparation of the Unaudited Pro Forma Financial Information is set out in the section headed "Introduction to the unaudited pro forma financial information" and notes to the Unaudited Pro Forma Financial Information of the Enlarged Group of Section A of this Appendix.

Responsibilities

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with Paragraph 4.29 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

It is our responsibility to form an opinion, as required by Paragraph 4.29 of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Report on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company.

Our work did not constitute an audit or review made in accordance with Hong Kong Standards on Auditing or Hong Kong Standards on Review Engagements issued by the HKICPA, and accordingly, we do not express any such audit or review assurance on the Unaudited Pro Forma Financial Information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Listed Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and because of its hypothetical nature, it does not provide any assurance or indication that any event will take place in the future and may not be indicative of:

- the results and cash flows of the Enlarged Group for the year ended 31 December 2006 or any future periods; or
- the financial position of the Enlarged Group as at 31 December 2006 or any future date.

Opinion

In our opinion:

(a) the accompanying Unaudited Pro Forma Financial Information has been properly complied by the directors of the Company on the basis stated;

(b) such basis is consistent with the accounting policies of the Listed Group; and

(c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to Paragraph 4.29(1) of the Listing Rules.

Yours faithfully,
KPMG
Certified Public Accountants
Hong Kong

MANAGEMENT'S DISCUSSION AND ANALYSIS:

Review of financial performance of Harbin Songjiang Group

You should read the following discussion and analysis of Harbin Songjiang Group's financial condition and results of operations in conjunction with Harbin Songjiang Group's consolidated financial statements and the related notes included in Appendix II to this circular.

Harbin Songjiang was established on 16 March 2005 as a privately-owned limited liability company in the PRC pursuant to the PRC Company Law. The predecessor of Harbin Songjiang was a state-owned enterprise and was restructured as a limited liability enterprise on 16 March 2005. You should read the following discussion and analysis of the financial performance of Harbin Songjiang Group with caution noting the number of months for the two periods (i.e. from 16 March 2005 to 31 December 2005 and for the year ended 31 December 2006) are not the same and therefore may not be directly comparable.

FINANCIAL OPERATIONS OVERVIEW

Turnover

The table below sets forth a breakdown of the turnover of Harbin Songjiang Group for the period indicated.

	Period from 16 March 2005 to 31 December 2005		Year ended 31 December 2006	
	RMB'000	*%*	*RMB'000*	*%*
Sales of				
— Molybdenum	363,471	74.4	509,150	63.6
— Copper	92,188	18.9	203,034	25.3
— Zinc	17,105	3.5	50,803	6.3
— Silicon	8,071	1.6	17,710	2.2
— Others	17,040	3.5	30,837	3.8
	497,875	101.9	811,534	101.2
Less: Sales tax and levies	(9,340)	(1.9)	(10,016)	(1.2)
Total:	488,535	100.0	801,518	100.0

Harbin Songjiang Group's turnover is mainly derived from the mining, processing and sale of metals which principally comprise molybdenum, copper, zinc and silicon. The customers of Harbin Songjiang Group are located in Europe, the United States and the PRC. The principal business of Harbin Songjiang Group in the United States and Europe is the sale of ferro-molybdenum. Other sales primarily comprised of sales of gold and silver included in and sold together with copper concentrate.

The following table sets forth a breakdown of turnover by geographical regions for the period indicated.

	Period from 16 March 2005 to 31 December 2005		Year ended 31 December 2006	
	RMB'000	*%*	*RMB'000*	*%*
The PRC	255,673	52.4	387,940	48.4
The United States	94,891	19.4	139,058	17.3
Europe	137,971	28.2	274,520	34.3
Total:	488,535	100.0	801,518	100.0

Costs of sales

Harbin Songjiang Group's costs of sales consists primarily of direct materials, direct labour, export levies and cost of inventories recognised as expense. The following table sets forth a breakdown of the costs of sales incurred for the period indicated.

	Period from 16 March 2005 to 31 December 2005		Year ended 31 December 2006	
	RMB'000	*%*	*RMB'000*	*%*
Direct materials	19,750	9.1	33,725	14.7
Direct labour	36,921	17.0	45,155	19.6
Electricity	22,965	10.6	30,431	13.2
Depreciation	6,793	3.1	10,228	4.4
Processing and smelting expenses	8,877	4.1	10,991	4.8
Resource compensation fee	8,508	3.9	9,883	4.3
Export levies	44,023	20.2	42,929	18.7
Movement in inventories	61,432	28.2	34,600	15.0
Others	8,296	3.8	12,120	5.3
Total:	217,565	100.0	230,062	100.0

Gross Profit

Gross profit represents turnover less cost of sales. Gross profit margin is computed by dividing gross profit by turnover. The gross profit and gross margin by products for the period indicated is set out below:

	Period from 16 March 2005 to 31 December 2005		Year ended 31 December 2006	
	RMB'000	*%*	*RMB'000*	*%*
Molybdenum	205,386	56.5	371,252	72.9
Copper	53,403	57.9	151,414	74.6
Zinc	5,266	30.8	32,013	63
Silicon	382	4.7	(2,038)	(11.5)
Others	15,873	93.2	28,831	93.5
	280,310		581,472	
Less: Sales tax and levies	(9,340)		(10,016)	
Total:	270,970	55.5	571,456	71.3

Other revenue

Harbin Songjiang Group's other revenue primarily represents interest income and government grants. Certain government grants have been received by Harbin Songjiang Group in respect of its property, plant and equipment and interest in leasehold land held for own use under operating leases. Such government grants are recognised in the balance sheet of Harbin Songjiang Group initially and in its income statement as other revenue on a systematic basis over the useful life of the assets. Several one-off government grants have also been received by Harbin Songjiang Group for its contribution to the local economy and they have been recognised as other revenue in the period or year of receipts. Meanwhile, the principal sum of a loan provided by Provincial Governor's Fund of Harbin Finance Bureau to Harbin Songjiang Group and interest payable thereof were waived by the lender and such waived sum has been recognised as other revenue in its income statement.

Other net income

Harbin Songjiang Group's other net income primarily represents net exchange loss, profit on sales of scrap materials, negative goodwill, net loss on disposal of property, plant and equipment and net realised and unrealised gain on trading securities. A sum of RMB31,487,000 being negative goodwill was included as other net income for the period from 16 March 2005 to 31 December 2005 under acquisition accounting as a result of the bargain purchase made by the shareholders of Harbin Songjiang with the then state-owned shareholders of Harbin Songjiang upon the conversion of Harbin Songjiang from a state-owned enterprise into a privately-owned limited liability company on 16 March 2005.

Selling expenses

Harbin Songjiang's selling expenses primarily comprise delivery expenses, commission paid to sales agent, salaries and welfare, export inspection expenses and entertainment and traveling expenses.

Administrative expenses

Harbin Songjiang's administrative expenses primarily comprise salaries, welfare and bonus, depreciation and amortization, social security insurance and general expenses for business development team.

Finance costs

Harbin Songjiang's finance costs primarily comprise interest on bank borrowings.

Share of profit of associate

Share of profit of associate is the share of results of an associate, Harbin Songjiang Mine Machinery Company Limited, which Harbin Songjiang owns 35.15% of its equity interests.

Profit before taxation

Profit before taxation is arrived at after charging finance costs, staff costs and other expenses from "profit from operations".

Income tax

Pursuant to the income tax rules and regulations of the PRC, Harbin Songjiang and its subsidiaries incorporated in the PRC are subject to the PRC income tax at a rate of 33% during the relevant periods.

Profit for the period/year

Harbin Songjiang's net profit is equal to profit from operations less finance costs and income tax plus share of profit of associate. Net profit margin is computed by dividing net profit by turnover.

RESULTS OF OPERATIONS

Turnover

Turnover of Harbin Songjiang Group was RMB488,535,000 for the period from 16 March 2005 to 31 December 2005 and RMB801,518,000 for the year ended 31 December 2006. The increase in 2006 was mainly attributable to the increase in sales volume of ferro molybdenum (from approximately 1,100 tons for the period from 16 March 2005 to 31 December 2005 to approximately 1,900 tons for the year ended 31 December 2006), copper (from approximately 3,800 tons for the period from 16 March 2005 to 31 December 2005 to approximately 4,800 tons for the year ended 31 December 2006) and zinc (from approximately 2,900 tons for the period from 16 March 2005 to 31 December 2005 to approximately 4,800 tons for the year ended 31 December 2006) and the increase in average sales price of copper and zinc, partially offset by the decrease in average sale price of ferro molybdenum. The sales volume of ferro molybdenum, copper and zinc increased because of the increase in demand for such metals. The average selling price of copper and zinc was RMB24,181 per ton and RMB5,815 per ton respectively for the period from 16 March 2005 to 31 December 2005 and RMB42,071 per ton and RMB10,633 per ton respectively for the year ended 31 December 2006. The average selling price of ferro molybdenum was RMB323,169 per ton for the period from 16 March 2005 to 31 December 2005 and RMB265,182 per ton for the year ended 31 December 2006.

Cost of sales

Harbin Songjiang Group's cost of sales was RMB217,565,000 for the period from 16 March 2005 to 31 December 2005 and RMB230,062,000 for the year ended 31 December 2006.

Gross profit

Harbin Songjiang Group's gross profit was RMB270,970,000 for the period from 16 March 2005 to 31 December 2005 and RMB571,456,000 for the year ended 31 December 2006. The gross profit margin increased from 55.5% for the period from 16 March 2005 to 31 December 2005 to 71.3% for the year ended 31 December 2006, primarily due to (i) the increase in average selling price of copper and zinc; and (ii) the recognition of a significant amount in the costs of inventories as an acquisition of inventories at market value as at 16 March 2005 as a result of the conversion of Harbin Songjiang Group from a state-owned enterprise into a privately-owned limited liability company on 16 March 2005 and the inventories were subsequently sold during 2005. This resulted in a significant decrease in the amount in the costs of inventories for the year ended 31 December 2006.

Other revenue

Harbin Songjiang Group's other revenue was RMB5,097,000 for the period from 16 March 2005 to 31 December 2005 and RMB18,458,000 for the year ended 31 December 2006. Other revenue for the period from 16 March 2005 to 31 December 2005 mainly represent the government grants amounted to RMB2,084,000, the other revenue for the year ended 31 December 2006 mainly consisted of government grants amounted to RMB3,089,000 and a wavier of loan amounted to RMB12,956,000. Harbin Songjiang Group has received several one-off government grants in the aggregate of RMB2,084,000 and RMB3,050,000 for the period from 16 March 2005 to 31 December 2005 and the year ended 31 December 2006 respectively. Such one-off government grants were received for Harbin Songjiang Group's contribution to the local economy and have been recognized as other revenue in the period or year of receipts. Another government grant of RMB5,828,000 from local government authorities was received by Harbin Songjiang Group during the year ended 31 December 2006 for the acquisition of leasehold land under operating leases for the smelting plants development project in Harbin, the PRC. Such government grant is recognised in the income statement over the period of the lease term of 50 years. An amount of RMB39,000 has been recognized as other revenue for the year ended 31 December 2006. Furthermore, the Provincial Governor's Fund of Harbin Finance Bureau provided a loan with a principal of RMB16,000,000 and fixed interest rate of 2% per annum to Harbin Songjiang Group in October 1998. A repayment agreement was signed by Harbin Songjiang Group with Harbin Finance Bureau on 25 August 2006, whereby Harbin Songjiang Group was required to settle a final amount of RMB5,600,000 and the said settlement sum was paid in August 2006. The remaining principal and interest payable in the total sum of RMB12,956,000 were waived by Harbin Finance Bureau and such amount has been recognized as other revenue for the year ended 31 December 2006.

Other net income

Harbin Songjiang Group's other net income was RMB31,332,000 for the period from 16 March 2005 to 31 December 2005 and RMB1,277,000 for the year ended 31 December 2006. A one-off negative goodwill of RMB31,487,000 was recognized for the period from 16 March 2005 to 31 December 2005 under the acquisition accounting as a result of the bargain purchase made by the shareholders of Harbin Songjiang with the then state-owned shareholders of Harbin Songjiang upon the conversion of Harbin Songjiang from a state-owned enterprise into a privately-owned limited liability company on 16 March 2005.

Selling expenses

Harbin Songjiang Group's selling expenses amounted to RMB5,705,000 for the period from 16 March 2005 to 31 December 2005 and RMB10,198,000 for the year ended 31 December 2006. The increase in 2006 was consistent with the increase in turnover.

Administrative expenses

Harbin Songjiang Group's administrative expenses amounted to RMB34,257,000 for the period from 16 March 2005 to 31 December 2005 and RMB65,928,000 for the year ended 31 December 2006. The administrative expenses as a percentage of turnover was 7% and 8.2% respectively, for the period from 16 March 2005 to 31 December 2005 and for the year ended 31 December 2006. This increase was principally due to (i) an increase in salaries, welfare and bonus from RMB14,686,000 for the period from 16 March 2005 to 31 December 2005 to RMB19,470,000 for the year ended 31 December 2006; (ii) an increase in social security insurance from RMB4,236,000 for the period from 16 March 2005 to 31 December 2005 to RMB7,012,000 for the year ended 31 December 2006; (iii) an increase in depreciation from RMB2,750,000 for the period from 16 March 2005 to 31 December 2005 to RMB4,710,000 for the year ended 31 December 2006; and (iv) a recognition of general expenses for business development team of RMB3,463,000 and compensation of guarantee of RMB5,105,000 both for the year ended 31 December 2006.

Profit from operations

Harbin Songjiang Group's profit from operations was RMB267,437,000 for the period from 16 March 2005 to 31 December 2005 and RMB515,065,000 for the year ended 31 December 2006 for the reasons stated above.

Finance costs

Harbin Songjiang Group's finance costs were RMB3,140,000 for the period from 16 March 2005 to 31 December 2005 and RMB15,569,000 for the year ended 31 December 2006. Harbin Songjiang Group's finance costs in 2006 were relatively high primarily due to the increase in the average outstanding balance of bank borrowing.

Share of profit of associate

Harbin Songjiang Group's share of profit of associate was RMB2,130,000 for the period from 16 March 2005 to 31 December 2005 and RMB104,000 for the year ended 31 December 2006. The decrease was primarily due to the drop in profit of the associate in 2006.

Profit before taxation

Harbin Songjiang Group's profit before tax was RMB266,427,000 for the period from 16 March 2005 to 31 December 2005 and RMB499,600,000 for the year ended 31 December 2006 for the reasons stated above.

Income tax

Harbin Songjiang Group's income tax increased from RMB93,700,000 for the period from 16 March 2005 to 31 December 2005 to RMB168,135,000 for the year ended 31 December 2006. The increase was primarily due to an increase in profit before taxation.

Profit for the period/year

Harbin Songjiang Group's profit for the period was RMB172,727,000 for the period from 16 March 2005 to 31 December 2005 and RMB331,465,000 for the year ended 31 December 2006.

Dividend

Dividends of RMB240,788,000 attributable to the period from 16 March 2005 to 31 December 2005 was proposed and paid in 2006. Dividends of RMB53,864,000 attributable to the year ended 31 December 2006 was proposed and paid in 2007.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

For the year ended 31 December 2006, Harbin Songjiang Group had acquired the entire equity interest in Inner Mongolia Zhongrun Magnesium Co. Ltd. from two independent third parties and the entire equity interest in Balinyouqi and Alukeerqinqi Manitu Silver & Tin Mining Co. Ltd. from Chifeng Jinjian, the equity owner of Harbin Songjiang and the minority shareholder of Harbin Songjiang Group, and other independent third parties.

The aggregate consideration in respect of such acquisitions was RMB8,000,000, which was satisfied in cash. The aggregate amounts recognised at the acquisition date of their assets and liabilities are RMB22,871,000 and RMB14,871,000 respectively. The acquired companies contributed an aggregate revenue of RMB24,056,000 and aggregate net profit of RMB3,018,000 since the above-mentioned acquisitions.

LIQUIDITY AND CAPITAL RESOURCES

Harbin Songjiang Group's gearing ratio, as a ratio of total borrowings to shareholders' fund, was 15.6% as at 31 December 2005 and 66.6% as at 31 December 2006. Harbin Songjiang Group is exposed to foreign currency risks through certain sales that are dominated in United States dollars ("USD"). Harbin Songjiang Group ensure that the net exposure is kept to an acceptable level by selling USD at spot rates where necessary.

Cash Flow

During the period from 16 March 2005 to 31 December 2006, Harbin Songjiang Group primarily financed its operations and development with cash generated from its operations and bank borrowings.

The following table sets forth Harbin Songjiang Group's cash flows with respect to operating activities, investing activities and financing activities during the period indicated:

	For the period from 16 March 2005 to 31 December 2005 *RMB'000*	For the year ended 31 December 2006 *RMB'000*
Net cash inflow from operating activities	82,513	378,112
Net cash outflow from investing activities	(98,852)	(61,591)
Net cash inflow/(outflow) from financing activities	27,132	(26,643)

Cash Flows from Operating Activities

For the year ended 31 December 2006, Harbin Songjiang Group's net cash generated from operating activities was RMB378,112,000, consisting primarily of profit before taxation of RMB499,600,000, a decrease in inventories of RMB33,176,000, depreciation of RMB14,544,000 and finance costs of RMB15,569,000, partially offset by income tax paid of RMB135,673,000 and increase in trade and other receivables of RMB30,673,000 and government grants/waiver of loan of RMB16,045,000.

For the period from 16 March 2005 to 31 December 2005, Harbin Songjiang Group's net cash generated from operating activities was RMB82,513,000, consisting primarily of profit before taxation of RMB266,427,000 and a decrease in inventories of RMB62,727,000, partially offset by negative goodwill of RMB31,487,000, increase in trade and other receivables of RMB72,136,000, decrease in trade and other payables of RMB39,624,000 and income tax paid of RMB79,309,000. The decrease in inventories of RMB62,727,000 was primarily due to the recognition of significant amount in the cost of inventories as an acquisition of inventories at market value on 16 March 2005 as a result of the conversion of Harbin Songjiang Group from a state-owned enterprise into a privately-owned limited liability company and the inventories were subsequently sold during 2005.

Cash Flows from Investing Activities

For the year ended 31 December 2006, Harbin Songjiang Group's net cash used in investing activities was RMB61,591,000, primarily consisting of payment for purchase of fixed assets of RMB87,283,000 mainly for the acquisition of leasehold lands and buildings, payment for construction in progress of RMB53,898,000 mainly for the construction of the magnesium processing plant, the expansion of the molybdenum processing plant, payment for the purchase of intangible assets of RMB13,997,000, payment for acquisition of subsidiaries of RMB6,992,000 and payment for the purchase of trading securities of RMB20,303,000, reduced by interest income of RMB3,753,000, loan repaid by equity owner of RMB50,000,000, receipt of government grants of RMB49,905,000 and proceeds from sale of trading securities of RMB17,077,000.

For the period from 16 March 2005 to 31 December 2005, Harbin Songjiang Group's net cash used in investing activities was RMB98,852,000, primarily consisting of payment for purchase of fixed assets of RMB31,991,000, payment for construction in progress of RMB20,462,000 and loan to equity owner of Harbin Songjiang Group of RMB50,000,000.

Cash Flows from Financing Activities

For the year ended 31 December 2006, Harbin Songjiang Group's net cash used in financing activities was RMB26,643,000, consisting primarily of proceeds from new bank loans of RMB319,500,000, reduced by repayment of bank loans of RMB55,600,000, interests paid of RMB15,359,000 and dividends paid to equity owners of Harbin Songjiang of RMB275,384,000.

For the period from 16 March 2005 to 31 December 2005, Harbin Songjiang Group's net cash generated from financial activities was RMB27,132,000, consisting of capital injection by equity owners of Harbin Songjiang Group of RMB60,000,000, reduced by repayment of bank loans of RMB30,000,000 and interests paid of RMB2,868,000.

RECEIVABLES AND PAYABLES

Trade and other receivables

Harbin Songjiang Group's trade and other receivables were RMB191,844,000 as at 31 December 2005 and RMB220,241,000 as at 31 December 2006. Set forth below is an aging analysis of the Harbin Songjiang Group's trade receivables and bill receivables included in trade and other receivables as at the dates indicated.

	As at 31 December 2005	**As at 31 December 2006**
	RMB'000	*RMB'000*
Within 3 months	48,592	109,266
Over 3 months but less than 6 months	383	7,417
Over 6 months but less than 1 year	—	3,260
Over 1 year	2,341	899
Total	51,316	120,842
Average trade and bills receivables days *(note)*	38	39

Note: The calculation of average trade and bills receivables days is based on the average of opening and closing trade and bills receivables balances divided by sales and multiplied by number of days in the relevant period.

The increase in trade and bills receivables was in line with the increase in turnover in 2006.

Average trade and bills receivables days of Harbin Songjiang Group remained relatively stable and were 38 days for the period from 16 March 2005 to 31 December 2005 and 39 days for the year ended 31 December 2006. This was primarily due to Harbin Songjiang Group maintained a consistent credit policy for sales of goods.

Trade and other Payables

Harbin Songjiang Group's trade and other payables were RMB79,488,000 as at 31 December 2005 and RMB99,675,000 as at 31 December 2006. Set forth below is an aging analysis of the Harbin Songjiang Group's trade payables included in trade and other payables as at the dates indicated.

	As at 31 December 2005 *RMB'000*	As at 31 December 2006 *RMB'000*
Within 3 months	2,249	3,376
Over 3 months but less than 6 months	561	170
Over 6 months but less than 1 year	1,282	39
Over 1 year	6,723	6,940
Total	10,815	10,525
Average trade payables days *(note)*	13	17

Note: The calculation of average trade payables days is based on the average of opening and closing trade payables balances divided by cost of sales and multiplied by number of days in the relevant period.

The trade payables remained relatively stable notwithstanding the increase in cost of sales. This was primarily due to the fact that direct material was not a material component of cost of sales and its usage was relatively stable.

Average trade payables days of Harbin Songjiang Group remained stable and were 13 days for the period from 16 March 2005 to 31 December 2005 and 17 days for the year ended 31 December 2006.

INVENTORIES

Harbin Songjiang Group's inventories comprise raw materials, work in progress and finished goods. Harbin Songjiang Group's inventories decreased from RMB68,924,000 as at 31 December 2005 to RMB35,770,000 as at 31 December 2006. Set forth below is an breakdown of Harbin Songjiang Group's inventories as at the dates indicated.

	As at 31 December 2005 *RMB'000*	As at 31 December 2006 *RMB'000*
Raw materials	9,956	11,402
Work in progress	12,675	15,717
Finished goods	46,293	8,651
Total	68,924	35,770
Average inventory days *(note)*	134	83

Note: The calculation of average inventory days is based on the average of opening and closing inventory balances divided by cost of sales and multiplied by number of days in the relevant period.

The decrease in inventories was mainly due to the fact that Harbin Songjiang sold more inventories in the latter half of 2006 in light of the increase in the average selling price of ferro molybdenum.

Average inventory turnover days of Harbin Songjiang Group were 134 days for the period from 16 March 2005 to 31 December 2005 and 83 days for the year ended 31 December 2006.

Such decrease was mainly due to the recognition of a significant amount in the costs of inventories as an acquisition of inventories at market value on 16 March 2005 as a result of the conversion of Harbin Songjiang Group from a state-owned enterprise into a privately-owned limited liability company and the inventories were subsequently sold during 2005. This resulted in a significant increase in the amount of average inventory balances for the period from 16 March 2005 to 31 December 2005.

INDEBTEDNESS

Borrowings

As at the close of business of 31 March 2007, being the latest practicable date of this indebtedness statement prior to the printing of this circular, Harbin Songjiang Group had outstanding bank borrowings of approximately RMB279,500,000 (including RMB220,000,000 in secured bank loans and RMB59,500,000 in unsecured bank loans), carrying interest at 4.97% to 6.63% per annum.

Debts Securities

As at the close of business of 31 March 2007, Harbin Songjiang Group had no debt securities.

Securities and guarantees

As at the close of business of 31 March 2007, the bank borrowings of RMB100,000,000 and RMB120,000,000 were guaranteed by a third party and an equity owner respectively.

Contingent Liabilities

As at 31 March 2007, the Harbin Songjiang Group had provided guarantees for a banking facility up to RMB50,000,000 and certain bank loans totalling RMB50,000,000 in favour of a third party who had provided guarantees on bank loans to the Harbin Songjiang Group in return. As at 31 March 2007, banking facilities to the extent of RMB39,498,000 were utilised by the third party.

Commitments

Capital commitments as at 31 March 2007 not provided for in the financial statements were as follows:

	RMB'000
Contracted for	119,070
Authorised but not contracted for	635,238

PROPERTY VALUATION

The reconciliations between (i) the audited net book value of Harbin Songjiang Group's property interests as at 31 December 2006 to the unaudited net book value of its property interests as at 28 February 2007; and (ii) the unaudited net book value of Harbin Songjiang Group's property interests and the valuation of such property interests as at 28 February 2007 set out in Appendix V to this circular are set forth as follows:

	RMB'000
Net book value of Harbin Songjiang Group's property interests as at 31 December 2006	
Building and mining structures (note)	198,780
Interests in leasehold land held for own use under operating leases	36,778
	235,558
Movements during two months ended 28 February 2007	
Additions	2,045
Depreciation and amortization	(1,521)
Net book value as at 28 February 2007	236,082
Valuation surplus	65,318
Valuation as at 28 February 2007	301,400

Note: The properties valued by Greater China Appraisal Limited, an independent property valuer, as contained in Appendix V to this circular are different from the property interests included in the consolidated balance sheets and the accompanying notes in the Accountants' Report in Appendix II to this Circular. Accordingly, the net book value of Harbin Songjiang Group's property interests as at 31 December 2006 have been extracted with adjustments on building and mining structures and construction in progress not relating to properties valued by Greater China Appraisal Limited.

The property interests owned and leased by Harbin Songjiang Group are set out in Appendix V to this circular. There are buildings owned by Harbin Songjiang Group which are not covered by the Building Ownership Certificates. No provision has been made in relation to these buildings as they are not crucial to the production operations and are displaceable. As advised by the relevant members of Harbin Songjiang Group, applications for the Building Ownership Certificate of these buildings are in progress.

DISCLAIMERS

Save as aforesaid and apart from intra-group liabilities, none of the companies in the Harbin Songjiang Group has outstanding mortgages, charges, debentures, or other loan capital, loans or other similar indebtedness or acceptance credits or hire purchase commitments or any guarantees or other material contingent liabilities as at the close of business on 31 March 2007 and since 31 March 2007, up to and including the Latest Practicable Date.

Save as disclosed above, there has not been any material change in the indebtedness and contingent liabilities of Harbin Songjiang Group since 31 March 2007, up to and including the Latest Practicable Date.

GREATER CHINA APPRAISAL LIMITED
漢 華 評 值 有 限 公 司

Room 2703
Shui On Centre
6–8 Harbour Road
Wanchai
Hong Kong

23 May 2007

The Directors
China Mining Resources Group Limited
Suites 3206–3211
32nd Floor
One International Finance Centre
No. 1 Harbour View Street
Central
Hong Kong

Dear Sirs,

In accordance with the instructions from China Mining Resources Group Limited ("the Company") to value the properties of 哈爾濱松江銅業(集團)有限公司 ("Harbin Songjiang") and its subsidiaries (together referred to as "Songjiang Group") in the People's Republic of China (referred to as the "PRC") and the properties of the Company and its subsidiaries (together referred to as "the Group") in the PRC and Hong Kong, we confirm that we have carried out inspections, made relevant enquires and obtained such further information as we consider necessary for the purpose of providing the capital values of such properties as at 28 February 2007 (referred to as the "valuation date").

It is our understanding that this valuation is being used for acquisition purposes. As advised by the Company, the acquisition of Songjiang Group will not include Harbin Songjiang's 6 subsidiaries or associates, namely 阿城市小嶺鐵合金有限公司 (Acheng Xiaoling Ferro-Alloy Co. Ltd.), 哈爾濱松銅大酒店有限公司 (Harbin Songjiang Hotel Co. Ltd.), 阿魯科爾沁旗瑪尼吐銀錫礦有限責任公司 (Alukeerqinqi Manitu Silver & Tin Mining Co. Ltd.), 巴林右旗諾爾蓋銅礦有限公司 (Balinyouqi Nuoergai Copper Mining Co. Ltd.), 哈爾濱松江精米有限公司 (Harbin Songjiang Polished Rice Co. Ltd.) and 哈爾濱松江礦山機械製造有限公司 (Harbin Songjiang Mine Machinery Co. Ltd) which Harbin Songjiang will assist to dispose of as a condition of the sale and purchase agreement. This valuation will not include the properties of these 6 subsidiaries or associates.

This letter which forms part of our valuation report explains the basis and methodology of valuation, and clarifies our assumptions made, titleship of properties and the limiting conditions.

BASIS OF VALUATION

The valuation of such properties is our opinion of the market value which we would define as intended to mean: "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion."

In this report, we have valued the properties in their designed uses with the understanding that the properties will be used as such (referred to as "continued use").

VALUATION METHODOLOGY

Unless stated otherwise, all properties are valued by comparison method where comparison based on prices realized or market prices of comparable properties is made. Comparable properties of similar size, character and location are analyzed and carefully weighed against all the respective advantages and disadvantages of each property in order to arrive at a fair comparison of capital value.

For specialized properties numbered 1–7, due to the nature of buildings and structures constructed, there are no readily identifiable market comparable to them, we have applied the cost method of valuation in assessing the property. It is a method of using current replacement costs to arrive at the value to the business in occupation of the property as existing at the date of valuation.

This method of valuation, cost method, is based on an estimate of the market value for the existing use of the land, plus the current gross replacement costs of the improvements, less allowances for physical deterioration and all relevant forms of obsolescence and optimization.

The cost method generally furnishes the most reliable indication of value for property in the absence of a known market based on comparable.

ASSUMPTIONS

Our valuation has been made on the assumption that the owner sells the properties on the open market in their existing states without the benefit of any deferred terms contracts, leaseback, joint ventures, management agreements or any similar arrangement which would serve to increase the value of the properties.

Continued use assumes the properties will be used for the purposes for which the properties are designed and built, or to which they are currently adapted. The valuation on the property in continued use does not represent the amount that might be realized from piecemeal disposition of the property on the open market.

For the properties classified as Group I which are held under long term land use rights and the properties classified as Group II which are contracted to be acquired with pending title documents, we have assumed that the owners or the purchasers of the properties have free and uninterrupted rights to use or transfer the properties for the whole of the unexpired term of the respective land use rights.

In our valuation, we have assumed that the properties can be freely disposed of and transferred to third parties on the open market without any additional payment to the relevant government authorities. Unless stated as otherwise, vacant possession is assumed for the properties concerned.

We have assumed that all consents, approvals and licenses from relevant government authorities for the buildings and structures erected on the lands have been granted. Also, we have assumed that all buildings and structures which fall within the site are held by the owner or permitted to be occupied by the owner.

It is assumed that all applicable zoning and use regulations and restrictions have been complied with unless nonconformity has been stated, defined, and considered in this report. Moreover, it is assumed that the utilization of the land and improvements is within the boundaries of the site held by the owner or permitted to be occupied by the owner. In addition, we assume that no encroachment or trespass exists, unless noted in this report.

No environment impact study has been ordered or made. Full compliance with applicable national, provincial and local environmental regulations and laws is assumed unless otherwise stated, defined, and considered in this report. It is also assumed that all required licences, consents, or other legislative or administrative authority from any local, provincial, or national government or private entity or organization either have been or can be obtained or renewed for any use which this report covers.

Other special assumptions of each property, if any, have been stated in the footnotes of the valuation certificate for the respective properties.

TITLESHIP INVESTIGATION

For the properties classified as Group I and Group II which are owned or contracted to be acquired by Songjiang Group in the PRC, we have been provided with copy of title documents or sale and purchase agreements. However, due to the current registration system of the PRC under which the registration information is not accessible to the public, no investigations have been made for the legal title or any material liabilities attached to the property.

For the properties classified as Group III, Group IV and Group V which are rented to Songjiang Group or the Group, we have been provided with copy of tenancy agreements. However, we have not inspected the original documents to verify ownership or to ascertain the existence of any amendments which do not appear on the copies handed to us.

In the course of our valuation, we have relied upon the legal opinions as stated in the title report given by 北京市國楓律師事務所 (Grandfield Law Firm, the "PRC Lawyer") in relation to the legal title to the properties held by Songjiang Group or the Group in the PRC.

All legal documents disclosed in this report, if any, are for reference only and no responsibility is assumed for any legal matters concerning the legal title to the properties set out in this report.

LIMITING CONDITIONS

We have not carried out detailed site measurements to verify the correctness of the land or building areas in respect of the relevant properties but have assumed that the areas shown on the legal documents provided to us are correct. Based on our experience of valuation of similar properties, we consider the assumptions so made to be reasonable. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations.

We have inspected the exterior and, where possible, the interior of the properties included in the attached valuation certificates. However, no structural survey has been made and we are therefore unable to report as to whether the properties is free from rot, infestation or any other structural defects. Also, no tests were carried out on any of the services.

No site investigations have been carried out to determine the suitability of the ground conditions or the services for any property development. No soil analysis or geological studies were ordered or made in conjunction with this report, nor were any water, oil, gas or other subsurface mineral use rights or conditions investigated.

We do not investigate any industrial safety, environmental and health related regulations in association with any particular manufacturing process of Songjiang Group or the Group. It is assumed that all necessary licenses, procedures and measures were implemented in accordance with government legislation and guidance.

Having examined all relevant documentation, we have relied to a very considerable extent on the information provided and have accepted advice given to us by the Company or Songjiang Group on such matters as planning approvals, statutory notices, easements, tenure, occupation, lettings, construction costs, rentals, site and floor areas and in the identification of those properties in which Songjiang Group or the Group has valid interests. Floor areas of the property stated herein are ascertained by us by scaling off the registered floor plans of the subject development.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Company or Songjiang Group. We were also advised by the Company or Songjiang Group that no material factors have been omitted from the information to reach an informed view, and have no reason to suspect that any material information has been withheld.

No allowances have been made in our valuation for any charges, mortgages or amounts owing on any of the properties valued nor for any expenses or taxation which may be incurred in effecting a sale.

Unless otherwise stated, it is assumed that all the properties are free from encumbrances, restrictions and outgoings of an onerous nature which could affect their values.

For the properties classified as Group I, Group II, Group III and Group IV, since they are located in a relatively under-developed market, the PRC, those assumptions mentioned above are often based on imperfect market evidence. A range of values may be attributable to the property depending upon the assumptions made. While we have exercised our professional judgment in arriving at the value, report readers are urged to consider carefully the nature of such assumptions which are disclosed in this report and should exercise caution in interpreting this report.

OPINION OF VALUE

Valuation figures of the properties held by Songjiang Group or the Group are shown in the attached summary of valuation and their respective valuation certificates.

For the properties classified as Group III, Group IV and Group V which are rented by Songjiang Group or the Group from independent third party under tenancy agreements, they have no commercial value due to inclusion of non-alienation clause or otherwise due to lack of substantial profit rent.

REMARKS

Our valuation has been prepared in accordance with generally accepted valuation procedures. In valuing the properties, we have complied with the requirements contained in the HKIS Valuation Standards on Properties (1st Edition 2005) published by the Hong Kong Institute of Surveyors and effective from 1 January 2005.

Valuation figures are denominated in Chinese Renminbi and Hong Kong Dollars.

We enclose herewith the summary of valuation and valuation certificates.

This valuation report is issued subject to our General Service Conditions.

Yours faithfully,
For and on behalf of
GREATER CHINA APPRAISAL LIMITED
K. K. Ip
BLE, LLD
Chartered Valuation Surveyor
Registered Professional Surveyor
Managing Director

Note: Mr. K. K. Ip, who is a Chartered Valuation Surveyor and a Registered Professional Surveyor, has substantial experience in valuation of properties in the PRC and Hong Kong since 1992.

SUMMARY OF VALUATION

No.	Property	Market Value as at 28 February 2007
	Group I — Properties held by Songjiang Group in the PRC	
1.	Land Parcel located at Binxi Economic Development Zone Harbin Heilongjiang Province The PRC	RMB6,000,000
2.	Land Parcel, Buildings and Ancillary Structures located at Heping Street Shiliu Wei Acheng Heilongjiang Province The PRC	RMB79,200,000
3.	Land Parcels, Buildings and Ancillary Structures located at Pingfang Town Bin County Heilongjiang Province The PRC	RMB60,400,000
4.	Land Parcel, Buildings and Ancillary Structures located at Wudaoling Xinping Village Xiaoling Town Acheng Heilongjiang Province The PRC	RMB106,000,000
5.	Land Parcel and Ancillary Structures located at Xinxing Village Xiaoling Town Acheng Heilongjiang Province The PRC	RMB21,600,000
	Sub-total:	**RMB273,200,000**

No.	Property	Market Value as at 28 February 2007
Group II — Properties contracted to be acquired by Songjiang Group in the PRC		
6.	Land Parcel and Buildings located at No. 154 Jinxiang Street Dongli District Harbin Heilongjiang Province The PRC	RMB22,400,000
7.	Land Parcel located at the junction of Zhongzhi Road and Minzhu Main Street Acheng Harbin Heilongjiang Province The PRC	RMB5,800,000
	Sub-total:	**RMB28,200,000**
Group III — Property rented by Songjiang Group in the PRC		
8.	An Office Unit located at Daban Street South Area 3 Daban County Chifeng Neimenggu Autonomous Region The PRC	No commercial value
	Sub-total:	**No commercial value**
Group IV — Property rented by the Group in the PRC		
9.	20 Units in Southern Building and Western Building located at Dongguan Main Street Dongguan Village Shangguan County Xinzhou Shanxi Province The PRC	No commercial value
	Sub-total:	**No commercial value**

No.	Property	Market Value as at 28 February 2007
Group V — Properties rented by the Group in Hong Kong		
10.	Suites 3206–3211 32nd Floor One International Finance Centre No. 1 Harbour View Street Central Hong Kong	No commercial value
11.	Units 511–13 and 515–18 5th Floor Delta House No. 3 On Yiu Street Shatin New Territories Hong Kong	No commercial value
	Sub-total:	**No commercial value**
	Grand Total:	**RMB301,400,000**

VALUATION CERTIFICATES

Group I — Properties held by Songjiang Group in the PRC

No.	Property	Description	Particulars of Occupancy	Market value as at 28 February 2007
1.	Land Parcel located at Binxi Economic Development Zone Harbin Heilongjiang Province The PRC	The property comprises a parcel of land ("the Land") with a land area of approximately 100,000 square metres. The property is held under a State-owned Land Use Rights Certificate for a term expiring on 9 April 2055 for industrial use.	The property is currently vacant.	RMB6,000,000

Notes:

(i) According to a State-owned Land Use Rights Certificate (賓國用(2005)第088號) (Bin Guo Yong (2005) No. 088) issued by the People's Government of Bin County dated 9 April 2005, the land use rights of the Land have been granted to 哈爾濱銅業(集團)有限公司 (Harbin Copper (Group) Company Limited) for a term expiring on 9 April 2055 for industrial use.

(ii) Opinions of the PRC Lawyer are summarized as follows:

(a) 哈爾濱松江銅業(集團)有限公司 (Harbin Songjiang Copper (Group) Company Limited) ("Harbin Songjiang") has legally and validly obtained and is in possession of a State-owned Land Use Rights Certificate (賓國用(2005)第088號) (Bin Guo Yong (2005) No. 088) dated 9 April 2005 by which the land use rights of the Land have been granted to Harbin Songjiang for a term expiring on 9 April 2055 for industrial use.

(b) Harbin Songjiang has fully settled the land premiums in respect of the Land.

(c) Harbin Songjiang is the legal holder of the land use rights of the Land. During the term of the land use rights, Harbin Songjiang has the right to use, lease, transfer, mortgage or otherwise legally dispose of the Land.

(d) The name of land use rights holder under the State-owned Land Use Rights Certificate (賓國用(2005)第088號) (Bin Guo Yong (2005) No. 88) was registered as 哈爾濱銅業(集團)有限公司 (Harbin Copper (Group) Company Limited) by mistake. Rectification of the name of owner to Harbin Songjiang is now in progress. There is no legal impediment for such rectification and such mistake will not affect the legal validity of the land use rights granted under the State-owned Land Use Rights Certificate.

(e) No mortgages or other encumbrances over the Land are observed.

VALUATION CERTIFICATES

No.	Property	Description	Particulars of Occupancy	Market value as at 28 February 2007
2.	Land Parcel, Buildings and Ancillary Structures located at Heping Street Shiliu Wei Acheng Heilongjiang Province The PRC	The property comprises a parcel of land ("the Land") and 48 buildings (the "Buildings") and various ancillary structures erected on the Land. The Buildings were completed between 1967 and 2000.	The property is currently occupied by Songjiang Group as a molybdenum processing plant.	RMB79,200,000

The land area of the Land is approximately 291,841.10 square metres and the total gross floor area of the Buildings is approximately 87,619.98 square metres. Detailed breakdown is shown as follows:

Buildings	No. of Blocks	No. of Storeys	Gross Floor Area *(sq.m.)*
Factory	16	1–3	67,599.57
Office and Amenities	6	1–3	2,532.84
Ancillary	26	1–3	17,487.57
Total:	48		87,619.98

The various ancillary structures comprise internal road, boundary walls, water tanks, coal conveyors etc.

The property is held under a State-owned Land Use Rights Certificate for a term expiring on 25 January 2056 for industrial use.

Notes:

(i) According to a State-owned Land Use Rights Certificate (阿國用(2006)第000000003號) (A Guo Yong (2006) No. 000000003) issued by the People's Government of Acheng dated 20 February 2006, the land use rights of the Land have been granted to 哈爾濱松江銅業(集團)有限公司 (Harbin Songjiang Copper (Group) Company Limited) ("Harbin Songjiang") for a term expiring on 25 January 2056 for industrial use.

(ii) According to 48 sets of Building Ownership Certificate, the Buildings with a total gross floor area of 87,619.98 square metres are held by Harbin Songjiang.

(iii) The proposal of a new molybdenum processing plant (with annual capacity of 1,620 tons molybdenum products) on the Land has been approved by Harbin Municipal Development Planning Committee and Heilongjiang Provincial Environment Protection Bureau via the letters 哈計工[2003]156號 (Ha Ji Gong [2003] No. 156) and 黑環函[2005]129號 (Hei Huan Han [2005] No. 129) respectively.

(iv) Harbin Songjiang has obtained a Construction Land Use Permit (哈爾濱市阿城區[2006]阿政土發字第053號) (Harbin Acheng [2006] A Zheng Tu Fa Zhi No. 053) and a Construction Land Planning Approval (阿規地[2006]084號) (A Gui Di [2006] No. 084) for the construction of the proposed new molybdenum processing plant. As at the valuation date, no construction works have been commenced.

(v) As at the valuation date, there were erected on the Land 7 buildings (other than the Buildings), with a total gross floor area of approximately 1,509.00 square metres, being used as ancillary workshops, offices and pump rooms, of which no Building Ownership Certificates have been obtained. We have attributed no commercial value to these 7 buildings due to the uncertainties in their legality and transferability. For reference purpose, assuming free from encumbrances, the depreciated replacement cost of these 7 buildings as at the valuation date would be approximately RMB630,000 which is excluded from our valuation.

(vi) Opinions of the PRC Lawyer are summarized as follows:

(a) Harbin Songjiang has legally and validly obtained and is in possession of a State-owned Land Use Rights Certificate (阿國用(2006)第000000003號) (A Guo Yong (2006) No. 000000003) dated 20 February 2006 by which the land use rights of the Land have been granted to Harbin Songjiang for a term expiring on 25 January 2056 for industrial use.

(b) Harbin Songjiang has fully settled the land premiums in respect of the Land.

(c) Harbin Songjiang has legally and validly obtained and is in possession of 48 sets of Building Ownership Certificate in respect of the Buildings which were legally constructed on the Land.

(d) Harbin Songjiang is the legal holder of the land use rights of the Land and the building ownership rights of the Buildings. During the term of the land use rights, Harbin Songjiang has the right to use, lease, transfer, mortgage or otherwise legally dispose of the Land and the Buildings.

(e) As advised by Harbin Songjiang and according to reasonable verification, Harbin Songjiang is occupying the Buildings for production and ancillary use, which are not in violation of the prescribed usage in the State-owned Land Use Rights Certificate and the Building Ownership Certificates.

(f) No mortgages or other encumbrances over the Land and the Buildings are observed.

(g) Harbin Songjiang has obtained a Construction Land Use Permit and a Construction Land Planning Approval for the construction of the proposed new molybdenum processing plant on the Land. Harbin Songjiang has not obtained the Construction Works Commencement Permit which is not required as the construction works have not yet been commenced.

(h) Regarding the proposed new molybdenum processing plant, Harbin Songjiang has obtained the necessary approvals or permits from the relevant authorities in accordance with the construction progress. The approvals or permits have not been withdrawn, amended or revoked. Harbin Songjiang has legally obtained the right to construct the proposed new molybdenum processing plant.

(i) No mortgages or other encumbrances over the proposed new molybdenum processing plant are observed. Upon completion of construction and title registration processes, Harbin Songjiang has the right to use, lease, mortgage or transfer the new molybdenum processing plant.

(j) For the buildings with total gross floor area of 1,509.00 square metres not covered by any Building Ownership Certificate erected on the Land, there exists a risk that Harbin Songjiang may be ordered to demolish, forfeit or rectify these buildings or fined in accordance with the relevant PRC laws and regulations. Based on reasonable verification, these buildings are not crucial to the production operations and are displaceable. As advised by Harbin Songjiang, application for Building Ownership Certificate of these buildings is in progress and Harbin Songjiang has not received any notice regarding demolition, forfeiture, rectification or fine as aforesaid.

VALUATION CERTIFICATES

No.	Property	Description	Particulars of Occupancy	Market value as at 28 February 2007
3.	Land Parcels, Buildings and Ancillary Structures located at Pingfang Town Bin County Heilongjiang Province The PRC	The property comprises 4 parcels of land ("the Lands") and 36 buildings (the "Buildings") and various ancillary structures erected on the Lands. The Buildings were completed between 1970 and 2006. The total land area of the Lands is approximately 245,180.72 square metres and the total gross floor area of the Buildings is approximately 21,361.65 square metres. Detailed breakdown is shown as follows:	The property is currently occupied by Songjiang Group as a copper mining and processing plant.	RMB60,400,000

Buildings	No. of Blocks	No. of Storeys	Gross Floor Area *(sq.m.)*
Factory	4	1	2,377.00
Office and Amenities	11	1–4	9,895.40
Ancillary	21	1–2	9,089.25
Total:	36		21,361.65

The various ancillary structures comprise internal road, boundary walls, water tanks, pipelines, mine shafts etc.

The property is held under 4 State-owned Land Use Rights Certificates for a term all expiring on 13 December 2056 for industrial use.

Notes:

(i) According to 4 sets of State-owned Land Use Rights Certificate (賓國用(2006)第022004051號至第022004054號) (Bin Guo Yong (2006) Nos. 022004051 to 022004054) issued by the People's Government of Bin County dated 25 December 2006, the land use rights of the Lands have been granted to 哈爾濱松江銅業實業有限公司 (Harbin Songjiang Copper Enterprise Company Limited) ("Songjiang Copper", a wholly-owned subsidiary of Harbin Songjiang) for a term all expiring on 13 December 2056 for industrial use.

(ii) According to 15 sets of Building Ownership Certificate, 15 buildings of the Buildings with a total gross floor area of 7,498.90 square metres are held by Songjiang Copper.

(iii) According to 7 sets of Building Ownership Certificate, 21 buildings of the Buildings with a total gross floor area of 13,862.75 square metres are held by 哈爾濱松江鉬鐵冶煉廠 (Harbin Songjiang Molybdenum Iron Smelting Plant which is a production plant of Songjiang Group, not a separate legal entity nor a subsidiary or an associate of Songjiang Group), 哈爾濱松江銅業(集團)有限公司股份公司 (Harbin Songjiang Copper (Group) Company Holdings Limited) and 哈爾濱銅業實業有限公司 (Harbin Copper Industrial Company Limited).

(iv) The proposal of a new molybdenum smelting plant (with annual capacity of 5,000 tons molybdenum concentrate) on the parcel of land held under State-owned Land Use Rights Certificate (賓國用(2006)第022004054號) (Bin Guo Yong (2006) No. 022004054) of the Land has been approved by Harbin Municipal Development Planning Committee and

Heilongjiang Provincial Environment Protection Bureau via the letters 哈計工[2003]156號 (Ha Ji Gong [2003] No. 156) and 黑環函[2005]129號 (Hei Huan Han [2005] No. 129) respectively. As at the valuation date, no construction works have been commenced.

(v) As at the valuation date, there were erected on the Lands 12 buildings (other than the Buildings), with a total gross floor area of approximately 6,010.85 square metres, being used as ancillary workshops, laboratory, warehouses and dormitory, of which no Building Ownership Certificates have been obtained. We have attributed no commercial value to these 12 buildings due to the uncertainties in their legality and transferability. For reference purpose, assuming free from encumbrances, the depreciated replacement cost of these 12 buildings as at the valuation date would be approximately RMB3,500,000 which is excluded from our valuation.

(vi) Opinions of the PRC Lawyer are summarized as follows:

(a) Songjiang Copper has legally and validly obtained and is in possession of 4 sets of State-owned Land Use Rights Certificate (賓國用(2006)第022004051號至第022004054號) (Bin Guo Yong (2006) Nos. 022004051 to 022004054) dated 25 December 2006 by which the land use rights of the Lands have been granted to Songjiang Copper for a term all expiring on 13 December 2056 for industrial use.

(b) Songjiang Copper has fully settled the land premiums in respect of the Lands.

(c) Songjiang Copper has legally and validly obtained and is in possession of 22 sets of Building Ownership Certificate in respect of the Buildings which were legally constructed on the Lands.

(d) Songjiang Copper is the legal holder of the land use rights of the Lands and the building ownership rights of the Buildings. During the term of the land use rights, Songjiang Copper has the right to use, lease, transfer, mortgage or otherwise legally dispose of the Lands and the Buildings.

(e) As advised by Songjiang Copper and according to reasonable verification, Songjiang Copper is occupying the Buildings for production and ancillary use, which are not in violation of the prescribed usage in the State-owned Land Use Rights Certificates and the Building Ownership Certificates.

(f) No mortgages or other encumbrances over the Lands and the Buildings are observed.

(g) The nature of the buildings in the 22 sets of Building Ownership Certificate were described as "public" or "state-owned" and the name of owner in 7 sets of Building Ownership Certificate were registered as 哈爾濱松江鉬鐵冶煉廠 (Harbin Songjiang Molybdenum Iron Smelting Plant), 哈爾濱松江銅業(集團)有限公司股份公司 (Harbin Songjiang Copper (Group) Company Holdings Limited) or 哈爾濱銅業實業有限公司 (Harbin Copper Industrial Company Limited) by mistake. Rectification of the building nature and the owner's name to Songjiang Copper is now in progress. There is no legal impediment for such rectification and such mistakes will not affect the legal validity of the building ownership rights granted under the Building Ownership Certificates.

(h) Regarding the proposed new molybdenum smelting plant, Harbin Songjiang, the parent company of Songjiang Copper, has obtained the necessary approvals or permits from the relevant authorities in accordance with the construction progress. The approvals or permits have not been withdrawn, amended or revoked. Harbin Songjiang has legally obtained the right to construct the proposed new molybdenum smelting plant.

(i) As advised by Harbin Songjiang, since the proposed new molybdenum smelting plant will be constructed on the land held by Songjiang Copper, a lease of land use rights will be entered into between Harbin Songjiang and Songjiang Copper. The lease shall have to be registered at the land management authority with a third party right certificate being issued in favour of Harbin Songjiang.

(j) Upon completion of the proposed new molybdenum smelting plant, Harbin Songjiang has the right to transfer or mortgage the buildings of the plant. However, when the new molybdenum smelting plant is to be transferred, the purchaser shall have to enter into a lease of land use rights or land use rights transfer agreement with Songjiang Copper in respect of the land where the new molybdenum smelting plant is erected on.

(k) No mortgages or other encumbrances over the proposed new molybdenum smelting plant are observed. Upon completion of construction and title registration processes, Harbin Songjiang has the right to use, lease, mortgage or transfer the new molybdenum smelting plant.

(l) For the buildings with total gross floor area of 6,010.85 square metres not covered by any Building Ownership Certificate erected on the parcel of land held under State-owned Land Use Rights Certificate (賓國用(2006)第022004053號) (Bin Guo Yong (2006) No. 022004053) of the Lands, there exists a risk that Songjiang Copper may be ordered to demolish, forfeit or rectify these buildings or fined in accordance with the relevant PRC laws and regulations. Based on reasonable verification, these buildings are not crucial to the production operations and are displaceable. As advised by Songjiang Copper, application for Building Ownership Certificate of these buildings is in progress and Songjiang Copper has not received any notice regarding demolition, forfeiture, rectification or fine as aforesaid.

VALUATION CERTIFICATES

No.	Property	Description	Particulars of Occupancy	Market value as at 28 February 2007
4.	Land Parcel, Buildings and Ancillary Structures located at Wudaoling Xinping Village Xiaoling Town Acheng Heilongjiang Province The PRC	The property comprises a parcel of land ("the Land") and 23 buildings (the "Buildings") and various ancillary structures erected on the Land. The Buildings were completed between 1999 and 2006. The land area of the Land is approximately 149,754.61 square metres and the total gross floor area of the Buildings is approximately 13,633.46 square metres. Detailed breakdown is shown as follows:	The property is currently occupied by Songjiang Group as a molybdenum mining and processing plant.	RMB106,000,000

Buildings	No. of Blocks	No. of Storeys	Gross Floor Area *(sq.m.)*
Factory	3	1	3,694.78
Office and Amenities	3	2–4	4,260.11
Ancillary	17	1–2	5,678.57
Total:	23		13,633.46

The various ancillary structures comprise internal road, boundary walls, water tanks, pipelines, mine shafts etc.

The property is held under a State-owned Land Use Rights Certificate for a term expiring on 24 December 2056 for industrial use.

Notes:

(i) According to a State-owned Land Use Rights Certificate (阿國用(2007)第100000002號) (A Guo Yong (2007) No. 100000002) issued by the People's Government of Acheng dated 11 January 2007, the land use rights of the Land have been granted to 哈爾濱松江鉬業有限公司 (Harbin Songjiang Molybdenum Limited) ("Songjiang Molybdenum", a wholly-owned subsidiary of Harbin Songjiang) for a term expiring on 24 December 2056 for industrial use.

(ii) According to 23 sets of Building Ownership Certificate, the Buildings with a total gross floor area of 13,633.46 square metres are held by Songjiang Molybdenum.

(iii) As at the valuation date, there were erected on the Land 12 buildings (other than the Buildings), with a total gross floor area of approximately 6,444.89 square metres being used as warehouses, offices, workshops and pump rooms, of which no Building Ownership Certificates have been obtained. We have attributed no commercial value to these 12 buildings due to the uncertainties in their legality and transferability. For reference purpose, assuming free from encumbrances, the depreciated replacement cost of these 12 buildings as at the valuation date would be approximately RMB6,400,000 which is excluded from our valuation.

(iv) Opinions of the PRC Lawyer are summarized as follows:

(a) Songjiang Molybdenum has legally and validly obtained and is in possession of a State-owned Land Use Rights Certificate (阿國用(2007)第100000002號) (A Guo Yong (2007) No. 100000002) dated 11 January 2007 by which the land use rights of the Land have been granted to Songjiang Molybdenum for a term expiring on 24 December 2056 for industrial use.

(b) Songjiang Molybdenum has fully settled the land premiums in respect of the Land.

(c) Songjiang Molybdenum has legally and validly obtained and is in possession of 23 sets of Building Ownership Certificate in respect of the Buildings which were legally constructed on the Land.

(d) Songjiang Molybdenum is the legal holder of the land use rights of the Land and the building ownership rights of the Buildings. During the term of the land use rights, Songjiang Molybdenum has the right to use, lease, transfer, mortgage or otherwise legally dispose of the Land and the Buildings.

(e) Saved as referred to in paragraph (g) below, as advised by Songjiang Molybdenum and according to reasonable verification, Songjiang Molybdenum is occupying the Buildings for production and ancillary use, which are not in violation of the prescribed usage in the State-owned Land Use Rights Certificate and the Building Ownership Certificates.

(f) No mortgages or other encumbrances over the Land and the Buildings are observed.

(g) The prescribed usages of buildings, which are being used as boiler room and garage, in 2 Building Ownership Certificates were registered as "residential". As informed by Songjiang Molybdenum, application for amendment of the aforesaid prescribed usages has been made. There exists no legal impediment for such application for amendment.

(h) For the buildings with total gross floor area of 6,444.89 square metres not covered by any Building Ownership Certificate erected on the Land, there exists a risk that Songjiang Molybdenum may be ordered to demolish, forfeit or rectify these buildings or fined in accordance with the relevant PRC laws and regulations. Based on reasonable verification, these buildings are not crucial to the production operations and are displaceable. As advised by Songjiang Molybdenum, application for Building Ownership Certificate of these buildings is in progress and Songjiang Molybdenum has not received any notice regarding demolition, forfeiture, rectification or fine as aforesaid.

VALUATION CERTIFICATES

No.	Property	Description	Particulars of Occupancy	Market value as at 28 February 2007
5.	Land Parcel and Ancillary Structures located at Xinxing Village Xiaoling Town Acheng Heilongjiang Province The PRC	The property comprises a parcel of land ("the Land") and various structures erected on the Land. The land area of the Land is approximately 106,000.00 square metres. The various structures comprise internal road, boundary walls, water tanks, pipelines etc. The property is held under a State-owned Land Use Rights Certificate for a term expiring on 24 December 2056 for industrial use.	The property is currently occupied by Songjiang Group as an iron mining and processing plant.	RMB21,600,000

Notes:

(i) According to a State-owned Land Use Rights Certificate (阿國用(2007)第100000001號) (A Guo Yong (2007) No. 100000001) issued by the People's Government of Acheng dated 11 January 2007, the land use rights of the Land have been granted to 阿城市小嶺鐵鋅有限公司 (Acheng Xiaoling Iron & Zinc Company Limited) ("Xiaoling Iron & Zinc", a wholly-owned subsidiary of Harbin Songjiang) for a term expiring on 24 December 2056 for industrial use.

(ii) As at the valuation date, there were erected on the Land 21 buildings, with a total gross floor area of approximately 6,920.00 square metres, being used as ancillary workshops, offices, machine rooms, laboratory, canteen and amenity buildings, of which no Building Ownership Certificates have been obtained. We have attributed no commercial value to these 21 buildings due to the uncertainties in their legality and transferability. For reference purpose, assuming free from encumbrances, the depreciated replacement cost of these 21 buildings as at the valuation date would be approximately RMB6,200,000 which is excluded from our valuation.

(iii) Opinions of the PRC Lawyer are summarized as follows:

(a) Xiaoling Iron & Zinc has legally and validly obtained and is in possession of a State-owned Land Use Rights Certificate (阿國用(2007)第100000001號) (A Guo Yong (2007) No. 100000001) dated 11 January 2007 by which the land use rights of the Land have been granted to Xiaoling Iron & Zinc for a term expiring on 24 December 2056 for industrial use.

(b) Xiaoling Iron & Zinc has fully settled the land premiums in respect of the Land.

(c) Xiaoling Iron & Zinc is the legal holder of the land use rights of the Land. During the term of the land use rights, Xiaoling Iron & Zinc has the right to use, lease, transfer, mortgage or otherwise legally dispose of the Land.

(d) No mortgages or other encumbrances over the Land are observed.

(e) For the buildings with total gross floor area of 6,920.00 square metres not covered by any Building Ownership Certificate erected on the Land, there exists a risk that Xiaoling Iron & Zinc may be ordered to demolish, forfeit or rectify these buildings or fined in accordance with the relevant PRC laws and regulations. Based on reasonable verification, these buildings are not crucial to the production operations and are displaceable. As advised by Xiaoling Iron & Zinc, application for Building Ownership Certificate of these buildings is in progress and Xiaoling Iron & Zinc has not received any notice regarding demolition, forfeiture, rectification or fine as aforesaid.

VALUATION CERTIFICATES

Group II — Properties contracted to be acquired by Songjiang Group in the PRC

No.	Property	Description	Particulars of Occupancy	Market value as at 28 February 2007
6.	Land Parcel and Buildings located at No. 154 Jinxiang Street Dongli District Harbin Heilongjiang Province The PRC	The property comprises a parcel of land ("the Land") and 5 buildings ("Buildings") erected on the Land completed in 2005. The land area of the Land is approximately 12,790 square metres and the total gross floor area of the Buildings is approximately 11,316.53 square metres. The property is contracted to be acquired by 哈爾濱松江銅業(集團)有限公司 (Harbin Songjiang Copper (Group) Company Limited) ("Harbin Songjiang") under a Real Property Sale and Purchase Agreement dated 20 July 2005.	The property is currently occupied by Songjiang Group as office and ancillary buildings.	RMB22,400,000

Notes:

(i) According to a Real Property Sale and Purchase Agreement entered into between Harbin Songjiang and 袁德貴 (Yuan Degui) dated 20 July 2005, the property was sold to Harbin Songjiang at a consideration of RMB13,300,000.

(ii) Opinions of the PRC Lawyer are summarized as follows:

(a) According to a Real Property Sale and Purchase Agreement entered into between Harbin Songjiang and 袁德貴 (Yuan Degui) dated 20 July 2005, the property was agreed to be sold to Harbin Songjiang at a consideration of RMB13,300,000.

(b) The Real Property Sale and Purchase Agreement is legal, valid and enforceable in accordance with the relevant laws in the PRC.

(c) The consideration under the Real Property Sale and Purchase Agreement and all fees and duties have been settled in full.

(d) No mortgages or other encumbrances over the Land and the Buildings are observed.

(e) The title certificates of the property will be issued to Harbin Songjiang after verification and approval given by the relevant authorities. As advised by Harbin Songjiang, application for such title certificates is in progress. There is no legal impediment for such application.

(f) After obtaining such title certificates, Harbin Songjiang will be the legal holder of the land use rights of the Land and the building ownership rights of the Buildings. During the term of the land use rights, Harbin Songjiang has the right to use, lease, transfer, mortgage or otherwise legally dispose of the Land and the Buildings.

(iii) In our valuation, we have assumed that Harbin Songjiang will have no legal impediments to obtain the title certificates of the property. We have also assumed that the property is free from any encumbrances and Harbin Songjiang has the right to use, lease, transfer, mortgage or otherwise dispose of the property without paying any additional premiums.

VALUATION CERTIFICATES

No.	Property	Description	Particulars of Occupancy	Market value as at 28 February 2007
7.	Land Parcel located at the junction of Zhongzhi Road and Minzhu Main Street Acheng Harbin Heilongjiang Province The PRC	The property comprises a parcel of land ("the Land") with a land area of approximately 69,300 square metres. The property is contracted to be acquired by 哈爾濱松江銅業(集團)有限公司 (Harbin Songjiang Copper (Group) Company Limited) ("Harbin Songjiang") under a State-owned Land Use Rights Grant Contract dated 4 August 2006.	The property is currently vacant.	RMB5,800,000

Notes:

(i) According to a State-owned Land Use Rights Grant Contract (No. 2006020) entered into between Harbin Songjiang and the State Land Resources Bureau of Acheng dated 4 August 2006, the land use rights of the Land was agreed to be granted to Harbin Songjiang for a term of 50 years for industrial use at a consideration of RMB5,550,000.

(ii) Opinions of the PRC Lawyer are summarized as follows:

(a) According to a State-owned Land Use Rights Grant Contract entered into between Harbin Songjiang and the State Land Resources Bureau of Acheng dated 4 August 2006, the land use rights of the Land was agreed to be granted to Harbin Songjiang for a term of 50 years for industrial use at a consideration of RMB5,550,000.

(b) The State-owned Land Use Rights Grant Contract is legal, valid and enforceable in accordance with the relevant laws in the PRC.

(c) All required land premiums have been settled in full.

(d) No mortgages or other encumbrances over the Land are observed.

(e) The State-owned Land Use Rights Certificate will be issued to Harbin Songjiang after verification and approval given by the relevant authorities. Issuance of such State-owned Land Use Rights Certificate is in progress. There is no legal impediment for such issuance.

(f) After obtaining such State-owned Land Use Rights Certificate, Harbin Songjiang will be the legal holder of the land use rights of the Land. During the term of the land use rights, Harbin Songjiang has the right to use, lease, transfer, mortgage or otherwise legally dispose of the Land.

(iii) In our valuation, we have assumed that Harbin Songjiang will have no legal impediments to obtain the State-owned Land Use Rights Certificate to the Land. We have also assumed that the property is free from any encumbrances and Harbin Songjiang has the right to use, lease, transfer, mortgage or otherwise dispose of the property without paying any additional premiums.

VALUATION CERTIFICATES

Group III — Property rented by Songjiang Group in the PRC

No.	Property	Description and Occupancy	Market value as at 28 February 2007 *(RMB)*
8.	An Office Unit located at Daban Street South Area 3 Daban County Chifeng Neimenggu Autonomous Region The PRC	The property comprises an office unit within a 2-storey building completed in 2002. The gross floor area of the property is approximately 127 square metres. The property is held by Songjiang Group under a tenancy agreement dated 20 December 2005 between 馬洪祥 (Ma Hongxiang) as lessor and 赤峰松江金劍礦業集團有限責任公司 (Chifeng Songjiang Jinjian Mining Group Limited Liability Company) (now renamed as 赤峰松江金劍礦業有限責任公司 (Chifeng Songjiang Jinjian Mining Limited Liability Company)) ("Chifeng Songjiang", in which Harbin Songjiang holds 60% interest) as lessee for a term of 3 years from 20 December 2005 to 20 December 2008 at a yearly rent of RMB10,000. The tenancy agreement is not assignable. The property is currently occupied by Songjiang Group as an office.	No commercial value

Notes:

(i) Opinions of the PRC Lawyer are summarized as follows:

(a) According to a tenancy agreement entered into between 馬洪祥 (Ma Hongxiang) as lessor and Chifeng Songjiang as lessee, the property was leased to the lessee for a term of 3 years from 20 December 2005 to 20 December 2008 at a yearly rent of RMB10,000 for office use.

(b) The tenancy agreement is legal, valid and enforceable.

(c) The lessor has obtained Building Ownership Certificate of the property and has the legal right to lease the property.

(d) Chifeng Songjiang has the legal right to use the property according to the tenancy agreement.

(e) The tenancy agreement has not been registered. However, this will not affect the legal validity of the tenancy agreement nor will it jeopardize the legal right of Chifeng Songjiang to use the property according to the tenancy agreement.

VALUATION CERTIFICATES

Group IV — Property rented by the Group in the PRC

No.	Property	Description and Occupancy	Market value as at 28 February 2007 *(RMB)*
9.	20 Units in Southern Building and Western Building located at Dongguan Main Street Dongguan Village Shangguan County Xinzhou Shanxi Province The PRC	The property comprises 20 units within a 2-storey building completed in 2006. The total gross floor area of the property is approximately 464 square metres. The property is held by the Group under a tenancy agreement dated 1 December 2006 between 韓粉 (Han Fen) as lessor and 山西神利航天鈦業有限公司 (Shanxi Shenli Aerospace Titanium Company Limited) ("Shanxi Shenli", in which the Company holds 51.3% interest) as lessee for a term of 2 years from 1 December 2006 to 1 December 2008 at a yearly rent of RMB100,000 exclusive of water, electricity, heat, telephone and cable television charges. The tenancy is not assignable. The property is currently occupied by the Group as office and staff quarters.	No commercial value

Notes:

(i) Opinions of the PRC Lawyer are summarized as follows:

(a) According to a tenancy agreement entered into between 韓粉 (Han Fen) as lessor and Shanxi Shenli as lessee, the property was leased to the lessee for a term of 2 years from 1 December 2006 to 1 December 2008 at a yearly rent of RMB100,000 for office and residential uses.

(b) The lessor has obtained a Collective Land Use Certificate and has the legal right to use the collective land where the property is located. However, the Building Ownership Certificate or other form of lease permit of the property is not available from the lessor. According to the relevant PRC laws, there exists a risk that Shanxi Shenli may not have the right to continue to use the property if the lessor is proved not to have the right to lease the property.

(c) If the lessor is proved to have the right to lease the property, the tenancy agreement will be legal, valid and enforceable. However, the tenancy agreement has not been registered, but this will not affect the legal validity of the tenancy agreement nor will it jeopardize the legal right of Shanxi Shenli to use the property according to the tenancy agreement.

(ii) The Company has confirmed that similar office or residential properties are readily available in the area and relocation of the property will not be disruptive to the Group's operations should circumstances arise that the Group will have to relocate.

VALUATION CERTIFICATES

Group V — Properties rented by the Group in Hong Kong

No.	Property	Description and Occupancy	Market value as at 28 February 2007 *(HK$)*
10.	Suites 3206–3211 32nd Floor One International Finance Centre No. 1 Harbour View Street Central Hong Kong	The property comprises 6 units within a 39-storey commercial building and is completed in 1998. The total saleable floor area of the property is approximately 856 square metres. The property is held by the Group under a lease agreement dated 14 November 2003 between MTR Corporation Limited as landlord, the Company (formerly known as Innomaxx Biotechnology Group Limited) as tenant and IFC Development Limited as developer and registered at the Land Registry by Memorial No. UB9056582 for a term of 3 years from 15 July 2004 to 14 July 2007 at a monthly rent of HK$294,976 exclusive of government rates, service charges and other outgoings, with an option to renew for a further term of 2 years at prevailing market rent. The tenancy is not assignable. The property is currently occupied by the Group as office.	No commercial value

VALUATION CERTIFICATES

No.	Property	Description and Occupancy	Market value as at 28 February 2007 *(HK$)*
11.	Units 511–13 and 515–18 5th Floor Delta House No. 3 On Yiu Street Shatin New Territories Hong Kong	The property comprises 7 units within a 19-storey industrial/office building and is completed in 1999. The total gross floor area of the property is approximately 676 square metres. The property is held by the Group under a tenancy agreement dated 15 February 2006 between Wheelock Properties (Hong Kong) Limited as the leasing agent for Delta Realty Limited (formerly known as Marbrad Company Limited) as lessor and Cell Therapy Technologies Centre Limited (an indirect wholly owned subsidiary of the Company) as lessee for a term of 2 years from 15 January 2006 to 14 January 2008 at a monthly rent of HK$87,312 exclusive of government rates, service charges and other outgoings. The tenancy is not assignable. The property is currently occupied by the Group as workshop and office.	No commercial value

BEHRE DOLBEAR

founded 1911 MINERALS INDUSTRY CONSULTANTS

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23 May 2007

The Board of Directors
China Mining Resources Group Limited
Suite 3206–3211, 32/F,
One International Finance Center
1 Harbour View Street
Central, Hong Kong

Gentlemen,

Behre Dolbear Asia, Inc. (“BDASIA”), a subsidiary of Behre Dolbear & Company, Inc. (“Behre Dolbear”), herewith submits a report on the Independent Technical Review of the Mining Properties of Harbin Songjiang Copper Group Company Limited (“Songjiang Copper”), Harbin, Heilongjiang Province, The People’s Republic of China. The address for BDASIA is noted above. This letter of transmittal is part of the report.

The review covers two underground mining operations in detail: the Songjiang copper mine and the Wudaoling molybdenum mine, both of which are 100% owned by Songjiang Copper. These two operating properties constitute the primary mining assets of Songjiang Copper. BDASIA visited these two mining properties in February 2007. In addition, a preliminary review for five additional Songjiang Copper mining license areas has also been included in this report based on a desk-top study. Currently, these five additional mining license areas are not in operation and Songjiang Copper has no plans to explore or develop these properties.

The purpose of this report is to provide an independent technical assessment of Songjiang Copper’s two operating mines and other mining properties in relation to the acquisition (the “Acquisition”) of a 75.08% interest in Songjiang Copper by China Mining Resources Group Limited (“China Mining” or the “Company”, formerly INNOMAXX Biotechnology Group Limited), a company whose shares are listed on The Stock Exchange of Hong Kong Limited (“SEHK”). This technical report has been prepared in accordance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”), in particular, Chapter 18. The reporting standard adopted by this report is the VALMIN Code and Guidelines for Technical Assessment and Valuation of Mineral Assets and Mineral Securities for Independent Expert Reports as adopted by the Australasian Institute of Mining and Metallurgy in 1995 and updated in 2005. Mineral resources and ore reserves defined at each property have been reviewed for conformity with the Australasian Code for Reporting Exploration Results, Mineral Resources and Ore Reserves (the “JORC Code”) prepared by the Joint Ore Reserve Committee of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia in 1999 and revised in 2004.

The evidence upon which the estimated mineral resources and ore reserves are based includes the deposit geology, drilling and sampling information, project economics, and past production history. The basis upon which BDASIA forms its view on the mineral resource and ore reserve estimates includes the site visits of BDASIA's professionals to the subject mining properties, interviews with Songjiang Copper's site personnel and consultants, analysis of the drilling and sampling database, procedures and parameters used for the estimates, and a reconciliation with past production.

The BDASIA project team consisted of senior-level mining professionals from Behre Dolbear's Denver office in the United States and Sydney office in Australia. The scope of work conducted by BDASIA included site visits to the two mining properties, technical analysis of the project geology, mineral resource and ore reserve estimates, and review of mining, processing, production, environment, occupational health and safety, operating costs, and capital costs.

BDASIA has not undertaken an audit of Songjiang Copper's data, re-estimated the mineral resources, or reviewed the tenement status with respect to any legal or statutory issues.

BDASIA's report comprises an Introduction, followed by reviews of the technical aspects of Geology, Mineral Resources and Ore Reserves, Mining, Processing, Production, Operating and Capital Costs, Environmental, Occupational Health and Safety issues, and a Risk Analysis of the mining properties. We trust that the report adequately and appropriately describes the technical aspects of the projects and addresses issues of significance and risk.

Neither BDASIA nor any of its employees or associates involved in this project holds any share or has any direct or indirect pecuniary or contingent interests of any kind in China Mining, Songjiang Copper or their mining properties. BDASIA is to receive a fee for its services (the work product of which includes this report) at its normal commercial rate and customary payment schedules. The payment of our professional fee is not contingent on the outcome of this report.

This report documents the findings of BDASIA's review of the Songjiang Copper mining properties completed to the date of this transmittal letter. The sole purpose of this report is for the use of the Directors of China Mining and their Sponsors and Advisors for inclusion in circular of China Mining to its shareholders in relation to the Acquisition and should not be used or relied upon for any other purpose. Neither the whole nor any part of this report nor any reference thereto may be included in or with or attached to any document or used for any other purpose, without BDASIA's written consent to the form and context in which it appears. BDASIA consents to the inclusion of this report in the circular of China Mining to its shareholders in relation to the Acquisition.

Yours faithfully,
BEHRE DOLBEAR ASIA, INC.
Qingping Deng
President

Behre Dolbear Project 07-010

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1.0 INTRODUCTION

China Mining Resources Group Limited ("China Mining" or the "Company", formerly INNOMAXX Biotechnology Group Limited) is a company listed on The Stock Exchange of Hong Kong Limited ("SEHK"). China Mining is proposing to acquire (the "Acquisition") a 75.08% interest in Harbin Songjiang Copper Group Company Limited ("Songjiang Copper"), a joint stock company whose head office is located in Harbin, Heilongjiang Province of the People's Republic of China ("PRC" or "China"). Songjiang Copper was incorporated by privatization of a state-owned company in February 2005.

Songjiang Copper has two 100%-owned mining operations in Harbin (Figure 1.1), which constitute the primary mining assets of Songjiang Copper. These properties are:

- the Songjiang copper mine using underground mining and flotation processing methods to produce copper and zinc concentrates with a production capacity of approximately 1,300 tonnes per day ("tpd") of ore. Concentrates produced by the mine in 2006 contain approximately 4,410 tonnes ("t") of copper and 3,460t of zinc; and

- the Wudaoling molybdenum mine using underground mining and flotation processing methods to produce molybdenum concentrate with a production capacity of approximately 2,300tpd of ore. Concentrates produced by the mine in 2006 contain approximately 980t of molybdenum. The concentrate is currently converted to ferromolybdenum by a contractor as the final product for sale. Songjiang Copper has planned to increase the production capacity to 3,300tpd of ore at the end of 2008.

In addition, Songjiang Copper also holds five other mining licenses and seven exploration licenses in various locations in China. Currently, these five additional mining license areas are not in operation and Songjiang Copper has no plans to explore or develop these properties. The seven exploration license areas are all at an early stage of exploration, and no mineral resources have been defined on these properties. Songjiang Copper currently has no plans to explore on these seven exploration license areas.

The Board of Directors of China Mining engaged Behre Dolbear Asia, Inc. ("BDASIA"), a subsidiary of Behre Dolbear & Company, Inc. ("Behre Dolbear"), as their independent technical advisor to undertake an independent technical review of Songjiang Copper's two mining operations and to prepare an independent technical report in connection with the China Mining Acquisition. This BDASIA report is intended to be included in the circular of China Mining to its shareholders in relation to the Acquisition.

BDASIA's project team for this technical review consists of senior-level professionals from Behre Dolbear's Denver office in the United States and Sydney office in Australia. Behre Dolbear personnel contributing to the study and to this technical report include:

- **Dr. Qingping Deng**, President of BDASIA and Global Director of Ore Reserves and Mine Planning for Behre Dolbear, is BDASIA's Project Manager and Project Geologist for this technical review. Dr. Deng is a geologist with more than 23 years of professional experience in the areas of exploration, deposit modeling and mine planning, estimation of mineral resources and ore reserves, geostatistics, cash-flow analysis, project evaluation/valuation, and feasibility studies in North, Central and South America, Asia, Europe and Africa. Dr. Deng is a Certified Professional Geologist of the American Institute of Professional Geologists and meets all the requirements for "Competent Person" as defined in the 2004 Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves ("the JORC Code") and the requirements for "Qualified Person" as defined in Canadian National Instrument 43-101. Dr. Deng is fluent in both English and Chinese.

- **Mr. John Reiss**, a Senior Associate of Behre Dolbear's Denver office, is BDASIA's Project Mining Engineer for this study. Mr. Reiss has over 30 years experience in underground mining operations, mine engineering, and project management. His project management background includes managing project feasibility studies for underground gold and copper mines in Alaska, South Africa, and the Philippines. The mine in South Africa was approved for financing and is currently in operation. He has successfully managed several underground mining operations. His responsibilities included planning, construction, development and production, with daily production rates ranging from 1,000t to 40,000t.

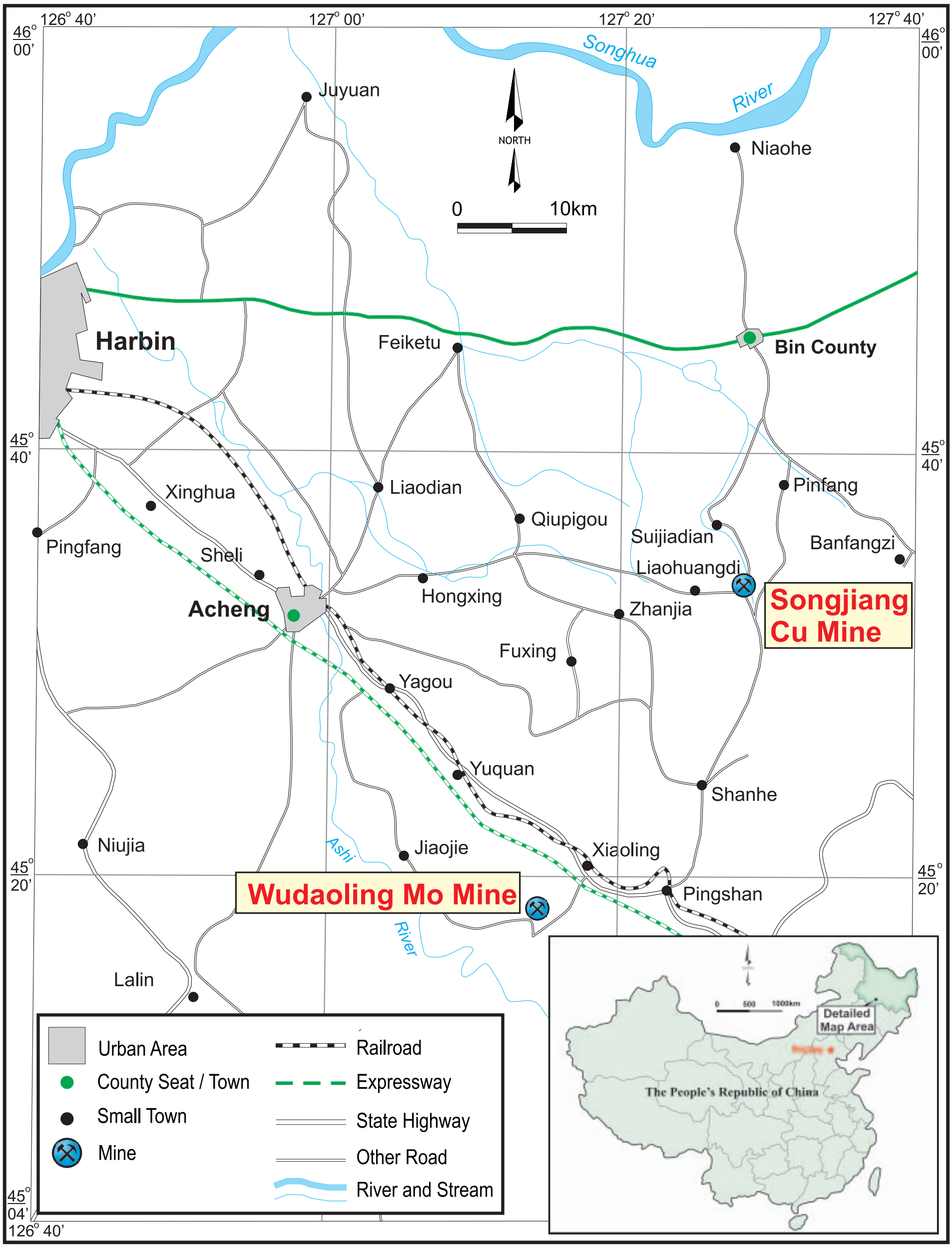

Figure 1.1 Location Map of the Songjiang Copper Mine and Wudaoling Molybdenum Mine

- **Dr. Tracy Braun**, a Senior Consultant of Behre Dolbear's Denver office, is BDASIA's Project Metallurgist for the study. Dr. Braun has over 30 years experience in the mining and processing industries in the USA and internationally. Dr. Braun has technical expertise in leaching, solvent extraction-electrowinning, electrorefining, precious metals recovery, milling, flotation and smelting. His experience includes operations management, project evaluation, project development and construction management.

- **Ms. Janet Epps**, a Senior Associate of Behre Dolbear's Sydney office, is BDASIA's Project Environment, Occupational Health and Safety Specialist. She has 30 years experience in environmental and community issues management, sustainability, policy development and regulatory consultancy services. Ms. Epps has worked extensively with the private sector, with government and the UN, World Bank, the IFC and the Multilateral Investment Guarantee Agency (MIGA), and with the mining industry, providing policy advice to governments of developing countries on designated projects and contributing towards sustainable development and environmental management strategies. She has completed assignments in Australasia, the Pacific, Asia, Middle East, CIS, Africa, Eastern Europe, South America and the Caribbean.

- **Mr. Bernard J. Guarnera**, President and Chief Executive Officer of Behre Dolbear & Company, Inc. was subcontracted to act as BDASIA's Project Advisor. He is a Certified Mineral Appraiser with extensive experience in the valuation of mineral properties and mining companies. He is a registered Professional Engineer, a Registered Professional Geologist and a Chartered Professional (Geology) of the Australasian Institute of Mining and Metallurgy. Mr. Guarnera has over 30 years of professional experience and his career includes senior-level positions in exploration and development at a number of major U.S. natural resource companies. Mr. Guarnera meets all the requirements for "Competent Person" in Australia and "Qualified Person" in Canada.

BDASIA's project team, with the exception of Mr. Guarnera, traveled to China and visited the two operating mines in Harbin that are reviewed in this report from February 11 to February 17, 2007. During BDASIA's visit, discussions were held with technical and managerial staff at the mine sites and with technical, management personnel and consultants in Songjiang Copper's head office. Operating performances from March 2005 to December 2006 and production schedules, budgets and forecasts for 2007–2009 were reviewed, together with longer term development plans. The review for the five additional mining license areas in this report is based on a desk-top study, and no site visits have been conducted by BDASIA to these properties. Compared to the two operating mines, these five additional mining license areas have only a very minor economic importance to Songjiang Copper.

This BDASIA report contains forecasts and projections prepared by BDASIA, based on information provided by Songjiang Copper. BDASIA's assessment of the projected production schedules, capital and operating costs are based on technical reviews of project data and project site visits.

The metric system is used throughout this report. The currency used is the Chinese Yuan (or RMB) and/or the United States dollar (US$). The exchange rate used in the report is RMB7.80 for US$1.00, the rate of the People's Bank of China prevailing on December 29, 2006.

2.0 QUALIFICATIONS OF BEHRE DOLBEAR

Behre Dolbear & Company, Inc. is an international minerals industry consulting group which has operated continuously in North America and worldwide since 1911, currently with offices in Beijing, Denver, Guadalajara, London, New York, Santiago, Sydney, Toronto, Vancouver, and Hong Kong.

The firm specializes in performing mineral industry studies for mining companies, financial institutions, and natural resource firms, including mineral resource/ore reserve compilations and audits, mineral property evaluations and valuations, due diligence studies and independent expert reviews for acquisition and financing purposes, project feasibility studies, assistance in negotiating mineral agreements, and market analyses. The firm has worked with a broad spectrum of commodities including base and precious metals, coal, ferrous metals, and industrial minerals on a worldwide basis. Behre Dolbear has acted on behalf of numerous international banks, financial institutions and mining clients and is well regarded worldwide as an independent expert engineering consultant in the minerals industry. Behre Dolbear has prepared numerous independent technical reports for mining projects worldwide to support securities exchange filings of mining companies in Hong Kong, the United States, Canada, Australia, the United Kingdom, and other countries.

Most of Behre Dolbear's associates and consultants have occupied senior corporate management and operational roles and are thus well-experienced from an operational view point as well as being independent expert consultants.

BDASIA is a wholly-owned subsidiary of Behre Dolbear established in 2004 to manage Behre Dolbear's projects in China and other Asian countries. Project teams of BDASIA commonly consist of senior-level professionals from Behre Dolbear's Denver office in the United States, Sydney office in Australia, London office in the United Kingdom and other worldwide offices. Since its establishment, BDASIA has conducted over 10 technical studies for mining projects in China or oversea mining projects to be acquired by SEHK-listed Chinese companies, including independent technical reports for SEHK IPO prospectus of Hunan Nonferrous Metals Corporation Limited and Zhaojin Mining Industry Company Limited; both of the reports were prepared in accordance with the SEHK Listing Rules, the JORC Code and the VALMIN Code; both of the companies were successfully listed on the SEHK in 2006.

BDASIA is independent of China Mining, Songjiang Copper and all their mining/exploration properties.

3.0 DISCLAIMER

BDASIA has conducted an independent technical review of Songjiang Copper's mining properties and holdings. A site visit was made to the project sites by BDASIA professionals involved in this project. BDASIA has exercised all due care in reviewing the supplied information and believes that the basic assumptions are factual and correct and the interpretations are reasonable. BDASIA has independently analyzed Songjiang Copper's data, but the accuracy of the conclusions of the review largely relies on the accuracy of the supplied data. BDASIA does not accept responsibility for any errors or omissions in the supplied information and does not accept any consequential liability arising from investment or other financial decisions or actions.

4.0 PROPERTY DESCRIPTION

4.1 Location, Infrastructure and Access

The two operating mines of Songjiang Copper are both located southeast of Harbin City (Figure 1.1). The Songjiang copper mine is located in Bin County, Harbin City of Heilongjiang Province, approximately 75 kilometers ("km") southeast of Harbin, 30km south of the Bin County seat and 47km east of the rail station at Acheng. The Wudaoling molybdenum mine is located in Xiaoling Township, Acheng District, Harbin City of the Heilongjiang Province, approximately 70km southeast of Harbin, 9km south of the Xiaoling Township. The road distance between the two mines is approximately 50km.

Access to the two mines is very good and the area has well established highway and railroad systems. The Harbin-Jiamusi expressway runs east-west from Harbin through the Bin County seat; the Harbin-Manzhouli expressway runs southeasterly from Harbin through Acheng and Xiaoling; there is also a railroad parallel to the Harbin-Manzhouli expressway with stations at Acheng and Xiaoling. The Songjiang copper mine is connected to the Bin County seat in the north and Acheng in the west through cement-paved two-lane highways; copper and zinc concentrates produced by the mine are trucked to the Acheng rail station then shipped by train to smelters in various locations of China. The Wudaoling molybdenum mine is connected to the Xiaoling rail station and Harbin-Manzhouli expressway through cement-paved two-lane highways; molybdenum concentrates produced are packed in 50-kilogram ("kg") plastic bags and trucked to a contractor converting plant in Huludao of Liaoning Province to produce ferromolybdenum for sale.

Electricity for both mines is supplied by the regional power grid. BDASIA was advised by Songjiang Copper that power supply in the area is generally sufficient for mine production. However, power interruptions could be occasionally caused by power grid maintenance. Therefore, both mines have back-up diesel generators to generate limited electricity for underground mining activities.

Water supply for production is from pumped-out underground mine water and nearby surface river water. Water from the tailings ponds is also recycled for production.

4.2 Climate and Physiography

The two mines are located in a rolling hill region in northeastern China with a local elevation ranging from 100m to over 650m. The hills are generally covered by artificial forests, and land in the basins and flat slopes is generally used for agricultural purposes. Primary crops in the area include corn, rice and soybean.

The main shaft of the Songjiang copper mine is located at the top a small hill at an elevation of 432m, approximately 90m above the bottom of the valley in the east. There is an unnamed stream east of the mine running from south to north.

The main shaft of the Wudaoling molybdenum mine with an elevation of 284m is also located on a small hill; the local elevation low is at the Ashi River at approximately 100m in elevation south of the mine.

The climate is continental with clear seasonal alternation in the area. Summer is hot with a temperature high of approximately 35°C, but winter is extremely cold with a temperature low of approximately -35°C. From late October to April of the following year is the frozen season with a frozen soil thickness of up to 2m. Average annual precipitation ranges from 670 millimeters ("mm") to 800mm, and July to September is the rainy season.

4.3 Property Ownership

Under the "Mineral Resource Law of the PRC", all mineral resources in China are owned by the state. A mining or exploration enterprise may obtain a permit for the mining or exploration right for conducting mining or exploration activities in a specific area during a specified license period. The permits are generally extendable at the end of the license period. A mining license has both horizontal limits and elevation limits, but an exploration license has only horizontal limits.

Details of the effective dates and geographic areas of the permits for mining rights relating to the two mining properties reviewed in this technical report and other Songjiang Copper mining/exploration properties have been provided to BDASIA by Songjiang Copper as listed in Table 4.1. BDASIA has not undertaken a legal due diligence review of these permits as this work is outside the scope of BDASIA's technical review. BDASIA has relied upon Songjiang Copper's advice as to the validity of these mining and exploration rights. BDASIA understands that the legal due diligence review of these mining and exploration rights has been undertaken by the Company's legal consultants.

Table 4.1
Permits for Mining and Exploration Rights for Songjiang Copper

Property	License Type	Number	Area *(km^2)*	Elevation Range *(m)*	Term
Songjiang Cu Mine, Bin County, Heilongjiang Province	Mining	2300009940270	0.6555	-100–430	Dec 1999–Dec 2019
Wudaoling Mo Mine, Acheng District, Harbin City, Heilongjiang Province	Mining	2300009910271	0.2799	-240–300	Dec 1999–Dec 2009
Xiaoling Iron-Zinc Property, Acheng District, Harbin City, Heilongjiang Province	Mining	2300000040147	0.1213	—	Feb 2000–Feb 2010
Chaganchulu Quartz Property, Keyouqian Banner, Inner Mongolia Autonomous Region	Mining	1522000610034	0.01	490–640	Dec 2006–Dec 2009
Chaersen Quartz Property, Keyouqian Banner, Inner Mongolia Autonomous Region	Mining	1522000610043	0.0181	430–460	Dec 2006–Dec 2009
Wulongshan Quartz Property, Keyouqian Banner, Inner Mongolia Autonomous Region	Mining	1522000610047	0.4348	280–320	Dec 2006–Dec 2009
Qiaolunengeci Quartz Property, Ejina Banner, Inner Mongolia Autonomous Region*	Mining	1529000620021	0.85	1,024–1,054	Aug 2000–Mar 2007
Nanqiangzi Cu-Zn Exploration Area, Bin County, Heilongjiang Province	Exploration	2300000710096	3.61	—	Mar 2007–Mar 2009
Erdaohezi Cu-Zn Exploration Area, Acheng District, Harbin City, Heilongjiang Province	Exploration	2300000710097	2.41	—	Mar 2007–Mar 2009
Xiaocaoyanggou Cu Exploration Area, Wengniute Banner, Inner Mongolia Autonomous Region	Exploration	1500000720236	12.62	—	Dec 2006–Dec 2007

Property	License Type	Number	Area (km^2)	Elevation Range (m)	Term
Huhedaban Pb-Polymetallic Exploration Area, Keyouqian Banner, Inner Mongolia Autonomous Region	Exploration	1522000610063	53.73	—	Oct 2006–Sep 2008
Hailesitai Hulinzhan Pb-Polymetallic Exploration Area, Keyouqian Banner, Inner Mongolia Autonomous Region	Exploration	1522000610064	5.32	—	Oct 2006–Sep 2008
Dahengshan Mo-Pb-Zn Exploration Area, Keyouqian Banner, Inner Mongolia Autonomous Region	Exploration	1522000610065	8.34	—	Oct 2006–Sep 2008
Fantaigou Au-Mo Exploration Area, Song County, Henan Province	Exploration	4100000620181	4.62	—	Apr 2006–Dec 2007

* The mining license for Qiaolunengeci Quartz Property expires in March 2007; the Company has submitted its renewal application before expiry, and a new mining license for the property is pending.

As shown in Table 4.1, the Songjiang copper mine holds a mining license of 0.6555 squared kilometers ("km^2") in area; the elevation range for the mining license is from -100m to the current topographic surface. The current mining license is valid until December 2019. The Wudaoling molybdenum mine has a mining license of 0.2799km^2 in area with an elevation range of -240m to the current topographic surface. The current mining license is valid until December 2009.

It should be noted that a mining license in China generally covers only the mineral resource/ore reserves that are intended to be mined; the processing facility and other auxiliary facilities can be located outside the mining license area. Therefore, the area for a Chinese mining license is generally smaller than that for a Western mining license as all the mining, processing and auxiliary facilities are generally required to be located inside the limits of a mining license in the West. In order to operate the processing facility and other auxiliary facilities, the relevant members of Songjiang Copper hold the safety production permit, explosive usage permit and explosive storage permit. They apply for the explosive purchase permit and the explosive transportation permit on an "as-needed" basis.

In addition to mining licenses for the Songjiang copper mine and the Wudaoling molybdenum mine (details of the mining licenses for these two mines are set out in Table 4.1), Songjiang Copper also holds or has an interest in five additional mining licenses and seven exploration licenses as listed in Table 4.1. BDASIA has only conducted a desk-top review of the five additional mining license areas based on the preliminary geological and resource estimation reports provided by Songjiang Copper as at this time they are not in operation and existing data is insufficient to define an ore reserve for these properties. And also, these five additional mining license areas only have a very minor economic importance to the Company. The seven exploration license areas are all at an early stage of exploration, no mineral resources have been defined and no geological and/or mineral resource estimation reports are available for BDASIA's review; these exploration license areas will not be discussed in details in this report.

The additional five mining licenses are:

- Xiaoling Iron-Zinc Mining License (License no. 2300000040147): The license area is located approximately 7km northeast of the Wudaoling molybdenum mine reviewed by this report. Mining operation for zinc using the underground mining method at Xiaoling started in July 1997 and ceased in October 2001 because of the exhaustion of the zinc mineral resources on the property. The Xiaoling mill was converted to an 800tpd molybdenum mill and is being used by the Wudaoling molybdenum mine. There is a potential for a magnetite iron mineral resource at the property, but its extent and economic importance need to be determined by additional work.

- Chaganchulu Quartz Mining License (License no. 1522000610034) in Keyouqian Banner of the Inner Mongolia Autonomous Region ("Inner Mongolia"). The property is located in the eastern portion of Inner Mongolian and approximately 60km from the city of Wulanhaote. Quartz mineralization in vein-type deposits has been identified on the property but current data is insufficient to define an ore reserve under the JORC Code and further work is needed to determine the extent and economic importance of the quartz mineralization.

- Chaersen Quartz Mining License (License no. 1522000610043) in Keyouqian Banner of Inner Mongolia. The property is located in the eastern portion of Inner Mongolian and approximately 22km from the town of Chaersen. Quartz mineralization in vein-type deposits has been identified on the property but current data is insufficient to define an ore reserve under the JORC Code and further work is needed to determine the extent and economic importance of the quartz mineralization.

- Wulongshan Quartz Mining License (License no. 1522000610047) in Keyouqian Banner of Inner Mongolia. The property is located in the eastern portion of Inner Mongolian and approximately 45km southeast of the city of Wulanhaote. Quartz mineralization in vein-type deposits has been identified on the property but current data is insufficient to define an ore reserve under the JORC Code and further work is needed to determine the extent and economic importance of the quartz mineralization.

- Qiaolunengeci Quartz Mining License (License no. 1529000620021) in Ejina Banner of Inner Mongolia. The property is located in the northwestern portion of Inner Mongolian and approximately 70km northeast of the Ejina Banner seat. Quartz mineralization in vein-type deposits has been identified on the property but current data is insufficient to define an ore reserve under the JORC Code and further work is needed to determine the extent and economic importance of the quartz mineralization.

The additional seven exploration licenses are:

- Nanqiangzi Copper-Zine Exploration License (License no. 2300000710096) in Bin County, Heilongjiang Province. No mineral resources have currently been defined on the property.

- Erdaohezi Copper Exploration License (License no. 2300000710097) in Acheng district, Harbin City, Heilongjiang Province. No mineral resources have currently been defined on the property.

- Xiaocaoyanggou Copper-Zine Exploration License (License no. 1500000720236) in Wengniute Banner of Inner Mongolia. No mineral resources have currently been defined on the property.

- Huhedaban Lead-Polymetallic Exploration License (License no. 1522000610063) in Keyouqian Banner of Inner Mongolia. The property is located in the northwestern portion of Inner Mongolian and is for the exploration of lead-polymetallic mineralization. No mineral resources have currently been defined on the property.

- Hailesitai Hulinzhan Lead-Polymetallic Exploration License (License no. 1522000610064) in Keyouqian Banner of Inner Mongolia. The property is located in the northwestern portion of Inner Mongolia and is for the exploration of lead-polymetallic mineralization. No mineral resources have currently been defined on the property.

- Dahengshan Molybdenum-Lead-Zinc Exploration License (License no. 1522000610065) in Keyouqian Banner of Inner Mongolia. The property is located in the northwestern portion of Inner Mongolian and is for the exploration of molybdenum-lead-zinc mineralization. No mineral resources have currently been defined on the property.

- Fantaigou Gold-Molybdenum Exploration License (License no. 4100000620181) in Song County, Henan Province. The property is located in the western portion of Henan and approximately 12km southwest of the Song County seat. Initial exploration at the property has identified gold and molybdenum mineralization, but the extent and economic importance need to be determined by further work. No mineral resources have currently been defined on the property.

4.4 The Songjiang Copper Mine

The Songjiang copper mine is currently managed by the Harbin Songjiang Copper Enterprise Company Limited ("Songjiang Copper Enterprise"), which is a wholly-owned subsidiary of Songjiang Copper.

Copper-zinc-tungsten mineralization in the Songjiang copper mine area was discovered in 1966, and follow-up exploration in the late 1960s defined a mineral resource that can support mine production in the area. Mine construction was carried out from May 1969 to July 1972 with an initial production capacity of 200tpd. The mine was expanded to 500tpd in 1978, 1,000tpd in 1988 and 1,300tpd in 1995. Songjiang is an underground mining operation and it produces copper and zinc concentrates from the mined ore using the flotation processing method. The Songjiang copper mine has been in production continuously since 1972. The mine processed 0.46Mt of ore with an average grade of 1.06% copper and 1.33% zinc in 2006. After 35 years of production, mineral resources at the upper levels of the deposit from 90m to 300m have been mostly mined out, and current production is concentrated in the lower levels at a 40m interval between -30m and 90m. The mine is currently at a late stage of production.

In additional to copper-zinc ore currently being mined, tungsten mineralization has also been identified below the copper-zinc orebodies at the property. Further exploration and feasibility studies are needed to determine the economic significance of the tungsten mineralization, and it is possible that the mine can be converted to a tungsten mine in the future if tungsten ore reserves can be defined at the property.

Songjiang Copper Enterprise currently has approximately 1,230 employees.

4.5 The Wudaoling Molybdenum Mine

The Wudaoling molybdenum mine is currently managed by the Harbin Songjiang Molybdenum Company Limited ("Songjiang Molybdenum"), which is a wholly-owned subsidiary of Songjiang Copper.

The area has a long history of exploration and mining that reportedly dated back to the Jin Dynasty (1115 to 1234). Approximately 100,000t of iron ore were mined in the late 1950s and early 1960s. Molybdenum mineralization at Wudaoling was discovered in late 1950s and exploration work was carried out in 1960s and 1970s. A feasibility study and a preliminary mine design were completed in 1998. Mine construction was carried out from September 1998 to April 2002 with an initial production capacity of 500tpd. The mine was expanded to 800tpd in August 2002 and 2,300tpd in October 2003 by constructing a new 1,500tpd mill and a new production shaft. Further expansion to 3,300tpd is planned in 2007. Wudaoling is an underground mining operation and it produces molybdenum concentrates from the mined ore using the flotation processing method. The molybdenum concentrates are currently converted to ferromolybdenum by a contractor as the final product for sale. The mine plans to construct a ferromolybdenum converting and down-stream ferromolybdenum processing plant in 2007. Wudaoling is still at its early stage of production. The mine processed 0.50Mt of ore with an average grade of 0.24% molybdenum in 2006. Current mine production comes from six levels at a 50m interval from -50m to 200m.

Songjiang Molybdenum currently has approximately 990 employees.

5.0 GEOLOGY AND DATABASE

5.1 Geology

5.1.1 *Geology of the Songjiang Copper Mine*

Songjiang copper mine is a skarn-type copper-zinc-tungsten deposit related to a Mesozoic early Yanshanian granodiorite intrusive.

Stratigraphy in the deposit area includes the Lower Permian Tumenling Formation and the Middle Jurassic Taiantun Formation. The Tumenling Formation is subdivided into a lower sandstone-slate member with thin marble interbeds, a middle member of felsic volcanoclastic rocks with interbedded slate and marble lenses, and an upper marble member. The volcanoclastic rocks and slates near the intrusive contact zone have generally been metamorphosed to hornfels. The Taiantun Formation consists of mostly felsic volcanic and volcanoclastic rocks with local slate interbeds; it unconformably overlies the Tumenling Formation.

The Tumenling Formation was intruded by a granodiorite during the early Yanshanian Orogeny; skarns formed along the interlayer fractures in the stratigraphy near the contact zone of the granodiorite and the sediments control the copper-zinc-tungsten mineralization. The contact zone strikes generally in the east-northeast direction, and the stratigraphy has been folded to a syncline with an east-northeastern axis before the granodiorite intrusion in the deposit area.

Copper-zinc mineralization with some gold and silver content is the primary mineralization type at the deposit, however, significant tungsten mineralization with some molybdenum content has also been identified below the copper-zinc mineralization zone. A total of 48 copper-zinc mineralized bodies have been defined; the No. 8 is by far the largest and the

No. 17 is the second largest. Other mineralized bodies are much smaller. The No. 8 and No. 17 mineralized bodies together account for approximately 95% of the known copper-zinc resources in the deposit; they are the targets for historical and current mining activity in the deposit area.

The No. 8 mineralized body was controlled by the skarn zone formed between the Tumenling Formation upper marble member and middle hornfels member and is conformable with stratigraphy with a strike between 60° and 80°. The mineralized body is mostly located in the western limb of the syncline and generally dips to the east; it is steeply dipping at the upper portion and flattens with depth following the syncline; it dips to the opposite direction in the eastern limb of the fold. The No. 8 body is approximately 1,300m long along strike, generally 2m to 6m wide with a maximum of 31m, and extends generally 200m to 300m with a maximum of 440m in the dip direction with some branching, bulging and pinching. The average copper grade is 1.23% with a high of 9.71% and the average zinc grade is 1.48% with a high of 11.48%.

The No. 17 mineralized body is controlled by an interlayer skarn zone within the middle member of the Tumenling Formation near the intrusive contact located in the eastern limb of the syncline. Its strike is similar to the No. 8 body at 60° and 80°, but it dips 70° to 80° to the west. The mineralized body is approximately 750m long along strike, generally 2m to 10m wide with a maximum of 37m, and extends generally for about 100m with a maximum of 220m in the dip direction. The average copper grade is 1.37% with a high of 8.57% and the average zinc grade is 1.13%.

In addition to copper and zinc, there are also recoverable gold (0.2 to 1.65 grams per tonne, "g/t") and silver (1 to 188g/t) in the deposit.

Primary metallic minerals for the copper-zinc mineralization are chalcopyrite, bornite, sphalerite, galena, magnetite, sheelite, pyrrhotite, and pyrite with small amount of chalcocite, tetrahedrite, molybdenite, marcasite, arsenopyrite, and bismuthnite. The copper minerals were generally oxidized to malachite and azurite near the surface or along some fractures. Gangue minerals are mostly grossularite and diopside with small amount of other skarn minerals, chlorite, quartz and calcite.

The No. 8 and No. 17 mineralized bodies are generally un-oxidized, but the other smaller mineralized bodies may contain oxidized portions near the surface.

Figure 5.1 is geological plan of the Songjiang copper deposit and Figure 5.2 is a typical cross section of the deposit.

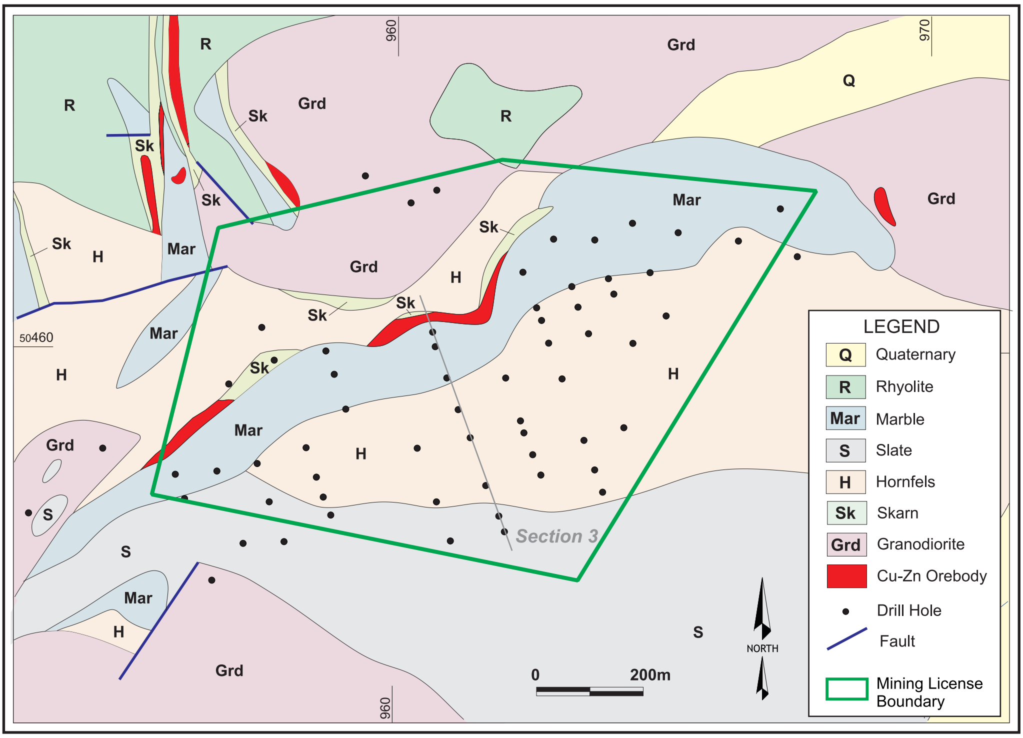

Figure 5.1 Geology Plan Map of the Songjiang Copper Mine

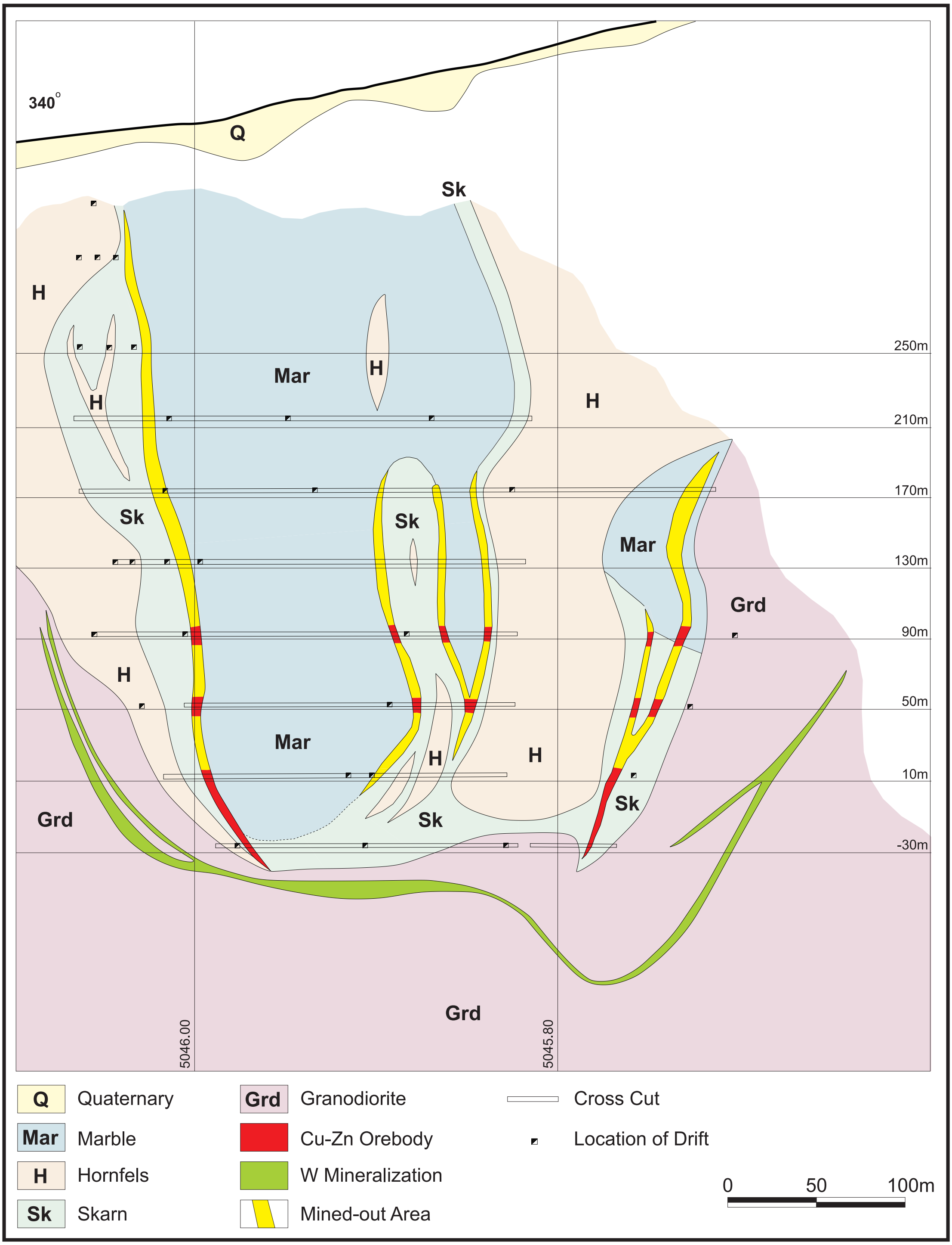

Figure 5.2 A typical Cross Section of the Songjiang Copper Mine (Location of the section is shown in Figure 5.1.)

5.1.2 *Geology of the Wudaoling Molybdenum Mine*

Wudaoling molybdenum mine is a skarn-type molybdenum deposit related to a late Hercynian (late Paleozoic) granite intrusive.

Stratigraphy in the deposit area consists of Lower Permian Yuquan Formation marble, siltstone and rhyolitic tuffs, Lower Permian Tumenling Formation sandstone, slate and marble with some rhyolitic tuffs, Upper Permian Wudaoling Formation volcanic and volcanoclastic rocks, and Middle Jurassic Taiantun Formation volcanic and volcanoclastic rocks. The deposit area is located at the western limb of the southeast-trending Xiaoling syncline; stratigraphy in the area strikes generally 310° to 330° and dips to the northeast at angles between 50° and 60°.

The Permian stratigraphy was intruded by granite during the late Hercynian Orogeny; skarns formed along the southern contact zone between the intrusive body and the Wudaoling volcanic and volcanoclastic rocks control the molybdenum mineralization at the deposit area. The contact zone generally strikes at 280°. The fine grained granite near the contact has mostly been altered to quartz, sericite and pyrite.

Mineralization associated with skarns in the area includes molybdenum mineralization in the western portion and magnetite iron mineralization in the eastern portion. A total of seven molybdenum mineralized bodies have been identified for the deposit, but the No. 1 body by far is the largest and it constitutes approximately 99% of the known molybdenum resources. The No. 1 body is a large tabular but irregular mineralized body within the skarn at the contact zone. It is approximately 560m long along the strike direction of 281° and generally 30m to 40m thick with a maximum of 100m; it extends from 200m to over 700m in the dip direction. The mineralized body is funnel-shaped on the projected long section. This body dips to the south at angles between 53° and 78° in the eastern portion but it dips to the north at angles between 70° to 80° in the western portion.

Primary metallic minerals for the molybdenum mineralization are molybdenite, pyrite, hematite, and small amount of chalcopyrite, sphalerite, galena, magnetite, bornite, chalcocite, tetrahedrite, and bismuthnite. Gangue minerals consist of garnet, pyroxene, actinolite, epidote, calcite and chlorite with small amounts of quartz, feldspar and fluorite. Molybdenite generally occurs between garnet grains or along fracture surfaces; its grain size is generally 0.01mm to 0.1mm with a maximum of 1.5mm. Molybdenum grade generally ranges from 0.03% to 0.35% with a maximum of 10.59%. Other metals in the deposit include copper (generally 0.02% to 0.03%), lead (0.02% to 0.05%), and zinc (0.03% to 0.2%).

Figure 5.3 is geological plan of the Wudaoling molybdenum deposit and Figure 5.4 is a typical cross section of the deposit.

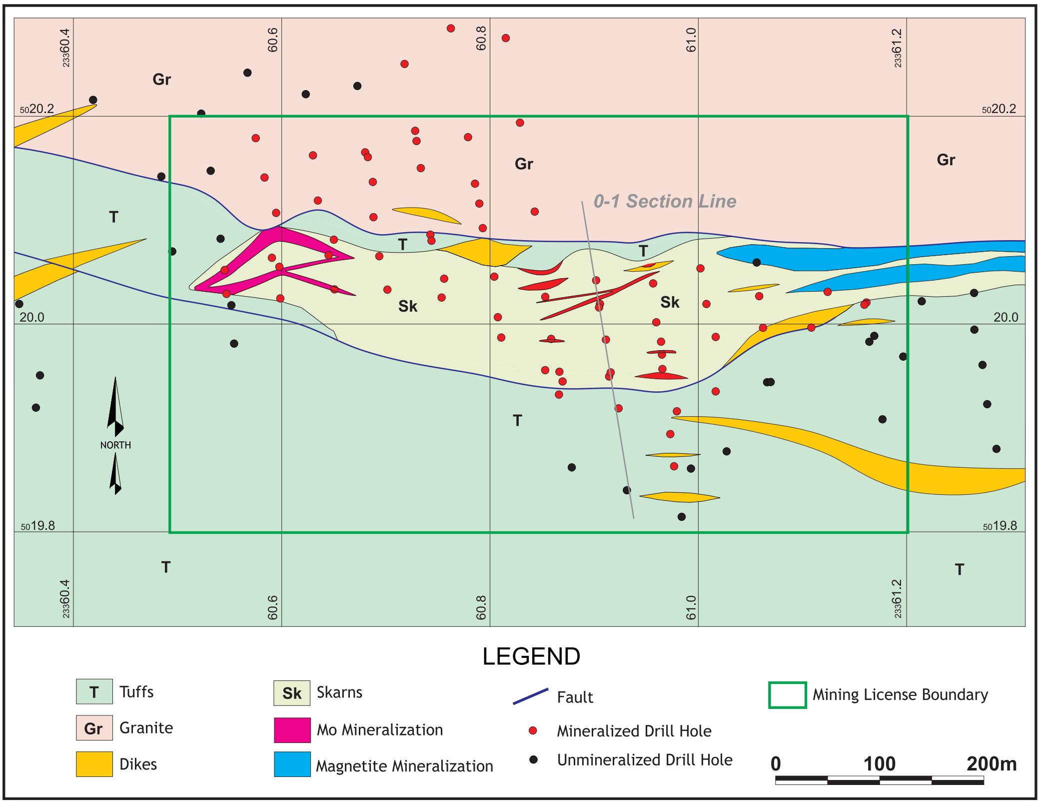

Figure 5.3 Geology Plan Map of the Wudaoling Molybdenum Mine

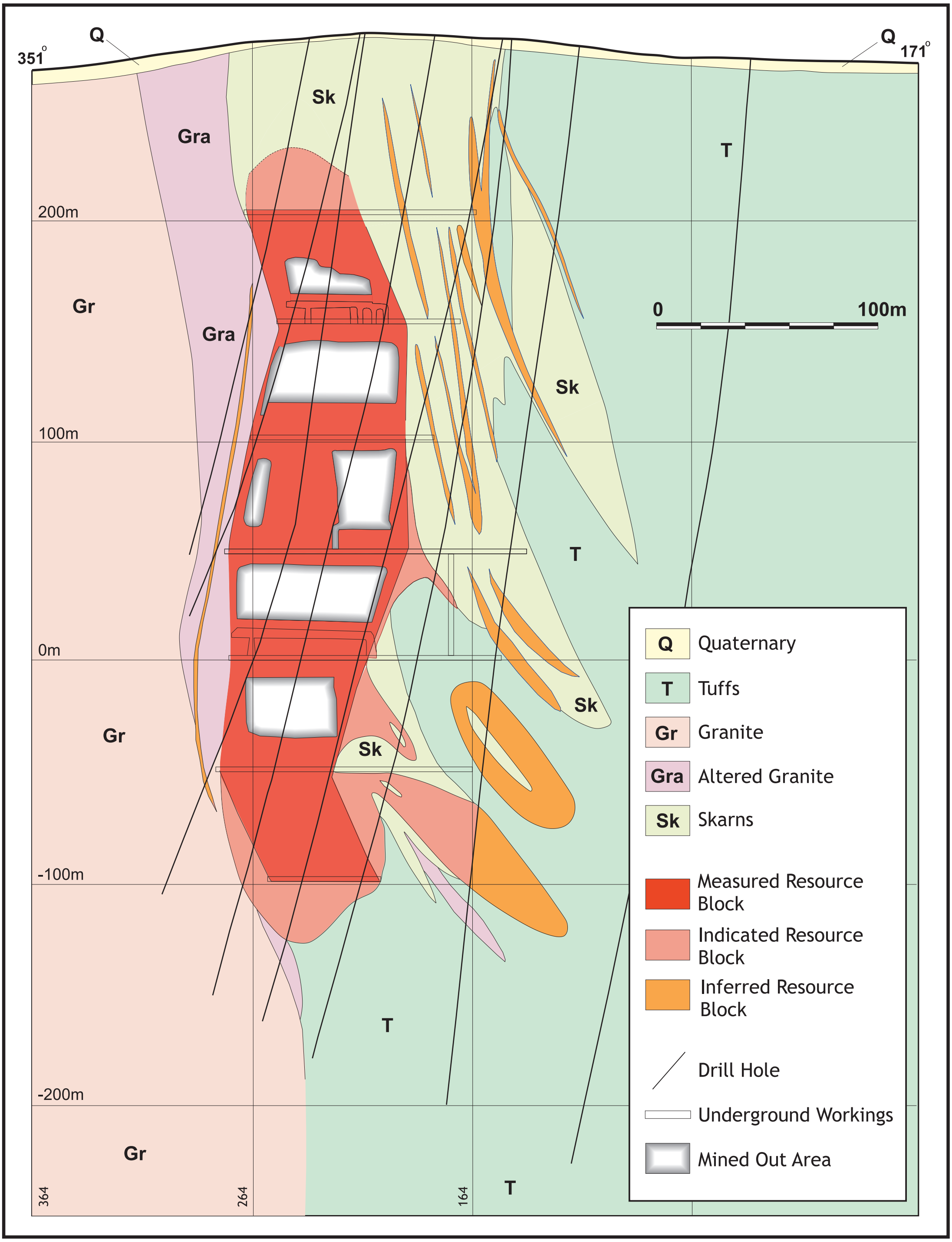

Figure 5.4 A typical Cross Section of the Wudaoling Molybdenum Mine (Location of the section is shown in Figure 5.3.)

5.1.3 *Geology of the Xiaoling Iron-Zinc Mining License Area*

Magnetite iron and zinc mineralization at Xiaoling is a skarn-type deposit, and is controlled by the same contact metasomatism zone between the granite intrusive and the sedimentary/volcanic wall rocks as in the Wudaoling molybdenum deposit.

Zinc mineralization was hosted by skarns. The primary zinc mineralized body in the deposit is irregular and lens-shaped; it is 212m long along strike, extends for 150m to 270m in the dip direction, and is 1m to 50m thick. There is also another smaller less-well defined zinc mineralized body with a much lower average grade. A zinc mineral resource of approximately 1.0Mt with an average zinc grade of 6.96% was defined by drilling in the 1980s and this resource has been mined out by Songjiang Copper from 1997 to 2001.

The skarns also host some magnetite rich zones and a potential for an iron mineral resource exists at the property.

5.1.4 *Geology of the Chaganchulu Quartz Mining License Area*

Quartz mineralization at Chaganchulu is a quartz vein-type deposit. Two quartz veins hosted by Lower Permian Wujiatun Formation slates and sandy slates have been identified by surface mapping and trenching. The veins strike nearly east-west, and dip to the south at an angle of approximately 60°. They are 190m and 90m long along strike, respectively, and 1.5m to 2.5m wide at the surface. There is no control at depth for these quartz veins at this stage.

Quartz in the veins is milky white and semi-transparent. Analysis of a sample from the veins showed a grade of 98.26% for SiO_2, 0.25% for Al_2O_3 and 0.12% for Fe_2O_3. Quartz in the veins is considered as raw material for silicon production.

5.1.5 *Geology of the Chaersen Quartz Mining License Area*

Quartz mineralization at Chaersen is also a quartz vein-type deposit. One quartz vein hosted by Lower Permian Wujiatun Formation slates and sandy slates has been identified in the area. There are also some granite intrusives widely exposed at the surface in the surrounding areas. The vein strikes nearly 95° and dip to the north at an angle of approximately 80°. It is approximately 200m long and 1m wide at the surface. There is no control at depth for the quartz vein at this stage.

Quartz in the vein is milky white and semi-transparent. Analysis of a sample from the vein showed a grade of 98.40% for SiO_2, 0.13% for Al_2O_3 and 0.14% for Fe_2O_3. Quartz in the vein is considered as raw material for silicon production.

5.1.6 *Geology of the Wulongshan Quartz Mining License Area*

Quartz mineralization at Wulongshan is also a quartz vein-type deposit. One quartz vein hosted by Middle Jurassic Xinganling Formation felsic volcanic rocks and granite intrusives has been identified in the area. The vein strikes approximately 320° and is nearly vertical. Its strike length is over 300m and its average width is 0.5m at the surface. There is no control at depth for the quartz vein at this stage.

Quartz in the vein is milky white to colorless and semi-transparent. Analysis of a sample from the vein showed a grade of 97.60% for SiO_2, 0.20% for Al_2O_3 and 0.38% for Fe_2O_3. Quartz in the vein is considered as raw material for silicon production.

5.1.7 *Geology of the Qiaolunengeci Quartz Mining License Area*

Quartz mineralization at Qiaolunengeci is also a quartz vein-type deposit. Four quartz veins hosted by granite intrusives have been identified in the area. The veins strike 50° to 70°. Individual veins are 60m to 300m long and the SiO_2 grade is generally above 95%. Quartz in the vein is considered as raw material for silicon production.

5.2 Geological Database

5.2.1 *Database Used for Mineral Resource Estimates*

Databases used for mineral resource estimation are generated by licensed exploration entities and/or by the mines in China. Guidelines specifying the appropriate sampling, sample preparation and assaying techniques and procedures for different types of mineral deposits are issued by the relevant government authorities. The databases used for mineral resource estimation are generally produced following these set guidelines.

The principal sample types included in the assay database for the mining properties reviewed in this report comprise surface and underground core drilling and underground channel sampling. A limited number of samples may also have been generated by surface channel sampling and shallow sampling wells in the exploration stage.

Table 5.1 summarizes the database used for the mineral resource estimation for the two Songjiang Copper operating mines reviewed in this report. BDASIA notes that only underground workings with channel samples were used for mineral resource estimation for the Songjiang copper mine, as this deposit is at its late stage of operation and all the remaining mineral resources have been reasonably defined by the existing underground workings at a sample spacing of 25mx25m to 25mx50m. The 154 drill holes with a total drilled length of 44,963m on a grid of 100mx100m produced at the exploration stage of the deposit were not used for the current resource estimation. BDASIA believes that it is acceptable to use only the underground channel samples for mineral resource estimation for the Songjiang copper mine as the underground channel samples have a higher sampling density and their locations are better known than the drill holes.

Table 5.1
Mineral Resource Database Statistics for the Two Operating Songjiang Copper Mines

Sample Type	Songjiang	Wudaoling
Core Drilling		
Holes	—	133
Meters	—	38,062
U/G Development		
Meters	580	43,012
Surface Trenching		
Cubic Meters	27,054	5,809
Assays		
Metal	532	10,915
Other	—	1,065
Density Measurements		
Core/Rock	343	2,342
Bulk	2	2

Currently, there are no mineral resource estimates for the Xiaoling iron-zinc mining license area. Geological database used for quartz resource estimation for the four quartz mining license areas are limited to measurements of the lengths and widths of the quartz veins exposed at the surface. No holes have been drilled in any of these quartz mining license areas to date.

5.2.2 *Drilling, Logging and Survey*

For the two operating Songjiang Copper mining projects, surface diamond core drilling is the principal exploration and sampling method in the exploration stage. The Songjiang copper deposit was drilled out on a 100mx100m grid at the exploration stage in late 1960s and early 1970s, whereas the Wudaoling molybdenum deposit was drilled out on a 50mx50m grid in the 1960s and 1970s, which were used to estimate mineral resources at different confidence levels at the end of the exploration work.

Drill hole collar locations were surveyed and down-hole deviation was generally measured using down hole survey techniques. Drill cores were logged in detail by a project geologist before sampling.

5.2.3 *Sampling, Sample Preparation and Assaying*

Generally, drill core is split by a mechanical splitter; half of the core is sent for assay and the other half is retained for record and for metallurgical tests. The entire core is sometimes sent for assay in an attempt to reduce sample grade variance. Typically the core is sampled in 1m lengths, although variable intervals may be used to coincide with geological contacts. Generally, the mineralized intervals plus 1 to 3 additional host rock samples at the contact zone were sampled and assayed.

Underground channel samples are routinely taken at around waist height where the development intersects a mineralized zone. The channel samples are generally taken from the drift walls and are cut 10cm wide and 3cm deep. The sample length for underground channel samples is typically 1m, but variable lengths may be used based on geological characteristics.

Samples are generally prepared at the sample preparation laboratory at the exploration entity or the mine. BDASIA visited Songjiang Copper's analytical laboratories at the mines during the February 2007 site visits to the Songjiang Copper operations and found the facilities generally in reasonable order and the sample preparation procedures generally consistent with mining industry practice.

Sample metal grade analysis is conducted by the exploration entity or by the mine. Analytic methods adopted include wet chemical analyses, atomic absorption spectrometry, colorimetric analyses and polarographic analyses. These analytical methods are widely used in the mining industry in China, and generally produce reliable results if conducted correctly.

5.2.4 *Quality Control and Quality Assurance*

Assay quality control and quality assurance programs include internal check assays, external check assays, and analysis of assay standards. For samples used for mineral resource estimation (i.e. samples within the orebody boundary) approximately 10% are subject to an internal check assay and approximately 5% are sent for external check assays. The external check assays are conducted by supervisory or independent assay laboratories. In order to determine the assay quality, check assay results are compared with the original assay results and the variance compared with permitted random error limits specified by government regulation for various grade ranges.

For the 532 samples used for the mineral resource estimation of the Songjiang copper mine, a total of 160 samples (about 30%) were subjected to internal check assays with check assay results all within the permitted random error limits. The 703 Team conducted 16 external check assays (about 3% of the total samples) for the current resource estimation work, and 15 out of the 16 assay results were within the permitted random error limit.

For the Wudaoling molybdenum mine, there were approximately 10% internal check assays, and 5% external check assays for the drill hole samples produced at the exploration stage; the acceptable rate is 91.6% for internal checks and 91.7% for external checks. Samples subjected to check assays at the production stage were approximately 30% for internal checks and 5% for external checks; the acceptable rate was 96.06% for internal check assays and 97.19% for external check assays. These check assay results are within the check assay standards in China.

From analysis of check assays and the extensive database of mine production including concentrate assays compared with the smelter-reported metal contents, BDASIA concludes that the analytical methods used for the Songjiang Copper mines produce acceptable results with no material bias.

5.2.5 *Bulk Density Measurements*

Bulk density data were collected using either core/rock samples or large bulk samples. The bulk density of core or rock samples was generally measured using a wax-coated water immersion method. Large bulk density samples were weighed and the volume of the excavation physically measured.

Typically for each mining project, hundreds of bulk density measurements on core or rock specimens were carried out. BDASIA considers that the ranges of bulk densities adopted are reasonable and appropriate based on the mineral composition of the ore deposits.

6.0 MINERAL RESOURCES AND ORE RESERVES

6.1 Mineral Resource/Ore Reserve Classification System

The Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, prepared by the Joint Ore Reserves Committee of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia in September 1999 and revised in December 2004 ("the JORC Code") is a mineral resource/ore reserve classification system which has been widely used and is internationally recognized. It has also been used previously in independent technical reports for mineral resource and ore reserve statements for other Chinese public companies reporting to SEHK. The JORC Code is used by BDASIA to report the mineral resources and ore reserves of Songjiang Copper's mining properties in this report.

A Mineral Resource is defined in the JORC Code as an identified in-situ mineral occurrence from which valuable or useful minerals may be recovered. Mineral Resources are classified as Measured, Indicated or Inferred according to the degree of confidence in the estimate:

- a Measured Resource is one which has been intersected and tested by drill holes or other sampling procedures at locations which are close enough to confirm continuity and where geoscientific data are reliably known;

- an Indicated Resource is one which has been sampled by drill holes or other sampling procedures at locations too widely spaced to ensure continuity, but close enough to give a reasonable indication of continuity and where geoscientific data are known with a reasonable level of reliability; and

- an Inferred Resource is one where geoscientific evidence from drill holes or other sampling procedures is such that continuity cannot be predicted with confidence and where geoscientific data may not be known with a reasonable level of reliability.

An Ore Reserve is defined in the JORC Code as that part of a Measured or Indicated Resource which could be mined and from which valuable or useful minerals could be recovered economically under conditions reasonably assumed at the time of reporting. Ore reserve figures incorporate mining dilution and allow for mining losses, and are based on an appropriate level of mine planning, mine design and scheduling. Proved and Probable Ore Reserves are based on Measured and Indicated Mineral Resources respectively. Under the JORC Code, Inferred Mineral Resources are deemed to be too poorly delineated to be transferred into an ore reserve category, and therefore no equivalent Possible Ore Reserve category is recognized or used.

The general relationships between exploration results, mineral resources and ore reserves under the JORC Code are summarized in Figure 6.1.

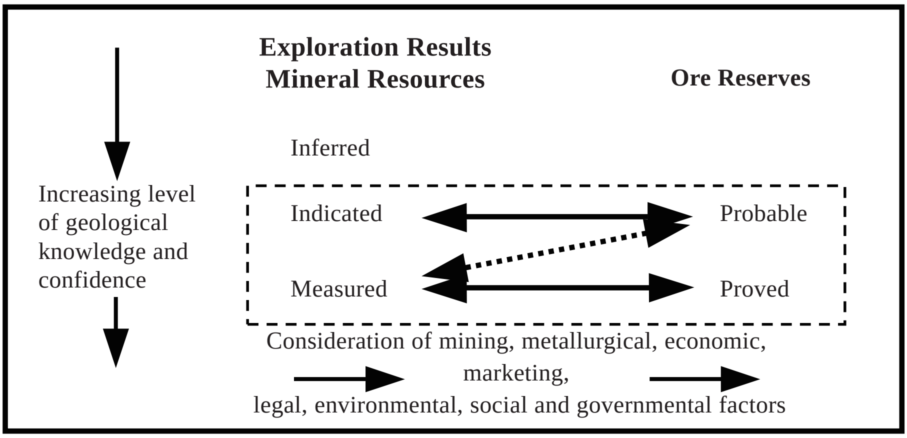

Figure 6.1 Schematic Mineral Resources and Their Conversion to Ore Reserves

Generally ore reserves are quoted as comprising part of the total mineral resource body rather than the mineral resources being additional to the ore reserves quoted. The JORC Code allows for either procedure, provided the system adopted is clearly specified. In this BDASIA report, all the ore reserves are included within the mineral resource statements.

6.2 General Procedure and Parameters for Songjiang Copper's Mineral Resource Estimation

The methods used to estimate mineral resources and the parameters used to categorize the mineral resources for a particular type of mineral deposit are generally prescribed by the relevant Chinese government authorities. The mineral resource estimates are based on strictly defined parameters, which include minimum grades, minimum thicknesses, and cutting procedures for high grades. The mineral resources for a deposit can be estimated by the mine geologists and engineers or by an independent engineering entity.

In order to provide a consistent mineral resource base for the Acquisition, Songjiang Copper has retained Heilongjiang Provincial 703 Nonferrous Metals Geological Exploration Team ("the 703 Team"), an independent licensed government-owned exploration entity in China, to conduct independent mineral resource estimation in 2006 for the two operating Songjiang Copper mines reviewed in this BDASIA report. The 703 Team's address is 197 Yanchuan Street, Acheng District, Harbin City, Heilongjiang Province. The 703 Team's mineral resource estimates for the Songjiang copper mine and the Wudaoling molybdenum mine were dated October 31, 2006; these mineral resource estimates have been updated to December 31, 2006 by BDASIA based on production mineral resource consumption data in November and December 2006 provided by the Songjiang Copper. BDASIA notes that the 703 Team has also carried out significant amounts of the original exploration work in 1960s and 1970s and produced the original mineral resource estimates at the end of the exploration work for the two operating Songjiang Copper mines.

The drill hole or channel sampling density required to define a certain class of mineral resource depends on the type of deposit. Based on the orebody size and complexity, a deposit is classified into certain exploration types before mineral resource estimation. The primary mineralization at Songjiang and Wudaoling generally comprises large tabular mineralized bodies of hundreds meters in dimension with good continuity in both grade and thickness; these deposits are categorized as exploration type II.

For the purpose of mineral resource estimation, all drilling and sampling data, along with other relevant geological information, were digitized into the MAPGIS System by the 703 Team. MAPGIS is a computer software system widely used in China for preparation of plans and sections for mineral resource estimation. Sections and plans used for the 2006 mineral resource estimation were produced by the software.

The parallel section method, a polygonal method based on projected cross sections, was generally used for the mineral resource estimation of the two operating Songjiang Copper mines by the 703 Team. Based on information provided by the 703 Team and discussions with the 703 Team' technical personnel, the general procedures and parameters used in the mineral resource estimation are described as follows.

Preliminary mineral resource estimation for the Qiaolunengeci quartz mining license area in Ejina Banner of Inner Mongolia was conducted by the No.8 Geological Exploration and Development Institute of Inner Mongolia ("the No.8 Institute"), a licensed exploration entity with an address of 139 North Haihe Road, Haibowang District, Wuhai City, Inner Mongolia, in March 2002. Preliminary mineral resource estimation for the other three quartz mining license areas (Chaganchulu, Chaersen and Wulongshan) in Keyouqian Banner of Inner Mongolia was carried out by Xingan Meng Haozhang Geological Exploration Company Limited ("Haozhang"), a license exploration entity with an address of Wuyi Sub-district, Wuyi North Boulevard, Wulanhaote City, Inner Mongolia in September 2006. As there is no production for Qiaolunengeci quartz mining license area since March 2002, and for the other three quartz mining license areas since September 2006, the current quartz mineral resources are the same as that estimated in March 2002 and September 2006 for the Qiaolunengeci quartz mining license area and the other three quartz mining license areas, respectively.

6.2.1 *Determination of "Deposit Industrial Parameters"*

The economic parameters for mineral resource estimation are referred to as "Deposit Industrial Parameters" ("DIP") in Chinese literature or technical reports, and are normally approved by government authorities for each deposit. These parameters generally include the cutoff grades (separated into boundary cutoff grade and block cutoff grade), minimum mining width, and minimum waste exclusion width. These parameters are normally quoted with the approving government authority and approval date. Once determined, these parameters are generally not changed until a major revision occurs. The DIP used for the mineral resource estimates of the two operating Songjiang Copper mines reviewed in this report are summarized in Table 6.1.

Table 6.1
Deposit Industrial Parameters for Mineral Resource Estimation

Deposit	Metal	Cutoff Grade Boundary	Cutoff Grade Block	Minimum Width	Minimum Waste Exclusion Width
Songjiang	Cu (oxide)	0.6%	1.0%	1m	2m
	Cu (sulfide)	0.3%	0.5%	1m	2m
Wudaoling	Mo	0.03%	0.06%	1m	2m

The DIPs have been based on the economic and technical conditions at the time of the determination. BDASIA has reviewed the parameters under the current economic conditions and found them generally reasonable, although some may warrant review in terms of current economic conditions and technology.

6.2.2 *Grade Capping*

Samples with extremely high metal grades (outliers) sometimes have been capped in the mineral resource estimates of the two mines reviewed in this report. For the Wudaoling molybdenum deposit, a sample with a molybdenum grade more than ten times the orebody average molybdenum grade is considered as an outlier. A total of 46 outlier samples from the drill hole database were located in resource estimation, among which 19 samples occur consecutively and were used to defined a high-grade zone. The other 27 outlier sample molybdenum grades were replaced with the orebody average grade of 0.271%. The outlier samples occurring in the underground channel samples were generally consecutive and therefore were not capped in resource estimation. For the Songjiang copper deposit, the copper and zinc grades have a small variance and grade capping generally was not needed in resource estimation.

BDASIA would normally recommend the use of a grade probability distribution curve to determine an appropriate capping grade for use in replacing the outlier grades in each orebody and/or deposit. BDASIA nevertheless, considers that the procedure adopted by the 703 Team is a reasonable and relatively conservative method to treat the outlier samples.

6.2.3 *Determination of Block Boundaries and Confidence Level*

In the parallel section mineral resource estimation, the mineralized body on a cross section is separated into a number of blocks, with each block assigned a mineral resource confidence level based on the type, density and quality of available geological data. A Measured block is generally defined by underground channel samples, underground drilling and surface drilling, with a data spacing of at least 100mx50m, but most of these blocks are controlled by 25m–30m spaced development samples. No extrapolation is allowed from a data point for the Measured blocks. An Indicated block is defined by a drill hole/channel spacing of at least 100mx100m with limited extrapolation. An Inferred block is generally defined by drill holes spaced 100m–200m or extrapolated half the drilling spacing from the Measured/Indicated blocks.

6.2.4 *Mineral Resource Estimation*

In the mineral resource estimation process, the corresponding two-dimensional blocks on two neighboring parallel cross sections were used to define a three-dimensional block. The area of the three-dimensional block (S) is calculated from the areas of the two-dimensional blocks on cross sections (S1 and S2). When the area difference for the two blocks on cross sections is less than 40%, the following formula is used for the three-dimensional block area calculation:

$$S = \frac{S_1 + S_2}{2}$$

When the area difference for the two blocks on cross sections is more than 40%, the following formula is used for the three-dimensional block area calculation:

$$S = \frac{S_1 + S_2 + \sqrt{S_1 \times S_2}}{3}$$

When a block on a cross section pinches out, the three-dimensional block area is half the two-dimensional block area if the block pinches out to a line or one third of the two-dimensional block area if the block pinches out to a point.

The volume of the three-dimensional block is determined by multiplying the area (S) with the sectional distance (L). The block mineral resource tonnage is determined by multiplying the volume by the average bulk density of the mineralized material of the orebody or deposit, which is based on the bulk density measurements. The orebody and deposit tonnages are based on the sum of the block tonnages.

Average drill hole or channel sample metal grades are calculated using the length-weighted average of all the drill hole or channel samples within the orebody boundary. The block average grade is calculated using the length-weighted average of all drill hole or channel intersections inside the block. The orebody grade is calculated using the tonnage-weighted average of all blocks inside the orebody. The deposit grade is calculated using the tonnage weighted average of all the orebodies in the deposit.

6.2.5 *Discussion*

Based on our review, BDASIA considers the mineral resource estimation procedures and parameters applied by the 703 Team to the two operating Songjiang Copper mines to be generally reasonable and appropriate. While a polygonal method, such as the parallel section method used by CNMRGS, can produce an over-estimate of grade, the 703 Team has adopted relatively conservative grade-cutting procedures to minimize this risk. The Measured blocks are generally defined by underground channel sampling, underground drilling and surface drilling at a data spacing of 25m–50m, and have a high level of geological control. There is no extrapolation from data points for the Measured category mineral resource blocks. The Indicated category blocks are also reasonably defined, based on the detailed sampling and development in the Measured blocks above or nearby and the indicated continuity from drilling data. The Inferred category blocks were defined by drilling with limited extrapolation from any data point.

In order to increase the confidence level for the mineral resource estimates, BDASIA has compiled a production reconciliation between the mill feed ore and the consumed in-situ mineral resource estimate from 2004 to 2006 for the two operating Songjiang Copper mines based on data provided by the mines. The comparison has been adjusted based on the balance calculation of the underground stockpiled ore. Table 6.2 shows that the mill-feed ore is 99.6% in tonnage, 91.0% to 91.7% in grade and 90.4% to 91.0% in contained metal of the consumed in-situ mineral resource estimate for the Songjiang copper mine; whereas Table 6.3 shows that the mill-feed ore is 99.8% in tonnage, 97.5% in grade and 97.2% in contained metal of the consumed in-situ mineral resource estimate for the Wudaoling molybdenum mine. This comparison shows that the in-situ mineral resource estimates for the two mines are reasonable, considering the mining dilution and mining losses.

Table 6.2
Comparison of Mineral Resource Estimate and Mill Feed at Songjiang Copper Mine, 2004–2006

Item	Tonnage	Grade		Contained Metal	
	kt	*Cu%*	*Zn%*	*Cu t*	*Zn t*
In-situ Mineral Resource	1,203	1.08	1.44	13,021	17,332
Mined-out Mill Feed	1,198	0.99	1.31	11,855	15,666
Variance	99.6%	91.7%	91.0%	91.0%	90.4%

Notes: Variance % based on Mill Feed as a percentage of In-Situ Mineral Resource. For example, a variance of 99.6% on tonnage means the mill feed tonnage is 99.6% of the in-situ mineral resource tonnage. Mille feed grades and contained metals are generally lower than the consumed in-situ mineral resource grades and contained metals due to mining dilution and mining losses.

Production used for comparison is from 2004 to 2006.

kt = kilo tonne and t = tonne

Table 6.3
Comparison of Mineral Resource Estimate and Mill Feed at Wudaoling, 2004–2006

Item	Tonnage	Grade	Contained Metal
	kt	*Mo%*	*Mo t*
In-situ Mineral Resource	1,926	0.275	5,291
Mined-out Mill Feed	1,922	0.268	5,143
Variance	99.8%	97.5%	97.2%

Note: Variance % based on Mill Feed as a percentage of In-Situ Mineral Resource. For example, a variance of 99.8% on tonnage means the mill feed tonnage is 99.8% of the in-situ mineral resource tonnage. Mille feed grades and contained metals are generally lower than the consumed in-situ mineral resource grades and contained metals due to mining dilution and mining losses.

Production used for comparison is from 2004 to 2006.

kt = kilo tonne and t = tonne

BDASIA notes that current molybdenum resource grade defined by the 703 Team is significantly higher than the resource grade defined only by the exploration data in 1980 (which was also compiled by the 703 Team) for the Wudaoling molybdenum mine. The current average molybdenum grade for the No. 1 mineralized body is 0.271%, whereas its 1980 average molybdenum grade was 0.167%, an increase of 63%. This is mostly caused by the negative molybdenum grade bias for drill hole data. Molybdenite is soft and commonly occurs on fractures in the Wudaoling deposit and water and other fluids used to cool and lubricate the drill bits may have washed away significant amount of the metal before sampling.

The underground channel samples are relatively unbiased as no water and other fluids were used in sampling process. Therefore, the current molybdenum resource grade defined by both drill holes and underground channel samples is significantly higher than the 1980 molybdenum resource grade defined only by exploration drill holes.

BDASIA believes that the current mineral resource is a more accurate estimate of the in-situ mineral resource than the 1980 resource estimate for the Wudaoling mine. This is also supported by the production reconciliation in Table 6.3. As there are still areas in the deposit that the mineral resource is only estimated by exploration drill holes, the current mineral resource is still somewhat conservative.

Based on reviewing the drilling and sampling data, procedures and parameters used for the estimation of mineral resources, and production reconciliation, BDASIA is of the opinion that the Measured, Indicated and Inferred mineral resources estimated under the 1999 Chinese mineral resource system for the two operating Songjiang Copper mines by the 703 Team also conform to the equivalent JORC mineral resource categories. The economic portion of the Measured and Indicated resources can be used to estimate Proved and Probable ore reserves respectively.

6.3 Mineral Resource Statement

The mineral resource estimates under the JORC Code as of December 31, 2006 for the two operating Songjiang Copper mines in Harbin, as reviewed by BDASIA, are summarized in Tables 6.4 to 6.5. The mineral resources estimated by the 703 Team for the two mines were dated October 31, 2006. Production data for the period from November to December 2006 for the two mines have been provided by Songjiang Copper to BDASIA, and mineral resource statements in the following tables have subtracted these consumed mineral resources. As there was no production at the Wudaoling molybdenum mine due to mill maintenance and upgrading in November and December 2006, the mineral resource estimates were not changed from October 31, 2006 to December 31, 2006. The mineral resource estimates are inclusive of mineralization comprising the ore reserves.

Table 6.4
Songjiang Copper Mine Mineral Resource Summary — December 31, 2006

JORC Mineral Resource Category	Tonnage (kt)	Grades (%)		Contained Metals (t)	
		Cu	*Zn*	*Cu*	*Zn*
Sulfide Resources					
Measured	1,940	1.17	1.65	22,700	31,900
Indicated	330	1.01	1.54	3,300	5,100
Subtotal	2,270	1.15	1.63	26,000	37,000
Inferred	250	1.19	0.15	3,000	400
Total	2,520	1.15	1.48	29,000	37,400
Oxide Resources					
Inferred	490	1.45	0.80	7,100	3,900

Table 6.5
Wudaoling Molybdenum Mine Mineral Resource Summary — December 31, 2006

JORC Mineral Resource Category	Tonnage (kt)	Grades (%) *Mo*	Contained Metals (t) *Mo*
Measured	10,720	0.382	40,900
Indicated	12,830	0.213	27,400
Subtotal	23,550	0.290	68,300
Inferred	4,040	0.150	6,100
Total	27,590	0.270	74,400

Mineral resources for the Qiaolunengeci quartz mining license area estimated by the No.8 Institute and for the other three quartz mining license areas (Chaganchulu, Chaersen and Wulongshan) estimated by Haozhang are summarized in Table 6.6. These mineral resources were estimated under the Chinese resource classification system and BDASIA believes that the resource should be classified as Inferred under the JORC Code. Such mineral resources are too low in geological confidence level for defining ore reserves under the JORC Code. Currently, there are no estimated mineral resources for the Xiaoling iron-zinc mining license area.

Table 6.6
Mineral Resources for the Quartz Mining License Areas
— December 31, 2006

License Area	JORC Mineral Resource Category	Quartz Resource Tonnage (kt)
Chaganchulu	Inferred	50.00
Chaersen	Inferred	48.00
Wulongshan	Inferred	8.25
Qiaolunengeci	Inferred	650.00
Total	Inferred	756.25

6.4 Procedure and Parameters for Songjiang Copper's Ore Reserve Estimation

Ore reserves comprise that portion of the Measured and Indicated mineral resource that is planned to be mined economically and delivered to the mill for processing. In line with most Chinese mining companies, Songjiang Copper does not traditionally produce an external ore reserve statement, rather this is an exercise which is carried out by the mining teams on each mine in order to produce short- and medium-term mine plans and production schedules. However, given the requirements for the Acquisition, BDASIA has formalized Songjiang Copper's mine production planning processes and estimated an ore reserve for each of the operating mines. These ore reserve estimates have been produced from the in-situ mineral resource estimates based on the economic Measured and Indicated resource categories for which a mine plan has been generated.

For the purpose of converting the economic Measured and Indicated mineral resources to ore reserves, the overall mining dilution factor and mining recovery factor between the in-situ mineral resources and the ore delivered to the mill for processing have to be determined as converting factors. BDASIA has conducted production reconciliation between the ore delivered to the mill and consumed in-situ mineral resource estimates for the two operating Songjiang Copper mines for the years of 2004, 2005 and 2006 based on information provided by Songjiang Copper and has calculated average mining dilution factors and mining recovery factors for each of the mines each year (Table 6.7). It was assumed that the dilution waste has a zero metal grade when calculating the mining dilution factor and mining recovery factor.

Table 6.7
Mining Dilution Factor and Mining Recovery Factor Analysis

Mine	Factor	2004	2005	2006	Average	Reserve*
Songjiang Copper	Dilution	10.6%	8.4%	10.0%	9.7%	10.0%
	Recovery	90.5%	91.5%	90.2%	90.7%	90.0%
Wudaoling	Dilution	3.7%	1.8%	2.4%	2.6%	5.0%
Molybdenum	Recovery	97.0%	97.8%	96.9%	97.2%	92.0%

* Mining dilution factors and mining recovery factors used for ore reserve estimation in this report.

It should be noted that the definition of the mining dilution factor in China is different from that in most Western countries. The mining dilution factor in China is defined as the ratio of the waste tonnage in the mill feed to the total mill feed tonnage, but the mining dilution factor in the West is defined as the ratio of the waste tonnage in the mill feed to the ore tonnage in the mill feed. Therefore, when using the same data for calculation, the Western mining dilution factor is always higher than the Chinese mining dilution factor, with the difference getting larger when the dilution factor is higher. For example, the Chinese mining dilution factor of 5.0% is equivalent to a Western mining dilution factor of 5.3%, and the Chinese mining dilution factor of 9.0% is equivalent to a Western mining dilution factor of 9.9%. As the JORC Code is used for mineral resource/ore reserve reporting for this BDASIA report, the Western definition of the mining dilution factor is used throughout this report.

Table 6.7 demonstrates that both the Songjiang copper mine and the Wudaoling molybdenum mine have maintained relatively stable mining dilution and mining recoveries over the past 3 years. A mining dilution factor (10.0% for Songjiang and 5.0% for Wudaoling) slightly higher than the last 3-year average mining dilution factor (9.7% for Songjiang and 2.6% for Wudaoling) and a mining recovery factor slightly lower (90.0% for Songjiang and 92.0% for Wudaoling) than the last 3-year average mining recovery factor (90.7% for Songjiang and 97.2% for Wudaoling) was selected by BDASIA to convert the economic Measured and Indicated mineral resources into Proved and Probable ore reserves. BDASIA considers these mining dilution and mining recovery factors reasonable considering the mining methods used and the orebody characteristics of the two mines.

The mine design loss has been reflected in the overall mining recovery factors. The Proved ore reserves are estimated from the economic Measured mineral resources, and the Probable ore reserves are estimated from the economic Indicated mineral resources.

6.5 Ore Reserve Statement

Ore reserve statements as of December 31, 2006 generated by BDASIA for the two operating Songjiang Copper mines in Harbin are summarized in Tables 6.8 and 6.9. The ore reserve estimates include both Proved and Probable ore reserves, and the Probable ore reserves are estimated for the long-term future of the two operating Songjiang Copper mines. The Proved and Probable ore reserves have been estimated from the Measured and Indicated mineral resources respectively. Mining dilution factors and mining recovery factors for the ore reserve estimates are as shown in Table 6.7.

Table 6.8
Songjiang Copper Mine Ore Reserve Summary — December 31, 2006

JORC Ore Reserve Category	Tonnage (kt)	Grades (%)		Contained Metals (t)	
		Cu	*Zn*	*Cu*	*Zn*
Proved	1,920	1.06%	1.50%	20,400	28,700
Probable	320	0.91%	1.40%	3,000	4,600
Total	2,240	1.04%	1.48%	23,400	33,300

Table 6.9
Wudaoling Molybdenum Mine Ore Reserve Summary — December 31, 2006

JORC Ore Reserve Category	Tonnage (kt)	Grades (%)	Contained Metals (t)
		Mo	*Mo*
Proved	10,350	0.364%	37,600
Probable	12,400	0.203%	25,200
Total	22,750	0.276%	62,800

Currently, the mineral resources at the four quartz mining license areas in Inner Mongolia are too low in geological confidence level and there is no detailed technical study to demonstrate their economic importance. There are no defined mineral resources for the Xiaoling iron-zinc mining license area. Therefore, no ore reserves under the JORC Code can be defined for these properties.

6.6 Mine Life Analysis

BDASIA has conducted a mine life analysis for the two operating Songjiang Copper mines reviewed in this study based on the December 31, 2006 ore reserve estimates and the anticipated 2008 production rate (Table 6.10). It can be seen that the existing ore reserves is sufficient to support production at the anticipated 2009 production level for 5.2 years for the Songjiang copper mine and 20.9 years for the Wudaoling molybdenum mine starting from December 31, 2006. These ore reserve mine lives may change significantly in the future due to the following reasons:

- Additional exploration and development of the mines could convert some of the Inferred mineral resources to Measured and Indicated mineral resources, which in turn might be converted to Proved and Probable ore reserves. These new ore reserves will increase the mine life;

- Additional exploration may also find additional mineral resources within the mining license areas as well as in the surrounding exploration license areas. Some of these additional mineral resources might be converted to ore reserves, which will extend the mine life; and

- Changes in the production rate will also change the mine life. The mine life will be shortened if production rate is increased to a level higher than the anticipated 2009 production level.

Table 6.10
Mine Life Analysis

		Ore Reserve Mine Life		Additional Resource Mine Life	
Mine	**2009 Production Rate (Mtpa)**	**Ore Reserve (Mt)**	**Mine Life (a)**	**Additional Resource (Mt)**	**Mine Life (a)**
Songjiang	0.429	2.24	5.2	0.74	0.9–1.7
Wudaoling	1.089	22.75	20.9	3.76	1.8–3.6

Note: Additional resource mine life is estimated based on extracting 50–100% of the mineable portion of the additional mineral resources.

6.7 Exploration Potential

6.7.1 *Songjiang Copper Mine*

The primary copper-zinc orebodies, i.e. the No. 8 and No. 17 orebodies, in the Songjiang copper mine have been reasonably well defined and closed by existing underground workings and drill holes, and a majority of the two orebodies has been mined out over the past 35 years. The potential to find additional mineral resources for the two primary orebodies is limited. However, other smaller mineralized bodies are generally not well defined by drilling, and no underground workings have been developed for them. Some additional mineral resources could be defined by further exploration work for these smaller bodies. In addition, there is known tungsten mineralization below the copper-zinc mineralized zone, if a tungsten ore reserve can be defined by additional exploration work and feasibility studies, Songjiang could be converted to a tungsten mine in the future when the copper-zinc mining is completed and the mine life could be substantially extended.

6.7.2 *Wudaoling Molybdenum Mine*

The primary orebody, the No. 1 orebody, in the Wudaoling molybdenum mine has been reasonably well defined and closed by existing underground workings and drill holes, therefore, the potential to find additional mineral resources for the primary orebody is limited. However, other smaller mineralized zones are generally not well defined by drilling, and no underground workings have been developed for them. Some additional mineral resources could be defined by further exploration work for these smaller bodies. BDASIA believes, however, that finding additional mineral resources and ore reserves is not a high-priority task for Wudaoling as its current Proved and Probable ore reserves can supported mine production at the expanded 2008 production level for over 20 years.

6.7.3 *Other Mining License and Exploration License Areas*

In addition to the two operating mines reviewed in this report, Songjiang Copper also holds or has an interest in five other mining licenses and seven exploration licenses in various locations in China as listed in Table 4.1. These additional properties are not in operation and existing data is insufficient to define an ore reserve for these additional properties.

7.0 MINING

The Songjiang copper mine and Wudaoling molybdenum mine reviewed in this BDASIA report are both underground mining operations. The design of mining methods and capital equipment selection for the two mines show great similarities. In general, ground conditions at both mines are judged to be excellent, requiring minimal to no active support measures. The Songjiang copper mine has been in operation much longer than the Wudaoling molybdenum mine, and it has evolved into a well organized operation. It is, however, nearing the end of its mine life in several more years unless further resource can be defined. Wudaoling is still seen to be maturing as an operation, but has a large resource to mine, which will last many years.

The historical mine production and development from March 2005 to December 2006 and forecast mine production and development from 2007 to 2009 are shown in Table 7.1. The development plan for Songjiang to achieve forecast production rates in 2007 and beyond are judged reasonable and in line with past performance. The 2006 mining production was less than its production capacity as a significant amount of underground stockpiled ore was processed by the mill. Wudaoling has not yet been able to achieve its stated current production capacity of 2,300tpd, mostly because of the limitation of the mill performance. In 2006 there were approximately 2 months of lost production due to mill repair and upgrading and regional power grid upgrading at Wudaoling. Those were considered a one time event. While the comparison of annual development to achieve forecasted production rates is reasonable, the mine must absorb additional training and manpower and efficiencies in 2007 and 2008 in order to hit its production target of 3,300tpd in 2009.

Table 7.1
Actual and Forecast Mine Development and Production, 2005–2009

	Actual		**Forecast**		
	Mar–Dec 2005	**2006**	**2007**	**2008**	**2009**
Development (m)					
Songjiang Copper Mine	3,710	4,182	4,200	4,200	4,200
Wudaoling Molybdenum Mine	7,183	7,853	8,000	8,000	8,000
Production (kt)					
Songjiang Copper Mine	340.5	324.1	430	430	430
Wudaoling Molybdenum Mine	596.3	586.6	936	1,023	1,089

The five additional Songjiang Copper mining licenses areas are not in operation and Songjiang copper currently has no plans to mine these properties.

7.1 The Songjiang Copper Mine

The primary orebody, the No. 8 orebody, at this Cu-Zn skarn deposit strikes 60° to 80° and generally dips steeply to the east; it is stratiform but irregular in shape. This orebody is approximately 1,300m in length, with a dip extension of generally 200m to 300m, and thicknesses up to 31m but generally 2m to 6m. The No. 8 orebody, along with the second largest orebody, No. 17, has been the focus of mining activity over the years. Since first production in 1972, the mine appears to have matured into a well-organized operation. Various systems and methods being utilized to mine the orebodies and produce ore have been in use for years and appear to be well understood by staff and workers. Upon inspection of the mine, both orebody and country rock appear strong and stable, requiring minimum or no additional support outside of normal scaling of loose ground as needed. In isolated situations where water has loosened an area, workers will install rockbolts or timbers to stabilize the ground.

7.1.1 *Mine System*

The mine is shaft accessed and served by four shafts: the main shaft (production), subsidiary shaft (men, materials, waste rock), and two ventilation shafts. All but one shaft are located on the footwall side of the orebody. Management reports that shaft inspections are carried out weekly.

The main shaft is 4m in diameter and has three compartments: two for skip haulage, and one for a manway. It is located at the top of a hill at a collar elevation of 432m and a bottom of -30m. Skips are $2m^3$ capacity and are of a tip-over scroll dump design. The hoist is a double-drum design, 2.5m in diameter and is manually controlled. The skip rope speed is set at 5 meters per second ("m/s"). This is an intake airshaft.

The subsidiary shaft is a three-compartment service shaft for men and materials, and has a cross section of 2.2mx4.4m. It is a timber shaft and is equipped with two double deck cages. The third compartment is a ladder man way that serves as an escape way in mine emergencies and shaft inspection. The shaft collar is at 411m elevation. This shaft also is accessed by an adit about 40m below the collar which portals in at the 370m elevation. A change room is connected to the adit for the workers, which is a convenient way to get the workers in and out of the mine and avoid the outside elements. The skip rope speed for man cages is set at 3m/s. This is an intake airshaft.

Both ventilation shafts are circular, concrete-lined, and 2.5m in diameter. The east ventilation shaft has a collar elevation of 375m and a bottom of 170m. The west ventilation shaft is set at 395m with bottom at 170m. Both are exhaust shafts with surface mounted fans, providing a total air of 37.76 cubic meters per second ("m^3/s") for the mine.

The mine is designed with nine levels at a 40m interval going from the 300m elevation down to -30m, but the distance between the first two levels is 50m. Current mining activities are limited to the bottom four levels.

Four type 5L-40/8 air compressors supply mine compressed air. During regular mine service, two compressors are running with two on standby. Mine service water comes mainly from a nearby river and recycling of pumped mine water from a settling pond. It is retained in a $2,000m^3$ holding tank near the service shaft. The mine reports no shortage of water supply for its mining operations.

Two pumping stations located on levels 250m and 10m near the service shaft accomplish mine dewatering. Water is fed to the pump station sumps by gravity via drainage ditches to boreholes on each level. The main pump station at level 10m contains six type 150D-30x10 pumps. At any one time there are only two pumps running with the others on standby. The mine reports that the most pumping demand has required the use of only three pumps.

Primary electrical power comes from the mine's on-site 66 kilovolt ("kv") substation. Service voltage underground is 380 volts ("v"). An overhead trolley wire in the mine's haulageways supplies voltage to the 3t electric locomotives and is 110v DC. It has been reported that there are occasional power grid outages. The mine maintains a diesel 500kw generator on standby for emergencies to power the winder and shaft pumps.

7.1.2 *Mining Methods*

In general, mining method selection is determined by the characteristics of the orebody to be mined. In the case where the dip angle of the orebody is greater than 55°, and the orebody width is less than 6m, management has selected "shrinkage stoping with short hole". The term "short hole" refers to the length of drill rod used by the stope miners. In this case, drill rods are 2.0m to 2.2m in length. Where the orebody dip angle is 30° to 55°, or the orebody width is 6m or more, open stoping with random pillar is used. Although the two methods have been used over the years in various combinations, the narrowing of the orebodies in recent years has led the mine to settle exclusively on the use of the shrinkage stoping with short hole as the mining method.

Shrinkage stoping with the short hole mining method is currently in use for its production schedule of 1,300tpd. Each stope panel is 40m high and 42m wide, and has a thickness matching the orebody. Since mining levels are at 40m intervals, stope height goes from mining level to mining level. Sill and crown pillars of 4m each are left after the stope is mined out to provide ground stability for adjacent stoping. End pillars, containing the access raises, are 8m wide. Typically, it takes about 3 months to prepare a shrinkage stope for production. About one third of the stope volume is drawn off during the mining process, with the rest being drawn out according to the mine's monthly production plan. Seasoned workers and staff make the method efficient and predictable.

The mine has also performed pillar recovery of remnant pillars left between stopes after shrinkage stoping has been completed. The method utilizes the existing pillar raise with its stope access points that were created during the original shrinkage stope development. Pillars are drilled and blasted with broken ore moved by adjacent scraper drifts. The mine only recovers pillars considered safe to rock stability. The method used is judged acceptable with the mix of capital equipment available to the mine. Shrinkage stoping is well understood and has been practiced for years at the mine. It has the advantage of being a selective mining method in that it can mine narrow to wide orebody systems that are steeply dipping. Broken ore is fed by gravity to a gathering drift at the bottom of the ore block, and scraped into waiting ore cars. Management reports that stope mining and drawdown for a single stope may, in some case, take up to 6 months.

7.2 The Wudaoling Molybdenum Mine

The primary orebody of the molybdenum skarn deposit, the No. 1 orebody, is a tabular but irregular orebody striking 281° and dipping steeply to the south in the eastern portion and to the north in the western portion. The orebody is approximately 560m long, extends 200m to 700m in the dip direction and is 30m to 100m wide. Inspection of the mine shows rock conditions to be strong and stable, with minimal support needed. Where water courses in the rock have loosened the surrounding area, the mine utilizes rockbolts or timber for additional support.

The underground Wudaoling molybdenum mine was commissioned with an initial production capacity of 500tpd in April 2002. Production capacity was expanded to 800tpd in August of the same year. By October 2003, ore production was targeted for 2,300tpd when the main production shaft was completed. The 2008 mine plan calls for boosting production to 3,300tpd by year's end and maintain that rate thereafter. Currently there are 250 people working in the underground mine. This mine is younger than the Songjiang copper mine and mine operations are still maturing which will provide a challenge in meeting increased production targets for 2009. However, the orebody characteristics allow for the higher volume mining method of shrinkage stoping with sublevel pillar recovery which is currently in use.

7.2.1 *Mine System*

The underground mine is accessed and served by three shafts: the main shaft (ore production), subsidiary shaft (men, materials, waste ore), and a ventilation shaft. Management reports that all shafts are inspected once each week.

The main shaft is a three-compartment shaft, with a cross section of 4.88mx1.936m. The shaft collar is set at 284m. A double drum hoist at 2.5m diameter controls $2m^3$ ore skips. Rope speeds for ore hoisting are 5m/s. The third compartment contains a ladderway. A primary crusher and a coarse ore bin and skip loading station are at -10m elevation. A video monitor control system was installed in 2003 which allows the winder operator to monitor the collar, skip loading and intermediate levels with video cameras and warning signals. This is an air intake shaft. Management states that the maximum hoist capacity is up to 2,500tpd for the main shaft.

The collar elevation of the subsidiary shaft is 284m and shaft has a cross section of 4.42mx2.2m. A double drum winder operates two double-deck cages. Each deck of the cage can carry six men. The third compartment is an escape ladderway. Waste rock is hoisted in mine cars to the surface and dumped. A video monitor control system was installed in 2003 which allows the winder operator to monitor the collar, and all level stations with video coverage and audio warning signal system. This is an air intake shaft. This shaft has been used in the past for mine ore production up to 800tpd and will be used again in combination with the main shaft to meet the 3,300tpd production call for 2009.

The collar elevation of the ventilation shaft is 235m with a cross section of 3.5mx2.5m. The collar is fitted with a surface mounted exhaust fan. A fine ore recovery tank is provided at levels 100m, 50m, 0m, and -50m. Exhaust fan capacity is $81m^3/s$.

The mine currently has seven levels at a 50m interval going from 250m elevation down to -50m. Current mining activities are limited to the upper six levels.

The compressor house has seven type 5L-40/8 compressors installed and operational. Usually, only three are required for production with three on standby and one for repair.

The mine is dewatered by a series of gravity ditches on each level feeding to boreholes connecting the levels with the water retention pond at the main pump station located near the subsidiary shaft at -50m level. It has three type 125Dx6 pumps and one type 150Dx8 pump. Water retention is in a 1,200m^3 pond. Total pumping capacity is 330m^3/hr, although the mine reports that only one third of that capacity is required.

Settled water from the main pump station is pumped up the subsidiary shaft to a large holding tank at the surface. From there it is fed back to the underground mine. Makeup water is pumped from a nearby river as necessary.

The mine substation near the subsidiary shaft supplies 10kv power to the shaft winder, compressor house and underground mine. Also, a separate line supplies power to the surface facilities and boiler house. A standby 500kw diesel generator is maintained for emergency use to power the winder and pumps.

7.2.2 *Mining Methods*

Current operations employ two mining methods: shrinkage stoping with short hole and pillar recovery with sublevel stoping. At the current production rate of 2,300tpd, the mine will have six to seven stopes in development with six to seven in production. To achieve the ramp-up of production to 3,300tpd by end of 2008, the mine will have to add an additional three production and three development stopes to the mine plan. Management claims that this increase is achievable and is prepared to carry it out.

Shrinkage stoping with short hole employs the same development plan and layout as in the Songjiang copper mine. As the main orebody is generally 30 to 90m wide, shrinkage stopes are generally set transverse (perpendicular) to the strike of the orebody. Stope panel dimensions are generally 50m high, 10m thick and as wide as the orebody. Management states that it takes about 3 to 4 months to develop a shrinkage stope for production. Between two 10m thick shrinkage stopes is a 15m to 20m wide footwall/hangingwall pillar. After adjacent shrink stopes have been drawn down and emptied of ore, the remnant pillar of ore remains which will later be recovered by sublevel stoping.

Remnant pillar dimensions are typically 50m high, 15m to 20m thick and as wide as the orebody. Development starts by accessing stope pillars with cross cut drifts from the haulage drift. As stopes are perpendicular to orebody strike, new pillar raises are driven to the next level. Drifts are taken off from the raise to form the scraper drift, undercut drift, and three sublevel drilling drifts. Blasted fan drill patterns form the undercut and vertical fan patterns in the sublevels provide the method to blast the sublevels down, where the ore is moved in the scraper drift to waiting 0.7m^3 ore cars.

Then sublevel retreat blasting occurs in stepwise fashion from both sides of a center raise driven from the undercut drift during development. Sublevel blasting starts at lowest sublevel and moves upward. Open areas created by pillar recovery are limited to 2,000m^2 to avoid possible air blasts.

8.0 METALLURGY AND PROCESSING

8.1 The Songjiang Copper Mine

8.1.1 *Background*

The Songjiang copper mill began production in 1972 at a processing rate of 200tpd. Two mill expansions were constructed in 1985 (to 500tpd) and 1988 (to 1,000tpd). Further improvements were made in the mid-1990's, raising the throughput to its currently stated capacity of 1,300tpd. Annual production capacity is stated on the basis of a 330-day operating year for a total annual capacity of 429,000tpa, a figure which is being used to forecast future production rates. Actual production results for the past three years have exceeded this figure, totaling 490,000t, 458,000t, and 460,000t for the years 2004 through 2006 respectively.

Historic and future projected head grades are typically around 1.0% Cu and 1.5% Zn. Typical recoveries are 90% for copper and 56% for zinc. Products from the mill are copper concentrate and zinc concentrate. The mill payroll is approximately 200 employees. A simplified ore processing flowsheet is presented in Figure 8.1.

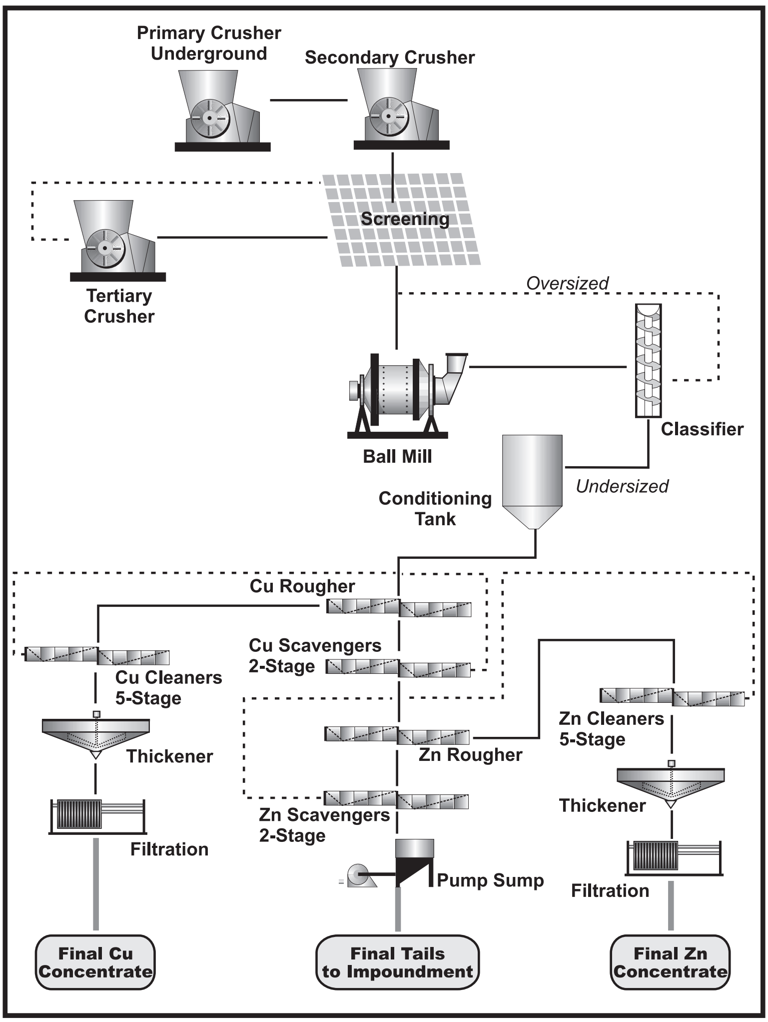

Figure 8.1 Ore Processing Flowsheet for the Songjiang Copper Mine

8.1.2 *Mineralogy*

Metallic minerals within the Cu-Zn orebodies are mainly chalcopyrite, bornite, sphalerite, galena, magnetite, sheelite, pyrrhotite, and pyrite. Minor amounts of chalcocite, tetrahedrite, molybdenite, arsenopyrite, and bismuthnite are also reported.

8.1.3 *Crushing and Grinding*

Primary crushing is accomplished with a 600mmx900mm jaw crusher located in the underground mine. The primary crushed ore is hoisted to a surge hopper on surface. The ore is fed to a secondary standard cone crusher (model PYB 1750) then to a vibrating screen. Screen oversize flows to a tertiary shorthead cone crusher (model PYD 1750) and its product returns to the screen feed. Screen undersize is conveyed to the grinding circuit.

Wet grinding is accomplished in three parallel ball mill circuits. The mills (2.7m long x 2.1m diameter) are each operated in closed circuit with a submerged spiral classifier. Mill availability (on a scheduled 330 days per annum basis) was reported to be 95% to 97%. Typical product size was reported to be 65% minus 74 microns. The grinding circuit product reports to a conditioning tank ahead of flotation.

8.1.4 *Copper Flotation*

Copper is recovered in a conventional flotation circuit with a single roughing stage, two scavenging stages, and five cleaning stages. Both cleaner tails and scavenger concentrate are sent back upstream to the roughers. Cell sizes are a mix of 4.0m^3 and 2.8m^3 in the roughers and scavengers while they are 2.8m^3 and 1.1m^3 size in the cleaners. All flotation cells inspected have rotary froth scrapers to expedite the movement of froth from the flotation cell into the concentrate launders.

The final copper cleaner concentrate, typically containing 25% Cu, is thickened then dewatered on a vacuum drum filter. The dried concentrate, containing about 15% moisture, is stored indoors. The concentrate is loaded into 10t trucks for shipment to the rail station at Acheng and then to domestic copper smelters.

8.1.5 *Zinc Flotation*

The copper scavenger tailings become the feed to the zinc circuit. Zinc is recovered in a conventional flotation circuit with a single roughing stage, two scavenging stages, and five cleaning stages. Both cleaner tails and scavenger concentrate are sent back upstream to the roughers. Cell sizes are similar to the copper circuit and the cells have froth scrapers as described above.

The final zinc cleaner concentrate, typically containing 50% Zn, is thickened then dewatered on a vacuum drum filter. The dried concentrate, probably containing about 15% moisture, is stored indoors. The concentrate is loaded into 10t trucks for shipment to the rail station at Acheng then to domestic zinc smelters.

8.1.6 *Tailings*

Final tailings from the Cu/Zn circuit (Zn scavenger tails) are sent to a sump and pumped, without thickening, to the tailings impoundment located around 5km from the mill. Due to snowy road conditions, it was not possible to visit the impoundment nor was it possible to view it from a vantage point. The facility design drawing indicated a dam length of around 460m and a maximum impoundment height of approximately 50m. It was reported that the tailings are passed through cyclones along the dam length with sands being used for raising the embankment and slimes sent into the impoundment for settling. Reclaim water is recovered and returned to the grinding/flotation circuit.

8.2 The Wudaoling Molybdenum Mine

8.2.1 *Background*

There are two molybdenum mills currently in operation for the Wudaoling Molybdenum mine: the Xiaoling mill and Wudaoling mill. The Xiaoling mill is located 7km from the Wudaoling molybdenum mine. It began production in late 2001 at a processing rate of 500tpd. The mill was converted from previous duty as an iron/zinc flotation plant. A mill expansion was implemented in 2002, boosting the production rate to 800tpd.

In 2003, the Wudaoling mill was constructed adjacent to the Wudaoling molybdenum mine production shaft with a stated capacity of 1,500tpd bringing total production capacity to 2,300tpd. Ore crushing capacity at Wudaoling is sufficient to supply both mills enabling shutdown of the Xiaoling crushing circuit. Tertiary crushed ore from Wudaoling is transported to Xiaoling in 10t trucks and is introduced into the Xiaoling circuit through the old secondary crusher feed hopper.

A new 1,000tpd mill is being constructed in 2007 approximately 20km from Wudaoling which will boost overall capacity to 3,300tpd. The more remote location was reported to be required due to tailings storage constraints.

Annual production capacity is stated on the basis of a 330-day operating year for a current total annual capacity of 759,000tpa and a future capacity (after expansion) of 1,089,000tpa. The current facilities have never exceeded 80% of their nameplate annual throughput figures for a variety of reasons. Hence, use of the future 1,089,000tpa throughput forecast is considered to be an aggressive assumption.

Historic and future projected head grades are typically around 0.25% Mo. Molybdenum recovery is typically slightly higher than 82%. Product from the mill is molybdenum concentrate which is shipped by truck to a contractor for ferromolybdenum production. The mill payroll is approximately 200 employees (91 for Xiaoling and 109 for Wudaoling). A simplified ore processing flowsheet is presented in Figure 8.2.

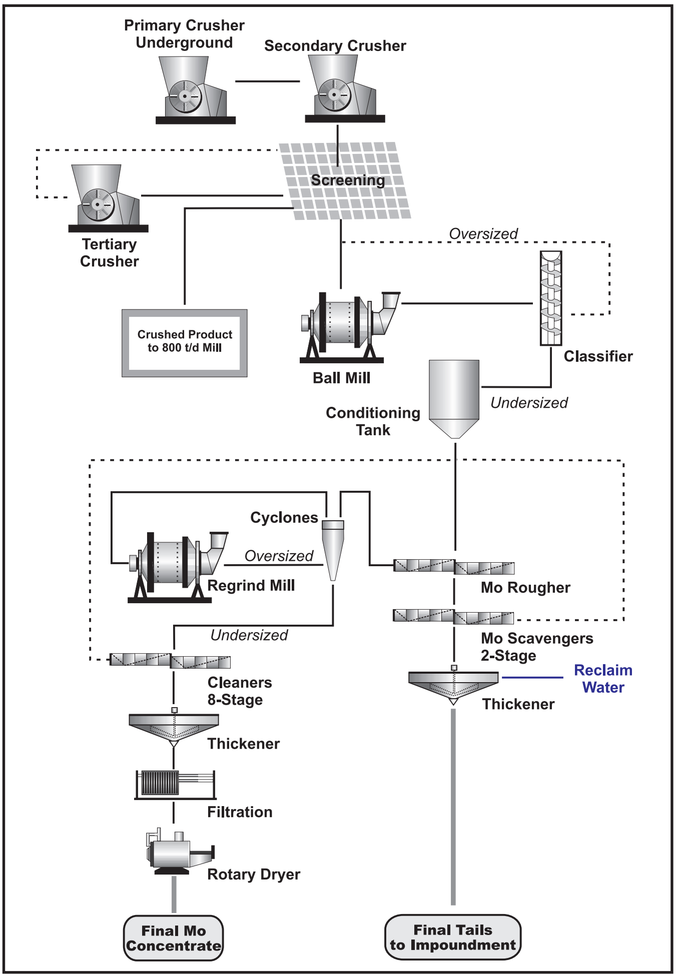

Figure 8.2 Ore Processing Flowsheet for the Wudaoling Molybdenum Mine

8.2.2 *Mineralogy*

Metallic minerals within the orebody are mainly molybdenite, pyrite, and hematite. Minor amounts of chalcopyrite, chalcocite, galena, sphalerite, magnetite, bornite, tetrahedrite and bismuthnite are also reported.

8.2.3 *Crushing and Grinding*

Primary crushing is accomplished with a 600mmx900mm jaw crusher located in the underground mine. The primary crushed ore is hoisted to a surge hopper on surface. The ore is fed to a secondary standard cone crusher (model PYB 1725) then to a vibrating screen. Screen oversize flows to a tertiary shorthead cone crusher (model PYD 1725) and its product returns to the screen feed. Screen undersize is conveyed to a surge bin ahead of the grinding circuit.

As described above, feed for the Xiaoling mill is removed from the fine ore storage bin. The following grinding and flotation description specifically applies to the Wudaoling mill but the Xiaoling flowsheet is essentially identical.

Wet grinding is accomplished in a ball mill (3.1m long x 2.7m diameter) operated in closed circuit with a submerged spiral classifier. Mill availability (on a scheduled 330 days per annum basis) was reported to be 95%; however, given the low production history described, this should be considered to be a goal. Typical product size is reported to be 63–70% minus 74 microns. The grinding circuit product reports to an agitated conditioning tank ahead of flotation.

8.2.4 *Molybdenum Flotation*

Molybdenite is recovered in a conventional flotation circuit with a single roughing stage, two scavenging stages, a rougher/cleaner stage and eight final cleaning stages. Both cleaner tails and scavenger concentrate are sent back upstream to the roughers. Cell sizes are a mix of $2.8m^3$ and $1.1m^3$ in the roughers and scavengers while they are $1.1m^3$ and $0.4m^3$ size in the cleaners. All flotation cells inspected have rotary froth scrapers to expedite the movement of froth from the flotation cell into the concentrate launders.

Concentrate from the rougher/cleaner stage is cycloned and the oversize is sent to a regrind ball mill (2.0m long x 1.2m diameter). Regrind product size is 90% minus 38 microns. Cyclone undersize reports to the first final cleaner cell.

The final molybdenum cleaner concentrate, typically containing 45% Mo, is thickened then dewatered on a vacuum drum filter. The concentrate is then fed through a rotary dryer, reducing moisture to less than 10%. The dried concentrate is packaged in 50kg bags for shipment to the domestic ferromolybdenum contractor.

8.2.5 *Tailings*

Final tailings from the flotation circuit (scavenger tails) are sent to 30m diameter thickener then pumped, at 50% solids, to the tailings impoundment located about 2km from each mill. Due to snowy road conditions, it was not possible to tour on top of the impoundment dams but both were observable from the base of the dams. It was reported that the tailings are passed through cyclones along the dam length with sands being used for raising the embankment and slimes sent into the impoundment for settling. Reclaim water is recovered and returned to the grinding/ flotation circuit.

8.3 Discussion

Major processing equipment in all plants is of Chinese manufacture. All equipment appeared to be sufficiently robust for its intended duties. The flowsheets and equipment sizings are typical of expectations for plants of these capacities.

Mill buildings were of brick construction and basement floors were concrete. The newer Wudaoling mill had steel grate walkways, support beams, ladders and handrails while the two older mills were mostly wooden planks, beams, etc. Support seemed solid for foot traffic. Ladders and stairs tended to be steep with narrow treads compared to Western plants.

Housekeeping was rated as average for plants of these types. A few hoses were placed across walkways during the tour. Handrails had a concentrate coating in the molybdenum plants but this is not atypical. The crushing circuits were generally quite clean.

Guarding along conveyor belts and of belt drives was deficient by Western standards but likely adequate by Chinese regulations. Neither hard hats nor safety glasses were worn by workers in any of the plants.

BDASIA considers that the plants inspected generally operate well. Reported recoveries seem reasonable for the respective head grades of copper, zinc, and molybdenum. All plants would have significant upside in throughput capacity if they were operated on a 365 days per annum basis and if maintenance activities were organized to reduce downtime to a minimum.

The company is currently constructing its own facilities for production of ferromolybdenum, an alloy used in stainless steel production, rather than processing it by a contractor. A leaching facility has been installed at the Wudaoling mill for removal of copper from the molybdenum concentrate, prior to filtering and drying. The remaining facilities are being constructed near the Songjiang copper mine. These will include a roaster to convert MoS_2 into MoO_3 followed by aluminothermic reduction into the final ferromolybdenum product containing 65% Mo.

8.4 The Five Additional Songjiang Copper Mining License Areas

Songjiang Copper currently has no plans to conduct mining and processing activities at the five additional mining license areas.

9.0 PRODUCTION

9.1 The Songjiang Copper Mine

The Songjiang copper mine processes copper-zinc ore and produces two types of concentrates, i.e. copper concentrate with significant silver and gold contents and zinc concentrate. The copper and zinc concentrates are sold to various smelters in China.

Historical mill feed and concentrate production from March 2005 to December 2006 and forecast mill feed and concentrate production from 2007 to 2009 for Songjiang are summarized in Table 9.1. The mine processed approximately 460,000t of ore in 2006 and will maintain a slightly lower production level for the next 3 years. Milling recoveries projected for the next 3 years are 90% for copper and 56% for zinc, in line with or slightly lower than the actual recoveries for the last 2 years, which BDASIA considers achievable. The projected milled ore grade is similar to the last 2 years for copper but higher than the historical grade for zinc, which is in line with the average ore reserve grade (Table 6.7).

Table 9.1
Actual and Forecast Production for Songjiang Copper Mine, 2005–2009

	Actual		Forecast		
	Mar–Dec 2005	2006	2007	2008	2009
Milled Copper-Zinc Ore					
Tonnage (kt)	390.9	460.6	429	429	429
Cu Grade (%)	1.02%	1.06%	1.04%	1.04%	1.04%
Zn Grade (%)	1.28%	1.33%	1.48%	1.48%	1.48%
Cu Metal (t)	3,974	4,901	4,460	4,460	4,460
Zn Metal (t)	5,011	6,135	6,350	6,350	6,350
Mill Recovery					
Cu (%)	90.1%	90.0%	90%	90%	90%
Zn (%)	57.7%	56.4%	56%	56%	56%
Final Products					
Copper Concentrate (t)	13,869	17,315	16,070	16,070	16,070
Cu Grade (%)	25.81%	25.48%	25.0%	25.0%	25.0%
Ag Grade (g/t)	788	765	765	765	765
Au Grade (g/t)	1.80	1.67	1.67	1.67	1.67
Cu Metal (t)	3,580	4,412	4,020	4,020	4,020
Ag Metal (kg)	10,932	13,239	12,300	12,300	12,300
Au Metal (kg)	24.91	28.92	26.8	26.8	26.8
Zinc Concentrate (t)	6,001	6,852	7,110	7,110	7,110
Zn Grade (%)	48.20%	50.54%	50.0%	50.0%	50.0%
Zn Metal (t)	2,893	3,463	3,560	3,560	3,560

The copper concentrate production was 17,300t in 2006 with an average grade of 25.5% copper, 765 grams per tonne ("g/t") silver and 1.67g/t gold. The projected copper concentrate production for the next 3 years is at a lower level of approximately 16,100tpa with grades similar to the historical grades.

Zinc concentrate production was 6,852t in 2006 with an average zinc grade of 50.5%. The forecast zinc concentrate production is at a slightly higher level of 7,110tpa for the next 3 years with zinc grade similar to the historical zinc grade. The reason for the increased zinc concentrate production is due to the higher zinc grade of the ore to be mined in the next 3 years.

BDASIA considers that Songjiang copper mine should be able to achieve these forecast production targets.

9.2 The Wudaoling Molybdenum Mine

The Wudaoling molybdenum mine processes molybdenum ore and produces molybdenum concentrate. The molybdenum concentrate is converted to ferromolybdenum by a contractor in China before being sold in the world market.

Historical mill feed and concentrate production from March 2005 to December 2006 and forecast mill feed and concentrate production from 2007 to 2009 for Wudaoling are summarized in Table 9.2. The mine processed approximately 500,000t of ore in 2006, which is significantly lower than the stated production capacity of the mine as well as the production level achieved by the mine before. The primary reason for the under performance was that the two mills were shut down for maintenance and upgrading in November and December of the year. A secondary reason was that the power supply from the regional grid was unstable for a period of about one month due to scheduled upgrading. The two mills returned to production in January 2007.

The forecast ore production is 779,000t for 2007, 1,023,000t for 2008 and 1,089,000t for 2009. This is based on the assumption that the two mills will be in production at full capacity of 2,300tpd starting from January 2008 and the new 1,000tpd mill will be constructed in 2007 and put in full production in late 2008. This gives a ramp-up period of about 1 year for the two current mills and the new mill constructed in 2007 to reach their full production capacity. BDASIA believes that these production targets are achievable provided the construction of the new mill will be completed on schedule.

Table 9.2
Actual and Forecast Production for Wudaoling Molybdenum Mine, 2005–2009

	Actual		Forecast		
	Mar–Dec 2005	**2006**	**2007**	**2008**	**2009**
Milled Molybdenum Ore					
Tonnage (kt)	525.3	496.6	779	1,023	1,089
Mo Grade (%)	0.233%	0.241%	0.28%	0.28%	0.28%
Mo Metal (t)	1,224	1,198	2,150	2,830	3,010
Mill Recovery					
Mo (%)	83.5%	82.2%	82.4%	82.4%	82.4%
Final Products					
Molybdenum Concentrate (t)	2,271	2,193	3,940	5,170	5,510
Mo Grade (%)	45.04%	44.89%	45.0%	45.0%	45.0%
Mo Metal (t)	1,023	984	1,770	2,330	2,480

Milling recovery projected for the next 3 years is 82.4% for molybdenum, slightly lower than the actual average recoveries for the last 2 years, which BDASIA considers achievable. The projected milled ore grade is similar to the last 2 years and in line with the average ore reserve grade (Table 6.8).

The molybdenum concentrate production was approximately 2,200t in 2006 with an average molybdenum grade of 44.9%. The projected molybdenum concentrate production is 3,940t for 2007, 5,170t for 2008 and 5,510t for 2009 with average molybdenum grade similar to the historical grade, reflecting the planned increase of the ore processing rate.

9.3 The Five Additional Songjiang Copper Mining License Areas

Songjiang Copper currently has no production plans for the five additional mining license areas.

10.0 OPERATING COSTS

Based on information provided by Songjiang Copper, BDASIA has developed historical unit mining, milling, G&A and other costs on a per tonne basis for ore milled during the period from March 2005 to December 2006, and has forecast unit cost from 2007 to 2009 for the two operating Songjiang Copper mines. BDASIA has also calculated a unit product operating cash cost and total production cost for the equivalent primary product of each operation by converting all other products to equivalent primary product using the actual/projected product sale prices as provided by each operation. The primary product for each operation is selected based on its economic importance.

The operating cash costs include mining costs, processing costs, G&A costs, selling costs, environmental protection costs, production taxes, resource compensation levy, interests on loans and other cash cost items. Off-site processing cost for converting molybdenum concentrate to ferromolybdenum for the Wudaoling molybdenum mine is not included in the operating cost calculation as molybdenum concentrate is considered as the final product from the mine. The Songjiang Copper head office cost is also not included in the operating cost calculation. The total production costs comprise the operating cash costs, depreciation/amortization costs and other non-cash cost items. These costs are expressed in Chinese currency with a unit of RMB. For the benefit of international investors, BDASIA has converted these costs into United States dollars (US$).

10.1 The Songjiang Copper Mine

Table 10.1 summarizes historic and forecast unit costs for the Songjiang copper mine. The unit mining cost increased from RMB45.45/t (or US$5.83/t) in 2005 to RMB58.21/t (or US$7.46/t) in 2006 and the unit milling cost increased from RMB44.57/t (or US$5.71/t) in 2005 to RMB63.96/t (or US$8.20/t) in 2006, mostly reflecting the increases in labor costs and materials. The G&A and other costs, however, have decreased significantly from RMB88.39/t (or US$11.33/t) in 2005 to RMB34.04/t (or US$4.36/t) in 2006 due to a large one-time payoff for workers from the previous state-owned company as part of the privatization process in 2005. The forecast unit operating costs for 2007–2009 are slightly higher than the level in 2006. BDASIA believes that the forecast costs are achievable if there is no general increase in labor cost and material prices in the near future.

Table 10.1
Actual and Forecast Unit Cost Analysis for Songjiang Copper Mine, 2005–2009

Cost Item	Actual		Forecast		
	Mar–Dec 2005	2006	2007	2008	2009
Mining Cost					
(RMB/t of ore milled)	45.45	58.21	59	59	59
(US$/t of ore milled)	5.83	7.46	7.5	7.5	7.5
Milling Cost					
(RMB/t of ore milled)	44.57	63.96	69	69	69
(US$/t of ore milled)	5.71	8.20	8.9	8.9	8.9
G&A and Other Costs					
(RMB/t of ore milled)	88.39	34.04	38	38	38
(US$/t of ore milled)	11.33	4.36	4.8	4.8	4.8
Total Operating Cash Costs					
(RMB/t of ore milled)	178.41	156.21	166	166	166
(US$/t of ore milled)	22.87	20.02	21.2	21.2	21.2
Unit Product Operating Cash Cost*					
Equivalent Copper Metal in Concentrate					
(RMB/t)	13,939	11,457	12,500	12,600	12,600
(US$/t)	1,787	1,469	1,600	1,620	1,620

Table 10.1
Actual and Forecast Unit Cost Analysis for Songjiang Copper Mine, 2005–2009

Cost Item	Actual		Forecast		
	Mar–Dec 2005	2006	2007	2008	2009
Unit Product Total Production Cost*					
Equivalent Copper Metal in Concentrate					
(RMB/t)	14,252	12,106	13,200	13,700	14,300
(US$/t)	1,827	1,552	1,690	1,760	1,830

* In calculation of the unit product operating cash cost and total production cost, all other products have been converted to equivalent copper metal in concentrate based on the product sales prices provided by the mine.

Copper is the primary metal in concentrates produced from the Songjiang copper mine; zinc, silver and gold in concentrates were converted to equivalent copper metal in concentrate for cost analysis. Historical and forecast unit operating cash costs and unit total production costs for equivalent copper metal in concentrate are also shown in Table 10.1. These costs are related to the operating cash costs, the sales price ratio of the final products, and also to the average mill feed metal grades. The current and forecast unit total production costs for equivalent copper metal in concentrate are significantly lower than the current market price for copper metal in concentrate, indicating that Songjiang is currently a very profitable operation.

10.2 The Wudaoling Molybdenum Mine

Table 10.2 summarizes historic and forecast unit costs for the Wudaoling molybdenum mine. The unit mining cost increased from RMB45.06/t (or US$5.78/t) in 2005 to RMB67.82/t (or US$8.70/t) in 2006, reflecting the cost increase caused by the maintenance shut down of the mills in November and December and the production interruption caused by the regional power grid upgrading in 2006. The unit milling cost was generally not increased from 2005 (RMB37.49 or US$4.81/t) to 2006 (RMB37.82 or US$4.85/t). The G&A and other costs, however, have decreased significantly from RMB62.64/t (or US$8.03/t) in 2005 to RMB41.47/t (or US$5.32/t) in 2006 due to a large one-time payoff for workers from the previous state-owned company as part of the privatization process in 2005. The forecast unit mining costs for 2007–2009 are lower at RMB50/t (or US$6.4/t) than the level in 2006, assuming no further production interruptions. The forecast unit milling costs are higher at RMB40/t (or US$5.1/t) than the level in 2006 but the forecast G&A and other costs are lower than the level in 2006 as the projected productivity increase will lower the unit relatively constant total G&A and other costs. BDASIA believes that the forecast costs are achievable if no general increase in labor cost and material prices occurs in the near future.

Table 10.2
Actual and Forecast Unit Cost Analysis for Wudaoling Molybdenum Mine, 2005–2009

Cost Item	Actual		Forecast		
	Mar–Dec 2005	2006	2007	2008	2009
Mining Cost					
(RMB/t of ore milled)	45.06	67.82	50	50	50
(US$/t of ore milled)	5.78	8.70	6.4	6.4	6.4
Milling Cost					
(RMB/t of ore milled)	37.49	37.82	40	40	40
(US$/t of ore milled)	4.81	4.85	5.1	5.1	5.1
G&A and Other Costs					
(RMB/t of ore milled)	62.64	41.47	37	25	21
(US$/t of ore milled)	8.03	5.32	4.8	3.3	2.7
Total Operating Cash Costs					
(RMB/t of ore milled)	145.19	147.11	127	115	111
(US$/t of ore milled)	18.62	18.87	16.3	14.8	14.2
Unit Product Operating Cash Cost					
Molybdenum Metal in Concentrate					
(RMB/t)	74,568	74,231	56,000	50,700	48,600
(US$/t)	9,560	9,517	7,180	6,510	6,230
Unit Product Total Production Cost					
Molybdenum Metal in Concentrate					
(RMB/t)	79,925	81,683	61,100	62,100	59,700
(US$/t)	10,247	10,472	7,840	7,960	7,650

Molybdenum is the only metal with economic value in concentrates produced from the Wudaoling molybdenum mine. Historical and forecast unit operating cash costs and unit total production costs for molybdenum metal in concentrate are also shown in Table 10.2. It can be seen that the costs are forecast to decrease gradually in the next 3 years due to the economy of scale as production increases from less than 2,000tpd to 3,300tpd. The current and forecast unit total production costs for molybdenum metal in concentrate are significantly lower than the current market price for molybdenum metal in concentrate, indicating that Wudaoling is currently also a very profitable operation.

10.3 Discussion

Unit mining operating costs are forecast at RMB59/t (US$7.5/t) for the 1,300tpd Songjiang mine and RMB50/t (US$6.4/t) for the 3,300tpd Wudaoling mine. The lower cost at Wudaoling reflects the unit cost saving because of its wider orebodies and higher production level.

Unit milling operating costs are forecast at RMB69/t (US$8.90/t) for the 1,300tpd Songjiang copper mill and RMB40/t (US$5.11/t) for the 3,300tpd Wudaoling molybdenum mills. The lower cost at Wudaoling reflects the unit cost saving because of its relatively simpler processing process and higher production level.

In general, the unit mining costs and unit milling costs for the two operating Songjiang Copper mines are significantly lower than that for similar sized Western mines, mostly reflecting the considerably lower labor costs in China.

11.0 CAPITAL COSTS

11.1 The Songjiang Copper Mine

Historical capital expenditures from March 2005 to December 2006 and forecast capital expenditures for 2007 to 2009 for the Songjiang copper mine are summarized in Table 11.1. Capital expenditures budgeted for 2007 through 2009 are generally sustaining capital.

Table 11.1
Actual and Forecast Capital Costs for Songjiang Copper Mine, 2005–2009

	Actual			Forecast	
	Mar–Dec 2005	2006	2007	2008	2009
Capital Cost in RMB$\times 10^3$					
Mine	3,891	6,572	2,000	2,000	2,000
Mill	1,767	—	2,000	2,000	2,000
Smelting	1,486	11,252	2,000	2,000	2,000
Admin	3,880	2,996	2,000	2,000	2,000
Tailings	3,009	—	2,000	2,000	2,000
Land/Mineral Licenses	—	1,714	—	—	—
Others	1,802	2,196	—	—	—
Total	15,835	24,730	10,000	10,000	10,000
Capital Cost in US$$\times 10^3$					
Total	2,030	3,171	1,280	1,280	1,280

11.2 The Wudaoling Molybdenum Mine

Historical capital expenditures from March 2005 to December 2006 and forecast capital expenditures for 2007 to 2009 for the Wudaoling molybdenum mine are summarized in Table 11.2. A mill capital expenditure of RMB52 million (“M”) (or US$6.67M) in 2007 is budgeted for the new 1,000tpd mill and a smelting capital expenditure of RMB270M (or US$34.6M) is budgeted for the molybdenum concentrate converting facility and down-steam ferromolybdenum processing plant. A total sustaining capital expenditure of RMB10M (or US$1.28M) is budgeted for each year from 2007 to 2009.

Table 11.2
Actual and Forecast Capital Costs for Wudaoling Molybdenum Mine, 2005–2009

	Actual		Forecast		
	Mar–Dec 2005	2006	2007	2008	2009
Capital Cost in RMBx10^3					
Mine	3,711	252	2,000	2,000	2,000
Mill	149	1,369	54,000	2,000	2,000
Smelting	—	—	272,000	2,000	2,000
Admin	2,103	2,187	2,000	2,000	2,000
Tailings	108	—	2,000	2,000	2,000
Total	6,071	3,808	332,000	10,000	10,000
Capital Cost in USx10^3$					
Total	778	488	42,560	1,280	1,280

11.3 Other Songjiang Copper Mining and Exploration License Areas

Songjiang Copper has no plans to carry out any exploration and development work for its five additional mining license areas and seven exploration license areas. Therefore, no capital expenditures have been budgeted for these properties.

12.0 ENVIRONMENTAL MANAGEMENT

Both the Songjiang copper mine and the Wudaoling molybdenite mine possess environmental approval for noise and air emission discharge from the Provincial Environmental Protection Bureau ("EPB") in undertaking mining and processing activities at the site. The sites are zero water discharge sites and hence do not require approval for water discharge. Environment protection measures for the mine sites comprise:

- **Dust mitigation**: including use of dust collectors for the boilers and bag filter collectors for the concentrator's crushing and screening plants. Exhaust fans vent mine gas from underground and dusty activity is enclosed where possible. The dam walls of the Tailings Storage Facilities ("TSF") are covered with vegetative material and watered in summer to minimize dust generation. Dust collected from the boilers is exhausted to the atmosphere through 35m stacks, in compliance with national air pollution emission standard GB 13271 — 2001. Emissions via the bag filter dust collectors are in compliance with national standard GB 16297 — 1996 (Class 2).

- **Waste water treatment**: includes use of TSFs (one at the Songjiang Copper mine and four at the Wudaoling molybdenite mine, Tables 14.1 and 14.2). Water is primarily supplied from the nearby river for both mines, with each mine supplying a small amount of underground seepage to add to the available volume. Water from the tailings thickeners and the supernatant water from the TSFs are returned to the 2,000m^3 elevated water tanks that supply each of the main concentrators (the smaller concentrator at the Wudaoling molybdenite mine has a smaller tank). The environmental approval for the Songjiang copper mine specifically requires that 70% of the waste water is recycled, however all waste water at both mines is directed to the TSFs, settled, treated and recycled or evaporated, making both sites zero discharge sites. Sewage is treated in septic tanks before it is discharged to the local streams, in accordance with the requirements of national standard GB 8978 — 96.

- **Solid waste**: disposal includes use of TSFs and substantial quantities of waste rock and slag being used for building construction and brick making. At the Songjiang copper mine, approximately 80,000tpa of waste rock is used in road, drainage and other construction. In addition, a now largely rehabilitated 6,000m^3 waste rock dump is emplaced (covered with snow at the time of the BDASIA visit). The TSFs are all covered by a current Permit for Safety Production, issued by the Heilongjiang Bureau for Safety Production (valid from 2006–2009). Site rubbish is disposed of in the nearby towns' general refuse disposal systems.

- **Noise control**: enclosure of equipment such as the boilers and fans, and use of vibration dampers and silencers reduce the impact of noisy and vibrating equipment. A company policy of individual protection against noise through use of ear plugs is in place for underground and other operators' protection. Noise emission is generally kept below 55dBa, which is in compliance with national noise control standard GB 12348 — 90 (Class 1).

- **Environmental monitoring**: environmental monitoring is conducted at quarterly intervals by the provincial EPB. The mines' management intends to have the mines eventually certified under the international standards for environmental management, ISO 14001 and quality management, ISO 9000.

- **Rehabilitation**: a planting program and rehabilitation of disturbed areas is ongoing, including the TSF dam wall, administration and living areas (as part of overall beautification works).

Table 12.1
Tailings Storage Facility of the Songjiang Copper Mine

Design Capacity & Estimated life	Comments
The design capacity is approximately 11.73Mm^3. The TSF is currently storing about 5.5Mm^3.	Design height of the dam wall is 59m (currently 50m) and it is 460m long. An overflow spillway on either side of the dam wall provides for disposal of excess rainfall. The average annual rainfall in the area is 790mm, and the average annual evaporation rate is 1,440mm, hence the TSF stores only a small amount of water.
Should further storage capacity be required, the wall could be raised further.	Tailings with about 50% solids are gravity fed to the sand pump, then pumped to the TSF, located approximately 2km from the concentrator. The TSF wall is constructed from coarse tailings on an impermeable base, with tailings passing through cyclones (two) at the dam wall to separate the coarse material for dam wall construction from the fine material that is then settled in the TSF. Seismic risk is not considered to be sufficiently significant in the region for special design considerations to be implemented. It is expected that the available TSF storage will adequately provide for the production capacity and life of the mine.

Table 12.2
Tailings Storage Facilities of the Wudaoling Molybdenite Mine

Design Capacity & Estimated life	Comments
The designed capacity for the Wudaoling mill is approximately 4Mm^3 and its area is 217,000m^2. Currently storing about 1Mm^3.	Construction of the both TSFs is a "valley" type. The height of the dam wall is in excess of 30m. The average annual rainfall in the area is 670mm, and the average annual evaporation rate is 1,320mm, hence the TSFs store only a small amount of water. Diversion channels direct rainfall around and away from the TSF dam walls.
The designed capacity for the Xiaoling mill is approximately 3Mm^3 and its area is 150,000m^2. Currently storing about 0.95Mm^3. The TSFs could be expanded into adjacent areas for further capacity, if required.	Tailings with about 50% solids are partly gravity fed and partly pumped to the TSFs, located less than 1km and 1.2km from the two concentrators respectively. The TSFs are constructed in the same manner as for the TSF at the Songjiang copper mine. Two smaller TSFs are closed but some further capacity in these facilities could be available should this be required. It is expected that the available TSF storage will adequately provide for the production capacity and life of the mine.

13.0 OCCUPATIONAL HEALTH AND SAFETY

The Songjiang copper mine and the Wudaoling molybdenite mine have been operating since 1969 and 1998, respectively. Both mines are conducting their operations in accordance with national safety regulations (GB 16424 — 96), covering occupational health and safety ("OH&S") in mining, production, underground mining, blasting and explosives handling, mineral processing, TSF design, environmental noise, construction, fire protection and fire extinguishment, sanitary provisions, power provision, labor and supervision.

To manage the health and safety of the workforce the mines are implementing a comprehensive OH&S management system in line with national standards, with a full time safety administration department, safety induction and training of workers, availability of personal protection equipment, and some use of safety signs. Standards in the mills reflect the age of the mills, which, apart from the new molybdenite mill at Wudaoling, are old buildings that have been refurbished.

Safety statistics over the last 3 years (2004–2006) show a record of four minor injuries (less than 105 days off) for the Songjiang copper mine and five minor injuries for the Wudaoling molybdenite mine, with no major injuries and fatalities.

Both mines are served by nearby hospitals. The Songjiang copper mine has a hospital with approximately 30 trained staff, including 15 doctors, on site, while the Wudaoling molybdenite mine has access to a county hospital providing comprehensive medical services, approximately 4km away. Workers receive regular annual medical checks, and are encouraged to take out health and injury insurance, as per the requirements of the relevant state regulation. The greatest risk to workers at this mine is dust inhalation.

Both mines hold current Safety Permits issued by the provincial Safety Protection Bureau, covering both the mine and TSF operations, and valid for the period 2006–2009.

14.0 RISK ANALYSIS

When compared with many industrial and commercial operations, mining is a relatively high risk business. Each orebody is unique. The nature of the orebody, the occurrence and grade of the ore, and its behavior during mining and processing can never be wholly predicted.

Estimations of the tonnes, grade and overall metal content of a deposit are not precise calculations but are based on interpretation and on samples from drilling or channel sampling which, even at close sample spacing, remain very small samples of the whole orebody. There is always a potential error in the projection of sampling data when estimating the tonnes and grade of the surrounding rock and significant variations may occur. Reconciliations of past production and ore reserves can confirm the reasonableness of past estimates, but cannot categorically confirm the accuracy of future predictions.

Estimations of project capital and operating costs are rarely more accurate than ±10% and will be at least ±15% for projects in the planning stages. Mining project revenues are subject to variations in metal prices and exchange rates, though some of this uncertainty can be removed with hedging programs and long-term contracts.

The two operating Songjiang Copper mines reviewed in this report have been in operation for some years and the risks are reduced by the knowledge and experience gained from the ongoing operations. The 2007–2009 projections are largely based on recent production and cost parameters are considered generally reasonable.

In reviewing Songjiang Copper's two operating mining projects, BDASIA has considered areas where there is perceived technical risk to the operation, particularly where the risk component could materially impact the projected production and resulting cashflows. The assessment is necessarily subjective and qualitative. Risk has been classified from low, moderate to high based on the following definitions:

- High Risk: the factor poses an immediate danger of a failure, which if uncorrected, will have a material effect (>15%) on the project cash flow and performance and could potentially lead to project failure.
- Moderate Risk: the factor, if uncorrected, could have a significant effect (>10%) on the project cash flow and performance unless mitigated by some corrective action.
- Low Risk: the factor, if uncorrected, will have little or no effect on project cash flow and performance.

Risk Component	**Comments**
Mineral Resources *Low Risk*	The primary orebodies for the two operating Songjiang Copper mines are all large stratiform or tabular deposits hundreds of meters in dimension and have relatively stable metal grade and thickness distribution. They have generally been well defined by extensive underground workings and drill holes.

Risk Component	Comments
	The resource estimates follow set processes and procedures which in general have been diligently carried out. The measured category resources are mostly based on detailed underground channel sampling along crosscuts typically 25–30m apart. While the block estimates are based on a simple weighted average, a conservative top cut is applied to avoid over-estimation, and reconciliation data generally confirm that the block tonnage and grades provide a reasonable estimate of the results achieved in mining, after allowing for mining dilution and mining losses. The indicated and inferred category resources were also reasonably estimated by drill holes spaced 50m to 200m apart. Limited extrapolation has been used in resource estimation.
Ore Reserves *Low to Moderate Risk*	Songjiang Copper does not formally estimate and publish ore reserves. Rather, the mine planning engineers undertake detailed design and planning work for a 1 to 3 year period, allowing for mining losses and dilution, and these figures form the basis of the short-term production schedules. Less detailed design and planning work are also carried out for medium and long-term production schedules. BDASIA has estimated Proved ore reserves based on the Measured mineral resource category and Probable ore reserves based on the Indicated mineral resource category for the portions of the Measured and Indicated mineral resources with a production plan using mining dilution and mining recovery factors slightly more conservative than the average mining dilution and mining recovery factors achieved in the past 3 years.The defined Proved and Probable ore reserves support a mine life of approximately 5 more years for the Songjiang Copper mine and 20 more years for the Wudaoling molybdenum mine based on the forecast 2008 production levels. In addition, there are some, less reliable, Inferred class mineral resources present at the two deposits. The remaining ore reserve mine life of 5 years for the Songjiang copper mine is of concern. Tungsten mineralization, however, has been identified under the copper-zinc mineralization zone for the mine. The mine could be converted to a tungsten mine and the mine life be extended significantly if a tungsten ore reserve could be defined by further exploration and feasibility studies.
Mining *Low Risk*	The staffs and workers at both mines are well experienced in the mining methods they use. Anticipating no changes in general rock conditions. The risk of a failure of those methods is low.
Processing *Low Risk*	The sulfide flotation concentrators at the mine sites use established processing methods which are appropriate for the ores treated and achieve recoveries of 90% for copper, 56% for zinc, and 82% for molybdenum.

Risk Component	Comments
	The equipment used in the processing plants is robust and appropriate for the required tasks. Similar equipment is used in the three mills, providing spares back-up and the ability to apply the experience gained at one plant to the others. The technical competence and experience of the metallurgical staffs is good and the plants are well operated.
Infrastructure *Low Risk*	The two operating Songjiang Copper mines are well connected with the regional highway and railroad systems. Access to the mines is convenient. Sufficient power and water supplies are available for the mining and processing activities.
Production Targets *Low to Moderate Risk*	Forecast production for the Songjiang copper-zinc mine and mill has been achieved in the past and should not be a challenge in the future. Forecast production rates for the Wudaoling molybdenum mine and mill have yet to be achieved in the existing mills and require a rapid production ramp-up at the new molybdenum mill being constructed in 2007. Ultimately reaching the forecast 3,300tpd production rate is definitely achievable in time. Forecast ore grades are consistent with historical performance and current average ore reserve grades. Forecast mining dilution, mining recoveries and milling recoveries are consistent with historical performance.
Operating Cost *Low Risk*	Forecast mining unit costs for 2007 and beyond show reasonable increases in labor, materials, power, and maintenance needed to achieve the targeted production rates for both mines. Projected processing unit costs are about 10% higher than 2006 actual costs and should be achievable without great difficulty. Forecast unit G&A and other costs will be slightly higher than the 2006 level for Songjiang, but decreases gradually from the 2006 level as the production is increasing for Wudaoling.
Capital Cost *Low Risk*	The only scheduled major capital expenditures are currently ongoing and should be completed in 2007: the new 1,000tpd molybdenum mill and the in-house ferromolybdenum production plant. An unanticipated 20% cost over-run on these projects would have a negative impact of only RMB64M (US$8.4M). Technical failure of the in-house ferromolybdenum production plant, while unlikely, places at risk the RMB270M (US$34.6M) capital investment. Such a failure would not significantly impact revenues as the current contractor could be used as a sales outlet.

Risk Component	Comments
	Capital mine equipment for both mines is basic, low cost, rugged, and easily maintained. The mine has an inventory of backup equipment available. Risk to the capital budget is judged to be low.
Environment *Low Risk*	Both mining operations visited appear to possess the necessary environmental approvals. Site water management involves optimal use of on-site water, including recycling of tailings water to the concentrator, use of the (low volume) mine pump-out water and sustaining zero discharge sites (apart from the discharge of treated sewage). The TSFs appear to be appropriately designed with designs approved, and (randomly) checked, by the provincial Safety Protection Bureau. Songjiang Copper advises that programs of rehabilitation and re-vegetation, and soil and water conservation are in place. The mines are apparently located in an area of low seismic activity, and are not considered by Songjiang Copper to be prone to flooding.
Occupational Health and Safety *Low Risk*	The mines have an Occupational Health and Safety Management System in place that is in compliance with the national standard, including systems for internal site inspections. The low level of recorded injuries advised by Songjiang Copper indicates that the OH&S management system is functioning appropriately.

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein misleading.

2. SHARE CAPITAL

The authorised and issued share capital of the Company as at the Latest Practicable Date were as follows:

As at the Latest Practicable Date

Authorised share capital:	*HK$*
10,000,000,000 Shares	1,000,000,000
Issued and fully paid share capital or credited as fully paid:	
4,720,780,853 Shares	472,078,000

Save for the share options granted under the share option scheme of the Company adopted on 26 June 2002, the Company did not have any other options, warrants and other convertible securities or rights affecting the Shares and no capital of any member of the Group is under option, or agreed conditionally or unconditionally to be put under option as at the Latest Practicable Date.

3. DIRECTORS' INTERESTS

(a) As at the Latest Practicable Date, the interests and short positions of each Director in the shares or underlying shares of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which he was deemed or taken to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

Long position in the shares in the capital of the Company

	Ordinary shares of HK$0.1 each			
Beneficial interest	**Personal interests**	**Corporate interests**	**Total number of shares held**	**% of total issued shares**
Cai Yuan *(note 1)*	8,650,000	500,000,000	508,650,000	10.77%
Luk Kin Peter Joseph *(note 2)*	8,650,000	226,584,000	235,234,000	4.98%

Notes:

1. Mr. Cai Yuan, the chairman, an executive Director, is the 100% beneficial owner of Greater Increase Investments Limited which holds 500,000,000 Shares. Mr. Cai also holds 8,650,000 Shares under his name.

2. Mr. Luk Kin Peter Joseph, an executive Director, is the 100% beneficial owner of Equity Valley Investments Limited which holds 226,584,000 Shares. Mr. Luk also holds 8,650,000 Shares under his name.

(b) Save as disclosed in this circular, as at the Latest Practicable Date, none of the Directors or chief executive of the Company had any interest and short positions in the shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including the interests and short positions in which they were deemed or taken to have under such provisions of the SFO), or which are required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, to be notified to the Company and the Stock Exchange.

(c) As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any asset which had been acquired, or disposed of by, or leased to any member of the Enlarged Group, or was proposed to be acquired, or disposed of by, or leased to any member of the Enlarged Group since 31 December 2006, the date to which the latest published audited financial statements of the Group were made up.

(d) As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any asset which had been acquired, or disposed of by, or leased to any member of the Enlarged Group, or was proposed to be acquired, or disposed of by, or leased to any member of the Enlarged Group within two years immediately preceding the issue of this circular.

(e) As at the Latest Practicable Date, none of the Directors was materially interested, directly or indirectly, in any contract or arrangement entered into by any member of the Enlarged Group subsisting as at the Latest Practicable Date.

(f) As at the Latest Practicable Date, none of the Directors or their respective associates was interested in any business apart from the business of the Group, which competed or was likely to compete, either directly or indirectly, with that of the Group.

4. SUBSTANTIAL SHAREHOLDERS' INTEREST

As at the Latest Practicable Date, so far as is known to the Directors, the following persons, other than a director or chief executive of the Company, had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or were directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

Long position in shares in the capital of the Company

	Ordinary shares of HK$0.1 each			
Substantial shareholders	**Registered shareholders**	**Corporate interests**	**Total number of ordinary shares held**	**% of total issued shares**
Greater Increase Investments Limited ("Greater Increase") *(note 1)*	500,000,000	—	500,000,000	10.59%

Note:

(1) Mr. Cai Yuan, an executive Director, is the ultimate beneficial owner of Greater Increase. Under Part XV of the SFO, Mr. Cai is deemed to have interest in the shares of the company held by Greater Increase.

Long position in the shares of other members of the Group

Name of shareholder	Name of the company	Capacity	Number of shares in the capital of the Company	Approximate % of shareholding
Long Cheer Group Limited	Lead Sun Investments Limited	Beneficial owner	140	14%
Fit Plus Limited	Lead Sun Investments Limited	Beneficial owner	140	14%
See Good Group Limited	Lead Sun Investments Limited	Beneficial owner	150	15%
Xinzhou Tianyang Titanium Co., Ltd.	Shenxi Shenli Aerospace Titanium Co., Ltd.	Beneficial owner	Not applicable	10%

Save as disclosed in this circular, so far as is known to the Directors, there is no other person who had an interest or short position in the shares and underlying shares of the Company which could fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, had a direct or indirect interests amounting to 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

5. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by members of the Group, within the two years preceding the Latest Practicable Date and are or may be material:

(a) an agreement dated 26 May 2005 entered into between Shanxi Shenli Aerospace Titanium Co., Ltd. ("Shanxi Shenli") and the Dai County People's Government of Shanxi Province in relation to the transfer of mining rights and assets in relation to a natural rutile mine known as 山西代縣金紅石礦 (the "Mine") to Shanxi Shenli;

(b) a mining rights premium agreement dated 30 June 2006 entered into between Shanxi Shenli and Xinzhou Bureau of Land and Resources pursuant to which Shanxi Shenli agreed to pay to Xinzhou Bureau Land and Resources the mining rights premium in relation to the Mine in the total sum of RMB67,464,724.8;

(c) a placing agreement dated 7 July 2006 entered into between the Company and Goldbond Securities Limited in relation to the placing of up to 1,150,000,000 Shares;

(d) a formal sale and purchase agreement dated 12 July 2006 entered into between, among other persons, the Company and AIM Elite Limited, Long Cheer Group Limited, Fit Plus Limited and See Good Group Limited in relation to the acquisition of 57% equity interests in Lead Sun Investments Limited ("Lead Sun") and all amount owing from Lead Sun to AIM Elite Limited, Long Cheer Group Limited, Fit Plus Limited and See Good Group Limited by the Company;

(e) the Sale and Purchase Agreement; and

(f) a joint venture deed dated 18 May 2007 entered into between the Company and GOVI Highpower Exploration, Inc., for the purpose of, *inter alia*, establishing a BVI JV Company, a Hong Kong Company and a PRC Company to undertake mining exploration and development projects in the Fujian province of the PRC.

6. LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened by or against any member of the Group.

As at the Latest Practicable Date, there was no claim in relation to exploration rights held by Harbin Songjiang Group made or notified either by third parties against any member of the Enlarged Group or vice versa.

7. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had a service contract with the Company which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

8. EXPERT AND CONSENT

(a) The following are the qualifications of the experts who have given opinions and advice which are included in this circular:

Name	**Qualification**
KPMG	Certified Public Accountants
VC Capital Limited	a licensed corporation to carry out types 1 (dealing in securities) and 6 (advising on corporate finance) regulated activities as defined under the SFO
Behre Dolbear Asia, Inc.	independent technical advisor
Greater China Appraisal Limited	professional valuers
Grandfield Law Firm	PRC legal advisors

(b) None of KPMG, VC Capital Limited, Behre Dolbear Asia, Inc., Greater China Appraisal Limited and Grandfield Law Firm has any shareholding, directly or indirectly, in any member of the Enlarged Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Enlarged Group.

(c) Each of KPMG, VC Capital Limited, Behre Dolbear Asia, Inc., Greater China Appraisal Limited and Grandfield Law Firm has given and has not withdrawn its written consent to the issue of this circular, with the inclusion of the references to its name and/or its opinion in the form and context in which they are included.

(d) None of KPMG, VC Capital Limited, Behre Dolbear Asia, Inc., Greater China Appraisal Limited and Grandfield Law Firm had any direct or indirect interest in any asset which had been acquired, or disposed of by, or leased to any member of the Enlarged Group, or was proposed to be acquired, or disposed of by, or leased to any member of the Enlarged Group since 31 December 2006, the date to which the latest published audited financial statements of the Group were made up.

(e) Behre Dolbear Asia, Inc. had no direct or indirect interest in any asset which had been acquired, or disposed of by, or leased to any member of the Enlarged Group, or was proposed to be acquired, or disposed of by, or leased to any member of the Enlarged Group within two years immediately preceding the issue of this circular.

9. MISCELLANEOUS

(a) The registered office of the Company is located at Clarendon House, Church Street, Hamilton, HM 11, Bermuda.

(b) The head office and principal place of business of the Company in Hong Kong is at Suites 3206–3211, 32/F, One International Finance Centre, 1 Harbour View Street, Hong Kong.

(c) The company secretary of the Company is Ms. Cheng Sau Man. Ms. Cheng is an associate of Hong Kong Institute of Certified Public Accountants and a fellow of the Association of Chartered Certified Accountants.

(d) The qualified accountant of the Company is Mr. Yeung Kwok Kuen. Mr. Yeung is a fellow of the Hong Kong Institute of Certified Public Accountants and a fellow of the Association of Chartered Certified Accountants.

(e) The branch share registrar and transfer office of the Company is Computershare Hong Kong Investor Services Limited, at 18/F., Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

(f) In the event of inconsistency, the English text of this circular shall prevail over the Chinese text.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the head office and principal place of business of the Company at Suites 3206–3211, 32/F, One International Finance Centre, 1 Harbour View Street, Hong Kong, up to and including the date of the SGM:

(a) the memorandum of association and bye-laws of the Company;

(b) the audited consolidated financial statements of the Group for the two years ended 31 December 2006;

(c) the auditors' report on the Group for the year ended 31 December 2006, the text of which is set out in Appendix I to this circular;

(d) the accountants' report on Harbin Songjiang Group, the text of which is set out in Appendix II to this circular;

(e) the accountants' report on the unaudited pro forma financial information of the Enlarged Group, the text of which is set out in Appendix III to this circular;

(f) the letter and valuation certificate prepared by Greater China Appraisal Limited, the text of which is set out in Appendix V to this circular;

(g) the technical assessment report prepared by Behre Dolbear Asia, Inc., the text of which is set out in Appendix VI to this circular;

(h) the letters of consent referred to under the paragraph headed "Expert and Consent" in this appendix;

(i) a copy of the material contract(s) referred to in the paragraph headed "Material Contracts" in this appendix;

(j) a copy of the Master Supply Agreement;

(k) the letter from VC Capital Limited containing its advice to the Independent Shareholders and the Independent Board Committee, the text of which is set out in the section headed "Letter from the Independent Financial Adviser" in this circular; and

(l) the letter of recommendation from the Independent Board Committee containing its advice to the Independent Shareholders, the text of which is set out in the section headed "Letter from the Independent Board Committee" in this circular.

CHINA MINING RESOURCES GROUP LIMITED

中 國 礦 業 資 源 集 團 有 限 公 司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 00340)

NOTICE IS HEREBY GIVEN that the special general meeting of China Mining Resources Group Limited (the "Company") will be held on Friday, 8 June 2007 at 10:30 a.m. at Harcourt Room, Lower Lobby, Conrad Hong Kong, Pacific Place, 88 Queensway, Hong Kong for the purpose of considering and, if thought fit, passing each of the following resolutions as an ordinary resolution of the Company:

ORDINARY RESOLUTIONS

1. **"THAT**

(a) the conditional sale and purchase agreement dated 11 March 2007 (the "Sale and Purchase Agreement") entered into between 蘇慶玉 (Su Qingyu), 王世遠 (Wang Shiyuan), 吳延忠 (Wu Yanzhong), 賀啟奎 (He Qikui), 劉曉波 (Liu Xiaobo), 矯海龍 (Jiao Hailong), 韓殿生 (Han Diansheng), 鞠海坤 (Ju Haikun) , 陳旭東 (Chen Xudong), 李洪勝 (Li Hongsheng), 董文學 (Dong Wenxue) and 陳士忠 (Chen Shizhong), 赤峰金劍銅業有限公司 (Chi Feng Jin Jian Copper Company Limited) (collectively the "Vendors") and the Company in relation to the acquisition of a 75.08% of the equity interests in 哈爾濱松江銅業(集團)有限公司 (Harbin Songjiang Copper (Group) Company Limited) by the Company from the Vendors (a copy of which has been produced to the meeting and marked "A" and initialed by the Chairman of the meeting for the purpose of identification) and the transactions contemplated thereunder be and are hereby approved, ratified and confirmed; and

(b) any one director of the Company, or any two directors of the Company if the affixation of the common seal is necessary, be and is/are hereby authorised for and on behalf of the Company to execute all such other documents, instruments and agreements and to do all such acts or things deemed by him to be incidental to, ancillary to or in connection with the matters contemplated in the Sale and Purchase Agreement and completion thereof."

2. **"THAT**

(1) the Board be and is hereby authorized to allot and issue additional Shares in the capital of the Company (the "Mandate"). The Mandate can be exercised on more than one occasion during the Relevant Period subject to the following conditions:

(a) the aggregate nominal amount of Shares allotted and issued, or agreed conditionally or unconditionally to be allotted and issued to professional and institutional investors by the Board pursuant to the Mandate, shall not exceed 1,135,539,885 shares; and

* *For identification purpose only*

(b) the Board shall only exercise its power under the Mandate in accordance with the Companies Act 1981 of Bermuda and the Listing Rules; and

(2) contingent on the Board resolving to issue the Shares pursuant to sub-paragraph (1) above, the Board in exercising the Mandate be and is hereby authorised to:

(a) approve, execute, and do or procure to be executed and done, all such documents, deeds and things as it may consider necessary in connection with the issue of such new Shares including (without limitation):

(I) determine the number of Shares to be issued;

(II) determine the issue price of the new Shares by reference to the relevant market considerations, including the prevailing market conditions, the prevailing market price of the Shares and investor demand for the Shares at the relevant time. The issue price will not be less than 80% or more of the higher of:

(i) the closing price of the Shares quoted on The Stock Exchange of Hong Kong Limited on the date of the launch of the Proposed Share Issue; and

(ii) the average closing price of the Shares quoted on The Stock Exchange of Hong Kong Limited in the 5 trading days immediately prior to the earliest of:

(1) the date of announcement of the launch the Proposed Share Issue;

(2) the date of the placing agreement involving the Proposed Share Issue; and

(3) the date on which the price is fixed;

The price for the Proposed Share Issue shall be no less than HK$1.73.

(III) determine the use of proceeds of the Proposed Share Issue; and

(IV) make or grant such offers, agreements and options as may be necessary in the exercise of the Mandate.

(3) For the purpose of this resolution:

(a) "Board" means the board of directors of the Company;

(b) "Shares" means the shares in the share capital of the Company, with par value of HK$0.10 each, which are subscribed for and traded in Hong Kong dollars;

(c) "Proposed Share Issue" means the proposed issue of Shares to professional and institutional investors, by way of private placement which are proposed to be listed on The Stock Exchange of Hong Kong Limited;

(d) "Listing Rules" means the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited; and

(e) "Relevant Period" means the period commencing from the date on which all of the conditions precedent to completion of the Sale and Purchase Agreement (other than the condition relating to the Company having obtained sufficient funding to pay for the consideration of the acquisition under the Sale and Purchase Agreement) having been fulfilled (or otherwise waived) in accordance with the term thereof until the date of completion of the Sale and Purchase Agreement."

3. "THAT

(a) the master supply agreement (the "Master Supply Agreement") entered into by 哈爾濱松江銅業(集團)有限公司 (Harbin Songjiang Copper (Group) Company Limited) with 赤峰金劍銅業有限公司 (Chi Feng Jin Jian Copper Company Limited) on 26 April 2007 in relation to the supply of copper concentrates (a copy of which has been produced to the meeting and marked "B" and initialed by the Chairman of the meeting for the purpose of identification) and the transactions contemplated thereunder be and are hereby approved, ratified and confirmed;

(b) the annual caps (as stated in the circular of the Company dated 23 May 2007 (the "Circular")) for the transactions contemplated under the Master Supply Agreement for the period from the date of Completion (as defined in the Circular) and ending on 31 December 2009 as shown in the Circular be and are hereby approved; and

(c) any one director of the Company, or any two directors of the Company if the affixation of the common seal is necessary, be and is/are hereby authorised for and on behalf of the Company to execute all such other documents, instruments and agreements and to do all such acts or things deemed by him to be incidental to, ancillary to or in connection with the matters contemplated in the Master Supply Agreement and the transactions contemplated thereby."

By Order of the Board of
China Mining Resources Group Limited
Cheng Sau Man
Company Secretary

Hong Kong, 23 May 2007

Registered Office:
Clarendon House
Church Street
Hamilton HM 11
Bermuda

Notes:

(1) A member entitled to attend and vote at the above meeting may appoint a proxy to attend and vote on his behalf and such proxy need not be a member of the Company. A form of proxy for use at the meeting is enclosed.

(2) A form of proxy in respect of the meeting is enclosed. If you are not able to attend the meeting in person, you are requested to complete and return the form of proxy in accordance with the instructions printed thereon.

(3) In order to be valid, the form of proxy, together with any power of attorney or authority under which it is signed or a notarially certified copy of that power of attorney or authority, must be deposited at the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Room 1806–7, 18/F., Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof.

(4) Where there are joint holders of a share of the Company, any one of such holders may vote at the meeting, either personally or by proxy, in respect of such share as if he were solely entitle thereto, but if more than one of such holders are present at the meeting, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose, seniority shall be determined by the order in which the names stand in the register of members in respect of the joint holding. Several executors or administrators of a deceased member in whose name any share stands shall for this purpose be deemed joint holders thereof.

As at the date of this notice, the Board comprises Mr. Cai Yuan, Mr. Luk Kin Peter Joseph and Mr. Yeung Kwok Kuen as executive directors, Mr. Lam Ming Yung as non-executive director and Mr. Chan Siu Tat, Mr. Wong Hon Sum and Mr. Chu Kang Nam as independent non-executive directors.