

## Chairman's Statement

The Group returned to profitability this year which was largely due to the share of profit derived from Bridge Investment Holding Limited ("**BIH**"). In 2005 we were successful in realising our investment in BIH and the Group received a final dividend of US\$37.7 million from BIH out of which US\$33.9 million was paid out to shareholders. This brings an end to the Group's investment in BIH. Our realisation of our Korean investment actually returned over US\$74 million in cash to our shareholders against a total cash cost of approximately US\$36 million. Admittedly, although ultimately profitable, this was a very difficult investment, a not uncommon experience shared by other foreign investors in Korea.

In March 2006, the Group raised US\$20 million from three investors through the issuance of US\$20 million principal amount of 12% guaranteed convertible bonds due March 2009. These funds were used to acquire the Group's 40% interest in Yunnan Simao Shanshui Copper Company Limited (the "**Dapingzhang JV**"), a Sino-foreign equity joint venture enterprise engaged in mining, which comprises the Group, a company in the Yunnan Copper Group and the former owner of the mining business and assets.

In last year's report we referred to the exciting prospects of the Group's investment in a mining operation in the People's Republic of China (the "**PRC**" or "**China**") The Group now holds a 40% equity interest in the Dapingzhang JV, that is currently producing a bulk copper, zinc, lead concentrate with recoverable gold and silver values at the Dapingzhang Mine ("**DPZ**") in Yunnan Province, the PRC. The transition from the former owner proceeded smoothly and a new organisational structure has been implemented which has reduced the workforce to 204 from over 260. The Dapingzhang JV commenced operations in April 2006 and the new management team, which is provided by the three partners, is focused on pushing through the optimisation program of the existing facilities. In this respect, the metallurgical test work on the copper-rich stringer-type mineralisation (V2) has been implemented by the Dapingzhang JV's metallurgical consultants in conjunction with mill management at DPZ during May of this year. As a result of this test work, DPZ is now producing at much improved levels with a copper grade of 22-25% and with a recovery over 92% - both of which are in line with international standards.

The Dapingzhang JV's management's efforts are now focused on bringing throughput capacity at DPZ into line with the mine's stated daily production of 3,200 tonnes per day and on completing the balance of the optimisation program. These efforts are expected to yield very positive economic results.

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Continuing exploration of the DPZ licence has identified 4.5 million tonnes of stringer-style mineralisation (V2) at an overall grade of 0.65% copper/tonne, which can sustain production beneath the current open pit mine for the next 4 years at current throughput rates. There exists good potential to locate additional stringer-style and some higher value but metallurgically more complex copper/zinc/lead/silver/gold-bearing massive sulphide mineralisation (V1) within the current open pit area. In addition, exploration drilling has expanded the limits of the K1 and K2 massive sulphide lenses which were initially discovered by the Group in its due diligence drilling program. These massive sulphide lenses are located in close proximity to the existing open pit mine, the northern and eastern limits of these lenses remain open and they are located at depths of ~ 150-200 meters below surface. In addition, exploration drilling has located a possible new massive sulphide lens, known as K3. This K3 lens is located at shallow depths, in close proximity to the north west edge of the existing open pit mine and is readily amenable to extraction by open pit mining. The northern and western limits of the K3 lens remain open and the full extent of this lens is unknown.

High grade copper and zinc values have been intersected in the K1, K2 and K3 lenses. There is also increasing evidence of additional earlier formed, copper-rich massive sulphide lenses and associated stringer zones which occur beneath K1 and K2. We believe that the best is yet to come from our exploration drilling.

The Group's acquisition of its 40% interest in the Dapingzhang JV has the potential to add significant value to the Group — and for modest initial outlay. Already, it has provided us with a new skilled management team focused on investments in the mining sector and should significantly enhance our profitability for many years to come.

By the end of the first quarter of 2007, we should see the completion of the optimisation program at DPZ, including completion of first pass drilling within the mining licence area and commencement of work on at least one adjoining exploration permit area. We will also continue to source value adding opportunities in the mining sector, principally in China.

Recently, we have strengthened our management team in China with the addition of Jian Ding who joins us from SGS MinnovEx as Chief Metallurgist. Initially Jian will be seconded to the Dapingzhang JV and will be responsible for implementing all metallurgical and mill efficiency improvements, including overseeing the construction of the central filter plant. We expect to continue to strengthen on-the-ground management going forward.

We continue on a growth plan and are positioned for further significant progress in 2006. In this respect, the Group has entered into a joint venture with two PRC partners in relation to another mining project investment in the PRC, where the Group will acquire an 80% equity interest by investing US\$2 million. The PRC partners will transfer three exploration licences covering over 57 square kilometers and a mining licence covering 1 square kilometer for their 20% stake. These licences are in close proximity to DPZ and we believe that they overlay the same favourable regional geological belt as occurs at DPZ.

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While the prices of copper, zinc, gold, silver and lead were recently experiencing new highs, prices have retreated by over 20% as I write this report, but are still up around 50% since the end of 2005. We expect continued price volatility for base metals but looking ahead we continue to see strong copper and zinc markets for the balance of 2006 and 2007 as warehouse inventories continue to decline. Much of this decline in inventories has been driven by the high levels of demand growth from China. Notwithstanding an economic slowdown, Chinese demand for base metals will continue to be strong and the economic viability of the investment in the Dapingzhang JV is sound, even with copper and zinc prices much lower than current levels.

Our corporate governance standards remain in line with The Stock Exchange of Hong Kong Limited (the "**HK Stock Exchange**") recommended guidelines for good corporate governance. The Board is also focused on ensuring the Group manages its risk profile particularly with the acquisition of the 40% interest in the Dapingzhang JV. Careful attention is paid to reporting, accounting and control aspects of this venture.

The market has begun to recognise the merits of the Dapingzhang JV with a substantial increase in our share price since we declared our BIH dividend. With a full year of production ahead of us at DPZ and with metals prices still at relatively high levels compared with 2005, the outlook for this current financial year and beyond are exciting.

I welcome David Comba and Patrick Reid to the Board, who both bring a wealth of technical, commercial and governance experience. David's experience with volcanogenic massive sulphide deposits has been reassuring and contributions of my fellow Directors have been invaluable.

It is the efforts of our employees combined with the support of our shareholders that will enable the Group to manage its investments in a prudent manner with the focus on delivering shareholder value. I wish to thank our employees and shareholders for their continued support.

**James Mellon**

*Chairman*

18 July 2006