

# Management's Discussion and Analysis of the Group's Performance

## Revenue and Profits

The Group recorded a profit after tax and minority interests of US\$8.1 million for the year ended 31 March 2006.

The profit attributable to the Group was mainly contributed by share of profit after tax of US\$12.9 million (after adjustment in accordance with the Group's accounting policy) from its associate, Bridge Investment Holding Limited ("BIH"). BIH recorded a profit attributable to shareholders of US\$33.6 million for the year ended 31 March 2006.

The BIH profit is mainly attributable to:

	US\$ million
By business:	
- Bridge Securities Co., Ltd (before the following significant item)	(1.6)
- Early retirement cost	(10.8)
	(12.4)
- Corporate and other interests	46.0
Pre-tax profit	33.6
Tax	(3.0)
Minority interest	3.0
<b>Net profit for the year</b>	<b>33.6</b>

The revenue of the corporate investment business division increased slightly to US\$0.3 million (2005: US\$0.1 million), while the revenue of the asset management business division was reduced to US\$0.7 million (2005: US\$0.8 million).

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## Revenue and Profits (Continued)

The main elements of the profit are as follows:

	US\$ million
Share of profit connected with BIH (after adjustment in accordance with the Group's accounting policy)	12.9
Share of profit from other associates	0.1
Corporate investment	(1.5)
Asset management and corporate finance	(3.4)
Profit before tax	8.1
Tax	—
Profit after tax and minority interests	8.1

## Balance Sheet

The shareholders' equity decreased by 74.3% to US\$13.2 million from US\$51.4 million during the year which was mainly due to paying out a special interim dividend of US\$33.9 million. Since BIH had distributed out a final dividend to its shareholders and no further distribution was expected, the Group no longer accounted for its equity interest in BIH as at 31 March 2006. The Group's assets comprised: (i) cash of US\$22.1 million and (ii) other corporate investments of US\$13.8 million. The Group's liabilities comprised: (i) convertible bonds (liability portion) of US\$18.4 million and (ii) other liabilities of US\$3.9 million.

## Dividend

On 17 October 2005, the Company received a dividend of US\$37.7 million from BIH. On 18 November 2005, the Company's shareholders approved the payment of a special interim dividend of 22 HK cents (2.837 US cents) per share. On the basis of the Company's then existing issued share capital, payment of the final dividend amounted to US\$33.9 million or approximately 90% of the proceeds received from BIH, which is in line with the Directors' stated intention concerning the distributions received from BIH. The dividend was paid on 16 December 2005.

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## Future Funding

As at 31 March 2006, the Group had US\$22.1 million in cash or 167.8% of its total shareholders' equity, which does not take into account the Group's holding of listed securities that amounted to US\$3.4 million.

On 31 March 2006, the Group issued US\$20 million 12% guaranteed convertible bonds due March 2009 (the "**Convertible Bonds**"). These funds were used to acquire the Group's 40% interest in Yunnan Simao Shanshui Copper Company Limited (the "**Dapingzhang JV**"). The Convertible Bonds are secured by a guarantee dated 31 March 2006 given by Regent Metals Limited ("**RML**") in favour of the security agent (the "**Security Agent**") guaranteeing the due payment of all sums to be payable by the Company in respect of the Convertible Bonds (the "**Guarantee**"); a floating charge given by RML in favour of the Security Agent over all its assets and undertaking and a charge over a specified bank account into which all dividend payments and other distributions, including without limitation, proceeds of sale of assets made by the Dapingzhang JV, will be made; and a share charge dated 31 March 2006 given by Regent Metals (Jersey) Limited in favour of the Security Agent to secure RML's obligations under the Guarantee.

Save as above, there were no other material charges against the Group's assets as at 31 March 2006.

The Company's subsidiaries and associates may require funding as their businesses develop. It is expected that the bulk of such funding will be obtained from external sources but, dependent upon the amount and the duration, funding will also be made available by the Group from its internal resources.

## Management of Risk

The most significant risk affecting the profitability and viability of the Company is its 40% interest in the Dapingzhang JV, a Sino-foreign equity joint venture enterprise that produces copper, zinc and lead with gold and silver credits. It is expected that the Company's main earnings and cash flow will be contributed by the Dapingzhang JV over the next two to three years.

There are a number of factors that may affect the business of the Company and/or the Dapingzhang JV, including but not limited to:

### *Price Risk*

The profitability of any mining operation in which the Group has an interest in is significantly affected by the market prices of copper, zinc and lead and to a lesser extent gold and silver.

The fluctuations in metal prices are influenced by numerous factors beyond the control of the Company and the Dapingzhang JV. Exchange rates, interest rates, inflation, and the world's supply and demand for metals can each cause significant fluctuations in metals prices. Such external economic factors are, in turn, influenced by changes in international economic growth patterns and political developments. In addition, commodity prices in the People's Republic of China (the "**PRC**") are highly influenced by fluctuations in international commodity prices, which is beyond the control of both the Company and the Dapingzhang JV.

# Management's Discussion and Analysis of the Group's Performance

## Management of Risk (Continued)

### *Co-operation of the Dapingzhang JV Partners*

The Company has two joint venture partners. The smooth operation of the Dapingzhang JV is dependent upon the co-operation of all joint venture parties.

### *Operational Risks*

The Dapingzhang JV's business of operating a mine is generally subject to a number of risks and hazards, including industrial accidents, unusual or unexpected geological conditions, technical failure, inclement weather and other natural phenomena such as excessive rain. Such occurrences could result in damage to, or destruction of, mining properties or production facilities, personal injury or death, environmental damage, delays in mining, monetary losses and possible legal liabilities.

### *Uncertainties Related to Exploration*

Exploration of mineral resources is speculative in nature, so substantial expenses may be incurred from initial drilling to production. There is also no assurance that exploration can lead to the discovery of economically feasible reserves. If reserves are developed, it may take a number of years and substantial expenditure from the initial phases of drilling until production is possible, during which time the economic feasibility of production may change. In addition, there is a risk that the resources are less than envisaged.

### *Licence Period of Exploration and Mining Rights*

The Dapingzhang JV may obtain mining rights for conducting mining activities in a specific mining area during the licence period. There can be no assurance that the Dapingzhang JV will be able to exploit the entire mineral resources of its mine during the initial licence period. If the Dapingzhang JV fails to renew its exploration and mining licences upon expiry or it cannot effectively utilise the resources within a licence period specified in such licence, the operation and performance of the Dapingzhang JV may be adversely affected.

### *Capital Requirements and Funding Sources*

The exploration and mining of mineral resources require substantial capital investments. The ability of the Dapingzhang JV to obtain future financing involve a number of uncertainties including its future operational results, financial condition and cash flow. If the Dapingzhang JV fails to obtain adequate funds to satisfy its operations or development plans, this may affect the business of the Dapingzhang JV, the efficiency of its operations and the operating results of the Dapingzhang JV.

# Management's Discussion and Analysis of the Group's Performance

## Management of Risk (Continued)

### *Potential Cost Overruns on Expansion*

In recent years, there have been cost over runs in mining and oil projects as the cost of raw materials such as steel have spiked unexpectedly. The Dapingzhang JV may expand its current mining operations. If such expansion does take place in the future, there is a risk that the costs could exceed the forecasts.

### *Operational Costs*

The mining and exploration business requires timely supply of various raw materials and electricity. There is no assurance that interruptions or shortage of such supplies will not occur in the future. The Dapingzhang JV did experience a shortage of power in April and May 2006 when the electricity bureau upgraded a power line to the mine site. In addition, an increase in the price of such raw materials and/or electricity may have an adverse impact on the operation of the Dapingzhang JV.

### *Government Regulations*

Mining operations in the PRC are subject to extensive laws and regulations governing exploration, development, production, exports, taxes, labour standards, occupational health and safety, waste disposal, monitoring, protection, and remediation of the environment, reclamation, mine safety, toxic substances and other matters. Changes in such laws and regulations could increase the costs of the Dapingzhang JV.

### *Political and Economic Considerations*

The PRC government has been making efforts to promote reforms of the economic system. These reforms have brought about marked economic growth and social progress. However, revisions or amendments may be made to these policies and measures from time to time, and the Dapingzhang JV is not in a position to predict whether any change in the political, economic or social conditions may adversely affect the operating results of the Dapingzhang JV.

### *Legal Considerations*

The PRC legal system is a statutory law system. Unlike the common law system, decided legal cases have little significance for guidance, and rulings by the court can only be used as reference with little value as precedents. Since 1979, the PRC government has established a commercial law system, and significant progress has been made in promulgating laws and regulations relating to economic affairs. However, these regulations are relatively new and the availability of public cases as well as the judicial interpretation of them are limited in number. Furthermore, as they are not binding, both the implementation and interpretation of these regulations are uncertain in many areas.

# Management's Discussion and Analysis of the Group's Performance

## Management of Risk (Continued)

### *Competition for Resources and Copper Concentrates*

The mining business depends on one's ability to discover new resources. The Dapingzhang JV will face competition from other mining enterprises in discovering and acquiring resources.

### *Foreign Exchange Risk*

The Company operates using American dollars. As such the Company is exposed to foreign currency fluctuations arising from operations of its subsidiaries and associates. This exposure relates mainly to the translation between US dollars and non-US dollar currencies. Currency fluctuations may affect the revenues which the Company realises from its subsidiaries and associates and, in particular, its 40% interest in the Dapingzhang JV. This exposes the Company to increased volatility in earnings as reported in American dollars due to fluctuations in foreign exchange rates. While foreign currencies are generally convertible into American dollars, there is no guarantee that they will continue to be so convertible or that fluctuations in the value of such currencies will not have an adverse effect on the Company.

The Group has not taken any currency hedge against its main investment in the PRC or elsewhere.

### *Credit Risk*

The Dapingzhang JV is subject to credit risk through trade receivables. The Dapingzhang JV has one customer for its concentrate. Credit risk is mitigated through the use of provisional payment arrangements whereby 80% is paid within five business days after the issuance of the monthly provisional delivery notice and the balance of 20% being paid within five business days after the issuance of the final monthly invoice. From 1 July 2006, this risk will be further mitigated as the Dapingzhang JV will receive 100% prepayment rather than 80%.

The Company does not have any significant customers as its revenue is generated from (i) the realisation of investments, or (ii) earnings from associates. Credit risk also relates to derivative contracts arising from the possibility that a counterparty to an instrument in which the Company has an unrealised gain fails to perform. The Company transacts through Bear Stearns Securities Corp. and does not consider the credit risk associated with these financial instruments to be significant.

### *Interest Rate Risk*

The Company does not have any operating lines of credit or bank facilities. Therefore, the Company was not exposed to interest rate risk in the financial year concerned.

# Management's Discussion and Analysis of the Group's Performance

## Management of Risk (Continued)

### *Environmental Risk*

Environmental risks relate to every mining company. The tailings dam where the tailings are discharged is usually the most important potential area of risk to consider. Spilling a tailings dam can be enormously damaging to the environment and expensive to clean up.

Currently the Dapingzhang JV's environmental and health and safety standards are far below international requirements. Management of the Dapingzhang JV is currently reviewing an internationally recognised consultancy firm's recommendations for strengthening the tailings dam for seismic stability (as the mine is located in an active seismic region), 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. The consultancy firm's recommendations will require the support and "buy in" of the Chinese joint venture partners, management and the operating personnel of the Dapingzhang JV.

The approach for health and safety will be similar to the environmental plan. Since April 2006 there was no lost time injury at DPZ. The focus will be on training the workforce in appropriate safety procedures.

The Company's focus is on working with its joint venture partners and the management of the Dapingzhang JV for developing and operating the mine in a manner that controls and minimises pollution and takes into account the local cultural sensitivities and community expectations.

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

## Financial Instruments

The Group will operate both equity market and currency hedges from time to time. Investment is carefully controlled, in accordance with parameters set by the Board, in short term situations where physical assets may be inappropriate. There is strict segregation between the investment management and settlement functions.

In the course of the Group's normal operations, margin deposits of varying amounts of cash are held by the Group's brokers. As at 31 March 2006, the amount of these margin deposits was US\$382,000 (2005: US\$275,000).

In terms of the total operations of the Group, activities of this nature are of limited materiality.

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## Contingent Liabilities

The Group and the Company have no material contingent liabilities as at 31 March 2006.

## Employees

The Group, including subsidiaries but excluding associates, employed approximately 10 employees at 31 March 2006. The remuneration policy is to reward key employees by a combination of salaries, profit related bonuses and share options, where appropriate. For employees below board level, remuneration will be determined by the Director(s) responsible for the division whilst, for Directors, remuneration is determined by the remuneration committee of the Board. In all cases, grants of share options will be agreed by the Board as a whole. During the year and up to the date of this report, options in respect of an aggregate of 89,200,000 ordinary shares in the Company were granted to eligible participants.