

## CEO's Report

The Group was successful in achieving its two main objectives for the financial year ended 31 March 2006. Our first objective was the completion of the successful realisation of the Group's investment in Bridge Investment Holding Limited ("BIH") and the return of 90% of the realisation proceeds to shareholders. The other objective was the re-shaping of the Group towards our vision of being a company focused on the acquisition, exploration and development of base metal mining properties principally in the People's Republic of China (the "PRC" or "China"). To date, the Group has a 40% equity interest in the Yunnan Simao Shanshui Copper Company Limited (the "Dapingzhang JV"), which is an active producing property and is seeking to acquire an 80% equity interest through the investment of US\$2 million in another mining project in the PRC containing a small producing property (the "Highway Mine").

### First Objective – Realisation of BIH

The Group received US\$37.7 million from BIH in October 2005 and declared a special interim dividend of 22 HK cents with an option to receive the dividend in whole or in part by way of new shares in the Company in December 2005. Consequently, the Company distributed US\$31.8 million in cash to shareholders in December 2005, with US\$2.1 million new shares in the Company issued. The BIH group has now been placed into voluntary liquidation and it is expected that no further distributions will be made to shareholders.

### Second Objective – Reshaping the Group focused on base metal properties in China

#### Investment in the Dapingzhang JV

The Group's key goal this year was the acquisition of a 40% interest in the Dapingzhang JV (which owns the Dapingzhang Mine ("DPZ")) together with securing the requisite funding for purchasing this stake. DPZ currently produces a bulk concentrate of copper, zinc and lead that contain significant recoverable gold and silver credits.

The Dapingzhang JV has also acquired four additional exploration licences covering over 83 square kilometers for RMB 40 million (approximately US\$5 million). These licences border the Dapingzhang JV property and bring the total exploration area of the Dapingzhang JV to 94 square kilometers.

The Dapingzhang JV commenced operations in April 2006 after receiving its business licence in March 2006 and opening the necessary bank accounts. The partners in the Dapingzhang JV moved quickly with the implementation of a new management structure in April, which involved an initial reduction in employment levels to 204 from over 260. The new management team of the Dapingzhang JV has been tasked with the implementation of the optimisation program with a targeted completion by the end of the first quarter of 2007. This program consists of the following main items:

- In-fill and exploration drilling of the remainder of the mining licence area and commencement of drilling on an adjoining exploration licence
- Implementation of a three year short-range mine plan and production schedule, based upon the initial resource estimate for the current open pit mine area

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## Second Objective – Reshaping the Group focused on base metal properties in China (Continued)

### Investment in the Dapingzhang JV (Continued)

- Optimisation of plant throughput
- Metallurgical testing on the two mineralisation types present, namely: (a) massive sulphide (V1) and (b) disseminated and stringer-type sulphides (V2)
- Improved mill and flotation control methods, including future improvements for flotation cells for massive sulphide ore flotation
- Construction of a central filter plant, return water system and relocation of the mine camp, among others
- Implementing international standard health and safety procedures, where practicable
- Addressing environmental impact of operations and implementing international environmental protection policies and procedures, where practicable

The Dapingzhang JV property demonstrates all the classic characteristics of a volcanogenic massive sulphide (“VMS”) system: felsic volcanics, a stratigraphic marker unit, massive sulphide mounds and underlying alternation ‘pipes’ of disseminated and stringer sulphides. The mounds exhibit classic metal zonation patterns between copper-rich core and zinc-rich distal or fringe areas. To-date, sulphide mounds have been discovered at four successive horizons or vertical intervals - such ‘stacking’ is also a characteristic of this deposit type. Since these horizons built up over time, ‘stacking’ is indicative of a robust and relatively long-lived mineralising system through which metal-bearing solutions passed.

Given these results to-date, we believe that the Dapingzhang JV property has the potential to be a world class VMS deposit, which will be the main driver of the Group's growth over the next three to five years.

The aim of the 2005-2006 exploration and in-fill drilling programs is to locate sufficient metal-bearing material to sustain production in the short-term (approximately the next three years) while undertaking aggressive exploration and in-fill drilling campaigns on the remainder of the current mining licence area to search for the presence of larger mineralised bodies that may support the expansion of the current plant capacity. The drilling programs completed to-date have demonstrated the quality of the DPZ deposit and have also highlighted the potential of the DPZ area to yield further VMS discoveries. As at 17 July 2006, the drilling program had completed 21,433 meters from 109 holes. An additional 20,000 meters of in-fill drilling is planned to be completed over the mine licence area with the primary focus on drill-testing known favourable stratigraphy - see Figure 1. In short, there remains much untested favourable stratigraphy along the strike to the northwest, the down dip and at four or more horizons,

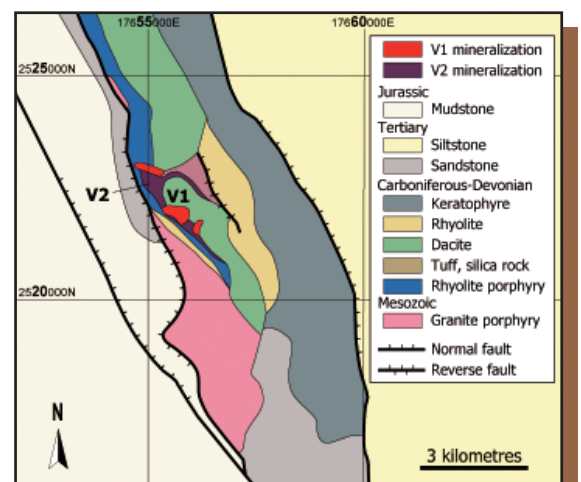


Figure 1 - General geology of Dapingzhang area

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## Second Objective – Reshaping the Group focused on base metal properties in China (Continued)

### Investment in the Dapingzhang JV (Continued)

all of which will afford excellent exploration potential and could enhance the value of the DPZ project and the Group's investment. The exploration team has the necessary financial resources to complete its current drilling program and I am pleased to say that the Company's exploration team is leading the exploration initiative at DPZ.

The aim of the 2006-2007 exploration drilling is to facilitate the identification of significant additional resources and define an initial reserve within the mine licence area. For further information on the exploration at DPZ, see the section entitled "Dapingzhang Exploration".

Micon International ("**Micon**"), a Canadian-based mining consultancy firm, has completed the initial three year short-range mine plan, which is subject to completion of more in-fill drilling in certain "high risk" areas. The resource for the current open pit area is estimated at 4.5 million tonnes of material at a copper grade of 0.65% copper/tonne. The current resources indicate a mine life of more than four years at a production rate of 3,200 tonnes per day with an overall strip ratio of 4.3:1.

Micon's recommended V2 open pit cut-off grade is 0.25% copper. In computing the cut-off grade, it has been assumed that (i) the costs of mining, milling and general & administration is US\$6.81 per tonne, (ii) the copper price is US\$2.25 per lb in 2006, US\$2.00 per lb in 2007 and US\$1.50 per lb in 2008, (iii) the payable metal (copper only) is 71% of assumed copper price and (iv) the metallurgical recovery is 90%. Since Micon completed its cut-off grade, the contracted payable metal (copper) has increased to 74% from 1 July 2006.

The Dapingzhang JV management team is now in the process of implementing the final open pit design with an accredited Chinese design institute, which will be reviewed by an internationally qualified mine engineering firm.

SGS-Lakefield ("**SGS**"), metallurgical consultants, has completed the metallurgical test work on the stringer type mineralisation (V2). SGS was able to achieve a good copper concentrate of >24% copper with over 93% recovery at its laboratory in Lakefield, Canada. SGS began implementation of the recommended improvements at DPZ in May 2006 and the mills are currently producing copper grades of 22-25% and recoveries over 92% from the V2 mineralisation – all results are much improved over the previous operational levels.

SGS is currently completing its metallurgical test work on the massive sulphide mineralisation (VI) with the objective of producing separate copper and zinc concentrates. Currently, SGS's test work demonstrates that separate copper and zinc concentrates can be made at reasonable recovery. For example, to date the best test results show a copper concentrate grade of 20% and recovery of 79% and a zinc concentrate grade of 53% and recovery of 73%. Once SGS has completed its test work, it will implement the necessary changes at DPZ, among other things, through the addition of new improved flotation cells. Completion of SGS's metallurgical test work is scheduled for the end of the first quarter of 2007, which should significantly increase the Dapingzhang JV's profitability. Overall, the aim is to ensure that recoveries of all economic metals are maximised.

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### Second Objective – Reshaping the Group focused on base metal properties in China (Continued)

#### Investment in the Dapingzhang JV (Continued)

SGS is working with the Dapingzhang JV management on increasing current throughput capacity to 3,200 tonnes per day (rated mill capacity) from 2,500 tonnes per day, with completion targeted for the first quarter of 2007.

Construction of a central filter plant, return water system and relocation of the mine camp, among others is slated for the first quarter of 2007 and it is expected that this will be funded by internal resources of the Dapingzhang JV.

Currently, the DPZ environmental and health and safety standards are far below international levels and requirements. Dapingzhang JV management is currently reviewing Klohn Crippen Berger's ("KCB") recommendations for strengthening the tailings dam for seismic stability, designing a stable waste dump and sediment control from the existing and future waste dumps to minimise the impact on the downstream rivers and compiling a comprehensive environmental management system. KCB's recommendations will require the support and co-operation of the local partners of the Dapingzhang JV, management and operating personnel.

The approach for health and safety issues will be similar to the environmental plan, namely international standards of policies and procedures, where applicable. Since April 2006 there have been no "lost time" injuries at DPZ. The focus will be on training the workforce in adopting and complying with appropriate safety procedures to international standards.

The Company's focus is on working with its local joint venture partners and management to develop and operate the mine in a manner that controls and minimises pollution and its impact on the local environment while taking into account the local cultural sensitivities and community expectations.

At DPZ, community initiatives are centered on land compensation and training locals in the skills required for employment at the mine. Land compensation is and will continue to be integral to building trust with the local communities.

#### Highway Mine – Preparation for exploration

The Group has entered into a joint venture with two local Chinese private companies in which the Group will acquire an 80% equity interest by investing US\$2 million. The local Chinese partners will transfer to the joint venture their interests in three exploration licences covering over 57 square kilometers and one 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 is found at DPZ. However, the joint venture arrangements have not yet been finalised and the parties are negotiating potential modifications to the arrangements. The Group anticipates that these negotiations will result in the Group's equity interest in the joint venture being revised to more than 90% when the joint venture is formed. In this connection, the Group will publish an announcement as and when required under The Rules Governing the Listing of Securities of the Hong Kong Stock Exchange in due course.

Currently, a local Chinese private company has a small (100 meter x 100 meter) mining licence within the mine licence of the Highway Mine. We understand that this company has constructed a small underground mine and a 100 tonne per day mill that is producing a copper concentrate. We further understand that the company is mining from two parallel zones ore of a grade and with characteristics similar to that mined at DPZ.

## CEO's Report

### Second Objective – Reshaping the Group focused on base metal properties in China (Continued)

#### Highway Mine – Preparation for exploration (Continued)

The Company's exploration team is now finalising the exploration program for the Highway Mine, where efforts will focus initially on finding extensions of the two mineralised zones currently being mined by the local Chinese private company. Thereafter, efforts will focus on first pass drilling away from any extensions (if identified) and completion of geophysical surveys, including the use of an electromagnetic airborne survey (if permitted). If the 2006-2007 program confirms the potential for the Highway Mine property, then this may become the Group's next mine, as it is located near excellent infrastructure and has no likely impediments to mining.

#### 2006 – 2007 Objectives

The main objective of the Group is to work with our partners of the Dapingzhang JV in establishing DPZ as a major copper-zinc-lead mine with significant recoverable gold and silver credits. Our other objectives for this financial year 2006-2007 are to:

- Complete the ongoing optimisation program to increase the productivity, efficiency and effectiveness of DPZ's operations
- Increase investment in overall exploration
- Advance mine exploration and development to increase resources, both quantitatively and qualitatively
- Define an initial mineral resource compliant with international standards (likely the JORC Code)
- Maximise recoveries of all economic metals (copper, zinc, lead, gold and silver)
- Determine and commence implementation of expansion of throughput capacity (if any)
- Determine if commercially recoverable quantities of barite are present
- Cement a successful working relationship with not only our partners of the Dapingzhang JV and management but also government officials, at both local and provincial level

Our second objective is to prepare the Highway Mine property for development by commencing an aggressive exploration program.

Our final objective is to acquire one or more value added projects.

We are focused in pursuing these objectives which we believe will significantly increase shareholder value.

I wish to thank my fellow directors, our management team, our employees and shareholders for their continued support.

**Jamie Gibson**

18 July 2006