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If you have sold or transferred all your Shares in **China Daye Non-Ferrous Metals Mining Limited**, 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 the transferee.

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中國大冶有色金屬礦業有限公司

China Daye Non-Ferrous Metals Mining Limited

(Incorporated in Bermuda with limited liability)

(Stock Code: 00661)

(1) VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION

(2) REVERSE TAKEOVER INVOLVING A NEW LISTING APPLICATION

(3) APPLICATION FOR WHITEWASH WAIVER

(4) PROPOSED GRANT OF SPECIFIC MANDATE

AND

(5) CONTINUING CONNECTED TRANSACTIONS

PART 1 OF 2

**Financial adviser to the Company in respect of the Acquisition
and the sponsor to the new listing application of the Company**

J.P.Morgan

J.P. Morgan Securities (Asia Pacific) Limited

Independent financial adviser to the Independent Board Committee



PLATINUM
Securities

A letter from the Board is set out on pages 64 to 111 of this circular. A letter from the Independent Board Committee is set out on pages 112 to 113 of this circular. A letter from the Independent Financial Adviser containing their advice to the Independent Board Committee and the Independent Shareholders is set out on pages 114 to 211 of this circular.

A notice convening the EGM to be held at 10:00 a.m., on Monday, 16 January 2012, at Harbour View Ballroom III, Level 4, Four Seasons Hotel, 8 Finance Street, Central, Hong Kong is set out on pages EGM-1 to EGM-2 of this circular. Whether or not you are able to attend the EGM, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return it to the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM should you so wish.

This circular is printed in two parts that, together, form one and the same circular. You should read each part of this circular in conjunction with the other part in order to understand the matters to which this circular relates, including the Acquisition, the Whitewash Waiver, the proposed grant of the Specific Mandate and the Non-Exempt Continuing Connected Transactions, and decide how to cast your vote(s) on the resolutions proposed at the EGM. The complete circular is also available at www.hkexnews.hk and www.hk661.com.

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EXPECTED TIMETABLE

EXPECTED TIMETABLE AND TRADING ARRANGEMENTS

The following expected timetable is indicative only and is subject to change. If necessary, further announcement(s) in relation to any revision of the timetable will be published as and when appropriate.

2012

Latest time for lodging forms of proxy for the EGM 10:00 a.m. on Saturday, 14 January

EGM 10:00 a.m. on Monday, 16 January

Announcement of results of the EGM to be published Monday, 16 January

Expected date of China Times Completion. Thursday, 16 February

SUMMARY

This summary aims at giving you an overview of the information contained in this circular. As it is a summary, it does not contain all the information that may be important to you. You should read the whole circular before making a decision on the Acquisition and the appropriate course of action for yourself.

There are risks associated with any business. You should read the section headed “Risk Factors” of this circular carefully before making a decision on the Acquisition.

INTRODUCTION

The Company, China Daye Non-Ferrous Metals Mining Limited, is the holding company of the Group and has been listed on the Main Board of the Stock Exchange since 1990. China Times, which owned 20.80% of the ordinary shares in issue of the Company as at the Latest Practicable Date, is currently its single largest shareholder. China Times is indirectly wholly-owned by 大冶有色金屬集團控股有限公司 (Daye Nonferrous Metals Corporation Holdings Limited), which is incorporated in the PRC and wholly-owned by Hubei SASAC.

The Group is principally engaged in corporate investment and trading in securities, mineral exploitation and trading in non-ferrous metals. Since 2004, the Group has been diversifying its business into the mining industry and completed various acquisitions of mineral resources and assets. The Group currently holds the mining or exploration rights to two copper mines in Xinjiang, one molybdenum mine and two wolfram mines in Mongolia. Commercial production has yet to commence at any of those mines and hence, none of those mines have generated any revenue for, or contributed to the profits of, the Group since they were acquired. For the year ended 31 December 2010 and the six months ended 30 June 2011, the Group recorded a net loss attributable to the owners of the Company of approximately HK\$23 million and HK\$22 million, respectively.

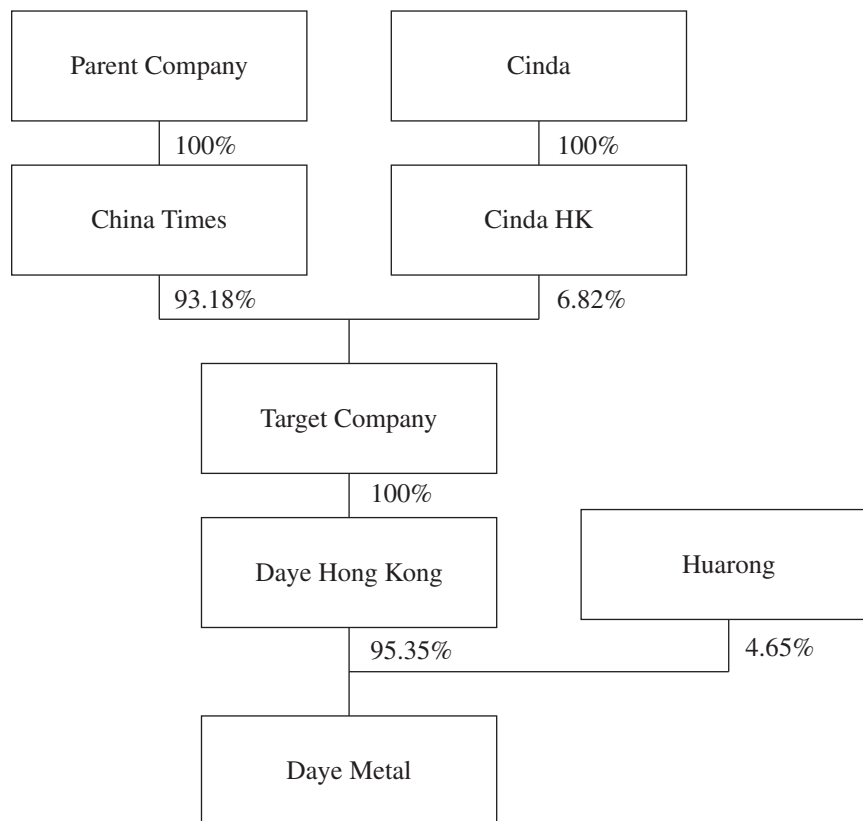
The Company entered into the Acquisition Agreement on 23 January 2011 with, among other parties, China Times and Cinda HK, to acquire the Target Company. The Target Company is an investment holding company which is owned as to 93.18% by China Times and 6.82% by Cinda HK. The Target Company holds a 95.35% equity interest in Daye Metal.

The principal business of Daye Metal is the production and sales of copper cathodes, gold and silver, both self-produced and those sourced from third party suppliers or the Parent Group for on-sale to its customers. Daye Metal currently holds the mining rights to four copper mines in the Hubei Province, the PRC, all of which are already in commercial production. For the year ended 31 December 2010 and the six months ended 30 June 2011, Daye Metal and its subsidiaries recorded net profits attributable to the owners of the Target Company of approximately RMB128 million and RMB94 million, respectively.

SUMMARY

The Directors of the Company believe that the acquisition of the Target Company (and hence, Daye Metal and its subsidiaries) will enable the Group to capitalize on the significant portfolio of high-grade copper reserves and resources and associated metals (such as gold and silver) at the four mines of the Target Group, the expertise and experience of the management and technical teams of the Target Group, as well as the income stream generated from the four mines of the Target Group for the ongoing development of the Group's existing mines and the management of their future operations.

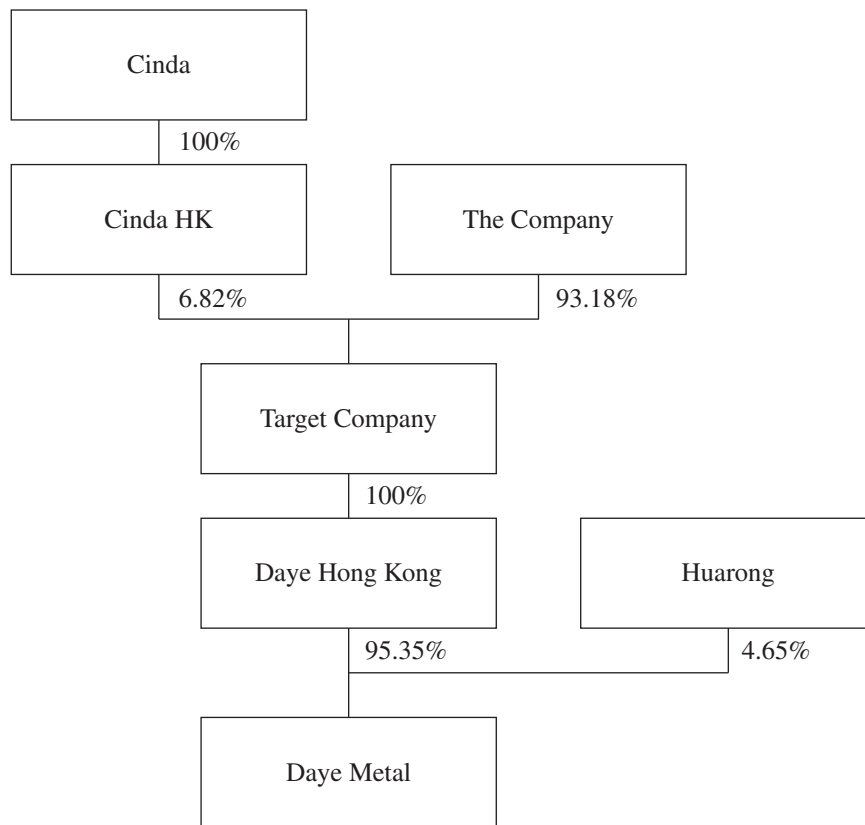
The following diagram illustrates the shareholding structure of the Target Company as at the Latest Practicable Date:



SUMMARY

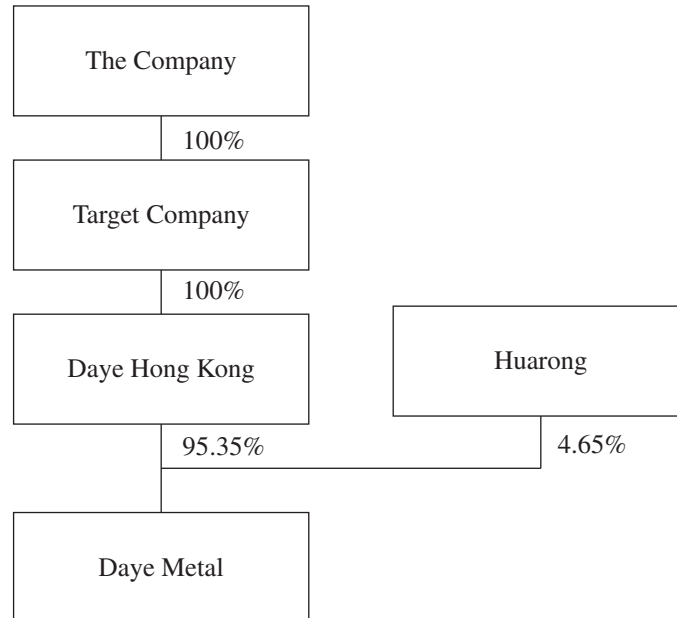
Completion of the acquisition of the Target Company is subject to the fulfilment of various conditions set out in the Acquisition Agreement (or in the case of certain conditions, waiver of those conditions). The sale by Cinda HK of its 6.82% shareholding in the Target Company to the Company is conditional on, among other things, completion of the sale by China Times of its 93.18% shareholding in the Target Company to the Company. Completion of the sale by China Times is, however, not conditional on completion of the sale by Cinda HK. Hence, it is possible that the Company may only acquire the 93.18% shareholding in the Target Company held by China Times and not the 6.82% shareholding held by Cinda HK.

The following diagram illustrates the shareholding structure of Daye Metal if the Company only acquires the 93.18% shareholding in the Target Company from China Times:



SUMMARY

The following diagram illustrates the shareholding structure of Daye Metal if the Company acquires both the 93.18% shareholding and the 6.82% shareholding in the Target Company from China Times and Cinda HK, respectively:



The acquisition of the Target Company by the Company described above constitutes a very substantial acquisition for the Company under Chapter 14 of the Listing Rules. It also constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules since each of China Times (being the vendor of the 93.18% shareholding in the Target Company) and the Parent Company (which holds 100% of China Times) is a substantial shareholder and therefore a connected person of the Company under the Listing Rules. Hence, the acquisition of the Target Company is subject to the approval by the shareholders of the Company (other than China Times, its associates, persons acting in concert with it and any person who is involved or interested in such acquisition and/or the Whitewash Waiver) at the extraordinary general meeting of the Company to be held at Harbour View Ballroom III, Level 4, Four Seasons Hotel, 8 Finance Street, Central, Hong Kong on Monday, 16 January 2012, at 10:00 a.m..

The consideration payable by the Company to China Times for the sale of its 93.18% shareholding in the Target Company is to be satisfied partly by the issue of new shares and partly by the issue of convertible notes by the Company. The issue of the new shares by the Company to China Times will result in China Times increasing its shareholding (and hence, its voting rights) in the Company to more than 30% and will, therefore, constitute a change in control (as defined in the Takeovers Code) of the Company. As the acquisition constitutes both a very substantial acquisition for the Company under Chapter 14 of the Listing Rules and will result in a change in control within the meaning of the Takeovers Code, it also constitutes a reverse takeover for the Company under Rule 14.06(6)(a) of the Listing Rules. The Company will, therefore, be treated as if it were a new listing applicant and the acquisition will be subject to the approval by the Listing Committee of the new listing application made by the Company. On 14 October 2011, the Company made a new listing application to the Stock Exchange and the Listing Committee has given its approval in principle of the new listing application of the Company.

SUMMARY

THE ACQUISITION

The Acquisition Agreement

As announced by the Company on 1 February 2011 and 23 December 2011, the Company, the Parent Company and the Vendors entered into the Acquisition Agreement on 23 January 2011 (as supplemented and amended by the First Supplemental Agreement and the Second Supplemental Agreement). Pursuant to the Acquisition Agreement, the Company has conditionally agreed to purchase, and the Vendors have conditionally agreed to sell, the Sale Shares (comprising the China Times Sale Shares, the Cinda Sale Shares and the Huarong Sale Shares) at a total consideration of RMB6,100,000,000 or HK\$7,207,334,940 (based on the exchange rate of HK\$1: RMB0.84636). The total consideration will be satisfied by the allotment and issue by the Company to the Vendors of an aggregate of 12,406,997,784 Ordinary Shares at the Issue Price of HK\$0.50 per Consideration Share and (to China Times only) the issue of the China Times Convertible Notes.

It was further announced by the Company on 14 October 2011 that the Company has been informed by Huarong, being one of the Vendors, that it was not able to obtain the regulatory and other approvals required in connection with the Huarong Reorganisation. Hence, as provided in the Reorganisation Agreement, the Huarong Reorganisation will not proceed. As completion of the sale and purchase of the Huarong Sale Shares by Huarong under the Acquisition Agreement is conditional upon completion of the Huarong Reorganisation, Huarong Completion will not take place in accordance with the Acquisition Agreement.

Completion of the sale and purchase of the remaining Sale Shares, comprising the China Times Sale Shares and the Cinda Sale Shares, will remain subject to the conditions set out in the Acquisition Agreement. Some of those conditions have already been fulfilled as at the Latest Practicable Date (please refer to the section headed "Letter from the Board – Conditions precedent" of this circular). If all of the conditions are fulfilled (or, where applicable, waived) and China Times Completion and Cinda Completion take place in accordance with the Acquisition Agreement, the total consideration payable by the Company pursuant to the Acquisition Agreement will be reduced to RMB5,816,350,000 (or HK\$6,872,193,865) (based on the exchange rate of HK\$1: RMB0.84636) and the aggregate number of Consideration Shares to be issued by the Company will also be reduced to 11,736,715,634 new Ordinary Shares, as a result of the exclusion of the Huarong Consideration attributable to the Huarong Sale Shares.

SUMMARY

Assets to be acquired by the Company

Pursuant to the Acquisition and subject to the fulfillment of the relevant conditions set out in the Acquisition Agreement, the Company will acquire (i) 93.18% of the total issued shares in the Target Company, if only the completion of the acquisition of the China Times Sale Shares takes place; or (ii) 100% of the total issued shares in the Target Company, if both the completion of the acquisition of the China Times Sale Shares and the Cinda Sale Shares take place. As at the Latest Practicable Date, the Target Company held all the issued shares in Daye Hong Kong which, in turn, held a 95.35% equity interest in Daye Metal.

The Target Group is principally engaged in the production and sales of copper cathodes. It also sells gold, silver and sulphuric acid. The Target Group holds the mining and/or exploration rights to four mines in the Hubei Province, the PRC, and all of those mines are already in operation. It also owns and operates on-site processing facilities at each of those mines to carry out crushing, screening and milling of copper ore, a smelting plant which undertakes the smelting of copper concentrate and production of sulphuric acid, a precious metal plant which extracts gold and silver from anode slime, and a research and development centre. The Target Group is one of the few copper producers in the PRC who have a vertically integrated operation which extends from the exploration, mining and processing of copper ore to the smelting of copper concentrate and the production of copper cathodes and other precious metals such as gold and silver. Please refer to the sub-section headed “Information on the Target Group” in this section and the section headed “Business of the Target Group” in this circular for further information.

IMPLICATIONS UNDER THE LISTING RULES

Very substantial acquisition and connected transaction

As the Relevant Ratios exceed 100%, the Acquisition constitutes a very substantial acquisition for the Company under Chapter 14 of the Listing Rules. As at the Latest Practicable Date, each of the Parent Company and China Times was a substantial shareholder of the Company and therefore constitutes a connected person of the Company. Hence, the Acquisition also constitutes a connected transaction of the Company under the Listing Rules.

The Acquisition, the terms of which include the allotment and issue of the China Times Consideration Shares, Cinda Consideration Shares, China Times Convertible Notes and Conversion Shares, is therefore subject to the approval by the Independent Shareholders at the EGM. Resolutions will be proposed at the EGM for the Independent Shareholders to approve, among others, (i) the terms of the Acquisition Agreement, the First Supplemental Agreement and the Second Supplemental Agreement and the transactions contemplated under those agreements; (ii) a specific mandate to the Directors to allot and issue the China Times Consideration Shares, Cinda Consideration Shares, China Times Convertible Notes and Conversion Shares; and (iii) authorizations to the Directors to do all acts or things for and on behalf of the Company as they may consider necessary or desirable in connection with (i) and (ii) above.

SUMMARY

China Times, its associates, persons acting in concert with it and any person who is involved or interested in the Acquisition and/or the Whitewash Waiver are required to abstain from voting on the relevant resolutions to be proposed at the EGM to approve the Acquisition Agreement and the transactions contemplated thereunder, the Specific Mandate and the Whitewash Waiver. As at the Latest Practicable Date, China Times, its associates, persons acting in concert with it and any person who is involved or interested in the Acquisition and/or the Whitewash Waiver were interested in 1,163,236,988 Ordinary Shares, representing approximately 20.80% of the total Ordinary Shares in issue and 5,495 Preference Shares, representing approximately 33.33% of the total Preference Shares in issue. Your attention is drawn to pages EGM-1 to EGM-2 of this circular where you will find a notice of the EGM to be held at Harbour View Ballroom III, Level 4, Four Seasons Hotel, 8 Finance Street, Central, Hong Kong on Monday, 16 January 2012, at 10:00 a.m..

Reverse takeover and deemed new listing

Since the Acquisition constitutes a very substantial acquisition for the Company under Chapter 14 of the Listing Rules and the issue of the China Times Consideration Shares to China Times at China Times Completion will result in a change in control (as defined in the Takeovers Code) of the Company, the Acquisition also constitutes a reverse takeover for the Company under Rule 14.06(6)(a) of the Listing Rules. Under Rule 14.54 of the Listing Rules, the Company will be treated as if it were a new listing applicant and the Acquisition is therefore subject to, among other conditions, the approval by the Listing Committee of the new listing application made by the Company. The Enlarged Group or the Target Group must be able to meet the requirements of Rule 8.05 of the Listing Rules and the Enlarged Group must also be able to meet all the other basic conditions set out in Chapter 8 and Chapter 18 of the Listing Rules. Neither the Target Group nor the Enlarged Group is, however, able to meet the profit requirement under Rule 8.05(1) of the Listing Rules, but the Enlarged Group is able to satisfy the capitalisation and revenue requirements under Rule 8.05(3) of the Listing Rules. On 14 October 2011, the Company made a new listing application to the Stock Exchange under Rule 8.05(3) of the Listing Rules and the Listing Committee has given its approval in principle of the new listing application of the Company.

Chapter 18 of the Listing Rules

As the Acquisition constitutes a very substantial acquisition and reverse takeover for the Company under Chapter 14 of the Listing Rules, and the principal assets of the Target Group to be acquired by the Company pursuant to the Acquisition constitute Mineral Assets under Chapter 18 of the Listing Rules, the Acquisition is also subject to the requirements of Chapter 18 of the Listing Rules.

SUMMARY

IMPLICATIONS UNDER THE TAKEOVERS CODE AND APPLICATION FOR WHITEWASH WAIVER

As at the Latest Practicable Date, China Times and persons acting in concert with it were interested in approximately 20.80% of the total Ordinary Shares in issue.

If only China Times Completion takes place, China Times and persons acting in concert with it will, immediately following China Times Completion, be interested in approximately 72.99% of the total Ordinary Shares in issue as enlarged by the issue of the China Times Consideration Shares (but without taking into account any Conversion Shares which may be issued pursuant to the China Times Convertible Notes).

If both China Times Completion and Cinda Completion take place, China Times and persons acting in concert with it will, immediately following China Times Completion and Cinda Completion, be interested in approximately 69.04% of the total Ordinary Shares in issue as enlarged by the issue of the China Times Consideration Shares and Cinda Consideration Shares (but without taking into account any Conversion Shares which may be issued pursuant to the China Times Convertible Notes).

If only China Times Completion takes place and on the basis that the China Times Convertible Notes are converted into Conversion Shares at the Conversion Price but only to the extent that the Company will be able to maintain its minimum public float required under the Listing Rules, China Times and persons acting in concert with it will, immediately following China Times Completion, be interested in, approximately 74.99% of the total Ordinary Shares in issue as enlarged by the issue of the China Times Consideration Shares and such Conversion Shares.

If both China Timers Completion and Cinda Completion take place and on the basis that the China Times Convertible Notes are fully converted into Conversion Shares at the Conversion Price, China Times and persons acting in concert with it will, immediately following China Times Completion and Cinda Completion, be interested in approximately 72.25% of the total Ordinary Shares in issue as enlarged by the issue of the China Times Consideration Shares, Cinda Consideration Shares and such Conversion Shares.

As such, China Times would be required to make a mandatory general offer for all the issued shares of the Company not already owned or agreed to be acquired by China Times and persons acting in concert with it under Rule 26.1 of the Takeovers Code unless a waiver from strict compliance with Rule 26.1 of the Takeovers Code is granted by the Executive.

China Times made an application to the Executive on 14 October 2011 for the granting of the Whitewash Waiver. The Whitewash Waiver, if granted, would be subject to the approval of the Independent Shareholders. China Times, its associates, persons acting in concert with it, and any person involved or interested in the Acquisition and/or the Whitewash Waiver are required to abstain from voting on the relevant resolution to be proposed at the EGM to approve the Whitewash Waiver.

SUMMARY

As a result of China Times Completion and the allotment and issue of the China Times Consideration Shares and Conversion Shares (assuming conversion of the China Times Convertible Notes at the Conversion Price, but only to the extent that the Company will be able to maintain its minimum public float required under the Listing Rules), China Times and persons acting in concert with it will have a holding of more than 50% of the voting rights of the Company. Hence, China Times and persons acting in concert with it may increase their holding of voting rights in the Company without incurring any further obligation under Rule 26 of the Takeovers Code to make a general offer. However, any changes in the make-up of the group comprising China Times and persons acting in concert with it that effectively result in a new group being formed or the balance of the group being changed significantly may trigger an obligation to make a general offer under Rule 26.1 of the Takeovers Code.

PROPOSED GRANT OF SPECIFIC MANDATE

Under the Acquisition Agreement, the China Times Consideration will be satisfied by the issue of the China Times Consideration Shares and the China Times Convertible Notes by the Company to China Times (or its nominee), and the Cinda Consideration will be satisfied by the issue of the Cinda Consideration Shares by the Company to Cinda (or its nominee). The China Times Consideration Shares, the Cinda Consideration Shares, the China Times Convertible Notes and the Conversion Shares to be issued upon conversion of the China Times Convertible Notes will be allotted and issued under the Specific Mandate proposed to be obtained at the EGM. The China Times Consideration Shares, the Cinda Consideration Shares and the Conversion Shares, when issued, will rank equally among themselves and *pari passu* in all respects with the Ordinary Shares then in issue, including as to the right to any dividend declared on or after the respective dates of their allotment and issue.

CONTINUING CONNECTED TRANSACTIONS

It was announced on 23 December 2011 that the Company entered into the Non-Exempt Continuing Connected Transaction Agreements and the Exempt Continuing Connected Transaction Agreements with the Parent Company, its associates or Daye Labour (as the case may be).

Each of the Non-Exempt Continuing Connected Transaction Agreements is conditional upon China Times Completion taking place and all applicable legal and regulatory requirements (including those under the Listing Rules) having been complied with. An ordinary resolution will be proposed at the EGM for the approval by the Independent Shareholders of the Non-Exempt Continuing Connected Transaction Agreements and the transactions to be carried out pursuant thereto (including the Annual Caps).

Further information on the Non-Exempt Continuing Connected Transactions is set out in the section headed “Continuing Connected Transactions” in this circular.

SUMMARY

PURPOSE OF THIS CIRCULAR

The purpose of this circular is to provide the Shareholders with further information about: (i) the Acquisition; (ii) the Whitewash Waiver; (iii) the proposed grant of the Specific Mandate; and (iv) the Non-Exempt Continuing Connected Transactions, as well as to give notice to the Shareholders of the EGM. This circular also provides additional information on the Target Group as required under the Listing Rules in connection with the new listing application.

INFORMATION ON THE TARGET GROUP

Business

According to the Antaike Report, Daye Metal was the fifth largest producer of copper cathodes in the PRC by production volume, accounting for approximately 6.7% of the total production of copper cathodes in the PRC in 2010. The major products of the Target Group include copper cathodes, gold, silver and sulphuric acid (which is a by-product derived from the smelting process of copper ore and concentrate). The Target Group sells both copper cathodes, gold and silver produced by itself as well as those sourced by it from third party suppliers or the Parent Group for on-sale to its customers.

Sales of copper cathodes accounted for approximately 73.6%, 71.5%, 77.1% and 76.4% of the total revenue of the Target Group for the three years ended 31 December 2010 and the six months ended 30 June 2011, respectively. Approximately 95.5%, 60.1%, 55.6% and 68.5% of the revenue from the sales of copper cathodes for the three years ended 31 December 2010 and the six months ended 30 June 2011, respectively, was derived from the sales of copper cathodes produced by the Target Group, while the remainder was derived from the sales of copper cathodes sourced by the Target Group from third party suppliers and the Parent Group for on-sale to its customers. The Target Group also provides copper processing services including the processing of copper concentrates into copper cathodes, but such processing services accounted for less than 1% of the total revenue of the Target Group over the Track Record Period.

SUMMARY

Sales of gold, silver and sulphuric acid, together, accounted for approximately 16.3%, 22.6%, 13.4% and 18.0% of the total revenue of the Target Group for the three years ended 31 December 2010 and the six months ended 30 June 2011, respectively. Approximately 100%, 47.7%, 84.7% and 74.8% of the revenue from the sales of gold and silver for the three years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011, respectively, was derived from the sales of gold and silver produced by the Target Group, while the remainder was derived from the sales of gold and silver sourced by the Target Group from third party suppliers for on-sale to its customers. The Target Group also sells a small amount of iron concentrate (which is derived from iron ore deposits associated with the copper ore deposits at the Tonglvshan Mine) and other metals recovered during the smelting and refining process of copper concentrate, such as platinum, palladium, and molybdenum. The Target Group sells all of the copper cathodes, gold and silver it produces as well as the copper cathodes it processes for its customers under its “Dajiang” brand.

The Target Group holds the Mining Licences to the Four Mines, all of which are located in the Hubei Province of the PRC. The primary mineral deposit at the Four Mines is copper, with associated deposits of gold and silver. The Target Group also owns and operates on-site processing facilities at each of the Four Mines to carry out crushing, screening and milling of copper ore, the Smelting Plant which undertakes the smelting of copper concentrate and production of sulphuric acid, the Precious Metal Plant which extracts gold and silver from anode slime, and the R&D Centre. The Target Group is one of the few copper producers in the PRC who have a vertically integrated operation which extends from the exploration, mining and processing of copper ore to the smelting of copper concentrate and the production of copper cathodes and other precious metals such as gold and silver.

The supply of copper ore from the Four Mines is currently not sufficient to meet the requirements of the Target Group for its downstream copper cathode production. In addition to the supply from the Four Mines, the Target Group also sources a significant portion of copper concentrates from external suppliers and the Parent Group. The Target Group produced, in aggregate, approximately 20,930 tonnes and approximately 9,800 tonnes of copper concentrates from the copper ore mined from the Four Mines in the year ended 31 December 2010 and the six months ended 30 June 2011, respectively, which accounted for approximately 13.41% and 13.10% of the copper concentrates used by the Target Group for its copper cathode production in those periods, with the remainder being sourced from external suppliers and the Parent Group. The Target Group produced approximately 308,100 tonnes and approximately 167,000 tonnes of copper cathodes in the year ended 31 December 2010 and the six months ended 30 June 2011, respectively.

As production of copper cathodes and other major products by the Target Group is dependent on a stable supply of, among other raw materials, copper concentrates, if there is any shortage in the supply or any fluctuation in the price of copper concentrates, the Target Group's results of operations, financial condition and growth prospects may be materially and adversely affected. Please refer to the section headed “Risk Factors – Risks relating to the business of the Enlarged Group – Fluctuations in price and supply of raw materials could negatively impact our business and financial conditions” in this circular for further information.

SUMMARY

Summary financial information

The summary financial information of the Target Group for the Track Record Period below is extracted from the section headed “Financial information of the Target Group” set out in Appendix I to this circular.

	Year ended 31 December			Six months ended
	2008	2009	2010	30 June
	(audited)	(audited)	(audited)	2011
				(audited)
Revenue (<i>RMB million</i>)	14,867	18,485	26,020	13,672
Gross profit (<i>RMB million</i>)	349	877	833	539
Gross profit margin (%)				
(<i>unaudited</i>)	2.4	4.7	3.2	3.9
Net (loss)/profit attributable to the owners of the Target Company (<i>RMB million</i>)	(95)	61	128	94
Net asset value attributable to the owners of the Target Company (<i>RMB million</i>)	1,605	1,911	2,225	3,553

Production capacity

The following table sets out the production capacity and utilisation rates of the Smelting Plant and the Precious Metal Plant of the Target Group during the Track Record Period:

		2008		Year ended 31 December		2010		Six months ended 30 June	
	Year of commencement of commercial production	Production capacity (Kt)	Utilisation rate (%)	Production capacity (Kt)	Utilisation rate (%)	Production capacity (Kt)	Utilisation rate (%)	Production capacity (Kt)	Utilisation rate (%)
		(Note 1)	(Note 2)	(Note 1)	(Note 2)	(Note 1)	(Note 2)	(Note 1)	(Note 3)
Smelting Plant	1960								
Copper cathodes		257	97.64	260	92.48	340	90.62	350	47.71
Sulphuric acid		600	97.82	600	94.60	600	88.06	635	42.04
Precious Metal Plant	2006								
Gold		0.0061	90.39	0.009	64.91	0.009	66.74	0.0065	41.46
Silver		0.25	104	0.3	90.02	0.3	102	0.35	43.48

SUMMARY

Notes:

- (1) Production capacity figures expressed in thousand tonnes are estimates based on a number of factors including working hours, the number of workers and the grade of ore used.*
- (2) The utilisation rates are calculated based on the total actual production of the relevant product for the relevant year over the total annual production capacity for such year.*
- (3) The utilisation rates are calculated based on the total actual production of the relevant product for the six months ended 30 June 2011 over the total annual production capacity for the year ending 31 December 2011.*

The Four Mines

Introduction

The Target Group holds the mining and/or exploration rights to the Four Mines, all of which are located in the Hubei Province of the PRC. The Tonglvshan Mine is the flagship copper mine of the Target Group, which has been in operation since 1971. Metals of economic value recoverable from the Tonglvshan Mine include mainly copper, gold, silver and iron, and main products produced from those metals are copper cathodes, gold, silver and iron concentrate. The Fengshan Mine, the Tongshankou Mine and the Chimashan Mine have been in operation since 1972, 1984 and 1958, respectively. Metals of economic value recoverable from those three mines mainly include copper, gold, silver and molybdenum and main products produced from those metals are copper cathodes, gold and silver. Please refer to the section headed “Business of the Target Group – Mines and processing facilities – The Four Mines” in this circular for further information.

SUMMARY

Summary of mineral resources and ore reserves of the Four Mines

The following table sets out a summary of the copper, iron and molybdenum mineral resources of the Four Mines as at 30 September 2011, which has been extracted from the Competent Person's Report on the Four Mines set out in Appendix V-A to this circular:

Mine	Cut Off Grade	JORC Classification	Quantity <i>Mt</i>	Cu %	Fe %	Mo %	Metal tonnes		
							Cu <i>t</i>	Fe <i>Mt</i>	Mo <i>t</i>
Tonglvshan Mine	In licence	Indicated	16.37	1.16	27.21		189,200	4.45	
		Inferred	15.05	1.08	29.47		162,000	4.44	
	CuEq >0.3%	Total	31.42	1.12	28.30		351,300	8.89	
Fengshan Mine	In licence	Indicated	12.72	0.82		0.005	104,200		630
		Inferred	14.50	0.73		0.008	106,300		1,230
	CuEq >0.3%	Total	27.22	0.77		0.007	210,400		1,860
Tongshankou Mine	In licence open cut area	Indicated	13.36	0.58		0.011	76,800		1,470
		Inferred	0.24	0.54		0.004	1,300		10
	CuEq >0.2%	Sub-Total	13.60	0.57		0.011	78,100		1,480
	In licence underground area	Indicated	24.68	0.66		0.007	163,200		1,770
		Inferred	20.32	0.57		0.019	115,200		3,850
	CuEq >0.3%	Sub-Total	45.00	0.62		0.012	278,300		5,620
	Out of licence underground area	Indicated	0.05	0.40		0.034	200		20
		Inferred	2.68	0.45		0.034	12,100		900
	CuEq >0.3%	Sub-Total	2.73	0.45		0.034	12,300		920
	Total open cut and underground area	Indicated	38.09	0.63		0.009	240,200		3,270
		Inferred	23.23	0.55		0.020	128,600		4,760
	in and out of licence	Total	61.32	0.60		0.013	368,800		8,030
Chimashan Mine	In licence	Indicated	0.12	0.72		0.001	830		1
		Inferred	0.01	0.58		0.004	20		-
	CuEq >0.3%	Sub-Total	0.12	0.71		0.001	850		1
	Out of licence	Indicated	0.19	0.49		0.001	900		2
		Inferred	0.20	0.84		0.020	1,700		40
	CuEq >0.3%	Sub-Total	0.38	0.67		0.011	2,600		41
	Total in and out of licence	Indicated	0.30	0.58		0.001	1,730		2
		Inferred	0.20	0.84		0.020	1,720		40
		Total	0.50	0.68		0.008	3,450		42

The following table sets out a summary of the gold and silver mineral resources of the Tonglvshan Mine as at 30 September 2011 which has been extracted from the Competent Person's Report on the Four Mines set out in Appendix V-A to this circular:

Mine	Cut Off Grade	JORC Classification	Quantity <i>Mt</i>	Metal			
				Au <i>g/t</i>	Ag <i>g/t</i>	Au <i>Oz</i>	Ag <i>k Oz</i>
Tonglvshan Mine	In licence	Indicated	13.22	0.63	4.76	265,000	2,020
		Inferred	11.23	0.66	7.06	237,000	2,540
	CuEq >0.3%	Sub-Total	24.45	0.64	5.81	502,000	4,560

SUMMARY

The following table sets out a summary of the copper, iron, gold and silver ore reserves of the Tonglvshan Mine as at 30 September 2011 which has been extracted from the Competent Person's Report on the Four Mines set out in Appendix V-A to this circular:

JORC Classification	Ore Quantity (kt)	Cu (%)	TFe (%)	Au (g/t)	Ag (g/t)	Cu metal (t)	Fe metal (kt)	Au metal (kg)	Ag metal (kg)
Probable (in mining licence)	10,360	1.21	23.78	0.46	3.31	125,100	2,464	4,800	34,300
Probable (in exploration licence)	2,380	0.68	34.18	0.46	6.24	16,200	815	1,100	14,900
Total Probable	12,750	1.11	25.72	0.46	3.86	141,300	3,279	5,900	49,200

The following table sets out a summary of the copper and molybdenum ore reserves of the Fengshan Mine, the Tongshankou Mine and the Chimashan Mine as at 30 September 2011, which has been extracted from the Competent Person's Report on the Four Mines set out in Appendix V-A to this circular:

Mine	JORC Classification	Ore Quantity (kt)	Cu (%)	Mo (%)	Cu metal (t)	Mo metal (t)
Fengshan Mine	Probable	4,560	1.01	0.004	45,800	190
Tongshankou Mine	Probable (open pit)	10,340	0.63	0.010	64,600	980
	Probable (underground)	6,200	0.87	0.006	54,000	360
	Total Probable	16,540	0.72	0.008	118,600	1,330
Chimashan Mine	Probable	35	0.77	0	270	0

Notes:

- (1) *In the above tables, Cu, Fe, TFe, Mo, CuEq, Au and Ag mean copper, iron, total iron, molybdenum, copper equivalent, gold and silver, respectively, and t, Kt, Mt, kg, g/t, Oz, and k Oz mean tonne, thousand tonne, million tonne, kilogram, gram per tonne, troy ounce and thousand troy ounce, respectively. The terms "Indicated", "Inferred" and "Probable" have the meanings ascribed to them under the JORC Code.*
- (2) *Mineral resources and ore reserves described as "out of licence" refers to the discovery of mineral resources or ore reserves outside of the permitted level of mining depth prescribed in the mining licence of the relevant mine. However, no mining or exploration in respect of such mineral resources has been conducted by the Target Group. Mineral resources and ore reserves described as "in licence" or "in mining licence" refer to the discovery of mineral resources or ore reserves within the permitted level of mining depth prescribed in the mining licence of the relevant mine.*
- (3) *Rounding affects the total metal amounts reported by Runge in the Competent Person's Report on the Four Mines as set out in Appendix V-A to this circular.*

SUMMARY

- (4) *These mineral resource and ore reserve numbers have been prepared in accordance with the JORC Code.*
- (5) *Mineral resources were defined within a mineralized envelop above 0.2% copper, and reported at a cut-off grade of 0.3% copper equivalent for underground operations and 0.2% copper equivalent for open pit operations.*
- (6) *Ore reserves are estimated using minimum cut-off grades of 0.68%, 0.40%, 0.36%, 0.45%, and 0.60% copper equivalent for the Tonglvshan Mine, the Fengshan Mine, the open pit mining at the Tongshankou Mine, the underground mining at the Tongshankou Mine and the Chimashan Mine, respectively.*
- (7) *Copper equivalence was calculated for the Tonglvshan Mine, the Fengshan Mine and the Tongshankou Mine using forecast processing plant recoveries and long-term forecast prices of RMB32,987 per tonne of copper, RMB180 per kilogram of molybdenum, RMB1,124 per tonne of iron concentrate, RMB185.90 per gram of gold, and RMB3.22 per gram of silver; and at the Chimashan Mine using forecast processing plant recoveries and long-term forecast price of RMB57,571 per tonne of copper and RMB244 per kilogram of molybdenum.*
- (8) *Copper and iron mineral resources at the Tonglvshan Mine are inclusive of the gold and silver mineral resources at the Tonglvshan Mine and gold and silver mineral resources at the Tonglvshan Mine are inclusive of the copper and iron mineral resources at the Tonglvshan Mine. Such mineral resources should not be added together.*
- (9) *A minimum mining width of 2 metres was used for estimating the underground ore reserves at each of the Four Mines.*
- (10) *The mineral resource and ore reserve estimates are based on geological sampling and mining depletion information up to 30 September 2011 as confirmed by Daye Metal.*
- (11) *Estimates for mineral resources and ore reserves are updated as at 30 September 2011. Please refer to the Competent Person's Report on the Four Mines as set out in Appendix V-A to this circular for details of the assumptions and parameters used to calculate these resource and reserve numbers and qualities of metals.*
- (12) *The mineral resources set out in the mineral resources tables above are inclusive of, and not in addition to, the mineral resources modified to produce the ore reserves set out in the ore reserves tables above.*

SUMMARY

Summary of the total forecast cash cost and the total forecast production cost for the Four Mines

The following tables set out a summary of the total forecast cash cost and the total forecast production cost for the Four Mines, respectively, which has been extracted from the Competent Person's Report on the Four Mines set out in Appendix V-A to this circular:

Tonglvshan Project Forecast Operating Costs

Cost Item	Unit	Cost
Materials	RMB/t	31
Power and Water	RMB/t	28
Labour	RMB/t	30
Manufacturing (<i>Note 1</i>)	RMB/t	62
Mining Cost	RMB/t mined	152
Processing	RMB/t	50
Manufacturing (<i>Note 1</i>)	RMB/t	12
Processing Cost	RMB/t processed	62
Total Operating Cost	RMB/t	214
General & Administration Costs (<i>Note 2</i>)	RMB/t	49
Total Production Cost	RMB/t	263
Depreciation	RMB/t	46
Amortisation	RMB/t	6
Financial interest	RMB/t	5
Total Cash Cost	RMB/t	206

Notes:

- (1) *In the above table, manufacturing includes maintenance, depreciation and amortisation (inclusive of mining rights and depletion charges), and other costs.*
- (2) *In the above table, general and administration costs include management costs, sales costs, financial costs, and production taxes and fees.*
- (3) *The figures contained in the above tables contain rounding effect.*
- (4) *In the above table, t means tonne.*

SUMMARY

Fengshan Project Forecast Operating Costs

Cost Item	Unit	Cost
Development and Stopping	RMB/t	24
Haulage and Transportation	RMB/t	3
Mine Services	RMB/t	19
Other Costs	RMB/t	7
Mining Cost	RMB/t mined	52
Processing Cost	RMB/t processed	56
Manufacturing Cost (Note 1)	RMB/t	46
Total Operating Cost	RMB/t	154
General & Administration Costs (Note 2)	RMB/t	50
Total Production Cost	RMB/t	204
Depreciation	RMB/t	41
Amortisation	RMB/t	1
Financial interest	RMB/t	2
Total Cash Cost	RMB/t	160

Notes:

- (1) *In the above table, manufacturing cost includes maintenance, depreciation and amortisation (inclusive of mining rights and depletion charges) applicable to both mining and processing.*
- (2) *In the above table, general and administration costs include management costs, sales costs, financial costs, production taxes and fees and other costs.*
- (3) *The figures contained in the above tables contain rounding effect.*
- (4) *In the above table, t means tonne.*

SUMMARY

Tongshankou Project Forecast Open Pit Operating Costs

Cost Item	Unit	Cost
Materials	RMB/t	17
Power	RMB/t	1
Labour	RMB/t	5
Manufacturing (<i>Note 1</i>)	RMB/t	18
Mining Cost	RMB/t mined	40
Processing Cost	RMB/t processed	45
Total Operating Cost	RMB/t	85
General & Administration Costs (<i>Note 2</i>)	RMB/t	16
Total Production Cost	RMB/t	101
Depreciation	RMB/t	13
Total Cash Cost	RMB/t	88

Notes:

- (1) *In the above table, manufacturing cost includes maintenance, depreciation (inclusive of mining rights and depletion charges) and other costs.*
- (2) *In the above table, general and administration costs include management and sales costs.*
- (3) *The figures contained in the above tables contain rounding effect.*
- (4) *In the above table, t means tonne.*

SUMMARY

Tongshankou Project Forecast Underground Operating Costs

Cost Item	Unit	Cost
Materials	RMB/t	19
Power and Water	RMB/t	11
Labour	RMB/t	15
Manufacturing (<i>Note 1</i>)	RMB/t	32
Mining Cost	RMB/t mined	77
Processing Cost	RMB/t processed	38
Total Operating Cost	RMB/t	115
General & Administration Costs (<i>Note 2</i>)	RMB/t	23
Total Production Cost	RMB/t	138
Depreciation	RMB/t	5
Amortisation	RMB/t	4
Financial interest	RMB/t	5
Total Cash Cost	RMB/t	124

Notes:

- (1) *In the above table, manufacturing includes maintenance, depreciation and amortisation (inclusive of mining rights and depletion charges) and other costs.*
- (2) *In the above table, general and administration costs include management costs, sales costs, financial costs, production taxes and fees.*
- (3) *The figures contained in the above tables contain rounding effect.*
- (4) *In the above table, t means tonne.*

SUMMARY

Chimashan Project Forecast Operating Costs

Cost Item	Unit	Cost
Mining and Processing Cost	RMB/t	100
Manufacturing Cost (Note 1)	RMB/t	44
Total Operating Cost	RMB/t	144
General & Administration Costs (Note 2)	RMB/t	18
Total Production Cost	RMB/t	162
Depreciation	RMB/t	22
Total Cash Cost	RMB/t	140

Notes:

- (1) *In the above table, manufacturing cost includes maintenance and depreciation (inclusive of mining rights and depletion charges).*
- (2) *In the above table, general and administration costs include management costs, sales costs, and production taxes.*
- (3) *The figures contained in the above table contain rounding effect.*
- (4) *In the above table, t means tonne.*

The financial effect associated with the depletion of the Four Mines had been accounted for in the depreciation and amortisation charges of the Target Group during the Track Record Period as well as the forecasted operating cost. The depreciation and amortisation charges, recognised in accordance with the accounting policies of the Target Group, relating to the Four Mines operated by the Target Group amounted to approximately RMB43,662,000, RMB54,180,000, RMB67,002,000 and RMB47,047,000 for the three years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011 respectively. The depreciation and amortisation charges include the depreciation of mining infrastructure and amortisation of mining right, which are calculated using the units-of-production method over the estimated life of the Four Mines and also takes into consideration the depletion of the relevant mine.

SUMMARY

Summary of mineral resource and ore reserve depletion rate of the Four Mines

The following tables set out a summary of the resource and ore reserve depletion rate of the Four Mines, which has been extracted from the Competent Person's Report on the Four Mines set out in Appendix V-A to this circular:

The depletion rate of the Four Mines

Project	Depletion Rate (Mtpa)
Tonglvshan	1.15
Fengshan	0.76
Tongshankou (Open Pit)	1.5
Tongshankou (Underground)	1.15
Tongshankou (Total)	2.65
Chimashan	0.08

Notes:

- (1) *Depletion rate is the rate a mineral resource or ore reserve reduces over time due to the mining process, and can be used for estimating mine life as well as a measure of mineral resource and ore reserve estimation accuracy.*
- (2) *In the above table, Mtpa means million tonne per annum.*
- (3) *The figures contained in the above table contain rounding effect.*

SUMMARY

Summary of principal licences and permits for the Four Mines

The following table sets out a summary of the principal licences and permits held by the Target Group in connection with the operations of the Four Mines:

Mine	Location	Type of licence or permit	Issuing authority	Activity permitted	Term of licence or permit
Tonglvshan Mine	Tonglv Mountain, Daye City, Hubei Province	Mining licence	Ministry of Land and Resources of the PRC	Mining of copper and iron	1 June 2011 to 1 June 2027 (<i>Note (1)</i>)
	Tonglv Mountain, Daye City, Hubei Province	Exploration licence	Department of Land and Resources of Hubei Province	Exploration	12 July 2011 to 12 July 2013
	Tonglv Mountain, Daye City, Hubei Province	Safe production permit	Hubei Province Safety Production Supervision and Administration Bureau	Open pit mining and underground mining of copper	22 February 2011 to 21 February 2014
	Tonglv Mountain, Daye City, Hubei Province	Safe production permit	Hubei Province Safety Production Supervision and Administration Bureau	Operation of tailing dam	22 February 2011 to 21 February 2014
	Tonglv Mountain, Daye City, Hubei Province	Waste disposal permit	Daye City Environmental Protection Bureau	Emission of gas and discharge of waste water	28 March 2011 to 20 March 2012
Fengshan Mine	Yangxin County, Huangshi City, Hubei Province	Mining licence	Ministry of Land and Resources of the PRC	Mining of copper	10 July 2011 to 10 July 2034 (<i>Note (2)</i>)
	Yangxin County, Huangshi City, Hubei Province	Exploration licence	Department of Land and Resources of Hubei Province	Exploration	12 July 2011 to 12 July 2013
	Yangxin County, Huangshi City, Hubei Province	Safe production permit	Hubei Province Safety Production Supervision and Administration Bureau	Underground mining of copper	31 October 2011 to 30 October 2014
	Yangxin County, Huangshi City, Hubei Province	Safe production permit	Hubei Province Safety Production Supervision and Administration Bureau	Operation of tailing dam	2 November 2010 to 5 March 2012
	Yangxin County, Huangshi City, Hubei Province	Waste disposal permit	Yangxin County Environmental Protection Bureau	Emission of gas and discharge of waste water	1 January 2011 to 31 December 2012

SUMMARY

Mine	Location	Type of licence or permit	Issuing authority	Activity permitted	Term of licence or permit
Tongshankou Mine	Daye City, Hubei Province	Mining licence	Department of Land and Resources of Hubei Province	Mining of copper	14 April 2011 to 14 April 2016
	Daye City, Hubei Province	Safe production permit	Hubei Province Safety Production Supervision and Administration Bureau	Open pit mining of copper	31 October 2011 to 30 October 2014
	Daye City, Hubei Province	Safe production permit	Hubei Province Safety Production Supervision and Administration Bureau	Operation of tailing dam	2 November 2010 to 30 June 2012
	Daye City, Hubei Province	Waste disposal permit	Daye City Environmental Protection Bureau	Emission of gas and discharge of waste water	2 April 2011 to 20 March 2012
Chimashan Mine	Yangxin County, Hubei Province	Mining licence	Department of Land and Resources of Hubei Province	Mining of copper	14 April 2011 to 14 April 2014
	Yangxin County, Hubei Province	Safe production permit	Hubei Province Safety Production Supervision and Administration Bureau	Underground mining of copper	31 October 2011 to 30 October 2014
	Yangxin County, Hubei Province	Safe production permit	Hubei Province Safety Production Supervision and Administration Bureau	Operation of tailing dam	2 November 2010 to 10 June 2012
	Yangxin County, Hubei Province	Waste disposal permit	Yangxin County Environmental Protection Bureau	Emission of gas and discharge of waste water	1 January 2011 to 31 December 2012

Notes:

- (1) A new mining licence for the Tonglvshan Mine, with a term from January 2011 to June 2011, was issued to Daye Metal in January 2011 as a result of the transfer of the mining rights from the Parent Company to Daye Metal at that time. Upon the expiry of such licence, a new mining licence for the Tonglvshan Mine was issued to Daye Metal in June 2011 for a term of 16 years.
- (2) A new mining licence for the Fengshan Mine, with a term extending from January 2011 to July 2011, was issued to Daye Metal in January 2011. Upon Daye Metal's application, a new mining licence for the Fengshan Mine was issued to Daye Metal in June 2011 for a term of 23 years.

SUMMARY

Continuing obligation on publication of resources and reserves

After completion of the Acquisition, the Company will include an update of the reserves and resources of the Four Mines once a year in its annual reports in accordance with Rule 18.15 of the Listing Rules.

INFORMATION ON THE GROUP

The Group is principally engaged in corporate investment and trading in securities, mineral exploitation and trading in non-ferrous metals.

The existing mines of the Group

The Group holds the mining or exploration rights to two copper mines in Xinjiang, namely, the Sareke Mine and the Hami Mine, one molybdenum mine in Mongolia, namely, the Aleinuer Mine, and two wolfram mines in Mongolia, namely, the Burentsogt Mine and the Sala Mine.

Sareke Mine

新疆滙祥永金礦業有限公司 (Xinjiang Huixiang Yong Jin Mining Company Limited), which is 55%-owned by the Company, currently holds the mining right to the Sareke Mine. The Sareke Mine is a copper mine situated in the Xinjiang Uygur Autonomous Region of the PRC, which occupies an aggregate area of approximately 1.2286 sq. km as stated in its mining licence. According to the Competent Person's Report on the Sareke Mine prepared in accordance with the JORC Code, the Sareke Mine had, as at 30 June 2011, copper mineral resources and probable copper ore reserves of 12.71 million and 7.96 million tonnes, respectively. The Sareke Mine has yet to commence commercial production. The Group is in the process of constructing the underground mining infrastructure at the Sareke Mine and a processing plant on site, which is expected to be completed in October 2013.

Hami Mine

新疆同興礦業有限責任公司 (Xinjiang Tong Xing Mining Company Limited), which is 80%-owned by the Company, currently holds the exploration right to the Hami Mine. The Hami Mine is a copper mine situated in the Xinjiang Uygur Autonomous Region of the PRC, which occupies an aggregate area of approximately 11.14 sq. km (without taking into account the area affected by the railway right of way). According to the Competent Person's Report on the Hami Mine prepared in accordance with NI 43-101, the Hami Mine had, as at 31 July 2011, copper mineral resources of 22.34 million tonnes (excluding resources located in areas subject to the right of way granted for railway operations). The Hami Mine has yet to commence commercial production as the mining licence has yet to be granted.

SUMMARY

Aleinuer Mine

Reservoir Moly is a joint venture company established in Mongolia which is 55%-owned by CRML and 45%-owned by the Mongolian JV Partner. CRML, in turn, is 51%-owned by the Company. Reservoir Moly currently holds the mining right to the Aleinuer Mine. The Aleinuer Mine is a molybdenum mine situated in Sukhbaatar, Mongolia, which occupies an aggregate area of approximately 2.27 sq. km as stated in its mining licence. According to the Competent Person's Report on the Aleinuer Mine prepared in accordance with the JORC Code, the Aleinuer Mine had, as at 1 July 2011, inferred molybdenum mineral resources of approximately 10 million tonnes (based on an assumed long-term molybdenum price of US\$15 per pound and a 0.06% of molybdenum content cutoff). The Aleinuer Mine has yet to commence commercial production. As at the Latest Practicable Date, exploration works at the Aleinuer Mine have been completed.

Burentsogt Mine and Sala Mine

Reservoir Moly currently holds the mining right to the Burentsogt Mine. Reservoir Mongolia LLC, which is 51%-owned by the Company, currently holds the mining right to the Sala Mine. The Burentsogt Mine and Sala Mine are wolfram mines situated in Munkhkhaan and Sukhbaatar, Mongolia, respectively. It is not the Company's intention to develop those mines as, given the insignificant amount of the wolfram deposits projected by the technical studies which have previously been conducted by the technical staff of CRML and the mining engineers of the Parent Company, the Company does not consider it economical to incur substantial costs in the construction of infrastructure facilities to develop those mines. The Company is currently actively exploring opportunities for the disposal of the Burentsogt Mine and Sala Mine.

The Company has applied for, and the Stock Exchange has granted, a waiver from strict compliance with the requirement under Rule 18.05 (1) of the Listing Rules to prepare a competent person's report in respect of the resources of each of the Burentsogt Mine and Sala Mine. Please refer to the section headed "Waivers from Strict Compliance with the Listing Rules" in this circular for further details.

SUMMARY

Summary of mineral resources and ore reserves

Sareke Mine

The following table sets out a summary of the mineral resources of the Sareke Mine as at 30 June 2011, which has been extracted from the Competent Person's Report on the Sareke Mine set out in Appendix V-C to this circular:

Resource Statement of Sareke Copper Deposit at Cut-off of 0.3% TCu by SRK as at 30 June 2011				
Zone	Classification	Resource Tonnage (t)	Average Grade	Copper Metal (t)
			TCu (%)	
North	Indicated	8,398,000	1.03	86,000
	Inferred	4,315,000	0.77	33,300

The following table sets out a summary of the ore reserves of the Sareke Mine as at 30 June 2011, which has been extracted from the Competent Person's Report on the Sareke Mine set out in Appendix V-C to this circular:

Elevation (m)	Probable	
	Tonnage (kt)	Cu (%)
>=2820	870	0.76
2730~2820	2,127	0.97
2640~2730	4,648	1.03
<=2640	311	0.53
Total	7,956	0.96

Notes:

- (1) *In the above tables, t, m, Cu and TCu mean tonne, metre, copper and total copper, respectively. The terms "Indicated" and "Inferred" have the meanings ascribed to them under the JORC Code.*
- (2) *Mineral resources and ore reserves are estimated at a copper cut-off grade of 0.3%.*
- (3) *Mineral resources and ore reserves are estimated using a long-term copper price of RMB42,500 per metric tonne.*
- (4) *A minimum zone width of 2 metres was used for estimating the mineral resources and ore reserves.*
- (5) *The mineral resource and ore reserve estimates are based on drilling information up to 30 June 2011 as confirmed by the Company.*

SUMMARY

- (6) *Estimates for mineral resources and ore reserves are updated as at 30 June 2011. Please refer to the Competent Person's Report on the Sareke Mine as set out in Appendix V-C to this circular for details of the assumptions and parameters used to calculate these resource and reserve numbers and qualities of metals.*
- (7) *The mineral resources set out in the mineral resource table above are inclusive of the ore reserves set out in the ore reserve table above.*

Hami Mine

The following table sets out a summary of the mineral resources of the Hami Mine (excluding resources located in areas subject to the right of way granted for railway operations) as at 31 July 2011, which has been extracted from the Competent Person's Report on the Hami Mine set out in Appendix V-D to this circular:

Location	Indicated Resources				Inferred Resources			
	Tonnes (Mt)	Grade (% Cu)	Copper Content (Mlb)	Copper Content (tonnes)	Tonnes (Mt)	Grade (% Cu)	Copper Content (Mlb)	Copper Content (tonnes)
Main Lens	14.15	0.75	234	106,000	7.79	0.72	124	56,200
Other Lenses					0.4	0.61	5	2,300
TOTAL	14.15	0.75	234	106,000	8.19	0.71	129	58,500

Notes:

- (1) *In the above table, the terms mt, cu, mlb mean million tonnes, copper and million pounds, respectively and National Instrument 43-101 (NI43-101) and CIM (Canadian Institute of Mining, Metallurgy and Petroleum) definitions are followed for Mineral Resources, Indicated Resources and Inferred Resources.*
- (2) *As mineralisation is present in four separate lenses in the Hami Mine, the largest lens or zone of mineralisation where the majority of the mineral resources are contained is described as the "Main Lens", and the three other lenses are collectively described as the "Other Lenses" in the above table.*
- (3) *Mineral Resources are estimated at a cut-off grade of 0.5% copper within a mineralized envelope defined at 0.3% copper.*
- (4) *Mineral Resources are estimated using an average long-term copper price of US\$2.50 per pound, and a US\$ to Canadian dollar exchange rate of 1.04.*
- (5) *A minimum zone width of 5 metres was used.*

SUMMARY

- (6) *The Mineral Resource estimate is based on drilling information up to 31 July 2011 as confirmed by GobiMin Inc. and the Company.*
- (7) *Estimates for mineral resources are updated as at 31 July 2011. Please refer to the Competent Person's Report on the Hami Mine as set out in Appendix V-D to this circular for details of the assumptions and parameters used to calculate these resource numbers and qualities of metals.*

Aleinuer Mine

The following table sets out a summary of the inferred mineral resources of the Aleinuer Mine as at 1 July 2011, which has been extracted from the Competent Person's Report on the Aleinuer Mine set out in Appendix V-B to this circular:

Concentrate Selling Price <i>(Note 1)</i> (\$/t)	Market Price (\$/lb Mo)	Cut-off (% Mo)	Mineralization (t-000)	Average Grade (% Mo)	Contained Metal (t Mo)	Waste (t-000)	Stripping Ratio <i>(Note 2)</i> (t/t)
8,500	10.00	0.097	78	0.210	200	551	7.10
11,100	12.50	0.074	2,553	0.110	2,900	7,640	2.99
13,800	15.00	0.060	10,039	0.090	8,900	20,413	2.03
16,400	17.50	0.050	20,278	0.080	15,400	34,906	1.72
19,000	20.00	0.043	31,454	0.070	21,300	46,669	1.48
21,700	22.50	0.038	38,772	0.060	24,500	52,721	1.36
24,300	25.00	0.034	49,610	0.060	29,500	80,065	1.61
27,000	27.50	0.030	55,075	0.060	31,500	86,344	1.57
29,600	30.00	0.028	59,132	0.060	32,800	88,893	1.50
32,300	32.50	0.025	62,777	0.050	33,900	94,429	1.50
34,900	35.00	0.023	65,804	0.050	34,800	97,546	1.48
37,600	37.50	0.022	69,478	0.050	35,800	104,606	1.51
40,200	40.00	0.020	71,904	0.050	36,400	110,160	1.53

Notes:

- (1) *48% molybdenum is contained in molybdenum sulfide found in the molybdenum concentrate at the Aleinuer Mine.*
- (2) *Stripping ratio refers to the average mass of waste rock required to be removed for each tonne of ore mined.*
- (3) *In the above table, Mo, t, t-000, lb mean molybdenum, tonne, thousand tonnes and pounds, respectively and all market prices of molybdenum are expressed in terms of US Dollars. The term mineralization means inferred mineral resources, which has the meaning ascribed to it under the JORC Code.*

SUMMARY

- (4) *Mineral resources are estimated at selected molybdenum cut-off grades ranging from 0.020% molybdenum to 0.097% molybdenum within a mineralized envelop defined at 0.02% molybdenum.*
- (5) *Mineral resources are estimated using a long-term molybdenum price ranging from US\$10 to US\$40 per pound. By way of illustration, at a long-term molybdenum price of US\$15 per pound, there is an inferred mineral resources of approximately 10 million tonnes.*
- (6) *The mineral resource estimate is based on drilling information up to 1 July 2011 as confirmed by the Company.*
- (7) *Estimates for mineral resources are updated as at 1 July 2011. Please refer to the Competent Person's Report on the Aleinuer Mine as set out in Appendix V-B to this circular for details of the assumptions and parameters used to calculate these resource numbers and qualities of metals.*

Continuing obligation on publication of resources and reserves

The Company will include an update of the resources and/or reserves of the Sareke Mine, the Hami Mine and the Aleinuer Mine once a year in its annual reports in accordance with Rule 18.15 of the Listing Rules.

Summary of principal licences and permits

The following table sets out a summary of the principal licences and permits held by the Group in connection with the operations of the Sareke Mine, the Hami Mine and the Aleinuer Mine:

Mine	Location	Type of licence or permit	Issuing authority	Activity permitted	Term of licence or permit
Sareke Mine	Ulugqat County, Xinjiang Uyghur Autonomous Region	Exploration licence	Department of Land and Resources of Xinjiang Uygur Autonomous Region	Exploration	26 January 2011 to 26 January 2012
	Ulugqat County, Xinjiang Uyghur Autonomous Region	Mining licence	Department of Land and Resources of Xinjiang Uygur Autonomous Region	Underground and open pit mining of copper and silver	31 May 2011 to 31 May 2013
Hami Mine	Hami City, Xinjiang Uygur Autonomous Region	Exploration licence	Department of Land and Resources of Xinjiang Uygur Autonomous Region	Exploration	6 August 2010 to 6 August 2012
Aleinuer Mine	Sukhbaatar, Mongolia	Mining licence	Department of Geology and Mining Cadastre of the Minerals Affairs Agency of Government	Open pit mining of molybdenum	23 January 2007 to 15 January 2037

SUMMARY

Summary of the total forecast cash cost, the total forecast production cost and depletion charges

Sareke Mine

The following table sets out the projected cash cost per tonne of ore, which has been extracted from the Competent Person's Report on the Sareke Mine set out in Appendix V-C to this circular:

Items	RMB/t ore
Mining cost	60.42
Ore Processing cost	34.27
Sales cost	4.41
Accounting cost	5.89
Management cost	6.59
<i>Depreciation for mining</i>	<i>12.37</i>
<i>Depreciation for ore processing</i>	<i>8.16</i>
<i>Amortization for management</i>	<i>4.41</i>
<i>Royalty (Resource compensation fee)</i>	<i>4.26</i>
<i>Value Added Tax</i>	<i>12.93</i>
<i>Total Cash Cost</i>	<i>128.77</i>
Total	153.71

The projected production cost per tonnes of ore is RMB140.77 (before value added tax), which has been extracted from the Competent Person's Report on the Sareke Mine set out in Appendix V-C to this circular.

Since the Sareke Mine has not commenced production, no depletion charges for the Group were included in the depreciation and amortisation relating to the mining infrastructure and mining rights of the Sareke Mine recorded in the Company's audited consolidated financial statements for the two years ended 30 April 2008 and 2009, the eight months ended 31 December 2009, the year ended 31 December 2010 and the six months ended 30 June 2011.

The estimated annual reserve depletion rate for the Sareke Mine is 1,155 tonne per annum. The estimated total depreciation and amortisation set out in the table above have taken into account the estimated potential depletion charges, which account for more than 90% of the estimated total depreciation and amortization, after the mine commences production. Such information has been extracted from the Competent Person's Report on the Sareke Mine set out in Appendix V-C to this circular.

Hami Mine

Roscoe has not reviewed any information relating to the forecast cash cost and the forecast production cost, and such information is not available in the Competent Person's Report on the Hami Mine set out in Appendix V-D to this circular.

SUMMARY

Aleinuer Mine

On an ore tonne basis, projected operating cash costs for the Aleinuer Project for mining, processing and other operating expenses through delivery to the Chinese border (excluding value added tax) for the first five years of project operation are shown below, which have been extracted from the Competent Person's Report on the Aleinuer Mine set out in Appendix V-B to this circular:

	Year 3	Year 4	Year 5	Year 6	Year 7
Ore Output Tonnes ('000)	1,403	1,650	1,650	1,650	1,650
Category	US\$/Ore Tonne				
Mining Cost	6.90	5.87	5.87	5.87	5.87
Processing Cost	11.80	10.97	10.97	10.97	10.97
Management Cost	1.45	1.23	1.23	1.23	1.23
Selling Cost	0.07	0.10	0.10	0.08	0.08
Total Cash Cost	20.22	18.17	18.17	18.15	18.15

Note:

Year refers to number of years from start of project development.

Operating cost projections do not include production royalty payments that may be incurred by the mine operator. Mongolian resource development fees are projected at 5% of the selling price. Including US\$3.75/tonne of ore for depreciation and amortization, the production cost in years 4 – 7, ranges from US\$21.90 to US\$21.92 per tonne of ore output. Such information has been extracted from the Competent Person's Report on Aleinuer Mine set out in Appendix V-B to this circular.

Since the Aleinuer Mine has not commenced production, no depletion charges were included in the depreciation and amortization relating to the mining infrastructure and mining rights of the Aleinuer Mine recorded in the Company's audited consolidated financial statements for the two years ended 30 April 2008 and 2009, the eight months ended 31 December 2009, the year ended 31 December 2010 and the six months ended 30 June 2011.

Since no reserves are recognised for the Aleinuer Mine, John T. Boyd is not able to estimate the mine operation life of the Aleinuer Mine and therefore not able to estimate the depletion charges in relation to the depreciation and amortization of the mining infrastructure and mining rights over the mine operation life. For further details relating to the depletion of the Aleinuer Mine, please refer to the subsection headed “6.3.5 Operating Cost Forecast (Ore Basis)” in the Competent Person's Report on Aleinuer Mine set out in Appendix V-B to this circular.

SUMMARY

WORKING CAPITAL

The following table sets out the estimated working capital requirements of the Enlarged Group and the source of funding for the 18 months ending 31 December 2012:

	<i>HK\$'million</i>
Net cash inflow from operating activities	1,171.7
Finance costs paid	<u>(392.3)</u>
Working capital surplus/(requirement) (Note 1)	779.4
Cash outflows for capital expenditures	<u>(3,238.6)</u>
Working capital requirements plus other capital expenditures	<u>(2,459.2)</u>
Net proceeds from borrowings	1,801.2
Decrease in restricted and term deposits	<u>591.6</u>
Cash inflow from financing activities (Note 2)	<u>2,392.8</u>
Cash and cash equivalents at 30 June 2011	<u>961.8</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>895.4</u>

Notes:

- (1) *This figure represents the total working capital requirements of the Enlarged Group for the 18 months ending 31 December 2012. It is expected that the Enlarged Group will generate positive cash flow from its operating activities including the finance cost, which resulting a working capital surplus for the 18 months ending 31 December 2012.*
- (2) *It is expected that the sources of funding of the Enlarged Group mainly from working cash generated from operation, net increase in bank borrowings, and the cash and cash equivalent and restricted and term deposits on hand.*

SUMMARY

LATEST INDUSTRY TRENDS

Since 30 June 2011, the global economy has continued to be affected by the heightened financial and economic uncertainties caused by, among others, the worsening European debt crisis and the slower than expected recovery of the US economy due to spending cuts. In general, there is a gloomy sentiment in financial markets caused by factors such as growing concern that the European debt crisis may continue to deteriorate and become the triggering point of a global recession. Commodity prices have declined as reflected by copper price quoted on LME, which has fallen over 25% since July 2011. In the global copper industry, however, it is expected that a supply deficit in copper cathodes will continue to provide support to the global price of copper cathodes in the near term. On the supply side, near-term supply shortage may be aggravated by tense labour relations at major copper mines worldwide, while global demand for copper cathodes is expected to maintain a steady pace of growth.

While the PRC economy has continued to maintain a steady growth of 9.6% in GDP in the first half of 2011 compared to the same period in 2010, there are signs of a slowdown as industrial output continues to fall due to weak demand in Europe and the United States. The Purchasing Managers' Index (PMI) in the PRC fell to a 32-month low of under 50 points. In the copper cathodes market, notwithstanding growth in smelting capacity as a result of expansions by copper producers and entry of new producers, the Directors expect that there will continue to be a supply deficit in copper cathodes in the PRC in the near term as there remains a gap between the volume of domestic supply and demand, which is currently being satisfied by imports.

While the PRC economy is showing signs of a slowdown, the Directors have not seen any significant decrease in the demand for the Target Group's copper cathodes since 30 June 2011. The Directors cannot preclude the possibility that a further slowdown of the PRC economy, whether due to worsening economic conditions in Europe, the United States or otherwise, may result in a significant decrease in the demand for copper cathodes in the PRC market and hence, adversely affect the business of the Target Group (and after completion of the Acquisition, the Enlarged Group). The Directors will, however, carefully monitor changes in market conditions and take such action as may be necessary to ensure that after completion of the Acquisition, the Enlarged Group will be in a position to maintain its competitiveness and to meet the challenges if the economic outlook in the PRC should worsen.

SUMMARY

RISK FACTORS

Risks relating to the Acquisition

- Completion of the Acquisition is subject to satisfaction of the conditions under the Acquisition Agreement and there is no assurance that all of those conditions will be satisfied
- The mineral resources and ore reserves and mineralized potential of the Target Group are estimated based on assumptions and the actual recovery of minerals may be lower than expected
- The shareholding of the existing Shareholders will be substantially diluted immediately following the China Times Completion and the Cinda Completion

Risks relating to the business of the Enlarged Group

- The Enlarged Group may face significant challenges in integrating the business operations of the Group with those of the Target Group and to establish a centralized management structure and failure to achieve successful integration may adversely affect the business and operations of the Enlarged Group
- The growth prospects of the Enlarged Group are dependent upon continual and successful exploration and development of its mining assets
- Fluctuations in price and supply of raw materials could negatively impact our business and financial conditions
- Failure to achieve production estimates could have a material adverse effect on the business, financial condition and results of operations of the Enlarged Group
- Impairment losses relating to the mining rights of the Target Group may adversely affect the results of operations of the Enlarged Group
- Adverse economic developments in the PRC could have a negative impact on the revenues, cash flow and profitability of the Enlarged Group
- The operations of the Enlarged Group are governed by extensive and increasingly stringent environmental, health and safety laws and regulations, the violation of which might adversely affect the business of the Enlarged Group

SUMMARY

- The Enlarged Group may not have adequate insurance coverage against operation risks and hazards interest in the nature of the mining business, which could adversely affect its business
- The Enlarged Group may not achieve optimal result in future acquisitions or may encounter difficulties in integrating and developing the acquired assets or business successfully
- Hedging activities may limit the Enlarged Group's participation in commodity price increases and increase its exposure to counterparty credit risk
- The risk management and internal control systems of the Enlarged Group may not be adequate or effective
- Changes in government policies, including, but not limited to, the imposition of new taxes or cancellation of preferential tax treatment currently enjoyed by the Group and the Target Group may adversely affect the results of operations of the Enlarged Group
- Severe weather conditions may prevent or hinder the mining activities of the Enlarged Group
- Failure of transport infrastructure may adversely affect the operations of the Enlarged Group
- If the ruling of the Mongolian Arbitration Center at the re-hearing is unfavourable to CRML, the Group's business and operations may be adversely affected
- Title defects to the owned and leased properties of the Target Group may adversely affect its right to use such properties
- Failure to retain key management and personnel could adversely affect the Enlarged Group's business and operations
- The global financial crisis which commenced in 2008, and recently aggravated by the European sovereign debt crisis may have a further negative impact on the results of operations and prospects of the Enlarged Group
- Higher energy costs or energy shortage would adversely affect the business of the Enlarged Group
- Failure to compete successfully against other PRC copper producers could materially and adversely affect the business and prospects of the Enlarged Group

SUMMARY

- The reported mineral resources of the Enlarged Group may not be successfully converted to ore reserves, which may affect the future profitability of the Enlarged Group and its expansion potential
- The Enlarged Group may not be able to obtain or renew the mining licences and/or concessions, permits, approvals and registrations required for its operations
- Reliance on the Parent Group may adversely affect the business and operations of the Enlarged Group

Risks relating to the mining industry

- The mining industry is exposed to cyclical changes of the global economy and requires significant investments of capital

Risks relating to conducting business in the PRC

- Changes in economic, political and social conditions and government policies in the PRC could have an adverse impact on the Enlarged Group
- The business of the Enlarged Group could be negatively affected by uncertainties in the PRC legal system
- Changes in PRC tax laws and regulations could materially and adversely affect the Enlarged Group's business and results of operations
- PRC governmental control of currency conversion and fluctuations in the value of Renminbi could have an adverse effect on the financial results of the Enlarged Group
- The Enlarged Group will be subject to restrictions on foreign investment in the PRC mining industry
- Under the PRC Enterprise Income Tax Law, the Company may be considered a PRC "resident enterprise". As a result, it may be subject to 25% PRC income tax on its worldwide income, and holders of the Ordinary Shares may be subject to PRC tax on dividends paid by it and gains realized on their transfer of the Ordinary Shares.

FINANCIAL ADVISER AND SPONSOR

J.P. Morgan has been appointed as the financial adviser to the Company in relation to the Acquisition and the sponsor to the new listing application of the Company.

SUMMARY

INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee comprising Mr. Wang Qihong, Mr. Wang Guoqi and Mr. Qiu Guanzhou, being all the independent non-executive Directors, have been formed to advise the Independent Shareholders in relation to the Acquisition, the Whitewash Waiver, the proposed grant of the Specific Mandate and the Non-Exempt Continuing Connected Transactions (including the Annual Caps).

Platinum Securities has been appointed as Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Acquisition, the Whitewash Waiver, the proposed grant of the Specific Mandate and the Non-Exempt Continuing Connected Transactions (including the Annual Caps).

EGM

Your attention is hereby drawn to pages EGM-1 to EGM-2 of this circular where you will find a notice of the EGM to be held at Harbour View Ballroom III, Level 4, Four Seasons Hotel, 8 Finance Street, Central, Hong Kong on Monday, 16 January 2012, at 10:00 a.m.. At the EGM, resolutions will be proposed to approve, among other things: (1) the Acquisition; (2) the Whitewash Waiver; (3) the proposed grant of the Specific Mandate; and (4) the Non-Exempt Continuing Connected Transactions (including the Annual Caps).

China Times, its associates, persons acting in concert with it and any person who is involved or interested in the Acquisition and/or the Whitewash Waiver will abstain from voting on the resolutions for the approval of the Acquisition, the Whitewash Waiver, the proposed grant of the Specific Mandate and the Non-Exempt Continuing Connected Transactions (including the Annual Caps) to be proposed at the EGM.

Whether or not you are able to attend the EGM, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return it to the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM should you so wish.

SUMMARY

RECOMMENDATIONS

The Independent Board Committee, having considered the terms of the Acquisition, the Whitewash Waiver, the proposed grant of the Specific Mandate and the Non-Exempt Continuing Connected Transactions (including the Annual Caps) as well as the advice and recommendations of the Independent Financial Adviser set out in the section headed “Letter from the Independent Financial Adviser” in this circular, considers that (i) the Acquisition, the Whitewash Waiver, the proposed grant of the Specific Mandate and the Non-Exempt Continuing Connected Transactions (including the Annual Caps) are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and its shareholders as a whole; (ii) the Acquisition and the proposed grant of the Specific Mandate are on normal commercial terms; and (iii) the Non-Exempt Continuing Connected Transactions (including the Annual Caps) will be on normal commercial terms and in the usual and ordinary course of business of the Enlarged Group.

As such, the Independent Board Committee recommends that the Independent Shareholders vote in favour of the ordinary resolutions in respect of the Acquisition, the Whitewash Waiver, the proposed grant of the Specific Mandate and the Non-Exempt Continuing Connected Transactions (including the Annual Caps) to be proposed at the EGM. The “Letter from the Independent Board Committee” and the “Letter from the Independent Financial Adviser” are set out on pages 112 to 113 and pages 114 to 211 of this circular, respectively.

On the basis of the information set out in this circular, the Directors (including members of the Independent Board Committee) consider that the Acquisition, the Whitewash Waiver, the proposed grant of the Specific Mandate and the Non-Exempt Continuing Connected Transactions (including the Annual Caps) are fair and reasonable and in the interests of the Company and the Shareholders as a whole. The Directors, therefore, recommend that the Shareholders vote in favour of the resolutions set out in the notice of EGM at the end of this circular.

DEFINITIONS

In this circular, the following expressions have the meanings set out below, unless the context requires otherwise:

“Acquisition”	the acquisition of the China Times Sale Shares and the Cinda Sale Shares by the Company pursuant to the Acquisition Agreement
“Acquisition Agreement”	the acquisition agreement dated 23 January 2011 and entered into between the Company, the Parent Company and the Vendors in relation to the Acquisition, as supplemented and amended by the First Supplemental Agreement and the Second Supplemental Agreement
“AGM”	the annual general meeting of the Company held on 2 June 2011 at which the Shareholders approved, among other things, the grant of the Share Issue Mandate and the Share Repurchase Mandate to the Board
“Aleinuer Mine”	the molybdenum mine located in Sukhbaatar, Mongolia, the mining right relating to which is granted under mining licence numbered 10889A
“Annual Caps”	the maximum aggregate annual value proposed to be adopted for the Non-Exempt Continuing Connected Transactions for each of the two years ending 31 December 2012 and 2013
“Antaike”	北京安泰科信息開發有限公司 (Beijing Antaike Information Development Co., Ltd.), an independent market research agency commissioned by the Company to conduct a market study on the copper mining and processing industry in the PRC and worldwide
“Antaike Report”	the report dated 23 December 2011 compiled by Antaike in respect of its market study on the copper mining and processing industry in the PRC and worldwide commissioned by the Company
“associate(s)”	has the meaning ascribed to it under the Listing Rules

DEFINITIONS

“Bermuda Companies Act”	The Companies Act 1981 of Bermuda, as amended, supplemented or modified from time to time
“Board”	the board of Directors
“Burentsogt Mine”	the wolfram mine located in Munkhkhaan, Mongolia, the mining right relating to which is granted under mining licence numbered 13470A
“Business Day”	a day (other than a Saturday or a Sunday) on which banks are generally open for banking business in Hong Kong and the PRC
“BVI”	the British Virgin Islands
“Bye-Laws”	the bye-laws of the Company, as amended, supplemented or modified from time to time
“CAGR”	compound annual growth rate
“Changdian”	北京長電創新投資管理有限公司 (Beijing Yangtze Power Innovation Investment Management Co., Ltd.), a company incorporated in the PRC with limited liability
“Chimashan Mine”	the mine located in Yangxin County, Hubei Province, the mining right relating to which is granted under mining licence numbered C4200002009063120021949
“China Times”	China Times Development Limited, a company incorporated in BVI with limited liability;
“China Times Completion”	completion of the acquisition of the China Times Sale Shares in accordance with the Acquisition Agreement
“China Times Consideration”	the consideration for the acquisition of the China Times Sale Shares pursuant to the Acquisition Agreement
“China Times Consideration Shares”	10,799,762,092 new Ordinary Shares to be allotted and issued by the Company to China Times (or its nominee) at China Times Completion to satisfy part of the China Times Consideration pursuant to the Acquisition Agreement

DEFINITIONS

“China Times Convertible Notes”	the convertible note(s) in the aggregate principal amount of HK\$1,003,836,048 to be issued by the Company to China Times at China Times Completion to satisfy part of the China Times Consideration pursuant to the Acquisition Agreement
“China Times Sale Shares”	the shares in the Target Company held by China Times upon completion of the Parent Company Reorganisation
“Cinda”	中國信達資產管理股份有限公司 (China Cinda Asset Management Co., Ltd), a joint stock company incorporated in the PRC
“Cinda Completion”	completion of the acquisition of the Cinda Sale Shares in accordance with the Acquisition Agreement
“Cinda Consideration”	the consideration for the acquisition of the Cinda Sale Shares pursuant to the Acquisition Agreement
“Cinda Consideration Shares”	936,953,542 new Ordinary Shares to be allotted and issued by the Company to Cinda (or its nominee) at Cinda Completion pursuant to the Acquisition Agreement
“Cinda HK”	中國信達 (香港) 資產管理有限公司 (China Cinda (HK) Asset Management Co., Limited), a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of Cinda
“Cinda Sale Shares”	the shares in the Target Company held by Cinda HK upon completion of the Cinda Reorganisation
“Cinda Reorganisation”	the transactions to be carried out by and related to Cinda under the Reorganisation Agreement
“Combined Ancillary Services Framework Agreement”	the combined ancillary services framework agreement dated 23 December 2011 and entered into between the Company and the Parent Company
“Company”	China Daye Non-Ferrous Metals Mining Limited, a company incorporated in Bermuda with limited liability, whose Ordinary Shares and Preference Shares are listed on the Main Board of the Stock Exchange

DEFINITIONS

“Competent Person’s Reports”	the competent person’s reports in respect of the Four Mines, the Aleinuer Mine, the Sareke Mine and the Hami Mine, respectively, the text of which is set out in Appendix V to this circular
“connected person”	has the meaning ascribed to it under the Listing Rules
“Consideration”	the China Times Consideration, Cinda Consideration and Huarong Consideration
“Consideration Shares”	the China Times Consideration Shares, Cinda Consideration Shares and Huarong Consideration Shares
“Conversion Price”	the conversion price of HK\$0.50 per Conversion Share
“Conversion Shares”	Ordinary Shares to be issued upon conversion of the China Times Convertible Notes
“CRML”	China Reservoir Mining Limited, a company incorporated in BVI with limited liability and owned as to 51% by the Company
“Daye Design”	大冶有色設計研究院有限公司 (Daye Non-ferrous Design and Research Institute Company Limited), a company incorporated in the PRC with limited liability and a wholly-owned subsidiary of Daye Metal
“Daye Hong Kong”	Rainbow Treasure Holdings Limited, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of by the Target Company
“Daye Industry”	大冶有色三友實業有限責任公司 (Daye Non-ferrous San You Industry Company Limited), a company incorporated in the PRC with limited liability and a 89.34%-owned subsidiary of Daye Metal
“Daye Labour”	大冶有色金屬公司銅錄山銅鐵礦勞動服務公司 (Daye Non-ferrous Metals Tonglushan Mining Labour Services Company), a company incorporated in the PRC with limited liability and a substantial shareholder of Daye Industry
“Daye Labour Purchase and Production Services Framework Agreement”	the purchase and production services framework agreement dated 23 December 2011 and entered into between the Company and Daye Labour

DEFINITIONS

“Daye Metal”	大冶有色金屬有限責任公司 (Daye Nonferrous Metals Co., Ltd.) (formerly 大冶有色金屬股份有限公司 (Daye Non-ferrous Metals Joint Stock Company Limited)), a company incorporated in the PRC with limited liability
“Daye Metal Group”	Daye Metal, its subsidiaries and branches
“Daye Shareholder Transfer Agreements”	the equity transfer agreements dated 21 January 2011 and 23 January 2011 and entered into between each of the Six Original Daye Shareholders, as vendor, and the Parent Company, as purchaser, in relation to the transfer of its equity interest in Daye Metal
“Daye Transportation Purchase Framework Agreement”	the purchase framework agreement dated 23 December 2011 and entered into between the Company and Daye Transportation
“Daye Transportation”	大冶有色運輸輪胎有限公司 (Daye Non-ferrous Transportation and Tyre Company Limited), a company incorporated in the PRC with limited liability and owned as to 41.01% by a wholly-owned subsidiary of Hubei Jingde, which, in turn, is a 66.88%-owned subsidiary of the Parent Company
“Daye Xingke”	大冶有色興科建設工程質量檢測有限公司 (Daye Non-ferrous Xingke Construction Works Quality Inspection Company Limited), a company incorporated in the PRC with limited liability and a wholly-owned subsidiary of Daye Metal
“Director(s)”	the director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be convened for the purpose of considering, and if thought fit, approving, among others, (i) the Acquisition Agreement and the transactions contemplated thereunder; (ii) the Whitewash Waiver; (iii) the proposed grant of the Specific Mandate; and (iv) the Non-Exempt Continuing Connected Transactions (including the Annual Caps)
“Enlarged Group”	the Group and the Target Group
“Executive”	the Executive Director of the Corporate Finance Division of the SFC or any of his/her delegate

DEFINITIONS

“Exempt Continuing Connected Transactions”	the transactions to be carried out pursuant to the Exempt Continuing Connected Transaction Agreements
“Exempt Continuing Connected Transaction Agreements”	the Land Lease Framework Agreement dated 23 December 2011 and entered into between the Company and the Parent Company, and the Daye Labour Purchase and Production Services Framework Agreement dated 23 December 2011 and entered into between the Company and Daye Labour
“Existing Convertible Notes”	the Hong Kong dollar denominated 1% convertible notes in the principal amount of HK\$220,000,000 issued by the Company on 22 July 2010, details of which were disclosed in the Company’s announcement dated 16 April 2010
“Fengshan Mine”	the mine located in Yangxin County, Huangshi City, Hubei Province, the mining right relating to which is granted under mining licence numbered C1000002008073120000039
“First Supplemental Agreement”	the agreement dated 31 January 2011 and entered into between the Company, the Parent Company and the Vendors, which is supplemental to the Acquisition Agreement
“Four Mines”	the Tongshankou Mine, Chimashan Mine, Tonglvshan Mine and Fengshan Mine
“GDP”	gross domestic product
“Group”	the Company and its subsidiaries
“Hami Mine”	the copper mine located in the Xinjiang Uygur Autonomous Region of the PRC, the exploration right relating to which is granted under exploration licence numbered T65120090702031836
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hongtai”	湖北省宏泰國有資產經營有限責任公司 (Hubei Hongtai State-owned Asset Management Co., Ltd), a company incorporated in the PRC with limited liability

DEFINITIONS

“Huarong”	中國華融資產管理公司 (China Huarong Asset Management Corporation), a company incorporated in the PRC with limited liability
“Huarong Completion”	completion of the acquisition of the Huarong Sale Shares in accordance with the Acquisition Agreement
“Huarong Consideration”	the consideration for the acquisition of the Huarong Sale Shares pursuant to the Acquisition Agreement
“Huarong Consideration Shares”	670,282,150 new Ordinary Shares to be allotted and issued by the Company to Huarong (or its nominee) at Huarong Completion pursuant to the Acquisition Agreement
“Huarong Reorganisation”	the transactions to be carried out by and related to Huarong under the Reorganisation Agreement
“Huarong Sale Shares”	the shares in the Target Company to be held by Huarong upon completion of the Huarong Reorganisation
“Hubei Department of Land”	Department of Land and Resources of Hubei Province, the PRC
“Hubei Jinge”	湖北金格實業發展有限公司 (Hubei Jinge Industrial Development Company Limited), a company incorporated in the PRC with limited liability and a 66.88%-owned subsidiary of the Parent Company
“Hubei Gold”	湖北雞籠山黃金礦業有限公司 (Hubei Jilong Mountain Gold Mining Co., Ltd.) a company incorporated in the PRC with limited liability and is owned as to 40.2% by the Parent Company
“Hubei Gold Purchase Framework Agreement”	the purchase framework agreement dated 23 December 2011 and entered into between the Company and Hubei Gold
“Hubei SASAC”	湖北省人民政府國有資產監督管理委員會 (State-owned Assets Supervision and Administration Commission of Hubei Provincial People’s Government)
“Independent Board Committee”	an independent committee of the Board, comprising Wang Qihong, Wang Guoqi and Qiu Guanzhou, being all independent non-executive Directors, formed to make recommendations to the Independent Shareholders in respect of the Acquisition, the Whitewash Waiver, the proposed grant of the Specific Mandate and the Non-Exempt Continuing Connected Transactions (including the Annual Caps)

DEFINITIONS

“Independent Financial Adviser” or “Platinum Securities”	Platinum Securities Company Limited, the independent financial adviser to the Independent Board Committee, which is a corporation licensed under the SFO to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities
“Independent Shareholders”	the Shareholders other than China Times, its associates, persons acting in concert with it and any person who is involved or interested in the Acquisition and/or the Whitewash Waiver
“Independent Third Party”	an individual or a company who or which is independent of and not connected with (within the meaning of the Listing Rules) any director, chief executive or substantial shareholder of the Company, any of its subsidiaries or any of their respective associates
“Issue Price”	the issue price of HK\$0.50 for each Consideration Share
“Jingpai”	勁牌有限公司 (Jing Brand Co., Ltd.), a company incorporated in the PRC with limited liability
“John T. Boyd”	John T. Boyd Company, a firm of mining consultants which meets the requirements for a competent person under Chapter 18 of the Listing Rules
“JORC Code”	the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (2004 edition), as published by the Joint Ore Reserves Committee of the Australasian Institute of Mining and Metallurgy and Australian Institute of Geoscientists and the Minerals Council of Australia from time to time, for reporting of mineral resources and ore reserves which sets out the minimum standards, recommendations and guidelines for public reporting of exploration results, mineral resources and ore reserves
“J.P. Morgan” or “Sponsor”	J.P. Morgan Securities (Asia Pacific) Limited, a corporation licensed to conduct Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 7 (providing automated trading services) regulated activities under the SFO, being the sponsor to the new listing application of the Company and the financial adviser to the Company in relation to the Acquisition

DEFINITIONS

“Land Lease Framework Agreement”	the land lease framework agreement dated 23 December 2011 and entered into between the Company and the Parent Company
“Last Trading Day”	21 January 2011, being the last trading day for the Ordinary Shares before 1 February 2011, being the date of the announcement of the Company in relation to, among others, the Acquisition Agreement and the First Supplemental Agreement
“Latest Practicable Date”	23 December 2011, being the latest practicable date for the purpose of ascertaining certain information contained in this circular
“Liangyou”	湖北省糧油（集團）有限責任公司 (Hubei Province Grain and Oils Group Co. Ltd), a company incorporated in the PRC with limited liability
“Listing Committee”	the listing committee of the Stock Exchange
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange
“LME”	London Metal Exchange, an international non-ferrous metals exchange
“Maturity Date”	the date falling on the fifth anniversary of the issue of the China Times Convertible Notes
“Memorandum of Association”	the memorandum of association of the Company, as amended, supplemented or modified from time to time
“Mining Licences”	the mining licences in respect of the Four Mines
“Mongolian Arbitration Center”	the Mongolian National Arbitration Center at the Mongolian National Chamber of Commerce and Industry
“Mongolian JV Partner”	Nomin Deposit LLC, a company incorporated in Mongolia with limited liability and an Independent Third Party
“NI 43-101”	National Instrument 43-101, the (Canadian) Standards of Disclosure for Mineral Projects, including Companion Policy 43-101 as amended from time to time
“Non-Exempt Continuing Connected Transactions”	the transactions to be carried out pursuant to the Non-Exempt Continuing Connected Transaction Agreements

DEFINITIONS

“Non-Exempt Continuing Connected Transaction Agreements”	the Sales Framework Agreement, the Services Framework Agreement, the Purchase and Production Services Framework Agreement, the Hubei Gold Purchase Framework Agreement, the Daye Transportation Purchase Framework Agreement, the Combined Ancillary Services Framework Agreement and the Tonghua Hotel Services Framework Agreement, all of which are dated 23 December 2011 and entered into between the Company on the one hand and the Parent Company or its associates (as the case may be) on the other hand
“Ordinary Share(s)”	ordinary share(s) of nominal value HK\$0.05 each in the share capital of the Company
“Parent Company”	大冶有色金屬集團控股有限公司 (Daye Nonferrous Metals Corporation Holdings Limited), a company incorporated in the PRC with limited liability and wholly-owned by Hubei SASAC
“Parent Company Reorganisation”	the transactions to be carried out by and related to the Parent Company and China Times under the Daye Shareholder Transfer Agreements and the Reorganisation Agreement
“Parent Group”	the Parent Company and its subsidiaries (excluding any member of the Group and the Target Group)
“PRC” or “China”	the People’s Republic of China, which, for the purposes of this circular, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Precious Metal Plant”	the processing plant for extracting and processing precious metals of the Target Group located in No. 21, Yelian Road, Xin Xialu, Huangshi City, Hubei Province, the PRC
“Preference Share(s)”	convertible cumulative redeemable preference share(s) of nominal value HK\$1.00 each in the share capital of the Company, each of which (a) carries no voting right except in the event of the winding up of the Company, a reduction of capital or a variation or abrogation of the rights attaching to such share, or any dividend payable with respect to such share being in arrears for six months or more; and (b) has a notional value of HK\$5 and can be converted to Ordinary Shares at the conversion price of HK\$0.036 per share, subject to adjustment

DEFINITIONS

“Purchase and Production Services Framework Agreement”	the purchase and production services framework agreement dated 23 December 2011 and entered into between the Company and the Parent Company
“R&D Centre”	the research and development centre of the Target Group located in No. 65, Yelian Road, Xin Xialu, Huangshi City, Hubei Province, the PRC
“Relevant Ratios”	any of the five ratios set out in Rule 14.07 of the Listing Rules
“Reorganisation Agreement”	the agreement dated 23 January 2011 and entered into between the Parent Company, the Vendors, the Target Company, Daye Hong Kong and Daye Metal, pursuant to which, among other things, each of the Parent Company, Cinda and Huarong has conditionally agreed to transfer its shares in Daye Metal to Daye Hong Kong in consideration of shares in the Target Company
“Reservoir Moly”	Reservoir Moly Mongolia LLC, a company incorporated in Mongolia with limited liability and is indirectly owned as to 55% by CRML, which is a subsidiary of the Company
“RMB”	Renminbi, the lawful currency of the PRC
“Roscoe”	Roscoe Postle Associates Inc., a firm of mining consultants which meets the requirements for a competent person under Chapter 18 of the Listing Rules
“Runge”	Runge Asia Limited, a firm of mining consultants which meets the requirements for a competent person under Chapter 18 of the Listing Rules
“Sala Mine”	the wolfram mine located in Sukhbaatar, Mongolia, the mining right relating to which is granted under the mining licence numbered 16852A
“Sale Shares”	the China Times Sale Shares, Cinda Sale Shares and Huarong Sale Shares
“Sales Framework Agreement”	the sales framework agreement dated 23 December 2011 and entered into between the Company and the Parent Company

DEFINITIONS

“Sareke Mine”	the copper mine located in the Xinjiang Uygur Autonomous Region of the PRC, the mining right relating to which is granted under the mining licence numbered C6500002009123120053788
“Second Supplemental Agreement”	the agreement dated 23 December 2011 and entered into between the Company, the Parent Company China Times and Cinda, which is supplemental to the Acquisition Agreement and the First Supplemental Agreement, pursuant to which (i) the parties agreed to extend the date by which the conditions precedent to China Times Completion and the conditions precedent to Cinda Completion have to be fulfilled (or, if applicable, waived by the Company) as set out in the Acquisition Agreement to 30 June 2012; and (ii) the non-competition undertaking given by the Parent Company to the Company in the Acquisition Agreement was amended
“Services Framework Agreement”	the services framework agreement dated 23 December 2011 and entered into between the Company and the Parent Company
“Six Original Daye Shareholders”	Changdian, Wuhan Guozi, Liangyou, Hongtai, Jingpai and Xinxing
“SFC”	Securities and Futures Commission of Hong Kong
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shareholder(s)”	holder(s) of the Ordinary Shares
“Share Issue Mandate”	the general mandate granted by the Shareholders to the Directors at the AGM to issue, allot and deal with additional Ordinary Shares not exceeding 20% of the aggregate nominal amount of the Ordinary Shares in issue as at the date of AGM
“Share Option Scheme”	the existing share option scheme of the Company adopted by a resolution of the Shareholders on 13 October 2003
“Share Repurchase Mandate”	the general mandate granted by the Shareholders to the Directors at the AGM to purchase Ordinary Shares not exceeding 10% of the aggregate nominal amount of the Ordinary Shares in issue as at the date of AGM
“Smelting Plant”	the smelting plant of the Target Group located in No.1, Yelian Road, Xin Xialu, Huangshi City, Hubei Province, the PRC

DEFINITIONS

“Specific Mandate”	the specific mandate proposed to be granted by the Shareholders to the Directors at the EGM to issue and allot the China Times Consideration Shares, the Cinda Consideration Shares, the China Times Convertible Notes and the Conversion Shares
“SHFE”	Shanghai Futures Exchange (上海期貨交易所)
“SHGE”	Shanghai Gold Exchange (上海黃金交易所), approved by the State Council of the PRC (中華人民共和國國務院) and founded by the People’s Bank of China, which organizes gold transactions in China and perform regulated functions as stipulated by the applicable PRC rules and regulations as amended from time to time
“sq. km”	square kilometer(s)
“sq.m.”	square metre(s)
“SRK”	SRK Consulting China Limited, a firm of mining consultants which meets the requirements for a competent person under Chapter 18 of the Listing Rules
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary”	has the meaning ascribed to it under the Listing Rules
“substantial shareholder”	has the meaning ascribed to it under the Listing Rules
“Takeovers Code”	The Hong Kong Code on Takeovers and Mergers
“Target Company”	Prosper Well Group Limited, a company incorporated in BVI with limited liability, which, as at the Latest Practicable Date, was owned as to 93.18% by China Times and 6.82% by Cinda HK
“Target Group”	the Target Company and its subsidiaries (which will include the Daye Metal Group)
“Tonghua Hotel”	黃石市銅花大酒店有限公司 (Huangshi Tonghua Hotel Company Limited), a company incorporated in the PRC with limited liability and is owned as to 45% by the Parent Company
“Tonghua Hotel Services Framework Agreement”	the services framework agreement dated 23 December 2011 and entered into between the Company and Tonghua Hotel

DEFINITIONS

“Tonglvshan Mine”	the mine located in Tonglv Mountain, Huangshi City, Hubei Province, the mining right relating to which is granted under mining licence numbered C1000002011013220105660
“Tongshankou Mine”	the mine located in Huangshi City, Hubei Province, the mining right relating to which is granted under mining licence numbered C4200002011043120111136
“Track Record Period”	the three years ended 31 December 2010 and the six months ended 30 June 2011
“Transfer Agreement”	the transfer agreement dated 29 March 2010 and entered into between Daye Metal and the Parent Company in relation to the transfer of the Mining Licences
“United States”, “US” or “U.S.”	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
“US\$” or “US Dollars”	United States dollars, the lawful currency of the United States of America
“Vendors”	China Times, Cinda and Huarong
“Warranties”	the representations and warranties given by the Vendors in the Acquisition Agreement
“Warrants”	the 60,000,000 warrants which carry the right to subscribe for up to an aggregate of 60,000,000 Ordinary Shares pursuant to the placing agreement dated 23 April 2009, details of which were disclosed in the Company’s announcement dated 24 April 2009
“Whitewash Waiver”	a waiver in respect of the obligation of China Times and persons acting in concert with it to make a mandatory offer to other holders of the issued shares of the Company in respect of those shares as a result of the issue of the China Times Consideration Shares in accordance with Note 1 on dispensations from Rule 26 of the Takeovers Code
“Wuhan Guozi”	武漢國有資產經營公司 (Wuhan State-owned Assets Management Company), a company incorporated in the PRC with limited liability

DEFINITIONS

“Xinxing”	黃石市鑫興工貿有限責任公司 (Huangshi Xinxing Industrial & Trade Co., Ltd.), a company incorporated in the PRC with limited liability
“Zhong Lun”	Zhong Lun Law Firm, the legal advisers of the Company as to PRC laws

In this circular:

- *Unless otherwise specified, the HK\$ amounts shown in this circular have been translated into the RMB amount at an exchange rate of HK\$1.00 = RMB0.8620, for reference purposes only.*
- *Those exchange rates are for the purpose of illustration only and do not constitute a representation that any amounts Hong Kong dollars or RMB have been, could have been or may be converted at such or any other rates or at all.*
- *Certain figures set out in this circular have been subject to rounding adjustments. Accordingly, figures shown as the currency conversion or percentage equivalents may not be an arithmetic sum of such figures.*
- *Any discrepancy in any table between totals and sums of amounts listed in this circular is due to rounding.*
- *The English names of the Chinese nationals, companies, entities, departments, facilities, certificates, titles and the like are translation of their Chinese names and are included in this circular for identification purpose only and should not be regarded as their official English translation. In the event of any inconsistency, the Chinese names prevail.*

GLOSSARY OF TECHNICAL TERMS

This glossary contains definitions of certain terms used in this circular in connection with the Target Group, the Enlarged Group and their businesses. Some of these terms may not correspond to standard industry definitions.

“beneficiate” or “beneficiation”	process to improve the grade by removing associated impurities and preparation of ores for smelting by drying, flotation or magnetic separation
“concentrate”	the clean product recovered from a treatment plant
“deposit”	mineral deposit or ore deposit that is used to designate a natural occurrence of a useful mineral, or an ore, in sufficient extent and degree of concentration
“exploration”	method by which ore deposits are evaluated
“grade”	relative quantity or the percentage of ore mineral or metal content in an ore body
“mill”	equipment used to grind crushed rocks to the desired size for mineral extraction
“metallurgical”	describing the science concerned with the production, purification and properties of metals and their applications
“mineralisation”	process of formation and concentration of elements and their chemical compounds within a mass or body of rock
“ore”	material from which a mineral or minerals of economic value can be extracted profitably or to satisfy social or political objectives
“ore-field”	a zone of concentration of mining occurrences
“ore body”	mining term to define a solid mass of mineralized rock which can be mined profitably under current or immediately foreseeable economic conditions
“processing”	methods employed to clean, process and prepare materials or ore into the final marketable product

GLOSSARY OF TECHNICAL TERMS

“recovery”	proportion of valuable material obtained in the processing of an ore, stated as a percentage of the material recovered compared with the total material present
“shaft”	vertical or inclined excavation into mining works
“tailings”	material that remains after all metals/minerals considered economic have been removed from the ore

CORPORATE INFORMATION

The following sets out the corporate information relating to the Enlarged Group immediately following the completion of the Acquisition:

Registered office	Clarendon House 2 Church Street Hamilton HM11 Bermuda
Head office and principal place of business	Unit 2001, World Wide House 19 Des Voeux Road Central Hong Kong
Company secretary	Chan Yim Kum (陳艷琴) <i>ATIHK, ACIS, ACS</i>
Audit committee	Wang Guoqi (王國起) (Chairman) Wang Qihong (王岐虹) Qiu Guanzhou (邱冠周)
Remuneration committee	Wang Guoqi (王國起) (Chairman) Wang Qihong (王岐虹) Qiu Guanzhou (邱冠周)
Authorised representative	Chan Yim Kum (陳艷琴) <i>ATIHK, ACIS, ACS</i> Room C, 13/F, Tower 2 Heng Fa Chuen Chai Wan Hong Kong
Compliance adviser	Somerley Limited 10/F, The Hong Kong Club Building 3A Chater Road, Central Hong Kong
Principal bankers	Hang Seng Bank Limited 16/F, Hang Seng Tower 33 Wai Yip Street, Kowloon Bay Kowloon, Hong Kong Industrial and Commercial Bank of China (Asia) Limited G.P.O. Box 872, Hong Kong Bank of Communications Co., Ltd. Hong Kong Branch 20 Pedder Street, Central, Hong Kong

CORPORATE INFORMATION

**Principal share registrar and
transfer office**

Butterfield Fulcrum Group (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke HM 08
Bermuda

**Hong Kong branch share registrar and
transfer office**

Tricor Investor Services Limited
26/F, Tesbury Centre
28 Queen's Road East
Hong Kong

Company's website

www.hk661.com
*(information on the website does not
form part of this circular)*

DIRECTORS

The following were the Directors as at the Latest Practicable Date:

Name	Address	Nationality
Executive Directors		
Mr. Wan Bi Qi (万必奇)	Flat 10, 30/F, Tower One The Metropolis Residence No. 8 Metropolis Drive Kowloon, Hong Kong	Chinese
Mr. Chen Xiang (陳翔)	Flat A, 51/F, Tower 2 Hampton Place No. 11 Hoi Fan Road Kowloon, Hong Kong	Chinese
Ms. Yuan Ping (袁萍)	Flat G, 30/F, Tower 5 Harbour Green, 8 Sham Mong Road Tai Kok Tsui Kowloon, Hong Kong	Chinese
Independent non-executive Directors		
Mr. Wang Qihong (王岐虹)	Flat D, 34/F, Tower One 18 Old Peak Road Hong Kong	Chinese (Hong Kong)
Mr. Wang Guoqi (王國起)	508 Tower A, Kunsha Centre 16 Xinyuanli, Chaoyang District Beijing, PRC	Chinese
Mr. Qiu Guanzhou (邱冠周)	Room 605, Block 11 Jingyi Plaza, Yuelu District Changsha City, Hunan Province, PRC	Chinese

PARTIES INVOLVED

**Financial adviser and Sponsor
to the Company**

J.P. Morgan Securities (Asia Pacific) Limited
28/F, Chater House
8 Connaught Road Central
Central
Hong Kong

**Independent Financial Adviser to
the Independent Board Committee**

Platinum Securities Company Limited
22/F, Standard Chartered Bank Building
4 Des Voeux Road Central
Hong Kong

Legal advisers to the Company

as to Hong Kong law:

Norton Rose Hong Kong
38/F, Jardine House
1 Connaught Place
Central
Hong Kong

as to PRC law:

Zhong Lun Law Firm
36-37/F, SK Tower
6A Jianguomenwai Avenue
Beijing
PRC

as to Mongolia law:

Legal Consulting Law Firm
Suite 605, Altai Building
Chinggis Khaan Avenue-8
P.O. Box 2953
Ulaanbaatar, Mongolia-15160
Mongolia

as to Bermuda law:

Conyers Dill & Pearman
2901 One Exchange Square
8 Connaught Place
Central
Hong Kong

PARTIES INVOLVED

Legal advisers to the Sponsor

as to Hong Kong law:

Paul Hastings

21–22/F, Bank of China Tower
1 Garden Road
Central
Hong Kong

as to PRC law:

Haiwen & Partners

21/F, Beijing Silver Tower
No.2, Dong San Huan North Road
Chaoyang District
Beijing 100027
PRC

Reporting accountants

PricewaterhouseCoopers

Certified Public Accountants
22/F, Prince's Building
Central
Hong Kong

Auditors

Pan-China (H.K.) CPA Limited

20/F, Hong Kong Trade Centre
161-167 Des Voeux Road Central
Hong Kong

Property valuer

Jones Lang LaSalle Sallmanns Limited

6/F, Three Pacific Place
1 Queen's Road East
Hong Kong

Independent technical advisers

Runge Asia Limited

10/F, Silver Fortune Plaza
1 Wellington Street
Central
Hong Kong

SRK Consulting China Limited

B1205, COFCO Plaza
No. 8 Jianguomennei Dajie
Dongcheng District
Beijing, 100005
PRC

PARTIES INVOLVED

John T. Boyd Company

Suite 504, 5/F, Sunjoy Mansion

No. 6 Ritan Road

Chaoyang District

Beijing 100020

PRC

Roscoe Postle Associates Inc.

55 University Avenue, Suite 501

Toronto, Ontario M5J 2H7

Canada

LETTER FROM THE BOARD



中國大冶有色金屬礦業有限公司

China Daye Non-Ferrous Metals Mining Limited

(Incorporated in Bermuda with limited liability)

(Stock Code: 00661)

Board of Directors:

Executive Directors

Wan Bi Qi (*Chairman*)

Chen Xiang

Yuan Ping

Independent Non-executive Directors

Wang Guoqi

Wang Qihong

Qiu Guanzhou

Registered office:

Clarendon House

2 Church Street

Hamilton HM11

Bermuda

*Head office and principal place
of business:*

Unit 2001, World Wide House

19 Des Voeux Road Central

Hong Kong

Company secretary:

Chan Yim Kum

29 December 2011

*To the Shareholders, and for information only, to the holders of the Preference Shares,
Existing Convertible Notes and share options issued by the Company*

Dear Sir or Madam,

- (1) VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION**
(2) REVERSE TAKEOVER INVOLVING A NEW LISTING APPLICATION
(3) APPLICATION FOR WHITEWASH WAIVER
(4) PROPOSED GRANT OF SPECIFIC MANDATE
AND
(5) CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

The Acquisition

As announced by the Company on 1 February 2011 and 23 December 2011, the Company, the Parent Company and the Vendors entered into the Acquisition Agreement on 23 January 2011 (as supplemented and amended by the First Supplemental Agreement and the Second Supplemental Agreement). Pursuant to the Acquisition Agreement, the Company has conditionally agreed to purchase, and the Vendors have conditionally agreed to sell, the Sale Shares (comprising the China Times Sale Shares, the Cinda Sale Shares and the Huarong Sale Shares) at a total consideration of RMB6,100,000,000 or HK\$7,207,334,940 (based on the exchange rate of HK\$1: RMB0.84636). The total consideration will be satisfied by the allotment and issue by the Company to the Vendors of an aggregate of 12,406,997,784 Ordinary Shares at the Issue Price of HK\$0.50 per Consideration Share and (to China Times only) the issue of the China Times Convertible Notes.

LETTER FROM THE BOARD

Completion of the acquisition of the China Times Sale Shares is conditional upon, among others, completion of the Parent Company Reorganisation. China Times Completion is, however, not conditioned upon Cinda Completion or Huarong Completion. Completion of the acquisition of the Cinda Sale Shares is conditional upon, among others, completion of the Cinda Reorganisation and completion of the acquisition of the China Times Sale Shares. Completion of the acquisition of the Huarong Sale Shares is conditional upon, among others, completion of the Huarong Reorganisation and completion of the acquisition of the China Times Sale Shares. Cinda Completion and Huarong Completion, however, are not inter-conditional upon each other.

It was further announced by the Company on 14 October 2011 that the Company has been informed by Huarong, being one of the Vendors, that it was not able to obtain the regulatory and other approvals required in connection with the Huarong Reorganisation. Hence, as provided in the Reorganisation Agreement, the Huarong Reorganisation will not proceed. As completion of the sale and purchase of the Huarong Sale Shares by Huarong under the Acquisition Agreement is conditional upon completion of the Huarong Reorganisation, Huarong Completion will not take place in accordance with the Acquisition Agreement.

Completion of the sale and purchase of the remaining Sale Shares, comprising the China Times Sale Shares and the Cinda Sale Shares, will remain subject to the conditions set out in the Acquisition Agreement. Some of those conditions have already been fulfilled as at the Latest Practicable Date (please refer to the section headed "Letter from the Board-Conditions Precedent" of this circular). If all of the conditions are fulfilled (or, where applicable, waived) and China Times Completion and Cinda Completion take place in accordance with the Acquisition Agreement, the total consideration payable by the Company pursuant to the Acquisition Agreement will be reduced to RMB5,816,350,000 (or HK\$6,872,193,865) (based on the exchange rate of HK\$1:RMB0.84636) and the aggregate number of Consideration Shares to be issued by the Company will also be reduced to 11,736,715,634 new Ordinary Shares, as a result of the exclusion of the Huarong Consideration attributable to the Huarong Sale Shares.

Assets to be acquired by the Company

Pursuant to the Acquisition and subject to the fulfillment of the relevant conditions set out in the Acquisition Agreement, the Company will acquire (i) 93.18% of the total issued shares in the Target Company, if only the completion of the acquisition of the China Times Sale Shares takes place; or (ii) 100% of the total issued shares in the Target Company, if both the completion of the acquisition of the China Times Sale Shares and the Cinda Sale Shares take place. As at the Latest Practicable Date, the Target Company held all the issued shares in Daye Hong Kong which, in turn, held a 95.35% equity interest in Daye Metal.

LETTER FROM THE BOARD

The Target Group is principally engaged in the production and sales of copper cathodes. It also sells gold, silver and sulphuric acid. The Target Group holds the mining and/or exploration rights to four mines in the Hubei Province, the PRC, and all of those mines are already in operation. It also owns and operates on-site processing facilities at each of those mines to carry out crushing, screening and milling of copper ore, a smelting plant which undertakes the smelting of copper concentrate and production of sulphuric acid, a precious metal plant which extracts gold and silver from anode slime, and a research and development centre. The Target Group is one of the few copper producers in the PRC who have a vertically integrated operation which extends from the exploration, mining and processing of copper ore to the smelting of copper concentrate and the production of copper cathodes and other precious metals such as gold and silver. Please refer to the section headed “Business of the Target Group” in this circular for further information.

The reorganisation of Daye Metal

Daye Metal was previously owned as to 45.61% by the Parent Company, 6.50% by Cinda, 4.65% by Huarong, 1.94% by Hubei SASAC and 41.30% among the Six Original Daye Shareholders. Pursuant to an approval document issued by Hubei SASAC dated 21 January 2011, the Parent Company acquired a 1.94% equity interest in Daye Metal from Hubei SASAC at no consideration. Pursuant to the Daye Shareholder Transfer Agreements, the Six Original Daye Shareholders sold, and the Parent Company purchased, their aggregate 41.30% equity interest, in Daye Metal. As at the Latest Practicable Date, the transfers by Hubei SASAC and the Six Original Daye Shareholders of their respective equity interests in Daye Metal to the Parent Company have been completed.

Pursuant to the Reorganisation Agreement, the Parent Company, Cinda and Huarong have conditionally agreed to transfer their respective equity interests in Daye Metal to Daye Hong Kong, a wholly-owned subsidiary of the Target Company, in return for the issue and allotment of new shares in the Target Company (such transfers being referred to as the Parent Company Reorganisation, Cinda Reorganisation and Huarong Reorganisation, respectively). Completion of such transfers is subject to the fulfilment of certain conditions, including the obtaining of the approvals of Hubei SASAC and the Ministry of Commerce of the PRC.

As stated above, Huarong was not able to obtain the regulatory and other approvals required in connection with the Huarong Reorganisation and hence, as provided in the Reorganisation Agreement, the Huarong Reorganisation will not proceed. Huarong will, therefore, remain the holder of a 4.65% equity interest in Daye Metal.

LETTER FROM THE BOARD

As part of the reorganisation of Daye Metal, on 19 August 2011, the Parent Company transferred its 88.85% equity interest in Daye Metal to China Times, and Cinda transferred its 6.50% equity interest in Daye Metal to Cinda HK. Daye Metal was then converted from a joint stock company into a sino-foreign equity joint venture and changed its name to 大冶有色金屬有限責任公司 (Daye Nonferrous Metals Co., Ltd) in September 2011.

On 29 November 2011, China Times and Cinda HK transferred their 88.85% and 6.50% equity interest in Daye Metal, respectively, to Daye Hong Kong pursuant to the Reorganisation Agreement. The Parent Company Reorganisation and the Cinda Reorganisation were thereby completed. As at the Latest Practicable Date, Daye Metal was owned, through Daye Hong Kong, as to 95.35% by the Target Company, which, in turn, was owned as to 93.18% by China Times and 6.82% by Cinda HK. Each of China Times and Cinda HK has agreed to sell all of its shares in the Target Company (being the China Times Sale Shares and Cinda Sale Shares, respectively) to the Company on and subject to the terms and conditions of the Acquisition Agreement, and the Target Company will, on completion of those sales, become a wholly-owned subsidiary of the Company.

For a description of the implications of the Acquisition under the Listing Rules and the Takeovers Code, please refer to the sub-sections headed “Implications under the Listing Rules” and “Implications under the Takeovers Code and application for Whitewash Waiver” in this section.

Proposed grant of Specific Mandate

Under the Acquisition Agreement, the China Times Consideration will be satisfied by the issue of the China Times Consideration Shares and the China Times Convertible Notes by the Company to China Times (or its nominee), and the Cinda Consideration will be satisfied by the issue of the Cinda Consideration Shares by the Company to Cinda (or its nominees).

The China Times Consideration Shares, the Cinda Consideration Shares, the China Times Convertible Notes and the Conversion Shares to be issued upon the conversion of the China Times Convertible Notes will be allotted and issued pursuant to the Specific Mandate proposed to be obtained at the EGM. The China Times Consideration Shares, the Cinda Consideration Shares and the Conversion Shares, when issued, will rank equally among themselves and *pari passu* in all respects with the Ordinary Shares then in issue, including as to the right to any dividend declared on or after the respective dates of their allotment and issue.

LETTER FROM THE BOARD

Continuing Connected Transactions

It was announced on 23 December 2011 that the Company entered into the Non-Exempt Continuing Connected Transaction Agreements and the Exempt Continuing Connected Transaction Agreements with the Parent Company, its associates or Daye Labour (as the case may be). Each of the Non-Exempt Continuing Connected Transaction Agreements and the Exempt Continuing Connected Transaction Agreements is conditional upon China Times Completion taking place and all applicable legal and regulatory requirements (including those under the Listing Rules) having been complied with. An ordinary resolution will be proposed at the EGM for the approval of the Non-Exempt Continuing Connected Transaction Agreements and the transactions to be carried out pursuant thereto (including the Annual Caps).

Purpose of this circular

The purpose of this circular is to provide the Shareholders with further information about: (i) the Acquisition; (ii) the Whitewash Waiver; (iii) the proposed grant of the Specific Mandate; and (iv) the Non-Exempt Continuing Connected Transactions, as well as to give notice of the EGM to the Shareholders. This circular also provides additional information on the Target Group as required under the Listing Rules in connection with the new listing application.

THE ACQUISITION AGREEMENT

Date: 23 January 2011 (and 31 January 2011 and 23 December 2011, being the dates of the First Supplemental Agreement and the Second Supplemental Agreement, respectively)

Parties:

- (a) the Company (as purchaser of the Sale Shares);
- (b) China Times, Cinda and Huarong (as sellers of the China Times Sale Shares, Cinda Sale Shares and Huarong Sale Shares, respectively, and covenantors in respect of the Parent Company Reorganisation, Cinda Reorganisation and Huarong Reorganisation (as the case may be)); and

LETTER FROM THE BOARD

- (c) the Parent Company (as covenantor in respect of the Parent Company Reorganisation and guarantor of the performance by China Times of its obligations).

As at the Latest Practicable Date, China Times, a wholly-owned subsidiary of the Parent Company, was interested in 1,163,236,988 Ordinary Shares, representing approximately 20.80% of the total Ordinary Shares in issue and 5,495 Preference Shares, representing approximately 33.33% of the total Preference Shares in issue. Each of China Times and the Parent Company is, therefore, a substantial shareholder of the Company. On 25 November 2009, China Times' holding of Ordinary Shares fell below 30% as a result of a placing of Ordinary Shares by the Company to Independent Third Parties and hence, it ceased to be a controlling shareholder of the Company within the meaning of the Listing Rules. China Times was wholly-owned by Wang Jian Sheng, who is independent of China Times and the Parent Company, before the Parent Company acquired 49.89% of the then issued share capital of China Times in April 2009. In December 2009, the Parent Company acquired the remaining 50.11% interest in China Times from Wang Jian Sheng, at which point China Times became wholly-owned by the Parent Company.

Cinda, Huarong and their respective ultimate beneficial owners are independent of the Company and its connected persons.

The Parent Company is a state-owned conglomerate in China whose principal business is copper mining and processing. It owns, through the Target Group, one of the five largest raw material production bases of copper in the PRC. It has a fully integrated operation which enables it to undertake the different stages of copper production from mining, processing, smelting and plating, research and development, design to sales and trading. It also produces precious metals such as platinum, molybdenum, selenium, lead, nickel and bismuth.

China Times is an investment holding company.

Cinda and Huarong are both asset management companies wholly-owned by the Ministry of Finance of the PRC. Cinda is principally engaged in the acquisition and management of non-performing assets of financial and non-financial institutions, bankruptcy management, foreign investment, provision of investment and risk management consultancy services and asset valuation. Huarong is principally engaged in the acquisition, disposal and management of non-performing banking assets, debt and corporate restructuring, underwriting, debt issue and asset valuation.

Assets to be acquired by the Company

The Sale Shares.

LETTER FROM THE BOARD

Conditions precedent

China Times Completion is conditional upon the satisfaction (or, in the case of conditions precedent (c), (h), (l) and (m) as further described below, the waiver by the Company) of the following conditions precedent:

- (a) the Parent Company Reorganisation having been completed to the satisfaction of the Company;
- (b) the approval of the Shareholders (other than China Times, its associates, persons acting in concert with it, any persons involved or interested in the Acquisition and/or Whitewash Waiver or any other persons who are required to abstain from voting under the Listing Rules or the Takeovers Code) at the EGM convened for the purposes of approving the Acquisition Agreement and the transactions contemplated thereunder, including but not limited to the Acquisition, the issue of the Consideration Shares, the China Times Convertible Notes and the Conversion Shares and the Whitewash Waiver;
- (c) the Company having completed the due diligence review of the legal, financial and business affairs of the members of the Target Group and the results of such review being satisfactory to the Company;
- (d) the independent technical adviser (who is able to meet the requirements for competent persons under Chapter 18 of the Listing Rules determined and engaged by the Company) having completed its report in respect of the mineral reserves/resources owned by the Target Group in accordance with the requirements of the Listing Rules and the content and results of such report being satisfactory to the Company;
- (e) the independent professional accountants determined and engaged by the Company having completed the audit of the consolidated financial statements relating to the Target Group in accordance with the requirements of the Listing Rules and the content and results of such audit being satisfactory to the Company;
- (f) the independent valuer (who is able to meet the requirements for (i) valuers under Chapter 5 of the Listing Rules and (ii) competent evaluators under Chapter 18 of the Listing Rules determined and engaged by the Company) having completed the valuation of the properties of the Group and the Target Group in accordance with the requirements of the Listing Rules and the valuation of the mining assets (as defined in Chapter 18 of the Listing Rules) of the Target Group in accordance with the requirements of the Listing Rules and the content and results of each of those valuations being satisfactory to the Company;
- (g) the independent valuer having completed the valuation of the assets (including the mining assets and the properties) of the Target Group and the content and results of such valuation being satisfactory to the Company;

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- (h) the net asset value of the Target Group as shown in the valuation report referred to in (g) above amounting to not less than RMB6.1 billion;
- (i) all approvals which are required for the Acquisition by the Ministry of Commerce of the PRC, the China Securities Regulatory Commission, Hubei SASAC, the People's Government of Hubei and other government authorities or regulatory authorities in Hong Kong, the PRC or any other jurisdiction, having been obtained and the content of such approvals being satisfactory to the Company;
- (j) approval for the listing of, and permission to deal in, the China Times Consideration Shares having been granted by the Stock Exchange and not having been revoked or withdrawn;
- (k) the Whitewash Waiver having been granted to China Times and the persons acting in concert with it by the Executive and not having been revoked or withdrawn;
- (l) the Company having received an opinion issued by Zhong Lun in respect of the PRC members of the Target Group and other PRC legal issues and the form and content of such opinion being satisfactory to the Company;
- (m) all the Warranties being true, accurate and not misleading in all material respects from the date of the Acquisition Agreement to the date of China Times Completion (both days inclusive) by reference to the facts and circumstances subsisting at the date of China Times Completion, and the Vendors having complied with their obligations under the Warranties in all material respects;
- (n) valid mining licences relating to the Four Mines having been issued to Daye Metal by the relevant governmental authority and the form and content of such mining licences being satisfactory to the Company;
- (o) approval for the listing of, and permission to deal in, the Conversion Shares having been granted by the Stock Exchange and not having been revoked or withdrawn; and
- (p) approval in principle by the Listing Committee of the new listing application by the Company having been granted and not having been revoked or withdrawn.

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For the purpose of the preparation of the valuation report referred to in condition precedent (g) above, 30 September 2011 has been adopted as the reference date.

The conditions precedent set out in (c), (h), (l) and (m) above may be waived by the Company. None of the other conditions precedent set out above may be waived by any party.

If any of the conditions precedent set out in (a) to (p) above has not been fulfilled (or, if applicable, waived by the Company) on or before 30 June 2012 (or such later date as may be agreed between China Times and the Company), the Acquisition Agreement will terminate with immediate effect.

As at the Latest Practicable Date, the conditions precedent set out in (a), (d), (e), (f), (g), (h), (i), (l) and (n) above have been fulfilled, while the others have yet to be fulfilled. In relation to the condition precedent set out in (i) above, Zhong Lun has also confirmed that all the approvals required under applicable PRC rules and regulations for the China Times Reorganisation, the Cinda Reorganisation, the Acquisition and the deemed new listing of the Target Group have been obtained from the relevant PRC authorities.

Cinda Completion is conditional upon the satisfaction (or, in the case of condition precedent (d) as further described below, the waiver by the Company) of the following conditions precedent:

- (a) the Cinda Reorganisation having been completed to the satisfaction of the Company;
- (b) all the conditions precedent for China Times Completion having been satisfied (or if applicable, waived by the Company) and China Times Completion having taken place in accordance with the Acquisition Agreement;
- (c) approval for the listing of, and permission to deal in, the Cinda Consideration Shares having been granted by the Stock Exchange and not having been revoked or withdrawn; and
- (d) all the Warranties being true, accurate and not misleading in all material respects from the date of the Acquisition Agreement to the date of Cinda Completion (both days inclusive) by reference to the facts and circumstances subsisting at the date of Cinda Completion, and the Vendors having complied with their obligations under the Warranties in all material respects.

LETTER FROM THE BOARD

The condition precedent set out in (d) above may be waived by the Company. None of the other conditions precedent set out above may be waived by any party.

If any of the conditions precedent set out in (a) to (d) above has not been fulfilled (or, if applicable, waived by the Company) on or before 30 June 2012 (or such later date as may be agreed between Cinda and the Company), the Company's obligation to acquire the Cinda Sale Shares and the terms of the Acquisition Agreement in respect thereof will terminate with immediate effect.

As at the Latest Practicable Date, the condition precedent set out in (a) above have been fulfilled, while the others have yet to be fulfilled.

Huarong Completion is conditional upon the satisfaction (or, in the case of condition precedent (d) as further described below, the waiver by the Company) of the following conditions precedent:

- (a) the Huarong Reorganisation having been completed to the satisfaction of the Company;
- (b) all the conditions precedent for China Times Completion having been satisfied (or if applicable, waived by the Company) and China Times Completion having taken place in accordance with the Acquisition Agreement;
- (c) approval for the listing of, and permission to deal in, the Huarong Consideration Shares having been granted by the Stock Exchange and not having been revoked or withdrawn; and
- (d) all the Warranties being true, accurate and not misleading in all material respects from the date of the Acquisition Agreement to the date of Huarong Completion (both days inclusive) by reference to the facts and circumstances subsisting at the date of Huarong Completion, and the Vendors having complied with their obligations under the Warranties in all material respects.

The condition precedent set out in (d) above may be waived by the Company. None of the other conditions precedent set out above may be waived by any party.

If any of the conditions precedent set out in (a) to (d) above has not been fulfilled (or, if applicable, waived by the Company) on or before 31 December 2011 (or such later date as may be agreed between Huarong and the Company), the Company's obligation to acquire the Huarong Sale Shares and the terms of the Acquisition Agreement in respect thereof will terminate with immediate effect.

As stated in the announcement of the Company dated 14 October 2011, the Huarong Reorganisation will not proceed and hence, the condition precedent set out in (a) above will not be fulfilled and Huarong Completion will not take place.

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While conditions precedent (c), (h), (l) and (m) to China Times Completion and condition precedent (d) to Cinda Completion are all material, the Company considers it appropriate to retain the right to waive any of those conditions as this allows the Company to retain the flexibility of choosing whether to proceed with completing the Acquisition in the event that any of those conditions is not fully complied with. The Company will only exercise such right if it does not give rise to any material concern, and does not present any material risk, to the Company in any respect. The Directors will be subject to their fiduciary duties to the Company to act in its best interests if and when they have to decide whether the Company should exercise its discretion to waive any of these conditions. On such basis, the Directors consider that the right of the Company to waive any of the conditions precedent (c), (h), (l) and (m) to China Times Completion or condition precedent (d) to Cinda Completion is in the interests of the Company and its shareholders. If the Company were to exercise its right to waive any of those conditions precedent, it will issue an announcement disclosing whether Platinum, the Independent Board Committee and the Sponsor concur (and if so, their bases) with the assessment of the Directors as to the risks and implications of such waiver.

Completion

China Times Completion will take place within 90 Business Days (or such other date as may be agreed in writing by China Times and the Company) after all the conditions precedent to which China Times Completion is subject have been fulfilled (or, if applicable, waived by the Company).

Cinda Completion will take place within 90 Business Days (or such other date as may be agreed in writing by Cinda and the Company) after all the conditions precedent to which Cinda Completion is subject have been fulfilled (or, if applicable, waived by the Company).

As stated above, the sale and purchase of the Huarong Sale Shares will not proceed. Hence, Huarong Completion will not take place.

The Consideration

The China Times Consideration, the Cinda Consideration and the Huarong Consideration are RMB5,419,850,000 (or HK\$6,403,717,094), RMB396,500,000 (or HK\$468,476,771) and RMB283,650,000 (or HK\$335,141,075), respectively (based on the exchange rate of HK\$1: RMB0.84636).

The China Times Consideration will be satisfied as to RMB4,570,243,322 (or HK\$5,399,881,046) by the allotment and issue of the China Times Consideration Shares at the Issue Price of HK\$0.50 per Consideration Share and as to RMB849,606,678 (or HK\$1,003,836,048) by the issue of the China Times Convertible Notes by the Company to China Times (or its nominee) at China Times Completion.

The Cinda Consideration will be satisfied by the allotment and issue of the Cinda Consideration Shares at the Issue Price of HK\$0.50 per Consideration Share by the Company to Cinda (or its nominee) at Cinda Completion.

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As Huarong Completion will not take place, the Huarong Consideration will not be payable.

The Consideration was determined after arm's length negotiations between the Company and the Vendors and was based on various factors, including:

- (i) the audited net asset value of Daye Metal of RMB3.33 billion as at 31 December 2009 as shown in the audited consolidated financial statements of Daye Metal for the year ended 31 December 2009 prepared in accordance with the PRC Generally Accepted Accounting Principles;
- (ii) the volume, quality and accessibility of the copper reserves and precious metals at the Tongshankou Mine, Chimashan Mine, Tonglvshan Mine and Fengshan Mine and the relative shortage of copper deposits and precious metals comparable in volume, quality and accessibility to the deposits at those mines in the PRC and hence, the potential earnings that may be derived from the deposits at those mines;
- (iii) the growth prospects of the Target Group in light of the recent recovery in market demand for copper in the PRC and the upward trend of copper prices both in the PRC and on major international metal markets;
- (iv) the enterprise value (being the sum of the claims of all the security-holders: debt-holders, preferred shareholders, minority shareholders, common equity holders of a company, less the value of certain excessive assets of such company, such as cash and investments) to copper resources ratios of each of Jiangxi Copper Company Limited, a company listed in Hong Kong, OZ Minerals Limited, a company listed in Australia, and Equinox Minerals Limited, a company then listed in Canada, all of which were companies primarily engaged in copper mining in a single country. Such ratio is calculated by dividing the enterprise value based on the latest market price and financial information available as at the Last Trading Day by the copper resources of the relevant comparable company. As at the Last Trading Day, the range of enterprise value to copper resources multiple of other comparable listed companies were approximately US\$703 per tonne to US\$1,666 per tonne with the average being US\$1,122 per tonne. The Consideration is approximately valued at enterprise value to copper resources multiple of US\$1,110 per tonne, based on the estimated copper resources of the mining assets of the Target Group and Daye Metal's management accounts for the year ended 31 December 2010, both of which were the best available information before signing of the Acquisition Agreement and have not been independently verified by the Company; and
- (v) the fact that the Consideration will be satisfied by the allotment and issue of the Consideration Shares and the China Times Convertible Notes which will not involve any immediate cash outlay by the Company.

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The audited net asset value of Daye Metal as at 31 December 2009 in accordance with the PRC Generally Accepted Accounting Principles, of RMB3.33 billion was one of the factors that the Company took into account in determining the Consideration. It was derived on the basis of the value of the Four Mines at their respective book values as at such date. The Company did not, however, adopt such net asset value as the only basis for determining the Consideration as the Company did not consider that such net asset value on its own would reflect fully the market value of the assets and business of the Target Group.

The enterprise value over reserves and the enterprise value over resources are the most commonly used market comparable valuation approach for mining companies. Before signing of the Acquisition Agreement, only an estimate of the resources of the Four Mines owned by the Target Group was available and no reserve number was available as the Competent Person's Report on the Four Mines had not yet been prepared, and as such, the use of the enterprise value to resources multiple was the best available comparable valuation approach at the time. Such method allows the Target Group to be benchmarked against similar copper mining companies that are established in the market, by referencing to their respective resources, in an attempt to ensure that estimates are compared in terms of business fundamentals, namely the amount of resources owned. It is a metric commonly used to value mineral companies. Based on the above, the Directors consider that the enterprise value to copper resources ratio is a fair indicator for determining the Consideration on the basis of the information available before the signing of the Acquisition Agreement.

Based on all of the factors set out above, and taking into consideration that completion of the Acquisition is subject to the Company having received (a) a valuation report prepared by the independent valuer showing the net asset value of the Target Group to be not less than the Consideration (the text of such valuation report, prepared by Jones Lang LaSalle Sallmanns Limited, is set out in Appendix VII to this circular); and (b) a competent person's report prepared by the independent technical adviser, the contents and result of which being satisfactory to the Company, the Directors consider that the Consideration is fair and reasonable.

CONSIDERATION SHARES

The China Times Consideration Shares and Cinda Consideration Shares to be allotted and issued by the Company represent, in aggregate (i) approximately 209.91% of the total Ordinary Shares in issue as at the Latest Practicable Date; (ii) approximately 67.73% of the total Ordinary Shares in issue as enlarged by the allotment and issue of the China Times Consideration Shares and Cinda Consideration Shares (without taking into account any Conversion Shares which may be issued pursuant to the China Times Convertible Notes); and (iii) approximately 60.70% of the total Ordinary Shares in issue as enlarged by the allotment and issue of the China Times Consideration Shares, Cinda Consideration Shares and the Conversion Shares (assuming full conversion of the China Times Convertible Notes at the Conversion Price).

The China Times Consideration Shares and Cinda Consideration Shares will be allotted and issued under the Specific Mandate proposed to be obtained at the EGM. The China Times Consideration Shares and Cinda Consideration Shares will rank equally among themselves and *pari passu* in all respects with the Ordinary Shares in issue on the respective date of their allotment and issue.

LETTER FROM THE BOARD

CHINA TIMES CONVERTIBLE NOTES

The following is a summary of the principal terms of the China Times Convertible Notes:

- | | | |
|------------------|---|--|
| Maturity | : | The date falling on the fifth anniversary of the issue of the China Times Convertible Notes |
| Redemption | : | The Company shall redeem all outstanding China Times Convertible Notes in whole on the Maturity Date at the redemption amount equal to the outstanding principal amount under the China Times Convertible Notes |
| Interest | : | The outstanding principal amount under the China Times Convertible Notes will not bear any interest |
| Transferability | : | The China Times Convertible Notes may be transferred and assigned, in whole or in part, at any time before the Maturity Date, subject to the approval of the Stock Exchange (if required) and the consent of the Company |
| Conversion | : | Upon full conversion of the China Times Convertible Notes at the Conversion Price, an aggregate of 2,007,672,096 Conversion Shares will be issued by the Company (representing (i) approximately 35.91% of the total Ordinary Shares in issue as at the Latest Practicable Date; and (ii) approximately 10.38% of the total Ordinary Shares in issue as enlarged by the allotment and issue of the China Times Consideration Shares, the Cinda Consideration Shares and the Conversion Shares (assuming full conversion of the China Times Convertible Notes at the Conversion Price)) |
| Conversion price | : | HK\$0.50 per Conversion Share |
| Public float | : | The conversion rights of the China Times Convertible Notes shall not be exercised if, immediately following the conversion, the Company will be unable to meet the minimum public float requirement under the Listing Rules |
| Voting right | : | The China Times Convertible Notes do not carry any voting right |

The China Times Convertible Notes and the Conversion Shares will be allotted and issued under the Specific Mandate proposed to be obtained at the EGM. The Conversion Shares, when issued, will rank equally among themselves and pari passu in all respects with the Ordinary Shares in issue on the date of the allotment and issue of the Conversion Shares.

LETTER FROM THE BOARD

ISSUE PRICE AND CONVERSION PRICE

The Issue Price of HK\$0.50 for each Consideration Share and the Conversion Price of HK\$0.50 for each Conversion Share were determined after arm's length negotiations between the Company and the Vendors, which represent:

- (a) a discount of approximately 15.3% to the closing price of the Ordinary Shares of HK\$0.59 per Ordinary Share as quoted on the Stock Exchange on the Last Trading Day;
- (b) a discount of approximately 15.5% to the average of the closing prices of the Ordinary Shares of approximately HK\$0.592 per Ordinary Share as quoted on the Stock Exchange for the 5 consecutive trading days up to and including Last Trading Day;
- (c) a discount of approximately 14.7% to the average of the closing prices of the Ordinary Shares of approximately HK\$0.586 per Ordinary Share as quoted on the Stock Exchange for the 10 consecutive trading days up to and including the Last Trading Day;
- (d) a discount of approximately 13.3% to the average of the closing prices of the Ordinary Shares of approximately HK\$0.577 per Ordinary Share as quoted on the Stock Exchange for the 30 consecutive trading days up to and including the Last Trading Day;
- (e) a discount of approximately 5.2% to the average of the closing prices of the Ordinary Shares of approximately HK\$0.527 per Ordinary Share as quoted on the Stock Exchange for the 60 consecutive trading days up to and including the Last Trading Day;
- (f) a discount of approximately 0.4% to the average of the closing prices of the Ordinary Shares of approximately HK\$0.502 per Ordinary Share as quoted on the Stock Exchange for the 90 consecutive trading days up to and including the Last Trading Day;
- (g) a premium of approximately 2.1% to the average of the closing prices of the Ordinary Shares of approximately HK\$0.490 per Ordinary Share as quoted on the Stock Exchange for the 120 consecutive trading days up to and including the Last Trading Day;
- (h) a premium of approximately 4.5% to the average of the closing prices of the Ordinary Shares of approximately HK\$0.478 per Ordinary Share as quoted on the Stock Exchange for the 180 consecutive trading days up to and including the Last Trading Day; and
- (i) a premium of approximately 40.8% to the audited net asset value of the Group per Ordinary Share of approximately HK\$0.355 as at 30 June 2011.

The Consideration, including the Issue Price and Conversion Price, was determined after arm's length negotiations between the Vendors and the Company and taking into account the factors set out under the paragraph headed "The Consideration" above.

LETTER FROM THE BOARD

EFFECTS OF THE ACQUISITION ON THE SHAREHOLDING STRUCTURE OF THE COMPANY

The following tables set out, for illustrative purpose only, the effect of the Acquisition on the number of Ordinary Shares in issue (a) immediately after China Times Completion (on the basis that Cinda Completion has not taken place); and (b) immediately after the China Times Completion and Cinda Completion (*Note 1*):

Without taking into account any Conversion Shares which may be issued pursuant to the China Times Convertible Notes

	As at the Latest Practicable Date (<i>Note 3</i>)		Immediately after China Times Completion		Immediately after China Times Completion and Cinda Completion	
	<i>number of Ordinary Shares</i>	<i>Approximate % of total Ordinary Shares in issue</i>	<i>number of Ordinary Shares</i>	<i>Approximate % of total Ordinary Shares in issue</i>	<i>number of Ordinary Shares</i>	<i>Approximate % of total Ordinary Shares in issue</i>
China Times and persons acting in concert with it	1,163,236,988	20.80%	11,962,999,080	72.99%	11,962,999,080	69.04%
Wang Qihong (<i>Note 2</i>)	1,500,000	0.03%	1,500,000	0.01%	1,500,000	0.01%
Wang Guoqi (<i>Note 2</i>)	900,000	0.02%	900,000	0.01%	900,000	0.01%
Cinda HK	–	–	–	–	936,953,542	5.41%
Other public shareholders	4,425,558,564	79.15%	4,425,558,564	27.00%	4,425,558,564	25.54%
Total	<u>5,591,195,552</u>	<u>100.00%</u>	<u>16,390,957,644</u>	<u>100.00%</u>	<u>17,327,911,186</u>	<u>100.00%</u>

LETTER FROM THE BOARD

Taking into account the Conversion Shares to be issued upon conversion of the China Times Convertible Notes

	As at the Latest Practicable Date (Note 3)		Immediately after China Times Completion (Note 4)		Immediately after China Times Completion and Cinda Completion (Note 5)	
	number of Ordinary Shares	Approximate % of total Ordinary Shares in issue	number of Ordinary Shares	Approximate % of total Ordinary Shares in issue	number of Ordinary Shares	Approximate % of total Ordinary Shares in issue
China Times and persons acting in concert with it	1,163,236,988	20.80%	13,274,275,692	74.99%	13,970,671,176	72.25%
Wang Qihong (Note 2)	1,500,000	0.03%	1,500,000	0.01%	1,500,000	0.01%
Wang Guoqi (Note 2)	900,000	0.02%	900,000	0.00%	900,000	0.00%
Cinda HK	–	–	–	–	936,953,542	4.85%
Other public shareholders	4,425,558,564	79.15%	4,425,558,564	25.00%	4,425,558,564	22.89%
Total	<u>5,591,195,552</u>	<u>100.00%</u>	<u>17,702,234,256</u>	<u>100.00%</u>	<u>19,335,583,282</u>	<u>100.00%</u>

Notes:

- The tables do not include the 16,485 Preference Shares in issue as the Company considers them immaterial in the context of the total issued share capital of the Company and none of those Preference Shares carry any voting right except in the event of the winding up of the Company, a reduction of capital or a variation or abrogation of the rights attaching to such share, or any dividend payable with respect to such share being in arrears for six months or more.*
- Mr. Wang Qihong and Mr. Wang Guoqi are both Directors of the Company.*
- As at the Latest Practicable Date, China Times held 5,495 Preference Shares. Assuming that all Preference Shares in issue are converted into Ordinary Shares at the current conversion price of HK\$0.036 per share, 2,289,583 new Ordinary Shares will be issued upon conversion, of which 763,194 new Ordinary Shares will be issued to China Times. China Times has undertaken to the Company that it will not exercise its right of conversion under the Preference Shares and/or the China Times Convertible Notes if, immediately following the conversion, the Company will be unable to meet the minimum public float requirement under the Listing Rules. Assuming that all the Existing Convertible Notes are converted into Ordinary Shares at the current conversion price of HK0.618 per share, 355,987,055 new Ordinary Shares will be issued upon conversion. Assuming that the share options in issue are exercised in full, 307,700,000 new Ordinary Shares will be issued.*

LETTER FROM THE BOARD

4. *This scenario assumes that only part of the China Times Convertible Notes are converted, given that under the Acquisition Agreement, the conversion rights of the China Times Convertible Notes may not be exercised if, immediately following the conversion, the Company will be unable to meet the minimum public float requirement under the Listing Rules. Hence, in the case where only China Times Completion occurs, China Times will be able to convert only a maximum of HK\$655,638,306 of the aggregate principal amount of the China Times Convertible Notes into 1,311,276,612 Ordinary Shares (assuming that no new Ordinary Shares have been issued by the Company after the Latest Practicable Date and before the date of conversion and conversion is carried out at the Conversion Price) in order to maintain the minimum public float after conversion.*
5. *This scenario assumes full conversion of the China Times Convertible Notes. The Company will still be able to meet the minimum public float requirement under the Listing Rules in such case as, apart from the shareholding of the other public shareholders of 22.89%, the shareholding of Cinda HK of 4.85% will also be counted towards the public float.*

FINANCIAL EFFECTS OF THE ACQUISITION ON THE COMPANY

The financial effects of the Acquisition on the Company (including its effect on the earnings, assets and liabilities of the Company) are illustrated by way of the unaudited pro forma financial information of the Enlarged Group set out in Appendix III to this circular.

INFORMATION ON THE TARGET GROUP

Overview

According to the Antaike Report, Daye Metal was the fifth largest producer of copper cathodes in the PRC by production volume, accounting for approximately 6.7% of the total production of copper cathodes in the PRC in 2010. The major products of the Target Group include copper cathodes, gold, silver and sulphuric acid (which is a by-product derived from the smelting process of copper ore and concentrate). The Target Group sells both copper cathodes, gold and silver produced by itself as well as those sourced by it from third party suppliers or the Parent Group for on-sale to its customers.

LETTER FROM THE BOARD

Sales of copper cathodes accounted for approximately 73.6%, 71.5%, 77.1% and 76.4% of the total revenue of the Target Group for the three years ended 31 December 2010 and the six months ended 30 June 2011, respectively. Approximately 95.5%, 60.1%, 55.6% and 68.5% of the revenue from the sales of copper cathodes for the three years ended 31 December 2010 and the six months ended 30 June 2011, respectively, was derived from the sales of copper cathodes produced by the Target Group, while the remainder was derived from the sales of copper cathodes sourced by the Target Group from third party suppliers and the Parent Group for on-sale to its customers. The Target Group also provides copper processing services including the processing of copper concentrates into copper cathodes, but such processing activities accounted for less than 1% of the total revenue of the Target Group over the Track Record Period.

Sales of gold, silver and sulphuric acid, together, accounted for approximately 16.3%, 22.6%, 13.4% and 18.0% of the total revenue of the Target Group for the three years ended 31 December 2010 and the six months ended 30 June 2011, respectively. Approximately 100%, 47.7%, 84.7% and 74.8% of the revenue from the sales of gold and silver for the three years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011, respectively, was derived from the sales of gold and silver produced by the Target Group, while the remainder was derived from the sales of gold and silver sourced by the Target Group from third party suppliers for on-sale to its customers. The Target Group also sells a small amount of iron concentrate (which is derived from iron ore deposits associated with the copper ore deposits at the Tonglvshan Mine) and other metals recovered during the smelting and refining process of copper concentrate, such as platinum, palladium, and molybdenum. The Target Group sells all of the copper cathodes, gold and silver it produces as well as the copper cathodes it processes for its customers under its “Dajiang” brand.

The Target Group holds the Mining Licences to the Four Mines, all of which are located in the Hubei Province of the PRC. The primary mineral deposit at the Four Mines is copper, with associated deposits of gold and silver. The Target Group also owns and operates on-site processing facilities at each of the Four Mines to carry out crushing, screening and milling of copper ore, the Smelting Plant which undertakes the smelting of copper concentrate and production of sulphuric acid, the Precious Metal Plant which extracts gold and silver from anode slime, and the R&D Centre. The Target Group is one of the few copper producers in the PRC who have a vertically integrated operation which extends from the exploration, mining and processing of copper ore to the smelting of copper concentrate and the production of copper cathodes and other precious metals such as gold and silver.

LETTER FROM THE BOARD

The supply of copper ore from the Four Mines is currently not sufficient to meet the requirements of the Target Group for its downstream copper cathode production. In addition to the supply from the Four Mines, the Target Group also sources a significant portion of copper concentrates from external suppliers and the Parent Group. The Target Group produced, in aggregate, approximately 20,930 tonnes and approximately 9,800 tonnes of copper concentrates from the copper ore mined from the Four Mines in the year ended 31 December 2010 and the six months ended 30 June 2011, respectively, which accounted for approximately 13.41% and 13.10% of the copper concentrates used by the Target Group for its copper cathode production in those periods, with the remainder being sourced from external suppliers and the Parent Group. The Target Group produced approximately 308,100 tonnes and approximately 167,000 tonnes of copper cathodes in the year ended 31 December 2010 and the six months ended 30 June 2011, respectively.

As production of copper cathodes and other major products by the Target Group is dependent on a stable supply of, among other raw materials, copper concentrates, if there is any shortage in the supply or any fluctuation in the price of copper concentrates, the Target Group's results of operations, financial condition and growth prospects may be materially and adversely affected. Please refer to the section headed "Risk Factors – Risks relating to the business of the Enlarged Group – Fluctuations in price and supply of raw materials could negatively impact our business and financial conditions" in this circular for further information.

LETTER FROM THE BOARD

Main entities of the Target Group

The Target Company

The Target Company is an investment holding company which was established by China Times for the purpose of holding its investment in Daye Hong Kong. As at the Latest Practicable Date, the Target Company was owned as to 93.18% by China Times and 6.82% by Cinda HK.

Daye Hong Kong

Daye Hong Kong is a wholly-owned subsidiary of the Target Company. Daye Hong Kong is an investment holding company which was established for the purpose of holding its investment in Daye Metal.

Daye Metal

Daye Metal was incorporated in the PRC with limited liability in March 2005. At the time of its incorporation, the Parent Company contributed approximately RMB1.2 billion to the registered capital of Daye Metal. On 21 January 2011, the Parent Company acquired a 1.94% equity interest in Daye Metal from Hubei SASAC at no consideration. In January 2011, the Parent Company acquired a 41.30% equity interest in Daye Metal from the Six Original Daye Shareholders at an aggregate consideration of RMB1,607,463,679.45. As at the Latest Practicable Date, Daye Metal was owned as to 95.35% by Daye Hong Kong and 4.65% by Huarong.

Projects in progress and future plans of the Target Group

Projects in progress

Project	Total estimated investment amount	Investment amount injected as at the Latest Practicable Date	Outstanding investment amount as at the Latest Practicable Date	Status	Expected time of completion	Proposed financing
Access to copper resources at deeper levels of the Four Mines	RMB1,025.52 million	RMB120.75 million	RMB904.77 million	In the process of constructing underground infrastructure	December 2012 (in respect of the Chimashan Mine) June 2014 (in respect of the Tonglvshan Mine and the Tongshankou Mine) December 2014 (in respect of the Fengshan Mine)	Bank facilities

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Project	Total estimated investment amount	Investment amount injected as at the Latest Practicable Date	Outstanding investment amount as at the Latest Practicable Date	Status	Expected time of completion	Proposed financing
Construction of waste heat power station at the Smelting Plant	RMB136.54 million	RMB48.40 million	RMB88.14 million	In the process of constructing the infrastructure	April 2012	Bank facilities
Installation of new electrowinning system at the Smelting Plant	RMB1,688.98 million	RMB80.00 million	RMB1,608.98 million	In the process of constructing the main workshop for installation of the electrowinning system	October 2012	Bank facilities
Upgrading of anode furnaces at the Smelting Plant	RMB145.44 million	RMB90.00 million	RMB55.44 million	Construction of the main workshop for installation of anode furnaces completed. Awaiting delivery of major components	August 2012	Bank facilities
Construction of new factory complex for expansion of the Precious Metal Plant	RMB472.75	RMB90.00 million	RMB382.75 million	Construction of one of the major workshops completed. In the process of constructing the remaining three major workshops	June 2012	Bank facilities

Future plans

Project	Total estimated investment amount	Investment amount injected as at the Latest Practicable Date	Outstanding investment amount as at the Latest Practicable Date	Status	Expected time of completion	Proposed financing
Expansion of production capacity of on-site processing facility at the Tongshankou Mine	RMB100 million	Nil	RMB100 million	In the process of preparing the feasibility report	June 2014	Nil

Further information

Further information on the Target Group is set out in the section headed “Business of the Target Group” in this circular.

LETTER FROM THE BOARD

INFORMATION ON THE GROUP

Existing mines of the Group

The Group holds the mining or exploration rights to two copper mines in Xinjiang, namely, the Sareke Mine and the Hami Mine, one molybdenum mine in Mongolia, namely, the Aleinuer Mine, and two wolfram mines in Mongolia, namely, the Burentsoqt Mine and the Sala Mine.

Sareke Mine

新疆滙祥永金礦業有限公司 (Xinjiang Huixiang Yong Jin Mining Company Limited), which is 55%-owned by the Company, currently holds the mining right to the Sareke Mine. The Sareke Mine is a copper mine situated in the Xinjiang Uygur Autonomous Region of the PRC, which occupies an aggregate area of approximately 1.2286 sq. km as stated in its mining licence. According to the Competent Person's Report on the Sareke Mine prepared in accordance with the JORC Code, the Sareke Mine had, as at 30 June 2011, copper mineral resources and probable copper ore reserves of 12.71 million and 7.96 million tonnes, respectively. The Sareke Mine has yet to commence commercial production. The Group is in the process of constructing the underground mining infrastructure at the Sareke Mine and a processing plant on site, which is expected to be completed in October 2013.

The following table sets out a summary of the mineral resources of the Sareke Mine as at 30 June 2011, which has been extracted from the Competent Person's Report on the Sareke Mine set out in Appendix V-C to this circular:

Resource Statement of Sareke Copper Deposit at Cut-off of 0.3% TCu by SRK as at 30 June 2011				
Zone	Classification	Resource Tonnage (t)	Average Grade	Copper Metal (t)
			TCu (%)	
North	Indicated	8,398,000	1.03	86,000
	Inferred	4,315,000	0.77	33,300

LETTER FROM THE BOARD

The following table sets out a summary of the ore reserves of the Sareke Mine as at 30 June 2011, which has been extracted from the Competent Person's Report on the Sareke Mine set out in Appendix V-C to this circular:

Elevation (m)	Probable	
	Tonnage (kt)	Cu (%)
>=2820	870	0.76
2730~2820	2,127	0.97
2640~2730	4,648	1.03
<=2640	311	0.53
Total	7,956	0.96

Notes:

- (1) *In the above tables, t, m and TCu mean tonne, metre and total copper, respectively. The terms "Indicated" and "Inferred" have the meanings ascribed to them under the JORC Code.*
- (2) *Mineral resources and ore reserves are estimated at a copper cut-off grade of 0.3%.*
- (3) *Mineral resources and ore reserves are estimated using a long-term copper price of RMB42,500 per metric tonne.*
- (4) *A minimum zone width of 2 metres was used for estimating the mineral resources and ore reserves.*
- (5) *The mineral resource and ore reserve estimates are based on drilling information up to 30 June 2011 as confirmed by the Company.*
- (6) *Estimates for mineral resources and ore reserves are updated as at 30 June 2011. Please refer to the Competent Person's Report on the Sareke Mine as set out in Appendix V-C to this circular for details of assumptions and parameters used to calculate these resource and reserve numbers and qualities of metals.*
- (7) *The mineral resources set out in the mineral resource table above are inclusive of the ore reserves set out in the ore reserve table above.*

LETTER FROM THE BOARD

The following table sets out a summary of the principal licences held by the Group in connection with the operation of the Sareke Mine:

Mine	Location	Type of licence or permit	Issuing authority	Activity permitted	Term of licence or permit
Sareke Mine	Ulugqat County, Xinjiang Uyghur Autonomous Region	Exploration licence	Department of Land and Resources of Xinjiang Uygur Autonomous Region	Exploration	26 January 2011 to 26 January 2012
	Ulugqat County, Xinjiang Uyghur Autonomous Region	Mining licence	Department of Land and Resources of Xinjiang Uygur Autonomous Region	Underground and open pit mining of copper and silver	31 May 2011 to 31 May 2013

The following table sets out the projected cash cost per tonne of ore, which has been extracted from the Competent Person's Report on the Sareke Mine set out in Appendix V-C to this circular:

Items	RMB/t ore
Mining cost	60.42
Ore Processing cost	34.27
Sales cost	4.41
Accounting cost	5.89
Management cost	6.59
<i>Depreciation for mining</i>	<i>12.37</i>
<i>Depreciation for ore processing</i>	<i>8.16</i>
<i>Amortization for management</i>	<i>4.41</i>
<i>Royalty (Resource compensation fee)</i>	<i>4.26</i>
<i>Value Added Tax</i>	<i>12.93</i>
<i>Total Cash Cost</i>	<i>128.77</i>
Total	153.71

The projected production cost per tonne is RMB140.77 (before value added tax), which has been extracted from the Competent Person's Report on the Sareke Mine set out in Appendix V-C to this circular.

Since the Sareke Mine has not commenced production, no depletion charges for the Group were included in the depreciation and amortisation relating to the mining infrastructure and mining rights of the Sareke Mine recorded in the Company's audited consolidated financial statements for the two years ended 30 April 2008 and 2009, the eight months ended 31 December 2009, the year ended 31 December 2010 and the six months ended 30 June 2011.

LETTER FROM THE BOARD

The estimated annual reserve depletion rate for the Sareke Mine is 1,155 tonne per annum. The estimated total depreciation and amortisation set out in the table above have taken into account the estimated potential depletion charges, which account for more than 90% of the estimated total depreciation and amortization, after the mine commences production. Such information has been extracted from the Competent Person's Report on the Sareke Mine set out in Appendix V-C to this circular.

Hami Mine

新疆同興礦業有限責任公司(Xinjiang Tong Xing Mining Company Limited), which is 80%-owned by the Company, currently holds the exploration right to the Hami Mine. The Hami Mine is a copper mine situated in the Xinjiang Uygur Autonomous Region of the PRC, which occupies an aggregate area of approximately 11.14 sq. km (without taking into account the area affected by the railway right of way). According to the Competent Person's Report on the Hami Mine prepared in accordance with NI 43-101, the Hami Mine had, as at 31 July 2011, copper mineral resources of 22.34 million tonnes (excluding resources located in areas subject to the right of way granted for railway operations).

In July 2010, the Company acquired the entire issued share capital of Qianyi Limited, a company incorporated in BVI, which indirectly owns an 80% equity interest in Tong Xing. Under the various agreements entered into in respect of such acquisition, the parties agreed that if the mining licence of the Hami Mine is not granted to Tong Xing by 31 January 2012 (or such later date as the parties may agree), the vendor shall refund the full amount of the cash consideration paid by the Company and return all the convertible notes (or, if any of the conversion rights attached thereto have been exercised, the Ordinary Shares issued pursuant thereto) issued by the Company as part of the consideration for the acquisition, and the Company shall transfer the entire issued share capital of Qianyi Limited back to the vendor. In the light of the above provision, although the Company became registered as the holder of the entire issued share capital of Qianyi Limited in July 2010, Qianyi Limited and Tong Xing have not been accounted for as subsidiaries of the Company in its financial statements in accordance with the Hong Kong Financial Reporting Standards. The Hami Mine has yet to commence commercial production as the mining licence has yet to be granted.

As disclosed in the announcements of the Company dated 30 December 2010 and 30 August 2011, the Company has been informed by the vendor that the relevant government authorities have announced plans to construct a new railway in the Xinjiang Uygur Autonomous Region, a section of which will be constructed over land located within the area occupied by the Hami Mine. Based on those plans, it is estimated that approximately 7.87% of the controllable mineral resources of copper in the Hami Mine will be affected by the new railway. The Company and the vendor have agreed, among others, that (a) the consideration for the acquisition will be adjusted; (b) the vendor will conduct exploration works at a new mining area of approximately 0.4625 sq. km situated to the east of the Hami Mine to supplement and increase the mining resources of Tong Xing; and (c) the vendor will ensure that the exploration licence of such new mining area will be obtained by 31 January 2012. As at the Latest Practicable Date, the exploration licence of such new mining area has yet to be granted.

LETTER FROM THE BOARD

The following table sets out a summary of the mineral resources of the Hami Mine (excluding resources located in areas subject to the right of way granted for railway operations) as at 31 July 2011, which has been extracted from the Competent Person's Report on the Hami Mine set out in Appendix V-D to this circular:

Location	Indicated Resources				Inferred Resources			
	Tonnes (Mt)	Grade (% Cu)	Copper	Copper	Tonnes (Mt)	Grade (% Cu)	Copper	Copper
			Content (Mlb)	Content (tonnes)			Content (Mlb)	Content (tonnes)
Main Lens	14.15	0.75	234	106,000	7.79	0.72	124	56,200
Other Lenses					0.4	0.61	5	2,300
TOTAL	<u>14.15</u>	<u>0.75</u>	<u>234</u>	<u>106,000</u>	<u>8.19</u>	<u>0.71</u>	<u>129</u>	<u>58,500</u>

Notes:

- (1) *In the above table, the terms mt, cu, mlb mean million tonnes, copper and million pounds, respectively and National Instrument 43-101 (NI43-101) and CIM (Canadian Institute of Mining, Metallurgy and Petroleum) definitions are followed for Mineral Resources, Indicated Resources and Inferred Resources.*
- (2) *As mineralisation is present in four separate lenses in the Hami Mine, the largest lens or zone of mineralisation where the majority of the mineral resources are contained is described as the "Main Lens", and the three other lenses are collectively described as the "Other Lenses" in the above table.*
- (3) *Mineral Resources are estimated at a cut-off grade of 0.5% copper within a mineralized envelope defined at 0.3% copper.*
- (4) *Mineral Resources are estimated using an average long-term copper price of US\$2.50 per pound, and a US\$ to Canadian dollar exchange rate of 1.04.*
- (5) *A minimum zone width of 5 metres was used.*
- (6) *The Mineral Resource estimate is based on drilling information up to 31 July, 2011 as confirmed by GobiMin Inc. and the Company.*
- (7) *Estimates for mineral resources are updated as at 31 July 2011. Please refer to the Competent Person's Report on the Hami mine as set out in Appendix V-D to this circular for details of the assumptions and parameters used to calculate these resource numbers and qualities of metals.*

LETTER FROM THE BOARD

The following table sets out a summary of the principal licence held by the Group in connection with the operation of the Hami Mine:

Mine	Location	Type of licence or permit	Issuing authority	Activity permitted	Term of licence or permit
Hami Mine	Hami City, Xinjiang Uygur Autonomous Region	Exploration licence	Department of Land and Resources of Xinjiang Uygur Autonomous Region	Exploration	6 August 2010 to 6 August 2012

Roscoe has not reviewed any information relating to the forecast cash cost and the forecast production cost, and such information is not available in the Competent Person's Report on Hami Mine set out in Appendix V-D to this circular.

Aleinuer Mine

Reservoir Moly is a joint venture company established in Mongolia which is 55%-owned by CRML and 45%-owned by the Mongolian JV Partner. CRML, in turn, is 51%-owned by the Company. Reservoir Moly currently holds the mining right to the Aleinuer Mine. The mining right was transferred to Reservoir Moly at the time of its establishment by the Mongolian JV Partner by way of its capital contribution. The Aleinuer Mine is a molybdenum mine situated in Sukhbaatar, Mongolia, which occupies an aggregate area of approximately 2.27 sq. km as stated in its mining licence. According to the Competent Person's Report on the Aleinuer Mine prepared in accordance with the JORC Code, the Aleinuer Mine had, as at 1 July 2011, inferred molybdenum mineral resources of approximately 10 million tonnes (based on an assumed long-term molybdenum price of US\$15 per pound and a 0.06% of molybdenum content cutoff). The Aleinuer Mine has yet to commence commercial production. As at the Latest Practicable Date, exploration works at the Aleinuer Mine have been completed.

As announced by the Company on 7 October 2011, the Aleinuer Mine was the subject of arbitration proceedings initiated in Mongolia by the Mongolian JV Partner against CRML. Pursuant to the proceedings, the Mongolian JV Partner claimed that CRML had acted in breach of contract in failing to develop the Aleinuer Mine in accordance with various prior agreements and sought to recover the mining right from Reservoir Moly. An arbitral award was made by the Mongolian Arbitration Center, pursuant to which it was ruled that the mining right to the Aleinuer Mine had to be returned by Reservoir Moly to the Mongolian JV Partner. On 12 October 2011, CRML lodged an appeal to the Court of Appeal of Mongolia against the arbitral award. The appeal was heard by the Court of Appeal of Mongolia, which ruled on 21 November 2011 that the arbitral award issued by the Mongolian Arbitration Center be annulled on the basis of procedural regularities and directed the dispute to be re-heard by the Mongolian Arbitration Center. No further appeal is possible under Mongolian law with respect to this decision of the Court of Appeal of Mongolia. Pending the outcome of the re-hearing by the Mongolian Arbitration Center, the mining right to the Aleinuer Mine remains vested in Reservoir Moly. It is not expected that commercial production will commence at the Aleinuer Mine in the near term. Please refer to the section headed "Other Information - Litigation" in Appendix X to this circular for further details.

LETTER FROM THE BOARD

The following table sets out a summary of the inferred mineral resources of the Aleinuer Mine as at 1 July 2011, which has been extracted from the Competent Person's Report on the Aleinuer Mine set out in Appendix V-B to this circular:

Concentrate Selling Price (Note 1) (\$/t)	Market Price (\$/lb Mo)	Cut-off (% Mo)	Mineralization (t-000)	Average Grade (% Mo)	Contained Metal (t Mo)	Waste (t-000)	Stripping Ratio (Note 2) (t/t)
8,500	10.00	0.097	78	0.210	200	551	7.10
11,100	12.50	0.074	2,553	0.110	2,900	7,640	2.99
13,800	15.00	0.060	10,039	0.090	8,900	20,413	2.03
16,400	17.50	0.050	20,278	0.080	15,400	34,906	1.72
19,000	20.00	0.043	31,454	0.070	21,300	46,669	1.48
21,700	22.50	0.038	38,772	0.060	24,500	52,721	1.36
24,300	25.00	0.034	49,610	0.060	29,500	80,065	1.61
27,000	27.50	0.030	55,075	0.060	31,500	86,344	1.57
29,600	30.00	0.028	59,132	0.060	32,800	88,893	1.50
32,300	32.50	0.025	62,777	0.050	33,900	94,429	1.50
34,900	35.00	0.023	65,804	0.050	34,800	97,546	1.48
37,600	37.50	0.022	69,478	0.050	35,800	104,606	1.51
40,200	40.00	0.020	71,904	0.050	36,400	110,160	1.53

Notes:

- (1) 48% molybdenum is contained in molybdenum sulfide found in the molybdenum concentrate at the Aleinuer Mine.
- (2) Stripping ratio refers to the average mass of waste rock required to be removed for each tonne of ore mined.
- (3) In the above table, Mo, t, t-000, lb mean molybdenum, tonne, thousand tonnes and pounds, respectively and all market prices of molybdenum are expressed in terms of US Dollars. The term mineralization means inferred mineral resources, which has the meaning ascribed to it under the JORC Code.
- (4) Mineral resources are estimated at selected molybdenum cut-off grades ranging from 0.020% molybdenum to 0.097% molybdenum within a mineralized envelop defined at 0.02% molybdenum.
- (5) Mineral resources are estimated using a long-term molybdenum price ranging from US\$10 to US\$40 per pound. By way of illustration, at a long-term molybdenum price of US\$15 per pound, there is an inferred mineral resources of approximately 10 million tonnes.
- (6) The mineral resource estimate is based on drilling information up to 1 July 2011 as confirmed by the Company.
- (7) Estimates for mineral resources are updated as at 1 July 2011. Please refer to the Competent Person's Report on the Aleinuer Mine as set out in Appendix V-B to this circular for details of the assumptions and parameters used to calculate these resource numbers and qualities of metals.

LETTER FROM THE BOARD

The following table sets out a summary of the mining licence held by the Group in connection with the operation of the Aleinuer Mine:

Mine	Location	Type of licence or permit	Issuing authority	Activity permitted	Term of licence or permit
Aleinuer Mine	Sukhbaatar, Mongolia	Mining licence	Department of Geology and Mining Cadastre of the Minerals Affairs Agency of Government	Open pit mining of molybdenum	23 January 2007 to 15 January 2037

On an ore tonne basis, the projected operating cash costs for the Aleinuer Project for mining, processing and other operating expenses through delivery to the Chinese border (excluding value added tax) for the first five years of project operation are shown below, which have been extracted from the Competent Person's Report on Aleinuer Mine set out in Appendix V-B to this circular:

	Year 3	Year 4	Year 5	Year 6	Year 7
Ore Output Tonnes ('000)	1,403	1,650	1,650	1,650	1,650
Category	US\$/Ore Tonne				
Mining Cost	6.90	5.87	5.87	5.87	5.87
Processing Cost	11.80	10.97	10.97	10.97	10.97
Management Cost	1.45	1.23	1.23	1.23	1.23
Selling Cost	0.07	0.10	0.10	0.08	0.08
Total Cash Cost	<u>20.22</u>	<u>18.17</u>	<u>18.17</u>	<u>18.15</u>	<u>18.15</u>

Note:

Year refers to number of years from start of project development.

Operating cost projections do not include production royalty payments that may be incurred by the mine operator. Mongolian resource development fees are projected at 5% of the selling price. Providing for US\$3.75/tonne of ore for depreciation and amortization, the production cost in years 4 to 7, ranges from US\$21.90 to US\$21.92 per tonne of ore output. Such information has been extracted from the Competent Person's Report on Aleinuer Mine set out in Appendix V-B to this circular.

Since the Aleinuer Mine has not commenced production, no depletion charges for the Group were included in the depreciation and amortisation relating to the mining infrastructure and mining rights of the Aleinuer Mine recorded in the Company's audited consolidated financial statements for the two years ended 30 April 2008 and 2009, the eight months ended 31 December 2009, the year ended 31 December 2010 and the six months ended 30 June 2011.

Since no reserves are recognised for the Aleinuer Mine, John T. Boyd is not able to estimate the mine operation life of the Aleinuer Mine and therefore not able to estimate the depletion charges in relation to the depreciation and amortization of the mining infrastructure and mining rights over the mine operation life. For further details relating to the depletion of the Aleinuer Mine, please refer to the subsection headed "6.3.5 Operating Cost Forecast (Ore Basis)" in the Competent Person's Report on Aleinuer Mine set out in Appendix V-B to this circular.

LETTER FROM THE BOARD

Burentsogt Mine and Sala Mine

Reservoir Moly currently holds the mining right to the Burentsogt Mine. Reservoir Mongolia LLC, which is 51%-owned by the Company, currently holds the mining right to the Sala Mine. The Burentsogt Mine and Sala Mine are wolfram mines situated in Munkhkhaan and Sukhbaatar, Mongolia, respectively. It is not the Company's intention to develop those mines as, given the insignificant amount of the wolfram deposits projected by the technical studies which have previously been conducted by the technical staff of CRML and the mining engineers of the Parent Company, the Company does not consider it economical to incur substantial costs in the construction of infrastructure facilities to develop those mines. The Company is currently actively exploring opportunities for the disposal of the Burentsogt Mine and Sala Mine. If in the unlikely event that the Company decides to develop the Burentsogt Mine or Sala Mine in the future, it will disclose such change of intention by way of an announcement. In such instance, the Company will also engage a competent person to prepare a competent person's report on the resources of the relevant mine in accordance with the requirements of Chapter 18 of the Listing Rules and publish such report for shareholders' information. Update of the resources in accordance with Rule 18.15 of the Listing Rules and the progress of the development of the relevant mine will also be included in the Company's annual reports.

The Company has applied for, and the Stock Exchange has granted, a waiver from strict compliance with the requirement under Rule 18.05(1) of the Listing Rules to prepare a competent person's report in respect of the resources of each of the Burentsogt Mine and Sala Mine. Please refer to the section headed "Waivers from Strict Compliance with the Listing Rules" in this circular for further details.

Please refer to the competent person's report on each of the Four Mines, Sareke Mine, Hami Mine and Aleinuer Mine set out in Appendix V to this circular for further information on the resources and/or reserves of those mines. Since the effective date of each of the competent person's reports set out in Appendix V to this circular, no material change has occurred to the mineral resources and/or reserves covered by such reports.

Project in progress of the Group

Project	Total estimated investment amount	Investment amount injected as at the Latest Practicable Date	Outstanding investment amount as at the Latest Practicable Date	Status	Expected time of completion	Proposed financing
Development of the Sareke Mine	RMB495 million	RMB80 million	RMB415 million	In the process of constructing underground infrastructure	October 2013	Bank facilities and shareholder's loan from the Company

LETTER FROM THE BOARD

Continuing obligation on publication of resources and reserves

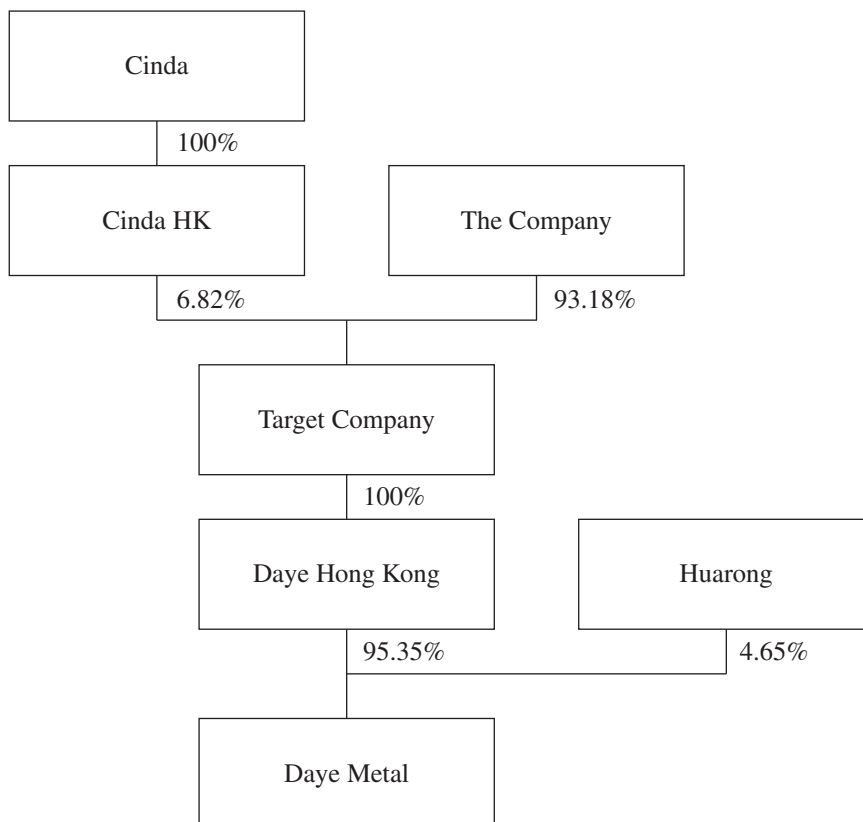
The Company will include an update of the reserves and resources of the Four Mines after the completion of the Acquisition, as well as an update of the resources and/or reserves of the Sareke Mine, the Hami Mine and the Aleinuer Mine, once a year in its annual reports in accordance with Rule 18.15 of the Listing Rules.

INFORMATION ON THE ENLARGED GROUP

Corporate structure

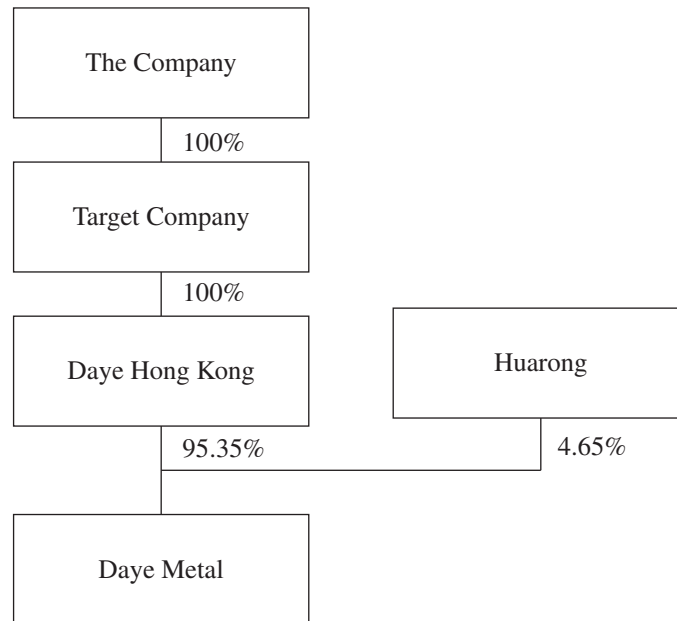
The corporate structures of the Enlarged Group in the two scenarios where only China Times Completion takes place and both China Time Completion and Cinda Completion take place are shown below:

If only China Times Completion takes place



LETTER FROM THE BOARD

If both China Times Completion and Cinda Completion take place



Pro forma financial information

The unaudited pro forma financial information of the Enlarged Group, which has been prepared in compliance with Rule 4.29 of the Listing Rules for the purpose of illustrating the financial effects of the Acquisition, is set out in Appendix III to this circular.

Industry overview

Certain Information concerning the copper, gold and silver industry in the PRC is set out in the section headed “Industry Overview” in this circular.

Risk factors

Certain risks are involved in the operations of the Enlarged Group. These risks can be categorised as: (i) risks relating to the Acquisition; (ii) risks relating to the business of the Enlarged Group; (iii) risks relating to the mining industry; and (iv) risks relating to conducting business in the PRC. Further details on those risks are set out in the section headed “Risk Factors” in this circular.

LETTER FROM THE BOARD

Working capital

The following table sets out the estimated working capital requirements of the Enlarged Group and the source of funding for the 18 months ending 31 December 2012:

	<i>HK\$'million</i>
Net cash inflow from operating activities	1,171.7
Finance costs paid	<u>(392.3)</u>
Working capital surplus/(requirement) (Note 1)	779.4
Cash outflows for capital expenditures	<u>(3,238.6)</u>
Working capital requirements plus other capital expenditures	<u>(2,459.2)</u>
Net proceeds from borrowings	1,801.2
Decrease in restricted and term deposits	<u>591.6</u>
Cash inflow from financing activities (Note 2)	<u>2,392.8</u>
Cash and cash equivalents at 30 June 2011	<u>961.8</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>895.4</u>

Notes:

- (1) This figure represents the total working capital requirements of the Enlarged Group for the 18 months ending 31 December 2012. It is expected that the Enlarged Group will generate positive cash flow from its operating activities including the finance cost, which resulting a working capital surplus for the 18 months ending 31 December 2012.
- (2) It is expected that the sources of funding of the Enlarged Group mainly from working cash generated from operation, net increase in bank borrowings, and the cash and cash equivalent and restricted and term deposits on hand.

The Directors are of the opinion that, taking into consideration the financial resources available to the Enlarged Group after completion of the Acquisition, including its operating cash flows and available banking facilities, the Enlarged Group will have sufficient working capital for 125% of its present requirements, that is for at least the next 12 months from the date of this circular.

LETTER FROM THE BOARD

Mining assets

Upon completion of the Acquisition, the Enlarged Group will own and operate the Four Mines currently held by the Target Group as further described in the section headed “Business of the Target Group - Mines and Processing Facilities” in this circular as well as the various mines currently held by the Group as further described in the sub-section headed “Information on the Group - Existing mines of the Group” in this section.

Principal strengths

The Directors believe that the principal strengths of the Enlarged Group will include the following:

The Enlarged Group will have a significant portfolio of high-grade copper reserves and resources and associated metals

The Group currently holds the mining right to the Sareke Mine and the exploration right to the Hami Mine, both of which are copper mines located in the Xinjiang Uygur Autonomous Region of the PRC. According to the Competent Person’s Report on the Sareke Mine prepared in accordance with the JORC Code, the Sareke Mine is estimated to have copper mineral resources of 12.71 million tonnes as at 30 June 2011. According to the Competent Person’s Report on the Hami Mine prepared in accordance with NI 43-101, the Hami Mine is estimated to have copper mineral resources of 22.34 million tonnes as at 31 July 2011 (excluding resources located in areas covered by any right-of-way granted for railway operations).

The Target Group holds the mining rights to the Four Mines, all of which are located in the Hubei Province, PRC. According to the Competent Person’s Report on the Four Mines prepared in accordance with the JORC Code, those mines are estimated to have, in aggregate, ore reserves of approximately 33,885,000 tonnes as at 30 September 2011 with an average copper grade of 0.90%. The Tonglvshan Mine, being one of the Four Mines, is a copper mine with a rich variety of associated metals in addition to its abundant copper reserves. Principal associated metals discovered in the Tonglvshan Mine include gold and silver, both of which are also important sources of revenue for the Target Group.

Following completion of the Acquisition, the Enlarged Group will have the combined copper reserves and resources of the Sareke Mine and the Hami Mine currently operated by the Group and the Four Mines operated by the Target Group, which will provide the Enlarged Group with a significant portfolio of high-grade copper reserves and resources.

LETTER FROM THE BOARD

The Directors believe that the Enlarged Group will be able to capitalise on the expertise and experience of the management and technical teams as well as the income stream of the Target Group for the ongoing development of the Sareke Mine and Hami Mine and the management of their future operations. Due to the considerable distance between the Four Mines of the Target Group located in the Hubei Province, the PRC and the Sareke Mine and Hami Mine of the Group located in the Xinjiang Uygur Autonomous Region of the PRC, it is expected that separate processing and production facilities will be constructed at the Sareke Mine and Hami Mine at appropriate stages of their development.

The Directors believe that there will continue to be a consistent increase in the demand for copper ore due to the rapid expansion of smelting capacity in the PRC copper industry and a limited domestic supply. The significant portfolio of high-grade copper reserves and resources of the Enlarged Group will, therefore, provide it with a stable and assured supply of copper concentrates (which is produced from copper ore) and help reduce its exposure to the effects of fluctuations in the price of copper concentrates.

The Enlarged Group will be one of the largest producers of copper cathodes in the PRC by production volume

According to the Antaike Report, Daye Metal was the fifth largest producer of copper cathodes in the PRC by production volume, accounting for approximately 6.7% of the total production of copper cathodes in the PRC in 2010.

For the year ended 31 December 2010, the Target Group produced 308,100 tonnes of copper cathodes. The new Ausmelt furnace at the Smelting Plant, which is manufactured in Australia, is one of the most advanced smelting furnaces. It commenced operation in December 2010. In addition, the Target Group is currently building a new electrowinning system at the Smelting Plant, which is expected to be completed in October 2012. For further details, please refer to the sub-section headed “Projects in progress and future plans of the Target Group” in this section.

The new electrowinning system, together with the Ausmelt furnace, is expected to increase the annual production capacity of copper cathodes at the Smelting Plant to 640,000 tonnes when operating at full capacity. Based on the Target Group’s current and expected increase in production capacity of copper cathodes, the Directors believe that the Enlarged Group will, upon completion of the Acquisition, become one of the largest producers of copper cathodes in the PRC by production volume.

The Enlarged Group will be one of the few copper producers in the PRC to have a vertically integrated operation

The Target Group is one of the few copper producers in the PRC who have a vertically integrated operation which extends from the exploration, mining and processing of copper ores to the smelting of copper concentrates and the production of copper cathodes. Upon completion of the Acquisition, the Enlarged Group will have the benefit of and be able to build on the Target Group’s vertically integrated operation.

LETTER FROM THE BOARD

The supply of copper ore from the Four Mines is currently not sufficient to meet the requirements of the Target Group for its downstream copper cathode production. Hence, in addition to the supply from the Four Mines, the Target Group has to source copper concentrates from external suppliers and the Parent Group. The Directors expect that when the Enlarged Group begins to develop the combined copper reserves and resources of the Group and the Target Group, it will be able to gradually reduce the quantity of copper concentrates it has to source from external suppliers and the Parent Group over time. The expected increase in the supply of copper ore and concentrates from the development of those reserves and resources will also allow the Enlarged Group to better control its production cost and utilise its smelting and downstream processing capabilities.

By having a vertically integrated operation, the Enlarged Group will be able to benefit from a stable and assured supply of copper ore, which is critical to its downstream production. It will help reduce the Enlarged Group's exposure to the risks of market fluctuations in both the supply and price of copper which it would otherwise be subject to if it had to rely on purchasing copper concentrates from third party suppliers to meet all or a material part of its downstream production requirements. The ability to control the different stages of the production process will also allow the Enlarged Group to exercise better control over both production costs and product quality, which in turn, will, the Directors believe, help further improve the profitability and competitiveness of the Enlarged Group.

The Enlarged Group will benefit from the favourable locations of its mines and production facilities

The Four Mines, which will form the principal mining assets of the Enlarged Group after completion of the Acquisition, and the smelting and other production facilities are all located in Hubei Province in the PRC, along the Yangtze River. The production facilities are also located close to a number of small scale copper mines and the majority of the sulphuric acid customers of the Target Group. The small scale copper mines provide the Target Group with a convenient source of copper concentrates, while proximity to the sulphuric acid customers provides the Target Group with the added advantage of lower transportation and delivery costs. The Target Group's production facilities also have convenient access to water transport on the Yangtze River as well as rail and road transport, which, after completion of the Acquisition, the Enlarged Group will continue to be able to rely on as reliable and cost-effective means of delivering its products to customers and taking delivery of raw materials from suppliers.

The Enlarged Group will benefit from the continued growth in the copper cathode market in the PRC, which has been one of the high-grown copper markets in the world

Currently, the Target Group sells the almost all of its products to customers in the PRC. In the year ended 31 December 2010, customers in the PRC accounted for approximately 99.5% of the sales of the Target Group. As the principal mining assets of the Enlarged Group will be in the PRC, the Directors expect that the Enlarged Group will continue to derive a significant portion of its revenue from customers in the PRC.

LETTER FROM THE BOARD

From 2008 to 2010, China ranked first in terms of total copper cathode consumption in the world, accounting for, on average, approximately 33.51%, of the world's total copper consumption each year. The volume of copper cathode consumption in China increased by approximately 33.33% over the three-year period from 2008 to 2010, which represented one of the highest growth rates in copper cathode consumption worldwide during that period. According to the Antaike Report, the volume of copper cathode consumption in China is projected to continue to grow at a rate of 6% to 8% over the next two years to 2013, which is expected to outpace increase in the domestic supply of copper cathodes for the same period. The price of copper has also recovered by a significant margin since the beginning of the global economic downturn in 2008, with the weighted annual average of the three-month generic copper futures price quoted on SHFE rising by 10% from 2008 to 2010.

The Directors believe that the Enlarged Group will be best placed to benefit from the continued growth of the copper cathode market in the PRC and the favourable market conditions brought about by such growth.

The Enlarged Group will have strong research and development capabilities

The R&D Centre has been established by the Target Group since 1960. It received the ISO/IEC 17025:2005 certification in 2009 and the Accreditation of Testing and Calibration Laboratories from China National Accreditation Service for Conformity Assessment in 2009.

The research and development work being conducted at the R&D Centre focuses on improvement of mining and processing technologies, recovery of economic metals from scrap metal and slag as well as improvement in environment preservation and pollution control by reducing waste water discharge and gas emission in the production process.

The Target Group was able to draw on the expertise of its research and development team at the R&D Centre to successfully develop technical knowhow for the extraction of a wide range of valuable metals such as platinum, palladium and molybdenum from anode slime generated in the course of the copper cathode production process, which have since become additional sources of revenue. The R&D Centre has also helped reduce the production cost at the Four Mines through technological improvements. As a result of the efforts of the R&D Centre, the smelting process at the Smelting Plant has also been significantly upgraded through the introduction of the new Ausmelt furnace.

Upon completion of the Acquisition, the Enlarged Group will have the benefit of the technical expertise of the R&D Centre, which in addition to the Four Mines, could also be utilised in connection with the development of the existing mines of the Group.

LETTER FROM THE BOARD

The Enlarged Group will have an experienced management team with extensive industry expertise

The senior management team of the Enlarged Group is expected to be made up of existing senior management members of both the Group and the Target Group. The majority of the executive Directors and senior management of the Enlarged Group will have more than 20 years of experience in the copper mining, smelting and refining industries in the PRC. The management team will also include mining and smelting experts and prominent members of the business and academic communities of the mining industry in the PRC. The Directors consider that the extensive experience and expertise of the senior management team will be an important factor in helping the Enlarged Group to maintain its competitiveness against the other leading copper cathode producers in the PRC.

Business strategies

Continue to expand portfolio of mining assets

The Enlarged Group will continue to expand its portfolio of mining assets both through identifying suitable opportunities to acquire new mines as well as continuous exploration of new mineral resources and reserves at the mines currently operated by the Target Group and the Group.

As the Four Mines occupy an extensive area of approximately 9.27 sq.km. in aggregate, the Target Group has been actively engaged in exploring potential new mineral resources in locations outside the areas which are currently being mined. The Directors expect the Enlarged Group to continue with such exploration activities at the Four Mines. The Target Group is also in the course of constructing infrastructures to access copper resources at deeper levels at each of the Four Mines.

The Enlarged Group may consider entering into strategic cooperation agreements with regional mining companies and governmental authorities in the PRC and overseas to engage in the joint development of mines and sharing of operational and technical know-how.

Continue to upgrade production facilities

The Target Group has over the Track Record Period upgraded its various production facilities. This included the purchase of a new Ausmelt furnace, which is one of the most advanced smelting equipment, for use at the Smelting Plant and the installation of a new system for the production of sulphuric acid in September 2011, which is expected to increase the existing production capacity of sulphuric acid at the Smelting Plant from 424,000 tonnes to 979,400 tonnes per annum.

LETTER FROM THE BOARD

To further enhance the production capabilities of the Smelting Plant, the Target Group has formulated plans to replace or further upgrade production equipment and to install new equipment at the plant. Those plans include the construction of a power station that utilizes waste heat from the production process at the Smelting Plant for power generation, the upgrading of existing anode furnaces and the installation of a new electrowinning system. For further details, please refer to the sub-section headed “Projects in progress and future plans of the Target Group” in this section. Upon completion of the Acquisition, the Directors expect that the Enlarged Group will continue with the implementation of those plans to improve the production facilities at the Smelting Plant and will also continue to improve its other production facilities with a view of enhancing production efficiency and product quality.

Improve operational efficiency, enhance strategic planning and reduce operating costs through centralized management

The Enlarged Group will, through centralising the management structure of the Group and the Target Group, seek to improve operational efficiency, enhance strategic planning and reduce operating costs. The Enlarged Group will seek to minimize wastage and maximize efficiency in the allocation of financial, human and other resources. The Directors expect the Enlarged Group will be able to seek to improve operational efficiency in areas such as centralising procurement, combining processing, research and development capabilities and creating an integrated sales and marketing platform.

Further strengthen research and development capabilities and improve production technology

The Enlarged Group will continue to build on its strong research and development capabilities. The R&D Centre operated by the Target Group has been engaged in a wide range of research and development projects covering areas such as smelting and acid-making processes. The R&D Centre has been engaged in both its own research and development work as well as projects or programmes undertaken jointly with universities and research institutes in the PRC in areas such as energy saving and recycling as well as metal recovery technology, which could be applied in the Target Group’s mining and metal recovery processes. The research on recycling technology has, for instance, enabled the Target Group to increase the volume of recycled water that can be used in its production process, while improvement in recovery technology has enabled it to expand the variety of other metals such as platinum, palladium and molybdenum recovered from anode slime, which is a by-product generated during the copper cathode production process.

With the combined resources of the Target Group and the Group, the Directors expect that the Enlarged Group will continue to invest in its research and development capabilities and to undertake research and development projects that focus on improving its production technology, production efficiency and product quality.

LETTER FROM THE BOARD

Explore opportunities of expansion into rare earth mining and production

Apart from the production and sales of copper cathodes and other non-ferrous metals, the Directors expect that the Enlarged Group will also actively explore opportunities to acquire or otherwise develop rare earth mining assets as a means of diversifying its business. Rare earth metals are scarce in supply but of wide applications. As China has rich rare earth resources and the demand for rare earth across the world has been strong in recent years, the Directors believe that expansion into rare earth mining and production would help the Enlarged Group to diversify its income base and provide additional opportunities for its future development. As rare earth mining and production require substantially similar sets of skills and techniques as copper mining and production with respect to the mining and processing activities, the Directors believe that by capitalizing on the extensive experience of the directors and senior management of Daye Metal, the Enlarged Group will possess the relevant skills and experience required for expansion into rare earth mining and production after completion of the Acquisition.

As at the Latest Practicable Date, the aggregate outstanding investment amount for (i) the project in progress of the Group and (ii) the projects in progress and future plans of the Target Group set out above amounted to approximately RMB415 million and approximately RMB3,140.08 million, respectively.

REASONS FOR THE ACQUISITION

The Group is principally engaged in corporate investment and trading in securities, mineral exploitation and trading in non-ferrous metals.

In the light of the gradual recovery of the global economy, the Board expects that there will be increasing demand for mineral resources. The Board considers that this is the right opportunity for the Group to further invest in the development and expansion of its copper mining business. One of the development objectives of the Group is to increase its reserve of non-ferrous metal resources. In this connection, the Company has identified the Target Group as an appropriate acquisition target and considers that the Acquisition would allow the Group to significantly increase its copper reserve and expand its copper business. The Directors consider that the Acquisition is an opportune investment for the Group and expect that the Acquisition will present the Group with favourable long term prospects.

None of the Directors has a material interest in the Acquisition. The Directors are of the opinion that the terms of the Acquisition Agreement, including the Consideration, the terms of the China Times Convertible Notes and the Issue Price, are fair and reasonable and the Acquisition is in the interest of the Company and the Shareholders as a whole.

The Company has no intention, nor has it entered into any agreement, understanding or arrangement, to dispose of or discontinue its existing business.

LETTER FROM THE BOARD

The Parent Company and China Times have confirmed to the Company that it is their intention for the Group to continue its existing business after completion of the Acquisition. Other than the introduction of the business of the Target Group, the Parent Company and China Times have also confirmed to the Company that they do not intend to introduce any major change to the Group's business (including any re-deployment of the Group's fixed assets) nor do they intend to terminate the employment of any of the Group's employees after completion of the Acquisition.

The Company has been informed by the Parent Company and China Times that they may nominate new members to the Board after completion of the Acquisition, but no decision has been made as to the nominees or the timing of appointment as at the Latest Practicable Date. The Company will comply with the relevant requirements of the Listing Rules and the Takeovers Code if there is any change to the composition of the Board.

FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED GROUP

Upon completion of the Acquisition, the Enlarged Group will continue to expand its portfolio of mining assets both through identifying suitable opportunities to acquire new mines as well as continuous exploration of new mineral resources and reserves at the mines currently operated by the Target Group and the Group, to upgrade its production facilities, to build on its research and development capabilities, to improve its production technology and to diversify its product portfolio by expanding into the mining and production of rare earths. By centralizing the management of the Target Group and the Group, it is expected that the Enlarged Group will benefit from improvement in operational efficiency. The Directors believe that the Enlarged Group will be able to enhance its core competitiveness, to strengthen and enlarge its upstream production of copper ore, and to expand sales of its products, thereby optimizing the value and the return to the Shareholders.

IMPLICATIONS UNDER THE LISTING RULES

Very substantial acquisition and connected transaction

As the Relevant Ratios exceed 100%, the Acquisition constitutes a very substantial acquisition for the Company under Chapter 14 of the Listing Rules. As at the Latest Practicable Date, each of the Parent Company and China Times was a substantial shareholder of the Company and therefore constitutes a connected person of the Company. Hence, the Acquisition also constitutes a connected transaction of the Company under the Listing Rules.

LETTER FROM THE BOARD

The Acquisition, the terms of which include the allotment and issue of the China Times Consideration Shares, Cinda Consideration Shares, China Times Convertible Notes and Conversion Shares, is therefore subject to the approval by the Independent Shareholders at the EGM. Resolutions will be proposed at the EGM for the Independent Shareholders to approve, among others, (i) the terms of the Acquisition Agreement, the First Supplemental Agreement and the Second Supplemental Agreement and the transactions contemplated under those agreements; (ii) a specific mandate to the Directors to allot and issue the China Times Consideration Shares, Cinda Consideration Shares, China Times Convertible Notes and Conversion Shares; and (iii) authorizations to the Directors to do all acts or things for and on behalf of the Company as they may consider necessary or desirable in connection with (i) and (ii) above.

China Times, its associates, persons acting in concert with it and any person who is involved or interested in the Acquisition and/or the Whitewash Waiver are required to abstain from voting on the relevant resolutions to be proposed at the EGM to approve the Acquisition Agreement and the transactions contemplated thereunder, the Specific Mandate and the Whitewash Waiver. As at the Latest Practicable Date, China Times, its associates, persons acting in concert with it and any person who is involved or interested in the Acquisition and/or the Whitewash Waiver were interested in 1,163,236,988 Ordinary Shares, representing approximately 20.80% of the total Ordinary Shares in issue and 5,495 Preference Shares, representing approximately 33.33% of the total Preference Shares in issue. Your attention is drawn to pages EGM-1 to EGM-2 of this circular where you will find a notice of the EGM to be held at Harbour View Ballroom III, Level 4, Four Seasons Hotel, 8 Finance Street, Central, Hong Kong on Monday, 16 January 2012, at 10:00 a.m..

Reverse takeover and deemed new listing

Since the Acquisition constitutes a very substantial acquisition for the Company under Chapter 14 of the Listing Rules and the issue of the China Times Consideration Shares to China Times at China Times Completion will result in a change in control (as defined in the Takeovers Code) of the Company, the Acquisition also constitutes a reverse takeover for the Company under Rule 14.06 (6) (a) of the Listing Rules. Under Rule 14.54 of the Listing Rules, the Company will be treated as if it were a new listing applicant and the Acquisition is therefore subject to, among other conditions, the approval by the Listing Committee of the new listing application made by the Company. The Enlarged Group or the Target Group must be able to meet the requirements of Rule 8.05 of the Listing Rules and the Enlarged Group must also be able to meet all the other basic conditions set out in Chapter 8 and Chapter 18 of the Listing Rules. Neither the Target Group nor the Enlarged Group is, however, able to meet the profit requirement under Rule 8.05(1) of the Listing Rules, but the Enlarged Group is able to satisfy the capitalisation and revenue requirements under Rule 8.05(3) of the Listing Rules. On 14 October 2011, the Company made a new listing application to the Stock Exchange under Rule 8.05(3) of the Listing Rules and the Listing Committee has given its approval in principle of the new listing application of the Company.

LETTER FROM THE BOARD

Chapter 18 of the Listing Rules

As the Acquisition constitutes a very substantial acquisition and reverse takeover for the Company under Chapter 14 of the Listing Rules, and the principal assets of the Target Group to be acquired by the Company pursuant to the Acquisition constitute Mineral Assets under Chapter 18 of the Listing Rules, the Acquisition is also subject to the requirements of Chapter 18 of the Listing Rules.

IMPLICATIONS UNDER THE TAKEOVERS CODE AND APPLICATION FOR WHITEWASH WAIVER

As at the Latest Practicable Date, China Times and persons acting in concert with it were interested in approximately 20.80% of the total Ordinary Shares in issue.

If only China Times Completion takes place, China Times and persons acting in concert with it will, immediately following China Times Completion, be interested in approximately 72.99% of the total Ordinary Shares in issue as enlarged by the issue of the China Times Consideration Shares (but without taking into account any Conversion Shares which may be issued pursuant to the China Times Convertible Notes).

If both China Times Completion and Cinda Completion take place, China Times and persons acting in concert with it will, immediately following China Times Completion and Cinda Completion, be interested in approximately 69.04% of the total Ordinary Shares in issue as enlarged by the issue of the China Times Consideration Shares and Cinda Consideration Shares (but without taking into account any Conversion Shares which may be issued pursuant to the China Times Convertible Notes).

If only China Times Completion takes place and on the basis that the China Times Convertible Notes are converted into Conversion Shares at the Conversion Price but only to the extent that the Company will be able to maintain its minimum public float required under the Listing Rules, China Times and persons acting in concert with it will, immediately following China Times Completion, be interested in, approximately 74.99% of the total Ordinary Shares in issue as enlarged by the issue of the China Times Consideration Shares and such Conversion Shares.

If both China Times Completion and Cinda Completion take place and on the basis that the China Times Convertible Notes are fully converted into Conversion Shares at the Conversion Price, China Times and persons acting in concert with it will, immediately following China Times Completion and Cinda Completion, be interested in 72.25% of the total Ordinary Shares in issue as enlarged by the issue of the China Times Consideration Shares, Cinda Consideration Shares and such Conversion Shares.

As such, China Times would be required to make a mandatory general offer for all the issued shares of the Company not already owned or agreed to be acquired by China Times and persons acting in concert with it under Rule 26.1 of the Takeovers Code unless a waiver from strict compliance with Rule 26.1 of the Takeovers Code is granted by the Executive.

LETTER FROM THE BOARD

China Times made an application to the Executive on 14 October 2011 for the granting of the Whitewash Waiver. The Whitewash Waiver, if granted, would be subject to the approval of the Independent Shareholders. China Times, its associates, persons acting in concert with it and any person involved or interested in the Acquisition and/or the Whitewash Waiver are required to abstain from voting on the relevant resolution to be proposed at the EGM to approve the Acquisition and the Whitewash Waiver.

As a result of China Times Completion and the allotment and issue of the China Times Consideration Shares and Conversion Shares (assuming conversion of the China Times Convertible Notes at the Conversion Price, but only to the extent that the Company will be able to maintain its minimum public float required under the Listing Rules), China Times and persons acting in concert with it will have a holding of more than 50% of the voting rights of the Company. Hence, China Times and persons acting in concert with it may increase their holding of voting rights in the Company without incurring any further obligation under Rule 26 of the Takeovers Code to make a general offer. However, any changes in the make-up of the group comprising China Times and persons acting in concert with it that effectively result in a new group being formed or the balance of the group being changed significantly, may trigger an obligation to make a general offer under Rule 26.1 of the Takeovers Code.

PROPOSED GRANT OF SPECIFIC MANDATE

Under the Acquisition Agreement, the China Times Consideration will be satisfied by the issue of the China Times Consideration Shares and the China Times Convertible Notes by the Company to China Times (or its nominee), and the Cinda Consideration will be satisfied by the issue of the Cinda Consideration Shares by the Company to Cinda (or its nominee). The China Times Consideration Shares, the Cinda Consideration Shares, the China Times Convertible Notes and the Conversion Shares to be issued upon conversion of the China Times Convertible Notes will be allotted and issued under the Specific Mandate proposed to be obtained at the EGM. The China Times Consideration Shares, the Cinda Consideration Shares and the Conversion Shares, when issued, will rank equally among themselves and *pari passu* in all respects with the Ordinary Shares then in issue, including as to the right to any dividend declared on or after the respective dates of their allotment and issue.

CONTINUING CONNECTED TRANSACTIONS

It was announced on 23 December 2011 that the Company entered into the Non-Exempt Continuing Connected Transaction Agreements and the Exempt Continuing Connected Transaction Agreements with the Parent Company, its associates or Daye Labour (as the case may be).

Each of the Non-Exempt Continuing Connected Transaction Agreements is conditional upon China Times Completion taking place and all applicable legal and regulatory requirements (including those under the Listing Rules) having been complied with. An ordinary resolution will be proposed at the EGM for the approval by the Independent Shareholders of the Non-Exempt Continuing Connected Transaction Agreements and the transactions to be carried out pursuant thereto (including the Annual Caps).

LETTER FROM THE BOARD

Further information on the Non-Exempt Continuing Connected Transactions and the Exempt Continuing Connected Transactions is set out in the section headed “Continuing Connected Transactions” in this circular.

EGM

Your attention is hereby drawn to pages EGM-1 to EGM-2 of this circular where you will find a notice of the EGM to be held at Harbour View Ballroom III, Level 4, Four Seasons Hotel, 8 Finance Street, Central, Hong Kong on Monday, 16 January 2012, at 10:00 a.m.. At the EGM, resolutions will be proposed to approve, among other things: (1) the Acquisition; (2) the Whitewash Waiver; (3) the proposed grant of the Specific Mandate; and (4) the Non-Exempt Continuing Connected Transactions (including the Annual Caps).

China Times, its associates, persons acting in concert with it and any person who is involved or interested in the Acquisition and/or the Whitewash Waiver will abstain from voting on the resolutions for the approval of the Acquisition, the Whitewash Waiver, the proposed grant of the Specific Mandate and the Non-Exempt Continuing Connected Transactions (including the Annual Caps) to be proposed at the EGM.

Whether or not you are able to attend the EGM, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return it to the Company’s branch share registrar in Hong Kong, Tricor Investor Services Limited, 26th Floor, Tesbury Centre, 28 Queen’s Road East, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM should you so wish.

FINANCIAL ADVISER AND SPONSOR

J.P. Morgan has been appointed as the financial adviser to the Company in relation to the Acquisition and the sponsor to the new listing application of the Company.

INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising Mr. Wang Qihong, Mr. Wang Guoqi and Mr. Qiu Guanzhou, being all the independent non-executive Directors, have been formed to advise the Independent Shareholders in relation to the Acquisition, the Whitewash Waiver, the proposed grant of the Specific Mandate and the Non-Exempt Continuing Connected Transactions (including the Annual Caps).

LETTER FROM THE BOARD

INDEPENDENT FINANCIAL ADVISER

Platinum Securities has been appointed as Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Acquisition, the Whitewash Waiver, the proposed grant of the Specific Mandate and the Non-Exempt Continuing Connected Transactions (including the Annual Caps).

RESPONSIBILITY STATEMENTS

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group and the Target Group.

The Directors collectively and individually accept full responsibility for this circular (other than the information in relation to the Parent Group, the holding company of the Parent Company and the subsidiaries of such holding company, Cinda, Huarong and the Target Group contained in this circular) and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, the information contained in this circular (other than the information in relation to the Parent Group, the holding company of the Parent Company and the subsidiaries of such holding company, Cinda, Huarong and the Target Group) is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

The directors of the Parent Company collectively and individually accept full responsibility for this circular with respect to the information in relation to the Parent Group, the holding company of the Parent Company and the subsidiaries of such holding company, Cinda, Huarong and the Target Group contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, the information contained in this circular in relation to the Parent Group, the holding company of the Parent Company and the subsidiaries of such holding company, Cinda, Huarong and the Target Group is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

LETTER FROM THE BOARD

RECOMMENDATIONS

The Independent Board Committee, having considered the terms of the Acquisition, the Whitewash Waiver, the proposed grant of the Specific Mandate and the Non-Exempt Continuing Connected Transactions (including the Annual Caps) as well as the advice and recommendations of the Independent Financial Adviser set out in the section headed “Letter from the Independent Financial Adviser” in this circular, considers that (i) the Acquisition, the Whitewash Waiver, the proposed grant of the Specific Mandate and the Non-Exempt Continuing Connected Transactions (including the Annual Caps) are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and its shareholders as a whole; (ii) the Acquisition and the proposed grant of the Specific Mandate are on normal commercial terms; and (iii) the Non-Exempt Continuing Connected Transactions (including the Annual Caps) will be on normal commercial terms and in the usual and ordinary course of business of the Enlarged Group.

As such, the Independent Board Committee recommends that the Independent Shareholders vote in favour of the ordinary resolutions in respect of the Acquisition, the Whitewash Waiver, the proposed grant of the Specific Mandate and the Non-Exempt Continuing Connected Transactions (including the Annual Caps) to be proposed at the EGM. The “Letter from the Independent Board Committee” and the “Letter from the Independent Financial Adviser” are set out on pages 112 to 113 and pages 114 to 211 of this circular, respectively.

On the basis of the information set out in this circular, the Directors (including members of the Independent Board Committee) consider that the Acquisition, the Whitewash Waiver, the proposed grant of the Specific Mandate and the Non-Exempt Continuing Connected Transactions (including the Annual Caps) are fair and reasonable and in the interests of the Company and the Shareholders as a whole. The Directors, therefore, recommend that the Shareholders vote in favour of the resolutions set out in the notice of EGM at the end of this circular.

FURTHER INFORMATION

Your attention is drawn to other sections of and appendices to this circular, which contain further information on the Target Group, the Enlarged Group and other information required to be disclosed under the Takeovers Code and the Listing Rules.

By order of the Board
China Daye Non-Ferrous Metals Mining Limited
Wan Bi Qi
Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



中國大冶有色金屬礦業有限公司

China Daye Non-Ferrous Metals Mining Limited

(Incorporated in Bermuda with limited liability)

(Stock Code: 00661)

To the Independent Shareholders

Dear Sir or Madam,

(1) VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION

(2) REVERSE TAKEOVER INVOLVING A NEW LISTING APPLICATION

(3) APPLICATION FOR WHITEWASH WAIVER

(4) PROPOSED GRANT OF SPECIFIC MANDATE

AND

(5) CONTINUING CONNECTED TRANSACTIONS

We refer to the circular dated 29 December 2011 issued by the Company, of which this letter forms part (the “**Circular**”). Unless otherwise specified, capitalised terms defined in the Circular shall have the same meanings when used herein.

The Independent Board Committee has been formed to advise you in respect of the Acquisition, the Whitewash Waiver, the proposed grant of the Specific Mandate and the Non-Exempt Continuing Connected Transactions (including the Annual Caps), details of which are set out in the Letter from the Board contained in the Circular. Platinum Securities has been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard. The text of the letter of advice from the Independent Financial Adviser containing their recommendation and the principal factors they have taken into account in arriving at their recommendation are set out on pages 114 to 211 of the Circular.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Having considered the terms of the Acquisition, the Whitewash Waiver, the proposed grant of the Specific Mandate and the Non-Exempt Continuing Connected Transactions (including the Annual Caps) as well as the advice and recommendations of Platinum Securities set out in its letter of advice, we consider that (i) the Acquisition, the Whitewash Waiver, the proposed grant of the Specific Mandate and the Non-Exempt Continuing Connected Transactions (including the Annual Caps) are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and its shareholders as a whole; (ii) the Acquisition and the proposed grant of the Specific Mandate are on normal commercial terms; and (iii) the Non-Exempt Continuing Connected Transactions (including the Annual Caps) will be on normal commercial terms and in the usual and ordinary course of business of the Enlarged Group. On this basis, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions in respect of the Acquisition, the Whitewash Waiver, the proposed grant of the Specific Mandate and the Non-Exempt Continuing Connected Transactions (including the Annual Caps) to be proposed at the EGM.

Yours faithfully,
for an on behalf of
the Independent Board Committee
China Daye Non-Ferrous Metals Mining Limited
Wang Qihong
Wang Guoqi
Qiu Guanzhou
Independent non-executive Directors

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the text of the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders for the purpose of incorporation into this circular.



PLATINUM Securities Company Limited

22/F Standard Chartered Bank Building
4 Des Voeux Road Central

Hong Kong

Telephone (852) 2841 7000

Facsimile (852) 2522 2700

Website www.platinum-asia.com

29 December 2011

To the Independent Board Committee and the Independent Shareholders

Dear Sir or Madam,

(1) VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION
(2) REVERSE TAKEOVER INVOLVING A NEW LISTING APPLICATION
(3) APPLICATION FOR WHITEWASH WAIVER
(4) PROPOSED GRANT OF SPECIFIC MANDATE
AND
(5) CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to the announcement of the Company dated 1 February 2011 (the “Announcement”). On 29 December 2011, the Company dispatched a circular (the “Circular”) in relation to the Acquisition, the Whitewash Waiver, the proposed grant of the Specific Mandate and the Non-Exempt Continuing Connected Transactions, of which this letter forms part. Details of the Acquisition, the Whitewash Waiver, the proposed grant of the Specific Mandate and the Non-Exempt Continuing Connected Transactions are contained in the section headed “Letter from the Board” in this circular and the appendices in this circular, which you should read carefully.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We refer to our engagement as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders as to whether: (i) the Acquisition, the Whitewash Waiver, the proposed grant of the Specific Mandate and the Non-Exempt Continuing Connected Transactions (including the Annual Caps) are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and its shareholders as a whole; (ii) the Acquisition and the proposed grant of the Specific Mandate are on normal commercial terms; and (iii) the Non-Exempt Continuing Connected Transactions (including the Annual Caps) will be on normal commercial terms and in the usual and ordinary course of business of the Enlarged Group. Terms used in this letter shall have the same meanings as defined in this circular unless the context requires otherwise.

We are independent from and are not connected with the Company or any other party to the Acquisition and the Non-Exempt Continuing Connected Transactions or any of their respective associates, connected persons or parties acting in concert with any of them and accordingly, are considered eligible to give independent advice to the Independent Board Committee.

We will receive a fee from the Company for our role as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Acquisition, the Whitewash Waiver, the proposed grant of the Specific Mandate and the Non-Exempt Continuing Connected Transactions (including the Annual Caps). Apart from this normal professional fee payable to us in connection with this appointment, no arrangements exist whereby we will receive any fees or benefits from the Company or any other party to the Acquisition and the Non-Exempt Continuing Connected Transactions or any of their respective associates, connected persons or parties acting in concert with any of them.

In formulating our opinion, we have relied on the information and facts supplied to us by the Company. We have reviewed, among other things: i) the Acquisition Agreement; ii) the Competent Person's Report on the Four Mines; iii) the Valuation report on the mining assets of the Target Group; iv) the Valuation report on the net assets value of the Target Group (the "Net Asset Valuation Report"); v) the annual reports and audited consolidated financial statements of the Company for the two financial years ended 31 December 2010 and the audited interim financial reports of the Company for the six months ended 30 June 2011; vi) the financial information of the Target Group for the three financial years ended 31 December 2010 and for the six months ended 30 June 2011; vii) the unaudited pro forma financial statements of the Enlarged Group; viii) the Sales Framework Agreement; ix) the Services Framework Agreement; x) the Purchase and Production Services Framework Agreement; xi) Hubei Gold Purchase Framework Agreement; xii) the Daye Transportation Purchase Framework Agreement; xiii) the Combined Ancillary Services Framework Agreement; and xiv) the Tonghua Hotel Services Framework Agreement.

We have also discussed with management of the Company about their plans and the business prospects of the Group.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We have assumed that all information, facts, opinions and representations provided and expressed by the Directors and management of the Company, contained in this circular are true, complete, accurate and valid at the time they were made and given and continue to be true and valid as at the Latest Practicable Date in all material respects and we have relied on the same. We will notify Shareholders of any material changes as soon as possible. The Directors have confirmed that they take full responsibility for the contents of this circular, other than those in relation to the Parent Group, the holding company of the Parent Company and the subsidiaries of such holding company, Cinda, Huarong and the Target Group have made all reasonable inquiries that no material facts have been omitted from the information supplied to us. According to Appendix X-1 in this circular, the directors of the Parent Company jointly and severally accept full responsibility for the accuracy of the information in relation to the Parent Group, the holding company of the Parent Company and the subsidiaries of such holding company, Cinda, Huarong and the Target Group contained in this circular, and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular the omission of which would make any statement contained in this circular misleading.

We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy or completeness of the information of all facts as set out in this circular and of the information and representations provided to us by the Company. Furthermore, we have no reason to suspect the reasonableness of the opinions and representations expressed by the Company and/or the Directors which have been provided to us. In line with normal practice, we have not, however, conducted a verification process of the information supplied to us, nor have we conducted any independent in-depth investigation into the business and affairs of the Company. We consider that we have reviewed sufficient information to enable us to reach an informed view and to provide a reasonable basis for our opinion regarding the Acquisition, the Whitewash Waiver, the proposed grant of the Specific Mandate and the Non-Exempt Continuing Connected Transactions.

The Independent Board Committee comprising Mr. Wang Qihong, Mr. Wang Guoqi and Mr. Qiu Guanzhou, being the independent non-executive Directors, has been formed to advise the Independent Shareholders in relation to the Acquisition, the Whitewash Waiver, the proposed grant of the Specific Mandate and the Non-Exempt Continuing Connected Transactions (including the Annual Caps). We, Platinum Securities Company Limited, with the approval of the Independent Board Committee, have been appointed by the Board on 30 May 2011 to advise the Independent Board Committee and the Independent Shareholders in this regard.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion, we have considered the following principal factors and reasons:

I. The Acquisition

1. Information on the Group

1.1 Business overview of the Group

The Company is the first state-owned enterprise in Hubei Province to achieve a listing status on the Main Board of the Stock Exchange. It serves as a platform for the Parent Company to tap the international capital market. The Group specializes in the exploration and development of non-ferrous mines. As at the Latest Practicable Date, the Parent Company holds 20.80% stake in the Company.

The Group currently owns five copper, molybdenum and wolfram mines, which are respectively located in the Republic of Mongolia and the Xinjiang Uyghur Autonomous Region.

1.2 Business strategy of the Group

The Group has always sought to expand its reach into sectors with growth potential. In view of today's demands for more natural resources as a result of industrialisation and urbanisation in the PRC and around the globe, the Group has set a new course to proactively and prudently deploy a host of targeted business strategies. Since 2007, the Group has actively expanded the Group's operations to include natural mineral resources investment and development. The Group has also acquired a number of non-ferrous metals mines in Uluqat County, Xinjiang Uyghur Autonomous Region, along with various non-ferrous metals mines in the Republic of Mongolia. Through the dedicated efforts of the management of the Company, natural mineral resources investment and development have become a core business, laying a solid foundation for the Group's long-term development.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The management of the Company believes that the leadership role of Daye Metal will help the Group upgrade its ore exploration, mining and operational management capabilities. In addition, it will also help create key synergies with various parties and is an ideal match with Daye Metal's development strategy.

According to the management of the Company, the Group is confident in capturing new opportunities that exist amidst the huge potential growth of the natural resources industry. The Group will actively explore these opportunities to expand the Group's business development and position the Group to become a leading metal resources listed company with abundant natural resource reserves, advanced production facilities and outstanding financial performance.

1.3 Prospect of the Group

To further enhance the Group's business and provide satisfactory returns to its investors, the Group will take full advantage of the support in respect of management, talents, resources and technology provided by the Parent Group. The development plan of the Group for the coming three to five years is to: i) increase the Group's operating income by developing the international trading business; ii) speed up development and construction of current resources project to become a stream of profit growth of the Group; and iii) identify potential non-ferrous metal resources and increase the Group's resources reserves.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

1.4 Financial results and position of the Group

Table 1 below is the summary of the annual results of the Group for the two financial years ended 31 December 2010 and the interim results of the Group for the six months ended 30 June 2011.

Table 1 – Key financials of the Group

	1 May 2009 to 31 December 2009 HK\$'000 (audited)	1 January 2010 to 31 December 2010 HK\$'000 (audited)	Six months ended 30 June 2011 HK\$'000 (audited)
Revenue	1,672	954,314	50,283
Loss attributable to Shareholders for the year/period	(91,168)	(23,073)	(21,723)
Loss per Share attributable to Shareholders for the year/period	(1.76) cents	(0.41) cents	(0.39) cents
 Total Assets	 2,518,909	 2,656,360	 2,643,336
Total Liabilities	552,071	647,661	657,525
NAV	1,966,838	2,008,699	1,985,811
NAV attributable to Shareholders for the year/period	1,094,809	1,098,352	1,077,643

Note: The Group has changed the financial year from the year ended 30 April to 31 December in 2009.

Source: 2010 annual report and 2011 interim report of the Company

2. Information on the Target Group

2.1 The Target Company

The Target Company is an investment holding company which was established by China Times for the purpose of holding its investment in Daye Hong Kong. As at the Latest Practicable Date, the Target Company was owned as to 93.18% by China Times and 6.82% by Cinda HK.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

2.2 *Daye Hong Kong*

Daye Hong Kong is a wholly-owned subsidiary of the Target Company. Daye Hong Kong is an investment holding company which was established for the purpose of holding its investment in Daye Metal.

2.3 *Daye Metal*

Daye Metal was incorporated in the PRC with limited liability in March 2005. At the time of its incorporation, the Parent Company contributed approximately RMB1.2 billion to the registered capital of Daye Metal. On 21 January 2011, the Parent Company acquired a 1.94% equity interest in Daye Metal from Hubei SASAC at no consideration. In January 2011, the Parent Company acquired a 41.30% equity interest in Daye Metal from the Six Original Daye Shareholders at an aggregate consideration of RMB1,607,463,679.45. As at the Latest Practicable Date, Daye Metal was owned as to 95.35% by Daye Hong Kong and 4.65% by Huarong.

2.4 *Business overview*

According to the Antaike Report, Daye Metal was the fifth largest producer of copper cathodes in the PRC by production volume, accounting for approximately 6.7% of the total production of copper cathodes in the PRC in 2010. The major products of the Target Group include copper cathodes, gold, silver and sulphuric acid (which is a by-product derived from the smelting process of copper ore and concentrate). The Target Group sells both copper cathodes, gold and silver produced by itself as well as those sourced by it from third party suppliers or the Parent Group for on-sale to its customers.

The Target Group holds the Mining Licences to the Four Mines, all of which are located in the Hubei Province of the PRC. The primary mineral deposit at the Four Mines is copper, with associated deposits of gold and silver. The Target Group also owns and operates on-site processing facilities at each of the Four Mines to carry out crushing, screening and milling of copper ore, namely, the Smelting Plant, which undertakes the smelting of copper concentrate and production of sulphuric acid, the Precious Metal Plant, which extracts gold and silver from anode slime, and the R&D Centre. The Target Group is one of the few copper producers in the PRC that has a vertically integrated operation which extends from the exploration, mining and processing of copper ore to the smelting of copper concentrate and the production of copper cathodes and other precious metals such as gold and silver.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The supply of copper ore from the Four Mines is currently not sufficient to meet the requirements of the Target Group for its downstream copper cathode production. In addition to the supply from the Four Mines, the Target Group also sources a significant portion of copper concentrates from external suppliers and the Parent Group. The Target Group produced, in aggregate, approximately 20,930 tonnes and approximately 9,800 tonnes of copper concentrates from the copper ore mined from the Four Mines in the year ended 31 December 2010 and the six months ended 30 June 2011, respectively, which accounted for approximately 13.41% and 13.10% of the copper concentrates used by the Target Group for its copper cathode production in those periods, respectively, with the remainder being sourced from external suppliers and the Parent Group. The Target Group produced approximately 308,100 tonnes and approximately 167,000 tonnes of copper cathodes in the year ended 31 December 2010 and the six months ended 30 June 2011, respectively.

As production of copper cathodes and other major products by the Target Group is dependent on a stable supply of, among other raw materials, copper concentrates, if there is any shortage in the supply or any fluctuation in the price of copper concentrates, the Target Group's results of operations, financial condition and growth prospects may be materially and adversely affected. Please refer to the section headed "Risk Factors – Risks related to the business of the Enlarged Group – Fluctuations in price and supply of raw materials could negatively impact our business and financial conditions" in this circular for further information.

The summary financial information of the Target Group for the Track Record Period below in Table 2 is extracted from Appendix I in this circular.

Table 2 – Key financials of the Target Group

	Year ended 31 December			Six months ended
	2008	2009	2010	30 June
	(audited)	(audited)	(audited)	(audited)
Revenue (<i>RMB million</i>)	14,867	18,485	26,020	13,672
Gross profit (<i>RMB million</i>)	349	877	833	539
Gross profit margin (%) (<i>unaudited</i>)	2.4	4.7	3.2	3.9
Net (loss)/profit attributable to the owners of the Target Company (<i>RMB million</i>)	(95)	61	128	94
Net asset value attributable to the owners of the Target Company (<i>RMB million</i>)	1,605	1,911	2,225	3,553

Source: Circular

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Table 3 below sets out the breakdown of the total revenue of the Target Group by product for the Track Record Period:

Table 3 – Revenue of the Target Group by product for the Track Record Period

	Year ended 31 December						Six months ended	
	2008		2009		2010		30 June	
	(RMB million)	(% of total revenue)	(RMB million)	(% of total revenue)	(RMB million)	(% of total revenue)	(RMB million)	(% of total revenue)
Metals								
Copper cathodes	10,939	73.6	13,220	71.5	20,066	77.1	10,445	76.4
Gold	1,058	7.1	3,372	18.2	2,100	8.1	1,414	10.3
Silver	867	5.8	756	4.1	1,219	4.7	947	6.9
Total for metals:	<u>12,864</u>	<u>86.5</u>	<u>17,348</u>	<u>93.8</u>	<u>23,385</u>	<u>89.9</u>	<u>12,806</u>	<u>93.6</u>
Chemical products								
Sulphuric acid	<u>502</u>	<u>3.4</u>	<u>61</u>	<u>0.3</u>	<u>163</u>	<u>0.6</u>	<u>114</u>	<u>0.8</u>
Total for chemical products:	<u>502</u>	<u>3.4</u>	<u>61</u>	<u>0.3</u>	<u>163</u>	<u>0.6</u>	<u>114</u>	<u>0.8</u>
Other products and services (Note)	<u>1,501</u>	<u>10.1</u>	<u>1,076</u>	<u>5.9</u>	<u>2,472</u>	<u>9.5</u>	<u>752</u>	<u>5.6</u>
Total revenue:	<u><u>14,867</u></u>	<u><u>100</u></u>	<u><u>18,485</u></u>	<u><u>100</u></u>	<u><u>26,020</u></u>	<u><u>100</u></u>	<u><u>13,672</u></u>	<u><u>100</u></u>

Source: Circular

Note:

Revenue from other products and services includes revenue derived from processing of copper concentrate into copper cathodes, and sales of other products such as iron concentrate, and other products containing copper, gold and silver.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Sales of copper cathodes accounted for approximately 73.6%, 71.5%, 77.1% and 76.4% of the total revenue of the Target Group for the three years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011, respectively. Approximately 95.5%, 60.1%, 55.6% and 68.5% of the revenue from the sales of copper cathodes for the three years ended 31 December 2010 and the six months ended 30 June 2011, respectively, was derived from the sales of copper cathodes produced by the Target Group, while the remainder was derived from the sales of copper cathodes sourced by the Target Group from third party suppliers and the Parent Group for on-sale to its customers. The Target Group also provides copper processing services including the processing of copper concentrates into copper cathodes, but such processing services accounted for less than 1% of the total revenue of the Target Group over the Track Record Period.

Sales of gold, silver and sulphuric acid, together, accounted for approximately 16.3%, 22.6%, 13.4% and 18.0% of the total revenue of the Target Group for the three years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011, respectively. Approximately 100%, 47.7%, 84.7% and 74.8% of the revenue from the sales of gold and silver for the three years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011, respectively, was derived from the sales of gold and silver produced by the Target Group, while the remainder was derived from the sales of gold and silver sourced by the Target Group from third party suppliers for on-sale to its customers. The Target Group also sells a small amount of iron concentrate (which is derived from iron ore deposits associated with the copper ore deposits at the Tonglvshan Mine) and other metals recovered during the smelting and refining process of copper concentrate, such as platinum, palladium, and molybdenum. The Target Group sells all of the copper cathodes, gold and silver it produces as well as the copper cathodes it processes for its customers under its “Dajiang” brand.

2.5 Mines and processing facilities

The principal assets of the Target Group consist of the Four Mines, namely: i) Tonglvshan Mine; ii) Fengshan Mine; iii) Tongshankou Mine; and iv) Chimashan Mine; the Smelting Plant and the Precious Metal Plant (both of which are located not more than 90 km from the Four Mines).

Details are set out in the section headed “Business of the Target Group” in this circular.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

3. Directors and senior management

The senior management team of the Enlarged Group is expected to be made up of existing senior management members of both the Group and the Target Group. The majority of the directors and senior management of the Enlarged Group will have more than 20 years of experience in the copper mining, smelting and refining industries in the PRC. The management team will also include mining and smelting experts and prominent members of the business and academic communities of the mining industry in the PRC. The Directors consider that the extensive experience and expertise of the senior management team will be an important factor in helping the Enlarged Group to maintain its competitiveness against the other leading copper cathode producers in the PRC.

As described in the section headed “Directors and Senior Management of the Group and Daye Metal – Directors and Senior Management of Daye Metal” in this circular, we note that: (i) 7 out of the 10 directors of Daye Metal have more than 20 years of experience in the mining industry; and (ii) 5 out of 6 of the senior management of Daye Metal have more than 20 years of experience in the mining industry or the non-ferrous metals industry. We are of the view that the existing directors and senior management of Daye Metal, as at the date of this circular, have extensive experience in the mining industry or the non-ferrous metals industry in the PRC.

The Parent Company and China Times have confirmed to the Company that it is their intention for the Group to continue its existing business after completion of the Acquisition. Other than the introduction of the business of the Target Group, the Parent Company and China Times have also confirmed to the Company that they do not intend to introduce any major change to the Group’s business (including any re-deployment of the Group’s fixed assets) nor do they intend to terminate the employment of any of the Group’s employees after completion of the Acquisition.

The Company has been informed by the Parent Company and China Times that they may nominate new members to the Board after completion of the Acquisition, but no decision has been made as to the nominees or the timing of appointment as at the Latest Practicable Date. The Company will comply with the relevant requirements of the Listing Rules and the Takeovers Code if there is any change to the composition of the Board.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

None of the Directors is a director of or holds any position in any member of the Parent Group. The senior management of the Company is also independent of the Parent Group since there is no overlap between the senior management of the Company and that of the Parent Group. The Directors expect that the business of the Enlarged Group will be managed independently of the Parent Company after completion of the Acquisition.

The Directors consider that the Enlarged Group will be capable of carrying on its business independently of the Parent Company on the basis of: (i) management independence; (ii) operational independence; and (iii) financial independence. For details, please refer to the section headed “Relationship with the Parent Company” in this circular.

The following sets out the biographical details of the Directors and senior management of the Company immediately following the completion of the Acquisition:

3.1 Directors

(a) Executive Directors

Mr. Wan Bi Qi, aged 46, is the Chairman and an executive Director of the Company. Mr. Wan was appointed as a Director of the Company in April 2009. Mr. Wan is primarily responsible for the overall strategies, planning and business development of the Group. Mr. Wan currently holds directorships in 6 subsidiaries of the Company and was a director of China Times from April 2009 to June 2011. He was previously the general manager of the investment banking division of Fortune Securities Co., Ltd. and of Wanlian Securities Co., Ltd. and the deputy general manager of Flying Pace Investment Limited in Hong Kong from 2002 to 2008. Mr. Wan was the assistant to the manager of the Parent Company and the financial controller of Daye Metal from November 2008 to June 2011. Mr. Wan possesses experience in mergers and acquisitions, reorganisation, financing through listing and financing for listed companies. He obtained a bachelor's degree in science (exploration engineering) from Central South University (formerly Central South Industrial University) in 1987, a master's degree in philosophy and a doctorate degree in economics from Wuhan University in 1992 and 1998, respectively. Mr. Wan did not hold any directorship in any other listed public companies in the last three years.

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Mr. Chen Xiang, aged 42, is the Chief Executive Officer and an executive Director of the Company. Mr. Chen was appointed as a Director of the Company in April 2009. Mr. Chen currently holds directorships in 10 subsidiaries of the Company. Mr. Chen is responsible for major investments and fund raisings, mergers and acquisitions, contract management, dispute management as well as providing legal advice with respect to material operating decisions of the Group's senior management. Mr. Chen obtained a qualified PRC lawyer certificate from the Ministry of Justice of the PRC in August 1996 and he obtained a mid-level economist certificate in business administration from the Ministry of Human Resources and Social Security (formerly the Ministry of Personnel) of the PRC in November 2004. Prior to joining the Company, he was a deputy director of the legal department of the Parent Company and secretary to the board of directors of Daye Metal from November 2006 to December 2009. Mr. Chen has experience in corporate management, investment and legal affairs. Mr. Chen obtained a master's degree in law from Wuhan University in 2003. Mr. Chen also obtained a corporation lawyer's licence from the Ministry of Justice of the PRC in September 2004. Mr. Chen did not hold any directorship in any other listed public companies in the last three years.

Ms. Yuan Ping, aged 42, is an executive Director of the Company. Ms. Yuan was appointed as a Director of the Company in April 2009. Ms. Yuan currently holds directorships in 7 subsidiaries of the Company. Ms. Yuan is responsible for the general corporate and accounting affairs of the Group. Prior to joining the Company, Ms. Yuan was the chief financial officer of Changzhou Dajiang Copper Industry Co., Ltd., a subsidiary of the Parent Company, from 2006 to 2008, and deputy officer of the finance department of the Parent Company from January 2009 to May 2009. Ms. Yuan has 21 years of experience in financial management and investment. Ms. Yuan graduated in accounting from Zhongnan University of Economics and Law in 2004. Ms. Yuan obtained a qualified accountant certificate from the Ministry of Finance of the PRC in May 1997. She did not hold any directorship in any other listed public companies in the last three years.

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(b) Independent Non-executive Directors

Mr. Wang Qihong, aged 59, is an independent non-executive Director of the Company. Mr. Wang was appointed as a Director of the Company in January 2006. Mr. Wang is experienced in the postal and telecommunications field in the PRC. Prior to joining the Company, Mr. Wang was a deputy manager of Town Khan Limited from 1992 to 2001. Mr. Wang graduated in foreign language from Liaoning University in the PRC in 1976. He did not hold any directorship in any listed public companies in the last three years.

Mr. Wang Guoqi, aged 51, is an independent non-executive Director of the Company. Mr. Wang was appointed as a Director of the Company in January 2006. Mr. Wang qualified as a certified accountant in the PRC accredited by the Ministry of Finance of the PRC in June 1997. Mr. Wang has extensive experience in accounting and finance in different industries. Currently, he is the managing partner of Hua-Ander Certified Public Accountants in the PRC. Mr. Wang obtained a bachelor's degree in financial accounting and a master's degree in economics from Renmin University of China in 1982 and 1985, respectively, and a doctorate degree in philosophy from the University of London in the United Kingdom in 1994. He did not hold any directorship in any listed public companies in the last three years.

Mr. Qiu Guanzhou, aged 62, is an independent non-executive Director of the Company. Mr. Qiu was appointed as a Director of the Company in May 2009. Mr. Qiu has gained extensive and practical experience during his term of service as an officer responsible for administration and technology on the front line of a copper smelting enterprise. Mr. Qiu has been focusing on the teaching of and scientific research on mining engineering in Central South University since 1987. Since 1990, he has acted as head of the Department of Mining Engineering and vice-president of Central South University. Mr. Qiu is a renowned expert, professor and supervisor of doctorate students in the field of mining engineering in China. He obtained his master's and doctorate degree of engineering from Central South University in 1982 and 1987, respectively. Mr. Qiu did not hold any directorship in any listed public companies in the last three years.

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3.2 Senior management

Mr. Wang Da Zhao, aged 41, is the vice president of the Company. Mr. Wang joined the Company in October 2010. Mr. Wang is responsible for business development. Mr. Wang has experience in the finance industry in the PRC. Prior to joining the Company, Mr. Wang was the chief investment officer of an investment consulting firm and he has also served various positions at other companies and securities firms in the PRC. Mr. Wang graduated in international finance from Tianjin University of Finance and Economics in 1993, and obtained a master's degree in investment management from the Graduate School of Chinese Academy of Social Sciences in 1998. Mr. Wang did not hold any directorship in any other listed public companies in the past three years.

3.3 Non-competition

Each of the Directors has confirmed that he or she is not engaged in, or interested in any business which, directly or indirectly, competes or may compete with the business of the Enlarged Group.

4. Industry outlook

4.1 Copper industry in the PRC

Since 2000, the copper market in the PRC in general has experienced significant growth. The key drivers of this trend were the increasing level of urbanization and the continued industrial growth in China, which saw consumption more than quadruple from 1999 to 2009, adding nearly 5 million tonnes to global annual demand for copper. From 2000 to 2010, China's annual consumption and annual production of copper cathodes increased by approximately 263.6% and 233.9%, respectively. In comparison, the global annual consumption and annual production of copper cathodes increased by 22.2% and 25.5%, respectively during the same period.

The mid-south region, where the Target Group's mines and production facilities (including the Smelting Plant, the Precious Metal Plant and the Four Mines) are located, is close to two of the largest copper consumption regions in Eastern and Southern China. The mid-south region is also China's third largest copper cathode production base, accounting for approximately 10% of copper cathode production capacity in 2010.

4.2 Copper smelting industry in China

Over the past ten years, China's production of copper cathodes increased by an annual average of 12.8%, accounting for 85% of total growth in global refined production. China's refining capacity (which is equivalent to the ability to produce copper cathodes) is expected to continue to grow in the next five years, largely through capacity expansion at existing smelters, and in particular, by the leading copper cathode producers. According to the Antaike Report, the aggregate annual refining capacity of the top four copper cathode producers in terms of production volume in China amounted to 1.80 million tonnes by the end of 2006, which has increased to 2.86 million tonnes by the end of 2010, representing an increase of approximately 58.9%. Based on the rapid expansion in the refining capacity of these largest producers in the past five years, the expansion plan of other existing producers as well as the entry of new producers, in each case, taking into account their ramp up schedules, Antaike projects that the annual refining capacity in China will reach 9.28 million tonnes by 2015. However, China's production of copper cathodes will be dependent on the ability of smelters to secure raw materials (both scrap and concentrate), as growth in domestic production of concentrates and blister copper is expected to be slower.

Treatment charges ("TC") and refining charges ("RC", together with TC, "TC/RC") for copper concentrates, which are what copper smelters charge to smelt copper concentrates for the production of copper cathodes, have been low over the past 4 years as a result of a tight copper concentrates market. TC/RCs typically fall when the supply of copper concentrates falls or when operating smelting capacity increases, which has been the case in China for the past 4 years. For example, at their lowest levels, TC/RCs were at US\$46.5 per tonne for TC and 4.65 US cents per pound for RC (which were equivalent to a combined 11.96 US cents per pound of copper processing costs) in 2010 which were just about the level of actual costs of production. China's non-integrated copper smelters (who do not operate their own mines) suffer from low profit margins and profitability from downstream processing such as smelting when TC/RCs are low. Nevertheless, with relatively high price for sulphuric acid, being a by-product produced in the course of copper cathode production, these copper smelters were able to apply the profit from sales of sulphuric acid to compensate for the lower TC/RCs.

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Since the second half of 2010, however, TC/RC spot rates have been moving upwards, driven by increase in consumption demand in different end markets and more aggressive negotiations between copper concentrate producers and copper smelters. Increasing concentration of the copper smelting industry in China helps smelters to gain more negotiation power. In addition, the earthquake in Japan in March 2011 has caused and may in the short term continue to cause disruption to the production of Japanese copper smelters due to power shortage and other factors, which may lead to an increase in demand for the smelters operating in China. Going forward in 2012 and 2013, the supply deficit of copper concentrate is likely to continue to increase as the growth in demand for copper concentrate continues to outpace the increase in supply as a result of the rapid expansion of the smelting capacity (which is equivalent to the ability to process copper concentrates). China experienced a supply deficit in copper concentrates during the period from 2008 to 2010 where domestic supply fell short of domestic demand by 1.53 million tonnes, 1.73 million tonnes, and 1.54 million tonnes, respectively. Antaiko forecasts that such trend will continue in the near term, which will create downward pressure on TC/RC.

4.3 Copper pricing and exchanges

As in the case of all commodities, the price of copper cathodes is primarily affected by the balance between supply and demand (production consumption) of copper cathodes, as well as existing inventory levels. To a lesser degree (though their significance has increased in recent years), the price of copper cathodes is also affected by the demand of financial investors and metal exchanges.

The international benchmark price for copper is the price at which copper cathodes are traded on LME, quoted in terms of US\$ per tonne. The two other main exchanges where copper cathode is traded are the CME Group Inc.'s Comex and SHFE.

SHFE is the only futures exchange in the PRC which trades copper futures. Domestic prices of copper cathode typically follow international trends but copper cathodes are often traded at a premium (or discount) to LME price, plus import duties and taxes, depending on the level of supply of copper cathodes in the local market.

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Prices of copper cathodes have experienced significant fluctuations in the past. Similar to other commodities, the period from 2005 to 2007 witnessed the most substantial increase in prices of copper cathodes since the late 1980s. The increase in price over this period was primarily driven by the emergence of China as a major consumer of copper cathodes and Chinese domestic demand between 2003 and 2008.

In China, the prices of copper cathodes reached the highest point of RMB85,550 per tonne in May 2006, roughly in line with prices in the international markets. The global financial crisis which began in 2008 caused prices of copper cathodes to fall sharply after the peak throughout 2008 until the first quarter of 2009. Since then, prices of copper cathodes have recovered strongly. The average 3-month forward SHFE price rebounded from RMB41,389 per tonne in 2009 to RMB59,296 per tonne in 2010, representing an increase of 43%. On LME, the average 3-month forward rebounded from US\$5,171 per tonne in 2009 to US\$7,550 per tonne in 2010, representing an increase of 46.01%, according to the Antaike Report.

Prices of copper cathodes in China have averaged RMB67,711 per tonne on SHFE during January to October in 2011, representing an increase of 16.9% compared to the same period last year. The introduction of the copper exchange traded fund at the end of 2010 further strengthened copper's financial attributes, and the implementation of relaxed monetary policies also provides additional support for copper prices around the globe. On the other hand, the potential negative impact that the European Union debt crisis may have on the world economy and other economic uncertainties may exert downward pressure on the price of copper cathodes.

5. Reasons for and benefits of the Acquisition

The Group is principally engaged in corporate investment and trading in securities, mineral exploitation and trading in non-ferrous metals.

In light of the gradual recovery of the global economy, the Board expects that there will be increasing demand for mineral resources. The Board considers that this is the right opportunity for the Group to further invest in the development and expansion of its copper mining business. One of the development objectives of the Group is to increase its reserve of non-ferrous metal resources. In this connection, the Company has identified the Target Group as an appropriate acquisition target and considers that the Acquisition would allow the Group to significantly increase its copper reserve and expand its copper business. The Directors consider that the Acquisition is an opportune investment for the Group and expect that the Acquisition will present the Group with favourable long term prospects.

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In addition, the Directors believe that the principal strengths of the Enlarged Group will include: i) the Enlarged Group will have a significant portfolio of high-grade copper reserves and resources and associated metals; ii) the Enlarged Group will be one of the largest producers of copper cathodes in the PRC by production volume; iii) the Enlarged Group will be one of the few copper producers in the PRC to have a vertically integrated operation; iv) the Enlarged Group will benefit from the favourable locations of its mines and production facilities; v) the Enlarged Group will benefit from the continued growth in the copper cathode market in the PRC, which has been one of the high-growth copper markets in the world; vi) the Enlarged Group will have strong research and development capabilities; and vii) the Enlarged Group will have an experienced management team with extensive industry expertise.

Details of the principal strengths of the Enlarged Group are set out in the section headed “Letter from the Board” in this circular.

6. Principal terms of the Acquisition Agreement

6.1 *The Acquisition Agreement*

Date: 23 January 2011 (and 31 January 2011 and 23 December 2011, being the dates of the First Supplemental Agreement and the Second Supplemental Agreement, respectively)

Parties:

- (a) the Company (as purchaser of the Sale Shares);
- (b) China Times, Cinda and Huarong (as sellers of the China Times Sale Shares, Cinda Sale Shares and Huarong Sale Shares, respectively, and covenantors in respect of the Parent Company Reorganisation, Cinda Reorganisation and Huarong Reorganisation (as the case may be)); and
- (c) the Parent Company (as covenantor in respect of the Parent Company Reorganisation and guarantor of the performance by China Times of its obligations).

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As at the Latest Practicable Date, China Times, a wholly-owned subsidiary of the Parent Company, was interested in 1,163,236,988 Ordinary Shares, representing approximately 20.80% of the total Ordinary Shares in issue and 5,495 Preference Shares, representing approximately 33.33% of the total Preference Shares in issue. Each of China Times and the Parent Company is, therefore, a substantial shareholder of the Company. On 25 November 2009, China Times' holding of Ordinary Shares fell below 30% as a result of a placing of Ordinary Shares by the Company to Independent Third Parties and hence, it ceased to be a controlling shareholder of the Company within the meaning of the Listing Rules. China Times was wholly-owned by Wang Jian Sheng, who is independent of China Times and the Parent Company, before the Parent Company acquired 49.89% of the then issued share capital of China Times in April 2009. As at the Latest Practicable Date, Wang Jian Sheng held 10,990 Preference Shares. In December 2009, the Parent Company acquired the remaining 50.11% interest in China Times from Wang Jian Sheng, at which point China Times became wholly-owned by the Parent Company.

Cinda, Huarong and their respective ultimate beneficial owners are independent of the Company and its connected persons.

The Parent Company is a state-owned conglomerate in China whose principal business is copper mining and processing. It owns, through the Target Group, one of the five largest raw material production bases of copper in the PRC. It has a fully integrated operation which enables it to undertake the different stages of copper production from mining, processing, smelting and plating, research and development, design to sales and trading. It also produces precious metals such as platinum, molybdenum, selenium, lead, nickel and bismuth.

China Times is an investment holding company.

Cinda and Huarong are both asset management companies wholly-owned by the Ministry of Finance of the PRC. Cinda is principally engaged in the acquisition and management of non-performing assets of financial and non-financial institutions, bankruptcy management, foreign investment, provision of investment and risk management consultancy services and asset valuation. Huarong is principally engaged in the acquisition, disposal and management of non-performing banking assets, debt and corporate restructuring, underwriting, debt issue and asset valuation.

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Assets to be acquired by the Company

The Sale Shares.

The Consideration

The China Times Consideration, the Cinda Consideration and the Huarong Consideration are RMB5,419,850,000 (or HK\$6,403,717,094), RMB396,500,000 (or HK\$468,476,771) and RMB283,650,000 (or HK\$335,141,075), respectively (based on the exchange rate of HK\$1: RMB0.84636).

The China Times Consideration will be satisfied as to RMB4,570,243,322 (or HK\$5,399,881,046) by the allotment and issue of the China Times Consideration Shares at the Issue Price of HK\$0.50 per Consideration Share and as to RMB849,606,678 (or HK\$1,003,836,048) by the issue of the China Times Convertible Notes by the Company to China Times (or its nominee) at China Times Completion.

The Cinda Consideration will be satisfied by the allotment and issue of the Cinda Consideration Shares at the Issue Price of HK\$0.50 per Consideration Share by the Company to Cinda (or its nominee) at Cinda Completion.

As Huarong Completion will not take place, the Huarong Consideration will not be payable.

The Consideration was determined after arm's length negotiations between the Company and the Vendors and was based on various factors, including:

- (i) the audited net asset value of Daye Metal of RMB3.33 billion as at 31 December 2009 as shown in the audited consolidated financial statements of Daye Metal for the year ended 31 December 2009 prepared in accordance with the PRC Generally Accepted Accounting Principles;

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- (ii) the volume, quality and accessibility of the copper reserves and precious metals at the Tongshankou Mine, Chimashan Mine, Tonglvshan Mine and Fengshan Mine and the relative shortage of copper deposits and precious metals comparable in volume, quality and accessibility to the deposits at those mines in the PRC and hence, the potential earnings that may be derived from the deposits at those mines;
- (iii) the growth prospects of the Target Group in light of the recent recovery in market demand for copper in the PRC and the upward trend of copper prices both in the PRC and on major international metal markets;
- (iv) the enterprise value (being the sum of the claims of all the security-holders: debt-holders, preferred shareholders, minority shareholders, common equity holders of a company, less the value of certain excessive assets of such company, such as cash and investments) to copper resources ratios of each of Jiangxi Copper Company Limited, a company listed in Hong Kong, OZ Minerals Limited, a company listed in Australia, and Equinox Minerals Limited, a company then listed in Canada, all of which were companies primarily engaged in copper mining in a single country. Such ratio is calculated by dividing the enterprise value based on the latest market price and financial information available as at the Last Trading Day by the copper resources of the relevant comparable company. As at the Last Trading Day, the range of enterprise value to copper resources multiple of other comparable listed companies were approximately US\$703 per tonne to US\$1,666 per tonne with the average being US\$1,122 per tonne. The Consideration is approximately valued at enterprise value to copper resources multiple of US\$1,110 per tonne, based on the estimated copper resources of the mining assets of the Target Group and Daye Metal's management accounts for the year ended 31 December 2010, both of which were the best available information before signing of the Acquisition Agreement and have not been independently verified by the Company; and
- (v) the fact that the Consideration will be satisfied by the allotment and issue of the Consideration Shares and the China Times Convertible Notes which will not involve any immediate cash outlay by the Company.

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Consideration Shares

The China Times Consideration Shares and Cinda Consideration Shares to be allotted and issued by the Company represent, in aggregate: (i) approximately 209.91% of the total Ordinary Shares in issue as at the Latest Practicable Date; (ii) approximately 67.73% of the total Ordinary Shares in issue as enlarged by the allotment and issue of the China Times Consideration Shares and Cinda Consideration Shares (without taking into account any Conversion Shares which may be issued pursuant to the China Times Convertible Notes); and (iii) approximately 60.70% of the total Ordinary Shares in issue as enlarged by the allotment and issue of the China Times Consideration Shares, Cinda Consideration Shares and the Conversion Shares (assuming full conversion of the China Times Convertible Notes at the Conversion Price).

The China Times Consideration Shares and Cinda Consideration Shares will be allotted and issued under the Specific Mandate proposed to be obtained at the EGM. The China Times Consideration Shares and Cinda Consideration Shares will rank equally among themselves and pari passu in all respects with the Ordinary Shares in issue on the respective date of their allotment and issue.

China Times Convertible Notes

The following is a summary of the principal terms of the China Times Convertible Notes:

Maturity	:	The date falling on the fifth anniversary of the issue of the China Times Convertible Notes
Redemption	:	The Company shall redeem all outstanding China Times Convertible Notes in whole on the Maturity Date at the redemption amount equal to the outstanding principal amount under the China Times Convertible Notes
Interest	:	The outstanding principal amount under the China Times Convertible Notes will not bear any interest

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- Transferability : The China Times Convertible Notes may be transferred and assigned, in whole or in part, at any time before the Maturity Date, subject to the approval of the Stock Exchange (if required) and the consent of the Company
- Conversion : Upon full conversion of the China Times Convertible Notes at the Conversion Price, an aggregate of 2,007,672,096 Conversion Shares will be issued by the Company (representing (i) approximately 35.91% of the total Ordinary Shares in issue as at the Latest Practicable Date; and (ii) approximately 10.38% of the total Ordinary Shares in issue as enlarged by the allotment and issue of the China Times Consideration Shares, the Cinda Consideration Shares and the Conversion Shares (assuming full conversion of the China Times Convertible Notes at the Conversion Price))
- Conversion price : HK\$0.50 per Conversion Share
- Public float : The conversion rights of the China Times Convertible Notes shall not be exercised if, immediately following the conversion, the Company will be unable to meet the minimum public float requirement under the Listing Rules
- Voting right : The China Times Convertible Notes do not carry any voting right

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The China Times Convertible Notes and the Conversion Shares will be allotted and issued under the Specific Mandate proposed to be obtained at the EGM. The Conversion Shares, when issued, will rank equally among themselves and *pari passu* in all respects with the Ordinary Shares in issue on the date of the allotment and issue of the Conversion Shares.

Details of the conditions and completion of the Acquisition Agreement are set out in the section headed “Letter from the Board” in this circular.

We note that the conditions precedent set out in (c), (h), (l) and (m) to China Times Completion and condition precedent (d) to Cinda Completion may be waived by the Company as set out in the section headed “Letter from the Board” in this circular. We have discussed this issue with the management of the Company, while the aforesaid conditions are all material, we understand that the Company considers it appropriate to retain the right to waive any of those conditions as this allows the Company to retain the flexibility of choosing whether to proceed with completing the Acquisition in the event that any of those conditions is not fully complied with, and the management of the Company has indicated that the Company would only exercise such right, where such non-compliance does not give rise to any material concern and hence, does not present any material risk to the Company in any aspect. We also understand that the Directors are fully aware of their fiduciary duty to the Company to act in its best interests if any of those conditions to be waived at the Board's discretion. As such, we are of the view that the right of the Company to waive any of the conditions precedent (c), (h), (l) and (m) to China Times Completion or condition precedent (d) to Cinda Completion is reasonable and in the interests of the Company and its shareholders.

Detailed analysis of terms of the China Times Consideration Shares and Cinda Consideration Shares and the China Times Convertible Notes are set out in the sub-section headed “Analysis of the Issue Price of the China Times Consideration Shares and the Cinda Consideration Shares and the Conversion Price of the China Times Convertible Notes and the Conversion Shares” below.

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6.2 *Evaluation of the Consideration*

6.2.1 Basis of the Consideration

Pursuant to the Acquisition Agreement, the Consideration excluding the Huarong Consideration of approximately RMB5,816,350,000 (or HK\$6,872,193,865) was determined after arm's length negotiations between the Company and the Vendors and was based on the factors as set out under the paragraph headed "The Consideration" above.

6.2.2 Analysis of the Consideration

(i) Comparable companies analysis

In assessing whether the Consideration is fair and reasonable, we have first looked at the Target Group against a number of comparable companies by examining a number of methodologies as follows:

- (a) price-to-earnings ratio ("P/E");
- (b) enterprise value-to-sales ratio ("EV/S");
- (c) price-to-net asset value ratio ("P/NAV");
- (d) enterprise value-to-copper reserve ratio ("EV/Copper reserve ratio"); and
- (e) enterprise value-to-copper resources ratio ("EV/Copper resources ratio").

Our selection criteria for each of the comparable companies are as follows:

- (a) listed on the main board of the Stock Exchange;
- (b) principally engaged in the copper mining industry in the PRC;
- (c) have all of their mining assets located in the PRC; and
- (d) have more than 300,000 tonnes probable copper reserves.

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The criteria for having a minimum of 300,000 tonnes of probable copper reserves is based on the probable copper reserve of the Target Group (approximately 305,970 tonnes) as disclosed in Appendix V-A in this circular.

As such, in accordance with our selection criteria above, we have reviewed the following five comparable companies (the “Comparable Companies”), namely, Jiangxi Copper Company Limited (“Jiangxi Copper”), Zijin Mining Group Company Limited (“Zijin”), Minmetals Resources Limited (“Minmetals”), Xinjiang Xinxin Industrial Co., Ltd., (“Xinxin”) and China Gold International Resources Corp. Ltd. (“China Gold”). The list of Comparable Companies is an exhaustive list of companies selected based on our above-mentioned selection criteria.

Table 4 – Comparable Companies analysis

Company Name	Stock code	P/E	EV/S	P/NAV	EV/ Copper reserve ratio (US\$/ton)	EV/ Copper resources ratio (US\$/ton)
		<i>Note 1, 2</i>	<i>Note 2, 9</i>	<i>Note 1, 2</i>	<i>Note 7, 9</i>	<i>Note 7, 9</i>
Jiangxi Copper	358	21.6	1.5	3.1	1,148	N/A
Zijin	2899	19.9	3.7	4.4	1,475	N/A
Minmetals	1208	4.9	0.8	4.2	2,707	820
Xinxin	3833	27.2	7.4	1.8	3,738	2,021
China Gold	2099	74.8	14.1	1.6	2,135	478
<i>Average</i>		29.7	5.5	3.0	2,241	1,106
<i>Maximum</i>		74.8	14.1	4.4	3,738	2,021
<i>Minimum</i>		4.9	0.8	1.6	1,148	478
The Target Group						
<i>(Note 3, 4, 5, 6, 8)</i>		47.7	0.4	2.7	5,707	1,870

Source: Circular, Stock Exchange, the respective companies’ latest annual reports and Bloomberg

Exchange rates of HK\$1.00=RMB0.84636 and US\$1=HK\$7.8 are applied in the analysis.

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Note: 1) Stock price and market capitalisation information is extracted from Bloomberg, as at 21 January 2011; 2) financial information of the Comparable Companies is extracted from information in their respective latest annual reports; 3) market capitalisation of the Target Group refers to the Consideration of approximately RMB5.8 billion (equivalent to approximately HK\$6.9 billion) on a 100% basis, i.e., RMB6.1 billion (or HK\$7.2 billion); 4) attributable earnings of the Target Group refers to the audited net profit attributable to shareholders for the financial year ended 31 December 2010; 5) sales of the Target Group refers to the audited sales figures for the financial year ended 31 December 2010; 6) attributable NAV of the Target Group refers to the audited net asset value attributable to shareholders for the financial year ended 31 December 2010; 7) copper reserve and copper resources of Comparable Companies are extracted from respective company's latest annual report, the copper resources of Jiangxi Copper and Zijin are not available in its respective company's latest annual report; 8) copper reserve and copper resources of the Target Group is extracted from the ITR in Appendix V-A in this circular; and 9) EV of the Comparable Companies and the Target Group refers to the claims of all the security-holders: common equity holders (the Consideration), debt-holders, preferred shareholders, minority shareholders, less the value of cash of the Comparable Companies and the Target Group extracted from the financial analysis from Bloomberg, as at 21 January 2011 and the Appendix I in this circular respectively.

As shown in Table 4, (i) the P/E of the Comparable Companies ranged from approximately 4.9 to 74.8 (“P/E Range”) with an average of approximately 29.7 (“P/E Average”); (ii) the EV/S of the Comparable Companies ranged from approximately 0.8 to 14.1 (“EV/S Range”) with an average of approximately 5.5 (“EV/S Average”); (iii) the P/NAV of the Comparable Companies ranged from approximately 1.6 to 4.4 (“P/NAV Range”) with an average of approximately 3.0 (“P/NAV Average”); (iv) the EV/Copper reserve ratio of the Comparable Companies ranged from approximately US\$1,148 per ton to US\$3,738 per ton (“EV/Copper reserve ratio Range”) with an average of approximately US\$2,241 per ton (“EV/Copper reserve ratio Average”); and (v) the EV/Copper resources ratio of the Comparable Companies ranged from approximately US\$478 per ton to US\$2,021 per ton (“EV/Copper resources ratio Range”) with an average of approximately US\$1,106 per ton (“EV/Copper resources ratio Average”).

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We note that: (i) the P/E of the Target Group of approximately 47.7 is above the P/E Average, nevertheless, it is within the P/E Range; (ii) the EV/S of the Target Group of approximately 0.4 is below the EV/S Average and below the EV/S Range; (iii) the P/NAV of the Target Group of approximately 2.7 is below the P/NAV Average and within the P/NAV Range; (iv) the EV/Copper reserve ratio of the Target Group of approximately US\$5,707 per ton is above the EV/Copper reserve ratio Average and the EV/Copper reserve ratio Range; and (v) the EV/Copper resources ratio of the Target Group of approximately US\$1,870 per ton is above the EV/Copper resources ratio Average, nevertheless, it is within the EV/Copper resources ratio Range.

Although the Comparable Companies may have differences including location of mines, mine life, metals, business models, risk associated with the type of mineralization and extraction, markets and customers as compared with the Target Group, we consider that the Comparable Companies, in general, serves as fair and representative samples for the purpose of comparison with the Target Group because: (i) the principal businesses and the locations of the mining assets of the Comparable Companies are similar to that of the Target Group, in that the Comparable Companies and the Target Group both encounter similar market conditions and exposures to government regulations; and (ii) the criteria for having a minimum of 300,000 tonnes of probable copper reserves is based on the probable copper reserve of the Target Group (approximately 305,970 tonnes) as disclosed in Appendix V-A in this circular. The analysis of the five ratios as shown in Table 4 is for reference purpose only and our assessment on the Consideration is largely based on the fairness and reasonableness of the assumptions, the bases and the methodology for the Net Asset Valuation Report as set out in the section below.

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(ii) Chapter 18 valuation and market valuation of the Mineral Assets

The Company has appointed Runge, trading as Minarco-MineConsult (“MMC”) of Hong Kong (“the Competent Person”) to carry out an Independent Technical Review of the mineral resources and ore reserves of the Tongshankou Mine, Chimashan Mine, Tonglvshan Mine and Fengshan Mine (“the Mineral Assets”).

We understand that MMC has conducted its review and preparation of the Independent Technical Review and Competent Person’s Report “Hubei Polymetallic Projects, China” (the “ITR”) dated 29 December 2011 in accordance with the requirements of Chapter 18 of the Listing Rules. The report is also in compliance with the “Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves” (the “JORC Code”) 2004 edition that is suitable for public reporting and meets the reporting standards of Chapter 18 of the Listing Rules and the “Code for the Technical Assessment and Valuation of Mineral and Petroleum Assets and Securities for Independent Expert Reports” (the “VALMIN Code”).

In accordance with Rule 18.09 (3) of the Listing Rules, a mineral company proposing to acquire or dispose of assets which are solely or mainly mineral or petroleum assets as part of a relevant notifiable transaction must produce a valuation report in the case of a major (or above) acquisition, which must form part of the relevant circular, on the mineral or petroleum assets being acquired as part of the relevant notifiable transaction. As such, the Company has appointed Jones Lang LaSalle Sallmanns Limited (“JLLS” or “Independent Valuer”) as the competent evaluator to prepare an independent opinion on 95.35% of the fair market value of the Mineral Assets as at 1 October 2011 (the “Valuation Date”). The valuation has been carried out by JLLS in association with an independent competent specialist Global Resource and Infrastructure of Melbourne, Victoria and Robert G Adamson Consultants of Sydney, Australia.

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We understand that the valuation report prepared by JLLS has been prepared in accordance with Chapter 18 of the Listing Rules and the guidelines set out in the VALMIN Code.

The valuation is carried out on a fair market value basis. Fair market value is defined as “the amount of money (or the cash equivalent of some other consideration) determined by the expert in accordance with the provisions of the VALMIN Code for which the mineral or petroleum asset or security should change hands on the Valuation Date in an open and unrestricted market between a willing buyer and a willing seller in an arm’s length transaction, with each party acting knowledgeably, prudently and without compulsion”.

The valuation contains calculations and forecasts based substantially on data contained in the ITR dated 29 December 2011, prepared by MMC of Hong Kong, as well as those provided directly by the Company.

The fair market value of the 95.35% interest in the Mineral Assets is RMB2,800 million as at the Valuation Date.

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We have reviewed and discussed with the Independent Valuer the methodology, the basis and the assumptions adopted for the valuation of the Mineral Assets. We understand that the Independent Valuer has considered three possible valuation approaches namely: i) the discounted cash flow (“DCF”); ii) comparable transactions; and iii) orderly realisation of assets in valuing the Mineral Assets. The Independent Valuer is of the view that the adoption of comparable transactions approach was not appropriate as it required the valuer to look to transactions recently completed on an arm’s length basis where the subject business is sufficiently similar to that being valued. It was however, often difficult to find comparable assets and to obtain full details of such transactions as all relevant information may not be in the public domain. Also, they were not aware of any suitable comparable transactions. The adoption of orderly realisation of assets approach was also not appropriate in valuing operating assets where the Mineral Assets are reasonably expected to have operating lives extending over five to fifteen years and possibly more. As such, the Independent Valuer has adopted the DCF approach as the most appropriate method in valuing the Mineral Assets on a separate stand-alone operation in a view that the DCF technique is particularly appropriate for mineral properties having defined resources and is the usual approach to the valuation of operating mines and of mineral properties having defined mineral resources. In addition, the Mineral Assets are currently operating and well established mines that have been in continuous operation for periods of 30 to 50 years. The Independent Valuer considered that established and ongoing mining operations having long term mineral inventories are particularly suited to valuation on an income basis using DCF methodology.

The DCF methodology involves the calculation of the net present values by discounting expected future cash flows. Project cash flows are discounted to present values using discount rates that take into account the time value of money and risks associated with the cash flows. The DCF methodology is appropriate for assets such as mineral assets where reserves are depleted over time and where significant capital expenditures are required. It is the primary method of valuation in the mining industry.

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The DCF valuation method is based on the premise that the value of a business is the net present value of its future cash flows. In the mining industry, this approach requires assessment of: i) mineral resources, ore reserves and potential resources; ii) the appropriate mining and processing methods to exploit and market those reserves; and iii) an analysis of future production, production costs, market prices, cash flows, capital requirements and capital costs for the life of the potential reserves.

Moreover, we have also discussed with the Independent Valuer regarding the major assumptions made, in particular, with respect to: a) ore reserves and mineral resources estimates; b) capital costs forecast; and c) discount rate in valuing the Mineral Assets.

a) Ore reserves and mineral resources estimates

As stated in Appendix VI in this circular, the Mineral Assets comprise principally their respective and entire mineral resource and ore reserve inventories where the critical assessment of these inventories and their availability to support mine management's five year production forecasts and extended production scenarios (as disclosed in the ITR) underpins the valuation.

To conduct the valuation, having regard to Rule 18.30 (3) of the Listing Rules that inferred resources are not considered in valuation, the Independent Valuer estimated the likely years of operation at the production rates as set out in the ITR based upon the present probable reserves together with estimates of nominally mineable material that under reasonable mining industry assumptions regarding technical and operational parameters are expected to arise from the remaining indicated resources. Such estimates are a tool used in the process of deriving income-based valuations in the mining industry. In this valuation, nominally mineable material estimated that is expected to develop from conversion of indicated resources is termed "notional ore". This is an informal term and the notional ore tonnages and grades considered in the valuation report have relevance only to this valuation. The ore reserves are a subset of resources and are estimated taking into account mine plans, mining losses and dilution and other factors, the estimation of notional ore is necessarily an approximation requiring elements of professional experience and judgement.

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Approximately 33,595,000 tonnes of the current indicated resources (accounting for approximately 50%) were not classified as ore reserves as stated in the ITR pursuant to JORC valuation. The Independent Valuer compared the tonnage of probable ore relative to the tonnage of indicated resources for each mine. Except for Tonglvshan where the Independent Valuer considered that there is limited potential for further conversions since the reserve tonnage is approximately 77% of the indicated resource tonnage, the comparable tonnage percentages for the other three mines are rather less in which there is a high probability that additional ore reserves will in time arise from conversion of the current indicated resources under similar geology. The Independent Valuer assumed that up to 60% conversion from current indicated resources to reserve for each of the other three mines is a reasonable expectation and therefore, they derived the notional ore tonnages based on the difference between the existing probable reserves to indicated resources ratio (as a percentage) and 60%. Under this basis, the Independent Valuer estimated a total of approximately 11,645,000 tonnes (accounting for approximately 17% of the current indicated resources) of “notional ore” is potentially available from the current indicated resources.

In light of the above, we consider, the assumption that approximately 17% of the current indicated resource classified as “notional ore” as potentially available from the current indicated resources, is reasonable.

b) Capital cost forecasts

As stated in Appendix VI in this circular, capital costs used in the DCF model are those presented as project forecast capital expenditures set out in section 10 of the ITR. The capital cost forecasts (2011-2015 period) for each of the Mineral Assets, being one of the parameters in DCF model, have been provided by the Target Group and the Competent Person was unable to review these forecasts in detail.

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The Independent Valuer has also assumed there will be capital expenditure requirements (sustaining capital) in the operating years beyond 2015 and have allowed continuing annual amounts that are a function of the lowest annual expenditure forecast by the Target Group in the 2011-2015 period.

As advised by the Independent Valuer, it is beyond the scope of the Independent Valuer's commission to carry out a full and complete technical and financial audit on the capital cost forecasts provided by the Target Group.

Nevertheless, we understand that the Independent Valuer's has examined the effect of variations in capital costs in the Independent Valuer's sensitivity analysis and has concluded that the valuation of the Mineral Assets was not materially affected.

We have discussed with the Competent Person, the Independent Valuer and the management of the Company regarding the major assumptions made in estimating the capital cost forecasts. We understand that the capital cost forecasts (2011-2015 period) for each of the Four Mines were estimated on a stand-alone basis where detailed breakdown of major expenditure items of each mine were disclosed in Appendix V-A in this circular.

For the Tonglvshan and Tongshankou projects, we note that majority of expenditures were related to expansion capital expenditures on new mine development and respective expansion of processing plant and tailing storage facility. The estimated capital expenditures were based on reference to the feasibility studies of the respective mine.

For the Fengshan and Chimashan projects, we note that the capital expenditures were related to planned capital development to maintain the production capacity at the existing mine.

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As for capital cost forecasts beyond 2015, the Independent Valuer considered that there are no further expansion capacities for the Mineral Assets, as such, the capital costs for each of the Mineral Assets were all related to maintenance capital expenditures which were estimated based on the minimum capital expenditure requirements to sustain the operation of the Mineral Assets over their respective remaining mine lives and certain adjustments based on the professional judgment of the Independent Valuer.

In addition, we also understand that the Competent Person has performed a benchmark checking on the estimated capital costs of each of the Mineral Assets against the other mines in the PRC with similar capacity and concluded that the estimated capital costs for 2011-2015 period are reasonable

In light of the above, we consider that, the use of capital cost forecasts provided by the Target Group, being the best available information, and the major assumptions made to construct the DCF model in valuing the Mineral Assets, are reasonable.

c) Discount rate

As stated in Appendix VI in this circular, in selecting the appropriate discount rate to be applied, the Independent Valuer has taken into account a number of factors including the risk considered inherent in the operations, their knowledge of discount rates commonly applied in valuing mining projects using the DCF method and considerations of the current cost of finance.

The Independent Valuer has selected a discount rate of 10% for the Tonglvshan, Fengshan and Tongshankou projects as appropriate for the risks involved in these long established mature mining operations. The Chimashan project is a small -capacity and relatively high cost operation that is assumed to be within five years of closure. As such, it is the lowest margin of the Mineral Assets and the most sensitive to fluctuations in cash flow streams; therefore, variations in mining conditions or copper and gold prices could precipitate early closure. To compensate for the high level of operational risk inherent in Chimashan, a discount rate of 12% is applied in recognition of such risks.

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Based on our discussion with the Independent Valuer, we note that a discount rate of 10% is commonly used in performing the valuation in the mining industry where the respective companies have long established mature mining operations. In addition, we also note that the Independent Valuer has taken into account certain macro-economic factors including interest rate, industry risk and country risk and capital structure of the Target Group, etc., in estimating the discount rate. The inflation rate has not been taken into account since the DCF was expressed in real terms.

We consider that the discount rates of 10% for Tonglvshan, Fengshan and Tongshankou are appropriate in light of: 1) the fact that these three mines are long-established and have prospective operating lives of 15 or more years; 2) the Independent Valuer's experience in the mining industry and in comparable listed companies in other jurisdictions; 3) the commonly used discount rate in performing the valuation in the mining industry where the respective companies have long established mature mining operations; and 4) the Independent Valuer's consideration of the relevant risk factors and other macro-economic factors. We also consider that a discount rate of 12% for Chimashan is considered appropriate in order to reflect the project's specific risks, due to it being of a much smaller mining scale and that it has a likely life of only five years (or less) based on the professional judgement of the Independent Valuer. As such, we consider that the use of 10% for Tonglvshan, Fengshan and Tongshankou and 12% for Chimashan is reasonable.

Given that the valuation approach is commonly adopted and the most appropriate method in valuing the Mineral Assets, and that the major assumptions made in connection with the valuation approach are appropriate and reasonable, we consider that the methodology, the basis and the assumptions made in the valuation of the Mineral Assets are fair and reasonable.

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(iii) Valuation of the net assets value of the Target Group

As stated in the section headed “Letter from the Board” in this circular, the asset to be acquired by the Company is the China Times Sale Shares and Cinda Sale Shares of the Target Group, which owns 95.35% interest of Daye Metal.

The Target Group engages in mining, smelting, refining and processing of copper, precious metals, iron ore and sulphide. The Target Group owns four copper mines (i.e. the Mineral Assets as mentioned above), two plants, two branch companies, three subsidiary companies and one business department.

Pursuant to the Acquisition Agreement, China Times Completion is conditional upon the satisfaction of the two of the following condition precedents: i) the independent valuer having completed the valuation of the assets (including the mining assets and the properties) of the Target Group and the content and results of such valuation being satisfactory to the Company; and ii) the net asset value of the Target Group as shown in valuation report referred to (i) amounting to no less than RMB5.8 billion (being 95.35% of RMB6.1 billion since Huarong Completion will not take place), as such, the Company has appointed JLLS to prepare an independent opinion of the net assets value of the Target Group as at 30 September 2011 (the “Valuation Date”).

The valuation was carried out with reference to a fair value basis. Fair value is defined as “the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm’s length transaction”.

The valuation has been conducted with reference to the International Valuation Standards issued by the International Valuation Standards Committee.

The net assets value of the Target Group as at 30 September 2011 of approximately RMB6,150,000,000 is higher than the total consideration payable of RMB5,816,350,000. The consideration is at a discount of approximately 5% to the valuation under the Net Asset Valuation Report.

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We note that one of the key assumptions that have been made by the Independent Valuer in determine the net assets value of the Target Group is that, for the purpose of calculating the net assets value of the Target Group, in valuing those properties without title document, the Independent Valuer has assumed that such properties will be occupied continuously by the Target Group for production use in foreseeable period. After discussions between us and the Independent Valuer, we understand the basis of making this assumption is that the Target Group has occupied 75% of such properties for over 6 years. In addition, we have discussed with the Company's PRC lawyer and understand that although the defects in the property titles may restrict such properties to be sold or transferred in the market, they do not prevent such properties to be occupied continuously by the Target Group for production use in foreseeable period and the Directors of the Target Group has confirmed that the Target Group will continuously occupy such properties for production use. As such, after taking into consideration that the Target Group has occupied 75% of such properties for over 6 years and that defects in property titles do not prevent the Target Group to continuously occupy such properties for production use from the PRC legal perspective, we are of the view that the assumption that such properties will be occupied continuously by the Target Group for production use in foreseeable period is fair and reasonable.

As disclosed in Appendix VII – Valuation Report on the overall assets of the Target Group in this circular, the net assets value of the Target Group as at 30 September 2011 was RMB6,150,000,000 while the unaudited net book value of the Target Group as at 30 September 2011 was RMB3,778,780,000.

We have reviewed and discussed with the Independent Valuer the valuation approach and the methodology adopted in valuing different class of assets and liabilities, in particular: 1) fixed assets (mainly include land and buildings); 2) inventories; and 3) intangible assets – mining rights where the book values and net assets values of these assets are different.

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In terms of fixed assets (mainly include land and buildings), the book value of such assets was RMB4,423,784,000 while the net assets value was RMB4,724,706,000. We understand that the difference between the two values was mainly due to: i) the Parent Company injected certain parcels of land by way of capital contribution to Daye Metal in 2005, when the land price was much lower at that time; ii) the land transaction policy and the property market in China have changed dramatically since 2007, and ever since the price of land increased significantly which caused a great value increment of land parcels in their value; and iii) in valuing buildings using the depreciated replacement cost method, we note that since buildings in the mining industry are of specific nature and comparable transactions are not easily accessible in the open market, as such, the major assumptions made in valuing the buildings were based on references to the market rate of construction cost such as labour rates, material prices, equipment rental prices and finance costs deemed to replace the same building at the same location at the Valuation Date since most of the buildings of the Target Group were constructed before 1990's.

In terms of inventories, we understand that the book value of RMB3,445,341,000 is stated at the lower of cost and net realizable value. The net assets value of RMB3,973,091,000 was derived by multiplying the quantities of these inventories (as provided by Daye Metal) with their corresponding market prices at the Valuation Date or the date closest to the Valuation Date for which the relevant data is available. Since majority of the inventories related to copper cathodes and copper concentrates, the major assumptions made in valuing the inventories were based on the latest transaction price of the copper cathodes and copper concentrates at the Valuation Date or the date closest to the Valuation Date for which the relevant data is available, and such computation was based on the International Valuation Standards.

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In terms of intangible assets – mining rights, we understand that the book value of RMB565,388,000, which includes the application fee, exploration costs and other related historical costs, is stated at cost less amortization and impairment. While the net assets value of RMB2,229,000,000 was valued through the application of an income approach technique known as the “Multi-Period Excess Earnings” method with reference to International Valuation Standard – 210 Intangible Assets Issued by the International Valuation Standards Committee. Under this method, based on the Competent Person Report provided by Runge, the Independent Valuer first calculated the estimated respective after-tax cash flows to Daye Metal as the results of owning the subject intangible assets. Respective contributory asset charges are then netted from the after-tax cash flows to arrive at the respective residual after-tax cash flows. These respective benefits are capitalized at a respective discount rate which reflects all business risks including intrinsic and extrinsic uncertainties in relation to the subject intangible assets. The valuation of Mineral Assets as stated in section 6.2.2(ii) above does not include the valuation of mining rights because the valuation of mining rights differs from the valuation report on the Mineral Assets since they are valuing different things, thereby requiring different methods. The mining rights are valued as an intangible asset, and so have been calculated using the Multi-Period Excess Earnings method; this is the value of the rights to mine the mineral resources. Whereas the Mineral Assets valued in the valuation report are valued as an on-going business concern, and so have been calculated using the DCF method; this is the value of the mines themselves.

As opposed to “Mining Rights”, “Mineral Assets” are defined according to the VALMIN Code as: “all property including but not limited to real property, intellectual property, mining and exploration tenements held or acquired in connection with the exploration of, the development of, and production from those tenements together with all plant, equipment, and infrastructure owned or acquired for the development, extraction, and processing of minerals in connection with those tenements.”

Given the valuation approach is commonly adopted and well recognized methodology in valuing the net assets value of the Target Group, and the major assumptions made in connection with the valuation approach are reasonable, we are of the view that the basis and assumptions, the valuation approach and methodology are appropriate and reasonable. As such, we consider that the valuation of the net assets value of the Target Group as at 30 September 2011 is fair and reasonable.

In light of:

- (i) the methodology, the assumptions and the basis for the valuation of the Mineral Assets under Chapter 18 Valuation and Market Valuation are fair and reasonable; and

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- (ii) the basis and assumptions, the valuation approach and methodology for the valuation of the net assets value of the Target Group as at 30 September 2011 is fair and reasonable,

we are of the view that the Consideration is fair and reasonable.

6.2.3 Analysis of the Issue Price of the China Times Consideration Shares and the Cinda Consideration Shares and the Conversion Price of the China Times Convertible Notes and the Conversion Shares

Pursuant to the Acquisition Agreement, the China Times Consideration and the Cinda Consideration shall be satisfied by procuring the Company to issue a total of 11,736,715,634 new Ordinary Shares at HK\$0.50 for each new Ordinary Shares to China Times and Cinda and a total of 2,007,672,096 Conversion Shares at HK\$0.50 for each Conversion Share to China Times at Completion.

The Issue Price of HK\$0.50 for each Consideration Share and the Conversion Price of HK\$0.50 for each Conversion Share were determined after arm's length negotiations between the Company and the Vendors, which represent:

- (a) a discount of approximately 15.3% to the closing price of the Ordinary Shares of HK\$0.59 per Ordinary Share as quoted on the Stock Exchange on the Last Trading Day;
- (b) a discount of approximately 15.5% to the average of the closing prices of the Ordinary Shares of approximately HK\$0.592 per Ordinary Share as quoted on the Stock Exchange for the 5 consecutive trading days up to and including Last Trading Day;
- (c) a discount of approximately 14.7% to the average of the closing prices of the Ordinary Shares of approximately HK\$0.586 per Ordinary Share as quoted on the Stock Exchange for the 10 consecutive trading days up to and including the Last Trading Day;
- (d) a discount of approximately 13.3% to the average of the closing prices of the Ordinary Shares of approximately HK\$0.577 per Ordinary Share as quoted on the Stock Exchange for the 30 consecutive trading days up to and including the Last Trading Day;

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- (e) a discount of approximately 5.2% to the average of the closing prices of the Ordinary Shares of approximately HK\$0.527 per Ordinary Share as quoted on the Stock Exchange for the 60 consecutive trading days up to and including the Last Trading Day;
- (f) a discount of approximately 0.4% to the average of the closing prices of the Ordinary Shares of approximately HK\$0.502 per Ordinary Share as quoted on the Stock Exchange for the 90 consecutive trading days up to and including the Last Trading Day;
- (g) a premium of approximately 2.1% to the average of the closing prices of the Ordinary Shares of approximately HK\$0.490 per Ordinary Share as quoted on the Stock Exchange for the 120 consecutive trading days up to and including the Last Trading Day;
- (h) a premium of approximately 4.5% to the average of the closing prices of the Ordinary Shares of approximately HK\$0.478 per Ordinary Share as quoted on the Stock Exchange for the 180 consecutive trading days up to and including the Last Trading Day; and
- (i) a premium of approximately 40.8% to the audited net asset value of the Group per Ordinary Share of approximately HK\$0.355 as at 30 June 2011.

The 11,736,715,634 new Ordinary Shares represent: (a) approximately 209.91% of the total Ordinary Shares in issue as at the Latest Practicable Date; (b) approximately 67.73% of the total Ordinary Shares in issue as enlarged by the allotment and issue of the China Times Consideration Shares and Cinda Consideration Shares (without taking into account any Conversion Shares which may be issued pursuant to the China Times Convertible Notes); and (c) approximately 60.70% of the total Ordinary Shares in issue as enlarged by the allotment and issue of the China Times Consideration Shares, Cinda Consideration Shares and the Conversion Shares (assuming full conversion of the China Times Convertible Notes at the Conversion Price). The 2,007,672,096 Conversion Shares represent: (a) approximately 35.91% of the total Ordinary Shares in issue as at the Latest Practicable Date; and (b) approximately 10.38% of the total Ordinary Shares in issue as enlarged by the allotment and issue of the China Times Consideration Shares, Cinda Consideration Shares and the Conversion Shares (assuming full conversion of the China Times Convertible Notes at the Conversion Price).

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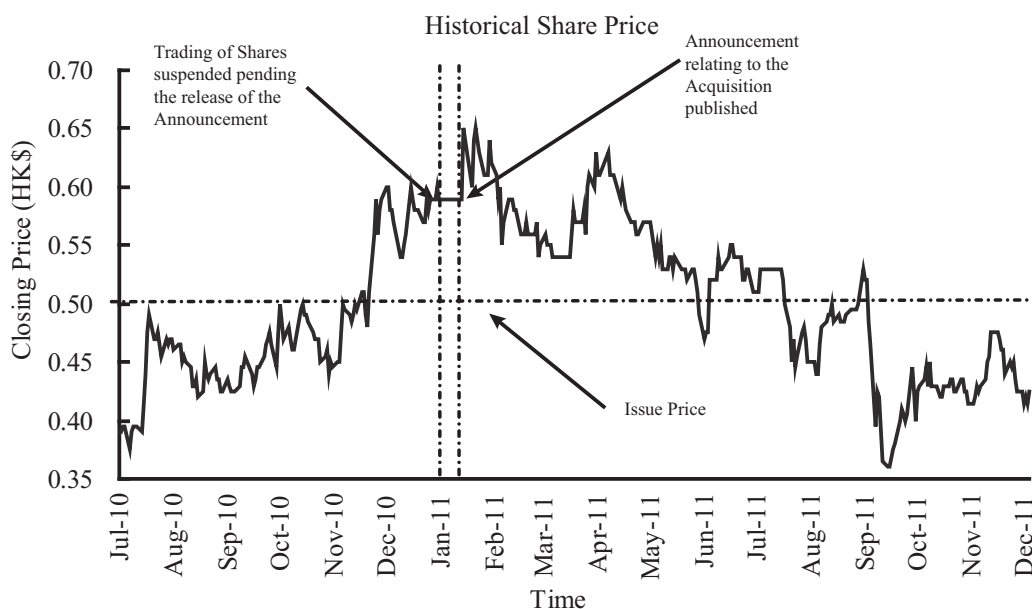
As discussed with the management of the Company, we note that the issue of 11,736,715,634 new Ordinary Shares and 2,007,672,096 Conversion Shares to satisfy the China Times Consideration and the Cinda Consideration has the benefit of preserving the internal resources of the Company while maintaining the 25% minimum public float requirement under the Listing Rules. As such, the management of the Company considers that the issue of the China Times Consideration Shares, Cinda Consideration Shares and the Conversion Shares will strengthen the capital base of the Company and hence will be beneficial to the future development and expansion of the Group.

In light of the above, we are of the view that the mixture of the issue of 11,736,715,634 new Ordinary Shares and 2,007,672,096 Conversion Shares to satisfy the China Times Consideration and Cinda Consideration is fair and reasonable.

(i) Analysis of Share price

Set out below is the Share price performance for the six months before the Last Trading Day up to and including the Latest Practicable Date (the “Review Period”):

Table 5 – Historical Share Price movement of the Group



Source: Stock Exchange and Bloomberg

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Prior to the announcement of the Acquisition, the Share price has generally been trading below the Issue Price. The lowest closing Share price was approximately HK\$0.38 recorded on 26 July 2010.

The Share price started to rise from 1 December 2010 with an average closing Share price of approximately HK\$0.56 prior to the Last Trading Day.

After the announcement of the Company dated 1 February 2011 in respect of the Acquisition, the Share price reached its peak at approximately HK\$0.65 on 2 February 2011 and 9 February 2011 respectively. Thereafter, the Share price has generally been trading on a falling trend and trading below the Issue Price starting from 5 August 2011 up to Latest Practicable Date, with an average closing Share price of approximately HK\$0.45 which is consistent with the stock market performance.

In addition, the Issue Price/Conversion Price was trading at a premium of approximately 19% to the closing price of the Ordinary Shares of approximately HK\$0.42 per Ordinary Shares as quoted on the Stock Exchange on the Latest Practicable Date.

(ii) Comparable transactions analysis

In order to assess the reasonableness of the Issue Price/Conversion Price, we have reviewed the exhaustive list of transactions announced by companies listed on the Stock Exchange which: (i) constituted very substantial acquisitions under the Listing Rules; and (ii) involved the issuance of consideration shares and convertible notes/bonds (the “Issuance Comparables”) during the period of three months immediately prior to the Last Trading Day.

According to Rule 14.06 (5) of the Listing Rules, an acquisition or a series of acquisitions (aggregated under Rules 14.22 and 14.23 of the Listing Rules) of assets by a listed issuer where any percentage ratio is 100% or more is considered as a very substantial acquisition. According to Rule 14.07 of the Listing Rules, the percentage ratios are the figures, expressed as percentages resulting from the calculation of assets ratio, profits ratio, revenue ratio, consideration ratio and equity capital ratio.

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We note that for acquisitions that constitute very substantial acquisitions, the size of the acquisitions, regarding the percentage ratios, are 100% or above which implies the respective considerations accounted for a substantial amount to the size of the respective companies. We also note that it is a common practice for these respective companies to issue consideration shares and/or convertible notes/bonds as part of the settlement of the respective considerations. As such, we consider that the Issuance Comparables, which is the exhaustive list of transactions as mentioned above, are acquisitions that constitute very substantial acquisitions and of similar nature to the Acquisition.

As the Issuance Comparables involve the issuance of consideration shares and convertible notes/bonds as part of the consideration, we believe these Issuance Comparables would provide a benchmarking comparison for our analysis as factors taken into account in determining the issue price of the consideration shares and convertible notes/bonds issued under such transactions provide an indication of the premium over/discount to the market price of the relevant shares. In addition, according to the historical price movement of the Hang Seng Index (“HSI”) during the three months immediately prior to the Last Trading Day, HSI was traded in a steady range (from 22,000 to 25,000). Hence, this three months period provides a history of market movements for the purpose of our analysis because these Issuance Comparables were transacted at the time close to the signing of the Acquisition Agreement under the similar market conditions and investment sentiments. We note that although the companies involved in the Issuance Comparables are not engaged in similar businesses as the Company or the Target Group and the terms of issuance of the consideration shares of each of the transactions may be subject to their respective circumstances such as different financial standing or business performance, we are of the view that the Issuance Comparables would provide a reference basis as they could reflect recent market trends of the terms used in issuing consideration shares as consideration for a very substantial acquisition (as defined under the Listing Rules). As such, we consider that the Issuance Comparables are fair and representative samples.

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Table 6 – Comparable transactions for the prior three months

Date of announcement	Company name	Stock code	Premium/ (Discount) of the issue price over/ (to) closing price on last trading day prior to/ on the date of the relevant announcements	Premium/ (Discount) of the issue price over/ (to) closing price on last trading days prior to/ on the date of the relevant announcements	Premium/ (Discount) of the issue price over/ (to) closing price on last trading days prior to/ on the date of the relevant announcements
			Premium/ (Discount) of the issue price over/ (to) closing price on last trading day prior to/ on the date of the relevant announcements	Premium/ (Discount) of the issue price over/ (to) closing price on last trading days prior to/ on the date of the relevant announcements	Premium/ (Discount) of the issue price over/ (to) closing price on last trading days prior to/ on the date of the relevant announcements
4-Nov-10	King Stone Energy Group Limited	663	(14.53)	(10.31)	(7.75)
12-Nov-10	Mayer Holdings Limited	1116	3.77	(0.36)	0.73
3-Dec-10	Catic Shenzhen Holdings Limited	161	(3.43)	1.10	2.23
14-Dec-10	Golden Resorts Group Limited	1031	(3.61)	14.60	17.99
6-Jan-11	China Post E-Commerce (Holdings) Limited	8041	(19.35)	(10.18)	(9.64)
19-Jan-11	Mascotte Holdings Limited	136	(14.89)	(11.50)	(5.88)
		Maximum	3.77	14.60	17.99
		Minimum	(19.35)	(11.50)	(9.64)
		Average	(8.67)	(2.78)	(0.39)
		The Issue Price/Conversion Price	(15.30)	(15.50)	(14.70)

Source: Website of the Stock Exchange

As indicated from Table 6 above, the issue prices of the Issuance Comparable ranged from: (i) a discount of approximately 19.35% to a premium of approximately 3.77% to the respective closing prices of their shares on the last trading days (the “Market Range I”); (ii) a discount of 11.50% to a premium of 14.60% to the respective average closing prices of their shares on the last five consecutive trading days (the “Market Range II”); and (iii) a discount of 9.64% to a premium of 17.99% to the average closing prices of their shares on the last ten consecutive trading days (the “Market Range III”), prior to/on the date of the relevant announcements, respectively.

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We also note that the issue prices of the Issuance Comparable were on average at (i) a discount of approximately 8.67% to the respective closing prices of their shares on the last trading day; (ii) a discount of approximately 2.78% to the respective average closing prices of their shares on the last five consecutive trading days; and (iii) a discount of approximately 0.39% to the average closing prices of their shares on the last ten consecutive trading days, prior to/on the date of the relevant announcements, respectively (the “Market Averages”).

The Issue Price/Conversion Price of the Company is at a discount higher than the Market Averages, and falls outside of the Market Range II and Market Range III as a result of its historical share price movement as mentioned in Table 5 above where the Share price started to rise from 1 December 2010 with average closing Share price of approximately HK\$0.56 prior to the Last Trading Day. Nevertheless, it is within the Market Range I.

We note that the Issue Price/Conversion Price of the Company is at a discount higher than the Market Averages, nevertheless, the Consideration, which was determined after arm’s length negotiations between the Company and the Vendors, is at a discount of approximately 5% to the valuation under the Net Asset Valuation Report.

In light of:

- (i) the Issue Price/Conversion Price was trading at a premium of approximately 19% to the closing price of the Ordinary Share of approximately HK\$0.42 per Ordinary Shares as quoted on the Stock Exchange on the Latest Practicable Date; and
- (ii) the Issue Price/Conversion Price of the Company is at a discount higher than the Market Averages, nevertheless, the Consideration is at a discount of approximately 5% to the valuation under the Net Asset Valuation Report,

we are of the view that the Issue Price/Conversion Price is fair and reasonable.

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6.3 *Non-competition with the Parent Group*

We note that the core copper-related business of the Parent Company (including exploration, mining and processing of copper ore, smelting of copper concentrate and sales of copper cathodes, which is currently being carried out by the Daye Metal Group) will be transferred to the Group upon China Times Completion the Parent Company will, however, retain certain copper, silver and gold related business after China Times Completion. Please refer to the section headed “Relationship with the Parent Company – Retained Business” in this circular for details.

We have also considered details of the non-competition undertaking as set out in the section headed “Relationship with the Parent Company – Non-competition undertaking” in this circular.

In light of the above, we are of the view that the core business of the Enlarged Group and the Parent Group will not be in significant direct competition in the future because: (i) the core copper-related business of the Parent Company, currently being carried out by Daye Metal, will be transferred to the Group upon China Times Completion; (ii) the retained business of the Parent Group mainly engages in the midstream to downstream business (i.e. processing of coarse copper into anode plates, production and sales of copper rods and copper tubes, etc.) while the core business of the Enlarged Group mainly engages in the upstream to midstream business (i.e. exploration, mining and processing of copper ore, smelting of copper concentrates and sales of copper cathodes, etc.); (iii) for any future sales or disposal of any of the Existing Businesses or any of the New Mines and Related Facilities by the Parent Group and its related parties, the Company will be first offered the purchase of such business, mine and facility subject to such terms and conditions as may be agreed between the Parent Company and the Company; and (iv) the trading business (which the Parent Company will retain upon China Times Completion) will not be the core business of the Enlarged Group. As such, we consider the Acquisition is fair and reasonable and in the interest of the shareholders as a whole.

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7. Financial effects of the Acquisition to the Group

7.1 Effect on NAV and NAV per Share

As at 30 June 2011, the Group's NAV attributable to the Shareholders amounted to approximately HK\$1,078 million, or approximately HK19.27 cents per Share. Upon China Times and Cinda Completion, the Target Group will become wholly-owned subsidiaries of the Company and, accordingly, the assets and liabilities of the Target Group will be accounted for in the consolidated financial statements of the Enlarged Group.

Set out below is the NAV and pro forma NAV attributable to the Shareholders, including on a per Share basis, of the Group and of the Enlarged Group as at 30 June 2011 respectively, based on the unaudited pro forma consolidated statement of financial position of the Enlarged Group as set out in Appendix III in this circular:

Table 7 – NAV and NAV per Share of the Group and the Pro forma Enlarged Group

	The Group	Pro forma Enlarged Group (Note)
Equity attributable to the Shareholders (HK\$'000)	1,077,643	6,721,390
Total number of Shares in issue	5,591,195,552	19,335,583,282
Equity attributable to the Shareholders per Share (HK cents)	19.27	34.76
Changes to equity attributable to the Shareholders per Share	–	80.4%

Note: Pro forma Enlarged Group represents the Enlarged Group immediately after China Times Completion, Cinda Completion and the full conversion of China Times Convertible Notes.

As shown in Table 7 above, the NAV attributable to the Shareholders would increase substantially from approximately HK\$1,078 million to HK\$6,721 million and the NAV per share attributable to the Shareholders would be increased by 80.4% to approximately HK34.76 cents.

As such, we consider that the Acquisition has a positive effect on the NAV and NAV per Share of the Enlarged Group.

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7.2 *Effect on earnings and earnings per Share*

Upon China Times and Cinda Completion, the Target Group will become wholly-owned subsidiaries of the Company and, accordingly, the financial results of the Target Group will be consolidated into the financial statements of the Group.

Set out below is the earnings and pro forma earnings, including on a per Share basis, of the Group and of the Enlarged Group for the financial year ended 31 December 2010 respectively, based on the unaudited pro forma consolidated statement of comprehensive income of the Enlarged Group as set out in Appendix III in this circular:

Table 8 – Earnings and Earnings per Share of the Group and the Pro forma Enlarged Group

	The Group	Pro forma Enlarged Group
		<i>(Note)</i>
Loss for the period attributable to the Shareholders (<i>HK\$'000</i>)	(23,073)	(887)
Total number of Shares in issue	5,591,195,552	19,335,583,282
Earnings per Share (<i>HK cents</i>)	(0.41)	(0.005)

Note: Pro forma Enlarged Group represents the Enlarged Group immediately after China Times Completion, Cinda Completion and the full conversion of China Times Convertible Notes.

As shown in Table 8 above, earnings would be improved significantly from a net loss of approximately HK\$23.1 million to a net loss of approximately HK\$887,000 while earnings per Share immediately after Completion would be improved from a negative of approximately HK0.41 cents per Share to a negative of approximately HK0.005 cents per Share.

As such, we consider that the Acquisition has a positive effect on the earnings and earnings per Share of the Enlarged Group.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

7.3 *Effect on net gearing and working capital*

As at 30 June 2011, the Group had a net cash position of approximately HK\$190 million and did not have any bank borrowings. Accordingly, the Group's gearing ratio (defined as total borrowings less cash (including term deposits, restricted deposits and cash and cash equivalent) divided by total equity) is nil.

Set out below is the gearing of the Group and of the Enlarged Group as at 30 June 2011 based on the unaudited pro forma consolidated statement of financial position as set out in Appendix III in this circular:

Table 9 – Net gearing and working capital of the Group and the Pro forma Enlarged Group

	The Group	Pro forma Enlarged Group (Note)
Total borrowings less cash and bank deposits (HK\$'000)	Net cash	3,690,358
Total equity (HK\$'000)	1,985,811	7,150,271
Net gearing ratio (times)	–	0.52

Note: Pro forma Enlarged Group represents the Enlarged Group immediately after China Times Completion, Cinda Completion and the full conversion of China Times Convertible Notes.

Total cash (including term deposits, restricted cash and cash and cash equivalent) of the Enlarged Group would increase to approximately HK\$3,102 million while total borrowings would increase to approximately HK\$6,792 million. Accordingly, as shown in Table 9 the net gearing of the Enlarged Group would increase to approximately 0.52 times.

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As at 30 June 2011, the Group had a net working capital, being current assets less current liabilities, of approximately HK\$394 million. Based on the pro forma consolidated statement of financial position of the Enlarged Group, the working capital position would be increased by 21.6% to approximately HK\$479 million. Given the relatively strong net cash flow of approximately HK\$303 million generated from operating activities for the financial year ended 31 December 2010 as shown in the unaudited pro forma consolidated statement of cash flows of the Enlarged Group as shown in Appendix III in this circular and also the Acquisition will be settled by issuing Consideration Shares and Conversion Shares which would not have a material impact on the Enlarged Group's working capital, we consider that the liquidity of the Enlarged Group is healthy.

In light of:

- (i) the positive effect on the NAV and NAV per Share of the Enlarged Group;
- (ii) the positive effect on the earnings and earnings per Share of the Enlarged Group; and
- (iii) no material impact on the working capital of the Enlarged Group despite of the negative impact on the net gearing of the Enlarged Group,

we are of the view that, on balance, the Acquisition will have an overall positive financial effect on the Enlarged Group and is in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

8. Potential Dilution effect

The 11,736,715,634 new Ordinary Shares shall be issued to the China Times and Cinda or their respective nominees upon China Times Completion and Cinda Completion. The China Times Consideration Shares and Cinda Consideration Shares represent (a) approximately 209.91% of the total Ordinary Shares in issue as at the Latest Practicable Date; (b) approximately 67.73% of the total Ordinary Shares in issue as enlarged by the allotment and issue of the China Times Consideration Shares and Cinda Consideration Shares (without taking into account any Conversion Shares which may be issued pursuant to the China Times Convertible Notes); and (c) approximately 60.70% of the total Ordinary Shares in issue as enlarged by the allotment and issue of the China Times Consideration Shares, Cinda Consideration Shares and the Conversion Shares (assuming full conversion of China Times Convertible Notes at the Conversion Price). The 2,007,672,096 Conversion Shares represents approximately 10.38% of the total Ordinary Shares in issue as enlarged by the allotment and issue of the China Times Consideration Shares, Cinda Consideration Shares and the Conversion Shares (assuming full conversion of China Times Convertible Notes at the Conversion Price).

As at the Latest Practicable Date, the Shareholders other than China Times and persons acting in concert with it, Wang Qihong and Wang Guoqi (“other public shareholders”), were interested in approximately 79.15% of the total Ordinary Shares in issue. If the Acquisition is approved and becomes unconditional, the Company will issue 11,736,715,634 new Ordinary Shares to China Times and Cinda and the China Times Convertible Notes which are convertible into a total of 2,007,672,096 Conversion Shares to China Times. It is one of the terms of the China Times Convertible Notes that the conversion rights of the China Times Convertible Notes shall not be exercised if, immediately following the conversion, the Company will be unable to meet the minimum public float requirement under the Listing Rules.

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Assuming China Times Completion and Cinda Completion taking place and upon the allotment and issue of the China Times Consideration Shares, Cinda Consideration Shares and full conversion of China Times Convertible Notes at the Conversion Price, the shareholding position of the other public shareholders will be affected as follows:

Table 10 – Shareholding structure of the Group and potential dilution

	As at the Latest Practicable Date (Note 3)		Immediately after China Times Completion (Note 4)		Immediately after China Times Completion and Cinda Completion (Note 5)	
	number of Ordinary Shares	Approximate % of total Ordinary Shares in issue	number of Ordinary Shares	Approximate % of total Ordinary Shares in issue	number of Ordinary Shares	Approximate % of total Ordinary Shares in issue
China Times and persons						
acting in concert with it	1,163,236,988	20.80%	13,274,275,692	74.99%	13,970,671,176	72.25%
Wang Qihong (Note 2)	1,500,000	0.03%	1,500,000	0.01%	1,500,000	0.01%
Wang Guoqi (Note 2)	900,000	0.02%	900,000	0.00%	900,000	0.00%
Cinda HK	–	–	–	–	936,953,542	4.85%
Other public shareholders	4,425,558,564	79.15%	4,425,558,564	25.00%	4,425,558,564	22.89%
Total	<u>5,591,195,552</u>	<u>100.00%</u>	<u>17,702,234,256</u>	<u>100.00%</u>	<u>19,335,583,282</u>	<u>100.00%</u>

Notes:

- The tables do not include the 16,485 Preference Shares in issue as the Company considers them immaterial in the context of the total issued share capital of the Company and none of those Preference Shares carry any voting right except in the event of the winding up of the Company, a reduction of capital or a variation or abrogation of the rights attaching to such share, or any dividend payable with respect to such share being in arrears for six months or more.
- Mr. Wang Qihong and Mr. Wang Guoqi are both Directors of the Company.
- As at the Latest Practicable Date, China Times held 5,495 Preference Shares. Assuming that all Preference Shares in issue are converted into Ordinary Shares at the current conversion price of HK\$0.036 per share, 2,289,583 new Ordinary Shares will be issued upon conversion, of which 763,194 new Ordinary Shares will be issued to China Times. China Times has undertaken to the Company that it will not exercise its rights of conversion under the Preference Shares and/or the China Times Convertible Notes if, immediately following the conversion, the Company will be unable to meet the minimum public float requirement under the Listing Rules. Assuming that all the Existing Convertible Notes are converted into Ordinary Shares at the current conversion price of HK0.618 per share, 355,987,055 new Ordinary Shares will be issued upon conversion. Assuming that the share options in issue are exercised in full, 307,700,000 new Ordinary Shares will be issued.

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4. This scenario assumes that only part of the China Times Convertible Notes are converted given that under this Acquisition Agreement, the conversion rights of the China Times Convertible Notes may be exercised if, immediately following the conversion, the Company will be unable to meet the minimum public float requirement under the Listing Rules. Hence, in the case where only China Times Completion occurs, China Times will be able to convert only a maximum of HK\$655,638,306 of the aggregate principal amount of the China Times Convertible Notes into 1,311,276,612 Ordinary Shares (assuming that no new Ordinary Shares have been issued by the Company after the Latest Practicable Date and before the date of conversion and conversion is carried out at the Conversion Price) in order to maintain the minimum public float after conversion.
5. This scenario assumes full conversion of the China Times Convertible Notes. The Company will still be able to meet the minimum public float requirement under the Listing Rules in such case as, apart from the shareholding of the other public shareholders of 22.89%, the shareholding of Cinda HK of 4.85% will also be counted towards the public float.

Based on Table 10 above, the shareholding of the other public shareholders is expected to be diluted from approximately 79.15% to 22.89% upon the allotment and issue of the China Times Consideration Shares, Cinda Consideration Shares and full conversion of China Times Convertible Notes at the Conversion Price. We consider that the dilution is inevitable in the case of a substantial acquisition of this type which is being financed without incurring any cash outlay or additional liabilities to satisfy the consideration.

Given the aforementioned potential benefits of the Acquisition to the Group and the terms of the Acquisition Agreement being fair and reasonable and on normal commercial terms so far as the Independent Shareholders are concerned, we are of the view that the potential dilution effect is acceptable.

9 Risk disclosure

9.1 Fluctuations in price and supply of raw materials could negatively impact the business and financial conditions of the Enlarged Group

As stated in the section headed “Risk Factors” in this circular, we understand that the adverse economic developments in the PRC could have a negative impact on the revenues, cash flow and profitability of the Enlarged Group.

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China has been the main driver of global demand for minerals and metals over the last few years. Sales to PRC customers have accounted for a substantial portion of the total turnover of the Target Group during the Track Record Period. Any slowdown in the growth of the PRC economy or its manufacturing industry could lead to a decline in demand for the products of the Enlarged Group, resulting in lower revenues, cash flow and profitability.

According to the National Bureau of Statistics of China, the producer price index (“PPI”) has been in the positive region since December 2009. The PPI index has been increasing with an average record of 5.92 between December 2009 and October 2011. Although the PRC government has imposed several monetary tightening policies to tackle the increasing inflation concern in the PRC, the economic growth is still significant. The PRC government has a substantial investment on the infrastructure and affordable housing. These are all included in the twelfth five-year plan of the PRC. Both infrastructure and affordable housing demand a lot of minerals and metals. Companies in the metals mining and processing industry are going to benefit from the PRC’s five-year plan, including the Enlarged Group.

In light of the above, we consider the likelihood of the adverse economic developments to take place in the PRC is low.

9.2 Possible failure to renew operational licence and permits

As stated in the section headed “Risk Factors” in this circular, we understand that the changes in economic, political and social conditions and government policies in the PRC could have an adverse impact on the Enlarged Group.

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As the major mining assets and operations of the Enlarged Group will be located in the PRC and the majority of its revenue will be derived from the PRC, the business operations and prospects of the Enlarged Group will, to a large extent, subject to the economic, political and legal developments in the PRC. The PRC economy is different from the economies of most developed countries in a number of respects, including structure, degree of government control, level of development, control of capital investment, growth rate, control of foreign exchange and allocation of resources. Although the PRC economy has been changing from a planned economy to a more market oriented economy since the late 1970s with the adoption of the “open door” reform policy under which increasing emphasis has been placed on the utilization of market forces in the development of the PRC economy, the PRC government continues to exercise significant control over economic growth through numerous channels such as allocation of resources, controlling of incurrence and payment of foreign currency denominated obligations, monetary policy and preferential treatment to certain industries or companies. In recent years, the PRC government has also undertaken reform campaigns in the economic system and government structure of the PRC. There is no assurance whether these changes and reforms will have any adverse effect on the business, financial condition or results of operations of the Enlarged Group.

As stated in the section headed “Relationship with the Parent Company” in this circular, the Parent Company is a company incorporated in the PRC with limited liability and wholly owned by Hubei SASAC. As the Parent Company is a state-owned enterprise, it is unlikely for the PRC government to not to permit or grant the renewal of the licenses or permits to the Enlarged Group.

In light of the above, we consider the likelihood of failing to renew the operational licence and permits is low.

9.3 Some of the operational licences and permits have expired or will expire soon

As stated in the section headed “Summary” in this circular, some of the operational licences and permits have expired or will expire soon. Based on our discussion with the Company’s PRC lawyer, we understand that the Target Group will apply for new licences and permits when the licences and permits are about to expire. In addition, we understand that the Target Group has already applied for the operational licences and permits which have expired. The licences and permits are pending for the relevant government authority’s approval. The Company’s PRC lawyer is of the view that the likelihood for the relevant government authority to approve the licences and permits is high.

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Furthermore, according to the Company's PRC lawyer, in general, the renewal of licences and permits from the relevant government authority depends heavily on the safety standard set by each company. Given the safety track record of the Target Group, the Company's PRC lawyer considers that it is highly likely for the Target Group to renew the licences and permits.

In light of the above, we are of the view that the likelihood of failing to renew the operational licences and permits is low.

9.4 Possible unavailability of funds to implement the future plans of the Target Group

As stated in the section headed "Letter from the Board" in this circular, we note that, as at the Latest Practicable Date, the aggregate outstanding investment amount for the projects in progress and future plans of the Target Group amounted to approximately RMB3,140.08 million, representing approximately 84% of the net asset value of the Target Group as at 30 June 2011. As discussed with the management of the Company, we understand that the outstanding investment amount of approximately RMB3,140.08 million is expected to be financed by bank borrowings and the internal resources of the Enlarged Group. The Target Group had unutilised credit facilities granted by independent banks in the aggregate amount of up to RMB7.6 billion to meet its working capital and trading requirements as at 30 June 2011 as disclosed in the section headed "Financial Information of the Target Group" in this circular. In addition, total cash (including term deposits, restricted deposits and cash and cash equivalent) of the unaudited pro forma financial information of the Enlarged Group would increase to approximately HK\$3,102 million as disclosed in Appendix III in this circular.

Given the Target Group has significant amount of unutilised credit facilities in the aggregate amount of up to RMB7.6 billion as at 30 June 2011 and the unaudited pro forma financial information of the Enlarged Group has a strong cash position of HK\$3,102 million, we consider that the Enlarged Group would be able to obtain sufficient financing to finance the outstanding investment amount for the projects in progress and future plans of the Target Group.

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While the exact financing proportion to fund for the projects in progress and future plans of the Target Group has not been determined at this stage, we understand from the discussion with the management of the Company, that the proposed financing plan might increase the level of indebtedness, the interest payment and the leverage of the Enlarged Group. Nevertheless, the implementation of the future plans of the Target Group would increase the output and in turn, increase the future operating cash flows, profits and the net asset value of the Target Group, and on balance, outweigh the effect of the corresponding increase of the interest payment and the leverage of the Enlarged Group.

9.5 Mongolian arbitration proceedings against Reservoir Moly

As stated in the section headed “Letter from the Board” in this circular, we note that the Aleinuer Mine is owned by Reservoir Moly, a joint venture company established in Mongolia which is 55%-owned by CRML and 45%-owned by the Mongolian JV Partner. CRML, in turn, is 51%-owned by the Company. The mining rights of the Aleinuer Mine is subject to the outcome of the Mongolian arbitration proceedings, as further described in the section headed “Other Information – Litigation” in Appendix X in this circular. As discussed with the management of the Company, we understand that pending the outcome of the re-hearing by the Mongolian Arbitration Center, as advised by the Company’s Mongolian legal advisers, the mining right to the Aleinuer Mine remains vested in Reservoir Moly. Given the outstanding litigation is related to the Group and considering the fact that commercial production at the Aleinuer Mine has not yet begun and the Group does not derive any revenue or profit from the Aleinuer Mine and that Reservoir Moly currently has no material assets other than the mining right to the Aleinuer Mine or liabilities, we consider that the outstanding litigation does not have an impact on the Target Group and the Acquisition.

10. Indebtedness of the Target Group

As stated in Appendix I in this circular, we note that the Target Group had indebtedness in the amount of RMB5.7 billion and RMB5.6 billion for the financial year ended 31 December 2010 and for the six months ended 30 June 2011, respectively. As discussed with the management of the Company, we understand that the bank borrowings are mainly used for expansion capital expenditures which would increase the output and in turn, increase the future operating cash flows, and on balance, outweigh the effect of corresponding increase of interest payment. In addition, we also note that the valuation under the Net Asset Valuation Report, being one of the main factors in assessing the Consideration, has taken into account the capital structure of the Target Group when assessing the net assets value of the Target Group.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

II. The Proposed Grant of the Specific Mandate

Under the existing general mandate granted by the Shareholders at the annual general meeting of the Company held on 2 June 2011 (the “Share Issue Mandate”), the Directors have been authorized to allot, issue or deal with additional Ordinary Shares of not exceeding 20% of the aggregate nominal amount of the issued ordinary share capital of the Company as at 2 June 2011 (i.e. maximum of 1,118,239,110 additional Ordinary Shares). As at the Latest Practicable Date, the total number of Ordinary Shares in issue remained 5,591,195,552 and unchanged since the last annual general meeting of the Company.

As stated in the section headed “Letter from the Board” in this circular, under the Acquisition Agreement (as supplemented and amended by the First Supplemental Agreement and the Second Supplemental Agreement), the 11,736,715,634 new Ordinary Shares to be allotted and issued by the Company represent (i) approximately 209.91% of the total Ordinary Shares in issue as at the Latest Practicable Date; (ii) approximately 67.73% of the total Ordinary Shares in issue as enlarged by the allotment and issue of the China Times Consideration Shares and Cinda Consideration Shares (without taking into account any Conversion Shares which may be issued pursuant to the China Times Convertible Notes); and (iii) approximately 60.70% of the total Ordinary Shares in issue as enlarged by the allotment and issue of the China Times Consideration Shares, Cinda Consideration Shares and the Conversion Shares (assuming full conversion of the China Times Convertible Notes at the Conversion Price). The 2,007,672,096 Conversion Shares represent approximately 10.38% of the total Ordinary Shares in issue as enlarged by the allotment and issue of the China Times Consideration Shares, Cinda Consideration Shares and the Conversion Shares (assuming full conversion of China Times Convertible Notes at the Conversion Price).

Since the total number of the China Times Consideration Shares, Cinda Consideration Shares and Conversion Shares to be issued upon the conversion of the China Times Convertible Notes will exceed the 20% threshold under the Share Issue Mandate, the Board proposes to seek a Specific Mandate from the Independent Shareholders at the EGM to issue the China Times Consideration Shares, Cinda Consideration Shares and Conversion Shares.

Given the aforementioned potential benefits of the Acquisition to the Group and the terms of the Acquisition Agreement being fair and reasonable and on normal commercial terms so far as the Independent Shareholders are concerned, we are of the view that the proposed grant of the Specific Mandate is fair and reasonable, on normal commercial terms and should be granted at the EGM.

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III. Whitewash waiver

As at the Latest Practicable Date, China Times and persons acting in concert with it were interested in approximately 20.80% of the total Ordinary Shares in issue.

Without taking into account any Conversion Shares which may be issued pursuant to the China Times Convertible Notes, immediately following China Times Completion (and assuming that Cinda Completion has not taken place), China Times and persons acting in concert with it will be interested in approximately 72.99% of the total Ordinary Shares in issue as enlarged by the issue of the China Times Consideration Shares, whereas immediately following China Times Completion and Cinda Completion, China Times and persons acting in concert with it will be interested in approximately 69.04% of the total Ordinary Shares in issue as enlarged by the issue of the China Times Consideration Shares and Cinda Consideration Shares.

Assuming the China Times Convertible Notes are partly converted at the Conversion Price to maintain the minimum public float of the Company required under the Listing Rules, immediately following China Times Completion (and assuming that Cinda Completion has not taken place), China Times and persons acting in concert with it will be interested in, approximately 74.99% of the total Ordinary Shares in issue as enlarged by the issue of the China Times Consideration Shares and Conversion Shares.

Assuming the China Times Convertible Notes are fully converted at the Conversion Price, immediately following China Times Completion and Cinda Completion, China Times and persons acting in concert with it will be interested in 72.25% of the total Ordinary Shares in issue as enlarged by the issue of the China Times Consideration Shares, Cinda Consideration Shares and Conversion Shares.

As such, China Times would be required to make a mandatory general offer for all the issued shares of the Company not already owned or agreed to be acquired by China Times and persons acting in concert with it under Rule 26.1 of the Takeovers Code unless a waiver from strict compliance with Rule 26.1 of the Takeovers Code is granted by the Executive.

An application has been made on 14 October 2011 to the Executive for the Whitewash Waiver. The Whitewash Waiver, if granted by the Executive, would be subject to, among other things, the approval of the Independent Shareholders at the EGM on a vote taken by poll.

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The Acquisition is conditional on, among other things, the approval of the Whitewash Waiver by the Independent Shareholders at the EGM. If the Whitewash Waiver is not approved, the Acquisition will not proceed and no general offer obligation will be triggered. In the event the Acquisition cannot proceed, the Group and the Shareholders will not be able to enjoy the benefits that would arise from the Acquisition as discussed in the section headed “Letter from the Board” in this circular, in particular, the prospects of the Enlarged Group as one of the largest producers of copper cathodes in the PRC by production volume of copper cathodes and the enhancement in the Group’s net asset value and earnings capability as discussed above.

Given the aforementioned potential benefits of the Acquisition to the Group and the terms of the Acquisition Agreement being fair and reasonable and on normal commercial terms so far as the Independent Shareholders are concerned, we are of the view that the approval of the Whitewash Waiver, which is a prerequisite for the completion of the Acquisition, is in the interests of the Company and its shareholders as a whole.

IV. Continuing Connected Transactions

On 23 December 2011, the Company entered into the following Non-Exempt Continuing Connected Transaction Agreements with the Parent Company or its associates (as the case may be), all of which constitute continuing connected transactions of the Company within the meaning of the Listing Rules:

- (a) the Sales Framework Agreement;
- (b) the Services Framework Agreement;
- (c) the Purchase and Production Services Framework Agreement;
- (d) the Hubei Gold Purchase Framework Agreement;
- (e) the Daye Transportation Purchase Framework Agreement;
- (f) the Combined Ancillary Services Framework Agreement; and
- (g) the Tonghua Hotel Services Framework Agreement.

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Each of the above Non-exempt Continuing Connected Transaction Agreements is conditional upon China Times Completion taking place and all applicable legal and regulatory requirements (including those under the Listing Rules) having been complied with.

1. Background of the Non-Exempt Continuing Connected Transaction Agreements

A. Sales Framework Agreement

Pursuant to the Sales Framework Agreement, the Company will and will procure that other members of the Enlarged Group will supply certain products and materials to the Parent Company and its subsidiaries.

1. Date

23 December 2011

2. Parties

(a) the Company

(b) the Parent Company

3. Term

From the date on which the Sales Framework Agreement takes effect in accordance with its terms until 31 December 2013.

4. Termination

The Sales Framework Agreement shall terminate upon the occurrence of the following events:

- (i) consent by both parties to terminate the agreement;
- (ii) occurrence of any force majeure event which renders it impossible to achieve the purpose of the agreement;
- (iii) breach of the agreement by either party, which is not remedied within 30 days upon request by the non-defaulting party;

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- (iv) the agreement being declared invalid by the court or other competent authority;
- (v) shares of the Company ceasing to be listed on the Stock Exchange; or
- (vi) the Parent Company ceasing to constitute a connected person of the Company.

We understand from the management of the Company that the conditions for the termination of the Sales Framework Agreement are in line with the market practice.

5. Products and materials to be supplied by the Enlarged Group

Copper cathodes, scrap copper, silver, silver extracts, water (to be procured by members of the Enlarged Group from Independent Third Party suppliers for onward supply to subsidiaries of the Parent Company), electricity (to be procured by members of the Enlarged Group from Independent Third Party suppliers for onward supply to subsidiaries of the Parent Company, or spare electricity generated from the Enlarged Group's production process), raw materials, auxiliary equipment, supporting materials, components, production equipment and tools.

6. Pricing mechanism

Depending on the products or materials to be supplied by the Enlarged Group, the price at which each transaction under the Sales Framework Agreement is to be conducted will be determined on the following basis: (i) according to the government-prescribed price; or (ii) if there is no applicable government-prescribed price, with reference to the market price.

7. Time and method of payment

The time and method of payment for each transaction under the Sales Framework Agreement will be determined with reference to market practice.

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8. Historical transaction amounts

Members of the Daye Metal Group had been supplying products and materials similar to those set out in the Sales Framework Agreement to the subsidiaries of the Parent Company in the three financial years ended 31 December 2008, 2009, 2010 (respectively, “FY2008”, “FY2009” and “FY2010”) and the six months ended 30 June 2011. The aggregate amount paid by the subsidiaries of the Parent Company to members of the Daye Metal Group for such products and materials amounted to approximately RMB1,954,980,000, RMB1,698,490,000, RMB1,540,360,000 and RMB1,113,030,000 for FY2008, FY2009, FY2010 and the six months ended 30 June 2011, respectively.

9. Reasons for entering into the Sales Framework Agreement

The Directors consider that the entering into of the Sales Framework Agreement will broaden the revenue base of the Company and allow it to leverage on the sales network of the Parent Company and its subsidiaries in Shanghai and Hong Kong. As such, we consider that the entering into of the Sales Framework Agreement will be in the usual and ordinary course of business of the Enlarged Group.

In light of

- (i) the conditions for the termination of the Sales Framework Agreement are in line with the market practice;
- (ii) the pricing of the Sales Framework Agreement will be determined on the basis of the government-prescribed price or if there is no applicable government-prescribed price, with reference to the market price; and
- (iii) the time and method of payment for each transaction under the Sales Framework Agreement will be determined with reference to market practice,

we are of the view that the terms of the Sales Framework Agreement will be on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

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B. Services Framework Agreement

Pursuant to the Services Framework Agreement, the Company will and will procure that other members of the Enlarged Group will provide certain services to the Parent Company and its subsidiaries.

1. Date

23 December 2011

2. Parties

- (a) the Company
- (b) the Parent Company

3. Term

From the date on which the Services Framework Agreement takes effect in accordance with to its terms until 31 December 2013.

4. Termination

The Services Framework Agreement shall terminate upon the occurrence of the following events:

- (i) consent by both parties to terminate the agreement;
- (ii) occurrence of any force majeure event which renders it impossible to achieve the purpose of the agreement;
- (iii) breach of the agreement by either party, which is not remedied within 30 days upon request by the non-defaulting party;
- (iv) the agreement being declared invalid by the court or other competent authority;
- (v) shares of the Company ceasing to be listed on the Stock Exchange; or
- (vi) the Parent Company ceasing to constitute a connected person of the Company.

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We understand from the management of the Company that the conditions for the termination of the Services Framework Agreement are in line with the market practice.

5. Services to be provided by the Enlarged Group

Design services, surveying services, labour services for construction projects, provision of environment monitoring services, provision of examination of equipment and machineries services.

6. Pricing mechanism

The price at which each transaction under the Services Framework Agreement is to be conducted will be determined with reference to the market price of such services.

7. Time and method of payment

The time and method of payment for each transaction under the Services Framework Agreement will be determined with reference to market practice.

8. Historical transaction amounts

Members of the Daye Metal Group had been providing services similar to those set out in the Services Framework Agreement to the Parent Company and its subsidiaries in FY2008, FY2009 and FY2010 and the six months ended 30 June 2011. The aggregate amount paid by the Parent Company and its subsidiaries for such services amounted to approximately RMB2,060,000, RMB1,250,000, RMB7,430,000 and RMB2,130,000 for FY2008, FY2009, FY2010 and the six months ended 30 June 2011, respectively.

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9. Reasons for entering into the Services Framework Agreement

The Directors consider that the entering into of the Services Framework Agreement will broaden the revenue base of the Enlarged Group. Given the close proximity of the respective operations of the Enlarged Group and the Parent Company and its subsidiaries, the Services Framework Agreement will also enable convenient and cost-efficient sharing of the various services under that agreement between the Enlarged Group and the Parent Company and its subsidiaries. As such, we consider that the entering into of the Service Framework Agreement will be in the usual and ordinary course of business of the Enlarged Group.

In light of

- (i) the conditions for the termination of the Services Framework Agreement are in line with the market practice;
- (ii) the pricing of the Services Framework Agreement will be determined with reference to the market price; and
- (iii) the time and method of payment for each transaction under the Services Framework Agreement will be determined with reference to market practice,

we are of the view that the terms of the Services Framework Agreement will be on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

C. *Purchase and Production Services Framework Agreement*

Pursuant to the Purchase and Production Services Framework Agreement, the Parent Company will and will procure that its subsidiaries will supply certain products and materials and provide certain production services to members of the Enlarged Group.

1. Date

23 December 2011

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2. Parties

- (a) the Company
- (b) the Parent Company

3. Term

From the date on which the Purchase and Production Services Framework Agreement takes effect in accordance with its terms until 31 December 2013.

4. Termination

The Purchase and Production Services Framework Agreement shall terminate upon the occurrence of the following events:

- (i) consent by both parties to terminate the agreement;
- (ii) occurrence of any force majeure event which renders it impossible to achieve the purpose of the agreement;
- (iii) breach of the agreement by either party, which is not remedied within 30 days upon request by the non-defaulting party;
- (iv) the agreement being declared invalid by the court or other competent authority;
- (v) shares of the Company ceasing to be listed on the Stock Exchange; or
- (vi) the Parent Company ceasing to constitute a connected person of the Company.

We understand from the management of the Company that the conditions for the termination of the Purchase and Production Services Framework Agreement are in line with the market practice.

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5. Products and materials to be supplied to the Enlarged Group

Copper concentrates, copper cathodes, coarse copper, scrap copper, mechanically processed products, natural gas, steam, fume, raw materials, auxiliary equipment, supporting materials, components, production equipment and tools.

6. Production services to be provided to the Enlarged Group

Processing of coarse copper to anode plates, transportation services, construction of production site and installation of related facilities, and sinking and drifting engineering and other related production services.

7. Pricing mechanism

Depending on the products or materials to be supplied to the Enlarged Group and the production services to be provided to the Enlarged Group, the price at which each transaction under the Purchase and Production Services Framework Agreement is to be conducted will be determined on the following basis: (i) according to government-prescribed price (ii) if there is no applicable government-prescribed price, with reference to the market price; or (iii) if no such market price is available, the cost incurred by the relevant party in providing the products or materials or services plus a charge not exceeding 15% of such cost.

8. Time and method of payment

The time and method of payment for each transaction under the Purchase and Production Services Framework Agreement will be determined with reference to market practice.

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9. Historical transaction amounts

The Parent Company and its subsidiaries had been supplying products and materials and providing production services similar to those set out in the Purchase and Production Services Framework Agreement to members of the Daye Metal Group in FY2008, FY2009, FY2010 and the six months ended 30 June 2011. The aggregate amount paid by members of the Daye Metal Group to the Parent Company and its subsidiaries for such products, materials and services amounted to approximately RMB608,660,000, RMB685,960,000, RMB1,653,230,000 and RMB771,930,000 for FY2008, FY2009, FY2010 and the six months ended 30 June 2011, respectively.

10. Reasons for entering into the Purchase and Production Services Framework Agreement

The products and materials and production services to be provided under the Purchase and Production Services Framework Agreement will be important to the Enlarged Group's operations. Given the long-term relationship of the Parent Company, its subsidiaries and the Enlarged Group and the close geographical proximity of their respective operations, the Directors consider that the entering into of the Purchase and Production Services Framework Agreement will allow the Enlarged Group to secure a cost effective, timely and stable source of supply of those products and materials and production services, and also to benefit from the procurement network of the Parent Company. As such, we consider that the entering into of the Purchase and Production Services Framework Agreement will be in the usual and ordinary course of business of the Enlarged Group.

In light of

- (i) the conditions for the termination of the Purchase and Production Services Framework Agreement are in line with the market practice;
- (ii) the pricing of the Purchase and Production Services Framework Agreement will be determined according to government-prescribed price, or if there is no applicable government-prescribed price, with reference to the market price, or if no such market price is available, the cost incurred by the relevant party in providing the products or materials or services plus a charge not exceeding 15% of such cost; and

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- (iii) the time and method of payment for each transaction under the Purchase and Production Services Framework Agreement will be determined with reference to market practice,

we are of the view that the terms of the Purchase and Production Services Framework Agreement will be on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

D. Hubei Gold Purchase Framework Agreement

Pursuant to the Hubei Gold Purchase Framework Agreement, Hubei Gold will supply copper concentrates to members of the Enlarged Group.

1. Date

23 December 2011

2. Parties

- (a) the Company
- (b) Hubei Gold

Hubei Gold is a limited liability company established in the PRC. As at the Latest Practicable Date, it was owned as to 40.2% by the Parent Company and one of its wholly-owned subsidiaries, and therefore constitutes an associate of the Parent Company and a connected person of the Company. Hubei Gold is principally engaged in the mining, production and sales of gold, gold concentrates and copper concentrates.

3. Term

From the date on which the Hubei Gold Purchase Framework Agreement takes effect in accordance with its terms until 31 December 2013.

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4. Termination

The Hubei Gold Purchase Framework Agreement shall terminate upon the occurrence of the following events:

- (i) consent by both parties to terminate the agreement;
- (ii) occurrence of any force majeure event which renders it impossible to achieve the purpose of the agreement;
- (iii) breach of the agreement by either party, which is not remedied within 30 days upon request by the non-defaulting party;
- (iv) the agreement being declared invalid by the court or other competent authority;
- (v) shares of the Company ceasing to be listed on the Stock Exchange; or
- (vi) Hubei Gold ceasing to constitute a connected person of the Company.

We understand from the management of the Company that the conditions for the termination of the Hubei Gold Purchase Framework Agreement are in line with the market practice.

5. Products to be supplied to the Enlarged Group

Copper concentrates

6. Pricing mechanism

The price at which each transaction under the Hubei Gold Purchase Framework Agreement is to be conducted will be determined with reference to the market price.

7. Time and method of payment

The time and method of payment for each transaction under the Hubei Gold Purchase Framework Agreement will be determined with reference to market practice.

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8. Historical transaction amounts

Hubei Gold had been supplying copper concentrates to members of the Daye Metal Group in FY2009 and FY2010 and the six months ended 30 June 2011. The aggregate amount paid by members of the Daye Metal Group to Hubei Gold for copper concentrates amounted to approximately RMB49,720,000, RMB83,810,000 and RMB27,790,000 for FY2009, FY2010 and the six months ended 30 June 2011, respectively.

9. Reasons for entering into the Hubei Gold Purchase Framework Agreement

The copper concentrates to be provided under the Hubei Gold Purchase Framework Agreement will be important to the Enlarged Group's production of copper cathodes. Given the close geographical proximity of the respective operations of Hubei Gold and the Enlarged Group, the Directors consider that the entering into of the Hubei Gold Purchase Framework Agreement will allow the Enlarged Group to secure a cost effective, timely and stable source of supply of copper concentrates. As such, we consider that the entering into of the Hubei Gold Purchase Framework Agreement will be in the usual and ordinary course of business of the Enlarged Group.

In light of

- (i) the conditions for the termination of the Hubei Gold Purchase Framework Agreement are in line with the market practice;
- (ii) the pricing of the Hubei Gold Purchase Framework Agreement will be determined with reference to the market price; and
- (iii) the time and method of payment for each transaction under the Hubei Gold Purchase Framework Agreement will be determined with reference to market practice,

we are of the view that the terms of the Hubei Gold Purchase Framework Agreement will be on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

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E. Daye Transportation Purchase Framework Agreement

Pursuant to the Daye Transportation Purchase Framework Agreement, Daye Transportation will supply certain products to members of the Enlarged Group.

1. Date

23 December 2011

2. Parties

- (a) the Company
- (b) Daye Transportation

Daye Transportation is a limited liability company established in the PRC. As at the Latest Practicable Date, it was owned as to 41.01% by a wholly-owned subsidiary of Hubei Jinge which, in turn, is a 66.88%-owned subsidiary of the Parent Company, and therefore constitutes an associate of the Parent Company and a connected person of the Company. Daye Transportation is principally engaged in the provision of transportation services.

3. Term

From the date on which the Daye Transportation Purchase Framework Agreement takes effect in accordance with its terms until 31 December 2013.

4. Termination

The Daye Transportation Purchase Framework Agreement shall terminate upon the occurrence of the following events:

- (i) consent by both parties to terminate the agreement;
- (ii) occurrence of any force majeure event which renders it impossible to achieve the purpose of the agreement;
- (iii) breach of the agreement by either party, which is not remedied within 30 days upon request by the non-defaulting party;
- (iv) the agreement being declared invalid by the court or other competent authority;

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- (v) shares of the Company ceasing to be listed on the Stock Exchange; or
- (vi) Daye Transportation ceasing to constitute a connected person of the Company.

We understand from the management of the Company that the conditions for the termination of the Daye Transportation Purchase Framework Agreement are in line with the market practice.

5. Products and materials to be supplied to the Enlarged Group

Tyres, automobile parts and components, petrol and diesel oil.

6. Pricing mechanism

Depending on the products or materials to be supplied to the Enlarged Group, the price at which each transaction under the Daye Transportation Purchase Framework Agreement is to be conducted will be determined with reference to the market price.

7. Time and method of payment

The time and method of payment for each transaction under the Daye Transportation Purchase Framework Agreement will be determined with reference to market practice.

8. Historical transaction amounts

Daye Transportation had been supplying products and materials similar to those set out in the Daye Transportation Purchase Framework Agreement to members of the Daye Metal Group in FY2009, FY2010 and the six months ended 30 June 2011. The aggregate amount paid by members of the Daye Metal Group to Daye Transportation for such products and materials amounted to approximately RMB3,530,000, RMB3,260,000 and RMB110,000 for FY2009, FY2010 and the six months ended 30 June 2011, respectively.

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Historically, members of the Daye Metal Group purchased products and materials from Daye Transportation in the second half of each year and made payment to Daye Transportation at the time of delivery of those products and materials. It is also the case for the year ending 31 December 2011. As at 30 September 2011, the aggregate amount paid by members of the Daye Metal Group to Daye Transportation amounted to approximately RMB1,480,000. As such, the total amount of RMB110,000 which has already been paid to Daye Transportation for the six months ended 30 June 2011 is not representative of the aggregate amount to be paid for the entire year of 2011.

9. Reasons for entering into the Daye Transportation Purchase Framework Agreement

Daye Transportation is principally engaged in the provision of transportation services and therefore has access to the supply channels for automobile-related products and materials. The Directors consider that the entering into of the Daye Transportation Purchase Framework Agreement will allow the Enlarged Group to secure a cost effective and stable source of supply of those automobile-related products and materials. As such, we consider that the entering into of the Daye Transportation Purchase Framework Agreement will be in the usual and ordinary course of business of the Enlarged Group.

In light of

- (i) the conditions for the termination of the Daye Transportation Purchase Framework Agreement are in line with the market practice;
- (ii) the pricing of the Daye Transportation Purchase Framework Agreement will be determined with reference to the market price; and
- (iii) the time and method of payment for each transaction under the Daye Transportation Purchase Framework Agreement will be determined with reference to market practice,

we are of the view that the terms of the Daye Transportation Purchase Framework Agreement will be on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

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F. Combined Ancillary Services Framework Agreement

Pursuant to the Combined Ancillary Services Framework Agreement, the Parent Company will and will procure that its subsidiaries will provide certain ancillary services to members of the Enlarged Group.

1. Date

23 December 2011

2. Parties

- (a) the Company
- (b) the Parent Company

3. Term

From the date on which the Combined Ancillary Services Framework Agreement takes effect in accordance with its terms until 31 December 2013.

4. Termination

The Combined Ancillary Services Framework Agreement shall terminate upon the occurrence of the following events:

- (i) consent by both parties to terminate the agreement;
- (ii) occurrence of any force majeure event which renders it impossible to achieve the purpose of the agreement;
- (iii) breach of the agreement by either party, which is not remedied within 30 days upon request by the non-defaulting party;
- (iv) the agreement being declared invalid by the court or other competent authority;
- (v) shares of the Company ceasing to be listed on the Stock Exchange; or
- (vi) the Parent Company ceasing to constitute a connected person of the Company.

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We understand from the management of the Company that the conditions for the termination of the Combined Ancillary Services Framework Agreement are in line with the market practice.

5. Ancillary services to be provided to the Enlarged Group

Medical services, employee training services, property management services, building maintenance services, telecommunication and related maintenance services, utility services (including water and electricity) and other related ancillary services.

6. Pricing mechanism

Depending on the ancillary services to be provided by the Parent Company and its subsidiaries, the price at which each transaction under the Combined Ancillary Services Framework Agreement is to be conducted will be determined on the following basis: (i) according to the government-prescribed price; or (ii) if there is no applicable government-prescribed price, with reference to the market price.

7. Time and method of payment

The time and method of payment for each transaction under the Combined Ancillary Services Framework Agreement will be determined with reference to market practice.

8. Historical transaction amounts

The Parent Company and its subsidiaries had been providing ancillary services similar to those set out in the Combined Ancillary Services Framework agreement to members of the Daye Metal Group in FY2008, FY2009, FY2010 and the six months ended 30 June 2011. The aggregate amount paid by members of the Daye Metal Group for such ancillary services amounted to approximately RMB43,180,000, RMB282,270,000, RMB302,250,000 and RMB144,400,000 for FY2008, FY2009, FY2010 and the six months ended 30 June 2011, respectively.

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9. Reasons for entering into the Combined Ancillary Services Framework Agreement

The Group or the Target Group currently does not have the capability of providing the ancillary services set out in the Combined Ancillary Services Framework Agreement. The Combined Ancillary Services Framework Agreement will allow the Enlarged Group to obtain the use of a wide range of support services that it or its employees will require on a day-to-day basis. The provision of such services to the Enlarged Group will allow the Enlarged Group to concentrate its resources on its core production operations. As such, we consider that the entering into of the Combined Ancillary Services Framework Agreement will be in the usual and ordinary course of business of the Enlarged Group.

In light of

- (i) the conditions for the termination of the Combined Ancillary Services Framework Agreement are in line with the market practice;
- (ii) the pricing of the Combined Ancillary Services Framework Agreement will be determined with reference to the market price; and
- (iii) the time and method of payment for each transaction under the Combined Ancillary Services Framework Agreement will be determined with reference to market practice,

we are of the view that the terms of the Combined Ancillary Services Framework Agreement will be on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

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G. Tonghua Hotel Services Framework Agreement

Pursuant to the Tonghua Hotel Services Framework Agreement, the Tonghua Hotel will provide certain ancillary services to members of the Enlarged Group.

1. Date

23 December 2011

2. Parties

- (a) the Company
- (b) Tonghua Hotel

Tonghua Hotel is a limited liability company established in the PRC. As at the Latest Practicable Date, it was owned as to 45% by the Parent Company and therefore constitutes an associate of the Parent Company and a connected person of the Company. Tonghua Hotel is principally engaged in the catering and hotel business.

3. Term

From the date on which the Tonghua Hotel Services Framework Agreement takes effect in accordance with its terms until 31 December 2013.

4. Termination

The Tonghua Hotel Services Framework Agreement shall terminate upon the occurrence of the following events:

- (i) consent by both parties to terminate the agreement;
- (ii) occurrence of any force majeure event which renders it impossible to achieve the purpose of the agreement;
- (iii) breach of the agreement by either party, which is not remedied within 30 days upon request by the non-defaulting party;

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- (iv) the agreement being declared invalid by the court or other competent authority;
- (v) shares of the Company ceasing to be listed on the Stock Exchange; or
- (vi) Tonghua Hotel ceasing to constitute a connected person of the Company.

We understand from the management of the Company that the conditions for the termination of the Tonghua Hotel Services Framework Agreement are in line with the market practice.

5. Services to be provided to the Enlarged Group

Hotel services, catering services and business conference services.

6. Pricing mechanism

The price at which each transaction under the Tonghua Hotel Services Framework agreement is to be conducted will be determined with reference to the market price of such services.

7. Time and method of payment

The time and method of payment for each transaction under the Tonghua Hotel Services Framework Agreement will be determined with reference to market practice.

8. Historical transaction amounts

Tonghua Hotel had been providing ancillary services similar to those set out in the Tonghua Hotel Services Framework Agreement to members of the Daye Metal Group in FY2009, FY2010 and the six months ended 30 June 2011. The aggregate amount paid by members of the Daye Metal Group for such ancillary services amounted to approximately RMB1,690,000, RMB3,400,000 and RMB1,300,000 for FY2009, FY2010 and the six months ended 30 June 2011, respectively.

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9. Reasons for entering into the Tonghua Hotel Services Framework Agreement

Given the close geographical proximity of Tonghua Hotel and members of the Enlarged Group, the Directors consider that the entering into of the Tonghua Hotel Services Framework Agreement will allow the Enlarged Group to secure cost effective hotel accommodation and catering and business conference service for its business functions. As such, we consider that the entering into of the Tonghua Hotel Services Framework Agreement will be in the usual and ordinary course of business of the Enlarged Group.

In light of

- (i) the conditions for the termination of the Tonghua Hotel Services Framework Agreement are in line with the market practice;
- (ii) the pricing of the Tonghua Hotel Services Framework Agreement will be determined with reference to the market price; and
- (iii) the time and method of payment for each transaction under the Tonghua Hotel Services Framework Agreement will be determined with reference to market practice,

we are of the view that the terms of the Tonghua Hotel Services Framework Agreement will be on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

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2. Annual caps

A. Sales Framework Agreement

1. Historical transaction amounts

As mentioned in the section headed “Continuing Connected Transactions” in this circular, the aggregate amount paid by the subsidiaries of the Parent Company to members of the Daye Metal Group for such products and materials amounted to approximately RMB1,954,980,000, RMB1,698,490,000, RMB1,540,360,000 and RMB1,113,030,000 for FY2008, FY2009, FY2010 and the six months ended 30 June 2011, respectively.

2. Proposed annual caps

As stated in the section headed “Continuing Connected Transactions” in this circular, the Company proposes to adopt the following annual caps for transactions to be entered into pursuant to the Sales Framework Agreement for each of the two financial years ending 31 December 2012 and 2013 (respectively, “FY2012” and “FY2013”):

Table 11 – Proposed Annual Caps of Sales Framework Agreement

Annual Cap	
For the year ending 31 December 2012	For the year ending 31 December 2013
RMB2,532,300,000	RMB2,744,010,000

Source: Circular

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The above annual caps have been determined with reference to (i) the existing purchase orders placed by subsidiaries of the Parent Company; (ii) projected increase in the products to be sold to the subsidiaries of the Parent Company as a result of the expected growth in the business of the Parent Company and its subsidiaries and the expansion of the Enlarged Group's production capacity as a result of the upgrading of its production facilities; and (iii) the expected increase in the price of raw materials and labour costs in the next few years.

We also note that the proposed annual caps for FY2012 and FY2013 will be increased by approximately 8.4% (year-on-year), as we understand from the discussion with the management of the Company, such 8.4% year-on-year increase is determined on the basis of the historical price of raw materials. We consider that the annual increase in purchasing price of non-ferrous metals is a good reference for estimating the potential increase for such expenses and costs. We have reviewed the 2011 China Statistical Yearbook and note that within the index of purchasing prices of raw materials, fuels and power in the PRC, the non-ferrous metals sub-index had increased by approximately 8.9% year-on-year on average from 2006 to 2010, which is in line with the increase in proposed annual caps of FY2012 and FY2013.

In light of the above, we are of the view that the basis for determining the proposed annual caps of FY2012 and FY2013 for the Sales Framework Agreement is fair and reasonable.

B. Services Framework Agreement

1. Historical transaction amounts

As mentioned in the section headed "Continuing Connected Transactions" in this circular, the aggregate amount paid by the Parent Company and its subsidiaries for such services amounted to approximately RMB2,060,000, RMB1,250,000, RMB7,430,000 and RMB2,130,000 for FY2008, FY2009, FY2010 and the six months ended 30 June 2011, respectively.

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2. Proposed annual caps

As stated in the section headed “Continuing Connected Transactions” in this circular, the Company proposes to adopt the following annual caps for transactions to be entered into pursuant to the Services Framework Agreement for each of FY2012 and FY2013:

Table 12 – Proposed Annual Caps of Services Framework Agreement

Annual Cap	
For the year ending 31 December 2012	For the year ending 31 December 2013
RMB9,640,000	RMB10,610,000

Source: Circular

The above annual caps have been determined with reference to (i) the expected increase in the services to be provided to the Parent Company and its subsidiaries as a result of the expected growth in their business; and (ii) the expected increase in the services fees to be received by the Enlarged Group in the next few years.

As stated in Table 12, the proposed annual caps for FY2012 and FY2013 are expected to increase by approximately 10% (year-on-year) on average. As discussed with the management of the Company, we note that approximately 50% of the service fees are attributable to cost in general goods and services, and the other 50% of the service fees are attributable to the labour cost. We consider that the consumer price index released by the National Bureau of Statistics of China (the “CPI”) and the average wage indices in Hubei Province released by the Bureau of Statistics of Hubei Province (the “Hubei Wage Index”), which represent the general increase in the prices of goods and services and the increase in the labour cost in Hubei Province respectively, are good references for estimating the potential increase for such expenses and costs. We note that the average CPI from January 2006 to October 2011 is approximately 3.3% and the average Hubei Wage Index from 2006 to 2010 is approximately 16.1%, as such, the weighted average increase of the CPI and the Hubei Wage Index is approximately 9.7%, which is in line with the increase of the proposed annual caps of the Services Framework Agreement.

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In light of the above, we are of the view that the basis for determining the proposed annual caps of FY2012 and FY2013 for the Service Framework Agreement is fair and reasonable.

C. Purchase and Production Services Framework Agreement

1. Historical transaction amounts

As mentioned in the section headed “Continuing Connected Transactions” in this circular, the aggregate amount paid by members of the Daye Metal Group to the Parent Company and its subsidiaries for such products, materials and services amounted to approximately RMB608,660,000, RMB685,960,000, RMB1,653,230,000 and RMB771,930,000 for FY2008, FY2009, FY2010 and the six months ended 30 June 2011, respectively.

2. Proposed annual caps

As stated in the section headed “Continuing Connected Transactions” in this circular, the Company proposes to adopt the following annual caps for transactions to be entered into pursuant to the Purchase and Production Services Framework Agreement for each of FY2012 and FY2013:

Table 13 – Proposed Annual Caps of Purchase and Production Services Framework Agreement

Annual Cap	
For the year ending 31 December 2012	For the year ending 31 December 2013
RMB4,797,980,000	RMB5,336,080,000

Source: Circular

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The annual cap for FY2012 represents an increase of approximately 190% from the aggregate amount paid by members of the Daye Metal Group to the Parent Company and its subsidiaries for the year ended 31 December 2010. Such estimated increase has been determined on the basis of (i) the aggregate amount of RMB1,204,120,000 already paid by members of the Daye Metal Group to the Parent Company and its subsidiaries for the nine months ended 30 September 2011 and the projected amount to be paid for the remaining three months of 2011, taking into account the existing purchase orders placed by the Daye Metal Group; (ii) the projected increase in the amount of materials and services required as a result of the increased production capacity of copper cathodes of the Enlarged Group upon operation of both the new Ausmelt furnace and the new electrowinning system at the Smelting Plant in 2012, which are expected to increase the annual production capacity of copper cathodes to 640,000 tonnes when operating at full capacity; (iii) the expected growth in the Enlarged Group's business operations; and (iv) the expected increase in the price of raw material and services fees to be paid by the Enlarged Group.

The annual cap for FY2013 represents an increase of approximately 11% from the annual cap for the previous year. Such estimated increase has been determined on the basis of (i) the expected growth in the Enlarged Group's business operations; and (ii) the expected increase in the price of raw material and services fees to be paid by the Enlarged Group.

As stated in Table 13 above, the proposed annual caps for FY2012 are expected to be increased by approximately 190% from the aggregate amount paid by members of the Daye Metal Group to the Parent Company and its subsidiaries for the year ended 31 December 2010. As discussed with the management of the Company, we understand that the Target Group has upgraded the existing capacity of the Smelting Plant by purchasing the new Ausmelt furnace which is manufactured in Australia and is one of the most advanced smelting furnaces. The Ausmelt furnace commenced operation in December 2010. In addition, the Target Group is currently building a new electrowinning system at the Smelting Plant, which will commence operation by the third quarter of 2012. The annual production capacity of copper cathodes of the Enlarged Group is expected to be increased to 640,000 tonnes upon operation of both the new Ausmelt furnace and the new electrowinning system at the Smelting Plant in 2012 at full capacity. As such, the Directors consider that demand for raw materials is expected to increase significantly for FY2012.

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The proposed annual caps for FY2013 will be increased by approximately 11% with reference to the expected increase of CPI in the next few years. As we have discussed in section 2.B.2 above, we consider that the CPI, which represents the general increase in the prices of goods and services, is a good reference for estimating the potential increase for such expenses and costs.

In light of the above, we are of the view that the basis for determining the proposed annual caps for:

- i. FY2012 which is determined based on the expected significant increase of the demand for raw materials as a result of the expected increase of annual production capacity of copper cathodes of the Enlarged Group to 640,000 tonnes upon operation of both the new Ausmelt furnace and the new electrowinning system at the Smelting Plant in 2012 at full capacity; and
- ii. FY2013 which is determined based on with reference to the expected increasing rate of the CPI in the next few years,

the Purchase and Production Services Framework Agreement is fair and reasonable.

D. Hubei Gold Purchase Framework Agreement

1. Historical transaction amounts

As mentioned in the section headed “Continuing Connected Transactions” in this circular, the aggregate amount paid by members of the Daye Metal Group to Hubei Gold for copper concentrates amounted to approximately RMB49,720,000, RMB83,810,000 and RMB27,790,000 for FY2009, FY2010 and the six months ended 30 June 2011, respectively.

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2. Proposed annual caps

As stated in the section headed “Continuing Connected Transactions” in this circular, the Company proposes to adopt the following annual caps for transactions to be entered into pursuant to the Hubei Gold Purchase Framework Agreement for each of FY2012 and FY2013:

Table 14 – Proposed Annual Caps of Hubei Gold Purchase Framework Agreement

Annual Cap	
For the year ending 31 December 2012	For the year ending 31 December 2013
RMB96,810,000	RMB106,500,000

The above annual caps have been determined with reference to (i) the expected increase in the requirement of the Enlarged Group for copper concentrates; and (ii) the expected increase in the prices of copper concentrates.

As stated in Table 14 above, the proposed annual caps for FY2012 and FY2013 will be increased by approximately 10%. We consider the average annual increase in purchasing price of non-ferrous metals is a good reference for estimating the potential increase for such expenses and costs. Furthermore, we note that the annual increase of the proposed annual caps in FY2012 and FY2013 is in line with the average annual increase of the purchasing price of non-ferrous metals as mentioned in section 2.A.2 above.

In light of the above, we are of the view that the basis for determining the proposed annual caps of FY2012 and FY2013 for the Hubei Gold Purchase Framework Agreement is fair and reasonable.

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E. Daye Transportation Purchase Framework Agreement

1. Historical transaction amounts

As mentioned in the section headed “Continuing Connected Transactions” in this circular, the aggregate amount paid by members of the Daye Metal Group to Daye Transportation for such products and materials amounted to approximately RMB3,530,000, RMB3,260,000 and RMB110,000 for FY2009, FY2010 and the six months ended 30 June 2011, respectively.

2. Proposed annual caps

As stated in the section headed “Continuing Connected Transactions” in this circular, the Company proposes to adopt the following annual caps for transactions to be entered into pursuant to the Daye Transportation Purchase Framework Agreement for each of FY2012 and FY2013:

Table 15 – Proposed Annual Caps of Daye Transportation Purchase Framework Agreement

Annual Cap	
For the year ending 31 December 2012	For the year ending 31 December 2013
RMB3,950,000	RMB4,350,000

Source: Circular

The above annual caps have been determined on the basis of (i) the aggregate amount of RMB1,480,000 already paid by members of the Daye Metal Group to Daye Transportation for the nine months ended 30 September 2011 and the projected amount to be paid for the remaining three months of 2011; (ii) the expected increase in the requirement of the Enlarged Group for tyres, automobile parts and components, petrol and diesel oil; and (iii) the expected increase in the prices of those products and materials.

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As stated in Table 15 above, the proposed annual caps for FY2012 and FY2013 will be increased by approximately 10%. As discussed with the management of the Company, we understand that such 10% year-on-year increase is determined on the basis of the historical fuel and power price. In addition, we have reviewed the 2011 China Statistical Yearbook and note that within the index of purchasing prices of raw materials, fuels and power in the PRC, the fuel and power sub-index had increased by approximately 8.5% year-on-year on average from 2006 to 2010, which is in line with the increase in the proposed annual caps for FY2012 and FY2013.

In light of the above, we are of the view that the basis for determining the proposed annual caps of FY2012 and FY2013 for the Daye Transportation Purchase Framework Agreement is fair and reasonable.

F. Combined Ancillary Services Framework Agreement

1. Historical transaction amounts

As mentioned in the section headed “Continuing Connected Transactions” in this circular, the aggregate amount paid by members of the Daye Metal Group for such ancillary services amounted to approximately RMB43,180,000, RMB282,270,000, RMB302,250,000 and RMB144,400,000 for FY2008, FY2009, FY2010 and the six months ended 30 June 2011, respectively.

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2. Proposed annual caps

As stated in the section headed “Continuing Connected Transactions” in this circular, the Company proposes to adopt the following annual caps for transactions to be entered into pursuant to the Combined Ancillary Services Framework Agreement for each of FY2012 and FY2013:

Table 16 – Proposed Annual Caps of Combined Ancillary Services Framework Agreement

Annual Cap	
For the year ending 31 December 2012	For the year ending 31 December 2013
RMB501,720,000	RMB660,780,000

Source: Circular

The above annual caps have been determined with reference to (i) the historical amounts paid by members of Daye Metal Group for similar ancillary services to the Parent Company and its subsidiaries; (ii) the expected increase in the services to be provided; and (iii) the expected increase in the services fees to be paid by the Enlarged Group in the next few years.

As stated in Table 16 above, the proposed annual caps for FY2012 and FY2013 will be increased by approximately 32%. As discussed with the management of the Company, we note that the amount is determined based on the expected large demand for ancillary services with the significant increase of labour of the Enlarged Group as a result of the Acquisition and increase of number of training courses/seminars given to the employees.

In light of the above, we are of the view that the basis for determining the proposed annual caps of FY2012 and FY2013 for the Combined Ancillary Services Framework Agreement is fair and reasonable

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G. *Tonghua Hotel Services Framework Agreement*

1. Historical transaction amounts

As mentioned in the section headed “Continuing Connected Transactions” in this circular, the aggregate amount paid by members of the Daye Metal Group for such ancillary services amounted to approximately RMB1,690,000, RMB3,400,000 and RMB1,300,000 for FY2009, FY2010 and the six months ended 30 June 2011, respectively.

2. Proposed annual caps

As stated in the section headed “Continuing Connected Transactions” in this circular, the Company proposes to adopt the following annual caps for transactions to be entered into pursuant to the Tonghua Hotel Services Framework Agreement for each of FY2012 and FY2013:

Table 17 – Proposed Annual Caps of Tonghua Hotel Services Framework Agreement

Annual Cap	
For the year ending 31 December 2012	For the year ending 31 December 2013
RMB4,110,000	RMB4,530,000

Source: Circular

The above annual caps have been determined with reference to (i) the historical amounts paid by members of the Daye Metal Group for similar services provided by Tonghua Hotel; (ii) the projected increase in the services to be provided; and (iii) the expected increase in the services fees to be paid by the Enlarged Group in the next few years as a result of increase in labour costs.

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As stated in Table 17 above, the proposed annual caps for FY2012 and FY2013 will be increased by approximately 10% each year. As discussed with the management of the Company, we note that the amount of the annual caps is mainly determined with reference to the historical figure of CPI and labour cost as approximately 50% of the service fees of the Tonghua Hotel Services Framework Agreement are attributable to the cost in general goods and services, and the other 50% are attributable to the labour cost. Furthermore, we note that the approximately 10% increase of the proposed annual caps is in line with the weighted average increase of the CPI and the Hubei Wage Index as mentioned in section 2.B.2 above.

In light of the above, we are of the view that the basis for determining the proposed annual caps of FY2012 and FY2013 for Tonghua Hotel Services Framework Agreement is fair and reasonable.

V. Conclusion

We have considered the risk relating to the Acquisition in the section headed “Risk Factors” in this circular and we have taken into account the following principal factors and reasons in arriving at our opinion:

- (i) regarding the Group’s business focus and strategy, the Acquisition is in line with the Group’s development strategies and business plans;
- (ii) regarding the Consideration, having considered that: a) the assumptions, the basis and the methodology for the valuation of the Mineral Assets under Chapter 18 Valuation and market valuation are fair and reasonable; b) the basis and assumptions, the valuation approach and methodology for the valuation of the net assets value as at 30 September 2011 of the Target Group are fair and reasonable; we are of the view that the Consideration is fair and reasonable;

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- (iii) regarding the issue price of the China Times Consideration Shares and the Cinda Consideration Shares and the Conversion price of the China Times Convertible Notes and the Conversion Share, having considered that: a) the mixture of the issue of 11,736,715,634 new Ordinary Shares and 2,007,672,096 Conversion Shares to satisfy the China Times Consideration and Cinda Consideration is fair and reasonable; b) the Issue Price/Conversion Price was trading at a premium of approximately 19% to the closing price of the Ordinary Shares of approximately HK\$0.42 per Ordinary Share as quoted on the Stock Exchange on the Latest Practicable Date; and c) the Issue Price/Conversion Price of the Company is at a discount higher than the Market Averages, nevertheless the Consideration is at a discount of approximately 5% to the valuation under the Net Asset Valuation Report, we are of the view that the Issue Price/Conversion Price is fair and reasonable;
- (iv) regarding the financial effects of the Acquisition to the Group, having considered that: a) the Acquisition has a positive effect on the NAV and NAV per Share of the Enlarged Group; b) the Acquisition has a positive effect on the earnings and earnings per Share of the Enlarged Group; and c) the Acquisition has no material impact on the working capital of the Enlarged Group despite the negative impact on the net gearing of the Enlarged Group, we are of the view that, on the balance, the Acquisition will have an overall positive financial effect on the Enlarged Group and is in the interests of the Company and the Shareholders as a whole;
- (v) regarding the potential dilution effect, having considered that: a) the dilution is inevitable in the case of a substantial acquisition of this type which is being financed without incurring any cash outlay or additional liabilities to satisfy the Consideration; and b) the aforementioned potential benefits of the Acquisition to the Group and the terms of the Acquisition Agreement being fair and reasonable and on normal commercial terms so far as the Independent Shareholders are concerned, we are of the view that the potential dilution effect is acceptable;
- (vi) regarding the proposed grant of the Specific Mandate, having considered that the aforementioned potential benefits of the Acquisition to the Group and the terms of the Acquisition Agreement being fair and reasonable and on normal commercial terms so far as the Independent Shareholders are concerned, we are of the view that the Specific Mandate is fair and reasonable, on normal commercial terms and should be granted at the EGM;

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- (vii) regarding the Whitewash waiver, having considered that the aforementioned potential benefits of the Acquisition to the Group and the terms of the Acquisition Agreement being fair and reasonable and on normal commercial terms so far as the Independent Shareholders are concerned, we are of the view that the approval of the Whitewash Waiver, which is a prerequisite for the completion of the Acquisition, is in the interest of the Company and its Shareholders as a whole; and
- (viii) regarding the Non-exempt Continuing Connected Transactions, having considered that the terms and the basis for determining the proposed annual caps for: a) the Sales Framework Agreement; b) the Services Framework Agreement; c) the Purchase and Production Services Framework Agreement; d) Hubei Gold Purchase Framework Agreement; e) the Daye Transportation Purchase Framework Agreement; f) the Combined Ancillary Services Framework Agreement; and g) the Tonghua Hotel Services Framework Agreement are fair and reasonable, we are of the view that the Non-exempt Continuing Connected Transactions (including the related proposed Annual Caps) are fair and reasonable, will be on normal commercial terms and in the usual and ordinary course of business of the Enlarged Group.

RECOMMENDATION

Based on the above principal factors and reasons, we consider (i) the Acquisition, the Whitewash Waiver, the proposed grant of the Specific Mandate and the Non-Exempt Continuing Connected Transactions (including the Annual Caps) are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and its shareholders as a whole; (ii) the Acquisition and the proposed grant of the Specific Mandate are on normal commercial terms; and (iii) the Non-Exempt Continuing Connected Transactions (including the Annual Caps) will be on normal commercial terms and in the usual and ordinary course of business of the Enlarged Group. Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the Acquisition, the Whitewash Waiver, the proposed grant of the Specific Mandate and the Non-Exempt Continuing Connected Transactions.

Yours faithfully,

For and on behalf of

Platinum Securities Company Limited

Ian Ramsay

Director and Head of Corporate Finance

Lenny Li

Director

RISK FACTORS

The exploration for and development of metals and mineral resources is a speculative activity that involves a high degree of risk. Investors should note that the Enlarged Group's mineral resources and/or reserves may not ultimately be extracted at a profit. Therefore, investors are cautioned not to assume that all or any part of these resources and/or reserves exist, or that they can be legally and economically mined. In addition to the other information contained in this circular, shareholders and investors of the Company should take into account the following risks in considering the Acquisition. If any of the possible events described below occurs, the business or financial condition of the Enlarged Group could be materially and adversely affected

There are certain risks involved in relation to the Acquisition and the operations of the Enlarged Group. These risks can be categorised as: (i) risks relating to the Acquisition; (ii) risks relating to business of the Enlarged Group; (iii) risks relating to the mining industry; and (iv) risks relating to conducting business in the PRC.

RISKS RELATING TO THE ACQUISITION

Completion of the Acquisition is subject to satisfaction of the conditions under the Acquisition Agreement and there is no assurance that all of those conditions will be satisfied

Completion of the acquisition of the Sale Shares under the Acquisition Agreement is subject to the satisfaction of the conditions set out in the Acquisition Agreement (or in the case of a limited number of those conditions, the waiver by the Company if any of them is not satisfied). Details of those conditions are set out in the section headed "Letter from the Board – Conditions Precedent" in this circular.

The fulfillment of certain of the conditions set out in the Acquisition Agreement is dependent on the decision of government or regulatory authorities with respect to which none of the Company, the Parent Company or Cinda will be able to exercise any control.

There is no assurance that all of those conditions will be fulfilled within the deadline specified in the Acquisition Agreement or at all. If any of those conditions is not satisfied (and if it is capable of being waived by the Company as provided under the Acquisition Agreement, so waived by the Company), completion of the acquisition of the Sale Shares will not proceed.

RISK FACTORS

The mineral resources and ore reserves and mineralized potential of the Target Group are estimated based on assumptions and the actual recovery of minerals may be lower than expected.

One of the conditions which completion of the Acquisition is subject to as set out in the Acquisition Agreement is that the independent technical adviser has completed its report with respect to the mineral resources and ore reserves of the Target Group in accordance with the requirements of the Listing Rules and the contents and result of such report are satisfactory to the Company. A copy of the Competent Person's Report on the Four Mines so compiled by Runge is set out in Appendix V-A to this circular.

The mineral resources and ore reserves and mineralized potential of the Target Group as set out in the Competent Person's Report on the Four Mines are estimated in accordance with the JORC Code or based on standard evaluation methods generally used in the international mining industry. Such estimations involve qualitative measurements such as the intrinsic economic value and the prospects for eventual economic extraction of minerals. In addition, the recovery percentage is estimated based on the results of small-scale test works conducted in laboratory and there is no assurance that the estimated level of recovery will be realized or tonnages or grades will be achieved, or that the anticipated mineral resources and ore reserves or mineralized potential can be mined or processed economically when the operations are scaled up to the level comparable to those of the Target Group. As mineral resources and ore reserves estimates are inherently prone to variability, the ultimate recovery rate would depend on a number of factors such as production costs, market sentiment and commodity price. As such, the stated mineral resources and ore reserves and mineralized potentials should not be regarded as an indication of the economic viability or be associated with the financial performance of the Target Group (and hence, of the Enlarged Group after completion of the Acquisition). Should the proportion of copper and other valuable minerals recovered from the ore reserves falls short of the anticipated level of recovery, the Enlarged Group may need to adjust its mining plans in a way that may adversely affect its business, financial condition and results of operations.

RISK FACTORS

The shareholdings of the existing Shareholders will be substantially diluted immediately following the China Times Completion and the Cinda Completion

Pursuant to the Acquisition Agreement, the Company will allot and issue the China Times Consideration Shares and the China Times Convertible Notes to China Times, and the Cinda Consideration Shares to Cinda HK, upon China Times Completion and Cinda Completion, respectively. As at the Latest Practicable Date, the aggregate shareholding of the existing Shareholders (other than China Times and persons acting in concert with it) amounted to approximately 79.20%. The aggregate shareholding of the existing Shareholders (other than China Times and persons acting in concert with it) will be substantially diluted, upon issue of the China Times Consideration Shares, to approximately 27.01% and, upon the further issue of the Cinda Consideration Shares, to 25.55%. If the Conversion Shares to be issued upon conversion of the China Times Convertible Notes (but subject to the restriction on conversion by China Times under the Acquisition Agreement in order to maintain the minimum public float of the Company) are taken into account, the aggregate shareholding of the existing Shareholders (other than China Times and persons acting in concert with it) will be diluted to 25.01% upon China Times Completion and to 22.90% if Cinda Completion also takes place. Please refer to the section headed “Letter from the Board - Effects of the Acquisition on the shareholding structure of the Company” for further details. Any value enhancement of the Ordinary Shares resulting from the Acquisition may not necessarily be reflected in their market price and may not offset the dilution effect to the existing Shareholders.

RISKS RELATING TO THE BUSINESS OF THE ENLARGED GROUP

The Enlarged Group may face significant challenges in integrating the business operations of the Group with those of the Target Group and to establish a centralized management structure and failure to achieve successful integration may adversely affect the business and operations of the Enlarged Group

The Group’s mining assets comprise, among others, the Aleinuer Mine in Mongolia and the Sareke Mine and Hami Mine in the Xinjiang Uygur Autonomous Region of the PRC. The Four Mines, being the principal mining assets owned and operated by the Target Group, are located in Hubei Province, the PRC. While the mines owned by the Group are all in their early stages of development and have yet to commence commercial production, those owned by the Target Group have been mined and in commercial production for over 30 years.

RISK FACTORS

Upon completion of the Acquisition, the business operations of the Group and the Target Group will have to be integrated and a centralized management structure will have to be established. The Enlarged Group may face significant challenges in doing so, particularly taking into account the different geographical locations of the mining assets of the Group and the Target Group and the different stages of development at which the mines of the Target Group and those of the Group are operating. Adjustments or changes required to be made to, among others, management personnel, financial and management information systems may not be successfully implemented. As such, there can be no assurance that the Enlarged Group will be able to achieve a successful integration of the business operations of the Group with those of the Target Group and any material delay or obstacle encountered during such integration process may adversely affect the business operations, results of operations, financial condition and growth prospects of the Enlarged Group.

The growth prospects of the Enlarged Group are dependent upon continual and successful exploration and development of its mining assets

Mining exploration is unpredictable in nature. The success of any mining project depends on a wide range of factors such as: (i) whether ore bodies can be located; (ii) whether the location of ore bodies are economically feasible to mine; (iii) whether appropriate metallurgical processes can be developed and appropriate mining and processing facilities can be economically constructed; and (iv) whether necessary government permits, mining and exploration licences and consents can be obtained and renewed.

The growth prospects of the Enlarged Group are dependent upon a stable supply of copper ore at an economically viable price, which in turn is dependent on the successful exploration and development of both the mines which are already in commercial production and those which have yet to commence commercial production. Notwithstanding that each of the Four Mines has been in commercial production for more than 25 years, the Target Group has continued to discover new copper ore deposits through, in particular, exploration carried out at deeper levels underground and in the peripheral areas of the mining sites. There is no assurance that the Enlarged Group will, after completion of the Acquisition, continue to be able to discover new copper ore deposits of any significant scale at any of the Four Mines or that any deposits so discovered would be economically viable for mining and commercial production.

RISK FACTORS

In addition to continuing with exploration activities at the existing mines, the Enlarged Group also intends to seek to increase its mineral resources and reserves by acquiring, exploring and developing new mines in the PRC and overseas. However, exploration and development of new mines involve a wide range of risks relating to (i) the location of ore bodies, (ii) development of appropriate mining processes, (iii) the availability and cost of leaching and smelting arrangements, (iv) the availability of utilities, auxiliary materials and other supplies and the accessibility of transportation and other infrastructure, (v) the availability of funds to finance construction and production activities, (vi) procurement of all necessary government approvals, changes in government policies or development plans, and (vii) construction of mining facilities and processing plants and recruitment of technical and mining staff. As such, not all exploration and development incentives of the Enlarged Group would result in new commercial mining operations or extend the life of any of the existing mining operations, and even if such incentives did result in new commercial mining operations, there could be no assurance that such operations would be successful. If such exploration activities or mining operations fail, the costs of such developments could not be recovered, and this could materially and adversely affect the Enlarged Group's business, financial conditions and operation results.

Fluctuations in price and supply of raw materials could negatively impact our business and financial conditions

The Target Group currently purchases a significant proportion of copper concentrates required for its downstream production of copper cathodes from third party suppliers and the Parent Group as the supply of copper ore from the Four Mines is currently not sufficient to meet such production requirements.

While the Directors expect that after completion of the Acquisition, as the Enlarged Group begins to develop the combined copper reserves and resources of the Group and the Target Group, it will be able to reduce the quantity of copper concentrates it has to source from external suppliers and the Parent Group over time, it will still have to rely on external suppliers and the Parent Group for the supply of a significant portion of the copper concentrates required for its downstream copper cathode production in the near term.

The Enlarged Group's production requires a stable supply of key raw materials including copper concentrates, anode plates and scrap copper at economical prices. Due to the intensive capital requirement of mining activities, the growth in the supply of raw ore (in particular, copper ore) in the PRC and around the world is generally unable to keep up with the expansion of production capacity in metal processing. Stable supply at commercially acceptable terms may not be maintained. Any shortages in the supply of copper concentrates or the other key raw materials could disrupt the Enlarged Group's operations and could have a material adverse effect on its business, results of operations and financial condition.

RISK FACTORS

Failure to achieve production estimates could have a material adverse effect on the business, financial condition and results of operations of the Enlarged Group

Estimates of future production for the mining, ore processing, smelting and refining operations of the Target Group, the Group or the Enlarged Group are subject to change and are based on, among other things, reserve estimates, assumptions regarding ground conditions and physical characteristics of ores, utilization of production facilities, costs of production and conditions of the industry and general economy. Actual production figures from the mining, ore processing, smelting and refining operations of the Target Group, the Group or the Enlarged Group (as the case may be) may vary from estimates for a variety of reasons, including risks and hazards of the types discussed elsewhere in this circular, and as set out below:

- actual ore mined varying from estimates in grade, tonnage, and metallurgical and other characteristics;
- encountering of unusual or unexpected geological conditions;
- industrial accidents;
- equipment failures;
- severe weather conditions and natural disasters;
- changes in power costs and potential power shortages;
- shortages of principal raw materials and supplies needed for operation, including but not limited to copper concentrates, anode plates, explosives, fuels and equipment parts;
- failure to renew or obtain the necessary licences and permits; and
- restrictions imposed by government authorities.

Such occurrences could result in damage to mines or processing facilities, interruptions in production, injury or death to persons, damage to the Enlarged Group's properties or the properties of others, monetary losses and legal liabilities. Although neither the Group nor the Target Group has encountered any of the above factors which has materially and adversely disrupted or affected its operations or production plans in the past, these factors may cause an operation that has been profitable in the past to become unprofitable.

RISK FACTORS

Estimates of production from mines or processing facilities not yet in production or from operations that are to be expanded are based on similar factors (including in some instances, feasibility studies prepared by personnel and/or external consultants of the Target Group or the Group). It is possible that actual cash operating costs and economic returns will differ significantly from those estimated. There is no assurance any production estimates will be achieved. Failure to achieve production estimates could have a material and adverse effect on the business, financial condition and results of operations of the Enlarged Group.

Impairment losses relating to the mining rights of the Target Group may adversely affect the results of operations of the Enlarged Group

In accordance with the accounting policies of the Target Group, amortization of mining rights of the Four Mines is calculated using the units-of-production method and based on the estimated proven and probable mineral reserves of the Four Mines. In determining proven and probable mineral reserves, reliance is placed on engineering estimates derived from qualitative measurements such as intrinsic economic value and prospects for eventual economic extraction. As engineering estimates are inherently imprecise and represent only approximate amounts because of the subjective judgments involved in developing such information, such estimations could have an impact on the recognition of the extent of impairment losses relating to mining rights. If the value of the mining rights of the Four Mines is over-estimated, the over-estimated amounts will be recognized as impairment losses which, in turn, may have a material adverse effect on the results of operations of the Enlarged Group after completion of the Acquisition.

Adverse economic developments in the PRC could have a negative impact on the revenues, cash flow and profitability of the Enlarged Group

China has been the main driver of global demand for minerals and metals over the last few years. Sales to PRC customers have accounted for a substantial portion of the total turnover of the Target Group during the Track Record Period. Any slowdown in the growth of the PRC economy or its manufacturing industry could lead to a decline in demand for the products of the Enlarged Group, resulting in lower revenues, cash flow and profitability.

RISK FACTORS

The operations of the Enlarged Group are governed by extensive and increasingly stringent environmental, health and safety laws and regulations, the violation of which might adversely affect the business of the Enlarged Group

The operations of the Enlarged Group will involve the use, handling, discharge and disposal of hazardous materials into the environment and the use of natural resources, which are subject to extensive environmental, health and safety laws and regulations in the PRC and Mongolia relating to, among other things, air and water quality, waste management, public health and safety. To comply with those laws and regulations, the Enlarged Group may have to incur significant costs associated with its production facilities and production process, and the installation of pollution control equipment and safety facilities in future. The Enlarged Group will also be subject to inspections by relevant environmental and other government authorities in the PRC and Mongolia from time to time and will need to maintain various environmental and production safety permits. Failure to comply with environmental, health and safety laws and regulations in the PRC and Mongolia may expose the Enlarged Group to litigation, investigation or the imposition of penalties, which may include fines and suspension of operations, all of which may adversely affect the Enlarged Group's business and results of operations.

In addition, recent changes in environmental, health and safety laws and regulations in the PRC and Mongolia where the Enlarged Group will be operating, have seen the introduction of stricter standards, more stringent requirements and increased fines and penalties for any non-compliance activities. It is possible that the introduction of more laws and regulations governing operations and activities of mining companies, such as the imposition of new or stricter requirements for the issue or renewal of environmental or safe production permits, or more aggressive enforcement of laws and regulations by regulatory authorities may lead to an increase in compliance costs, capital expenditure and production costs, reduction in production output or abandonment or delay in development of new mining properties.

The Enlarged Group may not have adequate insurance coverage against operation risks and hazards inherent in the nature of the mining business, which could adversely affect its business

The Enlarged Group will face numerous operation risks and hazards that are inherent in the nature of the mining business, which cannot be eliminated despite the implementation of preventive measures. The Enlarged Group's insurance policies will not cover every potential risk relating to its operations and adequate coverage at reasonable costs may not be obtainable. Further, the available insurance cover in the PRC is relatively limited and many forms of insurance for mining companies are not yet generally available in the PRC. As such, losses flowing from unforeseen accidents may not be covered by the insurance maintained by the Enlarged Group or the insurance coverage may be inadequate, and the Enlarged Group may have to pay out of its resources for financial and other losses, damages and liabilities not covered by its insurance. This could have a material and adverse effect on the business, financial conditions and results of operations of the Enlarged Group.

RISK FACTORS

The Enlarged Group may not achieve optimal result in future acquisitions or may encounter difficulties in integrating and developing the acquired assets or business successfully

As part of its expansion plans, the Enlarged Group may increase its mineral resources through selected acquisitions of companies with existing exploration rights and additional mining assets. The Enlarged Group does not, however, have any specific timetable for the implementation of any such expansion plans, and there is no assurance that it will be able to identify suitable companies or mining assets for acquisition. It may encounter intense competition during the expansion process and it may fail to identify acquisition targets appropriately. In addition, any such acquisition may be subject to the requirement for government or regulatory approvals and/or permits to be obtained and there is no assurance that any such approvals or permits will be obtained in a timely manner or at all. The Enlarged Group may not be able to obtain any approvals and/or permits that may be required to undertake the development of the mineral resources comprised in any such mining assets.

Further, acquisitions may also involve a number of risks, undisclosed issues or legal liabilities. For example, future acquisitions may involve potential risks such as failure by the Enlarged Group to integrate any acquired business into its operations successfully, diversion of management attention from its existing business, potential loss of its key employees or the key employees of any acquired business, unanticipated changes in business, industry or general economic conditions that affect the assumptions underlying the acquisition, and decline in the value of the acquired assets, especially in light of the considerable time lapse that may arise between the signing of agreement and completion of the acquisition due to the time that may be required for obtaining any government, regulatory or other approval for such acquisition. These and other risks related to the acquisition, integration and operation of acquired assets and companies could cause the Enlarged Group not to realize the benefits expected to result from such acquisition, and could have a material adverse effect on the further development and growth of its business and on its financial condition and results of operations.

Hedging activities may limit the Enlarged Group's participation in commodity price increases and increase its exposure to counterparty credit risk

The Enlarged Group is expected to periodically enter into hedging activities to manage its exposure to copper price volatility. To the extent that it engages in price risk management activities to protect itself from commodity price declines, it may be prevented from fully realizing the benefits of commodity price increases above the prices established by its hedging contracts. For instance, in 2010 and the six months ended 30 June 2011, the Target Group incurred loss on changes in the fair value of commodity futures contracts it entered into due to price fluctuations of copper. In addition, its hedging arrangements may also expose it to the risk of financial loss in certain other circumstances, such as where the counterparties to its hedging contracts fail to perform their obligations under those contracts.

Exposure to financial losses resulting from hedging arrangements may also be increased by the ongoing European sovereign debt crisis and possible changes to the European Union's monetary policies which may lead to more volatility in LME benchmarked copper prices.

RISK FACTORS

The risk management and internal control systems of the Enlarged Group may not be adequate or effective

The Directors, together with the senior management of the Enlarged Group, will be responsible for overseeing its internal control policies and procedures. After completion of the Acquisition, the Enlarged Group will establish such risk management and internal control systems consisting of relevant organizational framework policies, procedures and risk management methods that the Directors may consider appropriate for its business operations. However, there is no assurance that any such systems will be sufficiently effective in identifying and preventing all risks. As the effectiveness of any risk management and internal control systems so adopted will also depend on the implementation by the employees of the Enlarged Group, there is no assurance that such implementation will not involve any human errors or mistakes. If the Enlarged Group fails to implement its internal control policies and procedures in a timely manner or fails to adequately identify risks that may affect its business, its business, financial condition and results of operations could be materially and adversely affected.

Changes in government policies, including, but not limited to, the imposition of new taxes or cancellation of preferential tax treatment currently enjoyed by the Group or the Target Group may adversely affect the results of operations of the Enlarged Group

Each of the Group and the Target Group currently enjoys a number of preferential tax treatments in the PRC. For example, the Target Group currently enjoys the benefit of exemption from income tax in respect of part of its income derived from the sale of certain products. The loss of the benefits associated with such preferential tax treatments may have an adverse impact on the business and results of operations of the Enlarged Group. Further, certain of the preferential tax treatments may be subject to renewal and confirmation at prescribed intervals by the PRC tax authorities. Any failure to renew or maintain these preferential tax treatments or any change in the criteria adopted for determining eligibility for these treatments may impose additional burdens and costs on the Enlarged Group. Any change in government regulations or policies in a manner that is unfavourable to the Enlarged Group may materially and adversely affect its profitability.

Severe weather conditions may prevent or hinder the mining activities of the Enlarged Group

Severe weather conditions may require the Enlarged Group to evacuate its personnel and curtail its operations and cause damages to its mines, mining infrastructure, equipment and facilities. Temporary or prolonged suspension of operations would result in a decrease in productivity. Moreover, severe weather conditions may also lead to closure of highways, waterways and railways leading to delay in delivery of products or supplies and damages to the power infrastructures, which could materially and adversely affect the Enlarged Group's business, financial conditions and results of operations.

RISK FACTORS

Failure of transport infrastructure may adversely affect the operations of the Enlarged Group

Both the Group and the Target Group have relied on and after completion of the Acquisition, the Enlarged Group will continue to rely on mainly water, rail and road transport for the delivery of products to customers as well as the delivery of raw materials from its suppliers. There is no assurance that the Enlarged Group will have unlimited access to ports, waterway and railway capacity to transport its supplies and products in a timely manner. Any failure to transport supplies to the mining areas could curtail production and any failure to deliver products to warehouses or to customers could have a negative effect on customer relationships, both of which could have a material adverse impact on the business, results of operations, future development and prospects of the Enlarged Group.

If the ruling of the Mongolian Arbitration Center at the re-hearing is unfavourable to CRML, the Group's business and operations may be adversely affected

As announced by the Company on 7 October 2011, the Aleinuer Mine was the subject of arbitration proceedings initiated in Mongolia by the Mongolian JV Partner against CRML. An arbitral award was made by the Mongolian Arbitration Center, pursuant to which it was ruled that the mining right to the Aleinuer Mine had to be returned by Reservoir Moly to the Mongolian JV Partner. On 12 October 2011, CRML lodged an appeal to the Court of Appeal of Mongolia against the arbitral award. The appeal was heard by the Court of Appeal of Mongolia, which ruled on 21 November 2011 that the arbitral award issued by the Mongolian Arbitration Center be annulled on the basis of procedural regularities and directed the dispute to be re-heard by the Mongolian Arbitration Center. No further appeal is possible under Mongolian law with respect to this decision of the Court of Appeal of Mongolia. Please refer to the section headed "Other Information - Litigation" in Appendix X to this circular for further details.

The outcome of the re-hearing remains uncertain and it is possible that the Mongolian Arbitration Center may still make an award in favour of the Mongolian JV Partner and may, as part of such award, give direction as to how the mining right to the Aleinuer Mine is to be dealt with. Further, the re-hearing would result in extra costs being incurred by the Group and management resources and attention being diverted from the Group's operation and business. While the Aleinuer Mine has yet to commence commercial production and has, therefore, not been generating any revenue, if the Mongolian Arbitration Center did rule against CRML at the re-hearing, the Group's business and operations could be adversely affected.

RISK FACTORS

Title defects to the owned and leased properties of the Target Group may adversely affect its right to use such properties

There are certain title defects to the properties that are owned, leased or occupied by the Target Group. Please refer to the section headed “Business of the Target Group – Properties” in this circular and the property valuation report of the Enlarged Group set out in Appendix IV to this circular for further information.

The Target Group has certain parcels of land for which it has not yet obtained the relevant land use right certificates. As of the Latest Practicable Date, there were three parcels of land which occupied an aggregate site area of approximately 52,329.47 sq.m. with respect to which the Target Group has yet to obtain land use right certificates in its name. Two of those three parcels of land are newly acquired and the land use rights certificate in respect of the third parcel of land was issued under the name of a wholly-owned subsidiary of Daye Metal, which had already been dissolved in 2009. The two parcels of land which has been newly acquired will be used for office purpose. The third parcel of land is mainly occupied by staff dormitories.

There were also 116 properties which, together, occupy a total gross floor area of approximately 71,723.36 sq.m. for which building ownership certificates have not yet been obtained by the Target Group. Those properties are being used as staff dormitories, ancillary production facilities, offices and warehouses.

There was one parcel of land leased by the Target Group which occupies a total site area of approximately 38,000 sq.m., for which the land use rights certificate has yet to be obtained by the lessor. None of the production or processing facilities of the Target Group are situated on this parcel of land. For further details, please refer to the section headed “Business of the Target Group - Properties” in this circular.

The right of the Target Group (and after completion of the Acquisition, the Enlarged Group) to use and occupy the land and properties referred to above may be subject to disputes or claims from government or regulatory bodies or third parties. If any such dispute or claim occurs, the Target Group (and after completion of the Acquisition, the Enlarged Group) may not be able to continue to carry on its operations or continue to occupy those parcels of land and properties in future and may have to incur costs to relocate its facilities to an alternative site. In addition, these fines or other penalties may be imposed by government authorities and/or any legal proceedings or claims may be initiated by third parties for compensation in respect of any illegal and/or unauthorized use of such land and properties, which may have a material adverse effect on the business, financial condition and results of operations of the Target Group (and after completion of the Acquisition, the Enlarged Group).

RISK FACTORS

Failure to retain key management and personnel could adversely affect the Enlarged Group's business and operations

The success of the Enlarged Group will largely depend on its senior management team, as well as its technical team, comprising highly qualified engineers and skilled workers. While the Group and the Target Group have established long-term employment relationships with their respective senior management and key personnel, there can be no certainty that they will continue in their present capacities with the Enlarged Group and for any particular period of time. Loss of any of the key management or the technical staff may not be followed by an immediate and appropriate replacement at an appropriate cost. This could adversely affect the business and operations of the Enlarged Group. Failure to retain its present staff and attract talented personnel by providing competitive employment package could also endanger the Enlarged Group's operation stability and performance.

The global financial crisis which commenced in 2008, and recently aggravated by the European sovereign debt crisis, may have further negative impact on the results of operations and prospects of the Enlarged Group

The global financial crisis which commenced in the second half of 2008 caused substantial volatility in the capital markets and a downturn in the global and PRC copper industry, resulting in the slowdown in the growth of global consumption of copper cathodes. As a result, the average selling price of the copper cathodes produced by the Target Group has also been subject to significant fluctuations, resulting in a decline in its gross profit margin in 2010, compared to 2009. Recent instability of the European financial markets also poses a threat to the stability of the global economy. As the international benchmark price for copper is the price at which copper cathodes are traded on LME, possible changes to the European Union's monetary policies may also affect overall market sentiment and lead to deflated copper prices. Any such development, together with a decrease in global consumption of and demand for copper cathodes, could lead to a corresponding fall in sales and profit margin of the Enlarged Group. As a result, the business, financial condition, results of operations and prospects of the Enlarged Group may be materially and adversely affected.

Higher energy costs or energy shortage would adversely affect the business of the Enlarged Group

Mining operation is energy-intensive. Energy costs are a significant component of the production cost of both the Target Group and the Group and are expected to remain as such for the Enlarged Group. Shortage of energy or fluctuations in energy prices may lead to disruption of the Enlarged Group's production operations and increase its operation costs, which in turn may lead to suspension of exploration and production or reduction in production volume or recovery rate.

RISK FACTORS

Failure to compete successfully against other PRC copper producers could materially and adversely affect the business and prospects of the Enlarged Group

Competition in the PRC copper industry is based on many factors, including, among others, price, production capacity, product quality and characteristics, geographical proximity to customers, transportation capability, cost and brand name. In addition to competition posed by the few leading producers in the copper industry, the Directors expect that the Enlarged Group will also be facing competition from medium-scale copper producers who may be focusing more on price competition due to their lower cost structure. Increased competition in the future may compel the Enlarged Group to lower the price of its products, which in turn could reduce its profit margin and may materially and adversely affect its results of operations and financial condition.

There is no assurance that competitors will not develop products comparable or superior to those of the Enlarged Group or adapt more quickly to evolving trends and changing market requirements than the Enlarged Group. There is no assurance that the Enlarged Group's efforts to remain competitive will be effective.

The reported mineral resources of the Enlarged Group may not be successfully converted to ore reserves, which may affect the future profitability of the Enlarged Group and its expansion potential

Mineral resources are minerals with reasonable prospects for eventual economic extraction. The reported mineral resources of the Four Mines of the Target Group and the Aleinuer Mine, Sareke Mine and Hami Mine of the Group have to be converted to ore reserves which are economically mineable in order to generate revenue for the Enlarged Group. In order to convert or upgrade mineral resources to ore reserves, further feasibility studies and test work such as ore processing tests are required to be carried out to ascertain the amount of mineral resources that could be economically exploited. There is no assurance that favourable results will be obtained. Failure to convert the reported mineral resources of the Enlarged Group to ore reserves may affect the future profitability of the Enlarged Group and its expansion potential.

RISK FACTORS

The Enlarged Group may not be able to obtain or renew the mining licences and/or concessions, permits, approvals and registrations required for its operations

Both the Group and the Target Group are required, under PRC and Mongolian law, to obtain exploration and mining licences to undertake exploration and mining activities at the mines currently operated by them in the PRC and Mongolia. Those licences are subject to fixed expiry dates and may specify terms such as the mining or exploration area and/or impose conditions such as the maximum production amount or level of discharge of pollutants. Further regulatory approvals may be required should there be any changes to the terms and conditions imposed by those licences. The Group and the Target Group also need to obtain safe production permits and certain other authorisations, licences, permits and registrations from government or other regulatory bodies, which may also be subject to fixed expiry dates or periodic review or renewal. There is no assurance that any such authorizations, licences, permits and registrations will be granted and if granted, will not be revoked, withdrawn or be made subject to onerous conditions or terms, whether as a result of changes in government policies, laws or regulations or the exercise of discretion by the relevant authorities, over which the Enlarged Group will not have any control, or any act or omission or violation on the part of the Group or the Target Group (or after completion of the Acquisition, the Enlarged Group) of any terms or conditions on and subject to which any such authorizations, licences, permits and registrations may have been granted. There is no assurance that after completion of the Acquisition, the Enlarged Group will be able to obtain or renew any such authorizations, licences, permits and registrations or additional regulatory approvals required for amending the terms and conditions of such licences or permits, or new conditions will not be imposed in connection with their renewal. Any failure to obtain or any delay in obtaining or renewing any required government approvals, permits, licences and registrations may lead to a wide range of administrative penalties or other government actions imposed on the Enlarged Group which could adversely affect its business and operation.

Reliance on the Parent Group may adversely affect the business and operations of the Enlarged Group

As at the Latest Practicable Date, the Parent Company, through China Times, was interested in approximately 20.80% of the total Ordinary Shares in issue, and will, immediately following China Times Completion, be interested in more than 30% of the total Ordinary Shares in issue, and hence, be the controlling shareholder of the Company.

During the Track Record Period, the Daye Metal Group purchased certain materials and products and received certain production services from, and sold certain materials and products to, members of the Parent Group. The Parent Company has also provided guarantees for certain bank borrowings of Daye Metal. Such arrangements are expected to continue after completion of the Acquisition. Please refer to the sections headed “Relationship with Parent Company” and “Continuing Connected Transactions” in this circular for further information.

RISK FACTORS

Throughout the Track Record Period, the total amount of purchases of materials and products and production services from the Parent Company and its subsidiaries amounted to not more than 6.2% of the total cost of sales of Daye Metal Group, while the total amount of products and materials sold and services provided to the Parent Company and its subsidiaries amounted to not more than 13.32% of the total revenue of Daye Metal Group. Should the purchases from or sales to the Parent Group discontinue, the Daye Metal Group may need to secure supply from alternate suppliers and find new customers for its products, failing which its production may be disrupted and its profitability may be adversely affected.

As at 30 June 2011, the outstanding amount of the bank borrowings of Daye Metal which were guaranteed by the Parent Company amounted to RMB620 million. If the Parent Company ceases to provide such guarantees, Daye Metal may be required to repay the bank borrowings so guaranteed. There is no assurance that the Parent Group will continue the above arrangements with the Daye Metal Group. Discontinuation of any of those arrangements after completion of the Acquisition may materially and adversely affect the operations, financial condition and business of the Enlarged Group.

In addition, the Parent Company will have substantial influence over the Enlarged Group and its business, including management decisions, business strategies, expansion plans, proposed mergers and acquisitions and declaration of dividend. As the interests of the Parent Company may not always align with the interests of the other shareholders of the Company, there is no assurance that the Parent Company will always exercise its voting rights or its influence in the best interests of all shareholders.

RISKS RELATING TO THE MINING INDUSTRY

The mining industry is exposed to cyclical changes of the global economy and requires significant investments of capital

Copper, gold and silver are sold in an active global market and traded on commodity exchanges, such as SHFE, LME and The New York Mercantile Exchange, Inc.. Prices for these metals are subject to significant fluctuations and are affected by many factors, including actual and expected global macro-economic and political conditions, global and domestic supply, prevailing and expected level of demand, investments by commodity funds and actions of participants in the commodity markets. Any significant decrease in the prices of copper, gold and silver could have a material adverse effect on the prices of the principal products of the Enlarged Group and hence its business, financial condition and results of operations.

RISK FACTORS

Also, as the prices for the supply of copper cathodes, gold and silver are usually negotiated with customers annually at the beginning of the year, inaccurate prediction of the price trends of copper, silver and gold for the following year may lead to such products being sold at agreed prices which are lower than prevailing market prices during the year and hence, the Enlarged Group failing to maximize the premium that may be derived from those products.

Investment in mining requires a substantial amount of funds in order to replenish reserves, expand production capacity, build and maintain production facilities and comply with various environmental and other regulations. The ability of the Enlarged Group to continue such significant investment, to raise additional financing and to maintain ongoing operations, and the financial condition and results of operations of the Enlarged Group are all directly related to the demand for, and price of, its mineral and metals products.

RISKS RELATING TO CONDUCTING BUSINESS IN THE PRC

Changes in economic, political and social conditions and government policies in the PRC could have an adverse impact on the Enlarged Group

As the major mining assets and operations of the Enlarged Group will be located in the PRC and the majority of its revenue will be derived from the PRC, the business operations and prospects of the Enlarged Group will, to a large extent, subject to the economic, political and legal developments in the PRC. The PRC economy is different from the economies of most developed countries in a number of respects, including structure, degree of government control, level of development, control of capital investment, growth rate, control of foreign exchange and allocation of resources. Although the PRC economy has been changing from a planned economy to a more market-oriented economy since the late 1970s with the adoption of the “open door” reform policy under which increasing emphasis has been placed on the utilization of market forces in the development of the PRC economy, the PRC government continues to exercise significant control over economic growth through numerous channels such as allocation of resources, controlling of incurrence and payment of foreign currency denominated obligations, monetary policy and preferential treatment to certain industries or companies. In recent years, the PRC government has also undertaken reform campaigns in the economic system and government structure of the PRC. There is no assurance whether these changes and reforms will have any adverse effect on the business, financial condition or results of operations of the Enlarged Group.

RISK FACTORS

The business of the Enlarged Group could be negatively affected by uncertainties in the PRC legal system

The PRC legal system is based on a civil law system. Unlike the common law system, prior court decisions may not be used for reference and have limited precedential value. Since 1979, a series of PRC laws and regulations have been promulgated and have enhanced protection to various forms of foreign investments in the PRC. The PRC government has also established a commercial law system and made significant progress in regulating economic affairs and matters such as corporate organization and governance, foreign investment, commerce, taxation and trade. However, as many of these laws and regulations are relatively new, the implementation and interpretation of these laws and regulations are not always uniform and this has undermined the available legal protection. In addition, PRC courts and other administrative authorities have been given significant discretion in interpreting and applying statutory provisions as well as contractual terms and this creates additional uncertainty in assessing the outcome of these administrative or court proceedings and the outcome of legal disputes. As a result, the Enlarged Group may enjoy relatively less protection than that provided in a more developed legal system and a much higher level of difficulty and uncertainty in enforcing. All such uncertainties may affect the Enlarged Group's legal rights.

Changes in PRC tax laws and regulations could materially and adversely affect the Enlarged Group's business and results of operations

The Enlarged Group will be subject to, among others, enterprise income tax, business tax, resources tax, value-added tax, city maintenance and construction tax, and property tax under PRC laws and regulations. The PRC government increased the resources tax rates for copper, lead and zinc with effect from 1 August 2007 and the resources tax rate for gold with effect from 1 May 2006. There is no assurance that the PRC government will not increase the rates of resources tax or any of the other taxes which the Enlarged Group may be subject to in connection with its business operations. Any increase in any of those tax rates could materially and adversely affect the Enlarged Group's results of operations.

PRC governmental control of currency conversion and fluctuations in the value of Renminbi could have an adverse effect on the financial results of the Enlarged Group

After completion of the Acquisition, the Directors expect that the Enlarged Group will continue to purchase part of its raw materials (including its major raw material, copper concentrates) from overseas suppliers, which are paid for in US dollars. The Enlarged Group will therefore be subject to foreign exchange risks arising from government control on currency conversion and fluctuations in the exchange rates of Renminbi against US Dollars. The value of Renminbi depends on the PRC government's policies, which in turn is affected by domestic and international economic and political development, and the supply and demand in the local currency market. Any change in these policies affecting the Renminbi valuation could adversely affect the ability of the Enlarged Group to pay for its purchases in US dollars.

RISK FACTORS

The Enlarged Group will also be exposed to additional foreign currency exchange risks as Renminbi is not a freely convertible currency. Under the current PRC foreign exchange control regime, foreign exchange transactions under current account, including payment of dividends, trade and service-related foreign exchange transactions can be made in foreign currencies without prior approval from the State Administration for Foreign Exchange by complying with certain requirements under the PRC laws and regulations. Nevertheless, foreign exchange transactions under the capital account, such as overseas investments and loans must be approved by the State Administration of Foreign Exchange or its competent local branches in advance. In addition, approvals from appropriate government authorities including the State Administration of Foreign Exchange is also required where Renminbi is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of loans denominated in foreign currencies. The PRC government may also at its discretion restrict access in the future to foreign currencies for current account transactions. If the Enlarged Group fails to comply with these requirements, its capital expenditure plans may be disrupted and the liquidity, business and financial results of the Enlarged Group may be materially and adversely affected.

The Enlarged Group will be subject to restrictions on foreign investment in the PRC mining industry

In the PRC, foreign companies have in the past been, and are currently, required to operate within a regulatory framework that is different from that imposed on domestic PRC companies. However, the PRC government has provided opportunities for foreign investment in certain mining projects following the PRC's accession into the World Trade Organisation. Should the PRC government reverse such policy by minimizing or eliminating the opportunities for foreign investment in mining projects, impose greater restrictions on foreign companies, or seek to nationalize foreign-owned or invested mining operations or assets, the business and results of operations of the Enlarged Group could be materially and adversely affected.

Under the PRC Enterprise Income Tax Law, the Company may be considered a PRC “resident enterprise”. As a result, it may be subject to 25% PRC income tax on its worldwide income, and holders of the Ordinary Shares may be subject to PRC tax on dividends paid by it and gains realized on their transfer of the Ordinary Shares.

Under the PRC Enterprise Income Tax Law (《中華人民共和國企業所得稅法》), or the EIT Law, and its implementing rules, both effective from 1 January 2008, any enterprise established outside of the PRC with “de facto management bodies” within the PRC is considered a “resident enterprise” and will be subject to enterprise income tax at the rate of 25% on its worldwide income. The implementing rules define the term “de facto management bodies” as “establishments that carry out substantial and overall management and control over the manufacturing and business operations, personnel, accounting, properties, etc. of an enterprise.”

RISK FACTORS

The Notice Regarding the Determination of Chinese-Controlled Offshore Incorporated Enterprises as PRC Tax Resident Enterprises on the Basis of De Facto Management Bodies (《關於境外註冊中資控股企業依據實際管理機構標準認定為居民企業有關問題的通知》), or Circular 82, issued by the State Administration of Taxation (國家稅務總局) on 22 April 2009 provides certain specific criteria, all of which must be met, for determining whether the “de facto management body” of a Chinese-controlled offshore incorporated enterprise is located in the PRC. The criteria include whether: (i) the senior management responsible for the enterprise’s day-to-day operations and management is primarily based in China, (ii) decisions relating to the enterprise’s financial and human resource matters are made or subject to approval by organizations or personnel in the PRC, (iii) the enterprise’s primary assets, accounting books and records, company seals, and board and shareholders’ meeting minutes are located or maintained in the PRC, and (iv) 50% or more of voting board members or senior executives of the enterprise habitually reside in the PRC.

As of the Latest Practicable Date, the Company has not been notified by the relevant tax authorities that it is to be treated as a PRC resident enterprise. However, since substantially all of the management and operations of the Enlarged Group is expected to be in the PRC in the future, there is no assurance that the Company will not be considered a “resident enterprise” under the EIT Law. Further, as at the Latest Practicable Date, the Parent Company was, through China Times, interested in approximately 20.80% of the total Ordinary Share in issue, and will, through China Times, be interested in approximately 72.99% and 69.04% of the then total Ordinary Share in issue upon China Times Completion and Cinda Completion, respectively, without taking into account any Conversion Shares which may be issued pursuant to the China Times Convertible Notes. Circular 82 does not set out clearly whether it would apply to any indirect investment or shareholding interest in any offshore enterprise by a PRC company or a group of PRC companies. In addition, the meaning of “control” under Circular 82 is unclear and there has been no formal interpretation of its meaning to date. Therefore, it remains uncertain whether the Company would be regarded as an offshore entity “controlled” by a PRC company or a group of PRC companies for the purpose of Circular 82. If the Company were subject to the enterprise income tax at the rate of 25% on its worldwide income under the EIT Law, its tax burden may increase significantly which could materially and adversely affect the cash flow and profitability of the Enlarged Group.

RISK FACTORS

Subject to any treaty or similar arrangement between the PRC and the places of incorporation of the shareholders of the Company, under applicable PRC tax laws, dividends paid by a Chinese company to its non-PRC resident individual shareholder and gains realized by such individual shareholder upon sale or other disposition of his shares in such Chinese company are subject to PRC individual income tax at a rate of 20%, and such dividends paid to, and gains realized by, a non-PRC resident enterprise shareholder are subject to PRC enterprise income tax at the rate of 10%. In the case of dividends, relevant income tax is withheld at source. If the Company was considered a “resident enterprise” in the PRC, holders of the Ordinary Shares would be subject to the above income tax and the Company may be required to withhold the tax from any dividends paid to its non-PRC shareholders. If the Company was not considered a “resident enterprise” in the PRC, dividends paid by its PRC subsidiaries (including Daye Metal) to it or its offshore subsidiaries that directly hold equity interest in its PRC subsidiaries and gains realized by it or such offshore subsidiaries upon sale or other disposition of their equity interest in the relevant PRC subsidiaries would be subject to the 10% enterprise income tax. Imposition of any of these taxes on it or on the Shareholders may materially and adversely affect the value of their investment in the Ordinary Shares.

Pursuant to the EIT Law, the State Administration of Taxation and the Ministry of Finance, on 30 April 2009, jointly issued the “Notice on Issues Concerning Process of Enterprise Income Tax”(《關於企業重組業務企業所得稅處理若干問題的通知》), or Circular 59. On 10 December 2009, the State Administration of Taxation issued the “Notice on Strengthening the Management on Enterprise Income Tax for Non-resident Enterprises Equity Transfer”(《國家稅務總局關於加強非居民企業股權轉讓所得企業所得稅管理的通知》), or Circular 698. Both Circular 59 and Circular 698 have retrospective effect since 1 January 2008. The State Administration of Taxation further issued a number of rules to clarify the ambiguous areas under these circulars. By promulgating and implementing these circulars, the PRC tax authorities have tightened their scrutiny over direct and indirect transfers of equity interests in PRC resident enterprises by non-PRC resident enterprises. For example, pursuant to Circular 698, except for the purchase and sale of equity through a public securities market, where a non-PRC resident indirectly transfers the equity of a PRC resident enterprise by disposing of the equity of an overseas holding company (“**Indirect Transfer**”) located in a tax jurisdiction that (i) has an effective tax rate of less than 12.5%, or (ii) does not tax its residents on their foreign income, the non-PRC resident shall report the Indirect Transfer to the competent PRC tax authority within 30 days from the date when the equity transfer agreement was made. If the PRC tax authority, upon examining the nature of the Indirect Transfer, deems that the Indirect Transfer has no reasonable commercial purpose other than to avoid or defer PRC tax, the PRC tax authority may disregard the existence of the overseas holding company that is used for tax planning purposes and re-characterize the Indirect Transfer. Therefore, gains derived from such Indirect Transfer may be subject to PRC withholding tax at a rate of up to 10%. As a result, a non-PRC resident may be required to report Indirect Transfer(s) of the equity interest in any of the Company’s PRC subsidiaries when it sells the Ordinary Shares, and gains derived from such Indirect Transfer(s) by such non-PRC resident may be subject to the PRC enterprise income tax.

INDUSTRY OVERVIEW

This section and other sections of this circular contain information relating to the PRC economy and the industry in which the Group and the Target Group operate. Certain information and data contained in this section have been derived partly from publicly available government and official sources. Certain other information and statistics set forth in this section have been extracted from the Antaike's Report commissioned by the Company from Antaike, an independent industry consultant, for inclusion in this circular. Unless otherwise stated, the information contained in this section of the circular has been extracted from the Antaike's Report. The Directors believe that these sources are appropriate sources for such information and have taken reasonable care in selecting and identifying the sources, in compiling, extracting, and reproducing such information, and in ensuring no material omission of such information. The Directors have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. The information has not been independently verified directly or indirectly by the Company or the Sponsor, or any of their respective affiliates, directors, employees, agents or advisers. Such information may not be consistent with other information compiled within or outside China. Neither the Company nor the Sponsor makes any representation as to the completeness, accuracy, or fairness of such information, and accordingly, such information should not be unduly relied upon.

COPPER

Introduction

Copper has high electrical and thermal conductivity and good workability, allowing the metal to be used in a wide range of applications, the most prevalent of which is in the manufacture of wires, cables and other electrical products. Copper is extensively used in electrical and electronic products, building and construction, transportation, industrial machinery and equipment, and consumer and general products, accounting for approximately 42%, 28%, 12%, 9% and 9%, respectively of global annual consumption in 2009. The consumption of copper for these purposes is affected by various factors, including trends in the world economy and market competition with other metals and materials.

Copper production

Copper can be produced as either a primary product or as a co-product of other metals, including gold, lead, zinc, nickel or silver. The rock is first drilled and blasted with explosives. After blasting, it is loaded and transported to the primary crushers from the mine, where the ore is crushed and screened, with the fine sulfide ore being transported to froth flotation cells for recovery of copper.

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Copper cathode production

There are two basic methods of copper cathode production, depending on the type of ore minerals (oxide or sulfide). The first, and by far the more prevalent, is the electro-refining method. This involves the mining and processing of copper concentrates, which are smelted to form blister and refined to form cathode. The three stages can be carried out at different locations, although it is typical for smelting and refining to be carried out at the same location. Scrap enters the process chain at both the smelting and refining stages.

The alternative method of production is by leaching and electro-winning (a hydro-metallurgical process). This method (called SX-EW leaching) involves a solvent extraction process and the copper cathode so produced is known as SX/EW copper, which accounted for around 17.8% of global production of copper cathodes in 2010.

As copper cathode production by the traditional electro-refining method is a multi-stage process, there are a series of inter-linked “copper markets” which form part of the process chain. These markets are in copper concentrates, copper blister or anodes and cathodes. Imbalances along the process chain emerge as a result of imperfect matches between capacity and requirements at different stages of the process. The existence of markets for copper concentrates and copper blister or anodes is important to non-integrated copper producers, who do not have the full capacity to mine and concentrate their own ore, to smelt such concentrate into copper blister and then to smelt and refine copper blister into copper cathodes.

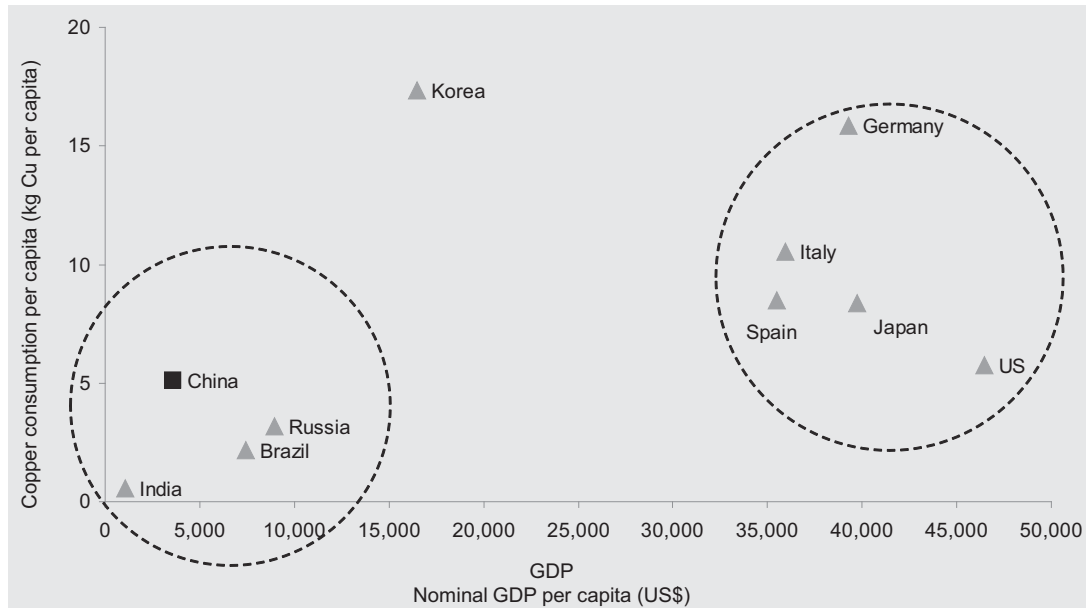
Copper cathodes with grading over 99.9% may be delivered to downstream copper processors. Copper cathodes may also be cast into wire, rod, billets, cakes or ingots, as pure copper (“**processed copper products**”) or alloyed with other metals. Secondary materials can also be used directly in the production of these products.

Demand for copper cathodes

With broad end-use markets, copper cathode consumption has been particularly influenced by GDP growth, industrial development and consumer spending. The chart below summarizes the positive correlation between per capita consumption of copper cathode and GDP per capita in countries at different levels of economic development. As illustrated in the chart below, developing countries (bottom left-hand quadrant) generally, on a per capita basis, consume less copper cathode than developed countries (top right-hand quadrant) on a per capita basis in 2010. As the GDP per capita of developing countries in the lower left quadrant, such as China, India and Brazil, increases, the consumption of copper cathode on a per capita basis is expected to increase. Demand for copper cathodes in these developing countries, therefore, has strong growth potential.

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Copper cathode consumption and GDP per capita



Source: Antaika

Note: Population and GDP are based on 2009 data and copper cathode consumption is based on 2010 data

Global demand for copper cathodes

According to the Antaika Report, global demand for copper cathodes grew at a CAGR of 2.0% from 2000 to 2010, reaching 18.49 million tonnes in 2010, mainly driven by consumption growth in China. Global demand for copper cathodes is expected to grow at a CAGR of 3.2% from 2010 to 2013, representing a consumption increase from 18.49 million tonnes to 20.32 million tonnes. In the near term, Antaika forecasts a steady growth in demand in the emerging markets, including China and Brazil, and a gradual recovery in demand in the United States and Europe. In the first half of 2011, global copper cathode demand was 9.5 million tonnes, representing an increase of 3.0% compared to the same period last year.

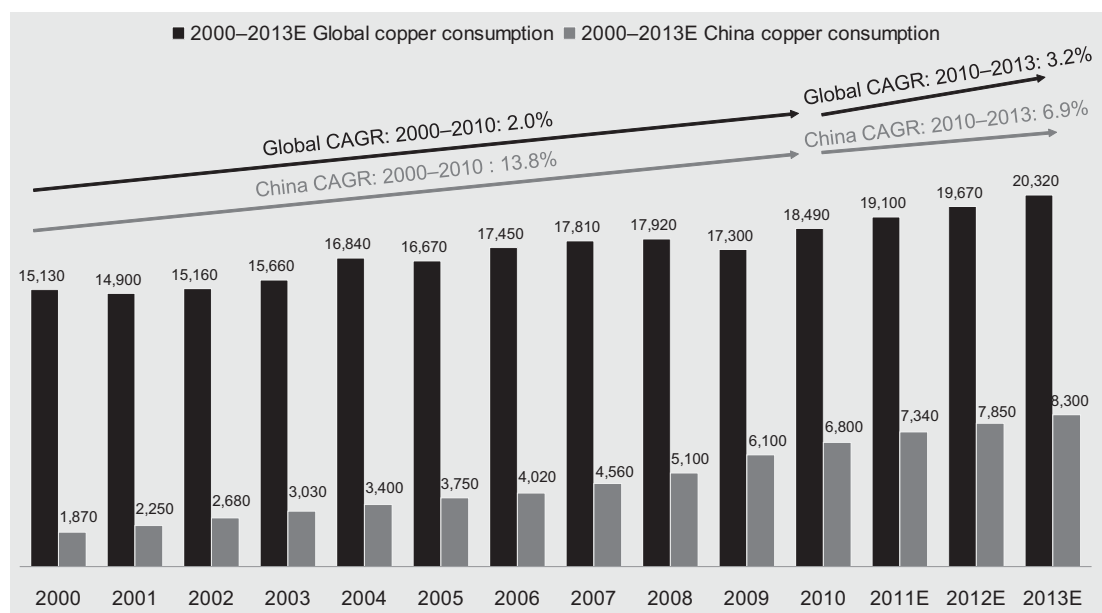
The top three countries in terms of copper cathode consumption in 2010 were China, United States and Germany with a total consumption of approximately 6.80 million tonnes, 1.77 million tonnes and 1.31 million tonnes, respectively. China now accounts for roughly 36.8% of the world's copper cathode consumption, and is by far the largest copper cathode consumer globally. However, on a per capita basis, China's copper cathode consumption is still lower than most of the major developed countries. Increase in demand for copper cathodes in China, brought about by strong economic growth and rapid industrialization and urbanization, has been the main driver to the global consumption growth.

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China's demand for copper cathodes

According to the Antaike Report, China's demand for copper cathodes grew at a CAGR of 13.8% from 2000 to 2010, reaching 6.8 million tonnes in 2010. In 2009 and 2010, the growth in copper demand in the PRC was closely linked to government stimulus spending. In the aftermath of the global financial crisis which began in 2008, the PRC government introduced a RMB586 billion stimulus package, aimed at countering the effects of the global economic slow-down on the Chinese economy. This boosted demand across the different end markets for copper products. Investments in major new infrastructure projects, relaxation of control over bank financing for major real estate projects, and introduction of consumer-focused stimuli leading to increased consumption in passenger cars and home electrical appliances all helped stimulate demand for copper products. For instance, under the "electrical appliances for rural households" scheme, which was introduced in February 2009, a 13% subsidy was provided by the PRC government on the purchase of various types of home electrical appliances by residents in rural areas.

2000 – 2013E Global/China copper cathode consumption (thousand tonnes)

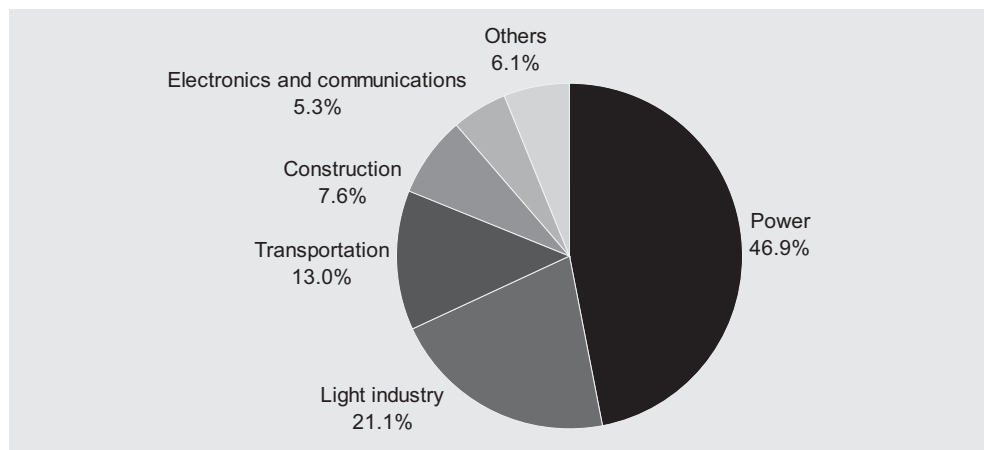


Sources: World Bureau of Metal Statistics ("WBMS"), International Copper Study Group ("ICSG"), Antaike

INDUSTRY OVERVIEW

The major end consumption markets for processed copper products in the PRC are in the power generation facilities and cable industry, home electrical appliances industry, construction and real estate industry, transportation and industrial machinery and equipment sectors. According to a report on China's 12th Five-Year Development Plan of Power Industry released by China Electricity Council on 21 December 2010, China plans to invest RMB5.3 trillion (equivalent to approximately US\$794 billion) in the power sector over the next five years, an increase of 68% over the five-year period from 2006 to 2010. Around RMB2.75 trillion is to be spent on power generation facilities, and the rest to be spent on grid development. As such, the main drivers for the demand for copper cathodes in China in the near term are (i) the planned expansion of the power industry as evidenced by the planned investment under the aforesaid China's 12th Five-Year Plan of Power Industry released on 21 December 2010, (ii) construction of more affordable housing resulting in the increase in the use of copper construction materials, and (iii) increased consumption of household electrical appliances in rural areas in China, leading to the increased usage of copper in the light industry.

Domestic processed copper products consumption by end markets in 2010



Source: Antaike

Supply of copper cathodes

The supply of copper cathodes depends to a large extent, on the supply of copper concentrates. Through the electro-refining method, copper ore is processed into concentrates or recovered from the leach solution, and further processed into copper cathodes. Copper reserves are copper resources that can be mined economically.

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Global supply of copper cathodes

From 2000 to 2010, global production of copper cathodes grew at an annual average rate of 2.3%, from 14.76 million tonnes in 2000 to 18.53 million tonnes in 2010. The main driving force behind such growth came from Asia and in particular, China. Supply of copper cathodes grew by 12.8% in China from 2000 to 2010, outpacing the growth of mine production supply of 6.8% in the same period.

2003 – 2010 Global and selected countries' copper cathode production (thousand tonnes)

	2003	2004	2005	2006	2007	2008	2009	2010
China	1,836	2,199	2,600	3,006	3,497	3,739	4,123	4,578
Chile	2,902	2,837	2,824	2,811	2,936	3,058	3,272	3,220
Japan	1,430	1,380	1,395	1,532	1,577	1,540	1,440	1,549
USA	1,306	1,306	1,255	1,250	1,311	1,280	1,161	1,096
Russia	842	919	935	951	949	862	874	893
Others	6,959	7,294	7,572	7,741	7,664	7,722	7,212	7,197
World total	15,275	15,935	16,581	17,291	17,934	18,201	18,082	18,533

Sources: WBMS, ICSG, Antaike

Global supply of copper reserves and copper concentrates

According to the USGS-Mineral Commodity Summaries dated January 2011, as at the end of 2010, total recoverable copper reserves around the world were estimated to amount to 630 million tonnes, primarily concentrated in North America, Latin America and Middle Africa. Chile and Peru have most of the world's copper reserves, accounting for approximately 38% in aggregate.

2003 – 2010 Global and selected countries' copper concentrates production (thousand tonnes)

	2003	2004	2005	2006	2007	2008	2009	2010
Chile	3,287	3,814	3,778	3,669	3,725	3,357	3,277	3,293
China	604	742	762	873	928	931	961	1,140
Peru	863	1,036	1,010	875	1,018	1,108	1,113	1,082
Indonesia	1,004	843	1,065	817	789	651	995	873
Australia	840	854	916	822	829	833	830	811
Others	7,159	7,305	7,390	5,109	5,192	5,567	5,480	5,453
World	13,757	14,594	14,921	12,165	12,481	12,447	12,656	12,652

Sources: WBMS, ICSG, Antaike

INDUSTRY OVERVIEW

The copper mining industry is highly concentrated in the world's top five copper producers. Chile National Copper Corporation (“**Codelco**”), Freeport McMoRan, BHP Billiton, Xstrata, and Rio Tinto, collectively, control approximately 39.2% of the total supply of mined copper.

Global top 10 mined copper producers (thousand tonnes) (Note)

Rank	Company Name	2008	% of Total	2009	% of Total	2010	% of Total
1	Codelco	1,546	10.0	1,782	11.2	1,700	10.7
2	Freeport McMoRan	1,514	9.7	1,520	9.6	N/A	11.1
3	BHP-Billiton	1,380	8.9	1,207	7.6	1,075	6.7
4	Xstrata	952	6.1	907	5.7	913	5.7
5	Rio Tinto	700	4.5	805	5.1	678	4.3
6	Anglo American	640	4.1	670	4.2	623	3.9
7	Grupo Mexico	488	3.1	496	3.1	688	4.3
8	KGHM	429	2.8	439	2.8	425	2.7
9	Norilsk Nickel	410	2.6	410	2.6	389	2.4
10	Kazakhmys	340	2.2	320	2.0	335	2.1
Top 10 total		8,399	54.1	8,556	53.9	N/A	53.9

*Source: Raw Materials Group (“**RMG**”), News release, Company Annual Reports*

Note: Producer of copper concentrates and copper cathodes with self-owned copper mines

INDUSTRY OVERVIEW

China's supply of copper cathodes

China remained to be the largest producer of copper cathodes in the world from 2006 to 2010. Since 2005, China's production of copper cathodes has increased by approximately 12.0% per annum on average, and in 2010, China's production of copper cathodes was approximately 4.58 million tonnes, representing an increase of approximately 11.0% compared to the preceding year. Major copper producers have continued to expand their production scale in recent years and industry concentration is increasing. Some of the world's largest smelters are located in China, and the top five copper cathode producers in China include:

China's top 5 copper cathode producers (thousand tonnes)

Rank	Company	2008	2009	2010	Market share in 2010
1	Jiangxi Copper	702	802	902	19.7%
2	Tongling Non-ferrous	647	719	812	17.8%
3	Jinchuan Group	284	357	379	8.3%
4	Yunan Copper	385	289	325	7.1%
5	Daye Metal	264	270	308	6.7%
	Other	1,497	1,686	1,852	40.4%
	China	3,779	4,123	4,578	100.0%

Source: Antaike

2006 – 2010 China and selected provinces' copper cathode output (thousand tonnes)

	2006	2007	2008	2009	2010
Total in China	3,003	3,497	3,779	4,123	4,578
Jiangxi	507	646	782	816	936
Shandong	310	378	466	564	591
Anhui	420	486	524	539	573
Gansu	276	324	367	419	478
Yunnan	384	414	312	300	341

Sources: 中國有色金屬工業協會 (China Non-ferrous Metals Industry Association) ("CNIA"), Antaike

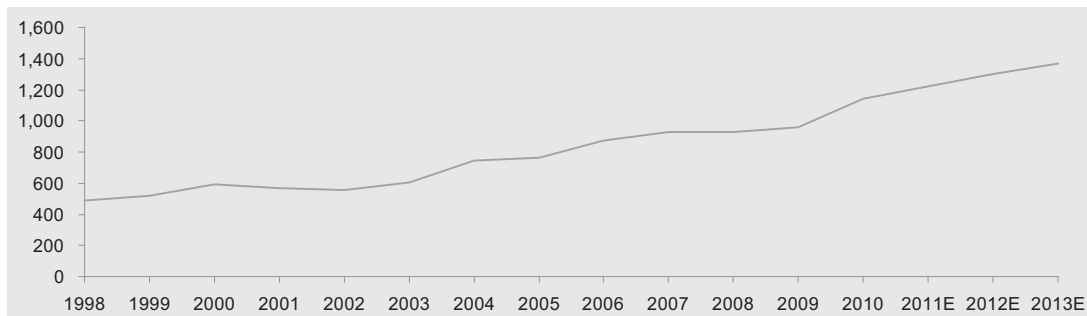
INDUSTRY OVERVIEW

China's supply of copper reserves and copper concentrates

According to the USGS-Mineral Commodity Summaries dated January 2011 and the Antaike Report, China ranked sixth in the world in 2010 in terms of copper reserves with an estimated 30 million tonnes of copper reserves. The identified copper resources in China are mainly located in Jiangxi, Tibet, Yunnan, Inner Mongolia, Shanxi and Anhui. The top ten provinces or autonomous regions in the PRC have, in aggregate, an estimated 39.87 million metric tonnes of resources, accounting for 78.6% of the national volume of total identified copper resources. The largest copper miners in operation in PRC include Dexing, Wunugetushan, Ashele, Dongguashan, Deerni, Dahongshan, Huogeqi, Tongkuangyu, and etc.

China as a whole does not have sufficient copper resource to support its rising domestic consumption demand. With an increasing consumption of copper products in China, the growth of the downstream processing and smelting operations are occurring at a much faster pace than the growth in the upstream mining operations, and hence, the market for copper concentrates (being the main raw material for further processing at the smelters) continues to tighten. In 2010, China copper industry had a self-sufficiency rate of approximately 31.9%, leaving the country largely dependent on import of copper concentrates and scrap copper.

1998 – 2013E China's mined copper production (thousand tonnes)



Sources: CNIA, Antaike

INDUSTRY OVERVIEW

2005-2010 China's copper concentrate production of major Chinese producers (Unit: 000' tonne)

Ranking		2005	2006	2007	2008	2009	2010
1	Jiangxi Copper	158	158	156	159	167	172
2	Yunnan Copper	72	72	76	90	95	97
3	Zijin Copper	8	20	47	57	71	80
4	Tongling Non-ferrous	37	46	47	51	54	62
5	Jinchuan Group	44	49	33	35	45	45
6	West Mining	–	–	25	28	20	26
7	Zhongtiaoshan Non-ferrous	22	28	28	24	17	24
8	Daye Metal	21	21	20	21	20	21
9	China Gold Group	11	11	10	13	13	17
Total		37.3	40.5	44.2	47.8	50.2	54.4
% of China in total		49.0	46.4	47.6	51.3	52.2	47.7
China total		76.2	87.3	92.8	93.1	96.1	114.0

Source: CNIA, Antaike

Inventory and stocks of copper cathodes

Global inventory and stocks

Copper cathode inventories, reported and unreported, are generally held by consumers, producers, trading houses, government organizations and speculators. Stocks of copper cathode at LME, being one of the major metal exchanges for trading in copper cathodes, have been declining since 2003. The copper cathode stock at LME declined drastically from 980,000 tonnes in May 2002 to less than 50,000 tonnes in mid 2005, and has remained at a low level of under 200,000 tonnes prior to 2008. From 2008 to 2010, stocks of copper cathode at LME increased but the levels were maintained at between 300,000 tonnes to 500,000 tonnes.

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China's inventory and stocks

To ensure that there is sufficient supply and to prevent a slow down in its industrial production plans, which require, among others, vast consumption of copper cathodes, the PRC government maintains stocks of copper cathodes through the State Reserve Bureau of the PRC. The volume of this stockpile varies in magnitude from several hundred thousand tonnes to over a million tonnes of copper cathodes. Prior to 2009, China's supply of and demand for copper cathodes were more or less balanced. However, since the start of the global financial crisis in 2009, China has been taking advantage of adjustments in the prices of copper cathodes to increase purchase of copper cathodes, which led to a surge in China's import of copper cathodes between 2009 and 2010 and a significant increase in China's inventory of copper cathodes (estimated at a level that exceeds one million tonnes). This inventory is held mainly by the State Reserve Bureau of the PRC, financial traders and private investors. In the first half of 2011, China experienced significantly weakened import and increased export of copper cathodes, indicating that the inventory level of copper cathodes of the PRC has been declining.

Copper pricing and exchanges

As in the case of all commodities, the price of copper cathodes is primarily affected by the balance between supply and demand (production consumption) of copper cathodes, as well as existing inventory levels. To a lesser degree (though their significance has increased in recent years), the price of copper cathodes is also affected by the demand of financial investors and metal exchanges.

The international benchmark price for copper is the price at which copper cathodes are traded on LME, quoted in terms of US\$ per tonne. LME official prices are commonly used as a benchmark for daily prices and form the basis for most physical contracts.

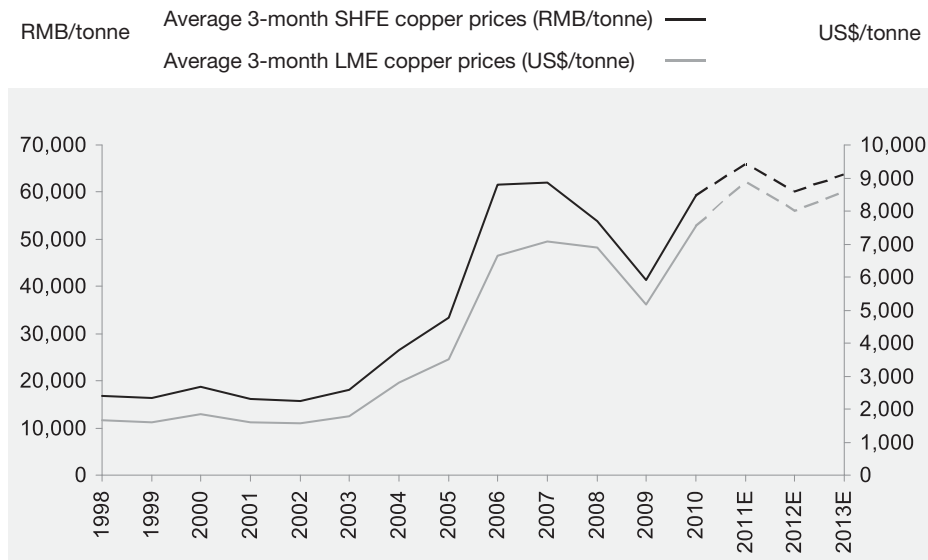
The two other main exchanges where copper cathodes are traded are the CME Group Inc.'s Comex and SHFE. The Comex offers futures contracts with monthly deliveries going forward 23 months as well as American options on them. Prices are quoted in terms of cents per pound and the contract size is 25,000 pounds.

SHFE is the only futures exchange in the PRC which trades copper futures. Futures are available on a monthly basis going forward 12 months, and the contract size is 5 tonnes, quoted in terms of RMB per tonne. Domestic prices of copper cathode typically follow international trends but copper cathodes are often traded at a premium (or discount) to LME price, plus import duties and taxes, depending on the level of supply of copper cathodes in the local market. SHFE does not offer options.

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Prices of copper cathodes have experienced significant fluctuations in the past. The following chart sets forth copper cathode average 3-month forward LME price and average 3-month forward SHFE price from 1998 to date, and the forecasted copper cathode average 3-month forward LME and SHFE prices for 2011 to 2013.

1998 – 2013E Average 3-month LME and SHFE copper cathode prices



Sources: LME, SHFE, Antaike

Note: Average 3-month forward SHFE copper cathode prices forecast is based on the exchange rate of US\$1=RMB6.55

Similar to other commodities, the period from 2005 to 2007 witnessed the most substantial increase in prices of copper cathodes since the late 1980s. The increase in price over this period was primarily driven by the emergence of China as a major consumer of copper cathodes and Chinese domestic demand between 2003 and 2008.

In China, the prices of copper cathodes reached the highest point of RMB85,550 per tonne in May 2006 roughly in line with prices in the international markets. The global financial crisis which began in 2008 caused prices of copper cathodes to fall sharply after the peak throughout 2008 until the first quarter of 2009. Since then, prices of copper cathodes have recovered strongly. The average 3-month forward SHFE price rebounded from RMB41,389 per tonne in 2009 to RMB59,296 per tonne in 2010, an increase of 43%. On LME, the average 3-month forward rebounded from US\$5,171 per tonne in 2009 to US\$7,550 per tonne in 2010, an increase of 46.01%, according to the Antaike Report.

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During the period from January 2011 to July 2011, 3-month forward copper on LME averaged US\$9,440 per tonne, representing an increase of 33% year-on-year. Assuming that there is no material deterioration in the world economy, Antaika forecasts that the 3-month forward copper price for 2011 to 2013 will, on average, be US\$8,900 per tonne, US\$8,000 per tonne and US\$8,600 per tonne, respectively. Prices of copper cathodes in China have averaged RMB67,711 per tonne on SHFE during January to October in 2011, an increase of 16.9% compared to the same period last year. According to the Antaika Report, prices of copper cathode are expected to fall throughout 2011 and 2012, and to increase slightly in 2013 with SHFE prices forecasted to be an average of RMB66,000 per tonne in 2011, RMB60,000 per tonne in 2012 and RMB63,700 per tonne in 2013. With demand for copper cathodes rebounding, a worldwide shortage in supply of copper cathodes is expected for the period from 2011 to 2013, which is expected to provide support for the prices of copper cathodes. The introduction of the copper exchange traded fund at the end of 2010 further strengthened copper's financial attributes, and the implementation of relaxed monetary policies also provides additional support for copper prices around the globe. On the other hand, the potential negative impact that the European Union debt crisis may have on the world economy and other economic uncertainties may exert downward pressure on the price of copper cathodes.

Market outlook

According to Antaika, global prices of copper cathodes are expected to remain at relatively high levels in the near term due to supply constraints across the world and specifically in China, with SHFE prices forecasted to be around RMB66,000 per tonne on average in 2011 or an increase of 11.3% compared to 2010. Global prices of copper cathodes are significantly influenced by demand and supply in China given that it accounted for approximately 35.3% and 36.8% of the world's total consumption of copper cathodes in 2009 and 2010, respectively. As such, Antaika forecasts that the global prices of copper cathodes will remain at relatively high levels as it expects supply deficit in copper cathodes in China to continue in the near term. China experienced a supply deficit in copper cathodes from 2008 to 2010 where domestic supply fell short of domestic demand by 1.36 million tonnes, 1.98 million tonnes, and 2.22 million tonnes, respectively. The shortage of supplies in China has been, and will continue to be, satisfied by imported copper cathodes. It is expected that insufficient domestic supply, and a high level of import in China, which is forecasted to remain at above 2 million tonnes per annum from 2011 to 2013, will be among the key factors supporting the global prices of copper cathodes.

The tight supply of copper concentrates is expected to remain the bottleneck in the supply chain and any deficit will have to be satisfied by imports. Shortage of copper concentrates has had a large impact on smelter returns – treatment charges (“TC”) and refining charges (“RC”, together with TC, collectively, “TC/RC”) for 2010, agreed between the major copper miners and major Japanese and PRC smelters, were once near their lowest level ever. However, the earthquake which hit Japan in March 2011 caused operational disruptions at some of the smelters there. The market supply of copper concentrates became relatively abundant. Currently spot prices for TC and RC are stable at levels above US\$100 per tonne and 10 US cents per pound, respectively (which are equivalent to a combined TC/RC of 25.73 US cents per pound of copper). Forward (long term) contract prices for the second half of 2011 for TC and RC are US\$90 per tonne and 9 US cents per pound, respectively (which are equivalent to TC/RC of 23.16 US cents per pound of copper), about 25% higher than the price level of the first half of 2011.

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In the medium term, the market is expected to be more balanced with expected new supply of copper concentrates entering the market, meeting the demand for copper cathodes. Prices for copper cathodes are expected to be robust, as growth in demand is expected to continue to outpace growth in supply.

The positive price outlook for copper cathodes is further supported by demand from strong economic growth in China. Except for the period falling immediately after the global financial crisis in 2009, this has been the central theme of the copper market since early 2000s and is likely to remain the case throughout this decade with continued increase in the level of urbanization and improvements in macroeconomic conditions.

2000 – 2013E Global/China supply and demand forecast of copper cathode (thousand tonnes)

	2000		2001		2002		2003		2004		2005		2006	
	World	China	World	China	World	China	World	China	World	China	World	China	World	China
Production	14,760	1,371	15,580	1,523	15,270	1,630	15,230	1,836	15,920	2,199	16,570	2,600	17,290	3,006
Growth (%)	1.9	16.8	5.6	10.9	(2.0)	7.2	(0.3)	12.9	4.5	19.6	4.1	18.2	4.3	15.8
Consumption	15,130	1,870	14,900	2,250	15,160	2,680	15,660	3,030	16,840	3,400	16,670	3,750	17,450	4,020
Growth (%)	7.8	20.6	(1.5)	20.3	1.7	19.1	3.3	13.1	7.5	12.2	(1.0)	10.3	4.7	7.2
Balance	(370)	(499)	680	(727)	110	(1,050)	(430)	(1,194)	(920)	(1,201)	(100)	(1,150)	(160)	(1,014)

	2007		2008		2009		2010		2011E		2012E		2013E	
	World	China	World	China	World	China	World	China	World	China	World	China	World	China
Production	17,930	3,497	18,200	3,739	18,080	4,123	18,530	4,578	18,690	4,950	19,630	5,540	20,240	5,890
Growth (%)	3.7	16.3	1.5	6.9	(0.7)	10.2	2.5	11.2	0.9	8.1	5.0	11.9	3.1	6.3
Consumption	17,810	4,560	17,920	5,100	17,300	6,100	18,490	6,800	19,100	7,340	19,670	7,850	20,320	8,300
Growth (%)	2.1	13.4	0.6	11.8	(3.5)	19.6	6.9	11.5	3.3	7.9	3.0	6.9	3.3	5.7
Balance	120	(1,063)	280	(1,361)	780	(1,977)	40	(2,222)	(410)	(2,390)	(40)	(2,310)	(60)	(2,410)

Source: Antaike

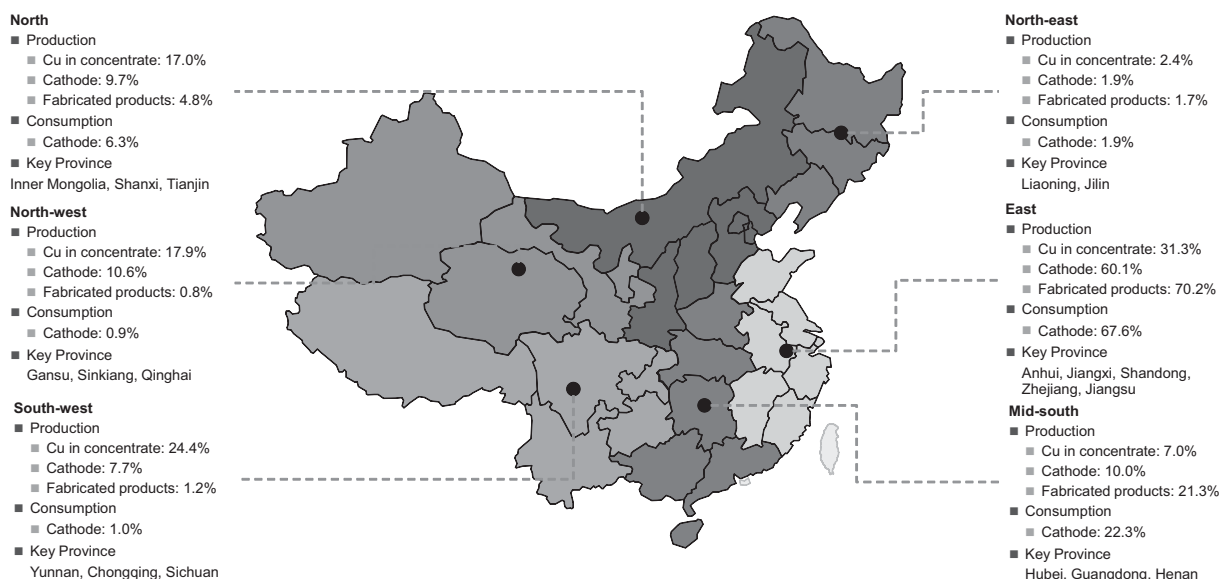
INDUSTRY OVERVIEW

Copper industry in the PRC

Since 2000, the copper market in the PRC in general has experienced significant growth. The key drivers of this trend were the increasing level of urbanization and the continued industrial growth in China, which saw consumption more than quadruple from 1999 to 2009, adding nearly 5 million tonnes to global annual demand for copper. From 2000 to 2010, China's annual consumption and annual production of copper cathodes increased by approximately 263.6% and 233.9%, respectively. In comparison, the global annual consumption and annual production of copper cathodes increased by 22.2% and 25.5%, respectively during the same period.

The map below shows the geographical distribution of copper production and consumption in China in 2010 (as percentages of total production, consumption, and downstream fabricated products produced in China). The mid-south region, where the Target Group's mines and production facilities (including the Smelting Plant and the Precious Metal Plant and the Four Mines) are located, is close to two of the largest copper consumption regions in Eastern and Southern China. The mid-south region is also China's third largest copper cathode production base, accounting for approximately 10% of copper cathode production capacity in 2010.

Geographical distribution of copper production and consumption in China in 2010



Notes: Classification of regions adopted by Antaie as follows:

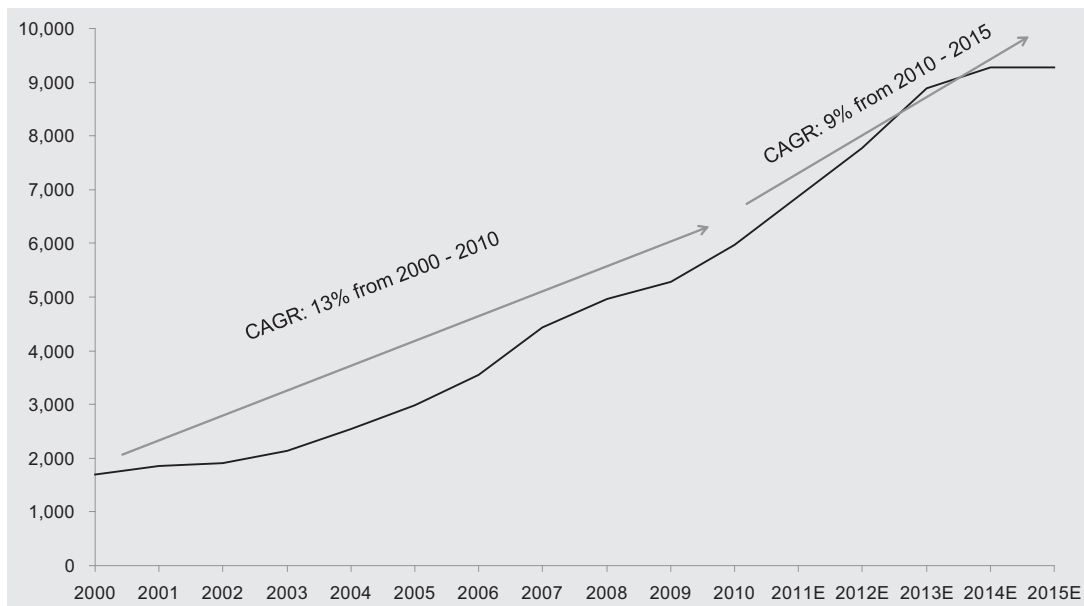
East region – Shandong, Jiangsu, Anhui, Zhejiang, Jiangxi, Fujian and Shanghai
 North-east region – Heilongjiang, Jilin and Liaoning
 Mid-south region – Henan, Hubei, Hunan, Guangdong, Guangxi, Hainan
 South-west region – Sichuan, Yunnan, Guizhou, Chongqing, Tibet
 North-west region – Shaanxi, Gansu, Qinghai, Ningxia, Sinkiang
 North region – Beijing, Tianjin, Hebei, Shanxi, Inner Mongolia

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Copper smelting industry in China

Over the past ten years, China's production of copper cathodes increased by an annual average of 12.8%, accounting for 85% of total growth in global refined production. China's refining capacity (which is equivalent to the ability to produce copper cathodes) is expected to continue to grow in the next five years, largely through capacity expansion at existing smelters, and in particular, by the leading copper cathode producers. According to the Antaika Report, the aggregate annual refining capacity of the top four copper cathode producers in terms of production volume in China amounted to 1.80 million tonnes by the end of 2006, which has increased to 2.86 million tonnes by the end of 2010, representing an increase of approximately 58.9%. Based on the rapid expansion in the refining capacity of these largest producers in the past five years, the expansion plan of other existing producers as well as the entry of new producers, in each case, taking into account their ramp up schedules, Antaika projects that the annual refining capacity in China will reach 9.28 million tonnes by 2015. However, China's production of copper cathodes will be dependent on the ability of smelters to secure raw materials (both scrap and concentrate), as growth in domestic production of concentrates and blister copper is expected to be slower.

2000 – 2015E China copper cathode refining capacity (Unit: 000'tonnes)



Source: Antaika

INDUSTRY OVERVIEW

Imports from international markets help to supply a large portion of concentrate demand from Chinese smelters (Copper concentrate balance in China, thousand tonnes)

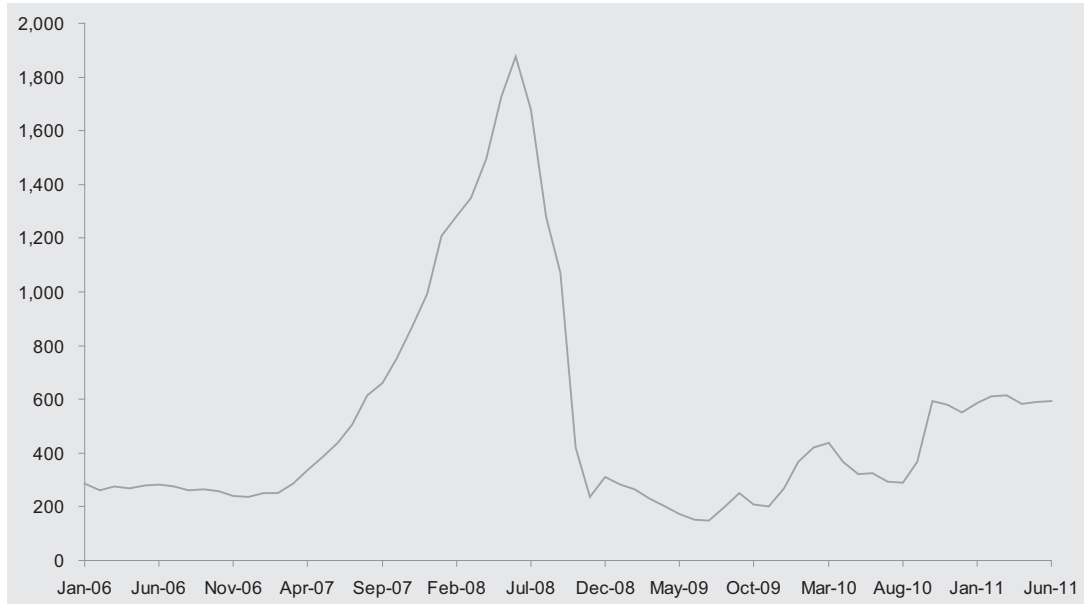
	2007	2008	2009	2010	2011E	2012E	2013E
Production	930	930	960	1,140	1,220	1,300	1,370
Consumption	2,200	2,460	2,690	2,680	3,030	3,360	3,700
Balance	(1,270)	(1,530)	(1,730)	(1,540)	(1,810)	(2,060)	(2,330)
Net import	1,350	1,560	1,720	1,750	–	–	–
Balance	90	30	(20)	200	–	–	–

Sources: Antaike

TC/RCs for copper concentrates, which are what copper smelters charge to smelt copper concentrates for the production of copper cathodes, have been low over the past 4 years as a result of a tight copper concentrates market. TC/RCs typically fall when the supply of copper concentrates falls or when operating smelting capacity increases, which has been the case in China for the past 4 years. For example, at their lowest levels, TC/RCs were at US\$46.5 per tonne for TC and 4.65 US cents per pound for RC (which were equivalent to a combined 11.96 US cents per pound of copper processing costs) in 2010 which were just about the level of actual costs of production. China's non-integrated copper smelters (who do not operate their own mines) suffer from low profit margins and profitability from downstream processing such as smelting when TC/RCs are low. Nevertheless, with relatively high price for sulphuric acid, being a by-product produced in the course of copper cathode production, these copper smelters were able to apply the profit from sales of sulphuric acid to compensate for the lower TC/RCs.

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2006-2011 China sulphuric acid price (RMB per tonne)

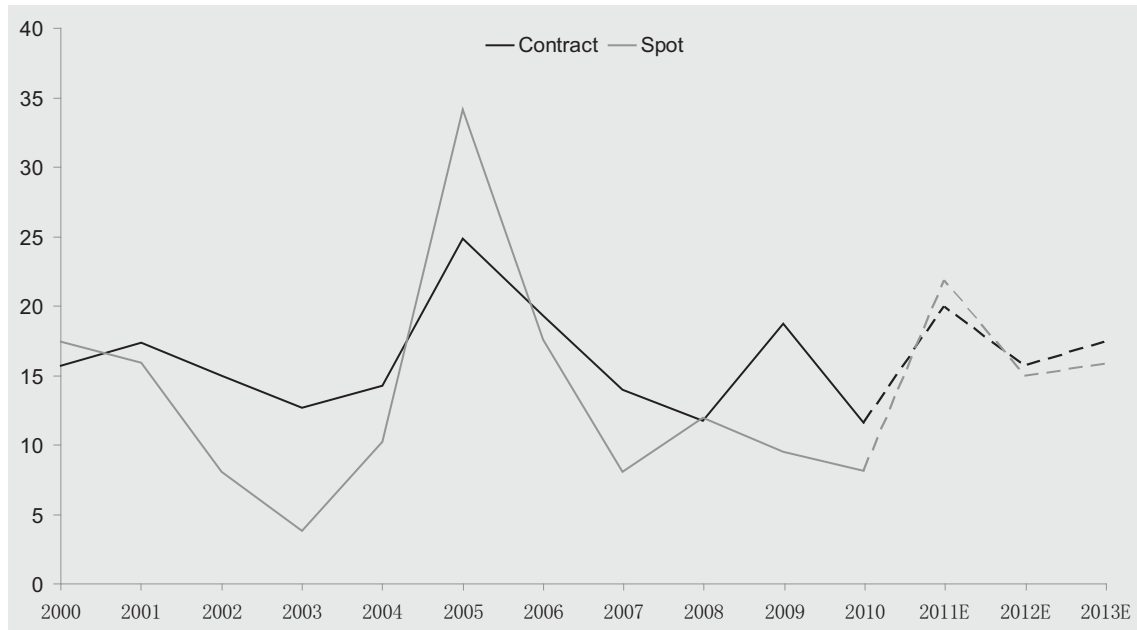


Source: Antaike

Since the second half of 2010, however, TC/RC spot rates have been moving upwards, driven by increase in consumption demand in different end markets and more aggressive negotiations between copper concentrate producers and copper smelters. Increasing concentration of the copper smelting industry in China helps smelters to gain more negotiation power. In addition, the earthquake in Japan in March 2011 has caused and may in the short term continue to cause disruption to the production of Japanese copper smelters due to power shortage and other factors, which may lead to increase in demand for the smelters operating in China. Going forward in 2012 and 2013, the supply deficit of copper concentrate is likely to continue to increase as the growth in demand for copper concentrate continues to outpace the increase in supply as a result of the rapid expansion of the smelting capacity (which is equivalent to the ability to process copper concentrates). China experienced a supply deficit in copper concentrates during the period from 2008 to 2010 where domestic supply fell short of domestic demand by 1.53 million tonnes, 1.73 million tonnes, and 1.54 million tonnes, respectively. Antaike forecasts that such trend will continue in near term, which will create downward pressure on TC/RC.

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TC/RC trends since 2000 (US Cent/lb Cu) and forecasts to 2013



Sources: Bloomberg, Antaika

Note: According to Antaika, copper processing costs, $TC/RC = TC / (30\% - 1.15\%) + RC$. TC/RC is calculated assuming 30% grade of standard copper concentrates and a 1.15% wear (which brings down the grade of copper)

Major producers

The copper smelting industry in China is becoming increasingly concentrated. The largest copper producers of copper cathodes, which include Jiangxi Copper, Tongling Non-ferrous, Jinchuan Group, Yunnan Copper and Daye Metal, together, accounted for 59.5% of the total copper cathode production in China in 2010.

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2005 – 2010 production and sufficiency level for China's major copper producers

(Unit: 000'tonnes Cu)

		2005	2006	2007	2008	2009	2010
Jiangxi Copper	Copper cathode production	422	443	554	703	802	902
	Copper concentrate production	158	158	156	159	167	172
	Self-sufficiency rate	37.5%	35.6%	28.2%	22.6%	20.8%	19.1%
Tongling Non-ferrous	Copper cathode production	448	534	624	649	719	812
	Copper concentrate production	37	46	47	51	54	62
	Self-sufficiency rate	8.3%	8.6%	7.5%	7.9%	7.5%	7.6%
Yunnan Copper	Copper cathode production	320	378	452	385	287	325
	Copper concentrate production	72	72	76	90	95	97
	Self-sufficiency rate	22.5%	19.0%	16.8%	23.4%	33.1%	29.8%
Daye Metal	Copper cathode production	178	205	250	265	271	308
	Copper concentrate production	21	21	20	21	20	21
	Self-sufficiency rate	11.8%	10.0%	8.1%	7.8%	7.6%	6.8%
Xiangguang Copper	Copper cathode production	–	–	4	92	180	240
	Copper concentrate production	–	–	–	–	–	–
	Self-sufficiency rate	0%	0%	0%	0%	0%	0%
Dongying Fangyuan Copper	Copper cathode production	75	140	180	181	204	207
	Copper concentrate production	–	–	–	–	–	–
	Self-sufficiency rate	0%	0%	0%	0%	0%	0%
Yantai Penghui Copper	Copper cathode production	62	72	103	87	111	101
	Copper concentrate production	–	–	–	–	–	–
	Self-sufficiency rate	0%	0%	0%	0%	0%	0%
Baiyin Non-ferrous	Copper cathode production	78	76	71	77	50	89
	Copper concentrate production	8	7	6	8	6	7
	Self-sufficiency rate	10.7%	9.2%	8.5%	10.4%	12.0%	7.9%
Zhongtiaoshan Non-ferrous	Copper cathode production	27	56	91	91	65	79
	Copper concentrate production	22	28	28	24	17	24
	Self-sufficiency rate	80.9%	50.2%	30.8%	26.3%	26.1%	30.4%

Sources: CNIA, Antaike

*Note: 1. Self mined copper concentrate production level
2. Ranking based on production of copper cathodes*

INDUSTRY OVERVIEW

GOLD

Introduction

Gold is a dense, soft, malleable and ductile metal, with good electric and thermal conductivity as well as fairly strong chemical corrosion resistance and anti-tarnish property. It is diamagnetic, but gold mixed with a certain amount of manganese has extremely high magnetic susceptibility and gold mixed with a large amount of iron, nickel and cobalt also acquires a high level of magnetic susceptibility. Moreover, the chemical stability of gold is fairly high and it is rather stable in lye and various kinds of acid fluid. Gold hardly oxidizes or changes color when exposed to air.

Gold has long been used for the maintenance of financial reserves and as currency and jewellery. In terms of industrial application, gold is mainly used in the manufacture of precision instrument and meters as well as in the electronics industry.

Gold is mainly produced by independent gold mines and from the smelting of non-ferrous metals such as copper.

Demand and supply of gold

Global supply of gold increases relatively slowly. In 2010, global supply of gold reached 4,108 tonnes, which amounted to an increase of only 2.2% from 2000. The increase in gold supply has mainly come from scrap gold. Global output of scrap gold reached 1,653 tonnes in 2010, representing an increase of 166.6% from 620 tonnes in 2000. Meanwhile, output of mined gold has remained basically stagnant.

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The use of gold for the manufacture of jewellery has been one of the most important sources of demand for gold. However, demand in this sector has declined in the past ten years. The jewellery industry accounted for approximately 2,060 tonnes of the global demand for gold in 2010, a decrease of 35.7% from 2000. The industry's demand for gold also decreased from 79.8% in 2000 to 50.1% in 2010. Due to global inflation and continual rise in gold prices, the demand for investment in gold (i.e. bullion investments) has increased significantly (especially at times of economic uncertainty, as gold is typically regarded as a “safe haven” investment and inflation hedge). Bullion investment demand reached 1,429 tonnes in 2009, accounting for one third of the total gold demand.

2000-2010 Global Gold Supply and Demand (Unit: tonnes)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Total supply	4,018	3,915	4,038	4,228	3,866	4,115	3,981	3,939	3,957	4,287	4,108
Mined	2,620	2,646	2,618	2,623	2,494	2,549	2,483	2,473	2,409	2,572	2,659
Gold recovered from											
scrap metal	620	749	874	986	881	902	1,133	982	1,316	1,674	1,653
Official sector sales	479	520	547	620	479	663	365	484	232	41	(87)
Other	299	–	(1)	(1)	12	1	–	–	–	–	(117)
Total demand	4,018	3,915	4,038	4,228	3,866	4,115	3,981	3,939	3,957	4,287	4,108
Jewellery	3,205	3,009	2,662	2,484	2,616	2,718	2,298	2,417	2,193	1,759	2,060
Industry and dentistry	451	363	358	382	414	433	462	465	439	373	–
Gold bar hoarding	242	261	264	180	257	264	235	236	386	187	–
Others	120	262	534	422	579	241	621	652	609	539	
Implied net investment											
(Note)	–	20	220	760	–	459	365	169	330	1,429	–

Source: GFMS Limited (“GFMS”)

Note: the implied net investment reflects the amount invested by investors in gold. In case where a positive implied net investment is recorded, this means that the demand of investors for gold is greater than the supply of gold, and vice versa.

INDUSTRY OVERVIEW

China is an important gold producer. From 2000 to 2010, gold output in China underwent a constant and significant increase. It reached 341 tonnes in 2010, an increase of 92.7% from 2000. This is mainly due to the rise in gold prices and rapid expansion of copper smelters.

2000-2010 Gold Output in China (Unit: tonnes)

2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
177	182	190	201	212	224	240	270	282	314	341

Source: China Gold Association

Gold pricing and exchanges

Gold prices, unlike many other commodities, are not affected solely by supply and demand, but also other factors such as global inflation, currency devaluation and fund flow. Gold prices have generally been on the rise in the past decade. The average price of gold on the London Bullion Market Association (“LBMA”) market in 2010 reached US\$1,227 per ounce, representing an increase of 339.8% from 2000. Chinese domestic gold spot price in 2010 reached RMB265 per gram, an increase of 268.1% from 2001. The price increase in the PRC market is smaller than that in the international market mainly due to appreciation in the Renminbi. From January to July in 2011, Chinese domestic gold spot price averaged RMB310 per gram, an increase of 21.3% compared to the same period last year.

Towards the end of August 2011, gold price once rose to above US\$1,900 per ounce, an increase of 45% from the US\$1,310 per ounce level in January 2011. Domestic gold price also increased by over 37% from RMB284 per gram, at its lowest level in January 2011 (though still high by historical standards), to over RMB390 per gram in late August. From January to July in 2011, LBMA gold price averaged US\$1,463 per ounce, an increase of 26.3% compared to the same period last year.

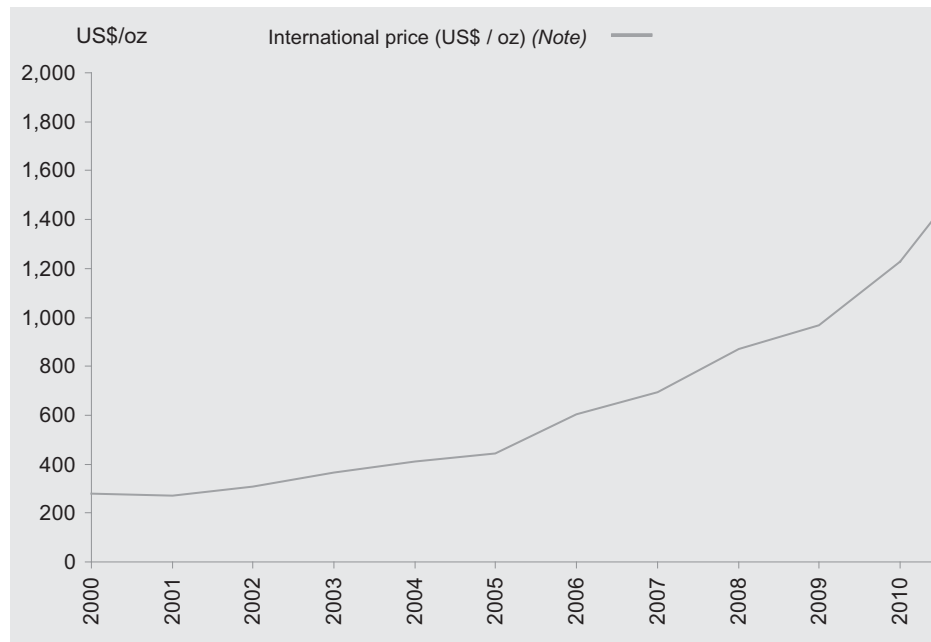
The Antaike Report forecasts that in the context of a sustained low interest rate environment in the US and global inflation, gold price will continue to rise steadily in the near term.

International and Domestic Annual Average Price of Gold (International price: US Dollar per ounce; Domestic price: RMB per gram)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
International price (US\$/oz)	279	271	310	364	410	445	604	696	872	972	1,227
Domestic price (RMB/g)	–	72	81	95	110	117	155	171	196	214	265

INDUSTRY OVERVIEW

2000 – 2010 international gold price (in US dollar per ounce)



Sources: Antaike, Bloomberg

The major factors influencing gold price include production, demand (including but not limited to demand from the jewellery industry and other industrial applications, investment and speculation demand), changes in state or central bank gold reserves, changes in monetary policies in major countries, fluctuations in exchange rates, inflation and outlook, international trade deficit, international political environment, war, terrorist events and fluctuations in oil prices.

SILVER

Introduction

Silver is a white and shiny metal. It is soft, flexible and ductile with a Mohs hardness of 3.25 degrees, and has excellent electric and thermal conductivity. Silver has relatively stable chemical properties and does not react with oxygen at normal temperature.

As its attributes is suitable for monetary use, silver served as a currency like gold for a long period in human history. In addition to coinage, silver is also widely applied in various industrial sectors such as electronic and electrical usage, photography, solar energy and medicine.

Silver is mainly produced from the smelting of non-ferrous metal such as copper, lead and zinc.

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Demand and supply of silver

During the period from 2000 to 2010, the total global silver supply remained basically stable within the range of 27,000 to 28,500 tonnes annually, reaching 28,537 tonnes in 2010. The output of mined silver has increased steadily and reached 23,524 tonnes in 2010, representing an increase of 28.0% from 2000. During the same period, the output of scrap silver decreased from 5,620 tonnes to 4,855 tonnes.

In 2010, global consumption of silver for industrial use was 11,605 tonnes, accounting for 40.7% of the total silver demand. In the same year, jewellery consumption reached 4,768 tonnes, accounting for 16.7% of the total demand, while coinage and photography accounted for 10.0% and 6.2% of the total demand, respectively. Demand for physical silver by global manufacturing totalled 22,889 tonnes, accounting for 80.2% of the total silver demand. Investment demand for silver reached 4,852 tonnes, accounting for 17.0% of total demand.

The 2000-2010 Global Silver Supply and Demand (Unit: tonne)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Total supply	28,587	27,088	26,534	27,038	27,004	28,500	28,217	27,642	27,629	27,651	28,537
Of the total:											
Mined silver	18,382	18,855	18,472	18,556	19,066	19,807	19,934	20,665	21,297	22,071	23,524
Scrap silver	5,620	5,683	5,832	5,720	5,714	5,785	5,847	5,655	5,474	5,154	4,855
Governmental net underselling amount	1,876	1,960	1,841	2,759	1,925	2,050	2,432	1,322	858	426	159
Other	2,709	590	389	3	299	858	4	–	–	–	–
Total demand	28,587	27,088	26,534	27,038	27,004	28,500	28,217	27,642	27,629	27,651	28,537
Of the total:											
Silver used for industrial purposes	11,639	10,438	10,578	10,911	11,434	12,659	13,281	14,186	13,791	10,955	11,605
Photography	6,790	6,628	6,354	6,000	5,561	4,986	4,429	3,882	3,263	2,578	1,782
Jewellery	5,306	5,421	5,253	5,574	5,437	5,406	5,173	5,085	4,924	4,871	4,768
Silverware	2,998	3,300	2,597	2,610	2,090	2,099	1,897	1,816	1,770	1,851	1,894
Silver coin and seal	998	949	983	1110	1319	1244	1238	1235	2,028	2,448	2,840
Total amount for manufacturing usage	27,735	26,730	25,763	26,202	25,841	26,398	26,015	26,205	25,772	22,699	22,889
Other	852	3	771	649	–	–	211	753	358	694	796
Implied net investment demand	–	355	–	187	1,163	2,103	1,991	684	1,499	4,258	4,852

Source: GFMS

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Silver pricing and exchanges

During the period from 2000 to 2010, similar to gold, silver prices generally maintained a continuous upward trend. In particular, with the rise of investment demand in recent years, the price of silver has increased faster. The international trading markets for silver are mainly located in London, New York, Chicago and Tokyo, and the benchmarks are London (LBMA) and New York prices. Silver prices on LBMA in 2010 reached US\$20.19 per ounce, an increase of 307.7% from 2000. Domestic spot silver price in 2010 reached RMB4,547 per kilogram, an increase of 114.5% from 2005. From January to July in 2011, LBMA silver spot price and Chinese domestic silver spot price averaged US\$35.35 per ounce and RMB7,828 per kilogram, an increase of 100.1% and 90.1%, respectively compared to the same period last year.

International and Domestic Annual Average Price of Silver (International price: US dollar per ounce; Domestic price: RMB per kilogram)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
International price (\$/oz)	4.95	4.37	4.60	4.88	6.66	7.31	11.55	13.38	14.93	14.67	20.19
Chinese domestic price (RMB/kg)	—	—	—	—	—	2,120	3,266	3,544	3,560	3,269	4,547

Source: Antaike

2000 – 2010 international silver spot price (in US\$ dollar per ounce)



Sources: Antaike, Bloomberg

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SOURCES OF INFORMATION

Antaike

The Company has engaged Antaike, an experienced consultant in the metals and mining industry, to prepare the Antaike Report for use in whole or in part in this circular. Unless otherwise specified, the data presented in this Industry Overview was primarily based on, or derived from the Antaike Report.

Established in 1992, Antaike is owned as to 42.61% by the Information Center of China National Nonferrous Metals Industry (also known as the Nonferrous Metals Techno-Economic Research Institute), whose operations are overseen by the China Nonferrous Metals Industry Association. Antaike is the first company to receive recognition from the Beijing Science and Technology Consultant Association and was also awarded the title of “Advanced Youth Group” by the PRC central government. It is therefore a leading institution for research on the metals industry in the PRC. In compiling information to prepare the Antaike Report, a team of industry specialists and consultants was assembled to observe and analyze market trends and to conduct research

The Antaike Report was prepared based on Antaike’s internal database, research, study and analyses drawn from information obtained from both official and unofficial sources, among others, reports prepared by the Independent Third Parties and publicly available data from government agencies and reputable industry organizations. Where necessary, Antaike contacts companies operating in the industry to gather and synthesise information about market, prices and other relevant information. In preparation of the Antaike Report, Antaike has assumed the completeness and accuracy of the information or data that it has relied on. Antaike has confirmed that it is not aware of anything which could possibly lead it to believe that this assumption is unfair, unreasonable or incomplete.

Projected data in the Antaike Report was prepared based on historical data analysis plotted against macroeconomic data as well as specific industry-related drivers, assuming social, economic, political environment of the PRC is expected to remain stable in the forecasted period so as to contribute to increasing purchasing power and urbanization. Such forecasts and assumptions are inherently uncertain because of events or combinations of events that cannot reasonably be foreseen, including, without limitation, the actions of government, individuals, third parties and competitors. Specific factors that could cause actual results to differ materially include, among others, commodity prices, utility costs, risks inherent in the mining industry, financing risks, labour risks, uncertainty of mineral reserve and resource estimates, equipment and supply risks, regulatory risks and environmental concerns.

INDUSTRY OVERVIEW

Antaika has provided part of the statistical and graphical information contained in the Industry Overview. Antaika has advised that (i) some information in its database is derived from estimates from industry sources or subjective adjustments; and (ii) the information in the database of other metals and mining data collection agencies or of other industry consultants may differ from information in Antaika's database. The information contained herein has been obtained from sources believed by Antaika to be reliable, but there can be no assurance as to the accuracy or completeness of any such information.

Antaika received a total fee of HK\$500,000 for the research and preparation of the Antaika Report. Such payment was not contingent upon the approval of the new listing application made by the Company nor on the results delivered.

Others

Data prepared by, Bloomberg, China Gold Association, CNIA, GFMS, ICSG, LBMA, LME, RMG, SHFE, USGS and WBMS, all of whom are Independent Third Parties, and quoted in this Industry Overview was not commissioned by the Company, Antaika, China Times or the Parent Company.

- Bloomberg, Bloomberg L.P., is a leading provider of global business and financial information.
- China Gold Association (中國黃金協會) is a nation-wide, non-profit and autonomic organization in the PRC for the enterprises of gold exploration, operation, processing, logistics, research institutes and other institutions in relation to gold industry.
- CNIA (中國有色金屬工業協會) is a nation-wide, non-profit and industrial organization in the PRC for enterprises, institutions and other social entities in relation to the non-ferrous metals industry.
- GFMS is one of the world's leading economics consultancies in precious metals, specialising in research into the global gold, silver, platinum and palladium markets. It is also a leading provider of top quality research on base metals and steel.
- ICSG is an intergovernmental organization that serves to increase copper market transparency and promote international discussions and cooperation on issues related to copper.
- LBMA is the London-based trade association that represents the wholesale over-the-counter market for gold and silver in London.

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- LME is the world's premier non-ferrous metals market which offers futures and options contracts for aluminium, copper, tin, nickel, zinc, lead, aluminium alloy and North American special aluminium alloy contract, steel billet, cobalt and molybdenum.
- RMG is a global provider of compiled and analyzed data in relation to the mining industry.
- SHFE (上海期貨交易所), regulated by the China Securities Regulatory Commission (CSRC), serves as a trading platform for futures contracts of, among others, gold, copper, aluminum, lead, steel rebar, steel wire rod, natural rubber, fuel oil and zinc.
- USGS, the United States Geological Survey, is a science organization providing information in relation to ecosystems and environment.
- WBMS is an information provider in relation to the global metal industry.

REGULATORY OVERVIEW

OVERVIEW

The copper industry in the PRC forms part of the nation's non-ferrous metals industry, an industry highly regulated by the PRC government. The regulatory regime supervises activities in various domains including investment, exploration, exploitation, mining and production. Non-ferrous metals operations are also subject to safety and environmental protection regulations in the form of administrative measures, compensation levies and tax levies.

In recent years, the PRC government has tightened its regulation on the PRC mining industry. In August 2005, the State Council of the PRC (the “**State Council**”) issued the “Notice on Comprehensively Starting the Consolidation and Regulation of Mineral Resource Developments” (關於全面整頓和規範礦產資源開發秩序的通知) to counter illegal exploration and mining activities, with a view to closing down all mining operations which fail to comply with the requisite environmental protection and production safety standards. This notice requires the Ministry of Land and Resources of the PRC (the “**MLR**”) to impose more stringent standards to eradicate and eliminate non-compliant activities in relation to unauthorised exploration and mining, environmental pollution and safe production. Further measures were jointly announced by MLR, the National Development and Reform Commission of the PRC (the “**NDRC**”), the Ministry of Public Security of the PRC, the Ministry of Supervision of the PRC, the Ministry of Finance of the PRC (the “**Ministry of Finance**”), the Ministry of Commerce of the PRC, the State Administration of Industry and Commerce of the PRC, the Ministry of Environmental Protection of the PRC (formerly known as the State Administration of Environmental Protection of the PRC) (the “**MEP**”) and the State Administration of Work Safety of the PRC (the “**SAWS**”) in February 2008 under the “Notice on Looking aback Campaign for Consolidation and Regulation of Mineral Resources Developments” (關於開展整頓和規範礦產資源開發秩序「回頭看」行動的通知), which directed governments at provincial level, in the autonomous regions and municipalities to investigate such incidents of non-compliance in their respective regions.

In June 2006, the NDRC issued a directive on “Entry Conditions for the Copper Smelting Industry” (銅冶煉行業准入條件) which raised the entry thresholds for the copper smelting industry. The directive sets out revised requirements on investment, technology and equipment, energy consumption and environmental protection for the establishment of copper smelting operations in the PRC. It also stipulates a number of other qualifications that must be met for entry, such as the requirement that the proportion of self-owned raw materials must not be less than 25% of the total amount of raw materials to be used in the production or the proportion of self-owned raw materials and raw materials obtained from mines operated on a joint venture basis with a contract period of over five years must exceed 40% of the total amount of raw materials being used in the production, and the requirement that the proportion of self-funded capital expenditure for a smelting project must account for more than 35% of the total capital expenditure. The main objective of the directive is to regulate investments in the copper smelting industry and prevent over-investment and expansion.

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In May 2009, the State Council released the “Adjustment and Revitalization Plan for the Nonferrous Metal Industry”(有色金屬產業調整和振興規劃) to stimulate the development of the non-ferrous metal industry with a specific focus on the restructuring of the industry and technological innovation. The main objectives of such plan are the elimination of obsolete capacity, energy conservation and emission reduction, promotion of corporate restructuring, promotion of innovation and improvement of self-sufficiency.

The main regulatory bodies overseeing the PRC non-ferrous metals industry include:

- NDRC: it formulates and implements major policies concerning the economic and social development of the PRC, reviews and approves investment projects exceeding a certain scale and in specified sectors of the economy, including in the mining industry;
- MLR: it supervises exploration for and exploitation of mineral resources in the PRC. It is responsible for granting land-use right certificates, exploration and mining licences, approving transfers and leases of exploration rights and mining rights, and reviewing fees payable for exploration rights, and mining rights;
- SAWS: it supervises and provides guidance on work safety practices for non-coal mining enterprises in the PRC. It is responsible for formulating work safety management regulations and investigating work safety-related accidents.
- Ministry of Human Resources and Social Security of the PRC: together with SAWS, it is responsible for supervising and managing mine-related safety and conducting inspections of safety facilities at mining sites; and
- MEP: it is responsible for supervising and monitoring compliance with environmental protection laws and regulations and monitoring anti-pollution systems implemented by, among others, mining enterprises.

REGULATORY OVERVIEW

PRC LAWS AND REGULATIONS RELATING TO EXPLORATION AND MINING OF MINERAL RESOURCES

Mineral Resources Law of the PRC and its implementation provisions

Pursuant to the “Mineral Resources Law of the PRC”(中華人民共和國礦產資源法) (the “**Mineral Resources Law**”) promulgated on 19 March 1986, which became effective on 1 October 1986 and was amended on 29 August 1996 and the “Rules of the Implementation of the Mineral Resources Law”(中華人民共和國礦產資源法實施細則) (the “**Implementation Rules**”) promulgated on 26 March 1994, all mineral resources in the PRC are owned by the State. The department of geology and mineral resources of each province or autonomous region or the bureau of geology and mineral resources of each municipality directly under the supervision of the PRC central government (collectively, “**DGMs**”) operates a licensing regime under which it grants exploration licences and mining licences. An enterprise that intends to explore and exploit mineral resources shall apply for separate exploration and mining rights according to the relevant PRC laws, regulations and policies, and is required to undergo the application process for each of the exploration and mining rights. Where an enterprise intends to apply for a variation in the terms of the licence, or an extension or renewal of the exploration or mining licence, it must prepare and submit a mineral resources exploration and/or mining feasibility study together with the review opinion issued by a DGM nominated authorised body or expert in respect of such study.

The PRC government adopts a unified licensing system for mineral exploration and mining activities. Any enterprise engaged in the exploration for and mining of minerals must apply for exploration and mining licences before commencing operation, unless such enterprise intends to conduct exploration operations for its own production within the mining area with respect to which it has previously obtained mining rights.

A mining licence confers on its holder the following rights, among others: (i) the right to conduct mining activities within the area and time period prescribed in the mining licence; (ii) the right to set up necessary production and accommodation facilities within the designated area; (iii) the right to conduct exploration activities and production within the area and time period designated in the mining licence; (iv) the right to sell the mined minerals and products, except for mineral products which shall only be sold to designated parties as prescribed by the State Council; (v) the right to apply for land use rights in respect of the designated mining area; (vi) the right to transfer the mining right to any third party, whether directly or as a result of any merger, consolidation, division, joint venture, partnership, disposal of assets or other changes in the ownership of assets which leads to a change in the ownership of the mining right, subject to obtaining relevant government approvals for the transfer or offer. A holder of a mining licence is subject to certain obligations including, among others, the obligation to (i) conduct reasonable mining activities, and protect and fully utilize the mineral resources; (ii) pay the prescribed resources tax and compensation levies; and (iii) submit regular reports on the mining of mineral resources or reserves to the relevant government authorities for approval.

REGULATORY OVERVIEW

An exploration licence confers on its holder the following rights, among others, (i) the right to conduct exploration activities within the area and time period prescribed in the exploration licence; (ii) the right to enter the prescribed exploration area and peripheral area; (iii) priority to obtain the mining rights in respect of the mineral resources within the designated area; (iv) the right to transfer the exploration rights to any third party, subject to the satisfaction of the minimum investment requirement by the original holder and obtaining relevant government approvals; and (v) the right to sell the mineral products recovered from the surface of the prescribed exploration area except for recovered products which could only be sold to designated parties as prescribed by the State Council. A holder of an exploration licence is subject to certain obligations including, among others, the obligation to (i) commence and complete exploration activities within the designated time period; and (ii) submit regular reports on the exploration activities to the relevant government authorities for approval.

PRC LAWS AND REGULATIONS RELATING TO ENVIRONMENTAL PROTECTION

General

Pursuant to “Environmental Protection Law of the PRC”(中華人民共和國環境保護法), all entities whose operations involve the emission of pollutants or other environmentally hazardous materials are required to compile environmental protection plans in relation to their operations and establish an environmental protection system. They are mainly required to adopt effective measures to control and prevent pollution arising from waste gases, waste water, waste residue, dust, malodorous gases, radioactive substances and noise, electromagnetic radiation in the course of their production or other activities.

Such enterprises are required to file and register an environmental impact assessment report with the relevant environmental protection administration authority for approval before undertaking construction of any new production facility, major expansion or renovation of any existing production facility. The pollution control facilities are required to be designed, constructed and operated at the same time as the major facilities under construction. The construction project will not be permitted to commence operations unless and until the relevant environmental protection administration authority which approved the environmental impact assessment report is satisfied that that the facilities are in compliance with the applicable environmental protection laws and regulations.

REGULATORY OVERVIEW

Geological environmental protection

Pursuant to the “Provisions on the Protection of the Geologic Environment of Mines”(礦山地質環境保護規定) promulgated on 2 March 2009, which became effective on 1 May 2009 and the “Hubei Province’s Regulation on the Administration of Geological Environment”(湖北省地質環境管理條例) promulgated on 31 May 2001 and effective on 1 August 2001, when applying for a mining licence, the applicant has to compile a plan for the protection and restoration of the geological environment mainly within the mining site and submit the plan to the relevant land and resources authority for approval. In the event that the geological environment mainly within the mining site is likely to be damaged due to any mining activity, the holder of the mining licence shall include the related restoration costs in the plan. Enterprises engaged in mining or exploration activities are required to pay a deposit as security for restoration of geological environment into a designated account, which is monitored by the relevant authority in accordance with relevant provisions formulated by each province, autonomous region and municipality.

Waste disposal fees

Pursuant to the “Administrative Regulation on the Levy and Use of Disposal Fees”(排污費徵收使用管理條例) issued by the State Council on 2 January 2003, which became effective on 1 July 2003, the “Measures for Administration of Levy of Disposal Fees”(排污費徵收標準管理辦法) jointly promulgate, among others, by NDRC, MEP and the Ministry of Finance, which became effective on 1 July 2003, and the “Administrative Regulations on Levy and Utilization of Disposal Fee”(排污費資金收繳使用管理辦法) jointly promulgated, by MEP and the Ministry of Finance, which became effective on 1 July 2003, direct disposal of pollutants is subject to the payment of disposal fees. The type and amount of disposal fees payable are determined by the environmental protection administration department of the local people’s government above county level as authorized by MEP.

PRC LAWS AND REGULATIONS RELATING TO PRODUCTION SAFETY AND PREVENTION OF OCCUPATIONAL DISEASES

Production safety

Pursuant to the “Production Safety Law of the PRC”(中華人民共和國安全生產法) promulgated on 29 June 2002 which became effective on 1 November 2002 and the “Law on Mine Safety of the PRC”(中華人民共和國礦山安全法) and its related implementation rules, which were promulgated on 7 November 1992 and 30 October 1996, respectively and became effective on 1 May 1993 and 30 October 1996, respectively, safety facilities in mining projects under construction must be designed, constructed and put into operation at the same time as the commencement of the principal parts of the projects. Further, the design of a mine must comply with safety rules and standards introduced and/or approved by the relevant authorities from time to time.

REGULATORY OVERVIEW

Pursuant to the “Regulations on Work Safety Licences”(安全生產許可證條例) promulgated on 13 January 2004 and the “Measures for the Implementation of Work Safety Licences for Non-coal Mine Enterprises”(非煤礦礦山企業安全生產許可證實施辦法) (as amended) which became effective on 8 June 2009, mining operations and production may only commence after the completion of relevant safety check and approval processes and the issue of the work safety licence by the safety production bureau at or above provincial level.

Prevention and Control of Occupational Diseases

Pursuant to the “Prevention and Control of Occupational Diseases Law of the PRC”(中華人民共和國職業病防治法) promulgated on 27 October 2001, which became effective on 1 May 2002, appropriate protective facilities and measures are required to be adopted for any construction project which may lead to the development of occupational diseases of the employees. A preliminary assessment report must be submitted to the health administrative department at the time when the feasibility study is prepared and an assessment of the effectiveness of the protective measures adopted must be completed before the application for inspection and acceptance of the project is made. Once the protective facilities have passed the inspection by the public health administration department, such mining projects may be put into formal operation.

PRC LAWS AND REGULATIONS RELATING TO RESOURCES TAX AND COMPENSATION LEVY

Resources tax

Pursuant to the Provisional Regulations on Resources Tax of the PRC (中華人民共和國資源稅暫行條例) promulgated by the State Council on 25 December 1993, which became effective on 1 January 1994, all enterprises engaged in the exploitation of minerals within the territory of the PRC are required to pay a resources tax. Applicable resources tax rates are determined by the Ministry of Finance in consultation with the relevant departments of the State Council based on the resource amount of the taxable products exploited by the enterprise.

Currently, copper resources tax is collected based on the tonnage of copper mined in the PRC. In December 1993, the State Council announced the “Interim Implementation Regulations of the PRC on Resources Tax”(中華人民共和國資源稅暫行條例實施細則), which imposes a resources tax on raw ores of non-ferrous metals. During the period from 1996 to 2006, the PRC government reduced the rate of the resources tax on raw ores of non-ferrous metals by 30%, but the reduced tax rate ceased to apply since January 2006. On 5 July 2007, the Ministry of Finance and the State Administration of Taxation jointly issued a “Notice on the Adjustment of Resources Tax Standards Applicable to Lead/Zinc Ore and Other Taxable Items”(關於調整鉛鋅礦石等稅目資源稅適用稅額標準的通知), pursuant to which the resources tax on copper ore was increased from RMB1.2 to RMB1.6 per tonne, to RMB5.0 to RMB7.0 per tonne, representing an increment of 317% to 337%.

REGULATORY OVERVIEW

Compensation levy

Pursuant to the “Provisions on the Administration of Collection of the Mineral Resources Compensation Levy”(礦產資源補償費徵收管理規定) promulgated on 27 February 1994 and revised on 3 July 1997 by the State Council, every enterprise engaged in mining activities in the PRC and territorial waters under its administration must pay a mineral resources compensation levy, which is calculated based on the following formula:

$$\text{Mineral resources compensation levy} = \text{Sales income of mineral products} \times \text{Compensation levy rate} \times \text{Coefficient of mining recovery rate}$$

The compensation levy rate, currently fixed at 2% for copper, is determined jointly by the Ministry of Finance, MLR and NDRC, and is subject to the approval of the State Council. Such compensation levy is payable on a bi-annual basis.

In specific circumstances, mining enterprises may apply for partial or full exemption of the mineral resources compensation levys. Application should be made to the relevant department of land and resources and department of finance at provincial level, unless a reduction of more than 50% of the mineral resources compensation levy is applied for, in which case the approval of the provincial people’s government is required. Any approval for the reduction of the mineral resources compensation levy must be reported to both the MLR and the Ministry of Finance.

COMPLIANCE WITH THE REGULATORY REQUIREMENTS BY THE TARGET GROUP

As at the Latest Practicable Date, the Target Group was in compliance with all the relevant regulatory requirements applicable to its operations in all material respects and all material licences and permits for its business and operations have been obtained.

The Target Group has taken the following measures to ensure ongoing compliance with the relevant regulatory requirements: (1) implementing strict control and monitoring measures with a view to maintaining the relevant mining, exploration and safe production licences and certifications as well as meeting the specific standards required under the relevant regulations; (2) improving its research and development capabilities to ensure the quality of its products and that such products meet the relevant national and industrial standards; (3) providing continuing education and training to its staff to ensure their compliance with the relevant regulations and to facilitate the implementation of its internal rules and regulations; (4) implementing strict environmental protection measures and conducting regular inspections on its production facilities and processing plants to ensure compliance with the environmental regulations; (5) taking adequate steps to ensure safety at mining areas and production facilities; and (6) implementing strict internal control measures to ensure compliance with all the relevant regulatory requirements applicable to its operations.

BUSINESS OF THE TARGET GROUP

OVERVIEW

According to the Antaika Report, Daye Metal was the fifth largest producer of copper cathodes in the PRC by production volume, accounting for approximately 6.7% of the total production of copper cathodes in the PRC in 2010. The major products of the Target Group include copper cathodes, gold, silver and sulphuric acid (which is a by-product derived from the smelting process of copper ore and concentrate). The Target Group sells both copper cathodes, gold and silver produced by itself as well as those sourced by it from third party suppliers or the Parent Group for on-sale to its customers.

Sales of copper cathodes accounted for approximately 73.6%, 71.5%, 77.1% and 76.4% of the total revenue of the Target Group for the three years ended 31 December 2010 and the six months ended 30 June 2011, respectively. Approximately 95.5%, 60.1%, 55.6% and 68.5% of the revenue from the sales of copper cathodes for the three years ended 31 December 2010 and the six months ended 30 June 2011, respectively, was derived from the sales of copper cathodes produced by the Target Group, while the remainder was derived from the sales of copper cathodes sourced by the Target Group from third party suppliers and the Parent Group for on-sale to its customers. The Target Group also provides copper processing services including the processing of copper concentrates into copper cathodes, but such processing services accounted for less than 1% of the total revenue of the Target Group over the Track Record Period.

Sales of gold, silver and sulphuric acid, together, accounted for approximately 16.3%, 22.6%, 13.4% and 18.0% of the total revenue of the Target Group for the three years ended 31 December 2010 and the six months ended 30 June 2011, respectively. Approximately 100%, 47.7%, 84.7% and 74.8% of the revenue from the sales of gold and silver for the three years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011, respectively, was derived from the sales of gold and silver produced by the Target Group, while the remainder was derived from the sales of gold and silver sourced by the Target Group from third party suppliers for on-sale to its customers. The Target Group also sells a small amount of iron concentrate (which is derived from iron ore deposits associated with the copper ore deposits at the Tonglvshan Mine) and other metals recovered during the smelting and refining process of copper concentrate, such as platinum, palladium, and molybdenum. The Target Group sells all of the copper cathodes, gold and silver it produces by it as well as the copper cathodes it processes for its customers under its “Dajiang” brand.

The Target Group holds the Mining Licences to the Four Mines, all of which are located in the Hubei Province of the PRC. The primary mineral deposit at the Four Mines is copper, with associated deposits of gold and silver. The Target Group also owns and operates on-site processing facilities at each of the Four Mines to carry out crushing, screening and milling of copper ore, the Smelting Plant which undertakes the smelting of copper concentrate and production of sulphuric acid, the Precious Metal Plant which extracts gold and silver from anode slime, and the R&D Centre. The Target Group is one of the few copper producers in the PRC who have a vertically integrated operation which extends from the exploration, mining and processing of copper ore to the smelting of copper concentrate and the production of copper cathodes and other precious metals such as gold and silver.

BUSINESS OF THE TARGET GROUP

The supply of copper ore from the Four Mines is currently not sufficient to meet the requirements of the Target Group for its downstream copper cathode production. In addition to the supply from the Four Mines, the Target Group also sources a significant portion of copper concentrates from external suppliers and the Parent Group. The Target Group produced, in aggregate, approximately 20,930 tonnes and approximately 9,800 tonnes of copper concentrates from the copper ore mined from the Four Mines in the year ended 31 December 2010 and the six months ended 30 June 2011, respectively, which accounted for approximately 13.41% and 13.10% of the copper concentrates used by the Target Group for its copper cathode production in those periods, with the remainder being sourced from external suppliers and the Parent Group. The Target Group produced approximately 308,100 tonnes and approximately 167,000 tonnes of copper cathodes in the year ended 31 December 2010 and the six months ended 30 June 2011, respectively.

As production of copper cathodes and other major products by the Target Group is dependent on a stable supply of, among other raw materials, copper concentrates, should there be any shortage in supply or fluctuation in the price of copper concentrates, which in turn is heavily affected by the copper prices in the PRC and overseas, the Target Group's results of operations, financial condition and growth prospects may be materially and adversely affected. Please refer to the section headed "Risk Factors – Risks relating to the business of the Enlarged Group – Fluctuations in price and supply of raw materials could negatively impact our business and financial conditions" in this circular for further information.

The summary financial information of the Target Group for the Track Record Period below is extracted from the section headed "Financial information of the Target Group" set out in Appendix I to this circular.

	Year ended 31 December			Six months ended
	2008	2009	2010	30 June 2011
	(audited)	(audited)	(audited)	(audited)
Revenue (<i>RMB million</i>)	14,867	18,485	26,020	13,672
Gross profit (<i>RMB million</i>)	349	877	833	539
Gross profit margin (%)				
(<i>unaudited</i>)	2.4	4.7	3.2	3.9
Net (loss)/profit attributable to the owners of the Target Company (<i>RMB million</i>)	(95)	61	128	94
Net asset value attributable to the owners of the Target Company (<i>RMB million</i>)	1,605	1,911	2,225	3,553

BUSINESS OF THE TARGET GROUP

The following table sets out the breakdown of the total revenue of the Target Group by product for the Track Record Period:

	2008		Year ended 31 December 2009		2010		Six months ended 30 June 2011	
	(RMB million)	(% of total revenue)	(RMB million)	(% of total revenue)	(RMB million)	(% of total revenue)	(RMB million)	(% of total revenue)
Metals								
Copper cathodes	10,939	73.6	13,220	71.5	20,066	77.1	10,445	76.4
Self-produced	10,451	70.3	7,947	43.0	11,166	42.9	7,156	52.3
Trading	488	3.3	5,273	28.5	8,900	34.2	3,289	24.1
Gold	1,058	7.1	3,372	18.2	2,100	8.1	1,414	10.3
Self-produced	1,058	7.1	1,217	6.6	1,621	6.3	827	6.0
Trading	–	–	2,155	11.6	479	1.8	587	4.3
Silver	867	5.8	756	4.1	1,219	4.7	947	6.9
Self-produced	867	5.8	754	4.1	1,191	4.6	938	6.9
Trading	–	–	2	–	28	0.1	9	0.0
Total for metals:	12,864	86.5	17,348	93.8	23,385	89.9	12,806	93.6
Chemical products								
Sulphuric acid	502	3.4	61	0.3	163	0.6	114	0.8
Total for chemical products:	502	3.4	61	0.3	163	0.6	114	0.8
Other products and services (Note)	1,501	10.1	1,076	5.9	2,472	9.5	752	5.6
Total revenue:	14,867	100	18,485	100	26,020	100	13,672	100

Note: Revenue from other products and services includes revenue derived from processing of copper concentrate into copper cathodes, and sales of other products such as iron concentrate, and other products containing copper, gold and silver.

BUSINESS OF THE TARGET GROUP

The following table sets out a summary of the copper, iron and molybdenum mineral resources of the Four Mines as at 30 September 2011, which has been extracted from the Competent Person's Report on the Four Mines set out in Appendix V-A to this circular:

Mine	Cut Off Grade	JORC Classification	Quantity <i>Mt</i>	Cu %	Fe %	Mo %	Metal tonnes		
							Cu <i>t</i>	Fe <i>Mt</i>	Mo <i>t</i>
Tonglvshan Mine	In licence	Indicated	16.37	1.16	27.21		189,200	4.45	
		Inferred	15.05	1.08	29.47		162,000	4.44	
	CuEq >0.3%	Total	31.42	1.12	28.30		351,300	8.89	
Fengshan Mine	In licence	Indicated	12.72	0.82		0.005	104,200		630
		Inferred	14.50	0.73		0.008	106,300		1,230
	CuEq >0.3%	Total	27.22	0.77		0.007	210,400		1,860
Tongshankou Mine	In licence open cut area	Indicated	13.36	0.58		0.011	76,800		1,470
		Inferred	0.24	0.54		0.004	1,300		10
	CuEq >0.2%	Sub-Total	13.60	0.57		0.011	78,100		1,480
	In licence underground area	Indicated	24.68	0.66		0.007	163,200		1,770
		Inferred	20.32	0.57		0.019	115,200		3,850
	CuEq >0.3%	Sub-Total	45.00	0.62		0.012	278,300		5,620
	Out of licence underground area	Indicated	0.05	0.40		0.034	200		20
		Inferred	2.68	0.45		0.034	12,100		900
	CuEq >0.3%	Sub-Total	2.73	0.45		0.034	12,300		920
	Total open cut and underground area in and out of licence	Indicated	38.09	0.63		0.009	240,200		3,270
Chimashan Mine		Inferred	23.23	0.55		0.020	128,600		4,760
		Total	61.32	0.60		0.013	368,800		8,030
	In licence	Indicated	0.12	0.72		0.001	830		1
		Inferred	0.01	0.58		0.004	20		-
	CuEq >0.3%	Sub-Total	0.12	0.71		0.001	850		1
	Out of licence	Indicated	0.19	0.49		0.001	900		2
		Inferred	0.20	0.84		0.020	1,700		40
	CuEq >0.3%	Sub-Total	0.38	0.67		0.011	2,600		41
	Total in and out of licence	Indicated	0.30	0.58		0.001	1,730		2
		Inferred	0.20	0.84		0.020	1,720		40
		Total	0.50	0.68		0.008	3,450		42

The following table sets out a summary of the gold and silver mineral resources of the Tonglvshan Mine as at 30 September 2011 which has been extracted from the Competent Person's Report on the Four Mines set out in Appendix V-A to this circular:

Mine	Cut Off Grade	JORC Classification	Quantity <i>Mt</i>	Metal			
				Au <i>g/t</i>	Ag <i>g/t</i>	Au <i>Oz</i>	Ag <i>k Oz</i>
Tonglvshan Mine	In licence	Indicated	13.22	0.63	4.76	265,000	2,020
		Inferred	11.23	0.66	7.06	237,000	2,540
	CuEq >0.3%	Sub-Total	24.45	0.64	5.81	502,000	4,560

BUSINESS OF THE TARGET GROUP

The following table sets out a summary of the copper, iron, gold and silver ore reserves of the Tonglvshan Mine as at 30 September 2011 which has been extracted from the Competent Person's Report on the Four Mines set out in Appendix V-A to this circular:

JORC Classification	Ore Quantity (kt)	Cu (%)	TFe (%)	Au (g/t)	Ag (g/t)	Cu metal (t)	Fe metal (kt)	Au metal (kg)	Ag metal (kg)
Probable (in mining licence)	10,360	1.21	23.78	0.46	3.31	125,100	2,464	4,800	34,300
Probable (in exploration licence)	2,380	0.68	34.18	0.46	6.24	16,200	815	1,100	14,900
Total Probable	12,750	1.11	25.72	0.46	3.86	141,300	3,279	5,900	49,200

The following table sets out a summary of the copper and molybdenum ore reserves of the Fengshan Mine, the Tongshankou Mine and the Chimashan Mine as at 30 September 2011, which has been extracted from the Competent Person's Report on the Four Mines as set out in Appendix V-A to this circular:

Mine	JORC Classification	Ore Quantity (kt)	Cu (%)	Mo (%)	Cu metal (t)	Mo metal (t)
Fengshan Mine	Probable	4,560	1.01	0.004	45,800	190
Tongshankou Mine	Probable (open pit)	10,340	0.63	0.010	64,600	980
	Probable (underground)	6,200	0.87	0.006	54,000	360
	Total Probable	16,540	0.72	0.008	118,600	1,330
Chimashan Mine	Probable	35	0.77	0	270	0

Notes:

- (1) *In the above tables, Cu, Fe, TFe, Mo, CuEq, Au and Ag mean copper, iron, total iron, molybdenum, copper equivalent, gold and silver, respectively, and t, Kt, Mt, kg, g/t, Oz, and k Oz mean tonne, thousand tonne, million tonne, kilogram, gram per tonne, troy ounce and thousand troy ounce, respectively. The terms "Indicated", "Inferred" and "Probable" have the meanings ascribed to them under the JORC Code.*
- (2) *Mineral resources and ore reserves described as "out of licence" refers to the discovery of mineral resources or ore reserves outside of the permitted level of mining depth prescribed in the mining licence of the relevant mine. However, no mining or exploration in respect of such mineral resources has been conducted by the Target Group. Mineral resources and ore reserves described as "in licence" or "in mining licence" refer to the discovery of mineral resources or ore reserves within the permitted level of mining depth prescribed in the mining licence of the relevant mine.*
- (3) *Rounding affects the total metal amounts reported by Runge in the Competent Person's Report on the Four Mines as set out in Appendix V-A to this circular.*

BUSINESS OF THE TARGET GROUP

- (4) *These mineral resource and ore reserve numbers have been prepared in accordance with the JORC Code.*
- (5) *Mineral resources were defined within a mineralized envelop above 0.2% copper, and reported at a cut-off grade of 0.3% copper equivalent for underground operations and 0.2% copper equivalent for open pit operations.*
- (6) *Ore reserves are estimated using minimum cut-off grades of 0.68%, 0.40%, 0.36%, 0.45%, and 0.60% copper equivalent for the Tonglvshan Mine, the Fengshan Mine, the open pit mining at the Tongshankou Mine, the underground mining at the Tongshankou Mine and the Chimashan Mine, respectively.*
- (7) *Copper equivalence was calculated for the Tonglvshan Mine, the Fengshan Mine and the Tongshankou Mine using forecast processing plant recoveries and long-term forecast prices of RMB32,987 per tonne of copper, RMB180 per kilogram of molybdenum, RMB1,124 per tonne of iron concentrate, RMB185.90 per gram of gold, and RMB3.22 per gram of silver; and at the Chimashan Mine using forecast processing plant recoveries and long-term forecast price of RMB57,571 per tonne of copper and RMB244 per kilogram of molybdenum.*
- (8) *Copper and iron mineral resources at the Tonglvshan Mine are inclusive of the gold and silver mineral resources at the Tonglvshan Mine and gold and silver mineral resources at the Tonglvshan Mine are inclusive of the copper and iron mineral resources at the Tonglvshan Mine. Such mineral resources should not be added together.*
- (9) *A minimum mining width of 2 metres was used for estimating the underground ore reserves at each of the Four Mines.*
- (10) *The mineral resource and ore reserve estimates are based on geological sampling and mining depletion information up to 30 September 2011 as confirmed by Daye Metal.*
- (11) *Estimates for mineral resources and ore reserves are updated as at 30 September 2011. Please refer to the Competent Person's Report on the Four Mines as set out in Appendix V-A to this circular for details of the assumptions and parameters used to calculate these resource and reserve numbers and qualities of metals.*
- (12) *The mineral resources set out in the mineral resources tables above are inclusive of, and not in addition to, the mineral resources modified to produce the ore reserves set out in the ore reserves tables above.*

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The following table sets out the production capacity and utilisation rates of the Smelting Plant and the Precious Metal Plant of the Target Group during the Track Record Period:

Year of commencement of commercial production	Year ended 31 December						Six months ended 30 June 2011	
	2008		2009		2010			
	Production capacity (Kt) (Note 1)	Utilisation rate (%) (Note 2)	Production capacity (Kt) (Note 1)	Utilisation rate (%) (Note 2)	Production Capacity (Kt) (Note 1)	Utilisation rate (%) (Note 2)	Production capacity (Kt) (Note 1)	Utilisation rate (%) (Note 3)
Smelting Plant	1960							
Copper cathodes	257	97.64	260	92.48	340	90.62	350	47.71
Sulphuric acid	600	97.82	600	94.60	600	88.06	635	42.04
Precious Metal Plant	2006							
Gold	0.0061	90.39	0.009	64.91	0.009	66.74	0.0065	41.46
Silver	0.25	104	0.3	90.02	0.3	102	0.35	43.48

Notes:

- (1) *Production capacity figures expressed in thousand tonnes are estimates based on a number of factors including working hours, the number of workers and the grade of ore used.*
- (2) *The utilisation rates are calculated based on the total actual production of the relevant product for the relevant year over the total annual production capacity for such year.*
- (3) *The utilisation rates are calculated based on the total actual production of the relevant product for the six months ended 30 June 2011 over the total annual production capacity for the year ending 31 December 2011.*

BUSINESS OF THE TARGET GROUP

The following tables set out a summary of the total forecast cash cost and the total forecast production cost for each of the Four Mines, respectively, which has been extracted from the Competent Person's Report on the Four Mines set out in Appendix V-A to this circular:

Tonglvshan Project Forecast Operating Costs

Cost Item	Unit	Cost
Materials	RMB/t	31
Power and Water	RMB/t	28
Labour	RMB/t	30
Manufacturing (<i>Note 1</i>)	RMB/t	62
Mining Cost	RMB/t mined	152
Processing	RMB/t	50
Manufacturing (<i>Note 1</i>)	RMB/t	12
Processing Cost	RMB/t processed	62
Total Operating Cost	RMB/t	214
General & Administration Costs (<i>Note 2</i>)	RMB/t	49
Total Production Cost	RMB/t	263
Depreciation	RMB/t	46
Amortisation	RMB/t	6
Financial interest	RMB/t	5
Total Cash Cost	RMB/t	206

Notes:

- (1) *In the above table, manufacturing includes maintenance, depreciation and amortisation (inclusive of mining rights and depletion charges), and other costs.*
- (2) *In the above table, general and administration costs include management costs, sales costs, financial costs, and production taxes and fees.*
- (3) *The figures contained in the above tables contain rounding effect.*
- (4) *In the above table, t means tonne.*

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Fengshan Project Forecast Operating Costs

Cost Item	Unit	Cost
Development and Stopping	RMB/t	24
Haulage and Transportation	RMB/t	3
Mine Services	RMB/t	19
Other Costs	RMB/t	7
Mining Cost	RMB/t mined	52
Processing Cost	RMB/t processed	56
Manufacturing Cost (Note 1)	RMB/t	46
Total Operating Cost	RMB/t	154
General & Administration Costs (Note 2)	RMB/t	50
Total Production Cost	RMB/t	204
Depreciation	RMB/t	41
Amortisation	RMB/t	1
Financial interest	RMB/t	2
Total Cash Cost	RMB/t	160

Notes:

- (1) *In the above table, manufacturing cost includes maintenance, depreciation and amortisation (inclusive of mining rights and depletion charges) applicable to both mining and processing.*
- (2) *In the above table, general and administration costs include management costs, sales costs, financial costs, production taxes and fees and other costs.*
- (3) *The figures contained in the above tables contain rounding effect.*
- (4) *In the above table, t means tonne.*

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Tongshankou Project Forecast Open Pit Operating Costs

Cost Item	Unit	Cost
Materials	RMB/t	17
Power	RMB/t	1
Labour	RMB/t	5
Manufacturing (<i>Note 1</i>)	RMB/t	18
Mining Cost	RMB/t mined	40
Processing Cost	RMB/t processed	45
Total Operating Cost	RMB/t	85
General & Administration Costs (<i>Note 2</i>)	RMB/t	16
Total Production Cost	RMB/t	101
Depreciation	RMB/t	13
Total Cash Cost	RMB/t	88

Notes:

- (1) *In the above table, manufacturing cost includes maintenance, depreciation (inclusive of mining rights and depletion charges) and other costs.*
- (2) *In the above table, general and administration costs include management and sales costs.*
- (3) *The figures contained in the above tables contain rounding effect.*
- (4) *In the above table, t means tonne.*

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Tongshankou Project Forecast Underground Operating Costs

Cost Item	Unit	Cost
Materials	RMB/t	19
Power and Water	RMB/t	11
Labour	RMB/t	15
Manufacturing (<i>Note 1</i>)	RMB/t	32
Mining Cost	RMB/t mined	77
Processing Cost	RMB/t processed	38
Total Operating Cost	RMB/t	115
General & Administration Costs (<i>Note 2</i>)	RMB/t	23
Total Production Cost	RMB/t	138
Depreciation	RMB/t	5
Amortisation	RMB/t	4
Financial interest	RMB/t	5
Total Cash Cost	RMB/t	124

Notes:

- (1) *In the above table, manufacturing includes maintenance, depreciation and amortisation (inclusive of mining rights and depletion charges) and other costs.*
- (2) *In the above table, general and administration costs include management costs, sales costs, financial costs, production taxes and fees.*
- (3) *The figures contained in the above tables contain rounding effect.*
- (4) *In the above table, t means tonne.*

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Chimashan Project Forecast Operating Costs

Cost Item	Unit	Cost
Mining and Processing Cost	RMB/t	100
Manufacturing Cost (Note 1)	RMB/t	44
Total Operating Cost	RMB/t	144
General & Administration Costs (Note 2)	RMB/t	18
Total Production Cost	RMB/t	162
Depreciation	RMB/t	22
Total Cash Cost	RMB/t	140

Notes:

- (1) *In the above table, manufacturing cost includes maintenance and depreciation (inclusive of mining rights and depletion charges).*
- (2) *In the above table, general and administration costs include management costs, sales costs, and production taxes.*
- (3) *The figures contained in the above table contain rounding effect.*
- (4) *In the above table, t means tonne.*

The financial effect associated with the depletion of the Four Mines had been accounted for in the depreciation and amortisation charges of the Target Group during the Track Record Period as well as the forecasted operating cost. The depreciation and amortisation charges, recognised in accordance with the accounting policies of the Target Group, relating to the Four Mines operated by the Target Group amounted to approximately RMB43,662,000, RMB54,180,000, RMB67,002,000 and RMB47,047,000 for the three years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011 respectively. The depreciation and amortisation charges include the depreciation of mining infrastructure and amortisation of mining right, which are calculated using the units-of-production method over the estimated life of the Four Mines and also takes into consideration the depletion of the relevant mine.

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The following tables set out a summary of the resource and ore reserve depletion rate of the Four Mines, which has been extracted from the Competent Person's Report on the Four Mines set out in Appendix V-A to this circular:

The depletion rate of the Four Mines

Project	Depletion Rate (Mtpa)
Tonglvshan	1.15
Fengshan	0.76
Tongshankou (Open Pit)	1.5
Tongshankou (Underground)	1.15
Tongshankou (Total)	2.65
Chimashan	0.08

Notes:

- (1) *Depletion rate is the rate a mineral resource or ore reserve reduces over time due to the mining process, and can be used for estimating mine life as well as a measure of mineral resource and ore reserve estimation accuracy.*
- (2) *In the above table, Mtpa means million tonne per annum.*
- (3) *The figures contained in the above table contain rounding effect.*

HISTORY AND DEVELOPMENT

Daye Metal Group

Daye Metal was incorporated in March 2005 in the PRC as a limited liability company under the name 大冶有色金属有限公司 (Daye Non-ferrous Metals Company Limited). At the time of Daye Metal's incorporation, the Parent Company injected, by way of capital contribution, certain operating assets into Daye Metal including mining assets (other than the mining licence) of the Tonglvshan Mine, the Smelting Plant (including the precious metal workshops, which were part of the Smelting Plant) and the R&D Centre, as well as 55 parcels of land on which such mining assets, the Smelting Plant and the R&D Centre were located at the time. Each of Cinda and Huarong made capital contributions by way of conversion of debt. Following such capital contributions, Daye Metal was owned as to 66.31% by the Parent Company, 21.11% by Cinda and 12.58% by Huarong.

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During 2005 to 2010, various transfers of equity interests in and capital reorganisations of Daye Metal took place, as a result of which Hubei SASAC and the Six Original Daye Shareholders became shareholders in Daye Metal and additional mining assets were injected into Daye Metal by the Parent Company. In May 2008, the Parent Company injected the land use rights in respect of four parcels of land, which form part of the Smelting Plant and the Precious Metal Plant by way of capital contribution. In December 2008, the Parent Company injected the mining assets (other than the mining licence) of each of the Fengshan Mine, the Tongshankou Mine and the Chimashan Mine by way of capital injection. The Parent Company made capital contribution by transferring the entire equity interest in each of (i) 黃石市豐山銅業有限責任公司 (Huangshi Fengshan Copper Co., Ltd.) (“**Huangshi Fengshan**”), which then held the mining assets of the Fengshan Mine, (ii) 黃石市鑫泰礦業有限責任公司 (Huangshi Xintai Mining Co., Ltd.) (“**Xintai**”), which then held the mining assets of the Tongshankou Mine and (iii) 黃石市鑫馬銅業有限責任公司 (Huangshi Xinma Copper Co., Ltd.) (“**Xinma**”), which then held the mining assets of the Chimashan Mine. After completion of such transfers, each of Huangshi Fengshan, Xintai and Xinma was subsequently dissolved in August 2009, September 2009 and August 2009, respectively. In July 2009, Daye Metal was owned as to 42.89% by the Parent Company, 33.87% by Changdian, 6.83% by Cinda, 4.88% by Huarong, 2.03% by Hubei SASAC, 3.39% by Wuhan Guozi, 3.39% by Jingpai, 1.37% by Xining, 0.68% by Hongtai and 0.68% by Liangyou.

In May 2010, Daye Limited was converted from a limited liability company to a joint stock company, with the Parent Company, Cinda, Huarong, Hubei SASAC and the Six Original Daye Shareholders as promoters. The equity interest of each promoter remained the same after the conversion.

In April 2010, the registered capital of Daye Metal was increased from RMB1,420,000,000 to RMB1,490,977,877 by way of an asset injection by the Parent Company when the land use rights in respect of eight parcels of land which form part of the Chimashan Mine, the Fengshan Mine and the Tongshankou Mine were injected. Daye Metal was then owned as to 45.61% by the Parent Company, 32.25% by Changdian, 6.50% by Cinda, 4.65% by Huarong, 3.23% by Wuhan Guozi, 3.23% by Jingpai, 1.94% by Hubei SASAC, 1.31% by Xinxing, 0.65% by Hongtai and 0.65% by Liangyou.

In January 2011, Hubei SASAC and the Six Original Daye Shareholders transferred their aggregate 43.24% equity interest in Daye Metal to the Parent Company, whose equity interest in Daye Metal then increased to 88.85%.

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The principal operating subsidiaries of Daye Metal include Daye Industry and Daye Design, which were incorporated in January 1995 and June 2005, respectively. Daye Industry is principally engaged in mining of smaller-scale ore bodies at the Four Mines and Daye Design is principally engaged in carrying out research, technology development and engineering design in support of the Target Group's mining operations.

Reorganisation

The Parent Company, China Times, Cinda, Huarong, the Target Company, Daye Hong Kong and Daye Metal entered into the Reorganisation Agreement on 23 January 2011. The Target Company was incorporated in the BVI on 1 December 2010. Daye Hong Kong was incorporated in Hong Kong on 30 November 2010 and is wholly-owned by the Target Company.

Pursuant to the Reorganisation Agreement, the Parent Company, Cinda and Huarong have conditionally agreed to transfer their respective equity interests in Daye Metal to Daye Hong Kong, in return for the issue and allotment of new shares in the Target Company (such transfers being referred to as the Parent Company Reorganisation, Cinda Reorganisation and Huarong Reorganisation, respectively). Completion of such transfers is subject to the fulfillment of certain conditions, including the obtaining of the approvals of Hubei SASAC and the Ministry of Commerce of the PRC.

Huarong was not able to obtain the regulatory and other approvals required in connection with the Huarong Reorganisation and hence, as provided in the Reorganisation Agreement, the Huarong Reorganisation will not proceed. Huarong will, therefore, remain the holder of a 4.65% equity in Daye Metal.

As part of the reorganisation of Daye Metal, on 19 August 2011, the Parent Company transferred its 88.85% equity interest in Daye Metal to China Times, and Cinda transferred its 6.50% equity interest in Daye Metal to Cinda HK. Daye Metal was then changed from a joint stock company into a sino-foreign equity joint venture and changed its name to 大冶有色金屬有限責任公司 (Daye Nonferrous Metals Co., Ltd) in September 2011.

On 29 November 2011, China Times and Cinda HK transferred their 88.85% and 6.50% equity interest in Daye Metal, respectively, to Daye Hong Kong pursuant to the Reorganisation Agreement. The Parent Company Reorganisation and the Cinda Reorganisation were thereby completed. As at the Latest Practicable Date, Daye Metal was owned, through Daye Hong Kong, as to 95.35% by the Target Company, which, in turn, was owned as to 93.18% by China Times and 6.82% by Cinda HK.

BUSINESS OF THE TARGET GROUP

Business development

Set out below are the key milestones of the development of the business of the Target Group:

March 2005	The Parent Company injected the mining assets (other than the mining licence) of the Tonglvshan Mine, the Smelting Plant (including precious metal workshops) and the R&D Centre to Daye Metal by way of capital contribution.
June 2005	Daye Design was incorporated in the PRC.
December 2008	The Parent Company injected the mining assets (other than the mining licence) of each of the Fengshan Mine, the Tongshankou Mine and the Chimashan Mine to Daye Metal by way of capital contribution (<i>Note 1</i>).
December 2009	Purchase and installation of the Ausmelt Furnace
January 2011	The Parent Company transferred the mining rights to the Fengshan Mine and the Tonglvshan Mine to Daye Metal and a new mining licence for each of the Fengshan Mine and the Tonglvshan Mine was issued to Daye Metal (<i>Note 2</i>).
April 2011	The Parent Company transferred the mining right to each of the Tongshankou Mine and the Chimashan Mine to Daye Metal and a new mining licence for each of the Tongshankou Mine and the Chimashan Mine was issued to Daye Metal.

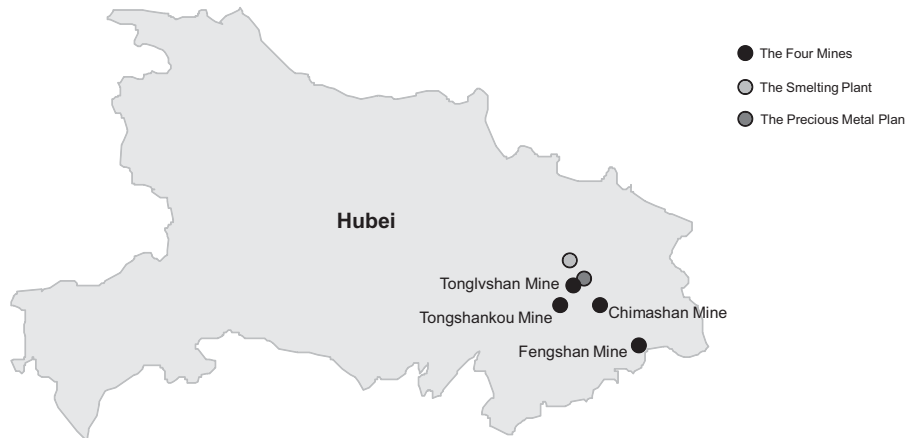
Notes:

- (1) *The asset injection was carried out by way of transferring the entire equity interest in each of Huangshi Fengshan, Xintai and Xinma, respectively.*
- (2) *A new mining licence for the Fengshan Mine was initially issued to Daye Metal in January 2011 for the period from January 2011 to July 2011. Upon its expiry, another new mining licence for the Fengshan Mine was issued to Daye Metal in June 2011 for a term of 23 years. A new mining licence for the Tonglvshan Mine was initially issued to Daye Metal in January 2011 for the period from January 2011 to June 2011. Upon its expiry, another new mining licence for the Tonglvshan Mine was issued to Daye Metal in June 2011 for a term of 16 years. Please refer to the section headed “Business of the Target Group – Mining Licences and other Permits” in this circular for further information.*

BUSINESS OF THE TARGET GROUP

MINES AND PROCESSING FACILITIES

The principal assets of the Target Group consist of the Four Mines, the Smelting Plant and the Precious Metal Plant (both of which are located not more than 90 km from the Four Mines). The map below illustrates the locations of the Four Mines, the Smelting Plant and the Precious Metal Plant:



The Four Mines

Tonglvshan Mine

The Tonglvshan Mine is the flagship copper mine of the Target Group. It is situated in the south of Huangshi City, Hubei Province, the PRC. It occupies an aggregate area of approximately 4,7619 sq. km. It is located in a region which is well known for copper and iron mineralisation along the middle and lower course of the Yangtze River. Metals of economic value recoverable include mainly copper, gold, silver and iron.

The Tonglvshan Mine has been in operation since 1971. More than 12 ore bodies have been discovered and exploited. While the majority of the mineral resources are found in 6 ore bodies, only three of those ore bodies of the Tonglvshan Mine were in commercial production as of the Latest Practicable Date. Underground mining and to a lesser extent, open pit mining are both used at the Tonglvshan Mine.

The Tonglvshan Mine is equipped with modern equipment such as hoisting machines, drills, jaw crushers, cone crushers, flotation equipment and magnetic separators. Blasting, crushing, screening, milling, flotation and magnetic separation processes are carried out at the on-site processing facilities. The main products produced from metals extracted from the Tonglvshan Mine are copper cathodes, gold, silver and iron concentrate.

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Fengshan Mine

The Fengshan Mine is situated in the southeast of Huangshi City, Hubei Province, the PRC. It occupies an aggregate area of approximately 2.35 sq. km. The ore deposits are concentrated in the southern and northern sections of the mine. Metals of economic value recoverable include copper, gold, silver and molybdenum.

The Fengshan Mine has been in operation since 1972 for more than 35 years. An aggregate of 9 main ore bodies at moderate depths of not more than 580 metres underground have been discovered at the Fengshan Mine since production commenced. As the ore bodies were found at depths, they were initially extracted by open pit mining. Those ore bodies have been mined to a level where any further extraction by open pit mining has become uneconomical and as a result, only underground mining has been carried on at the Fengshan Mine since 2001. As at the Latest Practicable Date, three ore bodies in the northern and southern regions of the Fengshan Mine were in commercial production.

The Fengshan Mine is equipped with modern equipment such as drills, loaders, crushers and flotation equipment. Blasting, crushing, screening, milling, flotation and magnetic separation processes are carried out at the on-site processing facilities. The main products produced from metals extracted from the Fengshan Mine are copper cathodes, gold and silver.

Tongshankou Mine

The Tongshankou Mine is situated in the southwest of Huangshi City, Hubei Province, the PRC. It occupies an aggregate area of approximately 1.71 sq. km. Metals of economic value recoverable include mainly copper, gold, silver and molybdenum.

The Tongshankou Mine has been in operation since 1984 for more than 25 years. The majority of the mineral resources are found in three main ore bodies at moderate depths of not more than 650 metres underground, all of which are being mined by both open pit and underground mining methods. As at the Latest Practicable Date, all of the three main ore bodies of the Tongshankou Mine were in commercial production.

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The Tongshankou Mine is equipped with modern equipment such as drills, crushers and flotation equipment. Blasting, crushing, screening, milling, flotation and magnetic separation processes are carried out at the on-site processing facilities. The main products produced from minerals extracted from the Tongshankou Mine are copper cathode, gold and silver.

Chimashan Mine

The Chimashan Mine is situated in the northwest of the Yangxin County, Hubei Province, the PRC. It occupies an aggregate area of approximately 0.44 sq. km. Metals of economic value recoverable are mainly copper, gold, silver and molybdenum.

The Chimashan Mine has been in operation since 1958 for more than 50 years. Four ore body at moderate depths of not more than 500 metres underground have been found and are being mined. As at the Latest Practicable Date, two ore bodies of the Chimashan Mine were in commercial production.

The Chimashan Mine is equipped with mining equipment such as hoist machines, crushers and flotation equipment. Blasting, crushing, screening, milling, flotation and magnetic separation processes are carried out at the on-site processing facilities. The main products produced from metals extracted from the Chimashan Mine are copper cathodes, gold and silver.

Runge has identified certain risks associated with the operations of Daye Metal at the Four Mines and made a number of recommendations to address those risks in the Competent Person's Report on the Four Mines set out in Appendix V-A to this circular. Daye Metal has reviewed the risks identified and the recommendations made by Runge, and is of the view that, with respect to some risks identified by Runge, it has already put in place measures which would allow it to maintain an adequate degree of control over those risks. Such risks and the relevant measures already in place are summarised below:

- (i) The projects are sensitive to fluctuations in metal prices: The Target Group closely monitors copper and other metal prices quoted on major metal exchanges in the world, such as LME and SHFE, and other publicly available information in the PRC, such as on the websites of the Shanghai Metal Exchange Market (上海金屬網) and Shanghai Huatong Silver Trading Market (上海華通鉑銀交易市場) and conducts periodic internal analysis in respect of the trend of metal prices to assess its risk and cash flow position.
- (ii) A more detailed knowledge of structural controls would enable a more accurate geological interpretation and Resource estimate to be completed: The Target Group has conducted and completed detailed analysis and obtained drilling and channel samples at each of the Four Mines at the exploration stage, which have enabled it to have a sufficient understanding of the geology and resource estimates at the Four Mines.

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- (iii) The cut and fill and post-pillar cut and fill mining methods require workers to operate in active stope areas: Working in stopes increases a worker's exposure and risk to rock falls. This risk will increase as mining progresses. The Target Group's established practice is to undertake sufficient protective measures each time before any stoping work is to be carried out. For example, the ground pressure will be observed before conducting any stoping work in order to assess the risk of rock fall or subsidence.
- (iv) While existing underground workings appear stable and well-controlled, detailed geotechnical information was not available for review and as such, Runge cannot comment in detail on the ground conditions or stability of the future underground workings: The Target Group has completed geotechnical testing programmes at the exploration stage of each of the Four Mines, and installed relevant monitoring devices on the surface of each mine in order to monitor and manage ground conditions, as well as the stability of the underground workings.
- (v) Daye Metal has an ongoing financial commitment for medical treatment of retired employees due to occupational disease. Medical examination reports of current employees suggest these diseases are continuing to develop. Appropriate guarding around rotating machinery is also lacking: The Target Group has paid a one-off compensation of RMB1.2 million to its 300 retired employees who have been diagnosed with occupational diseases. It is not subject to any further liability or requirement to pay any additional compensation to such retired employees. The Target Group has taken steps to enhance the protective guarding around the rotating machinery at the Four Mines since September 2011 in order to reduce the risk of injury to employees. It also maintains medical insurance for occupational diseases for its current employees in accordance with the requirements of applicable PRC laws and regulations.
- (vi) Fugitive sulphuric acid emissions from the Huangshi Project acid treatment system, and sulphuric acid and hydrochloric acid storage requires secondary containment: The Target Group has already improved the acid treatment system to prevent further unlawful sulphuric acid emissions from the Smelting Plant. Leakage at the sulphuric acid and hydrochloric acid storage at the Smelting Plant has also been fixed.

Daye Metal will consider whether any further action is required to be taken to address the remaining risks identified by Runge in the Competent Person's Report on the Four Mines set out in Appendix V-A to this circular.

BUSINESS OF THE TARGET GROUP

Processing facilities

Smelting Plant

The Smelting Plant is located in Huangshi City, the PRC and is not more than 90 km from the Four Mines. It mainly produces copper cathodes and sulphuric acid.

The Smelting Plant was constructed in 1957 and commercial production began in 1960. It was initially set up for the production of coarse copper. Since its construction, the Smelting Plant has undergone several phases of modernisation. Acid-making systems were first introduced and installed at the Smelting Plant in the 1970s, which marked the beginning of the production of sulphuric acid at the plant. Manufacture of copper cathodes began in the 1980s when electrowinning systems were added. In 2009, the smelting facilities were upgraded with the introduction of a new Ausmelt furnace, which is manufactured in Australia and is one of the most advanced smelting furnaces. The Ausmelt furnace is capable of increasing production at lower energy consumption and operating costs and has greater flexibility due to its ability to process a variety of copper concentrates, thus enhancing the overall efficiency of the smelting process.

Principal facilities at the Smelting Plant include an administrative building, an electrolysis plant, anode retreatment plant, acidic waste treatment stations as well as a water treatment station. Apart from the Ausmelt furnace, other core production equipment include three anode furnaces and five converters.

The smelting process carried out at the Smelting Plant consumes a significant amount of water and electricity. The water recycling system of the plant enables it to recycle and re-use up to 95% of the waste water generated in the course of production, which is in compliance with the waste water discharge quota imposed under the waste disposal permit issued to Daye Metal. As at the Latest Practicable Date, more than 3,000 personnel were employed at the Smelting Plant.

As part of its continuous effort to upgrade the production facilities at the Smelting Plant, the Target Group is currently building a new electrowinning system, which is expected to be completed in October 2012. The Target Group's annual production capacity of copper cathodes is expected to be increased to 640,000 tonnes when the new electrowinning system operates at its maximum capacity. For further details, please refer to the section headed "Letter from the Board – Projects in progress and future plans of the Target Group" in this circular.

Precious Metal Plant

The Precious Metal Plant is located adjacent to the Smelting Plant in Huangshi City, the PRC. At the Precious Metal Plant, anode slime produced in the smelting process of copper concentrate carried out at the Smelting Plant is further processed to extract gold, silver and other metals such as platinum, palladium, and molybdenum.

BUSINESS OF THE TARGET GROUP

Recovery of metals with economic value has in the past been carried out at precious metal workshops, which formed part of the Smelting Plant. The Target Group first began to recover metals with economic value from anode slime when the anode slime treatment system and electrowinning system for the production of copper cathodes were first constructed in the 1980s. As the production volume of copper cathodes of the Smelting Plant expanded following improvements to the electrowinning systems and the related production technology, the amount of anode slime generated in such process also increased significantly, rendering the need to construct a separate production plant for the processing of a larger volume of anode slime. As a result, the Precious Metal Plant was constructed to provide the Target Group with separate processing facilities for production of gold and silver from anode slime, which began commercial production in December 2006. Since it began operation, the Precious Metal Plant has undergone various phases of modernisation and upgrading, primarily through research and development efforts of the R&D Centre, which helped increase the production volume of its major products, gold and silver, and the variety of metals recovered.

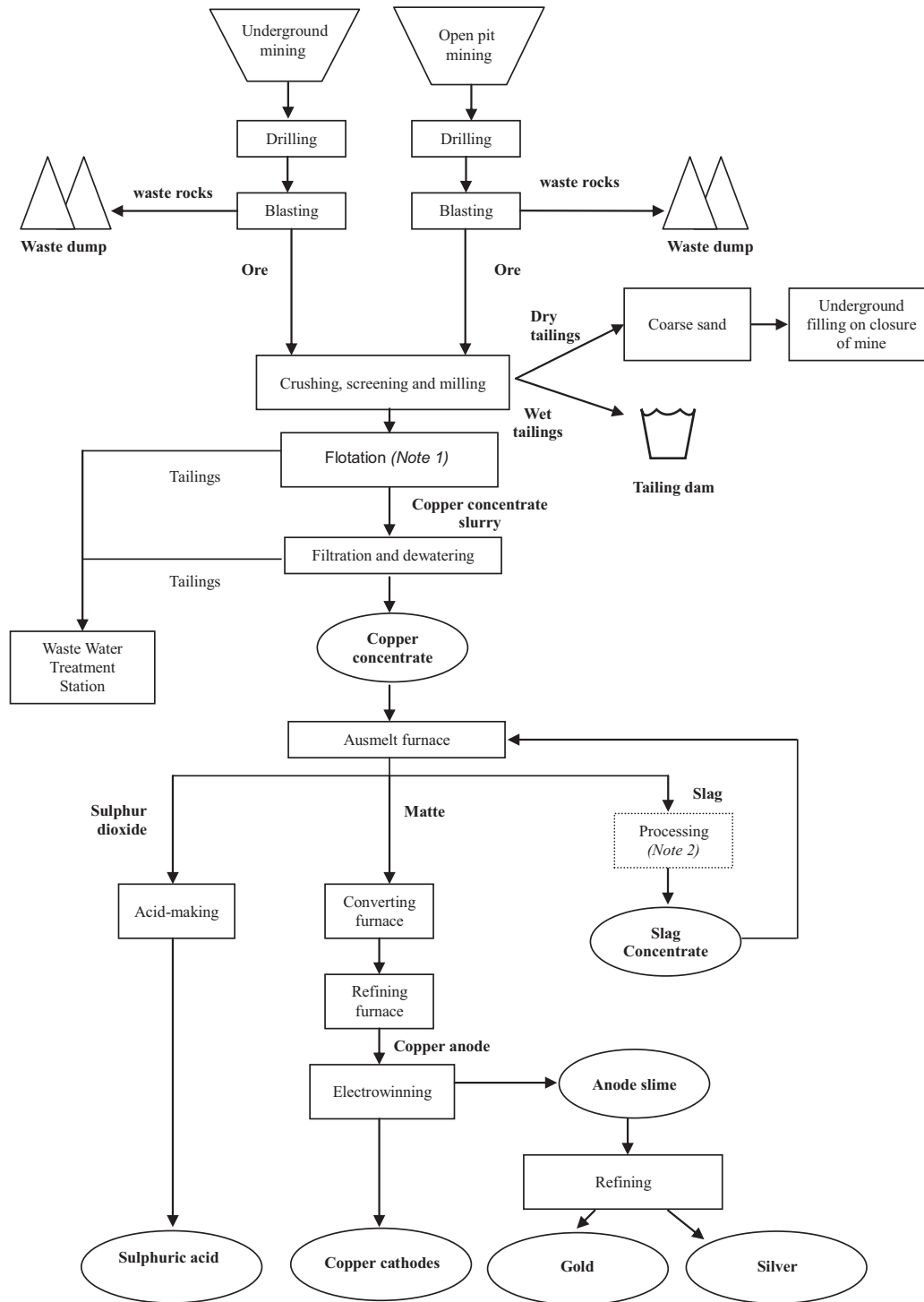
Major facilities at the Precious Metal Plant include an administrative building, an anode slime treatment system and five separate workshops, each dedicated to the production of one or two types of metal. As the Precious Metal Plant was located adjacent to the Smelting Plant, it also utilizes the acidic waste treatment stations and waste water treatment station of the Smelting Plant. As at the Latest Practicable Date, more than 600 personnel were employed at the Precious Metal Plant.

In conjunction with the increase in the production capacity of the Smelting Plant as a result of the commissioning of the new Ausmelt furnace and the upgrading of its electrowinning system, the Target Group is constructing a new factory complex which will be used for the expansion of the Precious Metal Plant. New and more advanced equipment for production of metals will be installed at this complex. It is expected that the construction of this new complex will be completed in June 2012, and commercial production will commence in or around early 2013. The production capacity of the Precious Metal Plant is expected to be increased by approximately 127% when the Precious Metal Plant begins to operate in this new complex. The total investment amount for construction of this new complex and relocation of the Precious Metal Plant is expected to be around RMB472.75 million. For further details, please refer to the section headed “Letter from the Board – Projects in progress and future plans of the Target Group” in this circular.

BUSINESS OF THE TARGET GROUP

MINING AND PROCESSING OPERATIONS

The chart below illustrates the main stages involved in the production of the Target Group's principal products, namely, copper cathodes, gold, silver and sulphuric acid:



BUSINESS OF THE TARGET GROUP

Notes:

- (1) At the on-site processing facilities at the Tonglvshan Mine, after copper concentrate slurry is separated by flotation, iron concentrate slurry is further extracted by magnetic separation, which is then filtered and de-watered to produce iron concentrate as a final product for sale. At the on-site processing facilities of the other three mines of the Target Group, molybdenum concentrate slurry is also separated by flotation, which is then filtered and de-watered to produce molybdenum concentrate as a final product for sale or delivery to the Precious Metal Plant for further processing.*
- (2) The Target Group has engaged an Independent Third Party, to undertake the processing of slag (which contains remains of copper) for the production of slag concentrate.*

Mining methods

The Target Group primarily carries out underground mining at the Four Mines (except for the Tongshankou Mine), with a limited amount of open pit mining being undertaken at the Tonglvshan Mine. The Target Group carries out open pit mining at the Tongshankou Mine with underground mining under development. A brief description of the key features of underground mining and open pit mining is set out below:

Underground mining

The Target Group uses ten different underground mining methods, namely, (i) cut and fill stoping, (ii) transverse cut and fill stoping, (iii) longitudinal cut and fill stoping, (iv) modified transverse cut and fill stoping, (v) modified longitudinal cut and fill stoping, (vi) post pillar cut and fill stoping, (vii) vertical crater retreat (VCR) stoping, (viii) sub-level open stoping, (ix) transverse sub-level open stoping and (x) longitudinal sub-level opening stoping at the Tonglvshan Mine, the Fengshan Mine and the Chimashan Mine. For further information on the methodology of each of the underground mining methods, please refer to section 7 of the Competent Person's Report on the Four Mines set out in Appendix V-A to this circular.

The underground mining methods adopted vary among the Tonglvshan Mine, the Fengshan Mine and the Chimashan Mine and the methods chosen are dependent on the individual characteristics of the mineralized zones being mined and the mining costs involved. The Target Group generally chooses the most suitable mining method on the basis of the costs involved and the recovery rate.

BUSINESS OF THE TARGET GROUP

Open pit mining

The initial step in the open pit mining process is stripping to remove the topsoil. Removed topsoil is stockpiled and saved for use for reclamation upon closure of a mine. The wastes are drilled and blasted to loosen the rock, and are loaded onto trucks and hauled to the waste dump. After removing the waste rocks, the truck shovels are used to mine the ore (which is a mixture of useful metals and unwanted rock).

The Target Group only carries out open pit mining at the Tonglvshan Mine and the Tongshankou Mine where near surface mineralization capable of being mined by larger machinery is found. Going forward, it is expected that the Target Group will be increasingly relying on underground mining as it is normally only economically feasible to carry out open pit mining up to a certain depth, beyond which the cost of removing waste rock to access ore bodies would become uneconomical.

Processing

Ores mined from the Four Mines are processed at on-site processing facilities before being transported to the Smelting Plant for smelting and refining.

At the on-site processing facilities at the Four Mines, the ores mined are initially crushed through crushing circuits which consist of multi-stage jaw crushers and cone crushers. The crushed ores are then delivered to workshops for screening and milling by conveyer belts, where they are screened and fed into ball mills for milling. Grinded ores are then fed into a flotation circuit, where copper concentrate slurry is separated by flotation, de-watered and transported to the Smelting Plant for further processing.

After copper concentrate is produced, iron concentrate slurry is separated by a magnetic separator at the on-site processing facilities of the Tonglvshan Mine, de-watered and sold as a final product, while molybdenum concentrate slurry is separated by further flotation at the on-site processing facilities of each of the other three mines, de-watered and sold as a final product.

At the Smelting Plant, copper concentrate produced from the Four Mines and sourced from external parties and the Parent Group will undergo the smelting and electrowinning processes, at the end of which copper cathode is produced. The electrowinning process carried out at the Smelting Plant also produces anode slime as a by-product, which is delivered to the Precious Metal Plant for further refining to recover gold, silver and other metals such as platinum, palladium, and molybdenum.

BUSINESS OF THE TARGET GROUP

PRODUCTS

The principal products of the Target Group are copper cathodes, gold, silver and sulphuric acid. Sales of copper cathodes accounted for 73.6%, 71.5%, 77.1% and 76.4% of the total revenue of the Target Group for the three years ended 31 December 2010 and the six months ended 30 June 2011, respectively. The Target Group also sells a small amount of other metals recovered during the smelting and refining process of copper concentrate, such as iron concentrate, platinum, palladium, and molybdenum.

The following table sets out a breakdown of the total revenue of the Target Group by product during the Track Record Period:

	Year ended 31 December						Six months ended	
	2008		2009		2010		30 June 2011	
	(RMB million)	(% of total revenue)	(RMB million)	(% of total revenue)	(RMB million)	(% of total revenue)	(RMB million)	(% of total revenue)
Metals								
Copper cathodes	10,939	73.6	13,220	71.5	20,066	77.1	10,445	76.4
Self-produced	10,451	70.3	7,947	43.0	11,166	42.9	7,156	52.3
Trading	488	3.3	5,273	28.5	8,900	34.2	3,289	24.1
Gold	1,058	7.1	3,372	18.2	2,100	8.1	1,414	10.3
Self-produced	1,058	7.1	1,217	6.6	1,621	6.3	827	6.0
Trading	–	–	2,155	11.6	479	1.8	587	4.3
Silver	867	5.8	756	4.1	1,219	4.7	947	6.9
Self-produced	867	5.8	754	4.1	1,191	4.6	938	6.9
Trading	–	–	2	–	28	0.1	9	0.0
Total for metals:	12,864	86.5	17,348	93.8	23,385	89.9	12,806	93.6
Chemical products								
Sulphuric acid	502	3.4	61	0.3	163	0.6	114	0.8
Total for chemical products:	502	3.4	61	0.3	163	0.6	114	0.8
Other products and services (Note)	1,501	10.1	1,076	5.9	2,472	9.5	752	5.6
Total revenue:	14,867	100	18,485	100	26,020	100	13,672	100

Note: Revenue from other products and services includes revenue derived from processing of copper concentrate into copper cathodes, and sales of other products such as iron concentrate, and other products containing copper, gold and silver.

BUSINESS OF THE TARGET GROUP

Metals and minerals

Copper cathodes

Copper cathodes are widely used in the production of electrical equipment, electrical wiring, air conditioners, alloys, coatings and computer chips. The copper cathodes produced by the Target Group are of premium quality due to their high copper concentration of 99.99%, low level of impurity and high level of ductility, characterized by their high level of flexibility to be deformed and stretched into a wire.

Sales of copper cathodes accounted for approximately 73.6%, 71.5%, 77.1% and 76.4% of the total revenue of the Target Group for the three years ended 31 December 2010 and the six months ended 30 June 2011. Approximately 95.5%, 60.1%, 55.6% and 68.5% of the revenue from the sales of copper cathodes for the three years ended 31 December 2010 and the six months ended 30 June 2011, respectively, was derived from the sales of copper cathodes produced by the Target Group, while the remainder was derived from the sales of copper cathodes sourced by the Target Group from third party suppliers and the Parent Group for on-sale to its customers. The Target Group also provides copper processing services including the processing of copper concentrates into copper cathodes, but such processing activity accounted for not more than 1% of the total revenue of the Target Group over the Track Record Period.

All copper cathodes produced or processed by the Target Group are sold under its “Dajiang” brand. The Target Group’s “Dajiang” brand copper cathodes have been admitted to trading at SHFE since 2002 and LME since 2008.

Gold

Small amounts of gold are found in association with the copper ore deposits at the Four Mines and are recovered as a secondary product from the anode slime generated during the electrowinning process for copper concentrate. The Target Group sells its gold also under the “Dajiang” brand with different gold content of 99.99%, 99.95%, 99.9% and 99.5%, all of which have been admitted to trading at SHGE since 2002.

Sales of gold accounted for approximately 7.1%, 18.2%, 8.1% and 10.3% of the total revenue of the Target Group for the three years ended 31 December 2010 and the six months ended 30 June 2011, respectively. Approximately 100%, 36.1%, 77.2% and 58.5% of the revenue from the sales of gold for the three years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011, respectively, was derived from the sales of gold produced by the Target Group, while the remainder was derived from the sales of gold sourced by the Target Group from third party suppliers for on-sale to its customers.

BUSINESS OF THE TARGET GROUP

Silver

Small amounts of silver are also found in association with the copper ore deposits at the Four Mines and are recovered as a secondary product from the anode slime generated during the electrowinning process of copper concentrate. The Target Group sells its silver also under the “Dajiang” brand with a high silver content of 99.99%, which has been admitted to trading at SHGE since 2006. Silver under the “Dajiang” brand has also been admitted to trading at LME by virtue of the admission of Daye Metal to the London Good Delivery List of Acceptable Refiners as recognized by the London Bullion Market Association since 2007. In addition to being traded as a precious metal, silver is used in production of jewellery, photographic products, catalysts, brazing alloys, dental amalgam, bearings and electronic products.

Sales of silver accounted for approximately 5.8%, 4.1%, 4.7% and 6.9% of the total revenue of the Target Group for the three years ended 31 December 2010 and the six months ended 30 June 2011, respectively. Approximately 100%, 99.7%, 97.7% and 99.0% of the revenue from the sales of silver for the three years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011, respectively, was derived from the sales of silver produced by the Target Group, while the remainder was derived from the sales of silver sourced by the Target Group from third party suppliers for on-sale to its customers.

Chemical product

Sulphuric acid

Sulfuric acid is produced as a secondary product by utilizing the sulphur dioxide generated during the production process of copper cathodes. The sulphuric acid produced by the Target Group is highly concentrated, consisting of 93% sulphuric acid or more in accordance with the national standards for industrial sulphuric acid in the PRC. High-grade sulphuric acid, also known as concentrated sulphuric acid, is widely used in chemical industries for the production of phosphate fertilizers, lead-acid batteries used in vehicles, and trisodium phosphate for detergents.

Sales of sulphuric acid accounted for approximately 3.4%, 0.3%, 0.6% and 0.8% of the total revenue of the Target Group for the three years ended 31 December 2010 and the six months ended 30 June 2011, respectively.

Other products and services

Apart from the products described above, the Target Group also sells a small amount of iron concentrate (which is derived from iron ore deposits associated with the copper ore deposits at the Four Mines) and other metals recovered as secondary products from the anode slime generated during the electrowinning process of copper concentrate, such as platinum, palladium and molybdenum. Apart from processing copper concentrate into copper cathodes, the Target Group also provides other copper processing services. Sales of those products and provision of such copper processing services (including the processing of copper concentrate into copper cathodes), in aggregate, accounted for approximately 10.1%, 5.9%, 9.5% and 5.6% of the total revenue of the Target Group for the three years ended 31 December 2010 and the six months ended 30 June 2011, respectively.

BUSINESS OF THE TARGET GROUP

MINING LICENCES AND OTHER PERMITS

The Target Group is required under the laws and regulations of the PRC to obtain various licences and permits in connection with the operation of the Four Mines, the principal ones of which include mining licences, safe production permits, and waste disposal permits. As advised by Zhong Lun, the holding of these licences and permits, in addition to the business licences, gives the Target Group the right to carry on mining activities at the Four Mines as well as to process and sell the minerals exploited from those mines in accordance with the requirements of PRC law.

The following table sets out a summary of the principal licences and permits held by the Target Group in connection with the operations of the Four Mines:

Mine	Location	Type of licence or permit	Issuing authority	Activity permitted	Term of licence or permit
Tonglvshan Mine	Tonglv Mountain, Daye City, Hubei Province	Mining licence	Ministry of Land and Resources of the PRC	Mining of copper and iron	1 June 2011 to 1 June 2027 (<i>Note (1)</i>)
	Tonglv Mountain, Daye City, Hubei Province	Exploration licence	Department of Land and Resources of Hubei Province	Exploration	12 July 2011 to 12 July 2013
	Tonglv Mountain, Daye City, Hubei Province	Safe production permit	Hubei Province Safety Production Supervision and Administration Bureau	Open pit mining and underground mining of copper	22 February 2011 to 21 February 2014
	Tonglv Mountain, Daye City, Hubei Province	Safe production permit	Hubei Province Safety Production Supervision and Administration Bureau	Operation of tailing dam	22 February 2011 to 21 February 2014
	Tonglv Mountain, Daye City, Hubei Province	Waste disposal permit	Daye City Environmental Protection Bureau	Emission of gas and discharge of waste water	28 March 2011 to 20 March 2012
Fengshan Mine	Yangxin County, Huangshi City, Hubei Province	Mining licence	Ministry of Land and Resources of the PRC	Mining of copper	10 July 2011 to 10 July 2034 (<i>Note (2)</i>)
	Yangxin County, Huangshi City, Hubei Province	Exploration licence	Department of Land and Resources of Hubei Province	Exploration	12 July 2011 to 12 July 2013
	Yangxin County, Huangshi City, Hubei Province	Safe production permit	Hubei Province Safety Production Supervision and Administration Bureau	Underground mining of copper	31 October 2011 to 30 October 2014
	Yangxin County, Huangshi City, Hubei Province	Safe production permit	Hubei Province Safety Production Supervision and Administration Bureau	Operation of tailing dam	2 November 2010 to 5 March 2012

BUSINESS OF THE TARGET GROUP

Mine	Location	Type of licence or permit	Issuing authority	Activity permitted	Term of licence or permit
	Yangxin County, Huangshi City, Hubei Province	Waste disposal permit	Yangxin County Environmental Protection Bureau	Emission of gas and discharge of waste water	1 January 2011 to 31 December 2012
Tongshankou Mine	Daye City, Hubei Province	Mining licence	Department of Land and Resources of Hubei Province	Mining of copper	14 April 2011 to 14 April 2016
	Daye City, Hubei Province	Safe production permit	Hubei Province Safety Production Supervision and Administration Bureau	Open pit mining of copper	31 October 2011 to 30 October 2014
	Daye City, Hubei Province	Safe production permit	Hubei Province Safety Production Supervision and Administration Bureau	Operation of tailing dam	2 November 2010 to 30 June 2012
	Daye City, Hubei Province	Waste disposal permit	Daye City Environmental Protection Bureau	Emission of gas and discharge of waste water	2 April 2011 to 20 March 2012
Chimashan Mine	Yangxin County, Hubei Province	Mining licence	Department of Land and Resources of Hubei Province	Mining of copper	14 April 2011 to 14 April 2014
	Yangxin County, Hubei Province	Safe production permit	Hubei Province Safety Production Supervision and Administration Bureau	Underground mining of copper	31 October 2011 to 30 October 2014
	Yangxin County, Hubei Province	Safe production permit	Hubei Province Safety Production Supervision and Administration Bureau	Operation of tailing dam	2 November 2010 to 10 June 2012
	Yangxin County, Hubei Province	Waste disposal permit	Yangxin County Environmental Protection Bureau	Emission of gas and discharge of waste water	1 January 2011 to 31 December 2012

Notes:

- (1) A new mining licence for the Tonglvshan Mine, with a term from January 2011 to June 2011, was issued to Daye Metal in January 2011 as a result of the transfer of the mining rights from the Parent Company to Daye Metal. Upon the expiry of such licence a new mining licence for the Tonglvshan Mine was issued to Daye Metal in June 2011 for a term of 16 years.
- (2) A new mining licence for the Fengshan Mine, with a term extending from January 2011 to July 2011, was issued to Daye Metal in January 2011 as a result of the transfer of the mining rights from the Parent Company to Daye Metal. Upon Daye Metal's application, a new mining licence for the Fengshan Mine was issued to Daye Metal in June 2011 for a term of 23 years.

BUSINESS OF THE TARGET GROUP

Mining Licences

The Mining Licences relating to the Four Mines were previously issued to and held by the Parent Company. The mining assets (other than the mining licence) of the Tonglvshan Mine were transferred to Daye Metal by the Parent Company in 2005 and the mining assets (other than the mining licences) of the other three mines were transferred to Daye Metal by the Parent Company in 2008.

Pursuant to the Transfer Agreement entered into between the Parent Company and Daye Metal in March 2010, the Parent Company agreed to transfer the mining rights in respect of each of the Four Mines to Daye Metal at a total consideration of approximately RMB603 million. The transfer of such mining rights to Daye Metal had been completed and new mining licences in respect of the Fengshan Mine and the Tonglvshan Mine were issued to Daye Metal in January 2011, respectively and new mining licences in respect of both the Tongshankou Mine and the Chimashan Mine were issued to Daye Metal in April 2011. Upon Daye Metal's application, a new mining licence in respect of the Fengshan Mine was issued to Daye Metal in June 2011 for a term of 23 years. Upon expiry of the original mining licence, a new mining licence in respect of the Tonglvshan Mine was issued to Daye Metal in June 2011 for a term of 16 years. Zhong Lun has confirmed that the mining rights in respect of the Four Mines have been legally and effectively transferred to Daye Metal.

The Mining Licences are subject to annual examination by the relevant government authorities in the PRC, including the Department of Land and Resources of Hubei Province. In carrying out such examinations, the authorities will review whether the mining activities carried out by the Target Group in the past year have been in compliance with the relevant laws and regulations. The Target Group is also required to pay an annual fee at the rate of RMB1,000 per sq. km by reference to the mining area stated in each of the Mining Licences during the term of such licence.

As at 31 October 2011, the production volume of each of the Tongshankou Mine, the Fengshan Mine and the Chimashan Mine exceeded the production capacity prescribed in their respective mining licences (the **"Excess Production"**). Daye Metal obtained a written confirmation from the Department of Land and Resources of Hubei Province on 25 November 2011, which confirms that the Excess Production has been caused by the inclusion of raw ore below the industrial cut-off grade mined and does not, in substance, amount to a case of the production volume having exceeded the production capacity as prescribed in the mining licences. The Excess Production does not, therefore, constitute a breach of any laws, regulations or implementation rules governing mineral resources in the PRC and would not result in the imposition of any penalty. Based on such confirmation, Zhong Lun has advised that the Excess Production does not amount to any breach of relevant laws, regulations or implementation rules in the PRC, and the Target Group is not required to apply for any revision to those mining licences in order to carry out the Excess Production.

BUSINESS OF THE TARGET GROUP

As advised by Zhong Lun, Daye Metal may obtain the mining rights in respect of the mineral resources of the Four Mines described as “out of licence” disclosed in Appendix V-A to the Circular (the “**Out-of-licence Resources**”) through (i) invitation to bid, auction and listing (招拍掛); or (ii) private agreement with the relevant department of land and resources of the PRC. In both cases, Daye Metal will need to pay a consideration for the grant of the mining rights to the Out-of-licence Resources to the relevant PRC authority. Zhong Lun has advised that it is more likely that Daye Metal will be allowed to obtain such mining rights by way of private agreement with the relevant department of land and resources of the PRC, rather than through the invitation to bid, auction and listing process.

If Daye Metal seeks to obtain the mining rights to the Out-of-licence Resources by way of private agreement with the relevant department of land and resources of the PRC, the consideration payable for the grant of such mining rights will be determined by such department based on a valuation of the Out-of-licence Resources and the mining rights associated with them prepared by an independent competent valuer. The valuation will be conducted with reference to the amount of the Out-of-licence Resources as well as the prevailing market price of the relevant minerals at the time of the application. Such valuation has to reflect the fair value of the Out-of-licence Resources, which is not to be lower than their prevailing market price.

Safe production permit

The Target Group has obtained various safe production permits that are required in connection with its open pit and underground mining operations and the operation of the tailing dams at the Four Mines.

The safe production permits are subject to review by the relevant government authorities in the PRC upon renewal. The mining areas of the Four Mines, which include the open pit mining areas, underground shafts, on-site processing facilities, waste dumps, tailing dams, the Smelting Plant and the Precious Metal Plant will be randomly inspected by the authorities usually once a year. If the safety conditions are found not to be satisfactory, the authorities may require improvements to be made or in the most serious cases, may refuse to renew the permit, in which case, production will have to be discontinued unless and until the authorities are satisfied that appropriate safety measures have been implemented and a safe production permit can be re-issued. Safe production permits may also be revoked with immediate effect if any major industrial incident occurs. The Target Group has not had any of its safe production permits revoked or refused renewal.

BUSINESS OF THE TARGET GROUP

Waste disposal permit

The Target Group is required under PRC law to obtain waste disposal permits in connection with gas emission and waste water discharge that occur in the course of the mining, smelting and refining processes carried on at the Four Mines, the Smelting Plant and the Precious Metal Plant. The permits impose annual caps on the volume of gas emitted and waste water discharged. Monitoring devices have been installed for the the Smelting Plant and the Precious Metal Plant to monitor the level of gas emission and discharge of waste water. The emission level of gas and waste water at the Four Mines are monitored by the relevant PRC environmental authorities at regular intervals.

If any of the limits on the volume of gas emission or waste water discharge are found to have been exceeded, the authorities may require the Target Group to take remedial action or in the most severe cases, revoke or refuse to renew the permits. None of the waste disposal permits required by the Target Group for its operation has been revoked or refused renewal in the past. In addition, the Target Group is required to pay a waste disposal fee based on the type, volume and concentration of waste discharged.

RAW MATERIALS AND SUPPLIERS

Raw materials

The main types of raw materials used in copper cathode production include copper concentrate, anode plates and scrap copper. Gold, silver and sulphuric acid are recovered or produced from sulphur dioxide and anode slime generated during the copper cathode production process. While a portion of the copper concentrates required for the Target Group's downstream production is supplied from processing copper ore extracted from the Four Mines, the Target Group currently sources the majority of the copper concentrates it requires from external suppliers and the Parent Group. All other raw materials are sourced by the Target Group from domestic and overseas suppliers as well as the Parent Group.

For each of the three years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011, the cost of raw materials sourced by the Target Group (including copper concentrates, anode plates and scrap coppers) amounted to RMB12,737,971, RMB8,768,248, RMB12,966,039 and RMB8,060,582, representing approximately 87.7%, 49.8%, 51.5% and 61.4% of the total costs of sales of the Target Group, respectively.

BUSINESS OF THE TARGET GROUP

Copper concentrates

The supply of copper ore from the Four Mines is currently not sufficient to meet the requirements of the Target Group for its downstream copper cathode production. In addition to the supply from the Four Mines, the Target Group also sources copper concentrates from external suppliers. During the Track Record Period a substantial portion of the copper concentrates used by the Target Group for its copper cathode production was sourced from external suppliers. The Directors expect that as the Enlarged Group begins to develop the combined copper reserves and resources of the Group and the Target Group, it will be able to gradually reduce the quantity of copper concentrates it has to source from external suppliers and the Parent Group over time. The expected increase in the supply of copper concentrates from the development of those reserves and resources will also allow the Enlarged Group to better utilize its smelting and downstream processing capabilities.

The Target Group sources copper concentrates from small to medium-scale domestic suppliers, most of whom are located in Hubei Province, PRC, as well as from leading mining companies overseas, including suppliers in Chile and Switzerland. The Target Group also sources copper concentrates from the Parent Group. For the year ended 31 December 2010, approximately 51.07%, 30.27% and 18.66% of the copper concentrates purchased by the Target Group were sourced from domestic suppliers, overseas suppliers and the Parent Group, respectively.

The Target Group typically enters into supply contracts with its overseas and domestic suppliers for a term of one year to three years. The prices of copper concentrates sourced from overseas suppliers are higher as they generally have a higher copper content of 25% or more, while copper concentrates sourced from domestic suppliers usually have an average copper grading of around 19%. A higher copper content in the copper concentrate will generally reduce processing time and cost, and improve operational efficiency.

The supply contracts with the overseas and domestic suppliers typically provide for the price of the copper concentrate to be fixed mainly by reference to its copper content and the spot price of copper cathodes quoted on LME and SHFE, respectively less copper treatment charges and refining charges. Such treatment and refining charges are typically fixed, negotiated and agreed at the time of the signing of the supply contract. The Target Group generally places purchase orders with domestic suppliers at least once a month. Delivery is normally made by the domestic suppliers to the Smelting Plant within 15 days. Purchase orders are generally placed by the Target Group with international suppliers at least once a quarter. Delivery is normally made by the international suppliers to ports in Nanjing and Nantong within five to nine weeks, and the Target Group arranges for onward transportation of the copper concentrate to the Smelting Plant.

BUSINESS OF THE TARGET GROUP

The Company entered into the Purchase and Production Services Framework Agreement with the Parent Company on 23 December 2011, which is conditional upon China Times Completion taking place and all applicable legal and regulatory requirements (including those under the Listing Rules) having been complied with. Pursuant to this agreement, members of the Target Group will continue to purchase copper concentrate from members of the Parent Group after completion of the Acquisition. Please refer to the section headed “Continuing Connected Transactions” of this circular for further details of this agreement.

Anode plates

The Target Group sources anode plates from domestic suppliers in the PRC, including suppliers in Jiangxi, Guangdong, Hunan and Sichuan Provinces. It generally enters into supply contracts with those suppliers for a term of one year. Those contracts typically provide for a fixed amount of anode plates to be supplied each year during the contract term. The price of the anode plates is fixed mainly by reference to its prevailing market price less copper treatment charges and refining charges. Such treatment and refining charges are typically fixed, negotiated and agreed at the time of signing of the supply contract. The Target Group generally places purchase orders with suppliers at least once a month. Delivery is normally made to the Smelting Plant within 10 to 15 days.

Scrap copper

The Target Group sources scrap copper from the Parent Group and other domestic suppliers in the PRC, including suppliers in Hunan, Guangdong, Jiangxi and Hubei Provinces. It generally enters into supply contracts with those suppliers for a term of one year. Those contracts typically provide for a fixed amount of scrap metal to be supplied each year during the contract term. The price of the scrap copper is fixed at the time when a purchase order is placed mainly by reference to the prevailing market price of copper in the PRC. The Target Group generally places purchase orders with suppliers at least once a month. Delivery is normally made to the Smelting Plant within 10 to 15 days.

The Company entered into the Sales Framework Agreement and the Purchase and Production Services Framework Agreement with the Parent Company on 23 December 2011, both of which are conditional upon China Times Completion taking place and all applicable legal and regulatory requirements (including those under the Listing Rules) having been complied with. Pursuant to those agreements, members of the Target Group will continue to purchase scrap copper from members of the Parent Group after completion of the Acquisition. Please refer to the section headed “Continuing Connected Transactions” of this circular for further details of these agreements.

BUSINESS OF THE TARGET GROUP

Major suppliers

For each of the three years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011, the five largest suppliers of the Target Group, together, accounted for approximately 32.3%, 39.5%, 43.1% and 55.9%, respectively, and the largest supplier of the Target Group accounted for approximately 10.3%, 13.2%, 13.3% and 17.2%, respectively of the total costs of sales of the Target Group. None of the Directors, their respective associates or any Shareholders have any interest in any of the five largest suppliers of the Target Group during the Track Record Period.

Payment terms

The Target Group is usually required to pay 80% of the purchase price to the domestic suppliers of anode plates and scrap copper by cash upon delivery, with the balance being paid upon receipt of the final invoice from those suppliers (which will only be issued after the Target Group has carried out laboratory tests on the anode plates and scrap copper delivered and the results have been confirmed by the relevant supplier). The Target Group is usually required to pay 80% of the purchase price to domestic suppliers of copper concentrates upon delivery, with the balance being paid upon receipt of satisfactory weight and moisture test and assay results provided by such suppliers certifying the quality of copper concentrates and invoice issued by the suppliers to the satisfaction of the Target Group. All purchases made by the Target Group from domestic suppliers are paid for in Renminbi.

With respect to the overseas suppliers of copper concentrates, payment is usually made by the Target Group by irrevocable letters of credit, with up to 95% of the purchase price being typically required to be paid upon presentation of bills of lading by the suppliers, and the balance payable upon delivery subject to satisfactory weight and moisture test and assay results. All purchases made by the Target Group from overseas suppliers are mainly paid for in US Dollars.

TRANSPORTATION

The Smelting Plant and the Precious Metal Plant are all located in Hubei Province, PRC, not more than 90 km from the Four Mines and are accessible by river, rail and road transport. Due to the geographical proximity of the Four Mines from the Smelting Plant, copper concentrate is primarily transported to the Smelting Plant for smelting and electrowinning by trucks.

BUSINESS OF THE TARGET GROUP

The Four Mines, the Smelting Plant and the Precious Metal Plant are all located along the Yangtze River. The Target Group is able to use river transport as the main means to take delivery of raw materials from both its overseas and domestic suppliers, including copper concentrates purchased from overseas suppliers which are shipped to the ports of Nanjing and Nantong and delivered first by river barges and then by trucks to the Smelting Plant. Transportation costs are generally borne by the suppliers, in case of purchase from domestic suppliers, and by the Target Group, in case of purchase from overseas suppliers.

The Target Group mainly delivers copper cathodes to customers by river transport on the Yangtze River and by rail, with a small proportion being delivered by trucks. As the copper cathode customers of the Target Group are mainly concentrated in the Guangdong and Shanghai areas, delivery is made by the Target Group to the designated warehouses agreed between the parties by rail or river transport, respectively. Transportation costs for delivery of copper cathodes are borne by the Target Group, while its customers will arrange to take delivery from the warehouses at their own expense. Silver is usually delivered to the airport nearest to the customer by the Target Group at its own cost, and the customer will take delivery from the airport at its own cost. For sulphuric acid, customers will take delivery directly from the Smelting Plant and hence, no transportation cost is involved on the part of the Target Group.

As the copper cathodes, gold and silver produced by the Target Group are all products of significant bulk, river transport is a more economical means of delivering such products to customers.

UTILITIES

The smelting and electrowinning processes consume a significant amount of electricity and water. Hence, it is important for the Target Group to be able to obtain stable supplies of electricity and water at economical rates in support of its day-to-day operations. The Target Group has not experienced any material interruption in its operations due to shortage or suspension of power supply during the Track Record Period.

BUSINESS OF THE TARGET GROUP

The Company entered into the Combined Ancillary Services Framework Agreement with the Parent Company on 23 December 2011, which is conditional upon China Times Completion taking place and all applicable legal and regulatory requirements (including those under the Listing Rules) having been complied with. Pursuant to this agreement, the Parent Company, through Hubei Jinge, which is the sole utility provider in the area where Smelting Plant, the Precious Metal Plant and the R&D Centre are located, will supply electricity and water to those facilities at prevailing market rates. Please refer to the section headed “Continuing Connected Transactions” of this circular for further details of this agreement. In addition, the Target Group also procures electricity and water supply from nearby local utility providers for use at the Four Mines at prevailing market rates. The total utilities expenses of the Target Group amounted to approximately RMB316 million, RMB282 million, RMB333 million and RMB198 million for the three years ended 31 December 2010 and the six months ended 30 June 2011, respectively, representing approximately 2.3%, 2.9%, 2.3% and 2.2% of the production costs of the Target Group for those periods.

To ensure that there is a stable water supply and to minimize costs and pollution, the Smelting Plant is equipped with a waste water treatment station to treat and recycle waste water from its smelting and production processes, which is able to recycle up to 95% of the waste water generated during the production process at the Smelting Plant. The station is also used by the Precious Metal Plant and is able to supply up to 80% of the water supply required for the operations at both the Smelting Plant and the Precious Metal Plant. Smaller-scale water treatment facilities have also been installed at the Four Mines for the recycling of waste water.

The Target Group is in the process of constructing a power station which will utilize the waste heat arising from the production process at the Smelting Plant to generate power. It is expected that this power station will be completed in April 2012 and will primarily be supplying electricity to the Smelting Plant and the Precious Metal Plant. For further details, please refer to the section headed “Letter from the Board – Projects in progress and future plans of the Target Group” in this circular.

BUSINESS OF THE TARGET GROUP

SALES, MARKETING AND CUSTOMERS

Sales and marketing

The Target Group sells both copper cathodes, gold and silver produced by itself as well as those sourced from third party suppliers and the Parent Group for on-sale to its customers. The following table sets out a breakdown of the Target Group's sales by product for the Track Record Period:

	Year ended 31 December						Six months ended	
	2008		2009		2010		30 June 2011	
	(RMB million)	(% of total revenue)	(RMB million)	(% of total revenue)	(RMB million)	(% of total revenue)	(RMB million)	(% of total revenue)
Metals								
Copper cathodes	10,939	73.6	13,220	71.5	20,066	77.1	10,445	76.4
Self-produced	10,451	70.3	7,947	43.0	11,166	42.9	7,156	52.3
Trading	488	3.3	5,273	28.5	8,900	34.2	3,289	24.1
Gold	1,058	7.1	3,372	18.2	2,100	8.1	1,414	10.3
Self-produced	1,058	7.1	1,217	6.6	1,621	6.2	827	6.0
Trading	–	–	2,155	11.6	479	1.8	587	4.3
Silver	867	5.8	756	4.1	1,219	4.7	947	6.9
Self-produced	867	5.8	754	4.1	1,191	4.6	938	6.9
Trading	–	–	2	–	28	0.1	9	0.0
Total for metals:	12,864	86.5	17,348	93.8	23,385	89.9	12,806	93.6
Chemical products								
Sulphuric acid	502	3.4	61	0.3	163	0.6	114	0.8
Total for chemical products:	502	3.4	61	0.3	163	0.6	114	0.8
Other products and services (Note)	1,501	10.1	1,076	5.9	2,472	9.5	752	5.6
Total revenue:	14,867	100	18,485	100	26,020	100	13,672	100

Note: Revenue from other products and services includes revenue derived from processing of copper concentrate into copper cathodes, and sales of other products such as iron concentrate, and other products containing copper, gold and silver.

For copper cathodes and silver, the Target Group mainly enters into sales contracts for a term of one year with its customers, with some being sold to customers placing ad hoc orders from time to time.

The Target Group sets the price of its copper cathodes by reference to the spot price quoted on SHFE and the website of the Shanghai Metal Exchange Market (上海金屬網) (which is a public platform providing latest market prices and news in relation to various metal markets, including the global and domestic copper markets) plus a premium to be negotiated and agreed between the parties at the time of the signing of the sales contract.

BUSINESS OF THE TARGET GROUP

The price of silver is set by reference to the spot price quoted on the Shanghai Huatong Silver Business Market (上海華通鉑銀交易市場) (which is a public platform providing latest market prices and news in relation to the global and domestic silver market).

A fixed amount of the copper cathodes or silver to be sold to the customer will be agreed and set out in the sales contract. If the Target Group fails to supply or the customer fails to purchase the agreed amount of copper cathodes or silver, a penalty equivalent to 20% of the purchase price for the shortfall has to be paid by the party in default. Customers normally place orders for copper cathodes or silver at least once a month and they are generally required to settle the purchase price in respect of the total amount ordered per month by cash in full prior to delivery.

In accordance with the relevant laws and regulations in the PRC, gold extracted or produced from mining and smelting operations in China may only be traded on SHGE, being the only national market authorized by the State Council of the PRC for gold trading in China. All sales of gold are conducted through Daye Metal, which is a member of SHGE and all sales are made on SHGE at the spot price at the time when the transaction is entered into.

For sulphuric acid, the Target Group mainly enters into sales contracts for a term of one year with its customers, with a small amount being sold to customers placing ad hoc orders from time to time. The price of sulphuric acid is largely driven by its demand and supply at the time when the order is placed and is set according to its prevailing market price in the PRC. A fixed amount of the sulphuric acid to be sold to the customer will be agreed and set out in the sales contract. If the Target Group fails to supply or the customer fails to purchase the agreed amount for three consecutive months, the non-defaulting party is entitled to revise the agreed amount under the sales contract. Customers normally place orders for sulphuric acid at least once a month and are required to prepay the purchase price in full in cash or by bank's acceptance bill before they take delivery at the Smelting Plant. As the sulphuric acid customers are mainly manufacturers of phosphate fertilizers in the surrounding region, the price of sulphuric acid is heavily affected by the downstream demand for phosphate fertilizers.

The Target Group sells almost all of its products to customers in the PRC. PRC customers accounted for more than 98% of the Target Group's revenue throughout the Track Record Period. The customers of the Target Group's copper cathodes are mainly copper products trading companies in the Hubei Province, Shanghai and Guangdong. The Target Group's major customers in silver are based in Shanghai, Beijing and Dongguan, which are mainly engaged in either the processing of silver into silver-based products such as silver nitrate and alloy or trading of silver. The major sulphuric acid customers of the Target Group are manufacturers of chemical raw materials and phosphate fertilizers in the Hubei Province. All sales of gold are made on SHGE as described above. The majority of the Target Group's sales are denominated in RMB, with the remaining sales mainly denominated in US Dollars. The Target Group's major overseas customers are mainly non-ferrous metals trading companies based in Hong Kong.

BUSINESS OF THE TARGET GROUP

As part of its marketing initiatives, the Target Group organizes and hosts a conference each year, which allows the Target Group to exchange latest industry information and to build up relationships with its customers. The Target Group will continue to focus on further developing sales among customers in the Shanghai and Guangdong areas for copper cathodes, and in Hubei area for sulphuric acid.

Major customers

For the three years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011, the five largest customers of the Target Group, together, accounted for approximately 35.8%, 50.1%, 34.0% and 37.6%, respectively of the total sales of the Target Group and the largest customer of the Target Group accounted for approximately 7.6%, 18.24%, 8.1% and 10.3%, respectively of the total sales of the Target Group. The Target Group's sales contracts are mainly denominated in RMB.

Save for Shanghai Jinzhao, a wholly-owned subsidiary of the Parent Company, which was the fifth largest customer for each of the year ended 31 December 2008 and the six months ended 30 June 2011, and the fourth largest customer for the year ended 31 December 2009, none of the Directors, their respective associates or any Shareholders have any interest in any of the five largest customers of the Target Group during the Track Record Period.

COMPETITION

The PRC does not, in general, have a sufficient copper supply to support its rising demand. The main producers of copper cathodes are integrated mining and smelting companies located in the eastern and mid-south regions of the PRC, which collectively accounted for more than 70% of the total production of copper cathodes in the PRC in 2010. The major consumers of copper cathodes in the PRC are fabricated products manufacturers concentrated in the eastern and mid-south regions of the PRC, which collectively accounted for approximately 90% of the total consumption of copper cathodes in the PRC. Competition occurs mainly on a regional level and is principally based on quality, reliability of supply and logistic costs.

According to the Antaike Report, Daye Metal was the fifth largest producer of copper cathodes in the PRC by production volume accounting for approximately 6.7% of the total production of copper cathodes in the PRC in 2010. There is an increasing degree of concentration in the copper smelting industry in the PRC in recent years. In 2010, the five largest copper producers, together, accounted for approximately 59.5% of the total production of copper cathodes in the PRC. Hence, the Target Group's competitors are primarily the few other large-scale domestic producers operating in the PRC.

The Target Group considers that one of its main competitive strengths lies in the quality of its copper cathodes, among other products, which have a high copper concentration of 99.99%, a low level of impurity and a high level of ductibility.

BUSINESS OF THE TARGET GROUP

Another competitive advantage enjoyed by the Target Group is the favourable location of its mining assets and production facilities, which are all in Hubei Province, in the PRC, in close proximity to various small scale copper mines, which provide the Target Group with a convenient source of copper concentrates, and to most of the Target Group's sulphuric acid customers, which enables delivery to those customers at lower transportation cost. The Target Group's mining assets and production facilities are also located close to the shores of the Yangtze River, which allows the Target Group to utilise water transport as a reliable and cost-effective means of both delivering products to its customers or taking delivery of raw materials from its suppliers.

QUALITY CONTROL

The Target Group places strong emphasis on quality control. The Target Group has established a quality management system, which was certified to be in compliance with the requirements of ISO 9001 in 2010. In accordance with the ISO 9001 requirements, the Target Group implements quality control procedures throughout its production process. Staff from the R&D Centre also carry out data analyses and regular inspections to ensure that quality standards are met. The Target Group also carries out internal evaluation on product quality at regular intervals to identify and resolve any issues with product quality. As at the Latest Practicable Date, the Target Group had 337 employees who are primarily responsible for quality control.

The copper cathodes produced by the Target Group were named a “China's Top Brand Product”(中國名牌產品) by the State Quality Supervision, Inspection and Quarantine Bureau of the PRC (國家質量監督檢驗檢疫總局) in 2004.

HEDGING ACTIVITIES

The principal business of the Target Group includes production and sales of copper cathodes and gold. Throughout the Track Record Period, revenue generated from the sales of copper cathodes and gold constituted the largest and second largest income streams for the Target Group, respectively. In addition to the supply from the Four Mines, the Target Group also sources a significant portion of copper concentrates (some of which contain gold) from external suppliers for its production. Hence, volatility in copper and gold prices directly affects the business, operating results and financial performance of the Target Group.

The Target Group enters into copper and gold futures contracts and adopts risk control management procedures to minimize its exposure to price fluctuations between the time when raw materials containing copper and gold are sourced and the time when sales of copper cathodes and gold are made. In general, the Target Group enters into long position on futures contracts to hedge its potential exposure to the increase in the price of raw material and enters into short position on futures contracts to hedge its potential exposure to the decrease in the price of its products.

BUSINESS OF THE TARGET GROUP

A metal futures contract is a standardized contract, traded on a futures exchange, to buy or sell a certain volume of the metal at a certain date in the future, at a pre-set price. A futures contract to buy is generally referred to as a long bought futures contract, while a futures contract to sell is generally referred to as a short sold futures contract.

Copper futures contracts

The Target Group typically enters into two types of copper futures contracts traded on SHFE, namely, short sold copper futures contracts and long bought copper futures contracts with a maturity period ranging from three to six months. As at 30 June 2011, the Target Group had outstanding long bought and short sold copper futures contracts which amounted to RMB301,879,000 and RMB108,430,000, respectively and an open long and short position in copper cathodes of 4,430 tonnes and 1,600 tonnes, respectively. As at 31 December 2008, 2009 and 2010 and 30 June 2011, approximately 34.86%, 0.49%, 25.97% and 2.56% of the copper inventories of the Target Group were hedged by copper futures contracts.

The Target Group incurred a fair value gain of RMB27,897,000 as at 31 December 2008, and a fair value loss of RMB804,000, RMB134,950,000 and RMB642,000 as at 31 December 2009, 31 December 2010 and 30 June 2011, respectively, from its copper futures contracts. As at 31 December 2009 and 31 December 2010, fair value losses were recorded as the Target Group had an open short position in copper cathodes while SHFE copper price generally increased throughout 2009 and 2010. As at 30 June 2011, fair value loss was recorded as the Target Group had an open long position in copper cathodes while the long bought future contracts were mostly entered into at high copper price as the copper price became volatile in the first half of 2011. Nevertheless, such losses were, to a large extent, off-set by the gain from the sales of the copper inventories on hand in the respective financial periods.

Gold futures contracts

The Target Group typically enters into two types of gold futures contracts traded on SHFE, namely, short sold gold futures contracts and long bought gold futures contracts with a maturity period of six months. As at 30 June 2011, the Target Group had outstanding long bought and short sold gold futures contracts which amounted to RMB58,333,000 and RMB34,316,000, respectively and an open long and short position in gold of 185 tonnes and 110 tonnes, respectively. As at 31 December 2008, 2009 and 2010 and 30 June 2011, approximately 17%, 0%, 0% and 18% of the gold inventories of the Target Group were hedged by gold futures contracts. According to the Hong Kong Accounting Standards, the gold futures contracts entered into by the Target Group during the Track Record Period are not classified as hedging instruments.

BUSINESS OF THE TARGET GROUP

The maximum exposure of the Target Group with respect to such hedging activities at any time would depend on the amount of open position of copper and gold futures contracts on hand and the price movement of copper and gold during the period between the time when the futures contracts are entered into and the time when delivery under such contracts is to be made. During such period, for the net short position, any rise in the copper or gold price quoted on SHFE would result in a loss equivalent to the then open short position in copper cathodes or gold, as the case may be, multiplied by the increment in the copper or gold price. Likewise, any drop in the copper or gold price quoted on SHFE during such period would result in a gain equivalent to the then open short position in copper cathodes or gold, as the case may be, multiplied by the decrease in the copper or gold price.

Hedging policy

The volume of copper and gold futures contracts to be entered into by the Target Group for hedging purposes at any time depends on the extent of its exposure to copper and gold price fluctuations as assessed by the Target Group from time to time. Daye Metal has prescribed the following procedures with respect to the hedging activities of the Target Group:

- (i) The sales department and the futures department are jointly responsible for the implementation of the hedging strategy formulated by the senior management at the preceding weekly meeting (see below) and the execution of hedging activities on a daily basis. The sales department and the futures department meet every day before trading starts at SHFE to determine the detailed actions to be taken and after trading closes at SHFE to evaluate the performance of the hedging activities for that day. In the event of any change in the market conditions or the occurrence of other events which renders the hedging strategy previously formulated inappropriate, special meetings with the chairman and the general manager of Daye Metal will be convened (see below).
- (ii) Weekly meetings are held between representatives from the sales department and the futures department and the deputy general manager of Daye Metal to evaluate the performance of the hedging activities for the previous week, to discuss and analyse the market trends and to formulate the hedging strategy for the following week. In particular, (a) inventory levels are reviewed, including a review of the amount of copper concentrates, anode plates, scrap copper and any other raw materials containing copper and gold, and the amount of gold and copper cathodes held in stock; (b) the net position of open copper and gold futures contracts are examined and the then fair value gain or loss arising from those futures contracts is assessed; and (c) the trend of copper and gold price movements in the PRC and the world and the general outlook of the PRC and global economies are analysed.

BUSINESS OF THE TARGET GROUP

- (iii) When the copper market is volatile or when a substantial amount of futures contracts are proposed to be entered into or disposed of, the sales department and the futures department will convene special meetings with the chairman and the general manager of Daye Metal to discuss market conditions and risk management measures before carrying out such hedging activities.

Members of Daye Metal's senior management who are currently overseeing the hedging activities of Daye Metal have extensive experience in the mining industry and specific experience in related hedging activities. Both Mr. Zhang Lin, the chairman of Daye Metal, and Mr. Zhai Baojin, a director and the general manager of Daye Metal, have more than 25 years' experience in the mining industry. They have been overseeing Daye Metal's procurement of raw materials containing copper and gold, sales of copper and gold products and hedging activities involving futures contracts for almost two years. Mr. Feng Mingrui, the deputy general manager of Daye Metal who is currently responsible for overseeing the hedging activities of Daye Metal, was the sales representative and the head of the sales, import and export division of the smelting factory of the Parent Company from 1990 to 2003, during which he was responsible for managing procurement of raw materials containing copper and gold, sales of copper and gold products and hedging activities involving futures contracts. After completion of the Acquisition, the senior management of the Company will participate in monitoring Daye Metal's hedging activities, including the formulation of hedging strategy and the daily execution of hedging activities, and will report to the Board at least once every quarter.

The hedging policy of the Target Group has recently been reviewed by an independent internal control consultant. Based on the recommendations of the consultant, the board of directors of Daye Metal has approved the following additional risk management procedures:

- it will record, on a daily basis, the different types of futures contracts which have been entered into and disposed of and the movement in its inventories in order to analyze its net inventory exposure to metal price fluctuations;
- it will set a cap on the amount of futures contracts which may be entered into by the Target Group at any time, and review and adjust such cap periodically, taking into account the inventory level and the metal price trends at the relevant time; and
- it will establish guidelines on loss cutting by reference to, for example, the percentage that the loss arising from the futures contracts bears to the amount of such futures contracts.

The additional risk management procedures described above will be implemented by the end of December 2011. The independent internal control consultant will conduct a further review of the hedging system of Daye Metal thereafter.

BUSINESS OF THE TARGET GROUP

CORPORATE SOCIAL RESPONSIBILITY

Compliance with the environmental laws and regulations

The Target Group is subject to PRC national and local environmental laws and regulations on matters such as air emission, discharge of waste water and pollutants, land reclamation, waste disposal and mining control. During the Track Record Period, the Target Group was in compliance with all applicable environmental laws and regulations in all material respects and it did not receive any complaints or was subject to any fines or penalties imposed by any government bodies with respect to any environmental issues in connection with its operations.

The annual expenditure for environmental compliance by the Target Group, including expenses related to the maintenance of emission monitoring devices at the Smelting Plant, payment of air emission and waste discharge fees and all relevant fees under the safe production licences and waste discharge licences, amounted to approximately RMB4,200,000, RMB4,000,000 and RMB4,600,000 for each of the three years ended 31 December 2008, 2009 and 2010, respectively. For the year ending 31 December 2011, it is expected that the environmental compliance costs of the Target Group would amount to approximately RMB5,500,000.

To continue to fulfill our commitment to the environment:

- the Target Group is continuing to improve its environmental protection facilities, such as the construction of an additional waste water treatment plant and the installation of additional waste water, dust and gas emission monitoring devices at the Smelting Plant, which are in compliance with applicable PRC national and local environmental laws and regulations; and
- the Target Group has established a safety and environmental department that coordinates environmental impact assessments, testing, ecology, and rehabilitation projects and discusses and formulates appropriate environmental preservation measures from time to time.

Occupational health and safety

The health and safety of its staff is a top priority for the Target Group. The Target Group sets safety targets for each year and aims at completely eliminating any fatality or severe casualties for its employees. The Target Group has compiled safety manuals and emergency plans covering emergency situations such as natural disasters, fire, flooding, machine failures and power outages to ensure that employees are aware of the steps to take in the event that any of those situations occur.

BUSINESS OF THE TARGET GROUP

During the Track Record Period, no material accidents or injuries involving injury or property damage had been reported to the management of the Target Group and the Target Group had not been subject to any material claims arising from any accidents involving personal injury or property damage in the course of its business operations.

The Target Group is committed to eliminating accidents and fatalities and maintaining high safety standards at its production facilities and will continue to fulfill this commitment by:

- reviewing and improving the safety management systems at the Four Mines and setting targets against which performance is to be measured at fixed intervals;
- adopting detailed safety procedures based on the geological characteristics and production methods of the mine in compliance with national safety guidelines, including monthly safety inspections and annual training in safe work practices for our employees;
- ensuring key stages of the mining and production process are supervised by qualified individuals to ensure safety standards are met; and
- improving the ventilation system in the mines and, installing a safety monitoring system in the underground mining shafts.

INSURANCE

The Target Group has taken out general property insurance for its mining assets located at the Four Mines and its office premises, insurance for equipment and machinery breakdowns and public liability insurances. The Target Group currently maintains, and will continue to maintain, insurance within ranges of coverage consistent with industry practice in the PRC and will adjust the insurance coverage by continual assessment of its risk portfolio as appropriate in future. Nevertheless, the insurance maintained by the Target Group may not fully cover all potential losses, damages and liabilities involved in its operations. Please also refer to the section headed “Risk Factors – Risks relating to the Business of the Enlarged Group – The Enlarged Group may not have adequate insurance coverage against mining and operation risks and hazards interent in the nature of the mining business, which could adversely affect its business” for further details.

RESEARCH AND DEVELOPMENT

The Target Group places strong emphasis on research and development and has set up the R&D Centre dedicated to improving mining and production technology and the recovery of new mineral products in the production process. The R&D Centre received ISO/IEC 17025:2005 certification in 2009.

BUSINESS OF THE TARGET GROUP

As at the Latest Practicable Date, the R&D Centre had 295 staff, of whom there were 35 university or college graduates in mining or related disciplines. The R&D Centre cooperates with universities and research institutes in the PRC to jointly undertake research and development projects. The Target Group's research and development expenditure amounted to RMB10.1 million, RMB8.8 million, RMB18.8 million and RMB7.0 million respectively for the three years ended 31 December 2010 and the six months ended 30 June 2011, respectively.

Through its research efforts, the R&D Centre has, in the past, successfully improved the beneficiation processes of gold and silver at the Precious Metal Plant leading to an increase in the recovery rate of those metals. Further, it has also helped make technical improvements to the processes of recycling solid waste, slag and waste water generated in the course of production and has successfully recovered new economic minerals such as platinum, palladium and molybdenum from anode slime.

LATEST INDUSTRY TRENDS

Since 30 June 2011, the global economy has continued to be affected by the heightened financial and economic uncertainties caused by, among others, the worsening European debt crisis and the slower than expected recovery of the US economy due to spending cuts. In general, there is a gloomy sentiment in financial markets caused by factors such as growing concern that the European debt crisis may continue to deteriorate and become the triggering point of a global recession. Commodity prices have declined as reflected by copper price quoted on LME, which has fallen over 25% since July 2011. In the global copper industry, however, it is expected that a supply deficit in copper cathodes will continue to provide support to the global price of copper cathodes in the near term. On the supply side, near-term supply shortage may be aggravated by tense labour relations at major copper mines worldwide, while global demand for copper cathodes is expected to maintain a steady pace of growth.

While the PRC economy has continued to maintain a steady growth of 9.6% in GDP in the first half of 2011 compared to the same period in 2010, there are signs of a slowdown as industrial output continues to fall due to weak demand in Europe and the United States. The Purchasing Managers' Index (PMI) in the PRC fell to a 32-month low of under 50 points. In the copper cathodes market, notwithstanding growth in smelting capacity as a result of expansions by copper producers and entry of new producers, the Directors expect that there will continue to be a supply deficit in copper cathodes in the PRC in the near term as there remains a gap between the volume of domestic supply and demand, which is currently being satisfied by imports.

BUSINESS OF THE TARGET GROUP

While the PRC economy is showing signs of a slowdown, the Directors have not seen any significant decrease in the demand for the Target Group's copper cathodes since 30 June 2011. The Directors cannot preclude the possibility that a further slowdown of the PRC economy, whether due to worsening economic conditions in Europe, the United States or otherwise, may result in a significant decrease in the demand for copper cathodes in the PRC market and hence, adversely affect the business of the Target Group (and after completion of the Acquisition, the Enlarged Group). The Directors will, however, carefully monitor changes in market conditions and take such action as may be necessary to ensure that after completion of the Acquisition, the Enlarged Group will be in a position to maintain its competitiveness and to meet the challenges if the economic outlook in the PRC should worsen.

INTELLECTUAL PROPERTY RIGHTS

As at the Latest Practicable Date, the Target Group had 11 registered trade marks and 27 registered patents in the PRC. In addition, it is in the process of applying for the registration of 2 trade marks and 11 patents, solely or jointly with the Parent Company or Independent Third Parties in the PRC. For further details of the intellectual property rights of the Target Group, please refer to the section headed "Intellectual property rights of the Group and the Target Group" in Appendix X to this circular.

PROPERTIES

Owned properties

All of the property interests of the Target Group are in the PRC. As at the Latest Practicable Date, the Target Group held land use rights with respect to 54 parcels of land, with an aggregate site area of approximately 7,064,356.02 sq.m., being land used for, among others purposes, mining operations, production and processing plants, offices and warehouses. The Target Group has obtained the land use right certificates in respect of 51 of those 54 parcels of land, but has yet to obtain the land use right certificates under its name in respect of the remaining three parcels of land which, together, have an aggregate site area of approximately 52,329.47 sq.m.. Two of those three parcels of land are newly acquired, and the land use rights certificate in respect of the third parcel of land was issued under the name of a wholly-owned subsidiary of Daye Metal, which had already been dissolved in 2009. As at the Latest Practicable Date, the Target Group has taken the relevant steps and procedures to apply for the land use rights certificates under its name in respect of all of these three parcels of land. As advised by Zhong Lun, upon completion of these steps and procedures, the Target Group shall have the full legal title to these three parcels of land. The two parcels of land newly acquired will be used for office purpose. The third parcel of land is mainly occupied by staff dormitories.

BUSINESS OF THE TARGET GROUP

In addition, as at the Latest Practicable Date, the Target Group owned 1,108 properties with an aggregate total gross floor area of approximately 671,252.74 sq.m. in the PRC, being used as, among others, mining areas and on-site processing facilities at the Four Mines, production and processing facilities at the Smelting Plant, the Precious Metal Plant and the R&D Centre, office premises and warehouses. The Target Group has obtained the building ownership certificates in respect of 992 of those owned properties. In respect of 112 of the remaining 116 properties, which, together, have an aggregate gross floor area of approximately 71,723.36 sq.m., the Target Group has not obtained any building ownership certificates. Among the four remaining properties, which, together, have an aggregate gross floor area of approximately 1,410.37 sq.m., the Target Group has yet to obtain building ownership certificates as (i) three of such properties are newly acquired from the Parent Company, and (ii) the building ownership certificate of the fourth property was issued under the name of a wholly-owned subsidiary of Daye Metal, which had already been dissolved in 2009. As at the Latest Practicable Date, the Target Group has taken the relevant steps and procedures to apply for the building ownership certificates under its name in respect of the three newly acquired properties, and to amend the name of holder of the building ownership certificate previously issued to its dissolved subsidiary. As advised by Zhong Lun, upon completion of these steps and procedures, the Target Group shall have the full legal title to these four properties. The properties without building ownership certificates are mainly used as staff dormitories, ancillary production facilities, offices and warehouses.

Leased properties

As at the Latest Practicable Date, the Target Group leased 51 parcels of land situated at the Four Mines from the Parent Group with an aggregate site area of 3,881,478.58 sq.m.. Certain production facilities of the Target Group, including the Smelting Plant, are built on those parcels of land. As set out in the announcement of the Company dated 23 December 2011, the Company entered into a land lease framework agreement with the Parent Company on 23 December 2011, which is conditional upon China Times Completion taking place and all applicable legal and regulatory requirements (including those under the Listing Rules) having been complied with. Pursuant to this agreement, the Parent Company will continue to lease these parcels of lands to the Target Group. The Parent Company possesses the land use rights certificates in respect of all of these lands. In addition, the Target Group leased a parcel of land from an Independent Third Party, which occupies a total site area of approximately 38,000 sq.m., for which land use rights certificate has yet to be obtained by the lessor. None of the production or processing facilities of the Target Group are situated on this parcel of land.

In order to control the risk of properties with title defects in future, the Target Group has put in place a series of internal control guidelines which aim at improving corporate governance and ensuring compliance with all relevant legal and regulatory requirements across a wide spectrum of corporate affairs, including legal compliance and approval requirements.

BUSINESS OF THE TARGET GROUP

For further details of the property defects of the Target Group, please refer to the section headed “Risk Factors – Risks relating to the business of the Enlarged Group – Title defects to the owned and leased properties of the Target Group may adversely affect its right to use such properties” in this circular.

Properties under construction

As at the Latest Practicable Date, the Target Group held 3 buildings under construction in relation to its production facilities with an estimated gross floor area of 2,540 sq.m. in the PRC. These properties under construction are expected to be used as workshops for smelting and metal recovery.

EMPLOYEES AND REMUNERATION

Employees

As at the Latest Practicable Date, the Target Group had a total of 10,838 full-time employees in the PRC. The following table provides a breakdown of the full-time employees directly employed by the Target Group as at the Latest Practicable Date:

Functions	Number of employees
Production and processing	7,190
Technical support, research and development	528
Administration, finance, human resources and sales and marketing	1,644
Other supporting staff	1,476
Total	10,838

The remuneration package offered by the Target Group to its employees typically includes basic salary and bonus. In determining an employee’s remuneration package, the Target Group will take into account factors such as the employee’s qualification, position, seniority and relevant experience. Annual remuneration reviews are conducted based on individual performance and specific hardship factors such as time spent at the mine sites.

As at the Latest Practicable Date, the Target Group provided pension, medical insurance, labour injury insurance, maternity and unemployment insurance to its employees in accordance with the requirements of the applicable laws and regulations in the PRC with respect to insurance coverage for employees of mining companies.

BUSINESS OF THE TARGET GROUP

In accordance with national and local regulatory requirements in the PRC, the Target Group makes contributions to the medical insurance plan, staff housing fund, social pension contribution plan, unemployment insurance plan, maternity insurance plan and industrial accident insurance plan for the benefit of its employees in accordance with the requirements of PRC laws and regulations.

Staff training

The Target Group provides regular training to employees who are engaged in mining operations both with respect to technical skills and safety requirements. All employees who are engaged in mining operations are required to complete a prescribed level of technical training before they start work at the Four Mines. Where any employee has failed to meet any safety standards and policies set by the Target Group, they will be required to attend and complete specific training sessions before he is allowed to resume duty.

LEGAL PROCEEDINGS

As at the Latest Practicable Date, no member of the Target Group was a party to any litigation or claims of material importance (including any litigation or claims that may materially influence on its right to operate any of the Four Mines), and no such litigation or claim is known to the directors of the Parent Company to be pending or threatened against any member of the Target Group.

RELATIONSHIP WITH THE PARENT COMPANY

OVERVIEW

Immediately following China Times Completion, the Parent Company will, through China Times, be interested in more than 30% of the total issued share capital of the Company, and hence, will be its controlling shareholder.

The Parent Company is a company incorporated in the PRC with limited liability and wholly-owned by Hubei SASAC. The directors of the Parent Company have been informed by Hubei SASAC that on 21 January 2011, Hubei SASAC entered into a non-legally binding agreement (the “**Framework Document**”) with 中國有色礦業集團有限公司 (China Nonferrous Metal Mining (Group) Co., Ltd) (“**CNMC**”), a company incorporated in the PRC and directly supervised by the State-owned Assets Supervision and Administration Commission of the State Council of the PRC, in relation to their proposed collaboration in the further development of the Parent Company. One of the matters covered by the Framework Document was that CNMC would consider investing in the Parent Company which may result in the Parent Company being owned as to 51% by Hubei SASAC and 49% by CNMC. As at the Latest Practicable Date, Hubei SASAC and CNMC have not entered into any legally binding agreement or otherwise incurred any legally binding obligation in relation to any of the matters covered in the Framework Document, other than two unsecured one-year term loans of RMB1.5 billion and RMB1.862 billion granted by CNMC to the Parent Company pursuant to the Framework Document in January 2011 and May 2011, respectively, each of which bears interest at the base lending rate for one-year term loan announced by the People’s Bank of China at the time when the Parent Company received the loan amount. The directors of the Parent Company have been further informed by Hubei SASAC that there is no specific time frame for Hubei SASAC and CNMC to enter into any legally binding agreement in relation to any matters covered in the Framework Document.

RETAINED BUSINESS

The core copper-related business of the Parent Company, including exploration, mining and processing of copper ore, smelting of copper concentrate and sales of copper cathodes, which is currently being carried out by the Daye Metal Group, will be transferred to the Group upon China Times Completion. The Parent Company will, however, retain certain copper, silver and gold related businesses after China Times Completion, which is further described below.

Copper processing and copper-based products production business

The following companies within the Parent Group will continue to carry out certain copper processing and copper-based products production business after China Times Completion:

- 大冶有色金生銅業有限公司 (Daye Non-ferrous Jinsheng Copper Co., Ltd.) (“**Jinsheng Copper**”), which is owned as to 61.03% by the Parent Company and 38.97% by Independent Third Parties;

RELATIONSHIP WITH THE PARENT COMPANY

- 黃石金禾銅材有限責任公司 (Huangshi Jinhe Copper Co., Ltd.) (“**Huangshi Jinhe**”), which is owned as to 75.99% by the Parent Company and 24.01% by Independent Third Parties;
- 常州市大江銅業有限公司 (Changzhou Dajiang Copper Business Co., Ltd.) (“**Changzhou Dajiang**”), which is owned as to 90% by the Parent Company and 10% by Independent Third Parties; and
- 佛山大江銅業有限公司 (Foshan Dajiang Copper Business Co., Ltd.) (“**Foshan Dajiang**”), which is owned as to 51% by the Parent Company and 49% by Independent Third Parties

Jinsheng Copper

Jinsheng Copper is principally engaged in the processing of coarse copper into anode plates. It currently provides and is expected to continue to provide such processing service to the Daye Metal Group only.

Based on its accounts prepared in accordance with PRC Generally Accepted Accounting Principles, Jinsheng Copper’s audited net profits for the year ended 31 December 2010 and unaudited net profits for the six months ended 30 June 2011 amounted to approximately RMB0.7 million and RMB1.1 million, respectively.

The Directors do not consider that Jinsheng Copper is or is likely to be in direct competition with the Target Group since provision of processing service is not the core business of the Target Group and accounted for not more than 1% of the total revenue of the Target Group over the Track Record Period.

Jinsheng Copper is a connected person of the Company within the meaning of the Listing Rules. It will, after China Times Completion, continue to provide the processing service described above to the Daye Metal Group in accordance with the terms of the Purchase and Production Services Framework Agreement, which will constitute continuing connected transactions of the Company.

It is not the intention of the Target Group to acquire the equity interest of Jinsheng Copper held by the Parent Company since the scale of Jinsheng Copper’s operation is small in terms of net profits as compared to the Target Group.

RELATIONSHIP WITH THE PARENT COMPANY

Huangshi Jinhe and Changzhou Dajiang

Huangshi Jinhe is principally engaged in the production of copper rods from copper cathodes for use in refrigerators and other home electrical appliances. It obtains supply of copper cathodes from the Daye Metal Group and other third party suppliers. For the year ended 31 December 2010, approximately 64.7% of the copper cathodes used by Huangshi Jinhe in its production were obtained from the Daye Metal Group, with the remainder being sourced from other third party suppliers.

Based on its accounts prepared in accordance with PRC Generally Accepted Accounting Principles, Huangshi Jinhe's audited net loss for the year ended 31 December 2010 and unaudited net profits for the six months ended 30 June 2011 amounted to approximately RMB1.9 million and RMB0.6 million, respectively.

Changzhou Dajiang is principally engaged in the production of copper rods from copper cathodes. It obtains supply of copper cathodes from the Daye Metal Group and other third party suppliers. For the year ended 31 December 2010, approximately 3.7% of the copper cathodes used by Changzhou Dajiang in its production were obtained from the Daye Metal Group, with the remainder being sourced from other third party suppliers.

Based on its accounts prepared in accordance with PRC Generally Accepted Accounting Principles, Changzhou Dajiang's audited net loss for the year ended 31 December 2010 and unaudited net loss for the six months ended 30 June 2011 amounted to approximately RMB42,000 and RMB2.7 million, respectively.

The Directors do not consider that the business of Huangshi Jinhe or Changzhou Dajiang competes or is likely to compete with the business of the Target Group as the Target Group is not currently engaged in the production of copper rods.

Huangshi Jinhe and Changzhou Dajiang are connected persons of the Company within the meaning of the Listing Rules. The Daye Metal Group will, after China Times Completion, continue to supply copper cathodes to them in accordance with the terms of the Sales Framework Agreement, which will constitute continuing connected transactions of the Company.

It is not the intention of the Target Group to acquire the equity interest of Huangshi Jinhe or Changzhou Dajiang held by the Parent Company nor extend its business to the production of copper rods since (a) the profit margin for the sales of copper rods is not as high as that for the sales of copper cathodes; (b) Huangshi Jinhe has been loss making for the year ended 31 December 2010, and Changzhou Dajiang has been loss making for the year ended 31 December 2010 and the six months ended 30 June 2011; and (c) the scale of the operations of Huangshi Jinhe and Changzhou Dajiang are small as compared to the Target Group.

RELATIONSHIP WITH THE PARENT COMPANY

Foshan Dajiang

Foshan Dajiang is principally engaged in the production of copper tubes for cooling system and ingots (扁錠). It obtains supply of scrap copper and copper cathodes for its production from the Daye Metal Group and other third party suppliers. For the year ended 31 December 2010, approximately 9.7% of the scrap copper and copper cathodes used by Foshan Dajiang in its production were obtained from the Daye Metal Group, with the remainder being sourced from other third party suppliers.

Based on its accounts prepared in accordance with PRC Generally Accepted Accounting Principles, Foshan Dajiang's audited net loss for the year ended 31 December 2010 and unaudited net profits for the six months ended 30 June 2011 amounted to approximately RMB20 million and RMB50,000, respectively.

The Directors do not consider that the business of Foshan Dajiang competes or is likely to compete with the business of the Target Group as the Target Group is not currently engaged in the production of copper tubes.

Foshan Dajiang is a connected person of the Company within the meaning of the Listing Rules. The Daye Metal Group will, after China Times Completion, continue to supply scrap copper and copper cathodes to Foshan Dajiang in accordance with the terms of the Sales Framework Agreement, which will constitute continuing connected transactions of the Company.

It is not the intention of the Target Group to acquire the equity interest of Foshan Dajiang held by the Parent Company nor extend its business to the production of copper tubes since (a) the profit margin for the sales of copper tubes is not as high as that for the sales of copper cathodes; and (b) the scale of Foshan Dajiang's operation is small as compared to the Target Group.

Trading business

The following companies within the Parent Group will continue to carry out certain trading business of gold, silver and copper-based products after China Times Completion:

- 上海金兆銅業有限責任公司 (Shanghai Jinzhao Copper Business Co., Ltd.) ("**Shanghai Jinzhao**"), which is wholly-owned by the Parent Company;
- 大江國際投資有限公司 (Dajiang International Investment Co., Limited) ("**Dajiang International**"), which is wholly-owned by the Parent Company; and
- 湖北省金石黃金有限責任公司 (Hubei Province Jinshi Gold Co., Ltd.) ("**Jinshi Gold**") which is wholly-owned by the Parent Company.

RELATIONSHIP WITH THE PARENT COMPANY

Shanghai Jinzhao

Shanghai Jinzhao is principally engaged in the trading of non-ferrous metal based products including coarse copper and copper cathodes and related equipment.

Based on its accounts prepared in accordance with PRC Generally Accepted Accounting Principles, Shanghai Jinzhao's audited net profits for the year ended 31 December 2010 and unaudited net profits for the six months ended 30 June 2011 amounted to approximately RMB0.6 million and RMB0.7 million, respectively.

It is not the intention of the Target Group to acquire the equity interest of Shanghai Jinzhao since (a) the scale of Shanghai Jinzhao's operation is small in terms of net profits as compared to the Target Group; and (b) the Target Group has no intention to further expand its trading business as the profit margin for trading is not as high as that for the sales of self-produced metal-based products.

The Daye Metal Group has been supplying copper cathodes to Shanghai Jinzhao. For the three years ended 31 December 2010 and the six months ended 30 June 2011, the total sales of copper cathodes to Shanghai Jinzhao by the Daye Metal Group accounted for approximately 6.6%, 6.9%, 3.3% and 4.7% of the total revenue of the Daye Metal Group, respectively. Shanghai Jinzhao has, since its incorporation in 2007, established its own sales network and customer base in Shanghai for its copper cathode trading business, which do not overlap with those of the Target Group. Shanghai Jinzhao is a connected person of the Company within the meaning of the Listing Rules. The Daye Metal Group will, after China Times Completion, continue to supply copper cathodes to Shanghai Jinzhao in accordance with the terms of the Sales Framework Agreement, which will constitute continuing connected transactions of the Company.

Dajiang International

Dajiang International is principally engaged in the trading of non-ferrous metals including silver and non-ferrous metal based products including coarse copper, scrap copper, copper concentrates and copper cathodes.

Based on its accounts prepared in accordance with PRC Generally Accepted Accounting Principles, Dajiang International's audited net profits for the year ended 31 December 2010 and unaudited net profits for the six months ended 30 June 2011 amounted to approximately US\$4.8 million and RMB5.5 million, respectively.

It is not the intention of the Target Group to acquire the equity interest of Dajiang International since (a) the scale of Dajiang International's operation is small in terms of net profits as compared to the Target Group; (b) the gearing ratio of Dajiang International, which amounted to 89.5% as at 31 December 2010, is relatively high; and (c) the Target Group has no intention to further expand its trading business as the profit margin for trading is not as high as that for the sales of self-produced metals and metal-based products.

RELATIONSHIP WITH THE PARENT COMPANY

The Daye Metal Group has been supplying silver to Dajiang International since 2009. For the two years ended 31 December 2010 and the six months ended 30 June 2011, the total sales of silver to Dajiang International by the Daye Metal Group accounted for approximately 0.9%, 0.6% and 0.3% of the total revenue of the Daye Metal Group, respectively. After China Times Completion, Dajiang International is a connected person of the Company within the meaning of the Listing Rules. The Daye Metal Group will, after China Times Completion, continue to supply silver to Dajiang International in accordance with the terms of the Sales Framework Agreement, which will constitute continuing connected transactions of the Company.

Jinshi Gold

Jinshi Gold is principally engaged in the management of mining assets relating to wolfram, gold and rare earth and the trading of non-ferrous metals including gold and non-ferrous metal based products including copper cathodes.

Based on its accounts prepared in accordance with PRC Generally Accepted Accounting Principles, Jinshi Gold's unaudited net profits generated from its trading business for the year ended 31 December 2010 and unaudited net profits generated from its trading business for the six months ended 30 June 2011 amounted to approximately RMB2.9 million and RMB1.6 million, respectively.

It is not the intention of the Target Group to acquire the equity interest of Jinshi Gold since (a) the principal business of Jinshi Gold is mining asset management and it started its trading business only in 2010; (b) the scale of Jinshi Gold's operation is small as compared to the Target Group; and (c) the Target Group has no intention to further expand its trading business as the profit margin for trading is not as high as that for the sales of self-produced metals and metal-based products.

The Daye Metal Group has been supplying copper cathodes to Jinshi Gold since 2010. For the year ended 31 December 2010, the total sales of copper cathodes to Jinshi Gold by the Daye Metal Group accounted for approximately 0.03% of the total revenue of the Daye Metal Group. There were no sales during the six months ended 30 June 2011. The customers of Jinshi Gold are mainly based outside of Hubei Province, the PRC, which do not overlap with those of the Target Group. Jinshi Gold is a connected person of the Company within the meaning of the Listing Rules. The Daye Metal Group will, after China Times Completion, continue to supply copper cathodes to Jinshi Gold in accordance with the terms of the Sales Framework Agreement, which will constitute continuing connected transactions of the Company.

RELATIONSHIP WITH THE PARENT COMPANY

Gold mining business

The following companies within the Parent Group will continue to carry out gold mining, production and sales business after China Times Completion:

- 新疆煌金投資有限公司 (Xinjiang Huangjin Investment Co., Ltd.) (“**Xinjiang Investment**”), which is owned as to 51% by the Parent Company and 49% by Independent Third Parties.
- Asia Gold Enterprise Development Co., Ltd. (“**Asia Gold**”), which is wholly-owned by Xinjiang Investment.

Xinjiang Investment is an investment vehicle which invests in mining assets.

Asia Gold owns a gold mine located in the Kyrgyz Republic, namely, the Guokesu Mine.

Based on its accounts prepared in accordance with PRC Generally Accepted Accounting Principles, Xinjiang Investment’s audited net profits for the year ended 31 December 2010 and unaudited net loss for the six months ended 30 June 2011 amounted to approximately RMB5.7 million and RMB2.6 million, respectively.

It is not the intention of the Target Group to acquire the equity interest of Xinjiang Investment held by the Parent Company since (a) Xinjiang Investment is an investment vehicle which is not directly engaged in the mining or production of gold; and (b) the Guokesu Mine is located outside of Hubei Province and the mining operation commenced only in 2010.

Non-controlling interests in companies engaged in copper and gold related business

The following companies in which the Parent Group holds less than 50% of their respective total equity interests will continue to carry out certain copper and gold related business after China Times Completion has taken place:

- 湖北雞籠山黃金礦業有限公司 (Hubei Jilong Mountain Gold Mining Co., Ltd.) (“**Hubei Gold**”), which is owned as to 40.2% by the Parent Company and one of its wholly-owned subsidiaries and 59.8% by Independent Third Parties;
- 大冶市鯉泥湖礦業有限公司 (Daye Lini Lake Mining Co., Ltd.) (“**Lini Mining**”), which is owned as to 30% by the Parent Company and 70% by Independent Third Parties; and
- 陽新縣鵬凌礦業有限公司 (Yangxin County Pengling Mining Co., Ltd.) (“**Pengling Mining**”), which is owned as to 5% by the Parent Company and 95% by Independent Third Parties.

RELATIONSHIP WITH THE PARENT COMPANY

Hubei Gold

Hubei Gold is principally engaged in the mining, production and sales of gold, gold concentrates and copper concentrates. It owns a gold mine located in Hubei Province, the PRC, namely, the Jilong Mountain Mine. The Jilong Mountain Mine mainly produces gold.

Based on its accounts prepared in accordance with PRC Generally Accepted Accounting Principles, Hubei Gold's audited net profits for the year ended 31 December 2010 and unaudited net profits for the six months ended 30 June 2011 amounted to approximately RMB46 million and RMB27 million, respectively.

The board of directors of Hubei Gold comprises nine members, two of which are appointed by the Parent Company. The Parent Company also appoints one of the deputy general managers of Hubei Gold, who is responsible for overseeing the business operation of Hubei Gold on behalf of the Parent Company. The Parent Company does not control the composition of the board of directors or the management of Hubei Gold.

It is not the intention of the Target Group to acquire the equity interest of Hubei Gold held by the Parent Group since (a) the scale of Hubei Gold's operation is small in terms of net profits as compared to the Target Group; and (b) the 40.2% equity interest in Hubei Gold held by Parent Group only confers limited control over the business operation and decision of Hubei Gold.

Hubei Gold has been supplying copper concentrates to the Daye Metal Group since 2009. For the two years ended 31 December 2010 and the six months ended 30 June 2011, the total purchase of copper concentrates from Hubei Gold by the Daye Metal Group accounted for approximately 0.3%, 0.3% and 0.2% of the total costs of sales of the Daye Metal Group, respectively. Hubei Gold is a connected person of the Company within the meaning of the Listing Rules. Hubei Gold will, after China Times Completion, continue to supply copper concentrates to the Daye Metal Group in accordance with the terms of the Hubei Gold Purchase Framework Agreement, which will constitute continuing connected transactions of the Company.

Lini Mining

Lini Mining owns a copper-iron mine located in Hubei Province, the PRC, namely, the Lini Mine. No mining or production activities have commenced at the Lini Mine. The mining infrastructure of the Lini Mine is currently under construction, which is expected to be completed in 2013. No revenue or profits attributable to mining or production activities have been recorded by Lini Mining during the Track Record Period.

RELATIONSHIP WITH THE PARENT COMPANY

The Parent Company is the single largest shareholder of Lini Mining. It appoints two out of the five directors in Lini Mining. It also appoints the general manager and deputy general manager of Lini Mining, who participate in the daily operations of Lini Mining. Transfer of the Parent Company's equity interest in Lini Mining is subject to pre-emption rights of the other shareholders.

It is not the intention of the Target Group to acquire the equity interest of Lini Mining held by the Parent Company since (a) Lini Mining is not expected to be revenue-generating in the near future; (b) the Company has been informed that the construction of mining infrastructure of the Lini Mine is hindered by the presence of underground water and as such, it is uncertain at this stage as to whether the Lini Mine will have any economic value; and (c) the size of the Lini Mine is insignificant compared to the size of the Four Mines.

Pengling Mining

Pengling Mining owns a copper mine located in Hubei Province, the PRC, namely, the Pengling Mine. No mining or production activities have commenced at the Pengling Mine. No revenue or profits attributable to mining or production activities have been recorded by Pengling Mining during the Track Record Period.

The Parent Company is a passive investor in Pengling Mining and only holds a 5% equity interest. It is entitled to appoint, and has appointed, one of the nine directors of Pengling Mining. Transfer of the Parent Company's equity interest in Pengling Mining is subject to pre-emption rights of the other shareholders.

It is not the intention of the Target Group to acquire the equity interest of Pengling Mining held by the Parent Company since (a) Pengling Mining is not expected to be revenue-generating in the near future; and (b) the size of the Pengling Mine is insignificant compared to the size of the Four Mines.

RELATIONSHIP WITH THE PARENT COMPANY

Non-competition undertaking

Pursuant to the Acquisition Agreement (as supplemented and amended by the First Supplemental Agreement and the Second Supplemental Agreement), the Parent Company has undertaken to the Company that with effect from the date of China Times Completion and until the Ordinary Shares cease to be listed on the Stock Exchange or the Parent Company ceases to be the controlling shareholder (as defined in the Listing Rules) of the Company, whichever is earlier:

- (i) it will not and will procure each other member of the Parent Group, the holding company of the Parent Company and the subsidiaries of such holding company not to, directly or indirectly, carry on or be engaged or interested in any business in connection with the exploration, mining, processing, sales and trading of copper, silver, gold and molybdenum, and the production, sales and trading of copper-based products and sulphuric acid (other than (a) the following business of, and interests held by, the Parent Group: (1) the businesses of processing of coarse copper into anode plates; production and sales of copper rods and copper tubes; exploration, mining, production and sales of gold; and trading in silver, gold, copper cathodes, copper concentrates, coarse copper and scrap copper being carried on by the Parent Group as at the date of China Times Completion; and (2) the equity interests held by the Parent Group in companies engaging in the exploration, mining, production and sales of copper, gold, copper concentrates and gold concentrates (being equity interest not exceeding 50% of the total equity interests in each such company) as at the date of China Times Completion (the “**Existing Businesses**”); and (b) new copper, silver, gold and molybdenum mines and related facilities acquired from or allocated by any governmental authorities from time to time), whether in or outside of the PRC;
- (ii) if at any time, any member of the Parent Group proposes to sell or dispose of any of the Existing Businesses, the Parent Company will procure that such business be first offered to the Company for purchase on and subject to such terms and conditions as may be agreed between the Company and the relevant member of the Parent Group; and

RELATIONSHIP WITH THE PARENT COMPANY

- (iii) if at any time, any member of the Parent Group, the holding company of the Parent Company or any subsidiary of such holding company acquires from or is allocated by any governmental authority any new copper, silver, gold or molybdenum mine and/or related facility, (a) the Parent Company shall notify the Company in writing immediately; and (b) the Company shall, and the Parent Company shall procure that the Company shall, have the right (but not the obligation),
- (1) if the transfer of such mine or related facility is permitted by applicable laws and regulations at the time, at any time within the period of 30 days after such mine or related facility has been acquired or allocated and such due diligence, technical and feasibility report by independent professional parties as the Company may require has been completed (and such report being acceptable to the Company); or
- (2) if the transfer of such mine or related facility is not so permitted by applicable laws and regulations at the time, at any time within the period of 30 days after such transfer has become so permitted and such due diligence, technical and feasibility report by independent professional parties as the Company may require has been completed (and such report being acceptable to the Company),

to require, by written notice, the relevant member of the Parent Group, the holding company of the Parent Company or the relevant subsidiary of such holding company to transfer such mine or related facility and all related rights to the Company or such other member of the Enlarged Group as it may direct, on and subject to such terms and conditions as may be agreed between the Company and the relevant member of the Parent Group, the holding company of the Parent Company or the relevant subsidiary of such holding company and also subject to compliance with such legal and regulatory requirements (whether in the PRC or Hong Kong) as may be applicable by the Company and the relevant member of the Parent Group, the holding company of the Parent Company or the relevant subsidiary of such holding company.

The Parent Company has also undertaken to procure that the Company will be provided with all information which may be reasonably required by the Company to make a decision as to whether to exercise its rights under the above non-competition undertaking.

RELATIONSHIP WITH THE PARENT COMPANY

When the Company receives the written notice from the Parent Company with respect to the acquisition or allocation of any new mine or related facility, the independent non-executive Directors will, by a majority vote, decide whether to exercise the Company's rights under the non-competition undertaking. The independent non-executive Directors may, when making such decision, seek the views of the other Directors and the senior management of the Company and request further information such as the business plan and financial condition of the Company and the prevailing market conditions. They may also, at the cost of the Company, appoint any professional adviser as they consider necessary to advise them. Any decision by the independent non-executive Directors as to whether to exercise the Company's rights under the non-competition undertaking to require the transfer of such mine or related facility will be disclosed by the Company in its annual report for the year in which the decision is made. The Company will also comply with all applicable requirements of the Listing Rules (including the requirements under Chapter 14 and 14A of the Listing Rules) as appropriate.

The Existing Businesses are excluded from the non-competition undertaking given by the Parent Company in order to allow the Parent Group to continue carrying on the retained business described above. The non-competition undertaking also excludes new mines and related facilities which may be acquired from or allocated by any governmental authorities from time to time since the Parent Company may, as a state-owned enterprise, benefit from time to time from certain preferential government policies which allow new mines and related facilities to be acquired or allocated to it or its subsidiaries from the government.

INDEPENDENCE FROM PARENT COMPANY

The Directors consider that the Enlarged Group will be capable of carrying on its business independently of the Parent Company on the basis of the following:

Management independence

As at the Latest Practicable Date, the Board comprised three executive Directors and three independent non-executive Directors. The Company has been informed by the Parent Company and China Times that they may nominate new members to the Board after completion of the Acquisition, but no decision has been made as to the nominees or the timing of appointment as at the Latest Practicable Date.

None of the Directors is a director of or hold any position in any member of the Parent Group. The senior management of the Company is also independent of the Parent Group since there is no overlap between the senior management of the Company and that of the Parent Group. The Directors expect that the business of the Enlarged Group will be managed independently of the Parent Company after completion of the Acquisition.

RELATIONSHIP WITH THE PARENT COMPANY

Operational independence

Members of the Enlarged Group will hold all relevant licences and permits required in connection with their respective business operations, and will have sufficient equipment and employees to operate those businesses operations independently of the Parent Company.

The Daye Metal Group has established its own operational structure made up of separate departments independent of the Parent Group, including the research and development department, quality control department, sales and marketing department, procurement department and accounting department.

During the three years ended 31 December 2010 and the six months ended 30 June 2011, members of the Daye Metal Group purchased certain raw materials and products and received certain production services from the Parent Group, which accounted for approximately 4.2%, 3.9%, 6.6% and 5.9% of the total costs of sales of Daye Metal in those periods, respectively. It is expected that such purchases and production services will continue after completion of the Acquisition, but will not represent a material portion of the total costs of sales of the Daye Metal Group. For further details on those purchases and production services, please refer to the section headed “Continuing Connected Transaction- Purchase and Production Services Framework Agreement” in this circular.

During the three years ended 31 December 2010 and the six months ended 30 June 2011, members of the Daye Metal Group sold certain products and materials and provide certain services to the Parent Group, which accounted for approximately 13.2%, 9.2%, 5.9% and 8.1% of the total revenue of Daye Metal Group in those periods, respectively. Shanghai Jinzhao was one of the five largest customers of the Daye Metal Group for the years ended 31 December 2008 and 2009 and the six months ended 30 June 2011. Sales to Shanghai Jinzhao accounted for approximately 6.6%, 6.9% and 4.7% of the total revenue of Daye Metal in those periods, respectively. It is expected that such sales will continue after completion of the Acquisition, but will not represent a material portion of the total revenue of the Daye Metal Group. For further details on those sales, please refer to the section headed “Continuing Connected Transaction- Sales Framework Agreement” in this circular.

On the basis of the above, the Directors believe that the business of the Enlarged Group will be operated independently of the Parent Company, and the Enlarged Group will have independent access to sources of supplies and raw materials for production and to customers following completion of the Acquisition.

RELATIONSHIP WITH THE PARENT COMPANY

Financial independence

As at 30 June 2011, two loans in the aggregate principal amount of RMB990 million which were provided to Daye Metal by the Parent Company were outstanding. Those loans were provided by the Parent Company under the arrangements described below:

- (i) In October 2010, the Parent Company issued secured corporate bonds at a par value of RMB100 each for a term of 8 years. The coupon rate was fixed at 4.98% per annum for the first five years, and the coupon rate for the remaining three years is subject to adjustment by the Parent Company. Pursuant to the terms of the corporate bonds, the Parent Company was required to allocate RMB490 million to Daye Metal for its energy saving and Tonglvshan Mine projects. In this connection, the Parent Company entered into a loan agreement with Daye Metal in October 2010, pursuant to which the Parent Company provided an unsecured loan in the amount of RMB490 million to Daye Metal at the interest rate of 4.98% per annum, repayable in five years (the “**First Loan**”).
- (ii) In January 2011, the Parent Company issued medium-term notes at a par value of RMB100 each for a term of 5 years at a fixed interest rate of 5.79% per annum. Pursuant to the terms of the notes, the Parent Company was required to allocate the entire amount of the proceeds from the issue to Daye Metal for the repayment of Daye Metal’s bank borrowings. In this connection, China Merchants Bank, at the request of the Parent Company, entered into a loan agreement with Daye Metal in January 2011, pursuant to which China Merchants Bank provided an unsecured entrusted loan in the amount of RMB500 million to Daye Metal at the interest rate of 5.79% per annum, repayable in five years (the “**Second Loan**”).

According to HKFRS, the Second Loan is included as long-term borrowings of the Target Group, secured by the corporate guarantee provided by the Parent Company (see note 27 to the Accountant’s Report on the Target Group set out in Appendix I to this circular).

Under PRC law, proceeds from the issue of corporate bonds and notes must be applied in accordance with their terms of issue. The terms of issue of the corporate bonds and medium-term notes by the Parent Company in October 2010 and January 2011, respectively, specified that part or all of the proceeds had to be allocated to Daye Metal. The First Loan and the Second Loan were, therefore, provided by the Parent Company to Daye Metal.

The interest rate for each of the First Loan and the Second Loan is more favourable than the rates offered by independent banks at the time the loan was granted and also the prevailing market rate as at 30 June 2011. Daye Metal does not intend to repay the First Loan and the Second Loan on the completion of the Acquisition but will repay them in accordance with their repayment terms under the loan agreements.

RELATIONSHIP WITH THE PARENT COMPANY

In addition to the First Loan and the Second Loan, the Parent Company has also provided guarantees for certain bank borrowings of Daye Metal. As at 30 June 2011, the outstanding amount of such bank borrowings was RMB620 million.

As at 30 June 2011, Daye Metal had unutilised credit facilities granted by independent banks in the aggregate amount of up to RMB7.6 billion to meet its working capital and trading requirements. Those facilities were granted without any security or guarantee provided by the Parent Group. The aggregate amount of such unutilised credit facilities well exceeds the total amount of indebtedness owed by the Daye Metal Group to the Parent Group and the aggregate amount of loans granted to Daye Metal which is guaranteed by the Parent Group. Based on Daye Metal's past record of financing on a stand-alone basis without any credit support from the Parent Group, the Directors believe that Daye Metal will be able to obtain further financing from independent banks without credit support from the Parent Group if the need arises.

On the basis of the foregoing, the Directors are of the view that the Enlarged Group will be financially independent of the Parent Company following completion of the Acquisition.

NON-DISPOSAL UNDERTAKING

The Parent Company has undertaken to the Company that within six months following the date of the China Times Completion, it will not and will procure that none of the its nominees and companies controlled by it (including China Times) and trusts associated with it (whether individually or together and whether directly or indirectly) will (a) sell or contract to sell any shares of the Company (including the China Times Consideration Shares, any interests in any shares of the Company beneficially owned or held by China Times or any securities convertible into or exercisable or exchangeable for or substantially similar to any such shares of the Company or interests, but excluding the Ordinary Shares which China Times will acquire upon conversion of the China Times Convertible Notes), sell any option or contract to purchase or purchase any option or contract to sell or grant any option, right or warrant in respect thereof, or otherwise transfer or dispose of (either conditionally or unconditionally, or directly or indirectly, or otherwise) any shares of the Company; or (b) enter into any swap or similar agreement that transfers, in whole or in part, the economic risk of ownership of such shares of the Company, whether any such transaction described in (a) or (b) above is to be settled by delivery of shares or such other securities, or in cash or otherwise; or (c) announce any intention to enter into or effect any such transaction described in (a) or (b) above.

CONTINUING CONNECTED TRANSACTIONS

On 23 December 2011, the Company entered into the following agreements with the Parent Company or its associates (as the case may be), all of which constitute continuing connected transactions of the Company within the meaning of the Listing Rules:

- (a) the Sales Framework Agreement;
- (b) the Services Framework Agreement;
- (c) the Purchase and Production Services Framework Agreement;
- (d) the Hubei Gold Purchase Framework Agreement;
- (e) the Daye Transportation Purchase Framework Agreement;
- (f) the Combined Ancillary Services Framework Agreement;
- (g) the Tonghua Hotel Services Framework Agreement; and
- (h) the Land Lease Framework Agreement.

On 23 December 2011, the Company entered into the Daye Labour Purchase and Production Services Framework Agreement with Daye Labour, which will constitute continuing connected transactions of the Company within the meaning of the Listing Rules upon China Times Completion.

The Sales Framework Agreement, the Services Framework Agreement, the Purchase and Production Services Framework Agreement, the Hubei Gold Purchase Framework Agreement, the Daye Transportation Purchase Framework Agreement, the Combined Ancillary Services Framework Agreement, the Tonghua Hotel Services Framework Agreement, the Land Lease Framework Agreement and the Daye Labour Purchase and Production Services Framework Agreement are conditional upon China Times Completion taking place and all applicable legal and regulatory requirements (including those under the Listing Rules) having been complied with.

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

A. Sales Framework Agreement

Pursuant to the Sales Framework Agreement, the Company will and will procure that other members of the Enlarged Group will supply certain products and materials to the Parent Company and its subsidiaries.

1. Date

23 December 2011

CONTINUING CONNECTED TRANSACTIONS
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2. *Parties*

- (a) the Company
- (b) the Parent Company

3. *Term*

From the date on which the Sales Framework Agreement takes effect in accordance with its terms until 31 December 2013.

4. *Termination*

The Sales Framework Agreement shall terminate upon the occurrence of the following events:

- (i) consent by both parties to terminate the agreement;
- (ii) occurrence of any force majeure event which renders it impossible to achieve the purpose of the agreement;
- (iii) breach of the agreement by either party, which is not remedied within 30 days upon request by the non-defaulting party;
- (iv) the agreement being declared invalid by the court or other competent authority;
- (v) shares of the Company ceasing to be listed on the Stock Exchange; or
- (vi) the Parent Company ceasing to constitute a connected person of the Company.

5. *Products and materials to be supplied by the Enlarged Group*

Copper cathodes, scrap copper, silver, silver extracts (分銀渣), water (to be procured by members of the Enlarged Group from Independent Third Party suppliers for onward supply to subsidiaries of the Parent Company), electricity (to be procured by members of the Enlarged Group from Independent Third Party suppliers for onward supply to subsidiaries of the Parent Company, or spare electricity generated from the Enlarged Group's production process), raw materials, auxiliary equipment, supporting materials, components, production equipment and tools.

CONTINUING CONNECTED TRANSACTIONS

6. *Pricing mechanism*

Depending on the products or materials to be supplied by the Enlarged Group, the price at which each transaction under the Sales Framework Agreement is to be conducted will be determined on the following basis: (i) according to the government-prescribed price; or (ii) if there is no applicable government-prescribed price, with reference to the market price.

7. *Time and method of payment*

The time and method of payment for each transaction under the Sales Framework Agreement will be determined with reference to market practice.

8. *Historical transaction amounts*

Members of the Daye Metal Group had been supplying products and materials similar to those set out in the Sales Framework Agreement to the subsidiaries of the Parent Company in the three years ended 31 December 2008, 2009, 2010 and the six months ended 30 June 2011. The aggregate amount paid by the subsidiaries of the Parent Company to members of the Daye Metal Group for such products and materials amounted to approximately RMB1,954,980,000, RMB1,698,490,000, RMB1,540,360,000 and RMB1,113,030,000 for the three years ended 31 December 2008, 2009, 2010 and the six months ended 30 June 2011, respectively.

9. *Proposed annual caps*

The Company proposes to adopt the following annual caps for transactions to be entered into pursuant to the Sales Framework Agreement for each of the two years ending 31 December 2012 and 2013:

Annual Cap	
For the year ending 31 December 2012	For the year ending 31 December 2013
RMB2,532,300,000	RMB2,744,010,000

CONTINUING CONNECTED TRANSACTIONS

The above annual caps have been determined with reference to (i) the existing purchase orders placed by subsidiaries of the Parent Company; (ii) projected increase in the products to be sold to the subsidiaries of the Parent Company as a result of the expected growth in the business of the Parent Company and its subsidiaries and the expansion of the Enlarged Group's production capacity as a result of the upgrading of its production facilities; and (iii) the expected increase in the price of raw materials and labour costs in the next few years.

On the basis of the above factors, the Directors, including members of the Independent Board Committee, are of the view that the proposed annual caps for the transactions under the Sales Framework Agreement are fair and reasonable.

10. Reasons for entering into the Sales Framework Agreement

The Directors consider that the entering into of the Sales Framework Agreement will broaden the revenue base of the Company and allow it to leverage on the sales network of the Parent Company and its subsidiaries in Shanghai and Hong Kong.

B. Services Framework Agreement

Pursuant to the Services Framework Agreement, the Company will and will procure that other members of the Enlarged Group will provide certain services to the Parent Company and its subsidiaries.

1. Date

23 December 2011

2. Parties

(a) the Company

(b) the Parent Company

3. Term

From the date on which the Services Framework Agreement takes effect in accordance with its terms until 31 December 2013.

CONTINUING CONNECTED TRANSACTIONS

4. Termination

The Services Framework Agreement shall terminate upon the occurrence of the following events:

- (i) consent by both parties to terminate the agreement;
- (ii) occurrence of any force majeure event which renders it impossible to achieve the purpose of the agreement;
- (iii) breach of the agreement by either party, which is not remedied within 30 days upon request by the non-defaulting party;
- (iv) the agreement being declared invalid by the court or other competent authority;
- (v) shares of the Company ceasing to be listed on the Stock Exchange; or
- (vi) the Parent Company ceasing to constitute a connected person of the Company.

5. Services to be provided by the Enlarged Group

Design services, surveying services, labour services for construction projects, provision of environment monitoring services, provision of examination of equipment and machineries services.

6. Pricing mechanism

The price at which each transaction under the Services Framework Agreement is to be conducted will be determined with reference to the market price of such services.

7. Time and method of payment

The time and method of payment for each transaction under the Services Framework Agreement will be determined with reference to market practice.

CONTINUING CONNECTED TRANSACTIONS

8. *Historical transaction amounts*

Members of the Daye Metal Group had been providing services similar to those set out in the Services Framework Agreement to the Parent Company and its subsidiaries in the three years ended 31 December 2008, 2009, 2010 and the six months ended 30 June 2011. The aggregate amount paid by the Parent Company and its subsidiaries for such services amounted to approximately RMB2,060,000, RMB1,250,000, RMB7,430,000 and RMB2,130,000 for the three years ended 31 December 2008, 2009, 2010 and the six months ended 30 June 2011, respectively.

9. *Proposed annual caps*

The Company proposes to adopt the following annual caps for transactions to be entered into pursuant to the Services Framework Agreement for each of the two years ending 31 December 2012 and 2013:

Annual Cap	
For the year ending 31 December 2012	For the year ending 31 December 2013
RMB9,640,000	RMB10,610,000

The above annual caps have been determined with reference to (i) the expected increase in the services to be provided to the Parent Company and its subsidiaries as a result of the expected growth in their business; and (ii) the expected increase in the services fees to be received by the Enlarged Group in the next few years.

On the basis of the above factors, the Directors, including members of the Independent Board Committee, are of the view that the proposed annual caps for the transactions under the Services Framework Agreement are fair and reasonable.

10. *Reasons for entering into the Services Framework Agreement*

The Directors consider that the entering into of the Services Framework Agreement will broaden the revenue base of the Enlarged Group. Given the close proximity of the respective operations of the Enlarged Group and the Parent Company and its subsidiaries, the Services Framework Agreement will also enable convenient and cost-efficient sharing of the various services under that agreement between the Enlarged Group and the Parent Company and its subsidiaries.

CONTINUING CONNECTED TRANSACTIONS

C. Purchase and Production Services Framework Agreement

Pursuant to the Purchase and Production Services Framework Agreement, the Parent Company will and will procure that its subsidiaries will supply certain products and materials and provide certain production services to members of the Enlarged Group.

1. Date

23 December 2011

2. Parties

- (a) the Company
- (b) the Parent Company

3. Term

From the date on which the Purchase and Production Services Framework Agreement takes effect in accordance with its terms until 31 December 2013.

4. Termination

The Purchase and Production Services Framework Agreement shall terminate upon the occurrence of the following events:

- (i) consent by both parties to terminate the agreement;
- (ii) occurrence of any force majeure event which renders it impossible to achieve the purpose of the agreement;
- (iii) breach of the agreement by either party, which is not remedied within 30 days upon request by the non-defaulting party;
- (iv) the agreement being declared invalid by the court or other competent authority;
- (v) shares of the Company ceasing to be listed on the Stock Exchange; or
- (vi) the Parent Company ceasing to constitute a connected person of the Company.

CONTINUING CONNECTED TRANSACTIONS

5. *Products and materials to be supplied to the Enlarged Group*

Copper concentrates, copper cathodes, coarse copper, scrap copper, mechanically processed products, natural gas, steam, fume, raw materials, auxiliary equipment, supporting materials, components, production equipment and tools.

6. *Production services to be provided to the Enlarged Group*

Processing of coarse copper to anode plates, transportation services, construction of production site and installation of related facilities, and sinking and drifting engineering (井巷工程) and other related production services.

7. *Pricing mechanism*

Depending on the products or materials to be supplied to the Enlarged Group and the production services to be provided to the Enlarged Group, the price at which each transaction under the Purchase and Production Services Framework Agreement is to be conducted will be determined on the following basis: (i) according to government-prescribed price; (ii) if there is no applicable government-prescribed price, with reference to the market price; or (iii) if no such market price is available, the cost incurred by the relevant party in providing the products or materials or services plus a charge not exceeding 15% of such cost.

8. *Time and method of payment*

The time and method of payment for each transaction under the Purchase and Production Services Framework Agreement will be determined with reference to market practice.

9. *Historical transaction amounts*

The Parent Company and its subsidiaries had been supplying products and materials and providing production services similar to those set out in the Purchase and Production Services Framework Agreement to members of the Daye Metal Group in the three years ended 31 December 2008, 2009, 2010 and the six months ended 30 June 2011. The aggregate amount paid by members of the Daye Metal Group to the Parent Company and its subsidiaries for such products, materials and services amounted to approximately RMB608,660,000, RMB685,960,000, RMB1,653,230,000 and RMB771,930,000 for the three years ended 31 December 2008, 2009, 2010 and the six months ended 30 June 2011, respectively.

CONTINUING CONNECTED TRANSACTIONS
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10. Proposed annual caps

The Company proposes to adopt the following annual caps for transactions to be entered into pursuant to the Purchase and Production Services Framework Agreement for each of the two years ending 31 December 2012 and 2013:

Annual Cap	
For the year ending 31 December 2012	For the year ending 31 December 2013
RMB4,797,980,000	RMB5,336,080,000

The annual cap for the year ending 31 December 2012 represents an increase of approximately 190% from the aggregate amount paid by members of the Daye Metal Group to the Parent Company and its subsidiaries for the year ended 31 December 2010. Such estimated increase has been determined on the basis of (i) the aggregate amount of RMB1,204,120,000 already paid by members of the Daye Metal Group to the Parent Company and its subsidiaries for the nine months ended 30 September 2011 and the projected amount to be paid for the remaining three months of 2011, taking into account the existing purchase orders placed by the Daye Metal Group; (ii) the projected increase in the amount of materials and services required as a result of the increased production capacity of copper cathodes of the Enlarged Group upon operation of both the new Ausmelt furnace and the new electrowinning system at the Smelting Plant in 2012, which are expected to increase the annual production capacity of copper cathodes to 640,000 tonnes when operating at full capacity; (iii) the expected growth in the Enlarged Group's business operations; and (iv) the expected increase in the price of raw material and services fees to be paid by the Enlarged Group.

The annual cap for the year ending 31 December 2013 represents an increase of approximately 11% from the annual cap for the previous year. Such estimated increase has been determined on the basis of (i) the expected growth in the Enlarged Group's business operations; and (ii) the expected increase in the price of raw material and services fees to be paid by the Enlarged Group.

On the basis of the above factors, the Directors, including members of the Independent Board Committee, are of the view that the proposed annual caps for the transactions under the Purchase and Production Services Framework Agreement are fair and reasonable.

CONTINUING CONNECTED TRANSACTIONS
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11. *Reasons for entering into the Purchase and Production Services Framework Agreement*

The products and materials and production services to be provided under the Purchase and Production Services Framework Agreement will be important to the Enlarged Group's operations. Given the long-term relationship of the Parent Company, its subsidiaries and the Enlarged Group and the close geographical proximity of their respective operations, the Directors consider that the entering into of the Purchase and Production Services Framework Agreement will allow the Enlarged Group to secure a cost effective, timely and stable source of supply of those products and materials and production services, and also to benefit from the procurement network of the Parent Company.

D. *Hubei Gold Purchase Framework Agreement*

Pursuant to the Hubei Gold Purchase Framework Agreement, Hubei Gold will supply copper concentrates to members of the Enlarged Group.

1. *Date*

23 December 2011

2. *Parties*

(a) the Company

(b) Hubei Gold

Hubei Gold is a limited liability company established in the PRC. As at the Latest Practicable Date, it was owned as to 40.2% by the Parent Company and one of its wholly-owned subsidiaries, and therefore constitutes an associate of the Parent Company and a connected person of the Company. Hubei Gold is principally engaged in the mining, production and sales of gold, gold concentrates and copper concentrates.

3. *Term*

From the date on which the Hubei Gold Purchase Framework Agreement takes effect in accordance with its terms until 31 December 2013.

CONTINUING CONNECTED TRANSACTIONS

4. Termination

The Hubei Gold Purchase Framework Agreement shall terminate upon the occurrence of the following events:

- (i) consent by both parties to terminate the agreement;
- (ii) occurrence of any force majeure event which renders it impossible to achieve the purpose of the agreement;
- (iii) breach of the agreement by either party, which is not remedied within 30 days upon request by the non-defaulting party;
- (iv) the agreement being declared invalid by the court or other competent authority;
- (v) shares of the Company ceasing to be listed on the Stock Exchange; or
- (vi) Hubei Gold ceasing to constitute a connected person of the Company.

5. Products to be supplied to the Enlarged Group

Copper concentrates

6. Pricing mechanism

The price at which each transaction under the Hubei Gold Purchase Framework Agreement is to be conducted will be determined with reference to the market price.

7. Time and method of payment

The time and method of payment for each transaction under the Hubei Gold Purchase Framework Agreement will be determined with reference to market practice.

8. Historical transaction amounts

Hubei Gold had been supplying copper concentrates to members of the Daye Metal Group in the two years ended 31 December 2009 and 2010 and the six months ended 30 June 2011. The aggregate amount paid by members of the Daye Metal Group to Hubei Gold for copper concentrates amounted to approximately RMB49,720,000, RMB83,810,000 and RMB27,790,000 for the two years ended 31 December 2009 and 2010 and the six months ended 30 June 2011, respectively.

CONTINUING CONNECTED TRANSACTIONS
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9. *Proposed annual caps*

The Company proposes to adopt the following annual caps for transactions to be entered into pursuant to the Hubei Gold Purchase Framework Agreement for each of the two years ending 31 December 2012 and 2013:

Annual Cap	
For the year ending 31 December 2012	For the year ending 31 December 2013
RMB96,810,000	RMB106,500,000

The above annual caps have been determined with reference to (i) the expected increase in the requirement of the Enlarged Group for copper concentrates; and (ii) the expected increase in the prices of copper concentrates.

On the basis of the above factors, the Directors, including members of the Independent Board Committee, are of the view that the proposed annual caps for the transactions under the Hubei Gold Purchase Framework Agreement are fair and reasonable.

10. *Reasons for entering into the Hubei Gold Purchase Framework Agreement*

The copper concentrates to be provided under the Hubei Gold Purchase Framework Agreement will be important to the Enlarged Group's production of copper cathodes. Given the close geographical proximity of the respective operations of Hubei Gold and the Enlarged Group, the Directors consider that the entering into of the Hubei Gold Purchase Framework Agreement will allow the Enlarged Group to secure a cost effective, timely and stable source of supply of copper concentrates.

CONTINUING CONNECTED TRANSACTIONS
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E. Daye Transportation Purchase Framework Agreement

Pursuant to the Daye Transportation Purchase Framework Agreement, Daye Transportation will supply certain products to members of the Enlarged Group.

1. Date

23 December 2011

2. Parties

- (a) the Company
- (b) Daye Transportation

Daye Transportation is a limited liability company established in the PRC. As at the Latest Practicable Date, it was owned as to 41.01% by a wholly-owned subsidiary of Hubei Jing which, in turn, is a 66.88%-owned subsidiary of the Parent Company, and therefore constitutes an associate of the Parent Company and a connected person of the Company. Daye Transportation is principally engaged in the provision of transportation services.

3. Termination

The Daye Transportation Purchase Framework Agreement shall terminate upon the occurrence of the following events:

- (i) consent by both parties to terminate the agreement;
- (ii) occurrence of any force majeure event which renders it impossible to achieve the purpose of the agreement;
- (iii) breach of the agreement by either party, which is not remedied within 30 days upon request by the non-defaulting party;
- (iv) the agreement being declared invalid by the court or other competent authority;
- (v) shares of the Company ceasing to be listed on the Stock Exchange; or
- (vi) Daye Transportation ceasing to constitute a connected person of the Company.

4. Term

From the date on which the Daye Transportation Purchase Framework Agreement takes effect in accordance with its terms until 31 December 2013.

CONTINUING CONNECTED TRANSACTIONS

5. *Products and materials to be supplied to the Enlarged Group*

Tyres, automobile parts and components, petrol and diesel oil.

6. *Pricing mechanism*

Depending on the products or materials to be supplied to the Enlarged Group, the price at which each transaction under the Daye Transportation Purchase Framework Agreement is to be conducted will be determined with reference to the market price.

7. *Time and method of payment*

The time and method of payment for each transaction under the Daye Transportation Purchase Framework Agreement will be determined with reference to market practice.

8. *Historical transaction amounts*

Daye Transportation had been supplying products and materials similar to those set out in the Daye Transportation Purchase Framework Agreement to members of the Daye Metal Group in the two years ended 31 December 2009, 2010 and the six months ended 30 June 2011. The aggregate amount paid by members of the Daye Metal Group to Daye Transportation for such products and materials amounted to approximately RMB3,530,000, RMB3,260,000 and RMB110,000 for the two years ended 31 December 2009, 2010 and the six months ended 30 June 2011, respectively.

Historically, members of the Daye Metal Group purchased products and materials from Daye Transportation in the second half of each year and made payment to Daye Transportation at the time of delivery of those products and materials. It is also the case for the year ending 31 December 2011. As at 30 September 2011, the aggregate amount paid by members of the Daye Metal Group to Daye Transportation amounted to approximately RMB1,480,000. As such, the total amount of RMB110,000 which has already been paid to Daye Transportation for the six months ended 30 June 2011 is not representative of the aggregate amount to be paid for the entire year of 2011.

CONTINUING CONNECTED TRANSACTIONS
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9. *Proposed annual caps*

The Company proposes to adopt the following annual caps for transactions to be entered into pursuant to the Daye Transportation Purchase Framework Agreement for each of the two years ending 31 December 2012 and 2013:

Annual Cap	
For the year ending 31 December 2012	For the year ending 31 December 2013
RMB3,950,000	RMB4,350,000

The above annual caps have been determined on the basis of (i) the aggregate amount of RMB1,480,000 already paid by members of the Daye Metal Group to Daye Transportation for the nine months ended 30 September 2011 and the projected amount to be paid for the remaining three months of 2011, (ii) the expected increase in the requirement of the Enlarged Group for tyres, automobile parts and components, petrol and diesel oil; and (iii) the expected increase in the prices of those products and materials.

On the basis of the above factors, the Directors, including members of the Independent Board Committee, are of the view that the proposed annual caps for the transactions under the Daye Transportation Purchase Framework Agreement are fair and reasonable.

10. *Reasons for entering into the Daye Transportation Purchase Framework Agreement*

Daye Transportation is principally engaged in the provision of transportation services and therefore has access to the supply channels for automobile-related products and materials. The Directors consider that the entering into of the Daye Transportation Purchase Framework Agreement will allow the Enlarged Group to secure a cost effective and stable source of supply of those automobile-related products and materials.

CONTINUING CONNECTED TRANSACTIONS

F. Combined Ancillary Services Framework Agreement

Pursuant to the Combined Ancillary Services Framework Agreement, the Parent Company will and will procure that its subsidiaries will provide certain ancillary services to members of the Enlarged Group.

1. Date

23 December 2011

2. Parties

- (a) the Company
- (b) the Parent Company

3. Term

From the date on which the Combined Ancillary Services Framework Agreement takes effect in accordance with its terms until 31 December 2013.

4. Termination

The Combined Ancillary Services Framework Agreement shall terminate upon the occurrence of the following events:

- (i) consent by both parties to terminate the agreement;
- (ii) occurrence of any force majeure event which renders it impossible to achieve the purpose of the agreement;
- (iii) breach of the agreement by either party, which is not remedied within 30 days upon request by the non-defaulting party;
- (iv) the agreement being declared invalid by the court or other competent authority;
- (v) shares of the Company ceasing to be listed on the Stock Exchange; or
- (vi) the Parent Company ceasing to constitute a connected person of the Company.

CONTINUING CONNECTED TRANSACTIONS

5. *Ancillary services to be provided to the Enlarged Group*

Medical services, employee training services, property management services, building maintenance services, telecommunication and related maintenance services, utility services (including water and electricity) and other related ancillary services.

6. *Pricing mechanism*

Depending on the ancillary services to be provided by the Parent Company and its subsidiaries, the price at which each transaction under the Combined Ancillary Services Framework Agreement is to be conducted will be determined on the following basis: (i) according to government-prescribed price; or (ii) if there is no applicable government-prescribed price, with reference to the market price.

7. *Time and method of payment*

The time and method of payment for each transaction under the Combined Ancillary Services Framework Agreement will be determined with reference to market practice.

8. *Historical transaction amounts*

The Parent Company and its subsidiaries had been providing ancillary services similar to those set out in the Combined Ancillary Services Framework agreement to members of the Daye Metal Group in the three years ended 31 December 2008, 2009, 2010 and the six months ended 30 June 2011. The aggregate amount paid by members of the Daye Metal Group for such ancillary services amounted to approximately RMB43,180,000, RMB282,270,000, RMB302,250,000 and RMB144,400,000 for the three years ended 31 December 2008, 2009, 2010 and the six months ended 30 June 2011, respectively.

9. *Proposed annual caps*

The Company proposes to adopt the following annual caps for transactions to be entered into pursuant to the Combined Ancillary Services Framework Agreement for each of the two years ending 31 December 2012 and 2013:

Annual Cap	
For the year ending 31 December 2012	For the year ending 31 December 2013
RMB501,720,000	RMB660,780,000

CONTINUING CONNECTED TRANSACTIONS

The above annual caps have been determined with reference to (i) the historical amounts paid by members of Daye Metal Group for similar ancillary services to the Parent Company and its subsidiaries; (ii) the expected increase in the services to be provided; and (iii) the expected increase in the services fees to be paid by the Enlarged Group in the next few years.

On the basis of the above factors, the Directors, including members of the Independent Board Committee, are of the view that the proposed annual caps for the transactions under the Combined Ancillary Services Framework Agreement are fair and reasonable.

10. Reasons for entering into the Combined Ancillary Services Framework Agreement

The Group or the Target Group currently does not have the capability of providing the ancillary services set out in the Combined Ancillary Services Framework Agreement. The Combined Ancillary Services Framework Agreement will allow the Enlarged Group to obtain the use of a wide range of support services that it or its employees will require on a day-to-day basis. The provision of such services to the Enlarged Group will allow the Enlarged Group to concentrate its resources on its core production operations.

G. Tonghua Hotel Services Framework Agreement

Pursuant to the Tonghua Hotel Services Framework Agreement, the Tonghua Hotel will provide certain ancillary services to members of the Enlarged Group.

1. Date

23 December 2011

2. Parties

(a) the Company

(b) Tonghua Hotel

Tonghua Hotel is a limited liability company established in the PRC. As at the Latest Practicable Date, it was owned as to 45% by the Parent Company and therefore constitutes an associate of the Parent Company and a connected person of the Company. Tonghua Hotel is principally engaged in the catering and hotel business.

CONTINUING CONNECTED TRANSACTIONS

3. *Term*

From the date on which the Tonghua Hotel Services Framework Agreement takes effect in accordance with its terms until 31 December 2013.

4. *Termination*

The Tonghua Hotel Services Framework Agreement shall terminate upon the occurrence of the following events:

- (i) consent by both parties to terminate the agreement;
- (ii) occurrence of any force majeure event which renders it impossible to achieve the purpose of the agreement;
- (iii) breach of the agreement by either party, which is not remedied within 30 days upon request by the non-defaulting party;
- (iv) the agreement being declared invalid by the court or other competent authority;
- (v) shares of the Company ceasing to be listed on the Stock Exchange; or
- (vi) Tonghua Hotel ceasing to constitute a connected person of the Company.

5. *Services to be provided to the Enlarged Group*

Hotel services, catering services and business conference services.

6. *Pricing mechanism*

The price at which each transaction under the Tonghua Hotel Services Framework agreement is to be conducted will be determined with reference to the market price of such services.

7. *Time and method of payment*

The time and method of payment for each transaction under the Tonghua Hotel Services Framework Agreement will be determined with reference to market practice.

CONTINUING CONNECTED TRANSACTIONS

8. *Historical transaction amounts*

Tonghua Hotel had been providing ancillary services similar to those set out in the Tonghua Hotel Services Framework Agreement to members of the Daye Metal Group in the two years ended 31 December 2009, 2010 and six months ended 30 June 2011. The aggregate amount paid by members of the Daye Metal Group for such ancillary services amounted to approximately RMB1,690,000, RMB3,400,000 and RMB1,300,000 for the two years ended 31 December 2009, 2010 and six months ended 30 June 2011, respectively.

9. *Proposed annual caps*

The Company proposes to adopt the following annual caps for transactions to be entered into pursuant to the Tonghua Hotel Services Framework Agreement for each of the two years ending 31 December 2012 and 2013:

Annual Cap	
For the year ending 31 December 2012	For the year ending 31 December 2013
RMB4,110,000	RMB4,530,000

The above annual caps have been determined with reference to (i) the historical amounts paid by members of the Daye Metal Group for similar services provided by Tonghua Hotel; (ii) the projected increase in the services to be provided; and (iii) the expected increase in the services fees to be paid by the Enlarged Group in the next few years as a result of increase in labour costs.

On the basis of the above factors, the Directors, including members of the Independent Board Committee, are of the view that the proposed annual caps for the transactions under the Tonghua Hotel Services Framework Agreement are fair and reasonable.

10. *Reasons for entering into the Tonghua Hotel Services Framework Agreement*

Given the close geographical proximity of Tonghua Hotel and members of the Enlarged Group, the Directors consider that the entering into of the Tonghua Hotel Services Framework Agreement will allow the Enlarged Group to secure cost effective hotel accommodation and catering and business conference service for its business functions.

CONTINUING CONNECTED TRANSACTIONS

FURTHER INFORMATION ON THE NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

Based on the aggregate annual caps proposed to be adopted for the Sales Framework Agreement and the Services Framework Agreement, one or more of the Relevant Ratios for the transactions to be carried out pursuant to such agreements is expected to exceed 5%. Hence, such transactions are subject to the reporting, announcement, independent shareholders' approval and annual review requirements as prescribed under Chapter 14A of the Listing Rules.

Based on the aggregate annual caps proposed to be adopted for the Purchase and Production Services Framework Agreement, the Hubei Gold Purchase Framework Agreement and the Daye Transportation Purchase Framework Agreement, one or more of the Relevant Ratios for the transactions to be carried out pursuant to such agreements is expected to exceed 5%. Hence, such transactions are subject to the reporting, announcement, independent shareholders' approval and annual review requirements as prescribed under Chapter 14A of the Listing Rules.

Based on the aggregate annual caps proposed to be adopted for the Combined Ancillary Services Framework Agreement and the Tonghua Hotel Services Framework Agreement, one or more of the Relevant Ratios for the transactions to be carried out pursuant to such agreements is expected to exceed 5%. Hence, such transactions are subject to the reporting, announcement, independent shareholders' approval and annual review requirements as prescribed under Chapter 14A of the Listing Rules.

None of the Directors has a material interest in the Non-Exempt Continuing Connected Transactions. The Directors, including members of the Independent Board Committee, consider that the Non-Exempt Continuing Connected Transactions will be entered into in the ordinary and usual course of business of the Enlarged Group, on normal commercial terms which will be on arm's length basis or no less favourable to the Enlarged Group than terms available to or from Independent Third Parties, fair and reasonable and in the interests of the Company and its shareholders as a whole.

The Independent Board Committee has been established to advise the Independent Shareholders in relation to the Non-Exempt Continuing Connected Transactions and the Annual Caps. The Independent Financial Adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders in relation to the Non-Exempt Continuing Connected Transactions and the Annual Caps.

CONTINUING CONNECTED TRANSACTIONS

The Independent Financial Adviser is of the view that (1) the Non-Exempt Continuing Connected Transactions will be entered into in the ordinary course of business of the Enlarged Group, on normal commercial terms, and are fair and reasonable and in the interests of the shareholders of the Company as a whole; and (2) the Annual Caps are fair and reasonable. Please refer to the section headed “Letter from the Independent Financial Adviser” in this circular for further details.

China Times, its associates, persons acting in concert with it and any person who is involved or interested in the Acquisition and/or the Whitewash Waiver will abstain from voting on the resolution for the approval of the Non-Exempt Continuing Connected Transactions (including the Annual Caps) to be proposed at the EGM.

EXEMPT CONTINUING CONNECTED TRANSACTIONS

A. Land Lease Framework Agreement

Pursuant to the Land Lease Framework Agreement, the Parent Company will and will procure that its subsidiaries will lease certain parcels of land to members of the Enlarged Group.

1. Date

23 December 2011

2. Parties

(a) the Company

(b) the Parent Company

3. Term

From the date on which the Land Lease Framework Agreement takes effect in accordance with terms until 31 December 2039.

The Directors consider that the term of the Land Lease Framework Agreement is fair and reasonable on the basis that (a) the parcels of land under the Land Lease Framework Agreement, which are currently leased to members of the Daye Metal Group for their production and staff facilities, are located around the Four Mines and the Smelting Plant and there are no comparable alternative parcels of land in the proximity; and (b) the rent payable for leasing each parcel of land will be the same for every year during the term of the Land Lease Framework Agreement (please refer to the paragraph headed “pricing mechanism” below).

CONTINUING CONNECTED TRANSACTIONS

4. Termination

The Land Lease Framework Agreement shall terminate upon the occurrence of the following events:

- (i) consent by both parties to terminate the agreement;
- (ii) occurrence of any force majeure event which renders it impossible to achieve the purpose of the agreement;
- (iii) breach of the agreement by either party, which is not remedied within 30 days upon request by the non-defaulting party;
- (iv) the agreement being declared invalid by the court or other competent authority;
- (v) shares of the Company ceasing to be listed on the Stock Exchange; or
- (vi) the Parent Company ceasing to constitute a connected person of the Company.

5. Pricing mechanism

The rent at which each transaction under the Land Lease Framework Agreement is to be conducted will be the annual depreciation amount of the relevant parcel of land, which will be calculated as the total amount paid by the owner of the land to the relevant government authorities for acquiring the relevant land use right, divided by the estimated useful life of such land. The lessee will also bear all the taxes and duties payable for the lease, which will be calculated by reference to the rent payable. Both the rent and the aggregate taxes and duties payable by the lessee for each parcel of land will be the same for each year during the term of the lease.

The above pricing mechanism is adopted since the parcels of land to be leased by members of the Enlarged Group from the Parent Company and its subsidiaries are located around the Four Mines and the Smelting Plant and there is no comparable land in the proximity and no corresponding market rent available for reference.

6. Time and method of payment

The rent under the Land Lease Framework Agreement is payable annually to the designated bank account of the Parent Company or the relevant subsidiary of the Parent Company.

CONTINUING CONNECTED TRANSACTIONS

7. *Historical transaction amounts*

The Parent Company and its subsidiaries had leased the parcels of land set out in the Land Lease Framework Agreement to members of the Daye Metal Group for the three years ended 31 December 2010 and the six months ended 30 June 2011. For the two years ended 31 December 2009, the Parent Company and/or its subsidiaries leased the parcels of land to members of the Daye Metal Group free of charge. The aggregate amount paid by members of the Daye Metal Group to the Parent Company for such lease amounted to approximately RMB12,750,000 and RMB6,380,000 for the year ended 31 December 2010 and the six months ended 30 June 2011, respectively.

8. *Proposed annual caps*

The Company proposes to adopt the following annual caps for transactions to be entered into pursuant to the Land Lease Agreement for each of the two years ending 31 December 2012 and 2013:

Annual Cap	
For the year ending 31 December 2012	For the year ending 31 December 2013
RMB23,890,000	RMB23,890,000

The above annual caps have been determined with reference to (i) the expected number of parcels of land to be leased by the Enlarged Group from the Parent Company and its subsidiaries; and (ii) the aggregate rent and taxes and duties payable by the Enlarged Group for leasing those parcels of land.

On the basis of the above factors, the Directors are of the view that the proposed annual caps for the transactions under the Land Lease Framework Agreement are fair and reasonable.

9. *Reasons for entering into the Land Lease Framework Agreement*

The parcels of land under the Land Lease Framework Agreement had been leased to members of the Daye Metal Group by the Parent Company and its subsidiaries in the past for their production and staff facilities. The arrangement would, therefore, enable the Enlarged Group to continue using those parcels of land without disruption to its business operations.

CONTINUING CONNECTED TRANSACTIONS

B. Daye Labour Purchase and Production Services Framework Agreement

Pursuant to the Daye Labour Purchase and Production Services Framework Agreement, Daye Labour will and will procure that its subsidiary will supply certain products and materials and provide certain production services to members of the Enlarged Group.

1. Date

23 December 2011

2. Parties

(a) the Company

(b) Daye Labour

Daye Labour is a limited liability company established in the PRC. As at the Latest Practicable Date, it owned approximately 10.66% equity interest in Daye Industry, a 89.34%-owned subsidiary of Daye Metal, and is therefore a substantial shareholder of Daye Industry. Daye Labour will become a connected person of the Company upon China Times Completion. Daye Labour is principally engaged in the production of iron products and labour protection products and provision of cleaning and recycling services.

3. Term

From the date on which the Daye Labour Purchase and Production Services Framework Agreement takes effect in accordance with its terms until 31 December 2013.

4. Termination

The Daye Labour Purchase and Production Services Framework Agreement shall terminate upon the occurrence of the following events:

- (i) consent by both parties to terminate the agreement;
- (ii) occurrence of any force majeure event which renders it impossible to achieve the purpose of the agreement;
- (iii) breach of the agreement by either party, which is not remedied within 30 days upon request by the non-defaulting party;
- (iv) the agreement being declared invalid by the court or other competent authority;

CONTINUING CONNECTED TRANSACTIONS

- (v) shares of the Company ceasing to be listed on the Stock Exchange; or
- (vi) Daye Labour ceasing to constitute a connected person of the Company.

5. *Products and materials to be supplied to the Enlarged Group*

Iron balls, auxiliary equipment, supporting materials, components, production equipment and tools and labour protection products.

6. *Production services to be provided to the Enlarged Group*

Provision of cleaning services and provision of recycling services of ore.

7. *Pricing mechanism*

Depending on the products or materials to be supplied to the Enlarged Group and the production services to be provided to the Enlarged Group, the price at which each transaction under the Daye Labour Purchase and Production Services Framework Agreement is to be conducted will be determined with reference to the market price.

8. *Time and method of payment*

The time and method of payment for each transaction under the Daye Labour Purchase and Production Services Framework Agreement will be determined with reference to market practice.

9. *Historical transaction amounts*

Daye Labour and its subsidiary had been supplying products and materials and providing production services similar to those set out in the Daye Labour Purchase and Production Services Framework Agreement to members of the Daye Metal Group in the three years ended 31 December 2008, 2009, 2010 and the six months ended 30 June 2011. The aggregate amount paid by members of the Daye Metal Group to Daye Labour and its subsidiary for such products, materials and services amounted to approximately RMB7,130,000, RMB5,190,000, RMB8,160,000 and RMB5,050,000 for the three years ended 31 December 2008, 2009, 2010 and the six months ended 30 June 2011, respectively.

CONTINUING CONNECTED TRANSACTIONS
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10. *Proposed annual caps*

The Company proposes to adopt the following annual caps for transactions to be entered into pursuant to the Daye Labour Purchase and Production Services Framework Agreement for each of the two years ending 31 December 2012 and 2013:

Annual Cap	
For the year ending 31 December 2012	For the year ending 31 December 2013
RMB9,870,000	RMB10,860,000

The above annual caps have been determined with reference to (i) the existing purchase orders placed by the Daye Metal Group; (ii) the projected increase in the amount of materials and services required as a result of the increased production capacity of the Enlarged Group and the expected growth in the Enlarged Group's business operations; and (iii) the expected increase in the price of raw material and services fees to be paid by the Enlarged Group.

On the basis of the above factors, the Directors are of the view that the proposed annual caps for the transactions under the Daye Labour Purchase and Production Services Framework Agreement are fair and reasonable.

11. *Reasons for entering into the Daye Labour Purchase and Production Services Framework Agreement*

The products and materials and production services to be provided under the Daye Labour Purchase and Production Services Framework Agreement will be important to the Enlarged Group's operations. Given the long-term relationship of Daye Labour, its subsidiary and the Enlarged Group and the close geographical proximity of their respective operations, the Directors consider that the entering into of the Daye Labour Purchase and Production Services Framework Agreement will allow the Enlarged Group to secure a cost effective, timely and stable source of supply of those products and materials and production services.

CONTINUING CONNECTED TRANSACTIONS

FURTHER INFORMATION ON THE EXEMPT CONTINUING CONNECTED TRANSACTIONS

Based on the annual caps proposed to be adopted for each of the Land Lease Framework Agreement and the Daye Labour Purchase and Production Services Framework Agreement, one or more of the Relevant Ratios for the transactions to be carried out pursuant to such agreement is expected to exceed 0.1% but be less than 5%. Hence, such transactions are subject to the reporting, announcement and annual review requirements only and are exempted from the independent shareholders' approval requirement as prescribed under Chapter 14A of the Listing Rules.

The Directors consider that the Exempt Continuing Connected Transactions will be entered into in the ordinary and usual course of business of the Enlarged Group, on normal commercial terms which will be no less favourable to the Enlarged Group than those available to or from Independent Third Parties, fair and reasonable and in the interests of the Company and its shareholders as a whole.

DIRECTORS AND SENIOR MANAGEMENT OF THE GROUP AND DAYE METAL

DIRECTORS AND SENIOR MANAGEMENT OF THE GROUP

The biographical details of the Directors and senior management of the Company immediately following the completion of the Acquisition are set out below:

Directors

Name	Age	Position
Mr. Wan Bi Qi (万必奇)	46	Chairman and Executive Director
Mr. Chen Xiang (陳翔)	42	Chief Executive Officer and Executive Director
Ms. Yuan Ping (袁萍)	42	Executive Director
Mr. Wang Qihong (王岐虹)	59	Independent Non-executive Director
Mr. Wang Guoqi (王國起)	51	Independent Non-executive Director
Mr. Qiu Guanzhou (邱冠周)	62	Independent Non-executive Director

Executive Directors

Mr. Wan Bi Qi (万必奇), aged 46, is the Chairman and an executive Director of the Company. Mr. Wan was appointed as a Director of the Company in April 2009. Mr. Wan is primarily responsible for the overall strategies, planning and business development of the Group. Mr. Wan currently holds directorships in 6 subsidiaries of the Company and was a director of China Times from April 2009 to June 2011. He was previously the general manager of the investment banking division of Fortune Securities Co., Ltd. and of Wanlian Securities Co., Ltd. (萬聯證券有限責任公司) and the deputy general manager of Flying Pace Investment Limited in Hong Kong from 2002 to 2008. Mr. Wan was the assistant to the manager of the Parent Company and the financial controller of Daye Metal from November 2008 to June 2011. Mr. Wan possesses experience in mergers and acquisitions, reorganisation, financing through listing and financing for listed companies. He obtained a bachelor's degree in science (exploration engineering) from Central South University (formerly Central South Industrial University) in 1987, a master's degree in philosophy and a doctorate degree in economics from Wuhan University in 1992 and 1998, respectively. Mr. Wan did not hold any directorship in any other listed public companies in the last three years. Save as disclosed herein, there are no other matters in relation to Mr. Wan which are required to be disclosed pursuant to Rule 13.51 (2) of the Listing Rules.

DIRECTORS AND SENIOR MANAGEMENT OF THE GROUP AND DAYE METAL

Mr. Chen Xiang (陳翔), aged 42, is the Chief Executive Officer and an executive Director of the Company. Mr. Chen was appointed as a Director of the Company in April 2009. Mr. Chen currently holds directorships in 10 subsidiaries of the Company. Mr. Chen is responsible for major investments and fund raisings, mergers and acquisitions, contract management, dispute management as well as providing legal advice with respect to material operating decisions of the Group's senior management. Mr. Chen obtained a qualified PRC lawyer certificate from the Ministry of Justice of the PRC in August 1996 and he obtained a mid-level economist certificate in business administration from the Ministry of Human Resources and Social Security (formerly the Ministry of Personnel) of the PRC in November 2004. Prior to joining the Company, he was a deputy director of the legal department of the Parent Company and secretary to the board of directors of Daye Metal from November 2006 to December 2009. Mr. Chen has experience in corporate management, investment and legal affairs. Mr. Chen obtained a master's degree in law from Wuhan University in 2003. Mr. Chen also obtained a corporation lawyer's licence (公司律師證) from the Ministry of Justice of the PRC in September 2004. Mr. Chen did not hold any directorship in any other listed public companies in the last three years. Save as disclosed herein, there are no other matters in relation to Mr. Chen which are required to be disclosed pursuant to Rule 13.51 (2) of the Listing Rules.

Ms. Yuan Ping (袁萍), aged 42, is an executive Director of the Company. Ms. Yuan was appointed as a Director of the Company in April 2009. Ms. Yuan currently holds directorships in 7 subsidiaries of the Company. Ms. Yuan is responsible for the general corporate and accounting affairs of the Group. Prior to joining the Company, Ms. Yuan was the chief financial officer of Changzhou Dajiang Copper Industry Co., Ltd. (常州市大江銅業有限公司), a subsidiary of the Parent Company, from 2006 to 2008, and deputy officer of the finance department of the Parent Company from January 2009 to May 2009. Ms. Yuan has 21 years of experience in financial management and investment. Ms. Yuan graduated in accounting from Zhongnan University of Economics and Law in 2004. Ms. Yuan obtained a qualified accountant certificate from the Ministry of Finance of the PRC in May 1997. She did not hold any directorship in any other listed public companies in the last three years. Save as disclosed herein, there are no other matters in relation to Ms. Yuan which are required to be disclosed pursuant to Rule 13.51 (2) of the Listing Rules.

Independent Non-executive Directors

Mr. Wang Qihong (王岐虹), aged 59, is an independent non-executive Director of the Company. Mr. Wang was appointed as a Director of the Company in January 2006. Mr. Wang is experienced in the postal and tele-communications field in the PRC. Prior to joining the Company, Mr. Wang was a deputy manager of Town Khan Limited (同強有限公司) from 1992 to 2001. Mr. Wang graduated in foreign language from Liaoning University in the PRC in 1976. He did not hold any directorship in any listed public companies in the last three years. Save as disclosed herein, there are no other matters in relation to Mr. Wang which are required to be disclosed pursuant to Rule 13.51 (2) of the Listing Rules.

DIRECTORS AND SENIOR MANAGEMENT OF THE GROUP AND DAYE METAL

Mr. Wang Guoqi (王國起), aged 51, is an independent non-executive Director of the Company. Mr. Wang was appointed as a Director of the Company in January 2006. Mr. Wang qualified as a certified accountant in the PRC accredited by the Ministry of Finance of the PRC in June 1997. Mr. Wang has extensive experience in accounting and finance in different industries. Currently, he is the managing partner of Hua-Ander Certified Public Accountants in the PRC. Mr. Wang obtained a bachelor's degree in financial accounting and a master's degree in economics from Renmin University of China in 1982 and 1985, respectively, and a doctorate degree in philosophy from the University of London in the United Kingdom in 1994. He did not hold any directorship in any listed public companies in the last three years. Save as disclosed herein, there are no other matters in relation to Mr. Wang which are required to be disclosed pursuant to Rule 13.51 (2) of the Listing Rules.

Mr. Qiu Guanzhou (邱冠周), aged 62, is an independent non-executive Director of the Company. Mr. Qiu was appointed as a Director of the Company in May 2009. Mr. Qiu has gained extensive and practical experience during his term of service as an officer responsible for administration and technology on the front line of a copper smelting enterprise. Mr. Qiu has been focusing on the teaching of and scientific research on mining engineering in Central South University since 1987. Since 1990, he has acted as head of the Department of Mining Engineering and vice-president of Central South University. Mr. Qiu is a renowned expert, professor and supervisor of doctorate students in the field of mining engineering in China. He obtained his master's and doctorate degree of engineering from Central South University in 1982 and 1987, respectively. Mr. Qiu did not hold any directorship in any listed public companies in the last three years. Save as disclosed herein, there are no other matters in relation to Mr. Qiu which are required to be disclosed pursuant to Rule 13.51(2) of the Listing Rules.

Senior Management

Name	Age	Position
Mr. Chen Xiang (陳翔)	42	Chief Executive Officer and Executive Director
Mr. Wang Da Zhao (王大釗)	41	Vice President

Mr. Chen Xiang (陳翔), Chief Executive Officer of the Company. Please refer to the sub-section headed "Directors and senior management of the Group – Executive Directors" in this section for details.

DIRECTORS AND SENIOR MANAGEMENT OF THE GROUP AND DAYE METAL

Mr. Wang Da Zhao (王大釗), aged 41, is the vice president of the Company. Mr. Wang joined the Company in October 2010. Mr. Wang is responsible for business development. Mr. Wang has experience in the finance industry in the PRC. Prior to joining the Company, Mr. Wang was the chief investment officer of an investment consulting firm and he has also served various positions at other companies and securities firms in the PRC. Mr. Wang graduated in international finance from Tianjin University of Finance and Economics in 1993, and obtained a master's degree in investment management from the Graduate School of Chinese Academy of Social Sciences in 1998. Mr. Wang did not hold any directorship in any other listed public companies in the past three years.

Company Secretary

Chan Yim Kum (陳艷琴), aged 47, is the company secretary of the Company. Ms. Chan joined the Company in December 2008. Ms. Chan is responsible for general corporate governance affairs and related administration of the Company. Save as disclosed, Ms. Chan is the executive director of Seamless Green China (Holdings) Limited. Ms. Chan obtained a bachelor's degree in business studies from University of Huddersfield in the United Kingdom in 1994, and a master's degree in professional accounting from Hong Kong Polytechnic University in 2001. Ms. Chan was admitted as an associate of the Taxation Institute of Hong Kong, The Institute of Chartered Secretaries and Administration of the United Kingdom and The Hong Kong Institute of Company Secretaries in June 2000, May 2000 and May 2000, respectively. Save as disclosed herein, Ms. Chan did not hold any directorship in any other listed public companies in the past three years.

DIRECTORS AND SENIOR MANAGEMENT OF DAYE METAL

The biographical details of the directors and senior management of Daye Metal as at the Latest Practicable Date are set out below:

Directors

Name	Age	Position
Mr. Zhang Lin (張麟)	48	Chairman and director
Mr. Zhai Baojin (翟保金)	44	director and general manager
Mr. Wen Sen (溫森)	45	director
Mr. Yu Lixian (余利先)	44	director
Mr. Wang Yong (王勇)	50	director
Mr. Tan Yaoyu (譚耀宇)	38	director
Mr. Li Shuju (李書舉)	49	director
Mr. Wu Lijie (吳禮傑)	46	director
Mr. Zhong Jin (鍾錦)	50	director
Mr. Zhang Zhongyao (張中堯)	48	director

DIRECTORS AND SENIOR MANAGEMENT OF THE GROUP AND DAYE METAL

Mr. Zhang Lin (張麟), aged 48, is the chairman and a director of Daye Metal. Mr. Zhang was appointed as a director of Daye Metal in March 2005. Mr. Zhang joined Daye Metal in 2005, and since then, had served as the deputy manager, the general manager and a director of Daye Metal. Mr. Zhang was the deputy manager and the manager of the Parent Company from 1998 to 2010. He is currently the chairman of the Parent Company. Mr. Zhang has over 25 years of experience in the mining industry. Mr. Zhang obtained a bachelor's degree in mineral engineering from Central South University in 1986 and a doctorate degree in mineral processing engineering from Central South University in 2008. Mr. Zhang was accredited as a senior engineer in mining processing by the Employees Reform Office of Hubei Province in April 2004. Mr. Zhang did not hold any directorship in any other listed public companies in the past three years.

Mr. Zhai Baojin (翟保金), aged 44, is a director and the general manager of Daye Metal. Mr. Zhai was appointed as a director of Daye Metal in September 2006. Mr. Zhai joined Daye Metal in April 2005 and since then, had served as the factory head of the Smelting Plant, the deputy general manager in general affairs and the deputy general manager of Daye Metal. Mr. Zhai was the technician, factory head and the deputy manager of the Parent Company from 1986 to 2010. Mr. Zhai is currently the deputy manager and a director of the Parent Company. Mr. Zhai has over 25 years of experience in the mining industry. Mr. Zhai is a graduate in economics and management from the Party School of Hubei Province of 2007. Mr. Zhai was accredited as a senior engineer in metallurgy by the Employees Reform Office of Hubei Province in June 2006. Mr. Zhai did not hold any directorship in any other listed public companies in the past three years.

Mr. Wen Sen (溫森), aged 45, is a director of Daye Metal. Mr. Wen was appointed as a director of Daye Metal in September 2006. Mr. Wen joined Daye Metal in 2005 and since then, had served as the secretary of the Communist Party Committee, the chairman of the labour union and the secretary of the discipline committee of Daye Metal. Mr. Wen was the secretary of the discipline committee and the chairman of the labour union of the Parent Company from 1984 to 2010. Mr. Wen is currently the secretary of the discipline committee of the Parent Company. Mr. Wen has over 27 years of experience in the mining industry. Mr. Wen is a graduate in economics and management from the Party School of Hubei Province in 2009. Mr. Wen did not hold any directorship in any other listed public companies in the past three years.

Mr. Yu Lixian (余利先), aged 44, is a director of Daye Metal. Mr. Yu was appointed as a director of Daye Metal in September 2006. Mr. Yu joined Daye Metal in 2005 and since then, had served as the deputy mining manager and the mining manager of the Tonglvshan Mine. He was the deputy manager and a member of the Standing Committee of the Parent Company from 2006 to 2010, and has been the general counsel, a member of the Standing Committee and deputy general manager of the Parent Company since June 2010. Mr. Yu has over 21 years of experience in the mining industry. Mr. Yu is a graduate in law from the Party School of Hubei Province in 2004. Mr. Yu was accredited as a senior engineer in mining by Employees Reform Office of Hubei Province in 2005. Mr. Yu did not hold any directorship in any other listed public companies in the past three years.

DIRECTORS AND SENIOR MANAGEMENT OF THE GROUP AND DAYE METAL

Mr. Wang Yong (王勇), aged 50, is a director of Daye Metal. Mr. Wang was appointed as a director of Daye Metal in September 2006. Mr. Wang joined Daye Metal in 2005 and had since served as the president of the research and development centre and the deputy manager of the technology centre of Daye Metal. Mr. Wang was the deputy manager of the Parent Company from 2006 to 2010, and is now the deputy general manager of the Parent Company. Mr. Wang has been a member of the Standing Committee of the Parent Company since 2006. Mr. Wang has over 28 years of experience in the mining industry. Mr. Wang obtained a doctorate degree in engineering (non-ferrous metallurgy) from Central South University in 2009. Mr. Wang was accredited as a senior engineer in mining processing by the Employees Reform Office of Hubei Province in April 2006. Mr. Wang did not hold any directorship in any other listed public companies in the past three years.

Mr. Tan Yaoyu (譚耀宇), aged 38, is a director of Daye Metal. Mr. Tan was appointed as a director of Daye Metal in September 2011. Mr. Tan joined Daye Metal in December 2008 and served as its financial director until October 2009. He is currently the chief accountant and a member of the Standing Committee of the Parent Company. Prior to joining Daye Metal, Mr. Tan was the deputy financial director and the cost controller of the Parent Company from 1998 to 2008. Mr. Tan has over 19 years of experience in the mining industry. Mr. Tan is a graduate in economics and management from the Party School of Hubei Province of 2007. Mr. Tan was accredited as a senior accountant by the Employees Reform Office of Hubei Province in December 2010. Mr. Tan did not hold any directorship in any other listed public companies in the past three years.

Mr. Li Shuju (李書舉), aged 49, is a director of Daye Metal. Mr. Li was appointed as a director of Daye Metal in September 2011. Mr. Li previously served as the office manager, assistant to the general manager, deputy general manager and vice-chairman of Jinshi Gold, a subsidiary of the Parent Company. He is currently the chairman of Jinshi Gold. He has also been the deputy general manager of the Parent Company since June 2010. Mr. Li has over 24 years of experience in the mining industry. Mr. Li is a graduate in economics and management from the Party School of Hubei Province of 2001. Mr. Li did not hold any directorship in any other listed public companies in the past three years.

Mr. Wu Lijie (吳禮傑), aged 46, is a director of Daye Metal. Mr. Wu was appointed as a director of Daye Metal in September 2011. Mr. Li joined Daye Metal in 2005 and since then, had served as the deputy secretary of the discipline committee and the chairman of the labour union of Daye Metal. He also previously served as a technician, manager and deputy mining head of the Tonglvshan Mine, the secretary of the mining committee, the deputy secretary of the discipline committee, the manager of the monitoring and audit department and the assistant to the manager of the Parent Company. He has been the chairman of the labour union, a director and also a member of the Standing Committee of the Parent Company since 2010. Mr. Wu has over 24 years of experience in the mining industry. Mr. Wu obtained a master's degree in business administration from Huazhong University of Science and Technology (華科技大學) in 2002. Mr. Wu did not hold any directorship in any other listed public companies in the past three years.

DIRECTORS AND SENIOR MANAGEMENT OF THE GROUP AND DAYE METAL

Mr. Zhong Jin (鍾錦), aged 50, is a director of Daye Metal. Mr. Zhong was appointed as a director of Daye Metal in August 2011. Prior to joining Daye Metal, Mr. Zhong worked in the China Construction Bank as a loan officer, deputy branch head, branch head, deputy manager of international business and the head of the market research and product development department of its Sichuan branch from 1985 to 2002. Mr. Zhong was also previously the deputy head of the Guiyang branch of Cinda. Mr. Zhong has over 25 years of experience in the banking industry. Mr. Zhong obtained a doctorate degree in finance from the Southwestern University of Finance and Economics in 2006. Mr. Zhong did not hold any directorship in any other listed public companies in the past three years.

Mr. Zhang Zhongyao (張中堯), aged 48, is a director of Daye Metal. Mr. Zhang was appointed as a director of Daye Metal in April 2008. Prior to joining Daye metal, Mr. Zhang previously served as the office manager, assistant to the senior manager and the senior manager of the Wuhan branch of Huarong and is currently the chief risk management executive of the Wuhan branch of Huarong. Mr. Zhang has over 26 years of experience in the finance industry. Mr. Zhang obtained a bachelor's degree in planning and statistics (economics) from Zhongnan University of Economics and Law in 1985. Mr. Zhang was accredited as a senior statistician by the Bureau of Human Resources of the Hubei Province in August 1999. Mr. Zhang did not hold any directorship in any other listed public companies in the past three years.

Senior Management

Name	Age	Position
Mr. Zhai Baojin (翟保金)	44	director and general manager
Mr. Wang Gen (王根)	54	deputy general manager
Mr. Liao Quanjia (廖全佳)	45	deputy general manager
Mr. Liu Chuanzhuan (劉傳轉)	61	chief engineer
Mr. Chen Zhiyou (陳志友)	47	deputy general manager
Mr. Feng Mingrui (封明瑞)	44	deputy general manager

Mr. Zhai Baojin (翟保金), general manager of Daye Metal. Please refer to the sub-section headed "Directors and senior management of Daye Metal – Directors" in this section for details.

DIRECTORS AND SENIOR MANAGEMENT OF THE GROUP AND DAYE METAL

Mr. Wang Gen (王根), aged 54, is the deputy general manager of Daye Metal. Mr. Wang joined Daye Metal in April 2005. He was the assistant to the general manager of Daye Metal from April 2005 to September 2006, and has since 2006 served as the deputy general manager of Daye Metal. Mr. Wang was the assistant to the manager, the deputy mining head, the mining head, the chief engineer and the technician of the Parent Company from 1982 to 2010. Mr. Wang has over 29 years of experience in the mining industry. Mr. Wang is a graduate in mining from the Wuhan University of Science and Technology (武漢科技大學) (formerly Wuhan Institute of Metallurgy) in 1982. Mr. Wang was accredited as senior engineer in mining by the Employees Reform Office of State Bureau of Nonferrous Metal Industry (國家有色金屬工業局職改辦) in October 2002. Mr. Wang did not hold any directorship in any other listed public companies in the past three years.

Mr. Liao Quanjia (廖全佳), aged 45, is the deputy general manager of Daye Metal. Mr. Liao joined Daye Metal in September 2008. Mr. Liao was the chairman of Daye Industry from September 2008 to January 2010, and the deputy chief engineer and a member of the Standing Committee of the Parent Company and mining head of the Tonglvshan Mine from July 2008 to January 2010. Prior to joining Daye Metal, Mr. Liao was the deputy department head of the mining production department of the Hubei Department of Land and Resources and the deputy department head of the Huangshi Department of Land and Resources from 2001 to 2008. Mr. Liao has over 23 years of experience in the mining industry. Mr. Liao obtained a bachelor's degree in mining engineering from Central South University in 1988. Mr. Liao did not hold any directorship in any other listed public companies in the past three years.

Mr. Liu Chuanzhuan (劉傳轉), aged 61, is the chief engineer of Daye Metal. Mr. Liu joined Daye Metal in April 2005 and previously served as the assistant to the general manager and the deputy general manager of Daye Metal. Prior to joining Daye Metal, Mr. Liu was an assistant to the manager of the Parent Company from 2003 to 2010. Mr. Liu has over 40 years of experience in the mining industry. Mr. Liu is a graduate in non-ferrous metal smelting from Central South University in 1976. Mr. Liu was accredited as a senior engineer in smelting by the Employees Reform Office of Hubei Province in June 2006. Mr. Liu did not hold any directorship in any other listed public companies in the past three years.

Mr. Chen Zhiyou (陳志友), aged 47, is the deputy general manager of Daye Metal. Mr. Chen joined Daye Metal in April 2005. Mr. Chen has been the factory head of the Precious Metal Plant since January 2008. Prior to joining Daye Metal, Mr. Chen was the deputy factory head, the technician, the engineer and the section head of the smelting factory and also the factory head of the Precious Metal Plant of the Parent Company. Mr. Chen has over 27 years of experience in the mining industry. Mr. Chen is a graduate in corporate management from Wuhan Institute of Technology (formerly Wuhan Institute of Chemical Technology) in 1995. Mr. Chen was accredited as an engineer in smelting by the Employees Reform Office of the Parent Company in October 2002. Mr. Chen did not hold any directorship in any other listed public companies in the past three years.

DIRECTORS AND SENIOR MANAGEMENT OF THE GROUP AND DAYE METAL

Mr. Feng Mingrui (封明瑞), aged 44, is the deputy general manager of Daye Metal. Mr. Feng joined Daye Metal in May 2011. Mr. Feng was the trading representative and senior sales manager of Traf Trading (Shanghai) Co., Ltd. from May 2003 to May 2011. Mr. Feng was the technician, sales representative and head of the sales and import and export division of the smelting factory of the Parent Company from 1990 to 2003. Mr. Feng has over 13 years of experience in the mining industry. Mr. Feng obtained a bachelor's degree in chemistry from Central South University in 1990. Mr. Feng was accredited as a senior economist accredited by the Employees Reform Office of the Parent Company in October 2002. Mr. Feng did not hold any directorship in any other listed public companies in the past three years.

REMUNERATION OF THE DIRECTORS AND SENIOR MANAGEMENT OF THE COMPANY

For the two years ended 30 April 2008 and 2009, the eight months ended 31 December 2009, the year ended 31 December 2010 and the six months ended 30 June 2011, the aggregate amount of remuneration (including fees, basic salaries, contributions to pension schemes, housing allowances and other allowances, benefits in kind and discretionary bonuses) which were paid to the Directors by the Group was approximately HK\$3,286,000, HK\$1,993,000, HK\$35,743,000, HK\$4,196,000 and HK\$2,064,000, respectively. Details of the Directors' remuneration are also set out in notes 10, 11, 11 and 10 of the financial statements of the Group for the year ended 30 April 2009, the eight months ended 31 December 2009, the year ended 31 December 2010 and the six months ended 30 June 2011, respectively, as set out in Appendix II to this circular.

The aggregate amount of remuneration (including fees, salaries, contributions to pension schemes, housing allowances and other allowances and benefits in kind and discretionary bonuses) which were paid to the five highest paid individuals for the two years ended 30 April 2008 and 2009, the eight months ended 31 December 2009, the year ended 31 December 2010 and the six months ended 30 June 2011 was approximately HK\$3,819,000, HK\$3,454,000, HK\$38,927,000, HK\$5,200,000 and HK\$2,909,000, respectively.

Under the arrangements currently in force, the estimated aggregate remuneration (including fees, basic salaries, contributions to pension schemes, housing allowances and other allowances, benefits in kind and discretionary bonuses) payable to the Directors by the Group will be approximately HK\$4,468,204 for the year ending 31 December 2011.

NON-COMPETITION

Each of the Directors has confirmed that he or she is not engaged in, or interested in any business which, directly or indirectly, competes or may compete with the business of the Enlarged Group.

AUDIT COMMITTEE OF THE COMPANY

The Company established an audit committee in 2002 in accordance with Rule 3.21 of the Listing Rules and adopted written terms of reference which conformed to those set out in paragraph C3 of the Code on Corporate Governance Practices in Appendix 14 to the Listing Rules.

The audit committee is responsible for reviewing and supervising the financial reporting process and internal control system of the Group and providing advice and comments to the Board. At present, the audit committee consists of 3 members, being Messrs. Wang Guoqi, Wang Qihong and Qiu Guanzhou, of which Mr. Wang Guoqi is the chairman.

REMUNERATION COMMITTEE OF THE COMPANY

The Company established a remuneration committee in 2007 and adopted written terms of reference which conformed to those set out in paragraph B1 of the Code on Corporate Governance Practices in Appendix 14 to the Listing Rules.

The remuneration committee is responsible for making recommendations to the Board on, among other things, the policy and structure for the remuneration of the Directors and senior management of the Company and has been delegated with the responsibility to determine on behalf of the Board the specific remuneration packages for all executive Directors and senior management of the Company. At present, the remuneration committee consists of 3 members, being Messrs. Wang Guoqi, Wang Qihong and Qiu Guanzhou, of which Mr. Wang Guoqi is the chairman. Under the remuneration committee's terms of reference, no director or any of his associates (as defined in the Listing Rules) shall be involved in deciding his own remuneration.

COMPLIANCE ADVISER OF THE COMPANY

The Company has appointed Somerley Limited as the compliance adviser in compliance with Rule 3A.19 of the Listing Rules. The Company has entered into a compliance adviser's agreement with Somerley Limited, the material terms of which are summarized as follows:

- (1) the Company has appointed Somerley Limited as the compliance adviser for the purpose of Rule 3A.19 of the Listing Rules for a period commencing on the date of completion of the Acquisition and ending on the date on which the Company sends its financial results as required under Rule 13.46 of the Listing Rules for the first full financial year commencing after the date of completion of the Acquisition, or until the agreement is terminated, whichever is earlier;

DIRECTORS AND SENIOR MANAGEMENT OF THE GROUP AND DAYE METAL
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- (2) Somerley Limited shall provide the Company with services, including guidance and advice as to compliance with the requirements under the Listing Rules and applicable laws, rules, codes and guidelines;
- (3) the Company shall consult with and, if necessary, seek advice from Somerley Limited on a timely basis in the following circumstances pursuant to Rule 3A.23 of the Listing Rules:
- before the publication of any regulatory announcement, circular or financial report;
 - where a transaction, which might be a notifiable or connected transaction, is contemplated including share issues and share repurchase;
 - where business activities, developments or results of the Enlarged Group deviate from any forecast, estimate, or other information in this circular; and
 - where the Stock Exchange makes an inquiry of the Company under Rule 13.10 of the Listing Rules; and
- (4) the Company may terminate the appointment of Somerley Limited as the compliance adviser only if its work is of an unacceptable standard or if there is a material dispute (which cannot be resolved within 30 days) over fees payable to it as permitted by Rule 3A.26 of the Listing Rules. Somerley Limited will have the right to resign or terminate its appointment by service of a two months' notice to the Company.

The appointment will commence on the date of completion of the Acquisition and will end, subject to termination in accordance with the terms of the compliance adviser's agreement on the day on which the Company sends its financial results as required under Rule 13.46 of the Listing Rules for the first full financial year commencing after the date of completion of the Acquisition.

DIRECTORS AND SENIOR MANAGEMENT OF THE GROUP AND DAYE METAL

EMPLOYEES OF THE GROUP

Overview

As at the Latest Practicable Date, the Group had a total of 85 full-time employees. The Group has not experienced any labour disputes with its employees which resulted in any material disruption to its operations.

A breakdown of the Group's full-time employees as at the Latest Practicable Date by function is set out below:

Function	Number of employees
Administration	20
Investment and development	3
Finance	6
Human resources	3
Mineral resources development and management	16
Production management	18
Safety and environmental protection	3
Technical engineering	15
Performance management	1
	<hr/>
Total	85
	<hr/> <hr/>

A breakdown of the Group's full-time employees as at the Latest Practicable Date by location is set out below:

Location	Number of employees
PRC	44
Hong Kong	8
Mongolia	33
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Total	85
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DIRECTORS AND SENIOR MANAGEMENT OF THE GROUP AND DAYE METAL

The staff costs incurred by the Group for the two years ended 30 April 2008 and 2009, the eight months ended 31 December 2009, the year ended 31 December 2010 and the six months ended 30 June 2011 were HK\$4,364,000, HK\$5,891,000, HK\$41,898,000, HK\$9,983,000 and HK\$5,110,000 respectively.

The Group's contributions to the defined contribution retirement scheme set up pursuant to the Hong Kong Mandatory Provident Fund Schemes Ordinance for all qualifying employees are expensed as incurred. The Group's employer contributions vest fully with the employees when contributed into such defined contribution retirement scheme.

The Company's PRC and Mongolia subsidiaries participate in defined contribution retirement schemes organized by the local government authorities. All of the employees are entitled to an annual pension equivalent to a fixed portion of their basic salaries at their retirement dates. The Company's PRC and Mongolia subsidiaries are required to contribute certain percentage ranged from 11% to 15% of the basic salaries of their employees to the retirement schemes and have no further obligation for post-retirement benefits. The contributions are charged to the profits and loss of the Group as they become payable in accordance with the rules of schemes.

Staff benefits

The Company makes contributions to all mandatory social security funds including pension funds, medical insurance funds, unemployment insurance funds and work-related injury funds for the employees. These contributions, which are funded from the internal financial resources of the Company, are in compliance with the requirements of the PRC laws and regulations. In addition, the Company has enrolled on a mandatory fund scheme for the employees in Hong Kong in accordance with the applicable Hong Kong laws and regulations.

Share Option Scheme

The Company adopted the Share Option Scheme pursuant to an ordinary resolution passed at an extraordinary general meeting of the Company on 13 October 2003. A summary of the principal terms of the Share Option Scheme is set out under the sub-section headed "Share Option Scheme" in Appendix X to this circular.

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

The Company has applied for, and the Stock Exchange has granted, the following waivers from strict compliance with the requirements of the Listing Rules.

COMPETENT PERSON'S REPORT

The Burentsogt Mine and the Sala Mine

As at the Latest Practicable Date, the Group held the mining or exploration rights to five mines, namely the Aleinuer Mine, the Burentsogt Mine and the Sala Mine in Mongolia and the Sareke Mine and the Hami Mine in Xinjiang, the PRC. Pursuant to the Acquisition, the Company will acquire the Four Mines, all of which are located in Hubei Province, the PRC.

The Company does not consider that the Burentsogt Mine or the Sala Mine is material to its operations for the following reasons:

No value of mining right has been recognised for the Burentsogt Mine and Sala Mine in the consolidated statement of financial position of the Company

- (1) The Company acquired the Burentsogt Mine and the Sala Mine together with the Aleinuer Mine and one other wolfram mine (which the Company subsequently disposed of in 2010) in the same acquisition in 2007. The consideration for that acquisition was solely attributable to the Aleinuer Mine, and the other three mines were transferred at no consideration. The Company adopts the cost model method under HKFRS 6 "Exploration for and Evaluation of Mineral Resources" to account for the value of the Burentsogt Mine and the Sala Mine in its financial statements. At the time of the acquisition of the Burentsogt Mine and the Sala Mine in 2007, only the exploration licences but not the mining licences have been issued with respect to those two mines. On such basis, no value of mining right has been recognised for those mines in the consolidated statement of financial position of the Company since the acquisition in 2007. The mining licences for the Burentsogt Mine and the Sala Mine were issued in April 2008 and June 2011, respectively. Notwithstanding the issue of the mining licences, no further value will be recognised for those mines under the cost model method.

No exploration or mining work has been conducted at the Burentsogt Mine and the Sala Mine since their acquisition

- (2) No exploration or mining work has been carried out at the Burentsogt Mine or the Sala Mine since those mines were acquired by the Company.

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

- (3) At the time of the acquisition of the Burentsogt Mine and the Sala Mine by the Company, only exploration licences had been issued. Subsequently, the Company (through the Mongolian subsidiaries which hold the exploration licences) proceeded to apply for the mining licences for the Burentsogt Mine and the Sala Mine, which were granted in April 2008 and June 2011, respectively.
- (4) The reasons for the Company to apply for the mining licence for the Sala Mine are as follows:
 - (a) under Mongolian law (as confirmed by the Company's Mongolian legal advisers), the Mongolian government has the right to confiscate a mine in Mongolia with respect to which an exploration licence has been granted if no substantial exploration activities at the mine have been carried out for a certain period of time after the exploration licence has been issued, but the Mongolian government no longer retains such right once a mining licence has been issued, irrespective of whether mining activities have actually commenced or are being conducted;
 - (b) application for a mining licence is merely a procedural matter and does not involve significant amount of work or costs if a valid exploration licence has already been issued;
 - (c) an exploration licence only allows the licence holder to engage in limited preliminary work in relation to the exploration, research and feasibility study of the relevant mine, and does not provide any substantive right to operate the mine or carry out mining activities;
 - (d) the issue of the mining licence does not, under Mongolian law (as confirmed by the Company's Mongolian legal advisers), impose any requirement on the Company to commence or undertake mining activities at the Sala Mine within the term of the mining licence;
 - (e) because of (a) to (d) above, the Directors considered that obtaining the mining licence for the Sala Mine would give the Company flexibility and time in deciding whether to develop the mine, without incurring any significant costs.

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

- (5) At the time of the application for the mining licence for the Burentsogt Mine, the Company was under the management of the previous board of directors. The existing Directors only joined the Company in April 2009. They were not able to ascertain the intention of the previous management of the Company with respect to the development of the Burentsogt Mine or the reasons why the mining licence was applied for. As confirmed by the Company's Mongolian legal advisers, the mining licence issued with respect to the Burentsogt Mine, like the one issued for the Sala Mine, also does not impose any requirement on the Company to commence or undertake any mining activities within any time limit. It also has the same effect of the Mongolian government no longer retaining the right to confiscate the mine once a mining licence has been issued, irrespective of whether mining activities have actually commenced or are being conducted.

There are only insignificant amounts of wolfram deposits at the Burentsogt Mine and Sala Mine

- (6) The Company has concluded that there are only insignificant amounts of wolfram deposits at the Burentsogt Mine and the Sala Mine based on the following due diligence exercise carried out by the Parent Company and the Company:
- (a) according to the Parent Company, a group of experienced mining engineers of the Parent Company conducted site visits to the Burentsogt Mine and the Sala Mine in 2008. Those mining engineers conducted detailed observation and analysis of the geological layout and appearance and the rock formation at the location of the two mines. Further, the mining engineers made enquiries with the Bureau of Geological Investigation of Mongolia regarding the geological and resource information of the Burentsogt Mine and the Sala Mine and was informed that, based on the limited information available, the Bureau of Geological Investigation of Mongolia was of the opinion that there were only limited wolfram resources at those mines. The mining engineers of the Parent Company were of the view that the then geological layout and appearance and rock formation at the location of the two mines were consistent with the opinion of the Bureau of Geological Investigation of Mongolia, and on such basis, they formed the view that there were no significant wolfram resources at the Burentsogt Mine and the Sala Mine;

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

- (b) further site visits to the Burentsogt Mine and the Sala Mine were conducted in 2011 by the technical staff of CRML and the mining engineers of the Parent Company (including some of the mining engineers who conducted the site visits in 2008). Preliminary sample drilling work was conducted at the Burentsogt Mine and the Sala Mine. Wolfram samples were obtained and analysed at the research and development centre of the Parent Company. Based on the above work, CRML's technical staff and the mining engineers of the Parent Company were of the opinion that (i) the samples obtained at the two mines were indicative of wolfram resources at the deeper levels of those mines; (ii) the quality of those wolfram resources were of low grade; (iii) the geological surroundings at the Burentsogt Mine and the Sala Mine were not similar to those at mines where significant wolfram resources were found. On the basis of the above factors, the technical staff of CRML and the mining engineers of the Parent Company concluded that there were only insignificant wolfram resources at the Burentsogt Mine or the Sala Mine.
- (7) When the Company acquired the Burentsogt Mine and the Sala Mine, neither of them had in place any infrastructure facilities (such as water and electricity supply and transport) which were required to undertake any mining activity. The Company has since not undertaken any work to put in place any such facilities. Given the relatively distant location of those mines, the Company would expect that significant investments would have to be made to put in place such infrastructure facilities before mining activities could commence. Taking account of the insignificant amount of the deposits at those mines on the basis of the various technical studies described above, the Directors have reservations about the economic feasibility of developing those mines.

For the reasons stated in (6) and (7) above, it is not the Company's intention to develop the Burentsogt Mine and the Sala Mine as, given the insignificant amount of the wolfram deposits projected by the technical studies which have been conducted, the Company does not consider it economical to incur substantial costs in the construction of infrastructure facilities to develop those mines. On such basis, the Company is currently actively exploring opportunities for the disposal of the Burentsogt Mine and the Sala Mine.

If in the unlikely event that the Company decides to develop the Burentsogt Mine or the Sala Mine in the future, it will disclose such change of intention by way of an announcement. In such instance, the Company will also engage a competent person to prepare a competent person's report on the resources of the relevant mine in accordance with the requirements of Chapter 18 of the Listing Rules and publish such report for shareholders' information. Update of the resources in accordance with Rule 18.15 of the Listing Rules and the progress of the development of the relevant mine will also be included in the Company's annual reports.

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

Based on the reserves/resources of the Four Mines and the other existing mines of the Group as substantiated in the Competent Person's Reports, even without taking into account the resources of the Burentsogt Mine and Sala Mine, the Company will be able to satisfy the requirement under Rule 18.03 (2) of the Listing Rules that it has at least a portfolio of indicated resources or contingent resources, which is meaningful and of sufficient substance to justify a listing.

The Company has applied for, and the Stock Exchange has granted, a waiver from strict compliance with the requirement under Rule 18.05(1) of the Listing Rules to prepare a competent person's report in respect of the resources of each of the Burentsogt Mine and the Sala Mine.

DEALING IN THE SHARES OF THE COMPANY PRIOR TO LISTING

According to Rule 9.09(b) of the Listing Rules, there must be no dealing in the securities for which listing is sought by any connected person of the issuer from four clear business days before the expected hearing date until listing is granted.

As at the Latest Practicable Date, so far as the Company is aware, the Parent Company and China Times were the only substantial shareholders of the Company within the meaning of the Listing Rules. Given that the Company's shares are already publicly traded on the Stock Exchange, the Company is not in a position to control dealings in the shares of the Company by any other person (whether or not an existing holder of the Company's shares) or its associates who may, as a result of such dealing, become a substantial shareholder of the Company within the meaning of the Listing Rules.

The Company has applied for, and the Stock Exchange has granted, a waiver from strict compliance with Rule 9.09(b) of the Listing Rules in respect of any dealing by any holder of the shares of the Company (other than the Parent Company and China Times and their respective directors and chief executives, the respective directors and chief executives of the Company and any of its subsidiaries and their respective associates) from four clear business days before the date on which the hearing of the Listing Committee with respect to the Company's new listing application is expected to take place until listing is granted, on condition that (a) the Company will promptly release any price-sensitive information to the public in accordance with the Listing Rules; (b) the Company will procure that none of the Parent Company or China Times or their respective directors or chief executives, the directors or chief executives of the Company or any of its subsidiaries or their respective associates will deal in the Ordinary Shares from four clear business days before such expected hearing date until listing is granted; and (c) the Company will notify the Stock Exchange if there is any dealing in the shares of the Company by the Parent Company or China Times or their respective directors or chief executives, the directors or chief executives of the Company or any of its subsidiaries or any of their respective associates during the relevant period; and (d) for any person (other than the Parent Company, China Times, the respective directors and chief executives of the Parent Company and China Times, and the respective directors and chief executives of the Company and any of its subsidiaries and their respective associates) who, as a result of dealing in the securities of the Company from four clear business days before the date on which the hearing of the Listing

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

Committee with respect to the Company's new listing application is expected to take place until listing is granted, becomes a substantial shareholder of the Company (a **Potential New Substantial Shareholder**), (i) such Potential New Substantial Shareholder is currently not a member of the senior management of the Group and, to the knowledge of Company as at the Latest Practicable Date, will not become a Director or a member of the senior management of the Group after the China Times Completion; and (ii) the Company and its management have not had control over the investment decisions of such Potential New Substantial Shareholder or its associates.

FURTHER ISSUE OF SECURITIES

Rule 10.08 of the Listing Rules provides that no further shares or securities convertible into equity securities of a listed issuer may be issued or form the subject of any agreement to such an issue within six months from the date on which securities of the listed issuer first commence dealing on the Stock Exchange.

The restriction in Rule 10.08 applies to the Company solely because it is deemed to be a new listing applicant pursuant to Rule 14.54 of the Listing Rules as a result of the Acquisition which constitutes a reverse takeover under the Listing Rules. The deemed new listing will not involve any share offering to the public and hence, there is no concern of new investors being subject to the risk of dilution within a relatively short time after the listing.

Further, because of the capital intensive nature of its mining business, there may be significant funding requirements for the Group both with respect to capital expenditure and general corporate purposes. The Company considers that it would be unduly onerous to restrict its ability to raise funds through the issuance of new shares on terms set out in Rule 10.08, which could have a prejudicial effect on its business development and might not, therefore, be in the interests of its shareholders.

The Company has applied for, and the Stock Exchange has granted, a waiver from strict compliance with Rule 10.08 of the Listing Rules in relation to the restrictions on further issue of securities within six months of listing, and a consequential waiver from strict compliance with Rule 10.07(1)(a) of the Listing Rules in respect of the deemed disposal of shares by our controlling shareholder(s) upon issue of securities by the Company within the first six months of listing, on condition that (a) any issue of securities by the Company within the first six months from the date of the China Times Completion must be either (i) for cash to fund a specific acquisition of asset or business that will contribute to the growth of the Group's operation; or (ii) for full or partial settlement of the consideration for such acquisition; and (b) the Parent Company will, after the completion of the Acquisition, remain as the controlling shareholder (as defined in the Listing Rules) of the Company with the first twelve months of listing.

FINANCIAL INFORMATION OF THE TARGET GROUP

You should read the following discussion and analysis of the Target Group's financial condition and results of operations together with its audited combined financial information and the accompanying notes thereto, all included in the Accountant's Report on the Target Group set out in Appendix I to this circular. The combined financial information in the Accountant's Report has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS").

This discussion contains forward-looking statements that involve risks and uncertainties. You are cautioned that the business and financial performance are subject to substantial risks and uncertainties. In evaluating the Target Group's business, you should carefully consider the information provided under the section headed "Risk Factors" in this circular.

OVERVIEW

According to the Antaike Report, Daye Metal was the fifth largest producer of copper cathodes in the PRC by production volume, accounting for approximately 6.7% of the total production of copper cathodes in the PRC in 2010. The major products of the Target Group include copper cathodes, gold, silver and sulphuric acid (which is a by-product derived from the smelting process of copper ore and concentrate). The Target Group sells both copper cathodes, gold and silver produced by itself as well as those sourced from third party suppliers or the Parent Group for on-sale to its customers. The Target Group's business can therefore be divided into a production sector and a trading sector. The production sector includes production and sale of copper cathodes, gold, silver, iron concentrate, sulphuric acid, among others. The trading sector includes trading of copper cathodes, gold, silver and other product such as iron concentrate and products containing copper, gold and silver. The Target Group also provides copper processing services including processing of copper concentrate into copper cathodes, but such processing activity accounted for an insignificant portion of not more than 1% the total revenue of the Target Group over the Track Record Period.

Sales of copper cathodes accounted for approximately 73.6%, 71.5%, 77.1% and 76.4% of the total revenue of the Target Group for the three years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011, respectively. Approximately 95.5%, 60.1%, 55.6% and 68.5% of the revenue from the sales of copper cathodes for the three years ended 31 December 2010 and the six months ended 30 June 2011, respectively, was derived from the sales of copper cathodes produced by the Target Group, while the remainder was derived from the sales of copper cathodes sourced by the Target Group from third party suppliers and the Parent Group for on-sale to its customers.

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Sales of gold and silver, together, accounted for approximately 12.9%, 22.3%, 12.8% and 17.3% of the total revenue of the Target Group for the three years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011, respectively. Approximately 100%, 47.7%, 84.7% and 74.8% of the revenue from the sales of gold and silver for the three years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011, respectively, was derived from the sales of gold and silver produced by the Target Group, while the remainder was derived from the sales of gold and silver sourced by the Target Group from third party suppliers for on-sale to its customers. The Target Group also sells a small amount of iron concentrate (which is derived from iron ore deposits associated with the copper ore deposits at the Tonglvshan Mine) and other metals recovered during the smelting and refining process of copper concentrate, such as platinum, palladium, and molybdenum.

The following table sets out, for the periods indicated, certain items derived from the Target Group's combined statements of comprehensive income.

	Year ended 31 December			Six months ended 30 June	
	2008	2009	2010	2010	2011
	<i>RMB (million)</i>	<i>RMB (million)</i>	<i>RMB (million)</i>	<i>RMB (million)</i>	<i>RMB (million)</i>
	<i>(audited)</i>	<i>(audited)</i>	<i>(audited)</i>	<i>(unaudited)</i>	<i>(audited)</i>
Revenue	14,867.4	18,485.3	26,019.6	12,326.5	13,672.2
Cost of sales	(14,518.0)	(17,608.5)	(25,187.0)	(11,983.8)	(13,133.0)
Gross profit	349.4	876.8	832.6	342.7	539.2
Selling expenses	(75.2)	(44.7)	(45.9)	(20.6)	(20.0)
Administrative expenses	(369.9)	(270.2)	(338.1)	(157.0)	(168.6)
Other operating expenses	(22.5)	(13.6)	(28.6)	(11.3)	(4.8)
Other gains/(losses), net	133.7	(337.4)	(77.0)	(0.3)	(155.7)
Other income	1.7	23.3	38.3	29.5	16.4
Operating profit	17.2	234.2	381.3	183.0	206.5
Finance income	113.9	10.7	51.7	13.1	46.2
Finance costs	(296.2)	(134.6)	(190.2)	(74.7)	(115.4)
Finance costs, net	(182.3)	(123.9)	(138.5)	(61.6)	(69.2)

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	Year ended 31 December			Six months ended 30 June	
	2008	2009	2010	2010	2011
	<i>RMB (million)</i>	<i>RMB (million)</i>	<i>RMB (million)</i>	<i>RMB (million)</i>	<i>RMB (million)</i>
	<i>(audited)</i>	<i>(audited)</i>	<i>(audited)</i>	<i>(unaudited)</i>	<i>(audited)</i>
(Loss)/profit before income tax	(165.1)	110.3	242.8	121.4	137.3
Income tax credit/(expense)	56.8	(11.3)	(33.8)	(17.2)	(14.6)
 (Loss)/profit and total comprehensive (loss)/income for the year/period	 (108.3)	 99.0	 209.0	 104.2	 122.7
 Attributable to:					
Owners of the Target Company	(94.6)	60.7	127.9	62.9	93.5
Non-controlling interests	(13.7)	38.3	81.1	41.3	29.2

BASIS OF PRESENTATION

The Target Company was incorporated in the British Virgin Islands on 1 December 2010 as an exempted company with limited liability. Pursuant to the Reorganisation Agreement, the Target Company will, through Daye Hong Kong, acquire 95.35% equity interest in Daye Metal, and the Target Company will then become the holding company of the subsidiaries comprising the Target Group (the “**Reorganisation**”). The Parent Company currently owns and controls the companies comprising the Target Group and will continue to own and control them indirectly after the Reorganisation. For the purpose of this section, the financial information of the Target Group has been prepared and presented on a basis in accordance with the principles of the Auditing Guideline 3.340 “Prospectus and the Reporting Accountant” issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”).

The combined statements of financial position, the combined statements of comprehensive income, the combined statements of changes in equity and the combined statements of cash flows of the Target Group for the Track Record Period have been prepared using the financial statements of the companies comprising the Target Group on the basis that the current group structure had been in existence throughout the Track Record Period or since the respective dates of incorporation/establishment/acquisition by the Target Group, whichever is shorter. The assets, liabilities and results of the Target Group have been combined using their existing book values. The transaction of the Target Company to acquire Daye Metal and its subsidiaries is a reorganisation of Daye Metal which has not resulted in any changes in the substance of the Daye Metal business or the control over Daye Metal by the Parent Company.

FINANCIAL INFORMATION OF THE TARGET GROUP

For additional details of the basis of presentation of the Target Group's combined financial information, see Notes 2 and 3 to the Accountant's Report on the Target Group set out in Appendix I and the section headed "Business of the Target Group" in this circular.

KEY FACTORS AFFECTING RESULTS OF OPERATIONS AND FINANCIAL CONDITION

The Target Group's business, historical financial condition and results of operations have been affected by a number of important factors which the Target Group believes will continue to affect its financial condition and results of operations in the future. The Target Group's results are primarily affected by the following factors:

Prices of Copper, Gold and Silver

The Target Group generate, and expect to generate in the future, the majority of its revenues from the sales of copper, gold and silver products, and as a result, copper, gold and silver prices have a material impact on its results of operations. Copper, gold and silver prices are affected by many factors, including the decline or growth of domestic and international demand, as well as changes in global economic conditions and related industry cycles and are established with reference to international commodity market prices. Changes in supply and production capacity, temporary price reduction or other actions by the copper, gold and silver producers in the market may have an effect on market prices as well. Additionally, the prices realized by producers on sales of their products may be affected by their contractual arrangements, production levels, product qualities and hedging strategies.

The prices of copper, gold and silver are also affected by other factors, such as grades of copper, gold and silver products.

During the Track Record Period, market prices for copper, gold and silver were subject to significant fluctuations. During the Track Record Period, the market prices of copper, gold and silver decreased sharply during 2008 and then rebounded in 2009 and have been increasing since then. Generally, the Target Group's product sales prices fluctuate along with market prices but are also influenced by other factors including the costs of raw materials, inventory turnover and the timing of purchase and sales, among others.

To minimize risks resulting from price fluctuations, the Target Group entered into commodity futures contracts, including copper cathodes futures contracts and gold futures contracts, to manage its exposure in relation to purchases of raw materials from its suppliers, inventories and the sales of copper cathodes and gold to its customers. The Target Group does not generally alter its production levels or the ore grades the Target Group produces in response to short-term fluctuations in commodity prices.

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Production Capacity and Sales Volume of the Target Group's Products

Sales volumes have a substantial effect on the Target Group's results of operations and are affected by its production capacity and market demand for its products. Production capacity is a limiting factor in production and a constraint on its sales volumes.

In addition to production capacity, market demand has also been a factor affecting the Target Group's sales volumes. For example, the Target Group decrease its sales volume and increase its inventory when market demand is low, usually reflected by a low market price. The Target Group increases its sales volume, including selling products previously stored in its inventory in response to high market demand, usually reflected by a high market price.

Production Costs and Efficiency

The Target Group's competitiveness and long-term profitability are significantly dependent upon its ability to control its costs and maintain efficient operations. The Target Group's production costs are affected by both production volume and average production cost, which are further affected by the unit costs of raw materials, labor costs and utility costs, among others.

Copper concentrate, anode plates and scrap copper are the major raw materials used in the Target Group's production. In 2010, the Target Group's production sector purchased around 77% of its raw materials from domestic suppliers in China, around 16% of its raw materials from overseas suppliers, with the remaining 7% raw materials produced from its Four Mines. Changes in the market price of copper concentrate, which generally fluctuates with the international copper price, or the sufficiency of copper concentrate supply, may have a material impact on its overall production costs.

The Target Group also needs to incur a considerable amount of utility costs, including electricity, coal, gas, fuel and water costs, among other things. The Target Group sources its utility from both the Parent Company and Independent Third Parties. For example, in 2010, around 70% of its water and electricity was provided by the Parent Company through Hubei Jinge, and the remainder was sourced from Independent Third Parties in the PRC.

Labor costs are principally a function of the number of employees and change in compensation from time to time. Improvement in labor productivity would result in a decrease in the Target Group's per-unit labor costs.

The Target Group's per-unit production costs may increase if the Target Group cannot achieve an efficient business model or if the market prices for raw materials, utility or labor increase. To the extent that the Target Group cannot pass on all the increased costs to its customers, its revenues and profits may be negatively affected.

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Economic Growth in China and Globally

Copper, gold, silver and other related products have diverse industrial uses and their market demand depends on, among others, the state of the global economy and stability of international trade. Most of the Target Group's customers are based in China and a substantial portion of its revenue is generated from the sales in China. In recent years, China has become an important market and its influence on the global copper, gold and silver industries has been increasing. According to the Antaike Report, economic growth in China has been accompanied by growth in the demand for copper cathodes at a CAGR of 13.8% from 2001 to 2010. In 2010, more than 99% of the Target Group's revenue from copper cathodes was derived from sales to customers in China. If the demand for copper and related products in China decreases, the Target Group's revenue may be adversely affected.

Regulatory Environment in China

The Target Group's operations are based in China and the Target Group is subject to laws and regulations in China. Changes or uncertainties in applicable laws and regulations in China could have direct or indirect effect on the Target Group's business, financial condition and results of operations.

The PRC government exercises a substantial degree of influence over mining, ore processing, and import and export of copper cathodes, gold, silver and related materials. Changes in the level of the PRC government's control could have a direct impact on the Target Group's business, financial condition and results of operations.

Under the PRC taxation regime, the Target Group is subject to, among others, enterprise income tax, business tax, resources tax, value-added tax, city maintenance and construction tax, and property tax. The Target Group's revenues from gold are not subject to value-added tax in the PRC. The Target Group received tax refund during the Track Record Period under the comprehensive utilization of resources program in the PRC. The Target Group also obtained government grants during the Track Record Period under the energy saving and emission reduction program and technology and equipment innovation program implemented by the PRC government. Changes in the PRC taxation regime or government grants programs could result in a direct effect on the Target Group. For example, the PRC government increased the resources tax rates for copper, lead and zinc with effect from 1 August 2007 and the resources tax rate for gold with effect from 1 May 2006. There is no assurance that the PRC government will not increase the rate of resources tax or that of other taxes which the Target Group may be subject to in connection with its business operations. Any increase in any of those tax rates could adversely affect the Target Group's results of operations.

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CRITICAL ACCOUNTING POLICIES

In the process of applying the Target Group's accounting policies, which are described in Notes 3 and 5 to the Accountant's Report on the Target Group set out in Appendix I to this circular, the Target Group's management has identified the following judgments and key sources of estimation uncertainty that have a significant effect on the amounts recognized in the financial information or have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Target Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Target Group.

The Target Group recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Target Group's activities as described below. The Target Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and sales related taxes.

Revenue from the sale of goods and disposal of other assets is recognized when persuasive evidence of an arrangement exists, usually in the form of an executed sales agreement, indicating there has been a transfer of the significant risks and rewards to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. This is generally when title passes, which for the majority of commodity sales is the bill of lading date when the commodity is delivered for shipment.

The Target Group provides copper processing services. Revenue from delivering services is recognized in the period when the services are provided.

Interest income is recognized using the effective interest method.

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Impairment of non-financial assets

Non-current assets, including property, plant and equipment, land use rights, mining rights and other intangible assets, are carried at cost less accumulated depreciation/amortization, and exploration and evaluation assets that are stated at cost less impairment loss, if any. These carrying amounts are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

In determining whether an asset is impaired or the event previously causing the impairment no longer exists, the Target Group has to exercise judgement in the area of asset impairment, particularly in assessing: (1) whether an event has occurred that may affect the asset value or such event affecting the asset value has not been in existence; (2) whether the carrying value of an asset can be supported by net present value of future cash flows which are estimated based upon the continued use of the asset or derecognition; and (3) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management to determine the level of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test.

Exploration and related expenses

The application of the Target Group's accounting policy for exploration and evaluation expenditure requires judgements in determining whether it is likely that future economic benefits will arise, which may be based on assumptions about future events or circumstances. Estimates and assumptions made may change if new information becomes available. If, after expenditures are capitalized, information becomes available suggesting that the recovery of capitalized expenditures are unlikely, the amount capitalized is written off in the statement of comprehensive income in the period when the new information becomes available. The carrying amounts of exploration and evaluation assets at each reporting date were detailed in Note 16 to the Accountant's Report on the Target Group set out in Appendix I to this circular.

Income taxes

Significant judgement is required in determining the provision for income taxes. There are some transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The tax liabilities recognized are based on management's assessment of the likely outcome. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred income tax provisions in the accounting period in which such determination is made.

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Deferred tax assets are utilized for deductible temporary differences and unused tax losses only if it is probable that future taxable profits will be available to utilize those temporary differences and losses, and the tax losses continue to be available having regard to the nature and timing of their origination and compliance with the relevant tax legislation associated with their recoupment.

Mine reserves

Engineering estimates of the Target Group's mine reserves are inherently imprecise and represent only approximate amounts because of the subjective judgements involved in developing such information. There are authoritative guidelines regarding the engineering criteria that have to be met before estimated mine reserves can be designated as proven and probable. Proven and probable mine reserve estimates are updated on a regular basis and have taken into account recent production and technical information about each mine. In addition, price and cost levels change from year to year, the estimates of proven and probable mine reserves also change.

Despite the inherent imprecision in these engineering estimates, these estimates are used in determining the useful lives and impairment losses of mining rights and related mine infrastructure. The capitalized costs of mining rights are amortized over the estimated useful lives of the mines based on the proven and probable reserves of the mines using the units of production method.

Property, plant and equipment and intangible assets – estimated useful lives and residual values

The Target Group's management determines the estimated useful lives and residual values (if applicable) and consequently related depreciation/amortization charges for its property, plant and equipment and intangible assets. These estimates are based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions, or based on value-in-use calculations or market valuations according to the estimated periods that the Target Group intends to derive future economic benefits from the use of intangible assets. Management will increase the depreciation/amortization charges where useful lives are less than previously estimated lives, and it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

Actual economic lives may differ from estimated useful lives; and actual residual values may differ from estimated residual values. Periodic review could result in a change in depreciable lives and residual values and therefore depreciation/amortization expense in future periods.

Mine rehabilitation, restoration and dismantling obligations

Provision is made for the anticipated costs of future restoration, rehabilitation and dismantling of mining areas from which natural resources have been extracted. These provisions include future cost estimates associated with plant closures, waste site closures, monitoring, demolition, decontamination, water purification and permanent storage of historical residues.

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These future cost estimates are discounted to their present value. The calculation of these provision estimates requires assumptions such as application of environmental legislation, plant closure dates, available technologies, engineering cost estimates and discount rates. A change in any of the assumptions used may have a material impact on the carrying value of mine rehabilitation, restoration and dismantling provisions.

Employee medical obligations

Provision is made for the anticipated costs of compensation paid to those employees injured at work or suffered occupational disease and equivalent to such amount as required by the relevant rules and regulation in the PRC.

These future cost estimates including reimbursement of medical expenses and other compensation as required by the relevant rules and regulation are discounted to their present value. The calculation of these provision estimates requires assumptions including future medical cost estimates, application of relevant rules and regulations in respect of the amount of compensation, discount rates and the mutual confirmation with the Huangshi Labour and Social Security Bureau on the transfer of the obligation to social security system of Huangshi City, including the timing and the settlement principle, more details have been disclosed in Note 28 (c) to the Accountant's Report on the Target Group set out in Appendix I to this circular. Because of the significant uncertainties involved in view of the absence of formal transfer agreement, this estimate is subject to a high degree of measurement uncertainty. A change in any of the assumptions used may have a material impact on the carrying amount of the employee medical obligations provisions.

PRINCIPAL COMPONENTS OF COMBINED STATEMENTS OF COMPREHENSIVE INCOME

Revenue

The Target Group generates revenue primarily from producing and trading copper cathodes, other copper products, gold, silver and other related products. The Target Group also generates additional revenue through the provision of copper processing services.

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The following table sets forth the sales volume and revenue of the Target Group's products in its production sector during the periods indicated.

	Six months ended 30 June		Year ended 31 December					
	2011		2010		2009		2008	
	Sales volume	Revenue	Sales volume	Revenue	Sales volume	Revenue	Sales volume	Revenue
	(tonne)	RMB (million)	(tonne)	RMB (million)	(tonne)	RMB (million)	(tonne)	RMB (million)
		(audited)		(audited)		(audited)		(audited)
Copper cathodes	120,900.0	7,156.5	221,326.0	11,165.6	216,718.0	7,946.9	222,097.0	10,451.5
Other copper products	2,129.0	90.7	10,976.0	375.5	12,042.0	299.7	16,532.0	597.6
Gold	2.7	827.4	6.0	1,621.2	5.7	1,216.6	5.5	1,058.3
Silver	140.5	937.6	300.9	1,191.0	268.3	753.7	284.6	866.7
Other products		466.1		857.9		526.4		1,406.2
Total		9,478.3		15,211.2		10,743.3		14,380.3

The following table sets forth the sales volume and revenue of the Target Group's products in its trading sector during the periods indicated.

	Six months ended 30 June		Year ended 31 December					
	2011		2010		2009		2008	
	Sales volume	Revenue	Sales volume	Revenue	Sales volume	Revenue	Sales volume	Revenue
	(tonne)	RMB (million)	(tonne)	RMB (million)	(tonne)	RMB (million)	(tonne)	RMB (million)
		(audited)		(audited)		(audited)		(audited)
Copper cathodes	54,866.0	3,288.3	181,613.0	8,900.1	138,189.0	5,272.8	12,505.0	487.1
Other copper products	6,262.0	309.9	32,089.0	1,397.0	8,386.0	304.6	–	–
Gold	2.0	586.2	1.8	478.9	10.2	2,155.1	–	–
Silver	1.4	9.5	12.4	28.3	0.7	1.9	–	–
Other products		–		4.1		7.6		–
Total		4,193.9		10,808.4		7,742.0		487.1

Cost of Sales

Cost of sales primarily includes costs of purchasing raw materials, semi-finished products and finished products in the Target Group's trading sector, labor costs, utility costs and depreciation and amortization, among others. The main raw materials in the Target Group's production includes copper concentrate, anode plates and scrap copper.

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The following table sets forth the cost of sales, unit cost of sales and gross profit margins of the Target Group's products in its production sector during the periods indicated.

	Six months ended 30 June			Year ended 31 December								
	2011			2010			2009			2008		
	Cost of Sales		Gross profit margin	Cost of Sales		Gross profit margin	Cost of Sales		Gross profit margin	Cost of Sales		Gross profit margin
	RMB	(RMB		RMB	(RMB		RMB	(RMB		RMB	(RMB	
	(million)	per tonne)	%	(million)	per tonne)	%	(million)	per tonne)	%	(million)	per tonne)	%
	(audited)			(audited)			(audited)			(audited)		
Copper cathodes	6,963.6	57,598	2.7	10,914.6	49,315	2.3	7,379.5	34,051	7.1	11,034.8	49,685	-5.6
Other copper products	93.4	43,899	-3.0	383.8	34,970	-2.2	298.6	24,799	0.4	601.7	36,396	-0.7
Gold	744.5	276,491,000	10.0	1,497.4	248,313,000	7.6	1,037.0	182,084,000	14.8	891.0	161,448,000	15.8
Silver	878.4	6,250,000	6.3	1,064.6	3,538,000	10.6	696.5	2,596,000	7.6	973.0	3,418,000	-12.3
Other products	254.1			516.9			440.3			507.9		
Total	8,934.0			14,377.3			9,851.9			14,008.4		

The following table sets forth the cost of sales, unit cost of sales and gross profit margins of the Target Group's products in its trading sector during the periods indicated.

	Six months ended 30 June			Year ended 31 December								
	2011			2010			2009			2008		
	Cost of Sales		Gross profit margin	Cost of Sales		Gross profit margin	Cost of Sales		Gross profit margin	Cost of Sales		Gross profit margin
	RMB	(RMB		RMB	(RMB		RMB	(RMB		RMB	(RMB	
	(million)	per tonne)	%	(million)	per tonne)	%	(million)	per tonne)	%	(million)	per tonne)	%
	(audited)			(audited)			(audited)			(audited)		
Copper cathodes	3,282.5	59,828	0.2	8,896.6	48,987	0.0	5,272.6	38,155	0.0	463.9	37,097	4.8
Other copper products	309.3	49,387	0.2	1,374.5	42,835	1.6	306.2	36,509	-0.5	-	-	-
Gold	586.4	300,086,000	0.0	478.0	264,552,000	0.2	2,155.4	211,997,000	0.0	-	-	-
Silver	8.7	6,334,000	8.1	29.5	2,389,000	-4.3	1.7	2,501,000	11.3	-	-	-
Other products	-			3.4			7.6			-		
Total	4,186.9			10,782.0			7,743.5			463.9		

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Selling Expenses

Selling expenses primarily consist of transportation and freight expenses, insurance expenses, salaries of employees in the Target Group's sales force, depreciation related to the properties, equipment and vehicles in the sales department, and repair expenses in connection with various facilities in the sales department. Selling expenses in different product lines may vary as the Target Group's product mix changes.

Administrative Expenses

Administrative expenses primarily consist of salaries and benefits paid to the Target Group's administrative staff, depreciation related to the properties, equipment and vehicles in the administrative department, travel costs, repair expenses in connection with various facilities in the administrative department, labor insurance, land use right tax, intangible assets amortization, mineral resources compensation fees, research and development expenses, and general office work related expenses.

Other Operating Expenses

Other operating expenses primarily consist of charitable donations, compensation for occupying farmland and other expenditures.

Other Gains/(Losses), net

Other gains/(losses), net, primarily consist of losses on disposal of property, plant and equipment and intangible assets and fair value changes related to realized gains/(losses) from commodity futures contracts. The Target Group entered into these commodity futures contracts during the Track Record Period to hedge its net exposure to copper and gold price fluctuations due to the difference between the amount of raw materials, semi-finished and finished products the Target Group expects to procure from the suppliers and the amount of finished products the Target Group expects to sell to customers. For further information on other gains/(losses), net, please see Note 7 (a) to the Accountant's Report on the Target Group set out in Appendix I to this circular.

Other Income

Other income primarily consists of government grants. For further information on other income, please see Note 7 (b) to the Accountant's Report on the Target Group set out in Appendix I to this circular.

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Finance Costs, net

Finance costs, net, is the difference between finance costs and finance income. Finance costs include interest on borrowings, interest on discounted bills, interest on loans from the Parent Company, net exchange losses, bank charges and unwind interest of provisions, partially offset by interest expense capitalized into construction in progress. Finance income includes interest on bank deposits, interest from related parties and net exchange gains. For further information on finance costs, net, please see Note 9 to the Accountant's Report on the Target Group set out in Appendix I to this circular.

Income Tax Credit/(Expense)

The Target Group's income tax expenses are related to applicable tax laws and regulations in the PRC. No provision for Hong Kong profits tax has been made as the Target Group has no assessable profit generated in Hong Kong during the Track Record Period.

Corporate income tax in the PRC was calculated at 25% on assessable income for the Track Record Period. The Target Group enjoyed preferential tax treatment including tax refund and tax deduction during the Track Record Period. The Target Group have been granted with the "Resource Comprehensively Utilization Certificate" to be qualified to utilise the prescribed resources to produce part of its products including silver and sulphuric acid, 10% of the income derived from sales of such products can be deducted from taxable income according to Article 33 of Corporate Income Tax law and Article 99 of Corporate Income Tax Detailed Implementation Regulations. The Target Group have been granted with the "Resource Comprehensively Utilization Certificate" to be qualified to utilise the prescribed resources to produce part of its products including silver and sulphuric acid, 10% of the income derived from sales of such products can be deducted from taxable income according to Article 33 of Corporate Income Tax ("CIT") law and Article 99 of CIT Detailed Implementation Regulations ("DIR"). The Target Group's effective income tax rate was nil, 10.2%, 13.9% and 10.6% for the three years ended 31 December 2008, 2009 and 2010, and the six months ended 30 June 2011, respectively. See Note 10 to the Accountant's Report on the Target Group set out in Appendix I to this circular for further information.

FINANCIAL INFORMATION OF THE TARGET GROUP

RESULTS OF OPERATIONS

The following discussion addresses the principal trends that have affected the Target Group's results of operations during the periods under review.

The Six Months Ended 30 June 2011 Compared to the Six Months Ended 30 June 2010

The following table sets forth the sales volume, revenue, cost of sales and gross profit of the Target Group during the period indicated.

	Six months ended 30 June					
	2011			2010		
	Sales volume	Revenue	Unit price	Sales volume	Revenue	Unit price
	(tonne)	RMB (million)	(RMB per tonne)	(tonne)	RMB (million)	(RMB per tonne)
		(audited)			(unaudited)	
Copper cathodes	175,766.0	10,444.8	59,424	188,165.0	9,227.3	49,038
Other copper products	8,391.0	400.6	47,742	23,066.0	934.0	40,493
Gold	4.7	1,413.6	304,217,000	4.9	1,267.3	260,880,000
Silver	141.9	947.1	6,674,000	145.0	504.7	3,482,000
Other products		466.1			393.2	
Total		13,672.2			12,326.5	

	Six months ended 30 June							
	2011				2010			
	Cost of sales	Unit cost	Gross profit	Gross profit margin	Cost of sales	Unit cost	Gross profit	Gross profit margin
	RMB (million)	(RMB per tonne)	(RMB million)	(%)	RMB (million)	(RMB per tonne)	RMB (million)	(%)
	(audited)		(audited)		(unaudited)		(unaudited)	
Copper cathodes	10,246.1	58,294	198.7	1.9	9,207.6	48,933	19.7	0.2
Other copper products	402.7	47,994	(2.1)	(0.5)	928.5	40,256	5.5	0.6
Gold	1,330.9	286,413,000	82.7	5.9	1,129.7	232,569,000	137.6	10.9
Silver	887.1	6,251,000	60.0	6.3	447.3	3,085,000	57.4	11.4
Other products	254.1		212.0		264.5		128.7	
	13,120.9		551.3		11,977.6		348.9	
Other expenses	12.1		(12.1)		6.2		(6.2)	
Total	13,133.0		539.2		11,983.8		342.7	

FINANCIAL INFORMATION OF THE TARGET GROUP

Revenue

Revenue increased by 10.9% from RMB12,326.5 million for the six months ended 30 June 2010 to RMB13,672.2 million for the six months ended 30 June 2011. This increase in revenue was primarily due to an increase of the average selling price of copper products, partially offset by a decrease in sales volume that was primarily due to a sales volume decrease in the Target Group's trading sector. The Target Group refers to the price index issued by SHFE as the benchmark in pricing its copper cathodes and other related copper products. The Target Group refers to the price indices issued by SHGE and Shanghai White Platinum & Silver Exchange as the benchmark in pricing its gold and silver products.

Revenue from copper cathodes increased by 13.2% from RMB9,227.3 million for the six months ended 30 June 2010 to RMB10,444.8 million for the six months ended 30 June 2011, reflecting a 21% increase in average selling price, partially offset by a 6.6% decrease in sales volume. The increase in average selling price was primarily due to an increase in the market benchmark price during the first six months of 2011. The decrease in sales volume was primarily due to the sales volume decrease in the Target Group's trading sector.

Revenue from other copper products decreased by 57.1% from RMB934.0 million for the six months ended 30 June 2010 to RMB400.6 million for the six months ended 30 June 2011, reflecting a 63.6% decrease in sales volume, partially offset by a 17.9% increase in average selling price. Sales volume decreased primarily due to the decrease of sales volume in the trading sector of the Target Group. The average selling price increased primarily due to an increase in the market benchmark price during the first six months of 2011.

Revenue from gold increased by 11.5% from RMB1,267.3 million for the six months ended 30 June 2010 to RMB1,413.6 million for the six months ended 30 June 2011, reflecting a 16.6% increase in average selling price, partially offset by a 4.3% decrease in sales volume. The average selling price increased primarily due to an increase in the market benchmark price during the first six months of 2011.

Revenue from silver increased by 87.7% from RMB504.7 million for the six months ended 30 June 2010 to RMB947.1 million for the six months ended 30 June 2011, reflecting a 91.7% increase in average selling price, partially offset by a 2.1% decrease in sales volume. The average selling price increased primarily because the market benchmark price increased during the first six months of 2011. The sales volume decreased primarily due to a decrease in the sales volume of the Target Group's trading sector.

FINANCIAL INFORMATION OF THE TARGET GROUP

Cost of sales

Cost of sales increased by 9.6% from RMB11,983.8 million for the six months ended 30 June 2010 to RMB13,133.0 million for the six months ended 30 June 2011. This increase in cost of sales was primarily due to the increase of unit costs of sales in both the Target Group's production sector and trading sector.

Cost of sales of copper cathodes increased by 11.3% from RMB9,207.6 million for the six months ended 30 June 2010 to RMB10,246.1 million for the six months ended 30 June 2011, reflecting a 19.1% increase in unit cost of sales, partially offset by a 6.6% decrease in sales volume. The increase of copper cathodes unit cost of sales in the production sector was primarily due to an increase in the price of copper contained raw materials purchased from external suppliers. The increase of copper cathodes unit cost of sales in the trading sector was primarily due to an increase in the price of copper cathodes purchased from the suppliers. The decrease of sales volume was primarily due to a decrease of sales volume in the Target Group's trading sector.

Cost of sales of other copper products decreased by 56.6% from RMB928.5 million for the six months ended 30 June 2010 to RMB402.7 million for the six months ended 30 June 2011, reflecting a 63.6% decrease in sales volume, partially offset by a 19.2% increase in unit cost of sales. The decrease in sales volume was primarily because of a decrease in sales volume in the Target Group's trading sector. The increase in unit cost of sales of other copper products in the Target Group's production sector was primarily due to an increase in the price of copper contained raw materials purchased from suppliers. The increase in unit cost of sales of other copper products in the Target Group's trading sector was primarily due to an increase in the price of other copper products purchased from suppliers.

Cost of sales of gold increased by 17.8% from RMB1,129.7 million for the six months ended 30 June 2010 to RMB1,330.9 million for the six months ended 30 June 2011, reflecting a 23.2% increase in unit cost of sales, partially offset by a 4.3% decrease in sales volume. The increase in unit cost of sales of gold in the Target Group's production sector was primarily attributable to an increase in the price of gold contained raw materials. The increase in unit cost of sales of gold in the Target Group's trading sector was primarily attributable to an increase in the price of gold purchased from suppliers.

Cost of sales of silver increased by 98.3% from RMB447.3 million for the six months ended 30 June 2010 to RMB887.1 million for the six months ended 30 June 2011, reflecting a 102.6% increase in unit cost of sales of silver, partially offset by a 2.1% decrease in sales volume. The increase in unit cost of sales of silver in the Target Group's production sector was primarily attributable to an increase in the price of silver contained raw materials. The increase in unit cost of sales of silver in the Target Group's trading sector was primarily attributable to an increase in the price of silver purchased from suppliers.

FINANCIAL INFORMATION OF THE TARGET GROUP

Gross profit and gross profit margin

As a result of the foregoing, the Target Group's gross profit increased by 57.3% from RMB342.7 million for the six months ended 30 June 2010 to RMB539.2 million for the six months ended 30 June 2011. Accordingly, its gross profit margin increased from 2.8% for the six months ended 30 June 2010 to 3.9% for the six months ended 30 June 2011.

The gross profit from sales of copper cathodes increased by 908.6% from RMB19.7 million for the six months ended 30 June 2010 to RMB198.7 million for the six months ended June 30, 2011, primarily due to an increase in the market benchmark price. Accordingly, the gross profit margin of copper cathodes increased from 0.2% for the six months ended 30 June 2010 to 1.9% for the six months ended 30 June 2011. The gross profit margin of copper cathodes in the Target Group's trading sector increased from 0.1% to 0.2%, and in its production sector increased from 0.3% to 2.7% for the six months ended 30 June 2010 and 2011, respectively.

The gross profit from sales of other copper products was RMB5.5 million and the gross profit margin of other copper products was 0.6% for the six months ended 30 June 2010. The loss from sales of other copper products was RMB2.1 million and the gross profit margin of other copper products was negative 0.5% for the six months ended 30 June 2011. The gross profit margin of other copper products in the Target Group's trading sector decreased from 2.2% to 0.2%, and in its production sector increased from negative 5.9% to negative 3.0% for the six months ended 30 June 2010 and 2011, respectively.

The gross profit from sales of gold decreased by 39.9% from RMB137.6 million for the six months ended 30 June 2010 to RMB82.7 million for the six months ended 30 June 2011. The gross profit was higher in the first half year of 2010, primarily because the Target Group supplied part of its sales demand from prior year's raw materials inventory which were purchased at a low price. Accordingly, the gross profit margin of gold decreased from 10.9% for the six months ended 30 June 2010 to 5.9% for the six months ended 30 June 2011. The gross profit margin of gold in the Target Group's trading sector increased from negative 0.2% to 0.0%, and in its production sector decreased from 17.6% to 10.0% for the six months ended 30 June 2010 and 2011, respectively.

The gross profit from sales of silver increased by 4.5% from RMB57.4 million for the six months ended 30 June 2010 to RMB60.0 million for the six months ended 30 June 2011, primarily due to an increase in sales volume driven by the then increasing market benchmark price of silver. The gross profit margin of silver decreased from 11.4% for the six months ended 30 June 2010 to 6.3% for the six months ended 30 June 2011. The gross profit margin of silver in the Target Group's trading sector increased from negative 6.5% to 8.4%, and in its production sector decreased from 12.4% to 6.3% for the six months ended 30 June 2010 and 2011, respectively.

FINANCIAL INFORMATION OF THE TARGET GROUP

Selling expenses

The Target Group's selling expenses slightly decreased by 2.9% from RMB20.6 million for the six months ended 30 June 2010 to RMB20.0 million for the six months ended 30 June 2011.

Administrative expenses

The Target Group's administrative expenses increased by 7.4% from RMB157.0 million for the six months ended 30 June 2010 to RMB168.6 million for the six months ended 30 June 2011. The increase in administrative expenses was primarily due to an increase in administrative employees' salaries and social insurance expenses which was further incurred by increasing the average compensation level of the employees in the administration department.

Other operating expenses

The Target Group's other operating expenses decreased by 57.5% from RMB11.3 million for the six months ended 30 June 2010 to RMB4.8 million for the six months ended 30 June 2011. The decrease in other operating expenses was primarily due to a decrease in the Target Group's charitable contributions.

Other gains/(losses), net

The Target Group's other losses increased by 491.6 times from RMB0.3 million for the six months ended 30 June 2010 to RMB155.7 million for the six months ended 30 June 2011. This increase was primarily due to the increase of realized losses from settled commodity futures contracts, which was further due to fair value changes in the commodity futures contracts. See Note 7 to the Accountant's Report on the Target Group set out in Appendix I to the circular.

Other income

Other income decreased by 44.4% from RMB29.5 million for the six months ended 30 June 2010 to RMB16.4 million for the six months ended 30 June 2011. This decrease was primarily due to a decrease in government grants, partially offset by an increase in value-added tax refund.

Finance costs, net

The Target Group's finance costs, net, which is the difference between finance costs and finance income, increased by 12.3% from RMB61.6 million for the six months ended 30 June 2010 to RMB69.2 million for the six months ended 30 June 2011. This increase was primarily due to an increase in finance costs resulting from increased interest expenses on bank and other loans offset by an increase in finance income resulting from increased interest income on bank deposits and increased net exchange gains.

FINANCIAL INFORMATION OF THE TARGET GROUP

Income tax credit/(expense)

The Target Group's income tax expense decreased by 15.1% from RMB17.2 million for the six months ended 30 June 2010 to RMB14.6 million for the six months ended 30 June 2011. The effective income tax rate decreased from 14.2% to 10.6%, primarily due to an increase in tax refund the Target Group received under the comprehensive utilization of resources program.

Profit for the six months and net profit margin

As a result of the foregoing, the profit attributable to owners of the Target Company increased by 48.7% from RMB62.9 million for the six months ended 30 June 2010 to RMB93.5 million for the six months ended 30 June 2011. Accordingly, net profit margin increased from 0.5% for the six months ended 30 June 2010 to 0.7% for the six months ended 30 June 2011.

The Year Ended 31 December 2010 Compared to the Year Ended 31 December 2009

The following table sets forth sales volume, revenue, cost of sales and gross profit of the Target Group during the period indicated.

	Year ended 31 December					
	2010			2009		
	Sales volume	Revenue	Unit price	Sales volume	Revenue	Unit price
	(tonne)	RMB (million)	(RMB per tonne)	(tonne)	RMB (million)	(RMB per tonne)
		(audited)			(audited)	
Copper cathodes	402,939.0	20,065.7	49,798	354,907.0	13,219.7	37,248
Other copper products	43,065.0	1,772.5	41,160	20,428.0	604.3	29,584
Gold	7.8	2,100.1	267,978,000	15.9	3,371.7	212,562,000
Silver	313.3	1,219.3	3,892,000	269.0	755.6	2,809,000
Other products		862.0			534.0	
Total		26,019.6			18,485.3	

FINANCIAL INFORMATION OF THE TARGET GROUP

	Year ended 31 December							
	2010				2009			
	Cost of sales	Unit cost	Gross profit	Gross profit margin	Cost of sales	Unit cost	Gross profit	Gross profit margin
	RMB (million)	(RMB per tonne)	RMB (million)	(%)	RMB (million)	(RMB per tonne)	RMB (million)	(%)
	(audited)		(audited)		(audited)		(audited)	
Copper cathodes	19,811.2	49,167	254.5	1.3	12,652.1	35,649	567.6	4.3
Other copper products	1,758.4	40,831	14.1	0.8	604.8	29,606	(0.5)	(0.1)
Gold	1,975.4	252,057,000	124.7	5.9	3,192.4	201,257,000	179.3	5.3
Silver	1,094.1	3,493,000	125.2	10.3	698.2	2,596,000	57.4	7.6
Other products	520.2		341.8		447.9		86.1	
	25,159.3		860.3		17,595.4		889.9	
Other expenses	27.7		(27.7)		13.1		(13.1)	
Total	<u>25,187.0</u>		<u>832.6</u>		<u>17,608.5</u>		<u>876.8</u>	

Revenue

Revenue increased by 40.8% from RMB18,485.3 million in 2009 to RMB26,019.6 million in 2010. This increase in revenue was primarily due to an increase in average selling price of copper products and an increase in sales volume in the Target Group's trading sector.

Revenue from copper cathodes increased by 51.8% from RMB13,219.7 million in 2009 to RMB20,065.7 million in 2010, reflecting a 33.7% increase in average selling price and a 13.5% increase in sales volume. The increase of average selling price was primarily due to an increase in the market benchmark price of copper. The increase in sales volume was primarily due to an increase in copper cathodes sales volume in the Target Group's trading sector.

Revenue from other copper products increased by 193.3% from RMB604.3 million in 2009 to RMB1,772.5 million in 2010, reflecting a 110.8% increase in sales volume and a 39.1% increase in average selling price. The sales volume increased primarily due to an increase in sales volume of other copper products in the Target Group's trading sector. The average selling price increased primarily because of an increase in the market benchmark price of copper.

Revenue from gold decreased by 37.7% from RMB3,371.7 million in 2009 to RMB2,100.1 million in 2010, reflecting a 50.9% decrease in sales volume, partially offset by a 26.1% increase in average selling price. The decrease in sales volume was primarily attributable to a decrease in gold sales volume in the Target Group's trading sector. The average selling price increased primarily because of an increase in the market benchmark price of gold.

FINANCIAL INFORMATION OF THE TARGET GROUP

Revenue from silver increased by 61.4% from RMB755.6 million in 2009 to RMB1,219.3 million in 2010, reflecting a 38.6% increase in average selling price and a 16.5% increase in sales volume. The average selling price increased primarily due to an increase in the market benchmark price of silver. The sales volume increased primarily because the Target Group supplied part of its sales demand from its prior year's inventory.

Cost of sales

Cost of sales increased by 43.0% from RMB17,608.5 million in 2009 to RMB25,187.0 million in 2010. This increase in cost of sales was primarily due to an increase in raw materials price.

Cost of sales for copper cathodes increased by 56.6% from RMB12,652.1 million in 2009 to RMB19,811.2 million in 2010, reflecting a 37.9% increase in unit cost of sales and a 13.5% increase in sales volume. The increase in unit cost of sales of copper cathodes in the Target Group's production sector was primarily attributable to an increase in the price of copper contained raw materials purchased from external suppliers. The increase in unit cost of sales of copper cathodes in the Target Group's trading sector was primarily due to an increase in the price of copper cathodes purchased from suppliers. The increase of sales volume was primarily attributable to an increase of copper cathodes sales volume in the Target Group's trading sector.

Cost of sales for other copper products increased by 190.7% from RMB604.8 million in 2009 to RMB1,758.4 million in 2010, reflecting a 37.9% increase in unit cost of sales and a 110.8% increase in sales volume. The increase in unit cost of sales of other copper products in the Target Group's production sector was primarily due to an increase in the price of copper contained raw materials. The increase in unit cost of sales of other copper products in the Target Group's trading sector was primarily due to an increase in the price of other copper products purchased from suppliers. The increase in sales volume was primarily due to an increase in other copper products sales volume in its trading sector.

Cost of sales for gold decreased by 38.1% from RMB3,192.4 million in 2009 to RMB1,975.4 million in 2010, reflecting a 50.9% decrease in sales volume, primarily offset by a 25.2% increase in unit cost of sales. The increase in unit cost of sales of gold in the Target Group's production sector was primarily attributable to an increase in the price of gold contained raw materials. The increase in unit cost of sales of gold in the Target Group's trading sector was primarily attributable to an increase in the price of gold it purchased from suppliers. The decrease in sales volume was primarily attributable to a decrease in gold sales volume in the Target Group's trading sector.

FINANCIAL INFORMATION OF THE TARGET GROUP

Cost of sales for silver increased by 56.7% from RMB698.2 million in 2009 to RMB1,094.1 million in 2010, reflecting a 34.6% increase in unit cost of sales and a 16.5% increase in sales volume. The increase in unit cost of sales of silver in the Target Group's production sector was primarily attributable to an increase in the price of silver contained raw materials. However, the unit cost of sales of silver in the Target Group's trading sector decreased primarily due to a decrease in the price of silver it purchased from suppliers. The sales volume increased primarily because the Target Group supplied part of its sales demand from prior year's inventory.

Gross profit and gross profit margin

As a result of the foregoing, the Target Group's gross profit decreased by 5.0% from RMB876.8 million in 2009 to RMB832.6 million in 2010. Its gross profit margin decreased from 4.7% in 2009 to 3.2% in 2010.

The gross profit from sales of copper cathodes decreased by 55.2% from RMB567.5 million in 2009 to RMB 254.5 million in 2010. Accordingly, the gross profit margin decreased from 4.3% in 2009 to 1.3% in 2010, primarily due to the increase of cost of sales resulting from an increase in raw materials costs as well as a decrease in processing fees of imported copper contained raw materials. The gross profit margin of copper cathodes in the Target Group's trading sector remained at 0.0%, and in its production sector decreased from 7.1% to 2.2% for the year ended 31 December 2009 and 2010, respectively.

The loss from sales of other copper products was RMB0.5 million and the gross profit margin was negative 0.1% in 2009. The gross profit from the sales of other copper products was RMB14.1 million and the gross profit margin was 0.8% in 2010. The Target Group incurred loss from the sales of other copper products in 2009 primarily due to the average selling price was lower than the unit costs of sales of other copper products. The gross profit margin of the sales of other copper products in the Target Group's trading sector increased from negative 0.5% to 1.6%, and in its production sector decreased from 0.4% to negative 2.2% for the year ended 31 December 2009 and 2010, respectively.

The gross profit from sales of gold decreased by 30.4% from RMB179.3 million in 2009 to RMB124.7 million in 2010, primarily due to the decrease of revenue from gold and the increase in cost of sales of gold resulting from an increase of raw materials costs. The gross profit margin increased from 5.3% in 2009 to 5.9% in 2010. The gross profit margin of the sales of gold in the Target Group's trading sector increased from 0.0% to 0.2%, and in the Target Group's production sector decreased from 14.8% to 7.6% for the year ended 31 December 2009 and 2010, respectively.

FINANCIAL INFORMATION OF THE TARGET GROUP

The gross profit from sales of silver increased by 118.0% from RMB57.4 million in 2009 to RMB125.2 million in 2010, primarily due to an increase in revenue from silver resulting from an increase in the selling price of silver in 2010. Accordingly, the gross profit margin increased from 7.6% in 2009 to 10.3% in 2010. The gross profit margin of silver in the Target Group's trading sector decreased from 11.3% to negative 4.3%, and in its production sector increased from 7.6% to 10.6% for the year ended 31 December 2009 and 2010, respectively.

Selling expenses

The Target Group's selling expenses increased by 2.7% from RMB44.7 million in 2009 to RMB45.9 million in 2010.

Administrative expenses

The Target Group's administrative expenses increased by 25.1% from RMB270.2 million in 2009 to RMB338.1 million in 2010, primarily because during the global financial crisis in 2009 the Target Group reduced its employees' average compensation and other benefits and repair expenses, among others.

Other operating expenses

The Target Group's other operating expenses increased by 110.3% from RMB13.6 million in 2009 to RMB28.6 million in 2010. The increase in other operating expenses was primarily due to an increase in the Target Group's expenditure during the recovery from the global financial crisis.

Other gains/(losses), net

Other losses, net, decreased by 77.2% from RMB337.4 million in 2009 to RMB77.0 million in 2010. This decrease was primarily due to the decrease of realized losses from commodity futures contracts, which was further due to fair value changes in the commodity futures contracts. See Note 7 (a) to the Accountant's Report on the Target Group set out in Appendix I to the circular.

Other income

Other income increased by 64.4% from RMB23.3 million in 2009 to RMB38.3 million in 2010. This increase was primarily due to an increase of government grants to encourage energy saving, emission reduction and innovation in technology and equipment from RMB10.5 million in 2009 to RMB31.1 million in 2010, partially offset by a decrease of value-added tax refund.

FINANCIAL INFORMATION OF THE TARGET GROUP

Finance costs, net

Finance costs, net, is the difference between finance costs and finance income. It increased by 11.8% from RMB123.9 million in 2009 to RMB138.5 million in 2010 primarily because of an increase in finance costs resulting from increased interest expenses on bank and other loans, offset by an increase in finance income resulting from increased interest income on bank deposit and increased net exchange gains from the RMB value appreciation against the US Dollars.

Income tax credit/(expense)

The Target Group's income tax expense increased by 199.1% from RMB11.3 million in 2009 to RMB33.8 million in 2010. The effective income tax rate increased from 10.2% in 2009 to 13.9% in 2010. The low effective income tax rate in 2009 was primarily due to the tax refund the Target Group enjoyed under the comprehensive utilization of resources program.

Profit for the year and net profit margin

As a result of the foregoing, the profit attributable to owners of the Target Company increased by 110.7% from RMB60.7 million in 2009 to RMB127.9 million in 2010. Net profit margin increased from 0.3% in 2009 to 0.5% in 2010.

The Year Ended 31 December 2009 Compared to the Year Ended 31 December 2008

The following table sets forth sales volume, revenue, cost of sales and gross profit of the Target Group during the period indicated.

	Year ended 31 December					
	2009			2008		
	Sales volume	Revenue	Unit price	Sales volume	Revenue	Unit price
	(tonne)	RMB (million)	(RMB per tonne)	(tonne)	RMB (million)	(RMB per tonne)
		(audited)			(audited)	
Copper cathodes	354,907.0	13,219.7	37,248	234,602.0	10,938.6	46,626
Other copper products	20,428.0	604.3	29,584	16,532.0	597.6	36,150
Gold	15.9	3,371.7	212,562,000	5.5	1,058.3	191,772,000
Silver	269.0	755.6	2,809,000	284.6	866.7	3,045,000
Other products		534.0			1,406.2	
Total		18,485.3			14,867.4	

FINANCIAL INFORMATION OF THE TARGET GROUP

	Year ended 31 December							
	2009				2008			
	Cost of sales	Unit cost	Gross profit	Gross profit margin	Cost of sales	Unit cost	Gross profit	Gross profit margin
	<i>RMB</i>	<i>(RMB</i>	<i>RMB</i>	<i>(%)</i>	<i>RMB</i>	<i>(RMB</i>	<i>RMB</i>	<i>(%)</i>
	<i>(million)</i>	<i>per tonne)</i>	<i>(million)</i>		<i>(million)</i>	<i>per tonne)</i>	<i>(million)</i>	
	(audited)		(audited)		(audited)		(audited)	
Copper cathodes	12,652.1	35,649	567.5	4.3	11,498.7	49,014	(560.1)	(5.1)
Other copper products	604.8	29,606	(0.5)	(0.1)	601.7	36,396	(4.1)	(0.7)
Gold	3,192.4	201,257,000	179.3	5.3	891.0	161,448,000	167.3	15.8
Silver	698.2	2,596,000	57.5	7.6	973.0	3,418,000	(106.3)	(12.3)
Other products	447.9		86.1		507.9		898.3	
	17,595.4		889.9		14,472.3		395.1	
Other expenses	13.1		(13.1)		45.7		(45.7)	
Total	<u>17,608.5</u>		<u>876.8</u>		<u>14,518.0</u>		<u>349.4</u>	

Revenue

Revenue increased by 24.3% from RMB14,867.4 million in 2008 to RMB18,485.3 million in 2009. This increase in revenue was primarily due to an increase in sales volume.

Revenue from copper cathodes increased by 20.9% from RMB10,938.6 million in 2008 to RMB13,219.7 million in 2009, reflecting a 51.3% increase in sales volume, partially offset by a 20.1% decrease in average selling price. The increase in sales volume was primarily due to the increased copper cathodes sales volume in the Target Group's trading sector. The decrease in average selling price was primarily due to a decrease in the market benchmark price of copper.

Revenue from other copper products increased by 1.1% from RMB597.6 million in 2008 to RMB604.3 million in 2009, reflecting a 23.6% increase in sales volume, partially offset by a 18.2% decrease in average selling price. The increase in sales volume was primarily due to an increase in other copper products sales volume in the Target Group's trading sector. The decrease in average selling price was primarily due to a decrease in the market benchmark price of copper during the global financial crisis.

FINANCIAL INFORMATION OF THE TARGET GROUP

Revenue from gold increased by 218.6% from RMB1,058.3 million in 2008 to RMB3,371.7 million in 2009, reflecting a 187.4% increase in sales volume and a 10.8% increase in average selling price. The increase in sales volume was primarily due to an increase in the Target Group's gold sales volume in its trading sector. Gold as an investment instrument is often used to hedge other economic losses during market turndown. During the global financial crisis in 2009, the average selling price of gold increased along with the increase of demand of using gold as a financial risk hedging instrument.

Revenue from silver decreased by 12.8% from RMB866.7 million in 2008 to RMB755.6 million in 2009, reflecting a 7.7% decrease in average selling price and a 5.5% decrease in sales volume. The average selling price decreased primarily because silver price was adversely affected by the global financial crisis. The decrease in sales volume was primarily due to a decrease in silver sales volume in the Target Group's production sector.

Cost of sales

Cost of sales increased by 21.3% from RMB14,518.0 million in 2008 to RMB17,608.5 million in 2009. This increase in cost of sales was primarily due to an increase in sales volume.

Cost of sales of copper cathodes increased by 10.0% from RMB11,498.7 million in 2008 to RMB12,652.1 million in 2009, reflecting a 51.3% increase in sales volume, partially offset by a 27.3% decrease in unit cost of sales. The increase in sales volume was primarily attributable to an increase in sales volume of copper cathodes in the Target Group's trading sector. The decrease in unit cost of sales in the production sector was primarily due to a decrease in the costs of copper contained raw materials purchased from external parties and the costs cut in the Target Group during the global financial crisis. However, the unit cost of sales of copper cathodes in the trading sector increased slightly, primarily attributable to an increase in the price of copper cathodes procured from the Target Group's suppliers.

Cost of sales of other copper products increased by 0.5% from RMB601.7 million in 2008 to RMB604.8 million in 2009, reflecting a 23.6% increase in sales volume, partially offset by a 18.7% decrease in unit cost of sales. The sales volume increased primarily due to a significant increase in sales volume of other copper products in the Target Group's trading sector in 2009. The decrease in unit cost of sales was primarily attributable to a decrease in the price of copper contained raw materials in the Target Group's production sector. The unit cost of sales of other copper products in 2008 and 2009 in the trading sector was not comparable because the sales volume of other copper products in the trading sector in 2008 was inconsiderable.

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Cost of sales of gold increased by 258.3% from RMB891.0 million in 2008 to RMB3,192.4 million in 2009, reflecting a 24.7% increase in unit cost of sales and a 187.4% increase in sales volume. The increase in unit cost of sales was primarily attributable to an increase in the price of gold contained raw materials in the Target Group's production sector. The unit cost of sales of gold in 2008 and 2009 in the trading sector was not comparable because the sales volume of gold in the trading sector in 2008 was inconsiderable. The increase in sales volume was primarily due to a significant increase in gold sales volume in the Target Group's trading sector in 2009.

Cost of sales of silver decreased by 28.2% from RMB973.0 million in 2008 to RMB698.2 million in 2009, reflecting a 24.1% decrease in unit cost of sales and a 5.5% decrease in sales volume. The decrease in unit cost of sales was primarily attributable to a decrease in the price of silver contained raw materials in the Target Group's production sector. The unit cost of sales of silver in 2008 and 2009 in the trading sector was not comparable because the sales volume of gold in the trading sector in 2008 was inconsiderable. The sales volume decreased because the Target Group reduced its sales volume and increased its inventory for future sales during times of higher market benchmark prices.

Gross profit and gross profit margin

As a result of the foregoing, the Target Group's gross profit increased by 150.9% from RMB349.4 million in 2008 to RMB876.8 million in 2009. The Target Group's gross profit margin increased from 2.4% in 2008 to 4.7% in 2009.

The Target Group incurred RMB560.1 million loss from sales of copper cathodes in 2008 and the profit margin was negative 5.1%. The gross profit from sales of copper cathodes was RMB567.5 million in 2009 and the profit margin was 4.3%. The Target Group incurred a loss from sales of copper cathodes in 2008 which was primarily due to high cost of sales and low average selling price. Most of copper contained raw materials the Target Group used in 2008 was procured in 2007 and the beginning of 2008 at a higher price before the global financial crisis, which led to a high cost of sales. The market benchmark price of copper cathodes decreased significantly during the global financial crisis in 2008, which led to a low average selling price. The gross profit margin of copper cathodes in the Target Group's trading sector decreased from 4.8% to 0.0%, and in its production sector increased from negative 5.6% to 7.1% for the year ended 31 December 2008 and 2009, respectively.

The loss from sales of other copper products decreased by 87.8% from RMB4.1 million for the year ended 31 December 2008 to RMB0.5 million for the year ended 31 December 2009. Accordingly, the gross profit margin increased from negative 0.7% to negative 0.1%. The Target Group did not trade other copper products in 2008, and the gross profit margin of other copper products in its trading sector for the year ended 31 December 2009 was negative 0.5%. The gross profit margin of other copper products in its production sector increased from negative 0.7% to 0.4% for the year ended 31 December 2008 and 2009, respectively.

FINANCIAL INFORMATION OF THE TARGET GROUP

The gross profit from sales of gold increased by 7.2% from RMB167.3 million in 2008 to RMB179.3 million in 2009 primarily attributable to an increase in the market benchmark price. The gross profit margin decreased from 15.8% in 2008 to 5.3% in 2009, primarily due to a lower profit margin in its trading sector. The Target Group's trading volume of gold in 2008 was inconsiderable. The gross profit margin of gold in the Target Group's trading sector for the year ended 31 December 2009 was 0.0%. The gross profit margin of gold in its production sector decreased from 15.8% to 14.8% for the year ended 31 December 2008 and 2009, respectively.

The Target Group incurred RMB106.3 million loss in sales of silver in 2008 and the profit margin was negative 12.3%. The gross profit from sales of silver was RMB57.4 million and the profit margin was 7.6% in 2009. The Target Group incurred losses in 2008 primarily because the silver contained raw materials carried forward from the year 2007 was procured at a higher price and the average selling price of silver decreased in 2008 during the global financial crisis. The Target Group's trading volume of silver in 2008 was inconsiderable. The gross profit margin of silver in the Target Group's trading sector for the year ended 31 December 2009 was 11.3%. The gross profit margin of silver in its production sector increased from negative 12.3% to 7.6% for the year ended 31 December 2008 and 2009, respectively.

Selling expenses

The Target Group's selling expenses decreased by 40.6% from RMB75.2 million in 2008 to RMB44.7 million in 2009. This decrease was primarily due to (1) a decrease in salaries, office expenses, depreciation, and repair costs further resulting from an internal restructuring where the Target Group disposed of its ancillary assets to a newly established company at the end of 2008 ("**2008 Supplement Assets Disposal**"), and its costs cut during the global financial crisis, and (2) a decrease in freight costs due to its use of tendering in purchase of freight services.

Administrative expenses

The Target Group's administrative expenses decreased by 27.0% from RMB369.9 million in 2008 to RMB270.2 million in 2009. The decrease in administrative expenses was primarily due to the 2008 Supplement Assets Disposal and the Target Group's costs control during the global financial crisis.

Other operating expenses

The Target Group's other operating expenses decreased by 39.6% from RMB22.5 million in 2008 to RMB13.6 million in 2009, primarily due to its charitable contributions in the amount of RMB5.0 million for Wenchuan earthquake victims in 2008.

FINANCIAL INFORMATION OF THE TARGET GROUP

Other gains/(losses), net

The Target Group's other gains, net, were RMB133.7 million in 2008 and the Target Group's other losses, net, were RMB337.4 million in 2009. The Target Group's gains in 2008 were primarily attributable to realized gains from commodity futures contracts and fair value gains of commodity futures contracts as hedging instrument. The losses in 2009 were primarily attributable to the losses from fair value changes of commodity futures contracts and provision for other receivables. See Note 7 (a) to the Accountant's Report on the Target Group set out in Appendix I to the circular.

Other income

Other income increased by 13.7 times from RMB1.7 million in 2008 to RMB23.3 million in 2009. This increase was primarily due to the government grants in the amount of RMB10.5 million and the value-added tax refund in the amount of RMB11.2 million in 2009.

Finance costs, net

Finance costs, net, is the difference between finance costs and finance income. The Target Group's finance costs, net decreased by 32.0% from RMB182.3 million in 2008 to RMB123.9 million in 2009. This decrease was primarily due to a decrease in finance costs resulting from decreased interest on bank loans and loans from the Parent Company, net exchange losses, offset by a decrease in finance income from interest on bank deposits and interest from related parties.

Income tax credit/(expense)

In 2008, the Target Group's income tax credit was RMB56.8 million primarily due to the loss before income tax it incurred in the amount of RMB165.1 million. In 2009, its income tax expense was RMB11.2 million and the effective income tax rate was 10.2%.

Profit for the year and net profit margin

As a result of the foregoing, loss attributable to the owners of the Target Company was RMB94.6 million in 2008, and the profit attributable to the owners of the Target Company was RMB60.7 million in 2009. Accordingly, net profit margin was negative 0.6% in 2008 and 0.3% in 2009.

FINANCIAL INFORMATION OF THE TARGET GROUP

LIQUIDITY AND CAPITAL RESOURCES

The Target Group's cash needs are primarily in raw materials purchases, property, plant and equipment purchases, acquisition of mining rights, costs and expenses relating to operating activities and bank loans repayments. The Target Group has historically received cash resources from capital contributions by equity holders, long-term and short-term bank loans, and its operating activities. As at 31 December 2008, 2009 and 2010, and 30 June 2011, the Target Group had cash and cash equivalents in the amount of RMB1,176.0 million, RMB537.0 million, RMB304.0 million and RMB635.2 million, respectively, and restricted cash and bank balances in the amount of RMB379.1 million, RMB815.8 million, RMB1,310.4 million and RMB1,664.7 million, respectively.

The Target Group's gearing ratio was 41.1%, 50.2%, 52.9% and 48.3% as at 31 December 2008, 2009 and 2010 and 30 June 2011. Gearing ratio is based on year/period-end net debt divided by total capital. Net debts are calculated as total borrowings (including payables to the Parent Company) less term deposits, restricted deposits and cash and cash equivalents. Total capital is calculated as year/period-end equity, as shown in the combined statements of financial position plus net debts.

Cash Flows

The following table sets forth certain information regarding the Target Group's combined statements of cash flows for the periods indicated:

	Year ended 31 December			Six months ended 30 June	
	2008	2009	2010	2010	2011
	<i>RMB (million)</i>	<i>RMB (million)</i>	<i>RMB (million)</i>	<i>RMB (million)</i>	<i>RMB (million)</i>
	<i>(audited)</i>	<i>(audited)</i>	<i>(audited)</i>	<i>(unaudited)</i>	<i>(audited)</i>
Net cash generated from/(used in)					
operating activities	200.6	(762.7)	340.8	84.4	1,302.6
Net cash used in investing					
activities	(273.4)	(501.1)	(1,338.4)	(893.4)	(420.9)
Net cash generated from					
financing activities	1,009.7	624.8	764.6	928.7	(550.5)
Net increase/(decrease) in cash					
and cash equivalents	936.9	(639.0)	(233.0)	119.7	331.2
Cash and cash equivalents at					
beginning of year/period	239.1	1,176.0	537.0	537.0	304.0
Cash and cash equivalents at end					
of year/period	1,176.0	537.0	304.0	656.7	635.2

FINANCIAL INFORMATION OF THE TARGET GROUP

Net cash generated from/used in operating activities

Net cash generated from operating activities in the six months ended 30 June 2011 of RMB1,302.6 million was primarily attributable to (1) profit before income tax in the amount of RMB137.3 million, (2) a decrease in inventories in the amount of RMB707.7 million because the Target Group supplied part of its production demand from the prior year's inventories of raw materials and work-in-progress, (3) an increase in other payables and accruals in the amount of RMB224.8 million, and (4) a decrease in other deposits in the amount of RMB218.1 million, partially offset by a decrease in trade and bills payable in the amount of RMB412.0 million due to a decrease in bill payables endorsed to suppliers.

Net cash generated from operating activities in 2010 of RMB340.8 million was primarily attributable to (1) profit before income tax in the amount of RMB242.8 million, (2) a decrease in trade and bills receivables in the amount of RMB215.5 million primarily due to collection of receivables from related parties and (3) an increase in trade and bills payables in the amount of RMB459.7 million due to an increase in accounts payables for raw materials, partially offset by (1) an increase in inventories in the amount of RMB512.5 million because the Target Group increased its inventories when raw materials prices were low, (2) an increase in other deposits in the amount of RMB308.3 million due to an increase in fixed term deposits under its non-deliverable forwards (“NDF”) risk free financial portfolio program and an increase in deposits under futures contracts and deposits for issuing letters of credit, and (3) an increase in other receivables and prepayments in the amount of RMB155.5 million due to an increase in prepayments of copper raw materials.

Net cash used in operating activities in 2009 of RMB762.7 million was primarily attributable to an increase in inventories in the amount of RMB1,459.8 million due to increased purchase of raw materials at relatively low prices following the global financial crisis, partially offset by (1) a decrease in other receivables and prepayments in the amount of RMB462.6 million due to a decrease in prepayments of imported raw materials, (2) an adjustment for depreciation and amortization of RMB232.9 million, (3) an adjustment for interest expense of RMB134.6 million, (4) profit before income tax in the amount of RMB110.3 million, and (5) a decrease in other deposits in the amount of RMB60.7 million.

Net cash generated from operating activities in 2008 of RMB200.6 million was primarily attributable to (1) a decrease in inventories in the amount of RMB515.9 million due to a decrease in the inventories and a decrease in the raw materials purchase costs, (2) a decrease in restricted cash and bank balances in the amount of RMB80.6 million due to the decreasing use of letters of credit and credit futures contracts in 2008, partially offset by (1) loss before income tax in the amount of RMB165.1 million, (2) an increase in other receivables and prepayments in the amount of RMB313.2 million due to an increase in prepayments of imported raw materials and (3) a decrease in other payables and accruals in the amount of RMB184.6 million due to the 2008 Supplement Assets Disposal and tax payments.

FINANCIAL INFORMATION OF THE TARGET GROUP

Net cash used in investing activities

The Target Group's cash outflow from investing activities primarily consists of purchase of property, plant and equipment used in the renovation of copper mining, ore processing and smelting projects.

Net cash used in investing activities in the six months ended 30 June 2011 of RMB420.9 million was primarily attributable to purchase of property, plant and equipment in the amount of RMB419.3 million used in renovation of copper mining, ore processing and smelting projects, emission reduction and innovation in technology and equipment, partially offset by (1) interest received in the amount of RMB8.4 million and (2) government grants in the amount of RMB27.2 million.

Net cash used in investing activities in 2010 of RMB1,338.4 million was primarily attributable to (1) purchase of property, plant and equipment in the amount of RMB774.9 million used in renovation of copper mining, ore processing and smelting projects, emission reduction and innovation in technology and equipment, and (2) purchase of intangible assets in the amount of RMB603.3 million, partially offset by (1) interest received in the amount of RMB21.4 million, and (2) government grants in the amount of RMB44.3 million.

Net cash used in investing activities in 2009 of RMB501.1 million was primarily attributable to purchase of property, plant and equipment in the amount of RMB483.6 million used in the renovation of copper mining, ore processing and smelting projects, as well as expenditures in connection with PRC government tax incentive programs related to energy saving, emission reduction and innovation in technology and equipment, partially offset by (1) interest received in the amount of RMB10.7 million, (2) government grants in the amount of RMB13.5 million and (3) proceeds from disposal of property, plant and equipment in the amount of RMB1.2 million.

Net cash used in investing activities in 2008 of RMB273.4 million was primarily attributable to (1) purchase of property, plant and equipment in the amount of RMB294.3 million for used in the renovation of copper mining, ore processing and smelting projects, as well as expenditures in connection with PRC government tax incentive programs related to energy saving, emission reduction and innovation in technology and equipment, and (2) a RMB54.1 million capital reduction in 2008 due to the 2008 Supplement Assets Disposal, partially offset by (1) proceeds from disposal of property, plant and equipment in the amount of RMB28.4 million, (2) interest received in the amount of RMB39.1 million and (3) government grants in the amount of RMB10.3 million.

Net cash generated from financing activities

The Target Group's cash inflow from financing activities primarily consists of proceeds from new borrowings. The Target Group's cash outflow from financing activities primarily consists of interest payments and repayments of borrowings.

FINANCIAL INFORMATION OF THE TARGET GROUP

Net cash generated from financing activities in the six months ended 30 June 2011 of RMB550.5 million was primarily attributable to (1) proceeds from new borrowings in the amount of RMB3,374.8 million related to raw materials purchase and construction works expenditure, and (2) increase in advance from the Parent Company in the amount of RMB258.6 million, partially offset by repayment of borrowings in the amount of RMB3,361.6 million.

Net cash generated from financing activities in 2010 of RMB764.6 million was primarily attributable to proceeds from new borrowings in the amount of RMB8,773.6 million, partially offset by (1) interest paid in the amount of RMB180.9 million, and (2) repayment of borrowings in the amount of RMB7,619.3 million.

Net cash generated from financing activities in 2009 of RMB624.8 million was primarily attributable to (1) proceeds from new borrowings in the amount of RMB7,237.0 million and (2) contribution from equity holders in the amount of RMB240.0 million from Hubei SASAC, partially offset by (1) interest paid in the amount of RMB135.2 million, and (2) repayment of borrowings in the amount of RMB6,136.3 million.

Net cash generated from financing activities in 2008 of RMB1,009.7 million was primarily attributable to (1) proceeds from new borrowings of RMB6,949.5 million related to raw materials purchase, and (2) contribution from equity holders in the amount of RMB1,060.0 million related to Changdian and Hubei SASAC, partially offset by (1) repayment of borrowings in the amount of RMB6,629.5 million, (2) interest paid in the amount of RMB286.0 million, and (3) dividends in the amount of RMB143.0 million paid to the former owner of the three mines, being Fengshan Mine, Tongshankon Mine and Chimashan Mine.

NET CURRENT ASSETS

As at 31 December 2008, 2009 and 2010, and 30 June 2011, the Target Group had net current assets of RMB375.7 million, RMB575.8 million, RMB65.7 million and RMB114.8 million, respectively, as set out in detail below:

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	As at 31 December			As at 30 June	As at 31 October
	2008	2009	2010	2011	2011
	<i>RMB (million)</i>	<i>RMB (million)</i>	<i>RMB (million)</i>	<i>RMB (million)</i>	<i>RMB (million)</i>
	<i>(audited)</i>	<i>(audited)</i>	<i>(audited)</i>	<i>(audited)</i>	<i>(unaudited)</i>
Current assets					
Inventories	2,130.3	3,614.5	4,264.1	3,419.1	3,333.3
Trade and bills receivables	600.4	764.7	549.1	439.4	308.3
Other receivables and prepayments	651.5	184.8	367.0	260.8	618.8
Income tax recoverable	–	5.7	5.8	–	–
Derivative financial instruments	27.9	–	–	4.0	4.7
Restricted cash and bank balances	379.1	815.8	1,310.4	1,664.7	1,449.9
Cash and cash equivalents	1,176.0	537.0	304.0	635.2	827.8
Total current assets	4,965.2	5,922.5	6,800.4	6,423.2	6,542.8
Current liabilities					
Trade and bills payables	793.0	810.3	1,270.1	858.1	988.5
Other payables and accruals	551.3	404.1	491.7	1,197.9	1,248.9
Derivative financial instruments	4.3	0.8	137.9	0.4	2.8
Borrowings	3,185.7	4,103.4	4,808.6	4,226.7	3,728.6
Provisions	32.3	28.1	26.4	24.8	22.3
Current income tax liabilities	22.9	–	–	0.5	0.8
Total current liabilities	4,589.5	5,346.7	6,734.7	6,308.4	5,991.9
Net current assets	<u>375.7</u>	<u>575.8</u>	<u>65.7</u>	<u>114.8</u>	<u>550.9</u>

Cash and cash equivalents

The Target Group holds its cash and cash equivalents at bank and in hand denominated in RMB, and to a less extent, in U.S. dollars. Cash and cash equivalents consist of cash, short term deposits and demand deposits. As at 31 December 2008, 2009 and 2010, and 30 June 2011, the Target Group had cash and cash equivalents of RMB1,176.0 million, RMB537.0 million, RMB304.0 million, and RMB635.2 million, respectively. Cash and cash equivalents decreased from 2008 to 2009, primarily due to approximately RMB1 billion of capital investments by Changdian in 2008, and decreased further from 2009 to 2010, primarily due to the increase in expenditure in raw materials and inventory in 2010. Cash and cash equivalents increased from 2010 to 30 June 2011 primarily due to a decrease in expenditure in raw materials and inventory in the first half of 2011.

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Trade and bills receivables

The Target Group's trade and bills receivables represent the receivables from the sale of products to related parties and third party customers. The following table sets forth the Target Group's trade and bills receivables as of the dates indicated:

	As at 31 December			As at 30 June
	2008	2009	2010	2011
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
	<i>(million)</i>	<i>(million)</i>	<i>(million)</i>	<i>(million)</i>
	<i>(audited)</i>	<i>(audited)</i>	<i>(audited)</i>	<i>(audited)</i>
Trade receivables	306.3	358.5	51.5	79.7
Less: Provision for impairment	(3.8)	(3.0)	(3.0)	(3.2)
Net trade receivables	302.5	355.5	48.5	76.5
Bills receivables	207.9	320.2	422.7	272.9
Notes receivable discounted to banks	90.0	89.0	78.0	90.0
Total trade and bills receivables	600.4	764.7	549.2	439.4

The trade and bills receivables increased in the amount of RMB164.3 million from RMB600.4 million as at 31 December 2008 to RMB764.7 million as at 31 December 2009 was primarily because of a RMB49.9 million increase in trade receivables from third parties in relation to the sales of copper cathodes, and a RMB112.3 million increase in bills receivables primarily in relation to an increase in bills receivables discounted to banks.

The trade and bills receivables decreased in the amount of RMB215.5 million from RMB764.7 million as at 31 December 2009 to RMB549.2 million as at 31 December 2010 was primarily because of a RMB295.4 million payment of trade receivables from subsidiaries in relation to the sales of copper cathodes, partly offset by a RMB102.5 million increase in bills receivables primarily because the Target Group accepted more bills instead of instant payments during the recovery of the global financial crisis.

The trade and bills receivables decreased in the amount of RMB109.8 million from RMB549.2 million as at 31 December 2010 to RMB439.4 million as at 30 June 2011 was primarily because of a RMB149.8 million decrease in bills receivables primarily because the Target Group required more instant payments instead of bills for products including copper cathodes, gold and silver, partly offset by a RMB28.2 million increase in trade receivables primarily related to the sales of copper cathodes.

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All the bills receivables used by the Target Group are with maturity period of less than 6 months and there were no bills receivables past due as at 30 June 2011.

The Target Group's notes receivable represents the bank acceptance notes issued by third parties. The maturity period of notes receivables are normally 6 months and there were no notes receivables past due as at 30 June 2011.

The following table sets forth the aging analysis of trade receivables for the dates indicated:

	As at 31 December			As at 30 June
	2008	2009	2010	2011
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
	<i>(million)</i>	<i>(million)</i>	<i>(million)</i>	<i>(million)</i>
	<i>(audited)</i>	<i>(audited)</i>	<i>(audited)</i>	<i>(audited)</i>
Trade receivables				
– less than 1 year	257.4	92.6	45.7	73.8
– 1–2 years	32.8	258.8	2.1	1.9
– 2–3 years	2.1	4.4	1.5	0.3
– over 3 years	14.0	2.7	2.2	3.7
	<u>306.3</u>	<u>358.5</u>	<u>51.5</u>	<u>79.7</u>

As at 31 October 2011, the Target Group's net trade receivables balance was RMB21.9 million and the Target Group had collected approximately 88.0% of the trade receivables that were outstanding as at 30 June 2011.

Other receivables and prepayments

The Target Group's other receivables and prepayments mainly consist of prepayments in raw materials and construction works, and receivables from related parties.

Other receivables and prepayments decreased in the amount of RMB466.7 million from RMB651.5 million as at 31 December 2008 to RMB184.8 million as at 31 December 2009 primarily because of a RMB376.5 million decrease in prepayments to third parties in relation to imported copper concentrates, and a RMB87.8 million decrease in prepayments to subsidiaries in relation to purchase of raw materials.

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Other receivables and prepayments increased in the amount of RMB182.2 million from RMB184.8 million as at 31 December 2009 to RMB367.0 million as at 31 December 2010 primarily because of a RMB197.8 million increase in prepayments to third parties in relation to purchase of raw materials.

Other receivables and prepayments decreased in the amount of RMB106.2 million from RMB367.0 million as at 31 December 2010 to RMB260.8 million as at 30 June 2011 was primarily because of a RMB92.8 million decrease in prepayments to third parties in relation to purchase of raw materials.

Inventories

The Target Group's inventories included raw materials, work in progress and finished goods. Work in progress is mainly comprised of copper blister, copper anodes and materials used during the production process which contain metals such as copper, silver and gold. The following table sets forth the Target Group's inventories as of the dates indicated:

	As at 31 December			As at 30 June
	2008	2009	2010	2011
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
	<i>(million)</i>	<i>(million)</i>	<i>(million)</i>	<i>(million)</i>
	<i>(audited)</i>	<i>(audited)</i>	<i>(audited)</i>	<i>(audited)</i>
Raw materials	1,824.6	2,451.4	2,975.6	2,430.1
Work in progress	195.9	1,079.6	1,008.0	572.0
Finished goods	109.7	83.5	280.5	417.0
	<u>2,130.2</u>	<u>3,614.5</u>	<u>4,264.1</u>	<u>3,419.1</u>

The RMB1,484.3 million increase in the Target Group's inventories from RMB2,130.2 million as at 31 December 2008 to RMB3,614.5 million as at 31 December 2009 was primarily attributable to (i) a RMB626.8 million increase in raw materials because the Target Group increased its purchase of raw materials when the purchase prices were relatively low following the global financial crisis, and (ii) a RMB883.7 million increase in work in progress because the Target Group increased its purchase of raw materials and its stock of work in progress in 2009 as part of its preparation for the maintenance of smelting furnaces to be carried out in 2010.

FINANCIAL INFORMATION OF THE TARGET GROUP

The RMB649.6 million increase in inventories from RMB3,614.5 million as at 31 December 2009 to RMB4,264.1 million as at 31 December 2010, was primarily attributable to a RMB524.3 million increase in raw materials because the Target Group increased its raw material purchase at relatively low prices following the global financial crisis.

The RMB845.0 million decrease in inventories from RMB4,264.1 million as at 31 December 2010 to RMB3,419.1 million as at 30 June 2011 was primarily attributable to a RMB545.5 million decrease in raw materials and a RMB436.0 million decrease in work in progress, because the Target Group reduced its purchase of raw materials and stock of work in progress when the purchase prices were high and supplied part of its sales demand from prior year's raw materials inventory and stock of work in progress.

As at 31 October 2011, the Target Group's inventories balance was RMB3,333.3 million and the Target Group had used approximately 73.6% of the inventories as at 30 June 2011.

Trade and bills payables

The Target Group's trade and bills payables represent the payables for the purchase of raw materials, semi-finished products and finished products from Independent Third Parties and related parties. The following table sets forth the Target Group's trade and bills payables as of the dates indicated:

	As at 31 December			As at 30 June
	2008	2009	2010	2011
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
	<i>(million)</i>	<i>(million)</i>	<i>(million)</i>	<i>(million)</i>
	<i>(audited)</i>	<i>(audited)</i>	<i>(audited)</i>	<i>(audited)</i>
Trade payables	631.7	574.0	971.1	712.1
Trade payables under endorsed bills	1.2	27.5	299.0	146.1
Bills payables	160.0	208.8	—	—
Total trade and bills payables	792.9	810.3	1,270.1	858.2

FINANCIAL INFORMATION OF THE TARGET GROUP

The trade and bills payables increased in the amount of RMB459.8 million from RMB810.3 million as at 31 December 2009 to RMB1,270.1 million as at 31 December 2010, primarily attributable to a RMB406.1 million increase in trade payables to third parties related to purchase of raw materials. Trade payables under endorsed bills represents the trade payables which are settled by transferring and endorsing the right of bills receivables but do not meet the de-recognition criteria under HKFRS. The RMB271.5 million increase in trade payables under endorsed bills was because the Target Group used more undue bills receivables as payment to suppliers. The Target Group paid off all bills payables that were due and there were no bills payables as at 31 December 2010.

The RMB411.9 million decrease in trade and bills payables from RMB1,270.1 million as at 31 December 2010 to RMB858.2 million as at 30 June 2011 was primarily attributable to a RMB395.1 million decrease in trade payables to third parties primarily resulting from repayments of raw materials payables. The RMB152.9 million decrease in trade payables under endorsed bills was primarily because the Target Group used less undue bills receivables as payment to suppliers. The RMB126.3 million increase in trade payables to related parties was primarily in relation to the purchase of raw materials and products from a subsidiary, Dajiang International.

All the bills payables are with maturity of less than 6 months and there were no bills payables past due as at 30 June 2011.

There were no trade payables under endorsed bills past due as at 30 June 2011.

The following table sets forth the aging analysis of trade payables for the dates indicated:

	As at 31 December			As at 30 June
	2008	2009	2010	2011
	RMB	RMB	RMB	RMB
	(million)	(million)	(million)	(million)
	(audited)	(audited)	(audited)	(audited)
Trade payables				
– less than 1 year	623.8	568.6	966.2	699.4
– 1–2 years	6.1	1.6	3.6	3.0
– 2–3 years	0.9	2.9	0.1	4.1
– over 3 years	0.9	0.9	1.2	5.5
	<u>631.7</u>	<u>574.0</u>	<u>971.1</u>	<u>712.0</u>

As at 31 October 2011, the Target Group's trade payables balance was RMB1,157.6 million and the Target Group had paid approximately 94.2% of the trade payables that were outstanding as at 30 June 2011.

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Other payables and accruals

Other payables and accruals include other payables and accruals from third parties, the Parent Company and subsidiaries, salaries and welfare payables, interest payables to third parties and the Parent Company, other taxes payables, customer's deposits and current portion of deferred income. Other payables and accruals amounted to RMB551.3 million, RMB404.1 million, RMB491.8 million and RMB1197.9 million as at 31 December, 2008, 2009 and 2010 and 30 June 2011, respectively.

The increase in other payables and accruals in the amount of RMB706.1 million from RMB491.8 million as at 31 December 2010 to RMB1,197.9 million as at 30 June 2011 was primarily attributable to a RMB204.6 million increase in other payables and accruals to third parties primarily related to an increase in payables for construction work and purchase of equipment, a RMB258.6 million increase in other payables and accruals to the Parent Company primarily related to an increase in loans provided by the Target Group to the Parent Company, and a RMB100.0 million increase in other payables and accruals to subsidiaries primarily related to the payables to Hubei Jinge for utility services and the payables to Daye Non Ferrous Construction Installation Company for construction work.

Turnover analysis

The following table sets forth the Target Group's inventories, trade and bills receivables and trade and bills payables turnover days for the period indicated:

	As at 31 December			As at 30 June
	2008	2009	2010	2011
	(audited)	(audited)	(audited)	(audited)
Inventory turnover days ⁽¹⁾	61.2	59.5	57.1	53.4
Trade and bills receivables turnover days ⁽²⁾	14.9	13.5	9.2	6.6
Trade and bills payables turnover days ⁽³⁾	21.6	16.6	15.1	14.8

Notes:

- (1) $((\text{Inventory at the beginning of the period} + \text{inventory at the end of the period})/2)/\text{cost of sales for the period} \times 365 \text{ days}^{\wedge}$
 \wedge For the six months ended 30 June 2011, 183 days is used
- (2) $((\text{Trade and bills receivables at the beginning of the period} + \text{trade and bills receivables at the end of the period})/2)/\text{revenue for the period} \times 365 \text{ days}^{\wedge}$
 \wedge For the six months ended 30 June 2011, 183 days is used
- (3) $((\text{Trade and bills payables at the beginning of the period} + \text{trade and bills payables at the end of the period})/2)/\text{cost of sales for the period} \times 365 \text{ days}^{\wedge}$
 \wedge For the six months ended 30 June 2011, 183 days is used

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The overall decrease in inventory turnover days from 31 December 2008 to 30 June 2011 was due to improvements in stock and inventory management.

The decrease in trade and bills receivables turnover days in the amount of 4.3 days from 13.5 days as at 31 December 2009 to 9.2 days as at 31 December 2010 was because of an decrease in payables related to clearance of balances due from related parties to the Target Group. The decrease in trade and bills receivables turnover days in the amount of 2.6 days from 9.2 days as at 31 December 2010 to 6.6 days as at 30 June 2011 was because the Target Group improved the overall receivables management, and in particular, required instant payments for products including copper cathodes, gold and silver.

The decrease in trade and bills payables turnover days in the amount of 5 days from 21.6 days as at 31 December 2008 to 16.6 days as at 31 December 2009 was because the Target Group shortened payment periods to secure a steady supply of raw materials following the global financial crisis.

Borrowings

The Target Group's borrowings consist of current borrowings and non-current borrowings. As at 31 December 2008, 2009 and 2010 and 30 June 2011, the Target Group had current borrowings of RMB3,185.7 million, RMB4,103.4 million, RMB4,808.6 million and RMB4,226.7 million, respectively, and non-current borrowings of RMB280.6 million, RMB438.9 million, RMB857.6 million and RMB1,415.0 million, respectively. The increase in the Target Group's borrowings was primarily used to support its expenditure in raw materials and construction works.

NON-CURRENT ASSETS

The Target Group's non-current assets primarily consist of property, plant and equipment and land use rights. The Target Group's property, plant and equipment assets primarily include the mining and ore processing facilities and the smelting facilities. As at 31 December 2008, 2009 and 2010, and 30 June 2010, the Target Group had property, plant and equipment of RMB2,280.7 million, RMB2,524.6 million, RMB3,030.3 million and RMB3,461.7 million, respectively. The increase in property, plant and equipment from 2008 to 2010 was primarily due to the increased investment in the Target Group's mining, ore processing and smelting facilities. As at 31 December 2008, 2009 and 2010, and 30 June 2010, the Target Group had land use rights worth RMB568.0 million, RMB556.1 million, RMB749.5 million and RMB742.2 million, respectively. The changes in land use rights were primarily because the Parent Company increased its investment in the Target Group by transferring the land use rights of three mines, being Fengshan Mine, Tongshankou Mine and Chimashan Mine in 2010.

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INDEBTEDNESS

The following table sets forth the outstanding indebtedness of the Target Group as of 31 December 2008, 2009 and 2010, 30 June 2011 and 31 October 2011, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular:

	As at 31 December			As at 30 June	As at 31 October
	2008	2009	2010	2011	2011
	<i>RMB (million)</i>	<i>RMB (million)</i>	<i>RMB (million)</i>	<i>RMB (million)</i>	<i>RMB (million)</i>
	<i>(audited)</i>	<i>(audited)</i>	<i>(audited)</i>	<i>(audited)</i>	<i>(Unaudited)</i>
Debentures	–	–	700.0	–	–
Borrowings					
– Secured	1,540.1	1,649.0	1,018.6	2,652.0	2,388.4
– Unsecured	1,647.9	2,526.4	3,264.5	2,336.8	2,223.1
– Advance from banks for discounted bills	188.3	277.8	115.1	10.0	5.0
– Advance from banks for discounted notes	90.0	89.0	78.0	90.0	60.0
– Gold loan	–	–	–	62.9	175.9
Loan from the Parent Company	–	–	490.0	490.0	490.0
Total borrowings	3,466.3	4,542.2	5,666.2	5,641.7	5,342.4

	As at 31 December			As at 30 June	As at 31 October
	2008	2009	2010	2011	2011
	<i>RMB (million)</i>	<i>RMB (million)</i>	<i>RMB (million)</i>	<i>RMB (million)</i>	<i>RMB (million)</i>
	<i>(audited)</i>	<i>(audited)</i>	<i>(audited)</i>	<i>(audited)</i>	<i>(Unaudited)</i>
Borrowings are repayable as follows:					
– Within 1 year	3,185.7	4,103.4	4,808.6	4,226.7	3,902.5
– Between 1 and 2 years	9.3	82.2	57.5	641.9	640.9
– Between 2 and 5 years	267.4	233.0	691.0	694.2	730.2
– Over 5 years	3.9	123.6	109.1	78.9	68.8
Total borrowings	3,466.3	4,542.2	5,666.2	5,641.7	5,342.4

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For more details, see Note 27 to the Accountant's Report on the Target Group set out in Appendix I to this circular. For more details about loan from the Parent Company, see Note 27(b) to the Accountant's Report on the Target Group and the section headed "Relationship with Parent Company".

As at 31 December 2008, 2009 and 2010, 30 June 2011 and 31 October 2011, other payables and accruals due to the Parent Company amounting to RMB78.8 million, RMB22.5 million, nil, RMB258.6 million and RMB354.9 million, respectively. For more details see Note 31 to the Accountant's Report on the Target Group set out in Appendix I to this circular.

During the Track Record Period, the Target Group has relied on both long-term and short-term borrowings to fund a portion of its working capital needs and other capital requirements. The Target Group's long-term and short-term borrowings changed from RMB3,466.3 million as at 31 December 2008 to RMB4,542.2 million as at 31 December 2009, RMB5,666.2 million as at 31 December 2010, and RMB5,641.7 million as at 30 June 2011, primarily due to the increased funds the Target Group used to support its expenditure in raw materials and construction works.

Save as disclosed above, the Target Group did not have any outstanding loan capital issued or agreed to be issued, bank overdrafts, loans, debt securities, borrowings or other similar indebtedness, liabilities under acceptance (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, finance leases, hire purchase commitments, guarantees or other material contingent liabilities.

The directors of the Parent Company have confirmed that there have been no material changes in the Target Group's indebtedness since 31 October 2011.

As at 31 December 2008, the Target Group had borrowings in the amount of RMB629.4 million secured against certain property, plant and equipment in a value of RMB744.7 million (including borrowings in the amount of RMB256.5 million also secured against land use rights in a value of RMB62.9 million), borrowings in the amount of RMB96.8 million secured against rights on other receivables in a value of RMB20.5 million and property, plant and equipment in a value of RMB108.8 million, borrowings in the amount of RMB105.3 million secured against bank deposits in a value of RMB108.9 million, borrowings in the amount of RMB158.1 million secured against a fellow subsidiary's property, plant and equipment, and borrowings in the amount of RMB550.6 million guaranteed by the Parent Company.

As at 31 December 2009, the Target Group had borrowings in the amount of RMB86.9 million secured against certain property, plant and equipment in a value of RMB116.4 million (including borrowings in the amount of RMB66.9 million secured against rights on other receivables in a value of RMB20.5 million), borrowings in the amount of RMB1,054.8 million secured against bank deposits in a value of RMB717.7 million, and borrowings in the amount of RMB507.3 million guaranteed by the Parent Company.

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As at 31 December 2010, the Target Group had borrowings in the amount of RMB898.6 million secured against bank deposits in a value of RMB772.1 million, and borrowings in the amount of RMB120.0 million guaranteed by the Parent Company.

As at 30 June 2011, the Target Group had borrowings in the amount of RMB1,532.0 million secured against bank deposits in a value of RMB1,444.9 million, and borrowings in the amount of RMB1,120.0 million guaranteed by the Parent Company.

The Target Group has entered into gold loans with banks in the PRC since 2010. Gold loan is a way of financing offered by the banks to enterprises which are members of SHGE engaged in the mining, production or trading of gold or gold related products. The Target Group entered into gold loans because the costs of financing involved (taking into account the fee and the exposure to gold price fluctuations during the term of the gold loan) are generally lower than those charged for banking facilities. Further, the approval procedures for gold loans adopted by the banks are, in general, more simple and expeditious.

The Target Group typically enters into gold loans with a term ranging from 6 months to one year. Pursuant to such gold loan agreement, the Target Group leases from the bank a certain amount of gold at a fee of approximately 3.2% to 5.2% per annum, calculated based on the amount of gold leased, the term of the lease and the closing price of the type of gold as quoted on SHGE on the trading day immediately prior to the delivery of the gold. Delivery of the leased gold to the Target Group is made through SHGE. Upon receipt of the leased gold, the Target Group usually sells it for cash to be used mainly as its working capital. Upon expiry of the gold loan, the Target Group purchases the amount of gold it leases on SHGE for returning to the bank. Delivery of the returned gold is also made through SHGE. As at 31 December 2010, no outstanding gold loan was recorded for the gold loan activities of the Target Group. As at 30 June 2011, the Target Group's gold loans amounted to RMB62.9 million, and an unrealized fair value loss of approximately RMB2,852,000 was recorded for the gold loan activities of the Target Group.

As at 30 June 2011, the Target Group had unutilised credit facilities granted by independent banks in the aggregate amount of up to RMB7.6 billion to meet its working capital and trading requirements.

CONTINGENT LIABILITIES

As of 31 December 2008, 2009 and 2010, and 30 June 2011, the Target Group had no outstanding contingent liabilities. The Target Group currently is not a party to any litigation that is likely to have a material adverse impact on its business, results of operations or financial condition. The directors of the Parent Company have confirmed that there has no material change in the Target Group's contingent liabilities since 30 June 2011.

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CAPITAL COMMITMENTS

The following table sets forth the capital commitments of the Target Group for the periods indicated.

	As at 31 December			As at 30 June
	2008	2009	2010	2011
	<i>RMB (million)</i>	<i>RMB (million)</i>	<i>RMB (million)</i>	<i>RMB (million)</i>
Property, plant and equipment and exploration and evaluation assets				
– contracted but not provided for	42.8	29.3	141.0	130.8

The Target Group plans to fund its capital commitments with cash from operating activities and short-term and long-term indebtedness. The directors of the Parent Company expect that the Target Group will have sufficient resources to fund its capital commitments during the next 12 months.

OFF-BALANCE SHEET ARRANGEMENTS

As of the Latest Practicable Date, except for the above capital commitments, the Target Group had no other significant off-balance sheet arrangements.

KEY FINANCIAL RATIOS

The following table sets forth the Target Group's current ratio, return on equity and return on assets for the periods indicated:

	As at 31 December			As at 30 June
	2008	2009	2010	2011
	%	%	%	%
				<i>(annualised)</i>
Current ratio ⁽¹⁾	1.1	1.1	1.0	1.0
Return on equity ⁽²⁾	–5.1	3.5	6.2	6.5
Return on assets ⁽³⁾	–1.4	1.1	2.0	2.1

Notes:

- (1) Current assets/current liabilities
- (2) Profit for the year attributable to owners of the Target Company (or annualised for six months ended 30 June 2011 by multiplying 2)/((capital and reserves attributable to owners of Target Company at the beginning of the period + capital and reserves attributable to owners of Target Company at the end of the period)/2)
- (3) Profit for the year (or annualised for six months ended 30 June 2011 by multiplying 2)/((total assets at the beginning of the period+ total assets at the end of the period)/2)

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Current ratio

The Target Group's current ratio, calculated by dividing current assets by current liabilities, was 1.1, 1.1, 1.0 and 1.0 as at 31 December 2008, 2009 and 2010 and 30 June 2011, respectively.

Return on equity

The Target Group's return on equity was -5.1%, 3.5%, 6.2% and 6.5% (on an annualised basis) as at 31 December 2008, 2009 and 2010 and 30 June 2011, respectively.

The increase in return on equity in the amount of 8.6% from -5.1% as at 31 December 2008 to 3.5% as at 31 December 2009 was mainly because the prices of products dropped significantly during the global financial crisis and then started recovering in 2009. The increase in return on equity in the amount of 2.7% from 3.5% as at 31 December 2009 to 6.2% as at 31 December 2010 was primarily due to the profit attributable to owners of the Target Company increased by 110.6% as the Target Group managed to reduce its other losses from RMB337.4 million in 2009 to RMB77.1 million in 2010. Such loss mainly resulted from fair value changes of commodity futures contracts for hedging purposes. The increase in return on equity in the amount of 0.3% from 6.2% as at 31 December 2010 to 6.5% as at 30 June 2011 was because of an increase of prices of main products.

Return on assets

The Target Group's return on assets was -1.4%, 1.1%, 2.0% and 2.1% (on an annualised basis) as at 31 December 2008, 2009 and 2010 and 30 June 2011, respectively.

The increase in return on assets in the amount of 2.5% from -1.4% as at 31 December 2008 to 1.1% as at 31 December 2009 was because the prices of products dropped significantly during the global financial crisis and then started recovering in 2009. The increase in return on assets in the amount of 0.9% from 1.1% as at 31 December 2009 to 2.0% as at 31 December 2010 was primarily due to the net profit increased by 111.0% as the Target Group managed to reduce its other losses from RMB337.4 million in 2009 to RMB77.1 million in 2010. Such loss mainly resulted from fair value changes of commodity futures contracts for hedging purposes. The increase in return on equity in the amount of 0.1% from 2.0% as at 31 December 2010 to 2.1% as at 30 June 2011 was because of an increase of prices of main products.

DISCLOSURE ABOUT MARKET RISK

The Target Group is, in its normal course of business, exposed to market risks relating primarily to commodity price risk, interest rate risk, foreign exchange risk, credit risk and liquidity risk.

Commodity price risk

The major products of the Target Group include copper cathodes, gold, silver and sulphuric acid. As the commodity markets are influenced by global supply and demand conditions as well as those in the PRC, any unexpected price change in the markets might affect the Target Group's earnings and performance. To mitigate this risk, the Target Group closely monitors any significant exposures, and may enter into commodity derivative from time to time in accordance with the policies approved by the directors of Daye Metal to manage the exposure with respect to its inventories, forecast sell or firm sell commitments mainly includes copper and gold products. The Target Group does not enter into any commodities futures contracts in respect of silver, iron and other commodities.

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Financial assets and liabilities of the Target Group that expose to the commodities price risk – the fair value change, primarily with respect to its outstanding derivative financial instruments, mainly the copper and gold futures contracts, inventories that effectively hedged by commodities futures contracts in accordance with HKFRS, and the provisional price arrangements in respect of purchases of copper concentrates.

The Target Group enters into copper futures contracts for the purpose of managing its exposure to the copper price risk. The Target Group formally designates and documents the hedging relationship at inception of its hedging transactions in respect of its inventories. Therefore, a significant portion of the outstanding derivative financial instruments related to copper were assessed to be highly effective in accordance with HKFRS and accounted for as fair value hedges at each reporting date. The fair value changes of these outstanding copper futures contracts and provisional price arrangements will be significantly offset by the corresponding fair value changes in the hedged inventories. As a result, management is of the opinion that any reasonable changes in copper price would not result in a significant change in the Target Group's results in respect of these contracts.

The Target Group also enters into a limited number of gold futures contracts for the purpose of managing its exposure to the gold price risk. However, these contracts do not qualified as hedging accounting. Any fair value changes in respect of these outstanding gold futures contracts might affect the results of the Target Group. In addition, as at 30 June 2011, the Target Group has an outstanding gold loan balance with a bank, which was designated as derivative financial instruments, any change in the fair value of the gold loan might affect the results of the Target Group.

There are no outstanding gold futures contracts as at 31 December 2009 and 2010.

Interest rate risk

The Target Group is exposed to interest rate volatility on deposits and borrowings. Deposits and borrowings at variable rates expose the Target Group to cash flow interest rate risk. Deposits and borrowings at fixed rates expose the Target Group to fair value interest rate risk. The Target Group does not use derivative financial instruments to hedge its interest rate risk.

Foreign exchange risk

The Target Group operates in the PRC with most of the transactions settled in RMB except for certain purchases from international market that are conducted in US dollars and Euro and certain borrowings that are denominated in US dollars. The Target Group's reporting currency and functional currency of the majority of subsidiaries within the Target Group is RMB.

Foreign exchange risk arises when future commercial transactions or recognized assets or liabilities are denominated in a currency that is not the entities' functional currency. The Target Group is exposed to foreign exchange risk primarily with respect to US dollars and Euro.

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The Target Group manages its foreign exchange risk by performing regular reviews of its net foreign exchange exposures and may enter into forward foreign exchange contracts, when necessary, to manage its foreign exchange exposure. During the Track Record Period, no forward foreign exchange contracts had been entered into by the Target Group.

Credit risk

The carrying amount of trade, bills and other receivables, restricted cash and bank balances and cash and cash equivalents included in the combined statements of financial position represents the Target Group's maximum exposure to credit risk in relation to its financial assets.

The Target Group has policies in place to ensure that sales of products on credit terms are made to customers with an appropriate credit history. The credit risk arising from sales to major non-ferrous metals customers are managed by contracts that stipulate an upfront payment of a significant portion of the amount of each sale and the remaining balance is normally received within one month. The Target Group performs periodic credit evaluations of its customers and slow-moving debts, if any, are regularly monitored with timely follow-up action taken. With diversified customer base and the credit policy as stated above, the Target Group has no significant concentrations of credit risk with respect to a particular customer. Normally the Target Group does not require collaterals from trade debtors. The existing debtors have no significant defaults in the past. The Target Group's historical experience in collection of trade and other receivables falls within the recorded allowances.

Bills receivables are only drawn from major state-owned financial institutions in the PRC. Substantially all restricted cash and bank balances are held in major state-owned financial institutions located in the PRC and SHFE, and substantially all derivative financial instruments are directly entered into with SHFE, which the management believes are of high credit quality. The Target Group has a policy to limit the amount of credit exposure to any financial institution and the management does not expect any loss arising from non-performance by these counterparties.

Liquidity risk

Liquidity risk is the risk that the Target Group will not be able to meet its financial obligations as they become due. The Target Group's treasury department monitors the Target Group's cash flow positions on a regular basis to ensure the cash flows of the Target Group are positive and closely controlled. The Target Group aims to maintain flexibility in funding by keeping committed credit lines available, obtaining debentures from specific financial institutions and borrowing loans from banks. For more information on liquidity risk, please see Note 4.1 (e) to the Accountant's Report on the Target Group set out in Appendix I to the circular.

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HISTORICAL AND PLANNED CAPITAL EXPENDITURE

The Target Group's principal capital expenditure relates to purchase of property, plant and equipment. The following table sets forth the Target Group's historical capital expenditure for the Track Record Period.

	Year ended 31 December			Six months ended 30 June
	2008	2009	2010	2011
	<i>RMB (million)</i>	<i>RMB (million)</i>	<i>RMB (million)</i>	<i>RMB (million)</i>
	(audited)	(audited)	(audited)	(audited)
Plant, property and equipment	335.2	466.7	739.9	571.4

The Target Group's total capital expenditure increased by 39.3% from RMB335.2 million in 2008 to RMB466.7 million in 2009, and further increased by 58.5% to RMB739.9 million in 2010. The Target Group used its capital expenditure primarily to expand its production capacities and to improve its production technologies, such as purchasing and upgrading its mining, ore processing and smelting facilities, as well as purchasing raw materials and investing in construction works.

For the six months from 30 June 2011 to 31 December 2011, the 12 months from 30 June 2011 to 30 June 2012 and the 18 months from 30 June 2011 to 31 December 2012, the Target Group expects to incur expenditure of approximately RMB820.2 million, RMB1,635.6 million and RMB2,624.1 million respectively primarily for purchasing property, plant and equipment to maintain as well as expand its production capacity.

The Target Group expects to finance the planned capital expenditure through loans for projects bank borrowings and its internal resources.

DISTRIBUTABLE RESERVES

As of 30 June 2011, the Target Company had no distributable reserves due to the fact that it had not been involved in any significant business transactions since its date of incorporation to 30 June 2011.

DIVIDENDS

The Target Group did not pay any dividend in 2009 and 2010. In 2008, the aggregated dividends in the amount of RMB146.5 million were declared, and RMB143.0 million was paid to the former owner of the three mines, being Fengshan Mine, Tongshankon Mine and Chimashan Mine.

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For further details of the dividend payments by the Target Group, please refer to Note 33 (b) to the Accountant's Report on the Target Group set out in Appendix I to this circular. The past dividend payments or non-payment referred to above should not be used as reference for the Target Group's dividend policy, nor as a basis to forecast the amount of dividends payable in the future.

WORKING CAPITAL

For information on working capital, please refer to the sub-section headed "Letter from the Board Information on the Enlarged Group" in this circular.

NO MATERIAL ADVERSE CHANGE

The directors of the Parent Company confirm that they have performed sufficient due diligence on the Target Group to ensure its financial, trading and operational conditions, positions or prospects did not have any material adverse changes since 30 June 2011 (the date on which the latest audited financial statements were published) to the Latest Practicable Date. Since 30 June 2011, there have been no events which would materially affect the information stated in the Accountant's Report on the Target Group set out in Appendix I of this circular.

DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES

As at the Latest Practicable Date, the directors of the Parent Company confirm that there were no circumstances which would give rise to disclosure requirements under Rules 13.13 to 13.19, of the Listing Rules.

PROPERTY VALUATION

Jones Lang LaSalle Sallmanns, an independent property valuer, has valued the Target Group's property interests as at 30 September 2011 and is of the opinion that the value of its property interests is an aggregate amount of RMB2,562 million as at 30 September 2011. The full text of the letter, summary of values and valuation certificates with regard to such property interests are set out in Appendix IV of this circular.

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The table below sets forth the reconciliation of the fair value as stated in the property valuation report in Appendix IV to this circular and the net book value of the Target Group's property interests contained in the Accountant's Report on the Target Group in Appendix I to this circular as of 30 June 2011:

	<i>RMB (million)</i>
Net book value of property interests as of 30 June 2011 (audited)	2,138 ⁽¹⁾
Movement for the period from 1 July 2011 to 30 September 2011	41
– Add: Additions during the period from 1 July 2011 to 30 September 2011 (unaudited)	70
– Less: Depreciation and amortisation during the period from 1 July 2011 to 30 September 2011 (unaudited)	(29)
Net book value of property interest as of 30 September 2011 (unaudited)	2,179
Valuation surplus as of 30 September 2011	383
Valuation as of 30 September as per Appendix IV to this circular	2,562 ⁽²⁾

Note:

- (1) The net book value of RMB2,138 million includes the net book value of RMB3,348 million of buildings, mining infrastructure and property, construction in progress, exploration and evaluation assets and land use rights held by the Target Group as at June 30, 2011 stated in the Accountant's Report on the Target Group in Appendix I, less mining infrastructure assets (disclosed as mining infrastructure and construction in progress relating to plant and machinery) with net book value of RMB1,210 million, which are excluded from the valuation of property interests.
- (2) The valuation result of RMB2,562 million includes the capital value of RMB 1,910 million (stated on page IV-6) of property interests held by the Target Group as at September 30, 2011 and the total reference value of RMB652 million of property interests without proper title documents which are disclosed in footnotes of valuation certificates (stated on page IV-11 to page IV-29 and page IV-38 to page IV-40) of Appendix IV to this Circular.
- (3) The payments for property No. 20 and No. 21 (which are stated in page IV-38 to page IV-40 of the circular) have been made by Daye Metal and been reflected in the total net book value of the property interests held by the Target Group in accordance with Hong Kong Accounting Standard ("HKAS"). The legal title transfer of these properties are still being finalized.

FINANCIAL INFORMATION OF THE TARGET GROUP

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS OF THE ENLARGED GROUP

The following statement of adjusted net tangible assets of the Enlarged Group is prepared based on the consolidated net tangible assets of the Enlarged Group as set out in Appendix III to this circular.

	Audited net tangible assets of the Group as at 30 June 2011 HK\$'000 Note 1	Audited net tangible assets of the Group per share as at 30 June 2011 HK\$ Note 2	Unaudited pro forma adjusted net tangible assets of the Enlarged Group as at 30 June 2011 HK\$'000 Note 3	Unaudited pro forma adjusted net tangible assets of the Enlarged Group per share as at 30 June 2011 HK\$ Note 4
Net tangible assets attributable to equity holders of the Company	334,358	0.0598	3,327,212	0.1920

Notes to the unaudited pro forma adjusted net tangible assets of the Enlarged Group

1. The audited net tangible assets of the Group as at 30 June 2011 is calculated based on the amount of the audited net assets attributable to the equity holders of the Group as at 30 June 2011 of approximately HK\$1,077,643,000, less the amount of intangible assets of approximately HK\$2,156,585,000, the related deferred tax liabilities of approximately HK\$539,146,000, and the non-controlling interests of approximately HK\$874,154,000.
2. The number of shares used for the calculation of the unaudited net tangible assets of the Group per Share is 5,591,195,552, being the number of Shares in issue as at 30 June 2011.
3. The unaudited pro forma adjusted net tangible assets of the Group as at 30 June 2011 is calculated based on the amount of the unaudited pro forma adjusted net assets attributable to the equity holders of the Enlarged Group as at 30 June 2011 of approximately HK\$6,721,390,000, less the amount of intangible assets of approximately HK\$1,277,859,000, goodwill of approximately HK\$2,492,857,000, the related deferred tax liabilities of approximately HK\$146,542,000, and the non controlling interests of approximately HK\$229,996,000.
4. The number of shares used for the calculation of the unaudited pro forma adjusted net tangible assets of the Enlarged Group per Share is 17,327,911,186, comprising 5,591,195,552 Shares in issue as at 30 June 2011 and 11,736,715,634 new Shares to be issued as described in note 3 (i) above but do not account for any new shares to be issued upon conversion of the Convertible Notes as it is not directly attributable to the Acquisition and are related to future events.

SHARE CAPITAL

SHARE CAPITAL

The Company's authorized and issued share capital as of the Latest Practicable Date were as follows:

<i>Authorized share capital:</i>	<i>HK\$</i>
30,000,000,000 Ordinary Shares	1,500,000,000.00
100,000,000 Preference Shares	100,000,000.00
 <i>Issued share capital:</i>	
5,591,195,552 Ordinary Shares	279,559,777.60
16,485 Preference Shares	16,485.00

The Ordinary Shares in issue rank pari passu with each other and entitle their holders to vote at general meetings of the Company and to receive dividend and capital distributions.

The Preference Shares in issue rank pari passu with each other. They entitle their holders to receive a fixed cumulative preferential dividend at the rate of 6% per annum on the notional value of HK\$5 per Preference Share to be paid half-yearly on 30 June and 31 December in each year. The Preference Shares carry no voting right except in the event of the winding up of the Company, a reduction of capital or a variation or abrogation of the rights attaching to such shares, or any dividend payable with respect to such shares being in arrears for six months or more.

As at the Latest Practicable Date, the Company had issued share options pursuant to which if fully exercised, 307,700,000 Ordinary Shares may be issued. It also had the Existing Convertible Notes outstanding which are convertible into 355,987,055 Ordinary Shares. The Warrants, which carry the right to subscribe for up to an aggregate of 60,000,000 Ordinary Shares, lapsed in May 2011.

Pursuant to the Acquisition Agreement, the Company has agreed to allot and issue: (a) 10,799,762,092 new Ordinary Shares and the China Times Convertible Notes, which are convertible into 2,007,672,096 new Ordinary Shares to China Times (or its nominee) upon the China Times Completion; (b) 936,953,542 new Ordinary Shares to Cinda (or its nominee) upon the Cinda Completion; and (c) 670,282,150 new Ordinary Shares to Huarong (or its nominee) upon the Huarong Completion. As announced by the Company on 14 October 2011 that the Company has been informed by Huarong that it was not able to obtain the regulatory and other approvals required in connection with the Huarong Reorganisation and hence, as provided in the Reorganisation Agreement, Huarong Reorganisation will not proceed. Huarong Completion will therefore not take place and the Huarong Consideration Shares will not be issued in accordance with the Acquisition Agreement.

SHARE CAPITAL

The issued ordinary share capital of the Company immediately upon (a) China Times Completion (on the basis that Cinda Completion has not taken place) and (b) China Times Completion and Cinda Completion, without taking into account any Conversion Shares which may be issued pursuant to the China Times Convertible Notes, are as follows (*Notes 1 & 2*):

(a) Issued ordinary share capital of the Company immediately upon the issue of the China Times Consideration Shares at China Times Completion (on the basis that Cinda Completion has not taken place)		<i>HK\$</i>
5,591,195,552 Ordinary Shares	279,559,777.60	
10,799,762,092 China Times Consideration Shares	539,988,104.60	
16,390,957,644 Ordinary Shares	819,547,882.20	
(b) Issued ordinary share capital of the Company immediately upon the issue of the China Times Consideration Shares and Cinda Consideration Shares at China Times Completion and Cinda Completion		<i>HK\$</i>
5,591,195,552 Ordinary Shares	279,559,777.60	
10,799,762,092 China Times Consideration Shares	539,988,104.60	
936,953,542 Cinda Consideration Shares	46,847,677.10	
17,327,911,186 Ordinary Shares	866,395,559.30	

SHARE CAPITAL

Assuming full conversion of the China Times Convertible Notes at the Conversion Price, the issued ordinary share capital of the Company immediately upon (a) China Times Completion (on the basis that Cinda Completion has not taken place); and (b) China Times Completion and Cinda Completion are as follows (*Note 1*):

(a) Issued ordinary share capital of the Company immediately upon the issue of the China Times Consideration Shares and the Conversion Shares at China Times Completion (on the basis that Cinda Completion has not taken place)		HK\$
5,591,195,552 Ordinary Shares	279,559,777.60	
10,799,762,092 China Times Consideration Shares	539,988,104.60	
1,311,276,612 Conversion Shares (<i>Note 3</i>)	65,563,830.60	
	885,111,712.80	
17,702,234,256 Ordinary Shares		885,111,712.80
(b) Issued ordinary share capital of the Company immediately upon the issue of the China Times Consideration Shares, the Conversion Shares and Cinda Consideration Shares at China Times Completion and Cinda Completion		HK\$
5,591,195,552 Ordinary Shares	279,559,777.60	
10,799,762,092 China Times Consideration Shares	539,988,104.60	
936,953,542 Cinda Consideration Shares	46,847,677.10	
2,007,672,096 Conversion Shares	100,383,604.80	
	966,779,164.10	
19,335,583,282 Ordinary Shares		966,779,164.10

Notes:

1. The tables do not include the 16,485 Preference Shares in issue as the Company considers them immaterial in the context of the total issued share capital of the Company and none of those Preference Shares carry any voting right except in the event of the winding up of the Company, a reduction of capital or a variation or abrogation of the rights attaching to such share, or any dividend payable with respect to such share being in arrears for six months or more.
2. As at the Latest Practicable Date, China Times held 5,495 Preference Shares. Assuming that all Preference Shares in issue are converted into Ordinary Shares at the current conversion price of HK\$0.036 per share, 2,289,583 new Ordinary Shares will be issued upon conversion, among which 763,194 new Ordinary Shares will be issued to China Times. China Times has undertaken to the Company that it will not exercise its right of conversion under the Preference Shares and/or the China Times Convertible Notes if, immediately following the conversion, the Company will be unable to meet the minimum public float requirement under the Listing Rules. Assuming that all the Existing Convertible Notes are converted into Ordinary Shares at the current conversion price of HK\$0.618 per share, 355,987,055 new Ordinary Shares will be issued upon conversion. Assuming that the share options in issue are exercised in full, 307,700,000 new Ordinary Shares will be issued.

SHARE CAPITAL

3. *The conversion rights of the China Times Convertible Notes shall not be exercised if, immediately following the conversion, the Company will be unable to meet the minimum public float requirement under the Listing Rules. Hence, in the case where only China Times Completion occurs, China Times will be allowed to convert only a maximum of HK\$655,638,306 of the aggregate principal amount of the China Times Convertible Notes into 1,311,276,612 Ordinary Shares (assuming that no new Ordinary Shares have been issued by the Company after the Latest Practicable Date and before the date of conversion and conversion is carried out at the Conversion Price) in order to maintain the minimum public float after conversion.*

RANKING

The China Times Consideration Shares, the Cinda Consideration Shares and the Conversion Shares, when issued, will rank equally among themselves and pari passu in all respects with the Ordinary Shares then in issue, including as to the right to any dividend declared on or after the respective dates of their allotment and issue.

APPENDIX I ACCOUNTANT'S REPORT ON THE TARGET GROUP

The following is the text of a report received from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular. It is prepared and addressed to the directors of the Company and to the J.P.Morgan Securities (Asia Pacific) Limited pursuant to the requirements of Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the Hong Kong Institute of Certified Public Accountants.



羅兵咸永道

29 December 2011

The Directors
China Daye Non-Ferrous Metals Mining Limited

J.P. Morgan Securities (Asia Pacific) Limited

Dear Sirs,

We report on the financial information of Prosper Well Group Limited (the "Target Company") and its subsidiaries (together, the "Target Group") which comprises the combined statements of financial position as at 31 December 2008, 2009 and 2010 and 30 June 2011, and the combined statements of comprehensive income, the combined statements of changes in equity and the combined statements of cash flows for each of the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011 (the "Relevant Periods") and a summary of significant accounting policies and other explanatory notes. This financial information has been prepared by the directors of China Daye Non-Ferrous Metals Mining Limited (the "Company") and is set out in Sections I to IV below for inclusion in Appendix I to the circular of the Company dated 29 December 2011 (the "Circular") in connection with the proposed acquisition of the Target Company by the Company.

The Target Company was incorporated in the British Virgin Islands on 1 December 2010 with limited liability under the BVI Business Act, 2004. Pursuant to a group reorganisation ("2011 Reorganisation") as described in Note 1.2 of Section II headed "2011 Reorganisation" below, which was completed on 29 November 2011, the Target Company became the holding company of the subsidiaries now comprising the Target Group.

As at the date of this report, the Target Company has direct and indirect interests in the subsidiaries as set out in Note 36 of Section II below.

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APPENDIX I	ACCOUNTANT'S REPORT ON THE TARGET GROUP
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All companies comprising the Target Group have adopted 31 December as their financial year end date. No audited financial statements have been prepared by the Target Company as it is newly incorporated and has not involved in any significant business transactions since its date of incorporation other than the 2011 Reorganisation. The statutory audited financial statements of the other companies comprising the Target Group for the Relevant Periods for which there is a statutory audit requirement have been prepared in accordance with the relevant accounting principles generally accepted in their place of incorporation. The details of the statutory auditors of these companies are set out in Note 36 of Section II below.

The director of the Target Company has prepared the combined financial statements of the Target Group for the Relevant Periods, in accordance with Hong Kong Financial Reporting Standards (the “HKFRS”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) (the “Underlying Financial Statements”). We have audited the Underlying Financial Statements in accordance with the Hong Kong Standards on Auditing (the “HKSA”) issued by the HKICPA pursuant to separate terms of engagement with the Target Company.

The director of the Target Company is responsible for the preparation of the Underlying Financial Statements that give a true and fair view in accordance with the HKFRS, and for such internal control as the directors determine is necessary to enable the preparation of the Underlying Financial Statements that are free from material misstatement, whether due to fraud or error.

The financial information has been prepared based on the Underlying Financial Statements with no adjustment made thereon, and on the basis set out in Note 2 of Section II below.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL INFORMATION

The directors of the Company are responsible for the preparation of the financial information that gives a true and fair view in accordance with the basis of preparation set out in Note 2 of Section II below and in accordance with the HKFRS and accounting policies set out in Note 3 of Section II below which are in conformity with the accounting policies presently adopted by the Company and its subsidiaries (the “Group”).

REPORTING ACCOUNTANT'S RESPONSIBILITY

Our responsibility is to express an opinion on the financial information and to report our opinion to you. We carried out our procedures in accordance with the Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” issued by the HKICPA.

APPENDIX I	ACCOUNTANT'S REPORT ON THE TARGET GROUP
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OPINION

In our opinion, the financial information gives, for the purpose of this report and presented on the basis set out in Note 2 of Section II below, a true and fair view of the state of affairs of the Target Company as at 31 December 2010 and 30 June 2011 and of the combined state of affairs of the Target Group as at 31 December 2008, 2009 and 2010 and 30 June 2011 and of the Target Group's results and cash flows for the Relevant Periods then ended.

REVIEW OF STUB PERIOD COMPARATIVE FINANCIAL INFORMATION

We have reviewed the stub period comparative financial information set out in Sections I to II below included in Appendix I to the Circular which comprises the combined statement of comprehensive income, the combined statement of changes in equity and the combined statement of cash flows of the Target Group for the six months ended 30 June 2010 and a summary of significant accounting policies and other explanatory notes (the "Stub Period Comparative Financial Information").

The directors of the Company are responsible for the preparation and presentation of the Stub Period Comparative Financial Information in accordance with the basis of presentation set out in Note 2 of Section II below and in accordance with the accounting policies set out in Note 3 of Section II below which are in conformity with and the accounting policies presently adopted by the Group.

Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review of Stub Period Comparative Financial Information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with HKSA and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purpose of this report and presented on the basis set out in Note 2 of Section II below, is not prepared, in all material respects, in accordance with the accounting policies set out in Note 3 of Section II below.

APPENDIX I	ACCOUNTANT'S REPORT ON THE TARGET GROUP
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I. FINANCIAL INFORMATION OF THE TARGET GROUP

The following is the financial information of the Target Group prepared by the directors of the Company as at 31 December 2008, 2009 and 2010 and 30 June 2011 and for each of the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2010 and 2011 (the “Financial Information”):

COMBINED STATEMENTS OF COMPREHENSIVE INCOME

	<i>Note</i>	Year ended 31 December			Six months ended 30 June	
		2008	2009	2010	2010	2011
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
					<i>(unaudited)</i>	
Revenue	6	14,867,440	18,485,290	26,019,630	12,326,458	13,672,158
Cost of sales		<u>(14,518,004)</u>	<u>(17,608,503)</u>	<u>(25,187,020)</u>	<u>(11,983,784)</u>	<u>(13,132,953)</u>
Gross profit		349,436	876,787	832,610	342,674	539,205
Selling expenses		(75,225)	(44,739)	(45,891)	(20,561)	(20,005)
Administrative expenses		(369,945)	(270,226)	(338,060)	(156,983)	(168,610)
Other operating expenses		(22,495)	(13,618)	(28,639)	(11,293)	(4,838)
Other gains/(losses), net	7(a)	133,755	(337,345)	(77,050)	(316)	(155,666)
Other income	7(b)	<u>1,677</u>	<u>23,321</u>	<u>38,284</u>	<u>29,509</u>	<u>16,407</u>
Operating profit	8	<u>17,203</u>	<u>234,180</u>	<u>381,254</u>	<u>183,030</u>	<u>206,493</u>
Finance income		113,902	10,651	51,732	13,054	46,188
Finance costs		<u>(296,208)</u>	<u>(134,552)</u>	<u>(190,224)</u>	<u>(74,655)</u>	<u>(115,413)</u>
Finance costs, net	9	<u>(182,306)</u>	<u>(123,901)</u>	<u>(138,492)</u>	<u>(61,601)</u>	<u>(69,225)</u>
(Loss)/profit before income tax		(165,103)	110,279	242,762	121,429	137,268
Income tax credit/(expense)	10	<u>56,776</u>	<u>(11,237)</u>	<u>(33,767)</u>	<u>(17,190)</u>	<u>(14,575)</u>
(Loss)/profit and total comprehensive (loss)/income for the year/period		<u>(108,327)</u>	<u>99,042</u>	<u>208,995</u>	<u>104,239</u>	<u>122,693</u>
Attributable to:						
Owners of the Target Company		(94,610)	60,733	127,881	62,907	93,521
Non-controlling interests		<u>(13,717)</u>	<u>38,309</u>	<u>81,114</u>	<u>41,332</u>	<u>29,172</u>
		<u>(108,327)</u>	<u>99,042</u>	<u>208,995</u>	<u>104,239</u>	<u>122,693</u>

APPENDIX I	ACCOUNTANT'S REPORT ON THE TARGET GROUP
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COMBINED STATEMENTS OF FINANCIAL POSITION

		As at 31 December			As at
		2008	2009	2010	30 June
	Note	RMB'000	RMB'000	RMB'000	2011
					RMB'000
ASSETS					
Non-current assets					
Property, plant and equipment	15	2,280,733	2,524,623	3,030,283	3,461,661
Exploration and evaluation assets	16	1,000	42,600	58,469	62,598
Land use rights	17	568,034	556,130	749,460	742,205
Intangible assets	18	2,993	3,217	588,937	574,494
Term deposits	24	–	–	–	118,604
Deferred income tax assets	19	122,784	111,547	80,617	73,168
Prepayments and others	22	47,997	76,591	169,034	295,579
		<u>3,023,541</u>	<u>3,314,708</u>	<u>4,676,800</u>	<u>5,328,309</u>
Current assets					
Inventories	20	2,130,263	3,614,451	4,264,095	3,419,111
Trade and bills receivables	21	600,408	764,715	549,160	439,435
Other receivables and prepayments	22	651,526	184,772	366,978	260,843
Income tax recoverable		–	5,734	5,766	–
Derivative financial instruments	23	27,905	–	–	3,988
Restricted deposits	24	379,123	815,838	1,310,375	1,664,653
Cash and cash equivalents	25	1,175,975	537,006	304,049	635,195
		<u>4,965,200</u>	<u>5,922,516</u>	<u>6,800,423</u>	<u>6,423,225</u>
Total assets		<u><u>7,988,741</u></u>	<u><u>9,237,224</u></u>	<u><u>11,477,223</u></u>	<u><u>11,751,534</u></u>

APPENDIX I	ACCOUNTANT'S REPORT ON THE TARGET GROUP
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		As at 31 December			As at 30 June
		2008	2009	2010	2011
	Note	RMB'000	RMB'000	RMB'000	RMB'000
EQUITY					
Capital and reserves attributable to owners of the Target Company					
Reserves	26	1,559,225	1,804,871	2,136,070	3,370,490
Retained profits		45,582	106,315	88,610	182,131
		1,604,807	1,911,186	2,224,680	3,552,621
Non-controlling interests		1,244,638	1,280,670	1,376,048	173,574
Total equity		2,849,445	3,191,856	3,600,728	3,726,195
LIABILITIES					
Non-current liabilities					
Borrowings	27	280,612	438,859	857,638	1,414,981
Provisions	28	256,181	237,907	220,118	212,546
Deferred income	29	12,976	21,879	64,037	89,373
		549,769	698,645	1,141,793	1,716,900
Current liabilities					
Trade and bills payables	30	792,948	810,345	1,270,071	858,157
Other payables and accruals	31	551,276	404,068	491,752	1,197,862
Derivative financial instruments	23	4,327	797	137,952	440
Borrowings	27	3,185,684	4,103,375	4,808,562	4,226,677
Provisions	28	32,343	28,138	26,365	24,822
Current income tax liabilities		22,949	–	–	481
		4,589,527	5,346,723	6,734,702	6,308,439
Total liabilities		5,139,296	6,045,368	7,876,495	8,025,339
Total equity and liabilities		7,988,741	9,237,224	11,477,223	11,751,534
Net current assets		375,673	575,793	65,721	114,786
Total assets less current liabilities		3,399,214	3,890,501	4,742,521	5,443,095

APPENDIX I ACCOUNTANT'S REPORT ON THE TARGET GROUP

COMBINED STATEMENTS OF CHANGES IN EQUITY

	<i>Note</i>	Attributable to owners of the Target Company				Non-	Total equity RMB'000
		Share capital RMB'000	Reserves RMB'000	Retained profits RMB'000	Sub-total RMB'000	controlling interests RMB'000	
Balance as							
at 1 January 2008		–	1,819,543	310,258	2,129,801	290,233	2,420,034
Comprehensive income							
Loss for the year		–	–	(94,610)	(94,610)	(13,717)	(108,327)
Total comprehensive loss		–	–	(94,610)	(94,610)	(13,717)	(108,327)
Transactions with owners							
Capital contribution	26 (c)	–	52,794	–	52,794	1,031,573	1,084,367
2008 Capital Reduction	33 (a)	–	(336,649)	–	(336,649)	(63,449)	(400,098)
Transfer to statutory reserves		–	23,548	(23,548)	–	–	–
Dividend paid to the owners of Mining Entities	33 (b)	–	–	(146,518)	(146,518)	–	(146,518)
Others		–	(11)	–	(11)	(2)	(13)
		–	(260,318)	(170,066)	(430,384)	968,122	537,738
Balance as at 31 December							
2008		–	1,559,225	45,582	1,604,807	1,244,638	2,849,445
Balance as at 1 January							
2009		–	1,559,225	45,582	1,604,807	1,244,638	2,849,445
Comprehensive income							
Profit for the year		–	–	60,733	60,733	38,309	99,042
Total comprehensive income		–	–	60,733	60,733	38,309	99,042
Transactions with owners							
Capital contribution	26 (d)	–	243,628	–	243,628	(3,628)	240,000
Others		–	2,018	–	2,018	1,351	3,369
		–	245,646	–	245,646	(2,277)	243,369
Balance as							
at 31 December 2009		–	1,804,871	106,315	1,911,186	1,280,670	3,191,856

APPENDIX I
ACCOUNTANT'S REPORT ON THE TARGET GROUP

		Attributable to owners of the Target Company				Non-	
		Share capital	Reserves	Retained profits	Sub-total	controlling	Total equity
Note		RMB'000	RMB'000	RMB'000	RMB'000	interests	RMB'000
Balance as							
at 1 January 2010		–	1,804,871	106,315	1,911,186	1,280,670	3,191,856
		-----	-----	-----	-----	-----	-----
Comprehensive income							
Profit for the year		–	–	127,881	127,881	81,114	208,995
		-----	-----	-----	-----	-----	-----
Total comprehensive income		–	–	127,881	127,881	81,114	208,995
		-----	-----	-----	-----	-----	-----
Transactions with owners							
Capital contribution	26 (e)	–	185,671	–	185,671	14,301	199,972
Transformation of Daye Metal	26 (f)	–	133,624	(133,624)	–	–	–
Transfer to statutory reserves		–	11,962	(11,962)	–	–	–
Others		–	(58)	–	(58)	(37)	(95)
		-----	-----	-----	-----	-----	-----
		–	331,199	(145,586)	185,613	14,264	199,877
		-----	-----	-----	-----	-----	-----
Balance as at 31 December							
2010		–	2,136,070	88,610	2,224,680	1,376,048	3,600,728
		=====	=====	=====	=====	=====	=====
Balance as at 1 January							
2011		–	2,136,070	88,610	2,224,680	1,376,048	3,600,728
		-----	-----	-----	-----	-----	-----
Comprehensive income							
Profit for the period		–	–	93,521	93,521	29,172	122,693
		-----	-----	-----	-----	-----	-----
Total comprehensive income		–	–	93,521	93,521	29,172	122,693
		-----	-----	-----	-----	-----	-----
Transactions with owners							
Acquisition of non-controlling							
interests	26 (g)	–	1,231,773	–	1,231,773	(1,231,773)	–
Others		–	2,647	–	2,647	127	2,774
		-----	-----	-----	-----	-----	-----
		–	1,234,420	–	1,234,420	(1,231,646)	2,774
		-----	-----	-----	-----	-----	-----
Balance as at 30 June 2011		–	3,370,490	182,131	3,552,621	173,574	3,726,195
		=====	=====	=====	=====	=====	=====

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ACCOUNTANT'S REPORT ON THE TARGET GROUP

		Attributable to owners of the Target Company				
		Share capital	Reserves	Retained profits	Sub-total	Non-controlling interests
Note		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Unaudited:						
Balance as						
at 1 January 2010						
		–	1,804,871	106,315	1,911,186	1,280,670
		–	–	62,907	62,907	41,332
Comprehensive income						
Profit for the period						
		–	–	62,907	62,907	41,332
Total comprehensive income						
		–	–	62,907	62,907	41,332
Transactions with owners						
Capital contribution	26 (e)	–	185,671	–	185,671	14,301
Transformation of Daye Metal	26 (f)	–	133,624	(133,624)	–	–
Others		–	3,320	–	3,320	2,054
		–	322,615	(133,624)	188,991	16,355
Balance as at 30 June 2010						
		–	2,127,486	35,598	2,163,084	1,338,357

APPENDIX I	ACCOUNTANT'S REPORT ON THE TARGET GROUP
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COMBINED STATEMENTS OF CASH FLOWS

		Year ended 31 December			Six months ended 30 June	
		2008	2009	2010	2010	2011
	Note	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					(unaudited)	
Cash flows from operating activities						
Net cash generated from/(used in) operations	32	239,056	(734,046)	343,680	84,876	1,303,503
Income tax paid		(38,418)	(28,683)	(2,869)	(449)	(879)
		<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net cash generated from/(used in) operating activities		<u>200,638</u>	<u>(762,729)</u>	<u>340,811</u>	<u>84,427</u>	<u>1,302,624</u>
Cash flows from investing activities						
2008 Capital Reduction	33 (a)	(54,087)	–	–	–	–
Purchase of property, plant and equipment		(294,286)	(483,799)	(774,914)	(306,475)	(419,288)
Purchase of exploration and evaluation assets		(1,000)	(41,600)	(15,869)	(6,754)	(4,129)
Purchase of intangible assets		(1,198)	(708)	(603,304)	(603,129)	–
Purchase of land use rights		(606)	(361)	(10,757)	–	(34,472)
Proceeds from disposal of property, plant and equipment		28,401	1,198	784	245	1,290
Receipts of government grants		10,320	13,520	44,251	15,980	27,240
Interest received		<u>39,055</u>	<u>10,651</u>	<u>21,364</u>	<u>6,732</u>	<u>8,444</u>
Net cash used in investing activities		<u>(273,401)</u>	<u>(501,099)</u>	<u>(1,338,445)</u>	<u>(893,401)</u>	<u>(420,915)</u>

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		Year ended 31 December			Six months ended 30 June	
		2008	2009	2010	2010	2011
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
		(unaudited)				
		Note				
Cash flows from financing activities						
Contribution from equity holders	26					
		1,060,000	240,000	–	–	–
Proceeds from new borrowings		6,949,514	7,237,036	8,773,642	4,598,247	3,374,780
Repayment of borrowings		(6,629,455)	(6,163,271)	(7,619,310)	(3,362,129)	(3,361,579)
Dividends paid to the former owner of the Mining Entities	33 (b)	(142,980)	–	–	–	–
(Decrease)/increase in advance from the Parent Company		(162,864)	(56,329)	(22,505)	(22,505)	258,645
Decrease/(increase) in restricted cash and bank balances, and term deposits		221,461	(497,426)	(186,237)	(203,493)	(691,003)
Interest paid		(286,040)	(135,151)	(180,913)	(81,447)	(131,406)
Net cash generated from/(used in) financing activities						
		<u>1,009,636</u>	<u>624,859</u>	<u>764,677</u>	<u>928,673</u>	<u>(550,563)</u>
Net increase/(decrease) in cash and cash equivalents						
		936,873	(638,969)	(232,957)	119,699	331,146
Cash and cash equivalents at beginning of year/period		<u>239,102</u>	<u>1,175,975</u>	<u>537,006</u>	<u>537,006</u>	<u>304,049</u>
Cash and cash equivalents at end of year/period						
		<u>1,175,975</u>	<u>537,006</u>	<u>304,049</u>	<u>656,705</u>	<u>635,195</u>
Analysis of balances of cash and cash equivalents						
Cash and bank balances	25	<u>1,175,975</u>	<u>537,006</u>	<u>304,049</u>	<u>656,705</u>	<u>635,195</u>

II. NOTES TO THE FINANCIAL INFORMATION

1 General information and reorganisation

1.1 General information

The Target Company was incorporated in the British Virgin Islands on 1 December 2010 with limited liability under the BVI Business Act, 2004. The address of its registered office is P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands.

The Target Company is an investment holding company. The Target Group are principally engaged in the mining and processing of mineral ores and trading of metal concentrates in the People's Republic of China ("PRC") (the "Daye Metal Business").

1.2 2011 Reorganisation

Prior to the incorporation of the Target Company and the completion of the reorganisation as described below, the Daye Metal Business was carried out by 大冶有色金屬有限責任公司(Daye Non-Ferrous Metals Co., Ltd.) ("Daye Metal"), a joint stock limited company incorporated in the PRC, and its subsidiaries now comprising the Target Group which were controlled by 大冶有色金屬集團控股有限公司(Daye Nonferrous Metals Corporation Holdings Limited), a company incorporated in the PRC with limited liability (the "Parent Company"). The Parent Company is controlled and wholly owned by the State-owned Assets Supervision and Administration Commission of Hubei Provincial People's Government ("Hubei SASAC"), the PRC.

On 29 November 2011, by way of a share swap, the Target Company acquired 95.35% equity interest of Daye Metal through Rainbow Treasure Holdings Limited, a wholly-owned subsidiary of the Target Company from certain shareholders who held 95.35% equity of Daye Metal by allotting and issuing a total of 9,999 shares to the shareholders of Daye Metal ("2011 Reorganisation"). After the share swap, the Target Company became the holding company of the Target Group.

Daye Metal was incorporated in March 2005 in the PRC as a limited liability company under the name 大冶有色金屬有限公司(Daye Non-ferrous Metals Company Limited). During the year ended 31 December 2008, Daye Metal completed its capital reduction by transfer the ownership of several branches and subsidiaries together with certain assets and liabilities to its then equity holders ("2008 Capital Reduction") and acquired certain subsidiaries from the Parent Company ("2008 Reorganisation"), which was regarded as a business combination under common control. Details of the 2008 Capital Reduction and 2008 Capital Reorganisation are set out in Note 33.

In May 2010, Daye Metal was converted from a limited liability company to a joint stock company. As part of the 2011 Reorganisation, Daye Metal was changed from a joint stock company into a sino-foreign equity joint venture in September 2011.

2 Basis of presentation

The Parent Company owned and controlled the companies now comprising the Target Group before the 2011 Reorganisation and continues to control them after the 2011 Reorganisation.

For the purposes of this report, the Financial Information has been prepared and presented on a basis in accordance with the principles of the Auditing Guideline 3.340 "Prospectus and the Reporting Accountant" issued by the HKICPA. The combined statements of financial position, the combined statements of comprehensive income, the combined statements of changes in equity and the combined statements of cash flows of the Target Group for the Relevant Periods have been prepared using the financial statements of the companies comprising the Target Group on the basis that the current group structure had been in existence throughout the Relevant Periods or since the respective dates of incorporation/establishment/acquisition by the Target Group, whichever is shorter. The assets, liabilities and results of the Target Group have been combined using their existing book values. The transaction of the Target Company to acquire Daye Metal and its subsidiaries is a reorganisation of Daye Metal which has not been resulted in any changes in the substance of the Daye Metal Business or the control over Daye Metal by the Parent Company.

All significant intra-group transactions and balances, if any, have been eliminated on combination.

3 Summary of significant accounting policies

The principal accounting policies applied in the preparation of this Financial Information are set out below. These policies have been consistently applied to the Relevant Periods, unless otherwise stated.

3.1 Basis of preparation

The Financial Information has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"). This Financial Information has been prepared under the historical cost convention, as modified by derivative financial instruments.

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The preparation of Financial Information in accordance with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise their judgement in the process of applying the Target Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Financial Information are disclosed in Note 5.

The following standards and amendments to standards have been published and are mandatory for the accounting periods beginning on or after 1 January 2012 or later periods, and the Target Group has not early adopted:

HKFRS 1 (Amendment)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adoptions ⁽¹⁾
HKFRS 7 (Amendment)	Disclosures – Transfers of Financial Assets ⁽¹⁾
HKFRS 9	Financial Instruments ⁽²⁾
HKFRS 10	Consolidated Financial Statements ⁽²⁾
HKFRS 11	Joint Arrangements ⁽²⁾
HKFRS 12	Disclosures of Interests in Other Entities ⁽²⁾
HKFRS 13	Fair Value Measurement ⁽²⁾
HKAS 1 (Revised)	Presentation of Financial Statements ⁽²⁾
HKAS 12 (Amendment)	Deferred Tax: Recovery of Underlying Assets ⁽¹⁾
HKAS 19 (2011)	Employee Benefits ⁽²⁾
HKAS 27 (2011)	Separate Financial Statements ⁽²⁾
HKAS 28 (2011)	Investments in Associates and Joint Ventures ⁽²⁾

⁽¹⁾ *Effective for the Target Group for annual period beginning on 1 January 2012*

⁽²⁾ *Effective for the Target Group for annual period beginning on 1 January 2013*

The Target Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

3.2 Combination

(a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Target Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Target Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Target Group.

The Target Group uses the acquisition method of accounting to account for business combinations except for the business combination under common control, details of the business combination under common control during the Relevant Periods have been disclosed in Note 33 (b), which is accounted for using the principle as described in Note 3.2 (a) (ii).

(i) Acquisition method of accounting

The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Target Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Target Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

Investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of comprehensive income.

(ii) Business combinations under common control

The Target Group applies the predecessor values accounting to account for business combination of entities or businesses under common control. The Financial Information incorporate the financial statement items of the combining entities or businesses in which the common control combination occurs on the basis that they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are combined using the existing book values from the controlling parties' perspective. No amount is recognised in respect of goodwill or excess of acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest. All differences between the cost of acquisition (fair value of consideration paid) and the amounts at which the assets and liabilities are recorded have been recognised directly in equity as part of the capital reserve.

The combined statements of comprehensive income includes the results of each of the combining entities or businesses from the earliest date presented or since the date when combining entities or businesses first came under common control, where this is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the Financial Information are presented on the basis that the entities or businesses had been combined at the earliest reporting date presented or when they first came under common control, whichever is the later.

Inter-company transactions, balances and unrealised gains on transactions between the combining entities or businesses are eliminated. Unrealised losses are also eliminated but considered as an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Target Group.

(b) Transactions with non-controlling interests

The Target Group treats transactions with non-controlling interests as transactions with equity owners of the Target Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Target Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for on the basis that the Target Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

3.3 *Segment reporting*

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the directors of Daye Metal.

3.4 *Foreign currency translation*

(a) *Functional and presentation currency*

Items included in the financial statements of each of the Target Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The Financial Information is presented in Renminbi (RMB), which is the Target Company's functional and the Target Group's presentation currency.

(b) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statements of comprehensive income.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the statements of comprehensive income within 'finance income or cost'. All other foreign exchange gains and losses are presented in the statements of comprehensive income within 'other gains/(losses) – net'.

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income.

On combination, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to other comprehensive income. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the statements of comprehensive income as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

3.5 *Property, plant and equipment*

Property, plant and equipment is stated at historical cost less accumulated depreciation and accumulated impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Target Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the statements of comprehensive income during the financial period in which they are incurred.

Depreciation of mining infrastructure is calculated using the units-of-production method based on the estimated proven and probable mineral reserves unless their useful life is less than that of the mine.

All other items of mining related property are depreciated over the shorter of the asset's useful life of 5 to 20 years or the life of mine on a straight-line basis.

Depreciation for other property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Buildings	10 to 40 years
Plant and machinery	12 to 20 years
Motor vehicles	8 to 12 years
Office equipment	5 to 10 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within "other gains/(losses), net" in the statement of comprehensive income.

Construction in progress, which represents assets under construction, is stated at cost less impairment loss, if any. When the assets are completed and ready for use, the carrying amount of the assets will be reclassified to property, plant and equipment and depreciated in accordance with the policy as set out above.

3.6 *Exploration and evaluation expenditure*

The Target Group capitalises only expenditures directly attributable to acquisition of exploration or mining rights and construction of mine related structures and plant and machinery during exploration and evaluation phase related to a specific area of interest to the extent that:

- the Target Group's right to tenure of the area of interest is current; and
- the costs incurred are expected to be recouped through successful development and exploitation of the area of interest.

These capitalised expenditures are stated at cost less impairment and are presented within non-current assets as "exploration and evaluation assets" on the combined statements of financial position.

All other exploration and evaluation expenditures are expensed to the statements of comprehensive income as incurred until the Target Group is able to demonstrate that future economic benefits are probable through the completion of a feasibility study.

A "feasibility study" consists of a comprehensive study of the viability of a mineral project that has advanced to a phase where the mining method has established, and which, if an effective method of mineral processing has been determined, includes a financial analysis based on reasonable assumptions of technical, engineering and operating economic factors, and the evaluation of other relevant factors. The feasibility study allows the Target Group to conclude whether it is more likely than not that it will obtain future economic benefits from the expenditures.

Once the final feasibility study has been completed and a development decision has been taken, accumulated capitalised exploration and evaluation expenditures in respect of an area of interest are transferred to non-current assets as either "Intangible assets" for the exploration and mining rights or "Mine development costs" for other capitalised exploration and evaluation expenditures separately on the statement of financial position. In circumstances when an area of interest is abandoned or management decides it is not commercial, any accumulated costs in respect of that area are written off in the period the decision is made. Upon commencement of commercial production, accumulated mine development costs are transferred to property, plant and equipment depending on the nature of the expenditures.

Capitalised exploration and evaluation expenditures are assets which are not available for use. Therefore no amortisation of the exploration and mining rights and depreciation of the mine under construction are provided during exploration and evaluation phase of a specific area of interest.

Capitalised exploration and evaluation expenditures are assessed for impairment when facts and circumstances indicate that the carrying amount of an exploration and evaluation expenditure may exceed its recoverable amount. Once a development decision has been taken, the capitalised expenditures are also assessed for impairment before reclassification. An impairment test is performed if any of the following indicators are present:

- the period for which the entity has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed;
- substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned;
- exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the entity has decided to discontinue such activities in the specific area; or
- sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

For the purposes of assessing impairment, the capitalised exploration and evaluation expenditures subject to testing are grouped with other operating assets located in the same geographical region as one cash generating unit.

3.7 *Land use rights*

Land use rights acquired separately are measured on initial recognition at cost. Following initial recognition, land use rights are stated at cost less accumulated amortisation and accumulated impairment losses, if any. Cost represents upfront payments made for the use of land for a period from 20 to 50 years. Amortisation of land use rights is calculated on a straight-line basis over the period of leases.

3.8 *Intangible assets*

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Amortisation of mining rights is calculated using the units-of-production method based on the estimated proven and probable mineral reserves. Amortisation of computer software and others is calculated using the straight-line method to allocate the costs over their estimated useful lives of 5 years.

Intangible assets with finite lives are subsequently amortised over the useful lives are assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in profit or loss in the expense category consistent with the consuming pattern of the intangible assets.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognised.

3.9 *Impairment of investments in subsidiaries and non-financial assets*

Assets that have an indefinite useful life – for example, goodwill or intangible assets not ready to use – are not subject to amortisation and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

3.10 Financial assets

Classification

The Target Group's financial assets include loans and receivables. Management determines the classification of its financial assets at initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Target Group's loans and receivables comprise trade, bills and other receivables, restricted deposits, term deposits and cash and cash equivalents in the statements of financial position.

Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date – the date on which the group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Target Group has transferred substantially all risks and rewards of ownership. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statements of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

Impairment of loans and receivables

The Target Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Target Group uses to determine that there is objective evidence of an impairment loss include:

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- The Target Group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider; or
- It becomes probable that the borrower will enter bankruptcy or other financial reorganisation.

The Target Group first assesses whether objective evidence of impairment exists.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the statement of comprehensive income. If a loan and receivable has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the statement of comprehensive income.

3.11 Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Target Group designates certain derivatives as hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge).

The Target Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Target Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values of hedged items.

The fair values of various derivative instruments used for hedging purposes are disclosed in Note 23. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining hedged item is more than 12 months, and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the statement of comprehensive income, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The Target Group only applies fair value hedge accounting for hedging commodity price risk on inventories. When an inventory is designated as a hedged item, the subsequent cumulative change in the fair value of the inventory attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in the statement of comprehensive income. The changes in the fair value of the hedging instrument are also recognised in the statement of comprehensive income.

The Target Group discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, when the hedge no longer meets the criteria for hedge accounting or the Target Group revokes the designation.

3.12 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). Cost of inventories also includes gains and losses on qualifying fair value hedge in respect of inventories designated as hedged items. It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

Those costs of removing waste materials or “stripping costs” incurred during the production phase of a mine are included in the cost of inventories extracted during the period in which the stripping costs are incurred.

3.13 Trade and other receivables

Trade receivables are amounts due from customers for commodity sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

3.14 Cash and cash equivalents

For the purpose of statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

3.15 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

3.16 Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

3.17 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statements of comprehensive income over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Target Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset that necessarily takes a substantial period of time to get ready for its intended use are capitalised as part of the cost of that asset. All other borrowing costs are charged to the statement of comprehensive income in the period in which they are incurred.

Borrowing costs that are directly attributable to the capitalised exploration and evaluation expenditures are charged to the statement of comprehensive income in the period in which they are incurred because such expenditures are not qualifying assets during the exploration and evaluation phase when the Target Group has yet to conclude whether it is probable that it will obtain future economic benefits from the expenditures. Once a development decision has been taken, in respect of an area of interest, borrowing costs that are directly attributable to the acquisition, construction or production of that area are capitalised as part of the cost of intangible assets and mine development costs.

3.18 Financial liability at fair value through profit or loss

Gold loans, which are designated at fair value through profit or loss, are stated at the market price of the gold with changes in fair value arising on remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any interest paid on the financial liabilities.

3.19 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the statement of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of reporting period in the countries where the Target Company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the combined Financial Information. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or a liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Target Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

3.20 Employee benefits

(a) Pension obligations

In accordance with the rules and regulations in the PRC, the PRC based employees of the Target Group participate in various defined contribution retirement benefit plans organised by the relevant municipal and provincial governments in the PRC under which the Target Group and the employees are required to make monthly contributions to these plans calculated as a percentage of the employees' salaries, subject to certain ceiling. The municipal and provincial governments undertake to assume the retirement benefit obligations of all existing and future retired PRC based employees payable under the plans described above. Other than the monthly contributions, the Target Group has no further obligation for the payment of retirement and other post retirement benefits of its employees. The assets of these plans are held separately from those of the Target Group in an independent fund managed by the PRC government.

The Target Group's contributions to these plans are expensed as incurred.

(b) Early retirement

Early retirement are payable when employment is terminated by the Target Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Target Group recognises early retirement when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal, or providing termination benefits as a result of an offer made to encourage voluntary redundancy. The early retirement are offered for a clearly defined period and once the termination plan is confirmed by the employee and the Target Group, there is no possibility of new participant. Benefits falling due more than 12 months after the end of reporting period are discounted to present value.

(c) Other social insurance and housing funds

The Target Group provides other social insurance and housing funds to the qualified employees in the PRC based on certain percentages of their salaries. These percentages are not to exceed the upper limits of the percentages prescribed by Ministry of Human Resources and Social Security of the PRC. These benefits are paid to social security organisation and the amounts are expensed as incurred. The Target Group has no legal or constructive obligations for further contributions if the fund does not hold sufficient assets to pay all employees the benefit relating to their current and past services.

3.21 Provisions

Provisions are recognised when the Target Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

3.22 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Target Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Target Group.

The Target Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Target Group's activities as described below. The group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) Sales of goods

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and sales related taxes.

Revenue from the sale of goods and disposal of other assets is recognised when persuasive evidence of an arrangement exists, usually in the form of an executed sales agreement, indicating there has been a transfer of the significant risks and rewards to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. This is generally when title passes, which for the majority of commodity sales is the bill of lading date when the commodity is delivered for shipment.

(b) Sales of services

The Target Group provided copper processing services. Revenue from fixed-price contracts for delivering services is recognised in the period when the services are provided.

(c) Interest income

Interest income is recognised using the effective interest method.

3.23 Government grant

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Target Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the statement of comprehensive income over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the statement of comprehensive income on a straight-line basis over the expected lives of the related assets.

3.24 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

3.25 Dividend distribution

Dividend distribution to the Target Company's shareholders is recognised as a liability in the Group's Financial Information in the period in which the dividends are approved by the Target Company's shareholders.

4 Financial risk management

4.1 Financial risk factors

The Target Group's activities expose it to a variety of financial risks, including commodity price risk, interest rate risk, foreign exchange risk, credit risk and liquidity risk. The Target Group's overall risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Target Group's financial performance. The use of financial derivative instruments should strictly follow the plans and policies approved by management of the Target Group. The Target Group does not and is prohibited to enter into derivative contracts for speculative purposes.

The core management team identifies, evaluates and monitors financial risks in close cooperation with the Target Group's operating units to ensure derivative financial instruments are employed solely for hedging purposes.

(a) Commodity price risk

The Target Group is principally engaged in the mining and processing of mineral ores and trading of non-ferrous metal in the PRC. The major products of the Target Group include copper cathodes and gold, and other products include silver, iron ore and sulphuric acid. As the commodity market are influenced by global as well as PRC supply and demand conditions, any unexpected price change in the markets might affect the Target Group's earnings and performance. To mitigate this risk, the Target Group closely monitors any significant exposures, and may enter into commodity derivative from time to time in accordance with the policies approved by the directors of Daye Metal to manage the exposure with respect to its inventories, forecast sell or firm sell commitments mainly includes copper and gold products. The Target Group does not enter into any commodities futures contracts in respect of silver, iron and other commodities.

Financial assets and liabilities of the Target Group that expose to the commodities price risk – the fair value change, primarily with respect to its outstanding derivative financial instruments, mainly the copper and gold futures contracts, inventories that effectively hedged by commodities futures contracts in accordance with HKFRS, and the provisional price arrangements in respect of purchases of copper concentrates.

Copper

The Target Group enters into copper futures contracts for the purpose of manage its exposure to copper price risk. The Target Group formally designates and documents the hedging relationship at inception of its hedging transactions in respect of its inventories, therefore, a significant portion of the outstanding derivative financial instruments related to copper were assessed to be highly effective in accordance with HKFRS and accounted for as fair value hedges at each reporting date. The fair value changes of these outstanding copper futures contracts will be significantly offset by the corresponding fair value changes in the hedged inventories, as a result, management is of the opinion that any reasonable changes in copper price would not result in a significant change in the Target Group's results in respect of these contracts.

The following table details the Target Group's sensitivity to movement in copper prices in respect of its outstanding copper futures contracts (that are not qualified as hedging accounting). At each reporting date, if the copper prices increased/(decreased) by a reasonable possible change in prevailing market price of copper cathodes with all other variables were held constant, the Target Group's before tax loss/profit would have affected as set out below.

	As at 31 December			As at
	2008	2009	2010	30 June
				2011
Increase/decrease in copper price by	30%	30%	30%	30%
	Increase/ (decrease) in loss before tax RMB'000	Decrease/ (increase) in profit before tax RMB'000	Decrease/ (increase) in profit before tax RMB'000	Increase/ (decrease) in profit before tax RMB'000
Derivative financial instruments	54,607	1,340	4,229	68,249

Gold

The Target Group also enters into a limited number of gold futures contracts for the purpose of manage its exposure to gold price risk, however, these contracts do not qualified as hedging accounting. Any fair value changes in respect of these outstanding gold futures contracts might affect the results of the Target Group. In addition, as at 30 June 2011, the Target Group has outstanding gold loan balance with a bank, which designated as derivative financial instruments, any change in the fair value of gold loan might affect the results of the Target Group.

The following table details the Target Group's sensitivity to movement in gold prices. At reporting date, if the gold prices increased/ (decreased) by a reasonable possible change in prevailing market price of gold with all other variables were held constant, the Target Group's before tax loss/profit would have affected as set out below.

As at 31 December 2008

Increase/decrease in gold price by	%	10
Increase/decrease in loss before tax		
– Gold futures contracts	<i>RMB'000</i>	<u>6,206</u>

As at 30 June 2011

Increase/decrease in gold price by	%	10
Increase/decrease in profit before tax		
– Gold futures contracts	<i>RMB'000</i>	2,402
– Gold loan designed as derivative financial instruments	<i>RMB'000</i>	<u>(6,287)</u>

There are no outstanding gold futures contracts as at 31 December 2009 and 2010.

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(b) Interest rate risk

The Target Group is exposed to interest rate volatility on deposits and borrowings. Deposits and borrowings at variable rates expose the Target Group to cash flow interest rate risk. Deposits and borrowings at fixed rates expose the Target Group to fair value interest rate risk. Details of the Target Group's restricted deposits, cash and cash equivalents and borrowings have been disclosed in Notes 24, 25 and 27 respectively. The Target Group does not use derivative financial instruments to hedge its interest rate risk.

The following table demonstrates the sensitivity of the end of each reporting periods to a reasonably possible change in interest rate, with all other variables held constant, of the Target Group's (loss)/profit before tax as a result of the change in interest income/(expense) for floating rate deposits and borrowings:

Change in interest rate by	2008		As at 31 December 2009				2010		As at 30 June 2011	
	+100 basis	-100 basis	+100 basis	-100 basis	+100 basis	-100 basis	+100 basis	-100 basis	+100 basis	-100 basis
	points	points	points	points	points	Points	points	points	points	points
	Increase	Decrease	Increase	Decrease	Increase	Decrease	Increase	Decrease	Increase	Decrease
	in loss	in loss	in profit	in profit	in profit	in profit	in profit	in profit	in profit	in profit
	before tax	before tax	before tax	before tax	before tax	before tax	before tax	before tax	before tax	before tax
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets										
– Restricted deposits	(2,072)	2,072	1,207	(1,207)	1,627	(1,627)	598	(598)		
– Cash and cash equivalents	(11,760)	11,760	5,370	(5,370)	3,040	(3,040)	6,352	(6,352)		
Financial liabilities										
– Borrowings	16,147	(16,147)	(27,165)	27,165	(19,497)	19,497	(16,161)	16,161		
– Other payables and accruals	788	(788)	(225)	225	–	–	(2,586)	2,586		
Total	<u>3,103</u>	<u>(3,103)</u>	<u>(20,813)</u>	<u>20,813</u>	<u>(14,830)</u>	<u>14,830</u>	<u>(11,797)</u>	<u>11,797</u>		

(c) Foreign exchange risk

The Target Group operates in the PRC with most of the transactions settled in RMB except for certain purchases from international market that are conducted in United States dollars (US\$) and Euro (Euro) and certain borrowings that are denominated in US\$. The Target Group's reporting currency and functional currency of the majority of subsidiaries within the Target Group is RMB.

Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the entities' functional currency. The Target Group is exposed to foreign exchange risk primarily with respect to US\$ and Euro.

The Target Group manages its foreign exchange risk by performing regular reviews of the Target Group's net foreign exchange exposures and may enter into forward foreign exchange contracts, when necessary, to manage its foreign exchange exposure. During the Relevant Periods, no forward foreign exchange contracts had been entered by the Target Group.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the RMB-US\$ and RMB-Euro exchange rates, with all other variables held constant, of the Target Group's profit before tax due to changes in the carrying value of monetary liabilities.

	As at 31 December			As at
	2008	2009	2010	30 June
	Decrease/ (increase) in loss before tax RMB'000	Increase/ (decrease) in profit before tax RMB'000	Increase/ (decrease) in profit before tax RMB'000	Increase/ (decrease) in profit before tax RMB'000
RMB – US\$				
Increase in exchange rate by 5%	844,238	778,234	723,323	190,893
Decrease in exchange rate by 5%	<u>(844,238)</u>	<u>(778,234)</u>	<u>(723,323)</u>	<u>(190,893)</u>
RMB – Euro				
Increase in exchange rate by 5%	–	–	–	3,510
Decrease in exchange rate by 5%	<u>–</u>	<u>–</u>	<u>–</u>	<u>(3,510)</u>

(d) *Credit risk*

The carrying amount of trade, bills and other receivables, restricted deposits and cash and cash equivalents included in the combined statements of financial position represent the Target Group's maximum exposure to credit risk in relation to its financial assets.

The Target Group has policies in place to ensure that sales of products on credit terms are made to customers with an appropriate credit history. The credit risk arising from sales to major non-ferrous metals customers are managed by contracts that stipulate an upfront payment of significant portion of the amount of each sale and the remaining balance is normally received within 1 month. The Target Group performs periodic credit evaluations of its customers and slow-moving debts, if any, are regular monitored with timely follow-up action taken. With diversified customer bases and the credit policy as stated above, the Target Group has no significant concentrations of credit risk with respect to a particular customer. Normally the Target Group does not require collaterals from trade debtors. The existing debtors have no significant defaults in the past. The Target Group's historical experience in collection of trade and other receivables falls within the recorded allowances.

Bills receivables are only drawn from major state-owned financial institutions in the PRC. Substantially all the bank balances and restricted deposits as detailed in Notes 24 and 25 are held in major state-owned financial institutions located in the PRC and the Shanghai Futures Exchange ("SHFE"), and substantially all derivative financial instruments also directly entered into with the SHFE, which management believes are of high credit quality. The Target Group has a policy to limit the amount of credit exposure to any financial institution and management does not expect any loss arising from non-performance by these counterparties.

(e) *Liquidity risk*

The Target Group's treasury department monitors the Target Group's cash flow positions on a regular basis to ensure the cash flows of the Target Group are positive and closely controlled. The Target Group aims to maintain flexibility in funding by keeping committed credit lines available, obtaining debentures from specific financial institutions and borrowing loans from banks.

The table below analyses the Target Group's non-derivative financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the end of each reporting period to the contractual maturity date. Derivative financial liabilities are included in the analysis if their contractual maturities are essential for an understanding of the timing of the cash flows. The amounts disclosed in the table are the contractual undiscounted cash flows.

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	Within 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
At 31 December 2008					
Trade and bills payables	792,948	–	–	–	792,948
Other payables and accruals	398,163	–	–	–	398,163
Borrowings	3,260,105	21,237	288,578	5,047	3,574,967
Derivative financial instruments	4,327	–	–	–	4,327
	<u>4,455,543</u>	<u>21,237</u>	<u>288,578</u>	<u>5,047</u>	<u>4,770,405</u>
At 31 December 2009					
Trade and bills payables	810,345	–	–	–	810,345
Other payables and accruals	239,696	–	–	–	239,696
Borrowings	4,233,701	100,167	219,846	92,495	4,646,209
Derivative financial instruments	797	–	–	–	797
	<u>5,284,539</u>	<u>100,167</u>	<u>219,846</u>	<u>92,495</u>	<u>5,697,047</u>
At 31 December 2010					
Trade and bills payables	1,270,071	–	–	–	1,270,071
Other payables and accruals	292,674	–	–	–	292,674
Borrowings	4,920,215	101,053	787,022	113,981	5,922,271
Derivative financial instruments	137,952	–	–	–	137,952
	<u>6,620,912</u>	<u>101,053</u>	<u>787,022</u>	<u>113,981</u>	<u>7,622,968</u>
At 30 June 2011					
Trade and bills payables	858,157	–	–	–	858,157
Other payables and accruals	837,715	–	–	–	837,715
Borrowings	4,388,214	222,495	1,323,355	81,177	6,015,241
Derivative financial instruments	440	–	–	–	440
	<u>6,084,526</u>	<u>222,495</u>	<u>1,323,355</u>	<u>81,177</u>	<u>7,711,553</u>

4.2 *Fair value estimation*

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

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The following table presents the Target Group's financial assets and liabilities that are measured at fair value.

	Level 1 <i>RMB'000</i>	Level 2 <i>RMB'000</i>	Level 3 <i>RMB'000</i>	Total <i>RMB'000</i>
At 31 December 2008				
Assets				
Derivative financial instruments	27,905	–	–	27,905
Liabilities				
Derivative financial instruments	4,327	–	–	4,327
At 31 December 2009				
Liabilities				
Derivative financial instruments	797	–	–	797
At 31 December 2010				
Liabilities				
Derivative financial instruments	137,952	–	–	137,952
At 30 June 2011				
Assets				
Derivative financial instruments	3,988	–	–	3,988
Liabilities				
Derivative financial instruments	440	–	–	440
Gold loan	62,873	–	–	62,873

The fair value of the commodity derivative contracts represents the difference between the quoted market price of commodity derivative contracts on the SHFE at year end of reporting period and the quoted price on the SHFE at inception of the contracts.

The carrying amounts of the Target Group's financial assets, including trade, bills and other receivables, restricted deposits and cash and cash equivalents; and the Target Group's financial liabilities, including borrowings (current), trade and bills payables and other payables and accruals, are assumed to approximate their fair values due to their short maturities.

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The nominal values less any credit adjustments for financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair values. The fair values of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rates that are available to the Target Group for similar financial instruments.

4.3 Capital risk management

The Target Group's objectives when managing capital are to safeguard the Target Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Target Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with other entities in the industry, the Target Group monitors capital on the basis of its gearing ratio. This ratio is calculated as net debts divided by total capital. Net debts are calculated as total borrowings (including payable to the Parent Company) less term deposits, restricted deposits and cash and cash equivalents. Total capital is calculated as equity, as shown in the combined statements of financial position plus net debts. The Target Group aims to maintain the gearing ratio at no more than 60%.

	As at 31 December		As at 30 June	
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Total borrowings (Note 27)	3,466,296	4,542,234	5,666,200	5,641,658
Payable to the Parent Company (Note 31)	78,834	22,505	–	258,645
Less: Term deposits, restricted deposits and cash and cash equivalents	(1,555,098)	(1,352,844)	(1,614,424)	(2,418,452)
Net debt	1,990,032	3,211,895	4,051,776	3,481,851
Total equity	2,849,445	3,191,856	3,600,728	3,726,195
Total capital	<u>4,839,477</u>	<u>6,403,751</u>	<u>7,652,504</u>	<u>7,208,046</u>
Gearing ratio (%)	<u>41.1</u>	<u>50.2</u>	<u>52.9</u>	<u>48.3</u>

The change in the gearing ratio during the year ended 31 December 2009 and six months ended 30 June 2011 resulted primarily from the increase bank borrowings in year ended 31 December 2009 and reduce in net debt contributed by the cash flow generated from operating activities during the six months ended 30 June 2011, respectively.

5 Critical accounting judgements and estimates

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Target Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Impairment of non-financial assets

Non-current assets, including property, plant and equipment, land use rights, mining rights and other intangible assets, are carried at cost less accumulated depreciation/amortisation, and exploration and evaluation assets that are stated at cost less impairment loss, if any. These carrying amounts are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

In determining whether an asset is impaired or the event previously causing the impairment no longer exists, the Target Group has to exercise judgement in the area of asset impairment, particularly in assessing: (1) whether an event has occurred that may affect the asset value or such event affecting the asset value has not been in existence; (2) whether the carrying value of an asset can be supported by net present value of future cash flows which are estimated based upon the continued use of the asset or derecognition; and (3) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management to determine the level of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test.

(b) *Exploration and related expenses*

The application of the Target Group's accounting policy for exploration and evaluation expenditure requires judgements in determining whether it is likely that future economic benefits will arise, which may be based on assumptions about future events or circumstances. Estimates and assumptions made may change if new information becomes available. If, after expenditures are capitalised, information becomes available suggesting that the recovery of capitalised expenditures are unlikely, the amount capitalised is written off in the statement of comprehensive income in the period when the new information becomes available. The carrying amount of exploration and evaluation assets at each reporting dates were detailed in Note 16.

(c) *Income taxes*

Significant judgement is required in determining the provision for income taxes. There are some transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The tax liabilities recognised are based on management's assessment of the likely outcome. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred income tax provisions in the accounting period in which such determination is made.

Deferred tax assets are utilised for deductible temporary differences and unused tax losses only if it is probable that future taxable profits will be available to utilise those temporary differences and losses, and the tax losses continue to be available having regard to the nature and timing of their origination and compliance with the relevant tax legislation associated with their recoupment.

(d) *Mine reserves*

Engineering estimates of the Target Group's mine reserves are inherently imprecise and represent only approximate amounts because of the subjective judgements involved in developing such information. There are authoritative guidelines regarding the engineering criteria that have to be met before estimated mine reserves can be designated as proven and probable. Proven and probable mine reserve estimates are updated on a regular basis and have taken into account recent production and technical information about each mine. In addition, price and cost levels change from year to year, the estimates of proven and probable mine reserves also change. This change is considered a change in estimate for accounting purposes and is reflected on a prospective basis in the related depreciation/amortisation rate of mining infrastructure and mining rights.

Despite the inherent imprecision in these engineering estimates, these estimates are used in determining the depreciation/amortisation expenses, useful lives and impairment losses of mining rights and related mine infrastructure. Depreciation/amortization rates are determined based on estimated proven and probable mine reserve quantity and capitalised cost of mining infrastructure and mining rights. The capitalised costs of mining infrastructure and mining rights are depreciated/amortised based on the proven and probable reserves of the mines using the units-of-production method.

(e) *Property, plant and equipment and intangible assets – estimated useful lives and residual values*

The Target Group's management determines the estimated useful lives and residual values (if applicable) and consequently related depreciation/amortisation charges for its property, plant and equipment and intangible assets. These estimates are based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions, or based on value-in-use calculations or market valuations according to the estimated periods that the Target Group intends to derive future economic benefits from the use of intangible assets. Management will increase the depreciation/amortisation charge where useful lives are less than previously estimated lives, and it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

Actual economic lives may differ from estimated useful lives; and actual residual values may differ from estimated residual values. Periodic review could result in a change in depreciable lives and residual values and therefore depreciation/amortisation expense in future periods.

(f) *Mine rehabilitation, restoration and dismantling obligations*

Provision is made for the anticipated costs of future restoration, rehabilitation and dismantling of mining areas from which natural resources have been extracted. These provisions include future cost estimates associated with plant closures, waste site closures, monitoring, demolition, decontamination, water purification and permanent storage of historical residues.

These future cost estimates are discounted to their present value. The calculation of these provision estimates requires assumptions such as application of environmental legislation, plant closure dates, available technologies, engineering cost estimates and discount rates. A change in any of the assumptions used may have a material impact on the carrying value of mine rehabilitation, restoration and dismantling provisions.

(g) *Employee medical obligations*

Provision is made for the anticipated costs of compensation paid to those employees injured at work or suffered occupational disease and do not cover by the external insurance plan as required by the relevant rules and regulation in the PRC.

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These future cost estimates including reimbursement of medical expenses and other compensation as required by the relevant rules and regulation are discounted to their present value. The calculation of these provision estimates requires assumptions including future medical cost estimates, application of relevant rules and regulation in respect of the amount of compensation, discount rates and the mutual confirmation with the Huangshi Labour and Social Security Bureau on the transfer of the obligation to social security system of Huangshi City, including the timing and the settlement principle, more details have been disclosed in Note 28 (c). Because of the significant uncertainties involved in view of the absence of formal transfer agreement, this estimate is subject to a high degree of measurement uncertainty. A change in any of the assumptions used may have a material impact on the carrying amount of the employee medical obligations provisions.

6 Segment information and revenue

For management purpose, the Target Group has one reportable operating segment: production and sale of copper and other related products. Management monitors the operating results of its business units as a whole for the purpose of making decisions about resource allocation of performance assessment.

Revenue, which is also the Target Group's turnover, represents the net invoiced value of goods sold, after trade discounts and sales related tax, for the Relevant Periods. All transactions within the Target Group have been eliminated.

An analysis of the Target Group's revenue by category is as follows:

	Year ended 31 December			Six months ended 30 June	
	2008	2009	2010	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(unaudited)</i>	
Sales of goods					
– copper cathodes	10,938,585	13,219,651	20,065,718	9,227,277	10,444,758
– other copper products	597,637	604,331	1,772,544	934,002	400,597
– gold and other gold products	1,158,776	3,445,327	2,218,874	1,333,070	1,443,066
– silver and other silver products	927,489	818,055	1,311,841	559,715	984,515
– sulphuric and sulphuric concentrate	501,565	61,074	163,389	69,623	114,129
– iron ore	280,511	130,920	218,375	92,924	151,340
– others	290,156	79,824	145,903	47,956	93,666
	<u>14,694,719</u>	<u>18,359,182</u>	<u>25,896,644</u>	<u>12,264,567</u>	<u>13,632,071</u>

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	Year ended 31 December			Six months ended 30 June	
	2008	2009	2010	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(unaudited)</i>	
Sales of services					
– copper processing	108,645	119,856	117,672	60,404	37,451
– others	64,076	6,252	5,314	1,487	2,636
	<u>172,721</u>	<u>126,108</u>	<u>122,986</u>	<u>61,891</u>	<u>40,087</u>
Total revenues	<u>14,867,440</u>	<u>18,485,290</u>	<u>26,019,630</u>	<u>12,326,458</u>	<u>13,672,158</u>

Geographical information

(a) Revenue from external customers

	Year ended 31 December			Six months ended 30 June	
	2008	2009	2010	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(unaudited)</i>	
– Mainland China	14,630,348	18,307,819	25,891,022	12,236,756	13,614,927
– Hong Kong	237,092	177,471	128,608	89,702	57,231
	<u>14,867,440</u>	<u>18,485,290</u>	<u>26,019,630</u>	<u>12,326,458</u>	<u>13,672,158</u>

(b) Non-current assets

All of the non-current assets of the Target Group are located in the PRC. The non-current assets information is based on the location of assets and excludes financial instruments and deferred tax assets.

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Information about major customers

Details of the customers accounted for 10% or more of total combined revenue are as follows:

	Year ended 31 December			Six months ended	
	2008	2009	2010	30 June 2010	2011
	<i>(unaudited)</i>				
Percentage to combined revenues					
– Customer A	note	18.2%	note	10.3%	10.3%
– Customer B	note	note	note	note	10.2%

Note: Sales to these customers did not exceed 10% of the combined revenue in the Relevant Periods.

7 Other gains/(losses) and other income

(a) Other gains/(losses), net

	Year ended 31 December			Six months ended 30 June	
	2008	2009	2010	2010	2011
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(unaudited)</i>				
Losses on disposal of property, plant and equipment and intangible assets	(31,489)	(1,491)	(5,407)	(1,045)	(545)
Fair value changes (transactions not qualified as hedges)					
– realised gains/(losses) from commodity derivatives contracts	171,265	(339,648)	(103,035)	(5,925)	(150,286)
– unrealised (losses)/gains from commodity derivatives contracts	(5,120)	7	(3,002)	1,175	4,190

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	Year ended 31 December			Six months ended 30 June	
	2008	2009	2010	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(unaudited)</i>	
Fair value changes –					
unrealised losses on					
gold loan designated					
as financial liabilities					
at fair value through					
profit or loss	–	–	–	–	(2,852)
Transactions qualified as					
fair value hedges					
– inventory hedged by					
commodity futures					
contracts	(25,484)	816	136,764	478	544
– fair value gains/(losses)					
of commodity futures					
contracts designated as					
hedging instrument	27,897	(804)	(134,950)	(404)	(642)
(Provision for)/reversal of					
impairment of:					
– trade receivables					
<i>(Note 21)</i>	(4,112)	809	(35)	(208)	(212)
– other receivables					
<i>(Note 22)</i>	(2,042)	(4,178)	26,745	(1,492)	(2,366)
Others	2,840	7,144	5,870	7,105	(3,497)
	<u>133,755</u>	<u>(337,345)</u>	<u>(77,050)</u>	<u>(316)</u>	<u>(155,666)</u>

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(b) Other income

	Year ended 31 December			Six months ended 30 June	
	2008	2009	2010	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(unaudited)</i>	
Value-added tax refund	–	11,156	5,649	–	4,045
Government grants	385	10,450	31,147	28,889	11,664
Others	1,292	1,715	1,488	620	698
	<u>1,677</u>	<u>23,321</u>	<u>38,284</u>	<u>29,509</u>	<u>16,407</u>

8 Operating profit

Operating profit is determined after charging the following:

	Year ended 31 December			Six months ended 30 June	
	2008	2009	2010	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(unaudited)</i>	
Cost of direct materials and finished goods	13,097,146	16,433,257	23,668,862	11,170,131	12,202,687
Electricity and water expense	316,232	281,881	332,870	184,270	197,753
Business tax and surcharge	45,688	13,052	27,701	6,182	12,039
Employee benefit expense (including directors' emoluments) (Note 13)	537,795	342,546	553,149	257,303	272,532
Depreciation of property, plant and equipment	237,571	220,134	228,501	116,794	138,176
Amortisation of intangible assets and land use rights	14,768	12,749	34,483	8,131	24,117
Provision for impairment of inventories	14,013	–	–	–	–
Operating lease payments	509	359	13,384	6,378	6,378
Auditor's remuneration	<u>1,361</u>	<u>500</u>	<u>1,398</u>	<u>1,048</u>	<u>539</u>

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9 Finance costs, net

	Year ended 31 December			Six months ended 30 June	
	2008	2009	2010	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(unaudited)</i>	
Finance costs					
– Interest on borrowings wholly repayable within 5 years	(257,203)	(112,577)	(183,861)	(68,863)	(105,587)
– Interest on borrowings not wholly repayable within 5 years	(373)	(2,732)	(5,414)	(4,448)	(2,334)
– Interest on discounted bills	(9,212)	(12,005)	(4,610)	(1,517)	–
– Interest on loans from the Parent Company	(17,051)	(4,816)	(6,775)	–	(21,937)
– Net exchange losses	–	(2,173)	–	–	–
– Bank charges	(4,775)	(1,407)	(9,574)	(6,532)	(6,853)
– Unwind interest of provisions	(14,924)	(11,945)	(11,014)	(5,506)	(5,217)
	(303,538)	(147,655)	(221,248)	(86,866)	(141,928)
Less: Interest expense capitalised into construction in progress	7,330	13,103	31,024	12,211	26,515
	(296,208)	(134,552)	(190,224)	(74,655)	(115,413)
Finance income					
– Interest on bank deposits	27,250	10,651	21,364	6,732	8,444
– Interest from related parties	11,805	–	–	–	–
– Net exchange gains	74,847	–	30,368	6,322	37,744
	113,902	10,651	51,732	13,054	46,188
Finance costs, net	(182,306)	(123,901)	(138,492)	(61,601)	(69,225)

Capitalisation rate of 7.20%, 3.75%, 4.07%, 3.12% and 5.10% per annum for the years ended 31 December 2008, 2009 and 2010 and six months ended 30 June 2010 and 2011 were used respectively, representing the weighted average rate of the cost of borrowings to finance the construction in progress.

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10 Income tax credit/(expense)

No provision for Hong Kong profits tax has been made as the Group has no assessable profit generated in Hong Kong for the Relevant Periods. Taxation on profits generated in the PRC has been calculated on the estimated assessable profits for the year/period at the statutory tax rate of 25%.

	Year ended 31 December			Six months ended 30 June	
	2008	2009	2010	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
PRC corporate income tax	(45,259)	–	(2,837)	–	(7,126)
Deferred income tax (Note 19)	102,035	(11,237)	(30,930)	(17,190)	(7,449)
Income tax credit/(expense)	<u>56,776</u>	<u>(11,237)</u>	<u>(33,767)</u>	<u>(17,190)</u>	<u>(14,575)</u>

The tax on the Target Group's profit before income tax differs from the theoretical amount that would arise using the applicable tax rate to profits of the combined companies as follows:

	Year ended 31 December			Six months ended 30 June	
	2008	2009	2010	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
(Loss)/profit before income tax	<u>(165,103)</u>	<u>110,279</u>	<u>242,762</u>	<u>121,429</u>	<u>137,268</u>
Calculated at PRC corporate income tax rate of 25%	41,276	(27,570)	(60,690)	(30,357)	(34,317)
Effect of tax concession	8,414	4,682	9,086	3,548	2,319
Income not subject to tax (note)	14,672	14,231	27,784	12,146	18,744
Expenses not deductible for tax purposes	<u>(7,586)</u>	<u>(2,580)</u>	<u>(9,947)</u>	<u>(2,527)</u>	<u>(1,321)</u>
Income tax credit/(expense)	<u>56,776</u>	<u>(11,237)</u>	<u>(33,767)</u>	<u>(17,190)</u>	<u>(14,575)</u>

Note: Income not subject to tax mainly represents exempted income from the Group's sales of metal products produced using prescribed resources, including silver and vitriol, pursuant to the Article 33 of PRC Corporate Income Tax ("CIT") law and the Article 99 of PRC CIT Detailed Implementation Regulations. According to these tax regulations, 10% of the income derived from the sales of particular products can be deducted from taxable income of an entity if it utilizes certain prescribed resources, that are not restricted or prohibited by the PRC government and satisfy the relevant State and industrial criteria, as the major materials in the production of those products.

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11 (Losses)/earnings per share

(Losses)/earnings per share information is not presented as its inclusion, for the purpose of this Financial Information, is not considered meaningful due to the 2011 Reorganisation and the presentation of the results for the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2010 and 2011 is prepared on a combined basis as disclosed in Note 1.2.

12 Dividends

Other than the dividends declared by the Target Company's subsidiaries as stated in Note 33(b) during the year ended 31 December 2008, no dividend has been declared by the Target Company or any of its subsidiaries during the Relevant Periods.

13 Employee benefit expense, including directors' emoluments

	Year ended 31 December			Six months ended 30 June	
	2008	2009	2010	2010	2011
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(unaudited)</i>	
Salaries, wages and bonuses	366,141	242,740	373,472	182,413	183,381
Retirement scheme contributions					
(note)	71,061	44,870	46,926	21,068	25,913
Staff welfare	28,443	23,676	67,599	21,284	24,776
Medical benefits	21,601	6,032	29,028	16,444	17,620
Other allowances and benefits	50,549	25,228	36,124	16,094	20,842
	<u>537,795</u>	<u>342,546</u>	<u>553,149</u>	<u>257,303</u>	<u>272,532</u>

Note: Retirement scheme contributions

In accordance with applicable regulations in the PRC, the employees of the Target Group located in the PRC participate in retirement benefit plans organised by the provincial and municipal governments, under which the Target Group and its employees are both required to contribute an amount to the plan at the rate specified in the rules of such plans. The Target Group has no other material obligations for the payment of retirement benefit associated with such plans other than the required contributions. The contributions arising from the PRC provincial and municipal government retirement benefit plans are charged to the combined statements of comprehensive income of the Target Group, and represent contributions paid or payable by the Target Group at the rate specified in the rules of the plan.

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14 Directors' and senior management's emoluments

(a) Directors' emoluments

The sole director of the Target Company, Mr. Wan Bi Qi, is the Chairman and an Executive Director of the Company and does not receive directors' fees or emoluments from the Target Group during the Relevant Periods.

During the Relevant Periods, Mr. Wan Bi Qi, the sole director of the Target Company received the following remuneration, which consists of remuneration for the director's services to the Company and certain subsidiaries of the Company, including the Target Company, unapportioned, from the Company.

	Fees	Salaries	Share-based -payments Benefits	Discretionary Bonuses	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
For the years ended					
31 December 2008 (<i>note</i>)	–	–	–	–	–
31 December 2009	–	1,028	12,128	–	13,156
31 December 2010	1,040	185	–	–	1,225
For the periods ended					
30 June 2010	520	92	–	–	612
30 June 2011	508	111	–	–	619

Note: Mr. Wan Bi Qi was appointed as a director of the Company on 20 April 2009.

(b) Five highest-paid individuals

During the Relevant Periods, none of the five highest paid individuals is director of the Target Company. The aggregate amounts of emoluments of the five highest paid individuals for the Relevant Periods are set out below:

	Year ended 31 December			Six months ended 30 June	
	2008	2009	2010	2010	2011
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(<i>unaudited</i>)	
Basic salaries and other benefits	536	509	599	276	319
Bonuses	1,173	1,098	1,454	–	–
	1,709	1,607	2,053	276	319

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The emoluments fell within the following bands:

	Number of individuals				
	Year ended 31 December			Six months ended 30 June	
	2008	2009	2010	2010	2011
Nil – HK\$1,000,000	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>

During the Relevant Periods, no director waived any emoluments and no emoluments were paid or payable by the Target Group to the director or any of the five highest-paid individuals as an inducement to join or upon joining the Target Group or as compensation for loss of office.

15 Property, plant and equipment

	Buildings	Mining infrastructure and property	Plant and machinery	Motor vehicles	Office equipment	Construction in progress	Total property, plant and equipment
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At 1 January 2008							
Cost	1,105,187	897,748	1,571,500	102,300	1,567	200,197	3,878,499
Accumulated depreciation	<u>(337,077)</u>	<u>(240,446)</u>	<u>(771,154)</u>	<u>(50,258)</u>	<u>(187)</u>	<u>–</u>	<u>(1,399,122)</u>
Net book amount	<u>768,110</u>	<u>657,302</u>	<u>800,346</u>	<u>52,042</u>	<u>1,380</u>	<u>200,197</u>	<u>2,479,377</u>
Year ended 31 December 2008							
Opening net book amount	768,110	657,302	800,346	52,042	1,380	200,197	2,479,377
Additions	19,887	3,864	69,109	28,158	288	213,856	335,162
Transfers	14,682	13,723	100,503	3,760	1,006	(133,674)	–
Disposals	<u>(31,690)</u>	<u>(2,638)</u>	<u>(25,596)</u>	<u>(2,072)</u>	<u>(12)</u>	<u>–</u>	<u>(62,008)</u>
2008 Capital Reduction (Note 33 (a))	(104,650)	–	(77,769)	(27,360)	–	(24,448)	(234,227)
Depreciation charge (Note 8)	<u>(59,132)</u>	<u>(43,662)</u>	<u>(121,937)</u>	<u>(12,609)</u>	<u>(231)</u>	<u>–</u>	<u>(237,571)</u>
Closing net book amount	<u>607,207</u>	<u>628,589</u>	<u>744,656</u>	<u>41,919</u>	<u>2,431</u>	<u>255,931</u>	<u>2,280,733</u>

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	Buildings <i>RMB'000</i>	Mining infrastructure and property <i>RMB'000</i>	Plant and machinery <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Office equipment <i>RMB'000</i>	Construction in progress <i>RMB'000</i>	Total property, plant and equipment <i>RMB'000</i>
At 31 December 2008							
Cost	918,053	907,137	1,451,770	72,009	2,827	255,931	3,607,727
Accumulated depreciation	(310,846)	(278,548)	(707,114)	(30,090)	(396)	–	(1,326,994)
Net book amount	<u>607,207</u>	<u>628,589</u>	<u>744,656</u>	<u>41,919</u>	<u>2,431</u>	<u>255,931</u>	<u>2,280,733</u>
Year ended 31 December 2009							
Opening net book amount	607,207	628,589	744,656	41,919	2,431	255,931	2,280,733
Additions	6,059	11,187	58,122	7,571	216	383,558	466,713
Transfers	61,222	16,846	25,417	–	307	(103,792)	–
Disposals	(319)	–	(1,999)	(371)	–	–	(2,689)
Depreciation charge (<i>Note 8</i>)	(55,860)	(54,180)	(103,767)	(6,050)	(277)	–	(220,134)
Closing net book amount	<u>618,309</u>	<u>602,442</u>	<u>722,429</u>	<u>43,069</u>	<u>2,677</u>	<u>535,697</u>	<u>2,524,623</u>
At 31 December 2009							
Cost	984,958	935,170	1,510,659	76,983	3,351	535,697	4,046,818
Accumulated depreciation	(366,649)	(332,728)	(788,230)	(33,914)	(674)	–	(1,522,195)
Net book amount	<u>618,309</u>	<u>602,442</u>	<u>722,429</u>	<u>43,069</u>	<u>2,677</u>	<u>535,697</u>	<u>2,524,623</u>
Year ended 31 December 2010							
Opening net book amount	618,309	602,442	722,429	43,069	2,677	535,697	2,524,623
Additions	1,829	2,066	107,579	19,470	11	608,897	739,852
Transfers	38,293	48,735	20,707	–	–	(107,735)	–
Disposals	(512)	(55)	(4,572)	(356)	(196)	–	(5,691)
Depreciation charge (<i>Note 8</i>)	(56,057)	(50,518)	(113,566)	(8,069)	(291)	–	(228,501)
Closing net book amount	<u>601,862</u>	<u>602,670</u>	<u>732,577</u>	<u>54,114</u>	<u>2,201</u>	<u>1,036,859</u>	<u>3,030,283</u>

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	Buildings <i>RMB'000</i>	Mining infrastructure and property <i>RMB'000</i>	Plant and machinery <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Office equipment <i>RMB'000</i>	Construction in progress <i>RMB'000</i>	Total property, plant and equipment <i>RMB'000</i>
At 31 December 2010							
Cost	1,022,997	985,873	1,609,579	92,464	3,107	1,036,859	4,750,879
Accumulated depreciation	(421,135)	(383,203)	(877,002)	(38,350)	(906)	–	(1,720,596)
Net book amount	<u>601,862</u>	<u>602,670</u>	<u>732,577</u>	<u>54,114</u>	<u>2,201</u>	<u>1,036,859</u>	<u>3,030,283</u>
Six months ended 30 June 2011							
Opening net book amount	601,862	602,670	732,577	54,114	2,201	1,036,859	3,030,283
Additions	13,549	–	175,658	5,438	517	376,227	571,389
Transfers	555,811	286,265	13,768	–	–	(855,844)	–
Disposals	(1,083)	–	(696)	(54)	(2)	–	(1,835)
Depreciation charge (<i>Note 8</i>)	(40,342)	(32,919)	(60,152)	(4,683)	(80)	–	(138,176)
Closing net book amount	<u>1,129,797</u>	<u>856,016</u>	<u>861,155</u>	<u>54,815</u>	<u>2,636</u>	<u>557,242</u>	<u>3,461,661</u>
At 30 June 2011							
Cost	1,589,664	1,272,138	1,794,856	96,210	3,579	557,242	5,313,689
Accumulated depreciation	(459,867)	(416,122)	(933,701)	(41,395)	(943)	–	(1,852,028)
Net book amount	<u>1,129,797</u>	<u>856,016</u>	<u>861,155</u>	<u>54,815</u>	<u>2,636</u>	<u>557,242</u>	<u>3,461,661</u>

Certain borrowings are secured by certain property, plant and equipment with an aggregate net book amount of approximately RMB853,488,000 and RMB116,355,000 as at 31 December 2008 and 2009, respectively. The pledged property, plant and equipment were released prior to 31 December 2010.

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16 Exploration and evaluation assets

	Year ended 31 December			Six months ended 30 June
	2008	2009	2010	2011
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Beginning of year/period	–	1,000	42,600	58,469
Additions	1,000	41,600	15,869	4,129
End of year/period	1,000	42,600	58,469	62,598

The exploration and evaluation expenditures of the Target Group represented the capitalised costs incurred during the evaluation phase for the construction-in-progress of mine structures and plant and machinery for which the installation or modification have not yet been completed with respect to the mine located in Fengshan, Tonglushan and Tongshankou in the PRC. Since these assets are not yet available for use, no depreciation of the mine under construction are provided during exploration and evaluation phase.

During the years ended 31 December 2008, 2009 and 2010 and six months period end 30 June 2011, there have been no indicators that the carrying amount of the exploration and evaluation expenditures may not be recoverable and hence a full impairment review is not required. The capitalised expenditures would be assessed for impairment before reclassifying to “Construction in progress” (Note 15).

17 Land use rights

	Year ended 31 December			Six months ended 30 June
	2008	2009	2010	2011
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Beginning of year/period	662,798	568,034	556,130	749,460
Capital contribution				
<i>(Notes 26 (c) & 26 (e))</i>	24,367	–	199,972	–
Additions	606	361	10,757	2,419
2008 Capital Reduction				
<i>(Note 33 (a))</i>	(102,110)	–	–	–
Disposals	(3,164)	–	–	–
Amortisation <i>(Note 8)</i>	(14,463)	(12,265)	(17,399)	(9,674)
End of year/period	568,034	556,130	749,460	742,205

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All of the Target Group's land use rights are located in the PRC held on leases of between 10 to 50 years as at 31 December 2008, 2009 and 2010 and 30 June 2011.

Certain borrowings are secured by certain land use rights with an aggregate net book amount of approximately RMB62,907,000 (Note 27) as at 31 December 2008.

The Target Group is in the process of obtaining the certificates of the land use rights for certain pieces of land with a net book amount of approximately RMB10,757,000 and RMB2,743,000 as at 31 December 2010 and 30 June 2011, respectively.

18 Intangible assets

	Mining rights RMB'000	Others RMB'000	Total RMB'000
At 1 January 2008			
Cost	–	2,268	2,268
Accumulated amortisation	–	(135)	(135)
Net book amount	–	2,133	2,133
Year ended 31 December 2008			
Opening net book amount	–	2,133	2,133
Additions	–	1,198	1,198
2008 Capital Reduction (Note 33 (a))	–	(33)	(33)
Amortisation charge (Note 8)	–	(305)	(305)
Closing net book amount	–	2,993	2,993
At 31 December 2008			
Cost	–	3,433	3,433
Accumulated amortisation	–	(440)	(440)
Net book amount	–	2,993	2,993
Year ended 31 December 2009			
Opening net book amount	–	2,993	2,993
Additions	–	708	708
Amortisation charge (Note 8)	–	(484)	(484)
Closing net book amount	–	3,217	3,217

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	Mining rights RMB'000	Others RMB'000	Total RMB'000
At 31 December 2009			
Cost	–	4,141	4,141
Accumulated amortisation	–	(924)	(924)
	<hr/>	<hr/>	<hr/>
Net book amount	–	3,217	3,217
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Year ended 31 December 2010			
Opening net book amount	–	3,217	3,217
Additions	603,001	303	603,304
Amortisation charge (<i>Note 8</i>)	(16,484)	(600)	(17,084)
Disposals	–	(500)	(500)
	<hr/>	<hr/>	<hr/>
Closing net book amount	586,517	2,420	588,937
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
At 31 December 2010			
Cost	603,001	3,944	606,945
Accumulated amortisation	(16,484)	(1,524)	(18,008)
	<hr/>	<hr/>	<hr/>
Net book amount	586,517	2,420	588,937
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Six months ended 30 June 2011			
Opening net book amount	586,517	2,420	588,937
Amortisation charge (<i>Note 8</i>)	(14,128)	(315)	(14,443)
	<hr/>	<hr/>	<hr/>
Closing net book amount	572,389	2,105	574,494
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
At 30 June 2011			
Cost	603,001	3,944	606,945
Accumulated amortisation	(30,612)	(1,839)	(32,451)
	<hr/>	<hr/>	<hr/>
Net book amount	572,389	2,105	574,494
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

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During the years ended 31 December 2010 and six months period end 30 June 2011, there have been no indicators that the carrying amount of the mining rights may not be recoverable and hence a full impairment review is not required.

19 Deferred income tax assets

Deferred income taxes are calculated in respect of temporary differences under the liability method using the tax rates enacted or substantively enacted by each of the reporting date.

The movements on the deferred income tax assets/(liabilities) accounts are as follows:

	Accrued expenses <i>RMB'000</i>	Unrealised profits <i>RMB'000</i>	Provisions <i>RMB'000</i>	Impairment losses <i>RMB'000</i>	Tax losses <i>RMB'000</i>	Inventory <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
						<i>(note)</i>		
At 1 January 2008	19,396	14,126	84,076	14,011	–	(99,379)	–	32,230
(Credited)/charged to the combined statements of comprehensive income	(2,886)	15,931	(9,991)	(1,256)	–	99,379	858	102,035
2008 Capital Reduction (Note 33 (a))	(4,384)	–	(7,097)	–	–	–	–	(11,481)
At 31 December 2008	12,126	30,057	66,988	12,755	–	–	858	122,784
(Credited)/charged to the combined statements of comprehensive income	(2,788)	(30,057)	(5,304)	831	21,651	–	4,430	(11,237)
At 31 December 2009	9,338	–	61,684	13,586	21,651	–	5,288	111,547
Charged/(credited) to the combined statements of comprehensive income	5,844	–	(4,576)	(5,936)	(21,651)	–	(4,611)	(30,930)
At 31 December 2010	15,182	–	57,108	7,650	–	–	677	80,617
(Credited)/charged to the combined statements of comprehensive income	(3,499)	–	(2,122)	632	–	–	(2,460)	(7,449)
At 30 June 2011	11,683	–	54,986	8,282	–	–	(1,783)	73,168

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The Target Group only recognises deferred tax assets for deductible temporary differences and unused tax losses if it is probable that future taxable amounts will be available to utilise those temporary differences and tax losses. Management will continue to assess the recognition of deferred tax assets in future reporting periods.

For the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011, the board of directors of the Target Company confirmed that they do not intend to declare dividends in relation to the unremitted earnings of its subsidiaries in the PRC and such earnings will continue to be retained in the subsidiaries for the development of the business in the PRC for the foreseeable future until such a date that the board of directors decides that it is appropriate to adjust the profit distribution policy. As a result, the board of directors considers that the timing of the reversal of the temporary difference arising on withholding tax that would be payable on the unremitted earnings of the subsidiaries in the PRC is controlled by the Target Group and hence no deferred income tax has been provided pursuant to Hong Kong Accounting Standard 12 "Income Taxes" for the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011.

As at 31 December 2008, 2009 and 2010 and 30 June 2011, temporary differences relating to the unremitted earnings of the subsidiaries in the PRC amounted to nil, RMB99,042,000, RMB125,320,000 and RMB247,920,000 respectively. Deferred tax liabilities of nil, RMB4,952,000, RMB6,266,000 and RMB12,396,000 have not been recognised in respect of the tax that would be payable on the remittance of these retained earnings.

Note: Deferred tax liabilities on inventory of RMB99,379,000 as at 1 January 2008 represented the temporary differences arising from the different costing method applied in tax base and the accounting policies of the Target Group. In 2008, the costing method applied in tax base has been changed to align with the accounting policies, accordingly, the temporary differences is eliminated and deferred tax liabilities has been charged to income statement during the year ended 31 December 2008.

20 Inventories

	As at 31 December			As at 30 June
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Raw materials	1,824,624	2,451,376	2,975,570	2,430,087
Work in progress	195,940	1,079,538	1,007,987	572,044
Finished goods	109,699	83,537	280,538	416,980
	<u>2,130,263</u>	<u>3,614,451</u>	<u>4,264,095</u>	<u>3,419,111</u>

The cost of inventories recognised as expense and included in cost of sales amounted to approximately RMB14,469,267,000, RMB17,595,145,000, RMB25,159,320,000 and RMB13,120,914,000 for the year ended 31 December 2008, 2009, 2010 and six months ended 30 June 2011.

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21 Trade and bills receivables

	As at 31 December			As at 30 June
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables				
– Third parties	9,894	39,490	48,195	52,894
– Related parties (<i>Note 35 (b)</i>)	296,437	318,986	3,289	26,795
	306,331	358,476	51,484	79,689
Less Provision for impairment	(3,790)	(2,981)	(3,016)	(3,178)
Trade receivables – net	302,541	355,495	48,468	76,511
Bills receivable				
– Bills receivable on hand	18,378	14,935	8,646	116,852
– Discounted to banks (<i>Note 27</i>)	188,259	277,800	115,055	10,000
– Endorsed to suppliers (<i>Note 30</i>)	1,230	27,485	298,991	146,072
Notes receivable discounted to banks (<i>Note 27</i>)	90,000	89,000	78,000	90,000
Total trade and bills receivables	600,408	764,715	549,160	439,435

The majority of sales are made under contractual arrangements whereby a significant portion of amount of each sale is received before delivery or promptly after delivery and the balance is received within 1 to 6 months after delivery. The ageing analysis of the trade receivables at the each of the reporting date is as follows:

	As at 31 December			As at 30 June
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables				
– Less than 1 year	257,371	92,623	45,693	73,752
– 1 – 2 years	32,803	258,839	2,048	1,899
– 2 – 3 years	2,091	4,360	1,523	329
– Over 3 years	14,066	2,654	2,220	3,709
	306,331	358,476	51,484	79,689

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The Target Group's trade and bills receivables are denominated in RMB and the fair values approximate their carrying amounts. Bills receivables are with maturity period of less than 6 months.

The Target Group's notes receivable represents the bank acceptance notes issued by third parties. The maturity period of notes receivables are normally 6 months.

As at 31 December 2008, 2009, 2010 and 30 June 2011, trade receivables of RMB14,309,000, RMB31,987,000, RMB25,887,000 and RMB47,187,000 included in aged less than 1 year were neither past due nor impaired.

As at 31 December 2008, 2009 and 2010 and 30 June 2011, trade receivables of RMB281,121,000, RMB317,812,000, RMB15,711,000 and RMB23,481,000 were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing of these receivables are as follows:

	As at 31 December			As at 30 June
	2008	2009	2010	2011
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables				
– past due but not impaired				
– Less than 1 year	236,336	58,970	14,670	21,929
– 1 – 2 years	32,778	254,489	1,041	1,552
– 2 – 3 years	–	4,353	–	–
– Over 3 years	12,007	–	–	–
	281,121	317,812	15,711	23,481
	281,121	317,812	15,711	23,481

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As at 31 December 2008, 2009 and 2010 and 30 June 2011, trade receivables of RMB10,901,000, RMB8,677,000, RMB9,886,000 and RMB9,021,000 were impaired and provided for. The amounts of the provision were RMB3,790,000, RMB2,981,000, RMB3,016,000 and RMB3,178,000 respectively. The individually impaired receivables mainly relate to customers which are in unexpectedly difficult economic situations. It was assessed that the remaining portion of RMB7,111,000, RMB5,696,000, RMB6,870,000 and RMB5,843,000 of the receivables are expected to be recovered respectively. The ageing of these receivables are as follows:

	As at 31 December			As at 30 June
	2008	2009	2010	2011
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables				
– past due and impaired				
– Less than 1 year	6,726	1,666	5,136	4,636
– 1 – 2 years	25	4,350	1,007	347
– 2 – 3 years	2,091	7	1,523	329
– Over 3 years	2,059	2,654	2,220	3,709
	10,901	8,677	9,886	9,021
	10,901	8,677	9,886	9,021

Movements on the provision for impairment of trade receivables are as follows:

	Year ended 31 December			Six months ended 30 June
	2008	2009	2010	2011
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Beginning of year/period	10,858	3,790	2,981	3,016
Provision for/(reversal of) impairment of receivables (Note 7 (a))	4,112	(809)	35	212
Receivables written off as uncollectable	(3,579)	–	–	(50)
2008 Capital Reduction (Note 33 (a))	(7,601)	–	–	–
	3,790	2,981	3,016	3,178
	3,790	2,981	3,016	3,178

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22 Other receivables and prepayments

	As at 31 December		As at 30 June	
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Current				
Other receivables				
– Third parties	86,075	85,847	43,782	59,737
– Related parties (<i>Note 35 (b)</i>)	42	2,157	33,878	150
	<u>86,117</u>	<u>88,004</u>	<u>77,660</u>	<u>59,887</u>
Less: Provision for impairment	<u>(43,418)</u>	<u>(47,596)</u>	<u>(20,851)</u>	<u>(23,217)</u>
Other receivables – net	42,699	40,408	56,809	36,670
Prepayments				
– Third parties	488,847	112,335	310,169	217,397
– Related parties (<i>Note 35 (b)</i>)	106,158	18,312	–	6,776
Prepaid other taxes	<u>13,822</u>	<u>13,717</u>	<u>–</u>	<u>–</u>
	<u>651,526</u>	<u>184,772</u>	<u>366,978</u>	<u>260,843</u>
Non-current				
Prepayments for purchases of property, plant and equipment				
– Third parties	28,371	46,524	153,437	222,427
– Related parties (<i>Note 35 (b)</i>)	18,773	29,264	14,794	40,296
Prepayments for purchase of land use rights	–	–	–	32,053
Others	<u>853</u>	<u>803</u>	<u>803</u>	<u>803</u>
	<u>47,997</u>	<u>76,591</u>	<u>169,034</u>	<u>295,579</u>

The Target Group's other receivables are denominated in RMB and the fair values approximate their carrying amounts. Borrowings are secured by rights on an other receivable of RMB20,500,000 and RMB20,500,000 as at 31 December 2008 and 2009, respectively. The pledged rights on other receivable were released prior to 31 December 2010. Other receivables from related parties are unsecured, interest-free and repayable on demand.

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Movements on the provision for impairment of other receivables are as follows:

	Year ended 31 December			Six months ended 30 June
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Beginning of year/period	41,376	43,418	47,596	20,851
Provision for/(reversal of) impairment of receivables (note 7 (a))	2,042	4,178	(26,745)	2,366
End of year/period	43,418	47,596	20,851	23,217

As at 31 December 2008, 2009 and 2010 and 30 June 2011, other receivables of RMB55,480,000, RMB61,801,000, RMB31,714,000 and RMB45,294,000 were impaired and provided for. All of these receivables were aged over 3 years. The amounts of the provision were RMB43,418,000, RMB47,596,000, RMB20,851,000 and RMB23,217,000 respectively. The individually impaired receivables mainly relate to counter parties which are in unexpectedly difficult economic situations. It was assessed that the remaining portion of RMB12,062,000, RMB14,205,000, RMB10,863,000 and RMB22,077,000 of the receivables are expected to be recovered respectively. The remaining balances of the other receivable were neither past due nor impaired.

23 Derivative financial instruments

	Assets				Liabilities			
	As at 31 December		As at 30 June		As at 31 December		As at 30 June	
	2008	2009	2010	2011	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Carried at fair value								
- Copper future contracts	27,905	-	-	3,988	-	797	137,952	-
- Gold future contracts	-	-	-	-	4,327	-	-	440
Total, current portion	27,905	-	-	3,988	4,327	797	137,952	440

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Contract type		Buy				Sell			
		As at 31 December		As at 30 June		As at 31 December		As at 30 June	
		2008	2009	2010	2011	2008	2009	2010	2011
Copper future contracts									
Quantity	(tonnes)	2,000	–	–	4,430	16,455	350	18,055	1,600
Notional principal amount	(RMB' 000)	46,020	–	–	301,879	417,074	20,007	1,141,898	108,430
Gold future contracts									
Quantity	(kg)	–	–	–	185	350	–	–	110
Notional principal amount	(RMB' 000)	–	–	–	58,333	62,058	–	–	34,316

The Target Group uses commodity derivative contracts to hedge its commodity price risk. Commodity derivative contracts utilised by the Target Group are mainly standardised copper futures contracts in SHFE.

Under hedge accounting

The Target Group utilises commodity derivative contracts (copper future contracts) to hedge its exposure to variability in fair value changes attributable to price fluctuation risk associated with inventories, mainly includes copper concentrate, copper cathodes and other copper products. For the purpose of hedge accounting, those hedging transactions of the Target Group are classified as fair value hedge.

The Target Group formally designates and documents the hedging relationship at the inception of the hedge, risk management objective and strategy for undertaking the hedges. The fair value hedges of the Target Group were assessed to be highly effective and qualified for hedge accounting.

Details of the fair value gains/losses of commodity derivative contracts designated as fair value hedges of the Target Group and the net fair value losses/gains of the hedged items, inventories, attributable to the risk hedged have been disclosed in Note 7 (a).

Not under hedge accounting

The Target Group did not formally designate or document the hedging transactions with respect to the gold future contracts and hence those transactions were not qualified for hedge accounting.

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24 Restricted deposits

	As at 31 December		As at 30 June	
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Current				
Term deposits (note (a))	81,710	665,630	809,950	1,485,191
Bank deposits (note (b))	207,234	120,740	162,657	59,815
Other deposits (note (c))	90,179	29,468	337,768	119,647
	379,123	815,838	1,310,375	1,664,653
Non-current				
Term deposits (note (d))	–	–	–	118,604

All the above balances are denominated in RMB.

Notes:

- (a) Term deposits are pledged to banks as security for the Target Group's borrowings. The effective interest rates of term deposits are as follows:

	As at 31 December		As at 30 June	
	2008	2009	2010	2011
Weighted average effective interest rate (per annum)	4.14%	2.22%	2.25%	2.77%

- (b) Bank deposits are held in designated bank accounts as security for the Target Group's bills payables, letters of credit and borrowings. Bank deposits earn interest at floating rates based on daily bank deposit rates.
- (c) Other deposits are held in certain financial institutions as security for the commodities future contracts.
- (d) Term deposits has maturity dates ranged from April 2013 to June 2013 and the effective interest rates are ranged from 3.6% to 3.8% per annum. As at 30 June 2011, approximately RMB13,496,000 are pledged to banks as security for the Target Group's outstanding letters of credit.

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25 Cash and cash equivalents

	As at 31 December		As at 30 June	
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Cash at bank and in hand				
denominated in:				
RMB	1,173,276	535,228	297,056	632,896
US\$	2,699	1,778	6,993	2,299
Cash and cash equivalents	1,175,975	537,006	304,049	635,195

RMB is not a freely convertible currency in the international market. The conversion of RMB into foreign currencies and the remittance of RMB out of the PRC are subject to the rules and regulations of foreign exchange controls promulgated by the PRC authorities.

Cash at bank earns interest at floating rates based on daily bank deposit rates.

The maximum exposure to credit risk approximates the carrying amounts of the Target Group's cash and cash equivalents at each of the reporting dates respectively.

26 Reserves

	Capital reserve	Safety fund surplus reserve	PRC statutory reserve	Total reserves
	RMB'000	RMB'000	RMB'000	RMB'000
Balance as at 1 January 2008	1,784,279	254	35,010	1,819,543
Capital contribution (note (c))	52,794	–	–	52,794
2008 Capital Reduction (note 33 (a))	(336,649)	–	–	(336,649)
Transfer to statutory reserves (note (b))	–	–	23,548	23,548
Others	–	(11)	–	(11)
Balance as at 31 December 2008	1,500,424	243	58,558	1,559,225
Capital contribution (note (d))	243,628	–	–	243,628
Others	2,119	(101)	–	2,018

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	Capital reserve <i>RMB'000</i>	Safety fund surplus reserve <i>(Note a)</i> <i>RMB'000</i>	PRC statutory reserve <i>(note b)</i> <i>RMB'000</i>	Total reserves <i>RMB'000</i>
Balance as at 31 December 2009	1,746,171	142	58,558	1,804,871
Capital contribution <i>(note (e))</i>	185,671	–	–	185,671
Transformation of Daye Metal <i>(note (f))</i>	169,866	–	(36,242)	133,624
Transfer to statutory reserves <i>(note (b))</i>	–	–	11,962	11,962
Others	–	(58)	–	(58)
	<hr/>	<hr/>	<hr/>	<hr/>
Balance as at 31 December 2010	2,101,708	84	34,278	2,136,070
Acquisition of non-controlling interests <i>(note (g))</i>	1,231,773	–	–	1,231,773
Others	–	2,647	–	2,647
	<hr/>	<hr/>	<hr/>	<hr/>
Balance as at 30 June 2011	<u>3,333,481</u>	<u>2,731</u>	<u>34,278</u>	<u>3,370,490</u>

Nature and purpose of reserves

- (a) According to CaiQi 2006 No. 478 “Tentative Measures for the Financial Management of the Production Safety Fund for the High Risk Enterprises” issued by the Ministry of Finance and the Safety Production General Bureau, the Target Group is required to accrue “Safety Fund” to improve the production safety. The Target Group should accrue the Safety Fund from the year 2007. The accrual standard rates are RMB4 per ton for the mine above the ground and RMB8 per ton for the mine under the ground. As for the high risk enterprises, the fund is accrued according to the sales and in a progressive way monthly.

- (b) PRC laws and regulations require companies registered in the PRC to provide for statutory reserve, which are to be appropriated from the net profit (after offsetting accumulated losses from prior years) as reported in their respective statutory financial statements, before profit distributions to equity holders. Statutory reserves are created for specific purposes. In accordance with the Company Law, PRC companies are required to appropriate 10% of net profits to statutory reserves. A company may discontinue the appropriation when the balance of its statutory surplus reserve is more than 50% of its registered capital. The statutory surplus reserves shall only be used to make up losses of the companies or to increase capital of the companies. In addition, a company may make further contribution to discretionary surplus reserve using its post-tax profit in accordance with a resolution of the board of directors.
- (c) During the year ended 31 December 2008, Beijing Yangtze Power Innovation Investment Management Co., Ltd (“Changdian”), a shareholder of Daye Metal and regarded as a non-controlling interest holder of the Target Group, and SASAC of Hubei Provincial People’s Government (“Hubei SASAC”), a shareholder of Daye Metal and regarded as controlling interest holder of the Target Group, injected cash of RMB1,000,000,000 and RMB60,000,000 respectively to the Company as part of the 2008 Reorganisation (details of 2008 Reorganisation are stated in Note 33 (b)). In addition to the 2008 Reorganisation, the Parent Company also contributed certain land use rights at fair value of approximately RMB24,367,000 to the Target Group during the year ended 31 December 2008. Losses on disposal to non-controlling interests of RMB31,573,000 have been recognised in equity as a result of these contributions during the year ended 31 December 2008.
- (d) During the year ended 31 December 2009, the Hubei SASAC injected cash of RMB240,000,000 to Daye Metal. A gain on purchase of equity interests from non-controlling interests of RMB3,628,000 has been recognised as a result of the contribution by the Parent Company.
- (e) During the year ended 31 December 2010, the Parent Company contributed certain land use rights at fair values of approximately RMB199,972,000 to Daye Metal. A loss on purchase of equity interests from non-controlling interests of RMB14,301,000 has been recognised as a result of the contribution by the Parent Company.

- (f) On 26 March 2010, Daye Metal was transformed into a joint stock limited liability company under the PRC Company Law by converting its registered share capital and reserves as of 31 August 2009 into 1,420,000,000 shares of RMB1 each, as a result, statutory reserves and retained profits as at 26 March 2010 based on the management accounts prepared under PRC generally accepted accounting principles have been capitalised in order to satisfy the approved capital reserve amount.
- (g) On 22 March 2011, the Parent Company acquired 33.56% equity interests of the Target Group from the non-controlling shareholders at a total cash consideration of approximately RMB1,307,880,000. The total cash consideration is regarded capital contribution from the Parent Company and recognised in the Target Group's capital reserve. The difference between the consideration and the non-controlling interests share of assets and liabilities at the date of acquisition was regarded as loss on purchase of equity interests from non-controlling interests and recognised in the Target Group's capital reserve.

27 Borrowings

	As at 31 December		As at 30 June	
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Current				
Debentures (<i>note (a)</i>)	–	–	700,000	–
Current portion of long-term borrowings				
– Secured	25,000	–	–	–
– Unsecured	23,342	352	342	4,724
Short-term borrowings				
– Secured	1,316,856	1,492,091	898,552	2,031,996
– Unsecured	1,542,227	2,244,132	3,016,613	2,027,084
– Advance from banks for discounted bills	188,259	277,800	115,055	10,000
– Advance from banks for discounted notes	90,000	89,000	78,000	90,000
– Gold loan (<i>note (c)</i>)	–	–	–	62,873
	<u>3,185,684</u>	<u>4,103,375</u>	<u>4,808,562</u>	<u>4,226,677</u>

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	As at 31 December			As at 30 June
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Non-current				
Long-term borrowings				
– Secured	198,300	156,905	120,000	620,000
– Unsecured	82,312	281,954	247,638	304,981
Loan from the Parent Company (note (b))	–	–	490,000	490,000
	<u>280,612</u>	<u>438,859</u>	<u>857,638</u>	<u>1,414,981</u>
Total borrowings	<u><u>3,466,296</u></u>	<u><u>4,542,234</u></u>	<u><u>5,666,200</u></u>	<u><u>5,641,658</u></u>

	As at 31 December			As at 30 June
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Borrowings are repayable as follows:				
– Within 1 year	3,185,684	4,103,375	4,808,562	4,226,677
– Between 1 and 2 years	9,342	82,235	57,542	641,924
– Between 2 and 5 years	267,325	233,024	691,028	694,171
– Over 5 years	3,945	123,600	109,068	78,886
	<u>3,466,296</u>	<u>4,542,234</u>	<u>5,666,200</u>	<u>5,641,658</u>

	As at 31 December			As at 30 June
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Borrowings are:				
Wholly repayable				
within 5 years	3,460,643	4,416,928	5,548,220	5,553,953
Wholly repayable after 5 years	5,653	125,306	117,980	87,705
	<u>3,466,296</u>	<u>4,542,234</u>	<u>5,666,200</u>	<u>5,641,658</u>

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An analysis of the carrying amounts of the borrowings by type and currency is as follows:

	As at 31 December		As at 30 June	
	2008	2009	2010	2011
	<i>RMB'000</i>	<i>RMB' 000</i>	<i>RMB'000</i>	<i>RMB' 000</i>
RMB				
– at fixed rates	1,247,958	1,287,905	2,936,255	2,283,200
– at floating rates	1,290,918	1,861,819	1,292,819	864,818
	<u>2,538,876</u>	<u>3,149,724</u>	<u>4,229,074</u>	<u>3,148,018</u>
US\$				
– at fixed rates	603,665	537,789	780,221	1,609,280
– at floating rates	323,755	854,721	656,905	751,279
	<u>927,420</u>	<u>1,392,510</u>	<u>1,437,126</u>	<u>2,360,559</u>
Euro				
– at fixed rates	–	–	–	70,208
Gold loan				
– at fixed rates	–	–	–	62,873
Total borrowings	<u>3,466,296</u>	<u>4,542,234</u>	<u>5,666,200</u>	<u>5,641,658</u>

The effective interest rates at the end of each reporting period were as follows:

	As at 31 December		As at 30 June	
	2008	2009	2010	2011
RMB	5.55%	4.51%	4.31%	5.26%
US\$	4.67%	1.32%	2.64%	3.24%
EUR	–	–	–	4.65%
Gold loan	–	–	–	4.00%

The carrying amounts of the current borrowings approximate their fair value.

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The fair values of the non-current borrowings are as follows:

	As at 31 December		As at 30 June	
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Fair value				
Long-term borrowings	287,426	445,209	362,690	896,839
Loan from the Parent Company	—	—	486,393	473,205
	<u>287,426</u>	<u>445,209</u>	<u>849,083</u>	<u>1,370,044</u>
Carrying amount	<u>280,612</u>	<u>438,859</u>	<u>857,638</u>	<u>1,414,981</u>

The fair values are based on cash flows discounting using a rate based on the borrowing rate as at 31 December 2008, 2009 and 2010 and 30 June 2011 are 5.10%, 4.86%, 5.04% and 5.76% respectively.

- (a) As approved by the National Association of Financial Market Institutional Investors, the Target Group issued certain short-term debentures on 19 March 2010 at par value of RMB700,000,000, with a maturity of 365 days from the date of issuance. The debentures are secured by guarantees by Changdian, a non-controlling interest holder of the Target Company, and bear interests at a fixed rate of 2.75% per annum. The debentures were fully redeemed on 22 March 2011.
- (b) The loan from the Parent Company represents the unsecured five years term loan, with fixed interest rate of 4.98% per annum.
- (c) The loss arising from change in fair value of gold loan designated as financial instruments of RMB2,852,000 is charged to profit or loss for the six months ended 30 June 2011.

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(d) The borrowings of the Target Group were secured as follows:

RMB,000

As at 31 December 2008

Secured against certain property, plant and equipment of RMB585,675,000 (borrowings of RMB256,500,000 also secured against the land use rights of RMB62,907,000)	536,500
Secured against certain property, plant and equipment of RMB159,061,000	92,870
Secured against the rights on other receivable of RMB20,500,000 and certain property, plant and equipment of RMB108,752,000	96,800
Secured against the bank deposits of RMB108,880,000	105,256
Secured against the property, plant and equipment of a fellow subsidiary	158,130
Corporate guarantee provided by the Parent Company	550,600
	<hr/>
Total secured borrowings	1,540,156
	<hr/> <hr/>

As at 31 December 2009

Secured against certain property, plant and equipment of RMB116,355,000 (borrowings of RMB66,905,000 also secured against the rights on other receivable of RMB20,500,000)	86,905
Secured against the bank deposits of RMB717,668,000	1,054,802
Corporate guarantee provided by the Parent Company	507,289
	<hr/>
Total secured borrowings	1,648,996
	<hr/> <hr/>

As at 31 December 2010

Secured against the bank deposits of RMB772,135,000	898,552
Corporate guarantee provided by the Parent Company	120,000
	<hr/>
Total secured borrowings	1,018,552
	<hr/> <hr/>

As at 30 June 2011

Secured against the bank deposits of RMB1,444,906,000	1,531,996
Corporate guarantee provided by the Parent Company	1,120,000
	<hr/>
Total secured borrowings	2,651,996
	<hr/> <hr/>

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28 Provisions

	As at 31 December			As at 30 June
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Non-current				
Provision for mine rehabilitation, restoration and dismantling	25,039	26,076	27,155	27,715
Early retirement	49,922	36,786	25,486	21,797
Employee medical obligation	181,220	175,045	167,477	163,034
	<u>256,181</u>	<u>237,907</u>	<u>220,118</u>	<u>212,546</u>
Current				
Early retirement	19,699	14,462	11,550	9,387
Employee medical obligation	12,644	13,676	14,815	15,435
	<u>32,343</u>	<u>28,138</u>	<u>26,365</u>	<u>24,822</u>
Aggregate				
Provision for mine rehabilitation, restoration and dismantling (Note (a))	25,039	26,076	27,155	27,715
Early retirement (Note (b))	69,621	51,248	37,036	31,184
Employee medical obligation (Note (c))	193,864	188,721	182,292	178,469
	<u>288,524</u>	<u>266,045</u>	<u>246,483</u>	<u>237,368</u>

(a) Provision for mine rehabilitation, restoration and dismantling

	Year ended 31 December			Six months ended 30 June
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Beginning of year/period	24,044	25,039	26,076	27,155
Interest accretion	995	1,037	1,079	560
End of year/period	<u>25,039</u>	<u>26,076</u>	<u>27,155</u>	<u>27,715</u>

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The provision for mine rehabilitation, restoration and dismantling includes the anticipated costs of future rehabilitation, restoration and dismantling of mining areas from which natural resources have been extracted. These provisions include future cost estimates associated with plant closures, waste site closures, monitoring, demolition, decontamination, water purification, and permanent storage of historical residues. The discount rate using in determining this provision is 4.14% at the end of each reporting periods.

(b) Early retirement

	Year ended 31 December			Six months ended 30 June
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Beginning of year/period	136,244	69,621	51,248	37,036
Addition/(Reversal) of provision recognised for the year/period	(1,580)	2,763	6,890	5,977
Interest accretion	5,738	2,882	2,122	767
Payment	(38,155)	(24,018)	(23,224)	(12,596)
2008 Capital Reduction (Note 33 (a))	(32,626)	—	—	—
End of year/period	<u>69,621</u>	<u>51,248</u>	<u>37,036</u>	<u>31,184</u>

Daye Metal had made offers to certain employees for encouraging them to accept voluntary redundancy before their normal retirement date (the “Early Retirement Scheme”) prior to 31 December 2005. Early retirement benefits are recognised in the statement of comprehensive income in the year in which the Target Group enters into agreements specifying the terms of early retirement or after the individual employees have been advised of the specific terms. The liability related to the benefit obligations existing at the respective reporting dates are calculated by management using future cash flow discounting method. According to the terms of the Early Retirement Scheme, participants are entitled to periodic benefit payments equivalent to certain percentage of their existing income prior to the acceptance of the offer under the Early Retirement Scheme for a specified period. The discount rate used in determining this provision is 4.14% at the end of each reporting periods.

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(c) Employee medical obligation

	Year ended 31 December			Six months ended 30 June
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Beginning of year/period	197,847	193,864	188,721	182,292
Addition/(reversal) of provision recognised for the year/period	1,775	3,932	9,348	(215)
Interest accretion	8,191	8,026	7,813	3,890
Payment	(13,949)	(17,101)	(23,590)	(7,498)
End of year/period	<u>193,864</u>	<u>188,721</u>	<u>182,292</u>	<u>178,469</u>

This provision represents the anticipated costs of compensation paid to those employees injured at work or suffered occupational disease that do not cover by the external insurance plan as required by the relevant rules and regulation in the PRC. These future cost estimates including reimbursement of medical expenses and other compensation as required by the relevant rules and regulation are discounted to their present value. The discount rate using in determining this provision is 4.14% at the end of each reporting periods.

In 2007, management of the Target Group and the Huangshi Labour and Social Security Bureau reached a mutual confirmation on the details of the transfer of the Target Group's employee medical obligation to the social security system of Huangshi City (the "Transfer"), including the timing and the settlement principle, when a number of guidances and notices have been issued by Ministry of Labour and Social Security in 2005 and 2007. Therefore, management is in the opinion that a future transfer is confirmed and the provision is determined by management based on the available information and the best estimates. Other key assumptions also include discount rate of 4.14%.

The Target Group has made periodic contribution to external insurance plans for its employee since 2005 and is not obligated to any further liabilities in respect of the employee injuries since then.

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29 Deferred income

	Year ended 31 December			Six months ended 30 June
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Beginning of year/period	4,606	14,541	26,239	65,458
Government grants obtained	10,320	13,520	44,251	27,240
Credited to statement of comprehensive income	(385)	(1,822)	(5,032)	(1,822)
End of year/period	14,541	26,239	65,458	90,876
Less: Current portion (<i>Note 31</i>)	(1,565)	(4,360)	(1,421)	(1,503)
Non-current portion	12,976	21,879	64,037	89,373

Deferred income represents grants obtained from the PRC government in relation to the construction and the purchase of certain plant and machinery by the Target Group.

30 Trade and bills payables

	As at 31 December			As at 30 June
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Trade payables				
– Third parties	593,471	543,916	950,044	554,988
– Related parties (<i>Note 35 (b)</i>)	38,247	30,124	21,036	157,097
	631,718	574,040	971,080	712,085
Trade payables under endorsed bills (<i>Note 21</i>)	1,230	27,485	298,991	146,072
Bills payables	160,000	208,820	–	–
Total trade and bills payables	792,948	810,345	1,270,071	858,157

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The ageing analysis of the trade payables as at the end of each reporting period is as follows:

	As at 31 December		As at 30 June	
	2008	2009	2010	2011
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables				
– Less than 1 year	623,805	568,589	966,247	699,416
– 1 – 2 years	6,103	1,630	3,568	2,980
– 2 – 3 years	905	2,916	95	4,149
– Over 3 years	905	905	1,170	5,540
	631,718	574,040	971,080	712,085
	631,718	574,040	971,080	712,085

The carrying amounts of the Target Group's trade payables approximate their fair values and are denominated in the following currencies:

	As at 31 December		As at 30 June	
	2008	2009	2010	2011
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
RMB	290,009	270,007	673,851	677,234
US\$	341,709	304,033	297,229	34,851
	631,718	574,040	971,080	712,085
	631,718	574,040	971,080	712,085

The carrying amounts of the Target Group's bills payables approximate to their fair values and are denominated in RMB. Bill payables are with maturity of less than 6 months.

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31 Other payables and accruals

	As at 31 December		As at 30 June	
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Other payables and accruals				
– Third parties	81,136	84,285	101,806	306,412
– The Parent Company				
<i>(Note 35 (b))</i>	78,834	22,505	–	258,645
– Fellow subsidiaries				
<i>(Note 35 (b))</i>	97,077	52,653	43,880	143,841
Salaries and welfare payables	128,111	68,862	106,276	82,800
Interest payables				
– Third parties	13,005	11,391	35,493	28,936
– The Parent Company				
<i>(Note 35 (b))</i>	–	–	5,219	17,081
Other taxes payables	61,542	65,220	80,106	123,497
Customer's deposits				
– Third parties	77,398	81,665	84,655	199,211
– Fellow subsidiaries				
<i>(Note 35 (b))</i>	12,608	13,127	32,896	35,936
Current portion				
of deferred income <i>(Note 29)</i>	1,565	4,360	1,421	1,503
Total other payables and accruals	<u>551,276</u>	<u>404,068</u>	<u>491,752</u>	<u>1,197,862</u>

The Target Group's other payables are denominated in RMB and approximate their fair values. Other payable to the Parent Company is unsecured, repayable on demand and interest-bearing at floating rates based on the interest rate quoted by the People's Bank of China. Balances with fellow subsidiaries are unsecured, interest-free and repayable on demand.

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32 Notes to combined statements of cash flows

Reconciliations of (loss)/profit before income tax to net cash generated from/(used in) operations are as follows:

	Year ended 31 December			Six months ended 30 June	
	2008	2009	2010	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(unaudited)</i>	
(Loss)/profit before income tax	(165,103)	110,279	242,762	121,429	137,268
Adjustments for:					
– Interest income	(39,055)	(10,651)	(21,364)	(6,732)	(8,444)
– Interest expense	221,361	134,552	159,856	68,333	77,669
– Depreciation and amortisation	252,339	232,883	262,984	125,015	162,293
– Loss on disposal of property, plant and equipment and intangible assets	31,489	1,491	5,407	1,045	545
– Provision for/(reversal of) impairment of trade receivables	4,112	(809)	35	208	212
– Provision for/(reversal of) impairment of other receivables	2,042	4,178	(26,745)	1,492	2,366
– Provision for early retirement and employee medical obligation	195	6,695	16,238	8,163	5,762
– Unrealised losses on commodity future contracts	4,327	–	–	–	(4,190)
– Amortisation of deferred income	(385)	(1,822)	(5,032)	(2,794)	(1,822)
Changes in working capital:					
– Inventories	515,918	(1,459,763)	(512,489)	466,575	707,674
– Trade and bills receivables	547	(163,498)	215,520	(109,310)	109,513
– Other receivables and prepayments	(313,160)	462,576	(155,461)	(250,946)	103,769
– Trade and bills payables	(119,555)	17,397	459,726	(382,148)	(411,914)
– Other payables and accruals	(184,559)	(87,146)	57,357	111,506	224,775
– Benefits paid for early retirement and employee medical obligation	(52,104)	(41,119)	(46,814)	(23,346)	(20,094)
– Other deposits	80,647	60,711	(308,300)	(43,614)	218,121
Net cash generated from/(used in) operations	<u>239,056</u>	<u>(734,046)</u>	<u>343,680</u>	<u>84,876</u>	<u>1,303,503</u>

33 2008 Capital Reduction and Reorganisation

(a) 2008 Capital Reduction

In December 2008, the Parent Company and other shareholders of Daye Metal entered into agreements to reduce their share capital in Daye Metal, of which Daye Metal transferred the ownership of several branches and subsidiaries with net assets of RMB400,098,000 to the Parent Company and other shareholders (the “2008 Capital Reduction”).

Analysis of assets and liabilities transferred:

	2008 <i>RMB'000</i>
Assets	
Property, plant and equipments	234,227
Land use rights	102,110
Intangible assets	33
Deferred income tax assets	11,481
Interests in associates	710
Inventories	50,799
Trade and bills receivables	8,511
Other receivables and prepayments	75,493
Cash and cash equivalents	54,087
Liabilities	
Provisions	(32,626)
Trade and bills payables	(13,324)
Other payables and accruals	(89,125)
Current income tax liabilities	(2,278)
	400,098

(b) 2008 Reorganisation

After the 2008 Capital Reduction, the Parent Company transferred the entire equity interests of 黄石市豐山銅業有限責任公司 (Huangshi Fengshan Copper Co., Ltd.), 黄石市鑫泰礦業有限責任公司 (Huangshi Xintai Mining Co., Ltd.) and 黄石市鑫馬銅業有限責任公司 (Huangshi Xinma Copper Co., Ltd.) (hereinafter collectively the “Mining Entities”), to Daye Metal (the “2008 Reorganisation”).

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Prior to the completion of 2008 Reorganisation, aggregated dividends amounting to RMB146,518,000 were declared, and RMB142,980,000 were paid to the then owner of the Mining Entities in 2008. With the consent of the then owner of the Mining Entities, the unpaid dividend of RMB3,538,000 was regarded as a contribution to the Target Group and credited to capital reserve in 2009.

The 2008 Reorganisation was regarded as a business combination under common control since the Mining Entities and Daye Metal are under common control of the Hubei SASAC through the Parent Company. Thus, the 2008 Reorganisation was accounted for using the principles of merger accounting, as prescribed in Hong Kong Accounting Guideline 5, "Merger Accounting for Common Control Combinations" issued by the HKICPA, the Financial Information includes the financial position, results and cash flows of Mining Entities on the basis that the group structure resulting from the 2008 Reorganisation had been in existence since the beginning of the Relevant Periods. The difference between the consideration and the predecessor's cost of the Mining Entities has acquired has been adjusted against equity.

As a result of the 2008 Reorganisation, Changdian and Hubei SASAC injected cash of RMB1,000 million and RMB60 million respectively to the Company (the "Cash Injection") (also refer to Note 26 (c) for details).

34 Commitments

(a) Operating leases

The Target Group had future aggregate minimum lease payments to the Parent Company under non-cancellable operating leases of land use rights are as follows:

	As at 31 December		As at 30 June	
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Not later than one year	–	12,754	12,754	12,754
Later than one year but not later than five years	–	51,017	51,017	51,017
Later than five years	–	318,853	306,099	299,722
	<u>–</u>	<u>382,624</u>	<u>369,870</u>	<u>363,493</u>

APPENDIX I	ACCOUNTANT'S REPORT ON THE TARGET GROUP
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(b) Capital commitments

Capital commitments at the balance sheet date but not yet incurred are as follows:

	As at 31 December		As at 30 June	
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Property, plant and equipment and exploration and evaluation assets				
Authorised but not contracted for	1,905,587	2,113,693	2,272,082	2,065,114
Contracted but not provided for	42,768	29,345	140,982	130,773

35 Significant related party transactions

The Target Group is controlled by Daye Nonferrous Metals Corporation Holdings Limited, a company incorporated in the PRC and wholly owned by the SASAC of Hubei Provincial People's Government, the PRC.

The PRC government also owns a significant portion of productive assets in the PRC. In accordance with Hong Kong Accounting Standard 24 "Related Party Disclosures" issued by the HKICPA, other state-owned enterprises and their subsidiaries (other than subsidiaries of the Parent Company), directly or indirectly controlled by the PRC government, are also defined as related parties of the Target Group. On that basis, related parties include the Parent Company and its related companies, other state-owned enterprises and their subsidiaries directly or indirectly controlled by the PRC government, and key management personnel of the Target Group and the Parent Company as well as their close family members.

In addition to the related party information and transactions disclosed elsewhere in the Financial Information, the following is a summary of significant related party transactions entered in the ordinary course of business between the Target Group and its related parties during the Relevant Periods.

APPENDIX I	ACCOUNTANT'S REPORT ON THE TARGET GROUP
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(a) Transactions with the Parent Company and its group companies (other than those within the Target Group)

	Year ended 31 December			Six months ended 30 June	
	2008	2009	2010	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Income:					
Sales of non-ferrous metals to fellow subsidiaries	1,959,682	1,701,383	1,549,754	667,607	1,115,162
Interest income from a fellow subsidiary	11,805	–	–	–	–
Expenses:					
Transportation fees to fellow subsidiaries	64,990	43,010	42,240	20,190	27,489
Processing fees to fellow subsidiaries	40,800	39,800	35,984	11,088	31,074
Utilities fees to a fellow subsidiary	–	237,950	254,630	120,470	139,169
Purchases of non-ferrous metals from					
– Parent Company	–	–	–	–	248,218
– fellow subsidiaries	521,988	433,981	1,300,301	570,099	340,868
– an associate of the Parent Company	–	49,720	83,810	44,760	27,790
Rental expense to the Parent Company	–	–	12,754	6,378	6,378
Medical service fees to a fellow subsidiary	42,980	44,120	47,130	22,310	5,230
Interest expense to the Parent Company	17,051	4,816	6,775	–	21,937
Capital Expenditure:					
Purchase of mining rights from the Parent Company	–	–	603,001	603,001	–
Construction contract fees to fellow subsidiaries	61,000	128,170	202,320	84,520	96,595
Other service fees to fellow subsidiaries	200	1,890	3,890	1,560	1,300

APPENDIX I	ACCOUNTANT'S REPORT ON THE TARGET GROUP
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The related party transactions described above were carried out in the ordinary course of business at terms mutually agreed between the Target Group and the respective related parties.

(b) Year/period-end balances

	As at 31 December		As at 30 June	
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables from				
– fellow subsidiaries	296,437	318,986	3,289	26,795
Other receivables from				
– the Parent Company	–	–	33,821	–
– fellow subsidiaries	42	2,157	57	150
Prepayments made to				
– the Parent Company	–	–	–	6,778
– fellow subsidiaries	124,931	47,576	14,794	40,294
Trade payables to				
– the Parent Company	668	832	491	248
– fellow subsidiaries	37,579	9,987	19,333	145,913
– an associate of the Parent Company	–	19,305	1,212	10,936
Other payables and accruals to				
– the Parent Company	78,834	22,505	–	258,645
– fellow subsidiaries	97,077	52,653	43,880	143,841
Interest payables to				
– the Parent Company	–	–	5,219	17,081
Customer deposits received from				
– fellow subsidiaries	12,608	13,127	32,896	35,936
Loan from the Parent Company	–	–	490,000	490,000

Except for the loan from the Parent Company (Note 27 (b)) and other payables and accruals to the Parent Company (Note 31), other amounts due from/to the Parent Company and fellow subsidiaries are unsecured, interest-free and repayable on demand.

APPENDIX I	ACCOUNTANT'S REPORT ON THE TARGET GROUP
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(c) Guarantees provided by related parties

Details of the guarantees provided by related parties are disclosed in Note 27.

(d) Transactions and balances with other state-owned enterprises

During the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011, the Target Group's transactions with other state-owned enterprises (excluding the Parent Company and its group companies) are sales of goods and purchases of non-ferrous metals, raw materials, electricity, property, plant and equipment and services and the related receivables and payables balances. In addition, a portion of fixed deposits, cash and cash equivalents and borrowings as of 31 December 2008, 2009 and 2010 and 30 June 2011 and the relevant interest earned or paid during the year are transacted with banks and other financial institutions controlled by the PRC government. The transactions of revenues and expenses in nature conducted with government-related entities were based on terms as set out in the underlying agreements, based on statutory rates or market prices or actual cost incurred, or as mutually agreed.

(e) Key management compensation

The key management personnel remuneration for the Target Group was as follows:

	Year ended 31 December			Six months ended 30 June	
	2008	2009	2010	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(unaudited)</i>	
Salaries and other short-term employee benefits	1,057	1,193	1,867	804	775
Bonuses	2,180	2,117	4,060	–	–
Other long-term benefits	63	46	54	22	21

36 Particulars of subsidiaries

The principal subsidiaries are as follows:

Name of company	Date of incorporation/ establishment	Principal activity and place of incorporation/ establishment	Issued/paid-up share capital	Effective interests held by the Target Company			Auditor	Year of Auditor
				31 December 2008	31 December 2009	31 December 2010	30 June 2011	
Directly held:								
Rainbow Treasure Holdings Limited	30 November 2010	Investment holding, Hong Kong	1 ordinary share of HK\$1 each	N/A	N/A	100%	100% (note a)	2010
Indirectly held:								
Daye Non-ferrous Metals Co., Ltd.	31 Mar 2005	Mining and processing of mineral ores and trading of metal concentrates, the PRC	RMB1,490,977,877	56.33%	59.88%	61.79%	95.35%	中勤萬信會計師事務所有限公司 2008-2010
Daye Non-ferrous San You Industry Company Limited, ("大冶有色三友實業有限責任公司")	22 May 1999	Ore processing and selling of metal products, the PRC	RMB7,323,951	50.32%	53.49%	55.20%	85.18%	中勤萬信會計師事務所有限公司 2008-2010

Name of company	Date of incorporation/ establishment	Principal activity and place of incorporation/ establishment	Issued/paid-up share capital	Effective interests held by the Target Company			Auditor	Year of Auditor
				31 December 2008	31 December 2009	31 December 2010		
Daye Xingke Construction Works Quality Inspection Company Limited, (“大冶有色興科建設工程質量檢測有限公司”)	27 July 2006	Quality testing of construction projects, the PRC	RMB1,000,000	56.33%	59.88%	61.79%	95.35% 中勤萬信會計師事務所有限公司	2008-2010
Daye Non-ferrous Design and Research Institute Company Limited (“大冶有色設計研究院有限公司”)	01 June 2007	Research and development, the PRC	RMB6,800,000	56.33%	59.88%	61.79%	95.35% 中勤萬信會計師事務所有限公司	2008-2010
黃石市豐山銅業有限責任公司	30 April 2004	Mining, the PRC	RMB123,099,365	56.33%	(note b)	(note b)	(note b) 中勤萬信會計師事務所有限公司	2008
黃石市鑫泰礦業有限責任公司	20 May 2004	Mining, the PRC	RMB75,377,561	56.33%	(note b)	(note b)	(note b) 中勤萬信會計師事務所有限公司	2008
黃石市鑫馬銅業有限責任公司	08 October 2003	Mining, the PRC	RMB5,600,000	56.33%	(note b)	(note b)	(note b) 中勤萬信會計師事務所有限公司	2008

APPENDIX I	ACCOUNTANT'S REPORT ON THE TARGET GROUP
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Name of company	Date of incorporation/ establishment	Principal activity and place of incorporation/ establishment	Issued/paid-up share capital	Effective interests held by the Target Company			Auditor	Year of Auditor
				31 December 2008	31 December 2009	31 December 2010	30 June 2011	
陽新富豐礦業有限公司	09 May 2005	Ore processing and selling of metal products, the PRC	RMB3,779,600	56.33%	(note b)	(note b)	(note b)	中勤萬信會計師事務所有限 公司 2008
大冶市泰興銅業有限責任公司	01 December 2005	Ore processing and selling of metal products, the PRC	RMB800,000	56.33%	(note b)	(note b)	(note b)	中勤萬信會計師事務所有限 公司 2008

All subsidiaries are limited liability companies.

- (a) No statutory audit has been performed by this company as it was newly incorporated in 2010.
- (b) These entities were deregistered in 2009.

37 Events after balance sheet date

There have been no matters subsequent that have occurred to the reporting date which have significantly affected, or may significantly affect the Group's operations, results or state of affairs in future years.

III. FINANCIAL INFORMATION OF THE TARGET COMPANY

The Target Company was incorporated on 1 December 2010 with an initial authorised share capital of US\$50,000 divided into 50,000 shares of US\$1 each. On the date of incorporation, 1 ordinary share was issued nil paid to the subscriber, which was subsequently transferred to the Company on the same date. The Target Company had not been involved in any significant business transactions since its date of incorporation to 30 June 2011. As at 31 December 2010 and 30 June 2011, the Target Company had an amount due from China Times, a wholly owned subsidiary of the Company and a share capital of US\$1, and an investment in subsidiary, Rainbow Treasures and amount due to the subsidiary of HK\$1. Save as aforesaid, it had no other assets, liabilities or distributable reserve as at 31 December 2010 and 30 June 2011.

IV. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared for the Target Company and its subsidiaries in respect of any period subsequent to 30 June 2011 and save as disclosed in this report, no dividend or distribution has been declared made or paid by the Target Company or any of its subsidiaries in respect of any period subsequent to 30 June 2011.

Yours faithfully,
PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

1. SUMMARY OF FINANCIAL INFORMATION OF THE GROUP FOR EACH OF THE TWO YEARS ENDED 30 APRIL 2008 AND 2009, THE EIGHT MONTHS ENDED 31 DECEMBER 2009, THE YEAR ENDED 31 DECEMBER 2010 AND THE SIX MONTHS ENDED 30 JUNE 2011

The audited financial statements of the Group for each of the two years ended 30 April 2008 and 2009, the eight months ended 31 December 2009, the year ended 31 December 2010 and the six months ended 30 June 2011 prepared by the Company's auditors, Pan-China (H.K.) CPA Limited (formerly known as Patrick Ng & Company and NCN CPA Limited), are unqualified.

The following is a summary of the consolidated financial information of the Group for each of the two years ended 30 April 2008 and 2009, the eight months ended 31 December 2009, the year ended 31 December 2010 and the six months ended 30 June 2011 as extracted from the annual reports and the interim report of the Company for the respective periods.

There were no extraordinary or exceptional items which were required to be disclosed under the audited financial statements of the Group for each of the two years ended 30 April 2008 and 2009, the eight months ended 31 December 2009, the year ended 31 December 2010 and the six months ended 30 June 2011. No dividend was declared or paid for the same periods.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	1 May 2007 to 30 April 2008 HK\$'000	1 May 2008 to 30 April 2009 HK\$'000	1 May 2009 to 31 December 2009 HK\$'000	1 January 2010 to 31 December 2010 HK\$'000	1 January 2011 to 30 June 2011 HK\$'000
REVENUE	164,330	20,235	1,672	954,314	50,283
COST OF SALES	(142,248)	(27,695)	(645)	(940,955)	(50,789)
	22,082	(7,460)	1,027	13,359	(506)
OTHER REVENUE	1,733	411	300	459	43
GENERAL AND ADMINISTRATIVE EXPENSES	(1,183,864)	(461,724)	(112,988)	(43,353)	(17,712)
OPERATING LOSS FOR THE YEAR/PERIOD	(1,160,049)	(468,773)	(111,661)	(29,535)	(18,175)
IMPAIRMENT OF MINING RIGHT WRITTEN BACK	—	—	87,407	14,038	—
LOSSES ON CHANGES IN FAIR VALUES OF INVESTMENTS HELD FOR TRADING	(9,110)	(4,204)	(1,186)	—	—
LOSS ON DISPOSAL OF A SUBSIDIARY	—	—	—	(1,514)	—
FINANCE COSTS	(452)	(5)	(5)	(5,616)	(6,649)
SHARE OF RESULT OF A JOINTLY CONTROLLED ENTITY	135	—	—	—	—
GAIN ON DISPOSAL OF A JOINTLY CONTROLLED ENTITY	4,493	—	—	—	—
LOSS BEFORE TAXATION	(1,164,983)	(472,982)	(25,445)	(22,627)	(24,824)
INCOME TAX	(1,901)	108,429	(21,852)	(5,640)	—
LOSS FOR THE YEAR/PERIOD	(1,166,884)	(364,553)	(47,297)	(28,267)	(24,824)

APPENDIX II
FINANCIAL INFORMATION OF THE GROUP

	1 May 2007 to 30 April 2008 HK\$'000	1 May 2008 to 30 April 2009 HK\$'000	1 May 2009 to 31 December 2009 HK\$'000	1 January 2010 to 31 December 2010 HK\$'000	1 January 2011 to 30 June 2011 HK\$'000
OTHER COMPREHENSIVE INCOME:					
Exchange difference arising on translation of foreign operations					
– Exchange differences arising during the year/period	–	5,850	4	1,518	1,936
– Exchange differences arising on acquisition of subsidiaries	290	–	–	–	–
– Reclassification adjustments relating foreign operations disposed of during the year/period	–	–	–	29	–
OTHER COMPREHENSIVE INCOME FOR THE YEAR/PERIOD, NET OF TAX	290	5,850	4	1,547	1,936
TOTAL COMPREHENSIVE INCOME FOR THE YEAR/PERIOD	<u>(1,166,594)</u>	<u>(358,703)</u>	<u>(47,293)</u>	<u>(26,720)</u>	<u>(22,888)</u>
LOSS FOR THE YEAR/PERIOD					
ATTRIBUTABLE TO:					
– owners of the Company	(1,165,896)	(123,313)	(91,168)	(23,073)	(21,723)
– non-controlling interests	<u>(988)</u>	<u>(241,240)</u>	<u>43,871</u>	<u>(5,194)</u>	<u>(3,101)</u>
	<u>(1,166,884)</u>	<u>(364,553)</u>	<u>(47,297)</u>	<u>(28,267)</u>	<u>(24,824)</u>
TOTAL COMPREHENSIVE INCOME					
ATTRIBUTABLE TO:					
– owners of the Company	(1,165,606)	(122,907)	(91,171)	(22,182)	(20,709)
– non-controlling interests	<u>(988)</u>	<u>(235,796)</u>	<u>43,878</u>	<u>(4,538)</u>	<u>(2,179)</u>
	<u>(1,166,594)</u>	<u>(358,703)</u>	<u>(47,293)</u>	<u>(26,720)</u>	<u>(22,888)</u>
Loss per share:					
– Basic	<u>(29.50)</u>	<u>(2.39)</u>	<u>(1.76)</u>	<u>(0.41)</u>	<u>(0.39)</u>
– Diluted	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 30 April 2008 HK\$'000	As at 30 April 2009 HK\$'000	As at 31 December 2009 HK\$'000	As at 31 December 2010 HK\$'000	As at 30 June 2011 HK\$'000
NON-CURRENT ASSETS					
Property, plant and equipment	2,455	18,142	18,731	55,535	69,376
Prepaid lease payment	–	–	1,670	1,656	1,667
Jointly controlled entities	–	–	–	–	–
Mining rights	2,488,859	2,055,140	2,142,547	2,156,585	2,156,585
TOTAL NON-CURRENT ASSETS	2,491,314	2,073,282	2,162,948	2,213,776	2,227,628
CURRENT ASSETS					
Deposit for acquisition	–	–	–	170,000	170,000
Prepaid lease payment	–	–	–	44	44
Investments held for trading	33,704	8,821	6,990	–	–
Inventories	–	1,441	1,366	2,885	2,864
Trade and other receivables	80,509	5,102	3,644	82,351	52,418
Cash and bank balances	40,869	97,894	343,961	187,304	190,382
TOTAL CURRENT ASSETS	155,082	113,258	355,961	442,584	415,708
CURRENT LIABILITIES					
Bank overdraft – unsecured	187	–	–	–	–
Trade and other payables	10,028	7,786	10,448	7,521	10,600
Deferred income	–	3,976	3,975	6,966	7,104
Tax payable	1,901	1,901	1,901	4,032	4,032
TOTAL CURRENT LIABILITIES	12,116	13,663	16,324	18,519	21,736
NET CURRENT ASSETS	142,966	99,595	339,637	424,065	393,972
TOTAL ASSETS LESS CURRENT LIABILITIES	2,634,280	2,172,877	2,502,585	2,637,841	2,621,600

APPENDIX II**FINANCIAL INFORMATION OF THE GROUP**

	As at 30 April 2008 <i>HK\$'000</i>	As at 30 April 2009 <i>HK\$'000</i>	As at 31 December 2009 <i>HK\$'000</i>	As at 31 December 2010 <i>HK\$'000</i>	As at 30 June 2011 <i>HK\$'000</i>
NON-CURRENT LIABILITIES					
Cumulative redeemable preference shares	110	110	110	110	110
Convertible notes	–	–	–	89,886	96,533
Deferred tax liabilities	622,214	513,785	535,637	539,146	539,146
	<u>622,324</u>	<u>513,895</u>	<u>535,747</u>	<u>629,142</u>	<u>635,789</u>
TOTAL NON-CURRENT LIABILITIES					
	<u>622,324</u>	<u>513,895</u>	<u>535,747</u>	<u>629,142</u>	<u>635,789</u>
NET ASSETS	2,011,956	1,658,982	1,966,838	2,008,699	1,985,811
	<u>2,011,956</u>	<u>1,658,982</u>	<u>1,966,838</u>	<u>2,008,699</u>	<u>1,985,811</u>
CAPITAL AND RESERVES					
Share capital	257,584	257,584	279,560	279,560	279,560
Reserves	690,425	573,247	815,249	818,792	798,083
	<u>690,425</u>	<u>573,247</u>	<u>815,249</u>	<u>818,792</u>	<u>798,083</u>
Equity attributable to shareholders of	948,009	830,831	1,094,809	1,098,352	1,077,643
Non-controlling interests	1,063,947	828,151	872,029	910,347	908,168
	<u>1,063,947</u>	<u>828,151</u>	<u>872,029</u>	<u>910,347</u>	<u>908,168</u>
TOTAL EQUITY	2,011,956	1,658,982	1,966,838	2,008,699	1,985,811
	<u><u>2,011,956</u></u>	<u><u>1,658,982</u></u>	<u><u>1,966,838</u></u>	<u><u>2,008,699</u></u>	<u><u>1,985,811</u></u>

2. AUDITED FINANCIAL STATEMENTS OF THE GROUP FOR THE SIX MONTHS ENDED 30 JUNE 2011

Set out below are the audited financial statements of the Group for the six months ended 30 June 2011 as extracted from the interim report of the Company for the six months ended 30 June 2011.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2011

		For the six months ended 30 June	
		2011	2010
		(audited)	(Unaudited)
			<i>(Note 41)</i>
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
REVENUE	6	50,283	100,861
COST OF SALES		<u>(50,789)</u>	<u>(100,095)</u>
		(506)	766
OTHER REVENUE	6	43	1,094
GENERAL AND ADMINISTRATIVE EXPENSES		<u>(17,712)</u>	<u>(14,166)</u>
OPERATING LOSS FOR THE PERIOD	8	(18,175)	(12,306)
FINANCE COSTS	9	<u>(6,649)</u>	<u>(3)</u>
LOSS BEFORE TAXATION		(24,824)	(12,309)
INCOME TAX	11	<u>—</u>	<u>(36)</u>
LOSS FOR THE PERIOD		<u><u>(24,824)</u></u>	<u><u>(12,345)</u></u>

		For the six months ended 30 June	
		2011 (audited)	2010 (Unaudited)
			(Note 41)
	Notes	HK\$'000	HK\$'000
OTHER COMPREHENSIVE INCOME:			
Exchange difference arising on translation of foreign operations			
– Exchange differences arising during the period		1,936	992
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF INCOME TAX		1,936	992
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		(22,888)	(11,353)
LOSS ATTRIBUTABLE TO:			
– owners of the Company		(21,723)	(10,761)
– non-controlling interests		(3,101)	(1,584)
		(24,824)	(12,345)
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
– owners of the Company		(20,709)	(9,790)
– non-controlling interests		(2,179)	(1,563)
		(22,888)	(11,353)
		HK cents	HK cents
Loss per share:	13		
– Basic		(0.39)	(0.19)
– Diluted		N/A	N/A

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 June 2011

		As at 30 June 2011 HK\$'000	As at 31 December 2010 HK\$'000
	<i>Notes</i>		
NON-CURRENT ASSETS			
Property, plant and equipment	14	69,376	55,535
Prepaid lease payment	15	1,667	1,656
Jointly controlled entities	18	–	–
Mining rights	16	2,156,585	2,156,585
TOTAL NON-CURRENT ASSETS		2,227,628	2,213,776
CURRENT ASSETS			
Deposit for acquisition	19	170,000	170,000
Prepaid lease payment	15	44	44
Inventories	20	2,864	2,885
Trade and other receivables	21	52,418	82,351
Cash and bank balances	22	190,382	187,304
TOTAL CURRENT ASSETS		415,708	442,584
CURRENT LIABILITIES			
Trade and other payables	23	10,600	7,521
Deferred income	24	7,104	6,966
Tax payable		4,032	4,032
TOTAL CURRENT LIABILITIES		21,736	18,519
NET CURRENT ASSETS		393,972	424,065
TOTAL ASSETS LESS CURRENT LIABILITIES		2,621,600	2,637,841
NON-CURRENT LIABILITIES			
Cumulative redeemable preference shares	25	110	110
Convertible notes	26	96,533	89,886
Deferred tax liabilities	27	539,146	539,146

APPENDIX II**FINANCIAL INFORMATION OF THE GROUP**

		As at 30 June 2011 <i>Notes</i> <i>HK\$'000</i>	As at 31 December 2010 <i>HK\$'000</i>
TOTAL NON-CURRENT LIABILITIES		<u>635,789</u>	<u>629,142</u>
NET ASSETS		<u><u>1,985,811</u></u>	<u><u>2,008,699</u></u>
CAPITAL AND RESERVES			
Share capital	28	279,560	279,560
Reserves	30	<u>798,083</u>	<u>818,792</u>
Equity attributable to owners of the Company		1,077,643	1,098,352
Non-controlling interests		<u>908,168</u>	<u>910,347</u>
TOTAL EQUITY		<u><u>1,985,811</u></u>	<u><u>2,008,699</u></u>

APPENDIX II**FINANCIAL INFORMATION OF THE GROUP****STATEMENT OF FINANCIAL POSITION***As at 30 June 2011*

		As at 30 June 2011 HK\$'000	As at 31 December 2010 HK\$'000
	<i>Notes</i>		
NON-CURRENT ASSETS			
Property, plant and equipment	14	1,940	2,154
Jointly controlled entities	18	–	–
Interest in subsidiaries	17	2,164,476	2,204,422
TOTAL NON-CURRENT ASSETS		2,166,416	2,206,576
CURRENT ASSETS			
Deposit for acquisition	19	170,000	170,000
Trade and other receivables	21	32,255	11,109
Cash and bank balances	22	15,423	5,798
TOTAL CURRENT ASSETS		217,678	186,907
CURRENT LIABILITIES			
Trade and other payables	23	4,792	3,237
TOTAL CURRENT LIABILITIES		4,792	3,237
NET CURRENT ASSETS		212,886	183,670
TOTAL ASSETS LESS CURRENT LIABILITIES		2,379,302	2,390,246
NON-CURRENT LIABILITIES			
Cumulative redeemable preference shares	25	110	110
Convertible notes	26	96,533	89,886
TOTAL NON-CURRENT LIABILITIES		96,643	89,996
NET ASSETS		2,282,659	2,300,250
CAPITAL AND RESERVES			
Share capital	28	279,560	279,560
Reserves	30	2,003,099	2,020,690
TOTAL EQUITY		2,282,659	2,300,250

APPENDIX II

FINANCIAL INFORMATION OF THE GROUP

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2011

	Attributable to the owners of the Company										Total equity HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Capital redemption reserve HK\$'000	Warrant reserve HK\$'000	Share-based payment reserve HK\$'000	Exchange reserve HK\$'000	Convertible notes equity reserve HK\$'000	Accumulated losses HK\$'000	Sub-total HK\$'000	Non-controlling interests HK\$'000	
For the six months ended 30 June 2010 (Unaudited) (Note 41)											
At 1 January 2010	279,560	2,916,091	2,241	3,000	87,627	(38,337)	–	(2,155,373)	1,094,809	872,029	1,966,838
Loss for the period	–	–	–	–	–	–	–	(10,761)	(10,761)	(1,584)	(12,345)
Exchange differences arising on translation of foreign operations:											
– Exchange differences arising during the period	–	–	–	–	–	971	–	–	971	21	992
Total comprehensive income for the period	–	–	–	–	–	971	–	(10,761)	(9,790)	(1,563)	(11,353)
At 30 June 2010	<u>279,560</u>	<u>2,916,091</u>	<u>2,241</u>	<u>3,000</u>	<u>87,627</u>	<u>(37,366)</u>	<u>–</u>	<u>(2,166,134)</u>	<u>1,085,019</u>	<u>870,466</u>	<u>1,955,485</u>
For the six months ended 30 June 2011											
At 1 January 2011	279,560	2,916,091	2,241	3,000	85,003	(37,446)	25,725	(2,175,822)	1,098,352	910,347	2,008,699
Loss for the period	–	–	–	–	–	–	–	(21,723)	(21,723)	(3,101)	(24,824)
Exchange differences arising on translation of foreign operations:											
– Exchange differences arising during the period	–	–	–	–	–	1,014	–	–	1,014	922	1,936
Total comprehensive income for the period	–	–	–	–	–	1,014	–	(21,723)	(20,709)	(2,179)	(22,888)
Lapse of warrants	–	–	–	(3,000)	–	–	–	3,000	–	–	–
At 30 June 2011	<u>279,560</u>	<u>2,916,091</u>	<u>2,241</u>	<u>–</u>	<u>85,003</u>	<u>(36,432)</u>	<u>25,725</u>	<u>(2,194,545)</u>	<u>1,077,643</u>	<u>908,168</u>	<u>1,985,811</u>

CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2011

		For the six months ended	
		30 June 2011	30 June 2010
		(audited)	(Unaudited)
			(Note 41)
	Notes	HK\$'000	HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before taxation		(24,824)	(12,309)
Adjustments for:			
Interest income	6	(91)	(347)
Finance costs	9	6,649	3
Impairment of other receivables		180	–
Amortisation of prepaid lease payment	15	22	21
Depreciation of property, plant and equipment	14	1,465	1,235
Deferred income recognised	24	–	(990)
Loss on disposal of property, plant and equipment		–	1
Operating loss before changes in working capital		(16,599)	(12,386)
Decrease in investments held for trading		–	6,990
Decrease/(Increase) in inventories		21	(134)
Decrease/(Increase) in trade and other receivables		29,753	(11,426)
Increase/(Decrease) in trade and other payables		3,077	(3,646)
Net cash generated from/(used in) operating activities		16,252	(20,602)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest income	6	91	347
Proceeds from disposal of property, plant and equipment		–	4
Purchase of property, plant and equipment	14	(14,772)	(1,544)
Net cash used in investing activities		(14,681)	(1,193)
CASH FLOWS FROM FINANCING ACTIVITIES			
		–	–

	For the six months ended	
	30 June 2011	30 June 2010
	(audited)	(Unaudited)
		(Note 41)
<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	1,571	(21,795)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	187,304	343,961
Effects of foreign exchange rate changes	<u>1,507</u>	<u>796</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	<u><u>190,382</u></u>	<u><u>322,962</u></u>
ANALYSIS OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	<u><u>190,382</u></u>	<u><u>322,962</u></u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2011

1. CORPORATE INFORMATION

China Daye Non-Ferrous Metals Mining Limited (the “Company”) was incorporated in Bermuda as an exempted company with limited liability and its shares are listed on the main board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The addresses of the registered office and principal place of business of the Company are Clarendon House, 2 Church Street, Hamilton HM11, Bermuda and Unit 2001, World Wide House, 19 Des Voeux Road Central, Hong Kong respectively.

During the period, the Company and its subsidiaries (collectively referred to the “Group”) was involved in the following principal activities:

- Corporate investment and trading in securities;
- Minerals exploitation; and
- Trading in non-ferrous metals.

In the opinion of the directors, as at 30 June 2011 the ultimate holding company is Daye Nonferrous Metals Group Holdings Co., Limited (“Daye Corp”) (formerly known as “Hubei Daye Non-Ferrous Metals Co.”), a company incorporated with limited liability under the laws of the People's Republic of China (the “PRC”).

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

During the period, the Group and the Company have applied the following new and revised Standards, Amendments and Interpretations (“new and revised HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010 except for the amendments to HKFRS 3 (as revised in 2008), HKFRS 7, HKAS 1 and HKAS 28
HKFRS 1 (Amendments)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters
HKFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets
HKAS 1 (Amendments)	Presentation of Financial Statements
HKAS 24 (as revised in 2009)	Related Party Disclosures
HKAS 32 (Amendments)	Classification of Rights Issues
HK (IFRIC) -Int 14 (Amendments)	Prepayments of Minimum Funding Requirement
HK (IFRIC) -Int 19	Extinguishing Financial Liabilities with Equity

The adoption of the new and revised HKFRSs has no material effect on the financial statements of the Group and the Company for the current and prior accounting periods.

The Group and the Company have not early applied the following new and revised HKFRSs that have been issued but are not yet effective.

HKFRS 9	Financial Instruments ⁽¹⁾
HKFRS 10	Consolidated Financial Statements ⁽¹⁾
HKFRS 11	Joint Arrangements ⁽¹⁾
HKFRS 12	Disclosure of Interests in Other Entities ⁽¹⁾
HKFRS 13	Fair Value Measurement ⁽¹⁾
HKAS 1 (Revised)	Presentation of Financial Statements ⁽³⁾
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets ⁽²⁾
HKAS 19	Employee Benefits ⁽¹⁾
HKAS 19 (2011)	Employee Benefits ⁽¹⁾
HKAS 27 (Revised)	Consolidated and Separate Financial Statements ⁽¹⁾
HKAS 27 (2011)	Separate Financial Statements ⁽¹⁾
HKAS 28	Investments in Associates ⁽¹⁾
HKAS 28 (2011)	Investments in Associates and Joint Ventures ⁽¹⁾
HK(SIC)-Int 12	Consolidation – Special Purpose Entities ⁽¹⁾
HK(SIC)-Int 13	Jointly Controlled Entities – Jointly Controlled Entities – Non-Monetary Contributions by Venturers ⁽¹⁾

- ⁽¹⁾ *Effective for annual periods beginning on or after 1 January 2013.*
- ⁽²⁾ *Effective for annual periods beginning on or after 1 January 2012.*
- ⁽³⁾ *Effective for annual periods beginning on or after 1 July 2012.*

HKFRS 9 Financial Instruments introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. The Standard requires all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 might affect the classification and measurement of financial assets.

The issuance of HKFRS 10 Consolidated Financial Statements, HKFRS 11 Joint Arrangements and HKFRS 12 Disclosure of Interests in Other Entities completes improvements to the accounting requirements for off balance sheet activities and joint arrangements and concludes an important element of the International Accounting Standards Board's comprehensive response to the financial crisis.

- HKFRS 10 Consolidated Financial Statements builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess.
- HKFRS 11 Joint Arrangements provides for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form (as is currently the case). The standard addresses inconsistencies in the reporting of joint arrangements by requiring a single method to account for interests in jointly controlled entities.
- HKFRS 12 Disclosure of Interests in Other Entities is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles.

HKFRS 13 Fair Value Measurement improves consistency and reduces complexity by providing, for the first time, a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The requirements do not extend the use of fair value accounting, but provide guidance on how it should be applied where its use is already required or permitted by other standards within HKFRSs.

The amendments to HKAS 1 (Revised) Presentation of Financial Statements require companies preparing financial statements in accordance with HKFRSs to group together items within other comprehensive income (OCI) that may be reclassified to the profit or loss section of the income statement. The amendments also reaffirm existing requirements that items in OCI and profit or loss should be presented as either a single statement or two consecutive statements.

The issuance of HKAS 19 (2011) Employee Benefits completes improvements to the accounting requirements for pensions and other post-employment benefits and HKAS 19 (2011) makes important improvements by:

- Eliminating an option to defer the recognition of gains and losses, known as the “corridor method”, improving comparability and faithfulness of presentation.
- Streamlining the presentation of changes in assets and liabilities arising from defined benefit plans, including requiring remeasurements to be presented in OCI, thereby separating those changes from changes that many perceive to be the result of an entity's day-to-day operations.
- Enhancing the disclosure requirements for defined benefit plans, providing better information about the characteristics of defined benefit plans and the risks that entities are exposed to through participation in those plans.

The directors of the Company anticipate that the application of the other new and revised HKFRSs will have no material impact on the consolidated financial statements.

3. BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with all applicable HKFRSs, which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by HKICPA, accounting principles generally accepted in Hong Kong. These consolidated 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.

The measurement basis used in the preparation of the consolidated financial statements is the historical cost basis except for certain financial instruments, which are measured at fair values.

4. SIGNIFICANT ACCOUNTING POLICIES**(a) *Basis of consolidation***

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the period are included in the consolidated statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Non-controlling interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Non-controlling interests in the net assets consist of the amount of those interests at the date of the original business combinations and the non-controlling interests' share of changes in equity since the date of the combination. Losses of non-wholly owned subsidiary are attributed to the owners of the company and non-controlling interest even if that results in deficit balances.

(b) *Business combinations*

Business combinations not under common control arising on acquisitions prior to 1 January 2010

Acquisition of businesses was accounted for using the purchase method. The cost of the acquisition was measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that met the relevant conditions for recognition were generally recognised at fair value at the acquisition date. Goodwill arising on acquisition was recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If the Group's interest in the net fair value of the acquiree's identifiable assets,

liabilities and contingent liabilities exceeds the cost of the business combination, the excess, after reassessment, is recognised immediately in profit or loss. The non-controlling interest in the acquiree was initially measured at the non-controlling interest's proportionate share of the recognised amounts of the assets, liabilities and contingent liabilities of the acquiree.

Contingent consideration was recognised, if and only if, the contingent consideration was probable and could be measured reliably. Subsequent adjustments to contingent consideration were recognised against the cost of the acquisition.

Business combinations achieved in stages were accounted for as separate steps. Goodwill was determined at each step. Any additional acquisition did not affect the previously recognised goodwill.

Business combinations not under common control arising on acquisitions on or after 1 January 2010

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

At the acquisition date, the acquiree's identifiable assets acquired and the liabilities assumed are recognised at their fair values at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 Income Taxes and HKAS 19 Employee Benefits respectively;
- liabilities or equity instruments related to the share-based payment transactions of the acquiree or replacement of an acquiree's share-based payment transactions with the share-based payment transaction of the Group are measured in accordance with HKFRS 2 Share-based Payment at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 Noncurrent Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after assessment, the Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests in an acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership instruments' proportionate share in the recognised amounts of the acquiree's net identifiable assets. All other components of non-controlling interests shall be measured at their acquisition-date fair values, unless another measurement basis is required by HKFRSs.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries on or after 1 January 2010

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Where certain assets of the subsidiary are measured at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Company had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to retained earnings). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

Changes in the Group's ownership interests in existing subsidiaries prior to 1 January 2010

Increases in interests in existing subsidiaries were treated in the same manner as the acquisition of subsidiaries, with goodwill or a bargain purchase gain being recognised where appropriate. For decreases in interests in subsidiaries, regardless of whether the disposals would result in the Group losing control over the subsidiaries, the difference between the consideration received and the adjustment to the non-controlling interests was recognised in profit or loss.

(c) *Subsidiary*

A subsidiary is an enterprise in which the Group has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another enterprise.

Investment in subsidiaries is included in the Company's statement of financial position at cost less any impairment losses, unless it is classified as held for sale. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(d) *Associates and jointly controlled entities*

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

A jointly controlled entity is an entity which operates under a contractual arrangement between the Group and other parties, where the contractual arrangement establishes that the Group and one or more of the other parties share joint control over the economic activity of the entity.

An investment in an associate or a jointly controlled entity 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 or the jointly controlled entity's net assets, unless it is classified as held for sale. The consolidated statement of comprehensive income includes the Group's share of the post-acquisition, post-tax results of the associates and jointly controlled entities for the period, including any impairment loss on goodwill relating to the investment in associates and jointly controlled entities recognised for the period.

When the Group's share of losses exceeds its interest in the associate or the jointly controlled entity, 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 or the jointly controlled entity. For this purpose, the Group's interest in the associate or the jointly controlled entity 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 or the jointly controlled entity.

From 1 January 2010 onwards, upon disposal of an associate that results in the Group losing significant influence over that associate, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with HKAS 39. The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses significant influence over that associate.

Unrealised profits and losses resulting from transactions between the Group and its associates and jointly controlled entities are eliminated to the extent of the Group's interest in the associate or jointly controlled entity, 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 statement of financial position, investment in associates and jointly controlled entities is stated at cost less impairment losses, unless it is classified as held for sale.

(e) Goodwill

Goodwill arising on an acquisition of a subsidiary represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant subsidiary at the date of acquisition. Goodwill arising on an acquisition of an associate or a jointly controlled entity represents the excess of the cost of the acquisition over the Group's share of the relevant associate's or jointly controlled entity's net assets at the date of acquisition.

Capitalised goodwill is presented separately in the consolidated statement of financial position and is carried at cost less any accumulated impairment losses. For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated statement of comprehensive income. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of a subsidiary, an associate or a jointly controlled entity, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

(f) *Revenue recognition*

Revenue, which is measured at the fair value of the consideration received or receivable, is recognised when it is probable that the economic benefits will flow to the Group and the revenue can be measured reliably, on the following bases:

- (i) Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and sales related taxes;
- (ii) Income arising from sales of trading securities is recognised on the completion of transfer of risks and rewards of ownership of the investments to the transferee and the legal title being passed;
- (iii) interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount; and
- (iv) Dividend income is recognised when the shareholder's right to receive payment is established.

(g) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis. Interest in leasehold land is amortised over the lease term on a straight-line basis.

(h) Foreign currencies

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in Hong Kong dollars, which is the functional currency of the Company, and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the end of the reporting period. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in profit or loss for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in equity.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations (including comparatives) are expressed in Hong Kong dollars using exchange rates prevailing at the end of the reporting period. Income and expense items (including comparatives) are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments on identifiable assets acquired arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at closing rate. Exchange differences arising are included in the translation reserve.

From 1 January 2010 onwards, upon the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss. In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of associates or jointly controlled entities that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

(i) *Borrowing costs*

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(j) *Employee benefits*

- (i) Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the end of the reporting period.

Employee entitlements to sick leave and maternity or paternity leaves are not recognised until the time of leave.

(ii) *Employee leave entitlements*

Provision for profit sharing and bonus payments due wholly within twelve months after the end of the reporting period are recognised as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

(iii) *Retirement benefit costs*

The Group's contributions to the defined contribution retirement scheme set up pursuant to the Hong Kong Mandatory Provident Fund Schemes Ordinance (the "MPF" Scheme) for all qualifying employees are expensed as incurred. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

(iv) *Retirement benefits schemes*

The Company's PRC and Mongolia subsidiaries participate in defined contribution retirements schemes organised by the local government authorities. All of the employees are entitled to an annual pension equivalent to a fixed portion of their basic salaries at their retirement dates. The Company's PRC and Mongolia subsidiaries are required to contribute certain percentage ranged from 11% to 15% of the basic salaries of their employees to the retirement schemes and have no further obligation for post-retirement benefits. The contributions are charged to the profit and loss of the Group as they become payable in accordance with the rules of schemes.

(v) *Share-based payments*

The Group operates equity-settled share-based payments to certain directors, employees and other parties.

Equity-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period with a corresponding increase in a capital reserve within equity, based on the Group's estimate of the shares that will eventually vest and adjusted for the effect of non market-based vesting conditions. The equity amount is recognised in the capital 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 earnings).

Fair value is measured using the Binomial Option Pricing Model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioral considerations.

(k) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the period. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted at the end of the reporting period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted at the end of the reporting period. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

(l) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is charged so as to write off the cost of property, plant and equipment, after taking into account of their estimated residual value, if any, over their estimated useful lives, using the straight-line method. The principal annual rates are as follows:

Leasehold improvement	20%
Furniture, fixtures and equipment	15% – 20%
Motor vehicles	25%
Plant and machineries	15%
Building and mining structure	5%

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated statement of comprehensive income in the year in which the item is derecognised.

Construction in progress, which represents assets under construction, is stated at cost less impairment loss, if any. When the assets are completed and ready for use, the carrying amount of the assets will be reclassified to property, plant and equipment and depreciated in accordance with the policy as set out above.

(m) Mining right

Mining rights are stated at cost less accumulated amortisation and any impairment losses and are amortised on a straight line basis over the estimated useful life of the mines based on the total proven and probable reserves of the mines using the units of production method.

(n) Exploration and related expenses

Exploration and related expenses include topographical and geological surveys, exploratory drilling, sampling and trenching and activities in relation to commercial and technical feasibility studies, and expenditure incurred to secure further mineralisation in existing ore bodies and to expand the capacity of a mine. Expenditure incurred prior to acquiring legal rights to explore an area is written off as incurred.

(o) Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the consolidated statement of comprehensive income over the expected useful life of the relevant asset by equal annual installments.

(p) Impairment of tangible and intangible assets excluding goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell 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 the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount under other standard, in which case the impairment loss is treated as revaluation decrease under other standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount under other standard, in which case the reversal of the impairment loss is treated as a revaluation increase under other standard.

Impairment losses recognised in an interim financial report prepared in compliance with “HKAS 34 Interim Financial Reporting” are not reversed at the end of the financial year to which the interim period relates even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of that financial year.

(q) Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs that are directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset/liability and of allocating interest income/expense over the relevant period. The effective interest rate that exactly discounts estimated future cash receipts/payments (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset/liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income for financial assets and interest expense for financial liabilities are recognised on an effective interest basis.

(i) *Financial assets*

The Group's financial assets are classified into one of the four categories, including financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

The accounting policies adopted in respect of each category of financial assets are set out below.

(1) Financial assets at fair value through profit and loss

Financial assets at fair value through profit or loss has two subcategories, including financial assets held for trading and those designated as at fair value through profit or loss on initial recognition.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of and identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at fair value through profit or loss upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

At the end of each reporting period subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial assets.

(2) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At the end of each reporting period subsequent to initial recognition, loans and receivables (including trade receivables, loan receivables, other receivables and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses.

(3) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. At the end of each reporting period subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method, less any identified impairment losses.

(4) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments. At the end of each reporting period subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at the end of each reporting period subsequent to initial recognition.

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

(ii) *Financial liabilities*

The Group's financial liabilities are generally classified into financial liabilities at fair value through profit or loss and other financial liabilities. The accounting policies adopted in respect of financial liabilities are set out below.

(1) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss has two subcategories, including financial liabilities held for trading and those designated as at fair value through profit or loss on initial recognition.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at fair value through profit or loss upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

At the end of each reporting period subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss includes any interest paid on the financial liability.

(2) Other financial liabilities

Other financial liabilities (including bank and other borrowings, trade and other payables) are subsequently measured at amortised cost, using the effective interest method.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss.

(3) Convertible notes

Convertible notes issued by the Company that contain both the liability and conversion option components are classified separately into respective items on initial recognition. Conversion option will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is an equity instrument.

On initial recognition, the fair value of the liability component is determined using the prevailing market interest rate of similar non-convertible debts. The difference between the proceeds of the issue of the convertible notes and the fair value assigned to the liability component, representing the conversion option for the holder to convert the convertible notes into equity, is included in equity (convertible notes equity reserve).

In subsequent periods, the liability component of the convertible notes is carried at amortised cost using the effective interest method. The equity component, representing the option to convert the liability component into ordinary shares of the Company, will remain in convertible notes equity reserve until the conversion option is exercised (in which case the balance stated in convertible notes equity reserve will be transferred to share premium). Where the option remains unexercised at the expiry date, the balance stated in convertible notes equity reserve will be released to the retained profits. No gain or loss is recognised in profit or loss upon conversion or expiration of the option.

Transaction costs that relate to the issue of the convertible notes are allocated to the liability and equity components in proportion to the allocation of the proceeds. Transaction costs relating to the equity component are charged directly to equity. Transaction costs relating to the liability component are included in the carrying amount of the liability component and amortised over the period of the convertible notes using the effective interest method.

(iii) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on purchase, sale, issue or cancellation of the Company's own equity instruments.

Warrants issued by the group entities which will be settled by the exchange of a fixed amount of cash for a fixed number of the Company's own equity instruments, are recorded at the proceeds received, net of direct issue costs.

(iv) Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss. If the Group retains substantially all the risks and rewards of ownership of a transferred asset, the Group continues to recognise the financial asset and recognise a collateralised borrowing for proceeds received.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

(r) *Financial guarantees, provisions and contingent liabilities*

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. The Group has asserted to regard financial guarantee contracts as insurance contracts and elect to apply “HKFRS 4 Insurance Contracts” to account for such contracts. The election applies to all existing contracts and new contracts on a contract-by-contract basis and is irrevocable for each contract elected.

Provisions are recognised when the Group has a present obligation as a result of a past event, and 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.

Present obligation is disclosed as a contingent liability where it is not probable that an outflow of economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability. Possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more future event (s) is also disclosed as a contingent liability unless the probability of outflow of economic benefits is remote.

(s) *Inventories*

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

(t) *Cash and cash equivalents*

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group’s cash management.

For the purpose of the statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

(u) *Related parties*

A related party is a person or entity that is related to the entity that is preparing its financial statements ('reporting entity').

- (a) A person or a close member of that person's family is related to a reporting entity if that person:
 - (i) has control or joint control over the reporting entity;
 - (ii) has significant influence over the reporting entity; or
 - (iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.
- (b) An entity is related to a reporting entity if any of the following conditions applies:
 - (i) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) Both entities are joint ventures of the same third party.
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
 - (vi) The entity is controlled or jointly controlled by a person identified in (a).
 - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

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

A related party transaction is a transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.

5. CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES

(a) *Judgments*

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations as discussed below, which have the most significant effect on the amounts recognised in the consolidated financial statements.

(i) *Impairment of assets*

In determining whether an asset is impaired or the event previously causing the impairment no longer exists, the Group has to exercise judgment in the area of asset impairment, particularly in assessing: (1) whether an event has occurred that may affect the asset value or such event affecting the asset value has not been in existence; (2) whether the carrying value of an asset can be supported by net present value of future cash flows which are estimated based upon the continued use of the asset or derecognition; and (3) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management to determine the level of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test.

(ii) *Exploration and related expenses*

The application of the Group's accounting policy for exploration and evaluation expenditure requires judgments in determining whether it is likely that future economic benefits will arise, which may be based on assumptions about future events or circumstances. Estimates and assumptions made may change if new information becomes available. If, after expenditures are capitalised, information becomes available suggesting that the recovery of capitalised expenditures are unlikely, the amount capitalised is written off in the consolidated statement of comprehensive income in the period when the new information becomes available.

(iii) Income taxes

Deferred tax is provided using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax assets are recognised for unused tax losses carried forward to the extent that it is probable that future taxable profits will be available against which the unused tax losses can be utilised, based on all available evidence. Recognition primarily involves judgment regarding the future performance of the particular legal entity or tax group in which the deferred tax asset has been recognised. A variety of other factors are also evaluated in considering whether there is convincing evidence that it is probable that some portion or all of the deferred tax assets will ultimately be realised, such as the existence of taxable temporary differences, tax planning strategies and the periods in which estimated tax losses can be utilised. The carrying amount of deferred tax assets and related financial models and budgets are reviewed at the end of each reporting period and to the extent that there is insufficient convincing evidence that sufficient taxable profits will be available within the utilisation periods to allow utilisation of the carry forward tax losses, the asset balance will be reduced and charged to the consolidated statement of comprehensive income.

(b) Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of the Group's assets and liabilities within the next financial year are discussed below.

(i) Impairment test of assets

The Group determines whether an asset is impaired at least on an annual basis or where an indication of impairment exists. This requires an estimation of the value in use of the asset. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the assets and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

(ii) Mine reserves

Engineering estimates of the Group's mine reserves are inherently imprecise and represent only approximate amounts because of the subjective judgments involved in developing such information. There are authoritative guidelines regarding the engineering criteria that have to be met before estimated mine reserves can be designated as proven and probable. Proven and probable mine reserve estimates are updated on a regular basis and have taken into account recent production and technical information about each mine. In addition, price and cost levels change from year to year, the estimates of proven and probable mine reserves also change. This change is considered a change in estimate for accounting purposes and is reflected on a prospective basis in the related amortisation rates of mining rights.

Despite the inherent imprecision in these engineering estimates, these estimates are used in determining amortisation expenses and impairment losses of mining rights. Amortisation rates are determined based on estimated proven and probable mine reserve quantity and capitalised costs of mining rights. The capitalised costs of mining rights are amortised over the estimated useful lives of the mines based on the proven and probable reserves of the mines using the units of production method.

(iii) Income taxes

The Group reviews the carrying amount of deferred tax assets at the end of each reporting period and reduces the amount to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax assets to be utilised. This requires an estimation of the future taxable profits. Estimating the future taxable profits requires the Group to make an estimate of the expected future earnings from the Group and also to choose a suitable discount rate in order to calculate the present value of the earnings.

(iv) Depreciation of property, plant and equipment

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives, after taking into account of their estimated residual value. The determination of the useful lives and residual values involve management's estimation. The Group assesses annually the residual value and the useful life of the property, plant and equipment and if the expectation differs from the original estimate, such a difference may impact the depreciation in the year the estimate is changed and the future period.

(v) *Valuation of share options*

Share option expense is subject to the limitations of the option pricing models adopted and the uncertainty in estimates used by management in the assumptions. Should the estimates including limited early exercise behaviour, expected interval and frequency of open exercise periods in the share option life and the relevant parameters of the share option model be changed, there would be material changes in the amount of share option benefits recognised in the consolidated statement of comprehensive income and share-based payment reserve.

6. REVENUE

- (a) An analysis of the Group's revenue for the six months ended 30 June 2011 is as follows:

	For the six months ended 30 June	
	2011	2010
	(audited)	(Unaudited)
		<i>(Note 41)</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Sales of marketable securities	—	7,221
Sales of copper concentrate	935	—
Sales of non-ferrous metals	49,257	93,293
Other interest income	91	347
	<u>50,283</u>	<u>100,861</u>

- (b) An analysis of the Group's other revenue for the six months ended 30 June 2011 is as follows:

	For the six months ended 30 June	
	2011	2010
	(audited)	(Unaudited)
		<i>(Note 41)</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Miscellaneous income	43	104
Government grant	—	990
	<u>43</u>	<u>1,094</u>

7. SEGMENT INFORMATION

HKFRS 8 Operating Segments requires the Group to disclose reported segments in accordance with internal reports that are provided to the Group's chief operating decision maker. The Group considers its directors to be the chief operating decision maker. For management purposes, the Group is organised into three operating segments. These operating segments form the basis on which the Group's directors make decisions about resource allocation and performance assessment. The Group has three reportable segments under HKFRS 8:

- (a) Corporate investment and trading in securities;
- (b) Minerals exploitation; and
- (c) Trading in non-ferrous metals.

For the purposes of assessing segment performance and resources allocation between segments, the Group's senior executive management monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment revenue represents revenue generated from external customers. There were no inter-segment sales during the period.

Segment result represents the profit/(loss) earned by each segment without allocation of corporate income and expense, central administration cost, directors' salaries, interest income, impairment of other receivables.

Segment assets include all tangible, intangible assets and current assets.

Segment liabilities include all trade and other payables other than tax payable and deferred tax liabilities.

(a) Segment revenues and results

	Six months ended 30 June 2011 (Audited)			
	Corporate investment and trading in securities <i>HK\$'000</i>	Minerals exploitation <i>HK\$'000</i>	Trading in non-ferrous metals <i>HK\$'000</i>	Total <i>HK\$'000</i>
Segments revenue	—	935	49,257	50,192
Segments results	—	(6,672)	(620)	(7,292)
Interest income				91
Unallocated corporate expenses				(10,794)
Impairment of other receivables				(180)
Finance costs				(6,649)
Consolidated loss before taxation				(24,824)

	Six months ended 30 June 2010 (Unaudited) (Note 41)			
	Corporate investment and trading in securities <i>HK\$'000</i>	Minerals exploitation <i>HK\$'000</i>	Trading in non-ferrous metals <i>HK\$'000</i>	Total <i>HK\$'000</i>
Segments revenue	7,221	—	93,293	100,514
Segments results	230	(2,821)	218	(2,373)
Interest income				347
Unallocated corporate income				104
Unallocated corporate expenses				(10,384)
Finance costs				(3)
Consolidated loss before taxation				(12,309)

(b) Segment assets and liabilities

	As at 30 June 2011 (Audited)			
	Corporate investment and trading in securities <i>HK\$'000</i>	Minerals exploitation <i>HK\$'000</i>	Trading in non-ferrous metals <i>HK\$'000</i>	Total <i>HK\$'000</i>
Segment assets	<u>40</u>	<u>2,287,446</u>	<u>135,578</u>	2,423,064
Unallocated assets				<u>220,272</u>
Consolidated assets				<u>2,643,336</u>
Segment liabilities	<u>56</u>	<u>12,657</u>	<u>47</u>	12,760
Unallocated liabilities				<u>644,765</u>
Consolidated liabilities				<u>657,525</u>

	As at 31 December 2010 (Audited)			
	Corporate investment and trading in securities <i>HK\$'000</i>	Minerals exploitation <i>HK\$'000</i>	Trading in non-ferrous metals <i>HK\$'000</i>	Total <i>HK\$'000</i>
Segment assets	<u>40</u>	<u>2,275,798</u>	<u>183,819</u>	2,459,657
Unallocated assets				<u>196,703</u>
Consolidated assets				<u>2,656,360</u>
Segment liabilities	<u>56</u>	<u>10,994</u>	<u>47</u>	11,097
Unallocated liabilities				<u>636,564</u>
Consolidated liabilities				<u>647,661</u>

(c) Other segment information

	Six months ended 30 June 2011 (Audited)		
	Corporate investment and trading in securities <i>HK\$'000</i>	Minerals exploitation <i>HK\$'000</i>	Trading in non-ferrous metals <i>HK\$'000</i>
Capital expenditure	–	14,720	–
Depreciation of property, plant and equipment	–	1,198	–
Amortisation of prepaid lease payment	–	22	–
	<u>–</u>	<u>14,940</u>	<u>–</u>

	Six months ended 30 June 2010 (Unaudited) (Note 41)		
	Corporate investment and trading in securities <i>HK\$'000</i>	Minerals exploitation <i>HK\$'000</i>	Trading in non-ferrous metals <i>HK\$'000</i>
Capital expenditure	–	1,484	–
Depreciation of property, plant and equipment	–	1,084	–
Amortisation of prepaid lease payment	–	21	–
	<u>–</u>	<u>2,589</u>	<u>–</u>

(d) Geographical information

The Group operates in three principal geographical areas – the People's Republic of China (excluding Hong Kong) (The PRC), Hong Kong, and Mongolia.

APPENDIX II**FINANCIAL INFORMATION OF THE GROUP**

The Group's revenue from external customers and information about its non-current assets and capital expenditure by geographical location are detailed below:

Six months ended 30 June 2011 (Audited)				
	Hong Kong	The PRC	Mongolia	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Segment revenue	<u>49,257</u>	<u>935</u>	<u>–</u>	<u>50,192</u>
Other segment information:				
Non-current assets	1,940	1,483,643	742,045	2,227,628
Capital expenditure	<u>52</u>	<u>10,517</u>	<u>4,203</u>	<u>14,772</u>

Six months ended 30 June 2010 (Unaudited) (Note 41)				
	Hong Kong	The PRC	Mongolia	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Segment revenue	<u>100,514</u>	<u>–</u>	<u>–</u>	<u>100,514</u>
Other segment information:				
Non-current assets	1,190	1,452,431	709,821	2,163,442
Capital expenditure	<u>60</u>	<u>1,468</u>	<u>16</u>	<u>1,544</u>

8. OPERATING LOSS FOR THE PERIOD

Operating loss of the Group for the period has been arrived at after charging the followings:

	For the six months ended 30 June	
	2011	2010
	(audited)	(Unaudited)
		<i>(Note 41)</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Staff costs (including directors' remuneration – <i>note 10</i>)		
– Salaries and allowances	4,771	3,492
– Other staff costs	301	324
– Retirement benefits scheme contributions	38	31
	<u>5,110</u>	<u>3,847</u>
Amortisation of prepaid lease payment	22	21
Depreciation of property, plant and equipment	1,465	1,235
Auditors' remuneration		
– Audit services	960	–
– Other services	51	66
Operating leases on land and buildings	1,353	786
Impairment of other receivables	180	–
	<u><u>6,647</u></u>	<u><u>3</u></u>

9. FINANCE COSTS

	For the six months ended 30 June	
	2011	2010
	(audited)	(Unaudited)
		<i>(Note 41)</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Dividends on cumulative redeemable preference shares (<i>note 12</i>)	2	2
Other interest	–	1
Interest expenses on convertible notes maturing within five years (<i>note 26</i>)	6,647	–
	<u><u>6,649</u></u>	<u><u>3</u></u>

10. DIRECTORS' AND FIVE HIGHEST PAID EMPLOYEES' EMOLUMENTS

(i) Directors' emoluments

1 January 2011 to 30 June 2011 (Audited)					
Other emoluments					
	Fees HK\$'000	Salaries, allowances and other benefits HK\$'000	Employee share option benefits HK\$'000	Retirement benefits scheme HK\$'000	Total HK\$'000
<i>Executive directors</i>					
Wan Bi Qi	600	131	–	–	731
Chen Xiang	480	107	–	–	587
Yuan Ping	480	116	–	–	596
Long Zhong Sheng (note a)	–	–	–	–	–
<i>Independent non- executive directors</i>					
Wang Guoqi	50	–	–	–	50
Wang Qihong	50	–	–	–	50
Qiu Quan Zhou	50	–	–	–	50
	<u>1,710</u>	<u>354</u>	<u>–</u>	<u>–</u>	<u>2,064</u>

1 January 2010 to 30 June 2010 (Unaudited) (Note 41)					
Other emoluments					
	Fees HK\$'000	Salaries, allowances and other benefits HK\$'000	Employee share option benefits HK\$'000	Retirement benefits scheme HK\$'000	Total HK\$'000
<i>Executive directors</i>					
Wan Bi Qi	600	135	–	–	735
Zhang He (note b)	320	1	–	–	321
Chen Xiang	480	106	–	–	586
Yuan Ping	480	100	–	–	580
<i>Independent non- executive directors</i>					
Wang Guoqi	50	–	–	–	50
Wang Qihong	50	–	–	–	50
Qiu Quan Zhou	50	–	–	–	50
	<u>2,030</u>	<u>342</u>	<u>–</u>	<u>–</u>	<u>2,372</u>

Note (a): Appointed on 13 June 2011 and resigned on 15 June 2011

Note (b): Resigned on 1 May 2010

(ii) Five highest paid employees

During the six months ended 30 June 2011, the five highest paid individuals included three directors (for the six months ended 30 June 2010: four), details of whose emoluments are set out above. The emoluments of the remaining two (for the six months ended 30 June 2010: one) highest paid individual(s) were as follows:

	For the six months ended 30 June	
	2011	2010
	(audited)	(Unaudited)
		<i>(Note 41)</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Salaries and other emoluments	989	480
Retirement benefits scheme contributions	6	6
Employee share-based payment	—	—
	<u>995</u>	<u>486</u>

Emoluments of the two (for the six months ended 30 June 2010: one) non-director highest paid individual(s) fell within the following bands:

	Number of individual(s)	
	For the six months ended 30 June	
	2011	2010
		(Unaudited)
		<i>(Note 41)</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
HK\$ Nil to HK\$1,000,000	<u>2</u>	<u>1</u>

11. INCOME TAX

(a) Income tax expense in the consolidated statement of comprehensive income represents:

	For the six months ended 30 June	
	2011 (audited)	2010 (Unaudited)
	HK\$'000	(Note 41) HK\$'000
Current tax:		
Hong Kong	—	36
Other jurisdictions	—	—
	—	36
Deferred taxation (note 27)	—	—
Tax expense for the period	—	36

The statutory tax rate for Hong Kong profit tax is 16.5% (For the six months ended 30 June 2010: 16.5%) on the estimated assessable profits arising in Hong Kong during the period. No Hong Kong profits tax has been provided for in the consolidated financial statements as there are no assessable profits arising in or derived from Hong Kong during the period ended 31 June 2011 (For the six months ended 30 June 2010: HK\$36,000). Overseas income taxes have not been made as the Group's operation in these countries was operating at a loss during the period (For the six months ended 30 June 2010: Nil).

- (b) Reconciliation between income tax expense and accounting loss at applicable tax rates is as follows:

	For the six months ended 30 June	
	2011	2010
	(audited)	(Unaudited)
		<i>(Note 41)</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Loss before taxation	<u>(24,824)</u>	<u>(12,309)</u>
Notional tax on loss before taxation, calculated at the tax rates applicable to losses in the jurisdictions concerned	(4,559)	(2,259)
Tax effect of income not taxable	(1)	(38)
Tax effect of expenses not deductible and loss not allowable	4,458	2,333
Tax effect of estimated tax losses not recognised for the period	<u>102</u>	<u>—</u>
Tax expense for the period	<u>—</u>	<u>36</u>

12. DIVIDENDS ON CUMULATIVE REDEEMABLE PREFERENCE SHARES

	For the six months ended 30 June	
	2011	2010
	(audited)	(Unaudited)
		<i>(Note 41)</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Preference shares dividends		
Payable of HK\$0.151 per share on 16,485 shares	<u>2</u>	<u>2</u>

13. LOSS PER SHARE

The basic loss per share is calculated based on the loss attributable to owners of the Company of approximately HK\$21,723,000 (for the six months ended 30 June 2010: approximately HK\$10,761,000) and the weighted average number of 5,591,195,552 (for the period ended 30 June 2010: 5,591,195,552) ordinary shares in issue during the period.

The diluted loss per share for the six months ended 30 June 2011 and 30 June 2010 has not been disclosed as the potential shares arising from the exercise and conversion of the Company's share options, warrants, convertible notes and convertible preference shares would decrease the loss per share of the Group for the period and is regarded as anti-dilutive.

14. PROPERTY, PLANT AND EQUIPMENT

Group

	Leasehold improvement <i>HK\$'000</i>	Furniture, fixtures, and equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Plant and machineries <i>HK\$'000</i>	Building and mining structure <i>HK\$'000</i>	Construction in progress <i>HK\$'000</i>	Total <i>HK\$'000</i>
For the six months ended 30 June 2010 (Unaudited) (Note 41)							
Cost:							
At 1 January 2010	1,160	689	1,680	5,361	8,996	4,609	22,495
Additions	–	90	–	893	86	475	1,544
Transfer	–	–	–	–	–	–	–
Disposals	–	(9)	–	–	–	–	(9)
Exchange adjustment	–	2	14	65	99	53	233
At 30 June 2010	1,160	772	1,694	6,319	9,181	5,137	24,263
Accumulated depreciation and impairment losses:							
At 1 January 2010	99	338	1,022	1,555	750	–	3,764
Charge for the period	116	55	134	708	222	–	1,235
Written back on disposal	–	(4)	–	–	–	–	(4)
Exchange adjustment	–	1	7	22	10	–	40
At 30 June 2010	215	390	1,163	2,285	982	–	5,035
Net carrying amount:							
At 30 June 2010	945	382	531	4,034	8,199	5,137	19,228

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FINANCIAL INFORMATION OF THE GROUP

	Leasehold improvement <i>HK\$'000</i>	Furniture, fixtures, and equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Plant and machineries <i>HK\$'000</i>	Building and mining structure <i>HK\$'000</i>	Construction in progress <i>HK\$'000</i>	Total <i>HK\$'000</i>
For the six months ended 30 June 2011							
Cost:							
At 1 January 2011	2,337	1,546	2,877	6,607	11,389	37,336	62,092
Additions	–	131	536	11	667	13,427	14,772
Transfer	–	–	–	–	336	(336)	–
Disposals	–	–	–	–	–	–	–
Exchange adjustment	(1)	13	10	131	165	310	628
At 30 June 2011	2,336	1,690	3,423	6,749	12,557	50,737	77,492
Accumulated depreciation and impairment losses:							
At 1 January 2011	362	558	1,712	2,607	1,318	–	6,557
Charge for the period	234	124	327	500	280	–	1,465
Written back on disposal	–	–	–	–	–	–	–
Exchange adjustment	–	3	6	57	28	–	94
At 30 June 2011	596	685	2,045	3,164	1,626	–	8,116
Net carrying amount:							
At 30 June 2011	<u>1,740</u>	<u>1,005</u>	<u>1,378</u>	<u>3,585</u>	<u>10,931</u>	<u>50,737</u>	<u>69,376</u>
At 31 December 2010	<u>1,975</u>	<u>988</u>	<u>1,165</u>	<u>4,000</u>	<u>10,071</u>	<u>37,336</u>	<u>55,535</u>

Company

	Leasehold improvement <i>HK\$'000</i>	Furniture, fixtures, and equipment <i>HK\$'000</i>	Total <i>HK\$'000</i>
For the six months ended 30 June 2010 (Unaudited) (<i>Note 41</i>)			
Cost:			
At 1 January 2010	1,160	487	1,647
Additions	—	59	59
	<u>1,160</u>	<u>546</u>	<u>1,706</u>
At 30 June 2010	<u>1,160</u>	<u>546</u>	<u>1,706</u>
Accumulated depreciation and impairment losses:			
At 1 January 2010	99	266	365
Charge for the period	116	35	151
	<u>215</u>	<u>301</u>	<u>516</u>
At 30 June 2010	<u>215</u>	<u>301</u>	<u>516</u>
Net carrying amount:			
At 30 June 2010	<u>945</u>	<u>245</u>	<u>1,190</u>
For the six months ended 30 June 2011			
Cost:			
At 1 January 2011	2,283	557	2,840
Additions	—	52	52
	<u>2,283</u>	<u>609</u>	<u>2,892</u>
At 30 June 2011	<u>2,283</u>	<u>609</u>	<u>2,892</u>
Accumulated depreciation and impairment losses:			
At 1 January 2011	352	334	686
Charge for the period	228	38	266
	<u>580</u>	<u>372</u>	<u>952</u>
At 30 June 2011	<u>580</u>	<u>372</u>	<u>952</u>
Net carrying amount:			
At 30 June 2011	<u>1,703</u>	<u>237</u>	<u>1,940</u>
At 31 December 2010	<u>1,931</u>	<u>223</u>	<u>2,154</u>

15. PREPAID LEASE PAYMENT

	As at 30 June 2011 <i>HK\$'000</i>	As at 31 December 2010 <i>HK\$'000</i>
Outside of Hong Kong – Lease less than 50 years	<u>1,667</u>	<u>1,656</u>
	For the six months ended 30 June 2011 (audited) <i>HK\$'000</i>	2010 (Unaudited) (Note 41) <i>HK\$'000</i>
Cost/carrying amount:		
At the beginning of the period	1,743	1,670
Exchange difference	<u>33</u>	<u>18</u>
At the end of the period	<u>1,776</u>	<u>1,688</u>
Accumulated amortisation:		
At the beginning of the period	43	–
Change for the period	<u>22</u>	<u>21</u>
At the end of the period	<u>65</u>	<u>21</u>
Net carrying value:		
At 30 June 2011 and 2010	1,711	1,667
Classified as current portion	<u>44</u>	<u>44</u>
Classified as non-current portion	<u>1,667</u>	<u>1,623</u>

Prepaid lease payment represented cost paid by a subsidiary to acquire land use right in the PRC on 25 December 2009. The subsidiary intends to erect office building on the land for own use. The land use right will be expired on 24 December 2049 and its cost is amortised over the lease term on a straight-line basis.

16. MINING RIGHTS

	As at 30 June 2011 HK\$'000	As at 31 December 2010 HK\$'000
Cost/carrying amount:		
At the beginning of the period/year	2,156,585	2,142,547
Impairment loss written back	—	14,038
	<u>2,156,585</u>	<u>2,156,585</u>
At the end of the period/year	<u>2,156,585</u>	<u>2,156,585</u>

No amortisation was provided during the period as the Group has not yet commenced the exploitation of the ores. The impairment loss written back of HK\$14,038,000 was provided in the second half year of 2010.

17. INTEREST IN SUBSIDIARIES

	Company As at 30 June 2011 HK\$'000	As at 31 December 2010 HK\$'000
Unlisted shares, at cost	—	—
Amounts due from subsidiaries	2,228,335	2,261,281
Amounts due to subsidiaries	<u>(27,099)</u>	<u>(20,099)</u>
	2,201,236	2,241,182
Allowance for impairment losses	<u>(36,760)</u>	<u>(36,760)</u>
	<u>2,164,476</u>	<u>2,204,422</u>

The amounts due from/(to) subsidiaries are unsecured, interest free and have no fixed terms of repayment.

Particulars of the Company's principal subsidiaries are set out in note 39 to financial statements.

18. JOINTLY CONTROLLED ENTITIES

Details of jointly controlled entities of the Group at the end of the reporting period are as follows:—

	Group		Company	
	As at	As at	As at	As at
	30 June	31 December	30 June	31 December
	2011	2010	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Share of net liabilities	—	—	—	—
Amounts due from jointly controlled entities	—	—	—	—
Amounts due to jointly controlled entities	—	—	—	—
Allowances for impairment losses	—	—	—	—
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

(a)	Place of		Attributable
Company	Incorporation/ operation	Principal activities	equity interest
Yetcome Investments Limited	British Virgin Islands	Investment holding	33%
T & T Properties Sdn. Bhd	Malaysia	Property development	33%
Prizevest Sdn. Bhd	Malaysia	Property development	23%
Top Priority Sdn. Bhd.	Malaysia	Property development	23%
Victec Enterprise Sdn. Bhd.	Malaysia	Property development	23%
Prime Harvest Financial Holding Group Limited	British Virgin Islands	Investment holding	40%

Equity accounting for the Group's interests in all these jointly controlled entities has been discontinued since 2004 as the operations of these entities had ceased in consequence of Receivers appointed in the year 2002. The carrying amounts of these jointly controlled entities have been fully impaired.

The amounts due from/(to) these jointly controlled entities are unsecured, interest free and have no fixed terms of repayment.

19. DEPOSIT FOR ACQUISITION

On 13 April 2010, the Company entered into framework agreement pursuant to which the Company conditionally agreed to purchase 80% equity interest of Qianyi Limited, a company incorporated with limited liability in the British Virgin Islands which will, upon completion of the reorganisation, indirectly hold 100% equity interest in 新疆同興礦業有限責任公司 (Xinjiang Tong Xing Mining Company Limited), a company incorporated with limited liabilities in the PRC (“Tong Xing”), at the consideration of HK\$280 million (the “Consideration”). The Consideration will be satisfied as to HK\$60 million by cash and as to HK\$220 million by the Company’s issuing the convertible notes to the vendor. Details of the acquisition are set out in the announcement of the Company dated 16 April 2010.

On 14 July 2010, the Company entered into a formal agreement. Since there were changes to the proposed reorganisation, the parties now intend that Qianyi Limited will indirectly hold 80% equity interest in Tong Xing (instead of 100% equity interest as previously disclosed in the announcement dated 16 April 2010) upon completion of reorganisation. Details of the formal agreement are set out in the announcement of the Company dated 16 July 2010.

On 30 December 2010, the Company entered into a supplemental agreement, pursuant to which certain terms of the agreement have been amended. Details of the supplemental agreement are set out in the announcement of the Company dated 30 December 2010.

As at 30 June 2011 and 31 December 2010, the Group had paid an aggregate deposit of approximately HK\$60 million in cash and delivered the first tranche of convertible notes in the principal amount of HK\$110 million for the acquisition.

20. INVENTORIES

	Group	
	As at	As at
	30 June	31 December
	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>
Raw materials	737	210
Work in progress	2,127	1,155
Finished goods	—	1,520
	<u>2,864</u>	<u>2,885</u>

21. TRADE AND OTHER RECEIVABLES

	Group		Company	
	As at	As at	As at	As at
	30 June	31 December	30 June	31 December
	2011	2010	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade receivables	1,107	57,468	–	–
Other receivables	5,776	1,925	500	116
Prepayments and deposits	45,535	22,958	31,755	10,993
	<u>52,418</u>	<u>82,351</u>	<u>32,255</u>	<u>11,109</u>

The amount of HK\$Nil (31 December 2010: HK\$3.4 million) of margin deposit included in the above carrying amount of prepayments and deposits was pledged as a collateral for banking facilities.

The ageing analysis of trade receivables is as follows:

	Group		Company	
	As at	As at	As at	As at
	30 June	31 December	30 June	31 December
	2011	2010	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
0 – 3 months	1,107	39,108	–	–
4 – 6 months	–	18,360	–	–
	<u>1,107</u>	<u>57,468</u>	<u>–</u>	<u>–</u>

The Group normally offered credit terms of not over 180 days to customers.

22. CASH AND BANK BALANCES

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The carrying amount of these assets approximates their fair value.

23. TRADE AND OTHER PAYABLES

	Group		Company	
	As at 30 June 2011 HK\$'000	As at 31 December 2010 HK\$'000	As at 30 June 2011 HK\$'000	As at 31 December 2010 HK\$'000
Trade payables	—	—	—	—
Temporary deposits, accruals and other payables	10,600	7,521	4,792	3,237
	<u>10,600</u>	<u>7,521</u>	<u>4,792</u>	<u>3,237</u>

The ageing analysis of trade payable is as follows:

	Group		Company	
	As at 30 June 2011 HK\$'000	As at 31 December 2010 HK\$'000	As at 30 June 2011 HK\$'000	As at 31 December 2010 HK\$'000
0 – 3 months	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

24. DEFERRED INCOME

	Group	
	As at 30 June 2011 HK\$'000	As at 31 December 2010 HK\$'000
Carrying value of deferred income	<u>7,104</u>	<u>6,966</u>

	For the six months ended 30 June	
	2011 (audited)	2010 (Unaudited) (Note 41)
	HK\$'000	HK\$'000
Government grant received:		
At the beginning of the period	6,966	3,975
Recognition	—	(990)
Exchange adjustment	138	15
	<u>7,104</u>	<u>3,000</u>
At the end of the period	<u>7,104</u>	<u>3,000</u>

25. CUMULATIVE REDEEMABLE PREFERENCE SHARES

	Number of shares	Amount HK\$'000
Authorised:		
6% convertible cumulative redeemable preference shares of HK\$1 each	<u>100,000,000</u>	<u>100,000</u>
Issued and fully paid:		
Balance at 31 December 2010 and 30 June 2011	<u>16,485</u>	<u>110</u>

A holder of the convertible cumulative redeemable preference shares ("CPS") is entitled to receive a fixed cumulative preferential dividend at the rate of 6% per annum on the notional value of HK\$5 per CPS to be paid half-yearly on 30 June and 31 December in each year.

A holder of the CPS may convert his shares held at any time into Ordinary Shares at the conversion price of HK\$0.036 per share, subject to adjustment.

The CPS may be redeemed by the holders of the CPS at any time after 30 June 1996 at a redemption price per share equal to the notional value plus accrued dividend.

The Company has the option to redeem all or some of the CPS at any time at the notional value of the CPS if the average of the closing prices of the Ordinary Share quoted on the Stock Exchange over the preceding 30 consecutive dealing days ending on the seventh day prior to the date upon which notice of redemption is given is greater than or equal to 150% of the conversion price in effect on such seventh day.

26. CONVERTIBLE NOTES

With reference to the announcements of the Company on the Stock Exchange of Hong Kong on 16 April 2010 and 16 July 2010, the Company entered into the Formal Agreement on 14 July 2010 for the acquisition of 100% shareholding in Qianyi Limited, a company which will, upon completion of the Reorganisation, indirectly hold 80% equity interest in 新疆同興礦業有限責任公司 (Xinjiang Tong Xing Mining Company Limited) (“Tong Xing”).

Part of the Consideration will be satisfied by the Company’s issuing two tranches of convertible notes in the principal amount of HK\$110 million each (in aggregate, the principal amount is HK\$220 million). Only 50% of the Convertible Notes (First Tranche, that is, in the principal sum of HK\$110 million) has been delivered to the Vendor and the remaining 50% of the Convertible Notes (Second Tranche, that is, in the principal sum of HK\$110 million) will be delivered to the Vendor within 3 business days after the mining license of the Mine is granted to Tong Xing.

On 22 July 2010, the company delivered the First Tranche of convertible notes to the vendor. The notes carried coupon interest rate of 1% per annum, which shall be payable by the company upon redemption of the notes.

The notes entitle the holders to convert to ordinary shares of the Company at an initial conversion price of HK\$0.618 per conversion share (subject to the normal adjustments in accordance with the terms of the convertible notes) at any time during the period commencing from the date of issue of convertible notes.

Unless previous converted and cancelled by the Company, the Company shall redeem any outstanding convertible notes at the principal amount together with accrued interest on the maturity date which is the date falling two years after the issuing date.

The Company determined the fair value of the liability component based on the valuations performed by Ascent Partners Group Limited using discounted cash flow approach. The effective interest rate is 14.911%. The residual amount was assigned as the equity component for the conversion option and was included in the convertible notes equity reserve of the Company and the Group.

The liability component is carried as a non-current liability on the amortised cost basis until extinguished on conversion or redemption.

The movement of different components of the convertible notes during the period is set out below:

	Liability component <i>HK\$'000</i>	Equity component <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2010 and 30 June 2010 (Unaudited) (<i>Note 41</i>)	—	—	—
At 31 December 2010	89,886	25,725	115,611
At 1 January 2011	89,886	25,725	115,611
Interest expense (<i>note 9</i>)	6,647	—	6,647
At 30 June 2011	96,533	25,725	122,258

27. DEFERRED TAXATION

(a) The major deferred tax liabilities recognised are analysed below:

Group

	Mining rights <i>HK\$'000</i>
At 1 January 2010 and 30 June 2010 (Unaudited) (<i>Note 41</i>)	535,637
At 31 December 2010	539,146
At 1 January 2011 and 30 June 2011	539,146

During the six months ended 30 June 2011 and 30 June 2010, there was no deferred tax charged to consolidated statement of comprehensive income. The amount of deferred tax charged to consolidated statement of comprehensive income was HK\$3,509,000 (Unaudited) for the second half year of 2010.

- (b) The major deferred tax assets/(liabilities) not recognised are analysed below:

Group

	Property, plant and equipment <i>HK\$'000</i>	Unused tax losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
For the six months ended 30 June 2010 (Unaudited) (Note 41)			
At 1 January 2010 and 30 June 2010	<u>(8)</u>	<u>7,995</u>	<u>7,987</u>
At 31 December 2010	<u>(8)</u>	<u>7,995</u>	<u>7,987</u>
For the six months ended 30 June 2011			
At 1 January 2011 and 30 June 2011	<u>(8)</u>	<u>7,995</u>	<u>7,987</u>

There was no net change in deferred tax assets/(liabilities) not recognised for the period.

Company

	Property, plant and equipment <i>HK\$'000</i>	Unused tax losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
For the six months ended 30 June 2010 (Unaudited) (Note 41)			
At 1 January 2010 and 30 June 2010	<u>(8)</u>	<u>7,995</u>	<u>7,987</u>
At 31 December 2010	<u>(8)</u>	<u>7,995</u>	<u>7,987</u>
For the six months ended 30 June 2011			
At 1 January 2011 and 30 June 2011	<u>(8)</u>	<u>7,995</u>	<u>7,987</u>

There was no net change in deferred tax assets/(liabilities) not recognised for the period.

The Group and the Company have unused tax losses approximately HK\$7,995,000 respectively (For the year ended 31 December 2010: The Group and the Company have unused tax losses approximately HK\$7,995,000 respectively) that are available for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as the Company and its subsidiaries have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

28. SHARE CAPITAL

	Number of shares	Amount <i>HK\$'000</i>
Authorised:		
Ordinary shares of HK\$0.05 each		
Balance at 31 December 2010 and 30 June 2011	<u>30,000,000,000</u>	<u>1,500,000</u>
Issued and fully paid:		
Ordinary shares of HK\$0.05 each		
Balance at 31 December 2010 and 30 June 2011	<u>5,591,195,552</u>	<u>279,560</u>

29. SHARE OPTIONS SCHEME

The Company's share options scheme was adopted by the Company on 13 October 2003 (the "Scheme") for the purpose of enabling the Company to grant options to selected participants as incentives or rewards for their contribution to the Group. Under the Scheme, the Board of Directors of the Company may, at its discretion, invite eligible participants (as contained in the Company's circular of 19 September 2003) to take up options to subscribe for shares of the Company. The principal terms of the Scheme are as follows:

- (i) The maximum number of shares in respect of which options may be granted under the Scheme must not, in aggregate, exceed 10% of the issued share capital of the Company as at the date of approval of the Scheme, unless approval of the shareholders has been obtained to renew the limit, and which must not in aggregate (including all outstanding options granted and yet to be exercised under the Scheme and any other share option scheme of the Group) exceed 30% of the shares of the Company in issue from time to time.
- (ii) The number of shares in respect of which options may be granted to any individual in any 12-month period must not exceed 1% of the shares of the Company in issue as at the date of grant.
- (iii) The exercise price is determined by the Board in its absolute discretion at a price not less than the highest of (a) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a trading day; (b) the average closing prices of the shares of the Company as stated in the Stock Exchange's daily quotations sheet for the five trading days immediately preceding the date of grant; and (c) the nominal value of share.

- (iv) An option may be accepted by a proposed grantee within 7 days from the date of the offer of grant of the option. There is no minimum period for which an option must be held before it can be exercised. An option may be exercised at any time after the date upon which the option is deemed to be granted and accepted and prior to the expiry of ten years from that date.
- (v) Upon acceptance of the option, the grantee shall pay of HK\$1.00 to the Company by way of consideration for the grant of the option.
- (vi) The Scheme will remain valid for a period of 10 years commencing on October 2003, being the date on which it was adopted.

Details of the existing share options granted by the Company under the Scheme are as follows:–

		Tranche 1	Tranche 2
Date of grant	:	19 June 2009	19 June 2009
Exercisable periods/Fair value at grant date	:	19 June 2009 – 18 June 2019/ HK\$0.2836	19 June 2010 – 18 June 2019/ HK\$0.2689
Number of share options granted	:	158,600,000	158,600,000
Exercise price	:	HK\$0.61	HK\$0.61
Share price as at the valuation date	:	HK\$0.60	HK\$0.60
Expected volatility	:	51.17%	51.17%
Risk-free interest rate as at the valuation date	:	2.276%	2.137%
Expected life of option	:	5 years	4.5 years

The fair value of equity-settled share options granted was estimated as at the date of grant, using the Black-Scholes Option Price Model, taking into account the terms and conditions upon which the share options were granted. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. No other feature of the share options granted was incorporated into the measurement of fair value.

Details of share options granted are as follows:

Date of grant/ acceptance	Exercise period	Exercise price per share	Closing price immediately before date of offer	Closing price immediately before date of grant
19 June 2009	19 June 2009 – 18 June 2019	HK\$0.61	HK\$ 0.61	HK\$ 0.60
19 June 2009	19 June 2010 – 18 June 2019	HK\$0.61	HK\$ 0.61	HK\$ 0.60

At no time during the period was the Company, its holding company, or any its subsidiaries a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of Share in, or debentures of, the Company or any other body corporate.

Details of the movement of the share options during the period under the Scheme are as follows:

For the six months ended 30 June 2011

	Date of Grant	Exercise price HK\$	Exercise period	At 1 January 2011	Granted during the period	Lapsed during the period	Forfeited during the period	Cancelled during the period	Exercise during the period	At 30 June 2011
Director	19 June 2009	0.610	19.6.2009 – 18.6.2019	52,500,000	–	–	–	–	–	52,500,000
	19 June 2009	0.610	19.6.2010 – 18.6.2019	52,500,000	–	–	–	–	–	52,500,000
Other employees	19 June 2009	0.610	19.6.2009 – 18.6.2019	3,850,000	–	–	–	–	–	3,850,000
	19 June 2009	0.610	19.6.2010 – 18.6.2019	3,850,000	–	–	–	–	–	3,850,000
Consultants	19 June 2009	0.610	19.6.2009 – 18.6.2019	97,500,000	–	–	–	–	–	97,500,000
	19 June 2009	0.610	19.6.2010 – 18.6.2019	97,500,000	–	–	–	–	–	97,500,000
				<u>307,700,000</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>307,700,000</u>

APPENDIX II

FINANCIAL INFORMATION OF THE GROUP

For the six months ended 30 June 2010 (Unaudited) (Note 41)

	Date of Grant	Exercise price HK\$	Exercise period	At 1 January 2010	Granted during the period	Lapsed during the period	Forfeited during the period	Cancelled during the period	Exercise during the period	At 30 June 2010	At 31 December 2010
Director	19 June 2009	0.610	19.6.2009 – 18.6.2019	57,000,000	–	–	(4,500,000)	–	–	52,500,000	52,500,000
	19 June 2009	0.610	19.6.2010 – 18.6.2019	57,000,000	–	–	(4,500,000)	–	–	52,500,000	52,500,000
Other employees	19 June 2009	0.610	19.6.2009 – 18.6.2019	4,100,000	–	–	–	–	–	4,100,000	3,850,000
	19 June 2009	0.610	19.6.2010 – 18.6.2019	4,100,000	–	–	–	–	–	4,100,000	3,850,000
Consultants	19 June 2009	0.610	19.6.2009 – 18.6.2019	97,500,000	–	–	–	–	–	97,500,000	97,500,000
	19 June 2009	0.610	19.6.2010 – 18.6.2019	97,500,000	–	–	–	–	–	97,500,000	97,500,000
				<u>317,200,000</u>	<u>–</u>	<u>–</u>	<u>(9,000,000)</u>	<u>–</u>	<u>–</u>	<u>308,200,000</u>	<u>307,700,000</u>

30. RESERVES

Group

	Share premium <i>HK\$'000</i>	Capital redemption reserve <i>HK\$'000</i>	Warrant reserve <i>HK\$'000</i>	Share- based payment reserve <i>HK\$'000</i>	Exchange reserve <i>HK\$'000</i>	Convertible Notes equity reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
For the six months ended 30 June 2010 (Unaudited) (<i>Note 41</i>)								
At 1 January 2010	2,916,091	2,241	3,000	87,627	(38,337)	–	(2,155,373)	815,249
Loss for the period	–	–	–	–	–	–	(10,761)	(10,761)
Exchange difference arising on translation of foreign operations								
– Exchange differences arising during the period	–	–	–	–	971	–	–	971
Total comprehensive income for the period	–	–	–	–	971	–	(10,761)	(9,790)
At 30 June 2010	<u>2,916,091</u>	<u>2,241</u>	<u>3,000</u>	<u>87,627</u>	<u>(37,366)</u>	<u>–</u>	<u>(2,166,134)</u>	<u>805,459</u>
For the six months ended 30 June 2011								
At 1 January 2011	2,916,091	2,241	3,000	85,003	(37,446)	25,725	(2,175,822)	818,792
Loss for the period	–	–	–	–	–	–	(21,723)	(21,723)
Exchange difference arising on translation of foreign operations								
– Exchange differences arising during the period	–	–	–	–	1,014	–	–	1,014
Total comprehensive income for the period	–	–	–	–	1,014	–	(21,723)	(20,709)
Lapse of warrants	–	–	(3,000)	–	–	–	3,000	–
At 30 June 2011	<u>2,916,091</u>	<u>2,241</u>	<u>–</u>	<u>85,003</u>	<u>(36,432)</u>	<u>25,725</u>	<u>(2,194,545)</u>	<u>798,083</u>

Company

	Share premium HK\$'000	Capital redemption reserve HK\$'000	Warrant reserve HK\$'000	Share-based payment reserve HK\$'000	Convertible Notes equity reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
For the six months ended 30 June 2010 (Unaudited) (Note 41)							
At 1 January 2010	2,916,091	2,241	3,000	87,627	–	(990,855)	2,018,104
Loss for the period	–	–	–	–	–	(9,340)	(9,340)
At 30 June 2010	<u>2,916,091</u>	<u>2,241</u>	<u>3,000</u>	<u>87,627</u>	<u>–</u>	<u>(1,000,195)</u>	<u>2,008,764</u>
For the six months ended 30 June 2011							
At 1 January 2011	2,916,091	2,241	3,000	85,003	25,725	(1,011,370)	2,020,690
Loss for the period	–	–	–	–	–	(17,591)	(17,591)
Lapse of warrants	–	–	(3,000)	–	–	3,000	–
At 30 June 2011	<u>2,916,091</u>	<u>2,241</u>	<u>–</u>	<u>85,003</u>	<u>25,725</u>	<u>(1,025,961)</u>	<u>2,003,099</u>

(a) Nature and purpose of the reserves are explained below:–

(i) Share premium

The share premium account of the Company is distributable to the equity holders of the Company under the Companies Law of the Bermuda subject to the provisions of the Company's Memorandum and Articles of Association and provided that the Company will be in a position to payoff its debts as they fall due in the ordinary course of business immediately following the date on which the dividend is proposed to be distributed.

(ii) Share options reserve

The share options reserve represents the fair value of the number of unexercised share options granted by the Company recognised in accordance with the accounting policy adopted for equity-settled share-based payments in note 4(j)(v).

(iii) Translation reserve

The translation 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 4(h).

(iv) Convertible notes equity reserve

The convertible notes equity reserve represents the equity component of outstanding convertible notes issued by the company recognized in accordance with the accounting policy adopted for convertible notes in Note 4(q)(ii)(3).

(b) *Distributability of reserves*

In the opinion of the directors of the Company, the Company had no balance of distributable reserves available for distribution to equity holders as at 30 June 2011 (For the year ended 31 December 2010: Nil).

31. WARRANTS

In the second quarter of 2009, the Company issued 60,000,000 warrants at an issue price of HK\$0.05 per warrant which attaching the rights to subscribe for 60,000,000 ordinary shares of the Company at a subscription price of HK\$0.60 per share (which was subsequently adjusted to HK\$0.59 per share) to a placing agent. The subscription period commenced from the date of issue of the warrants to the expiry of the second anniversary of the issue of the warrants (both days inclusive) (the “Subscription Period”). None of the warrant had been exercised to subscribe for ordinary shares of the Company during the Subscription Period, and therefore the warrant reserve was transferred to the accumulated losses during the six months period ended 30 June 2011. Details of placing of warrants are set out in the Company’s announcement dated 24 April 2009.

32. OPERATING LEASES COMMITMENTS

At the end of the reporting period, the Group had future aggregate minimum lease payments under non-cancellable operating leases falling due as follows:

	As at 30 June 2011 HK\$'000	As at 31 December 2010 HK\$'000
Properties		
– within one year	4,177	1,912
– In the second to fifth years, both inclusive	5,051	184
	<u>9,228</u>	<u>2,096</u>

Operating lease payments represent rental payable by the Group for its office properties and director's apartment.

33. CAPITAL COMMITMENTS

Capital commitments outstanding at 30 June 2011 and 31 December 2010 not provided for in the financial statements were as follows:

	As at 30 June 2011 HK\$'000	As at 31 December 2010 HK\$'000
Contracted but not provided for		
– acquisition of property, plant and equipment	27,715	25,588
– acquisition of Qianyi Limited and its subsidiaries	89,000	89,000
	<u>116,715</u>	<u>114,588</u>

34. RETIREMENT BENEFIT SCHEMES

The Group participates in the mandatory provident fund scheme (the “MPF Scheme”) for its employees in Hong Kong. Contributions to the MPF Scheme by the Group and employees are calculated as a percentage of employee’s basic salaries. The retirement benefit costs charged to the profit and loss represent contributions paid and payable by the Group to the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund.

The subsidiaries in the PRC participate in certain employees’ retirement schemes implemented by the relevant local municipal governments. Contributions are made by the relevant subsidiaries to these schemes based on certain percentages of the applicable payroll costs.

The Group has no other obligations other than the above-mentioned contributions.

35. FINANCIAL INSTRUMENTS**(a) Categories of financial instruments***The Group*

	As at 30 June 2011 HK\$'000	As at 31 December 2010 HK\$'000
Financial assets		
Loan and receivables		
– Deposit for acquisition	170,000	170,000
– Trade receivables	1,107	57,468
– Prepayments, deposits and other receivables	51,355	24,927
– Cash and bank balances	190,382	187,304
	<u>412,844</u>	<u>439,699</u>
Financial liabilities		
Amortised cost		
– Other payables and accruals	10,600	7,521
– Cumulative redeemable preference shares	110	110
– Convertible notes	96,533	89,886
	<u>107,243</u>	<u>97,517</u>

(b) Financial risk management and policies

The main risks arising from the Group's financial instruments are cash flow interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below. The Group's accounting policies in relation to derivatives are set out in note 4 to the consolidated financial statements.

Cash flow interest rate risk

The Group has no significant interest-bearing financial assets and liabilities with a floating interest rate. The Group's results and operating cash flows are substantially independent of changes in market interest rates.

Foreign currency risk

The Group has transactional currency exposures as the sales and purchases, certain trade and other receivables, cash and bank balances, and trade and other payables of the Group were mainly transacted in Renminbi ("RMB"), Mongolia Tugrugs ("T"), United States Dollars ("USD") and Hong Kong Dollars ("HKD").

The exchange rate of RMB and T were comparatively volatile.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the exchange rate of RMB and T, with all other variables held constant, of the Group's loss before taxation.

	Change in exchange rate	(Increase)/ decrease in loss before tax HK\$'000
At 30 June 2011		
If HKD weakens against RMB	5%	2,278
If HKD strengthens against RMB	5%	(2,278)
If HKD weakens against T	5%	334
If HKD strengthens against T	5%	(334)
At 31 December 2010		
If HKD weakens against RMB	5%	2,199
If HKD strengthens against RMB	5%	(2,199)
If HKD weakens against T	5%	118
If HKD strengthens against T	5%	(118)

At 30 June 2011 and 31 December 2010, the Group had not hedged any foreign currency to reduce such foreign currency risk.

In the opinion of the directors, if the exchange rates of these foreign currencies have continuous fluctuation, they will consider using forward currency contracts to reduce these risks.

Other price risks

As at 30 June 2011 and 31 December 2010, the Group did not hold investments held for trading. It is not exposed to commodity price risk.

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant. For transactions that are not denominated in the functional currency of the relevant operating unit, the Group does not offer credit terms without the specific approval of the management.

The Group has concentration of credit risk as 100% (31 December 2010: 100%) of the total trade receivables was due from one (31 December 2010: second largest) customer at the end of the reporting period. Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The Management regularly reviews its major funding positions to ensure that it has adequate financial resources in meeting its financial obligations.

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities. For non-derivative financial liabilities, the tables reflect the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The tables include both interest and principal cash flows.

In addition, the following table details the Group's expected maturity for some of its non-derivative financial assets. The tables below have been drawn up based on the undiscounted contractual maturities of the financial assets. The inclusion of information on non-derivative financial assets is necessary in order to understand the Group's liquidity risk management as the liquidity is managed on a net asset and liability basis.

	Effective interest rate %	On demand or less than 3 months HK\$	More than 3 months but less than 1 year HK\$	More than 1 year HK\$	Total undiscounted cash flows HK\$	Total carrying amount at 30 June 2011 HK\$
At 30 June 2011						
Non-derivative financial assets						
Cash and bank balances	-	190,382	-	-	190,382	190,382
Non-derivative financial liabilities						
Trade and other payables	-	10,600	-	-	10,600	10,600
Convertible notes	14.91	1,100	-	111,100	112,200	96,533
		11,700	-	111,100	122,800	107,133

	Effective interest rate %	On demand or less than 3 months HK\$	More than 3 months but less than 1 year HK\$	More than 1 year HK\$	Total undiscounted cash flows HK\$	Total carrying amount at 31 December 2010 HK\$
At 31 December 2010						
Non-derivative financial assets						
Cash and bank balances	-	187,304	-	-	187,304	187,304
Non-derivative financial liabilities						
Trade and other payables	-	7,521	-	-	7,521	7,521
Convertible notes	14.91	-	1,100	111,100	112,200	89,886
		7,521	1,100	111,100	119,721	97,407

36. FAIR VALUE HIERARCHY

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments:

- Level 1: Fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: Fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- Level 3: Fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs).

As at 30 June 2011 and 31 December 2010, the Group did not have any financial assets at fair value through profit or loss.

37. CAPITAL MANAGEMENT

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the debt-to-equity ratio. This ratio is calculated as debt divided by total equity. Debt represents current and non-current liabilities as shown in the consolidated statement of financial position. Total equity represents the equity as shown in the consolidated statement of financial position.

During the period, the Group's strategy, which was unchanged from 2010, was to maintain the net debt-to-equity ratio at satisfactory level. The net debt-to-equity ratios at 30 June 2011 and 31 December 2010 are as follows:

	Group	
	As at	As at
	30 June	31 December
	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>
Total debt	657,525	647,661
Total equity	1,985,811	2,008,699
Net debt-to-equity ratio	<u>33.11%</u>	<u>32.24%</u>

38. RELATED PARTY TRANSACTIONS

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. Details of transactions between the Group and other related parties are disclosed below.

On 3 May 2010, China National Information Resources Holdings Limited (a subsidiary of the Company), entered into an agreement for trading of products with 大冶有色金属股份有限公司 (Daye Nonferrous Metals Co., Ltd.) ("Daye Nonferrous"), a company incorporated in the PRC and is a subsidiary of Daye Nonferrous Metals Group Holdings Co., Limited (formerly known as "Hubei Daye Non Ferrous Metal Co."), the substantial shareholder of the Company. During the period ended 30 June 2011, non-ferrous metals amounted to approximately HK\$49,257,000 (for the six months ended 30 June 2010: HK\$Nil) were sold to Dajiang International Investment Co., Limited (formerly known as "Hong Kong Dajiang Trading Co., Limited"), a related company of Daye Nonferrous.

Dajiang International Investment Co., Limited (formerly known as Hong Kong Dajiang Trading Co., Limited) shared the company's rental and office expenses by HK\$275,000 (for the six months ended 30 June 2010: HK\$52,000). Dajiang International Investment Co., Limited is a subsidiary of Daye Nonferrous Metals Group Holdings Co., Limited (formerly known as "Hubei Daye Non Ferrous Metal Co."), a company incorporated in PRC, and is a related party of the Company.

On 10 October 2010, an agreement was entered into between 新疆滙祥永金礦業有限公司 (Xinjiang Huixiang Yong Jin Mining Company Limited) ("Xinjiang Huixiang"), a subsidiary of the Company and 大冶有色建築安裝有限公司 (Daye Non Ferrous Construction Installation Company Limited) ("DNF Construction") for engaging DNF Construction to build an integrated office building situated in 新疆烏恰縣 (Xinjiang Wuqia County) for Xinjiang Huixiang at a consideration of approximately RMB7,905,000 (equivalent to HK\$9,091,000). During the six months ended 30 June 2011 and 30 June 2010, no amount was incurred.

On 15 October 2010, an agreement was entered into between Xinjiang Huixiang and 湖北鑫力井巷有限公司 (Hubei Xinli Jing Xiang Company Limited) ("Hubei Xinli"), a company incorporated with limited liability in the PRC, for the construction of slanted mining wells and vertical mining wells by Hubei Xinli for Xinjiang Huixiang at a consideration of approximately RMB26,510,000 (equivalent to HK\$30,487,000). During the six months ended 30 June 2011, the amount of construction in progress incurred was approximately RMB4,674,000, equivalent to HK\$5,628,000 (six months ended 30 June 2010: Nil).

Key management personnel represent the directors of the Company and their remunerations are set out in note 10.

39. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries of the Company at 30 June 2011 and 31 December 2010 are as follows:–

Name of Company	Place of incorporation/ operation	Form of legal entity	Issue and paid up capital/ registered capital	Proportion of nominal value of issued capital/registered capital		Principal activities
				held by the Company		
				Directly	Indirectly	
Ample Year Limited	British Virgin Islands	International business company	US\$1	100%	–	Investment holding
China National Recycling Int'l Trading Limited	Hong Kong	Limited liability company	HK\$1	–	100%	Investment holding

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FINANCIAL INFORMATION OF THE GROUP

Name of Company	Place of incorporation/ operation	Form of legal entity	Issue and paid up capital/ registered capital	Proportion of nominal value of issued capital/registered capital held by the Company		Principal activities
				Directly	Indirectly	
China National Information Resources Holdings Limited	Hong Kong	Limited liability company	HK\$2	–	100%	Trading in non-ferrous metals
China National Resources Investments Limited	Hong Kong	Limited liability company	HK\$2	–	100%	Investment holding
China Reservoir Mining Limited	British Virgin Islands	International business company	US\$50,000	–	51%	Investment holding
Fuken Investments Limited	British Virgin Islands	International business company	US\$1	–	100%	Investment holding
Giant Strong International Limited	British Virgin Islands	International business company	US\$3	–	100%	Investment holding
Gold Way Investment International Limited	Hong Kong	Limited liability company	HK\$100	–	100%	Investment holding
Golden Brand Investments Limited	British Virgin Islands	International business company	US\$1	–	100%	Investment holding
Goldright Finance Limited	British Virgin Islands	International business company	US\$1	100%	–	Securities trading
Max Alliance International Limited	British Virgin Islands	International business company	US\$1	100%	–	Investment holding
Max Alliance Gold Resource Investment Limited	Hong Kong	Limited liability company	HK\$1	–	100%	Investment holding

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FINANCIAL INFORMATION OF THE GROUP

Name of Company	Place of incorporation/ operation	Form of legal entity	Issue and paid up capital/ registered capital	Proportion of nominal value of issued capital/registered capital held by the Company		Principal activities
				Directly	Indirectly	
Reservoir (Mongolia) Limited	The Republic of Mongolia	Limited liability company	US\$100,000	–	51%	Mineral exploitation
Reservoir Moly Mongolia Limited (note (a))	The Republic of Mongolia	Limited liability company	US\$10,000	–	28%	Mineral exploitation
Jetlight Investment Limited	British Virgin Islands	International business company	US\$1	100%	–	Investment holding
Keytrade Investments Limited	British Virgin Islands	International business company	US\$1	100%	–	Securities trading
Profit Jumbo Investment Limited	British Virgin Islands	International business company	US\$1	100%	–	Investment holding
Shinemax Group Limited	British Virgin Islands	International business company	US\$1	100%	–	Investment holding
Vintage International Financial Holding Group Limited	British Virgin Islands	International business company	US\$1	100%	–	Investment holding
新疆匯祥永金礦業有限公司	People's Republic of China	Sino-foreign equity joint venture company	RMB121,000,000	–	55%	Mineral exploitation

Note (a) Although the Company does not own more than half of the equity shares of Reservoir Moly Mongolia Limited, and consequently it does not control more than half of the voting power of those shares, however, the Company has the power to appoint and remove the majority of the board of directors in this entity, and hence the control of this entity is by the board. Consequently, Reservoir Moly Mongolia Limited is controlled by the Company and is consolidated in these financial statements.

40. REVERSE TAKEOVER

On 23 January 2011, the Company, 大冶有色金屬集團控股有限公司 (Daye Nonferrous Metals Group Holdings Co., Limited) and the Vendors (China Times Development Limited, 中國信達資產管理股份有限公司 (China Cinda Assets Management Co., Ltd.), 華融資產管理公司 (China Huarong Asset Management Corporation)) entered into the Acquisition Agreement (as supplemented and amended by the Supplemental Agreement dated 31 January 2011), pursuant to which, among other things, the Company has conditionally agreed to purchase, and the Vendors have conditionally agreed to sell, the Sale Shares (the China Times Sale Shares, Cinda Sale Shares and Huarong Sale Shares) at a total consideration of RMB6,100,000,000 or HK\$7,207,334,940 (based on the exchange rate of HK1: RMB0.84636), which will be satisfied by the allotment and issue to the Vendors of an aggregate of 12,406,997,784 Ordinary Shares at the Issue Price of HK\$0.50 per Consideration Share and (to China Times only) the issue of the China Times Convertible Notes. The proposed acquisition is to eventually acquire the equity interest in Daye Nonferrous Metals Co., Limited. Details of the acquisition are set out in the announcements of the Company dated 1 February 2011 and 11 August 2011.

41. COMPARATIVE FIGURES

The consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows and the related disclosure notes for the six months ended 30 June 2010 of the Group were not audited.

42. APPROVAL OF ACCOUNTS

The consolidated financial statements were approved and authorised for issue by the Company's Board of directors on 26 August 2011.

3. AUDITED FINANCIAL STATEMENTS OF THE GROUP FOR THE YEAR ENDED 31 DECEMBER 2010

Set out below are the audited financial statements of the Group for the year ended 31 December 2010 as extracted from the annual report of the Company for the year ended 31 December 2010.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2010

		1 January 2010 to 31 December 2010	1 May 2009 to 31 December 2009
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
REVENUE	6	954,314	1,672
COST OF SALES		<u>(940,955)</u>	<u>(645)</u>
		13,359	1,027
OTHER REVENUE	6	459	300
GENERAL AND ADMINISTRATIVE EXPENSES		<u>(43,353)</u>	<u>(112,988)</u>
OPERATING LOSS FOR THE YEAR/PERIOD	8	(29,535)	(111,661)
IMPAIRMENT OF MINING RIGHT WRITTEN BACK		14,038	87,407
LOSSES ON CHANGES IN FAIR VALUES OF INVESTMENTS HELD FOR TRADING		–	(1,186)
LOSS ON DISPOSAL OF A SUBSIDIARY	9	(1,514)	–
FINANCE COSTS	10	<u>(5,616)</u>	<u>(5)</u>
LOSS BEFORE TAXATION		(22,627)	(25,445)
INCOME TAX	12	<u>(5,640)</u>	<u>(21,852)</u>
LOSS FOR THE YEAR/PERIOD		<u><u>(28,267)</u></u>	<u><u>(47,297)</u></u>

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		1 January 2010 to 31 December 2010	1 May 2009 to 31 December 2009
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
OTHER COMPREHENSIVE INCOME:			
Exchange difference arising on translation of foreign operations			
– Exchange differences arising during the year/period		1,518	4
– Reclassification adjustments relating to foreign operations disposed of during the year/period		29	–
		<u>1,547</u>	<u>4</u>
OTHER COMPREHENSIVE INCOME FOR THE YEAR/PERIOD, NET OF TAX		<u>1,547</u>	<u>4</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR/PERIOD		<u>(26,720)</u>	<u>(47,293)</u>
LOSS FOR THE YEAR/PERIOD ATTRIBUTABLE TO:			
– owners of the Company		(23,073)	(91,168)
– non-controlling interests		(5,194)	43,871
		<u>(28,267)</u>	<u>(47,297)</u>
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
– owners of the Company		(22,182)	(91,171)
– non-controlling interests		(4,538)	43,878
		<u>(26,720)</u>	<u>(47,293)</u>
		<i>HK cents</i>	<i>HK cents</i>
Loss per share:	<i>14</i>		
– Basic		<u>(0.41)</u>	<u>(1.76)</u>
– Diluted		<u>N/A</u>	<u>N/A</u>

APPENDIX II**FINANCIAL INFORMATION OF THE GROUP****CONSOLIDATED STATEMENT OF FINANCIAL POSITION***As at 31 December 2010*

		2010	2009
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment	15	55,535	18,731
Prepaid lease payment	16	1,656	1,670
Jointly controlled entities	19	–	–
Mining rights	17	2,156,585	2,142,547
TOTAL NON-CURRENT ASSETS		2,213,776	2,162,948
CURRENT ASSETS			
Deposit for acquisition	20	170,000	–
Prepaid lease payment	16	44	–
Investments held for trading	21	–	6,990
Inventories	22	2,885	1,366
Trade and other receivables	23	82,351	3,644
Cash and bank balances	24	187,304	343,961
TOTAL CURRENT ASSETS		442,584	355,961
CURRENT LIABILITIES			
Trade and other payables	25	7,521	10,448
Deferred income	26	6,966	3,975
Tax payable		4,032	1,901
TOTAL CURRENT LIABILITIES		18,519	16,324
NET CURRENT ASSETS		424,065	339,637
TOTAL ASSETS LESS CURRENT LIABILITIES		2,637,841	2,502,585

APPENDIX II**FINANCIAL INFORMATION OF THE GROUP**

		2010	2009
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
NON-CURRENT LIABILITIES			
Cumulative redeemable preference shares	27	110	110
Convertible notes	28	89,886	—
Deferred tax liabilities	29	<u>539,146</u>	<u>535,637</u>
TOTAL NON-CURRENT LIABILITIES		<u>629,142</u>	<u>535,747</u>
NET ASSETS		<u><u>2,008,699</u></u>	<u><u>1,966,838</u></u>
CAPITAL AND RESERVES			
Share capital	30	279,560	279,560
Reserves	32	<u>818,792</u>	<u>815,249</u>
Equity attributable to the owners of the Company		1,098,352	1,094,809
Non-controlling interests		<u>910,347</u>	<u>872,029</u>
TOTAL EQUITY		<u><u>2,008,699</u></u>	<u><u>1,966,838</u></u>

APPENDIX II**FINANCIAL INFORMATION OF THE GROUP****STATEMENT OF FINANCIAL POSITION***As at 31 December 2010*

		2010	2009
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment	15	2,154	1,282
Jointly controlled entities	19	–	–
Interest in subsidiaries	18	2,204,422	2,005,372
TOTAL NON-CURRENT ASSETS		2,206,576	2,006,654
CURRENT ASSETS			
Deposit for acquisition	20	170,000	–
Trade and other receivables	23	11,109	1,724
Cash and bank balances	24	5,798	293,309
TOTAL CURRENT ASSETS		186,907	295,033
CURRENT LIABILITIES			
Trade and other payables	25	3,237	3,913
TOTAL CURRENT LIABILITIES		3,237	3,913
NET CURRENT ASSETS		183,670	291,120
TOTAL ASSETS LESS CURRENT LIABILITIES		2,390,246	2,297,774
NON-CURRENT LIABILITIES			
Cumulative redeemable preference shares	27	110	110
Convertible notes	28	89,886	–
TOTAL NON-CURRENT LIABILITIES		89,996	110
NET ASSETS		2,300,250	2,297,664
CAPITAL AND RESERVES			
Share capital	30	279,560	279,560
Reserves	32	2,020,690	2,018,104
TOTAL EQUITY		2,300,250	2,297,664

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2010

	Attributable to the owners of the Company										Total HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Capital redemption reserve HK\$'000	Warrant reserve HK\$'000	Share- based payment reserve HK\$'000	Exchange reserve HK\$'000	Convertible notes equity reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000	Non- controlling interests HK\$'000	
At 1 May 2009	257,584	2,670,545	2,241	3,000	62,661	(38,334)	–	(2,126,866)	830,831	828,151	1,658,982
Loss for the period	–	–	–	–	–	–	–	(91,168)	(91,168)	43,871	(47,297)
Exchange differences arising on translation of foreign operations:											
Exchange differences arising during the period	–	–	–	–	–	(3)	–	–	(3)	7	4
Reclassification adjustments relating to foreign operations disposed of during the period	–	–	–	–	–	–	–	–	–	–	–
Total comprehensive income for the period	–	–	–	–	–	(3)	–	(91,168)	(91,171)	43,878	(47,293)
Recognition of share-based payment	–	–	–	–	87,627	–	–	–	87,627	–	87,627
Share option lapsed/cancelled	–	–	–	–	(62,661)	–	–	62,661	–	–	–
Issue of shares	21,976	245,546	–	–	–	–	–	–	267,522	–	267,522
At 31 December 2009 and at 1 January 2010	279,560	2,916,091	2,241	3,000	87,627	(38,337)	–	(2,155,373)	1,094,809	872,029	1,966,838
Loss for the year	–	–	–	–	–	–	–	(23,073)	(23,073)	(5,194)	(28,267)
Exchange differences arising on translation of foreign operations:											
Exchange differences arising during the year	–	–	–	–	–	862	–	–	862	656	1,518
Reclassification adjustments relating to foreign operations disposed of during the year	–	–	–	–	–	29	–	–	29	–	29
Total comprehensive income for the year	–	–	–	–	–	891	–	(23,073)	(22,182)	(4,538)	(26,720)
Capital contributed by non-controlling interests	–	–	–	–	–	–	–	–	–	42,720	42,720
Recognition of the equity component of convertible notes	–	–	–	–	–	–	25,725	–	25,725	–	25,725
Share option forfeited	–	–	–	–	(2,624)	–	–	2,624	–	–	–
Derecognition of non-controlling interests on the disposal of Reservoir (Tungs) Limited	–	–	–	–	–	–	–	–	–	136	136
At 31 December 2010	279,560	2,916,091	2,241	3,000	85,003	(37,446)	25,725	(2,175,822)	1,098,352	910,347	2,008,699

CONSOLIDATED STATEMENT OF CASH FLOWS*For the year ended 31 December 2010*

		1 January 2010 to 31 December 2010	1 May 2009 to 31 December 2009
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		(22,627)	(25,445)
Adjustments for:			
Interest income		(256)	(85)
Impairment on mining right written back		(14,038)	(87,407)
Finance costs		5,616	5
Impairment of other receivables		–	33
Amortisation of prepaid land lease payment		42	–
Inventories written off		–	34
Share-based payment expenses		–	87,627
Losses on changes in fair values of investments held for trading		–	1,186
Depreciation of property, plant and equipment		2,530	1,139
Loss on disposal of a subsidiary	9	1,514	–
Loss on disposal of property, plant and equipment		7	9
Operating loss before changes in working capital		(27,212)	(22,904)
Decrease in investments held for trading		6,990	645
(Increase)/decrease in inventories		(1,519)	41
(Increase)/decrease in trade and other receivables		(78,707)	1,425
(Decrease)/increase in trade and other payables		(2,712)	2,662
Increase in deferred income		2,834	–
Cash used in operations		(100,326)	(18,131)
Interest paid		–	(5)
Net cash used in operating activities		(100,326)	(18,136)

APPENDIX II**FINANCIAL INFORMATION OF THE GROUP**

		1 January 2010 to 31 December 2010	1 May 2009 to 31 December 2009
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
CASH FLOWS FROM INVESTING ACTIVITIES			
Deposit for acquisition		(60,000)	–
Net cash outflow arising from disposal of a subsidiary	9	(1,569)	–
Interest income		256	85
Proceeds from sales of property, plant and equipment		1	–
Purchase of property, plant and equipment		(36,783)	(1,739)
Prepaid Lease payment		(7)	(1,670)
		<u>(98,102)</u>	<u>(3,324)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds contributed by non-controlling interests		42,720	–
Net proceeds from issue of ordinary shares		–	267,522
		<u>42,720</u>	<u>267,522</u>
Net cash generated from financing activities		<u>42,720</u>	<u>267,522</u>
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(155,708)	246,062
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR/PERIOD		343,961	97,894
Effects of foreign exchange rate changes		(949)	5
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR/PERIOD		<u>187,304</u>	<u>343,961</u>
ANALYSIS OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		<u>187,304</u>	<u>343,961</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

1. Corporate information

China Daye Non-Ferrous Metals Mining Limited (the “Company”) was incorporated in Bermuda as an exempted Company with limited liability and its shares are listed on the main board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The address of the registered office and principal place of business of the Company are Clarendon House, 2 Church Street, Hamilton HM11, Bermuda and Unit 2001, World Wide House, 19 Des Voeux Road Central, Hong Kong respectively.

During the year, the Company and its subsidiaries (collectively referred to the “Group”) was involved in the following principal activities:

- Corporate investment and trading in securities;
- Minerals exploitation; and
- Trading in non-ferrous metals.

The financial year end date of the Company has changed from 30 April to 31 December during 2009. The reason for the change is to coincide with the financial year end date of the Company’s principal operating subsidiaries, which are mainly situated in the People’s Republic of China, and thereby facilitating the preparation of the consolidated financial statements of the Company and its subsidiaries. As a result of the change, the previous financial statements covered a period from 1 May 2009 to 31 December 2009 which was shorter than one year as compared with the current financial statements covered a period from 1 January 2010 to 31 December 2010. The comparative amounts for the consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and related notes are not entirely comparable.

In the opinion of the directors, as at 31 December 2010 the ultimate holding company is Daye Non-Ferrous Metals Corporation Holdings Limited (“Daye Corp”) (formerly known as “Hubei Daye Non-Ferrous Metals Company”), a company incorporated with limited liability under the laws of the PRC.

2. Application of new and revised hong kong financial reporting standards (“HKFRSs”)

In the current year, the Group and the Company have applied the following new and revised Standards, Amendments and Interpretations (“new and revised HKFRSs”) issued by the HKICPA.

HKFRS 1 (Amendments)	Additional Exemptions for First-time Adopters
HKFRS 2 (Amendments)	Group Cash-settled Share-based Payment Transactions
HKFRS 3 (Revised)	Business Combinations
HKFRS 5 (Amendments)	Non-current Assets Held for Sale and Discontinued Operations
HKAS 1 (Amendments)	Presentation of Financial Statements
HKAS 7 (Amendments)	Statement of Cash Flows
HKAS 17 (Amendments)	Leases
HKAS 27 (as revised in 2008)	Consolidated and Separate Financial Statements
HKAS 28 (as revised in 2008)	Investments in Associates
HKAS 39 (Amendments)	Eligible Hedged Items
HK(IFRIC)-Int 17	Distributions of Non-cash Assets to Owners
HK(IFRIC)-Int 18	Transfers of Assets from Customers
HK – Int 5	Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause

The adoption of the new and revised HKFRSs has no material effect on the financial statements of the Group and the Company for the current and prior accounting periods.

The Group and the Company have not early applied the following new and revised Standards, Amendments and Interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010 except for the amendments to HKFRS 3 (as revised in 2008), HKFRS 7, HKAS 1 and HKAS 28 ⁽¹⁾
HKFRS 1 (Amendments)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters ⁽²⁾
HKFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets ⁽⁵⁾
HKFRS 9	Financial Instruments ⁽³⁾
HKAS 1 (Amendments)	Presentation of Financial Statements ⁽⁵⁾
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets ⁽⁶⁾
HKAS 24 (as revised in 2009)	Related Party Disclosures ⁽⁴⁾
HKAS 32 (Amendments)	Classification of Rights Issues ⁽⁵⁾
HK(IFRIC)-Int 14 (Amendments)	Prepayments of Minimum Funding Requirement ⁽⁴⁾
HK(IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity ⁽²⁾

- (1) *Effective for annual periods beginning on or after 1 July 2010 or 1 January 2011, as appropriate.*
- (2) *Effective for annual periods beginning on or after 1 July 2010.*
- (3) *Effective for annual periods beginning on or after 1 January 2013.*
- (4) *Effective for annual periods beginning on or after 1 January 2011.*
- (5) *Effective for annual periods beginning on or after 1 February 2010.*
- (6) *Effective for annual periods beginning on or after 1 January 2012.*

HKFRS 9 Financial Instruments introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. The Standard requires all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 might affect the classification and measurement of financial assets.

The directors of the Company anticipate that the application of the other new and revised Standards, Amendments or Interpretations will have no material impact on financial statements.

3. Basis of preparation

These consolidated 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 (“Listing Rules”) on the Stock Exchange.

The measurement basis used in the preparation of the consolidated financial statements is the historical cost basis except for certain financial instruments, which are measured at fair values.

4. Significant accounting policies

(a) Basis of consolidation

The financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Non-controlling interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Non-controlling interests in the net assets consist of the amount of those interests at the date of the original business combinations and the non-controlling interests' share of changes in equity since the date of the combination. Losses of non-wholly owned subsidiary are attributed to the owners of the company and non-controlling interests even if that results in deficit balances.

(b) Business combinations

*Business combinations not under common control
arising on acquisitions prior to 1 January 2010*

Acquisition of businesses was accounted for using the purchase method. The cost of the acquisition was measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that met the relevant conditions for recognition were generally recognised at fair value at the acquisition date. Goodwill arising on acquisition was recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess, after reassessment, is recognised immediately in profit or loss. The non-controlling interest in the acquiree was initially measured at the non-controlling interest's proportionate share of the recognised amounts of the assets, liabilities and contingent liabilities of the acquiree.

Contingent consideration was recognised, if and only if, the contingent consideration was probable and could be measured reliably. Subsequent adjustments to contingent consideration were recognised against the cost of the acquisition.

Business combinations achieved in stages were accounted for as separate steps. Goodwill was determined at each step. Any additional acquisition did not affect the previously recognised goodwill.

*Business combinations not under common control
arising on acquisitions on or after 1 January 2010*

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

At the acquisition date, the acquiree's identifiable assets acquired and the liabilities assumed are recognised at their fair values at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 Income Taxes and HKAS 19 Employee Benefits respectively;
- liabilities or equity instruments related to the share-based payment transactions of the acquiree or replacement of an acquiree's share-based payment transactions with the share-based payment transaction of the Group are measured in accordance with HKFRS 2 Share-based Payment at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 Noncurrent Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after assessment, the Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or another measurement basis required by another Standard.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries on or after
1 January 2010

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Where certain assets of the subsidiary are measured at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Company had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to retained earnings). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

Changes in the Group's ownership interests in existing subsidiaries prior to 1 January 2010

Increases in interests in existing subsidiaries were treated in the same manner as the acquisition of subsidiaries, with goodwill or a bargain purchase gain being recognised where appropriate. For decreases in interests in subsidiaries, regardless of whether the disposals would result in the Group losing control over the subsidiaries, the difference between the consideration received and the adjustment to the non-controlling interests was recognised in profit or loss.

(c) *Subsidiary*

A subsidiary is an enterprise in which the Group has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another enterprise.

Investment in subsidiaries is included in the Company's statement of financial position at cost less any impairment losses, unless it is classified as held for sale. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(d) *Associates and jointly controlled entities*

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

A jointly controlled entity is an entity which operates under a contractual arrangement between the Group and other parties, where the contractual arrangement establishes that the Group and one or more of the other parties share joint control over the economic activity of the entity.

An investment in an associate or a jointly controlled entity 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 or the jointly controlled entity's net assets, unless it is classified as held for sale. The consolidated statement of comprehensive income includes the Group's share of the post-acquisition, post-tax results of the associates and jointly controlled entities for the year, including any impairment loss on goodwill relating to the investment in associates and jointly controlled entities recognised for the year.

When the Group's share of losses exceeds its interest in the associate or the jointly controlled entity, 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 or the jointly controlled entity. For this purpose, the Group's interest in the associate or the jointly controlled entity 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 or the jointly controlled entity.

From 1 January 2010 onwards, upon disposal of an associate that results in the Group losing significant influence over that associate, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with HKAS 39. The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses significant influence over that associate.

Unrealised profits and losses resulting from transactions between the Group and its associates and jointly controlled entities are eliminated to the extent of the Group's interest in the associate or jointly controlled entity, 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 statement of financial position, investment in associates and jointly controlled entities is stated at cost less impairment losses, unless it is classified as held for sale.

(e) Goodwill

Goodwill arising on an acquisition of a subsidiary represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant subsidiary at the date of acquisition. Goodwill arising on an acquisition of an associate or a jointly controlled entity represents the excess of the cost of the acquisition over the Group's share of the relevant associate's or jointly controlled entity's net assets at the date of acquisition.

Capitalised goodwill is presented separately in the consolidated statement of financial position and is carried at cost less any accumulated impairment losses. For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated statement of comprehensive income. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of a subsidiary, an associate or a jointly controlled entity, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

(f) Revenue recognition

Revenue, which is measured at the fair value of the consideration received or receivable, is recognised when it is probable that the economic benefits will flow to the Group and the revenue can be measured reliably, on the following bases:

- (i) Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and sales related taxes;
- (ii) Income arising from sales of trading securities is recognised on the completion of transfer of risks and rewards of ownership of the investments to the transferee and the legal title being passed;
- (iii) interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount; and
- (iv) Dividend income is recognised when the shareholder's right to receive payment is established.

(g) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis. Interest in leasehold land is amortised over the lease term on a straight-line basis.

(h) Foreign currencies

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in Hong Kong dollars, which is the functional currency of the Company, and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the end of the reporting period. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in profit or loss for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in equity.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations (including comparatives) are expressed in Hong Kong dollars using exchange rates prevailing at the end of the reporting period. Income and expense items (including comparatives) are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments on identifiable assets acquired arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at closing rate. Exchange differences arising are included in the translation reserve.

From 1 January 2010 onwards, upon the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss. In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of associates or jointly controlled entities that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

(i) *Borrowing costs*

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(j) *Employee benefits*

- (i) Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the end of the reporting period.

Employee entitlements to sick leave and maternity or paternity leaves are not recognised until the time of leave.

(ii) *Employee leave entitlements*

Provision for profit sharing and bonus payments due wholly within twelve months after the end of the reporting period are recognised as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

(iii) *Retirement benefit costs*

The Group's contributions to the defined contribution retirement scheme set up pursuant to the Hong Kong Mandatory Provident Fund Schemes Ordinance (the "MPF" Scheme) for all qualifying employees are expensed as incurred. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

(iv) *Retirement benefits schemes*

The Company's PRC and Mongolia subsidiaries participate in defined contribution retirements schemes organized by the local government authorities. All of the employees are entitled to an annual pension equivalent to a fixed portion of their basic salaries at their retirement dates. The Company's PRC and Mongolia subsidiaries are required to contribute certain percentage ranged from 11% to 15% of the basic salaries of their employees to the retirement schemes and have no further obligation for post-retirement benefits. The contributions are charged to the profits and loss of the Group as they become payable in accordance with the rules of schemes.

(v) *Share-based payments*

The Group operates equity-settled share-based payments to certain directors, employees and other parties.

Equity-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period with a corresponding increase in a capital reserve within equity, based on the Group's estimate of the shares that will eventually vest and adjusted for the effect of non market-based vesting conditions. The equity amount is recognised in the capital 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 earnings).

Fair value is measured using the Binomial Option Pricing Model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioral considerations.

(k) *Taxation*

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted at the end of the reporting period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax base used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted at the end of the reporting period. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

(l) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is charged so as to write off the cost of property, plant and equipment, after taking into account of their estimated residual value, if any, over their estimated useful lives, using the straight-line method. The principal annual rates are as follows:

Leasehold improvement	20%
Furniture, fixtures and equipment	15% – 20%
Motor vehicles	25%
Plant and machineries	15%
Building and mining structure	5%

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the statement of comprehensive income in the year in which the item is derecognised.

Construction in progress, which represents assets under construction, is stated at cost less impairment loss, if any. When the assets are completed and ready for use, the carrying amount of the assets will be reclassified to property, plant and equipment and depreciated in accordance with the policy as set out above.

(m) Mining right

Mining rights are stated at cost less accumulated amortisation and any impairment losses and are amortised on a straight line basis over the estimated useful life of the mines based on the total proven and probable reserves of the mines using the units of production method.

(n) Exploration and related expenses

Exploration and related expenses include topographical and geological surveys, exploratory drilling, sampling and trenching and activities in relation to commercial and technical feasibility studies, and expenditure incurred to secure further mineralisation in existing ore bodies and to expand the capacity of a mine. Expenditure incurred prior to acquiring legal rights to explore an area is written off as incurred.

(o) Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the consolidated statement of comprehensive income over the expected useful life of the relevant asset by equal annual installments.

(p) Impairment of tangible and intangible assets excluding goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell 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 the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount under other standard, in which case the impairment loss is treated as revaluation decrease under other standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount under other standard, in which case the reversal of the impairment loss is treated as a revaluation increase under other standard.

Impairment losses recognised in an interim financial report prepared in compliance with “HKAS 34 Interim Financial Reporting” are not reversed at the end of the financial year to which the interim period relates even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of that financial year.

(q) Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs that are directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset/liability and of allocating interest income/expense over the relevant period. The effective interest rate that exactly discounts estimated future cash receipts/payments (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset/liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income for financial assets and interest expense for financial liabilities are recognized on an effective interest basis.

(i) Financial assets

The Group's financial assets are classified into one of the four categories, including financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

The accounting policies adopted in respect of each category of financial assets are set out below.

(1) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss has two subcategories, including financial assets held for trading and those designated as fair value through profit or loss on initial recognition.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of and identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as fair value through profit or loss upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as fair value through profit or loss.

At the end of each reporting period subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial assets.

(2) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At the end of each reporting period subsequent to initial recognition, loans and receivables (including trade receivables, loan receivables, other receivables and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses.

(3) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. At the end of each reporting period subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method, less any identified impairment losses.

(4) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments. At the end of each reporting period subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in other comprehensive income, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in other comprehensive income is removed and recognised in profit or loss.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at the end of each reporting period subsequent to initial recognition.

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in other comprehensive income is recognised in profit or loss.

(ii) Financial liabilities

The Group's financial liabilities are generally classified into financial liabilities at fair value through profit or loss and other financial liabilities. The accounting policies adopted in respect of financial liabilities are set out below.

(1) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss has two subcategories, including financial liabilities held for trading and those designated as fair value through profit or loss on initial recognition.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as fair value through profit or loss upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as fair value through profit or loss.

At the end of each reporting period subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss includes any interest paid on the financial liability.

(2) Other financial liabilities and equity

Other financial liabilities (including bank and other borrowings, trade and other payables) are subsequently measured at amortised cost, using the effective interest method.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss.

(3) Convertible notes

Convertible notes issued by the Company that contain both the liability and conversion option components are classified separately into respective items on initial recognition. Conversion option will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is an equity instrument.

On initial recognition, the fair value of the liability component is determined using the prevailing market interest rate of similar non-convertible debts. The difference between the proceeds of the issue of the convertible notes and the fair value assigned to the liability component, representing the conversion option for the holder to convert the convertible notes into equity, is included in equity (convertible notes equity reserve).

In subsequent periods, the liability component of the convertible notes is carried at amortised cost using the effective interest method. The equity component, representing the option to convert the liability component into ordinary shares of the Company, will remain in convertible notes equity reserve until the conversion option is exercised (in which case the balance stated in convertible notes equity reserve will be transferred to share premium). Where the option remains unexercised at the expiry date, the balance stated in convertible notes equity reserve will be released to the retained profits. No gain or loss is recognised in profit or loss upon conversion or expiration of the option.

Transaction costs that relate to the issue of the convertible notes are allocated to the liability and equity components in proportion to the allocation of the proceeds. Transaction costs relating to the equity component are charged directly to equity. Transaction costs relating to the liability component are included in the carrying amount of the liability component and amortised over the period of the convertible notes using the effective interest method.

(iii) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on purchase, sale, issue or cancellation of the Company's own equity instruments.

Warrants issued by the group entities which will be settled by the exchange of a fixed amount of cash for a fixed number of the Company's own equity instruments, are recorded at the proceeds received, net of direct issue costs.

(iv) Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income is recognised in profit or loss. If the Group retains substantially all the risks and rewards of ownership of a transferred asset, the Group continues to recognise the financial asset and recognise a collateralised borrowing for proceeds received.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

(r) *Financial guarantees, provisions and contingent liabilities*

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. The Group has asserted to regard financial guarantee contracts as insurance contracts and elect to apply “HKFRS 4 Insurance Contracts” to account for such contracts. The election applies to all existing contracts and new contracts on a contract-by-contract basis and is irrevocable for each contract elected.

Provisions are recognised when the Group has a present obligation as a result of a past event, and 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.

Present obligation is disclosed as a contingent liability where it is not probable that an outflow of economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability. Possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more future event(s) is also disclosed as a contingent liability unless the probability of outflow of economic benefits is remote.

(s) *Inventories*

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

(t) *Cash and cash equivalents*

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group’s cash management.

For the purpose of the statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

(u) Related parties

A party is considered to be related to the Group if:

- (i) The party, directly or indirectly through one or more intermediaries, (1) controls, is controlled by, or is under common control with, the Group; (2) has an interest in the Group that gives it significant influence over the Group; or (3) has joint control over the Group;
- (ii) The party is an associate;
- (iii) The party is a jointly-controlled entity;
- (iv) The party is a member of the key management personnel of the Group or its parent;
- (v) The party is a close member of the family of any individual referred to in (i) or (iv);
- (vi) The party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides, with directly or indirectly, any individual referred to in (iv) or (v); or
- (vii) 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.

A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

5. Critical accounting judgments and estimates

(a) *Judgments*

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations as discussed below, which have the most significant effect on the amounts recognised in the financial statements.

(i) *Impairment of assets*

In determining whether an asset is impaired or the event previously causing the impairment no longer exists, the Group has to exercise judgment in the area of asset impairment, particularly in assessing: (1) whether an event has occurred that may affect the asset value or such event affecting the asset value has not been in existence; (2) whether the carrying value of an asset can be supported by net present value of future cash flows which are estimated based upon the continued use of the asset or derecognition; and (3) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management to determine the level of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test.

(ii) *Exploration and related expenses*

The application of the Group's accounting policy for exploration and evaluation expenditure requires judgments in determining whether it is likely that future economic benefits will arise, which may be based on assumptions about future events or circumstances. Estimates and assumptions made may change if new information becomes available. If, after expenditures are capitalized, information becomes available suggesting that the recovery of capitalized expenditures are unlikely, the amount capitalized is written off in the income statement in the period when the new information becomes available.

(iii) *Income taxes*

Deferred tax is provided using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax assets are recognised for unused tax losses carried forward to the extent that it is probable that future taxable profits will be available against which the unused tax losses can be utilised, based on all available evidence. Recognition primarily involves judgment regarding the future performance of the particular legal entity or tax group in which the deferred tax asset has been recognised. A variety of other factors are also evaluated in considering whether there is convincing evidence that it is probable that some portion or all of the deferred tax assets will ultimately be realised, such as the existence of taxable temporary differences, tax planning strategies and the periods in which estimated tax losses can be utilised. The carrying amount of deferred tax assets and related financial models and budgets are reviewed at the end of each reporting period and to the extent that there is insufficient convincing evidence that sufficient taxable profits will be available within the utilisation periods to allow utilisation of the carry forward tax losses, the asset balance will be reduced and charged to the income statement.

(b) *Estimation uncertainty*

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of the Group's assets and liabilities within the next financial year are discussed below.

(i) *Impairment test of assets*

The Group determines whether an asset is impaired at least on an annual basis or where an indication of impairment exists. This requires an estimation of the value in use of the asset. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the assets and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

(ii) *Mine reserves*

Engineering estimates of the Group's mine reserves are inherently imprecise and represent only approximate amounts because of the subjective judgments involved in developing such information. There are authoritative guidelines regarding the engineering criteria that have to be met before estimated mine reserves can be designated as proven and probable. Proven and probable mine reserve estimates are updated on a regular basis and have taken into account recent production and technical information about each mine. In addition, price and cost levels change from year to year, the estimates of proven and probable mine reserves also change. This change is considered a change in estimate for accounting purposes and is reflected on a prospective basis in the related amortisation rates of mining rights.

Despite the inherent imprecision in these engineering estimates, these estimates are used in determining amortisation expenses and impairment losses of mining rights. Amortisation rates are determined based on estimated proven and probable mine reserve quantity and capitalised costs of mining rights. The capitalised costs of mining rights are amortised over the estimated useful lives of the mines based on the proven and probable reserves of the mines using the units of production method.

(iii) Income taxes

The Group reviews the carrying amount of deferred tax assets at the end of each reporting period and reduces the amount to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax assets to be utilised. This requires an estimation of the future taxable profits. Estimating the future taxable profits requires the Group to make an estimate of the expected future earnings from the Group and also to choose a suitable discount rate in order to calculate the present value of the earnings.

(iv) Depreciation of property, plant and equipment

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives, after taking into account of their estimated residual value. The determination of the useful lives and residual values involve management's estimation. The Group assesses annually the residual value and the useful life of the property, plant and equipment and if the expectation differs from the original estimate, such a difference may impact the depreciation in the year the estimate is changed and the future period.

(v) Valuation of share options

Share option expense is subject to the limitations of the option pricing models adopted and the uncertainty in estimates used by management in the assumptions. Should the estimates including limited early exercise behaviour, expected interval and frequency of open exercise periods in the share option life and the relevant parameters of the share option model be changed, there would be material changes in the amount of share option benefits recognised in the statement of comprehensive income and share-based payment reserve.

6. Revenue

(a) An analysis of the Group's revenue for the year/period is as follows:

	1 January 2010 to 31 December 2010 HK\$'000	1 May 2009 to 31 December 2009 HK\$'000
Sales of marketable securities	7,221	1,424
Sales of copper concentrate	308	—
Sales of non-ferrous metals	946,529	—
Other interest income	256	85
Dividend income	—	163
	<u>954,314</u>	<u>1,672</u>

(b) An analysis of the Group's other revenue for the year/period is as follows:

	1 January 2010 to 31 December 2010 HK\$'000	1 May 2009 to 31 December 2009 HK\$'000
Miscellaneous income	44	300
Exchange gain	415	—
	<u>459</u>	<u>300</u>

7. Segment information

HKFRS 8 Operating Segments requires the Group to disclose reported segments in accordance with internal reports that are provided to the Group's chief operating decision maker. The Group considers its directors to be the chief operating decision maker. For management purposes, the Group is organised into three operating segments. These operating segments form the basis on which the Group's directors make decisions about resource allocation and performance assessment. The Group has three reportable segments under HKFRS 8:

- (a) Corporate investment and trading in securities;
- (b) Minerals exploitation; and

- (c) Trading in non-ferrous metals.

For the purposes of assessing segment performance and resources allocation between segments, the Group's senior executive management monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment revenue represents revenue generated from external customers. There were no inter-segment sales during the year/period.

Segment result represents the profit/(loss) earned by each segment without allocation of corporate income and expense, central administration cost, directors' salaries, interest income and impairment of other receivables.

Segment assets include all tangible, intangible assets and current assets.

Segment liabilities include all trade and other payables other than tax payable and deferred tax liabilities.

(a) Segment revenues and results

	1 January 2010 to 31 December 2010			
	Corporate investment and trading in securities <i>HK\$'000</i>	Minerals exploitation <i>HK\$'000</i>	Trading in non-ferrous metals <i>HK\$'000</i>	Total <i>HK\$'000</i>
Segments revenue	<u>7,221</u>	<u>308</u>	<u>946,529</u>	<u>954,058</u>
Segments results	<u>216</u>	<u>(12,570)</u>	<u>12,918</u>	564
Interest income				256
Unallocated corporate expenses				(17,831)
Impairment of other receivables				—
Finance costs				<u>(5,616)</u>
Consolidated loss before taxation				<u>(22,627)</u>

1 May 2009 to 31 December 2009

	Corporate investment and trading in securities <i>HK\$'000</i>	Minerals exploitation <i>HK\$'000</i>	Total <i>HK\$'000</i>
Segments revenue	<u>1,587</u>	<u>–</u>	<u>1,587</u>
Segments results	<u>(264)</u>	<u>80,148</u>	79,884
Interest income			85
Unallocated corporate expenses			(105,376)
Impairment of other receivables			(33)
Finance costs			<u>(5)</u>
Consolidated loss before taxation			<u>(25,445)</u>

(b) Segment assets and liabilities

1 January 2010 to 31 December 2010

	Corporate investment and trading in securities <i>HK\$'000</i>	Minerals exploitation <i>HK\$'000</i>	Trading in non-ferrous metals <i>HK\$'000</i>	Total <i>HK\$'000</i>
Segment assets	<u>40</u>	<u>2,275,798</u>	<u>183,819</u>	2,459,657
Unallocated assets				<u>196,703</u>
Consolidated assets				<u>2,656,360</u>
Segment liabilities	<u>56</u>	<u>10,994</u>	<u>47</u>	11,097
Unallocated liabilities				<u>636,564</u>
Consolidated liabilities				<u>647,661</u>

1 May 2009 to 31 December 2009

	Corporate investment and trading in securities <i>HK\$'000</i>	Minerals exploitation <i>HK\$'000</i>	Total <i>HK\$'000</i>
Segment assets	<u>8,610</u>	<u>2,166,341</u>	2,174,951
Unallocated assets			<u>343,958</u>
Consolidated assets			<u>2,518,909</u>
Segment liabilities	<u>47</u>	<u>10,292</u>	10,339
Unallocated liabilities			<u>541,732</u>
Consolidated liabilities			<u>552,071</u>

(c) Other segment information

1 January 2010 to 31 December 2010

	Corporate investment and trading in securities <i>HK\$'000</i>	Minerals exploitation <i>HK\$'000</i>	Trading in non-ferrous metals <i>HK\$'000</i>
Capital expenditure	–	35,596	–
Depreciation of property, plant and equipment	–	1,012	–
Amortisation of prepaid lease payment	–	42	–
Loss on disposal of property, plant and equipment	–	7	–
Loss on disposal of a subsidiary	–	1,514	–
Impairment of mining right written back	<u>–</u>	<u>(14,038)</u>	<u>–</u>

	1 May 2009 to 31 December 2009	
	Corporate investment and trading in securities <i>HK\$'000</i>	Minerals Exploitation <i>HK\$'000</i>
Capital expenditure	–	2,068
Depreciation of property, plant and equipment	–	1,008
Impairment of mining right written back	–	(87,407)
	<u>–</u>	<u>(87,407)</u>

(d) Geographical information

The Group operates in three principal geographical areas – the People's Republic of China (excluding Hong Kong) (The PRC), Hong Kong, and Mongolia.

The Group's revenue from external customers and information about its non-current assets and capital expenditure by geographical location are detailed below:

	1 January 2010 to 31 December 2010			
	Hong Kong <i>HK\$'000</i>	The PRC <i>HK\$'000</i>	Mongolia <i>HK\$'000</i>	Total <i>HK\$'000</i>
Segment revenue	<u>953,750</u>	<u>308</u>	<u>–</u>	<u>954,058</u>
Other segment information:				
Non-current assets	2,154	1,473,282	738,340	2,213,776
Capital expenditure	<u>171,194</u>	<u>22,156</u>	<u>13,439</u>	<u>206,789</u>

	1 May 2009 to 31 December 2009			
	Hong Kong <i>HK\$'000</i>	The PRC <i>HK\$'000</i>	Mongolia <i>HK\$'000</i>	Total <i>HK\$'000</i>
Segment revenue	<u>1,587</u>	<u>–</u>	<u>–</u>	<u>1,587</u>
Other segment information:				
Non-current assets	–	1,451,859	709,807	2,161,666
Capital expenditure	<u>–</u>	<u>2,061</u>	<u>7</u>	<u>2,068</u>

8. Operating loss for the year/period

Operating loss of the Group for the year/period has been arrived at after charging the followings:

	1 January 2010 to 31 December 2010 HK\$'000	1 May 2009 to 31 December 2009 HK\$'000
Staff costs (including directors' remuneration – <i>note 11</i>)		
– Salaries and allowances	9,916	6,993
– Share-based payments (<i>note a</i>)	–	33,758
– Other staff costs	–	1,087
– Retirement benefits scheme contributions	67	60
	9,983	41,898
Amortisation of prepaid lease payment	42	–
Depreciation of property, plant and equipment	2,530	1,139
Auditors' remuneration		
– Audit services	780	720
– Other services	313	120
Operating leases on land and buildings	1,847	913
Share-based payments – Consultants (<i>note a</i>)	–	53,869
Impairment of other receivables	–	33
Inventories written off	–	34
Exploration and related expenses	16,079	2,360

Note a: During the year/period, share-based payments arising from share options granted to directors, employees and consultants of the Group recognised as expenses in profit and loss are as follows:

	1 January 2010 to 31 December 2009 HK\$'000	1 May 2009 to 31 December 2009 HK\$'000
Directors' emolument	–	31,493
Staff costs	–	2,265
Professional fees	–	53,869
	–	87,627

9. Disposal of a subsidiary

On 17 December 2010, the Group disposed of a subsidiary – Reservoir (Tungs) Limited, which carried out mineral exploration.

Consideration paid

	1 January 2010 to 31 December 2010 HK\$'000	1 May 2009 to 31 December 2009 HK\$'000
Compensation paid for the disposal	<u>(1,567)</u>	<u>–</u>

Analysis of assets and liabilities over which control was lost

	17/12/2010 HK\$'000
Current assets	
Cash and cash equivalents	2
Other receivables	1
Current liabilities	
Other payables	<u>(221)</u>
Net liabilities disposed of	<u><u>(218)</u></u>

Loss on disposal of a subsidiary

	1 January 2010 to 31 December 2010 HK\$'000
Compensation paid for the disposal	(1,567)
Net liabilities disposed of	218
Non-controlling interests	(136)
Cumulative exchange differences in respect of the net assets of the subsidiary reclassified from equity to profit or loss on loss of control of subsidiary	(29)
Loss on disposal	<u>(1,514)</u>

The loss on disposal is included in the loss for the year in the consolidated statement of comprehensive income.

Net cash outflow on disposal of a subsidiary

	1 January 2010 to 31 December 2010 HK\$'000	1 May 2009 to 31 December 2009 HK\$'000
Compensation paid for the disposal	(1,567)	—
Cash and cash equivalent balances disposed of	<u>2</u>	<u>—</u>
	<u>(1,569)</u>	<u>—</u>

10. Finance costs

	1 January 2010 to 31 December 2010 HK\$'000	1 May 2009 to 31 December 2009 HK\$'000
Dividends on cumulative redeemable preference shares (note 13)	5	5
Interest expenses on convertible notes maturing within five years (note 28)	5,611	—
	<u>5,616</u>	<u>5</u>

11. Directors' and five highest paid employees' emoluments

(i) Directors' emoluments

	1 January 2010 to 31 December 2010				
	Other emoluments				
	Fees	Salaries, allowances and other benefits	Employee share option benefits	Retirement benefits scheme	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<i>Executive directors</i>					
Wan Bi Qi	1,200	214	—	—	1,414
Zhang He (note a)	320	—	—	—	320
Chen Xiang	960	171	—	—	1,131
Yuan Ping	960	221	—	—	1,181
<i>Independent non-executive directors</i>					
Wang Guoqi	50	—	—	—	50
Wang Qihong	50	—	—	—	50
Qiu Quan Zhou	50	—	—	—	50
	<u>3,590</u>	<u>606</u>	<u>—</u>	<u>—</u>	<u>4,196</u>

Note (a): Resigned on 1 May 2010

1 May 2009 to 31 December 2009

Other emoluments

	Fees	Salaries, allowances and other benefits	Employee share option benefits	Retirement benefits scheme	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<i>Executive directors</i>					
Wan Bi Qi	–	1,171	13,813	–	14,984
Zhang He (<i>note a</i>)	–	1,157	2,486	–	3,643
Chen Xiang	–	900	13,813	–	14,713
Yuan Ping	–	1,022	1,381	–	2,403
<i>Independent non-executive directors</i>					
Wang Guoqi	–	–	–	–	–
Wang Qihong	–	–	–	–	–
Wong Sat (<i>note b</i>)	–	–	–	–	–
Qiu Quan Zhou (<i>note c</i>)	–	–	–	–	–
	<u>–</u>	<u>4,250</u>	<u>31,493</u>	<u>–</u>	<u>35,743</u>

Note (b): Resigned on 14 May 2009*Note (c):* Appointed on 14 May 2009

(ii) Five highest paid employees

During the year, the five highest paid individuals included four directors (For the period ended 31 December 2009: four), details of whose emoluments are set out above. The emoluments of the remaining highest paid individual were as follows:

	1 January 2010 to 31 December 2010 HK\$'000	1 May 2009 to 31 December 2009 HK\$'000
Salaries and other emoluments	1,142	1,242
Retirement benefits scheme contributions	12	8
Employee share-based payment	—	1,934
	<u>1,154</u>	<u>3,184</u>

Emoluments of the one (For the period ended 31 December 2009: one) non-director highest paid individual(s) fell within the following bands:

	Number of individual(s) 1 January 2010 to 31 December 2010	1 May 2009 to 31 December 2009
HK\$ Nil to HK\$1,000,000	—	—
HK\$1,000,001 to HK\$2,000,000	1	—
HK\$2,000,001 to HK\$4,000,000	—	1

12. Income tax

(a) Income tax expense in the consolidated statement of comprehensive income represents:

	1 January 2010 to 31 December 2010 HK\$'000	1 May 2009 to 31 December 2009 HK\$'000
Current tax:		
Hong Kong	2,131	—
Other jurisdictions	—	—
	<hr/>	<hr/>
	2,131	—
Deferred tax (<i>note 29</i>)	<hr/> 3,509	<hr/> 21,852
	<hr/>	<hr/>
Tax expense for the year/period	<hr/> <hr/> 5,640	<hr/> <hr/> 21,852

Hong Kong profits tax has been provided in the consolidated financial statements at the rate of 16.5% on the estimated assessable profits arising in or derived from Hong Kong during the year (For the period ended 31 December 2009: Nil). Overseas income taxes have not been made as the Group's operation in these countries was operating at a loss during the year (For the period ended 31 December 2009: Nil).

- (b) Reconciliation between tax expense and accounting loss at applicable tax rates is as follows:

	1 January 2010 to 31 December 2010 HK\$'000	1 May 2009 to 31 December 2009 HK\$'000
Loss before tax	<u>(22,627)</u>	<u>(25,445)</u>
Notional tax on loss before tax, calculated at the tax rates applicable to profits in the jurisdictions concerned	(4,612)	(10,368)
Tax effect of income not taxable	(2)	(27)
Tax effect of expenses not deductible and loss not allowable	6,745	–
Tax effect of temporary differences not recognised for the year/period	–	(8,741)
Tax effect of estimated tax losses not recognised for the year/period	–	19,136
Increase in deferred tax liabilities arising from mining right (<i>note 29</i>)	<u>3,509</u>	<u>21,852</u>
Tax expense for the year/period	<u>5,640</u>	<u>21,852</u>

13. Dividends on cumulative redeemable preference shares

	1 January 2010 to 31 December 2010 HK\$'000	1 May 2009 to 31 December 2009 HK\$'000
Preference dividends		
Payable of HK\$0.151 per share on 16,485 shares (For the period ended 31 December 2009 HK\$0.151 on 16,485 shares)	3	3
Payable of HK\$0.149 per share on 16,485 shares (For the period ended 31 December 2009 HK\$0.149 on 16,485 shares)	<u>2</u>	<u>2</u>
	<u><u>5</u></u>	<u><u>5</u></u>

14. Loss per share

The basic loss per share is calculated based on the loss attributable to owners of the Company of approximately HK\$23,073,000 (For the period ended 31 December 2009: approximately HK\$91,168,000) and the weighted average number of 5,591,195,552 (For the period ended 31 December 2009: 5,187,804,155) ordinary shares in issue during the year/period.

The diluted loss per share for the year ended 31 December 2010 and period ended 31 December 2009 has not been disclosed as the potential shares arising from the exercise and conversion of the Company's share options, warrants, convertible notes and convertible preference shares would decrease the loss per share of the Group for the year/period and is regarded as anti-dilutive.

15. Property, plant and equipment

Group

	Leasehold improvement <i>HK\$'000</i>	Furniture, fixtures, and equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Plant and machineries <i>HK\$'000</i>	Building and mining structure <i>HK\$'000</i>	Construction in progress <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost:							
At 1 May 2009	–	511	1,310	5,352	8,997	4,604	20,774
Additions	1,160	188	376	9	–	6	1,739
Disposals	–	(11)	–	–	–	–	(11)
Exchange adjustment	–	1	(6)	–	(1)	(1)	(7)
At 31 December 2009 and at 1 January 2010	1,160	689	1,680	5,361	8,996	4,609	22,495
Additions	1,172	831	988	1,007	1,065	31,720	36,783
Transfer	–	–	–	–	851	(851)	–
Disposals	–	(17)	–	–	–	–	(17)
Exchange adjustment	5	43	209	239	477	1,858	2,831
At 31 December 2010	2,337	1,546	2,877	6,607	11,389	37,336	62,092
Accumulated depreciation and impairment losses:							
At 1 May 2009	–	288	876	1,018	450	–	2,632
Charge for the period	99	52	152	536	300	–	1,139
Written back on disposal	–	(2)	–	–	–	–	(2)
Exchange adjustment	–	–	(6)	1	–	–	(5)
At 31 December 2009 and at 1 January 2010	99	338	1,022	1,555	750	–	3,764
Charge for the year	262	220	562	964	522	–	2,530
Written back on disposal	–	(9)	–	–	–	–	(9)
Exchange adjustment	1	9	128	88	46	–	272
At 31 December 2010	362	558	1,712	2,607	1,318	–	6,557
Net carrying amount:							
At 31 December 2010	1,975	988	1,165	4,000	10,071	37,336	55,535
At 31 December 2009	1,061	351	658	3,806	8,246	4,609	18,731

Company

	Leasehold improvement <i>HK\$'000</i>	Furniture, fixtures, and equipment <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost:			
At 1 May 2009	–	306	306
Additions	<u>1,160</u>	<u>181</u>	<u>1,341</u>
At 31 December 2009 and at 1 January 2010	1,160	487	1,647
Additions	<u>1,123</u>	<u>70</u>	<u>1,193</u>
At 31 December 2010	<u>2,283</u>	<u>557</u>	<u>2,840</u>
Accumulated depreciation and impairment losses:			
At 1 May 2009	–	234	234
Charge for the period	<u>99</u>	<u>32</u>	<u>131</u>
At 31 December 2009 and at 1 January 2010	99	266	365
Charge for the year	<u>253</u>	<u>68</u>	<u>321</u>
At 31 December 2010	<u>352</u>	<u>334</u>	<u>686</u>
Net carrying amount:			
At 31 December 2010	<u><u>1,931</u></u>	<u><u>223</u></u>	<u><u>2,154</u></u>
At 31 December 2009	<u><u>1,061</u></u>	<u><u>221</u></u>	<u><u>1,282</u></u>

16. Prepaid lease payment

	As at 31 December 2010 <i>HK\$'000</i>	As at 31 December 2009 <i>HK\$'000</i>
Cost/carrying amount:		
At the beginning of the year/period	1,670	–
Additions	7	1,670
Exchange difference	66	–
	<hr/>	<hr/>
At the end of the year/period	1,743	1,670
	<hr/>	<hr/>
Accumulated amortisation:		
At the beginning of the year/period	–	–
Charge for the year/period	42	–
Exchange difference	1	–
	<hr/>	<hr/>
At the end of the year/period	43	–
	<hr/>	<hr/>
Net carrying value:		
At 31 December	1,700	1,670
	<hr/>	<hr/>
Classified as current portion	44	–
	<hr/>	<hr/>
Classified as non-current portion	1,656	1,670
	<hr/>	<hr/>

Prepaid lease payment represented cost paid by a subsidiary to acquire land use right in the PRC on 25 December 2009. The subsidiary intends to erect office building on the land for own use. The land use right will be expired on 24 December 2049 and its cost is amortised over the lease term on a straight-line basis.

17. Mining rights

	As at 31 December 2010 <i>HK\$'000</i>	As at 31 December 2009 <i>HK\$'000</i>
Cost/carrying amount:		
At the beginning of the year/period	2,142,547	2,055,140
Impairment loss written back	<u>14,038</u>	<u>87,407</u>
At the end of the year/period	<u><u>2,156,585</u></u>	<u><u>2,142,547</u></u>

No amortisation was provided during the year/period as the Group has not yet commenced the exploitation of the ores.

18. Interest in subsidiaries

	Company 1 January 2010 to 31 December 2010 <i>HK\$'000</i>	1 May 2009 to 31 December 2009 <i>HK\$'000</i>
Unlisted shares, at cost	—	—
Amounts due from subsidiaries	2,261,281	2,052,231
Amounts due to subsidiaries	<u>(20,099)</u>	<u>(10,099)</u>
	2,241,182	2,042,132
Allowance for impairment losses	<u>(36,760)</u>	<u>(36,760)</u>
	<u><u>2,204,422</u></u>	<u><u>2,005,372</u></u>

The amounts due from/(to) subsidiaries are unsecured, interest free and have no fixed terms of repayment.

Particulars of the Company's principal subsidiaries are set out in note 41 to financial statements.

19. Jointly controlled entities

Details of jointly controlled entities of the Group at the end of the reporting period are as follows:

	Group		Company	
	As at	As at	As at	As at
	31 December	31 December	31 December	31 December
	2010	2009	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Share of net liabilities	–	–	–	–
Amounts due from jointly controlled entities	–	16,315	–	16,301
Amounts due to jointly controlled entities	–	–	–	–
Allowances for impairment losses	–	(16,315)	–	(16,301)
	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>

(a)

Company	Place of Incorporation/operation	Principal activities	Attributable equity interest
Yetcome Investments Limited	British Virgin Islands	Investments holding	33%
T & T Properties Sdn. Bhd	Malaysia	Property development	33%
Prizevest Sdn. Bhd	Malaysia	Property development	23%
Top Priority Sdn. Bhd.	Malaysia	Property development	23%
Victec Enterprise Sdn. Bhd.	Malaysia	Property development	23%
Prime Harvest Financial Holding Group Limited	British Virgin Islands	Investments holding	40%

Equity accounting for the Group's interests in all these jointly controlled entities has been discontinued since 2004 as the operations of these entities had ceased in consequence of Receivers appointed in the year 2002. The carrying amounts of these jointly controlled entities have been fully impaired.

The amounts due from/(to) these jointly controlled entities are unsecured, interest free and have no fixed terms of repayment.

20. Deposit for acquisition

On 13 April 2010, the Company entered into a framework agreement pursuant to which the Company conditionally agreed to purchase 80% equity interest of Qianyi Limited, a company incorporated with limited liability in the British Virgin Islands which will, upon completion of the reorganisation, indirectly hold 100% equity interest in 新疆同興礦業有限責任公司 (Xinjiang Tong Xing Mining Company Limited), a company incorporated with limited liabilities in the PRC (“Tong Xing”), at the consideration of HK\$280 million (the “Consideration”). The Consideration will be satisfied as to HK\$60 million by cash and as to HK\$220 million by the Company’s issuing the convertible notes to the vendor. Details of the acquisition are set out in the announcement of the Company dated 16 April 2010.

On 14 July 2010, the Company entered into a formal agreement. Since there were changes to the proposed reorganisation, the parties now intend that Qianyi Limited will indirectly hold 80% equity interest in Tong Xing (instead of 100% equity interest as previously disclosed in the announcement dated 16 April 2010) upon completion of reorganisation. Details of the formal agreement are set out in the announcement of the Company dated 16 July 2010.

On 30 December 2010, the Company entered into a supplemental agreement, pursuant to which certain terms of the agreement have been amended. Details of the supplemental agreement are set out in the announcement of the company dated 30 December 2010.

As at 31 December 2010, the Group paid an aggregate deposit of approximately HK\$60 million and delivered the first tranche of convertible notes in the principal amount of \$110 million for the acquisition.

21. Investments held for trading

	Group	
	As at	As at
	31 December	31 December
	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
Investments held for trading		
– listed in Hong Kong at fair value	–	6,990

22. Inventories

	Group	
	As at	As at
	31 December	31 December
	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
Raw materials	210	750
Work in progress	1,155	–
Finished goods	1,520	616
	<u>2,885</u>	<u>1,366</u>

23. Trade and other receivables

	Group		Company	
	As at	As at	As at	As at
	31 December	31 December	31 December	31 December
	2010	2009	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade receivables	57,468	–	–	–
Other receivables	1,925	2,279	116	962
Prepayments and deposits	22,958	1,365	10,993	762
	<u>82,351</u>	<u>3,644</u>	<u>11,109</u>	<u>1,724</u>

The amount of HK\$3.4 million of margin deposit included in the above carrying amount of prepayments and deposits was pledged as a collateral for banking facilities.

The aging analysis of trade receivables is as follows:

	Group		Company	
	As at	As at	As at	As at
	31 December	31 December	31 December	31 December
	2010	2009	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
0 – 3 months	39,108	–	–	–
4 – 6 months	18,360	–	–	–
	<u>57,468</u>	<u>–</u>	<u>–</u>	<u>–</u>

The Group normally offered a credit terms of not over 180 days to customers.

24. Cash and bank balances

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The carrying amount of these assets approximates their fair value.

25. Trade and other payables

	Group		Company	
	As at	As at	As at	As at
	31 December	31 December	31 December	31 December
	2010	2009	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade payables	–	–	–	–
Temporary deposits, accruals and other payables	7,521	10,448	3,237	3,913
	<u>7,521</u>	<u>10,448</u>	<u>3,237</u>	<u>3,913</u>

The aging analysis of trade payable is as follows:

	Group		Company	
	As at	As at	As at	As at
	31 December	31 December	31 December	31 December
	2010	2009	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
0 – 3 months	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>

26. Deferred income

	Group	
	As at	As at
	31 December	31 December
	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
Government grant received:		
At the beginning of the year/period	3,975	3,976
Additions	2,759	–
Exchange adjustment	<u>232</u>	<u>(1)</u>
At the end of the year/period	<u>6,966</u>	<u>3,975</u>

27. Cumulative redeemable preference shares

	Number of shares	Amount <i>HK\$'000</i>
<i>Authorised:</i>		
6% convertible cumulative redeemable preference shares of HK\$1 each	<u>100,000,000</u>	<u>100,000</u>
<i>Issued and fully paid:</i>		
Balance at 31 December 2009 and 31 December 2010	<u>16,485</u>	<u>110</u>

A holder of the convertible cumulative redeemable preference shares (“CPS”) is entitled to receive a fixed cumulative preferential dividend at the rate of 6% per annum on the notional value of HK\$5 per CPS to be paid half-yearly on 30 June and 31 December in each year.

A holder of the CPS may convert his shares held at any time into Ordinary Shares at the conversion price of HK\$0.036 per share, subject to adjustment.

The CPS may be redeemed by the holders of the CPS at any time after 30 June 1996 at a redemption price per share equal to the notional value plus accrued dividend.

The Company has the option to redeem all or some of the CPS at any time at the notional value of the CPS if the average of the closing prices of the Ordinary Share quoted on the Stock Exchange over the preceding 30 consecutive dealing days ending on the seventh day prior to the date upon which notice of redemption is given is greater than or equal to 150% of the conversion price in effect on such seventh day.

28. Convertible notes

With reference to the announcements of the Company on the Stock Exchange of Hong Kong on 16 April 2010 and 16 July 2010, the Company entered into the Formal Agreement on 14 July 2010 for the acquisition of 100% shareholding in Qianyi Limited, a company which will, upon completion of the Reorganisation, indirectly hold 80% equity interest in 新疆同興礦業有限責任公司 (Xinjiang Tong Xing Mining Company Limited)(“Tong Xing”).

Part of the Consideration will be satisfied by the Company’s issuing two tranches of convertible notes in the principal amount of HK\$110 million each (in aggregate, the principal amount is HK\$220 million). Only 50% of the Convertible Notes (First Tranche, that is, in the principal sum of HK\$110 million) has been delivered to the Vendor and the remaining 50% of the Convertible Notes (Second Tranche, that is, in the principal sum of HK\$110 million) will be delivered to the Vendor within 3 business days after the mining license of the Mine is granted to Tong Xing.

On 22 July 2010, the Company delivered the First Tranche of convertible notes to the vendor. The notes carried coupon interest rate of 1% per annum, which shall be payable by the Company upon redemption of the notes.

The notes entitle the holders to convert to ordinary shares of the Company at an initial conversion price of HK\$0.618 per conversion share (subject to the normal adjustments in accordance with the terms of the convertible notes) at any time during the period commencing from the date of issue of convertible notes.

Unless previous converted and cancelled by the Company, the Company shall redeem any outstanding convertible notes at the principal amount together with accrued interest on the maturity date which is the date falling two years after the issuing date.

The Company determined the fair value of the liability component based on the valuations performed by ASCENT PARTNERS using discounted cash flow approach. The effective interest rate is 14.911%. The residual amount was assigned as the equity component for the conversion option and was included in the convertible notes equity reserve of the Company and the Group.

The liability component is carried as a non-current liability on the amortised cost basis until extinguished on conversion or redemption.

The movement of different components of the convertible notes during the year is set out below:

	Liability component <i>HK\$'000</i>	Equity component <i>HK\$'000</i>	Total <i>HK\$'000</i>
Issue of convertible notes during the year	84,275	25,725	110,000
Interest expense (<i>note 10</i>)	<u>5,611</u>	<u>–</u>	<u>5,611</u>
At 31 December 2010	<u><u>89,886</u></u>	<u><u>25,725</u></u>	<u><u>115,611</u></u>

29. Deferred taxation

- (a) The major deferred tax liabilities recognised are analysed below:

Group

	Mining rights <i>HK\$'000</i>
At 1 May 2009	513,785
Deferred tax charged to statement of comprehensive income	<u>21,852</u>
At 31 December 2009 and at 1 January 2010	535,637
Deferred tax charged to statement of comprehensive income	<u>3,509</u>
At 31 December 2010	<u><u>539,146</u></u>

Deferred tax charged to statement of comprehensive income was due to the impairment on fair value of Mongolia's mining right written back.

- (b) The major deferred tax assets/(liabilities) not recognised are analysed below:

Group

	Property, plant and equipment HK\$'000	Unused tax losses HK\$'000	Total HK\$'000
At 1 May 2009	(8)	14,786	14,778
Net change in deferred tax assets/(liabilities) not recognised for the period	—	70	70
At 31 December 2009 and 1 January 2010	(8)	14,856	14,848
Net change in deferred tax assets/(liabilities) not recognised for the year	—	—	—
At 31 December 2010	<u>(8)</u>	<u>14,856</u>	<u>14,848</u>

Company

	Property, plant and equipment HK\$'000	Unused tax losses HK\$'000	Total HK\$'000
At 1 May 2009	(8)	12,766	12,758
Net change in deferred tax assets/(liabilities) not recognised for the period	—	—	—
At 31 December 2009 and at 1 January 2010	(8)	12,766	12,758
Net change in deferred tax assets/(liabilities) not recognised for the year	—	—	—
At 31 December 2010	<u>(8)</u>	<u>12,766</u>	<u>12,758</u>

The Group and the Company have unused tax losses approximately HK\$14,856,000 and HK\$12,766,000 respectively (For the period ended 31 December 2009: The Group and the Company have unused tax losses approximately HK\$14,856,000 and HK\$12,766,000 respectively) that are available for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as the Company and its subsidiaries have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

30. Share capital

	Number of shares	Amount HK\$'000
<i>Authorised:</i>		
Ordinary shares of HK\$0.05 each		
Balance at 31 December 2009 and 31 December 2010	30,000,000,000	1,500,000
<i>Issued and fully paid:</i>		
Ordinary shares of HK\$0.05 each		
Balance at 31 December 2009 and 31 December 2010	5,591,195,552	279,560

Note: On 1 December 2009, 439,516,000 ordinary shares were issued at a subscription price of HK\$0.64 per share pursuant to placing and subscription agreement entered into between the vendor with the placing agent and the Company on 18 November 2009. Details of placing of subscription agreement are set out in the Company's announcement dated 20 November 2009. The premium of the issue of new shares less related issuing costs amounted to approximately HK\$245,546,000 was credited to the Company's share premium account.

31. Share options scheme

The Company's share options scheme was adopted by the Company on 13 October 2003 (the "Scheme") for the purpose of enabling the Company to grant options to selected participants as incentives or rewards for their contribution to the Group. Under the Scheme, the Board of Directors of the Company may, at its discretion, invite eligible participants (as contained in the Company's circular of 19 September 2003) to take up options to subscribe for shares of the Company. The principal terms of the Scheme are as follows:

- (i) The maximum number of shares in respect of which options may be granted under the Scheme must not, in aggregate, exceed 10% of the issued share capital of the Company as at the date of approval of the Scheme, unless approval of the shareholders has been obtained to renew the limit, and which must not in aggregate (including all outstanding options granted and yet to be exercised under the Scheme and any other share option scheme of the Group) exceed 30% of the shares of the Company in issue from time to time.
- (ii) The number of shares in respect of which options may be granted to any individual in any 12-month period must not exceed 1% of the shares of the Company in issue as at the date of grant.
- (iii) The exercise price is determined by the Board in its absolute discretion at a price not less than the highest of (a) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a trading day; (b) the average closing prices of the shares of the Company as stated in the Stock Exchange's daily quotations sheet for the five trading days immediately preceding the date of grant; and (c) the nominal value of share.
- (iv) An option may be accepted by a proposed grantee within 7 days from the date of the offer of grant of the option. There is no minimum period for which an option must be held before it can be exercised. An option may be exercised at any time after the date upon which the option is deemed to be granted and accepted and prior to the expiry of ten years from that date.
- (v) Upon acceptance of the option, the grantee shall pay of HK\$1.00 to the Company by way of consideration for the grant of the option.
- (vi) The Scheme will remain valid for a period of 10 years commencing on October 2003, being the date on which it was adopted.

APPENDIX II**FINANCIAL INFORMATION OF THE GROUP**

Details of the existing share options granted by the Company under the Scheme are as follows:–

		Tranche 1	Tranche 2
Date of grant	:	19 June 2009	19 June 2009
Exercisable periods/Fair value at grant date	:	19 June 2009 – 18 June 2019/ HK\$0.2836	19 June 2010 – 18 June 2019/ HK\$0.2689
Number of share options granted	:	158,600,000	158,600,000
Exercise price	:	HK\$0.61	HK\$0.61
Share price as at the valuation date	:	HK\$0.60	HK\$0.60
Expected volatility	:	51.17%	51.17%
Risk-free interest rate as at the valuation date	:	2.276%	2.137%
Excepted life of option	:	5 years	4.5 years

The fair value of equity-settled share options granted was estimated as at the date of grant, using the Black-Scholes Option Price Model, taking into account the terms and conditions upon which the share options were granted. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. No other feature of the share options granted was incorporated into the measurement of fair value.

Details of share options granted are as follows:

Date of grant/ acceptance	Exercise period	Exercise price per share	Closing price immediately before date of offer	Closing price immediately before date of grant
19 June 2009	19 June 2009 – 18 June 2019	HK\$ 0.61	HK\$ 0.61	HK\$ 0.60
19 June 2009	19 June 2010 – 18 June 2019	HK\$ 0.61	HK\$ 0.61	HK\$ 0.60

At no time during the period was the Company, its holding company, or any its subsidiaries a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of Share in, or debentures of, the Company or any other body corporate.

APPENDIX II

FINANCIAL INFORMATION OF THE GROUP

Details of the movement of the share options during the year/period under the Scheme are as follows:

31 December 2010

	Date of Grant	Exercise price HK\$	Exercise period	At 1 January 2010	Granted during the year	Lapsed during the year	Forfeited during the year	Cancelled during the year	Exercise during the year	At 31 December 2010
Director	19 June 2009	0.610	19.6.2009-18.6.2019	57,000,000	-	-	(4,500,000)	-	-	52,500,000
	19 June 2009	0.610	19.6.2010-18.6.2019	57,000,000	-	-	(4,500,000)	-	-	52,500,000
Other employees	19 June 2009	0.610	19.6.2009-18.6.2019	4,100,000	-	-	(250,000)	-	-	3,850,000
	19 June 2009	0.610	19.6.2010-18.6.2019	4,100,000	-	-	(250,000)	-	-	3,850,000
Consultants	19 June 2009	0.610	19.6.2009-18.6.2019	97,500,000	-	-	-	-	-	97,500,000
	19 June 2009	0.610	19.6.2010-18.6.2019	97,500,000	-	-	-	-	-	97,500,000
				<u>317,200,000</u>	<u>-</u>	<u>-</u>	<u>(9,500,000)</u>	<u>-</u>	<u>-</u>	<u>307,700,000</u>

1 May 2009 to 31 December 2009

	Date of Grant	Exercise price HK\$	Exercise period	At 1 May 2009	Granted during the period	Lapsed during the period	Forfeited during the period	Cancelled during the period	Exercise during the period	At 31 December 2009
Director	23 November 2006	0.107	23.11.2006-6.11.2016	11,700,000	-	(11,700,000)	-	-	-	-
	19 June 2009	0.610	19.6.2009-18.6.2019	-	57,000,000	-	-	-	-	57,000,000
	19 June 2009	0.610	19.6.2010-18.6.2019	-	57,000,000	-	-	-	-	57,000,000
Other employees	23 November 2006	0.107	23.11.2007-6.11.2016	300,000	-	-	-	(300,000)	-	-
	19 June 2009	0.610	19.6.2009-18.6.2019	-	4,100,000	-	-	-	-	4,100,000
	19 June 2009	0.610	19.6.2010-18.6.2019	-	4,100,000	-	-	-	-	4,100,000
Consultants	23 November 2006	0.107	23.11.2006-6.11.2016	11,066,381	-	-	-	(11,066,381)	-	-
	7 December 2006	0.185	7.12.2006-28.11.2016	54,000,000	-	(54,000,000)	-	-	-	-
	4 April 2007	0.550	4.4.2007-3.4.2017	93,558,966	-	(93,558,966)	-	-	-	-
	19 June 2009	0.610	19.6.2009-18.6.2019	-	97,500,000	-	-	-	-	97,500,000
	19 June 2009	0.610	19.6.2010-18.6.2019	-	97,500,000	-	-	-	-	97,500,000
				<u>170,625,347</u>	<u>317,200,000</u>	<u>(159,258,966)</u>	<u>-</u>	<u>(11,366,381)</u>	<u>-</u>	<u>317,200,000</u>

32. Reserves

Group

	Share premium <i>HK\$'000</i>	Capital redemption reserve <i>HK\$'000</i>	Warrant reserve <i>HK\$'000</i>	Share-based payment reserve <i>HK\$'000</i>	Exchange reserve <i>HK\$'000</i>	Convertible notes equity reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 May 2009	2,670,545	2,241	3,000	62,661	(38,334)	–	(2,126,866)	573,247
Loss for the period	–	–	–	–	–	–	(91,168)	(91,168)
Exchange difference arising on translation of foreign operations								
– Exchange differences arising during the period	–	–	–	–	(3)	–	–	(3)
– Reclassification adjustments relating to foreign operations disposed of during the period	–	–	–	–	–	–	–	–
Total comprehensive income for the period	–	–	–	–	(3)	–	(91,168)	(91,171)
Recognition of share-based payment	–	–	–	87,627	–	–	–	87,627
Share option lapsed/cancelled	–	–	–	(62,661)	–	–	62,661	–
Issue of shares	245,546	–	–	–	–	–	–	245,546
At 31 December 2009 and at 1 January 2010	2,916,091	2,241	3,000	87,627	(38,337)	–	(2,155,373)	815,249
Loss for the year	–	–	–	–	–	–	(23,073)	(23,073)
Exchange difference arising on translation of foreign operations								
– Exchange differences arising during the year	–	–	–	–	862	–	–	862
– Reclassification adjustments relating to foreign operations disposed of during the year	–	–	–	–	29	–	–	29
Total comprehensive income for the year	–	–	–	–	891	–	(23,073)	(22,182)
Recognition of the equity component of convertible notes	–	–	–	–	–	25,725	–	25,725
Share option forfeited	–	–	–	(2,624)	–	–	2,624	–
At 31 December 2010	<u>2,916,091</u>	<u>2,241</u>	<u>3,000</u>	<u>85,003</u>	<u>(37,446)</u>	<u>25,725</u>	<u>(2,175,822)</u>	<u>818,792</u>

Company

	Share premium <i>HK\$'000</i>	Capital redemption reserve <i>HK\$'000</i>	Warrant reserve <i>HK\$'000</i>	Share-based payment reserve <i>HK\$'000</i>	Convertible notes equity reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 May 2009	2,670,545	2,241	3,000	62,661	–	(944,721)	1,793,726
Loss for the period	–	–	–	–	–	(108,795)	(108,795)
Recognition of share-based payment	–	–	–	87,627	–	–	87,627
Share option lapsed/cancelled	–	–	–	(62,661)	–	62,661	–
Issue of shares	245,546	–	–	–	–	–	245,546
At 31 December 2009 and at 1 January 2010	2,916,091	2,241	3,000	87,627	–	(990,855)	2,018,104
Loss for the year	–	–	–	–	–	(23,139)	(23,139)
Recognition of the equity component of convertible notes	–	–	–	–	25,725	–	25,725
Share option forfeited	–	–	–	(2,624)	–	2,624	–
At 31 December 2010	<u>2,916,091</u>	<u>2,241</u>	<u>3,000</u>	<u>85,003</u>	<u>25,725</u>	<u>(1,011,370)</u>	<u>2,020,690</u>

(a) Nature and purpose of the reserves are explained below:–

(i) *Share premium*

The share premium account of the Company is distributable to the equity holders of the Company under the Companies Law of Bermuda subject to the provisions of the Company's Memorandum and Articles of Association and provided that the Company will be in a position to payoff its debts as they fall due in the ordinary course of business immediately following the date on which the dividend is proposed to be distributed.

(ii) *Share options reserve*

The share options reserve represents the fair value of the number of unexercised share options granted by the Company recognised in accordance with the accounting policy adopted for equity-settled share-based payments in note 4(j)(v).

(iii) Translation reserve

The translation 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 4(h).

(iv) Convertible notes equity reserve

The convertible notes equity reserve represents the equity component of outstanding convertible notes issued by the company recognized in accordance with the accounting policy adopted for convertible notes in Note 4(q)(ii)(3).

(b) Distributability of reserves

In the opinion of the directors of the Company, the Company had no balance of distributable reserves available for distribution to equity holders as at 31 December 2010 (For the period ended 31 December 2009: Nil).

33. Warrants

In previous year, the Company issued 60,000,000 warrants at an issue price of HK\$0.05 per warrant which attaching the rights to subscribe for 60,000,000 ordinary shares of the Company at a subscription price of HK\$0.60 per share to a placing agent. The subscription period lasted from the date of issue of the warrants to the expiry of the second anniversary of the issue of the warrants (both days inclusive). Details of placing of warrants are set out in the announcement dated 24 April 2009.

34. Operating leases commitments

At the end of the reporting period, the Group had future aggregate minimum lease payments under non-cancellable operating leases falling due as follows:

	As at 31 December 2010 HK\$'000	As at 31 December 2009 HK\$'000
Properties		
– within one year	1,912	1,469
– In the second to fifth years, both inclusive	184	574
	<u>2,096</u>	<u>2,043</u>

Operating lease payments represent rental payable by the Group for its office properties and director's apartment.

35. Capital commitments

Capital commitments outstanding at 31 December 2010 and 2009 not provided for in the financial statements were as follows:

	As at 31 December 2010 <i>HK\$'000</i>	As at 31 December 2009 <i>HK\$'000</i>
Contracted but not provided for		
– acquisition of property, plant and equipment	25,588	–
– acquisition of Qianyi Limited and its subsidiaries	89,000	–
	<u>114,588</u>	<u>–</u>

36. Retirement benefit schemes

The Group participates in the mandatory provident fund scheme (the “MPF Scheme”) for its employees in Hong Kong. Contributions to the MPF Scheme by the Group and employees are calculated as a percentage of employee's basic salaries. The retirement benefit costs charged to the profit and loss represent contributions paid and payable by the Group to the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund.

The subsidiaries in the PRC participate in certain employees' retirement schemes implemented by the relevant local municipal governments. Contributions are made by the relevant subsidiaries to these schemes based on certain percentages of the applicable payroll costs.

The Group has no other obligations other than the above-mentioned contributions.

37. Financial instruments

*(a) Categories of financial instruments***The Group**

	As at 31 December 2010 HK\$'000	As at 31 December 2009 HK\$'000
Financial assets		
Fair value through profit and loss		
– Investments held for trading	–	6,990
Loan and receivables		
– Deposit for acquisition	170,000	–
– Trade receivables	57,468	–
– Prepayments, deposits and other receivables	24,927	3,644
– Cash and bank balances	187,304	343,961
	439,699	347,605
Financial liabilities		
Amortised cost		
– Other payables and accruals	7,521	10,448
– Cumulative redeemable preference shares	110	110
– Convertible notes	89,886	–
	97,517	10,558

(b) Financial risk management and policies

The main risks arising from the Group's financial instruments are cash flow interest rate risk, foreign currency risk, other price risks, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below. The Group's accounting policies in relation to derivatives are set out in note (4) to the financial statements.

Cash flow interest rate risk

The Group has no significant interest-bearing financial assets and liabilities with a floating interest rate. The Group's results and operating cash flows are substantially independent of changes in market interest rates.

Foreign currency risk

The Group has transactional currency exposures as the sales and purchases, certain trade and other receivables, cash and bank balances, and trade and other payables of the Group were mainly transacted in Renminbi ("RMB"), Mongolia Tugrugs ("T"), United States Dollars ("USD") and Hong Kong dollars ("HKD").

The exchange rate of RMB and T were comparatively volatile.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the exchange rate of RMB and T, with all other variables held constant, of the Group's loss before tax.

	Change in exchange rate %	(Increase)/ decrease in loss before tax HK\$'000
At 31 December 2010		
If HKD weakens against RMB	5%	2,199
If HKD strengthens against RMB	5%	(2,199)
If HKD weakens against T	5%	118
If HKD strengthens against T	5%	(118)
At 31 December 2009		
If HKD weakens against RMB	5%	(163)
If HKD strengthens against RMB	5%	163
If HKD weakens against T	5%	(70)
If HKD strengthens against T	5%	70

At 31 December 2010 and 31 December 2009, the Group had not hedged any foreign currency to reduce such foreign currency risk.

In the opinion of the directors, if the exchange rates of these foreign currencies have continuous fluctuation, they will consider using forward currency contracts to reduce these risks.

Other price risks

The Group is exposed to equity price risk through its investment in listed equity securities. The management manages this exposure by maintaining a portfolio of investment with different risk and return profiles. The Group's equity price risk is mainly concentrated on equity securities quoted in The Stock Exchange of Hong Kong Limited. In addition, the Group has appointed a special team to monitor the price risk and will consider hedging the risk exposure should the need arise. At the end of the reporting period, all the marketable securities have been sold.

Sensitivity analysis

If equity prices had been 15% higher/lower (2009: 15% higher/lower), loss before tax for the year ended 31 December 2010 and period ended 31 December 2009 would decrease/increase by approximately HK\$0 (2009: approximately HK\$1,048,500). This is mainly due to the changes in fair value of marketable securities.

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant. For transactions that are not denominated in the functional currency of the relevant operating unit, the Group does not offer credit terms without the specific approval of the management.

The Group has concentration of credit risk as 100% (31 December 2009: Nil) of the total trade receivables was due from the Group's second largest customer during the year. Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The Management regularly reviews its major funding positions to ensure that it has adequate financial resources in meeting its financial obligations.

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities. For non-derivative financial liabilities, the tables reflect the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The tables include both interest and principal cash flows.

In addition, the following table details the Group's expected maturity for some of its non-derivative financial assets. The tables below have been drawn up based on the undiscounted contractual maturities of the financial assets. The inclusion of information on non-derivative financial assets is necessary in order to understand the Group's liquidity risk management as the liquidity is managed on a net asset and liability basis.

	Effective interest rate %	On demand or less than 3 months HK\$	More than 3 months but less than 1 year HK\$	More than 1 year HK\$	Total undiscounted cash flows HK\$	Total carrying amount at 31.12.2010 HK\$
At 31 December 2010						
Non-derivative financial assets						
Cash and bank balances	-	187,304	-	-	187,304	187,304
Non-derivative financial liabilities						
Trade and other payables	-	7,521	-	-	7,521	7,521
Convertible notes	14.91	-	1,100	111,100	112,200	89,886
		7,521	1,100	111,100	119,721	97,407

	Effective interest rate %	On demand or less than 3 months HK\$	More than 3 months but less than 1 year HK\$	More than 1 year HK\$	Total undiscounted cash flows HK\$	Total carrying amount at 31.12.2009 HK\$
At 31 December 2009						
Non-derivative financial assets						
Cash and bank balances	-	343,961	-	-	343,961	343,961
Non-derivative financial liabilities						
Trade and other payables	-	10,448	-	-	10,448	10,448

38. Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments:

- Level 1: Fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: Fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- Level 3: Fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs).

As at 31 December 2010, the Group held the following financial instruments measured at fair value:

Financial assets measured at fair value:

	As at 31 December 2010				As at 31 December 2009			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Fair value through profit or loss								
- investments held for trading	-	-	-	-	6,990	-	-	6,990

During the year/period ended 31 December 2010 and 31 December 2009, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

39. Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the debt-to-equity ratio. This ratio is calculated as debt divided by total equity. Debt represents current and non-current liabilities as shown in the consolidated statement of financial position. Total equity represents the equity as shown in the consolidated statement of financial position.

During the year, the Group's strategy, which was unchanged from 2009, was to maintain the net debt-to-equity ratio at satisfactory level. The net debt-to-equity ratios at 31 December 2010 and 31 December 2009 are as follows:

	Group	
	As at	As at
	31 December	31 December
	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
Total debt	647,661	552,071
Total equity	2,008,699	1,966,838
Net debt-to-equity ratio	<u>32.24%</u>	<u>28.07%</u>

40. Related party transactions

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. Details of transactions between the Group and other related parties are disclosed below.

On 3 May 2010, China National Information Resources Holdings Limited (a subsidiary of the Company), entered into an agreement for trading of products with 大冶有色金屬股份有限公司 (Daye Nonferrous Metals Co., Ltd.) (“Daye Nonferrous”), a company incorporated in the PRC and is an associated company of Hubei Daye Nonferrous Metals Co, the substantial shareholder of the Company. During the year, non-ferrous metals amounted to approximately \$153,274,519.79 were sold to Dajiang International Investment Co., Ltd, an agent of Daye Nonferrous.

On 10 October 2010, an agreement was entered into between 新疆滙祥永金礦業有限公司 (Xinjiang Huixiang Yong Jin Mining Company Limited) (“Xinjiang Huixiang”), a subsidiary of the Company and 大冶有色建築安裝有限公司 (Daye Non Ferrous Construction Installation Company Limited) (“DNF Construction”) for engaging DNF Construction to build an integrated office building situated in 新疆烏恰縣 (Xinjiang Wuqia County) for Xinjiang Huixiang at a consideration of RMB 7,905,500 (equivalent to HK\$9,091,325). DNF Construction is an indirect subsidiary of Hubei Daye Nonferrous Metals Co., the substantial shareholder of the Company.

On 15 October 2010, an agreement was entered into between Xinjiang Huixiang and 湖北鑫力井巷有限公司 (Hubei Xinli Jing Xiang Company Limited) (“Hubei Xinli”), a company incorporated with limited liability in the PRC, for the construction of slanted mining wells and vertical mining wells by Hubei Xinli for Xinjiang Huixiang at a consideration of RMB26,510,000 (equivalent to HK\$30,486,500). Hubei Xinli is an indirect subsidiary of Hubei Daye Nonferrous Metals Co., the substantial shareholder of the Company.

Key management personnel represent the directors of the Group and their remunerations are set out in note 11.

41. Particulars of principal subsidiaries

Particulars of the principal subsidiaries of the Company at 31 December 2010 and 31 December 2009 are as follows:—

Name of Company	Place of incorporation/ operation	Form of legal entity	Issue and paid up capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company		Principal activities
				Directly	Indirectly	
Ample Year Limited	British Virgin Islands	International business company	US\$1	100%	–	Investment holding
China National Recycling Int’l Trading Limited	Hong Kong	Limited liability company	HK\$1	–	100%	Investment holding
China National Information Resources Holdings Limited	Hong Kong	Limited liability company	HK\$2	–	100%	Trading in non-ferrous metals

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Name of Company	Place of incorporation/ operation	Form of legal entity	Issue and paid up capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company		Principal activities
				Directly	Indirectly	
China National Resources Investments Limited	Hong Kong	Limited liability company	HK\$2	–	100%	Investment holding
China Reservoir Mining Limited	British Virgin Islands	International business company	US\$10,000	–	51%	Investment holding
Fuken Investments Limited	British Virgin Islands	International business company	US\$1	–	100%	Investment holding
Giant Strong International Limited	British Virgin Islands	International business company	US\$3	–	100%	Investment holding
Goldway Investment International Limited	Hong Kong	Limited liability company	HK\$100	–	100%	Investment holding
Golden Brand Investments Limited	British Virgin Islands	International business company	US\$1	–	100%	Investment holding
Goldright Finance Limited	British Virgin Islands	International business company	US\$1	100%	–	Securities trading
Max Alliance International Limited	British Virgin Islands	International business company	US\$1	100%	–	Investment holding
Max Alliance Gold Resource Investment Limited	Hong Kong	Limited liability company	HK\$1	–	100%	Investment holding
Reservoir (Mongolia) Limited (note (c))	The Republic of Mongolia	Limited liability company	US\$100,000	–	51%	Mineral exploitation
Reservoir Moly Mongolia Limited (note (a))	The Republic of Mongolia	Limited liability company	US\$10,000	–	28%	Mineral exploitation
Reservoir Tungs Limited (note (a)) (note (b))	The Republic of Mongolia	Limited liability company	US\$10,000	–	33%	Mineral exploitation
Jetlight Investment Limited	British Virgin Islands	International business company	US\$1	100%	–	Investment holding

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Name of Company	Place of incorporation/ operation	Form of legal entity	Issue and paid up capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company		Principal activities
				Directly	Indirectly	
Keytrade Investments Limited	British Virgin Islands	International business company	US\$1	100%	–	Securities trading
Profit Jumbo Investment Limited	British Virgin Islands	International business company	US\$1	100%	–	Investment holding
Shinemax Group Limited	British Virgin Islands	International business company	US\$1	100%	–	Investment holding
Vintage International Finance Holding Group Limited	British Virgin Islands	International business company	US\$1	100%	–	Investment holding
新疆匯祥永金礦業有限公司 (note (d))	People's Republic of China	Sino-foreign equity joint venture company	RMB121,000,000	–	55%	Mineral exploitation

Note (a): Although the Company does not own more than half of the entity shares of Reservoir Moly Mongolia Limited and Reservoir Tungs Limited, and consequently it does not control more than half of the voting power of those shares, it has the power to appoint and remove the majority of the board of directors and control of the entity is by the board. Consequently, Reservoir Moly Mongolia Limited and Reservoir Tungs Limited are controlled by the Company and is consolidated in these financial statements.

Note (b): Reservoir Tungs Limited has been disposed of on 17 December 2010.

Note (c): The paid up capital was US\$10,000 on 31 December 2009.

Note (d): The paid up capital was RMB 39,000,000 on 31 December 2009.

42. Events after the reporting period

On 23 January 2011, the Company, 大冶有色金屬集團控股有限公司(Daye Non-ferrous Metals Corporation Holdings Limited) and the Vendors (China Times Development Limited, 中國信達資產管理股份有限公司(China Cinda Assets Management Co., Ltd.), 華融資產管理公司(China Huarong Asset Management Corporation) entered into the Acquisition Agreement (as supplemented and amended by the Supplemental Agreement dated 31 January 2011), pursuant to which, among other things, the Company has conditionally agreed to purchase, and the Vendors have conditionally agreed to sell, the Sale Shares(the China Times Sale Shares, Cinda Sale Shares and Huarong Sale Shares) at a total consideration of RMB6,100,000,000 or HK\$7,207,334,940 (based on the exchange rate of HKD1: RMB0.84636), which will be satisfied by the allotment and issue to the Vendors of an aggregate of 12,406,997,784 Ordinary Shares at the Issue Price of HK\$0.50 per Consideration Share and (to China Times only) the issue of the China Times Convertible Notes. Details of the acquisition are set out in the announcement of the Company dated 1 February 2011.

43. Approval of accounts

The financial statements were approved and authorised for issue by the Company's Board of directors on 29 March 2011.

4. AUDITED FINANCIAL STATEMENTS OF THE GROUP FOR THE EIGHT MONTHS ENDED 31 DECEMBER 2009 AND THE YEAR ENDED 30 APRIL 2009

Set out below are the audited financial statements of the Group for the eight months ended 31 December 2009 and the year ended 30 April 2009 as extracted from the annual report of the Company for the eight months ended 31 December 2009.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the period ended 31 December 2009

		1 May 2009 to 31 December 2009	1 May 2008 to 30 April 2009
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
REVENUE	6	1,672	20,235
COST OF SALES		<u>(645)</u>	<u>(27,695)</u>
		1,027	(7,460)
OTHER REVENUE	6	300	411
GENERAL AND ADMINISTRATIVE EXPENSES		<u>(112,988)</u>	<u>(461,724)</u>
OPERATING LOSS FOR THE PERIOD/YEAR	8	(111,661)	(468,773)
IMPAIRMENT OF MINING RIGHT WRITTEN BACK		87,407	–
LOSSES ON CHANGES IN FAIR VALUES OF INVESTMENTS HELD FOR TRADING		(1,186)	(4,204)
FINANCE COSTS	9	<u>(5)</u>	<u>(5)</u>
LOSS BEFORE TAXATION		(25,445)	(472,982)
INCOME TAX	11	<u>(21,852)</u>	<u>108,429</u>
LOSS FOR THE PERIOD/YEAR		<u><u>(47,297)</u></u>	<u><u>(364,553)</u></u>

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		1 May 2009 to 31 December 2009	1 May 2008 to 30 April 2009
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
OTHER COMPREHENSIVE INCOME:			
Exchange difference arising on translation of foreign operations		4	5,850
OTHER COMPREHENSIVE INCOME FOR THE PERIOD/YEAR, NET OF TAX		4	5,850
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD/YEAR		(47,293)	(358,703)
LOSS FOR THE PERIOD/YEAR ATTRIBUTABLE TO:			
– owners of the Company	12	(91,168)	(123,313)
– non-controlling interests		43,871	(241,240)
		(47,297)	(364,553)
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
– owners of the Company		(91,171)	(122,907)
– non-controlling interests		43,878	(235,796)
		(47,293)	(358,703)
DIVIDEND			
		N/A	N/A
		<i>HK cents</i>	<i>HK cents</i>
Loss per share:			
– Basic	14	(1.76)	(2.39)
– Diluted		N/A	N/A

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2009

		As at 31 December 2009	As at 30 April 2009
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment	15	18,731	18,142
Prepaid lease payment	16	1,670	–
Jointly controlled entities	19	–	–
Mining rights	17	2,142,547	2,055,140
		<u>2,162,948</u>	<u>2,073,282</u>
CURRENT ASSETS			
Investments held for trading	20	6,990	8,821
Inventories	21	1,366	1,441
Trade and other receivables	22	3,644	5,102
Cash and bank balances	23	343,961	97,894
TOTAL CURRENT ASSETS		<u>355,961</u>	<u>113,258</u>
CURRENT LIABILITIES			
Trade and other payables	24	10,448	7,786
Deferred income	25	3,975	3,976
Tax payable		1,901	1,901
TOTAL CURRENT LIABILITIES		<u>16,324</u>	<u>13,663</u>
NET CURRENT ASSETS		<u>339,637</u>	<u>99,595</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>2,502,585</u>	<u>2,172,877</u>
NON-CURRENT LIABILITIES			
Cumulative redeemable preference shares	26	110	110
Deferred tax liabilities	31	535,637	513,785
TOTAL NON-CURRENT LIABILITIES		<u>535,747</u>	<u>513,895</u>
NET ASSETS		<u><u>1,966,838</u></u>	<u><u>1,658,982</u></u>
CAPITAL AND RESERVES			
Share capital	27	279,560	257,584
Reserves	29	815,249	573,247
Equity attributable to the owners of the Company		1,094,809	830,831
Non-controlling interests		872,029	828,151
TOTAL EQUITY		<u><u>1,966,838</u></u>	<u><u>1,658,982</u></u>

STATEMENT OF FINANCIAL POSITION
As at 31 December 2009

		As at 31 December 2009 HK\$'000	As at 30 April 2009 HK\$'000
	<i>Notes</i>		
NON-CURRENT ASSETS			
Property, plant and equipment	15	1,282	72
Jointly controlled entities	19	–	–
Interest in subsidiaries	18	2,005,372	2,008,425
TOTAL NON-CURRENT ASSETS		<u>2,006,654</u>	<u>2,008,497</u>
CURRENT ASSETS			
Trade and other receivables	22	1,724	4,571
Cash and bank balances	23	293,309	42,430
TOTAL CURRENT ASSETS		<u>295,033</u>	<u>47,001</u>
CURRENT LIABILITIES			
Trade and other payables	24	3,913	4,078
TOTAL CURRENT LIABILITIES		<u>3,913</u>	<u>4,078</u>
NET CURRENT ASSETS		<u>291,120</u>	<u>42,923</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>2,297,774</u>	<u>2,051,420</u>
NON-CURRENT LIABILITIES			
Cumulative redeemable preference shares	26	110	110
TOTAL NON-CURRENT LIABILITIES		<u>110</u>	<u>110</u>
NET ASSETS		<u><u>2,297,664</u></u>	<u><u>2,051,310</u></u>
CAPITAL AND RESERVES			
Share capital	27	279,560	257,584
Reserves	29	2,018,104	1,793,726
TOTAL EQUITY		<u><u>2,297,664</u></u>	<u><u>2,051,310</u></u>

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period ended 31 December 2009

	Attributable to the owners of the Company							Non-controlling interests HK\$'000	Total HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Capital redemption reserve HK\$'000	Warrant reserve HK\$'000	Share-based payment reserve HK\$'000	Exchange reserve HK\$'000	Accumulated losses HK\$'000		
At 1 May 2008	257,584	2,670,545	2,241	–	64,137	(38,740)	(2,007,758)	948,009	2,011,956
Loss for the year	–	–	–	–	–	–	(123,313)	(123,313)	(364,553)
Exchange differences arising on translation of foreign operations	–	–	–	–	–	406	–	406	5,850
Total comprehensive income for the year	–	–	–	–	–	406	(123,313)	(122,907)	(358,703)
Recognition of share-based payment	–	–	–	–	2,729	–	–	2,729	2,729
Share option lapsed	–	–	–	–	(4,205)	–	4,205	–	–
Issue of warrants	–	–	–	3,000	–	–	–	3,000	3,000
At 30 April 2009 and At 1 May 2009	257,584	2,670,545	2,241	3,000	62,661	(38,334)	(2,126,866)	830,831	1,658,982
Loss for the period	–	–	–	–	–	–	(91,168)	(91,168)	(47,297)
Exchange differences arising on translation of foreign operations	–	–	–	–	–	(3)	–	(3)	4
Total comprehensive income for the period	–	–	–	–	–	(3)	(91,168)	(91,171)	(47,293)
Recognition of share-based payment	–	–	–	–	87,627	–	–	87,627	87,627
Share option lapsed/cancelled	–	–	–	–	(62,661)	–	62,661	–	–
Issue of shares	21,976	245,546	–	–	–	–	–	267,522	267,522
At 31 December 2009	<u>279,560</u>	<u>2,916,091</u>	<u>2,241</u>	<u>3,000</u>	<u>87,627</u>	<u>(38,337)</u>	<u>(2,155,373)</u>	<u>1,094,809</u>	<u>1,966,838</u>

CONSOLIDATED STATEMENT OF CASH FLOWS*For the period ended 31 December 2009*

	1 May 2009 to 31 December 2009 HK\$'000	1 May 2008 to 30 April 2009 HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before tax	(25,445)	(472,982)
Adjustments for:		
Interest income	(85)	(470)
Impairment of mining right written back	(87,407)	–
Finance costs	5	5
Impairment of mining right	–	433,719
Impairment of other receivables	33	–
Inventories written off	34	–
Share-based payment expenses	87,627	2,729
Losses on changes in fair values of investments held for trading	1,186	4,204
Depreciation	1,139	1,934
Loss on disposal of property, plant and equipment	9	–
Operating loss before changes in working capital	(22,904)	(30,861)
Decrease in investments held for trading	645	20,679
Decrease/(increase) in inventories	41	(1,441)
Decrease in trade and other receivables	1,425	78,407
Increase/(decrease) in trade and other payables	2,662	(2,242)
Increase in deferred income	–	3,976
Net Cash (used in)/generated from operations	(18,131)	68,518
Interest paid	(5)	(5)
Net cash (used in)/generated from operating activities	(18,136)	68,513
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income	85	470
Purchase of property, plant and equipment	(1,739)	(17,600)
Prepaid lease payment	(1,670)	–

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	1 May 2009 to 31 December 2009 <i>HK\$'000</i>	1 May 2008 to 30 April 2009 <i>HK\$'000</i>
Net cash used in investing activities	<u>(3,324)</u>	<u>(17,130)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Net proceeds from issue of ordinary shares	<u>267,522</u>	<u>—</u>
Net cash generated from financing activities	<u>267,522</u>	<u>—</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	246,062	51,383
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD/YEAR	97,894	40,682
Effects of foreign exchange rate changes	<u>5</u>	<u>5,829</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD/YEAR	<u><u>343,961</u></u>	<u><u>97,894</u></u>
ANALYSIS OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	<u><u>343,961</u></u>	<u><u>97,894</u></u>

NOTES TO THE FINANCIAL STATEMENTS

For the period ended 31 December 2009

1. Corporate information

China Daye Non-Ferrous Metals Mining Limited (the “Company”) was incorporated in Bermuda as an exempted Company with limited liability and its shares are listed on the main board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The address of the registered office and principal place of business of the Company are Clarendon House, 2 Church Street, Hamilton HM11, Bermuda and Unit 2001, World Wide House, 19 Des Voeux Road Central, Hong Kong respectively.

During the period, the Group was involved in the following principal activities:

- Corporate investment and trading in securities; and
- Minerals exploitation.

The financial year end date of the Company was changed from 30 April to 31 December. The reason for the change is to coincide with the financial year end date of the Company’s principal operating subsidiaries, which are mainly situated in the People’s Republic of China, and thereby facilitating the preparation of the consolidated financial statements of the Company and its subsidiaries. As a result of the change, the current financial statements covered a period from 1 May 2009 to 31 December 2009 which was shorter than one year as compared with the previous financial statements which covered a period from 1 May 2008 to 30 April 2009. The comparative amounts for the statement of comprehensive income, statement of changes in equity, statement of cash flows and related notes are not entirely comparable.

In the opinion of the directors, as at 31 December 2009 the ultimate holding company is Hubei Daye Non Ferrous Metals Co., a company incorporated in the People’s Republic of China.

2. Application of new and revised Hong Kong Financial Reporting Standards (“HKFRSs”)

In the current period, the Group and the Company have applied the following new and revised Standards, Amendments and Interpretations (“new and revised HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

HKAS 1 (Revised 2007)	Presentation of Financial Statements
HKAS 23 (Revised 2007)	Borrowing Costs
HKAS 32 & HKAS 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments
HKFRS 8	Operating Segments
HK(IFRIC) – Int 9 & HKAS 39 (Amendments)	Embedded Derivatives
HK(IFRIC) – Int 13	Customer Loyalty Programmes
HK(IFRIC) – Int 15	Agreements for the Construction of Real Estate
HK(IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation
HK(IFRIC) – Int 18	Transfers of Assets from Customers
HKFRS (Amendments)	Improvements to HKFRSs issued in 2008, except for the amendment to HKFRS 5 that is effective for annual periods beginning or after 1 July 2009
HKFRS (Amendments)	Improvements to HKFRSs issued in 2009 in relation to the amendment to paragraph 80 of HKAS 39

Except as described below, the adoption of the new and revised HKFRSs has no material effect on the financial statements of the Group and the Company for the current and prior accounting periods.

(a) *HKAS 1 (Revised 2007) Presentation of Financial Statements*

HKAS 1 (Revised 2007) has introduced terminology changes (including revised titles for the financial statements) and changes in the format and content of the financial statements.

(b) *HKFRS 8 Operating Segments*

HKFRS 8 is a disclosure standard that has resulted in a redesignation of the Group’s reportable segments (see note 7) and changes in the basis of measurement of segment profit or loss, segment assets and segment liabilities.

(c) *Improving Disclosures about Financial Instruments*
(Amendments to HKFRS 7 Financial Instruments: Disclosures)

The amendments to HKFRS 7 expand the disclosures required in relation to fair value measurements in respect of financial instruments which are measured at fair value. The amendments also expand and amend the disclosures required in relation to liquidity risk. The Group has not provided comparative information for the expanded disclosures in relation to fair value measurements in accordance with the transitional provision set out in the amendments.

The Group and the Company have not early applied the following new and revised Standards, Amendments and Interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Amendments to HKFRS 5 as part of Improvements to HKFRSs issued in 2008 ⁽¹⁾
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 ⁽²⁾
HKAS 24 (Revised)	Related Party Disclosures ⁽⁵⁾
HKAS 27 (Revised)	Consolidated and Separate Financial Statements ⁽¹⁾
HKAS 32 (Amendments)	Classification of Rights Issues ⁽⁴⁾
HKAS 39 (Amendments)	Eligible Hedged Items ⁽¹⁾
HKFRS 1 (Amendments)	Additional Exemptions for First-time Adopters ⁽³⁾
HKFRS 2 (Amendments)	Group Cash-settled Share-based Payment Transactions ⁽³⁾
HKFRS 3 (Revised)	Business Combinations ⁽¹⁾
HKFRS 9	Financial Instruments ⁽⁷⁾
HK(IFRIC)-Int 14 (Amendments)	Prepayments of Minimum Funding Requirement ⁽⁶⁾
HK(IFRIC)-Int 17	Distributions of Non-cash Assets to Owners ⁽¹⁾
HK(IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity ⁽⁶⁾

⁽¹⁾ *Effective for annual periods beginning on or after 1 July 2009*

⁽²⁾ *Amendments that are effective for annual periods beginning on or after 1 July 2009 or 1 January 2010, as appropriate*

⁽³⁾ *Effective for annual periods beginning on or after 1 January 2010*

⁽⁴⁾ *Effective for annual periods beginning on or after 1 February 2010*

⁽⁵⁾ *Effective for annual periods beginning on or after 1 January 2011*

⁽⁶⁾ *Effective for annual periods beginning on or after 1 July 2010*

⁽⁷⁾ *Effective for annual periods beginning on or after 1 January 2013*

The application of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition dates are on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary.

HKFRS 9 Financial Instruments introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. The Standard requires all recognized financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 might affect the classification and measurement of financial assets.

In addition, as part of Improvements to HKFRSs issued in 2009, HKAS 17 Leases has been amended in relation to the classification of leasehold land. The amendments will be effective from 1 January 2010, with earlier application permitted. Before the amendments to HKAS 17, leasees were required to classify leasehold land as operating leases and presented as prepaid lease payments in the consolidated statement of financial position. The amendments have removed such a requirement. Instead, the amendments require the classification of leasehold land to be based on the general principles set out in HKAS 17, that are based on the extent to which risks and rewards incidental to ownership of a leased asset lie with the lessor or the lessee. The application of the amendments to HKAS 17 might not affect the classification and measurement of the leasehold land.

The directors of the Company anticipate that the application of the other new and revised Standards, Amendments or Interpretations will have no material impact on financial statements.

3. Basis of preparation

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 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 The Stock Exchange of Hong Kong Limited.

The measurement basis used in the preparation of the financial statements is the historical cost basis except for certain financial instruments, which are measured at fair values.

4. Significant accounting policies

(a) Basis of consolidation

The financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the period are included in the consolidated statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Non-controlling interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Non-controlling interests in the net assets consist of the amount of those interests at the date of the original business combinations and the non-controlling interests' share of changes in equity since the date of the combination. Losses applicable to the non-controlling interests in excess of the non-controlling interests in the subsidiary's equity are allocated against the interests of the Group except to the extent that the non-controlling interests have a binding obligation and are able to make an additional investment to cover the losses.

(b) Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale, which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

(c) *Subsidiary*

A subsidiary is an enterprise in which the Group has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another enterprise.

Investment in subsidiaries is included in the Company's statement of financial position at cost less any impairment losses, unless it is classified as held for sale. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(d) *Associates and jointly controlled entities*

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

A jointly controlled entity is an entity which operates under a contractual arrangement between the Group and other parties, where the contractual arrangement establishes that the Group and one or more of the other parties share joint control over the economic activity of the entity.

An investment in an associate or a jointly controlled entity 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 or the jointly controlled entity's net assets, unless it is classified as held for sale. The consolidated income statement includes the Group's share of the post-acquisition, post-tax results of the associates and jointly controlled entities for the year, including any impairment loss on goodwill relating to the investment in associates and jointly controlled entities recognised for the year.

When the Group's share of losses exceeds its interest in the associate or the jointly controlled entity, 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 or the jointly controlled entity. For this purpose, the Group's interest in the associate or the jointly controlled entity 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 or the jointly controlled entity.

Unrealised profits and losses resulting from transactions between the Group and its associates and jointly controlled entities are eliminated to the extent of the Group's interest in the associate or jointly controlled entity, 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 statement of financial position, investment in associates and jointly controlled entities is stated at cost less impairment losses, unless it is classified as held for sale.

(e) Goodwill

Goodwill arising on an acquisition of a subsidiary represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant subsidiary at the date of acquisition. Goodwill arising on an acquisition of an associate or a jointly controlled entity represents the excess of the cost of the acquisition over the Group's share of the relevant associate's or jointly controlled entity's net assets at the date of acquisition.

Capitalised goodwill is presented separately in the consolidated statement of financial position and is carried at cost less any accumulated impairment losses. For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of a subsidiary, an associate or a jointly controlled entity, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

(f) Revenue recognition

Revenue, which is measured at the fair value of the consideration received or receivable, is recognised when it is probable that the economic benefits will flow to the Group and the revenue can be measured reliably, on the following bases:

- (i) Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and sales related taxes;
- (ii) Income arising from sales of trading securities is recognised on the completion of transfer of risks and rewards of ownership of the investments to the transferee and the legal title being passed;
- (iii) interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount; and
- (iv) Dividend income is recognised when the shareholder's right to receive payment is established.

(g) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis. Interest in leasehold land is amortised over the lease term on a straight-line basis.

(h) Foreign currencies

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in Hong Kong dollars, which is the functional currency of the Company, and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the end of the reporting period. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in profit or loss for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in equity.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations (including comparatives) are expressed in Hong Kong dollars using exchange rates prevailing at the end of the reporting period. Income and expense items (including comparatives) are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments on identifiable assets acquired arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate prevailing at the end of the reporting period. Exchange differences arising are included in the translation reserve.

(i) *Borrowing costs*

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(j) *Employee benefits*

- (i) Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the end of the reporting period.

Employee entitlements to sick leave and maternity or paternity leaves are not recognised until the time of leave.

(ii) *Employee leave entitlements*

Provision for profit sharing and bonus payments due wholly within twelve months after the end of the reporting period are recognised as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

(iii) *Retirement benefit costs*

The Group's contributions to the defined contribution retirement scheme set up pursuant to the Hong Kong Mandatory Provident Fund Schemes Ordinance (the "MPF" Scheme) for all qualifying employees are expensed as incurred. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The Company's PRC and Mongolia subsidiaries participate in defined contribution retirements schemes organized by the local government authorities. All of the employees are entitled to an annual pension equivalent to a fixed portion of their basic salaries at their retirement dates. The Company's PRC and Mongolia subsidiaries are required to contribute certain percentage of the basic salaries of their employees to the retirement schemes and have no further obligation for post-retirement benefits. The contributions are charged to the profits and loss of the Group as they become payable in accordance with the rules of schemes.

(iv) Share-based payments

The Group operates equity-settled share-based payments to certain directors, employees and other parties.

Equity-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period with a corresponding increase in a capital reserve within equity, based on the Group's estimate of the shares that will eventually vest and adjusted for the effect of non market-based vesting conditions. The equity amount is recognised in the capital 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 earnings).

Fair value is measured using the Black-Scholes Option Price Model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioral considerations.

(k) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted at the end of the reporting period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax base used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted at the end of the reporting period. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

(l) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is charged so as to write off the cost of property, plant and equipment, after taking into account of their estimated residual value, if any, over their estimated useful lives, using the straight-line method. The principal annual rates are as follows:

Leasehold improvement	20%
Furniture, fixtures and equipment	15% – 20%
Motor vehicles	25%
Plant and machineries	15%
Building and mining structure	5%

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is derecognised.

Construction in progress, which represents assets under construction, is stated at cost less impairment loss, if any. When the assets are completed and ready for use, the carrying amount of the assets will be reclassified to property, plant and equipment and depreciated in accordance with the policy as set out above.

(m) Leases of land and buildings

Whenever necessary in order to classify and account for a lease of land and buildings, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the buildings elements in proportion to the relative fair values of the leasehold interests in the land element and buildings element of the lease at the inception of the lease.

The land element is classified as an operating lease unless title is expected to pass to the lessee by the end of the lease term. The buildings element is classified as a finance or operating lease in the same way as leases of other assets.

If the lease payments on a lease of land and building cannot be allocated reliably between the land and building elements at the inception of the lease, the entire lease is classified as a finance lease, unless it is clear that both elements are operating leases, in which case the entire lease is classified as an operating lease.

(n) Mining right

Mining rights are stated at cost less accumulated amortisation and any impairment losses and are amortised on a straight line basis over the estimated useful life of the mines based on the total proven and probable reserves of the mines using the units of production method.

(o) Exploration and related expenses

Exploration and related expenses include topographical and geological surveys, exploratory drilling, sampling and trenching and activities in relation to commercial and technical feasibility studies, and expenditure incurred to secure further mineralisation in existing ore bodies and to expand the capacity of a mine. Expenditure incurred prior to acquiring legal rights to explore an area is written off as incurred.

(p) Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the consolidated income statement over the expected useful life of the relevant asset by equal annual installments.

(q) Impairment of tangible and intangible assets excluding goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell 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 the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount under other standard, in which case the impairment loss is treated as revaluation decrease under other standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount under other standard, in which case the reversal of the impairment loss is treated as a revaluation increase under other standard.

Impairment losses recognised in an interim financial report prepared in compliance with “HKAS 34 Interim Financial Reporting” are not reversed at the end of the financial year to which the interim period relates even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of that financial year.

(r) *Financial instruments*

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs that are directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income for financial assets and interest expense for financial liabilities are recognized on an effective interest basis.

(i) *Financial assets*

The Group's financial assets are classified into one of the four categories, including financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

The accounting policies adopted in respect of each category of financial assets are set out below.

(1) Financial assets at fair value through profit and loss

Financial assets at fair value through profit or loss has two subcategories, including financial assets held for trading and those designated as at fair value through profit or loss on initial recognition.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of and identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at fair value through profit or loss upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

At the end of each reporting period subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial assets.

(2) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At the end of each reporting period subsequent to initial recognition, loans and receivables (including trade receivables, loan receivables, other receivables and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses.

(3) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. At the end of each reporting period subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method, less any identified impairment losses.

(4) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments. At the end of each reporting period subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at the end of each reporting period subsequent to initial recognition.

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

(ii) Financial liabilities

The Group's financial liabilities are generally classified into financial liabilities at fair value through profit or loss and other financial liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

(1) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss has two subcategories, including financial liabilities held for trading and those designated as at fair value through profit or loss on initial recognition.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at fair value through profit or loss upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

At the end of each reporting period subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss includes any interest paid on the financial liability.

(2) Other financial liabilities and equity

Other financial liabilities (including bank and other borrowings, trade and other payables) are subsequently measured at amortised cost, using the effective interest method.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss.

(3) Convertible bonds

Convertible bonds issued by the Company that contain both the liability and conversion option components are classified separately into respective items on initial recognition. Conversion option will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is an equity instrument

On initial recognition, the fair value of the liability component is determined using the prevailing market interest rate of similar non-convertible debts. The difference between the proceeds of the issue of the convertible bonds and the fair value assigned to the liability component, representing the conversion option for the holder to convert the convertible bonds into equity, is included in equity (convertible bonds equity reserve).

In subsequent periods, the liability component of the convertible bonds is carried at amortised cost using the effective interest method. The equity component, representing the option to convert the liability component into ordinary shares of the Company, will remain in convertible bonds equity reserve until the conversion option is exercised (in which case the balance stated in convertible bonds equity reserve will be transferred to share premium). Where the option remains unexercised at the expiry date, the balance stated in convertible bonds equity reserve will be released to the retained profits. No gain or loss is recognised in profit or loss upon conversion or expiration of the option.

Transaction costs that relate to the issue of the convertible bonds are allocated to the liability and equity components in proportion to the allocation of the proceeds. Transaction costs relating to the equity component are charged directly to equity. Transaction costs relating to the liability component are included in the carrying amount of the liability component and amortised over the period of the convertible bonds using the effective interest method.

(iii) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on purchase, sale, issue or cancellation of the Company's own equity instruments.

Warrants issued by the group entities which will be settled by the exchange of a fixed amount of cash for a fixed number of the Company's own equity instruments, are recorded at the proceeds received, net of direct issue costs.

(s) ***Financial guarantees, provisions and contingent liabilities***

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. The Group has asserted to regard financial guarantee contracts as insurance contracts and elect to apply "HKFRS 4 Insurance Contracts" to account for such contracts. The election applies to all existing contracts and new contracts on a contract-by-contract basis and is irrevocable for each contract elected.

Provisions are recognised when the Group has a present obligation as a result of a past event, and 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.

Present obligation is disclosed as a contingent liability where it is not probable that an outflow of economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability. Possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more future event(s) is also disclosed as a contingent liability unless the probability of outflow of economic benefits is remote.

(t) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

(u) Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

(v) Related parties

A party is considered to be related to the Group if:

- (i) The party, directly or indirectly through one or more intermediaries, (1) controls, is controlled by, or is under common control with, the Group; (2) has an interest in the Group that gives it significant influence over the Group; or (3) has joint control over the Group;
- (ii) The party is an associate;
- (iii) The party is a jointly-controlled entity;
- (iv) The party is a member of the key management personnel of the Group or its parent;
- (v) The party is a close member of the family of any individual referred to in (i) or (iv);
- (vi) The party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides, with directly or indirectly, any individual referred to in (iv) or (v); or

- (vii) 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.

A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

(w) *Segment reporting*

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

5. Critical accounting judgments and estimates

(a) *Judgments*

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations as discussed below, which have the most significant effect on the amounts recognised in the financial statements.

(i) *Impairment of assets*

In determining whether an asset is impaired or the event previously causing the impairment no longer exists, the Group has to exercise judgment in the area of asset impairment, particularly in assessing: (1) whether an event has occurred that may affect the asset value or such event affecting the asset value has not been in existence; (2) whether the carrying value of an asset can be supported by net present value of future cash flows which are estimated based upon the continued use of the asset or derecognition; and (3) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management to determine the level of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test.

(ii) *Exploration and related expenses*

The application of the Group's accounting policy for exploration and evaluation expenditure requires judgments in determining whether it is likely that future economic benefits will arise, which may be based on assumptions about future events or circumstances. Estimates and assumptions made may change if new information becomes available. If, after expenditures are capitalized, information becomes available suggesting that the recovery of capitalized expenditures are unlikely, the amount capitalized is written off in the income statement in the period when the new information becomes available.

(iii) *Income taxes*

Deferred tax is provided using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax assets are recognised for unused tax losses carried forward to the extent that it is probable that future taxable profits will be available against which the unused tax losses can be utilised, based on all available evidence. Recognition primarily involves judgment regarding the future performance of the particular legal entity or tax group in which the deferred tax asset has been recognised. A variety of other factors are also evaluated in considering whether there is convincing evidence that it is probable that some portion or all of the deferred tax assets will ultimately be realised, such as the existence of taxable temporary differences, tax planning strategies and the periods in which estimated tax losses can be utilised. The carrying amount of deferred tax assets and related financial models and budgets are reviewed at the end of each reporting period and to the extent that there is insufficient convincing evidence that sufficient taxable profits will be available within the utilisation periods to allow utilisation of the carry forward tax losses, the asset balance will be reduced and charged to the income statement.

(b) *Estimation uncertainty*

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of the Group's assets and liabilities within the next financial year are discussed below.

(i) *Impairment test of assets*

The Group determines whether an asset is impaired at least on an annual basis or where an indication of impairment exists. This requires an estimation of the value in use of the asset. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the assets and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

(ii) *Mine reserves*

Engineering estimates of the Group's mine reserves are inherently imprecise and represent only approximate amounts because of the subjective judgments involved in developing such information. There are authoritative guidelines regarding the engineering criteria that have to be met before estimated mine reserves can be designated as proven and probable. Proven and probable mine reserve estimates are updated on a regular basis and have taken into account recent production and technical information about each mine. In addition, price and cost levels change from year to year, the estimates of proven and probable mine reserves also change. This change is considered a change in estimate for accounting purposes and is reflected on a prospective basis in the related amortization rates of mining rights.

Despite the inherent imprecision in these engineering estimates, these estimates are used in determining amortization expenses and impairment losses of mining rights. Amortization rates are determined based on estimated proven and probable mine reserve quantity and capitalized costs of mining rights. The capitalized costs of mining rights are amortized over the estimated useful lives of the mines based on the proven and probable reserves of the mines using the units of production method.

(iii) Income taxes

The Group reviews the carrying amount of deferred tax assets at the end of each reporting period and reduces the amount to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax assets to be utilised. This requires an estimation of the future taxable profits. Estimating the future taxable profits requires the Group to make an estimate of the expected future earnings from the Group and also to choose a suitable discount rate in order to calculate the present value of the earnings.

(iv) Depreciation of property, plant and equipment

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives, after taking into account of their estimated residual value. The determination of the useful lives and residual values involve management's estimation. The Group assesses annually the residual value and the useful life of the property, plant and equipment and if the expectation differs from the original estimate, such a difference may impact the depreciation in the year the estimate is changed and the future period.

(v) Valuation of share options

Share option expense is subject to the limitations of the option pricing models adopted and the uncertainty in estimates used by management in the assumptions. Should the estimates including limited early exercise behaviour, expected interval and frequency of open exercise periods in the share option life and the relevant parameters of the share option model be changed, there would be material changes in the amount of share option benefits recognised in the profit and loss and share-based payment reserve.

6. Revenue

(a) An analysis of the Group's revenue for the period/year is as follows:

	1 May 2009 to 31 December 2009 HK\$'000	1 May 2008 to 30 April 2009 HK\$'000
Sales of marketable securities	1,424	19,429
Other interest income	85	470
Dividend income	163	336
	<u>1,672</u>	<u>20,235</u>

(b) An analysis of the Group's other revenue for the period/year is as follows:

	1 May 2009 to 31 December 2009 HK\$'000	1 May 2008 to 30 April 2009 HK\$'000
Miscellaneous income	300	410
Exchange gain	—	1
	<u>300</u>	<u>411</u>

7. Segment information

Segment information reported to the chief operating decision maker, directors of the Company, is the type of goods delivered by the Group's operating division for the purposes of resource allocation and performance assessment. The Group's operating and reportable segments under HKFRS 8 are as follows:

The Group is currently organized into two major business division:

- (a) Corporate investment and trading in securities; and
- (b) Minerals exploitation.

For the purposes of assessing segment performance and resources allocation between segments, the Group's senior executive management monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment revenue represents revenue generated from external customers. There were no inter-segment sales during the period/year.

Segment result represents the profit/(loss) earned by each segment without allocation of corporate income and expense, central administration cost, directors' salaries, interest income, impairment of other receivables and finance costs.

Segment assets include all tangible, intangible assets and current assets.

Segment liabilities include all trade and other payables other than tax payable and deferred tax liabilities.

(a) Segment revenues and results

	1 May 2009 to 31 December 2009		
	Corporate investment and trading in securities <i>HK\$'000</i>	Minerals exploitation <i>HK\$'000</i>	Total <i>HK\$'000</i>
Segments revenue	<u>1,587</u>	<u>—</u>	<u>1,587</u>
Segments results	<u>(264)</u>	<u>80,148</u>	79,884
Interest income			85
Unallocated corporate expenses			(105,376)
Impairment of other receivables			(33)
Finance costs			<u>(5)</u>
Consolidated loss before taxation			<u><u>(25,445)</u></u>

1 May 2008 to 30 April 2009

	Corporate investment and trading in securities <i>HK\$'000</i>	Minerals exploitation <i>HK\$'000</i>	Total <i>HK\$'000</i>
Segments revenue	<u>19,765</u>	<u>—</u>	<u>19,765</u>
Segments results	<u>(23,623)</u>	<u>(449,444)</u>	<u>(473,067)</u>
Interest income			470
Unallocated corporate expenses			(380)
Finance costs			<u>(5)</u>
Consolidated loss before taxation			<u><u>(472,982)</u></u>

(b) Segment assets and liabilities

1 May 2009 to 31 December 2009

	Corporate investment and trading in securities <i>HK\$'000</i>	Minerals exploitation <i>HK\$'000</i>	Total <i>HK\$'000</i>
Segment assets	<u><u>8,610</u></u>	<u><u>2,166,341</u></u>	2,174,951
Unallocated assets			<u>343,958</u>
Consolidated assets			<u><u>2,518,909</u></u>
Segment liabilities	<u><u>47</u></u>	<u><u>10,292</u></u>	10,339
Unallocated liabilities			<u>541,732</u>
Consolidated liabilities			<u><u>552,071</u></u>

1 May 2008 to 30 April 2009

	Corporate investment and trading in securities HK\$'000	Minerals exploitation HK\$'000	Total HK\$'000
Segment assets	<u>55,928</u>	<u>2,083,380</u>	2,139,308
Unallocated assets			<u>47,232</u>
Consolidated assets			<u>2,186,540</u>
Segment liabilities	<u>4,220</u>	<u>7,522</u>	11,742
Unallocated liabilities			<u>515,816</u>
Consolidated liabilities			<u>527,558</u>

(c) Other segment information1 May 2009 to
31 December 2009

	Corporate investment and trading in securities HK\$'000	Minerals exploitation HK\$'000
Capital expenditure	—	2,068
Depreciation	—	1,008
Impairment of mining right written back	<u>—</u>	<u>(87,407)</u>

	1 May 2008 to 30 April 2009	
	Corporate investment and trading in securities HK\$'000	Minerals exploitation HK\$'000
Capital expenditure	27	17,573
Depreciation	47	1,887
Impairment of mining right	—	433,719

(d) Geographical segments

The following tables present revenue and certain assets and expenditure information for the Group's geographical segments for the period ended 31 December 2009 and year ended 30 April 2009.

	1 May 2009 to 31 December 2009			
	Hong Kong HK\$'000	The PRC HK\$'000	Mongolia HK\$'000	Total HK\$'000
Segment revenue	1,587	—	—	1,587
Other segment information:				
Non-current assets	—	1,451,859	709,807	2,161,666
Capital expenditure	—	2,061	7	2,068

	1 May 2008 to 30 April 2009			
	Hong Kong HK\$'000	The PRC HK\$'000	Mongolia HK\$'000	Total HK\$'000
Segment revenue	19,765	—	—	19,765
Other segment information:				
Non-current assets	72	1,450,817	622,393	2,073,282
Capital expenditure	27	17,573	—	17,600

8. Operating loss for the period/year

Operating loss of the Group for the period/year has been arrived at after charging the followings:

	1 May 2009 to 31 December 2009 HK\$'000	1 May 2008 to 30 April 2009 HK\$'000
Staff costs (including directors' remuneration – <i>note 10</i>)		
– Salaries and allowances	6,993	4,886
– Share-based payments (<i>note a</i>)	33,758	558
– Other staff costs	1,087	416
– Retirement benefits scheme contributions	60	31
	<u>41,898</u>	<u>5,891</u>
Depreciation	1,139	1,934
Auditors' remuneration		
– Audit services	720	720
– Other services	120	120
Operating leases on land and buildings	913	984
Share-based payments – Consultants (<i>note a</i>)	53,869	2,171
Impairment of mining right	–	433,719
Impairment of other receivables	33	–
Inventories written off	34	–
Exploration and related expenses	<u>2,360</u>	<u>9,787</u>

Note a: During the period/year, share-based payments arising from share options granted to directors, employees and consultants of the Group recognised as expenses in profit and loss are as follows:–

	1 May 2009 to 31 December 2009 HK\$'000	1 May 2008 to 30 April 2009 HK\$'000
Directors' emolument	31,493	558
Staff costs	2,265	–
Professional fees	<u>53,869</u>	<u>2,171</u>
	<u>87,627</u>	<u>2,729</u>

9. Finance costs

	1 May 2009 to 31 December 2009 HK\$'000	1 May 2008 to 30 April 2009 HK\$'000
Dividends on cumulative redeemable preference shares (<i>note 13</i>)	5	5
	<u>5</u>	<u>5</u>

10. Directors' and five highest paid employees' emoluments

(i) Directors' emoluments

1 May 2009 to 31 December 2009

	Fees HK\$'000	Salaries, Other emoluments allowances and other benefits HK\$'000	Employee share option benefits HK\$'000	Retirement benefits scheme contributions HK\$'000	Total HK\$'000
Executive Directors					
Wan Bi Qi	–	1,171	13,813	–	14,984
Zhang He	–	1,157	2,486	–	3,643
Chen Xiang	–	900	13,813	–	14,713
Yuan Ping	–	1,022	1,381	–	2,403
Independent Non-executive Directors					
Wang Guoqi	–	–	–	–	–
Wang Qihong	–	–	–	–	–
Wong Sat (<i>note a</i>)	–	–	–	–	–
Qiu Quan Zhou (<i>note b</i>)	–	–	–	–	–
	<u>–</u>	<u>4,250</u>	<u>31,493</u>	<u>–</u>	<u>35,743</u>

Note (a): Resigned on 14 May 2009

Note (b): Appointed on 14 May 2009

1 May 2008 to 30 April 2009

		Salaries, allowances and other benefits	Other emoluments Employee share option benefits	Retirement benefits scheme contributions	Total
	Fees HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Executive Directors					
Wang Jian Sheng (<i>note b</i>)	–	–	–	–	–
Wan Bi Qi (<i>note c</i>)	–	–	–	–	–
Li Qiao Feng (<i>note a</i>)	–	345	302	–	647
Zhang He	–	950	196	–	1,146
Chen Xiang (<i>note c</i>)	–	–	–	–	–
Yuan Ping (<i>note c</i>)	–	–	–	–	–
Non-Executive Directors					
Wang Bao Lin (<i>note b</i>)	–	110	–	–	110
Independent Non-executive Directors					
Wang Guoqi	–	30	20	–	50
Wang Qihong	–	–	20	–	20
Wong Sat (<i>note d</i>)	–	–	20	–	20
Qiu Quan Zhou (<i>note e</i>)	–	–	–	–	–
	–	1,435	558	–	1,993

Note (a): Resigned on 16 April 2009

Note (b): Resigned on 20 April 2009

Note (c): Appointed on 20 April 2009

Note (d): Resigned on 14 May 2009

Note (e): Appointed on 14 May 2009

(ii) Five highest paid employees

During the period, the five highest paid individuals included four directors (For the year ended 30 April 2009: three), details of whose emoluments are set out above. The emoluments of the remaining highest paid individual were as follows:

	1 May 2009 to 31 December 2009 HK\$'000	1 May 2008 to 30 April 2009 HK\$'000
Salaries and allowances	1,242	1,530
Retirement benefits scheme contributions	8	21
Employee share-based payment	1,934	—
	<u>3,184</u>	<u>1,551</u>

Emoluments of the one (For the year ended 30 April 2009: two) non-director highest paid individual(s) fell within the following bands:

	Number of individual(s) 1 May 2009 to 31 December 2009	1 May 2008 to 30 April 2009
HK\$ Nil to HK\$1,000,000	—	1
HK\$1,000,001 to HK\$2,000,000	—	1
HK\$2,000,001 to HK\$4,000,000	1	—

11. INCOME TAX

- (a) Income tax expense in the consolidated statement of comprehensive income represents:

	1 May 2009 to 31 December 2009 HK\$'000	1 May 2008 to 30 April 2009 HK\$'000
Current tax:		
Hong Kong	—	—
Other jurisdictions	—	—
	<hr/>	<hr/>
	—	—
Deferred tax (<i>note 31</i>)	(21,852)	108,429
	<hr/>	<hr/>
Tax (expense)/income for the period/year	<u>(21,852)</u>	<u>108,429</u>

Hong Kong profits tax has not been made as the Group has no assessable profits arising in or derived from Hong Kong during the period (For the year ended 30 April 2009: Nil). Overseas income taxes have not been made as the Group's operation in these countries was operating at a loss during the period (For the year ended 30 April 2009: Nil).

- (b) Reconciliation between tax expense and accounting loss at applicable tax rates is as follows:

	1 May 2009 to 31 December 2009 HK\$'000	1 May 2008 to 30 April 2009 HK\$'000
Loss before tax	<u>(25,445)</u>	<u>(472,982)</u>
Notional tax on loss before tax, calculated at the tax rates applicable to profits in the jurisdictions concerned	(10,368)	(49,569)
Tax effect of income not taxable	(27)	(119)
Tax effect of expenses not deductible and loss not allowable	–	451
Tax effect of temporary differences not recognised for the period/year	(8,741)	(3)
Tax effect of estimated tax losses not recognised for the period/year	19,136	49,240
(Increase)/decrease in deferred tax liabilities arising from mining right (<i>note 31</i>)	<u>(21,852)</u>	<u>108,429</u>
	<u>(21,852)</u>	<u>108,429</u>

12. LOSS ATTRIBUTABLE TO OWNERS OF THE COMPANY

The consolidated loss attributable to the owners of the Company for the period ended 31 December 2009 includes a loss of approximately HK\$108,795,000 (For the year ended 30 April 2009: approximately HK\$11,268,000) which has been dealt with in the financial statement of the Company.

Reconciliation of the above amount to the Company's loss for the period/year is as follows:

	1 May 2009 to 31 December 2009 HK\$'000	1 May 2008 to 30 April 2009 HK\$'000
Amount of consolidated loss attributable to owners of the Company dealt with in the Company's financial statements	(105,110)	(11,268)
Impairment loss on amount due from subsidiaries	(3,308)	–
Impairment loss on other receivables	(377)	–
	<u> </u>	<u> </u>
Company's loss for the period/year	<u><u>(108,795)</u></u>	<u><u>(11,268)</u></u>

13. DIVIDENDS ON CUMULATIVE REDEEMABLE PREFERENCE SHARES

	1 May 2009 to 31 December 2009 HK\$'000	1 May 2008 to 30 April 2009 HK\$'000
Preference dividends		
Payable of HK\$0.151 per share on 16,485 shares (For the year ended 30 April 2009: HK\$0.151 on 16,485 shares)	3	3
Payable of HK\$0.149 per share on 16,485 shares (For the year ended 30 April 2009: HK\$0.149 on 16,485 shares)	<u>2</u>	<u>2</u>
	<u><u>5</u></u>	<u><u>5</u></u>

14. LOSS PER SHARE

The basic loss per share is calculated based on the loss attributable to owners of approximately HK\$91,168,000 (For the year ended 30 April 2009: approximately HK\$123,313,000) and the weighted average number of 5,187,804,155 (For the year ended 30 April 2009: 5,151,679,552) ordinary shares in issue during the period/year.

The diluted loss per share for the period ended 31 December 2009 and year ended 30 April 2009 has not been disclosed as the potential shares arising from the exercise and conversion of the Company's share options and convertible preference shares would increase the loss per share of the Group for the period/year and is regarded as anti-dilutive.

15. PROPERTY, PLANT AND EQUIPMENT

Group

	Leasehold improvement <i>HK\$'000</i>	Furniture, fixtures and equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Plant and machineries <i>HK\$'000</i>	Building and mining structure <i>HK\$'000</i>	Construction in progress <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost:							
At 1 May 2008	–	421	1,379	1,431	–	–	3,231
Additions	–	86	–	2	906	16,606	17,600
Transfer	–	–	–	3,911	8,091	(12,002)	–
Exchange adjustment	–	4	(69)	8	–	–	(57)
At 30 April 2009 and at 1 May 2009	–	511	1,310	5,352	8,997	4,604	20,774
Additions	1,160	188	376	9	–	6	1,739
Disposals	–	(11)	–	–	–	–	(11)
Exchange adjustment	–	1	(6)	–	(1)	(1)	(7)
At 31 December 2009	1,160	689	1,680	5,361	8,996	4,609	22,495
Accumulated depreciation and impairment losses:							
At 1 May 2008	–	195	526	55	–	–	776
Charge for the year	–	93	425	966	450	–	1,934
Exchange adjustment	–	–	(75)	(3)	–	–	(78)
At 30 April 2009 and at 1 May 2009	–	288	876	1,018	450	–	2,632
Charge for the period	99	52	152	536	300	–	1,139
Written back on disposal	–	(2)	–	–	–	–	(2)
Exchange adjustment	–	–	(6)	1	–	–	(5)
At 31 December 2009	99	338	1,022	1,555	750	–	3,764
Net carrying amount:							
At 31 December 2009	1,061	351	658	3,806	8,246	4,609	18,731
At 30 April 2009	–	223	434	4,334	8,547	4,604	18,142

Company

	Leasehold improvement <i>HK\$'000</i>	Furniture, fixtures and equipment <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost:			
At 1 May 2008	–	279	279
Additions	–	27	27
	<hr/>	<hr/>	<hr/>
At 30 April 2009 and at 1 May 2009	–	306	306
Additions	1,160	181	1,341
	<hr/>	<hr/>	<hr/>
At 31 December 2009	1,160	487	1,647
	<hr/>	<hr/>	<hr/>
Accumulated depreciation and impairment losses:			
At 1 May 2008	–	187	187
Charge for the year	–	47	47
	<hr/>	<hr/>	<hr/>
At 30 April 2009 and at 1 May 2009	–	234	234
Charge for the period	99	32	131
	<hr/>	<hr/>	<hr/>
At 31 December 2009	99	266	365
	<hr/>	<hr/>	<hr/>
Net carrying amount:			
At 31 December 2009	1,061	221	1,282
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
At 30 April 2009	–	72	72
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

16. PREPAID LEASE PAYMENT

	As at 31 December 2009 HK\$'000	As at 30 April 2009 HK\$'000
Cost/carrying amount:		
At the beginning of the period/year	—	—
Additions	1,670	—
	<u>1,670</u>	<u>—</u>
At the end of the period/year	1,670	—
Accumulated amortization:		
At the beginning of the period/year	—	—
Charge for the period/year	—	—
	<u>—</u>	<u>—</u>
At the end of the period/year	—	—
Net carrying value:		
At 31 December/30 April	<u>1,670</u>	<u>—</u>

Prepaid lease payment represented cost paid by a subsidiary to acquire land use right in the PRC on 25 December 2009. The subsidiary intends to erect office building on the land for own use. The land use right will be expired on 24 December 2049 and its cost is amortised over the lease term on a straight-line basis. No amortisation was provided during the period as the land use right was acquired during the end of the period.

17. MINING RIGHTS

	As at 31 December 2009 HK\$'000	As at 30 April 2009 HK\$'000
Cost/carrying amount:		
At the beginning of the period/year	2,055,140	2,488,859
Impairment loss	—	(433,719)
Impairment loss written back	87,407	—
	<u>2,142,547</u>	<u>2,055,140</u>
At the end of the period/year	2,142,547	2,055,140

No amortisation was provided during the period/year as the Group has not yet commenced to exploit the ores.

18. INTEREST IN SUBSIDIARIES

	Company	
	1 May 2009 to 31 December 2009 HK\$'000	1 May 2008 to 30 April 2009 HK\$'000
Unlisted shares, at cost	–	–
Amounts due from subsidiaries	2,052,231	2,051,976
Amounts due to subsidiaries	<u>(10,099)</u>	<u>(10,099)</u>
	2,042,132	2,041,877
Allowance for impairment losses	<u>(36,760)</u>	<u>(33,452)</u>
	<u><u>2,005,372</u></u>	<u><u>2,008,425</u></u>

The amounts due from/(to) subsidiaries are unsecured, interest free and have no fixed terms of repayment.

Particulars of the Company's principal subsidiaries are set out in note 38 to financial statements.

19. JOINTLY CONTROLLED ENTITIES

Details of jointly controlled entity of the Group at the balance sheet date are as follows:–

	Group		Company	
	As at 31 December 2009 HK\$'000	As at 30 April 2009 HK\$'000	As at 31 December 2009 HK\$'000	As at 30 April 2009 HK\$'000
Share of net liabilities	–	–	–	–
Amounts due from jointly controlled entities	16,315	16,315	16,301	16,301
Allowances for impairment losses	<u>(16,315)</u>	<u>(16,315)</u>	<u>(16,301)</u>	<u>(16,301)</u>
	<u><u>–</u></u>	<u><u>–</u></u>	<u><u>–</u></u>	<u><u>–</u></u>

Company	Place of Incorporation/ operation	Principal activities	Attributable equity interest
Yetcome Investments Limited	British Virgin Islands	Investments holding	33%
T & T Properties Sdn. Bhd.	Malaysia	Property development	33%
Prizevest Sdn. Bhd.	Malaysia	Property development	23%
Top Priority Sdn. Bhd.	Malaysia	Property development	23%
Victec Enterprise Sdn. Bhd.	Malaysia	Property development	23%
Prime Harvest Financial Holding Group Limited	British Virgin Islands	Investments holding	40%

Equity accounting for the Group's interests in all these jointly controlled entities has been discontinued since 2004 as the operations of these entities had ceased in consequence of Receivers appointed in the year 2002. The carrying amounts of these jointly controlled entities have been fully impaired.

The amounts due from these jointly controlled entities are unsecured, interest free and have no fixed terms of repayment.

20. INVESTMENTS HELD FOR TRADING

	Group	
	As at 31 December 2009 HK\$'000	As at 30 April 2009 HK\$'000
Investments held for trading		
– at fair value	<u>6,990</u>	<u>8,821</u>

The investments included above represent investments in listed equity securities that offer the Group the opportunity for return through dividend income and fair value gains. They have no fixed maturity or coupon rate. The fair values of these securities are based on quoted market prices.

21. INVENTORIES

	Group	
	As at	As at
	31 December	30 April
	2009	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
Raw materials	750	825
Finished goods	616	616
	<u>1,366</u>	<u>1,441</u>

22. TRADE AND OTHER RECEIVABLES

	Group		Company	
	As at	As at	As at	As at
	31 December	30 April	31 December	30 April
	2009	2009	2009	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade receivables	–	–	–	–
Other receivables	2,279	3,342	962	3,410
Prepayments and deposits	1,365	1,760	762	1,161
	<u>3,644</u>	<u>5,102</u>	<u>1,724</u>	<u>4,571</u>

The aging analysis of trade receivables is as follows:

	Group		Company	
	As at	As at	As at	As at
	31 December	30 April	31 December	30 April
	2009	2009	2009	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
0 – 3 months	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>

23. CASH AND BANK BALANCES

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The carrying amount of these assets approximates their fair value.

24. TRADE AND OTHER PAYABLES

	Group		Company	
	As at	As at	As at	As at
	31 December	30 April	31 December	30 April
	2009	2009	2009	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade payables	–	–	–	–
Temporary deposits, accruals and other payables	10,448	7,786	3,891	4,078
	<u>10,448</u>	<u>7,786</u>	<u>3,891</u>	<u>4,078</u>

The aging analysis of trade payable is as follows:

	Group		Company	
	As at	As at	As at	As at
	31 December	30 April	31 December	30 April
	2009	2009	2009	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
0 – 3 months	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>

25. DEFERRED INCOME

	Group	
	As at 31 December 2009 HK\$'000	As at 30 April 2009 HK\$'000
Government grant received:		
At the beginning of the period/year	3,976	—
Additions	—	3,976
Exchange adjustment	(1)	—
	<u>3,975</u>	<u>3,976</u>
At the end of the period/year	<u>3,975</u>	<u>3,976</u>

26. CUMULATIVE REDEEMABLE PREFERENCE SHARES

	Number of shares	Amount HK\$'000
Authorised:		
6% convertible cumulative redeemable preference shares of HK\$1 each	<u>100,000,000</u>	<u>100,000</u>
Issued and fully paid:		
Balance at 1 May 2008, 30 April 2009 and 31 December 2009	<u>16,485</u>	<u>110</u>

A holder of the convertible cumulative redeemable preference shares (“CPS”) is entitled to receive a fixed cumulative preferential dividend at the rate of 6% per annum on the notional value of HK\$5 per CPS to be paid half-yearly on 30 June and 31 December in each year.

A holder of the CPS may convert his shares held at any time into Ordinary Shares at the conversion price of HK\$0.036 per share, subject to adjustment.

The CPS may be redeemed by the holders of the CPS at any time after 30 June 1996 at a redemption price per share equal to the notional value plus accrued dividend.

The Company has the option to redeem all or some of the CPS at any time at the notional value of the CPS if the average of the closing prices of the Ordinary Share quoted on the Stock Exchange over the preceding 30 consecutive dealing days ending on the seventh day prior to the date upon which notice of redemption is given is greater than or equal to 150% of the conversion price in effect on such seventh day.

27. SHARE CAPITAL

	Number of shares	Amount HK\$'000
Authorised:		
Ordinary shares of HK\$0.05 each		
Balance at 1 May 2008, 30 April 2009 and 31 December 2009	<u>30,000,000,000</u>	<u>1,500,000</u>
Issued and fully paid:		
Ordinary shares of HK\$0.05 each		
Balance at 1 May 2008 and 30 April 2009	5,151,679,552	257,584
Issue of shares (<i>note</i>)	<u>439,516,000</u>	<u>21,976</u>
Balance at 31 December 2009	<u>5,591,195,552</u>	<u>279,560</u>

Note: On 1 December 2009, 439,516,000 ordinary shares were issued at a subscription price of HK\$0.64 per share pursuant to placing and subscription agreement entered into between the vendor with the placing agent and the Company on 18 November 2009. Details of placing of subscription agreement are set out in the Company's announcement dated 20 November 2009. The premium of the issue of new shares less related issuing costs amounted to approximately HK\$245,546,000 was credited to the Company's share premium account.

28. SHARE OPTIONS SCHEME

The Company's share options scheme was adopted by the Company on 13 October 2003 (the "Scheme") for the purpose of enabling the Company to grant options to selected participants as incentives or rewards for their contribution to the Group. Under the Scheme, the Board of Directors of the Company may, at its discretion, invite eligible participants (as contained in the Company's circular of 19 September 2003) to take up options to subscribe for shares of the Company. The principal terms of the Scheme are as follows:

- (i) The maximum number of shares in respect of which options may be granted under the Scheme must not, in aggregate, exceed 10% of the issued share capital of the Company as at the date of approval of the Scheme, unless approval of the shareholders has been obtained to renew the limit, and which must not in aggregate (including all outstanding options granted and yet to be exercised under the Scheme and any other share option scheme of the Group) exceed 30% of the shares of the Company in issue from time to time.
- (ii) The number of shares in respect of which options may be granted to any individual in any 12-month period must not exceed 1% of the shares of the Company in issue as at the date of grant.
- (iii) The exercise price is determined by the Board in its absolute discretion at a price not less than the highest of (a) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a trading day; (b) the average closing prices of the shares of the Company as stated in the Stock Exchange's daily quotations sheet for the five trading days immediately preceding the date of grant; and (c) the nominal value of share.
- (iv) An option may be accepted by a proposed grantee within 7 days from the date of the offer of grant of the option. There is no minimum period for which an option must be held before it can be exercised. An option may be exercised at any time after the date upon which the option is deemed to be granted and accepted and prior to the expiry of ten years from that date.
- (v) Upon acceptance of the option, the grantee shall pay of HK\$1.00 to the Company by way of consideration for the grant of the option.
- (vi) The Scheme will remain valid for a period of 10 years commencing on October 2003, being the date on which it was adopted.

Details of the existing share options granted by the Company under the Scheme are as follows:–

		Tranche 1	Tranche 2
Date of grant	:	19 June 2009	19 June 2009
Vesting periods/Fair value at grant date	:	19 June 2009 – 18 June 2019/ HK\$0.2836	19 June 2010 – 18 June 2019/ HK\$0.2689
Number of share options granted	:	158,600,000	158,600,000
Exercise price	:	HK\$0.61	HK\$0.61
Share price as at the valuation date	:	HK\$0.60	HK\$0.60
Expected volatility	:	51.17%	51.17%
Risk-free interest rate as at the valuation date	:	2.276%	2.137%
Expected life of option	:	5 years	4.5 years

The fair value of equity-settled share options granted was estimated as at the date of grant, using the Black-Scholes Option Price Model, taking into account the terms and conditions upon which the share options were granted. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. No other feature of the share options granted was incorporated into the measurement of fair value.

APPENDIX II

FINANCIAL INFORMATION OF THE GROUP

Details of share options granted are as follows:

Date of grant/ acceptance	Exercise period	Exercise price per share	Closing price immediately before date of offer	Closing price immediately before date of grant
19 June 2009	19 June 2009 – 18 June 2019	HK\$ 0.61	HK\$ 0.61	HK\$ 0.60
19 June 2009	19 June 2010 – 18 June 2019	HK\$ 0.61	HK\$ 0.61	HK\$ 0.60

At no time during the period was the Company, its holding company, or any its subsidiaries a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of Share in, or debentures of, the Company or any other body corporate.

Details of the movement of the share options during the period/year under the Scheme are as follows:

1 May 2009 to 31 December 2009

	Date of Grant	Exercise price HK\$	Exercise period	At 1 May 2009	Granted during the period	Lapsed during the period	Cancelled during the period	Exercise during the period	At 31 December 2009
Director	23 November 2006	0.107	23.11.2006-6.11.2016	11,700,000	–	(11,700,000)	–	–	–
	19 June 2009	0.610	19.6.2009-18.6.2019	–	57,000,000	–	–	–	57,000,000
	19 June 2009	0.610	19.6.2010-18.6.2019	–	57,000,000	–	–	–	57,000,000
Other employees	23 November 2006	0.107	23.11.2007-6.11.2016	300,000	–	–	(300,000)	–	–
	19 June 2009	0.610	19.6.2009-18.6.2019	–	4,100,000	–	–	–	4,100,000
	19 June 2009	0.610	19.6.2010-18.6.2019	–	4,100,000	–	–	–	4,100,000
Consultants	23 November 2006	0.107	23.11.2006-6.11.2016	11,066,381	–	–	(11,066,381)	–	–
	7 December 2006	0.185	7.12.2006-28.11.2016	54,000,000	–	(54,000,000)	–	–	–
	4 April 2007	0.550	4.4.2007-3.4.2017	93,558,966	–	(93,558,966)	–	–	–
	19 June 2009	0.610	19.6.2009-18.6.2019	–	97,500,000	–	–	–	97,500,000
	19 June 2009	0.610	19.6.2010-18.6.2019	–	97,500,000	–	–	–	97,500,000
				<u>170,625,347</u>	<u>317,200,000</u>	<u>(159,258,966)</u>	<u>(11,366,381)</u>	<u>–</u>	<u>317,200,000</u>

APPENDIX II

FINANCIAL INFORMATION OF THE GROUP

1 May 2008 to 30 April 2009

	Date of Grant	Exercise Price HK\$	Exercise period	At 1 May 2008	Granted during the year	Lapsed during the year	Cancelled during the year	Exercised during the year	At 30 April 2009
Director	23 November 2006	0.107	23.11.2006-6.11.2016	11,700,000	–	–	–	–	11,700,000
	7 December 2006	0.185	7.12.2006-28.11.2016	9,000,000	–	(9,000,000)	–	–	–
Other employees	23 November 2006	0.107	23.11.2007-6.11.2016	1,800,000	–	(1,500,000)	–	–	300,000
Consultants	23 November 2006	0.107	23.11.2006-6.11.2016	11,066,381	–	–	–	–	11,066,381
	7 December 2006	0.185	7.12.2006-28.11.2016	54,000,000	–	–	–	–	54,000,000
	4 April 2007	0.550	4.4.2007-3.4.2017	93,558,966	–	–	–	–	93,558,966
				<u>181,125,347</u>	<u>–</u>	<u>(10,500,000)</u>	<u>–</u>	<u>–</u>	<u>170,625,347</u>

29. RESERVES

Group

	Share premium HK\$'000	Capital redemption reserve HK\$'000	Warrant reserve HK\$'000	Share-based payment reserve HK\$'000	Exchange reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 May 2008	2,670,545	2,241	–	64,137	(38,740)	(2,007,758)	690,425
Loss for the year	–	–	–	–	–	(123,313)	(123,313)
Exchange difference arising on translation of foreign operations	–	–	–	–	406	–	406
Total comprehensive income for the year	–	–	–	–	406	(123,313)	(122,907)
Recognition of share-based payment	–	–	–	2,729	–	–	2,729
Share option lapsed	–	–	–	(4,205)	–	4,205	–
Issue of warrants	–	–	3,000	–	–	–	3,000
At 30 April 2009 and at 1 May 2009	2,670,545	2,241	3,000	62,661	(38,334)	(2,126,866)	573,247
Loss for the period	–	–	–	–	–	(91,168)	(91,168)
Exchange difference arising on translation of foreign operations	–	–	–	–	(3)	–	(3)
Total comprehensive income for the period	–	–	–	–	(3)	(91,168)	(91,171)
Recognition of share-based payment	–	–	–	87,627	–	–	87,627
Share option lapsed/cancelled	–	–	–	(62,661)	–	62,661	–
Issue of shares	245,546	–	–	–	–	–	245,546
At 31 December 2009	<u>2,916,091</u>	<u>2,241</u>	<u>3,000</u>	<u>87,627</u>	<u>(38,337)</u>	<u>(2,155,373)</u>	<u>815,249</u>

Company

	Share premium <i>HK\$'000</i>	Capital redemption reserve <i>HK\$'000</i>	Warrant reserve <i>HK\$'000</i>	Share-based payment reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 May 2008	2,670,545	2,241	–	64,137	(937,658)	1,799,265
Loss for the year	–	–	–	–	(11,268)	(11,268)
Recognition of share-based payment	–	–	–	2,729	–	2,729
Share option lapsed	–	–	–	(4,205)	4,205	–
Issue of warrants	–	–	3,000	–	–	3,000
At 30 April 2009 and at 1 May 2009	2,670,545	2,241	3,000	62,661	(944,721)	1,793,726
Loss for the period	–	–	–	–	(108,795)	(108,795)
Recognition of share-based payment	–	–	–	87,627	–	87,627
Share option lapsed/cancelled	–	–	–	(62,661)	62,661	–
Issue of shares	245,546	–	–	–	–	245,546
At 31 December 2009	<u>2,916,091</u>	<u>2,241</u>	<u>3,000</u>	<u>87,627</u>	<u>(990,855)</u>	<u>2,018,104</u>

(a) Nature and purpose of the reserves are explained below:–

(i) *Share premium*

The share premium account of the Company is distributable to the equity holders of the Company under the Companies Law of the Cayman Islands subject to the provisions of the Company's Memorandum and Articles of Association and provided that the Company will be in a position to payoff its debts as they fall due in the ordinary course of business immediately following the date on which the dividend is proposed to be distributed.

(ii) *Share options reserve*

The share options reserve represents the fair value of the number of unexercised share options granted by the Company recognised in accordance with the accounting policy adopted for equity-settled share-based payments in note 4(j)(iv).

(iii) Translation reserve

The translation 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 4(h).

(b) Distributability of reserves

In the opinion of the directors of the Company, the Company had no balance of distributable reserves available for distribution to equity holders as at 31 December, 2009 (For the year ended 30 April 2009: Nil).

30. WARRANTS

In previous year, the Company issued 60,000,000 warrants at an issue price of HK\$0.05 per warrant which attaching the rights to subscribe for 60,000,000 ordinary shares of the Company at a subscription price of HK\$0.60 per share to a placing agent. The subscription period lasted from the date of issue of the warrants to the expiry of the second anniversary of the issue of the warrants (both days inclusive). Details of placing of warrants are set out in the announcement dated 24 April 2009.

31. DEFERRED TAXATION

(a) The major deferred tax liabilities recognised are analysed below:

Group

	Mining rights <i>HK\$'000</i>
At 1 May 2008	622,214
Deferred tax credited to statement of comprehensive income	<u>(108,429)</u>
At 30 April 2009 and at 1 May 2009	513,785
Deferred tax charged to statement of comprehensive income	<u>21,852</u>
At 31 December 2009	<u><u>535,637</u></u>

Deferred tax charged to statement of comprehensive income was due to the impairment on fair value of Mongolia's mining right written back.

- (b) The major deferred tax assets/(liabilities) not recognised are analysed below:

Group

	Property, plant and equipment <i>HK\$'000</i>	Unused tax losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 May 2008	(5)	9,681	9,676
Temporary differences not recognised in previous year	–	1,599	1,599
Net change in deferred tax assets/ (liabilities) not recognised for the year	(3)	3,506	3,503
At 30 April 2009 and at 1 May 2009	(8)	14,786	14,778
Net change in deferred tax assets/ (liabilities) not recognised for the period	–	70	70
At 31 December 2009	(8)	14,856	14,848

Company

	Property, plant and equipment <i>HK\$'000</i>	Unused tax losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 May 2008	(5)	9,681	9,676
Temporary differences not recognised in previous year	–	1,599	1,599
Net change in deferred tax assets/ (liabilities) not recognised for the year	(3)	1,486	1,483
At 30 April 2009 and at 1 May 2009	(8)	12,766	12,758
Net change in deferred tax assets/ (liabilities) not recognised for the period	–	–	–
At 31 December 2009	(8)	12,766	12,758

The Group and the Company have unused tax losses approximately HK\$14,856,000 and HK\$12,766,000 respectively (2009: The Group and the Company have unused tax losses approximately HK\$14,786,000 and HK\$12,766,000 respectively) that are available for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in the Company and its subsidiaries have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

32. OPERATING LEASES COMMITMENTS

At the end of the reporting period, the Group had future aggregate minimum lease payments under non-cancellable operating leases are payable as follows:

	As at 31 December 2009 HK\$'000	As at 30 April 2009 HK\$'000
Properties		
– within one year	1,469	369
– In the second to fifth years, both inclusive	574	–
	<u>2,043</u>	<u>369</u>

Operating lease payments represent rental payable by the Group for its office properties and director's apartment.

33. RETIREMENT BENEFIT SCHEMES

The Group participates in the mandatory provident fund scheme (the “MPF Scheme”) for its employees in Hong Kong. Contributions to the MPF Scheme by the Group and employees are calculated as a percentage of employee's basic salaries. The retirement benefit costs charged to the profit and loss represent contributions paid and payable by the Group to the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund.

The subsidiaries in the PRC participate in certain employees' retirement schemes implemented by the relevant local municipal governments. Contributions are made by the relevant subsidiaries to these schemes based on certain percentages of the applicable payroll costs.

The Group has no other obligations other than the above-mentioned contributions.

34. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	As at 31 December 2009 HK\$'000	As at 30 April 2009 HK\$'000
Financial assets		
Fair value through profit and loss		
– Investments held for trading	<u>6,990</u>	<u>8,821</u>
Loan and receivables		
– Prepayments, deposits and other receivables	3,644	5,102
– Cash and bank balances	<u>343,961</u>	<u>97,894</u>
	<u>347,605</u>	<u>102,996</u>
Financial liabilities		
Amortised cost		
– Other payables and accruals	10,448	7,786
– Cumulative redeemable preference shares	<u>110</u>	<u>110</u>
	<u>10,558</u>	<u>7,896</u>

(b) Financial risk management and policies

The main risks arising from the Group's financial instruments are cash flow interest rate risk, foreign currency risk, other price risks, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below. The Group's accounting policies in relation to derivatives are set out in note (4) to the financial statements.

Cash flow interest rate risk

The Group has no significant interest-bearing financial assets and liabilities with a floating interest rate. The Group's results and operating cash flows are substantially independent of changes in market interest rates.

Foreign currency risk

The Group has transactional currency exposures as the sales and purchases, certain other receivables, cash and bank balances, and trade and other payables of the Group were mainly transacted in Renminbi (“RMB”), Mongolia Tugrugs (“T”), United States dollars (“USD”) and Hong Kong dollars (“HKD”).

The exchange rate of RMB and T were comparatively volatile.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the exchange rate of RMB and T, with all other variables held constant, of the Group’s loss before tax.

	Change in exchange rate %	(Increase)/ decrease in loss before tax HK\$'000
At 31 December 2009		
If HKD weakens against RMB	5%	(163)
If HKD strengthens against RMB	5%	163
 If HKD weakens against T	 5%	 (70)
If HKD strengthens against T	5%	70
 At 30 April 2009		
If HKD weakens against RMB	5%	373
If HKD strengthens against RMB	5%	(373)
 If HKD weakens against T	 5%	 (25)
If HKD strengthens against T	5%	25

At 31 December 2009 and 30 April 2009, the Group had not hedged any foreign currency to reduce such foreign currency risk.

In the opinion of the directors, if the exchange rate of these foreign currencies have continuous fluctuation, they will consider to use forward currency contracts to reduce these risks.

Other price risks

The Group is exposed to equity price risk through its investment in listed equity securities. The management manages this exposure by maintaining a portfolio of investment with different risk and return profiles. The Group's equity price risk is mainly concentrated on equity securities quoted in The Stock Exchange of Hong Kong Limited. In addition, the Group has appointed a special team to monitor the price risk and will consider hedging the risk exposure should the need arise.

Sensitivity analysis

If equity prices had been 15% higher/lower (2009: 15% higher/lower), loss before tax for the period ended 31 December 2009 and year ended 30 April 2009 would decrease/increase by approximately HK\$1,048,500 (2009: approximately HK\$1,323,000). This is mainly due to the changes in fair value of marketable securities.

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant. For transactions that are not denominated in the functional currency of the relevant operating unit, the Group does not offer credit terms without the specific approval of the management.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents and trade and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer, by geographical region and by industry sector. There are no significant concentrations of credit risk within the Group.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The Management regularly reviews its major funding positions to ensure that it has adequate financial resources in meeting its financial obligations.

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities. For non-derivative financial liabilities, the tables reflect the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The tables include both interest and principal cash flows.

In addition, the following table details the Group's expected maturity for some of its non-derivative financial assets. The tables below have been drawn up based on the undiscounted contractual maturities of the financial assets. The inclusion of information on non-derivative financial assets is necessary in order to understand the Group's liquidity risk management as the liquidity is managed on a net asset and liability basis.

	Effective interest rate %	On demand or less than 3 months HK\$	More than 1 year HK\$	Total undiscounted cash flows HK\$	Total carrying amount at 31.12.2009 HK\$
At 31 December 2009					
Non-derivative financial assets					
Cash and bank balances	—	343,961	—	343,961	343,961
Non-derivative financial liabilities					
Trade and other payables	—	10,448	—	10,448	10,448

	Effective interest rate %	On demand or less than 3 months HK\$	More than 1 year HK\$	Total undiscounted cash flows HK\$	Total carrying amount at 30.4.2009 HK\$
At 30 April 2009					
Non-derivative financial assets					
Cash and bank balances	–	97,894	–	97,894	97,894
Non-derivative financial liabilities					
Trade and other payables	–	7,786	–	7,786	7,786

35. FAIR VALUE HIERARCHY

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments:

- Level 1: Fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: Fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- Level 3: Fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs).

As at 31 December 2009, the Group held the following financial instruments measured at fair value:

Financial assets measured at fair value:

	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Listed investments held for trading	6,990	–	–	6,990

During the period ended 31 December 2009, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

36. CAPITAL MANAGEMENT

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the debt-to-equity ratio. This ratio is calculated as debt divided by total equity. Debt represents current and non-current liabilities as shown in the consolidated statement of financial position. Total equity represents the equity as shown in the consolidated statement of financial position.

During the period, the Group's strategy, which was unchanged from 2009, was to maintain the net debt-to-equity ratio at satisfactory level. The net debt-to-equity ratios at 31 December 2009 and 30 April 2009 are as follows:

	Group	
	As at	As at
	31 December	30 April
	2009	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
Total debt	552,071	527,558
Total equity	1,966,838	1,658,982
Net debt-to-equity ratio	<u>28.07%</u>	<u>31.80%</u>

37. RELATED PARTY TRANSACTIONS

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.

Key management personnel represent the directors of the Group and their remunerations are set out in note 10.

38. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries of the Company at 31 December 2009 and 30 April 2009 are as follows:—

Name of Company	Place of incorporation/ operation	Form of legal entity	Issue and paid up capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company		Principal activities
				Directly	Indirectly	
Ample Year Limited	British Virgin Islands	International business company	US\$1	100%	–	Investment holding
China National Recycling Int'l Trading Limited	Hong Kong	Limited liability company	HK\$1	–	100%	Investment holding
China National Information Resources Holdings Limited	Hong Kong	Limited liability company	HK\$2	–	100%	Investment holding
China National Resources Investments Limited	Hong Kong	Limited liability company	HK\$2	–	100%	Investment holding
China Reservoir Mining Limited	British Virgin Islands	International business company	US\$10,000	–	51%	Investment holding
Fuken Investments Limited	British Virgin Islands	International business company	US\$1	–	100%	Investment holding
Giant Strong International Limited	British Virgin Islands	International business company	US\$3	–	100%	Investment holding
Goldway Investment International Limited	Hong Kong	Limited liability company	HK\$100	–	100%	Investment holding
Golden Brand Investments Limited	British Virgin Islands	International business company	US\$1	–	100%	Investment holding
Goldright Finance Limited	British Virgin Islands	International business company	US\$1	100%	–	Securities trading
Reservoir (Mongolia) Limited	The Republic of Mongolia	Limited liability company	US\$10,000	–	51%	Mineral exploration
Reservoir Moly Mongolia Limited (note (a))	The Republic of Mongolia	Limited liability company	US\$10,000	–	28%	Mineral exploration
Reservoir Tungs Limited (note (a))	The Republic of Mongolia	Limited liability company	US\$10,000	–	33%	Mineral exploration

APPENDIX II

FINANCIAL INFORMATION OF THE GROUP

Name of Company	Place of incorporation/ operation	Form of legal entity	Issue and paid up capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company		Principal activities
				Directly	Indirectly	
Jetlight Investment Limited	British Virgin Islands	International business company	US\$1	100%	–	Investment holding
Keytrade Investments Limited	British Virgin Islands	International business company	US\$1	100%	–	Securities trading
Profit Jumbo Investment Limited	British Virgin Islands	International business company	US\$1	100%	–	Investment holding
Vast Profits Limited	British Virgin Islands	International business company	US\$3	67%	–	Investment holding
Vintage International Finance Holding Group Limited	British Virgin Islands	International business company	US\$1	100%	–	Investment holding
新疆匯祥永金礦業有限公司	People's Republic of China	Sino-foreign equity joint venture company	RMB39,000,000	–	55%	Mineral exploration

Note (a): Although the Company does not own more than half of the entity shares of Reservoir Moly Mongolia Limited and Reservoir Tungs Limited, and consequently it does not control more than half of the voting power of those shares, it has the power to appoint and remove the majority of the board of directors and control of the entity is by the board. Consequently, Reservoir Moly Mongolia Limited and Reservoir Tungs Limited are controlled by the Company and is consolidated in these financial statements.

39. EVENTS AFTER THE REPORTING PERIOD

On 13 April 2010, the Company entered into framework agreement pursuant to which the Company conditionally agreed to purchase 80% equity interest of Qianyi Limited, a company incorporated with limited liability in the British Virgin Islands which will, upon completion of the reorganisation, indirectly hold 100% equity interest in 新疆同興礦業有限責任公司 (Xinjiang Tong Xing Mining Company Limited), a company incorporated with limited liabilities in the PRC (“Tong Xing”), at the consideration of HK\$280 million (the “Consideration”). The Consideration will be satisfied as to HK\$60 million by cash and as to HK\$220 million by the Company’s issuing the convertible notes to the vendor. Details of the acquisition are set out in the announcement of the Company dated 16 April 2010.

40. APPROVAL OF ACCOUNTS

The financial statements were approved and authorised for issue by the Company’s Board of directors on April 28, 2010.

5. MANAGEMENT DISCUSSION AND ANALYSIS

Set out below is the management discussion and analysis of the financial position and results of operations of the Group for the two years ended 30 April 2008 and 2009, the eight months ended 31 December 2009, the year ended 31 December 2010 and the six months ended 30 June 2011.

For the year ended 30 April 2008***Financial review***

During the year under review, the Group recorded a turnover of approximately HK\$164 million (2007: HK\$125 million), representing an increase of approximately 31% against the prior year. Net loss attributable to shareholders amounted to approximately HK\$1,166 million (2007: net loss HK\$62.5 million). The reason of loss incurred for the year was due to the impairment losses on goodwill arising on acquisition of 51% interest in CRML (a subsidiary of the Company). Details of acquisition were set out in the circular of the Company dated 29 June 2007. Pursuant to the purchase agreement, the purchase consideration was determined at HK\$300 million by the issue of shares of the Company at HK\$0.30 per share which represented the fair value on acquisition of 51% interest in CRML.

The Company issued 1,000 million shares to vendors at date of completion of acquisition. However, the value of the shares issued was required to state at the market price HK\$1.30 per share at the date of allotment of shares to vendors in accordance with the HKFRS3 Business Combinations. The excess value over the fair value of subsidiary acquired was charged to the income statement as impairment loss.

Liquidity and financial resources

As at 30 April 2008, the Group's current ratio was 12.8, based on the current assets of HK\$155 million and current liabilities of HK\$12 million. The Group's gearing ratio was 24%, based on the total liabilities of HK\$634 and total assets of HK\$2,646 million.

As at 30 April 2008, the Group was in a net cash position and has sufficient funding to pay off all the outstanding liabilities, and meet its working capital requirement.

Bank borrowings and pledge of assets

As at 30 April 2008, the Group had neither bank borrowings nor assets pledged to fund/loan providers.

Foreign exchange exposure

The Group's cash balance and short term investments are in the currency of Hong Kong Dollars. Nonetheless, the effect of the exchange rate on the Group's cash flow is minimal and the Group had not employed any financial instrument for hedging purpose.

Contingent liabilities

As at 30 April 2008, the Group had no contingent liabilities.

For the year ended 30 April 2009***Financial review***

Revenue of the Group for 2009 was HK\$20.2 million, representing a decrease of HK\$144.1 million (or 87.7%) over 2008. Loss attributable to equity shareholders of the Company for 2009 was HK\$123.3 million, representing a decrease of HK\$1,042.6 million (or 89.4%) over 2008. Basic loss per share for 2009 was HK cents 2.39, representing a decrease of HK cents 27.11 (or 92%) over 2008. Total assets decreased from HK\$2,646.4 million to HK\$2,186.5 million. The reason for the loss incurred for the year was due to the impairment losses on the valuation of the mining rights of the Group with reference to the valuation report issued by the independent valuer. Since the value of the mining rights as at 30 April 2009 has dropped compared to that as at 30 April 2008, the impairment loss of HK\$433,719,000 was charged to the income statement to reflect the fair value of the mining right.

During the year, total revenue from corporate investment and trading in securities was approximately HK\$20.2 million (2008: HK\$163.2 million). For the year ended 30 April 2009, due to the global crisis on financial markets, the price of the listed securities held by Group dropped throughout the year under review. Accordingly, the Group recorded a loss of approximately HK\$23.2 million (2008: HK\$24.3 million) arising from the securities trading and investments, where losses on changes in fair value of investments held for trading amounted to approximately HK\$4.2 million (2008: HK\$9.1 million).

Liquidity and financial resources

As at 30 April 2009, the Group's current ratio was 8.25, based on the current assets of HK\$113 million and current liabilities of HK\$13.7 million. The Group's gearing ratio was 31.8%, based on the total liabilities of HK\$527.6 million and total equity of HK\$1,659 million.

As at 30 April 2009, the Group was in a net cash position and has sufficient funding to pay off all the outstanding liabilities, and meet its working capital requirement.

Bank borrowings and pledge of assets

As at 30 April 2009, the Group had neither bank borrowings nor assets pledged to fund/loan providers.

Foreign exchange exposure

The Group's cash balance and short term investments are mainly in the currency of Hong Kong Dollars. Nonetheless, the effect of the exchange rate on the Group's cash flow is minimal and the Group had not employed any financial instrument for hedging purpose.

Contingent liabilities

As at 30 April 2009, the Group had no contingent liabilities.

For the eight months ended 31 December 2009***Financial review***

Revenue of the Group for the period ended 31 December 2009 was HK\$1.6 million, representing a decrease of HK\$18.6 million (or 91.7%) over the year ended 30 April 2009. Loss attributable to the owners of the Company for the period ended 31 December 2009 was HK\$91.1 million, representing a decrease of HK\$32.2 million (or 26.1%) over the year ended 30 April 2009. Basic loss per share for the period ended 31 December 2009 was HK cents 1.76, representing a decrease of HK cents 0.63 (or 26.4%) over the year ended 30 April 2009. Total assets increased from HK\$2,186.5 million to HK\$2,518.9 million. The reason for the loss incurred for the period was mainly due to recognition of share-base payment of approximately HK\$87,627,000 in the statement of comprehensive income. Nevertheless, as compared to previous year, the Group's net loss was narrowed significantly. Due to an increase in the fair value of mining right as at 31 December 2009, the Group recorded an impairment of mining right written back amounted to approximately HK\$87,407,000.

During the period, total revenue from corporate investment and trading in securities was approximately HK\$1.6 million (for the year ended 30 April 2009: HK\$20.2 million). For the period ended 31 December 2009, the financial markets started to recover from global crisis, the price of certain listed securities held by the Company increased throughout the period under review. Accordingly, the Company recorded a gross profit of approximately HK\$1,027,000 (for the year ended 30 April 2009: gross loss of HK\$7,460,000) arising from the investment in securities trading. Nevertheless, the Company incurred a loss on the changes in fair value of investment held for trading amounted to approximately HK\$1,186,000 (for the year ended 30 April 2009: HK\$4,204,000).

Liquidity and financial resources

As at 31 December 2009, the Group's current ratio was 21.81, based on the current assets of HK\$356 million and current liabilities of HK\$16 million. The Group's gearing ratio was 28.07%, based on the total liabilities of HK\$552 million and total equity of HK\$1,967 million.

As at 31 December 2009, the Group was in a net cash position and has sufficient funding to pay off all the outstanding liabilities, and meet its working capital requirement.

Bank borrowings and pledge of assets

As at 31 December 2009, the Group had neither bank borrowings nor assets pledged to fund/ loan providers.

Foreign exchange exposure

The Group's cash balance and short term investments are mainly in the currency of Hong Kong Dollars. Nonetheless, the effect of the exchange rate on the Group's cash flow is minimal and the Group had not employed any financial instrument for hedging purpose.

Contingent liabilities

As at 31 December 2009, the Group had no contingent liabilities.

For the year ended 31 December 2010***Financial review***

Revenue of the Group for the year ended 31 December 2010 was HK\$954.3 million, representing an increase of HK\$952.6 million (or 56,976.2%) over the period ended 31 December 2009. Loss attributable to the owners of the Company for the year ended 31 December 2010 was HK\$23.1 million, representing a decrease of HK\$68.1 million (or 74.7%) over the period ended 31 December 2009. Basic loss per share for the year ended 31 December 2010 was HK cents 0.41, representing a decrease of HK cents 1.35 (or 76.7%) over the period ended 31 December 2009. Total assets increased from HK\$2,518.9 million to HK\$2,656.4 million. During the year, owing to an increase in the fair value of the mining right as at 31 December 2010, the Group recorded an impairment on mining right written back amounted to HK\$14.04 million (for the period ended 31 December 2009: HK\$87.4 million). As compared to previous fiscal period, the Group's turnover was increased and the net loss was narrowed significantly. The reason is that the Group engaged in trading non-ferrous metals which recorded a turnover amounted to HK\$946.5 million and a gross profit amounted to HK\$13.19 million. In addition, the loss of the Group for the period ended 31 December 2009 was significantly disoriented by the one-off share based payment amounted to HK\$87.6 million.

During the year, total revenue from corporate investment and trading in securities was approximately HK\$7.2 million (for the period ended 31 December 2009: HK\$1.6 million). For the year ended 31 December 2010, the financial markets continued to recover from global crisis, the price of certain listed securities held by the Company increased throughout the year under review. Accordingly, the Company recorded a gross profit of approximately HK\$0.2 million (for the period ended 31 December 2009: HK\$1 million) arising from the investment in securities trading. All the investment in securities was sold during the year.

On 19 January 2010, the Board announced that the financial year end date of the Company has been changed from 30 April to 31 December. The reason for such a change is to coincide with the financial year end date of the Company's principal operating subsidiaries, which are mainly situated in the PRC, and thereby facilitating the preparation of the consolidated financial statements of the Company and its subsidiaries.

Liquidity and financial resources

As at 31 December 2010, the Group's current ratio was 23.9, based on the current assets of HK\$442.6 million and current liabilities of HK\$18.5 million. The Group's gearing ratio was 32.24%, based on the total liabilities of HK\$647.7 million and total equity of HK\$2,008.7 million.

As at 31 December 2010, the Group was in a net cash position and has sufficient funding to pay off all the outstanding liabilities, and meet its working capital requirement.

Bank borrowings and pledge of assets

As at 31 December 2010, the amount of HK\$3.4 million of margin deposit included in the carrying amount of prepayments and deposits was pledged as a collateral for banking facilities. Save as disclosed above, the Group had neither bank borrowing nor asset pledged to fund/loan providers.

Foreign exchange exposure

The Group has transactional currency exposures as the sales and purchases, certain trade and other receivables, cash and bank balances, and trade and other payables of the Group were mainly transacted in Renminbi ("RMB"), Mongolia Tugrugs ("T"), United States Dollars ("USD") and Hong Kong dollars ("HKD").

The exchange rate of RMB and T were comparatively volatile.

At 31 December 2010, the Group had not hedged any foreign currency to reduce such foreign currency risk. The management will monitor this risk, if the exchange rates of these foreign currencies have continuous fluctuation, the management will consider using forward currency contracts to reduce these risks.

Contingent liabilities

As at 31 December 2010, the Group had no contingent liabilities.

For the six months ended 30 June 2011***Financial review***

For the six months ended 30 June 2011, the Group recorded a revenue of approximately HK\$50,283,000 (for the six months ended 30 June 2010: HK\$100,861,000) and had an audited loss attributable to shareholders of approximately HK\$21,723,000 whereas an unaudited loss of approximately HK\$10,761,000 was recorded for the six months ended 30 June 2010. As at 30 June 2011, the net assets of the Group amounted to approximately HK\$1,985,811,000 (as at 31 December 2010: HK\$2,008,699,000).

During the six months ended 30 June 2011, the Group did not buy or sell any marketable securities.

As compared to previous corresponding period, the Group's revenue decreased because there was a significant decrease in the trading of non-ferrous metals recorded in a subsidiary of the Company.

In addition, the Group's net loss increased because (i) the increase in the interest expenses on convertible notes amounted to approximately HK\$6,647,000; (ii) the increase in legal and professional fee amounted to approximately HK\$920,000; (iii) the increase in staff costs of the Group amounted to approximately HK\$1,285,000 and (iv) the decrease in the gross profit of the Group amount to approximately HK\$1,272,000.

Liquidity and capital resources

As at 30 June 2011, the Group had cash and bank balances of approximately HK\$190,382,000; with net assets totaling approximately HK\$1,985,811,000; with current ratio, based on the current assets of approximately HK\$415,708,000 and current liabilities of approximately HK\$21,736,000 of 19.13. The Group's gearing ratio was 33.11% based on the total liabilities of approximately HK\$657,525,000 and total equity of approximately HK\$1,985,811,000.

Bank borrowings and pledge of assets

As at 30 June 2011, the Group had neither bank borrowings nor assets pledged to fund/loan providers.

As at 30 June 2011, the Group had unutilised credit facilities granted by independent banks in the aggregate amount of up to US\$20 million to meet its working capital and trading requirements.

Foreign exchange exposure

The Group has transactional currency exposures as the sales and purchases, certain trade and other receivables, cash and bank balances, and trade and other payables of the Group were mainly transacted in Renminbi (“RMB”), Mongolia Tugrugs (“T”), United States Dollars (“USD”) and Hong Kong Dollars (“HKD”).

The exchange rate of RMB and T were comparatively volatile.

At 30 June 2011, the Group had not hedged any foreign currency to reduce such foreign currency risk. The management will monitor this risk, if the exchange rates of these foreign currencies have continuous fluctuation, the management will consider using forward currency contracts to reduce these risks.

Contingent liabilities

As at 30 June 2011, the Group had no contingent liabilities.

Material acquisitions and disposals

On 27 March 2007, Ample Year Limited, a wholly-owned subsidiary of the Company, entered into an agreement with Sherryknoll Enterprises Limited, Kalagate Limited and Choronell Limited, pursuant to which the Company has conditionally agreed to acquire an aggregate of 51% equity interest in CRML, a company incorporated in the BVI, for a total consideration of HK\$300 million. The consideration for the acquisition was satisfied by the issue of the consideration shares at HK\$0.30 per share to the vendors. The acquisition was completed on 25 September 2007. Details of the acquisition were disclosed in the circular of the Company dated 29 June 2007.

On 19 November 2007, Profit Jumbo Investment Limited, a wholly-owned subsidiary of the Company, entered into an acquisition agreement with Mr. Chen Liang, Mr. Lu Jian Yang and Mr. Hon Hak Ka, pursuant to which Profit Jumbo Investment Limited has conditionally agreed to acquired the entire issued share capital of Fuken Investments Limited, Golden Brand Investments Limited and Giant Strong International Limited and the loan owed by those companies to the vendors for an aggregate acquisition consideration of up to HK\$1,452 million, which comprised the initial acquisition consideration of HK\$1,136 million and the additional acquisition consideration of up to HK\$316 million. The initial acquisition consideration was satisfied as to (i) HK\$1,106 million by the issue of 700,000,000 new shares upon the acquisition completion to the vendors by the Company for the partial settlement of the initial acquisition consideration; and (ii) HK\$30 million by way of set-off of the amount of consideration payable by Mr. Chen Liang (one of the vendors) to the Company for the acquisition of the entire issued share capital of Great Began Holdings Limited and Sharp Faith Holdings Limited (subsidiaries of the Company) and the loan due from those companies to the Group. The additional acquisition consideration was satisfied by the issue of 200,000,000 new shares. The acquisition was completed in February 2008. Details of the acquisition were disclosed in the circular of the Company dated 31 January 2008.

On 17 December 2010, the Group disposed of a subsidiary, Reservoir (Tungs) Limited, which carried out mineral exploration in Mongolia. The disposal resulted in a loss of HK\$1.5 million.

Save as disclosed above, the Group did not make any material acquisitions and disposals during the two years ended 30 April 2008 and 2009, the eight months ended 31 December 2009, the year ended 31 December 2010 and the six months ended 30 June 2011.

Human Resources

As at 30 April 2008, 30 April 2009, 31 December 2009, 31 December 2010 and 30 June 2011, the Group had a total of 75, 53, 55, 59 and 63 employees, respectively.

During the two years ended 30 April 2008 and 2009, the eight months ended 31 December 2009, the year ended 31 December 2010 and the six months ended 30 June 2011, the employee remuneration package consisted of basic salary, retirement benefits scheme contributions, medical insurance, and other benefits considered as appropriate. Remuneration packages were generally structured by reference to market terms, individual qualification and performance. They were under periodic review based on individual merit and other market factors. The Company adopted a share option scheme on 13 October 2003 to enable the Company to grant options to selected participants, including employees and directors of the Group, as incentive or rewards for their contribution to the Group.

6. INDEBTEDNESS

As at 31 October 2011, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular:

- (i) the Group had outstanding borrowings of approximately HK\$101,302,000. The borrowings comprised (i) 1% coupon convertible notes with aggregate principal amount of approximately HK\$101,192,000; and (ii) cumulative redeemable preference shares of approximately HK\$110,000;
- (ii) the Group's banking facilities are secured by the pledge deposit of approximately HK\$63,512,000; and
- (iii) save as disclosed in (i) and (ii) above, the Group did not have any other outstanding bank or other borrowings, mortgages, charges, debentures or other loan capital or other similar indebtedness, guarantee, liabilities under acceptances (other than normal trade bills), acceptance credits, hire purchase or other finance lease commitments, indemnities or other material contingent liabilities.

For the purpose of the above statement of indebtedness, foreign currency amounts have been translated into Hong Kong dollars at the approximate exchange rates prevailing at RMB1: HK\$1.2176 and USD1: HK\$7.8.

The Directors have confirmed that there has not been any material change in the indebtedness and contingent liabilities of the Group since 31 October 2011.

7. MATERIAL CHANGE

The Directors confirm that save as disclosed in the section headed "Other Information-Litigation – The Group" in Appendix X to this circular, there was no material change in the financial or trading position or outlook of the Group since 30 June 2011, being the date to which the latest published audited financial statements of the Company was made up, and up to the Latest Practicable Date.

Please refer to part 2 of this circular for the full text of the unaudited pro forma information of the Enlarged Group.

Please refer to part 2 of this circular for the full text of the property valuation of the Enlarged Group.

Please refer to part 2 of this circular for the full texts of the Competent Person's Reports on the Four Mines, the Aleinuer Mine, the Sareke Mine and the Hami Mine.

Please refer to part 2 of this circular for the full text of the valuation report on mining assets of the Target Group.

Please refer to part 2 of this circular for the full text of the valuation report on the overall assets of the Target Group.

APPENDIX VIII REPORTS ON THE VALUATIONS OF THE MINING ASSETS AND OVERALL ASSETS OF THE TARGET GROUP

Please refer to part 2 of this circular for the full texts of the reports on the valuation of the mining assets and overall assets of the Target Group.

APPENDIX IX**SUMMARY OF THE CONSTITUTION OF
THE COMPANY AND BERMUDA COMPANY LAW**

Please refer to part 2 of this circular for the full text of the summary of the constitution of the Company and Bermuda company law.

Please refer to part 2 of this circular for the full text of this appendix.

Please refer to part 2 of this circular for the full text of this appendix.

NOTICE OF EGM



中國大冶有色金屬礦業有限公司

China Daye Non-Ferrous Metals Mining Limited

(Incorporated in Bermuda with limited liability)

(Stock Code: 00661)

NOTICE OF EGM

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the “**Meeting**”) of China Daye Non-Ferrous Metals Mining Limited (the “**Company**”) will be held at 10:00 a.m. on Monday, 16 January 2012 at Harbour View Ballroom III, Level 4, Four Seasons Hotel, 8 Finance Street, Central, Hong Kong for the purposes of considering and, if thought fit, passing the following resolutions as ordinary resolutions of the Company, with or without amendments. Capitalised terms defined in the circular of the Company dated 29 December 2011 (the “**Circular**”) shall have the same meanings when used in this notice unless otherwise specified.

Resolution in relation to the Acquisition Agreement, the First Supplemental Agreement and the Second Supplemental Agreement

1. (1) “**THAT** the Acquisition Agreement and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified.”
- (2) “**THAT** the First Supplemental Agreement and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified.”
- (3) “**THAT** the Second Supplemental Agreement and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified.”
- (4) “**THAT** the Directors be and are hereby authorized to do all such acts or things and to sign or execute, or affix the common seal of the Company to, all such documents for and on behalf of the Company as they may consider necessary or desirable in connection with paragraphs (1) to (3) of this resolution no. 1.”

NOTICE OF EGM

Resolution in relation to the Whitewash Waiver

2. “**THAT**, subject to the passing of resolution no. 1, and the Executive granting to China Times and persons acting in concert with it the Whitewash Waiver and the satisfaction of any condition attached to the Whitewash Waiver imposed by the Executive, the waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code in respect of the obligation on China Times and persons acting in concert with it to make a mandatory general offer for all the issued shares of the Company not already owned or agreed to be acquired by China Times and persons acting in concert with it pursuant to the Acquisition Agreement which could arise under Rule 26.1 of the Takeovers Code as a result of the allotment and issue of the China Times Consideration Shares be and is hereby approved.”

Resolution in relation to the grant of specific mandate for the allotment and issue of the China Times Consideration Shares, Cinda Consideration Shares, China Times Convertible Notes and Conversion Shares

3. “**THAT**, subject to the passing of resolutions nos. 1 and 2, the grant of a specific mandate for the allotment and issue of the China Times Consideration Shares, Cinda Consideration Shares, China Times Convertible Notes and Conversion Shares in accordance with the terms of the Acquisition Agreement be and is hereby approved, and the Directors be and are hereby authorized to do all such acts or things and to sign or execute, or affix the common seal of the Company to, all such documents for and on behalf of the Company as they may consider necessary or desirable in connection with this resolution no. 3.”

Resolution in relation to the Non-Exempt Continuing Connected Transaction Agreements and the Annual Caps

4. “**THAT**, subject to the passing of resolution no. 1, each of the Non-Exempt Continuing Connected Transaction Agreements and the Annual Caps be and are hereby approved and the Directors be and are hereby authorized to do all such acts or things and to sign or execute, or affix the common seal of the Company to, all such documents for and on behalf of the Company as they may consider necessary or desirable in connection with this resolution no. 4.”

By order of the Board
China Daye Non-Ferrous Metals Mining Limited
Wan Bi Qi
Chairman

THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

If you are in any doubt as to any aspect of this circular or as to the action you should take, 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 Daye Non-Ferrous Metals Mining Limited**, 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 the transferee.

This circular is for information purpose only and does not constitute an invitation or offer to acquire, purchase or subscribe for the securities mentioned herein.



中國大冶有色金屬礦業有限公司

China Daye Non-Ferrous Metals Mining Limited

(Incorporated in Bermuda with limited liability)

(Stock Code: 00661)

(1) VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION

(2) REVERSE TAKEOVER INVOLVING A NEW LISTING APPLICATION

(3) APPLICATION FOR WHITEWASH WAIVER

(4) PROPOSED GRANT OF SPECIFIC MANDATE

AND

(5) CONTINUING CONNECTED TRANSACTIONS

PART 2 OF 2

**Financial adviser to the Company in respect of the Acquisition
and the sponsor to the new listing application of the Company**

J.P.Morgan

J.P. Morgan Securities (Asia Pacific) Limited

Independent financial adviser to the Independent Board Committee



PLATINUM
Securities

A letter from the Board is set out on pages 64 to 111 of this circular. A letter from the Independent Board Committee is set out on pages 112 to 113 of this circular. A letter from the Independent Financial Adviser containing their advice to the Independent Board Committee and the Independent Shareholders is set out on pages 114 to 211 of this circular.

A notice convening the EGM to be held at 10:00 a.m., on Monday, 16 January 2012, at Harbour View Ballroom III, Level 4, Four Seasons Hotel, 8 Finance Street, Central, Hong Kong is set out on pages EGM-1 to EGM-2 of this circular. Whether or not you are able to attend the EGM, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return it to the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM should you so wish.

29 December 2011

This circular is printed in two parts that, together, form one and the same circular. You should read each part of this circular in conjunction with the other part in order to understand the matters to which this circular relates, including the Acquisition, the Whitewash Waiver, the proposed grant of the Specific Mandate and the Non-Exempt Continuing Connected Transactions, and decide how to cast your vote(s) on the resolutions proposed at the EGM. The complete circular is also available at www.hkexnews.hk and www.hk661.com.

(I) UNAUDITED PRO FORMA FINANCIAL INFORMATION**Introduction**

The following is an illustrative and unaudited pro forma financial information of the Enlarged Group (“Unaudited Pro Forma Financial Information”), including the unaudited pro forma consolidated statement of financial position, the unaudited pro forma consolidated statement of comprehensive income, the unaudited pro forma consolidated statement of cash flows and the unaudited pro forma consolidated statement of adjusted net tangible assets of the Enlarged Group, which have been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the Acquisition, as if it had taken place on 30 June 2011 for the unaudited pro forma consolidated statement of financial position and the unaudited pro forma consolidated statement of adjusted net tangible assets and on 1 January 2010 for the unaudited pro forma consolidated statement of comprehensive income and the unaudited pro forma consolidated statement of cash flows.

The Unaudited Pro Forma Financial Information has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial position, results of operations and cash flows of the Group had the Acquisition been completed as at 30 June 2011 or 1 January 2010, where applicable, or at any future dates.

The Unaudited Pro Forma Financial Information should be read in conjunction with other financial information included elsewhere in this circular.

APPENDIX III

UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

A. Unaudited pro forma consolidated statement of financial position

				Pro forma adjustments				
	The Group	The Target	The Target					Pro forma
	as at	Group	Group					Enlarged
	30 June	as at	as at					Group
	2011	30 June	30 June		Other pro forma adjustments			
	HK\$'000	RMB\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	Note 1	Note 2	Note 2	Note 3	Note 4 (a)	Note 4 (b)	Note 5	
ASSETS								
Non-current assets								
Property, plant and equipment	69,376	3,461,661	4,167,840		(12,548)			4,224,668
Exploration and evaluation assets	–	62,598	75,368					75,368
Land use rights	1,667	742,205	893,615		93			895,375
Intangible assets	2,156,585	574,494	691,691		(1,570,418)			1,277,858
Goodwill	–	–	–			2,492,857		2,492,857
Investments in the Target Company	–	–	–	6,872,194		(6,872,194)		–
Term deposits	–	118,604	142,799					142,799
Deferred income tax assets	–	73,168	88,094					88,094
Prepayments and others	–	295,579	355,876					355,876
	2,227,628	5,328,309	6,415,283					9,552,895
Current assets								
Deposit for acquisition	170,000	–	–					170,000
Prepaid lease payment	44	–	–					44
Inventories	2,864	3,419,111	4,116,610					4,119,474
Trade and other receivables	52,418	700,278	843,135				(22,000)	873,553
Derivative financial instruments	–	3,988	4,802					4,802
Restricted deposits	–	1,664,653	2,004,242					2,004,242
Cash and cash equivalents	190,382	635,195	764,775					955,157
	415,708	6,423,225	7,733,564					8,127,272
Total assets	2,643,336	11,751,534	14,148,847					17,680,167
EQUITY								
Capital and reserves attributable to the equity holders of the Company								
Share capital	279,560	–	–	586,836				866,396
Share premium	2,916,091	–	–	5,281,522		(8,197,613)		–
Issued equity	–	–	–			1,093,102		1,093,102
Capital reserve	–	3,333,481	4,013,511					4,013,511
Other reserves	76,537	37,009	44,559	452,536		8,463		582,095
Accunulated losses/retained earnings	(2,194,545)	182,131	219,286			2,194,545	(53,000)	166,286
	1,077,643	3,552,621	4,277,356					6,721,390
Non-controlling interests	908,168	173,574	208,983		(688,270)			428,881
Total equity	1,985,811	3,726,195	4,486,339					7,150,271

APPENDIX III

UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

	Pro forma adjustments							Pro forma Enlarged Group HK\$'000
	The Group	The Target	The Target					
	as at	Group	Group					
	30 June	as at	as at					
	2011	30 June	30 June					
	HK\$'000	RMB\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	Other pro forma adjustments
	Note 1	Note 2	Note 2	Note 3	Note 4 (a)	Note 4 (b)	Note 5	
LIABILITIES								
Non-current liabilities								
Cumulative redeemable preference shares	110	–	–					110
Convertible notes	96,533	–	–	551,300	20,167			668,000
Deferred tax liabilities	539,146	–	–		(392,604)			146,542
Borrowings	–	1,414,981	1,703,637					1,703,637
Provisions	–	212,546	255,905					255,905
Deferred income	–	89,373	107,605					107,605
	<u>635,789</u>	<u>1,716,900</u>	<u>2,067,147</u>					<u>2,881,799</u>
Current liabilities								
Trade and other payables	10,600	2,056,019	2,475,447				31,000	2,517,047
Derivative financial instruments	–	440	530					530
Borrowings	–	4,226,677	5,088,919					5,088,919
Provisions	–	24,822	29,886					29,886
Deferered income	7,104	–	–					7,104
Current income tax liabilities	4,032	481	579					4,611
	<u>21,736</u>	<u>6,308,439</u>	<u>7,595,361</u>					<u>7,648,097</u>
Total liabilities	<u>657,525</u>	<u>8,025,339</u>	<u>9,662,508</u>					<u>10,529,896</u>
Total equity and liabilities	<u>2,643,336</u>	<u>11,751,534</u>	<u>14,148,847</u>					<u>17,680,167</u>

APPENDIX III

UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

B. Unaudited pro forma consolidated statement of comprehensive income

	The Group for the year ended 31 December 2010 HK\$'000 Note 1	The Target Group for the year ended 31 December 2010 RMB\$'000 Note 2	The Target Group for the year ended 31 December 2010 HK\$'000 Note 2	Pro forma adjustments				Pro forma Enlarged Group HK\$'000
				Other pro forma adjustments				
				HK\$'000 Note 5	HK\$'000 Note 6	HK\$'000 Note 7	HK\$'000 Note 8	
Revenue	954,314	26,019,630	30,182,771		(153,275)			30,983,810
Cost of sales	(940,955)	(25,187,020)	(29,216,943)		153,275			(30,004,623)
Gross (Loss)/Profits	13,359	832,610	965,828					979,187
Selling expenses	–	(45,891)	(53,234)					(53,234)
Administrative expenses	(43,353)	(338,060)	(392,150)	(53,000)				(488,503)
Other operating expenses	–	(28,639)	(33,221)					(33,221)
Other losses, net	–	(77,050)	(89,378)					(89,378)
Other income	459	38,284	44,409					44,868
Operating (loss)/profit	(29,535)	381,254	442,255					359,720
Write-back of impairment loss on mining rights	14,038	–	–			(14,038)		–
Loss on disposal of a subsidiary	(1,514)	–	–					(1,514)
Finance income	–	51,732	60,009					60,009
Finance costs	(5,616)	(190,224)	(220,660)				(70,203)	(296,479)
(Loss)/profit before income tax	(22,627)	242,762	281,604					121,736
Income tax expense	(5,640)	(33,767)	(39,170)			3,510		(41,300)
(Loss)/profit for the year	(28,267)	208,995	242,434					80,436
Other comprehensive income								
Exchange losses	1,547	–	–					1,547
Total comprehensive (loss)/income for the year	(26,720)	208,995	242,434					81,983
(Loss)/profit attributable to:								
Owners of the Target Company	(23,073)	127,881	148,342	(53,000)		(2,953)	(70,203)	(887)
Non-controlling interests	(5,194)	81,114	94,092			(7,575)		81,323
	(28,267)	208,995	242,434					80,436
Total comprehensive (loss)/income attributable to:								
Owners of the Target Company	(22,182)	127,881	148,342	(53,000)		(2,953)	(70,203)	4
Non-controlling interests	(4,538)	81,114	94,092			(7,575)		81,979
	(26,720)	208,995	242,434					81,983

APPENDIX III
**UNAUDITED PRO FORMA FINANCIAL
INFORMATION OF THE ENLARGED GROUP**
C. Unaudited pro forma consolidated statement of cash flows

			<u>Pro Forma adjustments</u>		
	The Group for the year ended 31 December 2010 <i>HK\$'000</i> <i>Note 1</i>	The Target Group for the year ended 31 December 2010 <i>RMB\$'000</i> <i>Note 2</i>	The Target Group for the year ended 31 December 2010 <i>HK\$'000</i> <i>Note 2</i>	Other pro forma adjustments <i>HK\$'000</i> <i>Note 9</i>	Pro Forma Enlarged Group <i>HK\$'000</i>
Cash flows from operating activities					
Net cash (used in)/generated from operations	(100,326)	343,680	406,831		306,505
Income tax paid	—	(2,869)	(3,396)		(3,396)
Net cash (used in)/generated from operating activities	(100,326)	340,811	403,435		303,109
Cash flows from investing activities					
Deposit for acquisition	(60,000)	—	—		(60,000)
Net cash inflow arising from the Acquisition	—	—	—	343,961	343,961
Net cash outflow arising from disposal of a subsidiary	(1,569)	—	—		(1,569)
Purchase of property, plant and equipment and exploration and evaluation assets	(36,783)	(790,783)	(936,089)		(972,872)
Purchase of intangible assets	(7)	(603,304)	(714,161)		(714,168)
Purchase of land use rights	—	(10,757)	(12,734)		(12,734)
Proceeds from disposals of property, plant and equipment	1	784	928		929
Interest received	256	21,364	25,290		25,546
Receipts of government grants	—	44,251	52,382		52,382
Net cash used in investing activities	(98,102)	(1,338,445)	(1,584,384)		(1,338,525)
Cash flows from financing activities					
Interest paid	—	(180,913)	(214,156)		(214,156)
Proceeds from new borrowings	—	8,773,642	10,385,799		10,385,799
Repayment of borrowings	—	(7,619,310)	(9,019,358)		(9,019,358)
Proceeds contributed by non-controlling interests	42,720	—	—		42,720
Increase in restricted deposits and term deposits	—	(186,237)	(220,458)		(220,458)
Decrease in advance from the Parent Company	—	(22,505)	(26,640)		(26,640)
Net cash generated from financing activities	42,720	764,677	905,186		947,906
Net decrease in cash and cash equivalents	(155,708)	(232,957)	(275,763)		(87,510)
Cash and cash equivalents at beginning of year	343,961	537,006	635,681	(343,961)	635,681
Exchange losses on cash and bank balances	(949)	—	—		(949)
Cash and cash equivalents at end of year	<u>187,304</u>	<u>304,049</u>	<u>359,918</u>		<u>547,222</u>

APPENDIX III**UNAUDITED PRO FORMA FINANCIAL
INFORMATION OF THE ENLARGED GROUP****D. Unaudited pro forma statement of adjusted net tangible assets**

	Audited net tangible assets of the Group as at 30 June 2011 <i>HK\$'000</i> <i>Note 10</i>	Audited net tangible assets of the Group per share as at 30 June 2011 <i>HK\$</i> <i>Note 11</i>	Unaudited pro forma adjusted net tangible assets of the Enlarged Group as at 30 June 2011 <i>HK\$'000</i> <i>Note 12</i>	Unaudited pro forma adjusted net tangible assets of the Enlarged Group per share as at 30 June 2011 <i>HK\$</i> <i>Note 13</i>
Net tangible assets attributable to equity holders of the Company	<u>334,358</u>	<u>0.0598</u>	<u>3,327,213</u>	<u>0.1920</u>

Notes to the Unaudited Pro forma financial information of the Enlarged Group

1. The amounts are extracted from the audited consolidated statement of financial position of the Group as at 30 June 2011 included in the 2011 Interim Report and the audited consolidated statement of comprehensive income and the audited consolidated statement of cash flows of the Group for the year ended 31 December 2010 included in the 2010 Annual Report.
2. The amounts are extracted from the accountant's report of the Target Company as set out in Appendix I to this circular. The results and cash flows of the Target Group presented in RMB are translated into HK\$ at the average exchange rate of RMB1 to HK\$1.160 for the year 2010. Items of the combined statement of financial position are translated into HK\$ at the exchange rate ruling at 30 June 2011 of RMB1 to HK\$1.204.
3. The adjustment represents the total consideration of HK\$6,872,194,000 for the acquisition of the entire issued share capital of the Target Company, to be satisfied by:
 - (i) the issuance of 11,736,715,634 new Shares by the Company to the Vendors at the Issue Price of HK\$0.50 per Share totalling HK\$5,868,358,000; and
 - (ii) the placing of Convertible Notes, with zero coupon rate and a conversion price of HK\$0.50 per Share totalling HK\$1,003,836,000. The fair value of the debt portion of the Convertible Notes was valued by an independent professional valuer at HK\$551,300,000 as at 30 June 2011 and is recorded within non-current liabilities. The difference between the consideration and the fair value of debt portion amounting HK\$452,536,000 is recorded within equity.

The final valuation results of the new Shares and Convertible Notes to be recognised at actual completion of the Acquisition may be different from the amounts stated herein.

This adjustment is not expected to have continuing effect on the Enlarged Group's unaudited pro forma consolidated statement of comprehensive income and unaudited pro forma consolidated statement of cash flows.

4. The Acquisition will be accounted for as a reverse acquisition under Hong Kong Financial Reporting Standard 3 (Revised) "Business Combination" ("HKFRS 3") since the issuance of the Consideration Share in exchange of the entire equity interests in the Target Company will result in China Times, presently holding 20.08% equity interests in the Company, becoming the controlling shareholder of the Company holding 69.04% equity interests upon completion of the Acquisition. For accounting purpose, the Company is deemed to have been acquired by the Target Company and the Target Company is deemed as the accounting acquirer.

The Target Company will apply the purchase method of accounting for the deemed acquisition of the Group. In applying the purchase method, the consideration deemed to be given by the Target Company is measured using the Company's shares in issue at their market price at the date of completion of the acquisition ("Deemed Consideration"). The identifiable assets acquired and liabilities assumed of the Group will be recorded on the statement of financial position of the Enlarged Group at their fair values as at the date of completion. Any goodwill arising from the Acquisition represents the excess of the Deemed Consideration over the fair values of the total identifiable net assets of the Group at the date of completion.

- (a) The adjustment represents pro forma purchase price allocation based on the estimated fair values of the identifiable assets and liabilities assumed of the Group using the valuation results made by an independent professional valuer as at 30 June 2011. The recognised amounts of identifiable assets acquired and liabilities assumed are as follows:

HK\$'000

Recognised amounts of identifiable assets acquired and liabilities assumed

Property, plant and equipment	56,828
Mining rights (<i>note</i>)	586,167
Refundable deposit for acquisition	170,000
Trade and other receivables	52,418
Cash and bank balances	190,382
Other assets	4,668
Trade and other payables	(10,600)
Convertible notes (including conversion rights of HK\$15,100,000)	(116,700)
Deferred tax liabilities	(146,542)
Other liabilities	(11,246)
	<hr/>
Total identifiable net assets	775,375
Non-controlling interests	<hr/> (219,898)
	<hr/> <hr/> 555,477

Note: Mining rights of the Company include Sareke Mine in Xinjiang and Aleinuer Mine in Mongolia. As disclosed in the Company's announcement dated 7 October 2011, the mining right in connection to Aleinuer Mine is required to be returned by CRML, a non-wholly owned subsidiary of the Company, to Nomin Deposit LLC, the other shareholder of Reservoir Moly, under a written arbitral award issued by the Mongolian Arbitration Center, and the Company has lodged an appeal to the Court of Appeal of Mongolia against the arbitral award. The appeal was heard by the Court of Appeal of Mongolia, which ruled on 21 November 2011 to annul the arbitral award issued by the Mongolian Arbitration Center on the basis of procedural regularities and directed the dispute to be re-heard by the Mongolian Arbitration Center. For the purpose of this Unaudited Pro Forma Financial Information, no value is assigned to Aleinuer Mine.

At actual completion of the Acquisition, an assessment of the fair values of the identifiable assets acquired and liabilities assumed of the Group will be undertaken, as a result of which, the fair values of the identifiable assets acquired and liabilities assumed may be different from these amounts stated above.

- (b) The adjustment represents consolidation entries for the elimination of the investment cost of the Target Company against the share capital and reserves of the Group, and recognition of issued equity and goodwill on consolidation.

For the purpose of preparation of the Unaudited Pro Forma Financial Information and for illustrative purpose, the goodwill arising from the Acquisition is estimated to be HK\$2,492,857,000. The goodwill is determined as the excess of i) the Deemed Consideration of HK\$2,963,334,000 (calculated based on the market price of the Company's shares of HK\$0.53 and 5,591,195,552 shares in issue as at 30 June 2011); and ii) the fair value of the Company's share options classified as equity of HK\$85,000,000 over the fair values of the identifiable assets acquired and liabilities assumed of the Group as at 30 June 2011 of approximately HK\$555,477,000 (see note 4 (a) above).

Since the market price of the Company's shares at the actual completion date may be different from their market price used in preparing this Unaudited Pro Forma Financial Information, and the fair values of the identifiable assets acquired and liabilities assumed of the Group at the actual completion date may be different from the fair values used in preparing this Unaudited Pro Forma Financial Information. Therefore, the goodwill at the actual date of completion may be different from that presented above.

Goodwill arising from the Acquisition is tested for impairment at least annually or whenever events or changes in circumstances indicate that its carrying amount may not be recoverable in accordance with the accounting policies of the Group and the requirements of Hong Kong Accounting Standard 36 "Impairment of Assets" ("HKAS 36"). Goodwill will be allocated to the cash generating units that are expected to benefit from the synergies of the Acquisition, both existing and acquired CGUs, for the purpose of impairment testing. The results of the Enlarged Group may be affected by impairment loss whenever the recoverable amount of goodwill on the combined business of the Group and the Target Group is lower than the carrying amounts of the CGUs.

These adjustments are not expected to have continuing effect on the Enlarged Group's unaudited pro forma consolidated statement of comprehensive income and unaudited pro forma consolidated statement of cash flows.

The Directors are of the opinion that there is no impairment on the carrying values of the non-financial assets of the Enlarged Group, including goodwill and other intangible assets, for the purposes of the pro forma financial information.

With respect to the non-financial assets of the Target Group and of the Group as at 30 June 2011, the Directors have performed the necessary assessment on impairment in accordance the requirements under HKAS 36.

For the preparation of the Pro Forma Financial Information, the Directors have accounted for the Acquisition under acquisition method in accordance with the requirements under HKFRS 3. The Directors have assessed the fair values of the identifiable assets acquired and liabilities assumed of the Group in the Acquisition as at 30 June 2011, the pro forma completion date of the Acquisition, with reference to the valuation reports prepared by an independent professional valuer. With respect to the goodwill resulting from the Acquisition, as if the completion date was on 30 June 2011, the Directors are of the opinion that there was no impairment indicator as of that date and all the identifiable assets and liabilities were measured at their fair values.

According to the Group's accounting policies, goodwill is allocated to cash generating units (CGUs) for the purpose of impairment testing. The allocation is made to those CGUs or groups of CGUs that are expected to benefit from the Acquisition in which the goodwill arose. The Directors consider the combined CGUs of the Enlarged Group would benefit from the synergies of the Acquisition as a whole and they would be under one operating segment upon completion of the Acquisition. Accordingly, there was no impairment indicator on the goodwill as at 30 June 2011 because the valuation of the mining assets and other assets and liabilities of the Target Group as at 30 June 2011 is higher than the relevant book value plus the Goodwill. The Group will apply consistent accounting policies and principal assumptions (as used in the valuation reports and the pro forma financial information) when the Group's future financial statements are prepared.

5. The adjustment represents the estimated transaction costs, mainly comprise professional fees, of approximately HK\$53,000,000 paid or payable by the Company in connection with the Acquisition.

This adjustment is not expected to have continuing effect on the Enlarged Group's unaudited pro forma consolidated statement of comprehensive income and unaudited pro forma consolidated statement of cash flows.

6. The adjustment represents the elimination of the transactions between the Group and the Target Group.

This adjustment is expected to have continuing effect on the Enlarged Group's unaudited pro forma consolidated statement of comprehensive income.

7. The adjustment represents the reversal of the write-back of impairment loss on mining rights and the related deferred tax of the Group.

This adjustment is not expected to have continuing effect on the Enlarged Group's unaudited pro forma consolidated statement of comprehensive income and unaudited pro forma consolidated statement of cash flows.

8. The adjustment represents the interest expense on the zero coupon Convertible Notes of approximately HK\$70,203,000 for the year ended 31 December 2010 using the effective interest rate of 12.73%.

This adjustment is expected to have continuing effect on the Enlarged Group's unaudited pro forma consolidated statement of comprehensive income and is not expected to have continuing effect on the Enlarged Group's unaudited pro forma consolidated statement of cash flows.

9. The adjustment represents reflecting the cash and cash equivalents of the Group as at 1 January 2010 as net cash acquired from the Acquisition in the Enlarged Group's unaudited pro forma consolidated statement of cash flows.

This adjustment is not expected to have continuing effect on the Enlarged Group's unaudited pro forma consolidated statement of cash flows.

10. The audited net tangible assets of the Group as at 30 June 2011 is calculated based on the amount of the audited net assets attributable to the equity holders of the Group as at 30 June 2011 of approximately HK\$1,077,643,000, less the amount of intangible assets of approximately HK\$2,156,585,000, the related deferred tax liabilities of approximately HK\$539,146,000, and the non-controlling interests of approximately HK\$874,154,000.

11. The number of shares used for the calculation of the unaudited net tangible assets of the Group per Share is 5,591,195,552, being the number of Shares in issue as at 30 June 2011.

12. The unaudited pro forma adjusted net tangible assets of the Group as at 30 June 2011 is calculated based on the amount of the unaudited pro forma adjusted net assets attributable to the equity holders of the Enlarged Group as at 30 June 2011 of approximately HK\$6,721,390,000, less the amount of intangible assets of approximately HK\$1,277,858,000, goodwill of approximately HK\$2,492,857,000, the related deferred tax liabilities of approximately HK\$146,542,000, and the non-controlling interests of approximately HK\$229,996,000.
13. The number of shares used for the calculation of the unaudited pro forma adjusted net tangible assets of the Enlarged Group per Share is 17,327,911,186, comprising 5,591,195,552 Shares in issue as at 30 June 2011 and 11,736,715,634 new Shares to be issued as described in note 3 (i) above but do not account for any new shares to be issued upon conversion of the Convertible Notes as it is not directly attributable to the Acquisition and are related to future events.
14. Apart from the above, no adjustments have been made to the unaudited pro forma consolidated statement of financial position, unaudited pro forma consolidated statement of comprehensive income, unaudited pro forma consolidated statement of cash flows and unaudited pro forma statement of adjusted net tangible assets to reflect any trading results or other transactions of the Enlarged Group entered into subsequent to 31 December 2010 or 30 June 2011 where applicable.

(II) REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.



羅兵咸永道

**ACCOUNTANT'S REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION
TO THE DIRECTORS OF CHINA DAYE NON-FERROUS METALS MINING LIMITED**

We report on the unaudited pro forma financial information set out on pages III-1 to III-13 under the heading of "Unaudited Pro Forma Financial Information" (the "Unaudited Pro Forma Financial Information") in Appendix III of the circular dated 29 December 2011 (the "Circular") of China Daye Non-ferrous Metals Mining Limited (the "Company"), in connection with the proposed acquisition of the entire issued share capital of Prosper Well Group Limited (the "Acquisition") by the Company. The Unaudited Pro Forma Financial Information has been prepared by the directors of the Company, for illustrative purposes only, to provide information about how the Acquisition might have affected the relevant financial information of the Company and its subsidiaries (hereinafter collectively referred to as the "Group"). The basis of preparation of the Unaudited Pro Forma Financial Information is set out on pages III-1 to III-13 of the Circular.

Respective responsibilities of directors of the Company and the Reporting Accountant

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with Rule 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

It is our responsibility to form an opinion, as required by paragraph 4.29 (7) 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.

*PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com*

Basis of opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 “Accountants’ Reports on Pro Forma Financial Information in Investment Circulars” issued by the HKICPA. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the audited consolidated net assets and the audited consolidated statement of financial position of the Group as at 30 June 2011, the audited consolidated statement of comprehensive income and the audited consolidated statement of cash flows of the Group for the year ended 31 December 2010 as set out in the “Unaudited Pro forma Financial Information” section of the Circular with the published interim report of the Company for the six months ended 30 June 2011 and the published annual report of the Company for the year ended 31 December 2010, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company.

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 Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to Rules 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, does not provide any assurance or indication that any event will take place in the future and may not be indicative of:

- the financial position of the Group as at 30 June 2011 or any future date, or
- the results and cash flows of the Group for the year ended 31 December 2010 or any future periods.

Opinion

In our opinion:

- (a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to Rule 4.29 (1) of the Listing Rules.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 29 December 2011

The following is the text of a letter, summary of values and valuation certificates, prepared for the purpose of incorporation in this circular received from Jones Lang LaSalle Sallmanns Limited, an independent valuer, in connection with its valuation of the property interests of the Enlarged Group as at 30 September 2011.



Jones Lang LaSalle Sallmanns Limited
6/F Three Pacific Place
1 Queen's Road East Hong Kong
tel +852 2169 6000 fax +852 2169 6001
Licence No: C-030171

29 December 2011

The Board of Directors

China Daye Non-Ferrous Metals Mining Limited

Unit 2001, 20/F, Worldwide House
19 Des Voeux Road, Central
Hong Kong

Dear Sirs,

On 23 January 2011, China Daye Non-Ferrous Metals Mining Limited (the “**Company**”), Daye Nonferrous Metals Corporation Holding Limited (the “**Parent Company**”, the substantial shareholder of the Company) and other vendors entered into an acquisition agreement (as supplemented and amended by a supplemental agreement dated 31 January 2011), pursuant to which, the Company intends to purchase relevant shares of Prosper Well Group Limited (the “**Target Company**”) which will, upon certain reorganisation, control Daye Nonferrous Metals Company Limited (“**Daye Metal**”, an 88.85% interest owned subsidiary of the Parent Company). In the underlying text, the Company and its subsidiaries are referred hereinafter as the “**Group**”, and the Target Company and its subsidiaries (including Daye Metal and its subsidiaries) together are referred hereinafter as the “**Target Group**”, the Group and the Target Group are referred hereinafter as the “**Enlarged Group**”.

In accordance with your instructions to value the properties in which the Group and the Target Group have interests in the People's Republic of China (the “**PRC**”), Hong Kong and Mongolia, we confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the capital values of the property interests as at 30 September 2011 (the “**date of valuation**”).

Our valuation of the property interests represents 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”.

We have valued the property interests of property nos. 1 to 6 in Group I by the comparison method assuming sale of the property interests in their existing states with the benefit of immediate vacant possession and by making reference to comparable sales transactions as available in the relevant market.

Where, due to the nature of the buildings and structures of property nos. 7 to 12 in Group I, properties in Group II and Group III (excluding those portions under construction), there are unlikely to be relevant comparable sales readily available, the property interests have been valued on the basis of their depreciated replacement cost.

Depreciated replacement cost is defined as “the current cost of replacing an asset with its modern equivalent asset less deductions for physical deterioration and all relevant forms of obsolescence and optimization.” It is based on an estimate of the market value for the existing use of the land, plus the current cost of replacement of the improvements, less deductions for physical deterioration and all relevant forms of obsolescence and optimization. The depreciated replacement cost of the property interest is subject to adequate potential profitability of the concerned business. The Directors of the Group and Daye Metal believe that the potential profitability of the business is sufficient to carry the estimation of depreciated replacement cost, so the valuation is not based on discounted cash flows or projections of profit earnings or cash flows.

In valuing the portions of property nos. 7 and 15 which are currently under construction, we have assumed that they will be developed and completed in accordance with the latest development proposal provided to us by the Group and the Target Group. In arriving at our opinion of value, we have taken into account the construction cost and professional fees relevant to the stage of construction as at the date of valuation and the remainder of the cost and fees to be expended to complete the development.

We have attributed no commercial value to the property interests in Group IV, Group V and Group VI, which are leased by the Enlarged Group, due either to the short-term nature of the lease or the prohibition against assignment or sub-letting or otherwise due to the lack of substantial profit rent.

For the property interests in Group VII, which are to be acquired by the Target Group in the PRC, the Target Group has entered into various agreements with various third parties. As the Target Group has not yet obtained the Stated-owned Land Use Rights Certificates and/or the Building Ownership Certificates, we have attributed no commercial value to these property interests.

Our valuation has been made on the assumption that the seller sells the property interests in the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the values of the property interests.

No allowance has been made in our report for any charge, mortgage or amount owing on any of the property interests valued nor for any expense or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature, which could affect their values.

In valuing the property interests, we have complied with all requirements contained in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited; the RICS Valuation Standards published by the Royal Institution of Chartered Surveyors; the HKIS Valuation Standards on Properties published by the Hong Kong Institute of Surveyors; and the International Valuation Standards published by the International Valuation Standards Council.

We have relied to a very considerable extent on the information given by the Group and the Target Group and have accepted advice given to us on such matters as tenure, planning approvals, statutory notices, easements, particulars of occupancy, lettings, and all other relevant matters.

We have been provided with copies of title documents relating to the property interests and have caused searches to be made at the Hong Kong Land Registries. However, we have not searched the original documents to verify the ownership or to ascertain any amendment.

We have been shown copies of various title documents including State-owned Land Use Rights Certificates (“LURCs”), Building Ownership Certificates (“BOCs”), Real Estate Title Certificates (“RETCs”) and official plans relating to the property interests and have made relevant enquiries. Where possible, we have examined the original documents to verify the existing title to the property interests in the PRC and Mongolia and any material encumbrance that might be attached to the property interests or any tenancy amendment. We have relied considerably on the advice given by the Company’s PRC legal advisers – Zhong Lun Law Firm and the Company’s Mongolia’s legal advisers – Legal Consulting Law Firm, concerning the validity of the property interests in the PRC and Mongolia.

We have not carried out detailed measurements to verify the correctness of the areas in respect of the properties but have assumed that the areas shown on the title documents and official site plans handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurement has been taken.

We have inspected the exterior and, where possible, the interior of the properties. However, we have not carried out investigation to determine the suitability of the ground conditions and services for any development thereon. Our valuation has been prepared on the assumption that these aspects are satisfactory and that no unexpected cost and delay will be incurred during construction. Moreover, no structural survey has been made, but in the course of our inspection, we did not note any serious defect. We are not, however, able to report whether the properties are free of rot, infestation or any other structural defect. No tests were carried out on any of the services.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Group and the Target Group. We have also sought confirmation from the Group and the Target Group that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to arrive an informed view, and we have no reason to suspect that any material information has been withheld.

Unless otherwise stated, all monetary figures stated in this report are in Renminbi (RMB). The exchange rates adopted in our valuation are approximately HK\$1 = RMB 0.82 and T\$1 = RMB 0.005 which were approximately the prevailing exchange rate as at the date of valuation.

Our valuation is summarized below and the valuation certificates are attached.

Yours faithfully,
for and on behalf of
Jones Lang LaSalle Sallmanns Limited

Paul L. Brown
B.Sc. FRICS FHKIS
Chief Valuation Adviser

Sam B. Q. Zhu
MRICS
Director

Notes:

Paul L. Brown is a Chartered Surveyor who has 28 years' experience in the valuation of properties in the PRC and 31 years of property valuation experience in Hong Kong, the United Kingdom and the Asia-Pacific region.

Sam B. Q. Zhu is a Chartered Surveyor who has 13 years' experience in the valuation of properties in the PRC.

SUMMARY OF VALUES

Group I – Property interests held and occupied by the Target Group in the PRC

No.	Property	Capital value in existing state as at 30 September 2011 RMB
1.	Unit 1401, Building 13 of Shui'an Mingyuan No. 1112 Changshou Road, Putuo District Shanghai, the PRC	No commercial value
2.	9 units on Levels 4 to 6 No. 6 Maliandao Beili, Xicheng District Beijing, the PRC	No commercial value
3.	Units 807 and 808, No. 67 Huangqi Guangfo Yi Road, Nanhai District, Foshan City Guangdong Province, the PRC	No commercial value
4.	Unit 804 of Block E No. 1 East Yard, Chagang Xin Village, Wuchang District, Wuhan City Hubei Province, the PRC	1,691,000
5.	Unit 7-1 of Building B located at Shimen Jia Road, Xinxialu District Huangshi City, Hubei Province, the PRC	No commercial value
6.	Units 119 to 124, Entrance 3 of Building 11 Tongcao Garden, Xinye Avenue Chengbei Development Area Daye City, Hubei Province, the PRC	No commercial value

No.	Property	Capital value in existing state as at 30 September 2011 RMB
7.	16 parcels of land, 329 buildings and various structures together with 3 buildings and various structures under construction located at Xialu Street Xialu District Huangshi City Hubei Province The PRC	1,271,723,000
8.	4 parcels of land, 251 buildings and various structures located at Tongshan Kou Daye City, Hubei Province, the PRC	No commercial value
9.	3 parcels of land, 175 buildings and various structures located at Fengshan Village Fuchi Town, Yangxin County Huangshi City, Hubei Province, the PRC	No commercial value
10.	25 parcels of land, 316 buildings and various structures located at Tonglvshan Jinhu Community Daye City, Hubei Province, the PRC	636,090,000
11.	2 parcels of land, 31 buildings and various structures located at Pinghulin Village Baisha Town, Yangxin County Huangshi City, Hubei Province, the PRC	No commercial value
12.	2 structures located at Pan Long Gang Songgangshan Industrial Area, Shishan Town, Nanhai District Foshan City, Guangdong Province, the PRC	No commercial value
Sub-total:		<u>1,909,504,000</u>

Group II – Property interests held and occupied by the Group in the PRC

No.	Property	Capital value in existing state as at 30 September 2011 RMB
13.	15 buildings and various structures located at Luqiaketi Village, Wuqia County Xinjiang Uygur Autonomous Region The PRC	No commercial value
14.	A parcel of land and a 5-storey building located at Tuoyun Road Wuqia County Xinjiang Uygur Autonomous Region The PRC	1,499,000
		Sub-total: <u><u>1,499,000</u></u>

Group III – Property interest held and occupied by the Group in Mongolia

No.	Property	Capital value in existing state as at 30 September 2011 RMB
15.	2 parcels of land, various structures together with 2 buildings and various structures under construction located at the Sala Mine Sukhbaatar Town Sukhbaatar Province Mongolia	No commercial value
		Sub-total: <u><u>Nil</u></u>

Group IV – Property interest leased and occupied by the Group in the PRC

No.	Property	Capital value in existing state as at 30 September 2011 RMB
16.	A unit on Level 1, Weifu Plaza No. 31 Tianshanxi Road, Hami City, Xinjiang Uygur Autonomous Region The PRC	No commercial value
		Sub-total: Nil

Group V – Property interest leased and occupied by the Group in Hong Kong

No.	Property	Capital value in existing state as at 30 September 2011 RMB
17.	Units 1501C and 2001, World Wide House 19 Des Voeux Road, Central Hong Kong	No commercial value
		Sub-total: Nil

Group VI – Property interests leased and occupied by the Group in Mongolia

No.	Property	Capital value in existing state as at 30 September 2011 RMB
18.	Unit 1306, Grand Plaza Peace Avenue, Bayangaole District Ulaanbaatar Mongolia	No commercial value
19.	Units 501 to 506, Great House 2nd microdistrict, Bayangol district Ulaanbaatar Mongolia	No commercial value
		Sub-total: <u><u>Nil</u></u>

Group VII – Property interests contracted to be acquired by the Target Group in the PRC

No.	Property	Capital value in existing state as at 30 September 2011 RMB
20.	A 6-storey office building located at Zone 5 of International Corporation Center Donghu New Development Area Wuhan City, Hubei Province, the PRC	No commercial value
21.	Levels 1 to 6, Entrance 3 of Buildings nos. 3 and 4, Jinhua Community Phase IV Xinxialu District, Huangshi City, Hubei Province The PRC	No commercial value
22.	A parcel of land and a 5-storey office building erected thereon, No. 256 Xialu Street, Xialu District Huangshi City, Hubei Province The PRC	No commercial value
		Sub-total: <u><u>Nil</u></u>
		Grand total: <u><u>1,911,003,000</u></u>

Note: Pursuant to Rule 11.3 of the Code on Takeovers and Mergers, we hereby include the following information in our report. As advised by the Company the potential tax liability which would arise if the property interests held and occupied by the Enlarged Group in the PRC and to be acquired by the Enlarged Group specified in Groups I to III and VII of this report were to be sold at the amount of the valuation is estimated to be approximately 179 million. The taxes mainly include income tax, stamp tax, urban construction tax, business tax, education fee addition and Land appreciation tax. The Directors consider that it is unlikely any such liability will crystallize as the Company has no intention to sell such properties which are currently being used for the Enlarged Group's operations.

VALUATION CERTIFICATE

Group I – Property interests held and occupied by the Target Group in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at
				30 September 2011 RMB
1.	Unit 1401 Building 13 of Shuian Mingyuan No. 1112 Changshou Road Putuo District Shanghai The PRC	The property comprises a unit on Level 14 of a 19-storey building in Shuian Mingyuan which is a large residential community completed in about 2003. The unit has a gross floor area of approximately 133.82 sq.m. The land use rights of the property have been granted for residential use.	The property is currently occupied by the Target Group for staff quarters purpose.	No commercial value

Notes:

1. Pursuant to a RETC – Hu Fang Di Pu Zi (2004) Di No. 010420, a unit with a gross floor area of approximately 133.82 sq.m. is owned by Daye Nonferrous Metals Company (“Daye NM”, the former name of the Parent Company). The land use rights of a parcel of land on which the unit is erected with a site area of approximately 18,246 sq.m. have been granted to Daye NM for residential use.
2. We have been provided with a legal opinion regarding the property interest by the Company’s PRC legal advisers, which contains, *inter alia*, the following:
 - a. the property has been injected into Daye Metal as capital by the Parent Company, but the relevant title certificates have not been changed; Daye Metal will legally own the land use rights and the building ownership rights of the property and have the rights to transfer, lease, mortgage or otherwise dispose of the property after completing the procedures of changing the title certificates under its name; and
 - b. the property is not subject to mortgage or other rights restriction.
3. In the valuation of this property, we have relied on the aforesaid legal opinion and attributed no commercial value to the property. However, for reference purpose, we are of the opinion that the capital value of the property as at the date of valuation would be RMB4,389,000 assuming all proper title certificates have been obtained and the property could be freely transferred.

VALUATION CERTIFICATE

				Capital value in existing state as at 30 September 2011 RMB
No.	Property	Description and tenure	Particulars of occupancy	
2.	9 units on Levels 4 to 6 No. 6 Maliandao Beili Xicheng District Beijing The PRC	The property comprises 9 units on Levels 4 to 6 of a 6-storey building which was completed in about 1996. The units have a total gross floor area of approximately 681.90 sq.m.	The property is currently occupied by the Target Group for office purpose	No commercial value

Notes:

1. Pursuant to a BOC – Jing Fang Quan Zheng Xuan Qi Zi Di No. 36851, 9 units with a total gross floor area of approximately 681.9 sq.m. are owned by Beijing Office of Daye Nonferrous Metals Company (the former name of the Parent Company).
2. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, *inter alia*, the following:
 - a. the property has been injected into Daye Metal as capital by the Parent Company, but the relevant title certificates have not been changed; Daye Metal will legally own the property and have the rights to transfer, lease, mortgage or otherwise dispose of the property after completing the procedures of changing the title certificates under its name; and
 - b. the aforesaid building ownership rights are not subject to mortgage or other rights restriction.
3. In the valuation of this property, we have relied on the aforesaid legal opinion and attributed no commercial value to the property. However, for reference purpose, we are of the opinion that the capital value of the property as at the date of valuation would be RMB16,229,000 assuming all proper title certificates have been obtained and the property could be freely transferred.

VALUATION CERTIFICATE

				Capital value in existing state as at
No.	Property	Description and tenure	Particulars of occupancy	30 September 2011 RMB
3.	Units 807 and 808, No. 67 Huangqi Guangfo Yi Road Nanhai District Foshan City Guangdong Province The PRC	<p>The property comprises 2 units on Level 8 of a 9-storey building which was completed in about 1994.</p> <p>The units have a total gross floor area of approximately 234.9 sq.m.</p> <p>The land use rights of the property have been granted for a term expiring on 23 April 2065 for residential use.</p>	<p>The property is currently occupied by the Target Group for staff quarters purpose</p>	No commercial value

Notes:

1. Pursuant to 2 LURCs – Fo Fu Nan Guo Yong (2009) Di Nos. 0714499 and 0714500, the land use rights of a parcel of land on which the property is erected with a site area of approximately 604.3 sq.m. have been granted to Daye Nonferrous Metals Company (“Daye NM”, the former name of the Parent Company) for a term expiring on 23 April 2065 for residential use.
2. Pursuant to 2 BOCs – Yue Fang Di Quan Zheng Fo Zi Di Nos. 0200067548 and 0200087901, 2 units with a total gross floor area of approximately 234.9 sq.m. are owned by Daye NM.
3. We have been provided with a legal opinion regarding the property interest by the Company’s PRC legal advisers, which contains, *inter alia*, the following:
 - a. the property has been injected into Daye Metal as capital by the Parent Company, but the relevant title certificates have not been changed; Daye Metal will legally own the land use rights and the building ownership rights of the property and have the rights to transfer, lease, mortgage or otherwise dispose of the property after completing the procedures of changing the title certificates under its name; and
 - b. the property is not subject to mortgage or other rights restriction.
4. In the valuation of this property, we have relied on the aforesaid legal opinion and attributed no commercial value to the property. However, for reference purpose, we are of the opinion that the capital value of the property as at the date of valuation would be RMB1,574,000 assuming all proper title certificates have been obtained and the property could be freely transferred.

VALUATION CERTIFICATE

				Capital value in existing state as at
No.	Property	Description and tenure	Particulars of occupancy	30 September 2011 RMB
4.	Unit 804 of Block E No. 1 East Yard Chagang Xin Village Wuchang District Wuhan City Hubei Province The PRC	<p>The property comprises a unit on Level 8 of a 15-storey building which was completed in about 2007.</p> <p>The unit has a gross floor area of approximately 181.84 sq.m.</p> <p>The land use rights of the property have been granted for a term expiring on 19 May 2073 for residential use.</p>	The property is currently occupied by the Target Group for staff quarters purpose.	1,691,000

Notes:

1. Pursuant to a LURC – Wu Chang Guo Yong Shang (2010) Di No. 06665, the land use rights of the property with an apportioned area of approximately 12.71 sq.m. have been granted to Daye Metal for a term expiring on 19 May 2073 for residential use.
2. Pursuant to a BOC – Wu Fang Quan Zheng Hong Zi No. 2010005024, a unit with a gross floor area of approximately 181.84 sq.m. is owned by Daye Metal.
3. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, *inter alia*, the following:
 - a. Daye Metal legally owns the property and has the rights to transfer, lease and mortgage the property in accordance with the valid term stipulated in LURC.

VALUATION CERTIFICATE

				Capital value in existing state as at
No.	Property	Description and tenure	Particulars of occupancy	30 September 2011 RMB
5.	Unit 7-1 of Building B located at Shimen Jia Road Xinxialu District Huangshi City Hubei Province The PRC	The property comprises an office unit of a 9-storey building which was completed in about 2003. The unit has a gross floor area of approximately 359.75 sq.m. The land use rights of the property have been granted for a term expiring on 20 May 2050 for residential use.	The property is currently occupied by the Target Group for staff quarters purpose.	No commercial value

Notes:

1. Pursuant to a LURC – Huang Shi Guo Yong (2007) Di No. 10624, the land use rights of the property with an apportioned area of approximately 149.12 sq.m. have been granted to Huangshi Shi Xinma Copper Co., Ltd. (“Xinma Copper”, the former name of Chimashan Branch of Daye Metal) for a term expiring on 20 May 2050 for residential use.
2. Pursuant to a BOC – Huang Fang Quan Zheng 2006 Lu Zi Di No. 0100373, a unit with a gross floor area of approximately 359.75 sq.m. is owned by Xinma Copper.
3. We have been provided with a legal opinion regarding the property interest by the Company’s PRC legal advisers, which contains, *inter alia*, the following:
 - a. the property has been injected into Daye Metal as capital by the Parent Company, but the relevant title certificates have not been changed; Daye Metal will legally own the land use rights and the building ownership rights of the property and have the rights to transfer, lease, mortgage or otherwise dispose of the property after completing the procedures of changing the title certificates under its name; and
 - b. the property is not subject to mortgage or other rights restriction.
4. In the valuation of this property, we have relied on the aforesaid legal opinion and attributed no commercial value to the property. However, for reference purpose, we are of the opinion that the capital value of the property as at the date of valuation would be RMB964,000 assuming all proper title certificates have been obtained and the property could be freely transferred.

VALUATION CERTIFICATE

				Capital value in existing state as at 30 September 2011 RMB
No.	Property	Description and tenure	Particulars of occupancy	
6.	Units 119 to 124, Entrance 3 of Building 11 Tongcao Garden Xinye Avenue Chengbei Development Area Daye City Hubei Province The PRC	The property comprises 6 units on Level 1 of an 8-storey building which was completed in about 2001. The units have a total gross floor area of approximately 220.48 sq.m. The land use rights of the property have been allocated for commercial use.	The property is currently occupied by a tenant for retail purpose.	No commercial value

Notes:

- Pursuant to a LURC – Da Ye Guo Yong (2003) Zi Di No. 010217350-11, the land use rights of the property with an apportioned area of approximately 23.2 sq.m. have been allocated to Daye Non-ferrous San You Industry Co., Ltd. (“Daye Industry”, an 89.35% interest owned subsidiary of Daye Metal), for commercial use.
- Pursuant to a BOC – Fang Quan Zheng Cheng Bei Kai Fa Qu Zi Di No. 02-3699, 6 units with a total gross floor area of approximately 220.48 sq.m. are owned by Daye Industry.
- Pursuant to a Tenancy Agreement, 6 units with a total gross floor area of approximately 220.48 sq.m. were leased to an independent third party with the expiry date on 1 January 2012 at a monthly rent of RMB1,475.
- We have been provided with a legal opinion regarding the property interest by the Company’s PRC legal advisers, which contains, *inter alia*, the following:
 - Daye Industry has the rights to occupy and use the property;
 - Daye Industry can not transfer, mortgage or otherwise dispose of the property unless it has obtained the permission from the local authorities and paid the land premium; and
 - the property is not subject to mortgage or other rights restriction.
- In the valuation of this property, we have relied on the aforesaid legal opinion and attributed no commercial value to the property. However, for reference purpose, we are of the opinion that the capital value of the property as at the date of valuation would be RMB879,000 assuming all proper title certificates have been obtained and the property could be freely transferred.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 September 2011 RMB
7.	16 parcels of land, 329 buildings and various structures together with 3 buildings and various structures under construction located at Xialu Street Xialu District Huangshi City Hubei Province The PRC	<p>The property comprises 16 parcels of land with a total site area of approximately 1,199,842.56 sq.m. ("Owned Land") and 301 buildings and various structures with a total gross floor area of approximately 263,283.55 sq.m. erected thereon ("Part A") which were completed in various stage between 1963 and 2011.</p> <p>The property also comprises 23 buildings and various structures with a total gross floor area of approximately 20,130.7 sq.m. ("Part B") erected on 6 parcels of land with a total site area of approximately 193,613.07 sq.m. ("Leased Land") which were completed in various stages between 1965 and 2009.</p> <p>The buildings include industrial buildings, office buildings and ancillary buildings.</p> <p>The structures mainly include roads, fences and walls.</p> <p>In addition to the above completed buildings and structures, there are also 3 buildings and various structures erected on the Owned Land which are under construction (the "CIP"). As advised by Daye Metal, the CIP is scheduled to be completed in January 2012. Upon completion, the CIP will have a total gross floor area of approximately 2,540 sq.m.</p> <p>As advised by Daye Metal, the total construction cost of the CIP is estimated to be approximately RMB18,102,307, of which RMB15,714,297 had been paid up to the date of valuation.</p> <p>The land use rights of 15 parcels of the Owned Land have been injected into Daye Metal as capital for various terms with the expiry dates between 25 December 2055 and 30 August 2059 for industrial, storage and railway uses.</p>	The property is currently occupied by the Target Group for production, office and ancillary purposes except for the CIP which is under construction.	1,271,723,000

Notes:

Land

1. Pursuant to 15 LURCs – Huang Shi Guo Yong (2010) Di Nos. 01123 to 01132, 01134 to 01136, 01197 and 01201, the land use rights of 15 parcels of the Owned Land with a total site area of approximately 1,153,070.56 sq.m. have been injected into Daye Metal as capital for various terms with the expiry dates between 25 December 2055 and 30 August 2059 for industrial, storage and railway uses.
2. For the remaining parcel of Part A with a site area of approximately 46,772 sq.m., we have not been provided with any title certificate.
3. According to 2 Land Tenancy Agreements, 5 parcels of the Leased Land with a total site area of approximately 174,276.77 sq.m. were leased by Daye Metal from 2 subsidiaries of the Parent Company for a term expiring on 30 September 2012 at an annual rent of RMB2,778,556.6. As advised by Daye Metal, 20 buildings of Part B (representing 17,094.46 sq.m.) and various structures were erected on these 5 parcels of land.
4. According to a Land Tenancy Agreement, the remaining parcel of the Leased Land with a site area of approximately 19,336.3 sq.m. was leased by Daye Metal from the Parent Company for a term of 30 years expiring on 30 June 2031 for free. As advised by Daye Metal, the remaining 3 buildings of Part B (representing 3,036.24 sq.m.) and various structures were erected on this parcel of land.

Buildings and CIP

5. Pursuant to 276 BOCs, 260 buildings of Part A (representing 216,401.9 sq.m.) and 20 buildings of Part B (representing 13,267.7 sq.m.) together having a total gross floor area of approximately 229,669.6 sq.m. are owned by Daye Metal.
6. For the remaining 49 buildings of the property with a total gross floor area of approximately 53,744.65 sq.m. and the CIP, we have not been provided with any title certificate or construction permit.
7. Pursuant to a Tenancy Agreement, 10 buildings of Part A with a total gross floor area of approximately 10,001.55 sq.m. are leased by Daye Non-Ferrous Design & Research Institute Limited from Daye Metal for 10 years. The rent is based on the RMB1,559,297.69 and adjusted by the bank loan interest rate every year.
8. Pursuant to a Tenancy Agreement, a building of Part A with a gross floor area of approximately 208.56sq.m. is leased by Daye Non-ferrous Xingke Construction Works Quality Inspection Company Limited (a wholly owned subsidiary of Daye Metal) from Daye Metal for 20 years at an annual rent of RMB2,000.
9. The capital value of the CIP after completion is estimated to be RMB19,008,000.
10. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, *inter alia*, the following:
 - a. Daye Metal legally owns the land use rights of the land stated in note 1 and has the rights to transfer, lease and mortgage them in accordance with the valid term stipulated by the LURCs;

- b. Daye Metal has the rights to occupy, use, transfer, lease, mortgage or otherwise legally dispose of the land use rights of the parcel of land in note 2 after obtaining LURC.
 - c. the Land Tenancy Agreements stated in notes 3 and 4 are legal and valid, and Daye Metal has the rights to use the Leased Land during the lease term.
 - d. Daye Metal legally owns the building ownership rights of the 260 buildings of Part A stated in note 5, and has the rights to transfer, lease, mortgage or otherwise dispose of them;
 - e. for the 20 buildings of Part B stated in note 5, Daye Metal has the legal rights to occupy, use and mortgage them, while the rights to transfer them to the third parties would be restricted before obtaining the LURCs under its name;
 - f. for the 49 buildings stated in note 6, Daye Metal will have the rights to transfer, lease, mortgage or otherwise dispose of them after obtaining the BOCs under its name;
 - g. Daye Metal has not obtained the Construction Work Planning Permit and Construction Work Commencement Permit for the CIP and will not be able to apply for the completion and acceptance inspection unless obtaining the aforesaid permits; and
 - h. the property is not subject to mortgage or other rights restriction.
11. In the valuation of this property, we have relied on the aforesaid legal opinion and attributed no commercial value to the land stated in note 2, the 20 buildings of Part B (including structures of Part B) stated in note 5, the 49 buildings and the CIP stated in note 6. However, for reference purpose, we are of the opinion that the capital value of them (excluding the land element) as at the date of valuation would be RMB128,732,000 assuming all proper title certificates and construction permits have been obtained and they could be freely transferred.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at
				30 September 2011 RMB
8.	4 parcels of land, 251 buildings and various structures located at Tongshan Kou Daye City Hubei Province The PRC	<p>The property comprises 4 parcels of land with a total site area of approximately 1,687,312.87 sq.m. and 202 buildings and various structures with a total gross floor area of approximately 63,215.7 sq.m. erected thereon ("Part A") which were completed in various stage between 1958 and 2009.</p> <p>The property also comprises 49 buildings and various structures with a total gross floor area of approximately 44,378.48 sq.m. ("Part B") erected on 11 parcels of land with a total site area of approximately 1,207,627.68 sq.m. ("Leased Land") which were completed in various stages between 1959 and 1999.</p> <p>The buildings include various industrial buildings, office buildings and ancillary buildings.</p> <p>The structures mainly include roads, fences and walls.</p> <p>The land use rights of the 4 parcels of land of Part A have been authorized to Daye Metal for a term expiring on 13 August 2039 for industrial and mining uses.</p>	The property is currently occupied by the Target Group for production, office and ancillary purposes.	No commercial value

Notes:

Land

1. Pursuant to 4 LURCs – Da Ye Guo Yong (2010) Di Nos. 060200013, 060100050, 060100038-2 and 081700001, the land use rights of Part A with a total site area of approximately 1,687,312.87 sq.m. have been authorized to Daye Metal for a term expiring on 13 August 2039 for industrial and mining uses.
2. According to a Tenancy Agreement, 10 parcels of the Leased Land with a total site area of approximately 1,169,627.68 sq.m. were leased by Daye Metal from the Parent Company for a term of 30 years expiring on 30 December 2039 at an annual rent of RMB4,237,242.27.
3. According to an Agreement, the remaining parcel of the Leased Land with a site area of approximately 38,000 sq.m. was leased by Tongshankou Copper Mine Branch of Daye Metal from Tongshankou Village Committee of Chengui Town for a term of 30 years from 2003 to 2033 at a total rent of RMB1,428,990.

Buildings

4. Pursuant to 204 BOCs, 156 buildings of Part A (representing 52,199.61 sq.m.) and 48 buildings of Part B (representing 40,695.98 sq.m.) together having a total gross floor area of approximately 92,895.59 sq.m. are owned by Daye Metal.
5. For the remaining 47 buildings with a total gross floor area of approximately 14,698.06 sq.m., we have not been provided with any title certificate.
6. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, *inter alia*, the following:
 - a. Daye Metal legally owns the land use rights of the 4 parcels of land of Part A and has the rights to occupy and use them; however, it should obtain the permission from relevant land authorities and pay the land premium when transferring the land use rights of the aforesaid land to third parties;
 - b. Daye Metal legally owns the building ownership rights of the 156 buildings of Part A stated in note 4 and has the rights to occupy, use and mortgage them, while the rights to transfer them to third parties would be restricted due to the nature of the authorized land on which they are erected;
 - c. the Tenancy Agreement stated in note 2 is legal and valid, and Daye Metal has the rights to use the Leased Land during the lease term; however, the lease term exceeds 20 years and Daye Metal's rights beyond the 20th year would not be protected by the PRC laws;
 - d. there is a risk that Daye Metal may be requested by the local authorities to cease the occupancy of the land stated in note 3; and the lease term over 20 years is not protected by the PRC laws. Since only a few ancillary facilities are erected on the Leased Land, there shall not have any material adverse effect on Daye Metal's operation in case Daye Metal is requested by the local authorities to cease the occupancy of the land.

- e. for the 48 buildings of Part B stated in note 4, Daye Metal has the legal rights to occupy, use and mortgage them, while the rights to transfer them to third parties would be restricted before obtaining the LURCs under its name;
 - f. for the remaining 47 buildings stated in note 5, Daye Metal will have the rights to transfer, lease, mortgage or otherwise dispose of them after obtaining the BOCs under its name; and
 - g. the property is not subject to mortgage or other rights restriction.
6. In the valuation of this property, we have relied on the aforesaid legal opinion and attributed no commercial value to the property. However, for reference purpose, we are of the opinion that the capital value of the property as at the date of valuation would be RMB292,285,000 assuming all proper title certificates have been obtained and the property could be freely transferred.

VALUATION CERTIFICATE

				Capital value in existing state as at 30 September 2011 RMB
No.	Property	Description and tenure	Particulars of occupancy	
9.	3 parcels of land, 175 buildings and various structures located at Fengshan Village Fuchi Town Yangxin County Huangshi City Hubei Province The PRC	<p>The property comprises 3 parcels of land with a total site area of approximately 301,797.68 sq.m. and 103 buildings and various structures with a total gross floor area of approximately 35,392.03 sq.m. erected thereon ("Part A") which were completed in various stage between 1968 and 2009.</p> <p>The property also comprises 72 buildings and various structures with a total gross floor area of approximately 20,410.96 sq.m. ("Part B") erected on 17 parcels of land with a total site area of approximately 1,870,990.73 sq.m. ("Leased Land") which were completed in various stages between 1966 and 2008.</p> <p>The buildings include various industrial buildings, office buildings and ancillary buildings.</p> <p>The structures mainly include roads, fences and walls.</p> <p>The land use rights of the 3 parcels of land of Part A have been authorized to Daye Metal for a term expiring on 13 August 2039 for industrial use.</p>	The property is currently occupied by the Target Group for production, office and ancillary purposes.	No commercial value

Notes:

1. Pursuant to 3 LURCs – Yang Guo Yong (2010) Di Nos. 101035 to 101037, the land use rights of Part A with a total site area of approximately 301,797.68 sq.m. have been authorized to Daye Metal for a term expiring on 13 August 2039 for industrial use..
2. According to a Tenancy Agreement, the Leased Land with a total site area of approximately 1,870,990.73 sq.m. were leased by Daye Metal from the Parent Company for a term expiring on 30 December 2039 at an annual rent of RMB6,191,238.95.
3. Pursuant to 75 BOCs, 103 buildings of Part A (representing 35,392.03 sq.m.) and 72 buildings of Part B (representing 20,410.96 sq.m.) together having a total gross floor area of approximately 55,802.99 sq.m. are owned by Daye Metal.
4. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, *inter alia*, the following:
 - a. Daye Metal legally owns the land use rights of the 3 parcels of land of Part A and has the rights to occupy and use them; however, it should obtain the permission from relevant land authorities and pay the land premium when transferring the land use rights of the aforesaid land to third parties;
 - b. Daye Metal legally owns the building ownership rights of the 103 buildings of Part A and has the rights to occupy, use and mortgage them, while the rights to transfer them to third parties would be restricted due to the nature of the authorized land on which they are erected;
 - c. the Tenancy Agreement stated in note 2 is legal and valid, and Daye Metal has the rights to use the Leased Land during the lease term; however, the lease term exceeds 20 years and Daye Metal's rights beyond the 20th year would not be protected by the PRC laws;
 - d. for the 72 buildings of Part B, Daye Metal has the legal rights to occupy, use and mortgage them, while the rights to transfer them to third parties would be restricted before obtaining the LURCs under its name; and
 - e. the property is not subject to mortgage or other rights restriction.
5. In the valuation of this property, we have relied on the aforesaid legal opinion and attributed no commercial value to the property. However, for reference purpose, we are of the opinion that the capital value of the property as at the date of valuation would be RMB59,830,000 assuming all proper title certificates have been obtained and the property could be freely transferred.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at
				30 September 2011 RMB
10.	25 parcels of land, 316 buildings and various structures located at Tonglvshan Jinhu Community Daye City Hubei Province The PRC	<p>The property comprises 25 parcels of land with a total site area of approximately 3,815,902.83 sq.m. and 178 buildings and various structures with a total gross floor area of approximately 79,514.24 sq.m. erected thereon ("Part A") which were completed in various stage between 1964 and 2007.</p> <p>The property also comprises 138 buildings and various structures with a total gross floor area of approximately 131,301.54 sq.m. ("Part B") erected on 7 parcels of land with a total site area of approximately 149,577.2 sq.m. ("Leased Land") which were completed in various stages between 1958 and 2000.</p> <p>The buildings include various industrial buildings, office buildings and ancillary buildings.</p> <p>The structures mainly include roads, fences and walls.</p> <p>The land use rights of the 25 parcels of land of Part A have been injected into Daye Metal as capital for terms expiring on 25 March 2045 for commercial use and 25 March 2055 for industrial and composite uses.</p>	The property is currently occupied by the Target Group for production, office and ancillary purposes.	636,090,000

Notes:

1. Pursuant to 25 LURCs, the land use rights of the 25 parcels of land of Part A with a total site area of approximately 3,815,902.83 sq.m. have been injected into Daye Metal as capital for terms expiring on 25 March 2045 for commercial use and 25 March 2055 for industrial and composite uses.
2. According to a Tenancy Agreement, the Leased Land with a total site area of approximately 149,577.2 sq.m. were leased by Daye Metal from the Parent Company for a term expiring on 31 December 2039 at an annual rent of RMB674,721.66.
3. Pursuant to 300 BOCs, 169 buildings of Part A (representing 78,726.87 sq.m.) and 131 buildings of Part B (representing 130,218.63 sq.m.) together having a total gross floor area of approximately 208,945.3 sq.m. are owned by Daye Metal.
4. For the remaining 16 buildings with a total gross floor area of approximately 1,870.28 sq.m., we have not been provided with any title certificate.
5. According to a Tenancy Agreement, a parcel of land with a site area of approximately 1,200 sq.m., 2 buildings with a total lettable area of approximately 1,748.45 sq.m. and a car parking space with a site area of approximately 150 sq.m. were leased by Daye Industry from Daye Metal for a term expiring on 28 February 2014 at an annual rent of RMB46,000.
6. According to a Tenancy Agreement, a building with a lettable area of approximately 2,374.4 sq.m. was leased by Daye Industry from Daye Metal for a term expiring on 27 February 2014 at an annual rent of RMB10,000.
7. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, *inter alia*, the following:
 - a. Daye Metal legally owns the land use rights of the 25 parcels of land of the property and has the rights to transfer, lease and mortgage them in accordance with the valid term stipulated by LURCs;
 - b. Daye Metal legally owns the building ownership rights of the 169 buildings of Part A stated in note 3 and has the rights to transfer, lease, mortgage or otherwise dispose of them;
 - c. the Tenancy Agreement stated in note 2 is legal and valid, and Daye Metal has the rights to use the Leased Land during the lease term; however, the lease term exceeds 20 years and Daye Metal's rights beyond the 20th year would not be protected by the PRC laws;
 - d. for the remaining 78 buildings stated in note 4, Daye Metal will have the rights to transfer, lease, mortgage or otherwise dispose of them after obtaining the BOCs;
 - e. the property is not subject to mortgage or other rights restriction; and
 - f. the Tenancy Agreements in notes 5 and 6 are legal and valid.
8. In the valuation of this property, we have relied on the aforesaid legal opinion and attributed no commercial value to 131 buildings of Part B stated in note 3, various structures erected on the Leased Land and the 16 buildings stated in note 4. However, for reference purpose, we are of the opinion that the depreciated replacement cost of them (excluding the land element) as at the date of valuation would be RMB40,757,000 assuming all proper title certificates have been obtained and they could be freely transferred.

VALUATION CERTIFICATE

				Capital value in existing state as at 30 September 2011 RMB
No.	Property	Description and tenure	Particulars of occupancy	
11.	2 parcels of land, 31 buildings and various structures located at Pinghulin Village Baisha Town Yangxin County Huangshi City Hubei Province The PRC	<p>The property comprises 2 parcels of land with a total site area of approximately 53,906.7 sq.m. and 29 buildings and various structures with a total gross floor area of approximately 9,008.18 sq.m. erected thereon ("Part A") which were completed in various stage between 1960 and 2006.</p> <p>The property also comprises 2 buildings and various structures with a total gross floor area of approximately 2,805.2 sq.m. ("Part B") erected on 11 parcels of land with a total site area of approximately 497,669.9 sq.m. ("Leased Land") which were completed in 1980 and 1984 respectively.</p> <p>The buildings include various industrial buildings, office buildings and ancillary buildings.</p> <p>The structures mainly include roads, fences and walls.</p> <p>The land use rights of the 2 parcels of land of Part A have been authorized to Daye Metal for a term expiring on 13 August 2039 for industrial use.</p>	The property is currently occupied by the Target Group for production, office and ancillary purposes.	No commercial value

Notes:

1. Pursuant to 2 LURCs – E Yang Guo Yong (2010) Di Nos. 107011 and 107012, the land use rights of the 2 parcels of land of Part A with a total site area of approximately 53,906.7 sq.m. have been authorized to Daye Metal for a term a term expiring on 13 August 2039 for industrial use.
2. According to a Tenancy Agreement, the Leased Land with a total site area of approximately 497,669.90 sq.m. were leased by the Target Group from the Parent Company for a term expiring on 30 December 2039 at an annual rent of RMB1,650,982.84.
3. Pursuant to 11 BOCs, the buildings of Part A (representing 9,008.18 sq.m.) and Part B (representing 2,805.2 sq.m.) together having a total gross floor area of approximately 11,813.38 sq.m. are owned by Daye Metal.
4. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, *inter alia*, the following:
 - a. Daye Metal legally owns the land use rights of the 2 parcels of land of Part A and has the rights to occupy and use them; however, it should obtain the permission from relevant land authorities and pay the land premium when transferring the land use rights of the aforesaid land to third parties.
 - b. Daye Metal legally owns the building ownership rights of the 29 buildings of Part A and has the rights to occupy, use and mortgage them, while the rights to transfer them to third parties would be restricted due to the nature of the authorized land on which they are erected;
 - c. the Tenancy Agreement stated in note 2 is legal and valid, and Daye Metal has the rights to use the Leased Land during the lease term; however, the lease term exceeds 20 years and Daye Metal's rights beyond the 20th year would not be protected by the PRC laws;
 - d. for the 2 buildings of Part B, Daye Metal has the legal rights to occupy, use and mortgage them, while the rights to transfer them to third parties would be restricted before obtaining the LURCs under its name; and
 - f. the property is not subject to mortgage or other rights restriction.
5. In the valuation of this property, we have relied on the aforesaid legal opinion and attributed no commercial value to the property. However, for reference purpose, we are of the opinion that the capital value of the property as at the date of valuation would be RMB13,542,000 assuming all proper title certificates have been obtained and the property could be freely transferred.

VALUATION CERTIFICATE

				Capital value in existing state as at
No.	Property	Description and tenure	Particulars of occupancy	30 September 2011 RMB
12.	2 structures located at Pan Long Gang Songgangshan Industrial Area Shizishan Town Nanhai District Foshan City Guangdong Province The PRC	The property comprises 2 structures which were completed in 2009. The structures include a shed and a gate.	The property is currently occupied by the Target Group for ancillary purpose.	No commercial value

Notes:

1. According to a Land Tenancy Agreement, a parcel of land with a site area of approximately 6,254.8 sq.m. was leased by Daye Metal from a subsidiaries of the Parent Company for a term expiring on 30 September 2014 at an annual rant of RMB10,000. As advised by Daye Metal, the property was erected on this parcel of land.
2. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, inter alia, the following:
 - a. the Land Tenancy Agreement is legal and valid, and Daye Metal has the rights to use this parcel of land during the lease term.
3. In the valuation of this property, we have relied on the aforesaid legal opinion and attributed no commercial value to the property. However, for reference purpose, we are of the opinion that the depreciated replacement cost of the property (excluding the land element) as at the date of valuation would be RMB1,125,000 assuming all proper title certificates have been obtained and the property could be freely transferred.

VALUATION CERTIFICATE

Group II – Property interests held and occupied by the Group in the PRC

				Capital value in existing state as at 30 September 2011 RMB
No.	Property	Description and tenure	Particulars of occupancy	
13.	15 buildings and various structures located at Luqiaketi Village Wuqia County Xinjiang Uygur Autonomous Region The PRC	<p>The property comprises 15 buildings and various structures which were completed in 2008 and 2010.</p> <p>The buildings have a total gross floor area of approximately 2,455.4 sq.m.</p> <p>The buildings include industrial buildings, office buildings and ancillary buildings.</p> <p>The structures mainly include pools, dams and ancillary storage sheds.</p>	The property is currently occupied by the Group for production, office and ancillary purposes.	No commercial value

Notes:

- Xinjiang Huixiang Yongjin Mining Limited (“Xinjiang Huixiang”) is a 55% interest indirectly owned subsidiary of the Company.
- Pursuant to a Temporary Land Use License issued by the State-owned Land Bureau of Xinjiang Uygur Autonomous Region, Xinjiang Huixiang has been approved to use a parcel of land with a site area of approximately 50,987 sq.m. for a term expiring on 30 June 2012 for disposal site use. As advised by Xinjiang Huixiang, the property is erected on this parcel of land.
- We have not been provided with any title certificate for the property.
- We have been provided with a legal opinion regarding the property interest by the Company’s PRC legal advisers, which contains, *inter alia*, the following:
 - Xinjiang Huixiang has the rights to use the land within the valid term stipulated by the Temporary Land Use License after paying off the management fees; however, Xinjiang Huixiang can not build any permanent building or structure on the land; and
 - the property is not subject to mortgage or other rights restriction.
- In the valuation of this property, we have relied on the aforesaid legal opinion and attributed no commercial value to the property. However, for reference purpose, we are of the opinion that the depreciated replacement cost of the property (excluding the land element) as at the date of valuation would be RMB9,182,000 assuming all relevant title certificates have been obtained and it could be freely transferred.

VALUATION CERTIFICATE

				Capital value in existing state as at
No.	Property	Description and tenure	Particulars of occupancy	30 September 2011 RMB
14.	A parcel of land and a 5-storey building located at Tuoyun Road Wuqia County Xinjiang Uygur Autonomous Region The PRC	<p>The property comprises a parcel of land with a site area of approximately 11,184 sq.m. and a 5-storey office building erected thereon which was completed in 2011.</p> <p>The building has a gross floor area of approximately 4,952.9 sq.m.</p> <p>The land use rights of the property have been granted for a term expiring on 13 December 2049 for commercial use.</p>	The property is currently occupied by the Group for office purpose.	1,499,000

Notes:

- Xinjiang Huixiang Yongjin Mining Limited (“Xinjiang Huixiang”) is a 55% interest indirectly owned subsidiary of the Company.
- Pursuant to a State-owned Land Use Rights Grant Contract dated 25 December 2009, the land use rights of a parcel of land with a site area of approximately 11,184 sq.m. were contracted to be granted to Xinjiang Huixiang for a term expiring on 13 December 2049 for commercial use. The land premium was RMB1,476,288.
- Pursuant to a LURC – Wu Qia Guo Yong (20011) Di No. 00000010, the land use rights of the parcel of land with a site area of approximately 11,184 sq.m. have been granted to Xinjiang Huixiang for a term expiring on 13 December 2049 for commercial use.
- We have not been provided with any title certificate for the building of the property.
- We have been provided with a legal opinion regarding the property interest by the Company’s PRC legal advisers, which contains, *inter alia*, the following:
 - Xinjiang Huixiang legally owns the land use rights of the property and has the rights to transfer, lease and mortgage them in accordance with the valid term stipulated by LURC; and
 - After completing relevant construction inspection and acceptance procedures, Xinjiang Huixiang will be entitled to apply for the relevant BOC.
- In the valuation of this property, we have relied on the aforesaid legal opinion and attributed no commercial value to the property. However, for reference purpose, we are of the opinion that the depreciated replacement cost of the property (excluding the land element) as at the date of valuation would be RMB8,336,000 assuming all relevant title certificates have been obtained and it could be freely transferred.

VALUATION CERTIFICATE

Group III – Property interest held and occupied by the Group in Mongolia

				Capital value in existing state as at
No.	Property	Description and tenure	Particulars of occupancy	30 September 2011 RMB
15.	2 parcels of land, various structures together with 2 buildings and various structures under construction located at the Sala Mine Sukhbaatar Town Sukhbaatar Province Mongolia	<p>The property comprises a parcel of land with a site area of approximately 1,000,000 sq.m. and various structures erected thereon which were completed in various stages between 1978 and 2011.</p> <p>The property also comprises a parcel of land with a length of 23km and a width of 20 meter and a high voltage electricity line erected thereon.</p> <p>The structures mainly include wells and ancillary sheds.</p> <p>The property also comprises 2 buildings and various structures which are still under construction (the “CIP”). As advised by the Group, the CIP is scheduled to be completed by the end of 2011. Upon completion, the CIP will have a gross floor area of approximately 1,240 sq.m.</p> <p>As advised by the Group, the total construction cost is estimated to be approximately RMB5,374,000 of which RMB3,575,000 had been paid up to the date of valuation.</p> <p>The land use rights of the property have been granted for a term of 20 years expiring on 27 September 2031 for the construction of an electricity line, buildings and facilities.</p>	The property is currently occupied by the Group for production, and ancillary purposes except for the CIP which is under construction.	No commercial value

Notes:

1. Reservoir Mongolia LLC is a 51% interest indirectly owned subsidiary of the Company.
2. Pursuant to a LURC – No. 0007202, the land use rights of a parcel of land with a site area of approximately 1,000,000 sq.m. have been vested to Reservoir Mongolia LLC for a term of 20 years expiring on 27 September 2031 for construction of buildings and facilities.
3. Pursuant to a LURC – No. 0007201, the land use rights of a parcel of land with a length of 23km and a width of 20 meters have been vested to Reservoir Mongolia LLC for a term of 20 years expiring on 27 September 2031 for the construction of the high voltage electricity line.
4. The capital value of the CIP after completion is estimated to be RMB5,535,000.
5. We have been provided with a legal opinion regarding the property interest by the Company's Mongolia legal advisers, which contains, *inter alia*, the following:
 - a. the LURCs may not be transferred, pledged or leased under Mongolia laws;
 - b. the LURCs issued to Reservoir Mongolia LLC have been duly vested by the relevant authority and are in full force and effect as of the relevant confirmation date; and
 - c. As the LURCs of the land on which the CIP is erected may not be transferred, pledged or leased, the CIP may not be transferred, pledged or leased accordingly although the construction of the CIP has fulfilled requirements under Mongolia laws.
6. In the valuation of this property, we have relied on the aforesaid legal opinion and attributed no commercial value to the property. However, for reference purpose, we are of the opinion that the capital depreciated replacement cost of the property (excluding the land element) as at the date of valuation would be RMB4,458,000 assuming all relevant title certificates have been obtained and it could be freely transferred.

VALUATION CERTIFICATE

Group IV – Property interest leased and occupied by the Group in the PRC

				Capital value in existing state as at 30 September 2011 RMB
No.	Property	Description and tenure	Particulars of occupancy	
16.	A unit on Level 1, Weifu Plaza No. 31 Tianshanxi Road, Hami City Xinjiang Uygur Autonomous Region The PRC	The property comprises a unit on Level 1 of a 7-storey office building completed in about 1997. The unit has a lettable area of approximately 420 sq.m The property is leased by Xinjiang Tongxing Mining Limited from an independent third party for a term expiring on 30 December 2015 at a monthly rent of RMB200,000.	The property is currently occupied by the Group for office purpose.	No commercial value

Notes:

1. Xinjiang Tongxing Mining Limited (“Xinjiang Tongxing”) is an 80% interest indirectly owned subsidiary of the Company.
2. Pursuant to a Tenancy Agreement, a unit with a lettable area of approximately 420 sq.m. is leased by Xinjiang Tongxing from Xinjiang Weifu Mining Limited, an independent third party, for a term expiring on 30 December 2015 at a monthly rent of RMB200,000.
3. We have been provided with a legal opinion regarding the property interest by the Company’s PRC legal advisers, which contains, *inter alia*, the following:
 - a. As Xinjiang Weifu Mining Limited has obtained BOC and LURC of the property, the Tenancy Agreement is legal and valid and Xinjiang Tongxing has the rights to use the property during the lease term.

VALUATION CERTIFICATE

Group V – Property interest leased and occupied by the Group in Hong Kong

				Capital value in existing state as at 30 September 2011 RMB
No.	Property	Description and tenure	Particulars of occupancy	
17.	Units 1501C and 2001 World Wide House 19 Des Voeux Road Central Hong Kong	<p>The property comprises 2 units on Levels 15 and 20 of a 27-storey office building completed in about 1981.</p> <p>The units have a total lettable area of approximately 4,872 sq.ft.</p> <p>The property is leased by the Company from 2 independent third parties for terms expiring on 30 September 2012 and 30 June 2014 respectively at a total monthly rent of HK\$267,184.</p>	The property is currently occupied by the Group for office purpose.	No commercial value

Notes:

1. Pursuant to a Tenancy Agreement, Unit 2001 with a lettable area of approximately 2,472 sq. ft. is leased by the Company from Magic Ace Co., Ltd., an independent third party, for a term expiring on 30 June 2014 at a monthly rent of HK\$177,984, exclusive of management fees.
2. Pursuant to a Tenancy Agreement, Unit 1501C with a lettable area of approximately 2,400 sq. ft. is leased by the Company from Crocus Property Inc., an independent third party, for a term expiring on 30 September 2012 at a monthly rent of HK\$89,200, exclusive of management fees.

VALUATION CERTIFICATE

Group VI – Property interests leased and occupied by the Group in Mongolia

				Capital value in existing state as at 30 September 2011 RMB
No.	Property	Description and tenure	Particulars of occupancy	
18.	Unit 1306, Grand Plaza Peace Avenue, Bayangaole District Ulaanbaatar Mongolia	<p>The property comprises a unit on Level 13 of a 16-storey office building completed in about 2008.</p> <p>The unit has a lettable area of approximately 118 sq.m.</p> <p>The property is leased by Reservoir Mongolia LLC from an independent third party for a term expiring on 17 April 2012 at a monthly rent of US\$1,534.</p>	The property is currently occupied by the Group for office purpose.	No commercial value

Notes:

1. Reservoir Mongolia LLC is a 51% interest indirectly owned subsidiary of the Company.
2. Pursuant to a Tenancy Agreement, the property with a lettable area of approximately 118 sq.m. is leased by Reservoir Mongolia LLC from an independent third party for a term expiring on 17 April 2012 at a monthly rent of US\$1,534 inclusive of value added tax and cleaning fee.
3. We have been provided with a legal opinion on the legality of the Tenancy Agreement to the property by the Company's Mongolia legal advisers, which contains, *inter alia*, the following:
 - a. The Tenancy Agreement is legal and valid under Mongolia laws.

VALUATION CERTIFICATE

				Capital value in existing state as at 30 September 2011 RMB
No.	Property	Description and tenure	Particulars of occupancy	
19.	Units 501 to 506, Great House 2nd Microdistrict, Bayangol district Ulaanbaatar Mongolia	<p>The property comprises 6 units on Level 5 of a 6-storey building completed in about 2009.</p> <p>The units have a total lettable area of approximately 207 sq.m.</p> <p>The property is leased by Reservoir Mongolia LLC from an independent party for a term expiring on 11 December 2011 at an annual rental of T\$20,000,000.</p>	The property is currently occupied by the Group for staff quarters purpose.	No commercial value

Notes:

1. Reservoir Mongolia LLC is a 51% interest indirectly owned subsidiary of the Company.
2. Pursuant to a Tenancy Agreement, 6 units with a total lettable area of approximately 207 sq.m. are leased by Reservoir Mongolia LLC from an independent third party for a term expiring on 11 December 2011 at an annual rent of T\$20,000,000. As advised by the Company, the Tenancy Agreement is under renewal as at the date of report.
3. We have been provided with a legal opinion on the legality of the Tenancy Agreement to the property by the Company's Mongolia legal advisers, which contains, *inter alia*, the following:
 - a. The Tenancy Agreement is legal and valid under Mongolia laws.

VALUATION CERTIFICATE

Group VII – Property interests contracted to be acquired by the Target Group in the PRC

				Capital value in existing state as at 30 September 2011 RMB
No.	Property	Description and tenure	Particulars of occupancy	
20.	A 6-storey office building located at Zone 5 of International Corporation Center Donghu New Development Area Wuhan City Hubei Province The PRC	The property comprises a 6-storey building which was completed in about 2010. The building has a gross floor area of approximately 14,000 sq.m.	The property will be occupied by the Target Group for office purpose.	No commercial value

Notes:

1. Pursuant to an Agreement, a building with a gross floor area of approximately 14,000 sq.m. was contracted to be sold to Daye Non-ferrous Metals Joint Stock Company Limited (the former name of Daye Metal) at a consideration of RMB58,380,000.
2. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, *inter alia*, the following:
 - a. The Agreement is legal, valid and binding on the signing parties; and
 - b. Daye Metal will have the rights to transfer, lease, mortgage or otherwise dispose of the property after obtaining relevant title certificates.
3. In the valuation of this property, we have relied on the aforesaid legal opinion and attributed no commercial value to the property. However, for reference purpose, we are of the opinion that the capital value of the property as at the date of valuation would be RMB76,392,000 assuming all relevant title certificates have been obtained and the property could be freely transferred.

VALUATION CERTIFICATE

				Capital value in existing state as at 30 September 2011 RMB
No.	Property	Description and tenure	Particulars of occupancy	
21.	Levels 1 to 6, Entrance 3 of Buildings nos. 3 and 4, Jinhua Community Phase IV Xinxialu District Huangshi City Hubei Province The PRC	The property comprises various units on Levels 1 to 6 of Entrance 3 of two 6-storey buildings in Jinhua Community Phase IV which was completed in about 2010. The property has a gross floor area of approximately 1,975.05 sq.m.	The property will be occupied by the Target Group for staff quarters purpose	No commercial value

Notes:

1. Pursuant to a Real Estate Sale & Purchase Contract dated 2 July 2009, the property with a gross floor area of approximately 1,975.05 sq.m. was contracted to be sold to Daye Metal at a consideration of RMB3,509,795.8.
2. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, *inter alia*, the following:
 - a. The Real Estate Sale & Purchase Contract is legal, valid and binding on the signing parties; and
 - b. Daye Metal will have the rights to transfer, lease, mortgage or otherwise dispose of the property after obtaining relevant title certificates.
3. In the valuation of this property, we have relied on the aforesaid legal opinion and attributed no commercial value to the property. However, for reference purpose, we are of the opinion that the capital value of the property as at the date of valuation would be RMB6,471,000 assuming all relevant title certificates have been obtained and the property could be freely transferred.

VALUATION CERTIFICATE

				Capital value in existing state as at 30 September 2011 RMB
No.	Property	Description and tenure	Particulars of occupancy	
22.	A parcel of land and a 5-storey office building No. 256 Xinxialu Street Huangshi City Hubei Province The PRC	The property comprises a parcel of land with a site area of approximately 5,408.35 sq.m. and a 5-storey building erected thereon which was completed in about 1997. The building has a gross floor area of approximately 2,836.89 sq.m.	The property will be occupied by the Target Group for office purpose.	No commercial value

Notes:

1. Pursuant to an Auction Confirmation Letter dated 27 May 2010, a parcel of land with a site area of approximately 5,408.35 sq.m. and a building with a gross floor area of approximately 2,836.89 sq.m. erected thereon were contracted to be granted to Daye Metal at a total consideration of RMB5,750,000.
2. Pursuant to a State-owned Land Use Rights Grant Contract dated 5 June 2010 entered into between the State-owned Land and Resource Bureau of Huangshi City and Daye Metal, the land use rights of the property were contracted to be granted to Daye Metal for commercial and residential uses. The land premium was RMB2,591,221.
3. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, *inter alia*, the following:
 - a. The Auction Confirmation Letter is legal, valid and binding on the signing parties; and
 - b. Daye Metal will have the rights to transfer, lease, mortgage or otherwise dispose of the property after obtaining relevant title certificates.
4. In the valuation of this property, we have relied on the aforesaid legal opinion and attributed no commercial value to the property. However, for reference purpose, we are of the opinion that the capital value of the property as at the date of valuation would be RMB9,200,000 assuming all relevant title certificates have been obtained and the property could be freely transferred.



China Daye Non-Ferrous Metals Mining Limited

Hubei Polymetallic Projects, China

**Independent Technical Review and
Competent Person's Report**

FINAL

December 29th, 2011
Project No. ADV-HK-03656

**Competent Person's Report
Hubei Polymetallic Projects
People's Republic of China**

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19 Des Voeux Road, Central
Hong Kong

Final Report

December 29th, 2011

RE: INDEPENDENT TECHNICAL REVIEW AND COMPETENT PERSON'S REPORT

Dear Sirs,

Runge Asia Limited ("RAL"), trading as Minarco-MineConsult ("MMC"), has been engaged by China Daye Non-Ferrous Metals Mining Limited (the "Company") to carry out an Independent Technical Review ("ITR") of the Hubei Polymetallic Projects ("the Projects") of Daye Nonferrous Metals Co., Ltd. ("Daye Metal"), which are located in Hubei Province, China. The Projects are currently owned by Daye Nonferrous Metals Co., Ltd. ("Daye Metal"). The Company is planning to list the Relevant Assets (as defined in Chapter 1.2) on the Hong Kong Stock Exchange ("HKEx") through a Very Substantial Acquisition in accordance with the Chapter 18 Listing Rules of the Hong Kong Stock Exchange. The process and conclusions of the ITR are summarised in the attached Independent Technical Review and Competent Person's Report, which will be included in the circular of the Company in relation to the transaction

MMC's technical team ("the Team") consisted of both international and Chinese national personnel, Competent Persons, senior mining engineers and geologists. The Team undertook a number of site visits to the Projects to familiarise themselves with site conditions. MMC's Competent Persons were responsible for compiling the report and the JORC Mineral Resources and Ore Reserves estimates stated within.

During the site visits, the Team had open discussions with personnel from Daye Metal on technical aspects relating to the Project technical issues. MMC found the personnel to be cooperative and open in facilitating MMC's work.

In addition to work undertaken to generate estimates of Mineral Resources and Ore Reserves, this report relies largely on information provided by Daye Metal, either directly from the site and other offices, or from reports by other organisations whose work is the property of Daye Metal. The data relied upon for the JORC Mineral Resource estimates completed by MMC has been compiled primarily by Daye Metal. The report is based on information made available to MMC on the 30th of September, 2011. Daye Metal has not advised MMC of any material change, or event likely to cause material change, to the designs or forecasts since the date of asset inspections.

MMC has conducted its review and preparation of the Independent Technical Review and Competent Person's Report in accordance with the requirements of Chapter 18 of the Listing Rules of the HKEx. The report is also in compliance with:

- The "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves" (the "JORC Code") 2004 edition published by the Joint Ore Reserves Committee ("JORC") of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and the Minerals Council of Australia; for determining resources and reserves; and
- The "Code for the Technical Assessment and Valuation of Mineral and Petroleum Assets and Securities for Independent Expert Reports" (the "Valmin Code"), prepared by the Valmin Committee, a joint committee of the Australasian Institute of Mining and Metallurgy, the Australian Institute of Geoscientists and the Mineral Industry Consultants Association.

MMC operates as an independent technical consultant providing resource evaluation, mining engineering and mine valuation services to the resources and financial services industries. This report was prepared on behalf of MMC by technical specialists, details of whose qualifications and experience are set out in Annexure A.

MMC has been paid, and has agreed to be paid, professional fees for its preparation of this report. However, none of MMC or its directors, staff or sub-consultants who contributed to this report has any interest in:

- securities of the Company; or
- companies associated with the Company; or
- the assets reviewed in the report.

The work undertaken is an ITR of the information provided and collected during site inspections completed by MMC as part of the ITR process. It specifically excludes all aspects of legal issues, marketing, commercial and financing matters, insurance, land titles and usage agreements, and any other agreements/contracts that Daye Metal may have entered into.

MMC does not warrant the completeness or accuracy of information provided by Daye Metal which has been used in the preparation of this report.

The title of this report does not pass to the Company until all consideration has been paid in full.

Drafts of this report were provided to the Company, but only for the purpose of confirming the accuracy of factual material and the reasonableness of assumptions relied upon in the report.

Generally, the data available was sufficient for MMC to complete the scope of work. The quality and quantity of data available, and the cooperative assistance, in MMC's view, showed a willingness by Daye Metal to assist the ITR process. All opinions, findings and conclusions expressed in the report are those of MMC and its specialist advisors.

PROJECT SUMMARY AND CONCLUSIONS

- The Hubei Polymetallic Projects consist of large scale and integrated copper (Cu), iron (Fe), molybdenum (Mo), gold (Au) and silver (Ag) mining, processing and refining operations. The Projects have Feasibility Studies and Development and Utilisation Plans prepared by the Daye Nonferrous Design Institute Co. Ltd, a qualified Chinese institute. The Projects are located near Huangshi city, Hubei Province, and are summarised in Table A below:

Table A – Hubei Polymetallic Projects – Summary of Projects

Project Name	Asset Type	Elements
Tonglvshan	Operating underground mine & concentrator	Cu, Fe, Au, Ag
Fengshan	Completed open cut mine, operating underground mine & concentrator	Cu, Mo
Tongshankou	Operating open cut mine and concentrator, and developing underground mine	Cu, Mo
Chimashan	Operating underground mine & concentrator	Cu, Mo
Huangshi	Smelter & Refinery	Cu, Au, Ag, Acid

Geology and Mineral Resources

- Mineral Resources within the current Mining Licence areas have been independently estimated as at 30th September 2011 by MMC in accordance with the recommendations of the JORC Code and reported at various CuEquivalent (CuEq) cut off grades dependent on the style of mineralisation and mining method as outlined in Table B. Details of the parameters used to estimate the CuEq values within the resource models are provided in Chapter 5 of this report.

- Au and Ag Mineral Resources for the Tonglvshan deposit have been reported as shown in Table C under the recommendations of the JORC Code within the broader Cu and Fe Mineral Resources at a 0.3% CuEquivalent cut-off grade and in areas with sufficient data density. These resources are inclusive of the Cu and Fe resources and should not be added together.
- The Mineral Resources for Tongshankou and Chimashan have been reported separately inside and outside of the current mining licence. MMC is aware that Daye Metal is in the process of applying for an Exploration Licence below the current mining licences, MMC notes that no mining activities has occurred below the current mining licences. For this reason MMC has reported the Mineral Resources outside of the licence in line with the recommendations of the JORC Code.
- Although the majority of mineralised bodies within the current and past mining areas have been closed off there are numerous mineralised bodies which are open at depth and extend below the current workings. MMC believes that with targeted drilling into the major mineralised bodies in the Projects there is a high likelihood that additional resources can be defined in the short term.
- All Projects have numerous drill holes at depth below the current mining areas which have significant intersections of mineralisation. As a result MMC considers it likely that additional resource will be identified with further exploration drilling either from surface or underground.

Table B – Hubei Polymetallic Projects – Statement of Mineral Resources for the Projects as at 30th September 2011

Project	Cut Off Grade	JORC Classification	Quantity	Cu	Fe	Mo	Metal tonnes		
							Cu	Fe	Mo
			<i>Mt</i>	%	%	%	<i>t</i>	<i>Mt</i>	<i>t</i>
Tonglvshan	In licence	Indicated	16.37	1.16	27.21		189,200	4.45	
		Inferred	15.05	1.08	29.47		162,000	4.44	
	CuEq >0.3%	Total	<u>31.42</u>	1.12	1.12		351,300	8.89	
Fengshan	In licence	Indicated	12.72	0.82	–	0.005	104,200	–	630
		Inferred	14.50	0.73	–	0.008	106,300	–	1,230
	CuEq >0.3%	Total	<u>27.22</u>	0.77	–	0.007	210,400	–	1,860
Tongshankou	In licence open cut area	Indicated	13.36	0.58	–	0.011	76,800	–	1,470
		Inferred	0.24	0.54	–	0.004	1,300	–	10
	CuEq >0.2%	Sub-Total	<u>13.60</u>	0.57	–	0.011	78,100	–	1,480
	In licence underground area	Indicated	24.68	0.66	–	0.007	163,200	–	1,770
		Inferred	20.32	0.57	–	0.019	115,200	–	3,850
	CuEq >0.3%	Sub-Total	<u>45.00</u>	0.62	–	0.012	278,300	–	5,620
	Out of licence underground area	Indicated	0.05	0.40	–	0.034	200	–	20
		Inferred	2.68	0.45	–	0.034	12,100	–	900
	CuEq >0.3%	Sub-Total	<u>2.73</u>	0.45	–	0.034	12,300	–	920
	Total open cut & underground area	Indicated	38.09	0.63	–	0.009	240,200	–	3,270
		Inferred	23.23	0.55	–	0.020	128,600	–	4,760
	in and out of licence	Total	<u>61.32</u>	0.60	–	0.013	368,800	–	8,030
	In licence	Indicated	0.12	0.72	–	0.001	830	–	1
		Inferred	0.01	0.58	–	0.004	20	–	–
	CuEq >0.3%	Sub-Total	<u>0.12</u>	0.71	–	0.001	850	–	1
Chimashan	Out of licence	Indicated	0.19	0.49	–	0.001	900	–	2
		Inferred	0.20	0.84	–	0.020	1,700	–	40
	CuEq >0.3%	Sub-Total	<u>0.38</u>	0.67	–	0.011	2,600	–	41
	Total in and out of licence	Indicated	0.30	0.58	–	0.001	1,730	–	2
		Inferred	0.20	0.84	–	0.020	1,720	–	40
		Total	<u>0.50</u>	0.68	–	0.008	3,450	–	42

Note: Rounding errors affect the total metal amounts reported above.

Note: Tonglvshan Cu and Fe resource is inclusive of the Tonglvshan Au and Ag resource and should not be added together.

Table C – Hubei Polymetallic Projects – Statement of Mineral Resources for Au and Ag at Tonglvshan as at 30th September 2011

Project	Cut Off Grade	JORC Classification	Quantity	Metal			
				Au	Ag	Au	Ag
			Mt	g/t	g/t	Oz	k Oz
Tonglvshan	In licence	Indicated	13.22	0.63	4.76	265,000	2,020
		Inferred	11.23	0.66	7.06	237,000	2,540
	CuEq >0.3%	Sub-Total	24.45	0.64	5.81	502,000	4,560

Note: Rounding errors affect the total metal amounts reported above.

Note: Tonglvshan Au and Ag resources is inclusive of the Tonglvshan Cu and Fe resource and should not be added together.

Mining Operations and Ore Reserve Estimates

- The Tonglvshan Project contains an operating open pit which is nearly complete and an operating underground mine. The underground mining operation uses the vertical crater retreat and transverse cut and fill mining methods and is presently developing the Mineralised Zone XI' body, which is a deeper extension of the Tonglvshan resource and has a planned production capacity of 0.6 Mtpa. MMC considers the mining methods presently used and planned as suitable. The project is forecast to produce a total of 1.15 Mtpa of Cu-Mo ore, rising to 1.75 Mtpa in 2014 when Mineralised Zone XI comes into production. MMC would expect a slower ramp up for Mineralised Zone XI' than forecast and would expect full production capacity to be achieved in 2015.
- The Fengshan Project contains a completed open pit mine and an operating underground mine. The underground mining operation uses the transverse sub-level open stoping, longitudinal cut and fill and post pillar cut and fill mining methods. Considering the conditions experienced at the Project, MMC considers these methods appropriate. Based on current Ore Reserves the mine is expected to continue to produce until 2017 at a rate of 760 ktpa of Cu-Fe ore, and there are no current plans for expansion. MMC considers these rates achievable.

- The Tongshankou Project contains an operating open pit and a developing underground mine. The open pit uses conventional truck and shovel mining methods and has a forecast production rate of 1.5 Mtpa. The underground mining operation is planned to use the transverse and longitudinal sublevel open stoping methods as well as post pillar cut and fill. The underground operation has a planned production capacity of 1.15 Mtpa. The project is forecast to produce a total of 1.5 Mtpa of Cu-Mo ore, rising to 2.65 Mtpa in 2014 when the underground operation comes into production. MMC considers the mining methods planned suitable but expects a slower ramp up for underground mining than forecast with full production capacity likely to be achieved in 2015.
- The Chimashan Project contains an underground mine which uses the longitudinal sub-level open stoping mining method, which is considered suitable for the project. It is forecast to produce 80 ktpa of Cu-Mo ore. MMC considers this total capacity optimistic and would expect production of between 65 ktpa and 75 ktpa of Cu-Mo ore based on the mineral resource, mining method, and past production performance.
- Ore Reserves as at 30th September 2011 have been independently estimated for the Project's by MMC in accordance with the recommendations of the JORC Code and are outlined in Table D and Table E.

Table D – Hubei Polymetallic Projects – Statement of Ore Reserves for the Tonglvshan Project as at 30th September 2011

JORC Classification	Ore								
	Quantity	Cu	TFe	Au	Ag	Cu metal	Fe metal	Au metal	Ag metal
	(kt)	(%)	(%)	(g/t)	(g/t)	(t)	(kt)	(kg)	(kg)
Probable (in mining licence)	10,360	1.21	23.78	0.46	3.31	125,100	2,464	4,800	34,300
Probable (in exploration licence)	2,380	0.68	34.18	0.46	6.24	16,200	815	1,100	14,900
Total Probable	12,750	1.11	25.72	0.46	3.86	141,300	3,279	5,900	49,200

Note: Mineral Resources Reported in Table B and Table C are inclusive of Ore Reserves shown in Table D.

Note: Figures reported are rounded which may result in small tabulation errors.

Table E – Hubei Polymetallic Projects – Statement of Ore Reserves for the Fengshan, Tongshankou and Chimashan Project's as at 30th September 2011

Project	JORC Classification	Ore	Cu	Mo	Cu metal	Mo metal
		Quantity				
		(kt)	(%)	(%)	(t)	(t)
Fengshan	Probable	4,560	1.01	0.004	45,800	190
Tongshankou	Probable (open pit)	10,340	0.63	0.010	64,600	980
	Probable (underground)	6,200	0.87	0.006	54,000	360
	Total Probable	16,540	0.72	0.008	118,600	1,330
Chimashan	Probable	35	0.77	0	270	0

Note: Mineral Resources Reported in Table B are inclusive of Ore Reserves shown in Table E

Note: Figures reported are rounded which may result in small tabulation errors.

Processing Plants

- The Tonglvshan Sulphide Ore operation employs conventional equipment and flowsheet methods, consisting of a three stage crushing circuit followed by ball milling and flotation and magnetic separation to produce copper and iron concentrates. The Tonglvshan Oxide Ore operation employs unconventional equipment and flowsheet methods, consisting of a stage of crushing and a SAG circuit followed by ball milling, flotation, and magnetic separation to produce copper and iron concentrates. Iron is recovered from the flotation tailings as magnetite iron with the final tailings reporting to a dam. From January to November 2010, the operation treated 1.2 Mt of ore to produce 52 kt of copper concentrates (10,670 t contained copper) and 210 kt of magnetite (64% Fe). The concentrates are transported 5 km by train to the Huangshi smelting and refinery complex.
- The Fengshan operation employs conventional equipment and flowsheet methods, consisting of a three stage crushing circuit followed by two stages of ball milling and flotation to produce separate copper and Mo concentrates. The flotation tailings reports to a dam for storage. From January to November 2010, the operation reportedly treated 0.76 Mt of ore to produce 19 kt of copper concentrates (4,200 t contained copper metal) and 200 t of Mo concentrates (87 t Mo metal). The concentrates are trucked 90 km to the Huangshi smelting and refinery complex.

- The Tongshankou operation employs conventional equipment and flowsheet methods, consisting of a three stage crushing circuit followed by ball milling and flotation to produce separate copper and Mo concentrates. The final tailings reports to a dam for storage. From January to November 2010, the operation reportedly treated 1.54 Mt of ore to produce 26 kt of copper concentrates (5.4 kt contained copper) and 122 t of Mo concentrates (27 t Mo). The concentrates are trucked 37 km to the Huangshi smelting and refinery complex.
- The Chimashan operation employs conventional equipment and flowsheet methods, consisting of a two stage crushing circuit followed by ball milling and flotation to produce a copper concentrate and Mo concentrate. The flotation tailings reports to a dam for storage. In 2010, the operation reportedly treated 80 kt of ore to produce 2,308 t of copper concentrates (550 t contained copper). The copper concentrate is trucked 35 km to the Huangshi smelting and refinery complex.

Smelter and Refinery Complex

- The Huangshi smelter and refinery complex is typical of many large integrated copper producing operations. The complex produces a large variety of products and by-products which all contribute to the revenue stream. The overall operation appears to be well co-ordinated and operated and is undergoing a significant expansion which includes modernisation of selected equipment and unit processes. The expansion programme is expected to drive operating costs down while increasing operational flexibility.
- The operation sources most of the copper concentrate from local and overseas mines in addition to locally purchased copper anodes. Reportedly, in 2010, the refined copper production was 260 kt cathode copper (GB/T467-1997), 6 t Au (99.9%), 300 t Ag (99.9%) and 540 kt of sulphuric acid (98%/93%). By-products included 50 kg platinum (99%), 500 kg palladium (99%), 30 t selenium oxide, 15 t tellurium (40%) as well as liquid oxygen, nitrogen and argon. Other products include Mo (114 t Mo), magnetite concentrates (275 kt), as well as treated smelter slag sold for cement production (220 kt) and untreated smelter slag (300 kt) as gravity media for coal washeries.

Operating and Capital Costs

- The Projects have estimated long term average total production costs of 263 RMB/t, 204 RMB/t, 101 RMB/t, 138RMB/t and 190 RMB/t for the Tonglvshan, Fengshan, Tongshankou open pit, Tongshankou underground and Chimashan Projects respectively. This is inclusive of all operating costs, administrative costs, depreciation and amortisation, and other applicable costs. MMC considers these cost estimates to be reasonable.

- The total forecast capital cost for Projects is 4.8 billion RMB from 2011 to 2015. The capital expenditure for each project can be seen in the following table.

Table E – Hubei Polymetallic Projects – The Projects Forecast Capital Expenditure

Project	Unit	2011	2012	2013	2014	2015	Total
Tonglvshan Project	M RMB	109	320	375	178	40	1,022
Fengshan Project	M RMB	69	90	88	40	40	327
Tongshankou Project	M RMB	347	230	270	92	40	979
Chimashan Project	M RMB	16	5	5	5	5	36
Huangshi Project	M RMB	819	565	853	130	70	2,438
The Projects	M RMB	<u>1,360</u>	<u>1,210</u>	<u>1,591</u>	<u>445</u>	<u>195</u>	<u>4,801</u>

Note: Figures reported are rounded which may result in small tabulation errors.

Risks and Opportunities

- MMC completed a risk assessment for the Projects. The high (“H”) and medium (“M”) level risks identified and assessed during the ITR process are as follows.
 - H – The Projects’ cash flow is sensitive to fluctuations in metal prices. This may be mitigated through project sensitivity analysis, hedging, and cut-off grade optimisation.
 - M – A more detailed knowledge of structural controls of the mineralisation would enable a more accurate geological interpretation and Resource estimate to be completed. This may be achieved through a complete compilation and review of historical underground workings and channel samples.
 - M – The smelting and refining facilities are exposed to fluctuations in metal prices, concentrate quality and reliable concentrate supply as Daye mines only can provide a small proportion of concentrates. This may be mitigated through purchasing agreements from a variety of mines domestically and abroad, accompanied with strict control of concentrate quality and delivery.

- M – The cut & fill and post pillar cut & fill mining methods require workers to operate in active stope areas. Working in stopes increases a workers exposure and risk to rock falls. This risk will increase as mining progresses. This risk may be controlled by implementation of a Ground Control Management Plan underpinned by a geotechnical testing programme. Underground workings should be actively monitored and managed, and non-entry stoping methods investigated.
- M – While existing underground workings appear stable and well controlled, detailed geotechnical information was not available for review. As such, MMC cannot comment in detail on the ground conditions or stability of the future underground workings. This risk may also be controlled by implementation of a Ground Control Management Plan.
- M – The underground ore reserves at Tongshankou are sensitive to total capital expenditure and timing of production start-up. This may be mitigated by use of decline access which should reduce capital expenditure and expedite underground production.
- MMC identified a number of opportunities for planning and operational improvement during the ITR process. Key opportunities are as follows.
 - Declining cut-off grades present a significant opportunity to add value to the mining operations by accounting for changes in cost structures over time.
 - Future ore reserve estimations can be increased by including gold and silver assays in future drilling and sampling campaigns and mineral resource estimations.
 - Detailed understanding of operating and capital cost structure will allow individual cut-off grades to be determined for each mining method used.

- Tongshankou open pit, waste dumps, and water-course diversions may be further optimised by assessing the inputs, limits and results of initial optimisations completed as part of MMC's ore reserve estimation.
- Dilution from backfill at the underground mining operations can be reduced by use of 3-dimensional survey and mine planning techniques. Backfill dilution can also be reduced by undertaking a detailed backfill product design and quality assurance/quality control regime. Hangingwall dilution may be reduced by careful planning of stope development to allow use of suitable ground support and production drilling.

Yours faithfully,

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1 INTRODUCTION

Runge Asia Limited (“RAL”), trading as Minarco-MineConsult (“MMC”), has been engaged by China Daye Non-Ferrous Metals Mining Limited (the “Company”) to carry out an Independent Technical Review (“ITR”) of the Hubei Polymetallic Projects (“the Projects”), which are located in Hubei Province, China. The Projects are currently owned by Daye Nonferrous Metals Co., Ltd. (“Daye Metal”) and consists of four operating mines, associated processing plants and a smelting and refining complex which primarily produce copper (Cu) products.

The Client is planning to conditionally acquire the Projects through a Very Substantial Acquisition.

1.1 Scope of Work

MMC carried out the following scope of work for the ITR:

- Gathered relevant information on the Projects including Chinese resources and reserves, life of mine production schedules, and operating and capital cost information;
- Reviewed resources and reserves, including quantity and quality of drilling, reliability of historic data, and adequacy of resource estimation methods;
- Completed Mineral Resource estimations in compliance with the recommendations of the JORC Code;
- Completed Ore Reserve estimations in compliance with the recommendations of the JORC Code;
- Reviewed and commented on the appropriateness of planned mining methods and mine design in the relevant technical studies;
- Reviewed and commented on the appropriateness of processing methods in the relevant technical studies;
- Reviewed and commented on forecast operating and capital expenditure in the relevant technical studies;
- Reviewed the Daye Metal’s short and long term development plans;
- Reviewed potential production profiles, and
- Reviewed the environmental, health and safety performance of the Projects.

1.2 The Relevant Assets

The Projects consists of five individual projects located in Hubei Province, China. These include four operating mines with concentrators and one large smelting and refining complex which primarily produce Cu products. The four mining and processing operations use a variety of methods and are at varying stages of their life cycles, however, exploration work is continuing in the vicinity of all four. The smelting and refining complex is an established operation which is undergoing modernisation and expansion. The five individual projects are identified in Table 2-1.

1.3 Review Methodology

MMC's ITR methodology included the following:

- Preparation for the study by translating into English and reviewing existing reports. The lists of reports reviewed are given in Information Sources below;
- Multiple site visits were conducted by International and Chinese resource geologists, environmental consultants, international senior mining engineers and international and Chinese processing engineers between January and April 2011. Technical issues were discussed with technical project personnel.
- Project information was reviewed; and
- MMC prepared this Report and provided drafts to the Company and its specialist advisers.

The comments and forecasts in this report are based on information compiled by enquiry and verbal comment from Daye Metal. Where possible, this information has been cross checked with hard data or by comment from more than one source. Where there was conflicting information on issues, MMC used its professional judgment to assess the issues.

1.4 Site Visits and Inspections

MMC's site visit team ("the Team") consisted of international and Chinese resource geologists (Bob Dennis and Xu Jinping), International and Chinese senior mining engineers (Michael Eckert, Kevin Qu and Liu Hongbo) and International and Chinese processing engineers (Andrew Newell and Jim Jiang) and a translator (Cindy Zhao). Seven separate site visits were conducted between January and November, 2011, as shown in Table 1-1.

Table 1-1 Hubei Polymetallic Projects – Site visits

<u>Site Visit</u>	<u>Participants</u>	<u>Start Date</u>	<u>Completion Date</u>
1	Cindy Zhao Xu Jinping Bob Dennis	10/01/2011	18/01/2011
2	Jim Jiang Andrew Newell	13/01/2011	19/01/2011
3	Xu Jinping	11/02/2011	12/02/2011
4	Xu Jinping	21/03/2011	25/03/2011
5	Xu Jinping	13/04/2011	15/04/2011
6	Michael Eckert Kevin Qu	30/05/2011	01/06/2011
7	Liu Hongbo	24/11/2011	26/11/2011

In addition to the site visits listed in Table 1-1, Environmental Resources Management ("ERM") completed three reconnaissance surveys of the sites, facilities and adjoining land as well as a review of available documents pertaining to Environmental, Health and Safety (EHS) issues. Discussions were conducted with onsite personnel and relevant government authorities.

During the site visits, the Team undertook physical inspections of the surface and underground workings, processing plants and conducted general inspections of the surrounding countryside and infrastructure. The visits were used to gain a better understanding of the Projects and to ensure compliance with the JORC Code for the Mineral Resource and Ore Reserve estimates.

Open discussions were held with the Project personnel and associated design institutes' experts on technical aspects of the Project. Technical personnel were found to be co-operative in facilitating MMC's work.

1.5 Information Sources

The following information sources were provided for review:

Reports

- “Mineral Resources Development and Utilization Plan of Tonglvshan Cu-Fe Mine of Daye Nonferrous Metal Co., Ltd.” Daye Nonferrous Design Institute Co., Ltd., Feb 2009.
- “Feasibility Study of Tonglvshan Cu-Fe Mine Orebody XI Mining Operation of Daye Nonferrous Metal Co., Ltd.” China ENFI Engineering Corporation, Jul 2010.
- “Mineral Resources Development and Utilization Plan of Fengshan Copper Mine of Daye Nonferrous Metal Co., Ltd.” Daye Nonferrous Design Institute Co., Ltd., Jan 2009.
- “Feasibility Study of Fengshan Copper Mine Depth Mining Operation of Daye Nonferrous Metal Co., Ltd.” China ENFI Engineering Corporation, Mar 2010.
- “Mineral Resources Development and Utilization Plan of Tongshankou Copper Mine of Daye Nonferrous Metal Co., Ltd.” Daye Nonferrous Design Institute Co., Ltd., Sep 2008.
- “Feasibility Study of Tongshankou Copper Mine Depth Mining Operation of Daye Nonferrous Metal Co., Ltd.” China ENFI Engineering Corporation, Aug 2009.
- “Mineral Resources Development and Utilization Plan of Chimashan Copper Mine of Daye Nonferrous Metal Co., Ltd.” Daye Nonferrous Design Institute Co., Ltd., Jan 2009.
- “Resource Reserve Report of Tonglvshan Cu-Fe Mine of Daye Nonferrous Metal Co., Ltd.” E Southeast geological team of Hubei province, June 2005.
- “Resource Reserve Report of Fengshan Copper Mine of Daye Nonferrous Metal Co., Ltd.” E Southeast geological team of Hubei province, July 2006.

- “Resource Reserve Report of Tongshankou Copper Mine of Daye Nonferrous Metal Co., Ltd.” E Southeast geological team of Hubei province, May 2006.
- “Resource Reserve Report of Chimashan Copper Mine of Daye Nonferrous Metal Co., Ltd.” Geology and mineral resources advisory services department of Huangshi City, February 2006.

Licences

- Safety Licence No. FM (2010)020551, Safety Production Supervision Bureau of Hubei Province, Nov 2, 2010.
- The mining licences of the Projects are summarised in Section 2.

1.6 Competent Person and Responsibilities

1.6.1 Mineral Resource

The information in this report that relates to Mineral Resources is based on information compiled by or under the supervision of Jeremy Clark who is a full time employee of MMC and a Member of the Australian Institute of Geoscientists. Jeremy Clark has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he has undertaken to qualify as a Competent Person as defined in the 2004 Edition of the Australasian Code for the Reporting of Exploration Results, Mineral Resources and Ore Reserves (“The JORC Code”).

The Mineral Resource estimate complies with the guidelines of the JORC Code. Therefore it is suitable for public reporting. The relevant experience of the Competent Person is detailed in Annexure A.

1.6.2 Ore Reserves

Underground Reserves

The information in this report that relates to Ore Reserves mined using underground mining methods is based on information compiled by Daye Metal and reviewed by Michael Eckert who is a full time employee of MMC and a Member of the Australasian Institute of Mining and Metallurgy. Michael Eckert has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he has undertaken to qualify as a Competent Person as defined in the JORC Code. The relevant experience of the Competent Person is detailed in Annexure A.

Open Cut Reserves

The information in this report that relates to Ore Reserves mined using open cut mining methods is based on information compiled by Daye Metal and reviewed by Dan Peel who is a full time employee of MMC and a Member of the Australasian Institute of Mining and Metallurgy. Dan Peel has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he has undertaken to qualify as a Competent Person as defined in the JORC Code. The relevant experience of the Competent Person is detailed in Annexure A.

1.6.3 HKEx Requirements

Mr Jeremy Clark meets the requirements of a Competent Person, as defined by Chapter 18 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. These requirements include:

- Greater than five years' experience relevant to the type of deposit;
- Member of the Australian Institute of Geoscientists ("MAIG");
- Does not have economic or beneficial interest (present or contingent) in any of the reported assets;
- Has not received a fee dependent on the findings outlined in the Competent Person's Report;
- Is not an officer, employee of proposed officer for the issuer or any group, holding or associated company of the issuer, and
- Assumes overall responsibility for the Competent Person's Report.

Mr Jeremy Clark has over 9 years of experience working in the mining industry. During this time he has been responsible for the planning, implementation and supervision of various exploration programs, open pit and underground production duties, detailed structural and geological mapping and logging and a wide range of experience in resource estimation techniques. Mr Jeremy Clark's experience has included 5 years actively working in narrow vein gold mines which have similar styles of mineralisation the Deposit. His experience includes working and estimating resources both in underground and open pit operations in Western Australia, including the Saint Barbara gold operations at Southern Cross from 2001-2006, the gold Leonora operations in 2006 and the Jaguar mine (Pb-Zn-Ag) during his work with Jabiru mines in 2007. During this time Mr Jeremy Clark completed internal estimations (not public release) for the Marvel Loch, Golden Pig, Blue Haze, Jaccoleti, Nevoria, Jaguar, and Gwalia Deeps gold deposits which have similar style of mineralisation to the skarn type mineralisation which hosts mineralisation within the Project.

During his work with Runge from 2007 to the present, Mr Jeremy Clark has working on numerous epithermal base and precious metals deposit throughout the world including China, Central Asia, Europe, Africa, and North and South America. This work specifically has included resource estimation of deposits which has similar styles of mineralisation to the Projects. These deposits include but are not limited to the Central Ashanti Gold Project (Perseus Mining) in Ghana, the Gurupi Au-Ag deposit in Brazil (Jaguar Mines), the Sierra Mojada (Pb-Zn-Ag) deposit in Mexico (Metalline Mining), the Daisy Milano and Murchison Operations (Silver Lake Resources) in Western Australia, the Silver Coin Gold deposit (Au-Ag-Zn-Pb) (Jayden Resources Canada) in Canada. All of these deposits were estimated in accordance with the JORC Code (Australia, Africa, Europe and Asia) or the NI-43-101 code (Canada, and South America) and resulted in public releases or Technical Reports, of which Jeremy was a Component or Qualified person and are available on the Australian Stock Exchange (ASX) or the Toronto Stock Exchange (TSX).

1.7 Limitations and Exclusions

The review was based on various reports, plans and tabulations provided by Daye Metal either directly from the project sites and other offices, or from reports by other organisations whose work is the property of Daye Metal. Daye Metal has not advised MMC of any material change, or event likely to cause material change, to the operations or forecasts since the date of Relevant Assets inspections.

The work undertaken for this report is that required for a technical review of the information, coupled with such inspections as the Team considered appropriate to prepare this report. It specifically excludes all aspects of legal issues, commercial and financing matters, land titles and agreements, other than those that may directly influence technical, operational or operating and capital expenditures. MMC is reliant on the Client's legal advisor for all matters of legal review, including matters relating to Environment, Health and Safety. MMC has specifically excluded comments on the competitive position of the Relevant Asset compared with other similar and competing producers around the world. MMC strongly advises that any potential investors make their own comprehensive assessment of both the competitive position of the Relevant Asset in the market, and the fundamentals of the market at large.

1.7.1 Limited Liability

MMC will not be liable for any loss or damage suffered by a third party relying on this report (regardless of the cause of action, whether breach of contract, tort (including negligence) or otherwise unless and to the extent that that third party has signed a reliance letter in the form required by MMC (in its sole discretion). MMC's liability in respect of this report (if any) will be specified in that reliance letter.

1.7.2 Responsibility and Content of this Report

The contents of this report have been created using data and information provided by or on behalf of Daye Metal. MMC accepts no liability for the accuracy or completeness of data and information provided to it by, or obtained by it from, Daye Metal or any third parties, even if that data and information has been incorporated into or relied upon in creating this report. The report has been produced by MMC using information that is available to MMC as at the date stated on the cover page. This report cannot be relied upon in any way if the information provided to MMC changes subsequently. MMC is under no obligation to update the information contained in the report at any time.

Notwithstanding the above, in MMC's opinion, the data and information provided by or on behalf of Daye Metal was reasonable and nothing discovered during the preparation of this report suggests that there was any significant error or misrepresentation in respect of such data or information.

1.7.3 Indemnification

The Company has indemnified and held harmless MMC and its subcontractors, consultants, agents, officers, directors, and employees from and against any and all claims, liabilities, damages, losses, and expenses (including lawyers' fees and other costs of litigation, arbitration or mediation) arising out of or in any way related to :-

- MMC's reliance on any information provided by Daye Metal; or
- MMC's services or Materials; or
- any use of or reliance on these services.

in all cases, save and except in cases of wilful misconduct (including fraud) or gross negligence on the part of MMC and regardless of any breach of contract or strict liability by MMC.

1.7.4 Limitations and Exclusions for Chapter 11 Environment, Health and Safety

Chapter 11 Environment Health and Safety were written by an associate, Environmental Resources Management ('ERM').

Disclaimer for Chapter Environment, Health and Safety

This disclaimer, together with any limitations specified in the report, applies to the Chapter 11 Environment, Health and Safety.

This Chapter was prepared in accordance with the contracted scope of services for the specific purpose stated and subject to the applicable cost, time and other constraints. In preparing this report, ERM relied on: (a) client/third party information which was not verified by ERM except to the extent required by the scope of services, and ERM does not accept responsibility for omissions or inaccuracies in the client/third party information; and (b) information taken at or under the particular times and conditions specified, and ERM does not accept responsibility for any subsequent changes. This report has been prepared solely for use by, and is confidential to, the client and ERM accepts no responsibility for its use by other persons, except where ERM expressly agrees otherwise. This report is subject to copyright protection and the copyright owner reserves its rights. This report does not constitute legal or financial advice.

This review is the result of applying scientific principles and professional judgments to certain facts. Professional judgments expressed herein are based on factual information available within the limits of the existing data, scope of work, budget and schedule. Assessment of the Project's compliance with legal, permitting and licensing requirements is explicitly excluded from this scope of work. To the extent that more definitive conclusions are desired by the client than are warranted by the currently available facts, it is specifically ERM's intent that the conclusions and recommendations stated herein will be intended as guidance and not necessarily as a firm course of action, except where explicitly stated as such. We make no warranties, expressed or implied, including, without limitation, warranties as to merchantability or fitness of the property for a particular purpose. In addition, the information provided in this report is not to be construed as legal advice.

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1.7.5 Intellectual Property

All copyright and other intellectual property rights in this report are owned by and are the property of MMC.

MMC grants the Client a non-transferable, perpetual and royalty-free Licence to use this report for its internal business purposes and to make as many copies of this report as it requires for those purposes.

1.7.6 Mining Unknown Factors

The findings and opinions presented herein are not warranted in any manner, expressed or implied. The ability of the operator, or any other related business unit, to achieve forward-looking production and economic targets is dependent on numerous factors that are beyond the control of MMC and cannot be fully anticipated by MMC. These factors include site-specific mining and geological conditions, the capabilities of management and employees, availability of funding to properly operate and capitalise the operation, variations in cost elements and market conditions, developing and operating the mine in an efficient manner, etc. Unforeseen changes in legislation and new industry developments could substantially alter the performance of any mining operation.

1.8 Capability and Independence

MMC provides advisory services to the mining and finance sectors. Within its core expertise it provides independent technical reviews, resource evaluation, mining engineering and mine valuation services to the resources and financial services industries.

MMC has independently assessed the Relevant Assets of Daye Metal by reviewing pertinent data, including resources, reserves, manpower requirements and the life of mine plans relating to productivity, production, operating costs and capital expenditures. All opinions, findings and conclusions expressed in this Report are those of MMC and its specialist advisors.

Drafts of this report were provided to the Client, but only for the purpose of confirming the accuracy of factual material and the reasonableness of assumptions relied upon in this Report.

MMC has been paid, and has agreed to be paid, professional fees based on a fixed fee estimate for its preparation of this Report. None of MMC or its directors, staff or specialists who contributed to this report has any interest or entitlement, direct or indirect, in:

- the Company, securities of the Company or companies associated with the Company;
- the Relevant Assets, or
- the outcome of this report.

This ITR was prepared on behalf of MMC by the signatories to this letter, details of whose qualifications and experience are set out in Annexure A to this ITR. The Specialists who contributed to the findings within this Report have each consented to the matters based on their information in the form and context in which it appears.

2 PROJECT OVERVIEW

The Project, and its constituent projects, is located in Hubei province, a central province in the People's Republic of China (PRC), as shown in Figure 2-1 and Figure 2-2. The Project consists of four operating mines which process a variety of concentrates and one smelter and refinery, as shown in Table 2-1. The Projects are located near the regional city of Huangshi.

Table 2-1 Hubei Polymetallic Projects – Summary of Projects

Project Name	Nature of Assets	Elements
Tonglvshan	Operating open cut mine, underground mine & concentrator	Fe, Cu, Au, Ag
Fengshan	Completed open cut mine, and operating underground mine & concentrator	Cu, Mo
Tongshankou	Operating open cut mine and concentrator, and developing underground mine	Cu, Mo
Chimashan	Operating underground mine & concentrator	Cu, Mo
Huangshi	Smelter & Refinery	Cu, Au, Ag, Acid

2.1 Project Environment and Social Setting

The Projects are located in Huangshi City in the south-eastern portion of Hubei Province, PRC. Huangshi City covers an area of 4,583 sq.km, mostly hilly areas on the southern bank of the Yangtze River. The altitude of the city ranges from 11 m to 1,566 m. Huangshi is located in a sub-tropical area and the climate is generally humid all year around. Temperatures range from a low of -3° C in January to a high of 38° C in July, and the average temperature is 17° C. Precipitation is abundant, totalling 1,400 mm annually. Huangshi is known for its mineral resources including Cu, iron, Au, Ag, and non-metallic materials.

The Cu and precious metal smelters are located in the Xialu District of Huangshi City. The Tonglvshan Cu-Iron Mine and the Tongshankou Mine are located in Daye County. The Fengshan Mine and the Chimashan Mine are located in Yangxin County.

Huangshi City has a population of approximately 2.6 million. The age distribution of the population is generally 21.4% (1-15 yrs), 72.2% (15-64 yrs) and 6.4% (over 65 yrs). In addition, 49.3% of the total population reside in the urban areas while 50.7% of the population reside in rural areas.

2.2 Tonglvshan Project

The Tonglvshan Project consists of an operating open cut mine nearing completion, an active underground mine and a concentrator which produces two separate Cu and Fe concentrates.

2.2.1 Project Location

The Tonglvshan Project is located 9 km south of the regional city of Huangshi, Hubei Province, as shown in Figure 2-2. The Project is located approximately 3 km from National Road 106 and the Wuhan-Jiujiang Railway.

The geographic coordinates of the Project are:

- Longitude: 114° 55' 26" to 114° 57' 19" and
- Latitude: 30° 04' 21" to 30° 05' 46".

2.2.2 Licences and Approvals

The Mining Licence for Tonglvshan is held by Daye Metal, as outlined in Table 2-2 below.

Table 2-2 Hubei Polymetallic Projects – Tonglvshan Licence Details

Mine/Project	Tonglvshan Project
Name of Certificate	Mining Licence
Certificate No.	C1000002011013220105660
Mining Title Holder	Daye Metal
Address	Xialu Road 115, Huangshi City, Hubei Province
Name of Mine	Tonglvshan copper-iron mine, Daye Metal
Company Category	Limited Liability Company
Mining Method	Open Cut Mining and Underground Mining
Production Scale	1.32 Mtpa
Area	4.7619 sq.km
Excavation Depth	90 m – -800 m
Validation	June 1st, 2011 to June 1st, 2027
Issue Date	June, 9th 2011
Issuer	Department of Land & Resources Ministry of PRC

Source: MMC sighted copies of the documents

MMC provides this information for reference only and recommends that land titles and ownership rights be reviewed by legal experts.

2.2.3 Exploration History

A summary of the exploration activities that have been conducted at the Tonglvshan Project are detailed in Table 2.3 below.

Table 2-3 Hubei Polymetallic Projects – Tonglvshan Exploration History

Year	Activity	Exploration Agency
1950's	Preliminary survey and geological map 1:5,000. 1:2,000 geological mapping, 1:2,000 magnetic survey, a small amount of trenching and pitting, drilling.	Ministry of Metallurgical Industry East China Geological Bureau Brigade No. 813
May 1959 to Feb 1960	Geological surveys included a total of 89,089 m drilling, approximately 2,725 m of development drives, a 253.80 m inclined shaft, a 808.4 m vertical shaft, 1584.25 m of shallow trenching for 12,820.8 cu.m.	Hubei Province Geological Brigade No.1, Old S-E Hubei Province Brigade
1978 to 1983	A total of 32,864 m drilling.	S-E Hubei Province Geological Brigade
Apr 1991 to Apr 1993	Exploration of the IV mineralised zone totalling 84,278 m of drilling.	S-E Hubei Province Brigade
Sep 1999 to Oct 2001	Development of 646 m and drilling of 6,630m completed.	Daye Non-ferrous Company Design Institute Geological Brigade
Feb 2005	Drilling of unknown total.	S-E Hubei Province Brigade
2008-Mar 2010	A total of 32 holes for 28,663 m, 503 m of development, underground surveying, downhole borehole surveying of approximately 30 km of drilling and resistivity logging 15,165 m.	S-E Hubei Province Brigade

Source: Provided by Daye Metal

2.2.4 Production History

The Tonglvshan Project has been in operation since 1971. The area has a very long history with mining and smelting activities estimated to have commenced some 2,600 years ago. Preservation of the ancient mining and smelting relics has sterilised a small portion of the area from surface extraction.

The open cut pit has almost been completed with limited production currently sourced from this part of the operation. The majority of production occurs underground through the use of the mechanised cut and fill (using cemented tailings sand) mining method.

During 2010, the Tonglvshan Project reported concentrator throughput of 1.2 Mt, producing 52,000 t of Cu concentrate (10,400 t of Cu metal), 580 kg of Au, 3.9 t of Ag and 210,000 t of magnetite Fe. The operation employs conventional flowsheet methods and equipment, consisting of a three stage crushing circuit followed by ball milling and flotation to produce Cu concentrate. Iron is recovered from the flotation tailings as both magnetite and non-magnetic iron with the final tailings discharged to a dam. The concentrate is transported 5 km by train to the Tonglvshan Project's smelting and refinery complex.

Figure 2-1 Hubei Polymetallic Projects – General Location Plan

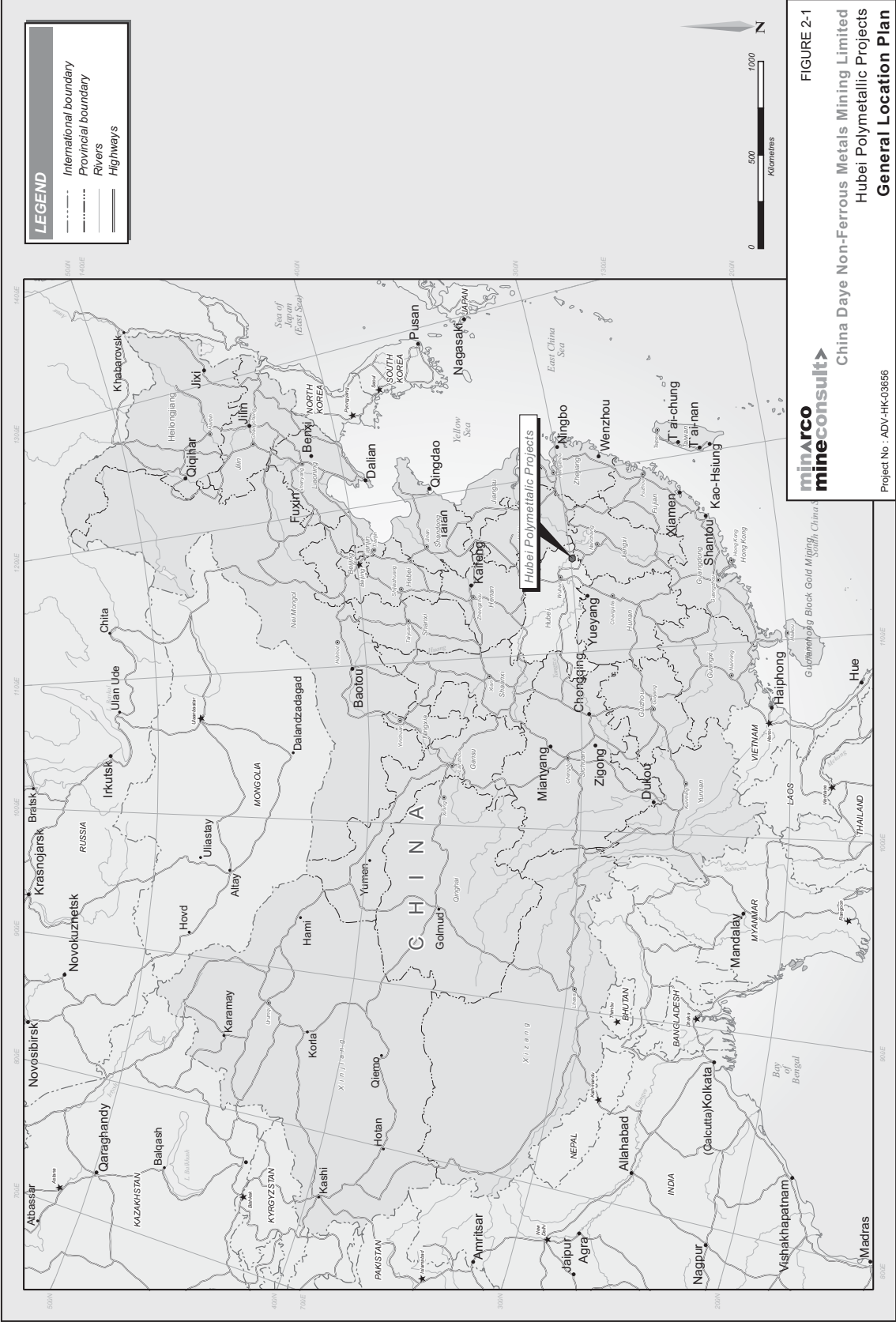
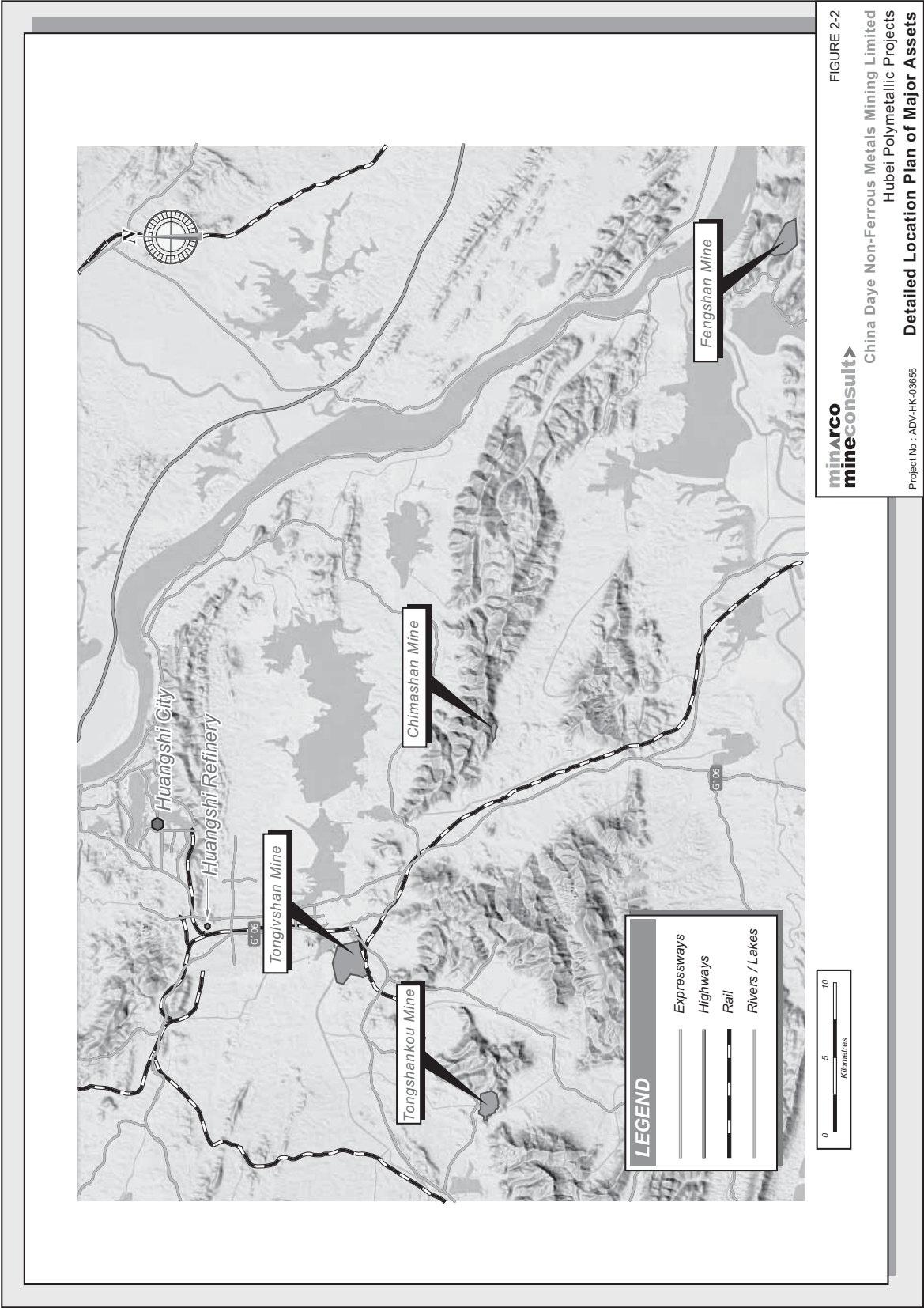


Figure 2-2 Hubei Polymetallic Projects – Detailed Assets Location Plan



2.3 Fengshan Project

The Fengshan Project consists of a historical open cut mine, an active underground mine and a concentrator which produces two separate copper and molybdenum concentrates.

2.3.1 Project Location

The Fengshan Project is located in a valley 61 km southeast of the regional city of Huangshi, in the Hubei Province (Figure 2-1). The Project is 2 km from the Yangtze River, 5 km south of Wuhan-Jiujiang Railway and 9 km north of Fuchizhen. The Fengshan Project and the Huangshi Project, located in Huangshi, are connected via a paved highway and the Yangzi River.

The Fengshan Project's licence was recently updated and revised to a production capacity of 660 ktpa. The licence covers an area of 2.35 sq.km and is located within the geographic coordinates of:

- Longitude: 115° 25'56"E and 115° 27'39"E, and
- Latitude: 29° 48'42"N and 29° 50'13"N.

2.3.2 Licences and Approvals

The Mining Licence for the Fengshan Project is held by Daye Metal, as outlined in Table 2-4 below.

Table 2-4 Hubei Polymetallic Projects – Fengshan Licence Details

Mine/Project	Fengshan Project
Name of Certificate	Mining Licence
Certificate No.	C1000002008073120000039
Mining Title Holder	Daye Metal
Address	Xialu Road 115, Huangshi City, Hubei Province
Name of Mine	Fengshan copper mine, Daye Metal
Company Category	Limited Liability Company
Mining Method	Open Cut Mining and Underground Mining
Production Scale	660 ktpa
Area	2.3534 sq.km
Excavation Depth	65 m – -550 m
Validity	July 10th, 2011 to July 10th, 2034
Issue Date	June, 9th 2011
Issuer	Department of Land & Resources Ministry of PRC

Source: MMC sighted copies of the documents

MMC provides this information for reference only and recommends that land titles and ownership rights be reviewed by legal experts.

2.3.3 Exploration History

Details regarding the exploration activities that have been carried out in the Fengshan Project area are shown in Table 2-5 below.

Table 2-5 Hubei Polymetallic Projects – Fengshan Exploration History

Year	Activity	Exploration Agency
1952-1954	Carried out exploration, but little information is reported in the results.	Central-South Geological Bureau Brigade No.414, Wuhan Metallurgical Exploration Company Brigade No.902, Metallurgical Bureau East China Branch Xinzhi General Exploration Brigade, South Hubei Province Geological Brigade etc
Aug 1960- Aug 1961	10,295 m of drilling.	Ministry of Metallurgical Industry Refinery Brigade No.813
Aug 1962-1967	48,948 m drilling (143 holes), 9,318 m of pitting, 40,000 cu.m of trenching.	Central-South Geological Bureau Brigade No.604
1972-1973	Exploration on the 558 mineralised zone and the area south of exploration line 3.	Central-South Geological Bureau Brigade No.605
Nov 1975- May 1979	Trenching totalled 22427 cu.m. 52 drill holes totalling 18,852 m.	Central-South Geological Bureau Brigade No.606
October 2001	Completed “Feng-shan Copper Mine Area Closure Geological Report, Hubei Province Yangxin County”	Daye Non-ferrous Company
2008- Mar 2011	Completed a total of 148,134 m of drilling and 1,031.3 m pitting.	Central-South Geological Bureau Hubei Province Branch

Source: Provided by Daye Metal

2.3.4 Production History

The Fengshan Project has been in operation since 1972. The open cut pit is complete and Daye Metal is evaluating the pit as a potential location for tailings disposal. Ore is currently extracted through underground mining, with access to the underground workings being via a main hoisting shaft and an auxiliary shaft for personnel and supplies. There is also decline access to the upper portion of the underground workings.

The 3,500 tpd Fengshan Cu-Mo processing plant delivers concentrate to the Huangshi Refinery by truck and by barge on the Yangzi River. The operation generally chooses to truck the concentrate 90 km to the Huangshi Refinery. The operation employs conventional flowsheet methods and equipment, consisting of a three stage crushing circuit followed by two stages of ball milling and flotation to produce separate Cu and Mo concentrates. The flotation tailings are discharged to a dam for storage. In 2010, the operation reportedly treated 0.76 Mt of ore to produce 19,000 t of Cu concentrates (4,200 t contained Cu metal) and 200 t of Mo concentrates (87 t Mo metal).

2.4 Tongshankou Project

The Tongshankou Project consists of an active open cut mine, a planned underground mine and a concentrator which produces two separate Cu and Mo concentrates.

2.4.1 Project Location

The Tongshankou Project is located 22 km southwest of the regional city of Huangshi, in the Hubei Province (Figure 2-1). The Tongshankou Project and the Huangshi Refinery, located in Huangshi, are connected via a paved highway. The mine site and Daye city are connected via highway and rail connections.

The Project is licensed to produce 990 ktpa of ore. The licence covers an area of 1.7105 sq.km and is located within the geographic coordinates of:

- Longitude: 114° 49'25"E to 114° 50'33"E and
- Latitude: 29° 59'34"N to 30° 00'27"N

2.4.2 Licences and Approvals

Mining Licence for the Tongshankou Project is held by Daye Metal, as outlined in Table 2-6 below.

Table 2-6 Hubei Polymetallic Projects – Tongshankou Licence Details

Mine/Project	Tongshankou Project
Name of Certificate	Mining Licence
Certificate No.	C4200002011043120111136
Mining Title Holder	Daye Metal
Address	Xinxialu, Huangshi City, Hubei Province
Name of Mine	Tongshankou copper mine, Daye Metal
Company Category	Limited Liability Company
Mining Method	Open Cut Mining and Underground Mining
Production Scale	990 ktpa
Area	1.7105 sq.km
Excavation Depth	170 m – -350 m
Validation	April 14th, 2011 to April 14th, 2016
Issue Date	April, 14th 2011
Issuer	Department of Land & Resources Ministry of Hubei Province

Source: MMC sighted copies of the documents

MMC provides this information for reference only and recommends that land titles and ownership rights be reviewed by legal experts.

2.4.3 Exploration History

A summary of the exploration activities that have been conducted at the Tongshankou Project are detailed in Table 2-7 below.

Table 2-7 Hubei Polymetallic Projects – Tongshankou Exploration History

Year	Activity	Exploration Agency
1957-1965	July 1957 to October 1965 total work amounts were; drilled 60,308 meters, 5,400 m pitting, well exploration 2,655 m, 3,076 m trenching, processing 11 samples.	Hubei Province Geological Brigade No.1, Old S-E Hubei Province Brigade
1977-1979	Detailed survey of the deep workings.	Hubei Province Geological Brigade No.1, Old S-E Hubei Province Brigade
1980-1984	A total of 11,872 m drilling targeting open cut area.	S-E Hubei Province Geological Brigade
1987-1990	A total amount of 4,889.1m of surface drilling.	S-E Hubei Province Geological Brigade
Oct 2001	Preparation of the “City of Hubei Daye Copper Closure geological report.”	Daye Non-ferrous Company
May 2006	Preparation of the “City of Hubei Daye Copper Settlement Report Mineral Resources”, the report Tongshankou Copper Mine, 2001 -2005, Consumption of Copper Resources (exploitation, loss) and Resources and Reserves.	S-E Hubei Province Geological Brigade
Jan 2011	Verification work undertaken as per the report; “Hubei Daye Copper mine copper reserves Tongshankou verification reports” (as at the end of December 2008).	S-E Hubei Province Geological Brigade

Source: Provided by Daye Metal

2.4.4 Production History

The Tongshankou Project has been mined and operated since 1984. The Project has an active open cut pit and has commenced underground development. The open-pit design was modified in 1990 when the maximum pit depth was limited from -106 m to -58 m due to a change in the Licence conditions. Whilst the design production rate is 990 ktpa, the operation has historically mined 800-900 ktpa. Presently, the operating benches are between +110 m and -2 m.

The 3,000 tpd Tongshankou Cu-Mo processing plant delivers concentrate to the Huangshi Refinery by truck. The operation employs conventional flowsheet methods and equipment, consisting of a three stage crushing circuit followed by ball milling and flotation to produce separate Cu and Mo concentrates. Non-magnetic iron can be recovered from the flotation tailings. The final tailings are discharged to a dam for storage. In 2010, the operation reportedly treated 1.54 Mt of ore to produce 26,000 t of Cu concentrates (5,400 t contained Cu) and 122 t of Mo concentrates (27 t Mo).

2.5 Chimashan Project

The Chimashan Project consists of an active underground mine and a concentrator which produces two separate Cu and Mo concentrates.

2.5.1 Project Location

The Chimashan Project is located in low hills 20 km northwest of the regional Yangxin County, in the Hubei Province (Figure 2-1). The Project is 6 km from National Road 106 and Wuhan-Jiujiang railway. The Chimashan Project and the Huangshi Refinery, located in Huangshi, are connected via a paved highway. The mine site is connected with Daye City by highway and railway.

The Project is licensed to produce 50 ktpa of ore. The licence covers an area of 0.441 sq.km and is centred around the geographic coordinates of:

- Longitude: 115° 05'35''E, and
- Latitude: 29° 59'51''N.

2.5.2 Licences and Approvals

Mining Licence for the Chimashan Project is held by Daye Metal, as outlined in Table 2-8 below.

Table 2-8 Hubei Polymetallic Projects – Chimashan Licence Details

Mine/Project	Chimashan Project
Name of Certificate	Mining Licence
Certificate No.	C4200002009063120021949
Mining Title Holder	Daye Metal
Address	Xinxialu, Huangshi City, Hubei Province
Name of Mine	Chimashan copper Mine, Daye Metal
Company Category	Limited Liability Company
Mining Method	Underground Mining
Production Scale	50 ktpa
Area	0.441 sq.km
Excavation Depth	150 m – -350 m
Validation	April 14th, 2011 to April 14th, 2014
Issue Date	April 14th, 2011
Issuer	Department of Land & Resources Ministry of Hubei Province

Source: MMC sighted copies of the documents

MMC provides this information for reference only and recommends that land titles and ownership rights be reviewed by legal experts.

2.5.3 Exploration History

A summary of the exploration activities that have been conducted at the Chimashan Project are detailed in Table 2-9.

Table 2-9 Hubei Polymetallic Projects – Chimashan Exploration History

Year	Activity	Exploration Agency
1911	Two areas named Maoyuanlong and Weshoulong were mined via handheld methods.	Xicheng Company (“West City Company”)
1928-1935	1:10000 topographic and geologic mapping of the region.	Zhu Xiren and Ji Shengrong (2 people)
1952 to 1954	Survey completed to evaluate the prospective reserves,	Central-South Geological Bureau Brigade No.414
Aug 1957 to Jul 1959	Completed 6,539 m of drilling, 2,934m of pitting, and 656 cu.m of trenching.	Daye Copper Plant (Former name of Daye Non-ferrous Company) Geological Brigade
1977-1981	16 drill holes totalling 8,023 m.	Daye Non-ferrous Company Design Institute Geological Brigade
1983-1985	19 holes over three years for 4,638.59 m drilling, 1,699.6 m of pitting.	Daye Non-ferrous Company & Chimashan Mine
2000	Preparation of the “Chimashan Copper Mine Area Closure Geological Report, Hubei Province Yangxin County”	Daye Non-ferrous Company
2009	Preparation of the “Chimashan Copper Mine Area Reserves Mineral Resources Report 2008, Hubei Province Yangxin County”	Daye Non-ferrous Company
Mar 2007- 2010	Exploration of the edges of deep mineralisation “Chimashan Copper Mine Succeed in Exploration Report, Hubei Province Yangxin County”	Daye Non-ferrous Company Resource Department, Daye Non-ferrous Design Institute Co Ltd., Huangshi City Liuhui Geological Mineral Consulting Service Centre, Chimashan Copper Mine

Source: Provided by Daye Metal

2.5.4 Production History

The Chimashan Project has been mined and operated since 1958. The mine uses both adit and shaft accesses. Whilst originally employing the shrinkage stoping method, mining after 1991 employs long-hole sublevel open stoping.

The 3,000 tpd Chimashan Cu-Mo processing plant delivers concentrate to the Huangshi Refinery by truck. The operation employs conventional flowsheet methods and equipment, consisting of a three stage crushing circuit followed by ball milling and flotation to produce separate Cu and Mo concentrates. Non-magnetic iron can be recovered from the flotation tailings. The final tailings are discharged to a dam for storage. In 2010, the operation reportedly treated 1.54 Mt of ore to produce 26,000 t of Cu concentrates (5,400 t contained Cu) and 122 t of Mo concentrates (27 t Mo).

2.6 Huangshi Project

2.6.1 Project Location

The Huangshi complex is located in in the Xialu District of Huangshi city with access to roads, freeways, railway lines and the sea. There are national highways nearby as well as three major railway systems: Wuhang-Jiujiang, Beijing-Guangzhou and Beijing-Jiulong. Huangshi is located on the branch of Chang River which has access to the sea.

2.6.2 Production History

The Huangshi smelting operation commenced production in 1960 producing 25 ktpa of Cu, using a reverberatory furnace and a converter. Several upgrades have occurred on many of the facilities including the installation of the Noranda smelter operation in 1997.

The smelting and refining capacity expanded to 185 ktpa cathode Cu in 2005, with a production of 150 kt of blister Cu and 254 kt cathode Cu in 2010.

The facilities are currently being upgraded for the expansion of production, including the newly constructed Ausmelt smelter plant, a rotatory anode furnace as well as the modification to the existing anode casting machines and to the No.3 acid plant. The projects are expected to be completed in 2012.

The Ausmelt smelter is now in trial operation and is expected to produce 0.21 Mtpa equivalent cathodes Cu during the first stage of production, with a full planned capacity of 0.35 Mtpa. With the completion of the smelting and refinery expansion as well as the support facilities, the proposed smelting capacity is 0.35 Mt of blister Cu in 2014.

3 GEOLOGY

3.1 Regional Geology

The Projects are geologically situated on the western side of the Palaeozoic Daye Fold Zone within the Lower Yangzi Fold Belt of the Yangzi Platform (Figure 3-1). The rocks in the region are dominated by Triassic marine carbonate, clastic sediments with Jurassic and Cretaceous aged terrigenous clastic. Volcanic pyroclastic flows are also found.

Widespread magmatic intrusive rocks occur in the region, which are predominantly medium level acidic rocks. The intrusive events were generally during the Jurassic through to the Cretaceous periods and consist mainly of granodiorite, quartz diorite and diorite-porphyry all of which appear closely associated with mineralisation.

In the south of the region, extrusion structures were formed by east-west linear folding and compressive disruption. The northern region experienced west-northwest folding and partial north-northeast folding. Although not directly related to the mineralisation event, these structures play a major role in the localised emplacement of the mineralised bodies.

3.2 Local Geology and Mineralisation

Mineralisation is closely associated with the granitic intrusion of the Jurassic to cretaceous periods, as can be observed on the regional geology map in Figure 3-1. These intrusive units commonly intruded into limestone which subsequently underwent thermal metamorphism particularly at the contact with the granitic bodies. Water circulation modified the carbonate rock and to some extent the adjacent intrusive which formed the Cu and iron deposits, with minor elements including but not limited to Au, Ag, Mo and Co which feature in the Projects. The mineralised bodies are best developed on the contacts of igneous and carbonate rock and are categorised as Skarn deposits.

Local structural dilation zones, in addition to the shape of the intrusive body, appear to strongly influence the orientation and geometry of mineralised bodies within each Project. This gives the impression of flowing around the source intrusive of the mineralised bodies within each Project, which are extremely complex and somewhat discontinuous. A generalised cross section of the Tongshankou Project, shown in Figure 3-2, shows the relationship between the intrusive unit and the structural dilatational zones.

The number, orientation and shape of the mineralised bodies vary between the Projects. Following are brief descriptions of each Project and the variations therein.

3.2.1 Tonglvshan Project

Primarily a Cu deposit with lesser amounts of Au, Ag and Mo, the Project is hosted within the limestone units as pendant or raft within a granodiorite intrusive (Figure 3-3). Local reverse fault dilatational zones appear to strongly influence the orientation of the mineralised bodies which all dip to the southeast at approximately 70°. Although a total of 12 mineralised main bodies have been identified within the Project, six bodies account for the majority of the resource. MMC notes that these main bodies are actually a combination of numerous smaller bodies which are all closely related and have very similar orientation and geometry.

Although the vast majority of the bodies are less than 200 m along strike and down dip, there are several main mineralised zones which are generally continuous and are the main focus of exploration and subsequent explorations. Several of these bodies have been traced over 400 m in length and up to 800 m vertically, as can be seen on a series of cross sections in Figure 3-4.

FIGURE 3-1



Figure 3-2 Hubei Polymetallic Projects –Tongshankou Generalised Cross Section

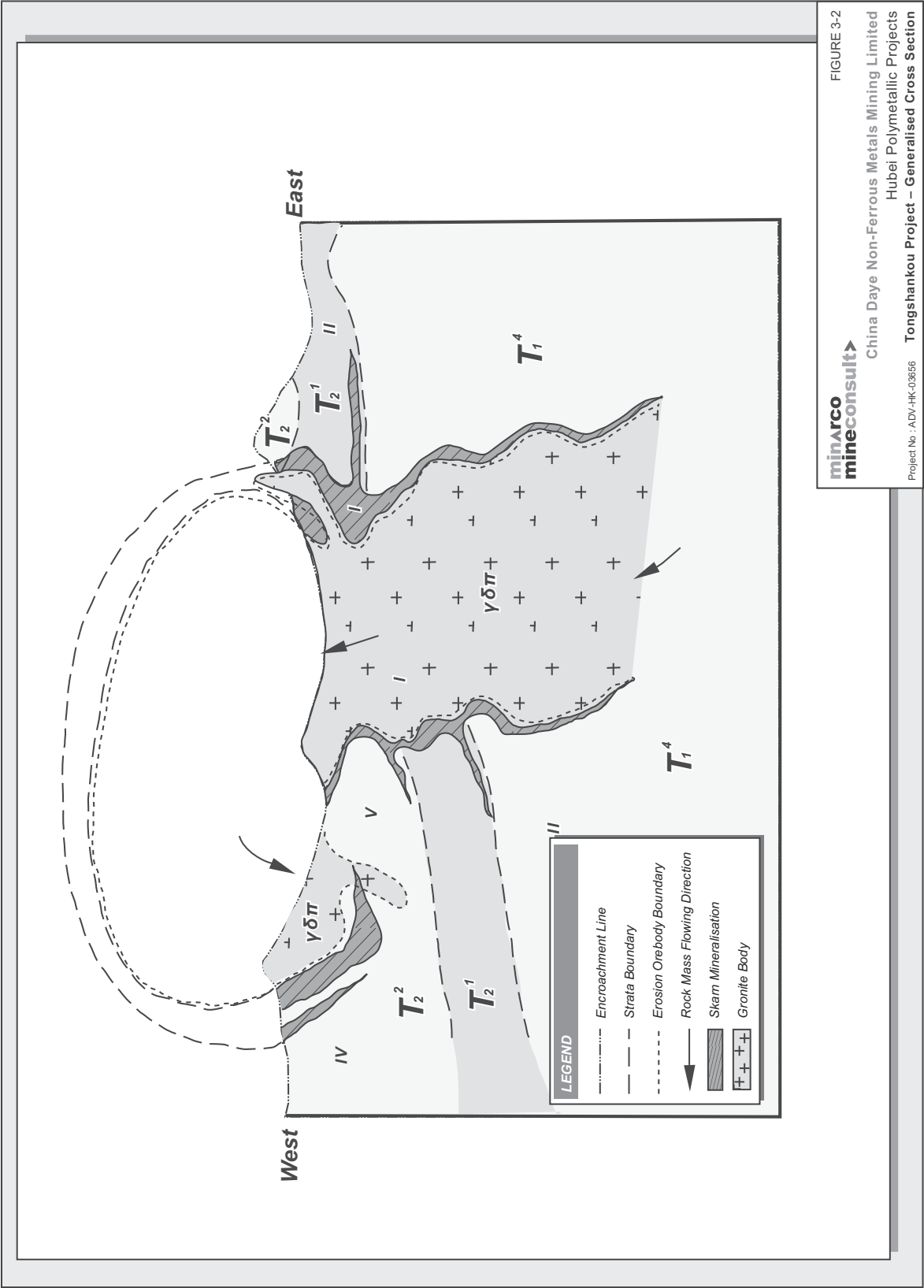
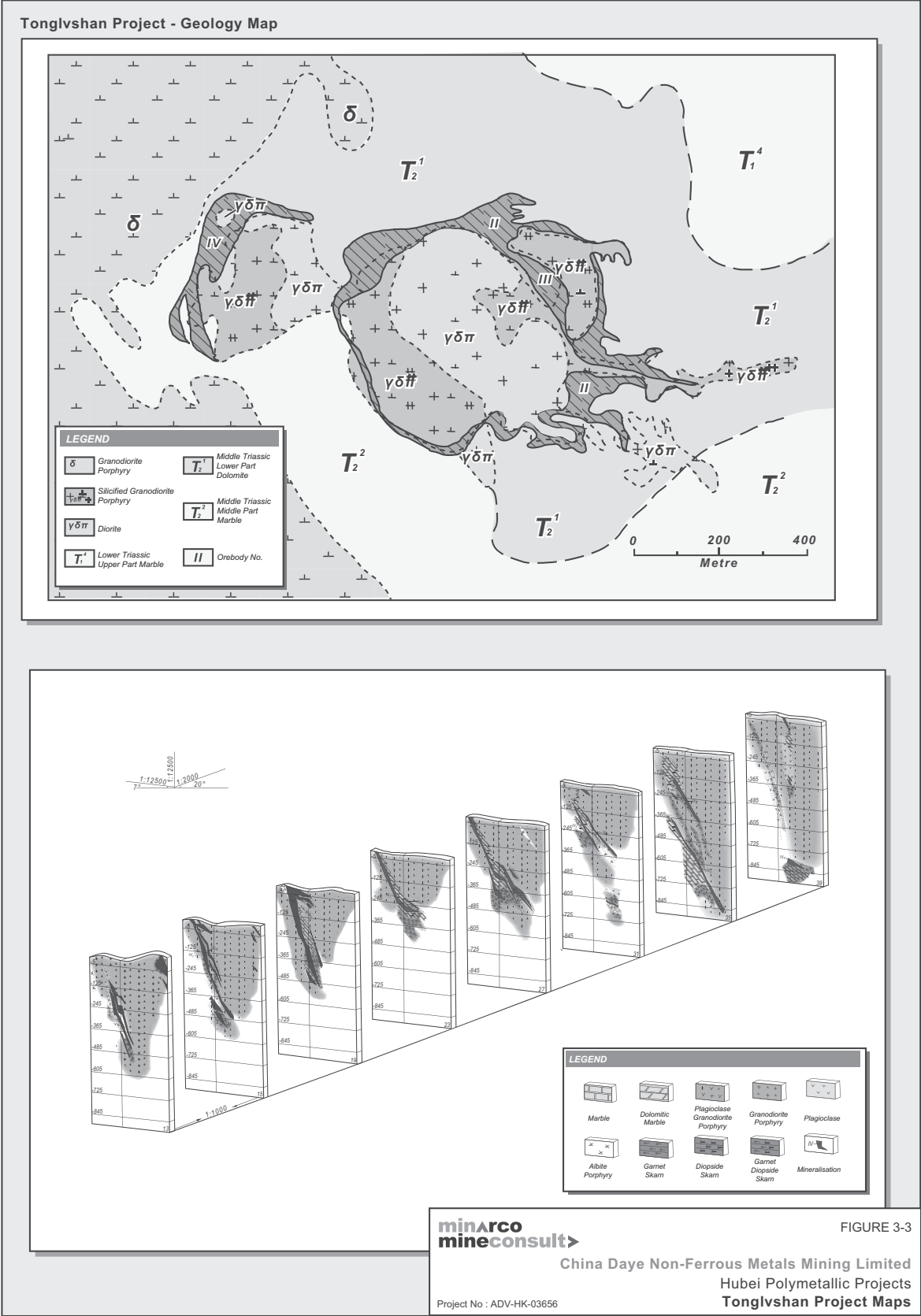


Figure 3-3 Hubei Polymetallic Projects – Tonglvshan Project Maps



3.2.2 Fengshan Project

Similar to Tonglvshan Project, Fengshan is located along and adjacent to the contact of a granodiorite intrusion. Mineralisation is predominantly Cu (in the form of chalcopyrite) with Mo. Lesser amounts of Au and Ag mineralisation are also present within the currently defined 9 main mineralised bodies, which like Tonglvshan are a combination of several discontinuous smaller bodies. Mineralisation is observed on both the northern and southern contacts of the granodiorite (Figure 3-4) within the host limestone sediments. This results in the Project being separated into Northern and Southern areas. Both areas have a similar orientation with a dip of 70° to the south-southwest, however the bodies within the Northern area appear to be slightly more continuous and somewhat larger in size and tenure of mineralisation. As a result these have been the main focus of exploration and underground mining to date. As can be seen on the long section in Figure 3-6, mineralisation extends to a depth of 580 m below surface.

3.2.3 Tongshankou Project

Mineralisation within the Tongshankou Project is dominated by Cu and Mo, in the form of chalcopyrite and molybdenite. A lesser amount of Au is also found. Similar to all other Projects, Tongshankou is hosted along the margins of a granodiorite intrusion within the adjacent limestone sediments; however mineralisation shows a higher degree of continuity. As can be seen in the cross section in Figure 3-5, although located within a very structurally complex region, mineralisation appears to 'wrap round' or 'surround' the granodiorite in a continuous layer. This results in three main bodies which are tubular shaped bodies which are generally continuous. This varies significantly to all the other Projects which are all linear in geometry and are a combination of numerous smaller bodies. This is largely the result of the shape of the granodiorite body within the Project. Mineralisation is known to extend to a depth of approximately 650 m below surface.

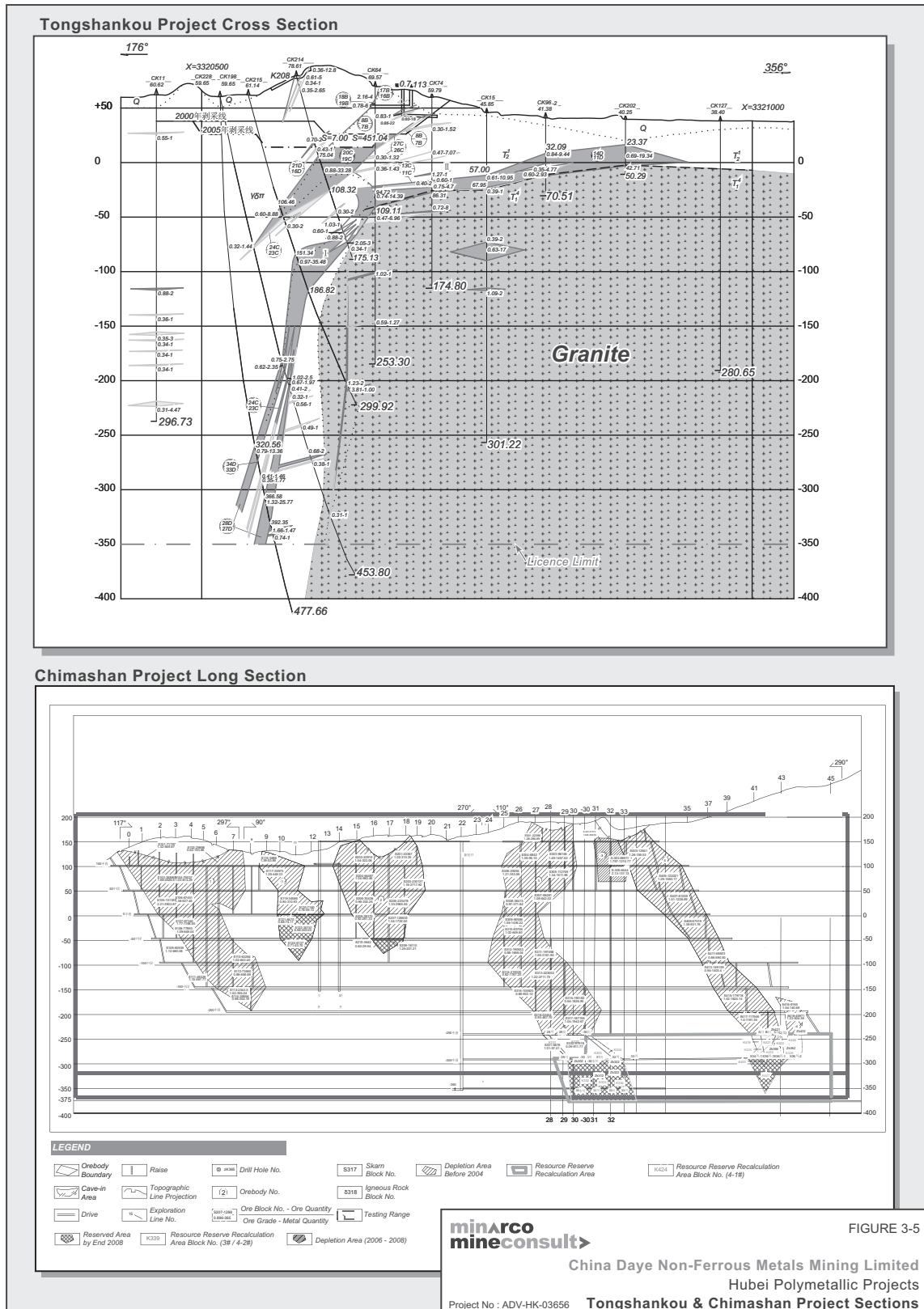
3.2.4 Chimashan Project

Similar to the other Projects the Chimashan Project is located along the contact of a granodiorite intrusion hosted within the surrounding limestone sediments. Similar to Tonglvshan and Fengshan, the Project, is comprised of several linear mineralised bodies which have east-west orientation which dip to the South at approximately 70°. The Project is comprised of four main bodies which have a strike length up to 500 m and are known to extend from surface to a depth of up to 500 m. The majority of the known resource has been previously depleted through underground mining, as can be seen on the long section in Figure 3-5, however two large bodies are open both along strike and dip below the bottom mining level. Unlike the other Projects, Chimashan is dominated by the Cu mineral Bornite, with only a small amount Mo, Au and Ag being present. Mineralisation extends to approximately 800 m beneath surface.

Figure 3- 4 Hubei Polymetallic Projects – Fengshan Project Cross Section



Figure 3-5 Hubei Polymetallic Projects – Tongshankou and Chimashan Project Maps



4 DATA VERIFICATION

MMC conducted a review of the digital data provided by Daye Metal for the Projects. During this review MMC noted inconsistencies with the provided data, which were subsequently corrected in the digital database. The corrected database formed the underlying dataset for the independent JORC Statement of Mineral Resource that was completed by MMC. The inconsistencies included differences between the number and location of holes, digital assay data and the geological maps, cross sections, long sections and plans while minor data entry errors were also noted. During discussions with Daye Metal it was determined that these errors were the result of incorrect data entry or miscommunication and are immaterial to any Mineral Resource estimate completed.

MMC completed the following checks of the digital data:

- Verified the relative position of the licence and drill holes using a hand held GPS.
- Verified two new drill hole collars within the Fengshan Project Using a handheld GPS.
- Inspected the core storage facility and core processing facility.
- Inspected the remaining drill core to confirm the mineralisation tenure of the assays.
- Inspected hard copies of old exploration reports and the original geological data of the four mines.
- Inspected and reviewed the procedures of the analytical laboratories which completed the sample analysis. These included Southeast Geology Brigade, Central South Bureau of China, Metallurgical Geology Bureau, Daye Non-ferrous Co. Ltd. Assay and Testing Centre and Daye Non-ferrous Designing Institute.
- Compared hard copies of the original assay certificates for more than 20% of the total assay results from each Project with the digital database to ensure no material data entry errors occurred.
- Compared geological maps, cross sections, long sections and exploration drill plans with the digital datasets.
- Inspected underground development and open pits to ensure depleted areas were accurately represented on the long sections.

4.1 Quality Assurance and Quality Control

The drilling and channel sampling campaigns for the Projects commenced in the 1950s and have continued until recently. These campaigns were predominately completed by two Chinese geology bureaus; however some diamond drilling was completed by Daye Metal as part of routine grade control procedure. During these campaigns the geological bureaus completed a variety of quality assurance and quality control ("QAQC") samples. These included standard reference material, blanks and internal and external duplicates. In addition to the routine QAQC checks, MMC completed independent check samples of both pulverised material and original core material. Below is an outline of each QAQC sample type.

4.2 Internal and External Duplicate Checks

All internal duplicate samples were sourced from the homogenised pulverised material, while the external duplicates were taken from the secondary crushed material (coarse reject).

4.2.1 Tonglvshan Project

Four campaigns were completed within the Tonglvshan Project, 1959-1981, 1983-1994, 1999-2002 and 2007-2010. The number of holes drilled and the number of internal and external duplicate samples completed varied between campaigns. Additionally the number of Cu and Fe samples provided varied, as can be seen in Table 4-1.

A review of the supplied duplicate data indicates that no information was provided for the 1999-2001 campaign, while only digital data was supplied for the 2007-2010 campaign. The remainder of the data was supplied in scanned copies of the original hardcopy data. As shown in Table 4-1, the 1983-1994 campaign consisted of 11 drill holes, these holes were targeting areas which have been mined and as a result were not analysed by MMC. The 1959-1981 campaign underpins the majority of the data and a portion of the remnant resource and was consequently digitised for analysis. The analysis indicates that the number of samples per year varied as did the correlation to the original samples as can be seen in Table 4-2. MMC considers the correlation of the original and duplicate samples to be good, particularly as both the number and the correlation increase in the later years.

Table 4-1 Hubei Polymetallic Projects – Number of Duplicate Samples for Tonglvshan Project

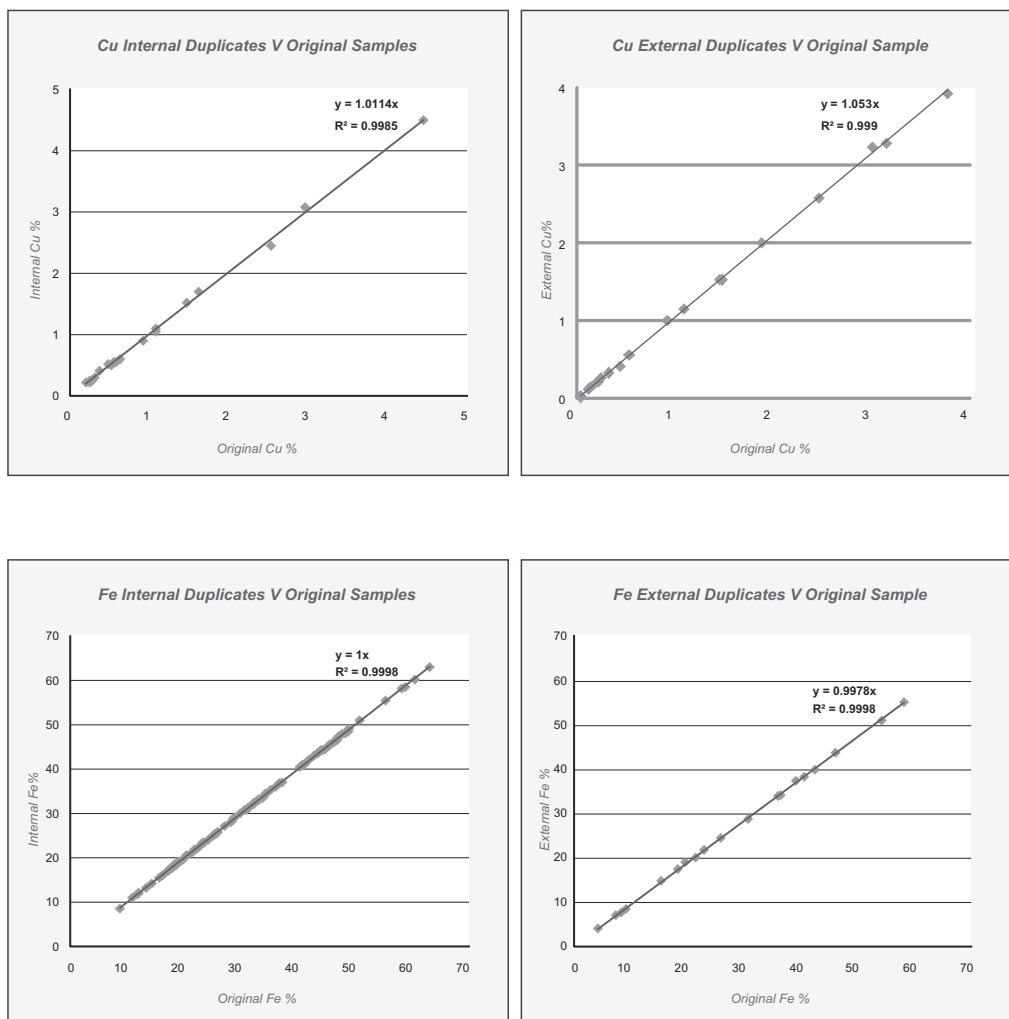
Campaign	Number of Drill Holes	Cu				Mo			
		Internal		External		Internal		External	
		Number	%	Number	%	Number	%	Number	%
1959-1981	–	1528	7.7	1125	5.85	–	9.5	–	6.77
1983-1994	11	25	10.3	24	9.9	23	10.4	18	8.1
1999-2002	–	–	–	–	–	–	–	–	–
2007-2010	39	167	10.05	99	6.0	101	10.77	64	6.82

Table 4-2 Hubei Polymetallic Projects – Statistics of Cu Internal Checks

Year	Number of Samples	Number of Checked	Average of relative error (Cu %)		
			0.3~0.5	0.5~3	>3
1959	2,103	98	10.5	6.2	5.3
1960	911	72	7.14	7.7	3.36
1961	748	62	15.79	5.84	3.73
1962	591	44	6.98	7.53	3.14
1962	376	21	-	3	2
1962	1,001	79	5	4.2	2.3
1963	669	45	7.69	7	3
1963	500	37	4	2.5	2.3
1963	890	178	11	5	4
1964	2,251	204	5	2	2
1964	133	13	5.4	1.77	0.24
1964	1,194	130	5	3.13	2.13
1964	2,251	204	5	2	2
1978	49	7	-	1.48	0.29
1979	104	15	2.87	2.04	-
1979	80	22	2.45	1.18	3.21
1979	328	52	3.49	1.66	1.79
1980	62	28	3.25	1.31	0
1980	62	22	2.79	1.72	0.1
1980	114	39	3.57	1.36	0.38
1981	64	17	4.02	1.25	0.28
1981	127	55	3.65	0.8	0.59
1981	178	50	4.64	2.26	0.8

A comparison of the duplicates completed during the 2007-2010 campaign, shown in the scatter plots in Figure 4-1, indicates there is generally an excellent correlation between the original and the duplicate samples. The correlation coefficient is very high and all sample comparisons lie close to the trend line indicating an excellent correlation. Analysis of the location of these holes indicates that this campaign has a significant impact on the remnant resource, particularly in the higher classified areas.

Figure 4-1 Hubei Polymetallic Projects – Tonglvshan Project Internal and External Duplicate Samples



4.2.2 Fengshan Project

Three campaigns were completed within the Fengshan Project; 1962-1973, 1986-2001 and 2007-2010. The number of holes drilled and the number of internal and external duplicate samples completed varied between campaigns. Additionally the number of Cu and Fe samples provided varied, shown in Table 4-3.

Table 4-3 Hubei Polymetallic Projects – Number of Duplicate Samples for Fengshan Project

Campaign	Number Drill Holes	Cu				Mo			
		Internal		External		Internal		External	
		<i>Number</i>	<i>%</i>	<i>Number</i>	<i>%</i>	<i>Number</i>	<i>%</i>	<i>Number</i>	<i>%</i>
1962-1973	151	1,597	-	730	-	317	-	177	-
1986-2001	162	102	-	-	-	-	-	-	-
2007-2010	21	337	8.43	71	1.79	337	8.43	71	1.79

A review of the scatter plots of the data available for each campaign (Figure 4-2 and Figure 4-3) indicates that generally there is a good correlation between the original and the duplicate samples, however some variability is observed. Analysis of the dataset indicates that the majority of the samples which vary are of a low grade (below the geological cut-off grade). As such they do not impact the Resource Estimate. Although some higher grade samples vary for each data set, MMC considers these to be immaterial to the global or local Resource Estimate.

Figure 4-2 Hubei Polymetallic Projects – Fengshan Project Internal and External Duplicate Samples 1962-2001

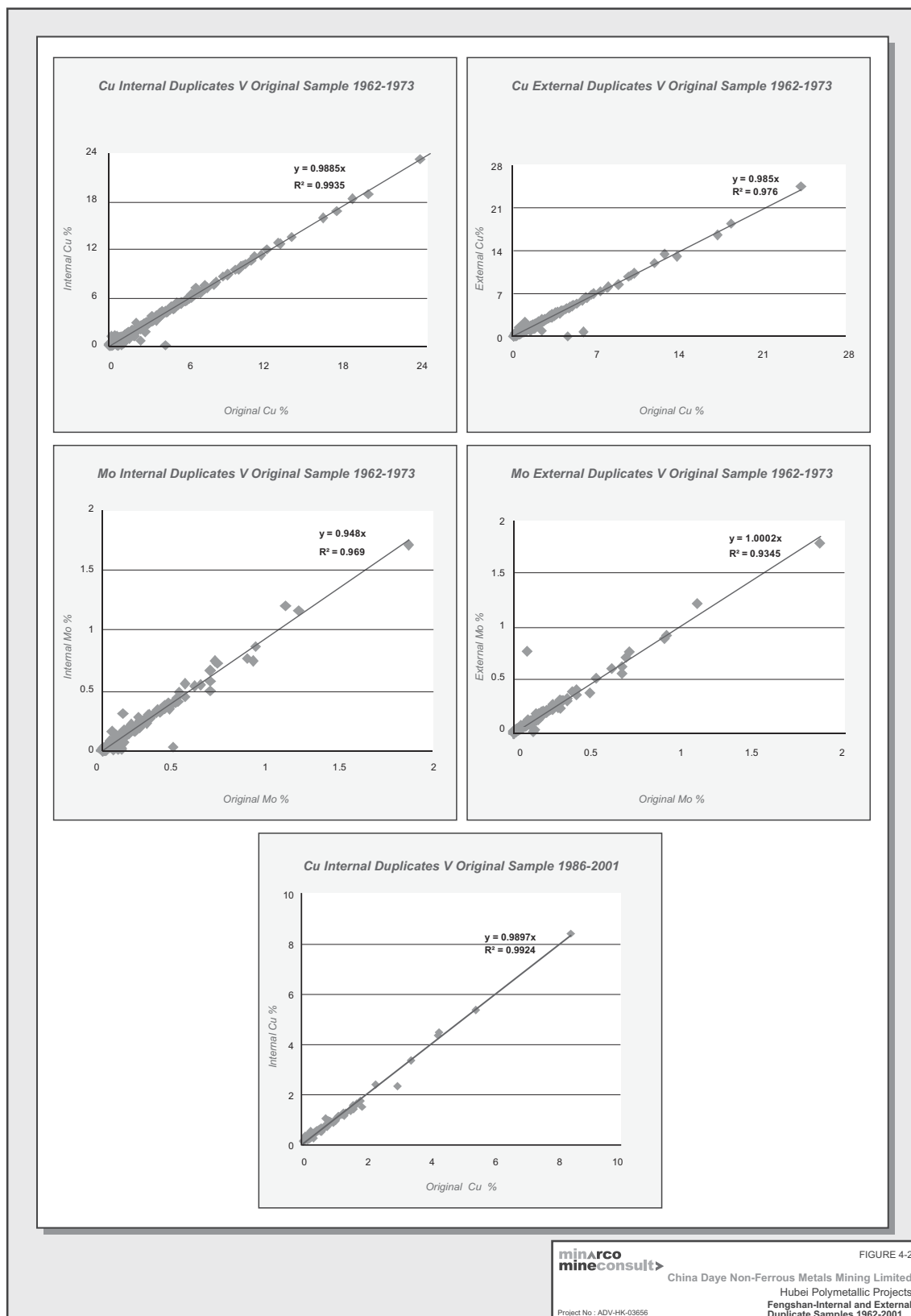
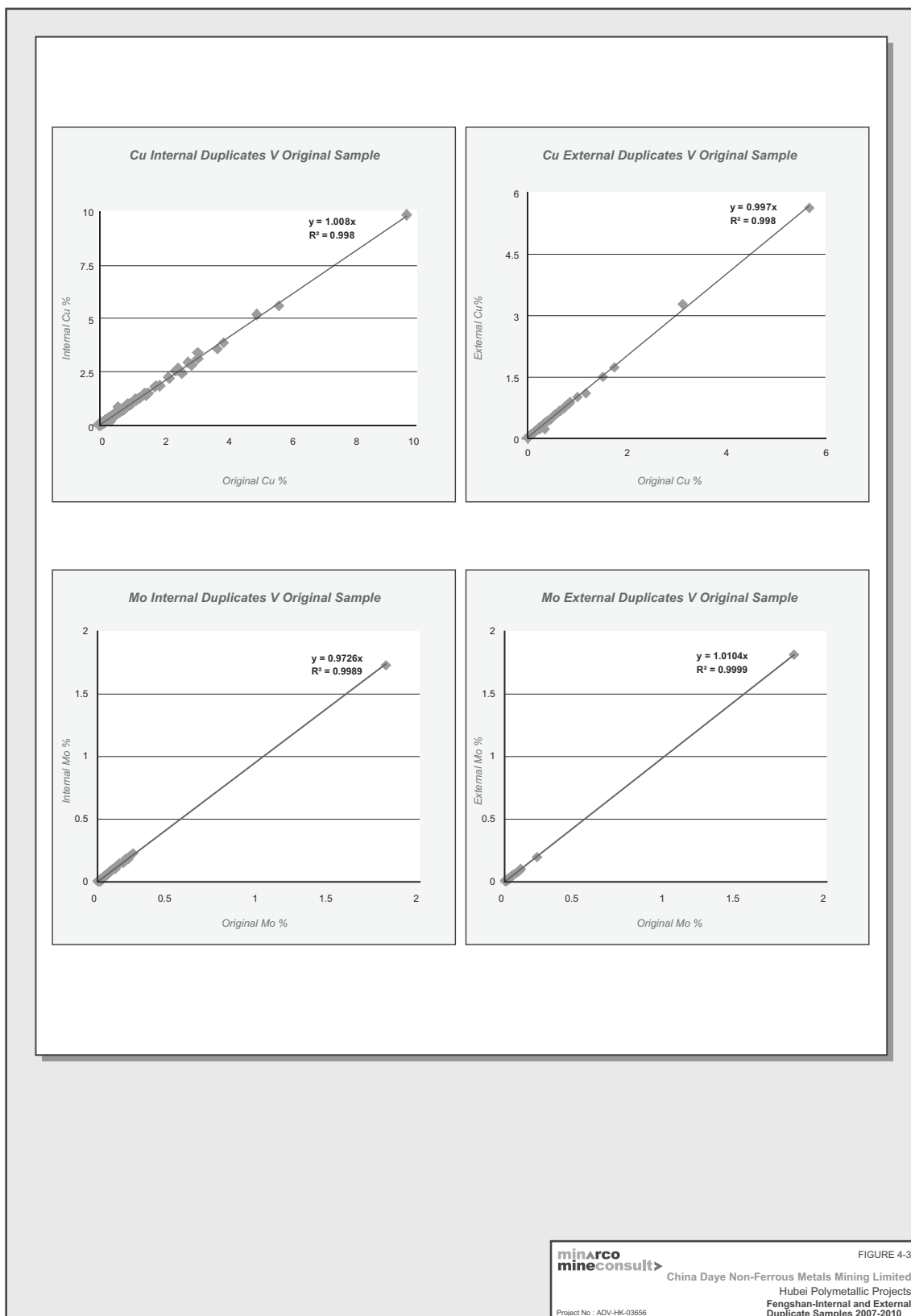


Figure 4-3 Hubei Polymetallic Projects – Fengshan Project Internal and External Duplicate Samples 2007-2010



4.2.3 Tongshankou Project

Two campaigns were completed within the Tongshankou Project; 1957-1966 and 1979-1990. The number of holes drilled and the number of internal and external duplicate samples completed varied between campaigns. Additionally, the number of Cu and Fe samples provided varied, as shown in Table 4-4.

Table 4-4 Hubei Polymetallic Projects – Number of Duplicate Samples for Tongshankou Project

Campaign	Number of Drill Holes	Cu				Mo			
		Internal		External		Internal		External	
		Number	%	Number	%	Number	%	Number	%
1957-1966	217	1,394	9.22	1,121	7.42	308	5.51	25	4.53
1979-1990	28	146	10.1	67	5.7	137	25.8	68	8.34

A review of the scatter plots for each campaign (Figure 4-4) indicates that there is generally a good correlation between the original and the duplicate samples, however some variability is observed. Analysis of the scatter plots indicates that only few samples vary significantly which is probably the result of mislabelling of the duplicate samples or minor contaminations, given the time period between analyses. Although more variation occurs within the external samples, MMC considers this to be consistent with the type of sample (coarse reject) and as a result considers the results are acceptable and demonstrate the high precision and accuracy of the primary laboratory.

4.2.4 Chimashan Project

Three campaigns were completed within the Chimashan Project, 1957-1960, 1982-1986 and 2007-2010. Although a significant number of holes were drilled in each campaign, only 20 internal and 23 Cu duplicates were available from the first campaign. These compare reasonably well to the original samples as can be seen in the scatter plot in Figure 4-5. Similar to the other campaigns of the same period, some variability is observed however these are only minor and consistent with the type of sample which was undertaken.

Figure 4-4 Hubei Polymetallic Projects – Tongshankou Project Internal and External Duplicate Samples 1957-1990

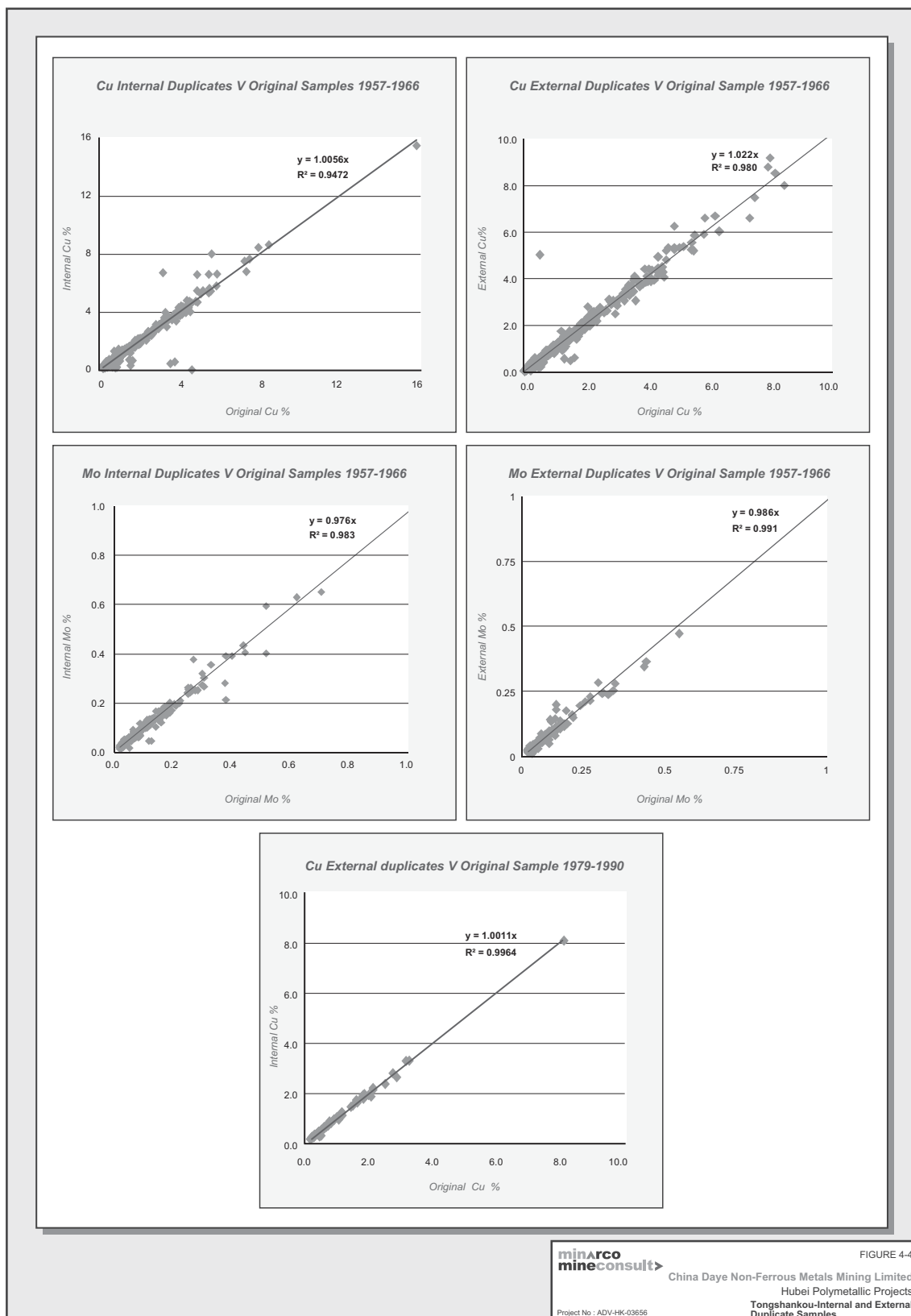
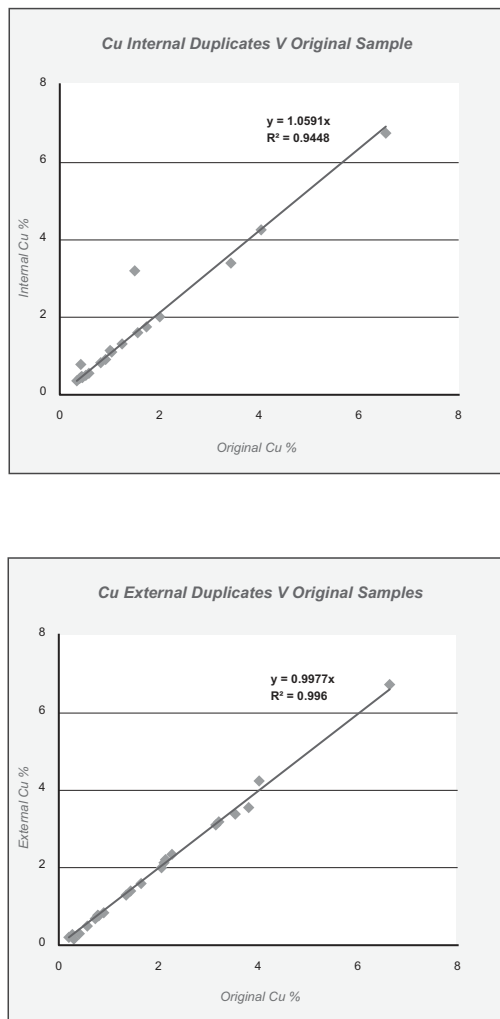


Figure 4-5 Hubei Polymetallic Projects – Chimashan Project Internal and External Duplicate Samples 1957-1960



4.3 Independent Pulp Re-assaying

A total of 93 independent check samples were collected by MMC during the site visit to the Projects. The number of independent check samples varied between each Project (Table 4-5) depending on the remnant resource, i.e. the larger the size and number of drill holes the larger the number sampled. The exception was Tongshankou, due to the lack of remaining pulverised material; as a result MMC sourced remaining core material. The samples were selected from a drill hole within the core storage facility on site.

The independent re-assay samples were generally selected from drill holes which have a material impact on the remnant resource. This has resulted in the majority of samples being sourced from the recent drill program for the Projects.

Table 4-5 Hubei Polymetallic Projects – Description and Number of Independent Check Samples

Project	Campaign	Elements	Number	Type
Tonglvshan	2007-2010	Cu, Fe	43	pulverised
Fengshan	2007-2010	Cu, Mo	30	pulverised
Tongshankou	1978-1990	Cu, Mo	10	half-core
Chimashan	2007-2010	Cu	10	pulverised

MMC collected all samples and organised transportation to the independent SGS Laboratory in Tianjin, China. SGS utilised the four acid digestion method with an AAS finish for determinations, which differs from titrate methods used by the primary laboratories. Comparison of the independent re-assays to the original samples indicates that the majority show an excellent correlation with only minor variations being observed, as shown graphically in the scatter plots in Figure 4-6 and Figure 4-7. However the Mo samples show a marked bias in the upper tail with the primary laboratory consistently showing a higher value.

4.4 Data Quality Review

The review of the drilling and sampling procedures indicates that generally international standard practices were used with only very minor or immaterial issues being noted during the review completed by MMC. Furthermore, a strong correlation is observed for the majority of internal and external duplicates while an excellent correlation is observed for both Cu and Fe within the independent check samples retrieved from site by MMC and assays by the SGS laboratory. MMC notes that some campaigns of drilling contain limited QAQC samples, however analysis of these drill holes indicates that these drill holes have limited impact on the remnant resource as they are spatially unrelated. As a result, any potential bias in these holes will have no impact on the independent JORC Mineral Resource estimate. Further to this, the independent check samples were all sourced from samples which were influencing the remnant resource and as a result MMC considers the data which underpins the remnant resource to have no material sample bias and are representative of the samples taken.

4.5 Data Verification Statement

As a result of the above data verification and data quality, the digital database used as the basis for the Statement of JORC Mineral Resources and Ore Reserves is supported by verified, certified assay certificates, original drill logs, QAQC, independent assays and independently verified survey data. Therefore, MMC believes there is sufficient data to enable the use of this data in a Mineral Resource Estimate and resultant classification following the guidelines set by the JORC Code.

Figure 4-6 Hubei Polymetallic Projects – Tonglvshan and Fengshan Projects – Independent Re-assays Samples

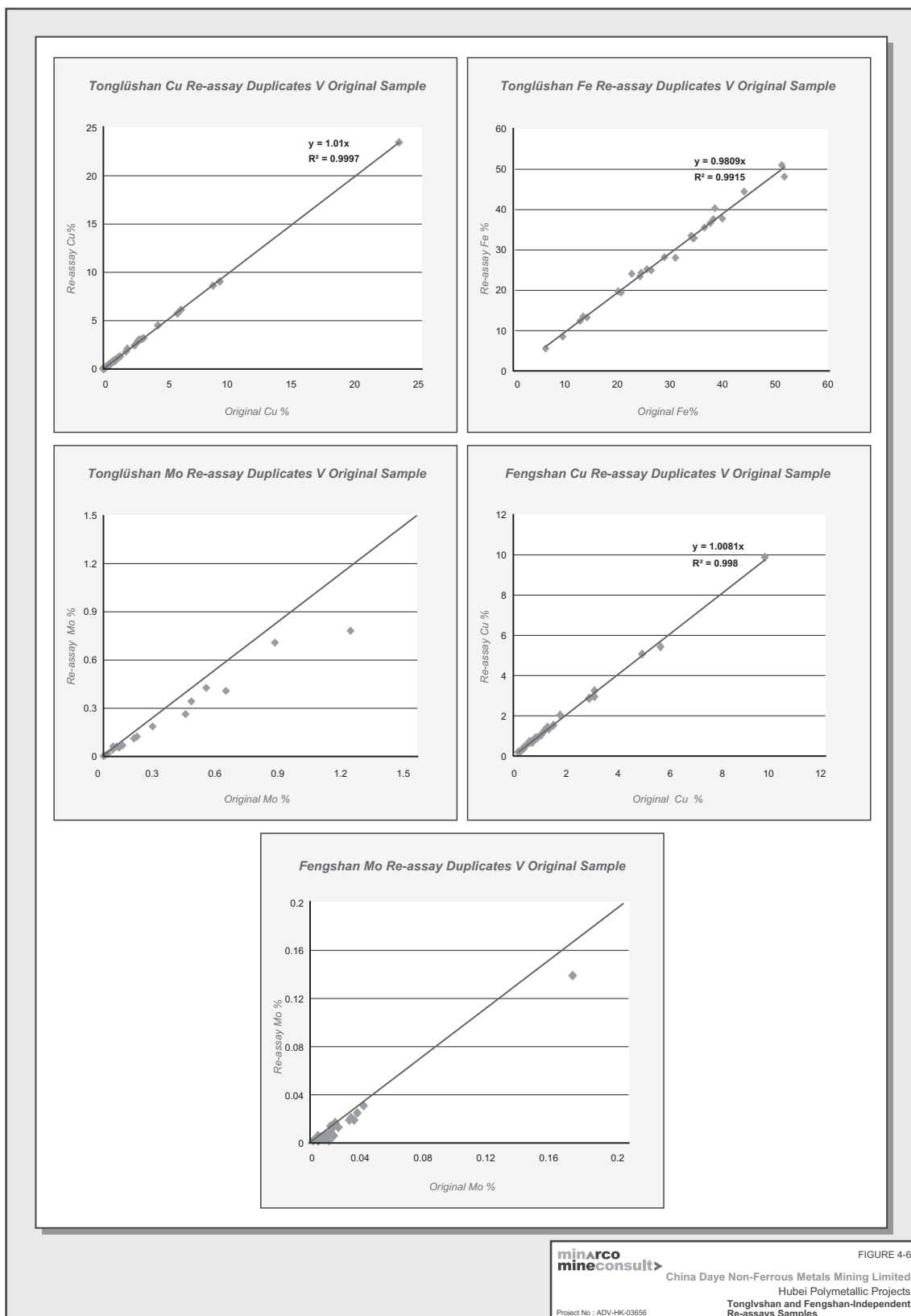
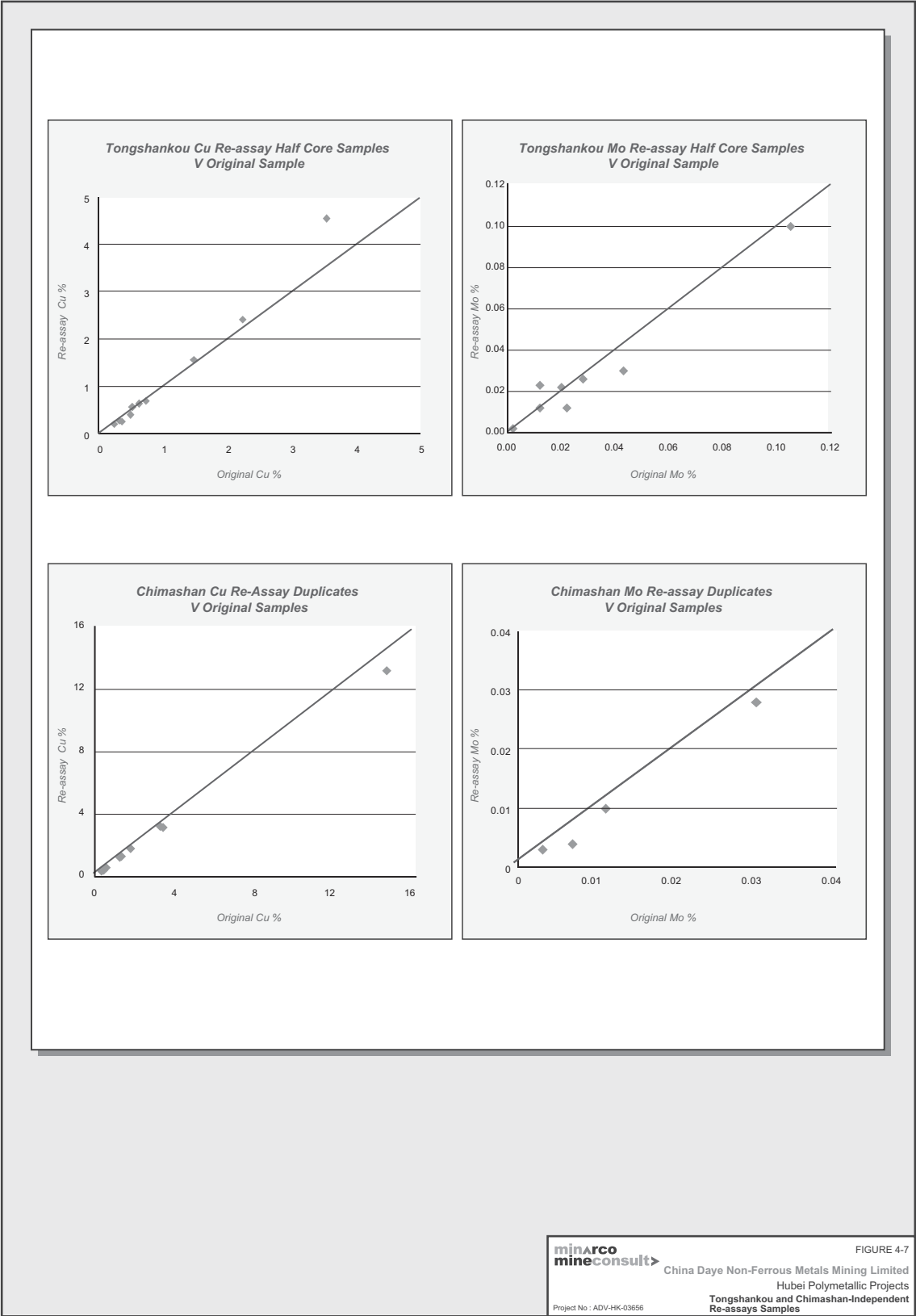


Figure 4-7 Hubei Polymetallic Projects – Tongshankou and Chimashan Projects – Independent Re-assays Samples



5 MINERAL RESOURCE ESTIMATION

MMC has independently estimated the Mineral Resources contained within the Projects, based on the data collected by the appropriate local Chinese Bureau and the Company as at 30th June 2011. The Mineral Resource estimate and underlying data complies with the recommendations in the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves 2004 Edition ("JORC Code") by the Joint Ore Reserves Committee ("JORC"), therefore it is suitable for public reporting and meets the reporting standards of Chapter 18 of the HKEx listing rules.

5.1 Results

The results of the resource estimate for the Projects are tabulated in the Statement of Mineral Resources in Table 5-1 below reported at various Copper Equivalent ("CuEq") cut off grades dependent on the style of mineralisation and mining method. Details of the parameters used to estimate the CuEq values within the resource models are provided in Section 5.3 of this report.

The Mineral Resources for Tongshankou and Chimashan have been reported separately inside and outside of the current mining licence. MMC is aware that Daye Metal is in the process of applying for an Exploration Licence below the current mining licences. MMC notes that no mining activities have occurred below the current mining licences. For this reason MMC has reported the Mineral Resources outside of the licence in line with the recommendations of the JORC Code.

Table 5-1 Hubei Polymetallic Projects – Statement of JORC Mineral Resources for the Projects as at 30th September 2011

Project	Cut Off Grade	JORC Classification	Quantity	Metal tonnes					
				Cu	Fe	Mo	Cu	Fe	Mo
				Mt	%	%	%	t	Mt
Tonglvshan	In licence	Indicated	16.37	1.16	27.21		189,200	4.45	
		Inferred	15.05	1.08	29.47		162,000	4.44	
		Total	31.42	1.12	28.30		351,300	8.89	
Fengshan	In licence	Indicated	12.72	0.82		0.005	104,200		630
		Inferred	14.50	0.73		0.008	106,300		1,230
		Total	27.22	0.77		0.007	210,400		1,860
Tongshankou	In licence open cut area	Indicated	13.36	0.58		0.011	76,800		1,470
		Inferred	0.24	0.54		0.004	1,300		10
		Sub-Total	13.60	0.57		0.011	78,100		1,480
	In licence underground area	Indicated	24.68	0.66		0.007	163,200		1,770
		Inferred	20.32	0.57		0.019	115,200		3,850
		Sub-Total	45.00	0.62		0.012	278,300		5,620
	Out of licence underground area	Indicated	0.05	0.40		0.034	200		20
		Inferred	2.68	0.45		0.034	12,100		900
		Sub-Total	2.73	0.45		0.034	12,300		920
	Total open cut & underground area in and out of licence	Indicated	38.09	0.63		0.009	240,200		3,270
		Inferred	23.23	0.55		0.020	128,600		4,760
		Total	61.32	0.60		0.013	368,800		8,030
Chimashan	In licence	Indicated	0.12	0.72		0.001	830		1
		Inferred	0.01	0.58		0.004	20		0
		Sub-Total	0.12	0.71		0.001	850		1
	Out of licence	Indicated	0.19	0.49		0.001	900		2
		Inferred	0.20	0.84		0.020	1,700		40
		Sub-Total	0.38	0.67		0.011	2,600		41
	Total in and out of licence	Indicated	0.30	0.58		0.001	1,730		2
		Inferred	0.20	0.84		0.020	1,720		40
		Total	0.50	0.68		0.008	3,450		42

Note: Rounding errors affect the total metal amounts reported above.

Note: Tonglvshan Cu and Fe resource is inclusive of the Tonglvshan Au and Ag resource and should not be added together.

Au and Ag Mineral Resources for the Tonglvshan deposit have been reported as shown in Table 5-2 under the recommendations of the JORC Code within the broader Cu and Fe Mineral Resources at a 0.3% CuEquivalent cut-off grade and in areas with sufficient data density. These resources are inclusive of the Cu and Fe resources and should not be added together.

Table 5-2 Hubei Polymetallic Projects – JORC Mineral Resource Au and Ag Tonglvshan as at 30th September 2011

Project	Cut Off Grade	JORC Classification	Quantity	Metal			
				Au	Ag	Au	Ag
			<i>Mt</i>	<i>g/t</i>	<i>g/t</i>	<i>Oz</i>	<i>k Oz</i>
Tonglvshan	In licence	Indicated	13.22	0.63	4.76	265,000	2,020
		Inferred	11.23	0.66	7.06	237,000	2,540
	CuEq >0.3%	Sub-Total	24.45	0.64	5.81	502,000	4,560

Note: Rounding errors affect the total metal amounts reported above.

Note: Tonglvshan Au and Ag resource is inclusive of the Tonglvshan Cu and Fe resource and should not be added together.

5.2 JORC Resource Classification

A significant number of surface and underground drill holes and underground channel samples have been completed within the Projects. The number and spacing of the samples varies between the Projects as does the style and tenure of mineralisation. Using the data from each project, MMC constrained a geospatial analysis of the grade distributions for all elements. This detailed statistical analysis suggested that the continuity of mineralisation varies between the Projects, and are consistent with the interpreted geological continuity. These spatial analyses suggest the distances in Table 5-3 were appropriate for classification of Indicated and Inferred Mineral Resources, respectively, which would be compliant with the recommendations of the JORC Code for all elements. These distances were based on the variogram ranges for the major direction of continuity and the visual inspection of the grade within the drill holes and channel samples for each element. These distances represent the maximum distance between two composites from at least two different drill holes. The area classified as Indicated is shown graphically on Figure 5-1 to Figure 5-4.

Table 5-3 Hubei Polymetallic Projects – Sample Spacing Utilised for the Mineral Resource Classification.

Project	Indicated (m)	Inferred (m)
Tonglvshan	50 by 50	100 by 100
Fengshan	75 by 75	150 by 150
Tongshankou	100 by 100	200 by 200
Chimashan	50 by 50	120 by 100

5.3 Copper Equivalence Estimate

To assist in reporting the Mineral Resources in a transparent manner, MMC has estimated a CuEq value for reporting of each block model, based on associated component grades, process recoveries and consensus forecast metal pricing (before tax). Cu contributes the most value to the equivalence calculation and was hence selected to report on an equivalent basis. Due to their long production history, all four Projects process recoveries for the main and associated elements such as Cu, Fe, Mo, Ag and Au are well understood and MMC has reasonable confidence in the process recoveries provided.

The parameters used to estimate the Copper Equivalence for each Project are outlined in Table 5-4.

Table 5-4 Hubei Polymetallic Projects – Copper Equivalence Parameters

	<u>Tonglvshan</u>	<u>Fengshan</u>	<u>Tongshankou</u>	<u>Chimashan</u>
Process Recoveries				
Copper	84.19%	91.72%	79.20%	91.72%
Iron	54.60%	—	—	—
Molybdenum	—	40.50%	11.12%	40.50%
Gold	76.79%	58.03%	0.00%	58.03%
Silver	77.03%	56.91%	0.00%	56.91%
Product Prices				
Copper (RMB/t)	32,987	32,987	32,987	57,571
Iron (RMB/t)	1,124	—	—	—
Molybdenum (RMB/kg)	—	179.58	179.58	243.83
Gold (RMB/g)	185.90	185.90	185.90	276.68
Silver (RMB/g)	3.22	3.22	3.22	6.85
Copper Equivalence Ratio				
Copper (%)	1.000	1.000	1.000	1.000
Iron (%)	45.266	—	—	—
Molybdenum (%)	—	0.416	1.308	0.535
Gold (g/t)	1.945	2.880	0.000	3.380
Silver (g/t)	112.131	169.754	0.000	139.249

Note: Product pricing based on consensus bank forecasts before tax as at June 2011.

Higher commodity prices have been applied to the Chimashan Project due to the forecast short project life. This results in a heavier weighting of current commodity prices.

Based on the information provided in Table 5-4, MMC compiled a set of formulas which were used to calculate the CuEq grades within the block models as shown in Table 5-5. These CuEq values were subsequently used as the cut-off grade basis for reporting of both the Mineral Resources and Ore Reserves. Au and Ag were not included in the CuEq formula for the Fengshan and Chimashan Projects as these elements were not able to be included in the Mineral Resource estimation process.

Table 5-5 Hubei Polymetallic Projects – Copper Equivalence Block Model Formula

Project	Copper Equivalence Formula
Tonglvshan	$(cu_pct + 0.0221 * tfe_pct + 0.5140 * au_ppm + 0.0089 * ag_ppm)$
Fengshan	$(cu_pct + 2.4039 * mo_pct)$
Tongshankou	$(cu_pct + 0.7644 * mo_pct)$
Chimashan	$(cu_pct + 1.8701 * mo_pct)$

5.4 Exploration Potential

Although the majority of veins within the current and past mining areas have been closed off there are numerous veins which are open at depth which extend deeper than the workings. MMC believes that with drilling targeted the major veins there is a high likelihood that additional Mineral Resources can be defined in the short term. The plunge direction is highlight for each of these veins on Figure 5-1 to Figure 5-4.

In addition, all Projects have numerous drill holes at depth below the current mining areas which have significant intersections of mineralisation. As a result, MMC considers it likely that additional resource will be identified with further exploration drilling either from surface or underground.

Figure 5-1 Hubei Polymetallic Projects – 3D View of the Tonglvshan Interpretation

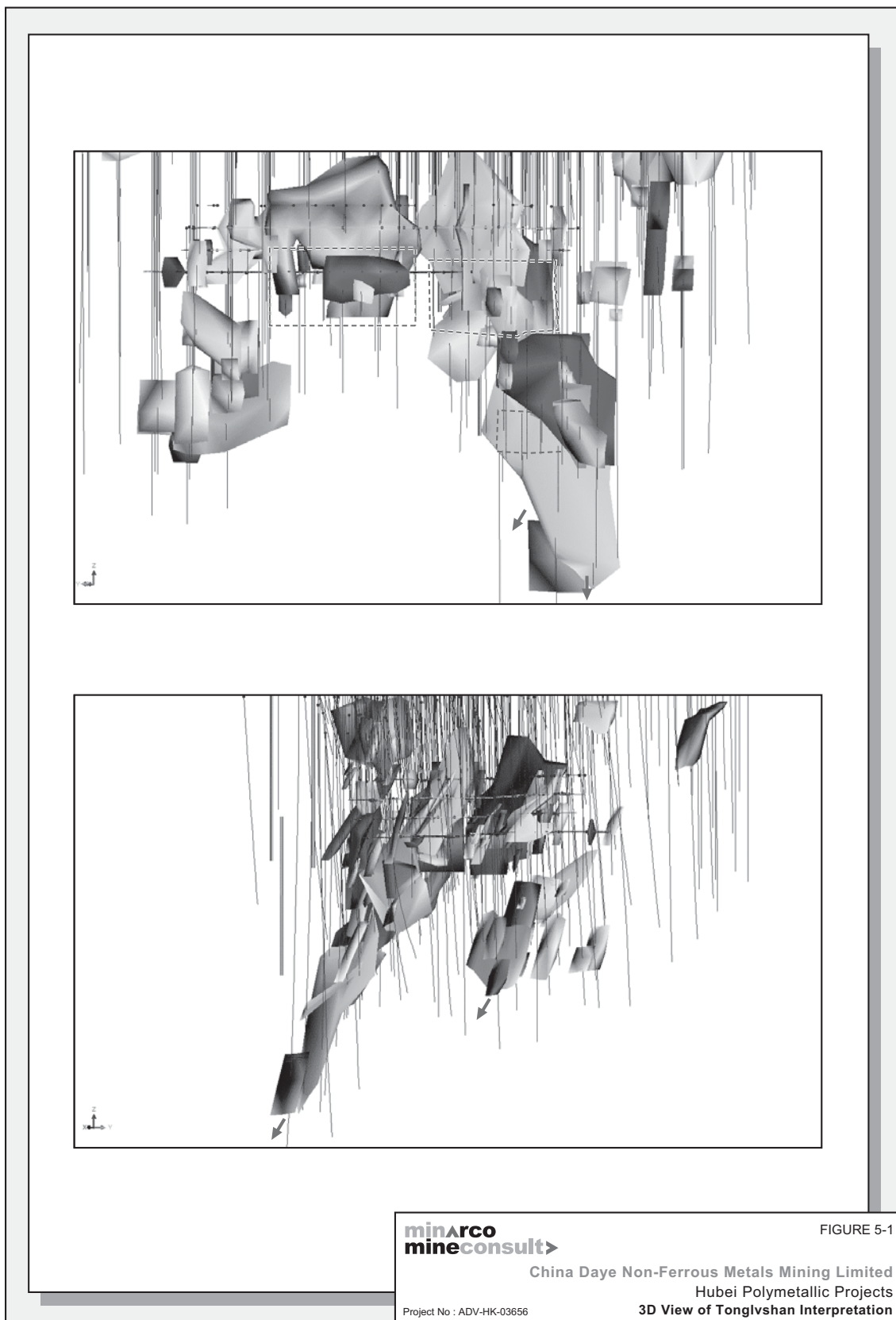
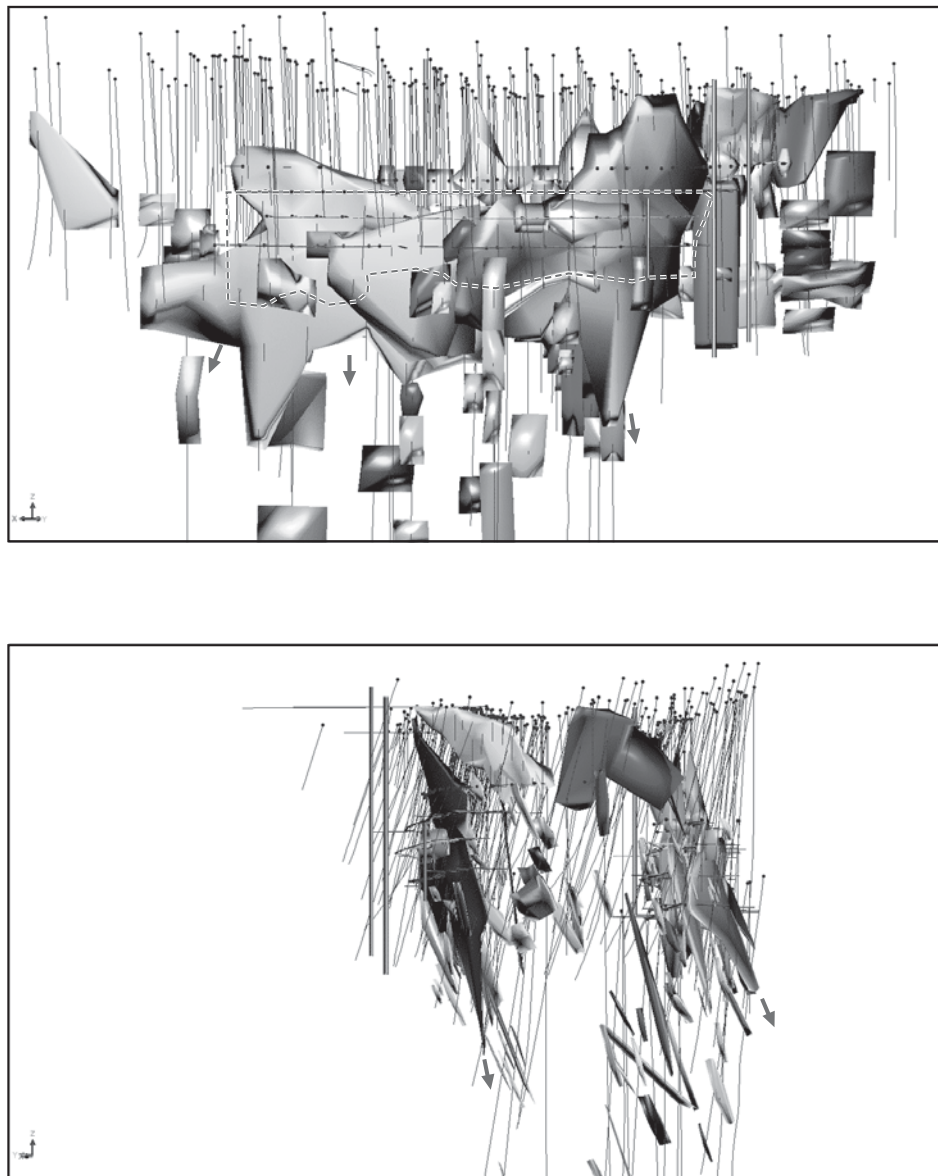


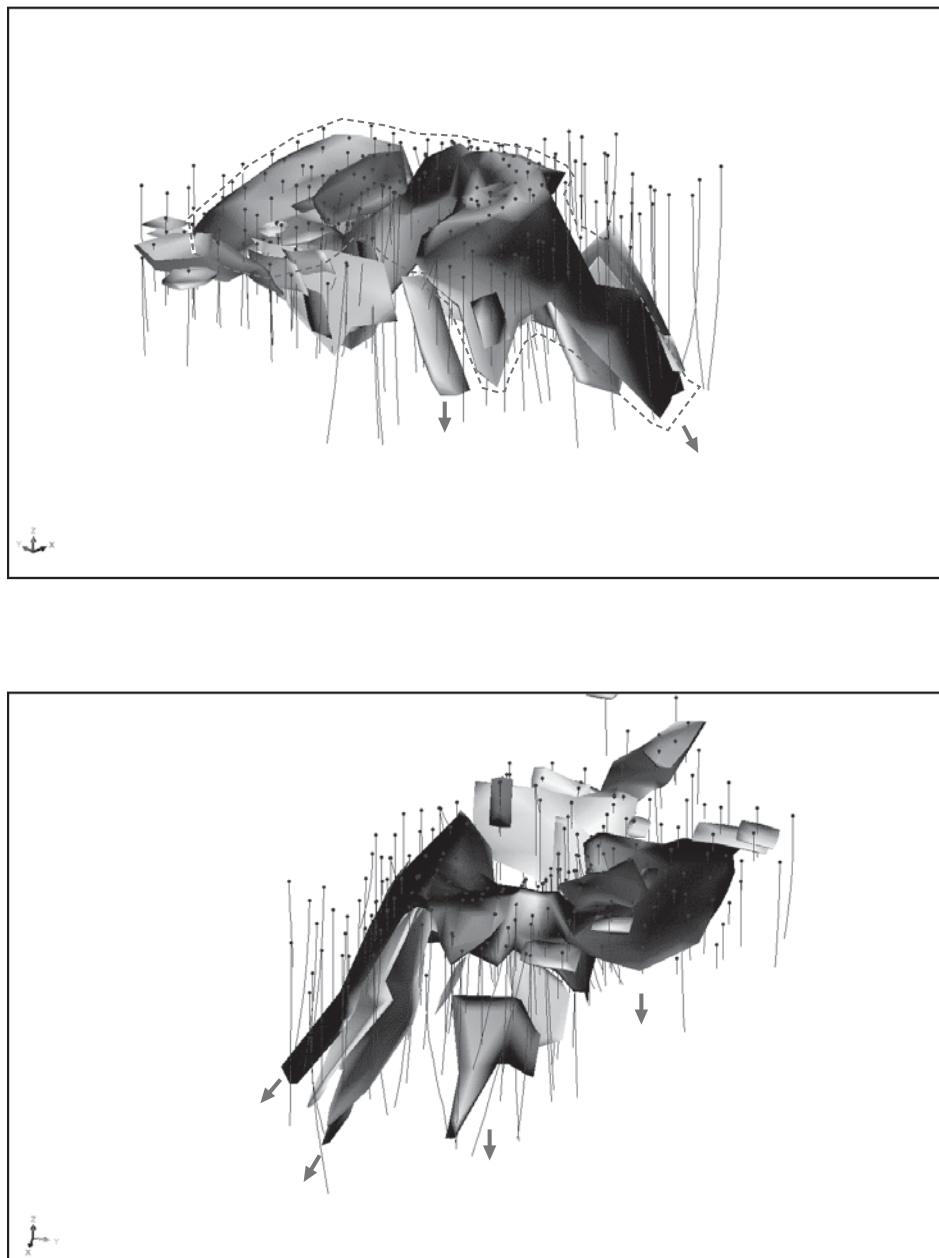
Figure 5-2 Hubei Polymetallic Projects – 3D View of the Fengshan Interpretation

**minarco**
mineconsultChina Daye Non-Ferrous Metals Mining Limited
Hubei Polymetallic Projects
3D View of Fengshan Interpretation

Project No : ADV-HK-03656

FIGURE 5-2

Figure 5-3 Hubei Polymetallic Projects – 3D View of the Tongshankou Interpretation



minarco
mineconsult

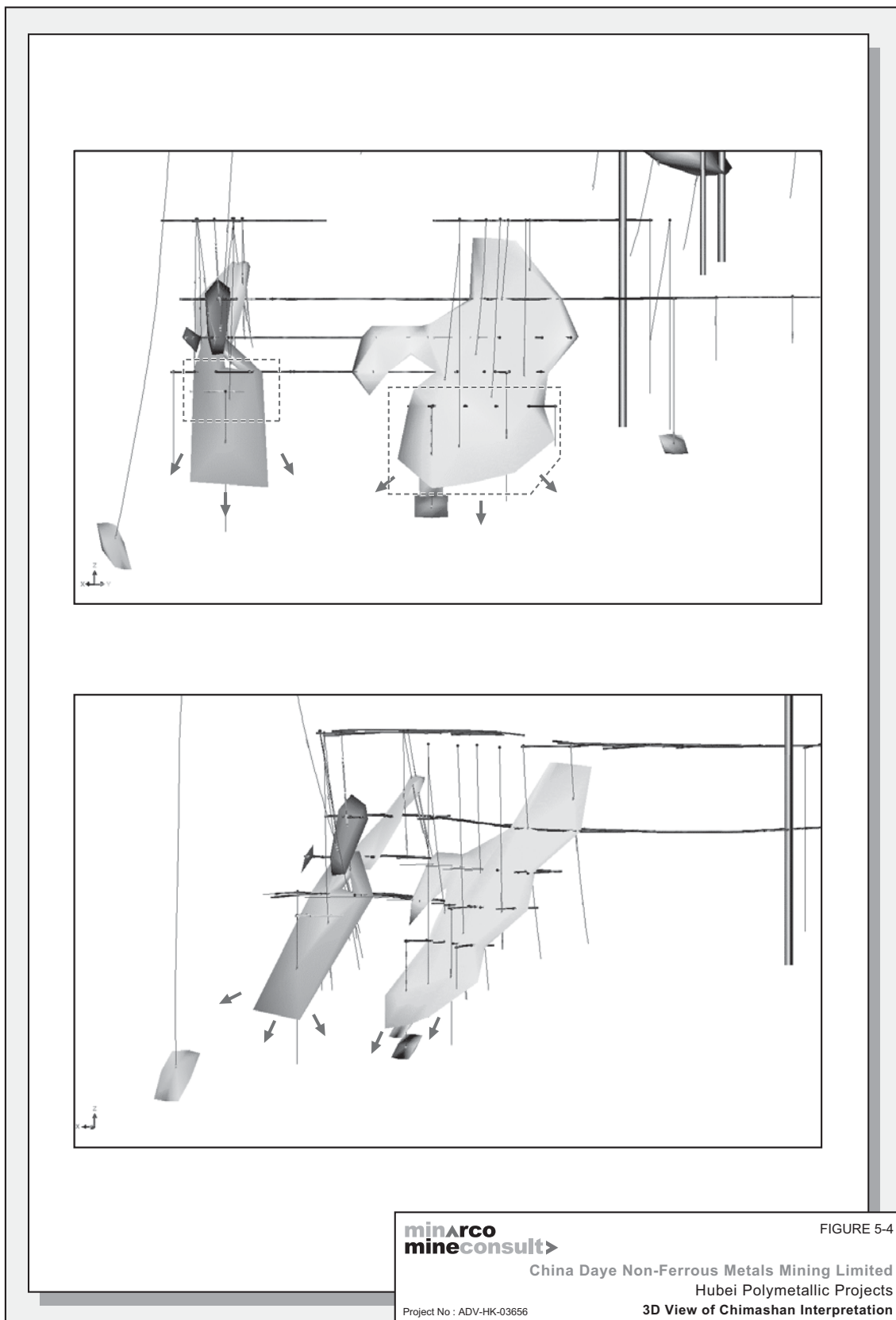
China Daye Non-Ferrous Metals Mining Limited
Hubei Polymetallic Projects

Project No : ADV-HK-03656

3D View of Tongshankou Interpretation

FIGURE 5-3

Figure 5-4 Hubei Polymetallic Projects – 3D View of the Chimashan Interpretation



5.5 Estimation Parameters and Methodology

The Mineral Resource estimates for the Projects were completed using the following parameters:

- From January to November, 7 site visits to the Daye Copper Projects was conducted by 7 MMC technical consultants.
- The Chinese 1954 survey system was used for Tonglvshan, Fengshan, Tongshankou, while a custom coordinate system was used for Chimashan.
- The lateral length and the depth of mineralisation defined by the current exploration works for each Project are shown in Table 5-6 below.

Table 5-6 Hubei Polymetallic Projects – Extents and Depth of the Projects

Project	Easting (min)	Easting (max)	Minimum Depth (m)	Maximum Depth (m)
Tonglvshan	38,589,550	38,590,800	-1,350	150
Fengshan	38,639,670	38,641,320	-1,200	100
Tongshankou	38,579,680	38,581,320	-650	200
Chimashan	20,100	21,800	-600	150

- Underground and surface drill holes and underground channel samples were used to define the resource envelopes for the Projects. Drilling has been conducted on predominantly 100 m spacing for all the Projects with underground workings with development drives generally separated 60 m vertically; however the number of levels varies significantly throughout the Projects. Horizontal channel sampling was generally conducted on 50 m – 100 m intervals within the development drives at each of the Projects. A summary of the data supplied and utilised for the estimates is shown in Table 5-7 below.

Table 5-7 Hubei Polymetallic Projects – Data Utilised in the Estimates

Type	Tonglvshan		Fengshan		Tongshankou		Chimashan	
	<i>No.</i>	<i>Metres in Envelopes</i>	<i>No.</i>	<i>Metres in Envelopes</i>	<i>No.</i>	<i>Metres in Envelopes</i>	<i>No.</i>	<i>Metres in Envelopes</i>
Underground DD	179	8,801.36	240	9,024.01	217	9,685.66	17	421.76
Surface DD	57	2,530.17	16	473.15	32	2,390.84	17	289.40
Channels	88	2,755.38	27	612.07	–	–	35	407.68

- All sampling data used for the Mineral Resource estimates was supplied up until 20th May 2011. MMC has been advised by Daye Metal that there has been no drilling or sampling which will be material to the Mineral Resource conducted between the 20th of May and 30th of September 2011. MMC has reviewed long sections provided by Daye Metal for this period and completed a site visit to verify the depletion and has relied on Daye Metal's advice regarding drilling and sampling factual information.
- The majority of surface diamond holes were drilled vertically in the Projects. HQ size drill rods were used from the surface and were then changed to NQ once the hole was established to produce a core sample.
- Underground grade control drilling was completed using AQ sized core from several levels within the Projects. Holes were generally oriented perpendicular to the strike of the mineralisation.
- All surface holes were surveyed at the collar using qualified Chinese surveyors and equipment, while down hole surveys were completed every 50 m using multi-shot cameras. MMC consider both methods will result in accurate locations being determined.
- Sampling of the holes was generally completed on 1 m or 2 m intervals (depending on the Project), however the length varied depending on the location of the vein or geological boundaries which were used to guide sampling.
- Sample preparation and assay determinations were completed by the Geological Institute which conducted the drilling and underground exploration. The exploration and sample testing of Tonglvshan and Tongshankou Projects were mainly carried out by East Southeast Geology Brigade ("SGB"), the exploration and sample testing of Fengshan and Chimashan Projects were carried out by Central South Bureau of China Metallurgical Geology Bureau ("CBCMGB"), while underground grade control drilling was completed by Daye Metal.
- Before 1990's, the method of analytical determinations for Cu was oscillopolarography while iodometry, colorimetry was used for Mo and AAS was utilised for Au and Ag. Post 1990, AAS was used for Cu and Ag while Rhodanate was used for Mo and active carbon adsorption with AAS finished was used for Au. Infrared C-S meter was used for S during all campaigns while the titration volumetric method was utilised for Fe assays.

- Mineralised envelopes were constructed at a nominal 0.2% Cu cut-off grade for Tonglvshan, Fengshan, Tongshankou and Chimashan Projects while a 20% TFe cut-off was utilised for the Fe mineralisation within Tonglvshan Project.
- Samples within the envelopes were composited to an even 2 m for all Projects. High grade cut-offs were applied for all Projects based on a detailed statistical analysis. During the analysis it was interpreted that outliers were present in the distributions. Table 5-8 below shows the high grade cuts applied to the estimates.

Table 5-8 Hubei Polymetallic Projects – High Grade Cuts applied to the Estimates

Project	Cu (%)	Mo (%)	Fe (%)	Au (g/t)	Ag (g/t)	S (%)
Tonglvshan	12	2	90	10	40	20
Fengshan	5	0.10	–	–	–	–
Tongshankou	6	0.40	–	5	50	–
Chimashan	8	0.75	–	–	–	–

- An individual Surpac block model was created for each Project. These models encompassed the full extent of the known mineralisation.
- Tonglvshan model was created using a block size of 25 m NS by 5 m EW by 5 m vertical with sub-cells of 6.25 m by 1.25 m by 1.25 m to allow the local variability of the underground channel sampling to be estimated.
- Fengshan model was created using a block size of 5 m NS by 10 m EW by 5 m vertical with sub-cells of 1.25 m by 2.5 m by 1.25 m.
- Tongshankou model was created using a block size of 10 m NS by 10 m EW by 10 m vertical with sub-cells of 2.5 m by 2.5 m by 2.5 m.
- Chimashan model was created using a block size of 5 m NS by 10 m EW by 5 m vertical with sub-cells of 0.625 m by 1.25 m by 0.625 m.
- The Ordinary Kriging method (“OK”) interpolation with an anisotropic search was used to estimate all models. Each element was interpolated using drilling hole, channel and trench composites from within the interpreted envelopes. Three passes were used for each estimate using parameters shown in Table 5-10 and Table 5-10.

Table 5-9 Hubei Polymetallic Projects – Pass Parameters Used for OK Resources Estimates

Pass	Tonglvshan			Fengshan		
	Search radius (m)	Min Samples	Max Samples	Search radius (m)	Min Samples	Max Samples
1	80	10	20	60	10	20
2	80	5	20	100	5	20
3	150	2	20	250	1	20

Table 5-10 Hubei Polymetallic Projects – Pass Parameters Used for OK Resources Estimates

Pass	Tongshankou			Chimashan		
	Search radius (m)	Min Samples	Max Samples	Search radius (m)	Min Samples	Max Samples
1	150	10	20	60	6	15
2	250	10	20	100	6	15
3	250	2	25	120	3	15

- The bulk density within Tonglvshan was calculated based on the formula 'tfe_pct*0.0287+2.3737' which was derived from a correlation of Fe grade and bulk density determinations. No correlation was interpreted for the other Projects as a result a bulk density of 3.1 t/cu.m. This figure was based on bulk density analysis that was completed during the exploration programmes at the various Projects. MMC conducted a review of this data and deemed that the values were consistent with the rock type and the style of mineralisation found at each Project.
- All mined surface workings as at the date of the Mineral Resource statement were depleted from the respective project's models based on 3 dimensional surface shapes created from plans provided by Daye Metal as at 30th September 2011. MMC has reviewed plans provided by Daye Metal for this period and completed a site visit to verify the depletion and has relied on Daye Metal's advice regarding development factual information.

- All mined underground workings as at the date of the Mineral Resource statement were depleted from the respective project's models based on 3 dimensional stoping shapes created from long sections provided by Daye Metal as at 30th September 2011, and 3 dimensional development shapes created from plans provided by Daye Metal as at 20th May 2011. MMC reviewed long sections and plans provided by Daye Metal for this period, completed a site visit to verify the depletion, and have relied on Daye Metal's advice regarding underground development factual information.

6 ORE RESERVE ESTIMATION

The JORC Code defines Ore Reserves as the economically mineable portion of a Measured and/or Indicated Mineral Resource, taking into account any diluting materials and allowances for losses, which may occur when the material is mined. The estimation of Ore Reserves involved the following steps listed below.

- The mineralisation was characterised on a vein by vein basis.
- The applied mining methods and current life of mine designs were reviewed.
- Appropriate rates of mining loss and ore dilution were estimated for each mining method.
- Cut-off grades suitable for use in an Ore Reserve estimate were determined.
- Economic modelling was completed to confirm the economic viability of extraction of the Ore Reserves.

This process and the findings are outlined in more detail below.

6.1 Results

MMC independently estimated Mineral Resources for the Projects, as outlined in Section 5. The Mineral Resource estimates were based on data collected from February to November 2011. Ore Reserves have subsequently been estimated for the four mining Projects based on the Mineral Resource estimates, relevant mine planning studies as well as a review of the current site operations. The Ore Reserve estimates comply with the recommendations outlined in the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves 2004 Edition (the "JORC Code") by the Joint Ore Reserves Committee ("JORC"), therefore they are suitable for public reporting.

MMC's JORC Ore Reserve estimates are summarised in Table 6-1 to Table 6-4. The Mineral Resources reported in Section 5 are inclusive of, and not additional to, the Mineral Resources modified to produce the Ore Reserve Estimates reported below.

Table 6-1 Hubei Polymetallic Projects – Tonglvshan JORC Ore Reserve Estimate – as at 30th September 2011

JORC Classification	Ore Quantity (kt)	Cu (%)	TFe (%)	Au (g/t)	Ag (g/t)	Cu metal (t)	Fe metal (kt)	Au metal (kg)	Ag metal (kg)
Probable (in mining licence)	10,360	1.21	23.78	0.46	3.31	125,100	2,464	4,800	34,300
Probable (in exploration licence)	2,380	0.68	34.18	0.46	6.24	16,200	815	1,100	14,900
Total Probable	12,750	1.11	25.72	0.46	3.86	141,300	3,279	5,900	49,200

Note: Figures reported are rounded which may result in small tabulation errors.

Table 6-2 Hubei Polymetallic Projects – Fengshan JORC Ore Reserve Estimate – as at 30th September 2011

JORC Classification	Ore Quantity (kt)	Cu (%)	Mo (%)	Cu metal (t)	Mo metal (t)
Probable	4,560	1.01	0.004	45,800	190

Note: Figures reported are rounded which may result in small tabulation errors.

Table 6-3 Hubei Polymetallic Projects – Tongshankou JORC Ore Reserve Estimate – as at 30th September 2011

JORC Classification	Ore Quantity (kt)	Cu (%)	Mo (%)	Cu metal (t)	Mo metal (t)
Probable (open pit)	10,340	0.63	0.010	64,600	980
Probable (Underground)	6,200	0.87	0.006	54,000	360
Total Probable	16,540	0.72	0.008	118,600	1,330

Note: Figures reported are rounded which may result in small tabulation errors.

Table 6-4 Hubei Polymetallic Projects – Chimashan JORC Ore Reserve Estimate – as at 30th September 2011

JORC Classification	Ore Quantity	Cu	Mo	Cu metal	Mo metal
	(kt)	(%)	(%)	(t)	(t)
Probable	35	0.77	0	270	–

Note: Figures reported are rounded which may result in small tabulation errors.

6.2 Reserve Estimation Parameters

MMC has determined suitable operating parameters to apply to the Ore Reserve estimates following discussions with site personnel, revision of relevant mine planning reports and revision and application of the life of mine designs to the areas of the deposit where Measured and/or Indicated Mineral Resources have been estimated.

6.2.1 Tonglvshan Project

The mining parameters applied to estimate Ore Reserves for Tonglvshan Project are listed below.

- Copper Equivalence (“CuEq”) based on processing plant recoveries supplied by Daye Metal of 84.2% Cu, 54.6% Fe, 76.8% Au and 77.0% Ag, and consensus long-term forecast metal prices of 32987 RMB/t Cu, 1124 RMB/t Fe concentrate, 185.90 RMB/g Au and 3.22 RMB/g Ag ; where
- $1\% \text{ CuEq} \sim 1\% \text{ Cu} \sim 45.266\% \text{ Fe} \sim 1.945 \text{ g/t Au} \sim 112.131 \text{ g/t Ag}$, so
- $\text{CuEq}\% = 1 \times \text{Cu}\% + 0.0221 \times \text{Fe}\% + 0.5140 \times \text{Au g/t} + 0.0089 \times \text{Ag g/t}$.
- Life-of-Mine Cut-off Grade (Industrial Cut-off Grade) of 1.22% CuEq after dilution and losses. This is the minimum grade for each stoping block that can be economically extracted taking into account all forecast operating and capital costs reviewed by MMC.

- Minimum Cut-off grade (Operational Cut-off Grade) of 0.68% CuEq after dilution and losses. This is the minimum grade for any parcel of ore within or adjacent to a stoping block that can be economically extracted taking into account all forecast variable costs reviewed by MMC.
- Minimum mining width (including ore and planned waste dilution) is 2.0 m, which has been supplied by Daye Metal and is based on the equipment currently in use.
- Recovery factor of 89.9% has been used for the vertical crater retreat mining method used at the Tonglvshan Project, using the planned pillar and stope geometries.
- Recovery factor of 92.1% has been used for the transverse cut and fill stoping mining method used at the Tonglvshan Project, using the planned stope geometry.
- Recovery factor of 90.6% has been used for the longitudinal sub-level open stoping mining method proposed for use at the Tonglvshan Project, using the planned pillar and stope geometries.
- Recovery factor of 91.3% has been used for the modified transverse cut and fill mining method proposed for use at the Tonglvshan Project, using the planned pillar and stope geometries.
- Recovery factor of 90.8% has been used for the modified longitudinal cut and fill mining method proposed for use at the Tonglvshan Project, using the planned pillar and stope geometries.
- Mining dilution factor of 9.8% has been used for the vertical crater retreat mining method used at the Tonglvshan Project, assuming 0.6 m over-break of ore, 0.8 m over-break of waste, and 1.0 m over-break of back-fill, applied to the planned stope geometries.
- Mining dilution factor of 8.5% has been used for the transverse cut and fill stoping mining method used at the Tonglvshan Project, assuming 0.3 m over-break of ore and waste, 0.4 m overbreak and 0.3 m over-muck of back-fill, applied to the planned stope geometries.

- Mining dilution factor of 9.0% has been used for the longitudinal sub-level open stoping mining method proposed for use at the Tonglvshan Project, assuming 0.2 to 0.6 m over-break of waste depending on span size and orientation, 0.3m over-break of ore, 0.8 to 1.0 m overbreak of the crown depending on span size and 0.5 m over-break of back-fill applied to the planned stope geometries.
- Mining dilution factor of 9.5% has been used for the modified transverse cut and fill mining method proposed for use at the Tonglvshan Project, assuming 0.2 m over-break of ore and waste, 0.2 m overbreak and 0.3 m over-muck of back-fill, applied to the planned stope geometries.
- Mining dilution factor of 11.4% has been used for the modified longitudinal cut and fill mining method used at the Tonglvshan Project, assuming 0.2 m over-break of ore and waste, and 0.3 m over-muck of back-fill, applied to the planned stope geometries.

6.2.2 Fengshan Project

The mining parameters applied to estimate Ore Reserves for the Fengshan Project are listed below.

- CuEq based on processing plant recoveries supplied by Daye Metal of 91.7% Cu and 40.5% Mo, and consensus long-term forecast metal prices of 32987 RMB/t Cu and 180 RMB/kg Mo; where
 - $1\% \text{ CuEq} \sim 1\% \text{ Cu} \sim 0.416\% \text{ Mo}$, so
 - $\text{CuEq}\% = 1 \times \text{Cu}\% + 2.4039 \times \text{Mo}\%$.
- Life-of-Mine Cut-off Grade (Industrial Cut-off Grade) of 0.82% CuEq after dilution and losses. This is the minimum grade for each stoping block that can be economically extracted taking into account all operating and capital costs forecast reviewed by MMC.
- Minimum Cut-off grade (Operational Cut-off Grade) of 0.40% CuEq after dilution and losses. This is the minimum grade for any parcel of ore within or adjacent to a stoping block that can be economically extracted taking into account all forecast variable costs reviewed by MMC.

- Minimum mining width (including ore and planned waste dilution) is 2.0 m, which has been supplied by Daye Metal and is based on the equipment currently in use.
- Recovery factor of 88.2% has been used for the sub-level open stoping mining method used at the Fengshan Project, using the planned pillar and stope geometries.
- Recovery factor of 79.3% has been used for the combination of cut and fill and post pillar cut and fill mining methods used at the Fengshan Project, using the planned pillar and stope geometries.
- Mining dilution factor of 10.0% has been used for the sub-level open stoping mining method used at the Fengshan Project, assuming 0.3 to 0.5 m over-break of ore and waste depending on the span size, 0.4 to 0.8 m over-break of back-fill depending on exposure size and orientation, and 0.3 m over-muck of back-fill applied to the planned stope geometries.
- Mining dilution factor of 12.2% has been used for the combination of cut and fill and post pillar cut and fill mining methods used at the Fengshan Project, assuming 0.25 m over-break of ore and waste, and 0.2 m over-muck of back-fill applied to the planned stope geometries.

6.2.3 Tongshankou Project

The mining parameters applied to estimate Ore Reserves for the Tongshankou Project are listed below.

- CuEq for the open cut and underground Tongshankou operations are based on processing plant recoveries supplied by Daye Metal of 79.2% Cu and 11.1% Mo, and consensus long-term forecast metal prices of 32,987 RMB/t Cu and 180 RMB/kg Mo; where
- $1\% \text{ CuEq} \sim 1\% \text{ Cu} \sim 1.308\% \text{ Mo}$, so
- $\text{CuEq}\% = 1 \times \text{Cu}\% + 0.7644 \times \text{Mo}\%$.

Open Pit Mining Operations

Parameters applied to open pit mining operations are:

- Minimum Cut-off Grade of 0.36% CuEq after dilution and losses. This is the minimum grade that can be economically extracted and processed taking into consideration all associated operating costs and processing recoveries.
- Recovery factor of 95% has been used for the truck and shovel open cut mining method. This recovery factor has been provided by Daye Metal and is based on its operating experience.
- Mining dilution factor of 8% has been used for the truck and shovel open cut mining method. This factor is based on the 2008 Tongshankou Utilisation and Development Report which reports historic ore recovery at the Project.

Underground Mining Operations

Parameters to underground mining operations are:

- Life-of-Mine Cut-off Grade (Industrial Cut-off Grade) of 0.68% CuEq after dilution and losses. This is the minimum grade for each stoping block that can be economically extracted taking into account all operating and capital costs forecast reviewed by MMC.
- Minimum Cut-off grade (Operational Cut-off Grade) of 0.45% CuEq after dilution and losses. This is the minimum grade for any parcel of ore within or adjacent to a stoping block that can be economically extracted taking into account all forecast variable costs reviewed by MMC.
- Minimum mining width (including ore and planned waste dilution) is 2.0 m, which has been supplied by Daye Metal and is based on the equipment currently in use.
- Recovery factor of 87.9% has been used for the transverse sub-level open stoping mining method used at the Tongshankou Project, using the planned pillar and stope geometries.

- Recovery factor of 85.3% has been used for the longitudinal sub-level open stoping mining method used at the Tongshankou Project, using the planned pillar and stope geometries.
- Recovery factor of 81.4% has been used for the post pillar cut and fill mining methods used at the Tongshankou Project, using the planned pillar and stope geometries.
- Mineralisation within 20m of the open pit had an additional recovery factor of 70% applied for expected losses when extracting the crown pillar.
- Mineralisation within 70m of the surface west of the open pit was excluded from the reserve due to expected poor ground and proximity to a surface water course.
- Mining dilution factor of 7.9% has been used for the transverse sub-level open stoping mining method used at the Tongshankou Project, assuming 0.3 to 0.5 m over-break of ore and waste depending on the span size, 0.4 to 0.7 m over-break of back-fill depending on exposure size, and 0.3 m over-muck of back-fill applied to the planned stope geometries.
- Mining dilution factor of 11.2% has been used for the longitudinal sub-level open stoping mining method used at the Tongshankou Project, assuming 0.3 to 0.5 m over-break of ore and waste depending on the span size, applied to the planned stope geometries.
- Mining dilution factor of 8.3% has been used for post pillar cut and fill mining method used at the Tongshankou Project, assuming 0.3 m over-break of ore and waste, and 0.3 m over-muck of back-fill applied to the planned stope geometries.

6.2.4 Chimashan Project

The mining parameters applied to estimate Ore Reserves for the Chimashan Project are listed below.

- CuEq based on processing plant recoveries supplied by Daye Metal of 91.7% Cu and 40.5% Mo, and consensus forecast metal prices of 57,571 RMB/t Cu and 244 RMB/kg Mo; where
 - $1\% \text{ CuEq} \sim 1\% \text{ Cu} \sim 0.535\% \text{ Mo}$, so
 - $\text{CuEq}\% = 1 \times \text{Cu}\% + 1.8701 \times \text{Mo}\%$.
- Life-of-Mine Cut-off Grade (Industrial Cut-off Grade) of 0.72% CuEq after dilution and losses. This is the minimum grade for each stoping block that can be economically extracted taking into account all operating and capital costs forecast reviewed by MMC.
- Minimum Cut-off grade (Operational Cut-off Grade) of 0.60% CuEq after dilution and losses. This is the minimum grade for any parcel of ore within or adjacent to a stoping block that can be economically extracted taking into account all forecast variable costs reviewed by MMC.
- Minimum mining width (including ore and planned waste dilution) is 2.0 m, which has been supplied by Daye Metal and is based on the equipment currently in use.
- Mining dilution factor of 16.4% has been used for the sub-level open stoping method used at the Chimashan Project, assuming 0.3 m over-break of ore and waste, 0.5 m over-break and 0.3 m over-muck of back-fill applied to the planned stope geometries.
- Recovery factor of 74.3% has been used for the sub-level open stoping method used at the Chimashan, using the planned pillar and stope geometries.

6.3 Reserve Estimation Procedure

Open Pit Mining Operations

Open pit Ore Reserves were estimated using Whittle Strategic Mine Planning Software and Gemcom Surpac Geology and Mine Planning Software. The Ore Reserve estimations applied the reserve estimation parameters for each project to the respective 3-D geological block model created for the Mineral Resource estimate. The following steps were completed as part of the estimation process:

- The block model was examined and the appropriate mining method was selected;
- Appropriate operating costs and parameters were selected for the applied mining and processing method. These parameters were used to determine the open pit extents and shape. The selected pit shell was reviewed to consider surface constraints and potential interaction with planned underground operations;
- A pit shell was designed applying the planned pit design criteria as outlined in the 2008 Development and Utilisation Report.
- The geological model used for the JORC Resource estimate was constrained to above the designed pit shell and beneath the 30 June 2011 surface topography.
- The appropriate recovery factor was applied according to the mining method;
- The appropriate mining dilution was added according to the designated mining method. The grade of the applied dilution material was 0% CuEq;
- The Minimum Cut-off Grade was applied. Mineralised material inside the pit design, below the Minimum Cut-off Grade were excluded from the Ore Reserve estimate and treated as waste;

- A mining schedule was generated using the Ore Reserve estimate. The schedule was economically modelled applying suitable operating costs, capital costs, revenues, taxes and commissions to ensure the estimated Ore Reserves are economic under the assumed parameters;
- Ore Reserves within Indicated Mineral Resource were classified as Probable. No mineralisation within the Mineral Resources is classified as Measured; therefore there are no Proved Reserves.

Underground Mining Operations

Underground Ore Reserves were estimated using Gemcom Surpac Geology and Mine Planning Software. The Ore Reserve estimations applied the reserve estimation parameters for each project to the respective 3-D geological block model created for the Mineral Resource estimate. The following steps were completed as part of the estimation process:

- The block model was examined and the appropriate mining method for each part of the Mineral Resource was identified based on specified criteria;
- Appropriate stoping shapes for the selected mining method and minimum mining width were created on 5 m sections around mineralisation within the licence area and above the minimum cut-off grade before mining losses and dilution;
- The stoping shapes were reviewed to confirm the mining method selected based on the resource;
- Tonnes and grade were reported for each stoping shape on 5 m sections;
- The appropriate recovery factor was applied according to the selected mining method;
- The appropriate mining dilution was added according to the designated mining method. The grade of the applied dilution material was 0% CuEq;
- The Minimum Cut-off Grade was applied to the diluted stoping shapes. Stopping shapes below the Minimum Cut-off Grade were excluded from the Ore Reserve estimate;

- Diluted stoping shapes remaining were combined into relevant stoping blocks;
- The Life-of-mine Cut-off Grade was applied to all stoping blocks. Stopping blocks below the Life-of-mine cut-off grade were excluded from the Ore Reserve estimate;
- A mining schedule was generated using the Ore Reserve estimate. The schedule was economically modelled applying suitable operating costs, capital costs, revenues, taxes and commissions to ensure the estimated Ore Reserves are economic under the assumed parameters;
- Ore Reserves within Indicated Mineral Resource were classified as Probable. No mineralisation within the Mineral Resources is classified as Measured; therefore there are no Proved Reserves.

7 MINING

Mining is currently conducted at the Tonglvshan, Fengshan, Tongshankou, and Chimashan Projects. These four mining projects are predominantly focussed on producing copper, with molybdenum and iron being the other major minerals produced. Minor amounts of gold and silver are also present at the Tonglvshan, Fengshan and Chimashan Projects. These by-products are recovered during the smelting and refining process at the Huangshi Project, and are therefore treated as a credit.

Table 7-1 summarises the major minerals, mine status and mining methods used at each project. A generic description of the various mining methods in use is provided below in Section 7.1.

Table 7-1 Hubei Polymetallic Projects – Mining Methods Summary

Project	Primary Products	Open Pit Status	Underground Status	Underground Mining Methods
Tonglvshan	Cu, Fe	Operating	Operating	Transverse Cut & Fill, Vertical Crater Retreat, Modified Transverse Cut & Fill, Modified Longitudinal Cut & Fill and Sub-level Open Stoping
Fengshan	Cu, Mo	Complete	Operating	Cut & Fill, Post Pillar Cut & Fill and Sub-level Open Stoping
Tongshankou	Cu, Mo	Operating	Developing	Sub-level Open Stoping and Post Pillar Cut & Fill Stoping
Chimashan	Cu, Mo	–	Operating	Sub-level Open Stoping

Source: Provided by Daye Metal

7.1 Mining Methods

Truck and Shovel Mining

Truck and shovel mining is a conventional open pit mining method, typically used for extraction of near surface mineralisation where a level of operational flexibility is required. This method commonly uses percussion drill rigs for drilling production holes, bulk explosives for blasting, shovels or excavators for digging, and dump trucks for haulage. Waste rock covering the mineralisation, called overburden, is removed and stored in appropriately designed dumps, which exposes the mineralisation which can then be mined and processed.

The ability to use larger machines generally provides the ability produce at higher production rates and lower operating costs. Flexibility can be added to the method by using smaller equipment at the expense of productivity and operating cost. The limitations of any open pit mining method is that it is only economic to a certain depth, where ultimately the cost of removing overburden to access a block of mineralisation becomes greater than the revenue generated from that block of mineralisation after processing. At this depth, it may be economic to implement an underground mining method assuming continuation of mineralisation.

Cut and Fill Stopping

The Cut-and-Fill Stopping is a conventional underground mining method which is both flexible and selective. It is suited to deposits of variable dimension and shape, and for rock that cannot be supported over large spans. The method has a higher mining cost compared to most bulk underground mining methods, however it is suitable for mineralised bodies with variable geometry as increased recovery and reduced dilutions may be achieved.

Stopes are accessed by two main levels at the top and bottom of the stope, plus sub-levels serviced generally by an internal decline. The stopes are mined in lifts from the bottom of the level to the top of the level. As each lift is mined a void is created which is then backfilled, generally with a tailings product from the processing plant. The top portion of each backfill layer will be filled with a cement mix that provides a solid work floor to support heavy equipment. The process is repeated until the level above is reached. The bottom lift may be filled with high cement backfill to ensure minimal pillars are left and recovery of the resource is maximised.

Two variants of the mining method may be implemented depending on the dimensions and orientation of the orebody being mined. These are Longitudinal Cut-and-Fill Stopping and Transverse Cut-and-Fill Stopping. Longitudinal Cut-and-Fill Stopping extracts the mineralised material parallel to the strike of the orebody. It is suited to narrower portions of the mineralised body where the entire width can be mined without producing an unstable stope crown.

Transverse Cut-and-Fill stopping extracts the mineralised material perpendicular to the strike of the orebody. It is suited to portions of the orebody that are too wide for the longitudinal method. The stopes are mined in a sequential fashion, where primary stopes are mined and back-filled first. Secondary stopes located between the completed primary stopes are then mined, exposing the back-fill used to fill the primary stopes.

Post Pillar Cut and Fill Stopping

Post Pillar Cut-and-Fill Stopping is a conventional underground mining method suited to mineralised bodies that are flatly dipping, and for rock that cannot be supported over large spans. The method has a higher mining cost compared to most bulk underground mining methods. The method is quite flexible meaning that reduced dilutions may be achieved; however recovery of the orebody is reduced due to the need to leave post pillars in the mineralised body for support.

Access to the stope is determined by the geometry of the mineralised body, but as a minimum one main level at the bottom of the stope is necessary. Depending on final height of the stope and equipment being used, an internal decline or access shaft may be required to access sublevels. In a similar fashion to cut and fill stopping, post pillar cut and fill stopes are mined in lifts from the bottom to the top. To ensure a stable excavation, post pillars are left in the stope on regular spacings to support the crown of each lift. The void created by mining the lift is then backfilled, generally with a tailings product from the processing plant. The top portion of each backfill layer may be filled with a cement mix that provides a solid work floor to support heavy equipment. The process is repeated until the level above is reached, with the post pillars created in the same position for every lift to ensure effective load distribution in the backfill.

Depending on the geometry of the mineralised body and the planned stope, rib pillars and sill pillars may be required for regional support. The need for these pillars may be reduced or eliminated by the use of cemented backfill. This will ensure the recovery of the resource is maximised, assuming the increased operating cost due to cement consumption may be recovered by the increased recovery of the resource.

Vertical Crater Retreat Stoping

Vertical Crater Retreat (“VCR”) Stoping is a specialised underground mining method suited to vertical or steeply dipping mineralised bodies, where both mineralisation and waste are competent rocks. The method is not particularly flexible or selective; however as a bulk mining method lower operating cost and higher productivities can be achieved. Acceptable dilution and recovery rates can be achieved however these are dependent on mineralised body continuity, orientation and competency as well as drilling accuracy.

Stopes are accessed by two main levels at the top and bottom of the stope and are generally orientated perpendicular to the strike of the orebody. There are no sub-levels or other access requirements for this mining method, meaning that development costs per stope tonne are significantly reduced. Generally an undercut is developed from the bottom level, called the extraction level, to funnel the ore towards the drawpoint. Drilling is then completed from the top level, called the drilling level, towards the undercut using large diameter vertical drill holes. These holes are then fired downwards towards the drawpoint.

VCR stopes can be mined in a sequential or continuous fashion, depending on scheduling requirements for the mine. Primary stopes are mined and back-filled first, with secondary stopes located between or next to the completed stopes then mined, exposing the back-fill used to fill the primary stopes.

Sub-Level Open Stoping

Sub-level Open Stoping (“SLOS”) is a conventional and common underground mining method suited to mineralised bodies ranging from vertical or moderately dipping. It is bulk mining method which can achieve lower operating cost and higher productivities, and enlarging the stope dimensions influences these outcomes favourably. Good dilution and recovery rates can be achieved however these are dependent on production drill hole accuracy, mineralised body continuity, and to a lesser extent, competency.

Stopes are accessed by two main levels at the top and bottom of the stope, plus sufficient number of sub-levels for drilling. Dependent on the stope size and equipment being used, these sub-levels can be serviced by either an internal decline or access rise. Generally an undercut is developed from the bottom level to funnel the ore towards the drawpoint where it can be removed. The stope is then drilled from bottom up using all the sublevels. A void, called a cut-off slot, is mined from bottom to top in the stope. The rest of the stope is then fired into this void in a sequential manner until the entire stope is fired and emptied. Once the stope is completely open, filling can commence.

In a similar fashion to other stoping methods, Longitudinal SLOS and Transverse SLOS may be implemented depending on the dimensions and orientation of the mineralised body being mined. Longitudinal SLOS, where the mineralised material is mined parallel to the strike of the orebody, can be used in narrower portions of the mineralised body where the entire width can be mined without producing an unstable stope crown.

Transverse SLOS extracts the mineralised material perpendicular to the strike of the orebody. It is suited to portions of the mineralised body that are too wide for the longitudinal method. Often the stopes are mined in a sequential fashion, where primary stopes are mined and back-filled first. Secondary stopes located between the completed primary stopes are then mined, exposing the back-fill used to fill the primary stopes.

Depending on the geometry of the mineralised body and the variation of the method being implemented, rib pillars and sill pillars may be required for regional support. The need for these pillars may be reduced or eliminated with careful planning and stope sequencing combined with the use of cemented backfill. This will ensure the recovery of the resource is maximised, assuming the increased operating cost due to cement consumption may be recovered by the increased recovery of the resource.

7.2 Tonglvshan Project

The Tonglvshan Project contains a copper-iron resource with associated gold, silver and other minor trace elements. Mineralised Zones I, II, III, IV, V and XI consist of multiple mineralised veins clustered together in close proximity and have similar orientations and geometry. During the site visit, mining was being conducted using both open pit and underground mining techniques.

Open pit mining operations extract ore bodies I and II whilst underground mining is currently performed on mineralised zones III and IV. Mineralised Zone IX is currently under development with underground mine infrastructure currently under construction. Daye Metal has advised MMC that the open pit mining operation is nearing completion and has not been reviewed by MMC.

7.2.1 Mining Method and Parameters

The underground operation consists of two vertical shafts, one internal shaft and nine main haulage levels. The main haulage levels are currently spaced 60 m vertically and are located between the -245 m elevation and -725 m elevation. These main levels are accessed either via shaft or internal decline between the main levels.

Underground mining method utilised varies throughout Tonglvshan and is dependent on the individual characteristics of the particular mineralised body. Although a variation of the SLOS method has been used in the past, the primary mining methods currently utilised are the Transverse Cut and Fill Stopping and the VCR Stopping mining methods. In addition, new mining methods have been proposed as part of the 2010 Feasibility study completed for the project, which includes development of Mineralised Zone XI. This is discussed in greater detail in Section 7.2.3. These are a variant of the Longitudinal SLOS method, plus modified versions of both transverse and longitudinal cut and fill stopping methods. They will be employed I Mineralised Zone XI. Detailed characteristics of the methodologies employed are described further below. Table 7-2 and Table 7-3 describe the key mining parameters which are employed at the Tonglvshan Project.

Table 7-2 Hubei Polymetallic Projects –Tonglvshan Key Mining Parameters for Current Mining Methods

Description	Transverse Cut & Fill	VCR
Width (m)	8 m	10 m
Dip	<80°	>80°
Panel Length (m)	NA	25-35 m
Panel Height (m)	60 m	60 m
Sub-Level Interval	13 m	NA

Source: Provided by Daye Metal

Table 7-3 Hubei Polymetallic Projects – Tonglvshan Key Mining Parameters for Future Mining Methods

Description	Longitudinal SLOS	Modified Transverse Cut and Fill	Modified Longitudinal Cut and Fill
Width (m)	8-10m	>8m	<8m
Dip	>75°	varies	varies
Panel Length (m)	80m	80m	80m
Panel Height (m)	120m	120m	120m
Sub-Level Interval	15m	15m	15m

Source: Provided by Daye Metal

MMC considers that the mining methods currently used and proposed as discussed below are appropriate, considering for the scale and style of mineralised bodies, and that the recovery and dilution factors applied to each mining method are achievable.

Transverse Cut and Fill Stopping

The Cut and Fill Stopping method is currently used in mineralised bodies which dip at less than 80 degrees. The stopes are accessed from 4 sub-levels approximately 13 m apart. The sub-levels are developed in between the main haulage levels and are accessed from an internal decline. The stopes are extracted using a primary and secondary sequence. Eight metre wide stopes are taken in 3 m lifts between the sub-levels. Broken ore is removed from the stope with electric Load Haul Dump ("LHD") machines and tipped into an ore pass, which funnels the ore to the main haulage level. Rail locomotives transport the ore from the main haulage level to the shaft where it is hoisted to the surface.

Completed stopes are filled with a cemented hydraulic fill ("CHF") made from tailings material. The upper three levels have been depleted, with current production being sourced from the six levels between the -425 m elevation and -725 m elevation. MMC has estimated that this mining method is capable of approximately 92.1% recovery and a dilution factor of approximately 8.5%. Figure 7-1 illustrates this mining method in more detail.

VCR Stopping

The VCR mining method, which is currently used in mineralised bodies dipping greater than 80 degrees, has extraction levels located 8 m above the haulage level. An undercut is mined from the extraction level, followed by production drilling using large percussion drill rigs from the drilling level. Broken ore is removed from the stope with electric LHD's on the extraction level and tipped into an ore pass, which funnels the mineralisation to the main haulage level. Once the stope has been fully extracted, it is backfilled with CHF and the remaining 8 m crown pillar located above the upper haulage level is extracted.

Ten metre wide panels are extracted using a primary and secondary sequence. MMC has estimated that this mining method is capable of approximately 89.9% recovery and a dilution factor of approximately 9.8%. The dilution factor can be attributed to inaccuracy of the long production holes, large open spans and overbreak of CHF material into secondary stopes. Figure 7-2 illustrates this mining method in more detail.

Longitudinal Sub-level Open Stopping

The Longitudinal SLOS mining method will be used in Mineralised Zone XI when it comes into production in 2014. It will be used in steeply dipping bodies with a width of approximately 10 m. Planned sub-level interval is 15 m vertically, with main haulage level spacing of 120 m. Stopping panels are the width of the orebody by 80 m long, consisting of a 30 m long primary stope and 50 m long secondary stope. Haulage drives are developed in waste along the strike of the ore body, which provide access to stopping panels along the entire length of the stopping block. Cross-cut drives are then developed into the ore to provide access to individual stope panels. Production holes are drilled up from each sub-level. Open stopes are retreated from one end of the panel back towards the access and in a top down sequence. A trough pillar funnels ore to the main haulage level which is not extracted. Broken material will be removed from the stopes on the haulage level and transported to the shaft to be hoisted to the surface.

Primary stopes are mined and fill with CHF first, and then secondary stopes are mined. The bottom of the secondary stopes are filled with CHF also, with the remainder filled with Un-cemented Hydraulic Fill ("UHF"). This enables removal of the final sub-level in the stope panel below while minimising cement costs. Figure 7-3 illustrates this mining method. MMC has estimated that this mining method is capable of achieving 90.6% recovery and a dilution factor of 9.0%.

Modified Transverse Cut and Fill Stopping

The Modified Transverse Cut and Fill Stopping method will be used in Mineralised Zone XI when it comes into production in 2014. This modified variant of the Transverse Cut and Fill Stopping method will be used in mineralised bodies which are greater than 8 m in width and variable in dip. As like the Longitudinal SLOS method, planned sub-level interval is 15 m vertically, main haulage level spacing is 120 m and stopping panel length is 80 m. A 3 m rib pillar, which is not extracted, separates stope panels. The stopes are extracted 3.75 m lifts between the sub-levels.

The major difference between this method and conventional transverse cut and fill stopping is the layout of each lift. In this method, a drive is developed along the footwall of the mineralisation. 4 m primary rooms on 8 m spacings are then driven across the strike to the hangingwall, and filled with CHF. Once this CHF has cured, the secondary rooms in between the primary rooms are extracted and filled with UHF. Lifts will be drilled using horizontal production holes rather than the conventional vertical orientation, to minimise the wall exposure size and therefore dilution. Broken ore is removed from the stope with LHD machines and tipped into an ore pass, which funnels the ore to the main haulage level. Ore is then transported from the main haulage level to the shaft where it is hoisted to the surface. MMC has estimated that this mining method is capable of approximately 91.3% recovery and a dilution factor of approximately 9.5%. Figure 7-4 demonstrates this mining method in more detail.

Modified Longitudinal Cut and Fill Stopping

The Modified Longitudinal Cut and Fill Stopping method will be used in Mineralised Zone XI when it comes into production in 2014. This modified variant of the Longitudinal Cut and Fill Stopping method will be used in mineralised bodies which are less than 8 m in width and variable in dip. The panel infrastructure, access, and stope lift layout is the same as the transverse method described above.

Also like the description above, horizontal production holes will be used to minimise the wall exposures and therefore wall dilution. MMC has estimated that this mining method in combination with the post pillar cut and fill mining method described below is capable of achieving 90.8% recovery and a dilution factor of 11.4%. Figure 7-5 illustrates this mining method in more detail.

7.2.2 Production Rate

Tonglvshan is licensed to produce 1,320 ktpa of ore. In the underground mining methods, approximately 85% is extracted through cut & fill and 15% is extracted using the VCR mining method. Historical data including open pit and underground production, and forecast production targets have been provided by Daye Metal and are shown in Table 7-4 and Table 7-5 respectively.

Table 7-4 Hubei Polymetallic Projects – Tonglvshan Historical Mining Production

Item	Unit	2006	2007	2008	2009	2010	Jan
Production	Mtpa	1.27	1.59	1.33	1.12	1.04	0.64
Copper Grade	%	1.03	0.84	0.89	0.97	0.95	0.91
Iron Grade	%	25.63	22.33	20.72	22.84	21.17	24.45

Source: Provided by Daye Metal

Table 7-5 Hubei Polymetallic Projects – Tonglvshan Forecast Mining Production

Item	Unit	2011	2012	2013	2014	2015
Production	Mtpa	1.15	1.15	1.15	1.75	1.75
Copper Grade*	%	0.96	0.96	0.96	0.96	0.96
Iron Grade*	%	20.45	20.45	20.45	20.45	20.45

Source: Provided by Daye Metal

* Adjusted inline with forecast processing plant feed grade as shown in Table 8-6.

MMC notes the achieved production 2011 January to September, and envisages that the forecast production of 1.15 Mtpa will not be reached. MMC considers a 2011 full year forecast of between 0.83 and 0.87 Mt at 0.86 to 0.96% Cu and 23.2 to 25.7% Fe as more realistic. Increased production in 2014 and 2015 is due to new production sources in Mineralised Zone XI coming online, which is discussed in greater detail below. MMC envisages that the ramp up of ore production from Mineralised Zone XI in 2014 will take longer than forecast. MMC considers that a 2014 production forecast of between 1.45 and 1.60 Mt as achievable, and, that full production of 1.75 Mtpa will be achieved in 2015. After 2011, forecast copper and iron grades appear realistic and achievable, however schedules outlining stope locations, tonnes, grades and rates have not been provided meaning MMC was unable to review the forecast production figures in detail.

Based on the Ore Reserve estimate for the Tonglvshan's Project's underground operations (as outlined in Section 6) and the forecast production rate of 1.15 Mtpa rising to 1.75 Mtpa in 2014, MMC has estimated an underground mine life for the Tonglvshan Project of approximately 6.5 years within the current mining licence, with the ability to extend to approximately 8 years if the mining licence is deepened to include the mineralised material within the exploration licence.

The equipment list is summarised in Annexure D. MMC considers the current equipment selection to be suitable for the current mining operation and production rate. Due to the long mine life, opportunity exists to review and optimise the equipment selection when equipment is replaced.

7.2.3 Project Development

The Tonglvshan Project is producing primarily from its second phase of capital infrastructure, and is presently constructing and developing its third phase of capital infrastructure. This work is ongoing and includes the sinking of an internal hoisting shaft to -862m, an access shaft to -862m, main haulage levels and all other necessary infrastructure such as ventilation installations and pump stations.

Daye Metal is investigating further increases to production capacity to a total of 1.75 Mtpa, and commissioned ENFI to compile a Feasibility Study for mining Mineralised Zone XI in July 2010. Mineralised Zone XI is a deeper section of the Tonglvshan Project's resource and presents an opportunity to increase production capacity and diversify production sources. Production from the new underground infrastructure is planned to start in 2013, followed by 2 years of ramp-up period to reach a production rate of 0.66 Mtpa. The mining depth of Mineralised Zone XI ranges from -365 m to -965 m. The Feasibility Report specified that mineralisation above the -605 m main haulage level will be mined through the third phase of capital infrastructure, while the proposed new Mineralised Zone XI infrastructure will operate below this level. The construction plan includes a main shaft and a secondary shaft, with a designed hoisting capacity of 2,500 tpd of mineralisation and 500 tpd of waste. The Tonglvshan processing plant is planned to process 4,500 tpd by 2014-2016 exclusively from underground mining. No plan is in place for any further expansion.

Figure 7-1 Hubei Polymetallic Projects – Tonglvshan Transverse Cut & Fill Stopping

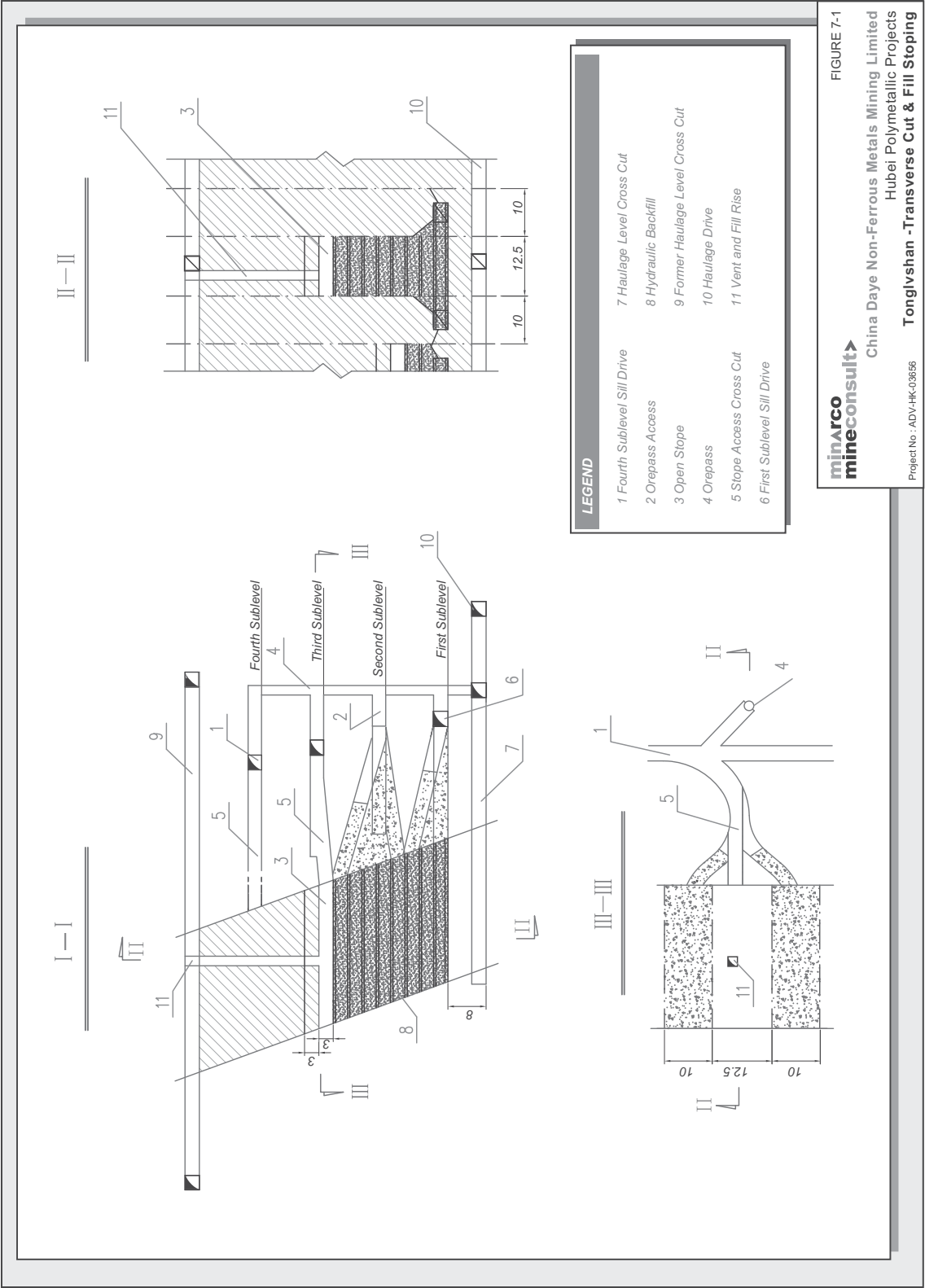


Figure 7-2 Hubei Polymetallic Projects – Tonglvshan Vertical Crater Retreat Stopping

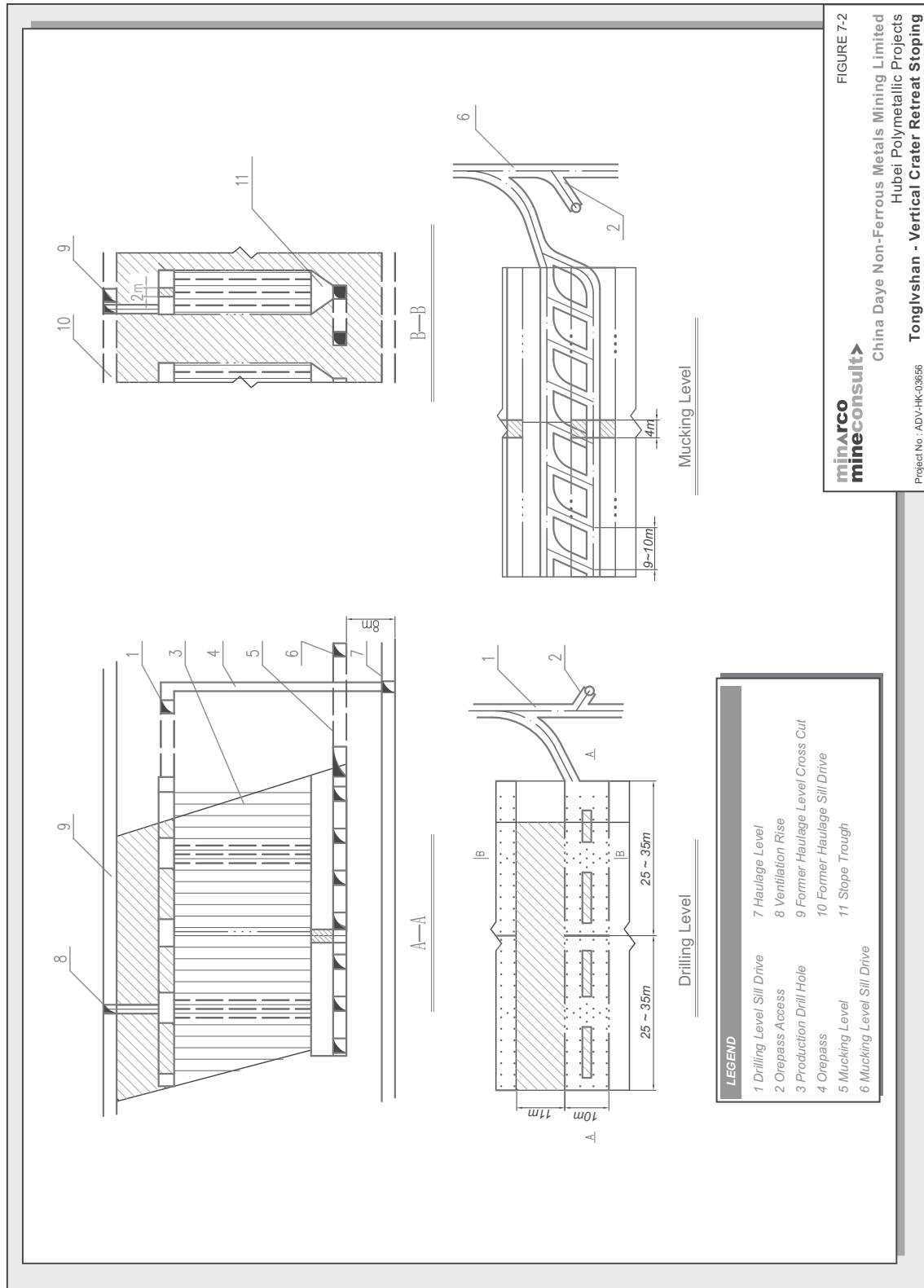


Figure 7-3 Hubei Polymetallic Projects – Tonglvshan Sub-level Open Stopping

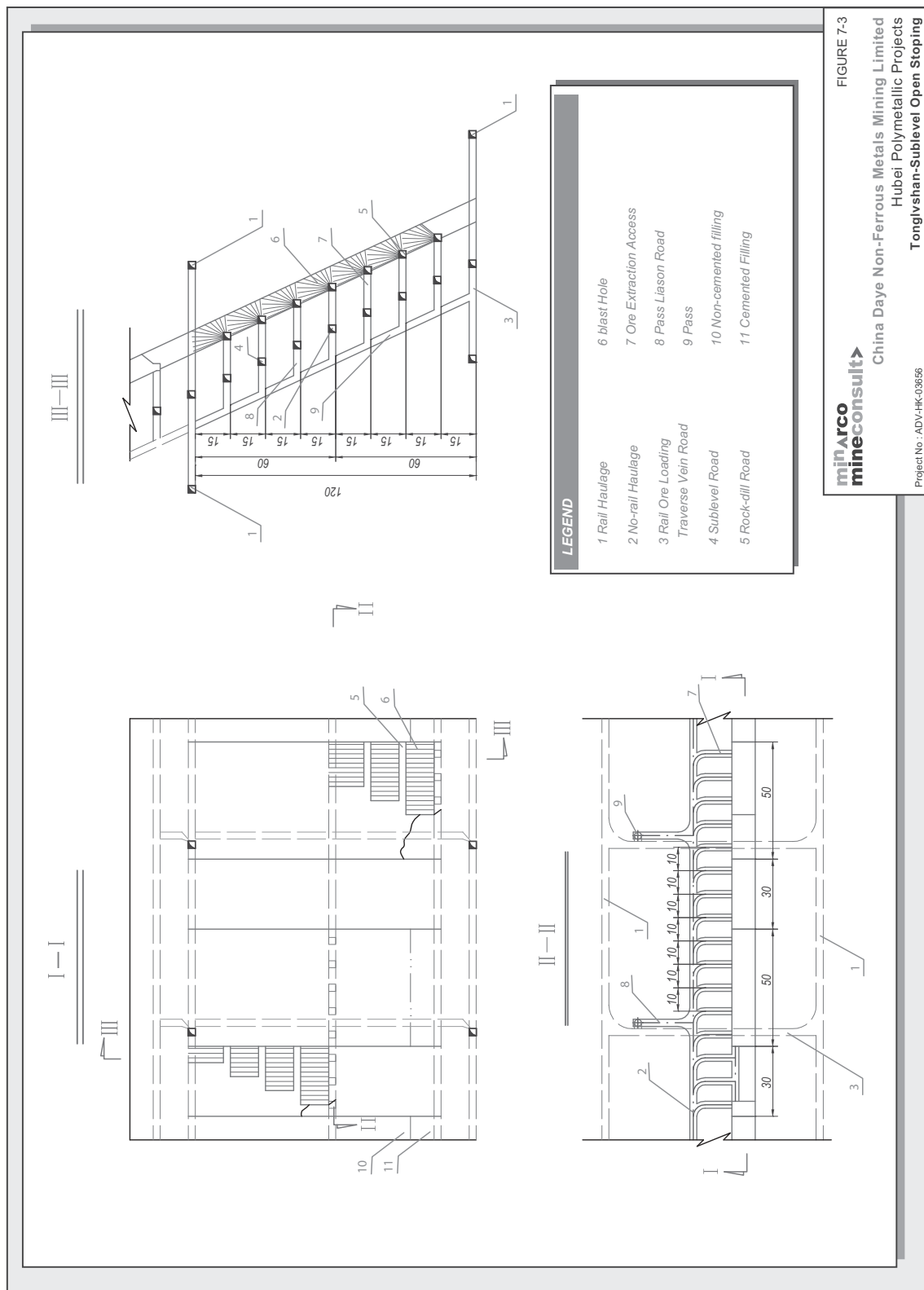


Figure 7-4 Hubei Polymetallic Projects – Tonglvshan Modified Transverse Cut and Fill Stopping

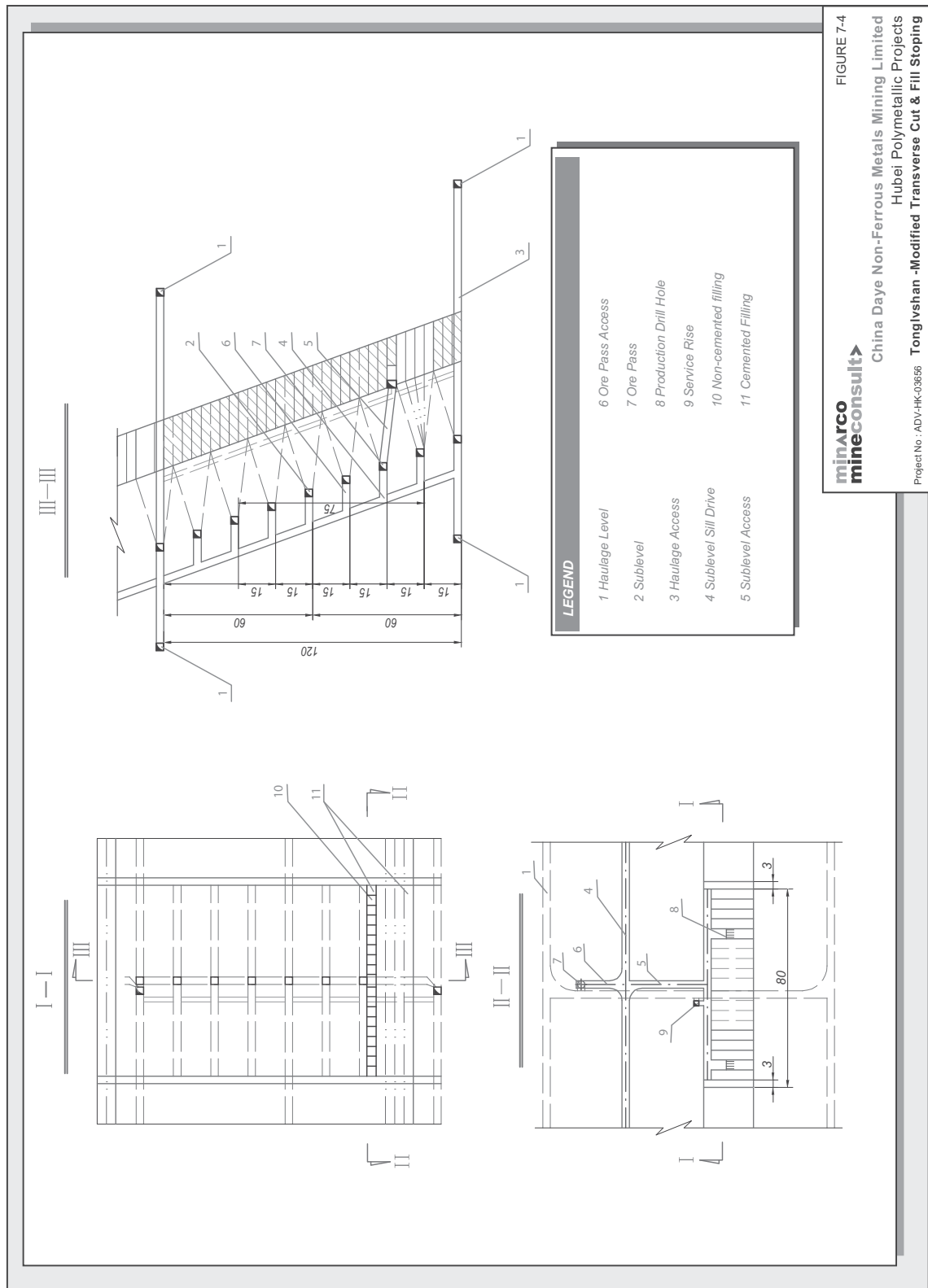
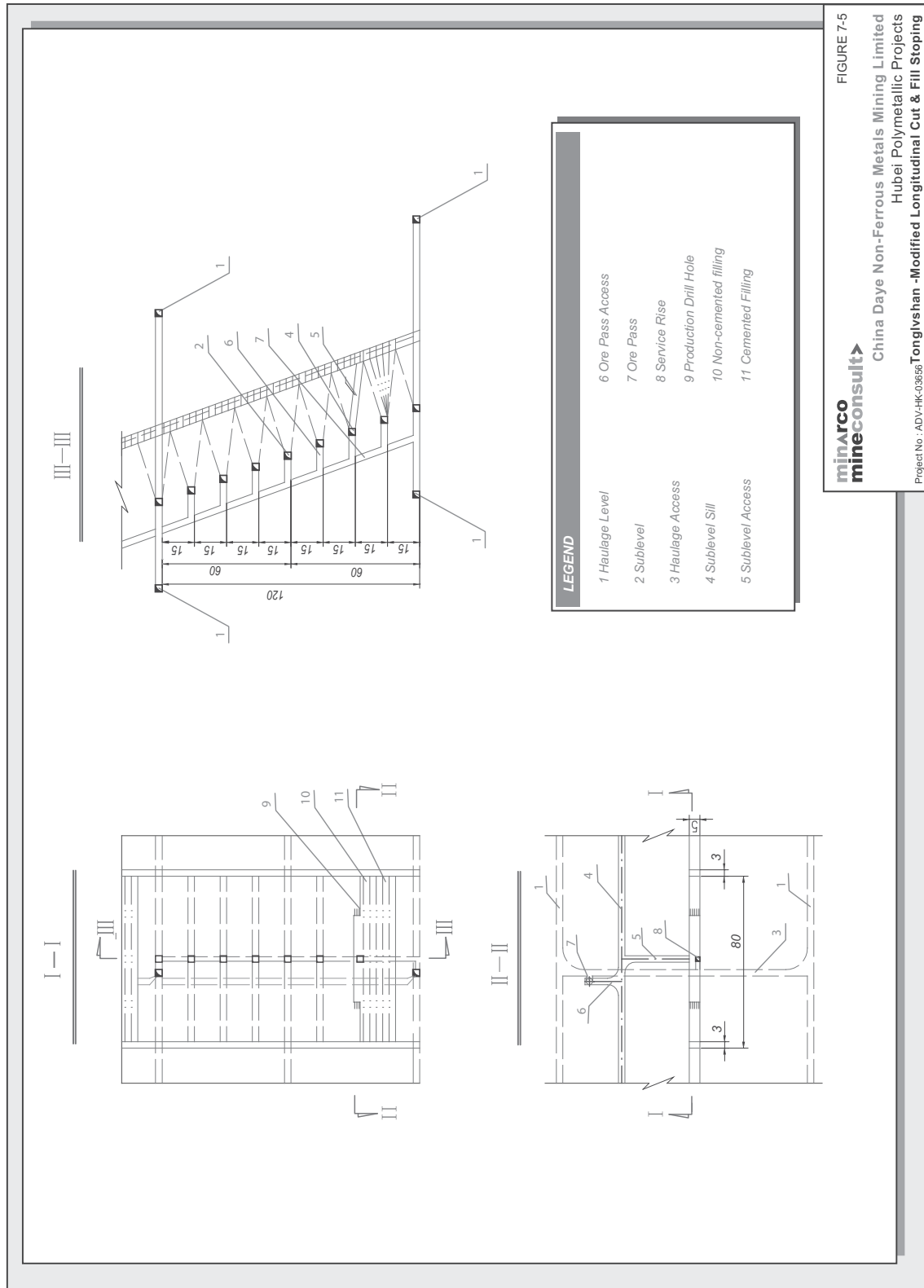


Figure 7-5 Hubei Polymetallic Projects – Tonglvshan Modified Longitudinal Cut and Fill Stopping



7.3 Fengshan Project

The Fengshan Project contains a completed open pit mine and an operating underground mine. The resource is copper-molybdenum with associated gold, silver and other minor trace elements contained within the mineralisation. Mineralised zones consist of multiple veins clustered together, which are located in close proximity and have similar orientations and geometry. During the site visit, production was occurring using underground mining methods with the open pit being used for waste rock storage.

7.3.1 Mining Method and Parameters

The underground operation at the Fengshan Project consists of three vertical shafts, namely the primary, secondary and development shaft, plus two ventilation shafts, a decline and six main haulage levels. The main haulage levels are located 60 m vertically apart and are located between the 100 m elevation and -260 m elevations. These main levels are accessed via either shaft or decline. The primary shaft currently has a hoisting capacity of 2,500 tonnes per day.

Mining methods vary throughout the project and are dependent on the individual characteristics of the particular mineralised zone being mined. The primary mining methods utilised are longitudinal cut and fill, post pillar cut & fill and SLOS, which are described in further detail below. The parameters that determine which mining method is used are given below in Table 7-6.

Table 7-6 Hubei Polymetallic Projects – Fengshan Mining Parameters

Description	Longitudinal Cut and Fill	Post Pillar Cut and Fill	Transverse SLOS
Width (m)	<6 m	>6 m	8 m
Block Name	North	North	South
Panel Length (m)	60 m	60 m	20 m
Panel Height (m)	60 m	60 m	60 m
Sub-Level Interval	NA	NA	12 m

Source: Provided by Daye Metal

The longitudinal cut and fill and post pillar cut and fill mining methods are used in the mineralised bodies situated in the northern areas of the Fengshan Project where ground conditions are of lesser quality. These methods limit the size of the exposed stope walls to maintain stability, which allows greater control of overbreak and dilution. The mineralised bodies in the southern areas of the Fengshan Project use the SLOS method where better ground conditions allow the use of a more productive bulk mining method.

The mining methods used at the Project are described in detail below. In MMC's opinion, the methods used are appropriate for the scale and style of mineralisation of this deposit and the recovery and dilution factors applied are achievable.

Transverse Sub-Level Open Stopping

The SLOS mining method, which is used in project's southern mineralisation areas, has sub-levels spaced 12 m vertically apart. Footwall drives are developed in waste along the strike of the ore body, which provide access to stoping panels along the entire length of the stoping block. Transverse (perpendicular to the strike) drives, called cross-cuts, are then developed into the ore at intervals of 15.2 m horizontally apart to provide access to individual stopes. Stopes are mined leaving a small trough pillar, which funnels ore to the draw point. This pillar is not recovered. Stopes are mined from the bottom of the stoping panel up and extracted in a primary and secondary sequence. The initial 12 m above the haulage drive acts as a sill pillar between the haulage level and the stoping activities above. It is extracted when the stope panel below is mined.

Stope dimension are approximately 7.6m wide, 12 m high and approximately 12 m in length and are mined from the hangingwall towards the footwall drive. Stopes are filled with CHF made from tailings material once ore is extracted. Figure 7-6 illustrates this mining method in more detail. Broken ore is removed from the stopes with small LHD's on each sub-level and tipped into an ore pass, which funnels the ore to the main haulage level. MMC has estimated that this mining method is capable of achieving 88.2% recovery and a dilution factor of 10.0%.

Longitudinal Cut and Fill Stopping

The longitudinal cut and fill mining method is used in the sections of the Fengshan Project's northern areas that are less than 6 m wide. The stope is started above a 6 m sill pillar which is established between the haulage level and the stope above. For geotechnical reasons, this pillar cannot be extracted after completion of the stopping activities and is lost. The stope is accessed through an internal access rise and is extracted using hand held percussion drills in 2 m high lifts.

Broken ore is mucked using scrapers from the stope into a network of orepasses, which are located 50 m horizontally apart. The orepass funnels the broken mineralised material to the main haulage level. Lifts are then filled with CHF. MMC has estimated that this mining method in combination with the post pillar cut and fill mining method described below is capable of achieving 79.3% recovery and a dilution factor of 12.2%. Figure 7-7 illustrates this mining method in more detail.

Post Pillar Cut and Fill Stopping

The post pillar cut and fill mining method is used in the sections of the Fengshan Project's northern areas that are greater than 6 m wide. This mining method is the very similar in operation to the longitudinal cut and fill stopping method explained above in terms of the stope's access, sill pillar, drilling, mucking, and filling. The fundamental difference is the establishment of 3 m by 3m post pillars within the stope every 9 m for support of the stope. These pillars are unrecoverable. Figure 7-8 illustrates this mining method in more detail.

Once the mineralised material reaches the haulage level, rail locomotives transport the material from the orepass to the shaft where it is hoisted to the surface. This is common for all mining methods at the Fengshan Project.

7.3.2 Production Rate

Historical and forecast production targets have been provided by Daye Metal and are shown below in Table 7-7 and Table 7-8 respectively. The forecast copper grade produced from 2011 to 2015 has been adjusted by MMC in line with the copper grade estimated for the Ore Reserves.

Table 7-7 Hubei Polymetallic Projects – Fengshan Historical Mining Production

Description	Unit	2006	2007	2008	2009	2010	Jan-Sep
Production	Mtpa	0.59	0.60	0.78	0.86	0.71	0.61
Copper Grade	%	0.76	0.72	0.66	0.66	0.66	0.76

Source: Provided by Daye Metal

Table 7-8 Hubei Polymetallic Projects – Fengshan Planned Mining Production

Description	Unit	2011	2012	2013	2014	2015
Production	Mtpa	0.76	0.76	0.76	0.76	0.76
Copper Grade*	%	0.66	0.66	0.66	0.66	0.66

Source: Provided by Daye Metal

* Adjusted inline with forecast processing plant feed grade as shown in Table 8-10.

Daye Metal has provided MMC with documentation demonstrating that historical underground production has consisted of mineralised material above the industrial grade, and sub-grade mineralised material below the industrial grade. This sub-grade material has been included in production figures and processed as the realised product prices have supported lower mining cut-off grades. Documentation provided by Daye Metal states that although the total production is above the licensed production capacity, production of mineralised material above the industrial grade is below the licensed production capacity and hence Daye Metal concludes the mining licence has not been breached. MMC provides this information for reference only and recommends that production capacities and mining licences be reviewed by legal experts.

MMC notes the achieved production 2011 January to September, and envisages that the forecast production of 0.76 Mtpa will be exceeded. MMC considers a 2011 full year forecast of between 0.79 and 0.83 Mt at 0.72 to 0.80% Cu as more realistic. While production schedules detailing stope locations and rates have not been provided meaning MMC was unable to review the forecast production figures in detail, MMC considers the total forecast production rates feasible in terms of the resource being mined and methods being utilised, however variation in tonnages should be expected. MMC notes that the grades forecast are significantly lower than those estimated during the JORC Ore Reserve process. MMC understands that this is due to Daye Metal using lower cut-off grades than those estimated by MMC, and envisages that this will have a negative impact on cash flow and net-present value of the project.

Based on the Ore Reserve estimate for the Fengshan Project's (as outlined in Section 6) and the forecast production rate of 760 ktpa. MMC has estimated an underground mine life for the Fengshan Project of approximately 6 years.

The equipment list is summarised in Annexure D. MMC considers the current equipment list to be suitable for the planned mining operation and production rate. Due to the long mine life, opportunity exists to review and optimise the equipment selection when equipment is replaced.

7.3.3 Project Development

In order to maintain the current production rate, Daye Metal plans to extend the existing underground system to a greater depth. The extension includes development of main haulage levels at -320 m elevation and beyond. The southern portion of the -320 m level is complete, but the northern section has only recently commenced development.

Daye Metal intends to develop three further levels (-380 m, -440 m and -500 m) and associated infrastructure in the next phase of construction. This development project is in the final design and initial construction phase, and is aimed to be completed by June 2014. Both extension projects will utilise the existing shaft for hoisting and decline for access.

Daye Metal has advised MMC that there are plans to expand the processing capacity of 5,500 tpd to 6,000 tpd by 2014. No proposal report or feasibility study was made available for review.

Figure 7-6 Hubei Polymetallic Projects – Fengshan Transverse Sub-level Open Stopping

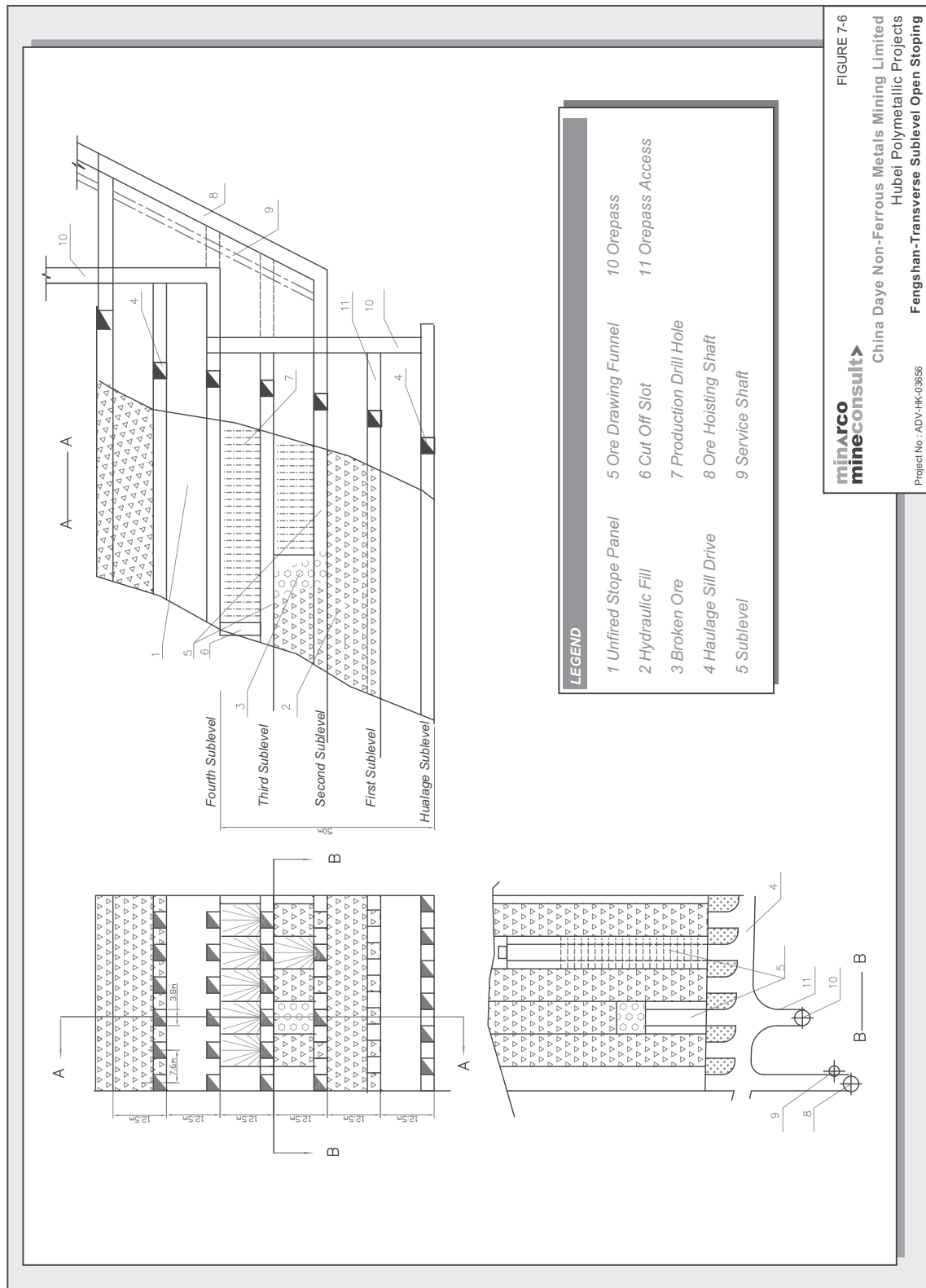
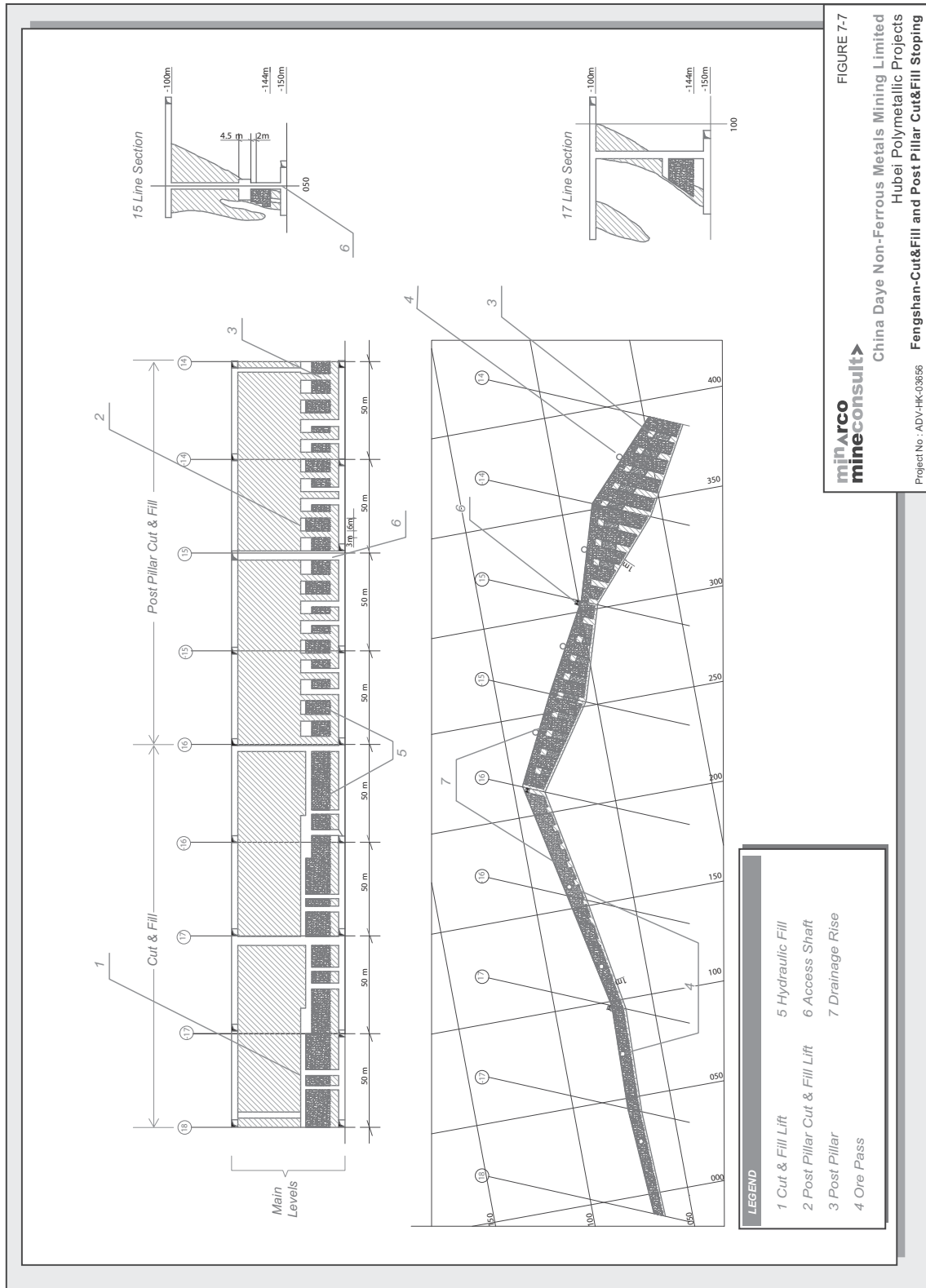


Figure 7-7 Hubei Polymetallic Projects – Fengshan Longitudinal Cut and Fill and Post Pillar Cut and Fill Stopping



7.4 Tongshankou Project

The Tongshankou Project contains a copper-molybdenum resource with trace amounts of gold and silver contained within the mineralised areas. Mining is currently performed using open pit mining methods with underground workings under development.

7.4.1 Open Pit Mining Method and Parameters

The proposed ultimate open pit mine at the Tongshankou Project is 1,042 m long and 634 m wide, consisting of 16 benches from 122 m to -58 m depth. Bench heights of 12 m have been employed based on geotechnical stability modelling. The current strip ratio is 2.28:1 (t/t), while the overall proposed strip ratio for the pit is 3.54:1 (t/t). The pit design incorporates ultimate pit wall angles of between 46° and 50°, with intermediate bench angles of between 65° and 70°. Table 7.9 describes the open pit mining parameters currently deployed at the Tongshankou Project.

Table 7-9 Hubei Polymetallic Projects – Tongshankou Open Pit Mining Parameters

Mining Parameter	Open Pit
Bench Height	12 m
Stripping Ratio	2.28 t/t; proposed final plan 3.54 t/t
Final Pit Slope Angle	43.2~52.4 degrees
Bench Slope	70 degrees
Ramp Width	8~12 m
Ramp Incline	Unknown
Berm Width	8~10 m
Working Bench Width	15~30 m

Source: Provided by Daye Metal

The current open pit design requires a river diversion to the north of the pit design to allow its development. During MMC's reserve estimate, it was noted that a lower stripping ratio (approximately 2.0 t:t) may be achieved through variations to the current pit design.

7.4.2 Underground Mining Method and Parameters

The underground mine at the Tongshankou Project is currently under construction and will use 3 main mining methods, with each method being selected based on the characteristics of the mineralised area. The 3 methods used can be broadly grouped as longitudinal SLOS, transverse SLOS and post pillar cut and fill stoping. These will be accessed using main haulage levels starting at -100 m elevation and spaced every 60 m vertically below.

The post pillar cut and fill mining method is used in the flat-lying areas, while the steeply dipping mine areas employ sub-level stoping methods based on the thickness of the ore. Table 7-10 below describes the underground mining parameters currently employed at the Tongshankou Project.

Table 7-10 Hubei Polymetallic Projects – Tongshankou Underground Mining Parameters

Mining Parameter	Longitudinal SLOS	Transverse SLOS	Post Pillar Cut and Fill
Width (m)	<8 m	>8 m	NA
Panel Length (m)	Varies	Prim. 10m, Sec. 12m	75 m
Panel Height (m)	60 m	60 m	60 m
Sub-Level Interval	15 m	15 m	15 m

Source: Provided by Daye Metal

The three mining methods to be used at the Tongshankou Project's underground operations are described in detail below. MMC considers these methods appropriate for the scale and style of mineralisation of this deposit and the recovery and dilution factors applied are achievable.

Longitudinal Sub-Level Open Stopping

This method is employed in areas where the mineralised zone is less than 8 m wide and steeply dipping. The stope panels are accessed from 4 sub-levels each 15 m vertically apart. From a footwall access drive, cross-cut drives are developed into the mineralised zone and connected along the mineralised zone by a drive developed along the strike of the mineralisation. The mineralised body is divided into 50 m long panels along strike, including 5 m wide rib pillars at either end resulting in 45 m stopes. These rib pillars are required for regional stability and backfill containment and cannot be extracted.

Drawbells are developed on the extraction levels to funnel the mineralised material towards the drawpoint. A cut-off slot is then mined from bottom to top of the stope. The stope can then be opened from the centre out and from the top sub-level down, with the multiple cross-cut drives and sub-levels providing maximum material extraction opportunity. Once the stope is fully extracted, it can be filled. The bottom sub-level of each stoping block is filled with CHF to enable mining of the block below with minimal ore lost in pillars. Mineralised material removed from the stope is transferred through of ore passes and reports to the main haulage levels. This method can be seen illustrated in Figure 7-8. MMC has estimated that this mining method is capable of achieving 85.3% recovery and a dilution factor of 11.2%.

Transverse Sub-Level Open Stopping

This method is employed in areas where the mineralised zone is more than 8 m wide and steeply dipping. Similar to the longitudinal method described above, the stopes are access through 4 sub-levels spaced every 15 m vertically with cross-cut drives are developed into the mineralised zone from a footwall access drive. The mineralised zone is divided into 10 m wide primary stopes and 12 m wide secondary stopes. Each stope has drawbells developed at the bottom of the stope to funnel broken material into the drawpoint. The mineralised material in the drawbells between the cross cuts is not extracted.

Primary and secondary stopes are mined from the bottom up and from the hanging wall to the footwall. This sequence maximises recovery by promoting material to report to the drawpoint. Each primary stope is filled with CHF to enable full extraction of the secondary stopes without the need to leave behind any rib pillars. Drawpoint access through the cemented primary stope fill can also be re-established after filling, in order to maximise secondary stope extraction. Mineralised material removed from the stope is transferred through of ore passes and reports to the main haulage levels. This method can be seen illustrated in Figure 7-9. MMC has estimated that this mining method is capable of achieving 87.9% recovery and a dilution factor of 7.9%.

Post Pillar Cut-and-Fill Stopping

This method is employed in areas where the mineralised zone is flatly dipping. Access drives are developed in waste generally along strike of the mineralised body and preferably at the elevation of a main haulage level. Depending on the final height of the stope, the panel may be sub-divided into 4 sub-levels spaced 15 m apart vertically. Internal access ramps provide intermediate level access to the mining area as the extraction sequence progresses from the bottom up in 2 m lifts. Lifts are mined with 10 m wide drives on 15 m centres, which leaves behind 5 m by 5 m pillars. Once a lift is completely mined, it is filled with CHF and the next vertical slice established on top of the fill.

Broken mineralised material is mucked from each lift into a network of orepasses, which funnel the material to the main haulage levels. Lifts are then filled with CHF. This method can be seen illustrated in Figure 7-10. MMC has estimated that this mining method is capable of achieving 81.4% recovery and a dilution factor of 8.3%.

7.4.3 Production Rate

Historical and forecast production targets have been provided by Daye Metal and are shown in Table 7-11 and Table 7-12 respectively.

Table 7-11 Hubei Polymetallic Projects – Tongshankou Historical Mining Production

Description	Unit	2006	2007	2008	2009	2010	Jan-Sep 2011
Production	Mtpa	0.85	0.83	0.98	1.2	1.58	0.89
Copper	%	0.58	0.59	0.56	0.49	0.46	0.5

Source: Provided by Daye Metal

Table 7-12 Hubei Polymetallic Projects – Tongshankou Forecast Mining Production

Description	Unit	2011	2012	2013	2014	2015
Production	Mtpa	1.5	1.5	1.5	2.65	2.65
Copper Grade	%	0.48*	0.48*	0.48*	0.65	0.65

Source: Provided by Daye Metal

* Adjusted in line with forecast processing plant feed grade as shown in Table 8-15

Daye Metal has provided MMC with documentation demonstrating that historical open pit production has consisted of mineralised material above the industrial grade, and sub-grade mineralised material below the industrial grade. This sub-grade material has been included in production figures and processed as the realised product prices have supported lower mining cut-off grades. Documentation provided by Daye Metal states that although the total production is above the licensed production capacity, production of mineralised material above the industrial grade is below the licensed production capacity and hence Daye Metal concludes the mining licence has not been breached. MMC provides this information for reference only and recommends that production capacities and mining licences be reviewed by legal experts.

Information obtained from Daye Metal indicated that currently the target open pit production rate is 4,500 tpd and the planned underground production rate is 3,500 tpd, equivalent to approximately 1.5 Mtpa and 1.15 Mtpa respectively. MMC has not reviewed a planning study for the open cut operations to support this increase of mining rate above the licence capacity of 990 ktpa, however, it is noted that the reported open cut production rate was above this forecast production rate in 2009 and 2010. MMC notes the achieved production 2011 January to September, and envisages that the forecast production of 1.5 Mtpa will not be reached. MMC considers a 2011 full year forecast of between 1.16 and 1.22 Mt as more realistic.

Based on the Ore Reserve estimate for the Tongshankou Project's open pit operations (as outlined in Section 6) and the licenced mining capacity of 990 ktpa, MMC has estimated an open pit mine life for the Tongshankou Project of approximately 11 years. This scenario was used as the basis of MMC's mining review and Ore Reserve estimate. Based on the forecast production rate of 1.5 Mtpa however, MMC approximates a mine life of 7 years. MMC reiterates that this scenario was not used during the mining review and Ore Reserve estimation process and this mine life approximation is provided for reference only.

The underground operation is scheduled to begin production in 2014 at a production rate of 1.15 Mtpa. While MMC envisages that this total production rate is feasible in terms of the resource being mined and methods being utilised, MMC considers that this total rate will not be realised immediately and that the production rate achieved in 2014 will be lower than the forecast. MMC considers that a 2014 underground production forecast of between 0.60 and 0.85 Mt as achievable, and that full production of 1.15 Mtpa will be achieved in 2015. MMC notes a mismatch of mine production and processing plant throughput from 2014 onwards, as demonstrated in *Table 7-12* and *Table 8-15*. This will result in approximately 150 ktpa of mineralised material being stockpiled as the mine out supplies the processing plant.

MMC also notes that the copper grade forecast is significantly lower than those estimated during the JORC Ore Reserve process for the open cut operations. MMC understands that this is due to Daye Metal using lower cut-off grades than those estimated by MMC, and envisages that this will have a negative impact on cash flow and net-present value of the Tongshankou Project. Production schedules detailing bench and stope locations and rates have not been provided meaning MMC was unable to review the forecast production figures in detail.

Based on the Ore Reserve estimate for the Tongshankou Project's underground operations (as outlined in Section 6) and the forecast production rate of 1.15 Mtpa, MMC has estimated an underground mine life for the Tongshankou Project of approximately 6 years from 2014. This includes a mine commissioning phase during the first year where production is ramped up to forecast production rates.

The equipment list is summarised in Annexure D. MMC considers the current equipment list to be suitable for the planned mining operation and production rate. Due to the long mine life, opportunity exists to review and optimise the equipment selection when equipment is replaced.

7.4.4 Project Development

Daye Metal has stated a planned combined annual production from open pit and underground sources of 2 Mtpa. Daye Metal has commenced construction of an underground mine focussing on levels -58 m to -400 m, and will initially have a production capacity of 3,500 tpd in 2014. Daye Metal is reviewing plans to further increase to 4,000 tpd, however this is outside the scope of the existing feasibility study. Daye Metal advised MMC there is a plan to expand the No.1 processing plant to a production rate of 6,000 tpd by 2014. No proposal report or feasibility study was made available for review.

MMC notes that this increased throughput for the No.1 processing plant in combination with the existing throughputs for the No.2 and No.3 processing plants will result in a total processing capacity of approximately 2.5 Mtpa. This is a 150ktpa less than the planned open pit and underground mining rate of 2.65 Mtpa. Based on forecast production rates supplied by Daye Metal applied to the JORC Ore Reserves estimates, MMC has estimated that approximately 600ktpa of ore will be stockpiled between 2014 and 2016, and drawn down in 2017 and 2018.

Figure 7-8 Hubei Polymetallic Projects – Tongshankou Longitudinal Sublevel Open Stopping

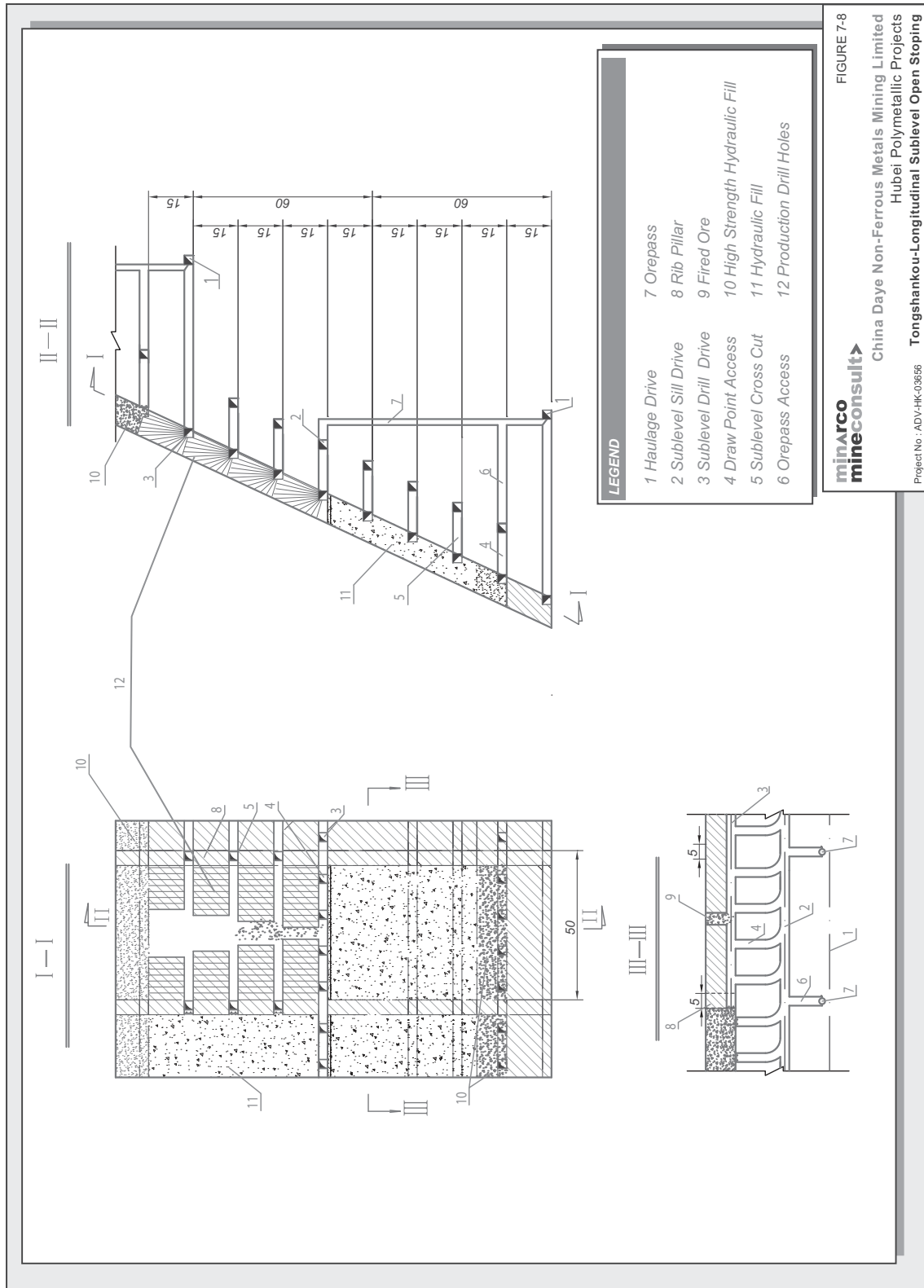


Figure 7-9 Hubei Polymetallic Projects – Tongshankou Transverse Sub-level Open Stopping

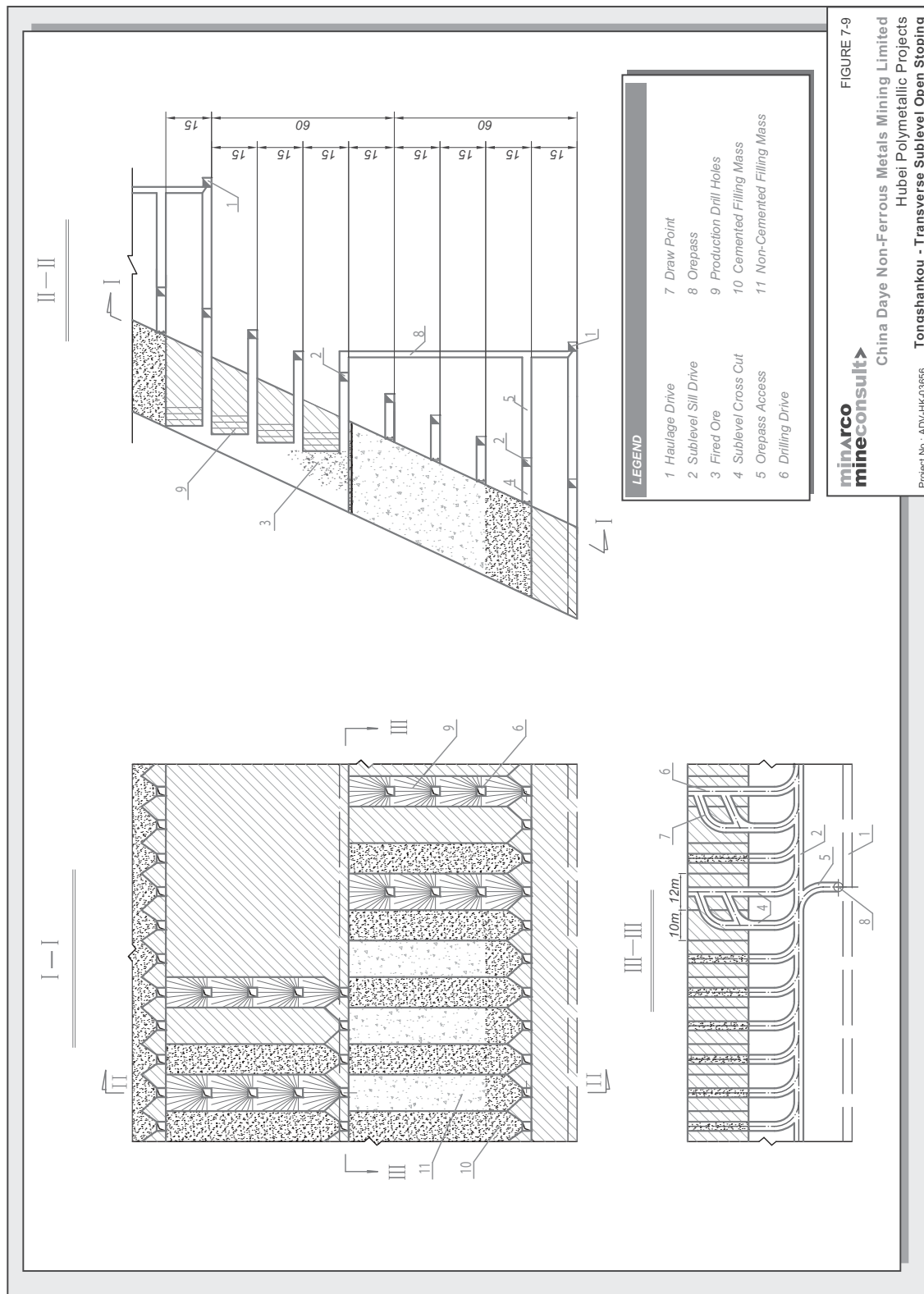
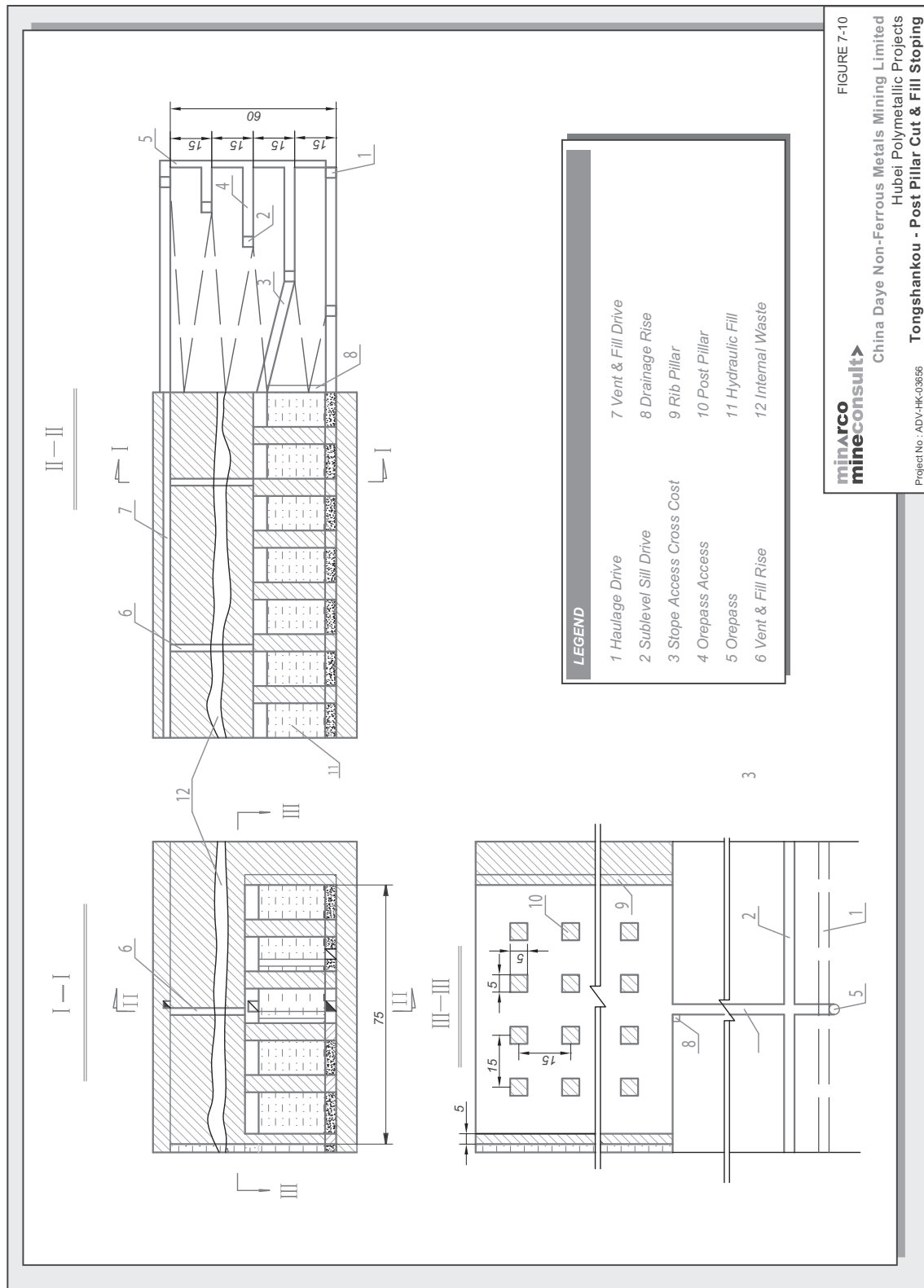


Figure 7-10 Hubei Polymetallic Projects – Tongshankou Post Pillar Cut and Fill Stoping



7.5 Chimashan Project

The Chimashan Project contains an underground copper-molybdenum mine with associated gold, silver and other minor trace elements contained within the mineralised areas. The Chimashan Project is of a significantly smaller size when compared to the Tonglvshan, Fengshan and Tongshankou Projects.

7.5.1 Mining Method and Parameters

The Chimashan Project converted from a shallow-hole shrinkage mining method to the SLOS method in the 1990s due to geological issues. This method is described in further detail below. The general mining parameters used for this type of mining given in Table 7-13.

The underground operation consists of three vertical shafts and multiple main haulage levels. The main haulage levels, developed in the footwall are located 50 m vertically apart and are located between the 100 m elevation and -450 m elevation. Currently mining has been exhausted above the -300 m elevation with production being sourced from levels between the -350 m elevation and -450 m elevation.

Table 7-13 Hubei Polymetallic Projects – Chimashan Mining Parameters

Mining Parameter	Longitudinal SLOS
Level Height (m)	50 m
Sub-Level Height (m)	10~12 m
Panel Length (m)	38 m
Sill Pillar (m)	8 m
Crown Pillar (m)	10 m
Rib Pillar (m)	12 m

Source: Provided by Daye Metal

Longitudinal Sub-level Open Stopping

The SLOS mining method has sub-levels spaced 10 m to 12 m vertically apart. Main haulage drives are developed in waste along the strike of the ore body, which provide access to stoping panels along the entire length of the stoping block. Cross-cut drives are then developed into the ore at intervals of 50 m horizontally apart to provide access to individual stope panels. Man and Material vertical rises are developed to access the sub-level drives. Airleg drilling machines are used to drill production holes from each sub-level. Open stopes are retreated from the centre of the panel back towards the access and in a top down sequence. An 8 m trough pillar funnels ore to the main haulage level and a 12 m rib pillar separates each stoping panel. The trough pillar is not extracted and only every second rib pillar is extracted. Figure 7-11 illustrates this mining method in more detail.

Broken material is removed from the stopes on the haulage level by rail mounted pneumatic loading machines, which is then transported to the shaft via rail mounted carts. Stopes are backfilled with loose waste rock. MMC has estimated that this mining method is capable of achieving 74.3% recovery and a dilution factor of 16.4%.

In MMC's opinion the mining method used is appropriate for the scale and style of mineralisation of this deposit and the recovery and dilution factors applied are achievable.

7.5.2 Production Rate

Historical and forecast production targets have been provided by Daye Metal and are shown below in Table 7-14 and Table 7-15 respectively.

Table 7-14 Hubei Polymetallic Projects – Chimashan Historical Mining Production

Description	Unit	2006	2007	2008	2009	2010	Jan-Sep 2011
Production	ktpa	73.1	56.8	47.3	69.1	77.5	58.24
Copper Grade	%	1.07	0.97	1.06	0.87	0.79	0.80

Source: Provided by Daye Metal

Table 7-15 Hubei Polymetallic Projects – Chimashan Planned Mining Production

Description	Unit	2011	2012	2013	2014	2015
Production	ktpa	80	80	80	80	80
Copper Grade*	%	0.80	0.80	0.80	0.80	0.80

Source: Provided by Daye Metal

* Adjusted inline with forecast processing plant feed grade as shown in Table 8-19

Daye Metal has provided MMC with documentation demonstrating that historical underground production has consisted of mineralised material above the industrial grade, and sub-grade mineralised material below the industrial grade. This sub-grade material has been included in production figures and processed as the realised product prices have supported lower mining cut-off grades. Documentation provided by Daye Metal states that although the total production is above the licensed production capacity, production of mineralised material above the industrial grade is below the licensed production capacity and hence Daye Metal concludes the mining licence has not been breached. MMC provides this information for reference only and recommends that production capacities and mining licences be reviewed by legal experts.

MMC notes that the period of forecast production tonnage does not align with the 2009 Development and Utilisation Report or Ore Reserves estimated by MMC in Section 6. Sufficient Ore Reserves exist to sustain reserves until 2012, while the 2009 Development and Utilisation Report forecast production through to the middle of 2012. MMC notes the achieved production 2011 January to September, and envisages that the forecast production of 80 ktpa is unlikely to be reached. MMC considers a 2011 full year forecast of between 75 and 79 kt as more realistic. After 2011, MMC considers the forecast production rate of 80ktpa optimistic considering historic rates, coupled with the limited and declining reserves and resources available for mining. Assuming steady labour and equipment resourcing, and timely and sufficient definition of resources and conversion to reserves, MMC considers a production rate between 65 and 75 ktpa as an appropriate forecast. Copper grade produced in line with the Ore Reserve estimate of 0.77% should be expected. Variation in tonnages and grade produced should also be expected in-line with historic production. Production schedules detailing stope locations and rates have not been provided meaning MMC was unable to review the forecast production figures in detail.

Quantities of precious metals and other credits have not been included in the resource estimation, and have not been included in the mining review. MMC notes that these credits would have a positive influence on revenue and therefore considers the Ore Reserves estimated (as outlined in Section 6) and this mining evaluation as a potentially conservative reflection of the mining operation.

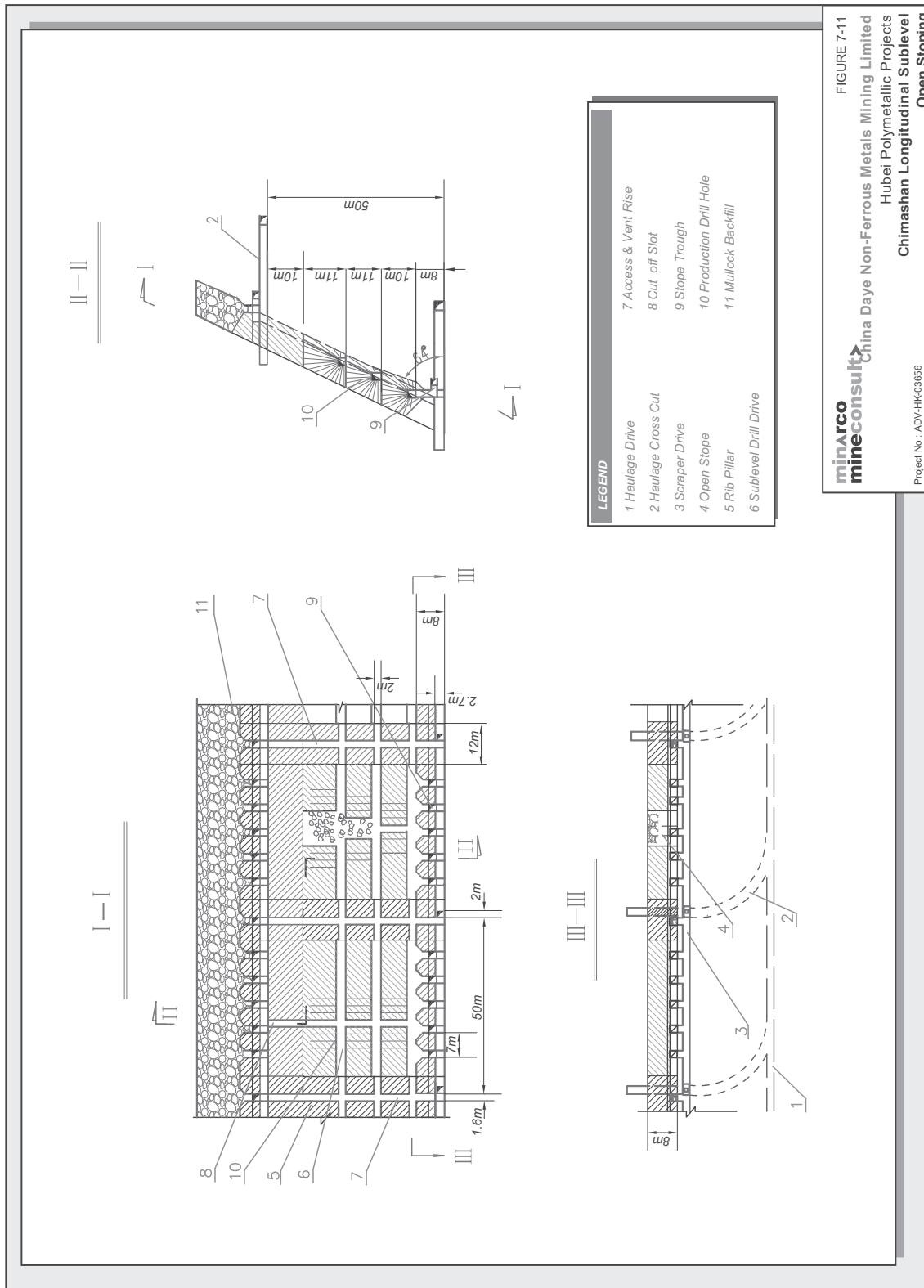
Based on the Ore Reserve estimate for the Chimashan Project and the forecast production used in MMC's mining review and Ore Reserve estimate of 70 ktpa, MMC has estimated an underground mine life for the Chimashan Project of approximately 6 months. MMC expects however, that based on the long and successful history of mining at the Chimashan Project, the omission of gold and silver credits from the mining review and Ore Reserve estimate as outlined above, and the quantity of inferred resources within the mining area which is discussed in greater detail in Section 7.6; that it is highly likely that the mine life will be extended beyond 6 months.

The equipment list is summarised in Annexure D. MMC considers the current equipment list to be suitable for the planned mining operation and production rate.

7.5.3 Project Development

To maintain current production levels, Daye Metal plans to extend the existing underground system. Daye Metal plans to sink a blind shaft from Level -300 m to Level -450 m in 2011, and complete drift development from level -400 m to -450 m in 2012. There is no plan for expanding the processing capacity until new mineral resources are found.

Figure 7-11 Hubei Polymetallic Projects – Chimashan Longitudinal Sub-level Open Stopping



7.6 Depletion

Depletion rate is the rate a Mineral Resource or Ore Reserve reduces over time due to the mining process, and can be used for estimating mine life as well as a measure of Mineral Resource and Ore Reserve estimation accuracy. MMC recommends use of the forecast mine production rates (as discussed in detail in Sections 7.2.2, 7.3.2, 7.4.3 and 7.5.2) for the Projects for use as depletion rates, as shown in Table 7-16. MMC envisages that this approach to depletion rate is suitable for the reasons stated below.

Table 7-16 Hubei Polymetallic Projects – The Projects Depletion Rates

Project	Depletion Rate (Mtpa)
Tonglvshan	1.15
Fengshan	0.76
Tongshankou (Open Pit)	1.50
Tongshankou (Underground)	1.15
Tongshankou (Total)	2.65
Chimashan	0.08

As part of the ITR process MMC initially estimated Mineral Resources and Ore Reserves for the Projects as at 20th May 2011. These estimates were updated using historical mining shapes provided by Daye Metal to allow for the removal of mined mineralised material up to the 30th September 2011. The historical depletion is the difference between statements as at 20th May and 30th September for both Mineral Resource and Ore Reserves. The reconciliation then compares the actual mine production within the same period with the Mineral Resource or Ore Reserve historical depletion. This is shown in Table 7-17 below. As a rule, the lower the reconciliation percentage, the more accurate the Mineral Resource or Ore Reserve estimate is of achieved mine performance.

Table 7-17 Hubei Polymetallic Projects – The Projects Depletion Reconciliation 20th May to 30th September 2011

Project	Unit	Actual Mine Production	Resource Depletion	Reserve Depletion	Reconciliation	
					Resource	Reserve
Tonglvshan	kt	330	247	207	25%	37%
	% Cu	0.89	1.57	1.55		
	% Fe	23.95	31.1	30.37		
Fengshan	kt	305	162	98	47%	68%
	% Cu	0.78	1.03	1.01		
Tongshankou	kt	583	349	345	40%	41%
	% Cu	0.5	0.62	0.56		
Chimashan	kt	27	21	8	22%	70%
	% Cu	0.82	0.74	0.77		

Note: Figures are rounded which may result in minor tabulation errors.

Note: “Reconciliation” is equal to “Mine Production” minus “Depletion”, and divided by “Mine Production” expressed as a percentage.

This process is generally used for measuring historical depletion and as the basis for estimating depletion rates. However, due to the limited time period between the 20th May and the 30th September 2011 Mineral Resource and Ore Reserve estimates, MMC believes in this instance that comparison of actual mine production to Mineral Resource and Ore Reserve historical depletion amounts is unlikely to yield meaningful results. No Mineral Resources estimated in line with the recommendations of the JORC Code existed prior to 20th May 2011 and hence MMC is unable to reconcile historical depletion prior to this date. MMC provides the following additional commentary with regards to Table 7-17, and in particular the accuracy of Mineral Resource and Ore Reserve reconciliation achieved.

- The period of reconciliation is considered too short to be representative of normal mining operations. MMC considers that one year is a more appropriate timeframe to be reconciling mine production against Mineral Resource and Ore Reserves to establish any meaningful understanding of the performance of the underlying estimates.

- The categorisation of the Mineral Resources and Ore Reserves estimated by MMC is Indicated and Inferred, and Probable respectively. MMC considers that Indicated Mineral Resources and Probable Ore Reserves are appropriate for a very high level reconciliation only, and Inferred Mineral Resources generally inappropriate for reconciliation against production due to their lower level of confidence. Reconciliation is normally undertaken against final grade control shapes based on detailed grade control data and Measured Mineral Resources.
- Long sections provided by Daye Metal for depletion of the estimate cannot differentiate between parallel veins within the same mineralised zones. MMC has therefore depleted all mineralisation within the zones shown. This has likely over depleted the Mineral Resource and Ore Reserve estimates.
- Additionally production recording practices employed in China are often of insufficient accuracy and do not take into account a number of key factors such as stope overbreak, broken mineralised material remnant within the stopes or ore passes, mineralised material mined outside of the Mineral Resource estimate through development and other key inputs required to successfully reconcile Mineral Resources and Ore Reserves.
- MMC understands the cut-off grade currently used for mine production by Daye Metal is different from the cut-off grade used by MMC for the Mineral Resource and Ore Reserve estimates. MMC also allows for credits from other products such as molybdenum, whereas the cut-off grade used by Daye Metal is based on copper only.
- Mine production has occurred in areas of Inferred Mineral Resource which has not been used for estimation of Ore Reserves.

Considering these points as outlined above, MMC believes that Table 7-17 should not be relied upon as an indicator of future performance of the Mineral Resource and Ore Reserves estimates. MMC believes that this depletion and reconciliation process should be re-completed in 12 month's time at which point more meaningful and reliable information should allow for conclusions to be drawn on the production performance and Mineral Resources and Ore Reserve estimates. Therefore, as a preliminary estimation of Depletion Rate for the projects, MMC recommends use of the forecast mine production until sufficient and suitable data exists to complete an accurate Mineral Resource and Ore Reserve historical depletion with justifiable reconciliation.

7.7 Comments and Recommendations

The mine design concepts, mining methods, and forecast production rates currently proposed by Daye Metal are considered by MMC to be in general technically feasible and suitable for the Projects. To ensure successful implementation and optimisation of the mine plans, MMC provides the following recommendations detailed below.

Cut-off Grades and Reserve Estimation

- MMC recommends that gold and silver be assayed for in future sampling plans and their contents be estimated in future mineral resources for the Projects. At present, these minerals generate revenue for their respective projects, however as the content is not known during the design process, this revenue cannot be used for optimisation of cut-off grades and estimation of Ore Reserves. Including these minerals in the resource estimation process will generate significant value for the Projects. This is especially pertinent to the Fengshan and the Chimashan Projects, where no value from gold and silver has been assigned to the projects throughout the Ore Reserve estimation process.
- Chimashan has a limited quantity of reserves at present. Significant amounts of inferred resources exist near and within the current working area of the mine which present an opportunity to add to the reserves. Further diamond drilling is required to convert inferred resources to indicated classification at a minimum. These resources can then in-turn be used for reserve estimation purposes under the JORC Code. MMC recommends that the resources compiled for this report be reviewed by Daye Metal and a suitable resource definition programme be designed and implemented as soon as possible. This will ensure ore reserves can be estimated in a prompt timeframe and mine planning and mine production will not be interrupted.
- MMC is of the opinion that operating and capital costs need to be understood in greater detail so individual cut-off grades can be determined for each mining method used at each Project. Operating costs should be itemised into variable and fixed costs and include all relevant downstream cash costs. Expected capital costs including sustaining capital should be scheduled based on a forecast project development schedule. These operating and capital costs need to be attributed accurately to the mining method responsible for its spending. Minimum and Economic Cut-off Grades (Operational and Industrial Grade) can then be calculated for each mining method. Understanding the underlying cost basis of the Projects and resulting revenue of each mining method will help estimate accurate cut-off grades, and therefore maximise cash flow and net present value.

- Declining Cut-off grades present a significant opportunity to add value. This is especially relevant to the Fengshan and Chimashan Projects where Ore Reserve tonnages are sensitive to Cut-off grade, and also to the underground operations at the Tongshankou Project, as this project is still in development and therefore at a capital intensive stage of its life cycle. Cut-off grades should be increased during and after periods of high capital expenditure to increase revenue and reduce capital payback time. Cut-off grades can also be increased during start-up of operations or any other period of reduced productivity or reduced recoveries at the processing plant. This will help optimise the production schedule to increase revenues earlier in the mine life. Cut-off grades can then be reduced. Conceptually, this process of starting a project with a high cut-off grade and gradually reducing it as capital is paid off and discount factors increase is called a Declining Cut-off Grade. MMC envisages that significant improvements can be made to the Net Present Value at each of the underground mining operations by introducing Declining Cut-off Grades optimised for each Project. MMC recommends a detailed study be completed to determine optimum cut-off grades at relevant stages of the mine life at four underground mining operations, and especially Tongshankou, and Fengshan.

Mine Planning

- As part of the open pit development plan at the Tongshankou Project, a local waterway is being diverted around the future pit location. MMC has noted that the final open pit designed for the reserve estimation based on the JORC compliant resource estimate and the mining parameters supplied by Daye Metal does not impede as greatly on the current location of the river, meaning the river diversion may be redundant. MMC recommends that the JORC Mineral Resource and Ore Reserve compiled by MMC be reviewed by Daye Metal and the requirement for the river diversion be re-determined.
- In addition to the point noted above, MMC recommends that the position of final waste dumps be reviewed and optimised based on the final open pit designed for the reserve estimation. MMC also noted that the eastern edge of final open pit designed for the reserve estimation impedes marginally on the current location of an old waste dump. MMC recommends that the removal of necessary parts of this waste dump be reviewed and scheduled.

- There is an opportunity to re-assess the limits of open cut mining at the Tongshankou Project. Open cut mining at Tongshankou has historically been relatively low cost and there are opportunities to extend the open pit to depth and extract a greater proportion of the ore using open cut rather than underground mining techniques.
- The current design of the Tongshankou Project's underground operations uses shafts for access and haulage. Shafts are capital intensive infrastructure and generally require a significant amount of time to construct. They also represent the critical path to production, as a shaft must be fully constructed with all associated infrastructure completed before they can be used for haulage. Declines on the other hand are less capital intensive and production can begin while the decline is still being developed, as upper levels can be mined while lower levels are still being accessed. This is not possible with shaft haulage. Considering the shallow nature of much of the Tongshankou underground reserve, MMC recommends that the use of decline access and haulage be reviewed and studied. This has the potential to reduce capital expenditure and bring the mine into production much earlier, which will significantly reduce the project's sensitivity to capital expenditure and therefore project risk, and have positive influence on the value of the project.
- MMC notes that the mining recovery currently being achieved at the Chimashan Project presents an opportunity to add value. The variant of the sub-level open stoping mining method being employed involves leaving rib and sill pillars that are only partially recovered. Pending further definition of Mineral Resources to support sufficient future production, MMC recommends investigating changing to the underhand benching mining method. This method should allow similar or better productivity, dilution and operating costs compared to the variant of the SLOS method currently employed. The major advantage however will be the current requirement for sill pillars will be, depending on success of implementation of the method, significantly reduced or eliminated altogether. The major disadvantage will likely be the requirement for remote mucking operations and potentially greater sublevel development, depending on the equipment selected. MMC envisages that the potential advantages to be achieved by changing the mining method are significant enough to warrant a high level scoping study.

- MMC expects that the dilution experienced using the Modified Transverse Cut and Fill mining method selected for the deeper regions of the Tonglvshan Project will be sensitive to backfill strength. This is due to each secondary room mined between each primary room has two fill exposures, meaning 18 fill exposures per lift of each stope panel. While this can be controlled by use of high cement content backfill and good blasting practices, small increases in backfill overbreak will have significant impact in dilution. MMC recommends that potential controls to dilution for this method be investigated.

Ore Recovery and Dilution

- MMC noted on the site visits that some backfill overbreak was being experienced, resulting in unplanned stope dilution. While backfill overbreak and dilution is experienced at all mines where backfill is exposed as pillars are recovered, it is an event that may be minimised by use of effective controls tailored to the individual characteristics of the backfill, mining method and resource. Generally, accurately surveyed and designed production holes provide the most immediate and significant method to control backfill overbreak. MMC recommends trialling a Cavity Monitoring Survey (“CMS”) instrument to survey in detail the mined voids after completion. This will allow reconciliation of achieved stope performance against design. This can be used to effect change on primary stope production holes to achieve as close as possible to design, and the customised redesign of secondary stope production holes to the actual mineralised material to be fired. By adjusting primary and secondary stope blast holes as required, ore loss and dilution can be reduced.
- Considering the backfill overbreak issue discussed above coupled with future upgrades to some of Project's processing facilities, potential changes in particle size distribution (“PSD”) of tailings product presents an opportunity to optimise backfill performance. MMC recommends undertaking an evaluation programme for the tailings and backfill products. The programme should include (but not limited to) investigating the compressive strength of backfill at various cement contents, water content, PSD and cure times. Ideally, the PSD should be optimised to promote interlocking of the fill material and the water content minimised. A Quality Assurance Quality Control (“QAQC”) programme should be developed to measure achieved performance and variance to design. A well-executed QAQC programme can lead to increased confidence in the backfill product, reduced backfill dilution and decreased operating costs.

- Hangingwall overbreak experienced within the open stoping methods used at the Projects can be further controlled by good mine planning practices. Carefully designing development to allow access to the hangingwall will allow for production holes to be parallel with the hangingwall which will result in less blast damage. Access along the hangingwall will also allow efficient and easy use of hangingwall cable bolting. Both these advantages will improve the amount of hangingwall overbreak experienced. Depending on the final configuration of the stope development selected, footwall development can still be used for grade control drilling. MMC recommends that stope access development for open stopes be reviewed and optimised to allow for good drilling practices and ground support.

Mine Management and Safety

- While MMC noted that ground conditions appeared to be effectively controlled at present at the projects visited, geotechnical risks at every mine present an on-going hazard which generally escalates with time due to increasing age of ground support and changes in stress distribution. These hazards require constant management. This is pertinent to the Projects as they are generally mature in age and large in size. Considering this, MMC recommends the investigation, assessment, and documentation of all current and perceived future geotechnical risks and controls into a Ground Control Management Plan for each Project and its subsequent communication to staff. This will help promote effective management and control of this risk into the future as geotechnical hazards develop and change, and enhance underground worker's safety, reserve recovery and mining dilution.
- Some operating risks of the cut and fill and post pillar cut and fill mining methods require ongoing management. As workers must enter the stope during mining operations there is an increased safety hazard associated with rock-falls. This hazard will increase as mining progresses. These risks may be controlled through effective mine management and implementation of controls investigated and outlined in the ground control management plan discussed above.

Regulation and Permitting

- The licensed mine capacity for the Fengshan Project is currently limited to 660 ktpa, while the forecast production is 760ktpa for 2011. Similarly, the Tongshankou Project's mining licence is limited to 990 ktpa and is forecasted to produce 1500 ktpa in 2011, while the Chimashan Project's mining licence is limited to 50 ktpa and Daye Metal has forecasted production of 80 ktpa in 2011. To increase the licensed ore production capacity for the Projects to the forecast levels, MMC recommends that the Company commences the various reports and assessments required so the relevant approvals can be gained.

8 PROCESSING PLANTS

MMC visited the processing plants located at the Projects over the period January 13th to 17th, 2011. Daye Metal's personnel were helpful and co-operative during the site visit.

This Projects includes four copper processing plants with associated by-products such as iron and molybdenum concentrates at Tonglvshan, Fengshan, Tongshankou and Chimashan Projects.

8.1 Tonglvshan Project

8.1.1 Mineralogy

The Tonglvshan Project contains a skarn rock type copper-iron resource. There are several Tonglvshan mineralisation types, with the dominant ones being copper and copper-iron ores followed by iron, copper-sulphur and molybdenum mineralisation. From a mineralogical point of view, they can be divided simply into sulphide mineralisation (5%) containing chalcopryrite, pyrite, bornite as the main sulphides in magnetic rocks, and oxide mineralisation (42% to 88%) containing magnetite, hematite, malachite as the main iron minerals (refer to Table 8-1).

The economic minerals are Cu, Mo, Fe (magnetite and pyrite), Au and Ag. Gangue minerals are calcite, dolomite, quartz, serpentine, chalcedony, diopside, sub-diopside, grossular, iron garnet, phlogopite.

Table 8-1 Hubei Polymetallic Projects – Tonglvshan Deposit Mineralogy

Mineral	Major	Minor
Sulphides	chalcopryrite, pyrite, bornite	chlorite, marcasites, chalcopryrite side, vein pyrite, molybdenite, sphalerite
Oxides	magnetite, hematite, malachite	limonite, azurite, cuprites, siderite, natural Cu, false malachite, magnetite

Source: Tonglvshan Resource Utilization and Development Planning Report, 2009

Chalcopyrite (CuFeS_2), the main Cu bearing mineral, varies in size from 0.01 mm to 0.5 mm and is mainly disseminated as well as in veinlets minorities in magnetite ore. The secondary Cu minerals are divided into primary and secondary bornite, widely distributed in the primary ore of No. III and IV ore bodies associated with chalcopyrite, pyrite and chalcocite and siderite, while the secondary bornite is associated with covellite, limonite, hematite and limonite.

Magnetite, the main iron-bearing mineral, varies in size from 0.02 mm to 0.5 mm in sub-granoliths with skarn minerals, such as diopside, garnet, phlogopite, and strongly with magnetic hematite and hematite. Hematite, both primary and secondary, commonly occurs along the edges and fractures of magnetite, hematite, garnet and siderite skarn. The secondary hematite is formed as a result of the dehydration of limonite.

The mineralogical study indicated Au occurs mainly as coarse native within the sulfide ore (65.10%) occurs in the fissures between grains. The Tonglvshan deposit has an Au grade from 0.7 g/t to 0.8 g/t and an Ag content from 4 g/t to 5 g/t.

The recent metallurgical study conducted by the Wuhan University of Technology in January 2010 with the samples from the deep ore zones identified similar mineralogy to the previously mined ores showing some slight oxidation. The Cu element occurs mainly as primary sulphide minerals (68%) with secondary sulphide minerals (27%). The iron is present mainly as magnetic (64%) and brown hematite (30%).

MMC expect that the deeper ores would present no difficulties in processing and no deterioration in metallurgical performance would be anticipated.

8.1.2 Feasibility Study

The Tonglvshan processing plant was designed by the Changsha Research and Design Institute of Nonferrous Metallurgy, Ministry of Metallurgical Industry. First production commenced in 1971 at 4,000 tpd. Extensive metallurgical studies have been conducted during the period from the initial geological exploration to the subsequent operation. A recent comprehensive metallurgical study was conducted by Wuhan University of Technology in January 2010. The study was based on the deep sulphide ore (below 425 m elevation).

Additional testing for improving the recovery of Au and Ag has demonstrated similar ore process characteristics as previous studies. The Cu minerals were floated by a mixture collector of butyl xanthate and ammonium-butyl aerofloat (2:1) at a grind size of 86% passing 74 microns ($P_{86}=74 \mu\text{m}$). The tests examined two process flowsheets, varying the number of rougher and scavenger flotation stages with one locked cycle cleaning stage; both tests achieved more than 94% Cu recovery (refer to Table 8-2).

Table 8-2 Hubei Polymetallic Projects – Flotation Test Results – Deep Ore

Flotation Test	Product	Mass	Grade			Recovery		
			Cu	Au (g/t)	Ag (g/t)	Cu	Au	Ag
			(%)	(%)	(%)	(%)	(%)	(%)
Two Rougher – Two Scavenger	Concentrate	5.25	21.31	12.84	78.84	94.8	95.9	85.1
– One Cleaner Locked Cycle	Tailings	94.75	0.07	0.03	0.77	5.2	4.1	15.0
One Rougher – Three Scavenger	Concentrate	5.22	21.44	12.49	79.8	95.9	92.6	85.5
– One Cleaner Locked Cycle	Tailings	94.78	0.05	0.06	0.74	4.1	7.4	14.5

Source: Metallurgy Testing Report (PPT file) by Wuhan University of Technology, 2010

The magnetic separation tests after two stages of cleaning on the flotation tailings achieved a marketable magnetic concentrate (66% MFe) at a recovery 59% (refer to Table 8-3).

Table 8-3 Hubei Polymetallic Projects – Flotation Tailings Magnetic Separation Result

Products	Mass	Grade	Recovery
			(based on
			ROM ore)
	(%)	MFe (%)	MFe (%)
Concentrate	29.01	66.34	59.42
Cleaning Tailings	4.27	29.11	3.84
Middlings	66.72	15.95	32.86
Total	100.00	31.13	96.11

Source: Metallurgy Testing Report (PPT) by Wuhan University of Technology, 2010

An operational circuit survey with bench scale laboratory testing of open cut samples as well as Nelson gravity unit tests were conducted by Daye Nonferrous Design and Research Institute Co., Ltd. The aim was to understand the Au and Ag losses and the opportunity for improving the precious metal recoveries. The results indicated that the inclusion of a Nelson gravity circuit on the mill discharge would increase the overall Au recovery by 2% to 7% and produce a higher grade Au concentrate (60 g/t). However, further study would be required to identify the opportunity for application of Nelson Gold recovery unit in the operation.

8.1.3 Processing Plant

The current production is based on 2,500 tpd sulphide ore from underground mining and 1,500 tpd oxide ore mined from the open cut as well as the open cut stockpiled ore. The processing plant consists of six production lines, with No.1 and 2 lines treating the oxide ore and No.3, 4, 5 and 6 lines treating the sulphide ore. Daye Metal plans to convert the No.1 and 2 processing lines to treat the sulphide ore with slight modifications once the oxide ore is depleted. The processing plant is operated by 520 people.

Table 8-4 Hubei Polymetallic Projects – Tonglvshan Processing Plant Summary

Processing Plants	Plant	Processing Line	Daily Capacity (t/d)	Annual Capacity (Mtpa)	Ore Type	Status	Planned Expansion (t/d)
Tonglvshan	No. 1	No. 1,2	1,500	1.2	Cu-Fe Oxide	Operating	4,500
		No. 3,4,5,6	2,500		Cu-Fe Sulphide	Operating	

Source: MMC summary

8.1.4 Process Description

The Tonglvshan processing plant has two operational lines, namely a sulphide ore line and oxide ore line. The oxide ore line consists of a SAG milling circuit followed by the conventional flotation circuit where a Cu concentrate is produced and a magnetite concentrate recovered from the tailings (refer to Figure 8-1). The sulphide ore circuit consists of a conventional three stage crushing circuit followed by a conventional flotation circuit where a Cu concentrate is produced and a magnetite concentrate recovered from the tailings (refer to Figure 8-2). The concentrates from the two groups of lines are blended and dewatered by thickening and filtration. The dewatered Cu and magnetic concentrates are transported to the Huangshi Project by train.

Both the oxide ore line and the sulphide ore line include a traditional three stage crushing circuit. The crushing circuit consists of primary jaw crushers, secondary cone crushers and tertiary cone crushers with the oversize from a vibrating screen (20 mm aperture) feeding the tertiary crushers. The final crushed ore is minus 20 mm and stored in a fine ore storage bin.

Figure 8-1 Hubei Polymetallic Projects – Tonglvshan Processing Flowsheet – Oxidised Ore

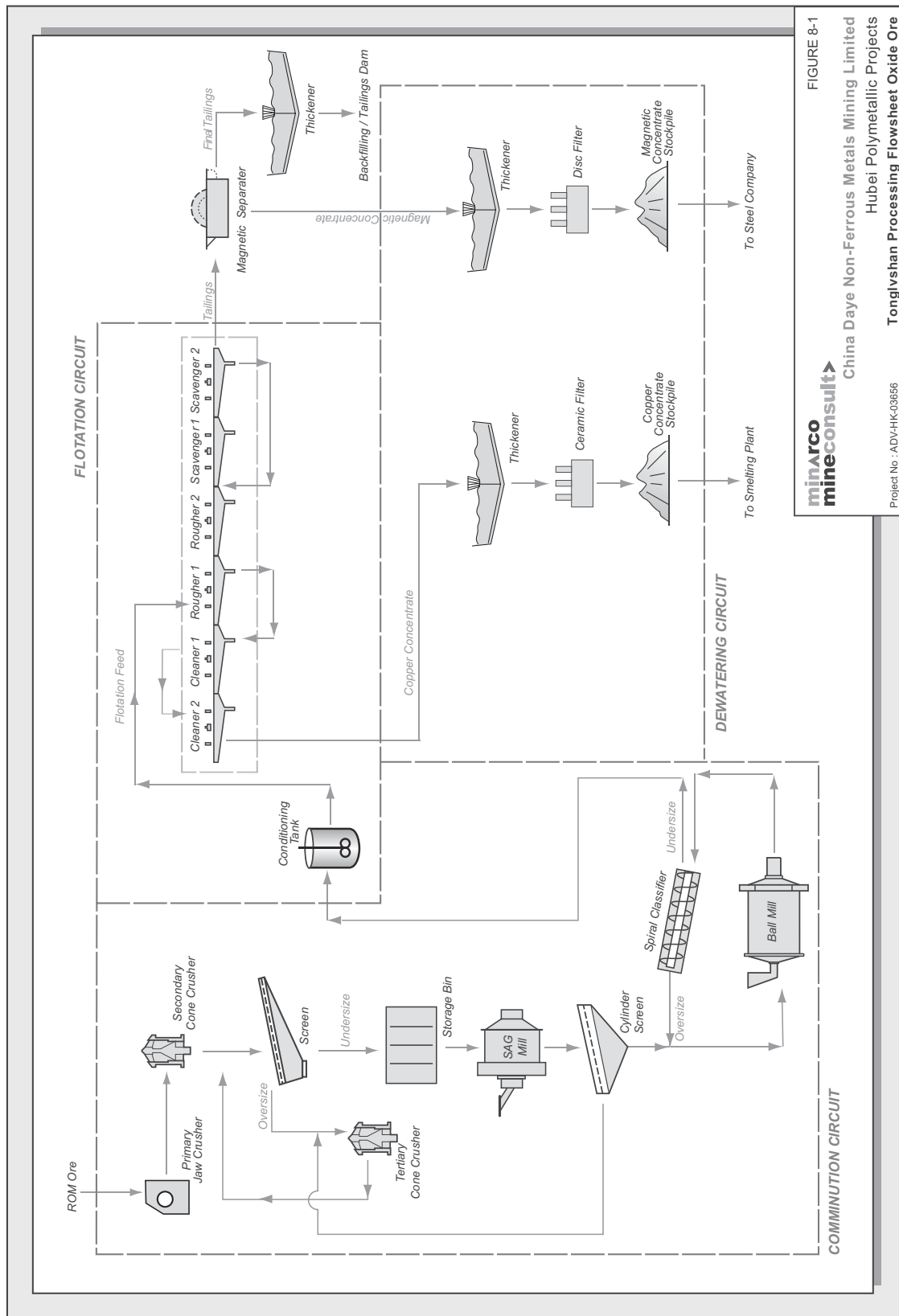
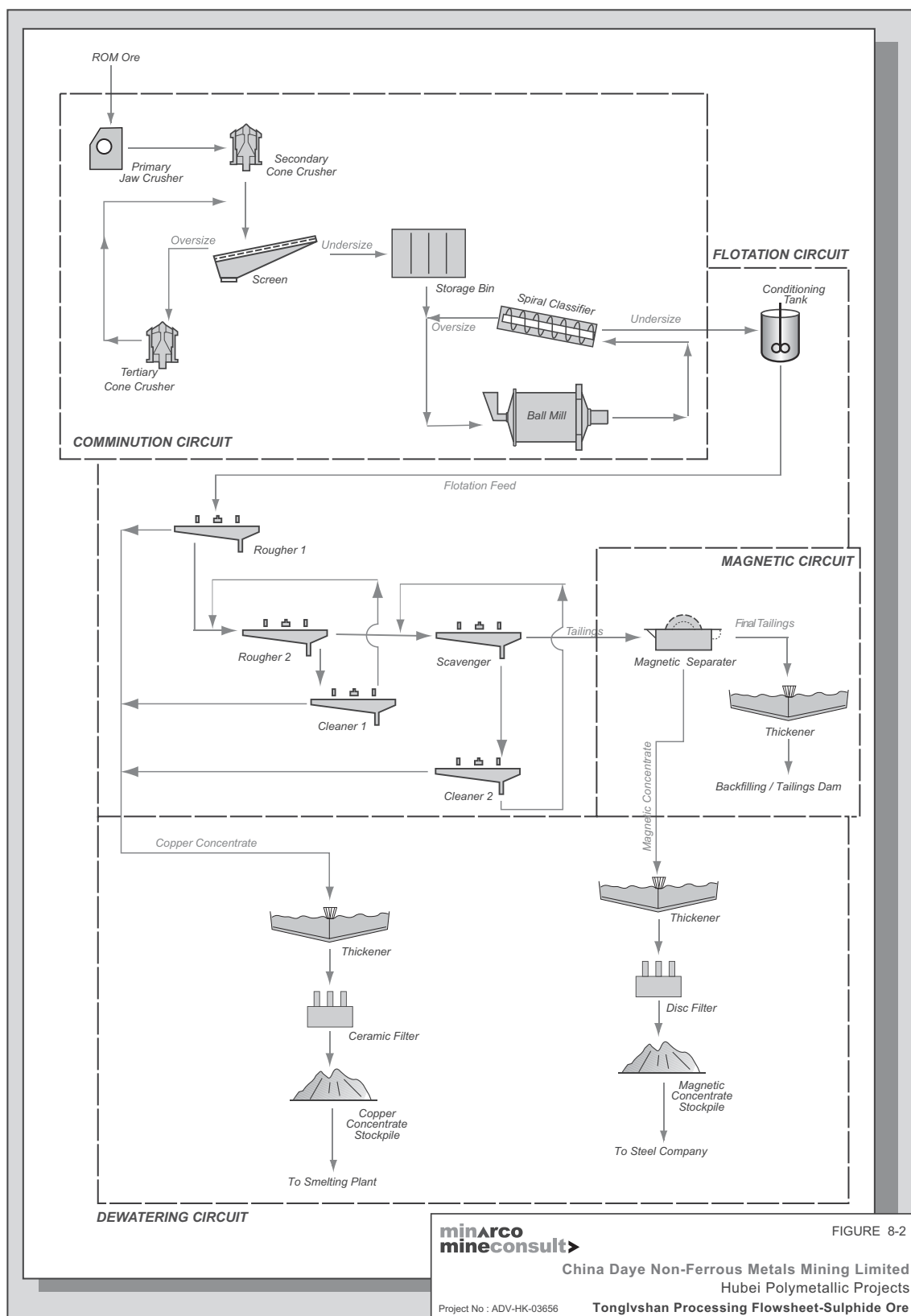


Figure 8-2 Hubei Polymetallic Projects – Tonglvshan Processing Flowsheet – Sulphide Ore



The oxide ore is recovered from the storage bin and fed into a SAG mill (5.5 mØ, 1.8 m length, 800 kW motor) with the discharge feeding a screen (20 mm aperture). The screen overflow is reports back to the cone crusher feed while the underflow (minus 20 mm) reports to a grate discharge ball mill in a closed circuit with a double spiral classifier (2.4 mØ). The classifier underflow is returned to the ball mill feed for further grinding while the classifier overflow (P70-75=74 microns) reports to the flotation circuit.

The fresh sulphide ore is fed into a grate discharge ball mill (2.7 mØ, 3.6 m length and 400 kW motor) with a primary double spiral classifier. The primary classifier overflow discharges to an overflow ball mill in a closed circuit with a secondary double spiral classifier while the primary classifier underflow (P65=74 microns) reports to the flotation circuit.

The oxide ore flotation circuit is conventional, consisting of two stages of roughing (seven 8 cu.m cells) and two stages of scavenging (thirteen 8 cu.m cells), with the rougher concentrate reporting to two stages of cleaning (six 4 cu.m cells) that produce a final Cu concentrate. The scavenger concentrate is returned to the rougher feed.

The sulphide ore flotation circuit consists of two stages of roughing (eight 4 cu.m cells) and one stage of scavenging (six 4 cu.m cells), with the primary rougher concentrate reporting to the final Cu concentrate. The second rougher concentrate is upgraded in the first cleaner (two 4 cu.m cells), with the cleaner concentrate reporting to the final concentrate and the cleaner tail returned to the first cleaner feed. Similarly, the scavenger concentrate is upgraded in the second cleaner (two 4 cu.m cells) with the cleaner concentrate reporting to the final concentrate and the cleaner tail returned to the scavenger feed.

The flotation scavenger tailings from both circuits are mixed are subjected to magnetic separation to recover a Fe concentrate. The final tailings are discharged into the tailings dam for storage or backfilling to the underground mine.

The Cu concentrates from the two processing lines are mixed and dewatered in two thickeners (each 30 m diameter) followed by two ceramic disc filters to produce final product (15% moisture). The magnetic concentrate is dewatered in two thickeners (30 mØ and 24 mØ) followed by a disc filter to produce final product (9% moisture).

8.1.5 Equipment

The equipment in the Tonglvshan processing plant is summarized in Annexure D. PLC control and a video supervision system are in use in the processing plant.

8.1.6 Production

The Tonglvshan processing plant achieved a reasonable overall Cu recovery of 84% in 2010. This is based on Cu recoveries of approximately 93% for sulphide ore and 58% for the oxide ore. The magnetite recovery for the sulphide ore and oxidized ore is not significantly different and is currently 57.5%. Table 8-5 presents the actual production details while the forecast production is summarized in Table 8-6. Complete production details from December 2010 to September 2011 were not provided for review. MMC notes the achieved mining production 2011 January to September as stated in Section 7.2.2, and considers a 2011 full year forecast in line with mining production of between 0.83 and 0.87 Mt at 0.86 to 0.96% Cu and 23.2 to 25.7% Fe as achievable.

Table 8-5 Hubei Polymetallic Projects – Tonglvshan Actual Processing Plant Production

Measure	Metal	Unit	2007	2008	2009	2010 Jan-Nov
Feed tones		Mt	1.59	1.33	1.12	1.16
Feed grade	Cu	%	0.84	0.87	0.95	0.96
	TFe	%	22.33	20.46	20.2	20.45
	Au	g/t	0.55	0.55	0.58	0.59
	Ag	g/t	3.98	4.06	4.31	4.33
Recovery	Cu	%	86.01	84.43	82.24	84.09
	TFe	%	53.06	53.2	54.64	57.5
	Au	%	78.24	76.31	76.31	76.31
	Ag	%	78.21	76.63	76.63	76.63
Cu Concentrate*		kt	60.4	50.0	45.1	49.0
Iron Concentrate*		kt	296.7	228.4	194.3	214.8
Concentrate Grade	Cu	%	19.01	19.52	19.42	19.1
	TFe	%	63.5	63.38	63.61	63.5
	Au	g/t	11.32	11.15	11.00	10.65
	Ag	g/t	81.90	82.68	82.10	78.51
Tailings Grade	Cu	%	0.14	0.15	0.18	0.16
	TFe	%	10.34	10.28	11.09	10.67
Metal Quantity*	Cu	kt	11.5	9.8	8.8	9.4
	Fe	kt	188	145	124	136
	Au	t	0.68	0.56	0.50	0.52
	Ag	t	4.95	4.14	3.70	3.85

Source: Provided by Daye Metal

Note: The figures are based on the weighted average of oxide ore and sulphide ore production

* Corrected by MMC

Table 8-6 Hubei Polymetallic Projects – Tonglvshan Forecast Processing Plant Production

Measure	Metal	Units	2011	2012	2013	2014	2015
Feed tonnes		Mt	1.15	1.15	1.15	1.75	1.75
Feed grade	Cu	%	0.96	0.96	0.96	0.96	0.96
	TFe	%	20.45	20.45	20.45	20.45	20.45
	Au	g/t	0.59	0.59	0.59	0.59	0.59
	Ag	g/t	4.33	4.33	4.33	4.33	4.33
Recovery	Cu	%	84.09	84.09	84.09	84.09	84.09
	TFe	%	57.5	57.5	57.5	57.5	57.5
	Au	%	76.31	76.31	76.31	76.31	76.31
	Ag	%	76.63	76.63	76.63	76.63	76.63
Cu Concentrate*		kt	48.6	48.6	48.6	74.0	74.0
Iron Concentrate*		kt	213.0	213.0	213.0	324.1	324.1
Concentrate Grade	Cu	%	19.1	19.1	19.1	19.1	19.1
	TFe	%	63.5	63.5	63.5	63.5	63.5
	Au	g/t	10.65	10.65	10.65	10.65	10.65
	Ag	g/t	78.51	78.51	78.51	78.51	78.51
Tailings Grade	Cu	%	0.16	0.16	0.16	0.16	0.16
	TFe	%	10.67	10.67	10.67	10.67	10.67
Metal Quantity*	Cu	kt	9.3	9.3	9.3	14.1	14.1
	Fe	kt	135	135	135	206	206
	Au	t	0.52	0.52	0.52	0.79	0.79
	Ag	t	3.82	3.82	3.82	5.81	5.81

Source: *Provided by Daye Metal*

Note: The figures are based on the weighted average of oxide ore and sulphide ore production

* *Corrected by MMC*

8.1.7 Infrastructure

Road

There Huangshi plant is easily accessible via a quality road. The Tonglvshan mine is also accessible by rail for the transportation of Cu concentrate to the smelter.

Power

MMC reviewed the power contract with the Huangshi Power supply company, which allows power to be sourced from Huangshi through a dedicated power line. The electrical supply agreement appears to be flexible with no restriction to a greater power off take for any plant expansion. The power cost varies with the community power demand on a daily basis. The range of current power cost is 0.57 RMB/kWh – 0.67 RMB/kWh.

Water

MMC reviewed the water permit license was sourced from Daye Lake at cost of 0.21 RMB/t. Access to increased water supplies for the any proposed expansion would not be considered a risk.

Tailings Dam

The Tonglvshan tailings dam has been operated for many years with total capacity of 15.8 M cu.m and a live capacity of 4.6 M cu.m, which is sufficient for 20 years of production. Seventy percent of current and future processing tailings are used as backfill in the underground mining operation.

8.2 Fengshan Project**8.2.1 Mineralogy**

The Fengshan Cu deposit is dominated by skarn rock type (75%), followed by Cu-marble and Cu igneous rock in many small ore bodies. The mineralization is dominated by primary Cu minerals, mainly consisting of chalcopyrite (0.01 mm), bornite, chalcocite and covellite, disseminated in the gangue. The Au and Ag minerals are partly associated with chalcopyrite and bornite as well as the gangue mineral. The molybdenite is always associated with chalcopyrite in skarn rock. Oxide ore is rarely observed in the Fengshan deposit. The economic elements include Ag and Au, magnetic iron and Mo. The ore grinding hardness is 14, which is moderately hard.

8.2.2 Metallurgical Testing

The processing plant design was based on metallurgical testing undertaken by BGRIMM in 1966 and a pilot plant test conducted at the Tonglvshan internal laboratory. The latest testing based on processing plant feed ore was undertaken by the Daye internal laboratory in 2010, which produced a Cu concentrate grade 22% with a Cu recovery 91.5% (refer to Table 8-7).

Table 8-7 Hubei Polymetallic Projects – Processing Test Result

Items	Grade (%)		Recovery (%)	
	<i>Cu</i>	<i>S</i>	<i>Cu</i>	<i>S</i>
Cu concentrate	22.26	24.27	91.54	48.28
Pyrite Concentrate	0.20	28.52	0.66	43.81
Tailings	0.05	0.11	7.8	7.91
Feed	0.64	1.12	100.00	100.00

Source: Metallurgy Testing Report, Internal Laboratory, 2010

8.2.3 Processing Plant

The Fengshan processing production commenced from 1971 with capacity of 1.16 Mtpa (3,500 tpd), treating Cu- Mo ores from both open cut and underground mining. Over the years, significant technical improvements have been achieved in terms of production through the upgrade of the milling and flotation circuits.

The processing facilities had undergone several modifications respectively in 1971, 1979, 1982, 1991. The open cut mining ceased in 2002, and the current production is 2,500 tpd to 2,600 tpd (0.82 Mtpa), treating ore from underground mining (refer to Table 8-8).

Table 8-8 Hubei Polymetallic Projects – Fengshan Processing Plant Summary

Processing Plant	Plant	Processing Line	Daily Capacity (t/d)	Annual Capacity (Mtpa)	Ore Type	Status	Planned Expansion
(t/d) Fengshan	No.1	Single	3,500	0.82	Cu-Mo	Operating	5,500 -6,000

Source: MMC summary

8.2.4 Process Description

The Fengshan processing circuit consists of three stages of crushing, one stage of milling, bulk flotation followed by re-grinding of the concentrate and a Cu-Mo separation flotation circuit (refer to Figure 8-3).

The Fengshan crushing and milling flowsheet is similar as Tongshankou No.1 plant (refer to Section 8.3.5). The main processing difference are that the Fengshan mill feed size is minus 17 mm with a primary grind size of P65= 74 microns.

The bulk flotation circuit consists of one roughing and two scavenging stages with the only rougher concentrate re-ground to P75=44 microns prior to being upgraded in one stage of cleaning. The scavenger concentrates are recycled back to the rougher feed while pyrite is removed from the re-ground rougher by flotation stage before the Cu and Mo are separated. The Cu scavenger and Cu-pyrite separation tailings are combined and sent to the tailings storage facility. Water is recovered from the tailings dam for re-use in the Cu processing circuit.

The Cu-Mo separation circuit consists of a roughing-scavenging stage where the rougher concentrate is re-ground and upgraded in two cleaning stages. The scavenger concentrate as well as the two cleaner tailings are returned to the head of the roughing-scavenging circuit while the scavenger tailings becomes the final Cu concentrate and dewatered is recovered for re-use in the process.

The cleaned Cu-Mo concentrate is further processed by depressing the Cu sulphides and by floating the Mo sulphide in a roughing circuit followed by one stage of scavenging. Seven stages of cleanings (a regrinding circuit followed by primary cleaner prior to the subsequent cleaner) are employed to produce final grade Mo concentrate. The scavengers tailings is final Cu concentrate.

The Cu concentrate are then dewatered in dedicated dewatering circuits, consisting of a thickener (diameter of 30 m) followed by a ceramic filter to produce final product (moisture 15%). Pyrite concentrate dewatering circuit involves a thickener (diameter of 24 m) followed by two 20 m² drum filter.

The Mo concentrate is dewatered in a dedicated dewatering through thickening (6 mØ) and ceramic filtration.

8.2.5 Equipment

The equipment in the Fengshan processing plant is summarized in Annexure D. PLC control and video supervising system are in use in the Fengshan processing plant.

8.2.6 Production

The Fengshan plant has achieved a Cu recovery between 91% and 93% and Mo recovery approximately 40% over the years, which is consistent with the mineralogy. The Mo recovery of 40% is reasonable with the low feed grade.

The feed grade to the plant has varied over the years and has affected concentrate production.

Table 8-9 presents the actual and forecast production details while the actual and forecast contained metal production is summarized in Table 8-10. Complete production details from December 2010 to September 2011 were not provided for review. MMC notes the achieved mining production 2011 January to September as stated in Section 7.3.2, and considers a 2011 full year forecast in line with mining production of between 0.79 and 0.83 Mt at 0.72 to 0.80% Cu as achievable.

Figure 8-3 Hubei Polymetallic Projects – Fengshan Flow Sheet

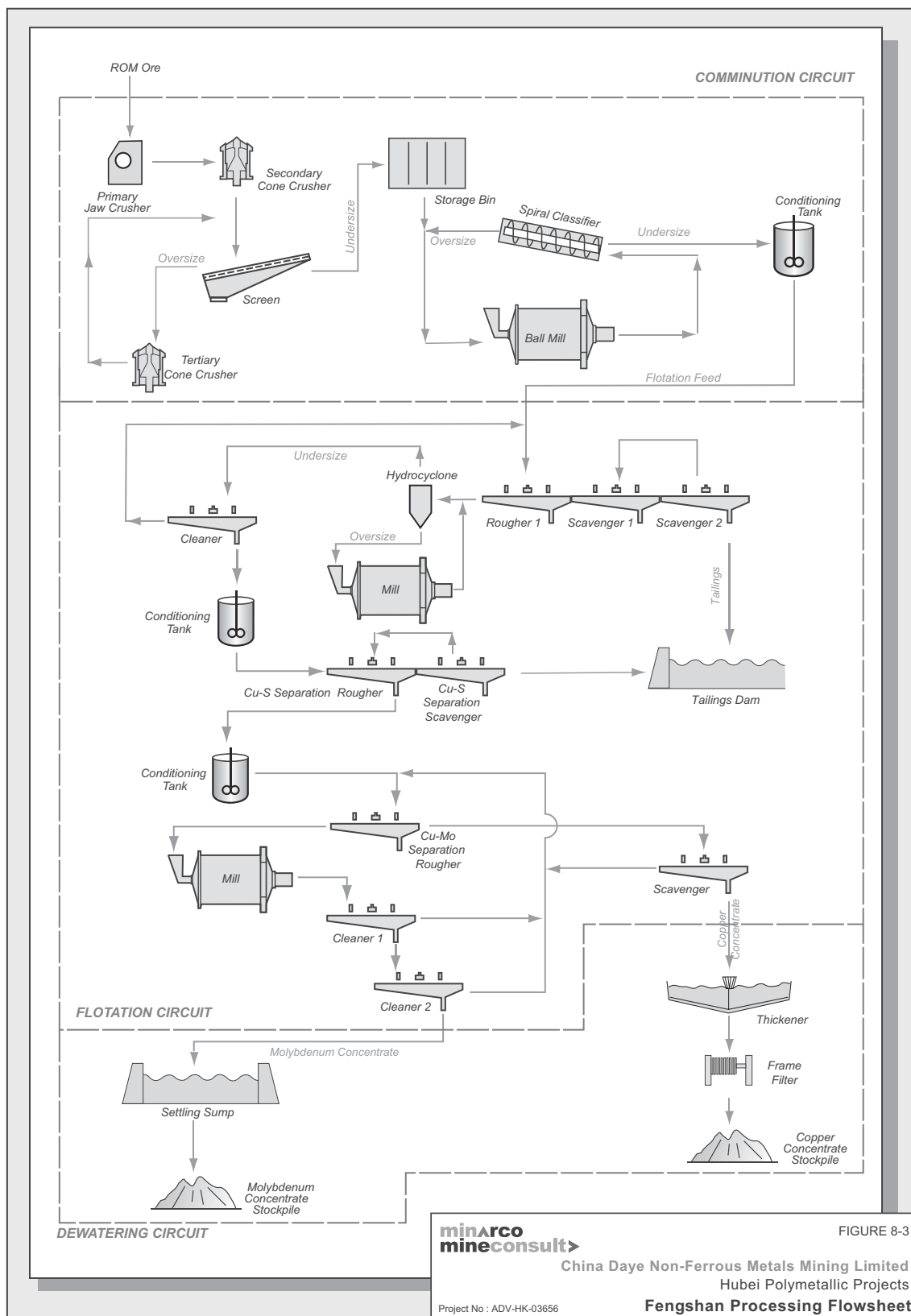


Table 8-9 Hubei Polymetallic Projects – Fengshan Historical Processing Plant Production

Items	Product	Unit	2007	2008	2009	2010 (Jan-Nov)
Feed Tonnes		Mt	0.6	0.78	0.86	0.76
Feed Grade	Cu	%	0.72	0.66	0.66	0.66
	Mo	%	0.03	0.03	0.03	0.03
	Au	g/t	0.42	0.3	0.32	0.3
	Ag	g/t	11.08	10.47	11.1	10.6
Recovery	Cu	%	90.93	91.36	91.31	91.4
	Mo	%	43.9	41.25	40.55	40.5
	Au	%	66.93	67.01	59.94	55.88
	Ag	%	71.25	70.73	62.93	60.24
Cu Concentrate*		kt	17.2	21.2	23.5	20.8
Moly Concentrate*		t	180.8	215.4	239.9	212.3
Concentrate Grade	Cu	%	22.86	22.21	22.04	22.07
	Mo	%	43.7	44.81	43.61	43.5
	Au	g/t	9.82	7.40	7.01	6.13
	Ag	g/t	275.65	272.77	255.46	233.62
Tailings Grade	Cu	%	0.07	0.06	0.06	0.06
	Mo	%	0.024	0.03	0.03	0.03
Metal Quantity*	Cu	kt	3.9	4.7	5.2	4.6
	Mo	t	79	97	105	92
	Au	t	0.17	0.16	0.16	0.13
	Ag	t	4.74	5.78	6.01	4.85

Source: Provided by Daye Metal

* Corrected by MMC

Table 8-10 Hubei Polymetallic Projects – Fengshan Forecast Processing Plant Production

Items	Product	Unit	2011	2012	2013	2014	2015
Feed Tonnes		Mt	0.76	0.76	0.76	0.76	0.76
Feed Grade	Cu	%	0.66	0.66	0.66	0.66	0.66
	Mo	%	0.03	0.03	0.03	0.03	0.03
	Au	g/t	0.3	0.3	0.3	0.3	0.3
	Ag	g/t	10.6	10.6	10.6	10.6	10.6
Recovery	Cu	%	91.72	91.72	91.72	91.72	91.72
	Mo	%	40.5	40.5	40.5	40.5	40.5
	Au	%	58.03	58.03	58.03	58.03	58.03
	Ag	%	56.91	56.91	56.91	56.91	56.91
Cu Concentrate*		kt	20.8	20.8	20.8	20.8	20.8
Moly Concentrate*		t	212.3	212.3	212.3	212.3	212.3
Concentrate Grade	Cu	%	22.07	22.07	22.07	22.07	22.07
	Mo	%	43.5	43.5	43.5	43.5	43.5
	Au	g/t	6.35	6.35	6.35	6.35	6.35
	Ag	g/t	219.93	219.93	219.93	219.93	219.93
Tailings Grade	Cu	%	0.06	0.06	0.06	0.06	0.06
	Mo	%	0.03	0.03	0.03	0.03	0.03
Metal Quantity*	Cu	kt	4.6	4.6	4.6	4.6	4.6
	Mo	t	92	92	92	92	92
	Au	t	0.13	0.13	0.13	0.13	0.13
	Ag	t	4.58	4.58	4.58	4.58	4.58

Source: Provided by Daye Metal

* Corrected by MMC

8.2.7 Infrastructure

Road

The Fengshan Project is connected to the Huangshi Project by a road which passes through a number of villages and is not in good condition. Construction of better quality road system is under way and the construction of a 1 km cement road section was observed during the MMC visit.

Power

MMC reviewed the power contract with the Huangshi Power supply company, which allows power to be sourced from Huangshi through a dedicated power line. The electrical supply agreement appears to be flexible with no restriction to a greater power off take for any plant expansion. The power cost varies with the community power demand on a daily basis. The range of current power cost is 0.57 RMB/kWh to 0.67 RMB/kWh.

Water

The Fengshan fresh water supply is sourced from the Chang River at a rate of 8,000 t/d with a similar amount from the underground mine. Water supplies are not seen as a limitation to any potential processing plant expansion.

Tailings Dam

The Fengshan tailings dam has being operated since 1971 with design live capacity of 20 M cu.m with contained tailings of 15.5 million cu.m. The current production tailings discharge is 0.4 million cu.m tailings with a similar amount used as back fill in the underground mine.

8.3 Tongshankou Project**8.3.1 Mineralogy**

The Tongshankou Cu-Mo deposit is a skarn type deposit consisting of five ore bodies with three main ore types: Cu-Mo, Cu and Mo. The mineralogy of the Tongshankou deposits are summarised in Table 8-11, Chalcopyrite (84% of Cu), molybdenite and pyrite are the main economic minerals. Gangue is kaolinite, talc, garnet, diopside, chlorite, tremolite, actinolite and calcite, quartz, sericite, chalcedony.

Table 8-11 Hubei Polymetallic Projects – Tongshankou Deposit Mineralogy

Mineral	Major	Minor
Sulphides	chalcopyrite, pyrite, molybdenite	bornite, covellite, trace sphalerite, pyrrhotite, marcasite, bismuthinite
Oxides	magnetite, hematite, malachite, chrysocolla, blue Cu	covellite, hard manganese ore, manganese ore, scheelite

Source: Proposal Report for Xintai Project, 2007

Chalcopyrite (CuFeS_2), the main Cu-bearing mineral, varies in size from 0.01 mm to 0.13 mm commonly disseminated in gangue minerals and in pyrite veinlets. Bornite aggregates occur on the edges or in cracks within the chalcopyrite with a typical grain size of 0.05 mm. Granular chalcocite granular is associated with bornite at a typical grain size of 0.05 mm. Molybdenite is fine varying from 0.015 mm to 0.02 mm and occurs in the gangue. The gangue minerals are mainly carbonates, which makes the separation more difficult due to the formation of clays. The ore grinding hardness is reported to be 8 to 12, which is moderately hard.

8.3.2 Metallurgical Testing

The initial processing performance was only considered moderate due to mineralogical issues (presence of carbonate and fine grains) as well as variations in the Cu grade due to mining. Extensive metallurgical studies have been conducted since discovery to test and improve processing performance (refer to Table 8-12).

Table 8-12 Hubei Polymetallic Projects – Historical Metallurgy Test Comparison

Testing Institutes	Feed Grade		Concentrate Grade		Recovery		Date
	Cu (%)	S (%)	Cu (%)	S (%)	Cu (%)	S (%)	
CRIMM	0.68	2.44	20.36	41.38	80.24	53.76	February, 1982
BGRIMM	0.86	2.96	22.77	38.00	89.15	54.85	December, 1985
Kunming Institute of Technology	0.79	3.41	18.15	36.00	78.27	51.42	September, 1992

Note: Project Proposal for Xintai Mining Company Limited Processing Expansion, Daye Nonferrous Metals Design and Research Institute, 2009

The Central South University has recently conducted metallurgical testing of the Mo circuit, improving the concentrate grade from 17% to 25% Mo and the recovery from 50% to 60%. Pilot scale testing is underway.

8.3.3 Processing Plant

Tongshankou processing production commenced from 1985 with capacity of 0.99 Mtpa Cu-Mo ore from open cut mining (Table 8-13). The original plant was designed by the Changsha Research and Design Institute of Nonferrous Metallurgy and has undergone a number of modifications, including decreasing the number of milling stages from two to one (1997), removing the Cu-pyrite separation (2003) and the addition of a Cu-Mo differential flotation circuit (2006). The current capacity of No.1 processing plant was expanded to approximately 4,000 tpd in 2007 while the two smaller processing plants both have a capacity of approximately 800 tpd.

Table 8-13 Hubei Polymetallic Projects – Tongshankou Processing Plant Summary

Processing Plants	Plants	Processing Line	Daily Capacity (t/d)	Annual Capacity (Mtpa)	Ore Type	Status	Planned Expansion (t/d)
Tongshankou	No.1	Single	4,000	1.32	Cu-Mo	Operating	6,000
	No.2	Single	800	0.26	Cu-Mo	Operating	N/A
	No.3	Single	800	0.26	Cu-Mo	Operating	N/A

Source: MMC Summary

An expansion of the No.1 processing plant is scheduled to align with the commencement of underground mining operations in 2014. This will lift capacity of this plant to 6000 tpd, and the entire facility to 7600 tpd. This is equivalent to approximately 2.5 Mtpa.

8.3.4 Process Description

The Tongshankou No.1 processing plant circuit is an unconventional flotation operation where separate Cu and Mo concentrates are produced. The Tongshankou No.1 processing plant flowsheet (Figure 8-4) consists of three stages of crushing, one milling stage followed by bulk flotation with regrinding of the middling flotation concentrate and a Cu-Mo separation flotation circuit.

The Tongshankou No.2 processing plant flowsheet (Figure 8-5) consist of two stages of the crushing, two stages of milling followed by bulk flotation in a roughing-scavenging (3 cells) operation and upgrading of the bulk concentrate in four cleaning stages.

The Tongshankou No.3 processing plant flowsheet is similar to the No.2 processing plant however with only one stage of milling. All of the Cu concentrates are dewatered in dedicated dewatering circuits by thickening and filtration.

The Tongshankou No.1 processing plant crushing circuit consists of a traditional three stage circuit, consisting of primary jaw crushers, secondary cone crushers and tertiary cone crushers with the oversize from a vibrating screen (12 mm apertures) feeding the tertiary crushers. The final crushed ore is minus 12 mm and stored in a fine ore storage bin.

Ore is recovered from the storage bin and fed into an overflow ball mill (2.7 mØ, 3.6 m long, 400 kW motor) in closed circuit with a spiral classifier. The spiral classifier underflow is returned to the ball mill feed while the overflow (P65 =74 microns) reports to the flotation circuit.

Although the process is not a typical Cu-Mo separation process, it is an appropriate process that results in the production of Cu and Mo concentrates. The first stage consists of a bulk flotation process where the sulphide minerals are separated from the gangue minerals. In the bulk flotation processing stage, reagents are added to disperse and depress the gangue minerals, such as talc (which attracts a significant penalty in smelting), while promoting the flotation of the sulphide minerals. The bulk flotation circuit is consisting of two rougher and two stages of scavengers with the rougher concentrates and scavenger concentrate reground to P85=44 microns prior to be upgraded in three stages of cleaning. The tailings from the scavenger circuit discharged into the tailings dam for storage where water is recovered for re-use in the process.

The cleaned bulk concentrate is further processed by depressing the Cu and iron sulphides and by floating the Mo sulphide in a roughing circuit followed by one stage of scavenging. Seven stages of cleaning are employed to produce final concentrate. When the Mo content is too low and thus not economic, the Mo separation circuit is not used.

The Cu concentrate is dewatered in dedicated dewatering circuits, consisting of one thickener (30 mØ) followed by a frame filter to produce a final product with a moisture content of 14%.

The crushing circuits of both the No.2 and No.3 processing plants use a primary jaw crusher followed by a screen and a secondary jaw crusher in a closed circuit. The crushed ore is treated by two stages of milling in closed circuit with dedicated spiral classifiers prior to the flotation circuit. Unlike the No.1 processing plant, the two flotation circuits are conventional without a Cu-Mo separation circuit. Each flotation circuit consists of a roughing-scavenging (3 cells) with the cleaner tailing and the scavenger concentrate fed back to the rougher feed. The rougher concentrate is upgraded in three stages of cleaning. The Cu concentrates are dewatered in dedicated dewatering circuits, consisting of one thickener (9 mØ) followed by a drum filter.

Figure 8-4 Hubei Polymetallic Projects – Tongshankou No.1 Processing Flowsheet

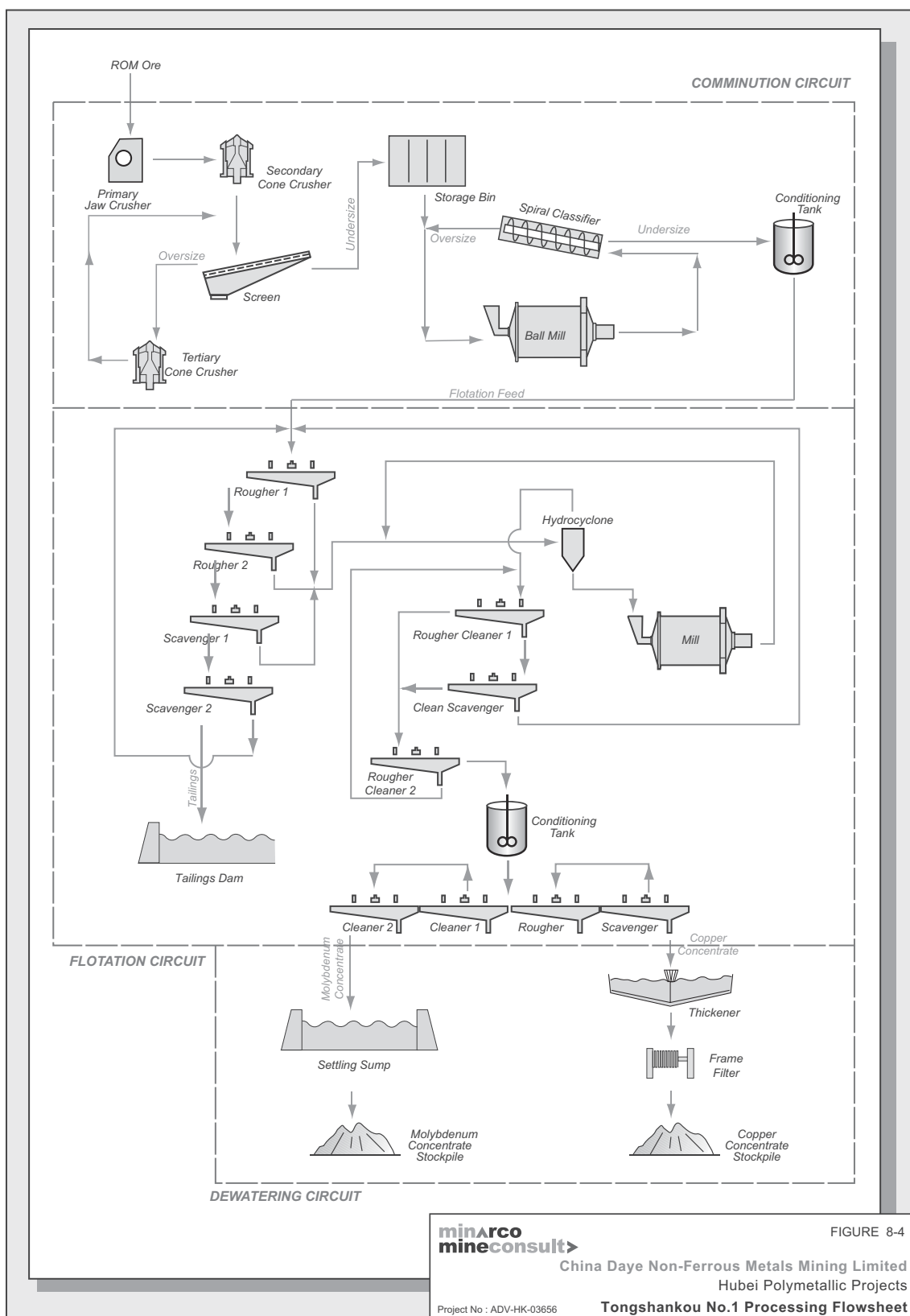
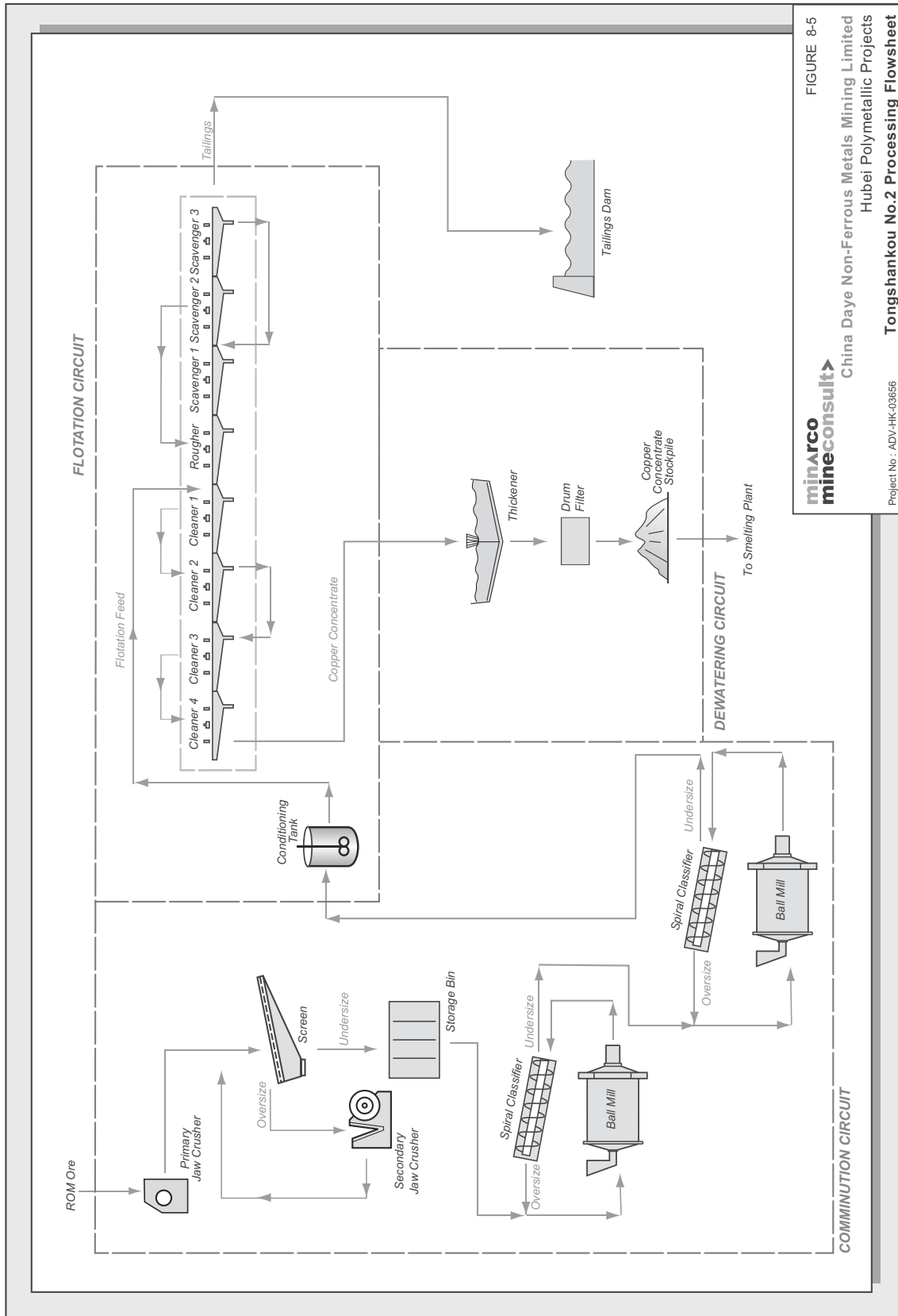


FIGURE 8-4

Figure 8-5 Hubei Polymetallic Projects – Tongshankou No.2 Processing Flowsheet



8.3.5 Equipment

The equipment in the Tongshankou processing plants are summarized in Annexure D. PLC control and a video supervision system are in use in the processing plants.

8.3.6 Production

Tongshankou Processing Plants has achieved only a moderate processing performance with Cu recoveries less than 80% and Mo recoveries of only 20% over the years, which is mainly due to fine grained nature of the economic mineralization, the presence of carbonate gangue and low Mo head grade. The concentrator manager stated that oxidation of the Cu sulphide minerals also contributed to the lower Cu recoveries.

Table 8-14 presents the actual production details while the forecast contained production details are summarised in Table 8-15. Complete production details from December 2010 to September 2011 were not provided for review. MMC notes the achieved mining production 2011 January to September as stated in Section 7.4.2, and considers a 2011 full year forecast in line with mining production of between 1.16 and 1.22 Mt at forecast grades is achievable. In Table 8-15, processing plant throughput and grade has been adjusted to 2.5 Mtpa at 0.65% Cu in 2014 and 2015 in line with the planned throughput expected after upgrading and expanding the mill and commissioning of the underground mining operations, as discussed in Section 8.3.3 and Section 7.4.3 respectively. MMC considers however, as stated in Section 7.4.2, that a 2014 forecast in line with combined open pit and underground mining production of between 2.1 and 2.35 Mt (assuming 1.5 Mtpa open pit production) at forecast grades is achievable.

Table 8-14 Hubei Polymetallic Projects – Tongshankou Historical Processing Plant Production

Items	Product	Unit	2007	2008	2009	2010 (Jan-Nov)
Feed Tonnes		Mt	0.83	0.98	1.19	1.54
Feed Grade	Cu	%	0.59	0.59	0.56	0.49
	Mo	%	0.03	0.03	0.02	0.03
Recovery	Cu	%	79.31	77.26	79.04	79.2
	Mo	%	19.24	17.17	11.17	11.12
Cu Concentrate*		kt	18.9	21.1	26.2	28.1
Moly Concentrate*		t	216.8	221.0	105.1	199.9
Concentrate Grade	Cu	%	20.6	21.16	20.11	21.29
	Mo	%	22.1	22.84	25.3	25.7
Tailings Grade	Cu	%	0.14	0.15	0.18	0.16
	Mo	%	0.02	0.03	0.02	0.02
Metal Quantity*	Cu	kt	3.9	4.5	5.3	6.0
	Mo	t	47.9	50.5	26.6	51.4

Source: *Provided by Daye Metal*

* *Corrected by MMC*

Table 8-15 Hubei Polymetallic Projects – Tongshankou Forecast Processing Plant Production

Items	Product	Unit	2011	2012	2013	2014	2015
Feed Tonnes		Mt	1.5	1.5	1.5	2.5+	2.5+
Feed Grade	Cu	%	0.48	0.48	0.48	0.65*	0.65*
	Mo	%	0.03	0.03	0.03	0.03	0.03
Recovery	Cu	%	79.2	79.2	79.2	79.2	79.2
	Mo	%	11.12	11.12	11.12	11.12	11.12
Cu Concentrate*		kt	27.4	27.4	27.4	48.4	48.4
Moly Concentrate*		t	194.7	194.7	194.7	344.0	344.0
Concentrate Grade	Cu	%	20.83	20.83	20.83	20.83	20.83
	Mo	%	25.7	25.7	25.7	25.7	25.7
Tailings Grade	Cu	%	0.11	0.11	0.11	0.11	0.11
	Mo	%	0.02	0.02	0.02	0.02	0.02
Metal Quantity*	Cu	kt	5.7	5.7	5.7	10.1	10.1
	Mo	t	50.0	50.0	50.0	88.4	88.4

Source: *Provided by Daye Metal*

+ *Adjusted by MMC in line with processing plant expansion and underground mine production guidance*

* *Corrected by MMC*

8.3.7 Infrastructure

Road

Both the condition of the road and the accessibility to the Huangshi Refinery is good.

Power

MMC reviewed the power contract with the Huangshi Power supply company, which allows power to be sourced from Huangshi through a dedicated power line. The electrical supply agreement appears to be flexible with no restriction to a greater power off take for any plant expansion. The power cost varies with the community power demand on a daily basis. The range of current power cost is 0.57 RMB/kWh – 0.67 RMB/kWh.

Water

Tongshankou fresh water is supplied from a local creek and underground bores at the rate of 1.64 million cu.m annually. However, 50% to 60% of the processing water is recycled in the processing plant requiring an additional 8,000 t/d which is sourced from the Yanghualu water dam. Access to increased water supplies for the any proposed expansion would not be considered a risk.

Tailings Dam

Tongshankou tailings dam has being operated for many years and is nearly full. A new tailings dam with active capacity of 16.9 M cu.m is required with a 20 year life at 4,000 tpd production. Two options are available; a new site some distance from the existing operation or extending the current tailings dam onto farming land and a nearby village. The latter option, although very convenient, would require considerable capital in the form of compensation.

8.4 Chimashan Project

8.4.1 Mineralogy

The Chimashan Cu deposit has similar mineralogical characteristics to that of the Fengshan deposit. The similarity in the processing performances between the two operations is consistent with the similar mineralogy.

8.4.2 Metallurgical Testing

A recent testwork programme was conducted by the Daye Nonferrous Design and Research Institute Co. Ltd. with the aim of improving the Cu recovery based on samples from No.2, No.3 and No.4 veins as well as the current processing plant feed ore. Separate tests were conducted under the plant operating conditions. The Cu recoveries were generally greater than 93% (refer to Table 8-16). It was found that the Cu recovery could be increased by 2% with the addition of 500 g/t Na₂S.

Table 8-16 Hubei Polymetallic Projects – Chimashan Metallurgical Testing Results

Items	Element	No.2 Vein	No.3 Vein	No.4 Vein	Plant Feed
Feed Grade	Cu (%)	0.71	0.89	0.85	0.55
	Au(g/t)	0.23	0.25	0.44	0.16
	Ag(g/t)	4.6	8.6	7.4	10.2
Concentrate Grade	Cu (%)	29.11	34.13	36.56	20.26
	Au(g/t)	8.18	9.62	14.42	7.14
	Ag(g/t)	309.6	336.6	287.4	255.6
Tailings Grade	Cu (%)	0.12	0.05	0.03	0.04
	Au(g/t)	–	–	–	–
	Ag(g/t)	–	–	–	–
Recovery	Cu (%)	84.76	94.99	96.56	93.3
	Au (%)	61.18	68.58	73.56	63.64
	Ag (%)	65.32	61.24	59.09	76.85

Source: Daye Nonferrous Design and Research Institute Co. Ltd, 2010

8.4.3 Processing Plant

The Chimashan processing production commenced in 1960 with an annual capacity of 0.16 Mtpa Cu-Mo ore from underground mining and subsequently expanded to 0.25 Mtpa (750 tpd) (refer to Table 8-17). The processing facilities have undergone several upgrades and modifications in 1966, 1977, and 1987. Due to decreasing ore reserves, the plant production has been decreased to approximately 300 tpd, with 48 staff operating one 8 hour shift per day.

Table 8-17 Hubei Polymetallic Projects – Chimashan Processing Plant Summary

Processing Plants	Plants	Processing Line	Daily Capacity (t/d)	Annual Capacity (Mtpa)	Ore Type	Status	Planned Expansion
Chimashan	No.1	Single	750	0.25	Cu-Mo	Intermittent Operating	No

Source: MMC summary

8.4.4 Process Description

The Chimashan processing flowsheet is presented in Figure 8-6 and consists of two stages of crushing, two stages of milling followed by a bulk flotation with a Cu-Mo separation flotation circuit.

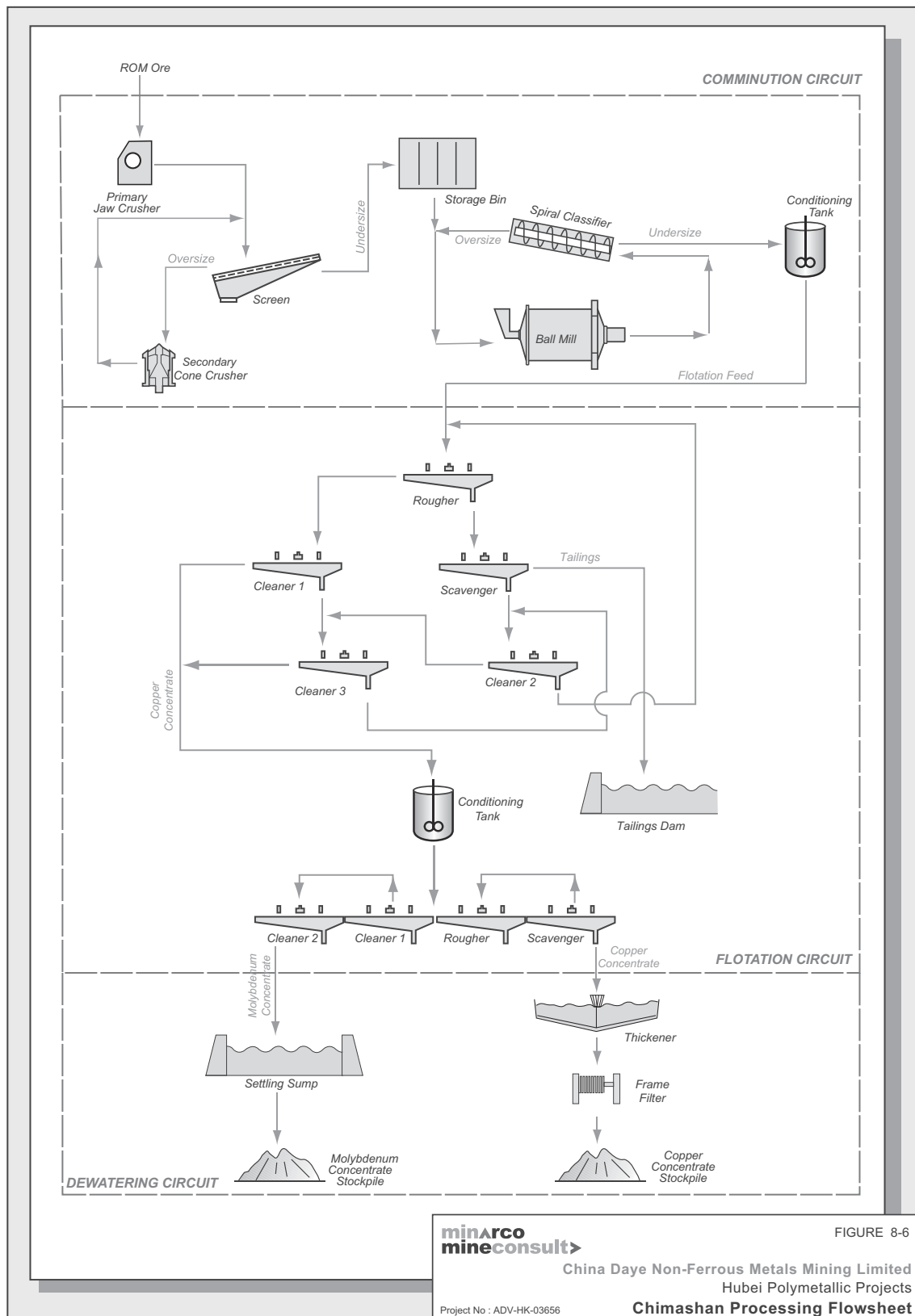
The Chimashan crushing and milling flowsheet is similar to that of the Tongshankou No.2 processing plant (refer to Section 8.3.5), with the following processing differences; mill feed size of minus 115 mm and a primary grind size P65= 74 microns.

The bulk flotation circuit consists of a rougher-scavenger operation with two stages of cleaning of the rougher concentrate and a dedicated cleaning stage for the scavenger concentrate, the concentrate of which joins the third cleaner feed. The tailings of the first cleaner feed the third cleaner, while the second cleaner tailings reports to the rougher feed. The tailings from the bulk flotation scavenger report to the tailings dam for storage.

The bulk Cu-Mo concentrate is processed by depressing the Cu sulphides and by floating the Mo sulphide in a rougher-scavenger circuit. Two stages of cleanings are employed to produce a final grade Mo concentrate. The scavenger tailings is the final Cu concentrate.

The Cu concentrate are then dewatered in dedicated dewatering circuits, consisting of a thickener (diameter of 12 m) followed by a drum filter to produce final product (moisture 15% to 16%). Mo concentrates are dewatered in a settling sump and recovered for shipment.

Figure 8-6 Hubei Polymetallic Projects – Chimashan Processing Flowsheet



8.4.5 Equipment

The equipment in the Chimashan processing plant is summarized in Annexure D

8.4.6 Production

The Chimashan processing performance has been very similar to that of the Fengshan operation, with Cu recoveries of 91% to 93% and Mo recovery of approximately 40%, which is consistent with the mineralogy. The Mo recovery of 40% is reasonable due to the low feed grade.

The feed grade to the plant has varied over the years, which has impacted concentrate production.

Table 8-18 presents the actual production details while the forecast production details are summarised in Table 8-19. Complete production details from December 2010 to September 2011 were not provided for review. MMC notes the achieved mining production 2011 January to September as stated in Section 7.5.2, and considers a 2011 full year forecast in line with mining production of between 75 and 79 ktpa at forecast grades is achievable.

Table 8-18 Hubei Polymetallic Projects – Chimashan Historical Processing Plant Production

Items		Unit	2007	2008	2009	2010 (Jan-Nov)
Feed Tones	ROM	Mt	0.06	0.05	0.07	0.08
Feed Grade	Cu	%	1.01	1.06	0.88	0.88
	Mo	%	0.03+	0.03	0.03	0.03
	Au	g/t	0.53	0.49	0.44	0.4
	Ag	g/t	11.6	11.5	11.54	11.6
Recovery	Cu	%	92.2	92.25	92.6	91.72
	Mo	%	43.9	41.25	40.55	40.5
	Au	%	66.62	53.43	63.77	58.03
	Ag	%	70	68.18	68.53	56.91
Cu Concentrate*		kt	1.9	2.1	2.2	2.7
Moly Concentrate*		t	18.1	13.8	19.5	22.3
Concentrate Grade	Cu	%	29.22	23.83	25.41	23.83
	Mo	%	43.7	44.8	43.61	43.5
	Au	g/t	11.08	6.38	8.75	6.85
	Ag	g/t	254.79	191.08	246.60	194.91
Tailings Grade	Cu	%	0.08	0.1	0.07	0.07
	Mo	%	0.02	0.03	0.03	0.03
Metal Quantity*	Cu	t	559	489	570	646
	Mo	t	7.9	6.2	8.5	9.7
	Au	kg	0.02	0.01	0.02	0.02
	Ag	kg	0.49	0.39	0.55	0.53

Source: *Provided by Daye Metal*

* *Corrected by MMC*

+ *MMC Assumption*

Table 8-19 Hubei Polymetallic Projects – Chimashan Forecast Processing Plant Production

Items		Unit	2011	2012	2013	2014	2015
Feed Tonnes	ROM	Mt	0.08	0.08	0.08	0.08	0.08
Feed Grade	Cu	%	0.80	0.80	0.80	0.80	0.80
	Mo	%	0.03	0.03	0.03	0.03	0.03
	Au	g/t	0.4	0.4	0.4	0.4	0.4
	Ag	g/t	11.6	11.6	11.6	11.6	11.6
Recovery	Cu	%	91.72	91.72	91.72	91.72	91.72
	Mo	%	40.5	40.5	40.5	40.5	40.5
	Au	%	58.03	58.03	58.03	58.03	58.03
	Ag	%	56.91	56.91	56.91	56.91	56.91
Cu Concentrate*		kt	2.5	2.5	2.5	2.5	2.5
Moly Concentrate*		t	22.3	22.3	22.3	22.3	22.3
Concentrate Grade	Cu	%	23.83	23.83	23.83	23.83	23.83
	Mo	%	43.5	43.5	43.5	43.5	43.5
	Au	g/t	7.54	7.54	7.54	7.54	7.54
	Ag	g/t	244.4	244.4	244.4	244.4	244.4
Tailings Grade	Cu	%	0.07	0.07	0.07	0.07	0.07
	Mo	%	0.03	0.03	0.03	0.03	0.03
Metal Quantity*	Cu	t	587	587	587	587	587
	Mo	t	10	10	10	10	10
	Au	kg	0.02	0.02	0.02	0.02	0.02
	Ag	kg	0.53	0.53	0.53	0.53	0.53

Source: Provided by Daye Metal

* Corrected by MMC

8.4.7 Infrastructure

Road

Chimashan is located some distance from the Huangshi Refinery on the way to Fengshan. The road is not in good condition and passes through a number of villages. This road is undergoing upgrade, as it services the Fengshan operation, which is being expanded.

Power

MMC reviewed the contract with Huangshi Power Supply Company, which allows power to be sourced from Huangshi through dedicated power lines. The electrical supply agreement appears to be flexible with no restriction to further increases in power if required for any potential plant expansions. The power cost varies with community power demand in a day. Generally, the current power cost is at 0.57 RMB/kWh to 0.67 RMB/kWh.

Water

Chimashan fresh water (production demand 1,200 t/d at cost of 0.73 RMB/t) is supplied from a site water dam, where water is collected from rain water, recycled tailings water as well as underground mine water. The current water capacity is sufficient if any production expansion.

Tailings Dam

The Chimashan tailings dam has an active capacity of 1.95 million cu.m, which is sufficient for the production of future tailings.

8.5 Equipment

Although some old processing equipment and facilities remain in use, they reflect conventional Chinese processing technology and are capable of achieving the required production rate. The equipment type and size is satisfactory for an operation of this capacity and generally appears to be in reasonable condition and well maintained. The Daye processing plants are slowly undergoing processing equipment upgrades, such as the introduction of cone crushers (previously secondary jaw crushers) XCF/KYF flotation cells (previously SF/JJF flotation cells) and ceramic filters (previously drum and disc filters).

8.6 Marketing

The copper concentrate is sold internally to the Huangshi Refinery plant and a contract is not required. The molybdenum concentrate sales contract was not available for review.

8.7 Processing Opportunity

The principal process opportunities are to increase the concentrate grade and decrease the moisture content of the concentrate. This would reduce the transport costs and increase the smelting capacity of the Huangshi Refinery.

9 SMELTING, REFINING & ASSOCIATED FACILITIES

The Huangshi Refinery has a Cu smelting and refining complex, precious metal and by-product recovery refinery, smelter slag re-treatment plants and supporting infrastructure; namely the oxygen production facilities (Air Separation Units, ASU) and the sulphuric acid plants.

The Huangshi Refinery is a large complex undergoing both expansion and equipment upgrade. The refinery consists of many unit operations such as a materials preparation section, smelting (Ausmelt and Noranda furnaces), and converting and electrowinning to produce Cu. By-products are also recovered, including Fe and Mo concentrates, Au, Ag, palladium ("Pd") and platinum ("Pt"), and tellurium ("Te") products. Other products are recovered, such as selenium (Se), sulphuric acid and liquid nitrogen and argon from the air separation units that produce oxygen for the smelting operation. Additionally, a mineral processing operation is conducted on the smelting and converter slags to recover any entrained Cu bearing material as well as magnetite. The slag is sold for use in cement production as well as iron ore heavy media operations.

The Cu smelting operation sources more than 85% of the Cu concentrates from overseas and will continue this practice while expanding production from the existing Cu processing operations. Cu anodes are also purchased locally to supplement the Cu electrowinning capacity.

9.1 Location

The Huangshi complex is located in Huangshi city with excellent access to roads, freeways, railway lines and the sea. There are many national highways nearby as well as three major railway systems: Wuhan-Jiujiang, Beijing-Guangzhou and Beijing-Jiulong. Additionally, Huangshi is located on the branch of Chang River which has access to the sea. Thus there are many transport options for the Huangshi smelting and refinery complex, including road, railway and water.

9.2 Slag Treatment Operations

9.2.1 Mineralogy

Slag No.1

The smelter slag has a complex nature, resulting from a variety of the Cu concentrate feeds, furnace operating conditions and cooling systems. The slag is black in colour and hard (ball mill work index 23 kWh/t). Converter slag contains Cu as Cu sulphides, a small amount of fine Cu metal and Cu oxides. The slag matrix is dominated by silica and iron compounds (Fe_2SiO_4 and Fe_3O_4).

Slag No.2

The primary or blast furnace/reverberatory slag nature is determined to a large extent by the smelting feed materials. The 2008 design report for the Huangshi smelting production expansion reported that the slag contained Cu 0.65%, Fe 38%, S 0.5%, Zn 1.38% SiO₂ 31.18%, CaO 5.07%, MgO 3.47% and AL₂O₃ 3.9%.

9.2.2 Metallurgical Testing

With the completion of upgrade and expansion of the smelting facilities, the nature of the feed to the slag treatment plants will change (Noranda slag to Ausmelt slag) (refer to Table 9-1). The expansion of No.1 and No.2 Slag Treatment plants are based on the Feasibility Study report for the smelting slag treatment expansion, completed by the Daye Nonferrous Design and Research Institute in 2009.

Table 9-1 Hubei Polymetallic Projects – Historical and Forecast Slag Production Details

	Slag Treatment								
Period	Plant	Slag Source	Feed	Grade			Contained Metal		
			kt/a	Cu (%)	Au (g/t)	Ag (g/t)	Cu(t)	Au(t)	Ag(t)
2001~2009	No.2	Noranda furnace	400	3.98	0.65	68.3	15,920	0.26	27.32
	No.1	Granulated blast furnace	80	0.75	0.21	7.6	600	0.016	0.61
2011 onward	No.2	Primary slag	900	0.7	0.16	7.45	6,300	0.144	6.705
	No.1	Converter slag	200	4	0.28	14.5	8,000	0.056	2.9

Source: Feasibility Study Report for Expansion of Smelting Slag Treatment Plant, Daye Nonferrous Design and Research Institute, 2009

No.1 Slag Plant

No.1 slag treatment plant has been processing Noranda furnace slag from 2002. In 2009, Daye Nonferrous Design and Research Institute conducted a flotation testing study aimed at maximizing the flotation conditions to improve Cu recovery. The tests achieved a Cu recovery of 92% with a concentrate grade of 24% (refer to Table 9-2).

Table 9-2 Hubei Polymetallic Projects – Testing of Converter Slag

Items	Cu (%)	Au (g/t)	Ag (g/t)
Feed Grade	2.8	0.28	16.8
Concentrate Grade	24	1.2	100
Recovery (%)	92	75	75

Source: Metallurgy Testing Report for Converter Slag, Daye Nonferrous Design and Research Institute, 2009

Both the open and closed locked circuit testing for the slag were undertaken with standard reagents with good recoveries for the Cu, Au and Ag. The nature of the slag varies due to different sources of concentrates that feed the smelter and can affect the slag flotation performance as does the cooling method and rate. While the fine grinding impacts the flotation performance, it does not affect the tailings separation. The iron content in the flotation tailings slag is recovered by magnetic separation due to the presence of magnetite and a 60% MFe concentrate grade is made. The processing flowsheet was developed based on these tests, and consists of a two stage grinding circuit (P65 = 32 micron) with a rougher-scavenger flotation circuit followed by a magnetic separation circuit.

No.2 Slag Plant

The design of the No. 2 slag treatment plant is based on the preliminary flotation testing of blast furnace slag, which has similar material quality to the converter slag. The testing found a Cu recovery of 74.74% with a concentrate grade of 19.75% in a two stage milling operation followed by flotation with standard reagent. These findings have applied to the process (entitled “New Technologies on the Phase Control Flotation of Slag”) to maximize the recovery of Cu, Au and Ag by controlled slow cooling of the slag control to maximize the size of the minerals which are extracted by conventional crushing, milling and flotation circuit with tailings magnetic separation and conventional dewatering (thickening-filtration) operation.

9.2.3 Slag Treatment Plants

The slag treatment plants commenced operation in 2000, exclusively fed by the smelting slag of the Huangshi smelting facilities. Currently, the operation of No.2 slag treatment plant has capacity of 0.4 Mtpa, fed by the Noranda smelter while the No.1 slag treatment plant has capacity of 0.08 Mtpa, fed by the granulated blast furnace slag.

The slag treatment plants employ disabled people which is the Daye Metal's company policy.

Table 9-3 Hubei Polymetallic Projects – Slag Treatment Plant Summary

Treatment Plants	Plants	Treatment Line	Daily Capacity (t/d)	Annual Capacity (Mtpa)	Feed Material Type	Status	Planned Expansion
Slag Treatment	No.1	Single	1500	0.4	Noranda Slag	Expansion	0.9 Mtpa
	No.2	Single	300	0.08	Granulated blast furnace slag	Operating	0.2 Mtpa

Source: MMC summary

9.2.4 Process Description

No.1 Slag Treatment Plant

The proposed No.1 Slag Treatment plant flowsheet for the expanded plant is presented in Figure 9-1 and consists of a crushing circuit with two stages of crushing consisting of primary jaw crusher, a vibrating screen (14 mm aperture) with the oversize feeding a secondary crusher. The final crushed slag is minus 14 mm and stored in a fine ore storage bin.

Slag is recovered from the storage bin and fed to an overflow ball mill (2.1 mØ x 3.0 m) in closed circuit with a spiral classifier. The classifier underflow is returned to the ball mill feed for further grinding while the overflow (P65 =74 microns) reports to the flotation circuit.

The flotation circuit consists of a rougher (2), scavenger (3) operation with the primary rougher tailings reground prior to upgrading the second rougher. The rougher concentrates are combined as the final Cu concentrate. In the current plant, the flotation tailings from the scavenger circuit are processed by magnetic separation to recover magnetite. The magnetite concentrate is dewatered by a hydrocyclone, with the overflow filtered by disc filter and the underflow further dewatered by a thickener (9 mØ) followed by a ceramic filter to produce final iron-bearing tailings. The magnetic separator tailings are dewatered by thickening and filtration. However in the proposed expanded plant flowsheet there will be no magnetic separation circuit.

The Cu concentrate is dewatered in a similar manner to that of the tailings and returned to the smelter.

No.2 Slag Treatment Plant

The proposed No.2 Slag Treatment plant flowsheet for the expanded plant is presented in Figure 9-2 and consists of a crushing circuit with three stages of crushing consisting of a primary jaw crusher, a secondary cone crusher, a vibrating screen (14 mm aperture) with the oversize feeding a tertiary cone crusher. The final crushed slag is stored in a fine ore storage bin.

Slag is recovered from the storage bin and fed to two parallel milling circuits consisting of two ball mills in series, all in closed circuit with hydrocyclones. The hydrocyclone underflows are returned to the ball mill feed for further grinding while the secondary ball mill hydrocyclone overflows report to the flotation circuit.

The flotation circuit is conventional and consists of a rougher-scavenger (2) operation with a single cleaner stage. The tailings from the scavenger circuit are treated by a magnetic separation to recover a magnetite concentrate which is dewatered by a thickener and followed by a ceramic filter to produce final iron-bearing tailings. The magnetic separator tailings is dewatered by thickening and filtration. However in the proposed expanded plant flowsheet there will be no magnetic separation circuit.

The cleaned Cu concentrate are then dewatered in dedicated dewatering circuits, consisting of a thickener followed by a ceramic filter to produce the final concentrate which is returned to the smelters.

9.2.5 Equipment

The equipment contained in the two slag treatment plants are summarized respectively in Annexure D. The slag treatment equipment is considered suitable for the proposed expansion based on the feasibility study.

Although some old treatment equipment and facilities remain in use, they reflect conventional Chinese treatment technology and are capable of achieving the required production rate. The equipment type and size is satisfactory for an operation of this capacity and generally appears to be in reasonable condition and well maintained. The Daye treatment plants are slowly but surely undergoing treatment equipment upgrades, such as the introduction of cone crushers (previously secondary jaw crushers) XCF/KYF flotation cells (previously SF/JJF flotation cells) and ceramic filters.

Figure 9-1 Hubei Polymetallic Projects – No.1 Slag Treatment Flowsheet

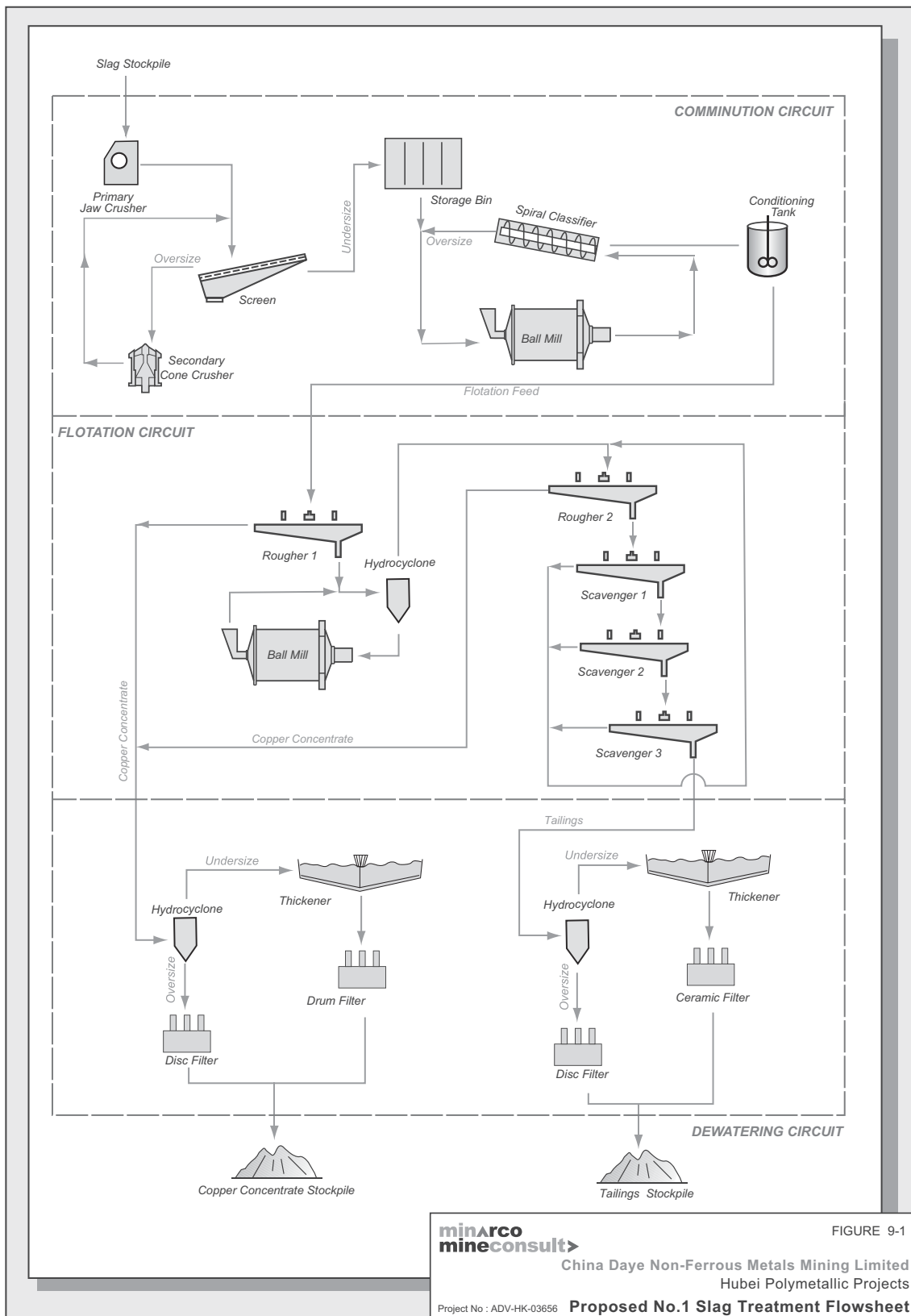
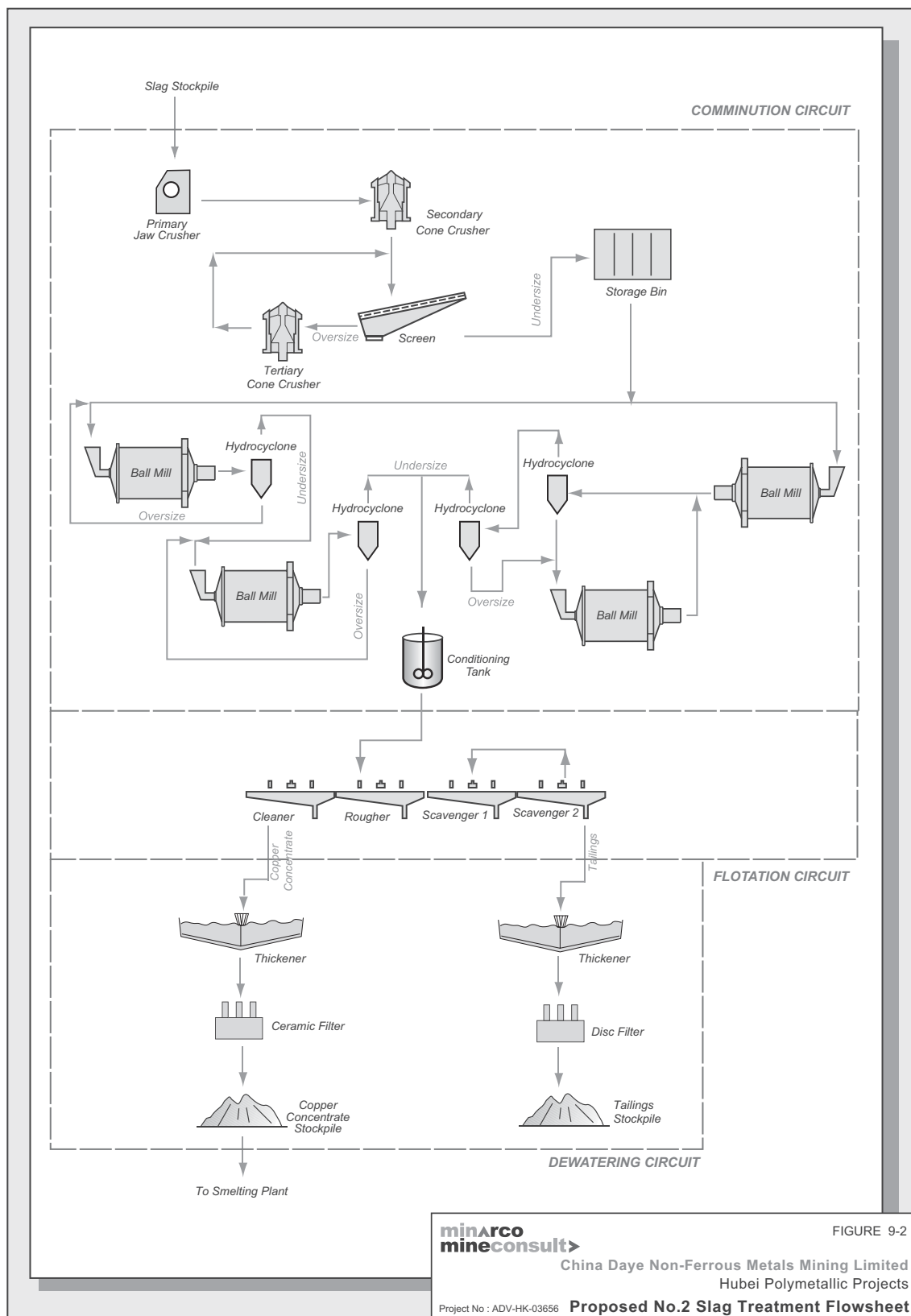


Figure 9-2 Hubei Polymetallic Projects – No.2 Slag Treatment Flowsheet



9.3 Smelter and Refining Facility

9.3.1 Smelting and Refining Plants

The Huangshi smelting operation commenced production in 1960 with 25 ktpa of Cu, using a reverberatory furnace and a converter. Several upgrades have occurred of many facilities including the installation of the Noranda smelter operation in 1997. The smelting and refining capacity expanded to 185 ktpa cathode Cu in 2005, with a production of 150 kt of blister Cu and 254 kt cathode Cu in 2010. The refinery facilities were also processing externally purchased Cu anodes.

The Huangshi smelting and refinery complex as well as the support facilities are summarised in Table 9-4.

Table 9-4 Hubei Polymetallic Projects – Smelting and Refinery Facilities

<u>Facilities</u>	<u>Unit</u>	<u>Annual Capacity</u>	<u>Status</u>	<u>Expanded Capacity</u>
Noranda Smelter	1	105 kt Cu	Ceased	–
Ausmelt Smelter	1	350 kt Cu	Trial Operation	–
Converters	5	300 kt Cu	Operating	350 kt Cu
Anode Furnaces	3	240 kt Cu	Expansion	300-400 kt Cu
Electrolysis Plant	1	270 kt Cu	Operating	470 kt Cu
Anode Retreatment Plant	1	2,700 t anode slimes	Operating	5,000 t anode slimes
No.3 Acid Plant	1	103,000 cu.m/h gas	Expansion	270,000 cu.m/h gas
No.4 Acid Plant	1	160,000 cu.m/h gas	Operating	–
Oxygen Plants	2	19,000 cu.m/h gas	Operating	28,000 cu.m/h gas

Source: Provided by Daye Metal

The previous reverberatory furnace was replaced by an Ausmelt smelter in 2009 as a part of modernisation programme to improve energy efficiency and capacity. When the Ausmelt smelter is in full operation, the Noranda smelter would be available as a standby, and may provide the opportunity for further production expansion. The Ausmelt smelter has many advantages including increased of production, lower energy and operating costs as well as operational flexibility.

MMC observed the trial operation being conducted on the Ausmelt smelter. The smelter has a first stage design capacity of 0.2 Mtpa equivalent cathode Cu capacity which will be increased to 0.35 Mtpa during a second stage.

Five converters, two at 3.6 mØ x 8.8 m and three at 4 mØ x 11.7 m, with an overall production rate 0.2 Mtpa of equivalent cathode Cu are in operation, with one of the 4 mØ units serving as a backup. At the production rate of 0.3 Mtpa, the three larger convertors would be in operation and the two smaller units as backup.

The secondary smelting facilities include two rotatory anode furnaces (3.96 mØ x 9.2 m) with one 85 tph caster and one 25 tph caster.

The electrowinning plant is operating with a capacity of 0.27 Mtpa cathode Cu and will be upgraded to a capacity of 0.47 Mtpa cathode Cu, employing stainless steel starter cathodes.

The current acid production facilities have a capacity of 0.6 Mtpa of 98% sulphuric acid and include the No.3 acid plant treating the Noranda smelter flue gas (125 kNcu.m/h, 230 ktpa 99.8% sulphuric acid) and the No.4 acid plant handling the converter furnace gas (160 kNcu.m/h, 390 ktpa 99.8% sulphuric acid). An upgrade of the No.3 acid plant is underway.

The oxygen plants include two 6 kcu.m/h oxygen plants commenced in 1997 and one 7 kcu.m/h oxygen plant commenced in 2006. The oxygen plants also produce liquid nitrogen and argon; both products are sold.

9.3.2 Processing Description

An overview of the Huangshi smelting and refinery flowsheet is presented in Figure 9-3. It provides the basis for a general processing guide with the following stages:

- Input materials: Cu concentrate, predominately chalcopyrite minerals (CuFeS_2) with associated trace elements and other minerals (e.g. FeS_2).
- Blending: fluxes for removing iron during smelting consisting of quartz and limestone.
- Smelting: petroleum coke and oxygen to provide heat for melting the concentrate and fluxes. Oxygen also removes sulphur during smelting.
- Refinery: purify the blister Cu to cathode Cu.
- Output products: cathode Cu, sulphuric acid, slag, Au, Ag, platinum, palladium, tellurium and selenium, sulphuric acid, liquid nitrogen and argon, magnetite concentrate.

The detailed smelting and refinery flowsheet is present in Figure 9-4.

The Cu concentrates are sourced from variety of places (mainly overseas) and are transported to three storage bins (capacity 60 kt to 80 kt for 25 days storage) by trains or trucks where samples are taken. The concentrate mixers are dried in the kilns and then blended with petroleum coke, quartz and limestone in specific ratios. The blended materials are then pelletised on one of four disc pelletisers (7.0 mØ) and fed to the Noranda smelter (currently not in operation) and the Ausmelt smelter.

The blended material was fed into the Noranda smelter by a belt feeder, with oxygen-enriched air added into the matte layer at about 30 kNcu.m/h. The smelting charge was rapidly heated, followed by decomposition, melting, slag formation and matte separation. The slag and matte ($65\% \pm 5\%$ Cu) were discharged separately from the furnace and the matte reported to the converter for blowing to form blister Cu by removing the sulphur. The slag containing Cu at 3% to 4% is cooled prior to processing in the slag treatment plant, where the Cu concentrate is returned for smelting. The heat is recovered from the 50 kNcu.m/h flue gas (16% to 18% SO₂) produced by the furnace by waste heat boilers prior to acid production in the No.3 acid plant.

In the Ausmelt smelter, the injected oxygen reacts vigorously with the feed material causing heating, smelting and oxidation with the production of matte (Cu sulphide) and slag. The mixture of matte and slag is treated in an electric furnace where they are separated. The matte is tapped and reports to the converters to remove the sulphur and produce blister Cu. Slag from both the smelting and converting processes are slowly cooled by water sprays for 48 hours and conveyed to the slag treatment plants for Cu recovery. The Ausmelt smelter will operate for 330 days per year.

Three anode furnaces (two x 3.9 mØ x 9.2 m and one x 4.5 mØ x 13.5 m) are used to cast the blister Cu liquid as anodes plates for electrowinning.

The anodes, along with externally purchased ones, are placed into the electrowinning tanks with some additives. A pure Cu plate is used as the cathode with the Cu sulphate solution acting as the conducting medium. An electric current is applied across the two electrodes and the flowing current converts the Cu (Cu²⁺) in solution to Cu metal at the cathode.

Over time, the Cu cathodes increase in size and weight while the anodes shrink as they dissolve. The Cu cathodes are finally washed prior to storage where sorting, sampling, labelling, weighing and strapping occurs.

The anode slimes contain trace metals and is processed in a precious metals recovery facility to recover Au, Ag, platinum, palladium, selenium and tellurium.

Off-gas emissions from the smelter and converter containing sulphur dioxide are captured and processed in the No.3 and No.4 acid plants.

The flue and off-gas produced by the smelting and converting processes are firstly treated in electrostatic dust precipitators to remove the fine solids before reporting to the acid plants where other impurities such as arsenic, fluorine, etc. are removed. The purified sulphur dioxide gas stream is dried and converted to sulphur trioxide with a catalyst prior to absorption by concentrated sulphuric acid. The cleaned air is discharged into the atmosphere while waste acid water from the purification process is recycled after treatment.

The flowsheet for the acid plants may be summarised as follows: primary scrubber-gas cooling tower –secondary scrubber – primary electrostatic dust removal – secondary electrostatic dust removal – drying tower – blower – primary sulphur trioxide transformer – sulphur trioxide cooler – primary sulphur trioxide absorption towers – secondary sulphur trioxide absorption tower – exhaust chimney.

9.3.3 Future Smelting and Refinery Plans

The current upgrade of facilities for the expansion of production includes the newly constructed Ausmelt smelter plant, a rotatory anode furnace (4.5 mØ x 13.5 m) as well as the modification to the existing anode casting machines and to the No.3 acid plant. The projects are expected to be completed in 2012.

The Ausmelt smelter is now in trial operation is expected to produce 0.21 Mtpa equivalent cathodes Cu in the first stage, with a full capacity of 0.35 Mtpa. With the completion of the smelting and refinery expansion as well as the support facilities, the proposed smelting capacity of 0.35 Mtpa of blister Cu in 2014 is considered to be achievable.

The proposed upgrade of the anode furnaces includes the construction of two new anode furnaces with a capacity of 480 t and 18 anode casters, which will replace the No.2 and No.3 furnace anode furnaces. The overall production capacity will increase to 375 ktpa anode Cu (99.3% of Cu) from the current 200 ktpa anode Cu, while the existing No.4 furnace will remain in operation.

The construction of the new electrowinning facility with a capacity of 0.2 Mtpa of cathode Cu will replace the old facility (0.12 Mtpa). The electrolyte purification will include vacuum evaporation, thickening with impurities removed by induction. The expansion of the electrowinning plant will be conducted during 2012 and 2013.

Figure 9-3 Hubei Polymetallic Projects – Overview of Smelting Refinery Flowsheet

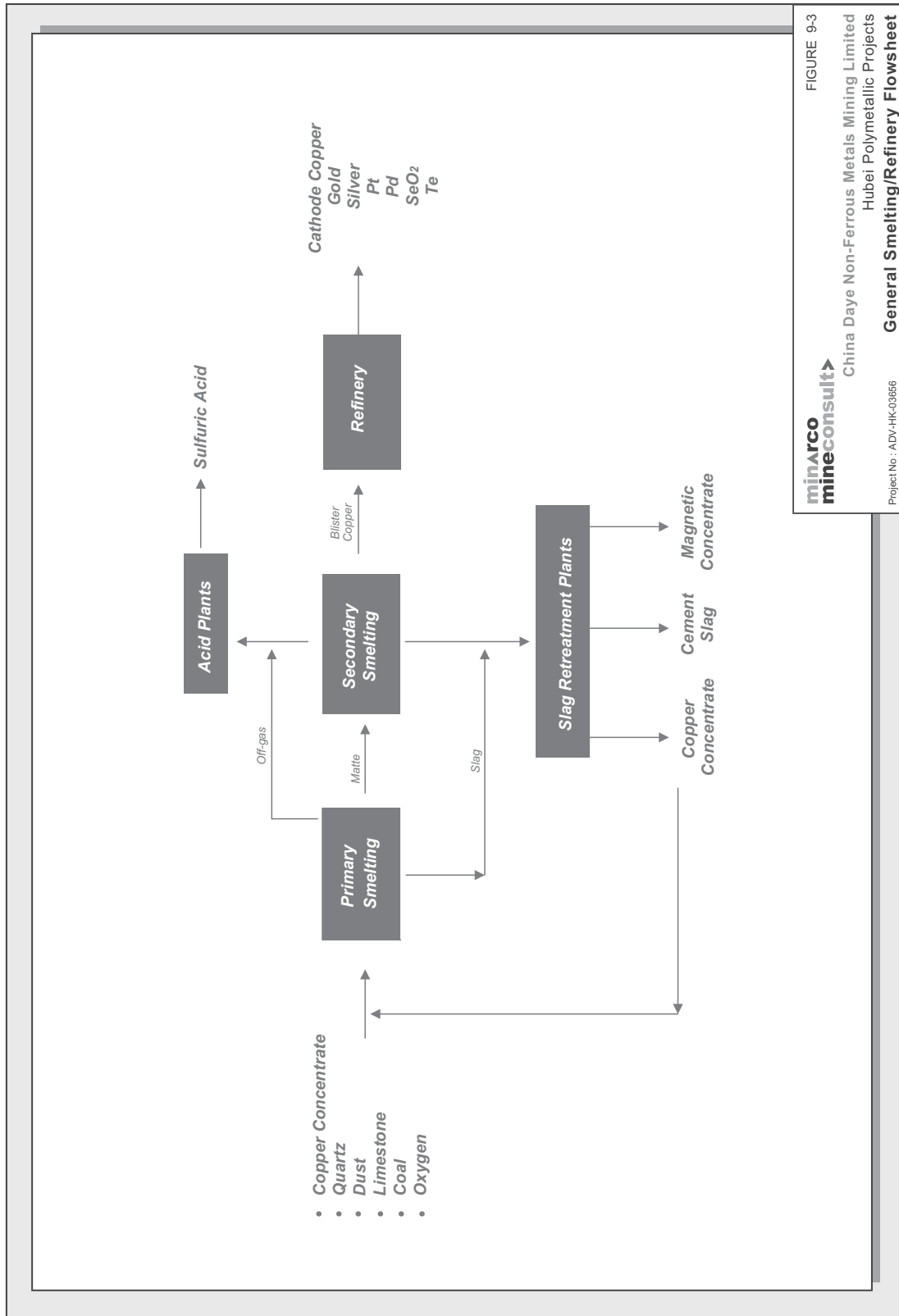
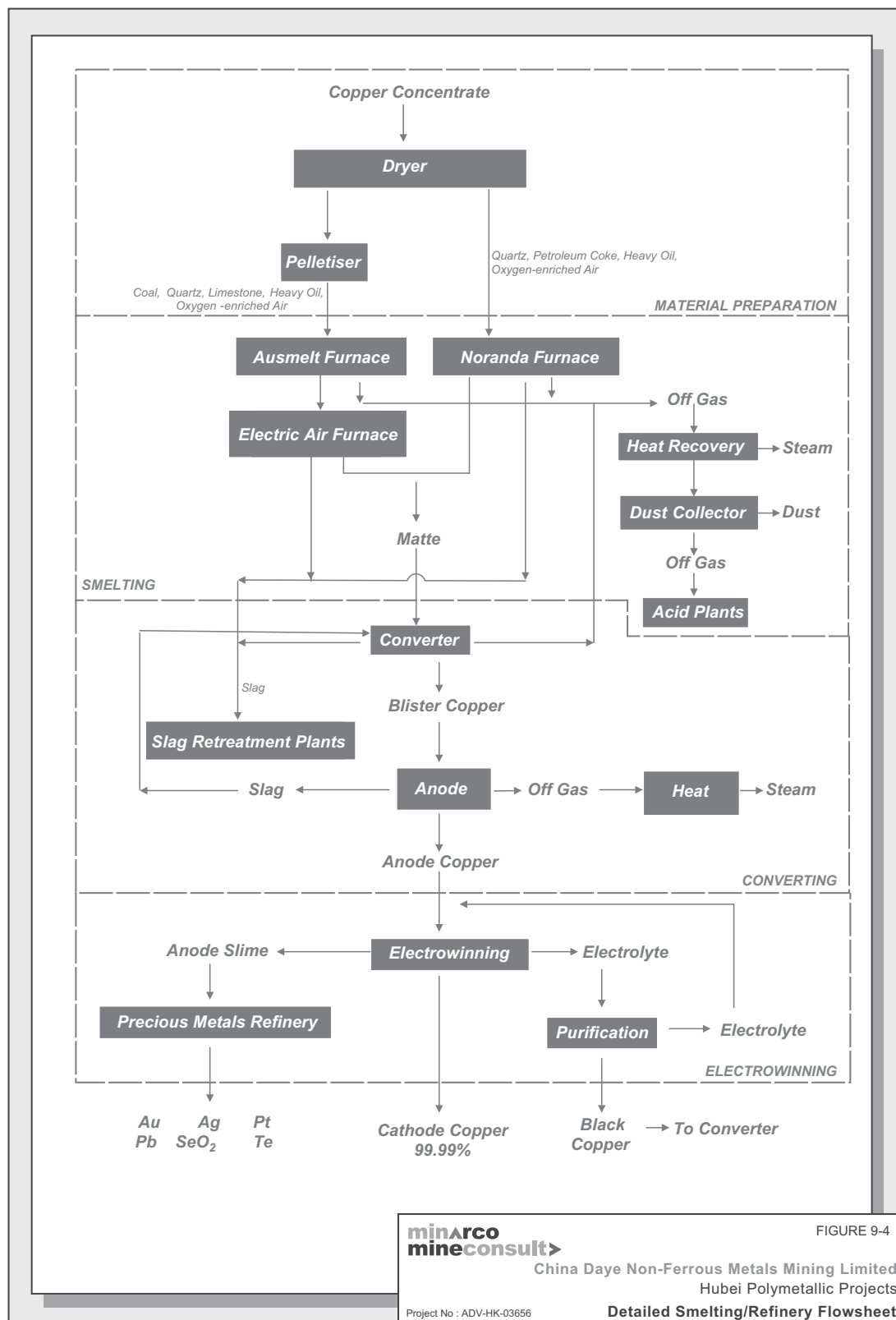


Figure 9-4 Hubei Polymetallic Projects – Detailed Smelting Refinery Flowsheet



The No.3 acid plant with a capacity of gas 234 kN cu.m/h (710 kt 99.8% sulphuric acid) is undergoing expansion. The site preparation and construction and installation of desulfurization tower as well as equipment order was completed in 2010 while the civil construction, equipment installation and commission are expected to be completed in September, 2011. The No.3 and No.4 acid plants will process off-gas at the rate of 97 kcu.m/h and 121 kcu.m/h respectively.

With the completion of this expansion, the overall capacity of the acid plants will be sufficient for the proposed increased smelting production.

The slag treatment capacity is undergoing expansion to match the proposed increased smelting rates: No.1 slag treatment plant from 0.08 Mtpa to 0.2 Mtpa (completion in 2012-2013) and No.2 slag treatment plant from 0.4 Mtpa to 0.9 Mtpa (finalized in 2012).

Proposed future projects include upgrades of the converter furnace, waste treatment and environmental projects as well as precious metal development projects, which are proposed to be completed in 2014.

9.3.4 Material and Feed

The Ausmelt smelter input consists of a blend of Cu concentrates, powdered petroleum coke, coal, quartz/quartzite and limestone. The Cu concentrates arrive at the smelter via truck and train from a variety of sources including Daye's own concentrates as well as from domestic and international producers. The blend is prepared in the material preparation plants prior to being fed to the smelter. The Cu concentrates typically exceed 15% Cu and the typical smelter feed blend averages 21% Cu (refer to Table 9-5).

Table 9-5 Hubei Polymetallic Projects – Cu Concentrate Quality

<u>Cu (%)</u>	<u>Fe (%)</u>	<u>S (%)</u>	<u>SiO₂ (%)</u>	<u>CaO (%)</u>	<u>MgO (%)</u>	<u>Al₂O₃ (%)</u>
21	26	23	7.5	2	1.8	2

Source: Provided by Daye Metal

The typical specifications for the fluxes used for blending are as follows:

- Coal/petroleum coke: carbon content greater than 58.5%, volatile content greater than 25%, energy value greater than 25 kJ/kg, ash less than 15%, moisture less than 1.5% and less than 5 mm.
- Quartz/quartzite: silica (SiO₂) content greater than 76.84%, CaO content less than 1.5%, iron content less than 3% and 5 mm to 15 mm for the Ausmelt smelter and 8 mm to 25 mm for the converter.
- Limestone: CaO content greater than 51%, SiO₂ less than 2%, iron less than 1% and 5 mm to 15 mm.

9.3.5 Basic Design and Feasibility Study

The information for the smelting and refinery facilities expansion is based on the “Design Report on Energy Saving and Discharge Limitation Update Projects of Smelting and Refinery”, prepared by ENFI in November, 2008. The process is: Ausmelt Smelter – Electrical Furnace – Converter – Rotary Anode Furnace/Caster – Electrowinning – Precious Metal Refinery. The designed capacity is 0.21 Mtpa of 99.5% of cathode Cu and 290 ktpa of 99% sulphuric acid.

The information on the upgrade of No.3 acid plant is based on the “Feasibility Study for Upgrade of No.3 Plant of Daye Nonferrous Metal Co., Ltd”, prepared by ENFI in 2009.

MMC was not provided the other feasibility study for the proposed upgrading of the anode furnaces, converters, electrowinning and precious metal refinery facilities.

9.3.6 Equipment

The smelter and refinery complex contains a number of fully integrated processing stages, starting with the material preparation plant where the smelting charge is prepared, the smelter and associated equipment, the convertor, anode furnaces and casters, the electrowinning facility including the tank house, the precious metal refinery, the acid plants and the oxygen plants. The smelter and refinery equipment is summarised in Annexure D, noting that the smelting equipment is designed to process Cu concentrate of 3,109 tpd (over 1 Mtpa).

9.3.7 Production

The historical production figures are summarised in Table 9-6 and show that marketable grades of cathode Cu, Au and Ag have been consistently achieved with metal recovery. In 2010, 254 kt of 99.99% Cu was achieved in 2010 with 98% recovery. Forecast production figures are summarised in Table 9-7.

Table 9-6 Hubei Polymetallic Projects – Historical Production of Smelter and Electrowinning Facility

Items	Product	Unit	2008	2009	2010
Feed Tones	Cu Concentrate	Mt	0.96	0.96	0.82
Feed Grade	Cu	%	20.6	21.4	20.2
	S	%	23.6	24.4	24.0
Product Quantity	Blister Cu	kt	167.8	173.5	149.0
	Cathode Cu	kt	250.9	240.4	254.0
	Au Bullion	t	5.5	5.8	6.0
	Ag Bullion	t	260.3	270.0	307.2
	98% H2SO4	kt	537.6	515.7	494.1
	93% H2SO4	kt	62.73	65.21	46.20
Product Grade	Blister Cu	%	98.76	99.07	99.06
	Cathode Cu	%	99.99	99.99	99.99
	Au	%	99.99	99.99	99.99
	Ag	%	99.99	99.99	99.99
Overall Recovery	Cu	%	96.53	97.43	97.94
	Au	%	93.43	93.72	93.67
	Ag	%	86.13	88.71	90.75

Source: Provided by Daye Metal

Table 9-7 Hubei Polymetallic Projects – Forecast Production of Smelter and Electrowinning Facility

Items	Product	Unit	2011	2012	2013	2014	2015
Feed Tones	Cu Concentrate	Mt	0.86	1.40	1.40	1.56	1.56
Feed Grade	Cu	%	20.7	22.0	22.0	23.0	23.0
	S	%	27.0	28.0	28.0	28.0	28.0
Product Quantity	Blister Cu	kt	178.5	300.0	300.0	350.0	350.0
	Cathode Cu	kt	270.0	270.0	270.0	470.0	470.0
	Au Bullion	t	6.0	10.0	10.0	20.0	20.0
	Ag Bullion	t	300.0	450.0	450.0	600.0	600.0
	98% H ₂ SO ₄	kt	617.4	1,027.8	1,027.8	1,146.6	1,146.6
	93% H ₂ SO ₄	kt	68.60	114.20	114.20	127.40	127.40
Product Grade	Blister Cu	%	99.00	99.00	99.00	99.00	99.00
	Cathode Cu	%	99.99	99.99	99.99	99.99	99.99
	Au	%	99.99	99.99	99.99	99.99	99.99
	Ag	%	99.99	99.99	99.99	99.99	99.99
Overall Recovery	Cu	%	98.00	98.00	98.00	98.00	98.00
	Au	%	94.50	95.00	95.00	95.00	95.00
	Ag	%	92.00	94.00	94.50	94.50	94.50

Source: Provided by Daye Metal

9.3.8 Sales and Marketing

The Huangshi smelting and electrowinning products are predominately cathode Cu and sulphuric acid with precious metals as summarised in Table 9-8. The products are marketable and meet the Chinese standard.

Table 9-8 Hubei Polymetallic Projects – Huangshi Smelting and Electrowinning Product Specification

Product	Specification	Size	Package	Note
Cathode	GB/T467-1997	1030x1000x10 mm	22 blocks/bundle	
Cu		1000x800x12 mm	25 blocks/bundle	
		810x780x8 mm	26 blocks/bundle	
Au Bullion	GB/T4134-2003	320x70x5 mm (3 kg)	430x180x110 mm	10 blocks
Au Bar	SGEB1-2004	10g, 20g, 50g, 100g, 200g		
Ag	GB/T4135-2002	370x135x30 mm	Bulk	15 ± 1 kg
	Good Delivery List (LBMA)	335x130x80 mm	30 ± 1 kg	
Sulphuric	GB/T534-2002	98% purity	Tanker	
Acid		93% purity	Tanker	

Source: Provided by Daye Metal

Other by-products included Pt (99%), Pa (99%), selenium oxide, tellurium (content 40%) as well as liquid oxygen, nitrogen and argon.

9.3.9 Infrastructure

Based on the information of the power supply contracts with Huangshi Power Supply company, the power is supplied at 120 kV at an average cost of approximately 0.61 RMB/kWh through two 110 kV transformers and nine 6 kV power distribution stations. The power demand for current and forecast smelting and electrowinning facilities is presented in Table 9-9. MMC considers there would be no restriction in access to increased power requirements.

Table 9-9 Hubei Polymetallic Projects – Current and Forecast Power Consumption

Facilities	Current Capacity	Required for Expansion
	(kVA)	(kVA)
Smelters	24,833	–
Electrowinning	12,182	10,000
Acid Plants	10,548	10,000
Oxygen Plants	12,109	20,000
Slag Treatment Plants	4,182	2,000
Other	1,344	–
Total	65,201	42,000

Source: Provided by Daye Metal

Fresh water is sourced from the Changjiang River at 117 k cu.m per day and the recycled water quantity is 75 k cu.m per day. The production water consumption in 2010 was 14.83 Mcu.m at average cost approximately 1.27 RMB/cu.m while recycled water consumption was 18.26 Mcu.m at cost of 0.182 RMB/cu.m.

Daye Metal also owns the following transportation facilities:

- 39 trucks with annual transportation capacity of 1 million tonnes,
- 7 hazardous chemicals trucks as well as 5 petrol trucks,
- 20 km railway with transportation capacity of 3 million tonnes,
- 2 shipping vessels with a total capacity of 4,000 tonnes, and
- Terminal for receiving and handling spare parts, bulk cargo and hazardous chemicals (0.65 Mtpa).

10 OPERATING AND CAPITAL COSTS

10.1 The Projects

10.1.1 Operating Costs

MMC has been provided historical operating expenditure for each project for the period 2006 to 2010, which can be seen summarised in Table 10-1 shown below. These historical costs are inclusive of mining and processing operating costs, maintenance, depreciation and amortisation, production taxes and other costs, but are exclusive of general and administration, sales and financial costs.

Table 10-1 Hubei Polymetallic Projects – The Projects Operating Costs

Total Operating Cost	Unit	2006	2007	2008	2009	2010	5yr Average
Tonglvshan Project	RMB/t	225	165	175	182	210	191
Fengshan Project	RMB/t	130	129	117	103	138	123
Tongshankou Project	RMB/t	74	81	81	67	78	76
Chimashan Project	RMB/t	150	171	264	85	188	172
Average Total Operating Cost	RMB/t	145	136	159	109	154	141

Source: Provided by Daye Metal

Note: Figures are rounded which may result in minor summation errors

The 2010 process operating costs for the mineral processing plants varied between 47 RMB/t milled and 60 RMB/t. This range is a little higher than typical Chinese Cu mineral processing plants, which generally vary between 30 RMB/t and 50 RMB/t at similar production rates. While these higher operating costs generally result from higher labour costs, they also include the operating costs for recovering by-products such as magnetite and Mo.

The operating costs for the slag treatment plants at the Huangshi Project in 2010 varied between 90 RMB/t milled and 96 RMB/t, which is considered reasonable due to the hardness of the slag, which requires more power to process, as well as higher labour costs associated with Daye Metal's disabled welfare commitments.

The process operating costs include maintenance and are generally dominated by labour and power costs. Cost items, such as 'other materials', varied significantly amongst the various projects.

The 2010 smelting and refining operating cost for the production of one tonne of cathode Cu was 3,456 RMB (approximately 538 USD per tonne), which is competitive. For a 21% Cu concentrate feed, this equates to a Treatment Charge/Refining Charge (TC/RC) of approximately 57 USD/0.57 USD/lb. The total operating cost is similar to that reported by ENFI in the design report, although the detailed breakdown for each item is greatly different.

The operating costs in 2010 for producing one kilogram of Au and Ag were 5,679 RMB/kg Au and 96 RMB/kg Ag respectively, while the operating costs for producing one tonne of sulphuric acid and magnetite concentrate were 227 RMB/t and 255 RMB/t respectively.

10.1.2 Capital Costs

MMC was provided a capital expenditure schedule for the period 2011 to 2015. The capital expenditure includes forecast resource development, mining, processing and smelting facilities construction and surface infrastructure. No breakdown of the detail for each project was available for reviewing.

To date, some 1.7 billion RMB has been spent, mainly on smelting facilities at the Huangshi Project and capital development at the respective underground mining operations. The total forecast capital cost for Projects is 4.8 billion RMB. The capital expenditure for each project can be seen in Table 10-2 shown below.

Table 10-2 Hubei Polymetallic Projects – The Projects Forecast Capital Expenditure

Project	Unit	2011	2012	2013	2014	2015	Total
Tonglvshan Project	M RMB	109	320	375	178	40	1,022
Fengshan Project	M RMB	69	90	88	40	40	327
Tongshankou Project	M RMB	347	230	270	92	40	979
Chimashan Project	M RMB	16	5	5	5	5	36
Huangshi Project	M RMB	819	565	853	130	70	2,438
The Projects	M RMB	1,360	1,210	1,591	445	195	4,801

Source: Provided by Daye Metal

Note: Figures are rounded which may result in minor summation errors

10.2 Tonglvshan Project

10.2.1 Operating Cost

Daye Metal provided MMC with historical operating costs for the Tonglvshan Project, which is shown in Table 10-3. The total mining cost appears to be reasonable; however variation in mining costs should be expected between the mining methods used. Due to the limited production capacity and labour intensive nature of Cut and Fill Stopping, operating costs higher than VCR Stopping should be expected. This disparity in mining costs between various methods has not been captured and used to optimise cut-off grades used for each mining method.

MMC considers the total processing cost to be slightly higher than conventional Chinese Cu processing plants, which would be expected to operate at approximately 30 to 50 RMB/t processed at these production rates. MMC considers this to be a result of higher labour costs. Historical operating costs from January 2011 to September 2011 were not provided for review.

Table 10-3 Hubei Polymetallic Projects – Tonglvshan Project Historical Operating Costs

Cost Item	Unit	2006	2007	2008	2009	2010	5yr Average
Materials	RMB/t	113	58	29	28	26	51
Fuel & Power	RMB/t	11	11	13	16	18	14
Labour	RMB/t	20	20	28	25	35	26
Manufacturing*	RMB/t	33	34	54	62	72	51
Mining Cost	RMB/t mined	177	122	124	130	151	141
Materials	RMB/t	14	13	14	14	10	13
Fuel & Power	RMB/t	16	14	15	15	16	15
Labour	RMB/t	9	9	13	12	18	12
Manufacturing*	RMB/t	9	7	9	11	14	10
Processing Cost	RMB/t processed	48	43	51	52	58	51
Total Operating Cost	RMB/t	225	165	175	182	210	191

Source: Provided by Daye Metal

Note: Figures are rounded which may result in minor summation errors

* *Manufacturing includes maintenance (inclusive of mining rights and depletion charges), depreciation & amortisation, production taxes and other costs*

As shown in Table 10-4, future operating cost was forecast in the 2010 Feasibility Study for the Tonglvshan Project, which proposed an operating cost of 214 RMB/t, as opposed to a 5 year average total operating cost of 191 RMB/t. The forecast cost has been used as the basis of the mining review for the Tonglvshan Project. MMC considers this reasonable as operating costs should be expected to increase as ore is produced from the deeper Mineralised Zone XI area, and the total production cost is inclusive of relevant management and financial overheads.

The forecast processing cost of 62 RMB/t is in line with recent achieved operating costs. An itemised breakdown of the processing cost centre was not provided for review.

Table 10-4 Hubei Polymetallic Projects – Tonglvshan Project Forecast Operating Costs

Cost Item	Unit	Cost
Materials	RMB/t	31
Power and Water	RMB/t	28
Labour	RMB/t	30
Manufacturing*	RMB/t	62
Mining Cost	RMB/t mined	152
Processing	RMB/t	50
Manufacturing*	RMB/t	12
Processing Cost	RMB/t processed	62
Total Operating Cost	RMB/t	214
General & Administration Costs+	RMB/t	49
Total Production Cost	RMB/t	263
Depreciation	RMB/t	46
Amortisation	RMB/t	6
Financial interest	RMB/t	5
Total Cash Cost	RMB/t	206

Source: 2010 Tonglvshan Feasibility Study

Note: Figures are rounded to the nearest integer which may result in minor summation errors

* *Manufacturing includes maintenance, depreciation & amortisation, and other costs*

+ *General and Administration Costs include management costs, sales costs, financial costs, and production taxes and fees*

10.2.2 Capital Cost

Forecast capital expenditure for the Tonglvshan Project includes construction of infrastructure for Mineralised Zone XI, planned capital development on the 485 m haulage level, expansion of the existing processing plant and tailings storage facility, plus other miscellaneous works. These costs are listed below in Table 10-5. An itemised breakdown of the expenditure budgeted for each item was not provided; therefore capital expenditure could not be reviewed in detail.

Table 10-5 Hubei Polymetallic Projects – Tonglvshan Project Forecast Capital Expenditure

Expenditure Item	Unit	2011	2012	2013	2014	2015	Total
Mineralised Zone XI	M RMB	39	180	180	98	–	497
485m Level	M RMB	15	50	45	–	–	110
Processing Plant	M RMB	–	30	90	–	–	120
Tailings Storage Facility	M RMB	–	20	20	40	–	80
Other	M RMB	55	40	40	40	40	215
Total Capital Expenditure	M RMB	<u>109</u>	<u>320</u>	<u>375</u>	<u>178</u>	<u>40</u>	<u>1,022</u>

Source: Provided by Daye Metal

Note: Figures are rounded which may result in minor summation errors

10.3 Fengshan Project

10.3.1 Operating Cost

Daye Metal provided MMC with historical operating costs for the Fengshan Project, which is shown in Table 10-6. The total mining cost appears to be reasonable; however variation in mining costs should be expected between the mining methods used. Due to the limited production capacity and labour intensive nature of Cut and Fill Stopping, operating costs higher than Sub Level Open Stopping should be expected. This disparity in mining costs between the mining methods used has not been captured and therefore cut-off grades cannot be optimised for each mining method.

MMC considers the total processing cost to be reasonable and in line with costs expected at conventional Chinese Cu processing plants. This includes concentrate haulage costs to the Huangshi Project of 50 RMB/t, approximately equivalent to 1.18 RMB/t processed. Historical operating costs from January 2011 to September 2011 were not provided for review.

Table 10-6 Hubei Polymetallic Projects – Fengshan Project Historical Operating Costs

Cost Item	Unit	2006	2007	2008	2009	2010	5yr Average
Materials	RMB/t	34	29	26	23	23	27
Fuel & Power	RMB/t	11	11	7	8	11	10
Labour	RMB/t	21	25	23	22	31	24
Manufacturing*	RMB/t	26	26	20	16	28	23
Mining Cost	RMB/t mined	92	92	76	68	94	84
Materials	RMB/t	12	11	15	11	13	12
Fuel & Power	RMB/t	13	11	12	12	14	12
Labour	RMB/t	7	8	8	8	11	8
Manufacturing*	RMB/t	6	8	6	5	7	6
Processing Cost	RMB/t processed	38	37	41	35	45	39
Total Operating Cost	RMB/t	130	129	117	103	138	123

Source: Provided by Daye Metal

Note: Figures are rounded which may result in minor summation errors

* *Manufacturing includes maintenance, depreciation & amortisation, production taxes and other costs*

As shown in Table 10-7, future operating cost was forecast in the 2010 Feasibility Study for the Fengshan Project, which proposed an operating cost of 154.08 RMB/t, as opposed to a 5 year average total operating cost of 123 RMB/t. The forecast cost has been used as the basis of the mining review for the Fengshan Project. MMC considers this reasonable as operating costs should be expected to increase as ore is produced from the deeper areas, and the total production cost is inclusive of relevant management and financial overheads.

The forecast processing costs is slightly higher than the historic cost of processing.

Table 10-7 Hubei Polymetallic Projects – Fengshan Project Forecast Operating Costs

Cost Item	Unit	Cost
Development and Stopping	RMB/t	24
Haulage and Transportation	RMB/t	3
Mine Services	RMB/t	19
Other Costs	RMB/t	7
Mining Cost	RMB/t mined	52
Processing Cost	RMB/t processed	56
Manufacturing Cost*	RMB/t	46
Total Operating Cost	RMB/t	154
General & Administration Costs+	RMB/t	50
Total Production Cost	RMB/t	204
Depreciation	RMB/t	41
Amortisation	RMB/t	1
Financial interest	RMB/t	2
Total Cash Cost	RMB/t	160

Source: 2010 Fengshan Feasibility Study

Note: Figures are rounded which may result in minor summation errors

* *Manufacturing Cost includes maintenance, depreciation and amortisation (inclusive of mining rights and depletion charges) applicable to both mining and processing*

+ *General and Administration Costs include management costs, sales costs, financial costs, production taxes and fees and other costs*

10.3.2 Capital Cost

Forecast capital expenditure for the Fengshan Project includes planned capital development on the 485m haulage level plus other miscellaneous works. These costs are listed below in Table 10-8. An itemised breakdown of the expenditure budgeted for each project was not made available, therefore expenditure could not be reviewed in detail.

Table 10-8 Hubei Polymetallic Projects – Fengshan Project Forecast Capital Expenditure

Expenditure Item	Unit	2011	2012	2013	2014	2015	Total
320m – 440m Levels	M RMB	20	50	48	–	–	118
Others	M RMB	49	40	40	40	40	209
Total Capital Expenditure	M RMB	<u>69</u>	<u>90</u>	<u>88</u>	<u>40</u>	<u>40</u>	<u>327</u>

Source: Provided by Daye Metal

Note: Figures are rounded which may result in minor summation errors

10.4 Tongshankou Project

10.4.1 Operating Cost

Daye Metal provided MMC with historical operating costs for the Tongshankou Project, which is shown in Table 10-9. The total open cut mining cost appears to be reasonable. The processing cost includes both the number 1 and number 2 plants. MMC considers the total processing cost to be reasonable and in line with costs expected at conventional Chinese Cu processing plants. Historical operating costs from January 2011 to September 2011 were not provided for review.

Table 10-9 Hubei Polymetallic Projects – Tongshankou Project Historical Open Pit Operating Costs

Cost Item	Unit	2006	2007	2008	2009	2010	5yr Average
Materials	RMB/t	14	10	10	7	8	10
Fuel & Power	RMB/t	1	1	1	1	1	1
Labour	RMB/t	6	10	10	6	8	8
Manufacturing*	RMB/t	20	21	13	18	15	17
Mining Cost	RMB/t mined	41	41	33	32	32	36
Materials	RMB/t	11	11	16	10	12	12
Fuel & Power	RMB/t	14	16	15	14	16	15
Labour	RMB/t	5	8	10	6	8	7
Manufacturing*	RMB/t	3	6	7	6	9	6
Processing Cost	RMB/t processed	33	40	48	36	46	40
Total Operating Cost	RMB/t	<u>74</u>	<u>81</u>	<u>81</u>	<u>67</u>	<u>78</u>	<u>76</u>

Source: Provided by Daye Metal

Note: Figures are rounded which may result in minor summation errors

* *Manufacturing Cost includes Depreciation and Amortisation, relevant production taxes and other costs*

As shown in Table 10-10, operating costs were forecast in the 2008 Development and Utilisation Report, which proposed a total operating cost of 85 RMB/t, as opposed to a 5 year average total operating cost of 76 RMB/t. The forecast cost has been used as the basis of the mining review for the Tongshankou Project. MMC considers this reasonable as operating costs should be expected to increase with increased haul distances in the open pit, and the total production cost is inclusive of relevant management and financial overheads.

Table 10-10 Hubei Polymetallic Projects – Tongshankou Project Forecast Open Pit Operating Costs

Cost Item	Unit	Cost
Materials	RMB/t	17
Power	RMB/t	1
Labour	RMB/t	5
Manufacturing*	RMB/t	18
Mining Cost	RMB/t mined	40
Processing Cost	RMB/t processed	45
Total Operating Cost	RMB/t	85
General & Administration Costs+	RMB/t	16
Total Production Cost	RMB/t	101
Depreciation	RMB/t	13
Total Cash Cost	RMB/t	88

Source: 2008 Tongshankou Development and Utilisation Report

Note: Figures are rounded which may result in minor summation errors

* *Manufacturing includes maintenance, depreciation (inclusive of mining rights and depletion charges) and other costs*

+ *General and Administration Costs include management and sales costs*

Operating costs for underground mining were forecast in the 2010 Tongshankou Project Feasibility Study, which are shown in Table 10-11. MMC considers the total operating cost to be reasonable, however notes that the total production cost listed in the Feasibility Study was exclusive of maintenance, which is corrected in the table shown. Also of note is variation in mining costs should be expected between the underground mining methods used. Due to the limited production capacity and labour intensive nature of Post Pillar Cut and Fill Stopping, operating costs higher than both the Transverse and Longitudinal Sub Level Open Stopping methods should be expected. This disparity in mining costs between various methods has not been estimated in the Feasibility Study and therefore has not been used to optimise cut-off grades for each respective mining method.

Table 10-11 Hubei Polymetallic Projects – Tongshankou Project Forecast Underground Operating Costs

Cost Item	Unit	Cost
Materials	RMB/t	19
Power and Water	RMB/t	11
Labour	RMB/t	15
Manufacturing*	RMB/t	32
Mining Cost	RMB/t mined	77
Processing Cost	RMB/t processed	38
Total Operating Cost	RMB/t	115
General & Administration Costs+	RMB/t	23
Total Production Cost	RMB/t	138
Depreciation	RMB/t	5
Amortisation	RMB/t	4
Financial interest	RMB/t	5
Total Cash Cost	RMB/t	124

Source: 2010 Tongshankou Feasibility Study

Note: Figures are rounded which may result in minor summation errors

* *Manufacturing includes maintenance, depreciation and amortisation (inclusive of mining rights and depletion charges) and other costs*

+ *General and Administration Costs include management costs, sales costs, financial costs, production taxes and fees*

10.4.2 Capital Cost

Forecast capital expenditure for the Tongshankou Project includes planned Open Pit Cutback to access Mineralised Zone II, underground mine capital development, expansion of the tailings storage facility, processing plant upgrade plus other miscellaneous works. These costs are listed below in Table 10-12. An itemised breakdown of the expenditure budgeted for each project was not made available, therefore expenditure could not be reviewed in detail.

Table 10-12 Hubei Polymetallic Projects – Tongshankou Project Forecast Capital Expenditure

Expenditure Item	Unit	2011	2012	2013	2014	2015	Total
Mineralised Zone II Pushback	M RMB	18	–	–	–	–	18
Underground development	M RMB	100	160	160	52	–	472
Tailings Storage Facility	M RMB	200	–	–	–	–	200
Processing Plant	M RMB	–	30	70	–	–	100
Others	M RMB	29	40	40	40	40	189
Total Capital Expenditure	M RMB	<u>347</u>	<u>230</u>	<u>270</u>	<u>92</u>	<u>40</u>	<u>979</u>

Source: Provided by Daye Metal

Note: Figures are rounded which may result in minor summation errors

10.5 Chimashan Project

10.5.1 Operating Cost

Daye Metal provided MMC with historical operating costs for the Chimashan Project, which is shown in Table 10-13. MMC notes significant and unlikely variation in the historical operating costs. Considering the limited production capacity of the Chimashan Project, the 5 year average mining cost is appears to be reasonable.

MMC considers the total processing cost to be slightly higher than conventional Chinese Cu processing plants, which would be expected to operate at approximately 30 to 50 RMB/t processed at these production rates. MMC considers this to be a result of the low throughput for the facility. The processing cost includes concentrate haulage costs to the Huangshi Project of 32.7 RMB/t, approximately equivalent to 0.65 RMB/t processed. Historical operating costs from January 2011 to September 2011 were not provided for review.

Table 10-13 Hubei Polymetallic Projects – Chimashan Project Historical Operating Costs

Cost Item	Unit	2006	2007	2008	2009	2010	5yr Average
Materials	RMB/t	18	26	42	12	18	23
Fuel & Power	RMB/t	21	18	21	7	23	18
Labour	RMB/t	38	44	87	33	36	48
Manufacturing*	RMB/t	42	32	21	9	58	32
Mining Cost	RMB/t mined	119	120	171	61	135	121
Materials	RMB/t	10	19	30	7	10	15
Fuel & Power	RMB/t	10	11	13	6	12	10
Labour	RMB/t	8	12	44	9	23	19
Manufacturing*	RMB/t	4	9	6	3	8	6
Processing Cost	RMB/t processed	31	51	93	25	53	51
Total Operating Cost	RMB/t	150	171	264	85	188	172

Source: Provided by Daye Metal

Note: Figures are rounded which may result in minor summation errors

* Manufacturing Cost includes Depreciation and Amortisation, relevant production taxes and other costs

As shown in Table 10-14, operating costs were forecast in the 2009 Development and Utilisation Report for the Chimashan Project, which proposed a total operating cost of 144 RMB/t, as opposed to a 5 year average total operating cost of 172 RMB/t. MMC notes that an itemised breakdown of the operating costs was not provided in the Report. Considering this and the limited production capacity of the project, MMC is of the opinion that the costs forecast in the 2009 Development and Utilisation Report are underestimated. The 5 year average operating cost in conjunction with forecast General and Administration Costs have therefore been used as the basis of the mining review for the Chimashan Project.

Table 10-14 Hubei Polymetallic Projects – Chimashan Project Forecast Operating Costs

Cost Item	Unit	Cost
Mining and Processing Cost	RMB/t	100
Manufacturing Cost*	RMB/t	44
Total Operating Cost	RMB/t	144
General & Administration Costs+	RMB/t	18
Total Production Cost	RMB/t	162
Depreciation	RMB/t	22
Total Cash Cost	RMB/t	140

Source: 2009 Chimashan Project Development and Utilisation Report

Note: Figures are rounded

* *Manufacturing Cost includes maintenance and depreciation (inclusive of mining rights and depletion charges)*

+ *General and Administration Costs include management costs, sales costs, and production taxes*

10.5.2 Capital Cost

Forecast capital expenditure for the Chimashan Project includes planned underground capital development upgrade plus other miscellaneous works. These costs are listed below in Table 10-15. An itemised breakdown of the expenditure budgeted for each project was not made available, therefore expenditure could not be reviewed in detail.

Table 10-15 Hubei Polymetallic Projects – Chimashan Forecast Capital Expenditure

Expenditure Item	Unit	2011	2012	2013	2014	2015	Total
Underground development	M RMB	10	–	–	–	–	10
Others	M RMB	6	5	5	5	5	26
Total Capital Expenditure	M RMB	16	5	5	5	5	36

Source: Provided by Daye Metal

Note: Figures are rounded

10.6 Huangshi Project

10.6.1 Operating Cost

The Slag Treatment plant operating costs were dominated by power and labour, with costs of 96.16 RMB per tonne processed and 90.44 RMB per tonne processed for the No.1 and No. 2 Plants respectively in 2010, as shown in Table 10-16.

Table 10-16 Hubei Polymetallic Projects – Slag Treatment Plant Operating Costs

Cost Item	Operating Cost (RMB/t)	
	No.1	No.2
Reagent	2.84	2.62
Grinding media	8.99	7.63
Mill, crusher liners	2.82	2.61
Spare Parts	3.11	3.4
Power	32.24	29.76
Water	1.10	0.88
Labour	16.13	12.29
Maintenance	5.50	5.50
Manufacturing*	17.50	19.55
Other Materials	5.93	6.2
Total	<u>96.16</u>	<u>90.44</u>

Source: Provided by Daye Metal

* Manufacturing Costs include Depreciation and Amortisation, relevant production taxes and other costs

The actual and forecast production costs for the key stages of the smelting and refining process by product are summarised in Tables 10-17 to 10-21.

Blister Copper

In 2010, the cost of producing one tonne of blister Cu was 2,444 RMB/t, with forecast to increase to 2,839 RMB/t in 2015. A breakdown of the production costs are summarised in Table 10-17, with manufacturing costs, oxygen and fuel dominating the production costs.

Table 10-17 Hubei Polymetallic Projects – Blister Copper Unit Production Costs

Cost Item	Operating Cost (RMB/ tonne of Cu)					
	2010	2011	2012	2013	2014	2015
Material (e.g. fluxes)	176	176	181	181	186	192
Fuel	429	429	441	441	455	468
Power	247+	247+	254+	254+	262+	262+
Oxygen	494	494	509	509	524	524
Labour	247	272	299	329	362	398
Manufacturing*	520	546	574	602	632	664
Slag Treatment	331	331	331	331	331	331
Total	<u>2,444</u>	<u>2,495</u>	<u>2,589</u>	<u>2,647</u>	<u>2,752</u>	<u>2,839</u>

Source: *Provided by Daye Metal*

* *Manufacturing Costs include Depreciation and Amortisation, management and administration, transport, labour and other costs*

+ *MMC assumption*

Cathode Copper

In 2010, the cost of producing one tonne of cathode Cu from blister Cu was 1,013 RMB, which is forecast to increase to 1,159 RMB/cathode Cu tonne in 2015. A breakdown of the production costs are summarised in Table 10-18, with power and direct manufacturing costs dominating production costs.

In 2010, the cost of producing one tonne of cathode Cu from Cu concentrate was 3,457 RMB/tonne of cathode Cu (approximately 538 USD /tonne), rising to 3,998 RMB/tonne of cathode Cu in 2015.

Table 10-18 Hubei Polymetallic Projects – Cathode Copper Unit Production Costs

Cost Item	Operating Cost (RMB/ tonne of Cu)					
	2010	2011	2012	2013	2014	2015
Material	53	53	55	55	56	56
Diesel	1	1	1	1	1	1
Heavy Oil	37	37	38	38	39	39
Natural Gas	18	18	19	19	20	20
Purchased anodes	90	90	93	93	96	96
Anode mould	20	20	21	21	21	21
Power	232	232	239	239	246	246
Steam	126	126	129	129	133	133
Labour	166	182	188	206	227	250
Manufacturing*	270	270	283	283	297	297
Total	1,013	1,029	1,066	1,084	1,136	1,159

Source: Provided by Daye Metal

* Manufacturing Costs include Depreciation and Amortisation, management and administration, transport, labour and other costs

Sulphuric Acid

The cost of producing one tonne of sulphuric acid in 2010 was 277 RMB/t, which will increase to 310 RMB/t by 2015 as seen in Table 10-19. This is a reasonable production cost, noting that the current market value of sulphuric acid is around 500 RMB/t.

Table 10-19 Hubei Polymetallic Projects – Sulphuric Acid Unit Production Costs

Cost Item	Operating Cost (RMB/ tonne of acid)					
	2010	2011	2012	2013	2014	2015
Pyrite Concentrate	10	10	10	10	10	10
Water	7	7	7	7	7	7
Recycled materials	8	8	9	9	9	9
Other materials	3	3	3	3	3	3
Power	84	84	87	87	90	90
Waste treatment	38	38	39	39	40	40
Labour	21	23	26	28	31	34
Manufacturing*	106	106	112	112	117	117
Total	277	279	293	295	307	310

Source: Provided by Daye Metal

* Manufacturing Costs include Depreciation and Amortisation, management and administration, transport, labour and other costs

Gold

Operating costs for the production of one kilogram of Au were 5,679 RMB/kg, which will increase to 6,889 RMB/kg by 2015, as shown in Table 10-20. This equates to around 27.50 USD/ounce, which is very competitive.

Table 10-20 Hubei Polymetallic Projects – Gold Unit Production Costs

Cost Item	Operating Cost (RMB/kg)					
	2010	2011	2012	2013	2014	2015
Material	559	559	576	576	593	593
Chemicals	18	18	18	18	19	19
Water	94	94	97	97	99	99
Power	167	167	172	172	178	178
Gas	345	345	355	355	366	366
Steam	335	335	335	335	345	345
Compressed Air	12	12	12	12	12	12
Labour	1,458	1,604	1,764	1,941	2,135	2,348
Manufacturing*	2,691	2,691	2,767	2,767	2,846	2,929
Total	5,679	5,825	6,096	6,273	6,593	6,889

Source: Provided by Daye Metal

* Manufacturing Costs include Depreciation and Amortisation, management and administration, transport, labour and other costs

Silver

In 2010, it cost 96 RMB to produce of one kilogram of Ag which is very low and is equal to around 0.46 USD/ounce as shown in Table 10-21. By 2015, this production cost is forecast to increase to 112 RMB/kg.

Table 10-21 Hubei Polymetallic Projects – Silver Unit Production Costs

Cost Item	Operating Cost (RMB/kg)					
	2010	2011	2012	2013	2014	2015
Materials	9	9	9	9	10	10
Chemicals	12	12	12	12	13	13
Water	1	1	1	1	1	1
Power	2	2	2	2	2	2
Gas	8	8	8	8	8	8
Steam	4	4	4	4	4	4
Compressed Air	0	0	0	0	0	0
Labour	19	21	23	25	28	31
Manufacturing*	41	41	42	42	43	43
Total	96	98	102	105	109	112

Source: Provided by Daye Metal

* Manufacturing Costs include Depreciation and Amortisation, management and administration, transport, labour and other costs

Magnetite Concentrate

The cost of producing one tonne of magnetite concentrate in 2010 was 255 RMB/t, which will increase to 304 RMB/t by 2015, as seen in Table 10-22. This is a reasonable production cost, noting that the current market value of magnetite concentrates is approximately 450 RMB/t.

Table 10-22 Hubei Polymetallic Projects – Magnetite Concentrate Unit Production Costs

Cost Item	Operating Cost (RMB/tonne)					2015
	2010	2011	2012	2013	2014	
Raw Materials	34	34	35	35	36	36
Fuel and Power	32	32	33	33	34	34
Labour	51	56	62	68	75	82
Manufacturing*	138	138	145	145	152	152
Total	255	260	275	281	297	304

Source: *Provided by Daye Metal*

* *Manufacturing Costs include Depreciation and Amortisation, management and administration, transport, labour and other costs*

10.6.2 Capital Cost

The proposed capital expenditure of 3.96 billion RMB for the Huangshi Project is dominated by the smelter and refinery upgrade for energy savings and pollution reductions (33.2%) and the 200,000 tpa electrowinning upgrade (30.1%) These costs can be seen in Table 10.23. There are a number of proposed projects aimed at expanding production, minimising pollution and saving energy.

Table 10-23 Hubei Polymetallic Projects – Huangshi Project Capital Costs

Activity	Total	Capital Expenditure (million RMB)				
		2011	2012	2013	2014	2015
Smelter facility upgrade	1,681	200	60	–	–	–
Acid plant expansion	460	350	85	–	–	–
Converter upgrade	120	–	40	43	–	–
Anode furnace upgrade	150	100	50	–	–	–
Electrowinning/tank house upgrade	880	–	200	680	–	–
Heavy metal pollution control	120	–	40	40	20	20
Other	208	48	40	40	40	40
Precious metals refinery	300	120	40	40	60	–
Other	401	1	10	10	10	10
Total	3,961	719	515	854	130	70

Source: *Provided by Daye Metal*

10.7 Rehabilitation Costs

Upon closure of the Projects, Table 10-24 through Table 10-27 indicate the rehabilitation costs likely to be incurred for each Project. Total costs for all projects amount to RMB 50.4 M. These costs have not been reviewed by MMC and are provided for reference only. Rehabilitation and closure costs may vary significantly depending on the level of disturbance and the rehabilitation regulatory requirements at the time of mine closure.

Table 10-24 Hubei Polymetallic Projects – Tonglvshan Rehabilitation Costs

Activity	Cost
	<i>(million RMB)</i>
Tailings purification	7.06
Water storage facility	0.1
Preparation of abandoned buildings	1.0
Earthworks, revegetation and general cleaning	7.2
Total	<u>15.36</u>

Source: Provided by Daye Metal

Table 10-25 Hubei Polymetallic Projects – Fengshan Rehabilitation Costs

Activity	Cost
	<i>(million RMB)</i>
Land reclamation	8.99
Earthworks and revegetation	1.15
Tailings rehabilitation	2.51
Total	<u>12.65</u>

Source: Provided by Daye Metal

Table 10-26 Hubei Polymetallic Projects – Tongshankou Rehabilitation Costs

Activity	Cost
	<i>(million RMB)</i>
Land reclamation, earthworks and revegetation	21.09
Total	21.09

Source: Provided by Daye Metal

Table 10-27 Hubei Polymetallic Projects – Chimashan Rehabilitation Costs

Activity	Cost
	<i>(million RMB)</i>
Land reclamation, earthworks and revegetation	1.3
Total	1.3

Source: Provided by Daye Metal

11 ENVIRONMENT, HEALTH AND SAFETY

11.1 Environmental and Social Background

The Projects are located near Huangshi City in the south-eastern portion of Hubei Province, PRC. Huangshi City covers an area of 4,583 sq.km, mostly hilly areas on the southern bank of the Yangtze River. The altitude of the city ranges from 11 m to 1,566 m. Huangshi is located in a sub-tropical area and the climate is generally humid all year around. Temperatures range from a low of -3° C in January to a high of 38° C in July, and the average temperature is 17° C. Precipitation is abundant, totalling 1,400 mm annually. Huangshi is known for its mineral resources including Cu, Fe, Au, Ag, and non-metallic materials.

The Huangshi Project is located in the Xialu District of Huangshi City. The Tonglvshan Project and the Tongshankou Project are located in Daye County. The Fengshan Project and the Chimashan Project are located in Yangxin County. Air quality in the Projects' areas is generally good except for PM10, which occasionally exceeded the national standards (class II standards of Ambient Air Quality Standards) in the first, second and fourth quarters. Surface water pollution is present in the areas and surface water quality does not meet national standards. Cadmium (Cd), Ammonium nitrates (NH₃-N), chemical oxygen demand (COD), biological oxygen demand BOD, and petroleum hydrocarbon of the East Lake and Sanliqi Lake exceeded the values in the national standard. ERM has been informed by Daye Metal but not confirmed by a site inspection that additional measures have been undertaken to measure the gas emissions, the water discharge from the smelting plant and the precious metal plant. These measures include the installation of an online monitoring system at the emissions points and discharge outlets. ERM has also been informed that Daye Metal is in the process of applying for the compliance acceptance inspection approval in respect to the recent installation. ERM has been informed by Daye Metal but not confirmed by a site inspection that additional measures have been undertaken to measure the gas emissions, the water discharge from the smelting plant and the precious metal plant. These measures include the installation of an online monitoring system at the emissions points and discharge outlets. ERM has also been informed that Daye Metal is in the process of applying for the compliance acceptance inspection approval in respect to the recent installation.

Huangshi City has a population of approximately 2.6 million. The age distribution of the population is generally 21.4% (1-15 yrs), 72.2% (15-64 yrs) and 6.4% (over 65 yrs). In addition, 49.3% of the total population reside in the urban areas while 50.7% of the population reside in rural areas.

No record of public opposition to the operations conducted at any of Daye Metal's operations, including the Huangshi Project, Tonglvshan Project, Tongshankou Project, Fengshan Project and Chimashan Project was revealed in the scope of this investigation.

11.2 EHSS Governance and Management

11.2.1 Overview of Daye Metal's Experience in Dealing with Applicable Laws and Practices

Daye Metal's operations, including the smelting and refining facilities at the Huangshi Project, and the mining and processing operations at the Tonglvshan Project, Tongshankou Project, Fengshan Project and Chimashan Project, appeared to be generally aware of the environmental and safety requirements applicable to their operations by obtaining EIA approvals, pollution discharge permits, and safety permits. They have recently moved to address compliance with broader environmental, health and safety (EHS) permitting requirements and management of the range of risks detailed in this report.

The tailing storage facilities (“TSF’s”) of Tonglvshan Project, Chimashan Project and Tongshankou Project were listed as TSFs with some safety risks in government documents issued by Hubei Provincial Work Safety Administration, Hubei Development and Reform Commission, Hubei Economic Commission, Hubei Land and Natural Resources Administration and Hubei Provincial Environmental Protection Bureau (“EPB”) on the 26th of November 2009. Corrective actions have to be taken to mitigate the safety issues. According to the document and Daye Metal’s management, the safety risks have been addressed by the end of 2010.

According to the compliance status verification letter issued to Daye Metal on 25th of March 2011 by Huangshi EPB, Daye Metal has obtained compliance acceptance inspection (“CAI”) approvals for every one of its construction projects. Its emission discharges are in compliance with regulatory standards and it has paid pollution discharge fees. No environmental-related violation has been recorded by the EPB. According to the compliance status verification letter issued to Daye Metal including the smelters and four mines on 1st April 2011 by Huangshi Fire-fighting Brigade, Daye Metal was not in violation of the fire-fighting law and regulations.

It has been identified that Daye Metal has not completed either Occupational Disease Hazard pre-Assessment (“ODHA”) or Occupational Disease Hazard Control Effect Assessment (“ODHCEA”) for any of its operations. Daye Metal has recently commissioned Hubei Provincial Work Safety Administration’s Safety Science Centre to prepare an ODHCEA for all of its operations and the expert panel review of the ODHCEA was completed in August 2011.

The overall environmental and social impact of the smelting, refining, processing and mining operations at the Projects is expected to be low to moderate due to its general compliance with EHSS regulatory standards and requirements. However, in light of the long standing operations at the mines and the smelters, proximity to local communities and the large number of retired employees that are diagnosed as having occupational disease, the EHSS impact may increase.

11.2.2 Health and Safety Management Systems

The general degree of implementation of the safety management system documented and management of occupational health issues at the smelters and all the four mines at the time of site visit appeared to meet industry standard. The preparedness of Daye Metal’s management to prevent incidents and manage safety risks was demonstrated by well documented emergency response plans and regular fire drills. Routine spot check and supervision of safety and fire fighting practice was being undertaken and documented. Based on the available records, issues identified were addressed in a timely manner.

11.2.3 Environmental Permitting

The Projects have obtained EIA approvals for all of their current operations, including the copper ore converter, electrolytic processes and sulphuric acid production process at the Huangshi Project, and the mining operations and tailing storage facilities at the Tonglvshan, Fengshan, Tongshankou, and Chimashan Projects. Daye Metal has obtained CAI approvals for its completed projects. At the Huangshi Project, Daye Metal is aiming to improve operations of the converter discharge heat recovery and converter system, and has obtained EIA approval from Hubei Provincial EPB on 20th April 2007. This project on-going, but currently partly in operation. Daye Metal has not engaged in the CAI process for this project since the construction has not been fully completed. The Tonglvshan Project is planning to mine Mineralised Zone XI and has prepared an EIA for this project. According to Daye Metal, the EIA process was started in June 2011 and EIA approval is expected to be obtained by the end of 2011.

According to the CAI approvals issued to the completed projects, Daye Metal has installed functioning pollution prevention and control equipment as required in the EIA and EIA approvals for the operations at the Projects. A Pollution Discharge Permit (“PDP”) was issued to Daye Metal by the Huangshi EPB on 20th November 2010 and valid through 19th November 2013. An interim PDP was issued to the Tongshankou Project by the Daye EPB on 2nd April 2011 and is valid through 20th March 2012. An interim PDP was issued to the Tonglvshan Project by the Daye EPB on 28th March 2011 and is valid through 20th March 2012. According to Daye Metal’s management, Daye EPB recently initiated efforts to issue PDPs and currently only interim PDPs have been issued. PDPs were issued to the Chimashan Project and Fengshan Project by the Huangshi EPB on 1st January 2011 and are valid through 31st December 2012.

Daye Metal appeared to comply with applicable environment permitting and protection laws and regulations and no material issue is identified regarding the environmental permitting.

11.2.4 Water & Soil Conservation

The Tonglvshan, Tongshankou, Fengshan and Chimashan Projects have commissioned a qualified institute to prepare water and soil conservation plans. At the time of performing this review, the Tonglvshan, Tongshankou and Chimashan Projects have obtained CAI approvals for their respective water and soil conservation plans. The water and soil conservation plan for the Fengshan Project was approved in April 2007 and according to Daye Metal’s management, Daye Metal has applied for CAI for Fengshan Project’s water and soil conservation plan and the approval for the work completed was received in May 2011.

According to the Water Abstraction Permit issued to the Tongshankou Project, 1,644,500 m³ per annum water is permitted to be abstracted by Tongshankou Project. However, the 2010 actual water abstracted amounted to around 3 million cu.m. An update to the existing Water Abstraction Permit is required. According to Daye Metal's management, Tongshankou Project has applied for an update to the existing Water Abstraction Permit and ERM is aware this permit has yet to be obtained.

11.2.5 Land Recultivation and Rehabilitation

According to the approval letters issued to Daye Metal's Tonglvshan and Fengshan Projects by the Ministry of Land and Natural Resources, both projects are required to sign up land recultivation and rehabilitation fund supervision agreements with the relevant provincial level land and natural resources administration(s). Since these requirements were recently promulgated by the national level administration and the provincial level administration has not yet developed procedures for implementation, such agreement has not been prepared and signed between Daye Metal and Hubei Land and Natural Resources Administration at the time of performing this review. Daye Metal may need to fulfil this requirement once the Hubei Land and Natural Resources Administration adopts this requirement.

11.2.6 Health and Safety

Safety

Safety Permitting is conducted through the preparation of a pre-construction Safety Assessment report; the review of safety features in the design material of a new, modified or expansion project; and finally through to the conduct of a Safety Assessment for Completion after commencement of operations. Furthermore, all mining and TSF operations must obtain a Safety Production Permit. Obtaining a Safety Production Permit is necessary to conduct mining operations and to operate a TSF. In particular, the Permit is required in order to purchase and store explosives on site.

Safety assessments have been conducted for all the mining operations, TSFs, and applicable smelting and refining facilities for the Projects. Safety Production Permits obtained which are valid respectively from 2nd November 2010 to 26th October 2011 for the Fengshan mining operations, Tongshankou mining operations, Chimashan mining operations and TSF, from 2nd November 2010 to 5th March 2012 for the Fengshan Project's TSF, from 2nd November 2010 to 30th June 2012 for the Tongshankou Project's TSF, from 22nd February 2011 to 21st February 2014 for the Tonglvshan mining operation and TSF, from 16th November 2010 to 15th November 2011 for the Huangshi Project's Rare Noble Metal Plant, and from 2nd September 2008 to 1st September 2011 for the Huangshi Project's smelting facilities.

Occupational Health and Diseases

Daye Metal has commissioned Hubei Provincial Work Safety Administration's Safety Science Centre to prepare an ODHCEA for all of its operations. Reportedly, the ODHCEA report has been completed and the expert panel review has approved the document in August 2011.

11.2.7 Potential EHSS Liabilities-Operational EHS Performance

Pollutant discharges

According to the EIA report for Copper Smelting Energy Efficiency Improvement and Pollution Control Upgrade Project, the wastewater discharge from the smelting operations at the Huangshi Project shall meet Class I standards of the Integrated Wastewater Discharge Standard (GB8978-1996). According to the Wastewater Discharge Monitoring Report dated 28th February 2011 and 2nd March 2011 by Huangshi Environmental Monitoring Station, wastewater discharge's pH and NH₃-N exceeded the relevant standards. The wastewater is discharged into Sanliqi Lake, which is a Class III surface water body as defined in the Environmental Quality Standard of Surface Water. The smelter is obligated to ensure the continuous performance of its wastewater treatment plant and compliance with wastewater discharge standards. The smelter commissioned the Huangshi Environmental Monitoring Station to monitor its wastewater discharge again on 22nd June 2011 and the results showed compliance with applicable standards. Meanwhile, the smelter is installing an online continuous wastewater monitoring system connected to the Ministry of Environmental Protection (MEP) at its discharge point. The parameters being monitored include pH, flow rate, COD, and NH₃-N. According to Daye Metal's management, Daye Metal is scheduling a CAI for the online monitoring system and the online monitoring system is expected to be hooked up with MEP. ERM has been informed that trial monitoring is underway and is expected to be fully functional in 2012.

During the site visit to the Huangshi Project, ERM observed uncontrolled fugitive emissions sources such as the waste sulphuric acid collection tank and waste sulphuric acid treatment system. Fugitive sulphuric acid emissions can be better controlled with good housekeeping and better design of the treatment system. Daye Metal has planned to upgrade its sulphuric acid recovery system to achieve better control of fugitive emissions.

According to publicly available information obtained on the internet, the Daye Today reported on 18th February 2011 that the Zhoujiashan TSF of the Tongshankou Project had illegally discharged wastewater in recent years. However, according to Daye Metal, such illegal wastewater discharges were originated from other small private mines near Tongshankou Project and not related to Daye Metal's Tongshankou Project. The party actually liable for the wastewater discharge incident cannot be determined. Daye Metal has appointed Daye Environmental Protection Monitoring Station to conduct wastewater monitoring at the TSF discharge point on 26th June 2011 and the results showed that the wastewater discharge complied with applicable national and local wastewater discharge standards.

Chemical Storage

During the initial site visit to the Huangshi Project, it was observed the secondary containment of the sulphuric acid tank farms lacks integrity and the drainage ditches within the containment were connected to the ditches outside the containment without proper shut-off mechanism in case of a spill. There are drill holes on the containment floor that penetrated the concrete pavement. Reportedly, the integrity of the secondary containments has been restored. However, due to access difficulties, such claim was not verified. Besides the sulphuric acid tank farm, secondary containment was absent for other small above ground storage tanks including a hydrochloric acid (HCl) tank and a sulphuric acid (H₂SO₄) tank within the smelters. The lack of suitable containment may induce soil and groundwater contamination in case of spill or incident at the tank farms.

ERM has been informed by Daye Metal that no breach in relation to environmental laws has occurred in the previous three years in relation to chemical storage.

Soil and Groundwater Contamination

The general housekeeping at the Huangshi Project was fair. Damage to the asphalt pavement on the material and waste storage area (mostly coal pile) were visible. Regular integrity checks on the acid wastewater drainage system have not been undertaken.

The wastewater collection tanks at the Projects mining operations were visually observed to be in relatively poor conditions. Cracks were observed on the top edge of the tanks. Reportedly, annual integrity check was undertaken to ensure the integrity of the tanks. However, the integrity of the submerged part cannot be confirmed.

Daye Metal appointed Huangshi Environmental Monitoring Station to perform soil and groundwater monitoring for the Tonglvshan Project. The groundwater samples were collected from upstream and downstream of the groundwater flow direction and the soil samples were collected from downstream of the TSF, the vent of the underground mine and the Yufuqi Lake. The results showed the soil and groundwater were not contaminated by the operation of the Tonglvshan Project. Daye Metal also appointed Huangshi Environmental Monitoring Station and Yangxin Environmental Monitoring Station respectively to conduct soil and groundwater monitoring for the Huangshi Project, Fengshan Project and Chimashan Project. The results showed compliance with applicable standards. However, since the sampling locations were not identified in these monitoring reports, it is difficult to fully understand the soil and groundwater conditions for the sensitive points within the mines and smelters. Therefore, the risk of soil and groundwater contamination cannot be fully assessed.

Health and Safety

Reportedly, approximately 300 retired employees of Daye Metal have been diagnosed as having occupational disease and Daye Metal is currently responsible for their medical treatment and compensation. ERM has been informed by Daye Metal that no breach has occurred in the past 3 years and a one off payment of RMB 1.2 M was paid to the retired employees in 2008, although ERM has not confirmed this and recommends readers consult the financial disclosures of Daye Metal. Although the detailed cost for each facility was not available for review during the site visit, site management confirmed that the annual total cost for medical treatment and compensation exceeded RMB 1 M.

Some of Daye Metal's current employees were diagnosed as potentially having occupational disease based on their last medical examination reports. Daye Metal has taken measures including change of job duties and work positions, and strengthened the use of personal protection equipment (PPE) to better manage harmful exposure for its employees. ERM has been informed by Daye Metal that it has maintained all necessary insurance in respect to the medical and occupational diseases for its employees required under the applicable PRC laws and regulation, however has not been supplied with official documentation outlining these policies.

During ERM's observation of the four mine's operations, the high-rotating parts (motor axis and belts) of the rotary mills at the concentrators were not properly guarded, which potentially constituted safety issues that may cause serious injury to the employees. According to Daye Metal's management, Daye Metal will take steps to install proper guarding to mitigate safety risks.

Community

Generally, the Projects are located near residential communities. During the site visit, it was identified that a local village group and a Daye Metal dormitory area are located within the safety protection distance (600m) of the sulphuric acid manufacturing facility at the Huangshi Project. According to the site management, Huangshi City government is responsible for the relocation of the village group. This is supported by a Commitment Letter issued by the Huangshi City government in 13th June 2008, which stated that 528 people from 150 households should be resettled, and that the government guaranteed to complete the resettlement task by the end of 2009. However, at the time of the site visit, site management reported that only 35 households had been resettled, although the rest of the houses in the village appeared to be largely abandoned.

As per the Safety Assessment Report prepared on 3rd September 2010 for the sulphuric acid lines 3, an old dormitory building of Daye Metal is located within the safety protection distance and should be relocated. At the time of the site visit, this old building was already torn down; however, four new dormitory buildings were constructed immediately next to the old site. Site management reported that one of them was already in use.

Communities near TSFs could possibly be impacted in the event of dam failure. As mentioned in previous sections, safety assessments for each TSF were conducted by governmental authorities, and emergency response plans that cover TSF were prepared for all the Mines. ERM has been informed that, an emergency drill is conducted on a yearly basis at each mine, with the involvement of relevant staff. Site management at the Tongshankou Project reported that the village committees in the vicinity would be informed of such emergency drill.

12 RISKS

12.1 Risk Summary

Mining is a relatively high risk business when compared to other industrial and commercial operations. Each deposit has unique characteristics and responses during mining and processing, which can never be wholly predicted. MMC's review of the Projects indicate project risk profiles typical of mining projects at similar levels of Resource Estimation, mine planning and project development. During the review of the Projects, MMC did not discover any critical concerns or fatal flaws.

MMC has attempted to classify risks associated with the Project based on Guidance Note 7 issued by The Stock Exchange of Hong Kong Limited. Risks are ranked as High, Medium or Low, and are determined by assessing the perceived consequence of a risk and its likelihood of occurring using the following definitions.

Consequence of risk:

- Major: the factor poses an immediate danger of a failure, which if uncorrected, will have a material effect (>15% to 20%) on the project cash flow and performance and could potentially lead to project failure;
- Moderate: the factor, if uncorrected, could have a significant effect (10% to 15% or 20%) on the project cash flow and performance unless mitigated by some corrective action, and
- Minor: the factor, if uncorrected, will have little or no effect (<10%) on project cash flow and performance.

Likelihood of risk occurring within a 7 year timeframe:

- Likely: will probably occur;
- Possible: may occur, and
- Unlikely: unlikely to occur.

The consequence of a risk and its likelihood of occurring are then combined in an overall risk assessment to determine the risk rank as shown in Table 12-1. MMC notes that these risk assessments are necessarily subjective and qualitative.

Table 12-1 Hubei Polymetallic Projects – Risk Assessment Table

Likelihood	Minor	Consequence Moderate	Major
Likely	Medium	High	High
Possible	Low	Medium	High
Unlikely	Low	Low	Medium

Expected Project risks with suggested controls are documented in Table 12-2. MMC envisages that in most instances it is likely that through enacting controls identified through detailed review of the Project's operation, existing documentation and additional technical studies, many of the normally encountered project risks may be mitigated.

Table 12-2 Hubei Polymetallic Projects – Project Risk Summary

Risk Rank	Risk Description and Suggested Further Review	Mitigant	Area of Impact
H	Metal Prices: The Projects are sensitive to fluctuations in metal prices.	Project Sensitivity Analysis, Hedging, and Cut-off Grade Optimisation	Project Cashflow
M	Control of Mineralisation: A more detailed knowledge of structural controls would enable a more accurate geological interpretation and Resource estimate to be completed.	A complete compilation and review of historical underground workings and channel samples.	Mineral resource estimation.

Risk Rank	Risk Description and Suggested Further Review	Mitigant	Area of Impact
M	Smelting and Refinery: The smelting and refining facilities are exposed to fluctuations in metal prices, concentrate quality and reliable concentrate supply as Daye Metal mines only can provide a small proportion of concentrates.	Purchasing agreements from a variety of mines domestically and abroad. Strict control of concentrate quality and delivery.	Smelting and refining facility cash-flow.
M	Ground Control: The cut & fill and post pillar cut & fill mining methods require workers to operate in active stope areas. Working in stopes increases a workers exposure and risk to rock falls. This risk will increase as mining progresses.	Undertake geotechnical testing programme and develop and implement a Ground Control Management Plan. Monitor underground workings and manage as required. Investigate non-entry stoping methods such as open stoping.	Safety of Mine Personnel
M	Geotechnical Assumptions: While existing underground workings appear stable and well controlled, detailed geotechnical information was not available for review. As such, MMC cannot comment in detail on the ground conditions or stability of the future underground workings.	Undertake geotechnical testing programme and develop and implement a Ground Control Management Plan. Monitor underground workings and manage as required.	Underground production rate, dilution, recovery and operating costs.
M	Capital Expenditure: The underground ore reserves at Tongshankou are sensitive to total capital expenditure and timing of production start-up.	Review use of decline access to reduce capital expenditure and expedite underground production.	Internal Rate of Return

Risk Rank	Risk Description and Suggested Further Review	Mitigant	Area of Impact
L	Copper ore mineralogy: The Ore Reserves estimated for the north of the Tongshankou Open Pit may include oxide and transitional style copper ores. Treating this ore will likely result in reduced metal recoveries.	Review Resource and define mineralogy. Investigate possible controls such as process modifications or stockpiling and batch processing.	Processing performance
L	Oxidation of stockpiled sulphide ores: At the Tongshankou Project, mined ore is greater than processed ore for 3 years resulting in a 600kt stockpile being created. This material may oxidise resulting in reduced metal recoveries.	Align process plant throughput with mine output, reduce mine output or increase process plant throughput.	Processing performance
L	Mining Production: New equipment, installations and operating systems will need to be installed and commissioned at the Tongshankou Underground and Tonglvshan Mineralised Zone XI in a timely manner to ensure the planned increase in production rate can be successfully achieved.	Careful planning for a smooth ramping up period to ensure that the newly implemented systems are adequate to handle a higher production rate.	Underground production rate and operating costs.
L	Mining Dilution: The mining dilution achieved using the Modified Transverse Cut & Fill Mining Method at the Tonglvshan Project will be sensitive to backfill overbreak.	Review mining method, backfill strength, cure times and blasting practices.	Processing performance

Risk Rank	Risk Description and Suggested Further Review	Mitigant	Area of Impact
L	Occupational Health and Safety: Daye Metal has an ongoing financial commitment for medical treatment of retired employees due to occupational disease. Medical Examination reports of current employees suggest these diseases are continuing to develop. Appropriate guarding around rotating machinery is also lacking.	Engage Occupational Hygienists and Occupational Health and Safety Experts	Safety of Mine Personnel and Ongoing Medical Treatment Costs
L	Environment: Fugitive sulphuric acid emissions from the Huangshi Project acid treatment system, and Sulphuric Acid and Hydrochloric Acid Storage requires secondary containment.	Engage environmental experts	Environmental damage
L	Project Closure: Closure costs stated are estimates at this time, with final cost dependant on the regulatory framework at the time of closure and final closure requirements.	Environmental review and closure design	Closure Costs
L	Regulatory Compliance: The current and forecast total production rates are greater than the licenced capacities.	Review existing licencing arrangements, and acquire necessary documentation to increase mining licence production capacity as necessary	Regulatory non-compliance

ANNEXURE A – QUALIFICATIONS AND EXPERIENCE**Philippe Baudry – General Manager – Asia and Russia, BSc. Mineral Exploration and Mining Geology, Assoc Dip Geo science, Grad Cert Geostatistics, MAIG**

Philippe is a geologist with over 14 years of experience. He has worked as a consultant geologist for over 6 years first with Resource Evaluations and subsequently with Runge after they acquired the ResEval group in 2008. During this time Philippe has worked extensively in Russia assisting with the development of two large scale copper porphyry projects from exploration to feasibility level, as well as carrying out due diligence studies on metalliferous projects throughout Russia. His work in Australia has included resource estimates for BHPB, St Barbara Mines and many other clients both in Australia and overseas on most styles of mineralisation and metals. Philippe furthered his modelling and geostatistic skills in 2008 by completing a Post Graduate Certificate in Geostatistics at Edith Cowan University. Philippe relocated to China in 2008 and has since project managed numerous Due Diligences and Independent Technical Reviews for private acquisitions and IPO listings purpose mostly in China and Mongolia.

Prior to working as a consultant Philippe spent 7 years working in the Western Australian Goldfields in various positions from mine geologist in a large scale open cut gold mine through to Senior Underground Geologist. Before this time Philippe worked as a contractor on early stage gold and metal exploration projects in central and northern Australia.

With relevant experience in a wide range of commodity and deposit types, Philippe meets the requirements for Qualified Person for 43-101 reporting, and Competent Person (“CP”) for JORC reporting for most metalliferous Mineral Resources. Philippe is a member of the Australian Institute of Geoscientists

Dan Peel – Operations Manager – Beijing, Bachelor of Engineering, Mining – University of New South Wales, Unrestricted Quarry Manager (WA), Grad. Diploma. Applied Finance – Kaplan, Diploma (Bus), Member of Australasian Institute of Mining and Metallurgy

Dan has worked as a mining engineering consultant with MMC for three years. Since joining MMC, Dan has completed a range of projects including technical valuations, life-of-mine designs and scheduling, pit optimisation, development of economic models, mine reserves estimation and reporting.

Prior to joining MMC, Dan worked with an open cut mining contracting firm for five years where he gained significant open cut metal mining experience. During this period, Dan developed operational, engineering and project management expertise. Dan's roles included Quarry Manager of the BHPB Jimblebar iron ore mine and Quarry Manager/Mining Superintendent of the Mt Gibson Koolan Island iron ore mine. Dan also worked at the Plutonic and Cuddingwarra gold mines and the Wodgina tantalum mine.

With relevant experience in a wide range of commodity and deposit types, Dan meets the requirements as a Competent Person (“CP”) for JORC reporting for both metalliferous and coal open cut Reserves. Dan is a member of the Australian Institute of Mining and Metallurgy.

Jeremy Clark – Senior Consultant Geologist – Beijing, BSc. with Honours in Applied Geology, Grad Cert Geostatistics, MAIG

Jeremy has over 9 years of experience working in the mining industry. During this time he has been responsible for the planning, implementation and supervision of various exploration programs, open pit and underground production duties, detailed structural and geological mapping and logging and a wide range of experience in resource estimation techniques. Jeremy’s wide range of experience within various mining operations in Australia and recent experience working in South and North America gives him an excellent practical and theoretical basis for resource estimation of various metalliferous deposits including iron ore and extensive experience in reporting resource under the recommendations of the NI-43-101 reporting code.

With relevant experience in a wide range of commodity and deposit types, Jeremy meets the requirements for Qualified Person for 43-101 reporting, and Competent Person (“CP”) for JORC reporting for most metalliferous Mineral Resources. Jeremy is a member of the Australian Institute of Geoscientists.

Andrew Newell – BE, MEngSc, University of Melbourne, PhD, University of Cape Town. Member of the SME, CIMM, AusIMM & IEA as well as a Chartered Professional Engineer, Australasia

Over 30 years of broad experience in the fields of minerals processing, hydrometallurgy, plant design, process engineering (including equipment selection and design) and metallurgical test work. Andrew has worked on five iron ore projects, one involving flotation, and is knowledgeable about iron ore processing techniques such as magnetic separation. The experience includes operating and management experience in base-metal concentrators, precious metal leaching facilities as well as diamond processing and base-metal smelting in several countries, including Chile, Peru, South Africa, USA and Australia. Responsible for the design of flotation equipment, concentrators and commissioning of flotation and precious metals leach plants. In addition, Andrew has had experience in process and process plant evaluations, due diligence audits, feasibility studies and metallurgical test work and program development.

Andrew Shepherd – Project Manager, Bachelor of Engineering, Mining – Curtin University WASM, Graduate Diploma of Finance and Banking – Curtin University, MBA – Curtin University.

Andrew is a mining engineer with over 14 years of experience in the Australian mining industry. With a strong background in economic evaluation, Andrew gained post graduate qualifications in finance and business administration, leading to a specialisation in prefeasibility studies.

In recent years Andrew has lead teams which were performing commercial and government approvals negotiations, business analysis, strategic and long term mine planning. These roles included participation in several large mining and processing prefeasibility studies in the iron ore, nickel and uranium industries.

Alexander Arizanov – Consultant Geologist, PhD degree in Characteristics, genesis and development of the Chelopech volcanic structure; Master degree in Geology and Mineral Prospecting, both at the University of Mining and Geology in Sofia, Bulgaria.

Alex has had 21 years of experience as a metals geologist. He has been involved in numerous projects situated in Bulgaria, Siberia, Russia, Kazakhstan, China, etc. Alex held positions of field geologist, mine geologist and chief geologist in Bulgaria where his work mainly included geophysical exploration, drilling programmes and resource estimation. He also used Gemcom for resource modelling, cut-off grades, sampling, mapping and database. Alex worked as ore resources manager at Highland Gold Mining and Kazakhmys in Kazakhstan, where he was responsible for database setup, resource management for over 20 deposits and projects, resource auditing, assessing potential and geological aspects of all operations, weekly and monthly reporting standards, QA/AC implementation, Russian resource vs JORC evaluation systems, etc. Alex worked in Australia as a contract geologist for CSA Global. He was involved in a number of projects including the Jinshan Gold project in China, in which he was responsible for QA/QC, sampling, drilling supervising, weekly and monthly reporting standards. He also worked on auditing the Kosmorume and Akbastau Resources project in Kazakhstan.

With relevant experience in a wide range of commodity and deposit types, Alex meets the requirements for Qualified Person for 43-101 reporting, and Competent Person (“CP”) for JORC reporting for most metalliferous projects. Alex is a member of the Australian Institute of Mining and Metallurgy.

Jinping Xu – Consultant Geologist – B.S. East China Institute of Geology

Jinping Xu is a senior geologist with over 17 years of experience in the mining industry. He has been involved in many projects in China. Jinping has good knowledge of the China exploration standard and the system for resource estimation. Jinping did more than 10 national exploration projects, worked in a gold mine for three years. Jinping took in charge of a lead-zinc project in Inner Mongolia and a gold project on Guangdong for Silvercorp Metals Inc. and he worked for Lafarge before joining Runge. In those works, Jinping got substantial experience in a wide range of commodity and deposit types, mining development. He understands the geophysical prospecting method, geochemical exploration method very well.

Tanya Nayda – Mine Geologist, BSc. Geology / Economic Geology

Tanya has worked as a mine geologist and geological technician in the Australian base metals industry since 2007. As a production geologist Tanya was in charge of maintaining geological data sets, stockpile and grade reporting and management, production reconciliation and reporting, drilling hole design, supervision of underground diamond drilling programs, geological core logging, underground geological mapping and interpretation, face mapping and grade control, QAQC of assay data, wireframe modelling, geological assessment of underground development and stope design, etc.

Jim Jiang- Processing Consultant, Bachelor and Master of Mineral Processing Engineering

Jim's technical background is mineral engineering with laboratory research experience. He has site experience in China, working as processing engineer with China Gold Group Corporation. Since joining MMC in 2007, has been actively involved in many technical review projects, his working including analysing and reviewing processing plants design and performance. He also has experience in metallurgy and process plant evaluations, pre-feasibility studies, metallurgical test work and flowsheet development in a wide range of commodity types.

Bob Dennis, Principal Mining Consultant

Mr Dennis has 30 years involvement in the mining industries of Australia and in Italy. He has worked in operations management, including mining, processing, planning and support services; planned and executed exploration programs from grass roots to feasibility study levels; recruited and developed teams; estimated resources using geostatistical methods and evaluated prospect and mining opportunities.

Specific uranium experience includes ongoing due diligence on a large Siberian uranium resource. Bob has reviewed and made specific recommendations with respect to the geology, geostatistics, hydrology, environmental studies and the interaction between these aspects and the mining and metallurgy.

Michael Eckert – Senior Mining Engineer, BEng (Mining) – UQ, First Class Mine Manager's Certificate of Competency – Qld (underground metalliferous) and WA, MAusIMM

Michael has 10 years of experience in the mining industry. During this time he has worked for several underground base metals operations in Australia and Indonesia. He has a strong operational background having held various positions such as Underground Mine Manager, Senior Mining Engineer, Project Engineer, and various Production Engineering roles.

Michael has broad experience in the design, development, operation and management of underground metalliferous mines. This includes planning and operating experience in multiple mining methods such as open and sublevel open stoping, room and pillar, post pillar Cut-and-Fill, Avoca stoping, plus multiple filling methods.

With relevant experience in a wide range of commodity and deposit types, Michael meets the requirements for Competent Person ("CP") for JORC reporting for most underground metalliferous Ore Reserves. Michael is a member of the Australasian Institute of Mining and Metallurgy.

Giacomo Gaetani – Mining Engineer, BE (Mining), Grad. Cert of Finance & Banking, MAusIMM

Giacomo joined MMC in 2008 where he has been involved in shadow estimates, costing studies, economic valuations, strategic long term planning, feasibility studies and multiple due diligence/technical review studies. Giacomo has a wide range of experience varying from Coal, Gold, Copper, Iron Ore and Quarry/Building materials.

Giacomo has also spent time developing carbon pricing and cost models and advises on carbon policies to the resource sector.

Corey Freeman – Mining Engineer, Bachelor of Engineering, Mining (Honours) – University of South Australia, Graduate Diploma of Applied Finance and Investment – FINSIA, MAusIMM.

Corey Freeman is a mining engineer with over fourteen years' exposure to underground operational, mine planning and technical roles in mineral resource companies in Australia. He has broad exposure to a variety of mining methodologies across various mineral deposits coupled with a well-developed understanding of the commercial, functional and safety management aspects of mining operations. Corey has an extensive knowledge of current detailed mining costs for contractors and operators.

With substantial experience in a wide range of commodity and deposit types, Corey meets the requirements for Competent Person for JORC reporting for most metalliferous Mineral Reserves.

Joe McDiarmid – Principal Consultant Runge Ltd Industry Consultants. BEng Mining, MAusIMM.

Joe McDiarmid has 15 years of exposure to underground operational, technical and leadership roles in mineral resource companies in Australia. He has broad exposure to a variety of mining methodologies across four principal mineral deposits coupled with a well-developed understanding of the commercial, functional and safety management aspects of mining operations. Joe has proven ability at leading large teams, direct reports and sub-contractors simultaneously. With substantial experience in a wide range of commodity and deposit types, Joe meets the requirements for Competent Person for JORC reporting for most metalliferous Mineral Reserves.

Ron Siwinski. BSc Eng (Hons Ma USA), MAusIMM, Water Resources (MIT)

Ron's career spans nearly 40 years, working in both Australia and the United States. During this time he has gained extensive knowledge and experience in engineering, project management, and mining roles. He has been responsible for design, construction and supervision of civil engineering projects and has been responsible for mine planning and engineering project management. These roles included involvement in all aspects involved in feasibility studies.

Ron's mine planning and engineering experience is primarily in open cut coal mines, but he also has experience with the mining of iron ore and base metals.

Ron has managerial experience in an engineering capacity and has gained extensive experience in the mining consulting field, which is the field that he is currently active in.

Hongbo Liu – Mining Engineer, National Register of Safety Engineers, China University of Mining & Technology (Beijing)

Hongbo Liu graduated with a bachelor degree in mining engineer from Hebei University of Engineering in 2003, he was granted a master's degree from China University of Mining and Technology in 2006 and qualified for the National Register of Safety Engineers in 2009.

Mr Liu has spent the past five years employed at GEMCOM SOFTWARE INTERNATIONAL INC. China. From 2006 to late 2011, he performed in a project management and technology support engineer capacity on projects using Surpac and MineSched software training.

Peilin Guo – Mining Engineer – BM. (Mining Engineering), China University of Mining & Technology (Beijing)

Peilin has 7 years of experience working in the domestic and international mining industry, including underground coal operations, open pit nickel laterite operations, and as a consultant in a mining software company. Whilst consulting he performed geological modelling, resource estimation, mining design, scheduled plan and software training for coal, iron, gold, copper, limestone and nickel-cobalt projects. Peilin is an expert user of AUTOCAD, SURPAC and 3DMINE.

Wenqi Zhang – Project officer/Geologist, Master of Geology, Peking University, China

Wenqi has graduated from the Peking University with a Masters degree in geology in 2007. He did mineral research with the university prior to joining Runge over 2 years ago. During his time working for Runge, Wenqi has been involved with numerous project reviews from exploration to operating assets both for metals and coal. Recent commodities covered by Wenqi in China have included gold, iron, molybdenum, phosphate, serpentine and coal. Through his technical work Wenqi has gained a solid understanding of exploration data management and requirements to meet the recommendations of the JORC Code.

Company's Relevant Experience

Minarco-MineConsult, part of Runge Limited, is a premier international consulting and engineering firm. It provides a full range of services from pure technical consulting through to strategic corporate advice. And undertake assignments on mining projects covering a range of commodities and countries, serving clients in most of the countries around the West Pacific Rim region.

Minarco-MineConsult maintains a full time staff of qualified specialists in the fields of mining engineering, geology, process and metallurgical engineering, environmental and geotechnical engineering, and environmental economics.

Minarco-MineConsult typically completes over 200 assignments per year and has over 300 professionals (through its parent Runge Group) available in disciplines including:

- Mining Engineering;
- Minerals Processing;
- Coal Handling and Preparation;
- Power Generation;
- Environmental Management;
- Geology;
- Contracts Management;
- Project Management;
- Finance;
- Commercial Negotiations.

The roots of Minarco-MineConsult were established in the Australian mining industry. Minarco-MineConsult is committed to compliance with the codes which regulate Australian corporations and consultants and has established an International business which has continued to give its clients and those that rely on its work the confidence that can be associated by the use of the relevant Australian codes.

These codes include:

- The Australian Corporation Law;
- The Australian Institute of Company Directors Code of Conduct;
- The Securities Institute of Australia Code of Ethics;
- The Australasian Institute of Mining and Metallurgy Code of Ethics;
- The Australasian Code for Reporting of Exploration Results, Mined Resources and Ore Reserves (The JORC Code).

Minarco-MineConsult has conducted numerous mining technical due diligence programs and reporting for IPO's and capital raisings over the past six years, with involvement in projects raising a total of over \$US 10 billion of capital. This and other work is summarised in Table A1.

Table A1 Hubei Polymetallic Projects – Mining Related IPO and Capital Raising Due Diligence Experience

2011 China Polymetallic Mining Ltd; Competent Persons Report of Mineral Resources and Ore Reserves under JORC and Independent Technical Review for inclusion in a HKSE Circular to support the Initial Public Offering of a Polymetallic underground mining asset in Yunnan Province, China.

2011 China Precious Metals Holdings Co., Ltd; Competent Persons Report of Mineral Resources and Ore Reserves under JORC and Independent Technical Review for inclusion in a HKSE Circular to support the acquisition of multiple underground gold mining assets in Henan Province, China.

2011 Hao Tian Resources Group Ltd. Competent Persons Report of Coal Resources and Reserves under JORC and Independent Technical Review for inclusion in a HKSE Circular to support acquisition of an underground coal mine in Xinjiang Province, China.

2011 King Stone Energy Group., Ltd; Competent Persons Report of Coal Resources and Reserves under JORC and Independent Technical Review for inclusion in a HKSE Circular to support acquisition of 2 underground coal mines in Shanxi Province, China.

2010 China Precious Metals Holdings Co., Ltd; Competent Persons Report of Mineral Resources and Ore Reserves under JORC and Independent Technical Review for inclusion in a HKSE Circular to support the acquisition of multiple underground gold mining assets in Henan Province, China.

2010 Century Sunshine Group Holdings Limited; Competent Persons Report of Mineral Resources and Ore Reserves under JORC and Independent Technical Review for inclusion in a HKSE Circular to support the acquisition of a serpentinite mining asset in Jiangsu Province, China.

2010 Doxen Energy Group Limited; Independent Technical Review and estimation of Coal Resources under JORC for inclusion in a HKSE Circular to support the acquisition of a coal mining asset in Xinjiang Autonomous Region, China.

2010 Kwong Hing International Holdings (Bermuda) Limited; Independent Technical Review for inclusion in a HKSE Circular to support a Very Substantial Acquisition.

2009 Metallurgical Corporation Of China Ltd (“MCC”); Independent Technical Review for inclusion in a Prospectus to support a stock exchange listing on the Hong Kong Stock Exchange.

2009 Nubrand Group Holdings Limited, Guyi Coal Mine: Independent Technical Review for inclusion in a Stock Exchange Circular to support a mining asset purchase by a listed Hong Kong Company.

2008 China Blue Chemical Limited, Wangji and Dayukou Phosphate Mines: Independent Technical Review for inclusion in a Stock Exchange Circular to support a mining asset purchase by a listed Hong Kong Company.

2008 Kenfair International (Holdings) Limited, Shengping Coal Mine: Independent Technical Review for inclusion in a Stock Exchange Circular to support a mining asset purchase by a listed Hong Kong Company.

2007 China Railway Company Limited, African Copper/Cobalt Assets: Capital raising for mining assets on the Hong Kong Stock Exchange. Preparation of CPR for planned IPO on the HKSE.

2007 Ko Yo Ecological Agrotech (Group) Limited Sichuan Phosphate: Independent Technical Review for inclusion in a Stock Exchange Circular to support a mining asset purchase by a listed Hong Kong Company.

2007 Prosperity International Holdings Limited, Guilin Granite Project: Independent Technical Review for inclusion in a Stock Exchange Circular to support a mining asset purchase by a listed Hong Kong Company.

2007 China Primary Resources – Independent Technical Review for inclusion in a Stock Exchange Circular to support a mining asset purchase by China Primary Resources.

2008 Kenfair International (Holdings) Limited, Shengping Coal Mine: Independent Technical Review for inclusion in a Stock Exchange Circular to support a mining asset purchase by a listed Hong Kong Company.

2007 China Railway Company Limited, African Copper/Cobalt Assets: Capital raising for mining assets on the Hong Kong Stock Exchange. Preparation of CPR for planned IPO on the HKSE.

2007 China Molybdenum Group – Capital raising for large scale Molybdenum mine on the Hong Kong Stock Exchange. Preparation of CPR for IPO on the HKSE.

ANNEXURE B – GLOSSARY OF TERMS

The key terms used in this report include:

- \$ refers to United States dollar currency
- AUSIMM stands for Australasian Institute of Mining and Metallurgy
- Daye Metal means Daye Nonferrous Metals Co., Ltd
- HKEx stands for Hong Kong Stock Exchange
- ITR stands for Independent Technical Review
- JORC stands for Joint Ore Reserves Committee
- JORC Code refers to the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves 2004 edition, which is used to determine resources and reserves, and is published by JORC of the Australasian Institute of Mining and Metallurgy, the Australian Institute of Geoscientists and the Minerals Council of Australia
- km stands for kilometre
- LOM plan stands for Life of Mine Plan
- m stands for metres
- MMC refers to Minarco-MineConsult
- mine production is the total raw production from any particular mine
- mining rights means the rights to mine mineral resources and obtain mineral products in areas where mining activities are licensed
- Ml stands for mega litre which is equal to one million litres
- Mt stands for million tonnes

- RMB stands for Chinese Renminbi Currency Unit; k RMB means 1,000 RMB; M RMB means 1,000,000 RMB
- ROM stands for run-of-mine, being material as mined before processing
- t stands for tonne
- tonne refers to metric tonne
- tph stands for tonnes per hour
- tpd stands for tonnes per day
- VALMIN Code refers to the code and guidelines for technical assessment and or valuation of mineral and petroleum assets and mineral and petroleum securities for independent expert reports
- ¥ is the symbol for the Chinese Renminbi Currency Unit

Note: Where the terms Measured, Indicated and Inferred Resources and Proved and Probable Reserves are used in this report, they have the same meaning as in the JORC Code.

ANNEXURE C – INTERNATIONAL RESOURCE AND RESERVE REPORTING STANDARDS

Chinese Resource Reporting Standards

In 1999, with a view to creating a standard that was comparable with international resource reporting standards, The Chinese National Land and Resource Department introduced its own national standard for the Classification of Resources/Reserves for Solid Fuels and Mineral Commodities (GB/T 17766-1999).

This code was to replace the previous code (China GB 13908-1992 – General rules for Geological Exploration of Solid Ore Resources) and was based upon the United Nations international code (UN Economic and Society Committee, UN document ENERGY/WP.1/R.70). Some elements of the American resource reporting standards were included and modifications made to suit Chinese conditions. All new resource estimates are reported under this new code and old estimates either re-estimated or converted to the new system.

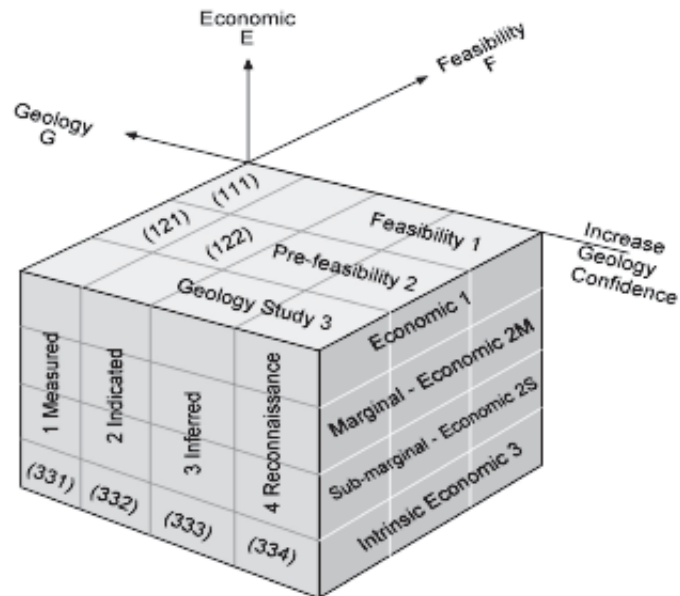
The previous Chinese standard (GB 13908-1992) divided resources into four categories (A, B, C and D) which were loosely comparable to the JORC – (December 2004) classifications of Measured Resource (A-B), Indicated Resource (B-C) and Inferred Resource (D). The old standard was more prescriptive than JORC in that it specified minimum borehole spacing (see Table C1) for each category, along with implied levels of geological understanding.

Table C1 Hubei Polymetallic Projects – Borehole Spacing Comparison (Chinese, UN and JORC Codes)

(Chinese Reserve Code)	Classification (Chinese Reserve Class)	UN Code	JORC(Dec 2004)	Minimum Borehole/Drill Line Spacing
A	111 – 121	Measured	<100 m	
B	121 – 122	331	Measured	<=100 m x 100 m
C	122 – 2 M22	332	Indicated	<=200 m x 100 m
D	122	333	Inferred	>200 m

The old code was essentially a geological classification, taking little account of the deposits economics or the level of mining studies that had been carried out on it. The new code (see Figure C1) attempts to address this by using a three component system (EFG) that considers the deposit economics (E), the level of mining feasibility studies that have been carried out (F) and the level of geological confidence (G) using a numerical ranking.

Figure C1 – New Chinese Resource/Reserve Classification Matrix (1999)



This system produces a three digit code for a deposit that reflects these three variables. For example a deposit classified as a 121 is economically viable (1), has had pre-feasibility studies carried out (2) and is well understood geologically (1). Various suffixes are used to distinguish Basic Reserves – essentially JORC Resources – (121b) from Extractable Reserves (121) and to identify the assumed economic viability (S or M). Certain categories are not allowed, for example pre-feasibility or feasibility level studies cannot be conducted on Inferred Resources, and so 123 and 113 are invalid classifications. Also Extractable Reserves are not estimated for marginally economic (or lesser) deposits so the (b) suffix is considered redundant. The term Intrinsically Economic indicates that while the deposit may be economic, insufficient studies have been carried out to clearly determine its status.

APPENDIX V-A	COMPETENT PERSON'S REPORT ON THE FOUR MINES
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A tabulation of this concept is shown in Table C2.

Table C2 Hubei Polymetallic Projects – New Chinese Resource/Reserve Categories (1999)

Economic Viability	Geological Confidence			
	Identified Mineral Resource			Undiscovered Resource
	Measured (1)	Indicated (2)	Inferred (3)	Reconnaissance (4)
Economic (1)	Basic Reserve Resource 111b			
	Proved Extractable Reserve – 111			
	Basic Reserve Resource 121b	Basic Reserve Resource -122b		
	Probable Extractable Reserve -121	Probable Extractable Reserve -122		
Marginally Economic (2 M)	Resource 2 m11			
	Resource 2 M21	Resource 2 M22		
Sub-marginally Economic (2S)	Resource 2S11			
	Resource 2S21	Resource 2S22		
Intrinsically Economic (3)	Resource 331	Resource 332	Resource 333	Resource 334

Note: First digit reflects Economic viability; 1= Economic; 2 m=Marginally Economic; 2S=Sub-marginally Economic; 3=Intrinsically Economic; 4=Economic interest undefined.

- Second digit reflects Feasibility assessment stage, 1=Feasibility; 2=Pre-feasibility; 3=Geological study.
- Third digit reflects Geological assurance, 1=Measured, 2=Indicated, 3=Inferred, 4=Reconnaissance.
- b=Basic Reserve (prior to recovery factors, mining losses and dilution) – JORC Resource.

Unlike the old code, the new code does not specify required borehole spacings for each category. In the case of copper Cobalt and Gold (and other metals), there is an accompanying Chinese Professional Standard (DZ/T 0214-2002) that lays out rules for determining the level of geological confidence.

International Standards and the JORC Code for Resources

Two main styles of resource reporting codes exist internationally. These are the American style (USA and much of South America) and the JORC style (Australia, South Africa, Canada, and UK). This is further complicated by the listing and reporting requirements of different stock exchanges. It is generally true that a resource estimation that complies with the JORC code (or one of its sister codes) will meet the standards of most international investors.

The new Chinese code is a blend of the old Chinese Code and the codes in current use today, including JORC and the current United Nations (UN) standard, with some additional local components added.

JORC is a non-prescriptive code, in that it does not lay out specific limits for resource classification in terms of such things as borehole spacing. Instead it emphasises the principles of transparency, materiality and the role of the Competent Person. Whilst some guidelines do exist (e.g. the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves) they are not mandatory and classification is left in the hands of the Competent Person. When combined with its Professional Standards (which are effectively mandatory), the Chinese code is much more prescriptive but does not include the role of the Competent Person.

An examination of the details of the Chinese code suggests that in terms of broad categorisation, the levels of geological confidence ascribed to Measured and Indicated resources are quite similar in both the codes. The ranges of borehole spacings, thickness cut-offs and quality limitations that are enforced by the Chinese system would generally result in the same resource classification under the JORC Code.

The JORC Code uses the following definitions for Mineral Resources and Ore Reserves:

Measured Mineral Resource is that part of Mineral Resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a high level of confidence. It is based on detailed and reliable exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes. The locations are spaced closely enough to confirm geological and grade continuity.

Indicated Mineral Resource is that part of Mineral Resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a reasonable level of confidence. It is based on detailed and reliable exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes. The locations are too widely or inappropriately spaced to confirm geological and/or grade continuity but are spaced closely enough for continuity to be assumed.

Inferred Mineral Resource is that part of Mineral Resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a low level of confidence. It is inferred from geological evidence and assumed but not verified geological and/or grade continuity. It is based on information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes which may be limited or of uncertain quality and reliability.

Exploration Target/Results includes data and information generated by exploration programmes that may be of use to investors. The reporting of such information is common in the early stages of exploration and is usually based on limited surface chip sampling, geochemical and geophysical surveys. Discussion of target size and type must be expressed so that it cannot be misrepresented as an estimate of Mineral Resources or Ore Reserves.

A '**Proved Ore Reserve**' is the economically mineable part of a Measured Mineral Resource. It includes diluting materials and allowances for losses which may occur when the material is mined. Appropriate assessments and studies have been carried out, and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction could reasonably be justified

A Proved Ore Reserve represents the highest confidence category of Ore Reserve estimates. This requires detailed exploration and quality data "points of observation" to provide high geological confidence.

A '**Probable Ore Reserve**' is the economically mineable part of an Indicated, and in some circumstances, a Measured Mineral Resource. It includes diluting materials and allowances for losses which may occur when the material is mined. Appropriate assessments and studies have been carried out, and include consideration of and modification by realistic ally assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors These assessments demonstrate at the time of reporting that extraction could reasonably be justified.

A Probable Ore Reserve has a lower level of confidence than a Proved Ore Reserve but has adequate reliability as the basis of mining studies.

ANNEXURE D – JORC ORE RESERVE CHECKLISTS

Table D1 Hubei Polymetallic Projects – Tonglvshan JORC Ore Reserve Checklist

Section	Comment
1. Is the Reserve derived from JORC compliant Resource Statement? Who are the competent persons?	The JORC compliant Ore Reserve Estimate is signed by Mr Michael Eckert (Runge Ltd, Senior Mining Engineer), and is derived from a JORC compliant Mineral Resource Estimate signed by Mr Jeremy Clark (Runge Ltd, Senior Geologist).
2. What is the current Project status?	The mine is producing at approximately 1.15 Mtpa. Production will be increased towards 1.75 Mtpa in 2014.
3. What cut off parameters and physical limits have been applied in estimating the Reserves?	0.68% CuEq Minimum COG, 1.22% CuEq Life-of-Mine COG, 2 m minimum mining width, and Mining Licence and Exploration Licence boundaries. Stope sections below the Minimum COG were removed. Diluted stoping blocks below the Life-of-Mine COG were removed. Reserves were reported inside the Mining and Exploration Licences.
4. What mining and geotechnical assumptions have been made?	Mining dilution and recovery factors for vertical crater retreat stoping, transverse cut & fill stoping, longitudinal sublevel open stoping, modified transverse cut & fill stoping, and modified longitudinal cut & fill stoping of 9.8% and 89.9%, 8.5% and 92.1%, 9.0% and 90.6%, 9.5% and 91.3%, and 11.4% and 90.8% respectively. These are based on appropriate levels of overbreak and loss applied to the proposed stope geometries.
5. Is there a metallurgical process used and what is suitability to the type of operation?	Metals are recovered through a conventional and suitable flotation plant to produce copper concentrate containing gold and silver, and iron concentrate.
6. How have the Project capital, operating costs and royalties been derived?	Operating Costs were derived from the 2010 Feasibility Study completed by ENFI for Tonglvshan. Total variable operating costs used for calculation of Minimum COG was 116 RMB/t. Total operating Cost used for calculation of the Life-of-Mine COG was 211 RMB/t. Capital Costs totalling 1022 M RMB from 2011 to 2015 were provided by Daye Metal. These costs are considered appropriate for the Reserve Estimate.

Section	Comment
7. What is the market demand and supply of this commodity and what are the price and volume forecasts of the Reserves based upon?	Current and forecast demand for Copper, Iron, Gold and Silver is strong. CuEq calculations are based on consensus long-term forecast metal prices of 32987 RMB/t Cu, 1124 RMB/t Fe concentrate, 185.90 RMB/g Au and 3.22 RMB/g Ag.
8. Any other factors that may potentially affect the viability of the Project and the status of titles and approvals required for the Project?	The production capacity of the Mining Licence is below current and forecast production rate. MMC expects that the capacity of the Licence can be increased upon application. An Exploration Licence below the Mining Licence exists below the Mining Licence. MMC expects that this can be upgraded to a Mining Licence upon application.
9. What is the basis for the classification of the Ore Reserves and what proportion of Ore Reserves have been derived from which classification of the Resources?	Classification of Ore Reserves has been derived by considering the Indicated classification of the resources. Only Probable Reserves have been reported. Inferred resources have been excluded from the estimate.
10. Results of audits or reviews of Reserves Statements.	As per findings in this review, plus internal reconciliation and peer review.
11. Relative accuracy and confidence of the Reserves Estimate.	As the project is already in production, there is reasonably high confidence in the Reserves. Production reconciliation and precise accounting of costs would refine the modifying factors and cut-off grades for each mining method. Further mineralisation definition to increase the resource classification could increase the reserve classification.

APPENDIX V-A	COMPETENT PERSON'S REPORT ON THE FOUR MINES
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Table D2 Hubei Polymetallic Projects – Fengshan JORC Ore Reserve Checklist

Section	Comment
1. Is the Reserve derived from JORC compliant Resource Statement? Who are the competent persons?	The JORC compliant Ore Reserve Estimate is signed by Mr Michael Eckert (Runge Ltd, Senior Mining Engineer), and is derived from a JORC compliant Mineral Resource Estimate signed by Mr Jeremy Clark (Runge Ltd, Senior Geologist).
2. What is the current Project status?	The mine is producing at approximately 760 ktpa.
3. What cut off parameters and physical limits have been applied in estimating the Reserves?	0.40% CuEq Minimum COG, 0.82% CuEq Life-of-Mine COG, 2 m minimum mining width, and Mining Licence boundary. Stope sections below the Minimum COG were removed. Diluted stoping blocks below the Life-of-Mine COG were removed. Reserves were reported inside the Mining Licence.
4. What mining and geotechnical assumptions have been made?	Mining dilution and recovery factors for vertical crater retreat stoping, transverse sublevel open stoping, and post pillar cut and fill and longitudinal cut & fill stoping in combination of 10.1% and 88.2%, and 12.2% and 79.3% respectively. These are based on appropriate levels of overbreak and loss applied to the proposed stope geometries.
5. Is there a metallurgical process used and what is suitability to the type of operation?	Metals are recovered through a conventional and suitable flotation plant to produce copper concentrate containing gold and silver, and molybdenum concentrate.
6. How have the Project capital, operating costs and royalties been derived?	Operating Costs were derived from the 2010 Feasibility Study for the Fengshan Project completed by ENFI. Total variable operating costs used for calculation of Minimum COG was 80 RMB/t. Total operating Cost used for calculation of the Life-of-Mine COG was 162 RMB/t. Capital Costs were provided by Daye Metal and total 298 M RMB from 2011 to 2015. These costs are considered appropriate for the Ore Reserve Estimate.
7. What is the market demand and supply of this commodity and what are the price and volume forecasts of the Reserves based upon?	Current and forecast demand for Copper and Molybdenum is strong. CuEq calculations are based on consensus long-term forecast metal prices of 32,987 RMB/t Cu and 180 RMB/kg Mo.

Section	Comment
8. Any other factors that may potentially affect the viability of the Project and the status of titles and approvals required for the Project?	The production capacity of the Mining Licence is below current and forecast production rate. MMC expects that the capacity of the Licence can be increased upon application.
9. What is the basis for the classification of the Ore Reserves and what proportion of Ore Reserves have been derived from which classification of the Resources?	Classification of Ore Reserves has been derived by considering the Indicated classification of the resources. Only Probable Reserves have been reported. Inferred resources have been excluded from the estimate.
10. Results of audits or reviews of Reserves Statements.	As per findings in this review, plus internal reconciliation and peer review.
11. Relative accuracy and confidence of the Reserves Estimate.	As the project is already in production, there is reasonably high confidence in the Reserves. Production reconciliation would refine the modifying factors being applied. Precise accounting of costs would refine Cut-off grades for each mining method. Further mineralisation definition to increase the resource classification could increase the reserve classification.

Table D3 Hubei Polymetallic Projects – Tongshankou Open Pit JORC Ore Reserve Checklist

Section	Comment
1. Is the Reserve derived from JORC compliant Resource Statement? Who are the competent persons? The JORC compliant Ore Reserve Estimate is signed by Mr Daniel Peel (Runge Ltd, Operations Manager - Beijing), and is derived from a JORC compliant Mineral Resource Estimate signed by Mr Jeremy Clark (Runge Ltd, Senior Geologist).	The JORC compliant Ore Reserve Estimate is signed by Mr Daniel Peel (Runge Ltd, Operations Manager - Beijing), and is derived from a JORC compliant Mineral Resource Estimate signed by Mr Jeremy Clark (Runge Ltd, Senior Geologist).
2. What is the current Project status?	The mine is producing at approximately 1.5 Mtpa.
3. What cut off parameters and physical limits have been applied in estimating the Reserves?	<p>Minimum Cut-off Grade of 0.36% CuEq after dilution and losses.</p> <p>Recovery factor of 95% has been used for the truck and shovel open cut mining method. This recovery factor has been provided by the Daye Metal and is based its operating experience.</p> <p>Mining dilution factor of 8% has been used for the truck and shovel open cut mining method.</p> <p>A small section of the north western side of the pit has not been designed to its full economic extents due to potential interaction with the planned underground operations.</p>
4. What mining and geotechnical assumptions have been made?	An overall slope angle of 45o has been designed. This is based on the current slope angles and the mine planning reports.
5. Is there a metallurgical process used and what is suitability to the type of operation?	Metals are recovered through a conventional and suitable flotation plant to produce copper concentrate containing gold and silver, and molybdenum concentrate.
6. How have the Project capital, operating costs and royalties been derived?	The operating costs, capital costs and royalties are based on the Project's historic and forecast operations.

Section	Comment
7. What is the market demand and supply of this commodity and what are the price and volume forecasts of the Reserves based upon?	Current and forecast demand for Copper and Molybdenum is strong. CuEq calculations are based on consensus long-term forecast metal prices.
8. Any other factors that may potentially affect the viability of the Project and the status of titles and approvals required for the Project?	The production capacity of the Mining Licence is below current and forecast production rate. MMC expects that the capacity of the Licence can be increased upon application.
9. What is the basis for the classification of the Ore Reserves and what proportion of Ore Reserves have been derived from which classification of the Resources?	Classification of Ore Reserves has been derived by considering the Indicated classification of the resources. Only Probable Reserves have been reported. Inferred resources have been excluded from the estimate.
10. Results of audits or reviews of Reserves Statements.	As per findings in this review, plus internal reconciliation and peer review.
11. Relative accuracy and confidence of the Reserves Estimate.	<p>As the project is already in production, there is reasonably high confidence in the Reserves. Production reconciliation would refine the modifying factors being applied. Precise accounting of costs would refine Cut-off grades for each mining method. Further mineralisation definition to increase the resource classification could increase the reserve classification.</p> <p>There is a shallow area in the north of the deposit which may be oxide material. This may result in lower metallurgical recoveries. Discussions with Daye Metal indicate they considered to be sulphide ore. There is no drilling core available to confirm.</p>

APPENDIX V-A	COMPETENT PERSON'S REPORT ON THE FOUR MINES
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Table D4 Hubei Polymetallic Projects – Tongshankou Underground JORC Ore Reserve Checklist

Section	Comment
1. Is the Reserve derived from JORC compliant Resource Statement? Who are the competent persons?	The JORC compliant Ore Reserve Estimate is signed by Mr Michael Eckert (Runge Ltd, Senior Mining Engineer), and is derived from a JORC compliant Mineral Resource Estimate signed by Mr Jeremy Clark (Runge Ltd, Senior Geologist).
2. What is the current Project status?	The mine is currently in development. Production will start in 2014 at a target production rate of 1.15 Mtpa.
3. What cut off parameters and physical limits have been applied in estimating the Reserves?	0.45% CuEq Minimum COG, 0.68% CuEq Life-of-Mine COG, 2 m minimum mining width, and Mining Licence and Exploration Licence boundaries. Stope sections below the Minimum COG were removed. Diluted stoping blocks below the Life-of-Mine COG were removed. Reserves were reported inside the Mining and Exploration Licences.
4. What mining and geotechnical assumptions have been made?	Mining dilution and recovery factors for transverse sublevel open stoping, longitudinal sublevel open stoping, and post pillar cut & fill stoping of 7.9% and 87.9%, 11.2% and 85.3%, and 8.3% and 81.4% respectively. These are based on appropriate levels of overbreak and loss applied to the proposed stope geometries.
5. Is there a metallurgical process used and what is suitability to the type of operation?	Metals are recovered through a conventional and suitable flotation plant to produce copper concentrate containing gold and silver, and molybdenum concentrate.
6. How have the Project capital, operating costs and royalties been derived?	Operating Costs were derived from the 2009 Feasibility Study completed by ENFI for the Tongshankou Project. Total variable operating costs used for calculation of Minimum COG was 76 RMB/t. Total operating Cost used for calculation of the Life-of-Mine COG was 116 RMB/t. Capital Costs were provided by Daye Metal and total 472 M RMB in underground development from 2011 to 2015. These costs are considered appropriate for the Ore Reserve Estimate.

Section	Comment
7. What is the market demand and supply of this commodity and what are the price and volume forecasts of the Reserves based upon?	Current and forecast demand for Copper and Molybdenum is strong. CuEq calculations are based on consensus long-term forecast metal prices of 32,987 RMB/t Cu and 180 RMB/kg Mo.
8. Any other factors that may potentially affect the viability of the Project and the status of titles and approvals required for the Project?	The production capacity of the Mining Licence is below current and forecast production rate. MMC expects that the capacity of the Licence can be increased upon application.
9. What is the basis for the classification of the Ore Reserves and what proportion of Ore Reserves have been derived from which classification of the Resources?	Classification of Ore Reserves has been derived by considering the Indicated classification of the resources. Only Probable Reserves have been reported. Inferred resources have been excluded from the estimate.
10. Results of audits or reviews of Reserves Statements.	As per findings in this review, plus internal reconciliation and peer review.
11. Relative accuracy and confidence of the Reserves Estimate.	As the project is already in production, there is reasonably high confidence in the Reserves. Production reconciliation would refine the modifying factors being applied. Precise accounting of costs would refine Cut-off grades for each mining method. Further mineralisation definition to increase the resource classification could increase the reserve classification.

Table D5 Hubei Polymetallic Projects – Chimashan Ore Reserve Checklist

Section	Comment
1. Is the Reserve derived from JORC compliant Resource Statement? Who are the competent persons?	The JORC compliant Ore Reserve Estimate is signed by Mr Michael Eckert(Runge Ltd, Senior Mining Engineer), and is derived from a JORC compliant Mineral Resource Estimate signed by Mr Jeremy Clark (Runge Ltd, Senior Geologist).
2. What is the current Project status?	The mine is producing at approximately 80 ktpa.
3. What cut off parameters and physical limits have been applied in estimating the Reserves?	0.60% CuEq Minimum COG, 0.72% CuEq Life-of-Mine COG, 2 m minimum mining width, and Mining Licence boundary. Stope sections below the Minimum COG were removed. Diluted stoping blocks below the Life-of-Mine COG were removed. Reserves were reported inside the Mining and Exploration Licences.
4. What mining and geotechnical assumptions have been made?	Mining dilution and recovery factors for longitudinal sublevel open stoping 16.4% and 74.3% respectively. These are based on appropriate levels of overbreak and loss applied to the proposed stope geometry.
5. Is there a metallurgical process used and what is suitability to the type of operation?	Metals are recovered through a conventional and suitable flotation plant to produce copper concentrate containing gold and silver, and molybdenum concentrate.
6. How have the Project capital, operating costs and royalties been derived?	Operating Costs were derived from the 2009 Development and Utilisation Report completed by Daye Nonferrous Design Institute and historical costs supplied by Daye Metal. Total variable operating costs used for calculation of Minimum COG was 76 RMB/ t. Total operating Cost used for calculation of the Life-of-Mine COG was 171 RMB/t. Capital Costs were provided by Daye Metal and total 6 M RMB for 2011. These costs are considered appropriate for the Ore Reserve Estimate.
7. What is the market demand and supply of this commodity and what are the price and volume forecasts of the Reserves based upon?	Current and forecast demand for Copper and Molybdenum is strong. CuEq calculations are based on consensus forecast metal prices of 57,571 RMB/t Cu and 244 RMB/kg Mo.

Section	Comment
8. Any other factors that may potentially affect the viability of the Project and the status of titles and approvals required for the Project?	The production capacity of the Mining Licence is below current and forecast production rate. MMC expects that the capacity of the Licence can be increased upon application.
9. What is the basis for the classification of the Ore Reserves and what proportion of Ore Reserves have been derived from which classification of the Resources?	Classification of Ore Reserves has been derived by considering the Indicated classification of the resources. Only Probable Reserves have been reported. Inferred resources have been excluded from the estimate.
10. Results of audits or reviews of Reserves Statements.	As per findings in this review, plus internal reconciliation and peer review.
11. Relative accuracy and confidence of the Reserves Estimate.	As the project is already in production, there is reasonably high confidence in the Reserves. Production reconciliation would refine the modifying factors being applied. Precise accounting of costs would refine Cut-off grades for each mining method. Further mineralisation definition to increase the resource classification could increase the reserve classification.

ANNEXURE E – MINING EQUIPMENT LISTS

Table E1 Hubei Polymetallic Projects – Tonglvshan Mining Equipment

Equipment Name	Specification	Quantity
Open-Pit		
Haul Truck	45t	11
Forklift	5t	1
Forklift	3t	1
Excavator	Doosan DH300LC-7	2
Shovel	WK-4	4
Shovel	WK-10	1
Rotary Drills	YZ-35	2
Rotary Drills	KY-310	1
Dozer	D155A-1A	3
Roller	YP19JT1200	1
Oil Tanker	EQ140	1
Frontend Loader	CAT988B	1
Frontend Loader	zl50	1
Frontend Loader	xg953	1
Flat Trailer	EQ140	3
Crane	290JOZ25ET	1
Crane	16t	1
4WD utility		2
Water Tanker		3
Pump		28
Underground		
Hoist Machine		4
Frontend Loader	XG 953II	1
Electrical Loader	WJD-1.5	9
Electrical Loader	CYE-1.5	10
Electrical Loader	EST-3.5	1
Electrical Loader	WJD-2	7
Electrical Loader	CYE-2	5
Diesel Loader	CY-1	2
Drills	SIMBA H261	1
Jumbo	Boomer 251	1
Raise Drills	AT2000	1
Pneumatic Drill	YT27	26
Pneumatic Drill	YT28	8
Primary Ventilation Fan		3
Air Compressor		5
Track Scale		3
Electrical Trolleys		22
Water Pump		15
Slurry Pump		2
Jaw Crusher	900 × 1200	2
Apron Feeder	1500 × 8000	2

Source: Provided by Daye Metal

Table E2 Hubei Polymetallic Project – Fengshan Mining Equipment

Equipment Name	Quantity
Air Compressor	8
Primary Ventilation Fan	1
Auxiliary Ventilation Fan	1
Drainage Pump	20
Electrical Trolleys	17
Pneumatic Rock Loader	2
Electrical Rock Loader	2
Drills	5
Shot Crest Machine	7
Loader	20
Vehicle	7
Primary Shaft Equipment	1
Secondary Shaft Equipment	1
Blind Shaft Equipment	1

Source: Provided by Daye Metal

Table E3 Hubei Polymetallic Project – Tongshankou Mining Equipment

Equipment Name	Quantity
Haul Truck	24
Rotary Drills	4
Rock Drills	3
Shovel	7
Generator	12
Excavator	2
Roller	1
Dozer	6
Auxiliary Truck	4

Source: Provided by Daye Metal

Table E4 Hubei Polymetallic Project – Chimashan Mining Equipment

Equipment Name	Quantity
Hoist Machine	2
Air Compressor	3
Apron Feeder	1
Jaw Crusher	1
Cone Crusher	4
Vacuum Filter	1

Source: Provided by Daye Metal

ANNEXURE F – PROCESSING EQUIPMENT LISTS

Table F1 Hubei Polymetallic Project – Tonglvshan Processing Plant Equipment List

Equipment	Specification	Number	Note
Heavy Plate Feeder	1.8 m × 9.6 m	1	
Jaw Crusher	PEF 0.6 m × 0.9 m	1	Primary ore
Jaw Crusher	PEF 1.2 m × 1.5 m	1	Oxide ore
Jaw Crusher	PEF 0.9 m × 1.2 m	1	Underground
Standard Cone Crusher	PYB 2.1 mØ	1	
Standard Cone Crusher	PYB 1.65 mØ	1	
Short Head Cone Crusher	PYD 2.1 mØ	1	
Self-centering Screen	SZZ21.25 m × 4 mm	4	
SAG Mill	5.5 mØ × 1.8 m	1	No.1 line
Grate discharge Ball Mill	2.7 mØ × 3.6 m	6	Total
Double Spiral Classifier	2.4 mØ	No.1 line	
Flotation cells	XCF II / KYF II 8 cu.m	20	No.1 line
Flotation cells	XCF II / KYF II 4 cu.m	6	No.1 line
Grate discharge Ball Mill	2.7 mØ × 3.6 m	1	No.2 line
Double Spiral Classifier	2 mØ	1	No.2 line
HCC Flotation	4 cu.m	18	No.2 line
Double Spiral Classifier	2 mØ	4	No.3 & 4 line
Flotation cells	XCF II / KYF II 8 cu.m	18	No.3 & 4 line
Flotation cells	XCF II / KYF II 4 cu.m	4	No.3 & 4 line
Concentrate De-sliming Magnetic Separator	CCNTN 1.23 mØ	2	Rougher
Permanent Drum Magnetic Separator	CTB 1.23 mØ	2	Rougher
Permanent Drum Magnetic Separator	BJK 1.05 mØ × 2.4 m	2	Cleaner
Thickener	30 mØ	2	Cu Concentrate
Ceramic Filter	45 sq.m	2	Cu Concentrate
Thickener	30 mØ	2	Magnetite Concentrate
Thickener	24 mØ	1	Magnetite Concentrate
Disc Filter	CTP-72 sq.m	1	Magnetite Concentrate
Disc Filter	ZPG-40 sq.m	1	Magnetite Concentrate

Source: Provided by Daye Metal

Table F2 Hubei Polymetallic Project – Tongshankou Processing Plant Equipment List

Equipment	Specification	Number	kW
No.1 Plant			
Heavy Plate Feeder	ZBG1.8 mØ × 10 m	1	55
Jaw Crusher	PEJ 1.2 m × 1.5 m	1	180
Cone Crusher	GPS 200	1	155
Cone Crusher	HP 0.5 mØ	1	400
Vibrating Screen	2YA1548	4	15
Electrical Dust Remover	CJ1220	1	
Disc Feeder	1.5 mØ	4	8
Belt Feeder	–	4	
Grate Ball Mill	2.7 mØ × 3.6 m	4	400
Spiral Classifier	2 mØ × 13 m	4	30
Overflow Ball Mill	2.7 mØ × 3.6 m	3	344
Overflow Ball Mill	1.5 mØ × 3 m	2	50
Hydro-Cyclone	0.5 mØ	8	
Hydro-Cyclone	0.35 mØ	14	–
Conditioning Tank	3 mØ	3	19
Flotation	XCF II / KYF II 8 cu.m	46	1
Flotation	XCF II / KYF II 4 cu.m	28	19
Air Blower	HTD150-21	2	95
Air Blower	HTD120-21	3	75
Tailings Thickener	30 mØ	2	–
Cu Thickener	18 mØ	2	50
Mo Thickener	6 mØ	1	–
Press Filter	APAPN18SL24M	1	37
No.2 Plant			
Feeder	0.98 mx0.24 m	1	55
Jaw Crusher	JC4060 mm	1	180
Jaw Crusher	JC1575 mm	1	155
Vibrating Screen	SZZ 1.25 mx2.5 m	1	15
Spiral Classifier	FLG 1.5 mØ	2	30
Grate Ball Mill	2.7 mØ × 3.6 m	1	344
Overflow Ball Mill	2.7 mØx3.6 m	1	400
Flotation	SF 2.2 cu.m	13	1
Flotation	SF 1.2 cu.m	10	19
Thickener	LZN-9	1	–
Filter	GW-5	1	–
Thickener	6 mØ	1	–
Press Filter	APAPN18SL 24M	1	37
No.3 Plant			
Jaw Crusher	0.4 mx0.6 m	1	180
Jaw Crusher	SHP 0.1 mx0.6 m	1	155
Spiral Classifier	1 mØx7 m	2	30
Grate Ball Mill	MQG 1.83 mØx4 m	1	344
Overflow Ball Mill	MQY 1.5 mØx4 m	1	110
Flotation	SF1.2 cu.m	24	–
Filter	–	1	

Source: Provided by Daye Metal

Table F3 Hubei Polymetallic Project – Fengshan Processing Plant Equipment List

Equipment	Specification	Number	kW
Heavy Plate Feeder	1.5 mx8 m	1	–
Heavy Plate Feeder	1.8 mx10 m	1	–
Disc Feeder	CK 2.2 m	10	–
Jaw Crusher	1.2 mx1.5 m	1	135
Cone Crusher	PYB 1.75 mØ	1	135
Cone Crusher	PYD 1.75 mØ	2	135
Screen	SZZ 1.8 m x 3.6 m	3	–
Ball Mill	MQG 2.7 mØ x 3.6 m	4	400
Ball Mill	MQY 1.5 mØ x 3 m	2	95
Regrind Ball Mill No. 1	MQY 1.2 Ø x 1.8 m	1	30
Regrind Ball Mill No. 2	0.9 mØ x 0.9 m	1	
Spiral classifier	FG 2 mØx2.4 m	4	
Hydrocyclone	350 mm Ø	2	
Flotation	KYF II -8	30	11
Flotation	SF-1.2	36	
Flotation	SF-2.8	8	
Flotation	2A	11	
Conditioning Tank	3 mØ x 3 m	2	
Conditioning Tank	2.5 mØ x 2.5 m	3	
Conditioning Tank	2 mØ	3	
Conditioning Tank	1 mØ	2	
Thickener	18 mØ	1	
Thickener	GZN 24 mØ	1	
Thickener	6 mØ	1	
Cylinder Vacuum Filter	GW-20	4	
Ceramic Filter	TM-21	1	

Source: Provided by Daye Metal

Table F4 Hubei Polymetallic Project – Chimashan Processing Plant Equipment List

Equipment	Specification	Number
Medium Plate Feeder	1.1 × 2.4 m	1
Belt Feeder	B500/B400 mm	1
Jaw Crusher	0.6 m × 0.9 m	1
Secondary Cone Crusher	1.2 mØ	1
Auto Center Screen	SZZ1.8 m × 3.6 m	1
Grate Ball Mill	2.4 mØ × 1.2 m	3
Spiral Classifier	1.5 mØ	3
Overflow Ball Mill	0.9 mØ × 1.8 m	3
Overflow Ball Mill	1.5 mØ × 3 m	2
Flotation	JJF 4 cu.m	10
Flotation	4A	12
Hydrocyclone	0.25 mØ	1
Conditioning Tank	2 mØ	1
Single Screw Washing Machine	1.2 mØ	1
Center Drive Thickener	12 mØ	1
Center Drive Thickener	6 mØ	1
Vacuum Filter	–	1
Gas-water Separator	0.85 mØ × 1.6 m	1

Source: Provided by Daye Metal

Table F5 Hubei Polymetallic Project – No.1 Slag Treatment Plant Equipment List

Equipment	Specification	kW	Number
Primary Crusher	–	–	1
Secondary Cone Crusher	GP100	90	2
Vibrating Screen	YA1539		1
Screen	YA1530	11	1
Overflow Ball Mill	MQY 2736	400	1
Flotation	BF		
Thickener	6 M		1
Thickener	12 M		1
Disc Filter	PG18	55	1
Disc Filter	PG39		1
Drum Filter	5 sq.m		
Ceramic Filter	20 sq.m	18.5	2

Source: Provided by Daye Metal

Table F6 Hubei Polymetallic Project – No.2 Slag Treatment Plant Equipment List

Equipment	Specification	kW	Number
Update Phase I			
Heavy Plate Feeder	1.5 m × 8.0 m	30	1
Jaw Crusher	C110S	160	1
Belt Conveyor	B1200	150	1
Cone Crusher	GP 200S L=280 m	160	1
Cone Crusher	HP400	280	1
Overflow Ball Mill	MQY 4060	1500	1
Flotation Cells	CLF-8	30	4
Flotation Cells	CLF-8	22	19
Conditioning Tank	2.5 mØ	22	1
Ceramic Filter	KS30 sq.m	30	5
Dust Collector	CJ1217	30	1
Separators	LJK4510,B=1 m	3	2
Disc Feeder	1.5 mØ	11	4
Update Phase II			
Belt Conveyor	B=800,L=67 m	37	1
Belt Conveyor	B=600,L=45 m	15	1
Overflow Ball Mill	MQY 4060	1500	1
Flotation Cells	CLF-8	30	2
Flotation Cells	CLF-8	22	9
Ceramic Filter	KS 30 sq.m	30	3
Thickener	NES-18 mØ	11	1

Source: Provided by Daye Metal

Table F7 Hubei Polymetallic Project – Smelting, Refinery and Ancillary Equipment List

Equipment	Specification	kW	Number
Material Preparation Plant			
Jaw Crusher	450×750 mm	N=50	1
Cone Crusher	KCJI-900 mm	N=40	1
Cone Crusher	KCJI-1200 mm	N=60	1
Coal Mill	2.2 mØ x 3.9m		2
Rotary Kiln	3.2 mØ x 20 m	N=160	2
Electrostatic Precipitator (ESP)	GD55-IV		1
Smelting Plant			
Noranda Furnace	4.7 mØ×18 m		1
Shaft Furnace (anode residual)	1.85 mØ		1
Atlas Fan	HA9-7		1
Thrower	B=500 mm		4
Stemmer	JOY		1
Tuyere Puncher	F-3095-1		1
Noranda Furnace Electrostatic Dust Collector	KWZ-RS50- ¼		2
Ausmelt Smelter	5.5 mØ x17.9 mm		1
Ausmelt Smelter Gun	24319 NTS		3
Settling Furnace	20 mØ x8 m	12000	1
Automatic Water Softening Device 1 set			
Automatic Water Softening Device 1 set	DHRE2-1.6 mØ x 1.6 m H:2400		2
Converter and Anode Furnaces			
Converter	3.6 mØ×8.8 m		2
Converter	4 mØ×11.7 m		3
Rotary Anode Furnace	3.6 mØ×8.1 m		1
Rotary Anode Furnace	3.92 mØ×9.2 m		2
Reflective Refining Furnace	120 t		2
Fan	FW6-2×39 No.24F	1000	2
Electrostatic Precipitator	LD120-4 -7 (72kV/1200 mA)		3
Anode Caster	11 mØ×20		1
Dual Anode Caster	Double 16		2
Electrowinning Plant			
Electrical Slots No.1-1 Plant	3200×1140×1200 mm		140
Electrical Slots No.1-2 Plant	3200×1140×1200 mm		196
Electrical Slots No.1-3 Plant	4000×1130×1270 mm		264
Electrical Seed Board System	4500×1140×1200 mm		86
Ti Plate Heater of No.1-1 Plant	PS-J 20 sq.m		3
Ti Plate Heater of No.1-2 Plant	P3-JHBB 20 sq.m		3
Seed Board Heater of No.1 Plant	P3-JHBB 20 sq.m		2

Equipment	Specification	kW	Number
No.2 Plant Small Board Electrolyser	5420×1170×1420 mm		336
No.2 Plant Large Board Electrolyser	5420×1410×1720 mm		596
No.2 Plant Seed Board Electrolyser	5420×1410×1720 mm		50
Plate Heat Exchanger	AK20-HGL 20 sq.m		3
Plate Heat Exchanger	BR0.6-0.6-75-175 sq.m		2
Seed Plate Heat Exchanger	BR0.3T-0.6-17-E		2
Plate Heat Exchanger	BR0.6-0.8-75-175 sq.m		1
Plate Heat Exchanger	S42-IS10 22 sq.m		3
Cathode Washer	CATHODE-400		1
Anode Washer	ANODE-250		1
Residual Polar Washer	400 sheet/h		1
Filter	LAROX LSF-E18/36-AV-2		2
Oxygen and Acid Plants			
Oxygen Plant	6,000 cu.m/h		2
Oxygen Plant	PSA 7,000 cu.m/h		1
Oxygen Plant	25,000 cu.m/h		1
Smelter Acid Process			
No.3 Acid Plant(modification)	Gas 270 k cu.m/h		1
No.4 Acid Plant	Gas 160 cu.m/h		1
Anode Slime Treatment Process			
Precious metal refinery	2700 t/a		1

Source: Provided by Daye Metal

**COMPETENT PERSON'S REPORT
ALEINUER MOLYBDENUM MINE PROJECT
CHINA RESERVOIR MINING LIMITED**
Sukhbaatar Province, Mongolia

Prepared For
**CHINA DAYE NON-FERROUS
METALS MINING LIMITED**

By
John T. Boyd Company
Mining and Geological Consultants
Pittsburgh, Pennsylvania



Report No. 3293.1
29 December 2011


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Mining and Geological Consultants

Chairman

James W. Boyd

29 December 2011

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Wan Bi Qi

Chairman

Vice President
Business Development

George Stepanovich, Jr.

Subject:

Competent Person's Report

Aleinuer Molybdenum Mine Project

China Reservoir Mining Limited

Sukhbaatar Province, Mongolia

Managing Director – Australia

Ian L. Alexander

Managing Director – China

Dehui (David) Zhong

Dear Sirs:

Assistant to the President

Mark P. Davic

This report is prepared for China Daye Non-Ferrous Metals Mining Limited (China Daye) to be included in the circular of China Daye in relation to its very substantial acquisition of Prosper Well Group Limited and presents John T. Boyd Company's (BOYD) geological assessment and molybdenum resource estimate for the planned Aleinuer Molybdenum Open Pit Mine located in Sukhbaatar Province, Mongolia. Based on exploratory drilling and other data provided to us for the existing mining rights area, we independently developed a computer based geologic model of the molybdenum-bearing ore underlying the Aleinuer Project area. Using this model, we then estimated the tonnage and grade of available molybdenum resources.

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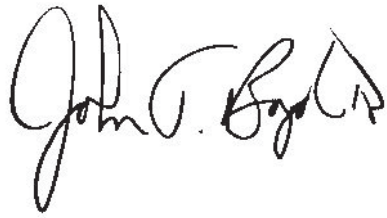
By assignment, our review is completed in accordance with Listing Rules 18 of the Stock Exchange of Hong Kong (SEHK). The resource tonnage estimates are prepared in accordance with the Australasian Code for Reporting of Mineral Resources and Ore Reserves (also known as the JORC Code) as published by the Joint Ore Reserves Committee of The Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia.

BOYD has relied upon available source data as provided by China Daye. The source data were evaluated in the context of our Mongolian and international experience.

Respectfully submitted,

JOHN T. BOYD COMPANY

By:

A handwritten signature in black ink, appearing to read "John T. Boyd II". The signature is fluid and cursive, with the first name "John" being the most prominent part.

John T. Boyd II

President and CEO

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LETTER OF TRANSMITTAL

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GLOSSARY AND DEFINITIONS

Aleinuer	Aleinuer Molybdenum Mine Project.
ANFO	An explosive made by mixing (diesel fuel) ammonium nitrate and fuel oil.
BOYD	John T. Boyd Company.
China Daye	China Daye Non-Ferrous Metals Mining Limited.
CINF	Changsha Engineering and Research Institute of Nonferrous Metallurgy.
CNRD	China National Resources Development Holdings Company Limited.
Commercial Output	Saleable product from a particular mine, which is expressed in tonnage of molybdenum product (concentrate).
CPR	Competent Person's Report
CRML	China Reservoir Mining Limited.
Deposit (Molybdenum)	Portion of the strata that contains Molybdenum ore in a distinct layer.
Dilution	Rock contamination, i.e., rock recovered with the Molybdenum deposit during the normal mining process.
Dip	Angle at which strata are inclined from the horizontal, measured perpendicular to the strike in the vertical direction.
Feasibility Study	By international standards assesses in detail the technical soundness and Economic Viability of an undeveloped mining project, and serves as the basis for the investment decision and as a bankable document for project financing. The study is based on a detailed mine plan and includes geological, engineering, environmental, legal and economic information concerning the project. Generally, a separate environmental impact assessment study is performed.
Fm	Formation.

FSR	Feasibility Study Report document produced from feasibility studies conducted by a Chinese design institute.
Geologic Report	Compiled by a Chinese exploration team or company after exploration activity is completed in a designated area. The report generally details geologic data, including location and geography, regional geology, mine geology, hydrology, engineering geology, environmental geology, resource/reserve tonnages, exploration status and resource assessment, etc. Supporting maps, cross sections and figures may also be contained in or attached to the report.
Indicated	Connotes a Mineral Resource with moderate degree of geologic assurance for which tonnage, densities, shape, physical, characteristics, quality and mineral content can be estimated with a reasonable level of confidence. It is based on exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes. The locations are too widely or inappropriately spaced to confirm geological and/or quality continuity for measured classification but are spaced closely enough for continuity to be assumed between points of measurement.
Inferred	Connotes a Mineral Resource for which tonnage, quality and mineral content can be estimated with a low level of confidence. It is inferred from geological evidence and assumed but not verified geological and/or quality continuity. It is based on information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes which may be limited or of uncertain quality and reliability, and that are beyond the specified depth and distance for indicated classification.
In-Place	The in situ ore tonnage before any adjustments for mining recovery, mining dilution and beneficiation are applied.
JORC	Joint Ore Reserves Committee of The Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia.
JORC Code	Australasian Code for Reporting of Mineral Resources and Ore Reserves.
km	Kilometre.

kt	One thousand tonnes.
kV	Kilovolt.
kW	Kilowatt.
m	Meter.
m ²	Square meter (also sq. m).
m ³	Cubic meter (also cu m).
Marketable Reserves	Saleable Molybdenum product from Recoverable Reserves after accounting for mining and processing losses.
Marketable Ore Reserves	Marketable Ore Reserves are the tonnages of ore, at specified grade, available for sale after beneficiation of Ore Reserves. Marketable Ore Reserves should be reported in terms of Probable Marketable Ore Reserves or Proved Marketable Ore Reserves.
Measured Mineral Resource	Connotes a Mineral Resource is that part of a Mineral Resource for which tonnage, densities, shape, physical characteristics, quality and mineral content can be estimated with a high level of confidence and highest degree of geologic assurance. It is based on detailed and reliable exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes. The locations are spaced closely enough to confirm geological and quality continuity.
MINCOM	Mincom Limited
Mine Plan	By international practice a study that delineates includes the current statement of the development and projected exploitation of a deposit during its economic life including mining plans. The study takes into consideration the quantity and quality of the minerals extracted during the reporting time, changes in Economic Viability categories due to changes in prices and costs, development of relevant technology, newly imposed environmental or other regulations, and data on exploration conducted concurrently with mining.

Mineral Resource	A Mineral Resource is a concentration or occurrence of material of intrinsic economic interest in or on the Earth's crust in such form, quality and quantity that there are reasonable prospects for eventual economic extraction. The location, quantity, quality, geological characteristics and continuity of Mineral Resource are known, estimated or interpreted from specific geological evidence and knowledge. Mineral Resources are sub-divided, in order of increasing geological confidence, into Inferred, Indicated and Measured categories.
MineScape	MineScape (Version 4.116) by Mincom Limited.
Mining Rights	The rights to mine mineral resources and obtain mineral products in areas where mining activities are licensed. The mining rights granted by the relevant authorities to conduct mining activities within the subject area, specifying mining elevations, mining method, annual output level specified, holder of record, area boundary coordinates and validity period
Mt	Million tonnes.
Mtpa	Million tonnes per annum.
Normal Fault	A fault where the hanging wall has dropped along the fault plane (fault angle between 45 and 90 degrees) relative to the footwall.
Ore	A naturally occurring solid material from which metals or valuable minerals can be extracted.
Ore Processing	The process through which physical or chemical properties such as density, surface reactivity, magnetism, and color are utilized to separate the useful components of ore from mined rock, and which are then concentrated or purified by means of flotation, magnetic selection, electric selection, physical selection, chemical selection, reselection and combined methods.
Operating Cost	All cash and non- cash costs directly associated with molybdenum production including, but not limited to, raw materials consumed, salary and wages, welfare, maintenance, power, etc., for mining and processing, transport of ore to the processing facility, general administrative expense, selling expenses, depreciation and amortization.

Ore Reserve	Ore Reserve is the economically mineable part of a Measured or Indicated Mineral resource. It includes diluting materials and allowances for losses which may occur when the material is mined. Appropriate assessments, which may include feasibility studies, have been carried out, and include consideration of the modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction could reasonably be justified. Ore Reserves are sub-divided in order of increasing confidence into Probable Ore Reserves and Proved Ore Reserves.
Outcrop	The part of the ore deposit exposed to the surface.
Overburden	Waste material overlying the ore deposit.
PRC	The People's Republic of China.
Prefeasibility Study	Provides a preliminary assessment of the Economic Viability of a deposit and forms the basis for justifying further investigations (detailed exploration and feasibility). It usually follows an exploration campaign and summarizes geological, engineering, environmental, legal and economic information concerning the project.
Probable Ore Reserve	The economically mineable part of an indicated, and in some circumstances, a Measured Mineral Resource. It includes diluting materials and allowances for losses which may occur when the material is mined. Appropriate assessments, which may include feasibility studies, have been carried out, and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction could reasonably be justified.
Processing Plant	Facility used to recover Molybdenum product from mined ore including removal of impurities operations.
Productivity	Measurements of worker efficiency usually expressed in terms of tonnes per unit of time, for example, tonnes per employee-year.

Proved Ore Reserve	The economically mineable part of a Measured Mineral Resource. It includes diluting materials and allowances for losses which may occur when the material is mined. Appropriate assessments, which may include feasibility studies, have been carried out, and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction could reasonably be justified.
ROM	Run-of-mine – the as-mined material during mining operations as it leaves the mine site (mined Molybdenum ore and dilution material).
SEHK	The Stock Exchange of Hong Kong.
Strike	The course or bearing of inclined strata projected onto a level surface; the direction of a horizontal line perpendicular to the dip.
Subcrop	Projected limit of mineral deposition where the outcrop is overlain by surface alluvial material (i.e., deposit outcrop is obscured).
Tonne	Metric ton equal to 1,000 kilogrammes.
tpa	Tonnes-per-annum
tpd	Tonnes-per-day
tph	Tonnes-per-hour.
Whittle	Whittle (Version 4.0) by Gemcom Software International, Inc.
Yield	Saleable portion of Molybdenum product recovered from the ore during processing.

1.0 INTRODUCTION

1.1 Background

Molybdenum, a major refractory metal, is widely used as an alloying element in steels and super alloys to improve their corrosion resistance, physical properties, and mechanical strength, particularly at elevated temperatures. Molybdenum occurs in nature as the mineral molybdenite (MoS_2 , or Molybdenum Sulfide) and is recovered by a flotation process as a primary concentrate at molybdenum mines and commonly as a byproduct concentrate at copper mines. The concentrate is roasted to a technical-grade molybdic oxide (tech oxide) in multiple-hearth roasters. About 80% of the tech oxide is sold as such, or after conversion to ferromolybdenum, for addition to iron and steel. The remainder is further refined to pure oxide and molybdate chemicals that are used in the manufacture of catalysts, specialty chemicals, molybdenum metal, lubricants, and super alloys. The current worldwide production and consumption of molybdenum is estimated at about 190,000 tons per year. Extensive deposits of the metal are located in the US, China, Chile, Canada, and Russia.

John T. Boyd Company (BOYD) was originally engaged in April 2007 and subsequently in May 2011, by China Daye Non-ferrous Metals Mining Limited (China Daye) to complete a Competent Person's Report (CPR) on the planned Aleinuer Molybdenum Mine Project (Aleinuer) complying with SEHK reporting rules (Chapter 18). The study area is located in Sukhbaatar Province, Mongolia, 70 km northeast of Baruun-Urt, the capital of the province.

Our understanding is that China Daye holds 51% equity interest in China Reservoir Mining Limited (CRML). CRML through its 55% subsidiary company Reservoir Moly Mongolia LLC (Reservoir Moly) holds the mining rights license of the Aleinuer Mine.

The Mining Right Certificate (No. 10889A) for the Aleinuer Project area was issued on 23 January 2007, by the Department of Geology and Mining Cadastre of the Minerals Affairs Agency of Government. Term of the certificate is 30 years to 15 January 2037. The license encompasses 227 hectares (2.27 km²) and specifies molybdenum mineral deposits.

A site visit to the Aleinuer property was conducted by a BOYD Beijing Office technical representative on 4 July 2011, which included historical drilling sites. It was observed during the site tour, that except for a few hydrologic drill holes to probe for both industrial and portable water, there have been no material changes to the Aleinuer Molybdenum Mine Project, including, but not limited to additional exploration, revisions to the mining license, and/or depletion due to mining since the BOYD 2007 report. The site remains in greenfield condition.

1.2 Scope of Work

This report provides BOYD's independent resource estimate for Aleinuer, and our associated review of the available mine plan to confirm potential economic viability of the estimated resources. Based on the exploration data available for the Aleinuer deposit (mining rights area) our study is limited to an estimate of Inferred Mineral Resource with commentary on Exploration Results (potential resource occurrence) outside the identified resource ore bodies. The scope of work for the CPR includes an independent assessment of:

- Identified ore bodies according to international (JORC) resource classification reliability standards and, where available drilling density and assay data for classification criteria for Measured, Indicated, and/or Inferred Mineral Resources.
- Economic parameters for defining pit shell limits using the available mine feasibility reports and BOYD's judgment in order to estimate resource tonnage and grade within the identified ore bodies using Whittle software.
- Proposed mine design, mining practices, and technology for general reasonableness.
- Projected capital and operating costs.
- Proposed processing plant design and related cost estimates.

To better opine on the potential economic mineability of the identified resources, BOYD has provided our resource tonnage conclusions at varying molybdenum market prices. It should be understood that, due to the Inferred Resource classification of estimated tonnages, international standards restrict any associated mine plans (designs and related economic estimates) to a "Conceptual" reliability.

Work shown in this report was prepared as of 1 July 2011.

1.3 Work Program

During the course of this study, two members of BOYD's Beijing office staff, namely Mr. Zhong Dehui on 6 to 9 June 2007 and Mr. Benjamin A. Quashie on 2 to 6 July 2011, visited the Aleinuer mining rights area and viewed the site. While the primary source of information (written and verbal) relied upon by BOYD in preparing this CPR was China Daye (as during our 2007 ITR report preparation and information gathered during our July 2011 site visit from China Daye representatives in Ulan Bator, Mongolia), the basis of our professional opinion is founded on the technical expertise and broad international experience of the contributing BOYD team members.

The findings and conclusions presented in this CPR are supported by the text, tables, and figures herein.

1.4 Source Data

The following primary source documents were provided to BOYD for our review and use in preparing this CPR:

- Comprehensive Report of Geological Exploration in Aleinuersike Copper-Molybdenum Deposit from 1969 to 1970 (Report by Hungary-Mongolia geological prospecting team in 1971).
- Supplementary Report on Mongolia Aleinuer Molybdenum Mine Reconnaissance Activity in 1971 (Report by Hungary-Mongolia geological prospecting team in 1972).
- Memo on Exploration Report Review Meeting (by Technology-Economy Planning Department and National Natural Resources Department of Mongolia on August 23, 1974).
- Mongolia Aleinuer Molybdenum Mine Feasibility Study Report (Report by CINF, China in October 2006).
- Independent Technical Review of Mongolia Aleinuer Molybdenum Mine (Report by CINF, China in March 2007).

- Valuation Report Considering the Market Value of a 100 Percent Security Interest in Aleinuer Molybdenum Mine (by Sallmanns (Far East) Ltd., April 2007).
- Mongolia Aleinuer Molybdenum Addendum Study Report (Report by CINF, China in February 2007).

China Daye also provided source data which were used to prepare this report/including drilling records for 78 bore holes (with assay data for 45 of these bore holes) located within the Aleinuer mining rights area.

1.5 Project Team

The BOYD project team has extensive professional experience in coal resource and mine and processing plant evaluations. Included in this team are:

Mr. Ronald L. Lewis – Chief Operating Officer and Managing Director, BS (Civil Engineering)

Mr. Lewis has over 40 years of experience in assessment and evaluation of mining companies with specialized expertise in the areas of coal/mineral reserve estimation, opencut, and underground mine analysis and economic assessment of mining operations. He is a Registered Professional Mining Engineer and a recognized expert in mining property valuation. Mr. Lewis is a Registered Member of the Society for Mining, Metallurgy, and Exploration, Inc., and is qualified as a Competent Person as defined in the Australasian Code for Reporting of Mineral Resources and Ore Reserves (JORC Code).

Mr. Zhong Dehui – General Manager, BS (Mining Engineering)

Mr. Zhong has over 40 years experience in the mining industry, primarily in coal mine design at the Beijing Coal Design and Research Institute. His last position was that of Chief Engineer.

Mr. James F. Kvitkovich – Vice President, BS (Mining Engineering)

Mr. Kvitkovich has 30 years experience in assessment and evaluation of mining operations throughout the world. He is a Registered Professional Engineer and is highly experienced with regard to both mining in China, and in reviewing and evaluating mining operations. Mr. Kvitkovich is a Registered Member of the Society for Mining, Metallurgy, and Exploration, Inc., and is a Competent Person as defined in the Australasian Code for Reporting Mineral Resources and Ore Reserves (JORC Code).

Mr. Robert Farmer – Director of Advanced Computer Services

Mr. Farmer has 18 years of experience with extensive computer training in geologic modeling, resource and reserve estimation, underground and surface mine design, production scheduling and financial modeling. He is a recognized expert in computerized geoscience modeling of coal, industrial minerals, base metals, and gold deposits and mines using MineScape, MineSight, Vulcan, Whittle, XPAC, and other software packages. A recognized expert in computerized geoscience modeling. Mr. Farmer has worked on molybdenum projects in the US, Canada, and China. He is a Licensed Professional Engineer and is a Registered Member of the Society for Mining, Metallurgy, and Exploration, Inc., and is a Competent Person as defined in the Australasian Code for Reporting Mineral Resources and Ore Reserves (JORC Code).

Mr. Ronald O. Harma – Executive Consultant – Metallurgy/Processing

Mr. Harma has more than 40 years of experience in mine and processing plant operations, research and development, and engineering. In addition to extensive experience in the US, Mr. Harma has worked on projects in Australia, Brazil, Ukraine, and Canada.

Mr. Benjamin A. Quashie – Senior Mining Engineer, MS (Mining Engineering)

Mr. Quashie has 17 years of diverse experience in ore resource (reserve) estimation, mine planning (open pit and underground) and mine operations. He has provided technical support services for metal mines in China and internationally and has considerable experience in openpit optimization and design. Mr. Quashie is a professional member of the Society for Mining, Metallurgy, and Exploration, Inc.

1.6 BOYD Qualifications

BOYD is one of the largest independent consulting firms in the world exclusively serving the mining, financial, utility, power and related industries. Consultancy services have been provided on a continuous basis since 1943 in over 50 countries.

Our full-time staff includes specialists in geology, resources/reserves, mine planning and costs, material handling, markets, business planning, transport, and environmental issues. Our full range of professional services includes:

- Resource and reserve studies
- Due diligence of mining operations
- Fuel and energy supply planning
- Permitting and environmental analysis
- Market and transport analyses
- Economic feasibility studies and valuations
- Assessment of existing operations
- Strategic business planning
- Transport issues
- Asset appraisals
- Minerals industry restructuring
- Privatization studies
- Geologic, reserve and mine plan modeling
- Exploration design and supervision
- Geotechnical studies
- Technical assistance in legal matters
- Monitoring of operating companies
- Financial analysis

BOYD also possesses extensive computer and software systems to estimate resources and reserves and to complete mine plans. These include Vulcan, MINCOM, SurvCADD, and others.

Our headquarters office is located in the Pittsburgh, Pennsylvania, region in the US. Branch offices are established in Denver, Colorado (US); Brisbane, Australia; and Beijing, China. Our web site: www.jtboyd.com has additional details.

We have extensive experience in preparing Competent Person's and Independent Technical Reports for international financing purposes and for stock exchange filings. We are knowledgeable of listing requirements of The Stock Exchange of Hong Kong, London Stock Exchange, and NI43-101 (Canadian Requirements), JORC Code, US Securities and Exchange Rules, etc.

We also prepared CPRs for MP Logistics International Holdings Limited (Ming Kei Energy Holdings Limited) for a transaction involving two openpit mines in Xinjiang Uygur Autonomous Region, for Fushan International Energy Group Limited's acquisition of Fortune Dragon Group Limited mines in Shanxi Province, for Artfield Group Limited's very substantial acquisition SEHK filing for the Ming Kei Energy Holdings Limited openpit mines in Xinjiang Uygur Autonomous Region, and for GCL-Poly Energy Holdings Limited's acquisition of the Duolun Mine in the Inner Mongolia Autonomous Region.

Our Chinese non-coal projects include the CPR for the Lumena Resources Corporation IPO on the SEHK.

We represented Shenhua Group Corporation as their Technical Advisor for the successful China Shenhua Energy Company Limited (China Shenhua) IPO on the SEHK. Our work included an analysis of reserves (JORC, SEC, and UN Reporting Standards), coal quality, mine operations, processing, material handling and rail and ocean transport facilities, and economics. Shenhua Group Corporation's reserve holdings were evaluated according to JORC Code and SEHK Rule 18 requirements. We subsequently prepared four resource studies for China Shenhua for SEHK filings.

BOYD is a recognized consultancy having worldwide stature. We were retained by Her Majesty's Government, Department of Trade and Industry regarding the privatization of British Coal Corporation and actively involved with N M Rothschild, the lead financial advisor, during the course of this project. Our work assisted in the restructuring of the industry. We have completed over 2,000 resource and reserve audits. BOYD's reserve statements have been used by client companies for SEC filings.

1.7 Statement of Interests

BOYD is a privately owned consultancy firm with headquarters in the US. Our company was selected for this assignment on the basis of our internationally- recognized expertise in exploration, resource/reserve studies, mine development, and valuation. BOYD has no ownership interest in the Aleinuer Project nor China Daye. Payment for our services is not contingent upon our opinions regarding the merits of the project or approval of our work by China Daye. BOYD completed this work in accordance with US and international standards of ethics and professional practices.

1.8 Forward-Looking Statements

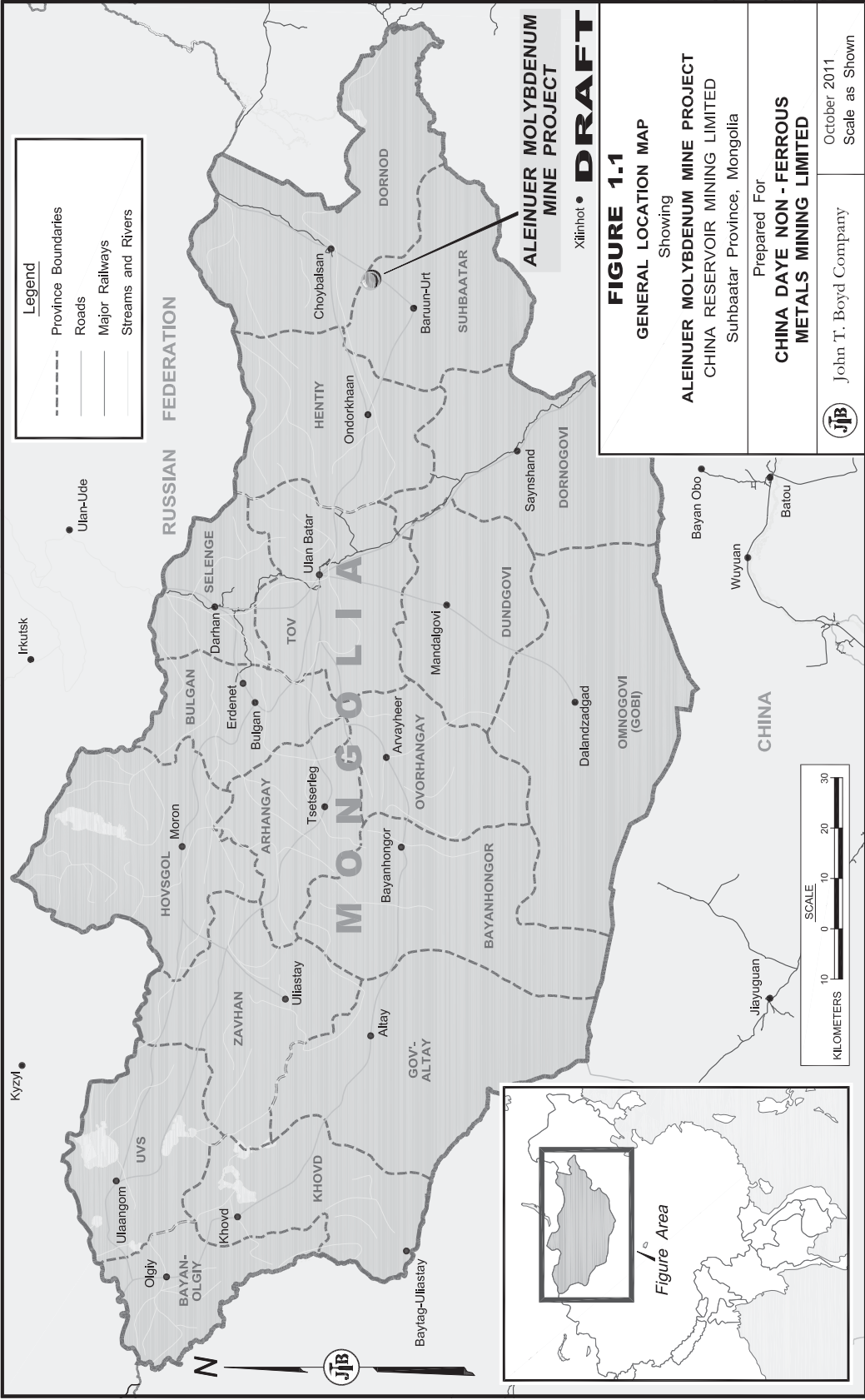
Estimates of molybdenum resources, as well as projections of future mining, are inherently forward-looking statements. By definition, Inferred Resources are speculative in nature. Actual performance may differ from projections of future performance due to various reasons beyond the control of BOYD, including, but not limited to, inherent uncertainties in geologic data interpretation, occurrence of unforeseen geological conditions, change or lack of development in key domestic and international markets, material changes in molybdenum market prices, variances in execution of construction and mine plans, and significant changes in projected materials, supplies, parts and equipment, operating costs, and expenditures. Imposition of different central, regional and/or local government policies could effect future metals production. For example, increased environmental compliance and changes in regulatory oversight for health and safety could result in reduced output and increased costs. Comments on the risks inherent in Aleinuer operations are discussed in the appropriate sections.

1.9 Closing

In preparing this report, we have relied on resource, operating, and other data as provided by China Daye. We have exercised reasonable care in reviewing the information provided. We have no reason to believe that any material facts have been withheld, or that a more detailed analysis may reveal additional material information. Our CPR has been completed in accordance with generally accepted standards and practices employed in the international mining industry. Although we have compared key information provided by China Daye with expected values, the accuracy of the results and conclusions of this report are reliant on the accuracy of the information provided. We are not responsible for any material errors or omissions in the information provided.

The findings and conclusions presented in this report represent the independent professional opinion of BOYD based on our review of available project information. We have made no attempt to verify the technical and geological information presented in the reference material documents and assume it has been prepared by competent engineers and geologists. Our expertise is in technical and financial mining issues and BOYD is not qualified to opine on, nor do we represent that any of our findings include, matters of a legal or accounting nature. BOYD's independent analyses of the available data have been developed in a manner consistent with industry standards and engineering practices. We believe that our conclusions are reasonable assessments of the information provided.

The ability of China Daye, or any mine operator, to achieve the projections contained in this report is dependent on numerous factors that are beyond the control of, and cannot be anticipated by, BOYD. These factors include mining and geologic conditions, the capabilities of management and employees, the securing of required approvals and permits in a timely manner, etc. Unforeseen changes in regulations could also impact performance. Although we believe all findings and conclusions to be reasonable, we do not warrant this report in any manner, express or implied.



While this report addresses technical (e.g., resource, mining, etc.) and conceptual level financial (operating costs, capital costs, revenues, etc.) issues, qualified legal expertise is required to verify existing exploration and mining rights to the various areas.

Following this page is Figure 1.1, General Location Map.

Respectfully submitted,

JOHN T. BOYD COMPANY

By:

Benjamin Atsu Quashie
Senior Mining Engineer

Robert J. Farmer
Director of Advanced Computer Services

James F. Kvitkovich
Vice President

David Zhong
General Manager – China

Ronald L. Lewis
*Chief Operating Officer and
Managing Director*

2.0 SUMMARY

2.1 Introduction

The Aleinuer Molybdenum Mine Project is an undeveloped mineral deposit located in Sukhbaatar Province, western Mongolia. A valid Mining Right Certificate is held by China Daye. Available exploration was completed in 1969-1970, with a geological report issued in 1971 and mine feasibility reports in 2006 and 2007.

2.2 Conclusion

BOYD has conducted a conceptual mining evaluation using our geologic model of the Inferred Mineral Resources in Area 1 of the deposit to determine if the investment in the additional exploration required to prepare mine feasibility studies is warranted. This evaluation, while based on reasonable assumptions, relies on limited geologic and engineering data and is not intended to be used for detailed project analysis.

BOYD has prepared resource estimates for the Aleinuer deposit using the JORC Code.

Based on our independent geologic model of the Aleinuer deposit, BOYD concludes:

1. The estimated Inferred Mineral Resource tonnage available within ultimate pits limits as of 1 July 2011 at selected selling prices is shown in the following table:

Concentrate* Selling Price (\$/t)	Market Price (\$/lb Mo)	Cut-off (% Mo)	Mineralization (t-000)	Average Grade (% Mo)	Contained Metal (t Mo)	Waste (t-000)	Stripping Ratio (t/t)
8,500	10.00	0.097	78	0.210	200	551	7.10
11,100	12.50	0.074	2,553	0.110	2,900	7,640	2.99
13,800	15.00	0.060	10,039	0.090	8,900	20,413	2.03
16,400	17.50	0.050	20,278	0.080	15,400	34,906	1.72
19,000	20.00	0.043	31,454	0.070	21,300	46,669	1.48
21,700	22.50	0.038	38,772	0.060	24,500	52,721	1.36
24,300	25.00	0.034	49,610	0.060	29,500	80,065	1.61
27,000	27.50	0.030	55,075	0.060	31,500	86,344	1.57
29,600	30.00	0.028	59,132	0.060	32,800	88,893	1.50
32,300	32.50	0.025	62,777	0.050	33,900	94,429	1.50
34,900	35.00	0.023	65,804	0.050	34,800	97,546	1.48
37,600	37.50	0.022	69,478	0.050	35,800	104,606	1.51
40,200	40.00	0.020	71,904	0.050	36,400	110,160	1.53

* 48% molybdenum contained in MoS₂.

At a long term Mo price of \$15.00 per pound, we estimate inferred molybdenum mineral resources of 10 million tonnes.

The resource estimates prepared in this evaluation reflect an in situ tonnage and grade based on nominal block selectivity of 12-m x 12 m x 6 m. There have not been any allowance incorporated in the estimates for better (higher) selectivity, losses or dilution due to the mining process.

2. BOYD believes further investment in exploration, reserve, and mine feasibility studies is warranted if the investor accepts future molybdenum prices will remain above US\$15.00 /lb of Mo.
3. Available Exploration Results (i.e., additional drilling outside the defined Inferred Mineral Resource area orebody) identifies additional occurrences of mineralization and the potential that future drilling could expand the presently estimated resources.

We do caution the reader that Inferred Mineral Resources (and Exploration Results) are inherently speculative. Further exploration is needed to confirm present conclusions and findings, to increase the reliability of estimated tonnages to a Reserve status, and to provide a well-documented scientific basis for a mine and processing feasibility study.

2.3 Supplemental Findings

2.3.1 Available Exploration

Exploration Drilling is Limited

- There are a total of 78 boreholes in the general area.
- Forty-five of the 78 boreholes have assays.
- Three areas of mineralization (Areas 0, 1, and 2) have been identified in previous studies.
- Twelve boreholes on approximate 100 m x 200 m centers define the main mineralized zone (Area 1).
- Two boreholes on 200 m centers define mineralization in Area 0.
- Four boreholes on 200 m centers define mineralization in Area 2.
- Data from general exploration and charting boreholes were not available.

2.3.2 Geology

Mineralization is Highly Variable

- Mineralization occurs within various rock types and cannot be correlated to a distinct host rock.
- Within individual boreholes mineral grade is highly variable with major variations between sample intervals (1 to 3 m).
- Correlation of mineralized zones between holes is difficult with major variations occurring between holes.

2.3.3 Resource Classification

Due to the high degree of variability in the mineralization and the borehole spacing, the resources in the main mineralized zone (Area 1) are classified as Inferred Mineral Resources. The occurrence of mineralized strata in Areas 0 and 2 are very poorly defined (in only two dimensions), and therefore under the JORC Code can only be reported as Exploration Results.

- Typical borehole spacing distances used to define Measured, Indicated, and Inferred resources for molybdenum deposits in the US, Canada and South America vary according to the geologic variability of the deposit and are usually determined by a geostatistical analysis. The range of distances typically used are as follows:

Measured	=	15 m to 125 m
Indicated	=	80 m to 160 m
Inferred	=	>80 m to >160 m

- BOYD has conducted a geostatistical analysis of the borehole data to determine the appropriate classification parameters for the resources. The results of this analysis shows that meaningful classification distances cannot be determined from the available data due to the variability of the mineralization and the limited number of samples. This analysis clearly demonstrates that none of the resources can be classified as measured and/or indicated, and should be either classified as Inferred Resources or presented as the reporting of exploration results.

2.3.4 Resource Estimation

In order to evaluate the deposit BOYD independently developed a computer geologic block model using the available drill hole data and geologic modeling and mine planning software. Once the model was developed cross sections and the 3D areas of mineralization were compared to areas defined in previous studies. Findings from these comparisons are:

- A visual comparison of the overall mineralized area of the deposit, as defined by the boreholes, shows good agreement between the BOYD, CINF, and other studies. This clearly shows that all studies of the deposit have used the same source exploration data, and that differences in resource estimates of the deposit are due to differing methods of interpolation, extrapolation and compositing of the borehole assays.
- A check comparison of in situ Mo mineralization above 0.06% in Area 1 shows:
 - a. BOYD – 24,600 tonnes
 - b. CINF – 23,600 tonnes

While these values appear to show good agreement, the areas of mineralization in the BOYD computer model and CINF manual representation differ substantially due to averaging of the borehole assays.

- A check comparison of in-situ mineralization applying a 0.06% Mo grade cutoff within CINF's defined pit shell for Area 1 is:
 - a. BOYD – 12,500 tonnes
 - b. CINF – 18,500 tonnes

This reduction of 32% is due to CINF's averaging of data within the boreholes. In the BOYD model, block dimensions of 12m x 12m x 6 m were used to define the mineralized zones. In determining mineralization greater than 0.06% Mo, only individual blocks equal to or greater than 0.06% were considered. In the CINF evaluation larger areas were used that averaged greater than 0.06%Mo, but included smaller areas that were below the 0.06% limit.

- The historical estimates and check comparisons do not meet the criteria of a Mineral Resource under JORC Code, and BOYD is unable to classify the historical and check estimates as current mineral resources or mineral reserves.

- Due to the insufficient amount of exploration data, BOYD has not prepared estimates of resource outside of Area 1. Areas that may contain significant additional mineral resources upon completion of further exploration are:
 - a. Area 2 is adjacent to, and immediately west of, Area 1, and is defined by a line of four boreholes.
 - b. The western limit of Area 1 is defined by a limit of data extrapolation. If mineralization continues downdip Area 1 could be expanded (and potentially could merge into Area 2).
 - c. Area 0 and other areas to the west of Area 1 are defined by one or two holes.

2.3.5 Conceptual Mining Evaluation

The resources in the Aleinuer deposit are classified as Inferred Mineral Resources. In the JORC Code it is stated that “Confidence in the estimate of Inferred Mineral Resources is usually not sufficient to allow the results of the application of technical and economic parameters to be used for detailed planning. For this reason there is no direct link from a Inferred Resource and any category of Ore Reserves.” It is also stated that “Caution should be exercised if this category is used in Technical and economic studies.”

BOYD has reviewed available mine feasibility studies, but recognizes such studies can only be used to develop a conceptual mining evaluation for Area 1 of the deposit. These conceptual economic parameters are used in conjunction with our geologic model to evaluate if the investment in the additional exploration, required to prepare mine feasibility studies, is warranted. This evaluation is based on limited geologic and engineering data, and is not intended to be used for detailed project analysis.

BOYD developed preliminary pit limits for Area 1 using the Whittle Four-X Analyser package's pit slope modeling and Lerchs-Grossmann pit optimization algorithms. The operating costs used for these analyses were derived from the CINF October 2006 Feasibility Study and February 2007 Addendum reports with economic inputs updated to July 2011. Projected costs per production unit used in the preliminary pit optimization analyses are shown below.

Unit Costs (US\$)	
Mining	1.66 /t mined (ore and waste)
Ore Processing	10.97 /t processed
G & A	1.33 /t processed
Shipping	36.00 /t shipped

Operating costs used in the pit optimizations are cash costs. Depreciation, depletion and amortization are not included, nor are any other non-cash items. Potential mineral royalties or fees are also excluded.

2.3.6 Processing

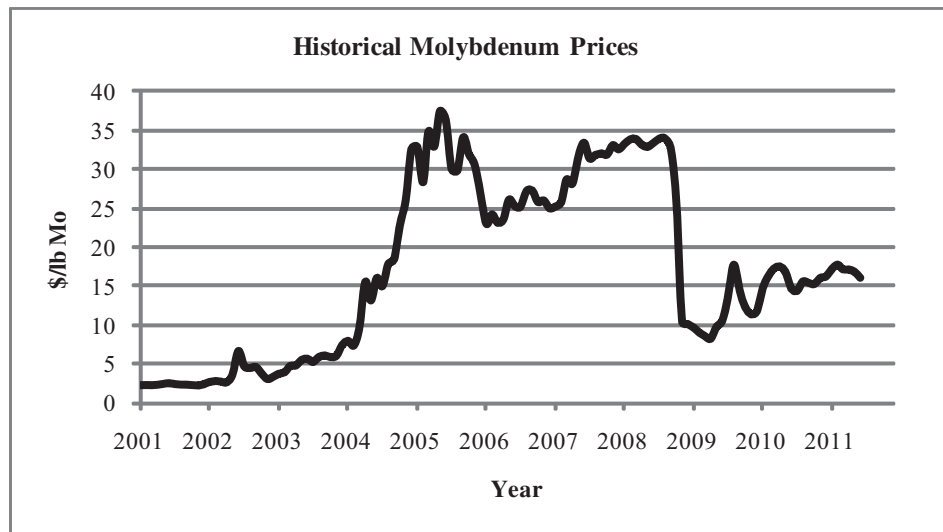
Available processing studies are based on general experience and practices (technology) used at other PRC molybdenum operations. It is BOYD's opinion(s) that:

- Available processing assumptions are speculative.
- The Aleinuer deposit appears to be variable in both mineralogy and grade both between, and within, identified areas of mineralization. Testing is required to reliably define ore grade, and to understand the impact this variability will have on the operation of the plant process.
- Reference in the geological and mineralogical descriptions of the deposit indicates that clay, mud and/or fines may be present. Further testing is necessary to determine the processing techniques required to reject these materials prior to the flotation process. Alternatively these materials may be identified and removed from the ore at the mining faces.
- While the proposed plant flowsheet and proposed technology represent standard, conventional practice, it is unknown if the proposed processing plan is the best selection for concentrating the Mo and Cu from the Aleinuer deposit.

2.3.7 Molybdenum Market Pricing

The average spot price for molybdenum for calendar year 2010 was over US\$15.00/lb (of molybdenum contained in MoO₃) and current spot price is approximately US\$15.00. Typical roasting charges range from US\$0.75 to US\$3.00/lb of molybdenum. In our evaluation we have assumed a roasting charge of US\$2.00/lb. Predicting molybdenum market pricing beyond a few years becomes problematic due to changes in world economics, technology, and changes in the political and environmental factors affecting the mineral producing industry. Based on this evaluation, BOYD believes further investment in exploration, reserve and mine feasibility studies is warranted if the investor accepts future molybdenum prices will remain at or above US\$15.00/lb of Mo.

The following chart shows average yearly molybdenum prices from 2001 to present:



2.4 Risk Assessment

BOYD independently assessed the Aleinuer Project as follows:

High Risk

- Although overall assessment of the geologic setting of the Aleinuer area is deemed simple to moderate (i.e., not geologically complex), current exploration efforts are categorized as being at the prospecting level. Additional drilling is required to confirm and delineate the molybdenum resources.
- Mining projections are based on Inferred Resources, which are not adequate for project economic analysis.
- Ore processing assumptions are speculative owing to lack of test data concerning the appropriate methods for producing the molybdenum concentrate and addressing issues such as clays and other materials that may adversely impact the processing circuitry.
- Although the Aleinuer Mine is located in a metalliferous mining region where general conditions are known, remoteness of the mine site could impact staffing and recruiting needs.

- Molybdenum prices have exhibited considerable volatility over the past seven years and have recently stabilized at a level significantly below the high prices observed over the period.

Medium Risk

- A Feasibility Study based on Measured and/or Indicated resources has not been completed.
- Environmental impact assessment report has not been completed.
- Except for routine production risks, BOYD has not identified any extraordinary operational risk issues relative to the projected operation of the Aleinuer Mine.
- While not anticipated, naturally occurring events such as flooding due to excessive rainfall or an earthquake could occur, but their impact would be regional in extent (i.e., not unique to Aleinuer). Recognizing that open pit mining methods are utilized, the impacts of naturally occurring events are likely to be minor.

BOYD's risk assessment for Aleinuer is summarized as follows:

Hazard/Risk Issue	Risk Assessment		
	Severity	Probability	Overall
Geologic Overall (General)	Minor to High	Possible to Likely	Medium to High
Unforeseen Anomalies	Minor	Unlikely to Possible	Medium
Naturally Occurring Events (Weather)	Minor to Moderate	Unlikely to Possible	Low
Earthquakes	Minor to Moderate	Unlikely to Possible	Low
Routine Operational Risks (Mining)	Minor to Moderate	Likely	Low
Routine Operational Risks (Processing)	Minor to Moderate	Possible to Likely	Moderate
Compliance to Existing Regulations	Minor to Major	Possible	Low to Medium
Marketing (Commercial)	Moderate to Major	Likely	High

3.0 GEOLOGY AND RESOURCES

3.1 Site Description

3.1.1 Location

The Aleinuer deposit is located in the Southern Mongolian plains characterized by hilly terrain with gentle slopes. Surface elevations range from 920 m to 1,094 m above sea level. Local relief is up to 174 m in the mountainous area. The major high lands are up to 1,094 m in elevation. The area is dominated by dry valleys. The surface is covered by unconsolidated sediments. There are thick soil horizons and sandy clay (0.2-0.4 m) in the valleys. There is little tree cover in the area. However, the area is rich with common herbs and grasses making the land useful for grazing.

Daerhan County, 65 km to the south, and Baluntewuerte city, 95 km to the southwest are the nearest permanent residential areas. The former base camp used during geological prospecting was in the southern part of the exploration work area at an elevation of approximately 1,025 m. The main road from Qiaobashan to Baluntewuerte is 25 km to the east. There is currently no railway or highway in proximity to the Aleinuer mining right area. The nearest railway is the branch line from Chita to Qiaobashan, where a station is located 115 km to the north. Other railroad connections include the Saiyinshanda Railway Station 400 km to the west, with the port at Dongwuqi, China located 318 km to the East. The site is 530 km from Ulan Bator, the capital of Mongolia.

3.1.2 Regional Economy

Total population within Sukhbaatar Province is approximately 60,000. The population of Xiwuerte City is approximately 10,000. The most prominent occupation within the local area is herding of livestock and farming. Livestock typically consists of sheep, goats, cattle, horses, and Bactrian camels. Agricultural crops include wheat, barley, vegetables, and other forage crops. There are very few industrial enterprises in the area except for one concrete prefabrication plant and the Aobao zinc mine, which is a China and Mongolia joint venture. Herdsmen apparently frequent the area. The population density of pastoral area around the proposed mine site is approximately 3 persons/10 km².

3.2 Climate

The natural drainage system is not well developed around the site. During the summer rainy season, all of the larger valleys (Shawaerrikagelante) become swamp-land. There are also many brine lakes in this area, which sometimes overflow during the rainy season. Usually, the water is not deep, and the discharge is minimal.

The climate is dry and classified as an infrequent continental climate. There are often great temperature fluctuations from day to night in different seasons. January is the coldest month where the temperature can fall to -40°C. In July, the hottest month, the temperature can rise to +40°C.

The mean annual precipitation is 200 mm to 300 mm. Most of the rainfall (70% to 85%) occurs as cloudbursts from July to August. Snowfall can occur from the end of September through the middle of April. The prevailing wind direction is from the Northwest. The annual average wind speed is 2 to 7m/s, with maximum wind speeds on the magnitude of 35m/s.

3.3 Molybdenum Resources

3.3.1 *Geologic Setting*

The site is located on a large-scale exposure area of granite over an aerial extent of about 540 km². There are some exposures of stratum belonging to the Cretaceous Era. The Aleinuer deposit is located in the center of the north granite area. The granite in this area shows alteration due to metasomatism with effects such as silicification and greisen lithification. In addition to granite, there is evidence of subvolcanic rock bodies (porphyries).

Exposed granite in the area consists of two types: 1) granite of the Permian-Triassic Periods on the north side of the property (light dust color and light grey rose color), and 2) medium grained biotite granite of the Jurassic Period on south side (russet brown and yellow grey color). The contact belt between the two types of granites is close to east-west. This contact belt is often interrupted by tectogenetic movement. There is often newer biotite plagiogranite visually intruding into the contact together with lithification of greisen.

The main structure in the area is a fault which is oriented approximately 250 degrees through the central mineralized area (Area 1). This normal fault dips at approximately 80 degrees to the northeast, and has a throw of about 100 m. Several smaller faults are also identified, which trend close to north-south and intersect the area. The throw for these secondary faults is estimated to be 20 m to 30 m; however, insufficient data are available to ascertain accurate measures. Some of the faults are filled with mineralized veins while some are filled by dike rock (quartz vein, granite porphyry, granite aplite, lamprophyre, and quartz porphyry). Interpretations indicate several of the smaller faults to be reverse faults.

3.3.2 Site Exploration History

A Hungary-Mongolia-Russia geological prospecting team carried out the primary exploration work on the Aleinuer molybdenum-copper deposit from 1969 to 1970.

The primary objective of this work was to, delineate molybdenum and copper resources and study the processing characteristics, and hydrogeologic conditions in the area to determine the availability of water resources. The work was intended to detail the mineral geographic map to a proportional scale of 1:2,000.

The tasks performed during this period included:

1. Exploration designed to: (1) define the geological structure, (2) assess the regional prospect, (3) investigate mineralization extent, delineation, and value, (4) investigate processing characteristics and mineral components, and (5) estimate the mineral resource quantities present.
2. A general investigation and survey with a proportional scale of 1:50,000 on the 350 km² area with the goal of: (1) delineating enough molybdenum mineralization to support future exploration work, (2) revealing the regional mineralization regularity of molybdenum, and (3) improving definition of the overall geological structure and regional prospects.

The exploration work performed in 1969-1970 includes six lines of boreholes on a line spacing of 200 m with boreholes on approximately 100 m centers along each line. Surface trenching delineated the surface extents of the mineralization. The mineralization trends at an azimuth of 350 degrees, and dips to the east at 40 to 45 degrees. The strike length of the mineralization is about 700 m with a width of about 300 m on the surface. Mineralization is apparently truncated to the north by the main fault (no boreholes were deeper than 206 m to the north of the fault). Based on current borehole data, the main area of mineralization apparently disseminates to the west and south. Mineralization down-dip to the east is unexplored as holes in the area do not appear to be drilled deep enough to intersect the projected mineralized trend.

The total of 8,349 m of drilling was completed in 1969 and 1970. See Table 3.1, following this text, for a summary of tasks planned and completed.

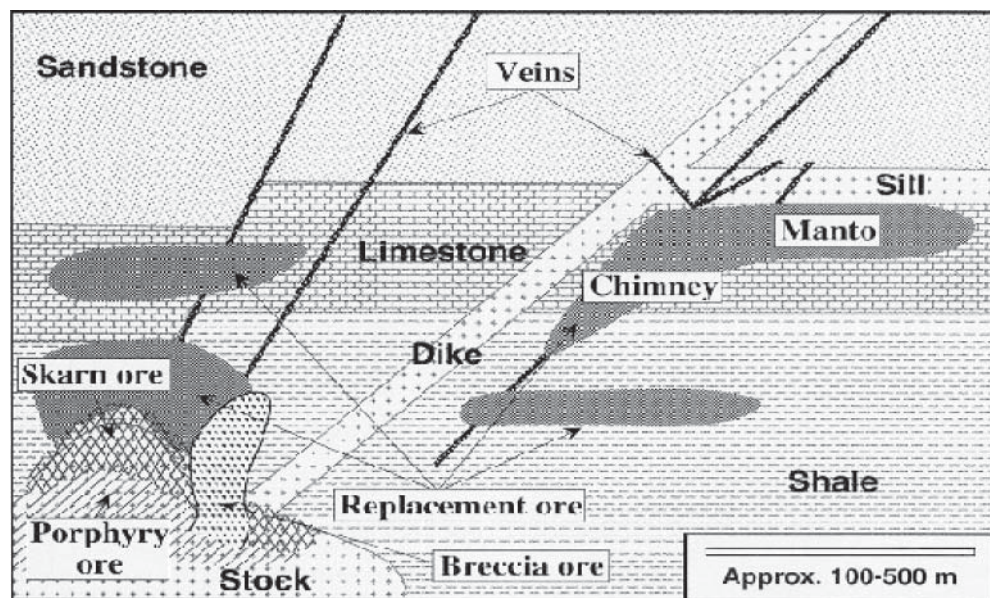
3.3.3 General Deposit Characteristics

The exploration data from the 45 boreholes with assays have identified several separate areas of mineralization underlying the property. Three areas of mineralization have been identified in previous studies as Areas 0, 1, and 2. Area 1 is the main area of mineralization and is defined by (12) boreholes. Area 0 is located northeast of No. 1 and is only defined by two boreholes. Area 2 is west of Area 1 and is defined by four boreholes.

The Aleinuer deposit has been classified as a Molybdenum Skarn (Mongolia Aleinuer Moly Mine Feasibility Study Report, CINF Non-Ferrous Metallurgy Design and Research Institute, October 2006). Published references¹ describe a typical skarn deposit as follows:

- Skarn and polymetallic carbonate-replacement deposits form by reaction of hydrothermal fluids (>250°C) generated in high-temperature igneous (e.g., porphyry) environments with carbonate-bearing country rocks. These fluids can be of low to high salinity and may contain CO₂ and other gaseous components. In contrast, the platform-carbonate deposits described in part I form by the interaction of low to moderate temperature (generally <200°C), high salinity (10-30 equivalent weight percent NaCl) basinal brines or meteoric waters with carbonatebearing sequences. The resulting ore and gangue mineralogies of these two deposit types reflect the ability of the two distinct fluid types to leach metals from the original source rocks and transport them to the depositional sites.

- The Aleinuer deposit reflects such characteristics with multiple phases of mineralization which include carbonate replacement, disseminated porphyry, breccia infilling, and hydrothermal vein deposition environments. This makes the deposit non-homogenous and difficult to interpret given current borehole density since large changes in mineralization can occur over short distances. This variability is seen in the borehole data, and there are major variations of mineral grade vertically within the boreholes with 1 to 3 m sample intervals. This high degree of variability is also seen in the mineralized zone between boreholes. A generalized outline of a typical skarn deposit follows:



Generalized conceptual model for the geologic setting of high-temperature, carbonate-hosted and related deposits associated with igneous intrusions. (From Plumlee and others, 1999, figure 19.18)

¹ *Environmental Geochemistry of Skarn and Polymetallic Carbonate-Replacement Deposit Models, United States Geological Survey, by Jane M. Hammarstrom with contributions from Brad Van Gosen and Bob Eppinger.*

3.3.4 Mineralization Characteristics

The main metallic minerals are: molybdenite, pyrite, chalcopyrite, magnetite, ilmenite, hematite, cassiterite and wolframite. It should be noted also that in the three mass spectrum analyses that were performed, low concentrations of tungsten were indicated. Tungsten is often associated with molybdenum in such skarn deposits.

The main gangue (waste rock) minerals are quartz, feldspar and mica.

The upper type of mineralized rock mainly consists of quartz muscovite and quartz veins. Molybdenite is deposited in quartz veins in symbiosis with mica. The lower type is sulfide mineralization mainly in greisen and reportedly accounts for 95% of mineralized tonnage.

The upper 15 to 20 m of the deposit is oxidized, and as such is not included in resource estimates even though significant concentrations of Molybdenum are present within this layer. As stated in previous reports, this oxidization facies change was not well defined since appropriate analyses were not performed.

3.4 Mineral Resource Estimate

While the Aleinuer Deposit has been the subject of several mineral resource estimates, the mineral resource estimate presented in this report was independently prepared by BOYD and is based on a 3-dimensional, computerized resource model developed with MineScape and Whittle software. These software packages are widely recognized as industry standard tools for geologic modeling and mine planning.

3.4.1 Database

A total of 78 borehole logs produced by the Mongolian-Russian exploration team from their work performed in 1969-1970 were provided, 43 of which intersected mineralization that was assayed. Other data from general exploration and charting boreholes were not available, however our model of the mineralization shows good agreement with previous studies and it appears that these holes were not used to define the mineralization.

As the initial step in building the geologic model, BOYD prepared an electronic file of the assay sample information. This sample data was then loaded into a MineScape database that was used for the mineral resource estimate.

The MineScape database is composed of 45 boreholes and 2,432 samples (for both molybdenum and copper), representing almost 3,500 m of drilling. Downhole deviation data were not provided and therefore, all boreholes were treated as vertical.

3.4.2 Geologic Model

The geologic model that BOYD developed for the Aleinuer deposit comprises of 3-dimensional wireframe geometries of selected geologic features and a 3-dimensional block model created in MineScape.

The block model is composed of 12 m (x-easting) by 12m (y-northing) by 6m (z-elevation) parent blocks which are further subdivided into 6m x 6m x 6m blocks where warranted. The block model encompasses all of the provided boreholes so that all potential mineralized zones could be evaluated.

Four areas were modeled with wireframe geometries and subsequently assigned to the block model: (1) The main area of mineralization, Area 1, 2) the oxidation zone in order to exclude the oxidized mineralization on the property, (3) the barren zone north of the main fault, and (4) Area 2 in order to exclude this poorly defined area from resource estimates. These areas were interpreted using the borehole logs, sample data and cross-sections provided from previous studies of the deposit.

The topography (surface elevation) was modeled from the digitized contours provided by the client and was also incorporated in the model.

3.4.3 Analyses of Sample Data

BOYD performed several statistical and geostatistical analyses of the sample data in order to evaluate the deposit, develop strategies for grade interpolation, and determine appropriate parameters for the classification of the mineral resource estimates. However, the results of geostatistical analyses of the borehole assay data were inconclusive. This is due to the limited and widely spaced sample data, the non-homogeneous characteristics of the deposit and a very high degree of short-range variability within the sample set.

3.4.4 Grade Interpolation

The Inverse Distance Squared (IDS) interpolation method was used for resource estimation of Mo and Cu grades. While it is preferable to use the Kriging interpolation method for deposits of this type, BOYD was unable to determine suitable parameters for the use of this interpolation method due to the high degree of variability of mineralization in the deposit. The IDS interpolation method will produce acceptable and unbiased grade estimates and is commonly used in situations where Kriging can not be applied. For comparison and validation purposes, the Nearest-Neighbor interpolator was used to estimate Mo and Cu grades as well. Grade estimates for the IDS and Nearest Neighbor interpolation methods were consistent with each other and did not show any significant discrepancies between each other. BOYD is confident that the IDS-derived resource estimate represents the deposit as accurately as the sample data provided warrants.

Based largely on the supplied sample data and the work of previous geologic studies of the deposit, a search ellipsoid with the dimensions of 150 m (major axis) x 100 m (semi-major axis) x 5 m (minor axis) was used to select samples used to interpolate block grades. This ellipsoid was oriented such that the major axis had an azimuth of 350 degrees, dipping 40 degrees to the east.

Visual comparison of the BOYD resource model, with cross-sections provided by the Russian and Chinese studies, show good agreement and indicate a similar delineation of the mineralized regions within the deposit.

3.4.5 Density

The density used for all rock (mineralized and non-mineralized) volumes was 2.57 g/cm³. This value represents the arithmetic mean of six samples and was provided by the Mongolian Geologic Report.

3.4.6 Classification

In reporting resources for the valuation of mining properties, most international classification systems require two major factors to be considered, namely:

- Geologic assurance of existence.
- Economic viability.

All systems require that the degree of geological assurance of the subject mineralized occurrence and definition be separated into various categories based on the spacing of points of observation (boreholes, mine measurements, and outcrop measurements).

Economic viability of resources is usually reported in economic and subeconomic categories.

The terms Resource and Reserve are commonly used in the reporting of mineralized tonnage, but the usage or definition supplied to these terms can vary between parties.

BOYD has prepared resource estimates for the Aleinuer deposit using the JORC Code. The resource and reserve definitions stated in the JORC Code are contained in the Glossary of this report.

Typical borehole spacing distances used to define Measured, Indicated, and Inferred resources for molybdenum deposits in the US, Canada, and South America vary according to the geologic variability of the deposit and are usually determined by a geostatistical analysis. The range of borehole spacing typically used is as follows:

Measured	=	15 m to 125 m
Indicated	=	80 m to 160 m
Inferred	=	>80 m to >160 m

In order to determine the appropriate classification of the mineral resources BOYD performed several statistical and geostatistical analyses of the sample data. However, the results of geostatistical analyses of the borehole assay data were inconclusive. This is due to the limited and widely spaced sample data, the non-homogeneous characteristics of the deposit and a very high degree of short-range variability within the sample set. This analysis clearly demonstrates that due to the high degree variability of the mineralization in the deposit and the limited amount of borehole data none of the resources can be classified as measured or indicated and should be classified as either inferred resources or presented as the reporting of exploration results.

Area 0 is defined by two boreholes on a 200 m spacing. Area 2 is defined by a line of four boreholes on 200 m spacings. Both areas are poorly defined and the linear array of holes does not define the mineralization in three dimensions. Due to these limitations it is not appropriate in the JORC Code to provide estimates of mineral resources for these areas. Therefore we have not prepared resource estimates for these areas, but have identified them as targets for additional exploration that could contain significant mineralization.

Borehole spacing in the main mineralized area (Area 1) is approximately 100 m x 200 m and there are 12 boreholes that define the area. We have classified resource estimates for this area as Inferred Mineral Resources. These resources are classified as Inferred due to the limited amount of exploration data which results in a low level of confidence in the estimate. It is commonly assumed that the majority of Inferred Resources would upgrade to Indicated Resources with continued exploration. However, due to the uncertainty of Inferred Resources it should not be assumed this will always occur.

In the JORC Code it is stated that "Confidence in the estimate of Inferred Mineral Resources is usually not sufficient to allow the results of the application of technical and economic parameters to be used for detailed planning. For this reason there is no direct link from a Inferred Resource and any category of Ore Reserves." It is also stated that "Caution should be exercised if this category is used in Technical and economic studies."

3.4.7 Resource Assumptions and Methodology

The block model described above was exported to Whittle in order to generate preliminary ultimate pit shells at various molybdenum prices (and consequently at various molybdenum cut-off grades). Significant input parameters were obtained mainly from the CINF October 2006 Mine Feasibility Study and February 2007 Addendum reports with economic inputs updated to July 2011. Due to the Inferred definition of the deposit these parameters are considered as reasonable for the limited purpose of conceptual mine evaluation (i.e., to validate there are reasonable prospects for eventual economic extraction of the Identified Inferred Mineral Resources).

- Mining Cost: US\$1.66/tonne (ore and waste – no cost adjustment factors were used).
- Processing Cost: US\$10.97/tonne (ore – no cost adjustment factors were used).
- Management Costs: US\$1.33/tonne (ore – for management salaries, general and administrative costs, and worker benefit expenses).
- Processing Recovery: 82%.
- Mining recovery: 98%.
- Mining dilution: 2%.
- Effective Pit Slope: 45 degrees.
- Selling Price: varies from US\$8,500 to US\$40,200 per tonne of delivered concentrate.
- Selling Costs: US\$36 tonne concentrate (transportation and bagging).

All operating costs used in the pit optimizations are cash costs. Depreciation, depletion and amortization are not included, nor are any other non-cash reserve items. Potential mineral royalties or fees are also excluded.

An overall pit slope angle of 45 degrees was derived from the Feasibility Study Report. There have been no geotechnical studies conducted to determine the appropriate pit slope for the deposit and this value, while reasonable, could change if studies are conducted.

The average spot price for molybdenum for calendar year 2010 was over US\$15.00/lb (of molybdenum contained in MoO₃) and current spot price is approximately US\$15.00. Typical roasting charges range from US\$0.75 to US\$3.00/lb of molybdenum. In our evaluation we have assumed a roasting charge of US\$2.00. Predicting molybdenum market pricing beyond a few years becomes problematic due to changes in world economics, technology, and the political and environmental factors affecting the mineral producing industry.

3.4.8 Resource Estimates

In order to validate our geologic model of the deposit areas of mineralization were compared to areas defined in previous studies. Findings from these comparisons are:

1. In 1971 the Hungary-Mongolia Combination Geology Exploration Team estimated total resources for the deposit at 57,596 in-situ Mo tonnes using a 0.03% Mo grade cutoff. This estimate represents an inventory of all mineralization identified in the boreholes, and includes poorly defined areas, some of which are defined by only one borehole. Since it is not appropriate in the JORC Code and other international resource reporting standards to include these poorly defined and isolated areas, this estimate is not JORC compliant and is not comparable to the estimates we have prepared for Area 1.
2. A visual comparison of the overall mineralized area of the deposit, as defined by the boreholes, shows good agreement between the BOYD, CINF and other studies. This clearly shows that all studies of the deposit have used the same source exploration data, and that differences in resource estimates of the deposit are due to differing methods of interpolation, extrapolation and compositing of the borehole assays.
3. A comparison of in-situ Mo mineralization above 0.06% in Area 1 shows:
 - a. BOYD – 24,600 tonnes
 - b. CINF – 23,600 tonnes

While these values appear to show good agreement, the areas of mineralization in the BOYD computer model and CINF manual representation differ substantially as a result of dissimilar geologic interpretation methodologies.

4. A comparison of in-situ mineralization above 0.06% Mo within CINF's defined pit shell for Area 1 is:
 - a. BOYD – 12,500 tonnes
 - b. CINF – 18,500 tonnes

This reduction of 32% is due to CINF's averaging of data within the boreholes. In the BOYD model, block dimensions of 12 m x 12 m x 6 m were used to define the mineralized zones. In determining mineralization greater than 0.06% Mo, only blocks equal to or greater than 0.06% were considered. In the CINF evaluation, larger areas were used that averaged greater than 0.06%Mo, but included smaller areas that were below the 0.06% limit. Figure 3.1 shows a comparison of the CINF pit area and the BOYD pit area for Area 1. Also shown are boreholes that define the area, cross sections, and mineralization.

The historical estimates and check comparisons above do not meet criteria of a Mineral Resource under the JORC Code and BOYD is unable to classify the historical and check comparisons estimates as current mineral resources or mineral reserves. These values represent in situ mineralization, which includes resources and non-resource tonnage. We are including them here for information purposes. These estimates are relevant in that they establish the historical continuity of a quantifiable mineral inventory within the project area and provide comparison for validating BOYD's estimates. However, we consider them to be conceptual and caution that the historical estimates must not be relied upon.

BOYD has conducted a conceptual mining evaluation using our geologic model of the Inferred Mineral resources in Area 1 of the deposit to determine if the investment in the additional exploration required to prepare mine feasibility studies is warranted. This evaluation, while based on reasonable assumptions, is based on limited geologic and engineering data and is not intended to be used for detailed project analysis.

The resource estimates prepared in this evaluation reflect an in situ tonnage and grade based on nominal block selectivity of 12 m x 12 m x 6 m. No allowance has been incorporated in the values given below for better (higher) selectivity, losses or dilution due to the mining process. The estimated Inferred Mineral Resource tonnage available within ultimate pits limits as of 1 July 2011 at selected selling prices is shown in the following table:

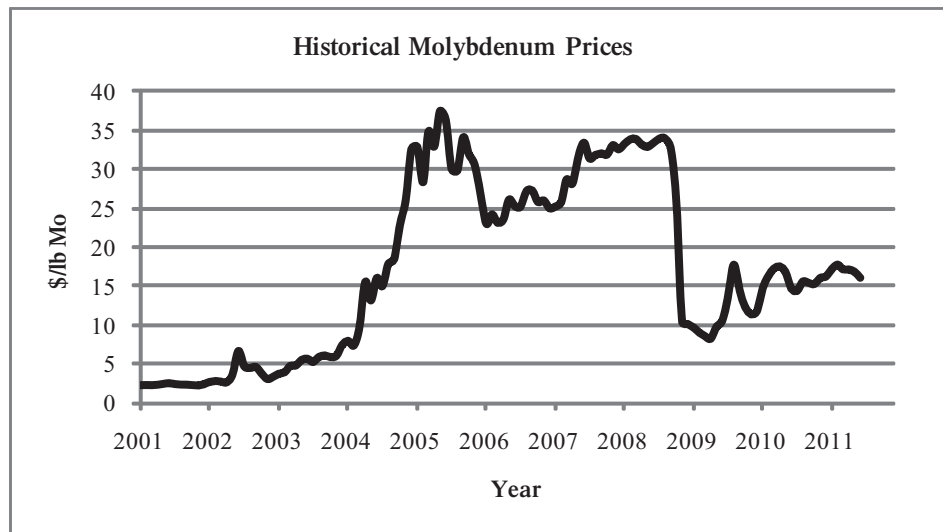
Concentrate* Selling Price (\$/t)	Market Price (\$/lb Mo)	Cut-off (% Mo)	Mineralization (t-000)	Average Grade (% Mo)	Contained Metal (t Mo)	Waste (t-000)	Stripping Ratio (t/t)
8,500	10.00	0.097	78	0.210	200	551	7.10
11,100	12.50	0.074	2,553	0.110	2,900	7,640	2.99
13,800	15.00	0.060	10,039	0.090	8,900	20,413	2.03
16,400	17.50	0.050	20,278	0.080	15,400	34,906	1.72
19,000	20.00	0.043	31,454	0.070	21,300	46,669	1.48
21,700	22.50	0.038	38,772	0.060	24,500	52,721	1.36
24,300	25.00	0.034	49,610	0.060	29,500	80,065	1.61
27,000	27.50	0.030	55,075	0.060	31,500	86,344	1.57
29,600	30.00	0.028	59,132	0.060	32,800	88,893	1.50
32,300	32.50	0.025	62,777	0.050	33,900	94,429	1.50
34,900	35.00	0.023	65,804	0.050	34,800	97,546	1.48
37,600	37.50	0.022	69,478	0.050	35,800	104,606	1.51
40,200	40.00	0.020	71,904	0.050	36,400	110,160	1.53

* 48% molybdenum contained in MoS₂.

As shown, there is minimal tonnage below the US\$15.00 price. At a long term price of US\$15.00/lb, we estimate inferred molybdenum mineral resources of 10 million tonnes. As selling prices increase the grade cutoff lowers as lower grade mineralization becomes economic to recover which in turn lowers the overall Mo grade. As a result of the disseminated nature of the mineralization within Area 1, the stripping ratios initially fall, then levels off.

Based on this evaluation, BOYD believes that further investment in exploration, reserve and mine feasibility studies is warranted if the investor accepts future molybdenum prices will remain at or above US\$15.00/lb of Mo.

The following chart shows average yearly molybdenum prices from 2001 to present:



Due to the insufficient amount of exploration data BOYD has not prepared estimates of resource outside of Area 1. Areas that may contain significant additional mineral resources upon completion of further exploration are:

1. Area 2, which is located adjacent to the west of Area 1, and is defined by a line of four boreholes.
2. The western limit of the Area 1 is defined by a limit of data extrapolation. If mineralization continues downdip Area 1 could be expanded
3. Area 0 and other isolated areas to the west of Area 1 are defined by one or two holes

Following this page are:

Figure 3.1:

Isometric Illustration.

Table 3.1:

The Planned Exploratory Capacity and Completed Capacity from 1969 to 1970.

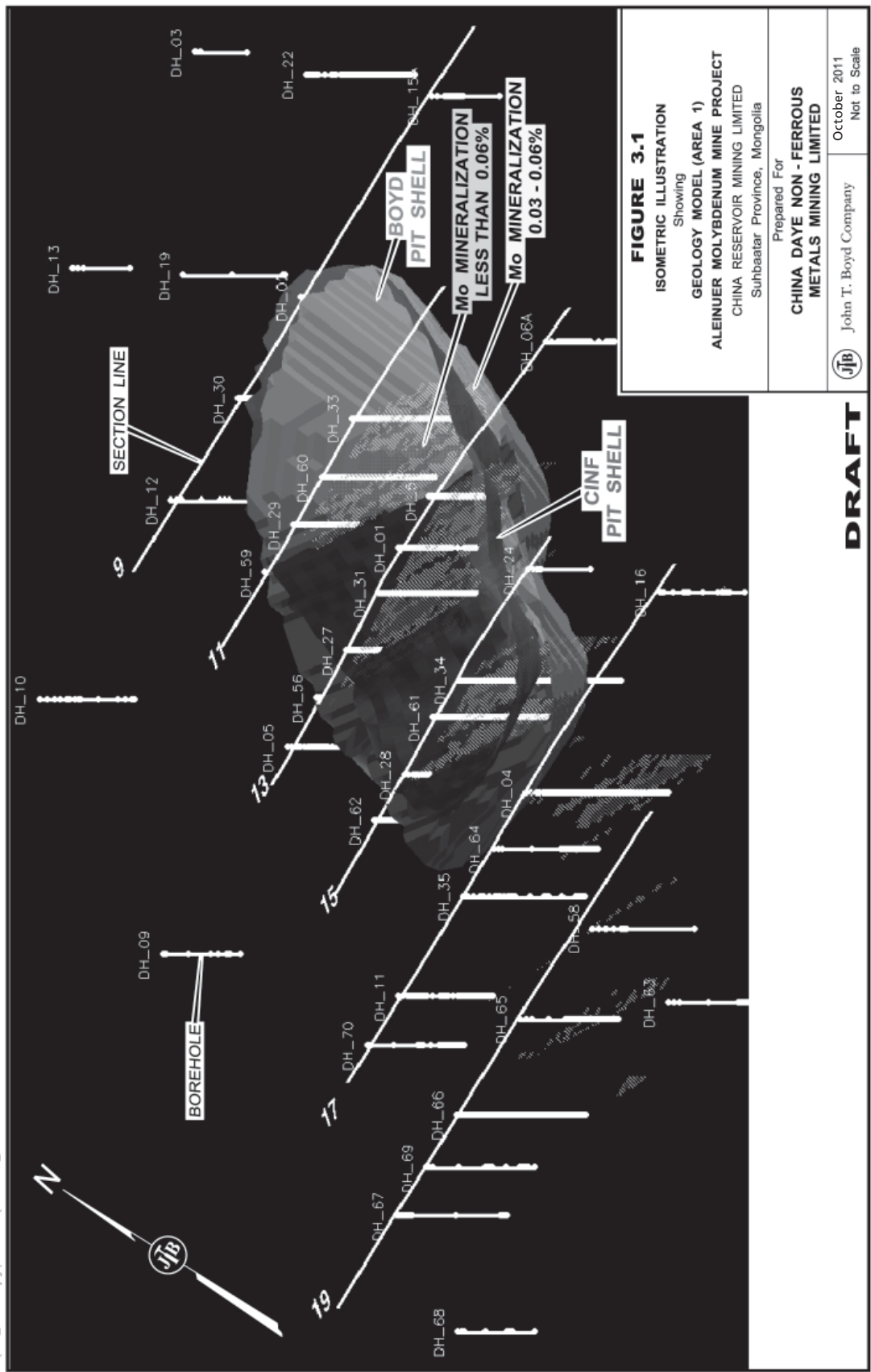


TABLE 3.1
THE PLANNED EXPLORATORY CAPACITY
AND COMPLETED CAPACITY FROM 1969 TO 1970
 Prepared For
CHINA DAYE NON-FERROUS METALS MINING LIMITED
 By
John T. Boyd Company
Mining and Geological Consultants
October 2011

Item	Project	Measurement Units	1969			1970		
			Planned	Actual Completed	(%)	Planned	Actual Completed	(%)
1	1:50,000 Geological Survey	Km ²	350	350	100	—	—	—
2	1:50,000 Route of Survey	Km	—	—	—	200	202	101.0
3	1:10,000 Geological Survey							
	(a) Central Block	Km ²	4	7.2	180	1.7	2.4	135.3
	(b) North and South Blocks	Km ²	8	—	—	—	—	—
	(c) Northwest Block	Km ²	—	—	—	4.3	5.3	1213.3
4	1:2,000 Geological Survey	m ³	—	—	—	4	2.0	50
5	Exploratory Surface Trenches	m	3,625	1,269	35	3,500	3,505	100.1
6	Exploratory Excavation	m	350	296	84.6	500	490	98.0
7	Mapping of Drilling Holes	m	800	463	57.9	600	591	98.5
8	Exploratory Drilling	m	4,000	4,073	102	4,000	4,276	106.9
9	Hydrogeological Drilling	m	—	—	—	200	—	—
10	Samples of Rock Stratum	m	1,400	—	1,304	1,557	119.4	
11	Samples of Rock Ore	m	4,200 m	2,871	—	3,658 m	2,967	—
12	Samles of Exploratory Excavation	m	250	55	22.0	300	10	3.3
13	Metal Test	Number	14,000	13,529	96	8,400	7,826	93.2
14	Ore Test	Number	300	—	—	—	—	—
15	Water Samples	Number	14	2	14.3	15	1	6.7
16	Boundary Samples	Number	160	—	—	—	—	—
17	Spectrum Analysis	Number	21,330	15,576	73	13,048	4,189	32.1
18	Chemical Analysis	Number	2,484	805	32.4	2,303	2,129	92.4
19	Check Samples	Number	—	20	—	—	350	—
20	Mineral Analysis	Number	—	6	—	20	5	25
21	Phase Analysis	Number	100	—	—	—	—	—
22	Silicate Analysis	Number	20	41	205	30	6	20
23	Technological Samples	Number	4	—	3	3	100	
24	Slice	Number	—	305	—	150	260	173.3
25	Microsection	Number	—	99	—	150	94	62.7
26	Topography Geodetic Survey Project							
	(a) 1:2,000 Mapping	Km ²	4	4.7	117	—	—	—
	(b) Geophysical Survey Location	Km ²	—	8.2	—	—	9.5	—
	(c) Exploratory Capacity (Exploratory trench exploratory excavation and drilling pores)	Number	—	—	369	—		
27	Geophysical Project							
	(a) Crust Measurement 1:10,000	Km ²	4.0	5.7	14.2	—	9.5	—
	(b) Crust Measurement 1:20,000	Km ²	8.0	—	—	—	—	—
	(c) Well Logging	m	500	1,087	217	3,800	4,078	—
28	Office Work	%	—	20	—	—	80	—

4.0 CONCEPTUAL MINING OPERATIONS

4.1 Introduction

For conceptual mine evaluation purposes (i.e., to validate there are reasonable prospects for eventual economic extraction of the identified Inferred Mineral Resources), BOYD has reviewed the mine plan shown in the CINF October 2006 Mine Feasibility and Addendum reports, which are summarized in this chapter. The CINF mining evaluation is based on a 0.06% Mo grade cutoff using their pit shell for Area 1 and is not comparable to BOYD's conceptual mining evaluation which is based on various pit shells in the same general area with typically lower grade cutoffs determined by projected selling prices.

Based on the geology and near surface occurrence of the Aleinuer orebodies, open pit mining is the preferred method to recover the molybdenum ore. The CINF designed raw ore producing capacity is 1,650,000 tpa assuming an average stripping ratio of 2.5 (average number of tonnes of waste rock per tonne of mined ore). Based on the project location and climate, 240 working days are scheduled for each year. However, the concentration plant is scheduled to work 330 days per year. Three 8-hour shifts are scheduled for both the open pit mine and concentration plant. A stockpile site is constructed close to the concentration plant to store the run-of-mine ore, which can supply raw ore to the concentrator when mining is idled due to weather.

4.2 Mining Method

Shovel-truck open pit methods are planned. The open pit will be developed in a series of 18 m high benches. Total depth of mining will extend to 216 m with mining elevations varying from 992 m to 778 m. Geotechnically the mine highwalls are projected at a 75 degrees slope angle, with the final endwall designed at 45 degrees.

All waste rock and ore will be drilled and blasted to facilitate loading by hydraulic shovels into a fleet of dump trucks. Mined or run-of-mine ore will be hauled to a stockpile area located adjacent to the concentration plant, and shot waste rock will be hauled to designated disposal areas. Bulldozers and other mining support equipment will supplement the primary excavator/truck fleets. The specified mining equipment, while typical for small open pit mines in Mongolia, is considered extremely small and alternative larger equipment should be evaluated (as well as, a higher mine output level) during future mine feasibility studies.

The mine design includes provisions for water handling and pumping from the open pit area. Temporary sumps will be constructed on each working bench with a main sump constructed at the 896 m level. As the pit advances below the 896 m level, water will be collected at the lower elevations and pumped to the main sump (896 m level) before being pumped to the surface.

4.3 Work Force

One hundred eighty (180) personnel are planned to be employed for the direct mining operation, with a total workforce of 556 personnel, as follows:

Section	Number of Personnel		Total
	Worker	Technical/ Management	
Geology and Survey	15	5	20
Mining	167	13	180
Ore processing	180	10	190
Water supply	35	–	35
Power supply	15	–	15
Transportation	22	–	22
Machinery repair	35	–	35
Boiler room	24	–	24
Environment monitoring station	5	5	10
Management team	–	25	25
Total	498	58	556

The projected average productivity on a total staff basis is 2,970 tonnes of mined ore per person per year.

4.4 Electrical Power

Planned electricity supply to the Aleinuer operation will be the Choybalsan thermal power plant as the main power supply source with on-site diesel power generator sets to be installed as a backup power supply.

The Choybalsan power plant, which has four units (two at 12 MW and two at 6 MW), is located about 110 km away from the mine, and supplies power at 110 kV to Baruun-Urt, the capital city of Sukhbaatar Province. According to the general power supply plan of Mongolia, the Choybalsan power plant will be connected to the 220 kV national central grid, which is intended to improve the quality and reliability of power supply from the Choybalsan power plant.

The mine will receive 110 kV power from the trunk grid passing 16 km west of the mine, which will be delivered to a 110/35/10 kV general power transformer station at the mine site. Incoming power is distributed to the open pit, concentration plant and living area at 10 kV. Since the No. 2 and No. 3 pump stations of the water supply system are located as far as 30 km and 60 km away, respectively, 35 kV voltage is planned to supply power to these two facilities. In addition, a 35 kV powerline from the local grid will be used to supply the pumps at the water source location and No. 1 pump station. Transformer substations will be constructed at appropriate locations to supply power at various voltages to different equipment.

The mine's backup diesel power generators will include a 132 kW diesel power generator at the living area and five 320 kW diesel power generators located at the boiler room substation, No.1, No.2 and No.3 pump stations and the water source pump station.

The estimated total power demand of the mine and other facilities is 13,800 kW. Based on BOYD's review, the power supply plan is reasonable.

4.5 Water Supply

The climate and low precipitation level at the Aleinuer Project site, and lack of any known nearby water source (based on previous exploration work), requires the site to source fresh water requirements (estimated to be 5,000 m³/d) from the Herlen Gol River. One of the major rivers in Mongolia, the Herlen Gol River is located about 87 km north of the mine. A 91 km pipeline is planned from the river to the mine.

Two wells, one being active with the other being backup and each at 25 m deep and equipped with an 18.5 kW pump, will be sunk along the Herlen Gol River. Water pumped from the well will be transported to the mine site through DN300 steel-skeleton plastic pipes buried more than 3.5 m deep. Three pumping substations will be built between the water source and the mine site, each being equipped with two 90 kW pumps (one being active while the other being backup) and a 1,000 m³ pool. A 4,000 m³ fresh water holding pond will be constructed near the concentrator facilities. Fresh water will be distributed from this pond to each water consumption location. The water demand for the pit and road spray is about 400 m³/d; 101 m³/d is used for domestic living purposes and 108 m³/d is designated for fire-fighting.

Water conservation measures are incorporated into the site operating plan. Used water from the concentrator (8,900 m³/d) and tailing impoundment (5,000 m³/d) will be recycled back to the fresh water pool through pipes. Domestic sewage will be initially treated by an underground septic device and then used for irrigation. Minimal waste water is planned to be discharged from the mine operation.

4.6 Other Infrastructure and Facilities

An all weather access road will be constructed from the existing highway system to the mine site. An extensive network of roads will be built within the mine and plant areas for ore and waste rock haulage, and to connect the mine, concentrator plant, and other surface facilities.

Mine site facilities, including the open pit area, will cover an estimated 4.76 Km² of land, as follows:

Mine Function	Area (Km ²)
Initial Open Pit	0.30
Mining Service Facilities	0.06
Concentrator Facility	0.05
Living Area	0.03
Service Operation System	0.04
Waste Rock Stockpile	0.70
Explosive Storage	0.01
Tailing Disposal	3.00
Water Source, Pipeline	0.57
Total	<u>4.76</u>

A general layout of the mine site is shown on Figure 4.1, following this text.

4.6.1 Open Pit

The initial pit area will encompass approximately 30,000 m², with the length from north to south about 700 m and width from east to west about 500 m. Elevations range from 1,016 m to the designed final pit bottom elevation of 788 m. The transportation outlet from the pit, which facilitates the transportation of ore to ore stockpile and concentration plant and waste rock to the disposal location, is located at the northwest side of the pit.

4.6.2 Mining Service Facilities

The mining service facilities area is located 1.5 km northwest from the outline of blasting safety buffer zone. The field area is about 6,400 m² and facilities here include parking lot, oil storage and gas station, mechanical workshop, repair plant, office and material warehouse.



4.6.3 Ore Concentration Facilities

The ore concentration facilities area, covering about 5,000 m², is located adjacent to the mining service facilities. All the concentration related equipment and workshops are within this area.

4.6.4 Auxiliary Service Facilities

The auxiliary service facilities include the warehouse, boiler room, diesel power station, and weighing station. The total area is about 4,000 m².

4.6.5 Administration and Living Area

The mine administration building is located at the west side of the concentration plant and covers an area of 3,760 m². The living area, composed of four single worker dorms, two family apartment buildings, entertainment center, game field, sewage disposal facility, and diesel power station, is located about 1 km northwest of the concentration plant.

4.6.6 Waste Rock Stockpile

The waste rock stockpile is assigned an area of 70,000 m² and is located southwest of the open pit. The area is designed to satisfy the stocking requirement throughout the mining operation years.

4.6.7 Explosive Storage Warehouse

The explosive storage warehouse has a storage capacity of 150 tonnes. It is located about 1,000 m northeast of the pit.

4.6.8 Tailing Impoundment

The tailing impoundment site is planned to be in the valley area located about 3.6 km southeast of the concentration plant. The capacity of the impoundment is 30 million m³.

Following this page is

Figure 4.1, Map Showing Conceptual Mine Facility Arrangement.

5.0 CONCEPTUAL ORE PROCESSING

5.1 Introduction

Similar to the mining discussion, all processing plans and projections should be considered conceptual and subject to confirmation via further testing and project feasibility study. The CINF mining evaluation is based on a 0.06% Mo grade cutoff using their pit shell for Area 1 and is not comparable to BOYD's conceptual mining evaluation which is based on various pit shells in the same general area with typically lower grade cutoffs determined by projected selling prices.

Processing of the molybdenum ore consists of primary stage processing or concentrating. The ore processing plant, or concentrator, for the proposed Aleineur Molybdenum Mine is designed to produce both molybdenum concentrate and by-product copper concentrate. This section discusses the ore processing plant design and recovery estimates developed in the October 2006 Mine Feasibility Report and related documents. The conceptual production plan projects a 48% Mo concentrate product and a 22% Cu concentrate by-product with projected recoveries of 82% for Mo and 50% for Cu. Projected moisture contents of the Mo concentrate is 3% and 10% for the Cu concentrate. Both products are planned to be bagged for shipment to market.

5.2 Concentrator Plant Description

The proposed concentrator plant uses commercially demonstrated processing practices and technology. Plant processes consist of basically four stages. The first stage is crushing, which includes three types of crushing machines and one screening step to successively reduce the mined ore from an approximate 750 mm size to material approximately 13 mm in size. The second stage is the primary ball mill grinding and rougher (bulk) flotation. In this stage the ore is ground finer and classified from the 13 mm size down to approximately 65% minus 74 microns (200 mesh) prior to bulk flotation of the Mo and Cu minerals. Additional field data are required to establish the optimum equipment, conditions and reagents for grinding, classifying, slimes removal and flotation. The third stage is the regrinding to 90% minus 74 microns, separation of the Mo minerals from the Cu minerals and upgrading of each to a final concentrate grade. Test data are required to define the process requirements for both reagents and equipment to design the best configuration for grade control and maximum recovery. The fourth stage of the process is the dewatering, handling and bagging of the concentrate products.

The concentrator design capacity is projected at 5,000 tonnes per day for a three 8 hour shifts per day (24 hours/day) operation. Plant operations are projected at 330 days per year, producing an average 2,450 tpa of Mo concentrate and 1,360 tpa of Cu concentrate from the planned 1,650,000 tpa of crude ore input. Labor staffing is projected at 190 personnel. Annual production of Mo concentrate may vary by as much as 35% because of the variability of the Mo grade in the ore within the orebody. Annual Cu concentrate production may vary more widely by up to 80% due to ore grade variability.

The general plan for ore processing is summarized as follows:

Product	Yield (%)	Grade (%)		Recovery (%)	
		Mo	Cu	Mo	Cu
Concentrate Mo ore	0.147	48.000	0.200	82.00	0.86
Concentrate Cu ore	0.077	0.020	22.000	1.96	50.00
Tailings	99.776	0.010	0.017	16.80	49.14
Crude ore (total/average)	100.0	0.086	0.034	100.0	100.0

A simplified ore processing plant flowsheet is shown in Figure 5.1.

5.3 Concentrate Grades

Projected concentrate grades for both Mo and Cu, while below the grades produced by most of the international molybdenum industry, are acceptable for the Chinese molybdenum industry, which will provide the principal market for the project's concentrate products. The projected 48% Mo concentrate grade is below the range of 50% to 55% Mo concentrate typical of international mines. As such, the lower grade concentrate requires additional conversion procedures by the purchaser to remove the higher levels of impurities to produce technical grade molybdc oxide. Technical grade molybdc oxide is the standard starting material for molybdenum that is used in the metallurgical and chemical industries. Similarly the copper concentrate grade of 22% Cu is below the typical copper smelter feed grade of 25 to 35% Cu.

5.4 Concentrate Recoveries

Projected processing plant capacities and recoveries were not established from the sampling and testing of samples obtained from the proposed Aleinuer Mine deposit but reportedly are based on CINF's experience in other Chinese molybdenum projects. Various samples of drill cores and trench material from the Aleinuer ore deposit have been assayed for Mo and Cu and limited mineralogical characterization work has been performed. Metallurgical testing was performed by the Hungary Research Institute in 1973. In those tests, low Mo recoveries were observed in samples using the outdated flotation technology of the time and outdated methods to separate the Mo minerals from the Cu minerals. The Hungary Research Institute recommended that additional testing and evaluation work be performed and suggested a continuation of the geological exploration work. Similarly in 1974, the Russian Mining Institute recommended additional exploration work after reviewing the Hungarian results. Available samples were not evaluated for laboratory or pilot scale research and testing for use in designing the concentrator process flowsheet and sizing of the processing equipment, which is standard industry design practice.

Since the 1970s, when the available recovery testing work was performed, ore processing technology has improved with better flotation reagents and more efficient flotation machines to achieve Mo recoveries over 80% along with improved Cu recovery. Selective flotation reagents have been developed to depress or prevent copper minerals from floating and thereby allowing Mo and copper to be separated. Over 35 concentrator plants worldwide have used variations of this newer technology, each with a unique, customized suite of reagents and machine designs to obtain optimum results from the individual local ore mineralogy.

For the Aleinuer deposit, CINF based the plant flowsheet and capital and operating cost estimates upon the general operating characteristics and practices of other (unspecified) Chinese molybdenum mines. CINF assumed that the Aleinuer ore rock types are similar to the easily concentrated ore types at other Chinese molybdenum mines and that therefore the process and performance should be similar. From this basis, CINF determined the plant size, the processing circuitry, capital spending requirements, plant performance, and operating costs. For broad, conceptual purposes this approach, while not preferred, is acceptable. Additional research and testing are needed to evaluate the response of the various materials in the Aleinuer ores and host rock to select processing variables in order to design an optimum process and confirm CINF's recovery projections. Although the proposed plant flowsheet and equipment are standard and conventional and used in many other plants it is unknown if they are the proper selection for concentrating the Mo and Cu from the Aleinuer deposit.

CINF recommended additional geological exploration and recovery of representative samples from the various deposits for flotation process testing to be used in the basic design of the concentration plant and process. CINF also stated that the projected performance for concentrate grades and recoveries are only targets at this time. It is unknown if these targets can be achieved for all variations of the mineralogy in the Aleinuer deposits. They also pointed out that the ore materials contain mud (or clay) and moisture both of which will affect materials handling and processing.

The March 2007 Independent Technical Evaluation Report from the same CINF Institute reiterates that although it has been assumed that the ore type belongs to the same class as existing mines and Mo plants in China and will provide the targeted Mo grade and recovery for the project, that this assumption has not yet been verified by testing. Their analysis has concerns about the uniqueness of the Aleinuer deposit and the uncertainty of geological conditions that make it difficult to predict performance and to confirm stability of concentrate product quality. CINF states that the status of both the geological and the concentration research should be considered as in the preliminary evaluation stage since concentration testing has not been performed. BOYD concurs with these concerns and opinions, and assigns conceptual reliability to all existing processing studies.

5.5 Tailing Impoundment Facility

The planned tailing impoundment site is located about 3.5 km southeast of the concentration plant. The ground elevation at this location is about 60 m lower than that of the concentration plant and the surface gradient is about 2%. Three embankments, one being the main filtering dam and the other two being auxiliary filtering dams, are proposed to be built to form the impoundment. The main dam is 5.0 m high and 1,000 m long while the auxiliary dams are 2.0 m high and 3,000 m long. Another dam, which is 5.0 m in height and 1,000 m in length, is built 800 m downstream to impound the filtered water from the tailing impoundment. All of the embankments are built from waste rock from the initial mine stripping.

The central piling method is adopted to dispose tailing from the concentration plant. A 30 m high steel structure post is erected at the 960 m elevation location at about the center of the impoundment (which is 2 km southeast of the concentration plant). Tailing is pumped through pipes which are lifted by an 800 m steel truss to the top of the post and then released. When the accumulated tailings reach the 990 m elevation (tailing release point elevation), the total volume of the impoundment is 30 million m³. The tailing disposal capacity is designed for 23 years operating life.

The water spillway, which is 5.0 m wide and features reinforced concrete structure, is designed to be constructed on the right side of the main filter dam. Overflow from the impoundment is collected by the downstream dam and recycled to the concentration plant after clarification.

5.6 Conclusion

It is the opinion of BOYD that available processing study assumptions are speculative and further laboratory assay testing is necessary for reserve and project feasibility determination. Our review indicates:

1. The Aleinuer deposit appears to be variable in both mineralogy and grade from orebody to orebody and within an orebody. Testing is required to understand the impact this variability will have on the operation of the plant process. In addition the initial plant design may not be adequate and later modifications and retrofits may be necessary at a loss of production and higher capital costs.

2. Reference in the geological and mineralogical descriptions of the deposit indicates that clay, mud and/or fines may be present. If so, testing will be necessary to determine the processing techniques required to reject these materials prior to the flotation process. Alternately these materials may be identified and removed from the ore at the mining faces.
3. While the proposed plant flowsheet and proposed technology represent standard, conventional practice, it is unknown if the proposed processing plan is the best selection for concentrating the Mo and Cu from the Aleinuer deposit.

Following this page is

Figure 5.1, Concentrator Flowsheet.



6.0 CONCEPTUAL ECONOMICS

6.1 Introduction

BOYD reviewed the capital and operating cost projections for the Aleinuer Project as developed in the October 2006 CINF Mine Feasibility Report and February 2007 Addendum Report. Capital and cost projections in 2006/2007 were stated in constant US dollar values as of February 2007. We updated the capital spending component of the February 2007 CINF study to reflect July 2011 values. Based on review of both public and internal sources, we determined that a 10% escalation factor adequately reflected inflation of capital spending, equipment, and infrastructure costs since early 2007. Economic projections are considered to be conceptual, and are only used to confirm that these are reasonable prospects for the eventual economic extraction of the identified Inferred Mineral Resources. CINF projections reference a mine service life of approximately 23 years.

6.2 Capital Spending

The February 2007 CINF Addendum Study projects US\$75.5 million in initial capital spending for the proposed Aleinuer Project, from initial site development through start-up of ore production in Year 3, including open pit mine construction and equipment, concentration plant and mine site facilities, tailings disposal facility and construction overhead expenditures. Escalated capital spending to reflect July 2011 costs is US\$83.0 million. Capital spending projections are summarized as follows:

		<i>US\$(000)</i>
<u>Item</u>	<u>Category</u>	<u>as of July 2011</u>
A	Site Infrastructure	17,729
B	Exploration	811
C	Mining Equipment	9,489
D	Pit Development	10,708
E	Concentrator Facility	12,044
F	Tailings Disposal Facility	7,245
G	Environmental Protection	494
H	Other	17,680
I	Construction Loan Interest	2,116
J	Contingency (Risk Charge)	4,688
Total		<u>83,004</u>

We reviewed the capital spending projections as presented. Capital spending projections appear to be appropriate for the scale of the proposed operation. In terms of ore mined and processed, the project capitalization is US\$50.6/tonne of ore as of July 2011.

Our comments relative to the proposed capital spending schedule (based on escalated July 2011 capital spending estimates) are as follows:

- **Site Infrastructure** – The plan for an off-site water supply (91 km underground pipeline system with access road, powerline and pumping stations) requires additional engineering detail to evaluate the projected cost basis (approximately US\$110,000 per km). Alternative water sources in closer proximity to the project site may be identified prior to project commencement. Power supply cost projections are reasonably well defined. Spending provisions for civil works and buildings appear reasonable for the current stage of planning. There are limited provisions for worker apartments and a single men dormitory; additional accommodations would be anticipated locally. There are no plans to construct a colony or village.
- **Mining Equipment** – The principal mining equipment proposed for the project is to be sourced from the PRC. Depending on internal supply capabilities, equipment capabilities, and pricing, Mongolian equipment may be substituted for Chinese equipment, but the cost to the project is not expected to be materially affected. Mining equipment with higher operating performance capabilities and reliability imported from major international equipment providers may also be substituted for Chinese-made equipment, although the capital costs would be significantly higher. Capital costs for mining equipment as escalated according to our review are generally consistent with current market prices for surface mining equipment provided by Chinese equipment providers. Additional costs for equipment delivery from the PRC factories, assembly, accessories and spare parts, included in the Other category, amount to over 50% of the equipment base price projections shown in this category. Equipment selection (unit sizes, etc.) will need to be re-evaluated during future mine feasibility studies.
- **Pit Development** – The initial pit development projects the removal of approximately 7.3 million tonnes (Mt) of rock and ore are removed to establish the initial production pit. An estimated cash mining cost of US\$1.66/tonne, capital spending projections of US\$10.7 million appear adequate according to available mapping and mine plans. The initial pit excavation is projected to be undertaken by a contract Chinese company with experience in large scale open-pit mining operations and corresponding economics of scale.

- Concentrator Facility – Capital spending projections appear adequate for proposed scale and planned processing equipment, to be sourced from the PRC. The proposed equipment is similar in operation and specifications to that presently employed in the PRC molybdenum industry.
- Tailings Disposal Facility – The life-of-project facility, constructed of waste rock, requires 2.4 Mt of material. Capital spending projections appear adequate for the planned facility.
- Exploration/Environmental Protection – Planned spending for these items, comprising less than 2% of the proposed capital budget, is appropriate for routine operation after the reserves are properly defined (drilled) and the mine feasibility report completed.

Items comprising the Other category capital spending include the following:

- Business Tax – local Mongolian taxes and fees.
- Equipment Add-ons – includes spare parts, transport to Mongolia, fees and allowance for import fees.
- Insurance – Project and property insurance.
- Design and Construction Management – includes fees for project design, budgeting, construction supervision, and contract administration.
- Additional Construction Fee – 5% of budgeted fixed capital expenditures including temporary facility expenses, supplementary engineering fees, and construction team mobilization.
- Miscellaneous – includes management fees, office and staff living expenses, equipment and facility implementation costs, etc.

Other category cost projections appear to be adequate for the present conceptual level of project study.

Contingency (or risk charge) is projected by CINF at 6% of budgeted capital expenditures. At this conceptual level of study, BOYD would assign a capital spending estimation accuracy for $\pm 20\%$ based on the current definition of the Aleinuer ore body.

Working capital is estimated at US\$6.9 million occurring in Years 3 and 4 of the project. Total CINF initial capital requirements, including working capital, are US\$89.9 million.

CINF's capital spending projections include replacement equipment and facilities expenditures of US\$18.5 million in Year 18 of the project. In overall project terms, this projection is generally adequate for supporting the operation although in our view, the expenditures may occur over time rather than as a one-time charge. We anticipate that annual sustaining capital expenditures of US\$0.50 to US\$1.00/ore tonne may be experienced as mobile and other equipment requires replacement.

Due to the remote project setting, village moves are not planned. CINF's projections do not include mineral or mining license fees.

6.3 Operating Costs

6.3.1 Labor Costs

Proposed staffing at the Aleinuer Mine is projected to be comprised of 80% Mongolian and 20% Chinese personnel. Based on our knowledge of several mining projects in Mongolia, we estimate the average base salaries for the Mongolia staff at US\$14,000/employee. Salaries for the Chinese staff are projected at US\$20,000/employee. On a composite basis, staff salaries average US\$15,200 per employee. Total direct annual labor cost for the project, including all aspects of operations (556 employees) is US\$8,451,000. Benefits and welfare are included under Management costs.

6.3.2 Ore Mining

Operating cash cost projections for the ore mining operation at full output of 1,650,000 tpa and 2.5 stripping ratio (tonne basis) are as follows by major category:

Costs by Category	US\$/Tonne	
	Ore Only	Total Ore and Waste
Labor	1.83	0.51
Materials and Supply	2.57	0.74
Fuel and Power	0.22	0.06
Repairs	0.89	0.25
Other	0.36	0.10
Total	<u>5.87</u>	<u>1.66</u>

Operating cost projections appear to be reasonable based on our experience in Mongolia and comparable molybdenum surface mine operations in China, adjusting for the predominantly Mongolian workforce and stripping ratio.

6.3.3 Ore Processing

Operating cash cost projections for the ore processing operation, which begins at the crushing station, according to the CINF feasibility studies are as follows by major category:

Costs by Category	US\$/Ore Tonne
Labor	2.51
Materials and Supply	4.82
Fuel/Power/Water	2.67
Other (repairs, component change-outs, etc.)	0.97
Total	<u>10.97</u>

Projected cash processing costs (on a US\$/t molybdenum ore tonne throughput basis) are higher than for comparable primary processing plants at Chinese molybdenum mines, and for the international molybdenum industry based on our experience. Inclusion of significant infrastructure costs in ore processing is primarily responsible for the higher unit operating costs. Pending additional exploration of the deposit, revised grade determinations and/or an alternative processing design may result in substantive changes in the estimated unit operating costs.

6.3.4 Other Operating

Other operating costs include labor benefits (at 20% of payroll), management (general and administrative) expenses (salaries, office, and other business related expenses), and selling costs. Selling costs primarily relate to the cost of transporting the molybdenum and copper concentrates to the Chinese border but also include bagging and customs house fees estimated at US\$36 tonne of concentrate. Other operating costs approximate US\$1.33/ore tonne (excluding value added taxes).

6.3.5 Operating Cost Forecast (Ore Basis)

On an ore tonne basis, projected operating cash costs for the Aleinuer Project for mining, processing and other operating expenses through delivery to the Chinese border (excluding VAT) for the first five years of project operation are shown below:

	Year 3	Year 4	Year 5	Year 6	Year 7
Ore Output Tonnes (000)	1,403	1,650	1,650	1,650	1,650
Category	US\$/Ore Tonne				
Mining Cost	6.90	5.87	5.87	5.87	5.87
Processing Cost	11.80	10.97	10.97	10.97	10.97
Management Cost	1.45	1.23	1.23	1.23	1.23
Selling Cost	0.07	0.10	0.10	0.08	0.08
Total Cash Cost	<u>20.22</u>	<u>18.17</u>	<u>18.17</u>	<u>18.15</u>	<u>18.15</u>

Note: Year refers to number of years from start of project development.

Operating cost projections do not include production royalty payments that may be incurred by the mine operator. Mongolian resource development fees are projected at 5% of the selling price. Including \$3.75/tonne of ore for depreciation and amortization, the production cost in years 4 – 7, ranges from \$21.90 to \$21.92 per tonne of ore output.

The estimate for depreciation and amortization assumes a 15-year mine operation life at 1.65 Mtpa of ore production with levelized non-cash charges over that period. As the reserves are undefined owing to the Inferred resource classification, estimating depreciation and amortization charges corresponding to the as yet undetermined reserves is not possible. That is, depletion-based charges for depreciation and amortization cannot be determined; the charges may be higher or lower depending on the reserve determination. BOYD's depreciation and amortization charges (also known as depletion charges) include 100% of the infrastructure and mine development costs identified in our economic analysis.

6.4 Conclusion

For purposes of potential resource economic mineability validation, and considering all work is considered conceptual, the capital cost projections prepared by CINF and escalated by BOYD to reflect July 2011 costs are adequately developed for most facets of the project according to available data. Areas requiring additional work in our opinion are the costs for the water supply system, initial pit development costs and project contingency. Projected operating costs appear to be reasonable for the scale of operation and the techniques employed for mining and processing in comparison with Chinese open pit molybdenum mines using similar techniques.

7.0 ENVIRONMENTAL OVERVIEW

7.1 Introduction

Mining activities are inherently disruptive to the environment, but their impact varies considerably depending on a number of factors, including type of mining, location of mines, physical characteristics of the areas where mining is taking place, etc. The physical environment where the proposed Aleinuer openpit mine will operate is an extensive grassland (steppe pastureland) characterized by low, rolling hills with no permanent inhabitants (although there is nomadic activity). Elevation of the operations is approximately 1,000 m, with overall topography of the area falling between 920 m and 1,090 m of elevation. The area planned for mining consists primarily of dry valleys and loose sedimentary deposits. Adverse impacts are largely related to overburden removal and disposal, noise and dust generation during mining and ore processing, community by-products (e.g., handling of sewage), and power and heating plant emissions.

BOYD has reviewed the environmental factors connected with future plans for Aleinuer. The basis of our review is a report completed by Leishiwei'er Mining Company, Ltd., which provides general requirements for environmental management to assess environmental aspects. BOYD reviewed the environmental protection plans based on the information provided in the CINF feasibility report.

7.2 Guidelines of the World Bank

The World Bank's explicit standards regarding environmental protection relating to mining activities are set forth in the "Environmental, Health and Safety Guidelines for Mining" (EHSM) and "Environmental, Health and Safety General Guidelines" (EHS). The Bank guidelines and principles support the view that coal mining activities affect the environment and require that mitigation measures must be taken to protect the environment and reduce the impact of coal mining activities. Responsible environmental management on the part of the mining enterprises includes establishing the policies and practices companies must employ to protect the environment and minimize the impact of mining and related activities. The ESHM guidelines vary in the application of specific guideline requirements. Based on our review of relevant data, BOYD is satisfied that environmental responsibilities are recognized and remediation is adequately planned.

7.3 Environmental Management

An independent environmental management department and an environmental monitoring station will be established to meet the requirement for environmental protection. Two full-time personnel will be staffed for the environmental management department who are responsible for planning the environmental protection work of the mine, making environmental statistics, upkeep of environmental protection facilities and environmental education. An additional part-time environmental technician will be assigned for each work section. Five full-time professional personnel, who are responsible for the monitoring of the generation and release of waste water, waste gas, waste rock, and noise, and their impact on the environment, will be staffed for the environmental monitoring station. When the mine enters construction phase and later begins normal operation, routine monitoring will be conducted and the results will be analyzed and reported to a higher environmental management department.

7.4 Solid Waste Disposal

Solid waste includes waste rock generated by stripping during mine construction, tailing from the concentrator, and residue (ash) from the boiler:

- An estimated 3 million m³ of waste rock is generated in the two years of mine construction, which must be stored out of the pit to permit mine production operations to proceed.
- During typical operation at full output, 1.65 million tonnes of tailing is generated by the concentrator annually.
- Approximately 3,000 tonnes of ash residue are generated by the coal-fired boilers serving the mine and plant.

Part of the waste rock generated during mine construction is used to build the tailing disposal facility (dam); the remainder is stored at the waste rock disposal site, which has an estimated area of 24,350 m². The tailing disposal facility, with an area of 3 million m², has an effective design capacity exceeding 20 million m³, which is adequate for 20 years of operation. Boiler ash is utilized for road construction or sent to the waste rock disposal site.

7.5 Air Pollution Protection

Boiler exhaust emissions and fugitive dust from open-pit mining, explosion, ore processing, ore handling, and transportation activities generally are the primary sources of air pollution. Smoke discharges from the boilers meet emission release requirements after de-sulfured and de-dusted. At the mine area water spray method is used to suppress fugitive dust.

Measures for controlling air pollution are as follows:

- Dust from open pit mining operations is primarily controlled with water sprays.
- Raw ore crushing and transfer conveyances, which are the main dust sources in the concentrating plant, are controlled by mechanical dust removal devices with ventilation systems designed to discharge the dust-laden air to bag-type filters before discharge to the atmosphere.
- Coal burning boilers at the industrial site are equipped with the fog-type drying de-sulfurization dusting devices for filtering and treatment of smoke and SO₂ from the boiler flue, which is discharged into the atmosphere after it is up to the relevant standards.
- Mine road dust is controlled with measures such as water spraying the road surface by means of sprinklers and other control measures.
- Similarly dust from the tailing impoundment is also controlled by a battery of high pressure water sprays designed to keep the “beach” area moistened and the ambient dust reduced.

The major pollutant generation rate, treatment and release information is summarized in the following table.

Facility	Pollution sources	Air discharge volume (m ³ /h)	Dust producing concentration (g/m ³)	Treatment measure		Height of exhaust pipe (m)	Discharge	
				Dust collector	efficiency (%)		Concentration (mg/m ³)	Rate (kg/h)
Coarse crushing	Crusher	8,500	4-20	Bag	>98	15	<100	0.85
Medium-fine crushing	Crusher	21,450	4-20	Bag	>98	15	<100	2.145
Screening	Vibrating screen	20,400	4-20	Bag	>98	15	<100	2.04
Boiler Room	Smoke and dust	hot water boiler	24,000x2	Fog type dry desulfurization	>92	40	<200	9.6
	SO ₂		0.8x2		>70		<450	10.8
	Smoke and dust	steam boiler	3,000	Fog type dry desulfurization	>92	25	<200	0.6
	SO ₂		1.07		>70		<350	1.05

The mine is located in an open grassland area with high level air quality. In BOYD's opinion, air pollution prevention designs for mining, ore processing and other operations are adequate for the project location. Air discharges will have minimal effect on the local air environment.

7.6 Water Resources Protection

7.6.1 Water Requirements

Mine water is a valuable water resource and should be fully utilized and/or protected. Utilization of water at the mine includes: surface dust suppression, cleaning and vegetation, power plant cooling water, industrial usage, etc. Water is also required for the ore processing facility. Water is not abundant in the region. The climate and minimal precipitation at the Aleinuer site requires the Project to source its fresh water requirements from the Herlen Gol River, located 87 km north of the Project site. The only means of providing water for the Aleinuer project is by tapping ground water through boreholes (wells).

According to the CINF feasibility study, water consumption is estimated at 18,900 m³/d with the water usage and distribution described in Chapter 4. For this study, comprehensive water quality data for the Herlen Gol River source were not available. Fresh or new water requirements are estimated at 5,000 m³/d, which provides make-up water for the concentration plant, mine operation and site domestic purposes. Water conservation measures are incorporated into the site operating plan. Approximately 13,900 m³/d are recycled from the concentrator and tailing impoundment. The concentrator recycled water is taken from the plant thickeners, which separate the tailing and water prior to the slurry being transported to the tailing impoundment where the tailing precipitate over time.

7.6.2 Water Protection Measures

Waste water is generated from mine site (pit), concentrator facility, leach water at waste rock disposal site by precipitation, test lab waste water, boiler softening water and domestic sewage.

Pit Water Discharges

Water generation in the pit is sent to shallow basins for settling and precipitation before discharge to surface waters. Pollutant concentrations in the mine water are not anticipated to exceed relevant emissions standards. As a result, mine water can be used in mine production processes (for example, used as spray water for dust suppression) or discharged directly into nearby drainages. According to local climatic conditions, the mine effluents can evaporate naturally, and therefore, generally there are no significant pit discharges expected.

Concentration Plant and Other Industrial Discharges

Tailing are concentrated and dehydrated by the thickener from which the supernatant fluid is recycled to the plant. After the tailing is discharged to the impoundment, effluent water is discharged and used for dust sprays and recycle water for the processing plant. Effluents produced in the other industrial processes are collected through a pipeline network and discharged into the thickener, for recycling to the processing plant. Typically, effluents are not discharged from the concentration plant, and thus have little or no impact on the surface waters or environment.

Domestic Sewage

Domestic sewage is pumped into integrated treatment equipment to be treated and disinfected so as to meet relevant emission standards before transfer into precipitation tanks. A portion of the treated and disinfected water is used for afforestation, with the remainder evaporated.

Part of the stripping waste stone in the stope infrastructure is used for building a dam across the gangue store; part of it is piled up in the waste stone field. The waste stone field is located on the slope of the wasteland southwest of the final mining area of the opencast slope; the final elevation of the waste stone piled up is 995 m, covering an area of 24.35h m². The waste stone throughout the production period of the mine totals 11,298.5h m³, and the waste stone field entirely meets the demand of the service life of the mine.

The tailings of the concentration plant are piled up in the gangue store. The gangue store is located about 3.5 km to the east of the stope, with the effective capacity of 20,190.0 km³, covering an area of 3,000,000 m², providing 27.6 years of service for a concentration plant with an annual production capacity of 732.0 km³ of tailings, and so it can completely meet the tailings stockpiling requirements of the gangue store within its service life (25 years).

The boiler slag is mainly used for road paving or stockpiled in waste stone field.

7.7 Noise Control

The principal noise sources in the mining operation are generated from mobile equipment. In order to reduce the impact of the noise on the local environment, low noise generating equipment is preferred. Air compressors, hydraulic shovels, front-end loaders, dozers and trucks are planned to be installed with mufflers or such measures as enclosing the doors and windows of the drivers' operating compartments for noise muffling or reduction.

For the noise sources related to the crushers and ball grinding mills in the concentration plant, the primary control measures for noise prevention and control are shock insulation of the foundation, sound absorption and insulation of the engine rooms, and greening of the plant areas. Through adoption of the noise prevention and control measures, the noise intensity of the high noise equipment used for ore beneficiation can be reduced to less than 90 dB (A).

Because the project is located in the open grasslands, there are no sensitivities in the acoustic environment within the scope of 1,000 m around the concentration plant and the mine area. The planned prevention and control measures also significantly reduce noise. As a result, noise is expected to have minimal impact on the local environment.

7.8 Capital Expenditure on Environmental Protection

Capital spending for environment related facilities estimated at US\$0.9 million is shown below:

Description	(US\$000)
Waste storage site	262
Waste water impoundment	327
Ventilation and de-dusting facilities	92
Environment appraisal and acceptance	120
Monitoring instrument and equipment	74
Landscaping	22
Sewage treatment facility	3
Total	900

7.9 Soil and Water Conservation

The main task of soil and water conservation is to take effective measures to protect the water and soil resources throughout the process from the project construction and operation through the service life of the mine. Prevention and control of soil erosion is comprised of engineering design measures and afforestation or greening measures. Design measures include minimizing exposed pit area, conserving topsoil, managing rainwater run-off in the pit, rock storage facility and impoundment facility, etc. Greening measures include planting of native trees and grasses wherever practicable.

7.9.1 Soil and Water Conservation Capital Spending

The mine site is covered by grasslands but has little forest vegetation. Although precipitation in this area is low and large-scale soil erosion seems unlikely, mining activities such as stripping, waste rock piling, etc. disturb the original landform, transform the land structure, and disrupt original vegetation. Accordingly, soil and water conservation treatment is planned for the project.

The treatment scope includes the open pit mine, waste rock storage area, roads, tailing impoundment and other industrial land uses with the total area approximating 476,000 m². Approximately US\$5 million in spending is planned for soil and water conservation with the following breakdown:

Area	Capital (million USD)	Usage
Open-pit	0.10	Slope reinforcement, retaining wall, trenches, vegetation planting, etc.
Waste Rock Stockpile	0.05	Drainage trenches, retaining walls, etc.
Tailings Impoundment	4.85	Overflow trench, filtering dam, etc.
Total	<u>5.00</u>	

According to the soil and water conservation plan, a series of measures will be undertaken to reduce the impact of mining activities on soil and water environment. Drainage trenches in the pit and water retention dam at the lower side of excavated slopes will be built to collect the water generated during mining. Trenches are designed around the pit to stop water flowing into the pit. Materials and waste rock will be stored properly to avoid soil erosion. A permanent water and sand retention dam will be built around the waste rock stockpile and vegetation will be planted at the stockpile area, along roads, at office and living areas, and at the tailings area after the facility is closed.

7.9.2 Waste Rock Storage

The proposed site of the waste rock storage area is currently grassland. In consideration of land reclamation after the storage area is filled, the storage design requires separate excavation of the upper topsoil and storing the topsoil in area that will be undisturbed during the mine's operating life and that will not interfere with waste rock disposal. Recognizing the relatively flat terrain of the waste storage area, appropriate protective measures such as planting trees and grass can reduce water losses and erosion in post-mining.

7.9.3 Tailing Storage (Impoundment)

The tailing is stored in the storage facility or impoundment, which is designed to meet the requirements of the tailing disposal over the project service life. But, when the tailings, which are stockpiled in the gangue store of this project, get dry, there may be secondary raised dust due to the action of the wind on the tailings, thus affecting the quality of the local air environment of the mine area. In view of the above facts, the measures of sprinkling water in the gangue store in this project are taken in order to reduce the adverse influence of the tailings on the environment. At the expiration of the service life of the gangue store, measures such as reclamation and vegetation, closing the gangue store, etc. are taken.

In accordance with general international soil and water conservation practices, we believe effective methods are employed in the mine design to avoid, or to minimize, the loss of soil and water. We recommend close monitoring of soil and water conservation during mining and other operation activities, and analyzing the monitoring results timely and adjusting management accordingly to achieve the best soil and water conservation results.

8.0 RISK ASSESSMENT

8.1 Introduction

Mining operations are unlike other industrial facilities in that mines can be engineered or planned to a precise design capacity or cost structure, but there are inherent uncontrollable natural and external factors that can prevent the attainment of specified production, cost, and revenue targets. Mining operations are conducted in the earth's strata rather than within a homogeneous and controlled work environment.

There is inherent geologic risk, and mine operators must therefore contend with periodic adverse or variable geological conditions that cannot be fully anticipated in advance of actual mining activity. While the occurrences of these physical conditions are beyond the control of site management, it should not be construed that molybdenum ore mining is inherently risky. On the contrary, there are established measures that mine operators utilize to minimize the operational and financial impacts associated with such encounters.

Assessment of risk associated with any enterprise is largely subjective in nature and relies on the relevant experience of the professional completing the study in the specific industry and operating venue applicable to the subject enterprise. There are three general categories of business risk inherent in a mining operation, namely: geologic, operational, and market. For the purposes of this study and in accordance with SEHK guidelines, we define risk in three general categories of severity, as follows:

- **Major Risk:** A factor that would have a materially adverse effect (15% to 20% or higher) on project cash flow for the risk assessment period, possibly leading to project failure, if the specific risk occurred and was not corrected.
- **Moderate Risk:** A factor that would have significant adverse effect (10% to 15%) on project cash flow for the risk assessment period, if the specific risk occurred and was not corrected.
- **Minor Risk:** A factor that would have minimal or no adverse effect (less than 10%) on project cash flow for the risk assessment period, if the specific risk occurred and was not corrected.

However, equally, or perhaps more, important is the probability or likelihood that the specific risk will occur. For this study, risk assessment for the conceptual mining operation is considered with the following probability of occurrence ratings:

- **Likely:** Event is likely to occur.
- **Possible:** Event may occur.
- **Unlikely:** Event is unlikely to occur.

The overall risk assessment combines these two components, severity and probability, to determine the final categorization of risk, as shown below:

Probability of Risk Occurring	Severity (Consequence) of Risk		
	Minor	Moderate	Major
	Overall Risk Assessment		
Likely	Medium	High	High
Possible	Low	Medium	High
Unlikely	Low	Low	Medium

8.2 General Assessment

BOYD independently assessed the Aleinuer Project to be medium to high in overall risk for the following reasons:

- Although overall assessment of the geologic setting of the Aleinuer area is deemed simple to moderate (i.e., not geologically complex), current exploration efforts are categorized as being at the prospecting level. Additional drilling is required to confirm and delineate the molybdenum resources.
- Mining projections are based on Inferred resources, which is not adequate for project economic analysis.
- Ore processing assumptions are speculative owing to lack of test data concerning the appropriate methods for producing the molybdenum concentrate and addressing issues such as clays and other materials that may adversely impact the processing circuitry.
- Although the Aleinuer Mine is located in a metalliferous mining region where general conditions are known, remoteness of the mine site could impact staffing and recruiting needs.
- A Feasibility Study based on Measured and/or Indicated resources has not been completed.
- An environmental impact assessment report has not been completed.
- Except for routine production risks, BOYD has not identified any extraordinary operational risk issues relative to the projected operation of the Aleinuer Mine.
- While not anticipated, naturally occurring events such as flooding due to excessive rainfall or an earthquake could occur, but their impact would be regional in extent (i.e., not unique to Aleinuer). Recognizing that open pit mining methods are utilized, the impacts of naturally occurring events are likely to be minor.
- Molybdenum prices have exhibited considerable volatility over the past seven years and have recently stabilized at a level significantly below the high prices observed over the seven-year period.

The following text provides an expanded discussion of project risks and BOYD's assessment of Aleinuer's risk profile.

8.3 Geologic Risk

General Geologic Risk

On a regional basis, the geologic setting of the molybdenum ore deposit controlled by China Daye is judged to be simple to moderate (i.e., not geologically complex). Aleinuer mine resources projected for mining are not adequately defined by exploratory drilling and therefore the geologic risk is high.

Geologic Anomalies

Unforeseen geological anomalies that extend over large areas could disrupt open pit mine operations and require alterations of the mining plans. An event such as encountering a geological anomaly could result in the cessation of ore production for an undefined but extended period of time (measured in months) and a corresponding loss of revenues. Likewise, efforts to resume mining operations may result in cash losses during the period in which recovery and redevelopment activity is underway. Aleinuer resources are not sufficiently defined by drilling to minimize the risk of unforeseen geologic anomalies.

Risk Assessment

Severity:	Minor to High
Probability:	Unlikely to Possible
Overall:	Medium

8.4 Operational Risks – Naturally Occurring Events

Weather

Extraordinary weather occurrences (e.g., excessive rainfall) can result in disruption to the mining operations caused by power outages and loss of access into the mine site (movement of mine personnel, receipt of necessary operating supplies, etc.). The mine planning recognizes the potential for disruption to mining activities caused by extreme adverse weather conditions. Appropriate precautionary measures (diversion ditches and embankments) have been designed to avoid significant inrushes of water from storm sources.

Earthquakes

Available geologic background data report the general location of the Aleinuer area is not known to have seismic activity, and to the best of our knowledge there is no history of serious earthquake activity. Since the mine is open pit type, the impact on mining operations in the event of a significant earthquake would be minor. Impacts on the processing plant operation and the stability of the associated tailing impoundment structure could be significant depending on the earthquake severity.

Risk Assessment

Naturally occurring events of moderate severity would affect the broader region where the Aleinuer Mine is located.

Severity:	Minor to Moderate
Probability:	Unlikely to Possible
Overall:	Low

8.5 Operational Production Risks

8.5.1 Mining

Operational risks associated with open pit molybdenum ore mining include those variations in physical mining conditions, mechanical failures, and operational activities that can temporarily disrupt production activities. The most common of these are as follows:

- Poor mining conditions (poor slope stability).
- Water accumulations/soft pit floor conditions.
- Variations in deposit consistency, thickness, and structure.
- Failures or breakdowns of operating equipment and supporting infrastructure.

The preceding conditions and circumstances can adversely affect output in the short term, but are not regarded as having significant consequences for the long-term operation of the mine. BOYD does not regard the issues listed above as being material to Aleinuer's proposed mining operations or otherwise significantly compromising projected financial performance over the long term, although some short-term variance to projected output and financial performance should be anticipated.

Risk Assessment

Severity:	Minor to Moderate
Probability:	Likely
Overall:	Low

8.5.2 Processing

Operational risks associated with molybdenum ore processing include improper process design and variations in physical processing conditions, mechanical failures, and operational activities that can temporarily disrupt production activities. The most common of these are as follows:

- Improper design of the process flow sheet.
- Variations in ore feed mineralogy, tonnage and grade.
- Failures or breakdowns of operating equipment and supporting infrastructure.
- Supply interruptions/price variations of necessary consumables and reagents.

For a proposed, not-in-operation processing plant, as is the situation at Aleinuer, the first of these factors, improper process flow sheet design, is the most serious risk. There is always uncertainty involving metal ore processing design, but this is especially true for less commonly processed materials like molybdenum. An error in the design can reflect in poor molybdenum recovery and/or higher than expected operating costs due to increases in reagent usage. We deem the risk of a processing plant design flaw to be unlikely to possible although severity would be moderate to major.

The other conditions and circumstances can adversely affect production and costs in the short term, but are not regarded as significant to the long-term operation of the processing operations. BOYD does not regard these other issues as being material to Aleinuer's processing operations or otherwise significantly compromising projected financial performance over the long term, although some short-term variance to projected output and financial performance should be anticipated.

Risk Assessment

Severity:	Minor to Moderate
Probability:	Possible to Likely
Overall:	Moderate

8.6 External Risk – Regulation

Various levels of government are involved in the promulgation and enforcement of regulations under which the Aleinuer Mine must operate. These include operating standards and requirements, and the payment of fees and taxes. While governmental regulation policies are beyond the control of China Daye, the company is responsible for operating the mine and facilities in compliance with relevant Mongolian governmental regulations now in effect (or any future regulations).

The Aleinuer Mine will continue to be subjected to economic, political, and legal developments within Mongolia. Furthermore, molybdenum concentrate prices can be impacted by the government through regulation, taxes, and tariffs. These developments may impact Aleinuer's output.

Passage of more restrictive or onerous government regulations could have adverse effects on future Aleinuer operations, but such a risk is not quantifiable at this time.

Risk Assessment

Severity:	Minor to Major
Probability:	Possible
Overall:	Low to Medium

8.7 Market Risk

Achieving cash flow projections over any risk assessment period depend on several factors including sustained sales prices and operating costs as developed in the project's economic analysis.

BOYD has reviewed the plan output projections in the CINF October 2006 FSR and February 2007 Addendum reports and believes that the projections are generally achievable if further work is completed in respect of reserve definition. We have not identified significant geological or mining-related issues during our review that would prevent Aleinuer Mine from achieving projected ROM ore output levels if reserves are well-defined.

A reduction in market prices would have a material effect on financial performance. Such an event would occur if there were surplus molybdenum ore from other suppliers, or a reduction in demand for molybdenum ore. Although new competitors are unlikely to generate surplus production capacity as there are high barriers to entry (new mine development requires significant capital investment and government approvals), such developments would directly impact (lower) total company selling prices and revenues, negatively impacting economic performance.

Molybdenum prices have exhibited considerable volatility over the past seven years and have recently stabilized at a level significantly below the high prices observed over the period. Market risk is mitigated by the sustained growth of the Chinese economy, particularly, Inner Mongolian Autonomous Region, which shares its border with Mongolia. The growth of the Chinese economy is expected to continue for some time providing a market for molybdenum concentrate.

Risk Assessment

Severity:	Moderate to Major
Probability:	Likely
Overall:	High

8.8 Summary of BOYD's Risk Assessment

Hazard/Risk Issue	Risk Assessment		
	Severity	Probability	Overall
Geologic Overall (General)	Minor to High	Possible to Likely	Medium to High
Unforeseen Anomalies	Minor	Unlikely to Possible	Medium
Naturally Occurring Events (Weather)	Minor to Moderate	Unlikely to Possible	Low
Earthquakes	Minor to Moderate	Unlikely to Possible	Low
Routine Operational Risks (Mining)	Minor to Moderate	Likely	Low
Routine Operational Risks (Processing)	Minor to Moderate	Possible to Likely	Moderate
Compliance to Existing Regulations	Minor to Major	Possible	Low to Medium
Marketing (Commercial)	Moderate to Major	Likely	High

**Competent Person's Report
for The Sareke Copper Mine Project
Xinjiang Uyghur Autonomous Region
People's Republic of China**

**Report Prepared for
China Daye Non-Ferrous Metals Mining Limited**



Prepared by

 **srk** consulting

SHK155

December 2011

**Competent Person's Report for
the Sareke Copper Mine Project
Xinjiang Uyghur Autonomous Region,
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EXECUTIVE SUMMARY

China Daye Non-ferrous Metals Mining Limited ("China Daye") commissioned SRK Consulting China Limited ("SRK") to review the Sareke Copper Mine Project ("Sareke Project") operations located in Ulugqat County, Xinjiang Uyghur Autonomous Region, People's Republic of China. SRK was required to provide a Competent Person's Report ("CPR" or "Report") for inclusion in its circular to shareholders in relation to a proposed reverse takeover and deemed new listing by China Daye on the Stock Exchange of Hong Kong Limited ("HKEx").

SUMMARY OF PRINCIPAL OBJECTIVES

The purpose of this Report is to provide shareholders of China Daye and the HKEx with a CPR. China Daye intends to include this CPR with documents it plans to submit to the HKEx.

OUTLINE OF WORK PROGRAM

The work program involved two phases:

- Phase 1: Review of provided information, site visit to the Sareke Project in Ulugqat County, Xinjiang Uyghur Autonomous Region, People's Republic of China. Discussions with the technical staff of China Daye, and Sareke Mine, collection and review of documents; and
- Phase 2: Analysis of the provided data, writing a draft report, review of additional data and finalisation the report.

RESULTS**Overall**

Xinjiang Huixiang Yongjin Mining Ltd ("Huixiang Yongjin") a subordinate company of China Daye holds a mining licence and an exploration permit on the Sareke Project. Previous exploration work has discovered copper-silver mineralization in three zones within the permit, and defined mineral resources in the North Zone. Having carried out a reconciliation of the mineral resources between Chinese standard and JORC Code definition, SRK concluded that the North Zone currently has a JORC Code compliant resources of about 8.4 million tonnes (Mt) of Indicated Resource averaging 1.03%TCu (total copper), and about 4.3 Mt of Inferred Resource averaging 0.77%TCu. More exploration has been conducted in the South Zone and the East Zone, as well as in the North Zone, but a resource estimate/update has not yet been completed. SRK notes that there is silver mineralization associated with the copper mineralization.

A feasibility study has been done on developing the resource of the North Zone, and construction is in progress for the underground mining system and the associated ore processing plant. The study proposed an operation of 3,500 tonnes per day ("tpd") or 1.115 Million tonnes per annum ("Mtpa") of ore, and proposes to start production by the end of 2013. The mine access system consists of a main decline and a shaft for ventilation and emergency egress. Diesel trucks will be used to transport the ore mined from underground to the surface via the main decline. The mining methods proposed are primarily upward sublevel backfill stoping and secondarily upward sublevel horizontal backfill stoping. Tailings are proposed to be used for backfilling. In the study, the flotation method is proposed to process the copper ore at a recovery rate of 82% to produce a copper concentrate at 24.3%Cu and with 212g/t Ag.

Technically, SRK believes that the development schedule can be achieved, while further studies need to be conducted as soon as possible on some key aspects. The mine access for diesel powered trucks via a decline possesses risks due to the interference between ore transport, personal access and materials delivery, as well as contributing to underground air contamination. SRK converted current Indicated Resources into Probable Ore Reserves of 7.956 Mt averaging 0.96%TCu, which may support a mine life of seven years. The copper recovery of the proposed ore processing plant is based on the experimental results from the samples, which may be different from the actual ore of the mine. The high oxidation rate of the actual ore may reduce the recovery.

A total of about RMB (Chinese currency Renminbi) 460 million is budgeted for the capital cost of the 3,500 tpd project. The projected production cost per tonne of ore is RMB140.77 (before value added tax). SRK opines that the costs are reasonable and achievable. SRK believes that this figure is comparable to that of mines in this region.

It is SRK's opinion that the Sareke Project is a development project but which has great potential for an increase of mineral resources, and that the 3,500 tpd production capacity is appropriate for the overall project, while further studies should be conducted regarding some key issues, in particular, ore processing tests.

Operational Licences and Permits

The following table summarises the status of the key operational licences and permits for the Sareke Copper Mine.

Project Licences and Permits

Project	Business Licence	Exploration Licence	Mining Licence	Safety Production Permit	Land Use Permit	Water Use Permit	Site Discharge Permit
Sareke Copper Mine Project (3,500 tpd)	Y	Y	Y	NYR	NS	NYR ¹	NYR

¹Water resource assessment report sighted, groundwater well being developed

Notes: “Y” denotes the licence/permit is granted and has been sighted by SRK.

“N” means the licence/permit has not been completed or is not available.

“NYR” means that licence/permit is not yet required.

“NS” denotes that the licence/permit has not been sighted.

“n/a” indicates that it is not applicable.

The Safety Production Permit and Site Discharge Permit for the Sareke Copper Mine have not yet been issued. At the time of the site visit (July 2011), Huixiang Yongjin Mining stated that the applications for these permits will be submitted once the mining licence has been received. SRK notes that the mining licence was received in September 2011.

The water use permit for the Sareke Copper Mine has yet to be issued. However, SRK notes that, at the time of the site visit, Huixiang Yongjin Mining was developing a groundwater supply well. SRK has also sighted the Water Resource Assessment Report for the Sareke Copper Mine. This report will be submitted to the relevant local water bureau for the issuing of the project water use permit once the groundwater supply well has been completed.

SRK has not sighted the construction and/or operational land use permits for the Sareke Copper Mine.

Geology

Tectonically, the project area is located in the west margin of the Tuoyun basin, which is part of the Mesozoic-Cenozoic tensional depression basin above the Southwest Tianshan mountain Palaeozoic island arc. The Tuoyun basin lies in the northwest part of the Talimu basin, adjacent to the Hercynian strata-tectonics-magmatic belts of Southwest Tianshan Mountain in the north and West Kunlun Mountain in the south. From the oldest to the youngest, the strata of the mine area includes Proterozoic, Silurian, Jurassic, Cretaceous, and Quaternary age rocks, of which the third Section of Low Cretaceous and the second Section of Upper Cretaceous host the mineralization distribution.

In the Sareke Project, there are three mineralization zones. The North zone is located in the north wing of a syncline, and mineralised bodies are developed in the Cretaceous greyish-green conglomerate, trending as a stratiform shape in a NE-SW direction, with the strike of 250° , dipping to 160° at an angle of 30° . According to exploration results from Xinjiang Xinhui Geology and Mining Company Limited ("Xinjiang Xinhui") in 2008, three major bodies have been discovered in the North zone with two parallel ore bodies named #1 and #2-1, and one blind ore body named #3-1.

Ore body# 1 presents as a plank shape, with the length of 1000m, averaging 300m wide and 9.63m thick, at an average grade of 1.01%TCu.

Ore body# 2-1 ore body is about 1350m long, averaging 350m wide and 6.82m thick, at an average grade of 0.89%TCu and Ag 11.48g/t.

Ore body#3-1 body is a blind body, located between exploration line of 1 to line 6, presenting as lens-shape at an average grade of 0.76%TCu. Drillhole of ZK402 shows that the true thickness of ore body#3-1 is 56.35m with mineralization from borehole depth 221.95 to 289.94m, at an average grade of Cu 0.76% and Ag 11.48g/t.

The mineralization of other two zones, i.e. the South zone and the East zone, has not been clearly defined yet. The exploration work in the two zones is in progress. SRK expects that more mineralized bodies will be discovered in the zones.

SRK opines that the copper mineralization of the Sareke Project possesses the features of sedimentary-reform type, and stratibound type of deposits. The mineralized bodies usually occur along strata with a regular continuity and thickness, which is favourable for exploration.

Exploration

A total of 54 drillholes totalling 18,320.82m and trenching of 6438.05m³ had been conducted in the mine area from 2008 to 2009. In addition, high resolution ground magnetic surveys, topography surveys, geological mapping, ground hydrology, geotechnical surveys, specific gravity measurements, ore processing tests, petrologic studies and various relevant studies were also carried out by Xinjiang Xinhui. Xinjiang Xinhui is a qualified geological exploration unit as defined in China. SRK notes that currently the team is conducting more exploration in the project area.

Chinese Standard Resources

In February 2009 Xinjiang Xinhui completed a resource estimate for the North Zone of the Sareke Project. The following parameters were used:

- Cut-off grade: 0.3%TCu
- Minimum industry grade: 0.5%TCu
- Minimum mineable thickness: 2m
- Maximum band thickness: 2m

The horizontal projection geological section method was adopted to estimate the geological resource. The exploration grid in the north zone used was 100m by 100m to define the 332 category resources, and larger grid and extrapolation of 332 category was used to define 333 category resources, while the extrapolation of 333 category was used to define 334 predicted resources.

The Chinese resource statement of the North zone is summarized in the following table.

Chinese Resource Statement of the North Zone of Sareke Project by Xinjiang Xinhui as February 2009						
# body	Category	Copper			Accompanying Silver	
		Tonnage	Average grade (%)	Metal (t)	Average grade (g/t)	Metal (t)
1	332	5,870,000	1.18	69,300	10.69	62.8
2-1		3,070,000	0.83	25,500		32.8
Sub-total : 332		8,940,000	1.06	94,800	10.69	95.6
1	333	2,590,000	0.85	22,000	10.69	27.7
2-1		5,620,000	0.74	41,600		60.0
2-2		100,000	0.96	1000		1.0
Sub-total : 333		8,310,000	0.777	64,600	10.69	88.7
3-1	334	542,000	0.76	4,100	10.69	5.8
3-2		8,000	0.66	50		0.1
Sub-total : 334		550,000		4,150	10.69	5.9

The figures reported in the above table do not constitute resources as defined in JORC Code. As an indicative comparison, the 332 may be compared to Indicated Resources, 333 to Inferred Resources of JORC Code, while there is no equivalent in the JORC Code for the Chinese 334 category; but may be considered to be an exploration target. Appendix 1 gives a comparison between the Chinese resource classification system and the JORC Code classification system.

CHINESE RESOURCE RECONCILIATION WITH JORC CODE

SRK conducted a data verification program for previous exploration, sampling and assaying of the project. The core duplicate samples were taken from five drill holes which represent about 10% of all drilling conducted so far, and the samples were sent to ASL laboratory in Guangzhou for assaying. The results indicate that the core duplicate samples returned limited errors which are considered by SRK as reasonable and acceptable. The previous exploration defines the mineralized bodies well and can be used for a JORC Code resource reconciliation and estimate.

SRK used the database from previous exploration to rebuild the mineralized body and resource models for the project. The block models were created using Surpac software and were used to estimate tonnage and grade. An appropriate block cell size was selected for the deposits to enable SRK to generate a model that encapsulated the dipping mineralisation. A block size of 10m east-west (X), 10m north-south (Y) and 4m vertically (Z) was used. Classification of mineral resources was applied by SRK considering the criteria including the confidence in the geological interpolation, the exploration grid of the borehole data, the spatial continuity of the mineralization, and the quality of the estimation. Indicated Resources were classified where the average search distance was less than 120m in the block model, and Inferred Resources were classified where the average search distance was more than 120m but less than 400m. The following table summarises the JORC Code resource estimate of the North Zone of the project.

Resource Statement of Sareke Copper Deposit at Cut-off of 0.3% TCu by SRK as 30th June 2011				
Zone	Classification	Resource Tonnage (t)	Average Grade	Copper Metal (t)
			TCu (%)	
North	Indicated	8,398,000	1.03	86,000
	Inferred	4,315,000	0.77	33,300

The information in this report which relates to Mineral Resource is based on information compiled by Dr. Anshun Xu who is a full time employee of SRK China. Dr. Xu is a fellow of AusIMM. Dr. Xu has sufficient experience which is relevant to the style of mineralisation and the type of deposits under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 edition of the "Australasian Code for Reporting of Exploration results, Mineral Resources and Ore Reserves", the JORC Code. Dr. Xu consents to the reporting of this information in the form and context in which it appears.

For the category of Indicated Resource and 332, there is a difference of about 6% for the overall tonnage, and the grades are very close, which is acceptable. There is a large difference for the Inferred Resource category and 333 resources, while the grades are very close. SRK has not obtained detailed data about how Xinjiang Xinhui estimated the 333 resource, but believes that the difference on the category is acceptable.

Exploration Potential

Considerable exploration work has been completed in the North zone, so SRK believes that the overall resource potential of the zone has been explored. The exploration programs are under way in the South and East zones. In SRK's opinion the two zones possess great potential of hosting more mineralized bodies, and SRK believes more mineral resources will be discovered and estimated.

Reserves

A block model interpolated by SRK was used as the basis of an ore reserves estimate. SRK used the same cut-off grade, average mining dilution rate and mining loss rate that China ENFI Engineering Corporation ("ENFI") used to estimate ore reserves. SRK's result indicates that there is about 7,956 kt of Probable Ore Reserves, which has an average copper grade of 0.96%Cu, which can be mined. A summary of ore reserves in various elevation ranges is presented in the table below.

The ore reserve statement may support a seven year mine life at the capacity proposed by ENFI. SRK notes that there are Inferred Resources in the North zone, and more resource are likely to be defined in the South and East zones. Once the resource estimate has been upgraded, it may be able to be converted into ore reserve through considering the modifying factors, so the mine life can be extended.

Ore Reserve Estimate of Sareke Copper Deposit at Cut-off of 0.3%TCu as 30th June 2011

Elevation (m)	Probable	
	Tonnage (kt)	Cu (%)
>=2820	870	0.76
2730~2820	2,127	0.97
2640~2730	4,648	1.03
<=2640	311	0.53
Total	7,956	0.96

The information in this report which relates to Ore Reserves is based on information compiled by Mr Qiuji Huang who is a full time employee of SRK China. Mr. Huang is a member of AusIMM. Mr Huang has sufficient experience which is relevant to the style of mineralisation and the type of deposits under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 edition of the “Australasian Code for Reporting of Exploration results, Mineral Resources and Ore Reserves”, the JORC Code. Mr Huang consents to the reporting of this information in the form and context in which it appears.

Mining

Sareke Copper Mine is divided into a north zone, a south zone and an east zone. In the north zone, there was previously a 200tpd open pit mining operation. For the expansion of production, ENFI produced a feasibility study for mining on the north zone that includes orebody I, II-1 and III.

The feasibility study produced by ENFI dated May 2011 proposed a production of 3,500tpd or 1,155ktpa. The estimated annual reserve depletion rate for the Sareke mine is 1,155 tonne per annum. The mine will be accessed by decline and diesel trucks. The mining methods proposed are primarily upward sublevel backfill stoping and with subsequent upward sublevel horizontal backfill stoping. Tailings are proposed to be used for backfilling mined stopes. The overall mining loss has been estimated at 11% and dilution at 6%. The ore production capacity in each block ranges from 400 to 1,200tpd.

At the time of SRK's visit, the main decline had been developed for over 500m and the development of the ventilation shaft had been started. The mine electricity and water supplies are expected to be in place at the end of 2011. The mine is expected to commence production at the end of 2013.

Having conducted the site visit and review on the geology (including the resources) and feasibility study, SRK believe that the project is a medium sized project in China. Generally, the geological exploration level is relative low; however as it is the basis for the mining design in the feasibility study, therefore the mine design is not considered by SRK to be robust. Therefore there is still room for improvement regarding the mining method, production scale and working schedule.

Processing

Copper and silver are the two elements that are valuable in the ore of Sareke copper mine. Silver is found inter-grown with copper, has similar floatation characteristics with copper and can be recovered in copper concentrate. The oxidization rate of copper mineral varies at different depths from 82% on the surface to 7% at depth; while the average oxidization rate is 40.34%. The ore is categorized as oxidized to semi-oxidized type. However, metallurgical testings conducted selected samples with low oxidization rates that ranged from 7.92% to 14.52% and high grade, which does not represent the overall ore in the deposit. The tests can only prove that the sulphide copper mineral has good amenability but cannot verify the floatation characteristics of oxidized copper minerals. The metallurgical testwork is one of the most important inputs for the design of the concentrator; therefore a non-representative test may lead to a less robust and higher risk design. The concentrator design was produced by ENFI and matches the production of mining of 3,500tpd. In the design, flotation is used to treat the copper ore from the underground mine to produce a copper concentrate at 24.3%Cu and containing 212gpt Ag from a copper recovery of 82%.

The concentrator was under construction during the SRK visit and aimed to commence production at the end of year 2013. SRK suggests additional metallurgical tests should be conducted on the different types of ore with different oxidization.. The results of such tests would provide sound indications for the concentrator flow sheet design, technology and parameters to reduce risk.

Safety

SRK has sighted the safety assessment report for the Sareke Copper Mine but SRK has not sighted the approval for this report.

SRK has not sighted the Occupational Health and Safety ("OHS") management system/procedures – and OHS records (for incidents and accidents) for the Sareke Copper Mine. Huixiang Yongjin Mining has stated that the OHS management system/procedures have been yet to be developed and the recording of incidents and accidents will be established when the project is commissioned in 2013.

Capital Cost

The feasibility study produced by ENFI dated May 2011 forecasted the capital cost to achieve the 3,500tpd production summarized in the table below.

Capital Cost Estimation of Sareke Project

Items	RMB000'
Mining facilities	176,100
Ore Processing plant	70,930
Tailings storage facilities	43,070
Production Service facilities	58,260
Living and office facilities	14,470
Other	48,090
Subtotal	410,920
Contingent (10%)	41,092
Working Capital	8,110
Grand Total	460,122

The majority of the capital listed will be spent from early 2011 to the end of 2013. SRK is of the opinion that the proposed capital expenditure is likely to achieve the Companies' aims, and results in the forecast production for the mine and concentrator.

Operational Cost

The feasibility study provided a forecast of the operating cost breakdown as RMB per tonne of ore mined and processed shown in the table below.

Operating Cost Breakdown per Tonne of Ore Mined and Processed

Items	RMB/t ore
Supportive materials	47.32
Power	18.88
Spare and backup materials	2.57
Salary and welfare	16.71
Repair and maintenance fee	5.99
Interest	5.89
Other	18.48
Depreciation	20.53
Amortization	4.4
Value added tax	12.93
Total Cash Cost	128.77
Total	153.71

The unit operating cost is comparable to that of similar mines in China. However it is a static forecast without consideration of inflation and will change from time to time during the mine operation.

ENFI also projected the unit operating cost by production departments, as RMB153.71 per tonne of ore. The table below gives details.

Operating Cost per Tonne of Ore Mined and Processed at the Sareke Project

Items	RMB/t ore
Mining cost	60.42
Ore Processing cost	34.27
Sales cost	4.41
Accounting cost	5.89
Management cost	6.59
<i>Depreciation for mining</i>	<i>12.37</i>
<i>Depreciation for ore processing</i>	<i>8.16</i>
<i>Amortization for management</i>	<i>4.41</i>
<i>Royalty (Resource compensation fee)</i>	<i>4.26</i>
<i>Value Added Tax</i>	<i>12.93</i>
<i>Total Cash Cost</i>	<i>128.77</i>
Total	153.71

The estimated total depreciation and amortisation set out in the table above have taken into account the estimated potential depletion charges, which account for more than 90% of the estimated total depreciation and amortisation, after the mine commercial production.

SRK opines that the operating cost is reasonable and achievable.

Environmental and Social

The following table summarises the status of the environmental assessment and approvals for the Sareke Copper Mine.

Project	Environmental Impact Assessment Report (EIA)	Approval for EIA¹	Water and Soil Conservation Plan (W&CP)	Approval for WSCP²	Final Checking and Acceptance Approval³
Sareke Copper Mine Project (3,500 tpd)	Y	NS	Y	NS	NYR

¹ Approval for EIA is from Environmental Protection Bureau

² Approval for WSCP is from Water and Soil Bureau

³ Formal environmental approval to commence operating

Notes: "Y" denotes the approval is granted and has been sighted by SRK. "N" means the approval has not been completed or is not available. "NYR" means that approval is not yet required. "NS" denotes that the approval has not been sighted.

"n/a" indicates that it is not applicable.

The potential environmental and social risks for the Sareke Copper Mine are:

- Land disturbance, rehabilitation and site closure.
- Water management (i.e. tailings and mine water).
- Waste rock management.
- Tailings storage (i.e. TSF design, construction and operation).
- Dust management.
- Land contamination (hydrocarbon storage and handling).
- Land access/compensation

The above environmental and social risks are categorised as moderate/tolerable risks (i.e. requiring general operational risk management measures). Based on the review of the information provided and the site visit observations, it is SRK's opinion that the environmental and social risks for the Sareke Copper Mine are generally being managed or are proposed to be managed, in accordance with Chinese National requirements. SRK also notes that at time of this review, the following internationally recognised environmental management practices are not being undertaken for the Sareke Copper Mine:

- Internal/operational monitoring of the site environmental discharges/potential impacts.
- Operational environmental management planning.
- Site closure planning.
- Contaminated sites assessment and remediation process.

Project Risk Analysis

The Sareke Project is an exploration-development project with some previous production. Risks exist in different areas. SRK considered various technical aspects which may affect the feasibility and future cash flow of the project, in particular for the 3500tpd production, and conducted a risk assessment which has been summarized in the following table.

Sareke Project Risk Assessment Table

Risk Issue	Likelihood	Consequence	Overall
Geology and Resource			
Lack of Significant Resource	Unlikely	Moderate	Low
Lack of Significant Reserve	Possible	Major	High
Unexpected Groundwater ingress	Possible	Moderate	Medium
Mining			
Significant Production Shortfalls	Possible	Major	High
Pumping System inadequacy	Unlikely	Moderate	Low
Significant Geological Structures	Possible	Moderate	Medium
Excessive Surface Subsidence	Unlikely	Minor	Low
Poor Underground Condition	Unlikely	Moderate	Low
Poor Mine plan	Possible	Moderate	Medium
Poor Road Transportation/safety	Unlikely	Moderate	Low
Ore Processing			
Lower Production Rate	Possible	Minor	Low
Lower Recovery	Possible	Major	High
Higher Production Cost	Possible	Moderate	Medium
Low Plant Reliability	Unlikely	Moderate	Low
Environmental and Social			
Significant land disturbance, rehabilitation and site closure requirements	Certain	Moderate	Medium
Poor water management (i.e. tailings and mine water)	Possible	Moderate	Medium
Poor waste rock management	Possible	Moderate	Medium
Poor tailings storage (i.e. TSF design, construction and operation)	Possible	Moderate	Medium
Poor dust management	Likely	Moderate	Medium
Significant land contamination (hydrocarbon storage and handling)	Likely	Moderate	Medium
Significant cost of land access/compensation	Certain	Moderate	Medium
Capital and Operating Costs			
Project Timing Delay	Unlikely	Moderate	Low
Poor Mine Management-Plan	Possible	Minor	Low
Capital Cost Increases	Possible	Minor	Low
Higher Capital Costs- ongoing	Unlikely	Minor	Low
Operating Cost Underestimated	Unlikely	Moderate	Low

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DISCLAIMER

The opinions expressed in this Report have been based on the information supplied to SRK Consulting China Limited ("SRK") by China Daye Non-ferrous Metals Mining Limited ("China Daye"). The opinions in this Report are provided in response to a specific request from China Daye to do so. SRK has exercised all due care in reviewing the supplied information. Whilst SRK has compared key supplied data with expected values, the accuracy of the results and conclusions from the review are entirely reliant on the accuracy and completeness of the supplied data. SRK does not accept responsibility for any errors or omissions in the supplied information and does not accept any consequential liability arising from commercial decisions or actions resulting from them.

LIST OF ABBREVIATIONS

Abbreviation	Meaning
ARD	Acid Rock Drainage
ASL	Above Sea Level
AusIMM	Australasian Institute of Mining and Metallurgy
bcm	bank cubic metre
BD	Bulk Density
oC	degrees Celsius
CAPEX	Capital Expenditure
CPR	Competent Person's Report
China Daye	China Daye Non-ferrous Metals Mining Limited
dB	Decibel
deposit	Earth material of any type, either consolidated or unconsolidated, that has accumulated by some natural process or agent
E	East
EIA	Environmental Impact Assessment
ENFI	China Enfi Engineering Corporation
EPMP	Environmental Protection and Management Plan
ERP	Emergency Response Plan
g	Gram
ha	Hectare
HKEx	The Stock Exchange of Hong Kong Limited
Huawei	Xinjiang Huawei Geology Engineering Ltd
Huixiang Yongjin Mining	Xinjiang Huixiang Yongjin Mining Company Limited, the company that operates the project
IER	Independent Expert Report
IFC	International Finance Corporation
IPO	Initial Public Offering
ITR	Independent Technical Review
JORC Code	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 (JORC), December 2004.
Kg	Kilogram
Km	Kilometre
km ²	square kilometre
kV	Kilovolt
kW	Kilowatt
L	Litre
M	Metre
M	Million

m RL	metres Reduced Level
m ³	cubic metre
Mt	million tonnes
Mtpa	million tonnes per annum
MW	Megawatt
N	North
NPV	Net Present Value
OHS	Occupational Health and Safety
OPEX	operating expenditure
PPE	Personal Protective Equipment
PRC	People's Republic of China
QA/QC	quality assurance/quality control
RMB	Renminbi
ROM	run of mine
S	South
SAG	Semi Autogenous Grinding
SABC	Semi Autogenous Ball milling Crushing
Sareke	Sareke Copper Project
SRK	SRK Consulting (China) Limited
T	Tonne
Tpa	tonnes per annum
Tpd	tonnes per day
TSF	Tailings Storage Facility
USD	United States Dollars
VALMIN Code	Code for the Technical Assessment and Valuation of Mineral and Petroleum Assets and Securities for Independent Expert Reports
W	West
WRD	waste rock dump
WSCP	Water and Soil Conservation Plan
Xinjiang Xinhui	Xinjiang Xinhui Mining Ltd
>	greater than
<	less than
%	Percent

1 INTRODUCTION AND SCOPE OF REPORT

China Daye Non-ferrous Metals Mining Limited ("China Daye") commissioned SRK Consulting China Limited ("SRK") to review Sareke Copper Mine Project ("Sareke Project") located in Ulugqat County, Xinjiang Uyghur Autonomous Region, People's Republic of China, to review data supplied by China Daye and to provide a Competent Person's Report ("CPR"). The operations are owned and operated by China Daye.

2 PROGRAM OBJECTIVES AND WORK PROGRAM

2.1 Program Objectives

Objectives of the program were to provide China Daye with both verbal feedback and a written report through the review of provided data and participation in a site visit.

2.2 Purpose of the Report

The purpose of this Report is to provide a CPR for inclusion in a listing circular to be issued by China Daye to support its proposed transaction on The Stock Exchange of Hong Kong Limited ("HKEx").

The purpose of this Report is to provide potential shareholders and HKEx with a CPR suitable for inclusion in documents that China Daye plans to submit to HKEx in relation to a proposed acquisition of the Sareke Project.

2.3 Reporting Standard

This Report has been prepared to the standard of and is considered by SRK to be, a Technical Assessment Report under the guidelines of the VALMIN Code. The VALMIN Code incorporates the Joint Ore Reserves Committee ("JORC") Code for the reporting of Exploration Data, Mineral Resources and Reserves.

This report is also a competent person's report ("CPR") as defined in the rules of Chapter 18 of HKEx. It is not a Valuation Report and does not express an opinion as to the value of Mineral Assets. Aspects reviewed in this report include the geology of the deposit, the integrity of the exploration data, Resources, Reserves, mining, processing, safety, capital costs, operating costs, infrastructure, significant contracts, environmental sustainability, and socio-political issues. However, SRK does not express an opinion regarding the specific value of the assets involved.

In this Report, identified Resources and mineable Reserves are described using categorizations in accordance with JORC Code. These Resources and Reserves are JORC Code compliant. Discussion about the exploration data can be found in the appropriate section of the Report.

2.4 Work Program

The work program included the following items:

- Desktop review of data provided by China Daye and planning for a site visit was undertaken.
- A site visit was conducted to Ulugqat County, Xinjiang, from 23rd to 26th of July 2011 to inspect the Sareke Project and discuss technical aspects with staff of China Daye and Sareke mine.
- Review of the data, detailed analysis of available data and preparation of a draft report by SRK as required.
- Completion of a CPR which is in line with the reporting requirements of the HKEx.

2.5 Project Team

The SRK team and their areas of responsibility are as in Table 21 and their short bios are followed.

Table 21: SRK Consultants, Title and Responsibility

Site Visit Duration	Consultants	Title and disciplines	Responsibilities
2011/06/23 – 2011/06/26	Dr. Anson Xu	Principal Consultant/ Geology and Resource	Project leader & report compiling
2011/06/03 – 2011/06/05 and 2011/06/23 – 2011/06/30	Mr. Jinhui Liu	Senior Geologist/ Geology and Resource	Geology review and resource estimation
2011/06/23 – 2011/06/30	Dr. Jinlong Dou	Consultant/ Geology and Resource	Geology review and resource estimation
2011/06/23 – 2011/06/26	Mr. Qiuji Huang	Senior Consultant/Mining	Mining and Reserve review
	Mr. Yonggang Wu	Senior Consultant/ Mining and Reserve	Mining and Reserve review
2011/06/23 – 2011/06/26	Mr. Lanliang Niu	Senior Consultant/ Mineral Processing	Processing review
2011/06/23 – 2011/06/26	Mr. Peter Smith	Principal Consultant/ Environment and Social	Environmental social and permitting review
	Dr Yonglian Sun	Principal Consultant	Internal peer review and quality control.
	Mr. Mike Warren	Cooperate Consultant	External peer review and quality control

Anshun (Anson) Xu, PhD (Geology), FAusIMM, is a Principal Consultant (geology) who specializes in exploration of mineral deposits. He has more than 20 years experience in exploration and development of various types of mineral deposits including copper-nickel sulphide deposits related to ultra basic rocks, tungsten and tin deposits, diamond deposits, and in particular, various types of gold deposits, vein-type, fracture-breccia zone type, alteration type, carlin type. He was responsible for resource estimations of several diamond deposits, and review of resource estimations of several gold deposits. He recently completed several due diligence jobs for clients from both China and overseas including technical review projects such as Canadian NI43-101 reports and HKEx IPO technical reports. ***Dr. Xu was the project manager and competent person of the report.***

Jinhui Liu, M.Sc, MAusIMM, is a Senior Consultant (geology). He has more than 7 years experience in mineral deposit exploration. He has been involved in many due diligence and QA/QC projects, as well as Canadian NI43-101 reports and HKEx IPO technical reports for different clients. He is familiar with a range of deposit types and his studies cover a very broad spectrum of commodities and countries and includes: gold, copper, iron, nickel, lead-silver-zinc, iron and molybdenum in Mongolia, Indonesia, Kyrgyzstan, Madagascar and China. He specializes in several software packages such as Surpac, Micromine, and Leapfrog for geological modelling, data interpretation, JORC Code resource estimates and classification. Mr. Liu was the competent person for mineral resource statement. ***He assisted Anson in reviewing the geology and resources.***

Jinlong Dou, PhD, Senior Mining Engineer is a Senior Consultant (Geology). He has a doctor degree in mining engineering from Beijing University of Science and Technology and a master degree in mineral deposits from China University of Geosciences. He has 4 years experience in geological exploration and mining. Dr. Dou has extensive experience in management and operation of mining in open-pits. He is proficient with geological exploration, geological modelling and resources estimation, as well as compiling technical reports. ***He assisted Anson in reviewing the geology and resources.***

Qiuji Huang, B.Eng. MAusIMM, Mining Association of the Chinese Society for Metals Member, China Association of National Gold member, is a Senior Consultant (mining). Prior to joining SRK, he was the technical department manager of gold mines in Southwest China, responsible for mine development and mining design. Later he joined the Gold Administration Bureau of Guangxi province and Guangxi Branch of National Gold, in charge of review, purchase, planning, and production management. Mr. Huang has nearly 30 years of mining experience, including deposit development and planning, open-pit mining, underground mining, mine design and consultation. The commodities involved range from precious metals (Au, Ag), non-ferrous metals (Cu, Zn, Pb, W, Mo), ferrous metals (Fe, Mn) to other metal deposits as well as non-metallic deposits formed under different conditions (such as: U, K, S, coal and stone). Other experience includes mine technology, review, mine construction, production test and mine management. After joining SRK, Mr. Huang has been involved in many due diligence studies in China, Asia, Africa and South America, including reviews for CNNC and CITIC DAMENG, who have been listed successfully in Hong Kong. Mr. Huang was the competent person for the ore reserve statement. ***He reviewed the mining section of the project.***

Yonggang Wu, M.Eng. is a Senior Consultant (Mining). He joined SRK after graduation from Jiangxi University of Science and Technology in 2007. He has accumulated a lot of experience in resource/reserve estimation, pit limit optimization and design, underground mining design, long-term production planning, due diligence studies. Yonggang has expertise in geological and mining modeling and is proficient in using MineSight, AutoCAD, and other mining software. *He assisted Mr Huang in reviewing the mining section.*

Lanliang Niu, B.Eng. MAusIMM, MCAMRA, is a Senior Consultant (processing). He graduated from Beijing University of Science and Technology in 1987. He has worked for Henan Rock and Ore Testing Centre, as well as Zhengzhou Mineral Exploitation Researching Institute of the China Academy of Geological Sciences. He has over 20 years experience in mineral processing studies and mine technical service, having mastered the related theories and accumulated extensive experience in practice. He is proficient with the mineral processing involving precious metals (Pt, Au, Ag), nonferrous metals (Pb, Zn, Cu, Mo), ferrous metals (Fe, Mn, Ti) and some non-metallic materials (such as Kyanite, Fluorite, Barite, Rutile, Graphite). He has specific expertise in precious metal hydrometallurgy and sulfide minerals flotation. He received two national awards for his achievements in this area. After joining SRK, he has been responsible for the ore processing and metallurgical scope of work and involved in many key projects including Jiashengpan Lead and Zinc Mine in Inner Mongolia, Jianshui Titanium Mine in Yuannan and Longxin Iron Mine in Chengde. *He reviewed the processing section of the project.*

Peter Smith, B.Sc, MAusIMM is a Principal Consultant (Environmental) with SRK Consulting China. He is an environmental scientist with 20 years experience in environmental management for the mining and mineral processing industries. This experience has been gained mainly from within Australia and China. He has also undertaken environmental due diligence reviews for projects in Mongolia, Uruguay, Saudi Arabia and Serbia. He has been involved in all aspects associated with the environmental management of exploration, mining and mineral processing projects. He has particular expertise in environmental due diligence reviews, environmental auditing, environmental impact assessment, project approvals and permitting, environmental management systems, rehabilitation and closure planning, and environmental risk assessment. *He reviewed the environmental section of the project including the permitting.*

Dr Yonglian Sun, BEng, PhD, MAusIMM, MIEAust, CPEng, is a principal consultant and the managing director of SRK China with over 20 years experience in geotechnical engineering, rock mechanics and mining engineering in five countries across four continents. He has extensive international mining experience with an emphasis in site investigation, analysis and modelling of geotechnical issues in open pits, underground mines and tunnels. He also has considerable experience in project management and project evaluation in assisting mines for fund-raising and overseas stock listings. He has recently coordinated and worked on a number of due diligence projects such as Lingbao Gold, China Coal, and Yueda Holding's Pb-Zn, and Xinjiang Xinxin Cu-Ni projects. All have been successfully listed on the HKEx. *Dr Sun was the internal peer reviewer of the report to ensure the quality of the project.*

Mike Warren, B.Sc (Mining Eng), MBA, FAusIMM, FAICD, is a Corporate Consultant (Project Evaluation) and the director of SRK based in Sydney. Mr. Warren is a mining engineer with over 30 years experience in on-site management and leading, as well as 5 years experience in investment banking. Mr. Warren has led SRK teams to evaluate mining projects in Australia, New Zealand, Papua New Guinea, Canada, Brazil, Mongolia and China. He has been involved in some projects in China, including IPO of Fujian Zijin Mining in Hong Kong, listing of Aluminium Corporation of China both in Hong Kong and New York, IPO of Lingbao Gold in Hong Kong, IPO of Xinjiang Xinxin Mining in Hong Kong and listing of Sino Gold Mining in Hong Kong. *Mike was the external peer reviewer of the report to ensure the quality of the project.*

2.6 Competent Person Statement

Statement of Qualification of the Competent Person, Dr Anson Xu:

As the main author of the report for China Daye Non-ferrous Metals Mining Limited on Sareke Copper Mine Project located in Ulugqat, Xinjiang Uyghur Autonomous Region, People's Republic of China, I, Anson (Anshun) Xu, do hereby certify that:

- I am employed by, and carried out the assignment for SRK Consulting China Limited, located at:

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No. 8 Jianguomen Nei Dajie
Beijing, People's Republic of China
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Fax: 86-10-8512 0385
Email: axu@srk.cn
- I graduated with a Bachelor's degree in Geology of Mineral Deposits from Nanjing University, China (B.Sc.) in 1982, a Master's degree in Geology of Mineral Deposits from Chengdu University of Technology, China (M.Sc.) in 1988, and a Doctor's degree in Geology from University of Nebraska-Lincoln, USA (Ph.D.) in 1996.
- I am a Fellow of the Australasian Institute of Mining and Metallurgy (FAusIMM) (No. 224861).
- I have been directly involved in geological research and mineral exploration for more than 20 years.

- I have read the definition of “competent person” set out in HKEx listing rules and certify that by reason of my education, affiliation with a professional associations (as defined in the listing rules) and past relevant work experience, I fulfill the requirements to be a “competent person” for the purposes of the technical report.
- I visited the Sareke Copper Mine Project sites in June 2011.
- I am the primary author responsible for the preparation and compilation of the report, and supervised Mr. Jinhui Liu, Dr. Jinlong Dou and Mr. Qiuji Huang to prepare the resource section and the mining section.
- I have had no previous involvement with the Sareke Project. I have no interest, nor do I expect to receive any interest, either directly or indirectly, in the Sareke Project, nor in the securities of China Daye.
- I am not aware of any material fact or material change with respect to the subject matter of the Technical Report that is not reflected in the Technical Report, the omission to disclose which makes the Technical Report misleading.
- I am independent of the issuer applying all of the tests in sections 18.21 and 18.22 of the listing rules of HKEx.
- I consent to the filing of the Technical Report with HKEx and other regulatory authority and any publication by them, including electronic publication in the public company files on their websites accessible by the public, of the Technical Report.

Mr. Jinhui Liu, Mr. Qiuji Huang, Mr. Lanliang Niu, Mr. Peter Smith, Dr. Yonglian Sun and Mr. Mike Warren are also independent competent persons on resource verification program, mining and ore reserves, ore processing, and environmental and social issues, and overall quality control. Their qualifications have been outlined in the short biographical notes above.

2.7 Statement of SRK Independence

Neither SRK nor any of the authors of this Report have any material present or contingent interest in the outcome of this Report, nor do they have any pecuniary or other interest in the project and the companies that could be reasonably regarded as being capable of affecting their independence or that of SRK.

SRK has no prior association with China Daye and its subsidiaries in regard to the mineral assets that are the subject of this CPR, within two years immediately preceding the issue of this report. SRK has no beneficial interest in the outcome of the technical assessment being capable of affecting its independence.

SRK's fee for completing this Report is based on its normal professional daily rates plus reimbursement of incidental expenses. The payment of that professional fee is not contingent upon the outcome of the Report.

None of SRK or any authors of this report has any shareholding, directly or indirectly, any member of the company and its subsidiaries (whether legally enforceable or not) or any right to subscribe for or to nominate persons to subscribe for securities in any member of the company or its subsidiaries. None of the authors of this report is an officer, employee or proposed officer of the company or its subsidiaries.

2.8 Representation

China Daye has represented verbally to SRK that full disclosure has been made of all material information and that, to the best of its knowledge and understanding, such information is complete, accurate and true.

2.9 Indemnities

As recommended by the VALMIN Code, China Daye has provided SRK with an indemnity under which SRK is to be compensated for any liability and/or any additional work or expenditure resulting from any additional work required:

- Which results from SRK's reliance on information provided by China Daye or to China Daye not providing material information; or
- Which relates to any consequential extension workload through queries, questions or public hearings arising from this Report.

2.10 Consents

SRK consents to this Report being included, in full, in the China Daye Non-ferrous Metals Mining Limited prospectus, in the form and context in which the technical assessment is provided, and not for any other purpose.

SRK provides this consent on the basis that the technical assessments expressed in the Summary and in the individual sections of this Report are considered with, and not independently of, the information set out in the complete Report and the Cover Letter.

2.11 SRK Experience

The SRK group employs over 1,000 professionals internationally and has 43 permanently staffed offices in many countries on 6 continents. SRK in Australia has more than 160 staff in 5 offices in Perth, Sydney, Newcastle, Melbourne and Brisbane. SRK in China has the headquarter office in Beijing, a satellite office in Nanchang and a representative office in Ulaanbaatar of Mongolia. SRK has considerable experience in providing independent assessments for companies listed on stock exchanges in Australia, Britain, Canada, Hong Kong, South Africa and the US. In China, SRK has provided Independent Technical Review Reports for companies as shown in Table 2-2.

Table 22: Recent Reports to HKEx by SRK

Company	Year	Nature of Transaction
Yanzhou Coal Limited (listed in HKEx)	2000	Sale of Jining III coal mine by parent company to the listed operating company
Chalco (Aluminum Corporation of China)	2001	Listing on HKEx and New York Stock Exchange
Fujian Zijin Gold Mining Group	2004	Listing on HKEx
Lingbao Gold Limited	2005	Listing on HKEx
Yue Da Holdings Limited (listed in HKEx)	2006	Acquisition of shareholding in mining projects in Yuunan China and the transaction was completed in HKEx
China Coal Energy Company Ltd (China)	2006	Listing on HKEx
Sino Gold Mining Limited	2007	Dual Listing on HKEx
Xinjiang Xinxin Mining Industry Company Limited	2007	Listing on HKEx
Kiu Hung International Holding Limited	2008	Acquisition of shareholding in coal projects in Inner Mongolia,
China Shenzhou Mining and Resources	2008	Listed (SHZ) on the American Stock Exchange
Hao Tian Resource Group Limited	2009	Very Substantial Acquisition in HKEx of two coal mines in Inner
Green Global Resources Holdings Ltd	2009	Acquisition of shareholding in one iron project in Mongolia
Ming Fung Jewellery Group Holdings Ltd	2009	Acquisition of shareholding in gold project in Inner Mongolia, China
Continental Holdings Limited	2009	Acquisition of gold project in Henan Province China
North Mining Shares Company Limited	2009	Acquisition of a molybdenum mining project in Shaanxi Province
CNNC International Ltd	2010	Acquisition of an uranium mine in Africa
Sino Prosper Mineral Products Ltd	2010	Acquisition of shareholdings in one gold project in Inner Mongolia,
New Times Energy Corporation Ltd	2010	Acquisition of shareholding in gold projects in Hebei, China
Citic Dameng Holdings Limited	2010	IPO Listing on HKEx

2.12 Forward-Looking Statements

Estimates of resources, reserves and mine production are inherently forward-looking statements, which being projections of future performance will necessarily differ from the actual performance. The errors in such projections result from the inherent uncertainties in the interpretation of geologic data, in variations in the execution of mining and processing plans, in the inability to meet construction and production schedules due to many factors including weather, availability of necessary equipment and supplies, fluctuating prices, ability of the workforce to maintain equipment, and changes in regulations or the regulatory climate.

The possible sources of error in the forward-looking statements are addressed in more detail in the appropriate sections of this report. Also provided in the report are comments on the areas of concern inherent in the different areas of the mining and processing operations.

3 PROJECT LOCATION AND GEOGRAPHY

3.1 Regional Location and Access

The Sareke copper mine is located in Wulukeqati Township, approximately 137km northwest of Ulugqat County, Xinjiang Uygur Autonomous Region, People Republic of China, at geographic coordinates of longitude $74^{\circ} 32'00''$ - $74^{\circ} 38'00''$ E and latitude $40^{\circ} 00'00''$ - $40^{\circ} 03'00''$ N (see Figure 31). The county town of Ulugqat is about 100km northwest of Kashgar. From Kashgar to Wulukeqati Township there is a paved highway (the freeway is under construction). A dirt road services from the township to the mine. There are daily flights between Kashgar and Urumqi, and between Urumqi and major cities of China.



Figure 31: Location Map of Sareke Project

3.2 Geography

The working area lies in the west section of Southwest Tianshan Mountain with an elevation ranging from 2,500m to 4,600m above sea level ("ASL"). There is a river named the Zhuoyoulesu River in the south of property. The area belongs to continental desert climate, with an average annual temperature 6.7°C, the maximum 34°C, and the minimum -29.4°C. The average annual rainfall is 170mm, concentrated in the period from May to August. Annual evaporation is 2,400 mm, and the frost-free period is about 170 days. A northwest wind usually occurs from March to May with the historical maximum wind reaching Beaufort Scale 11 (28.6-32.5m/s). The main causes of natural disasters are ice, hail and earthquake.

4 OPERATIONAL LICENCES AND PERMITS

4.1 Exploration Permit

The Xinjiang Huixiang Yongjin Mining Company Limited ("Huixiang Yongjin Mining") holds one exploration permit covering 40.88 square kilometres (km²). The copy of permit is provided in Appendix 2 with further details shown in Figure 41 and Table 4-1.

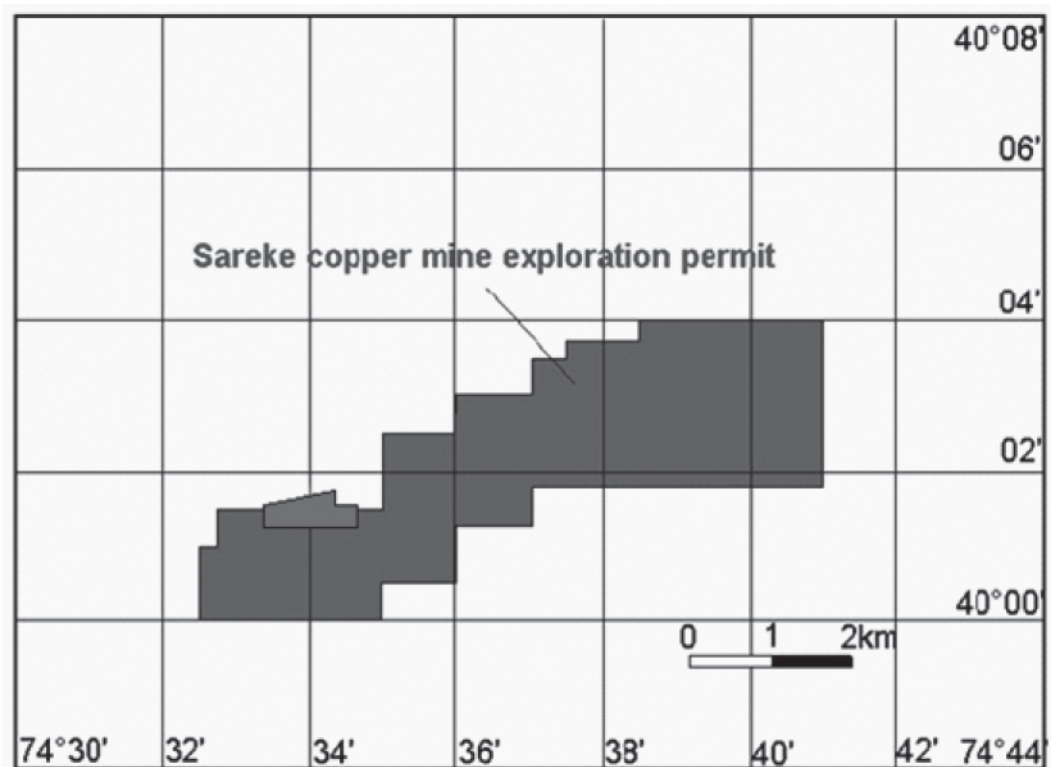


Figure 41: Exploration Permit (blue) and mining license (red) of Sareke Copper Mine

Table 41: Exploration Permit of Huixiang Yongjin Mining

Item	Permit No. 6500000722519
Owner	Xinjiang Huixiang Yongjin Mining Company Limited
Sareke Copper Mine Project	Xinjiang Ulugqat Sareke copper mine prospecting
Location	Ulugqat County, Qizilsu Qirghiz Aptonom Oblasti, Xinjiang
Enterprise type	Limited Company
Map sheet no	K43E024011
Permit area	40.88km ²
Valid period	January 26, 2011 to January 26, 2012
Issue date	January 26, 2011
Exploration unit	Xinjiang Xinhui Geology and Mining Company Limited

4.2 Mining Licence

The mining licence details for the Sareke Copper (Cu) Mine are presented in Table 4-2. A copy of the mining licence is provided in Appendix 2.

Table 42: Mining Licence

Project	Mining Licence No.	Issued To	Issued By	Issue Date	Expiry Date	Area (km ²)	Mining Type	Production Rate (Mtpa)
Sareke Copper Mine Project (3,500tpd)	C6500002009123120053788	Xinjiang Huixiang Yongjin Mining Ltd Sareke Copper Mine	Xinjiang Bureau of Land and Resource	31-May-11	31-May-13	1.2286	Underground/ open pit	0.5

4.3 Safety Production Permit

The Safety Production Permit for the Sareke Cu Mine has not yet been issued. At the time of the site visit (July 2011), Huixiang Yongjin Mining stated that the application for the project Safety Production Permit will be submitted once the mining licence has been received. SRK notes that the mining licence was received in September 2011. Huixiang Yongjin Mining expects to receive the Safety Production Permit once the project safety Final Check and Acceptance approval has been granted.

4.4 Other Operational Permits

SRK has not sighted the construction and/or operational land use permits for the Sareke Cu Mine.

The water use permit for the Sareke Cu Mine has yet to be issued. However, SRK notes that at the time of the site visit (24 June 2011), Huixiang Yongjin Mining was developing a groundwater supply well adjacent to the nearby Shuoyoulesu River. SRK has also sighted the Water Resource Assessment Report for the Sareke Cu Mine (Xinjiang Institute of Water, February 2011). This report will be submitted to the relevant local water bureau for the issuing of the project water use permit once the groundwater well has been completed (i.e. the permit for the extraction of groundwater from the developed well).

The site discharge permit for the Sareke Cu Mine has not yet been issued. At the time of the site visit, Huixiang Yongjin Mining stated that the application for the project site discharge permit will be submitted once the mining licence has been received (i.e. received in September 2011) and the environmental Final Check and Acceptance approval has been granted.

5 GEOLOGICAL DESCRIPTION

5.1 Regional Geology

The area of interest is located in the west margin of Tuoyun basin, which is part of the Mesozoic-Cenozoic tensional depression basin above the Southwest Tianshan mountain Palaeozoic island arc. The Tuoyun basin lies in the northwest part of Talimu basin, adjacent to Hercynian strata-tectonics-magmatic belts of Southwest Tianshan Mountain in the north and West Kunlun Mountain in the south, as shown in Figure 51.

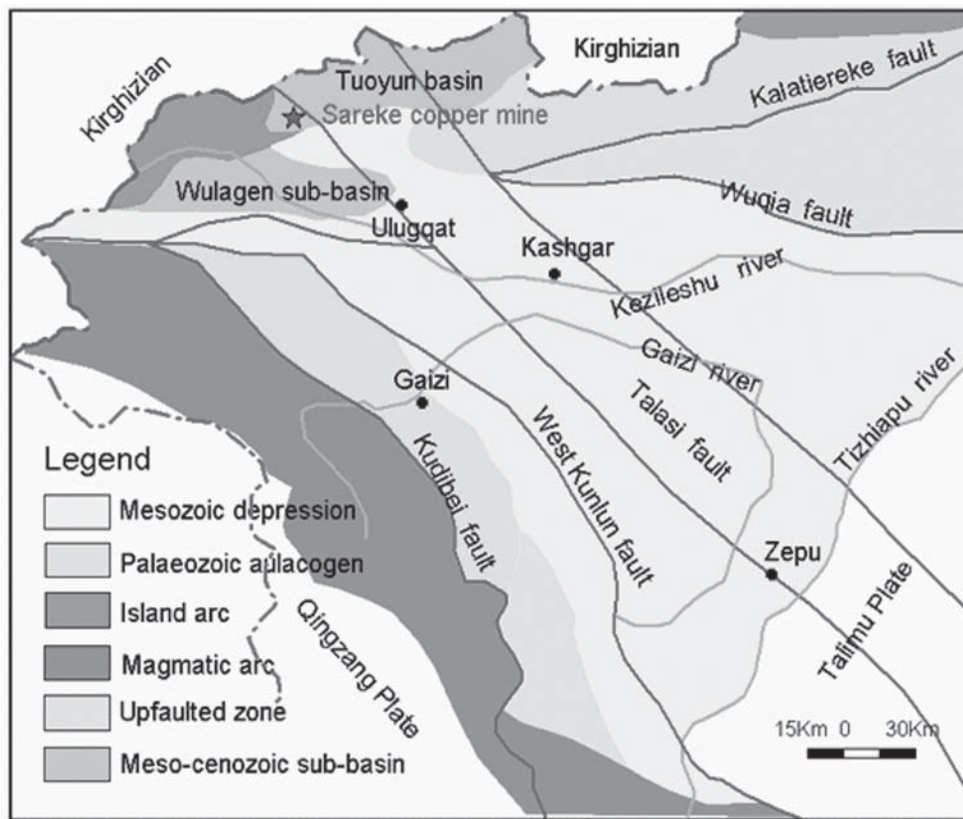


Figure 51: Regional Geology Map

5.1.1 Regional Strata

Regionally, strata are mainly underlain by sedimentary rocks of Archean, Palaeozoic and Mesozoic-Cenozoic, of which Mesozoic-Cenozoic has extensively outcropped, and is composed of siltite, sandstone, bebbled sandstone and conglomerate.

The Archean rocks are composed of celadon chlorite quartz phyllite and dolomite quartzite, lying in the southwest margin of Tuoyun basin.

The Palaeozoic rocks were formed by Silurian low metamorphic carbon phyllite and sandstone, Devonian fragmentary rock, silicalite and carbonate, and Carboniferous paralic terrigenous clastic rock and pyroclastic rock.

5.1.2 Regional Tectonics

As illustrated in Figure 52, tectonics in the region are very complex, consisting of Pamir arcuate fracture zones and Tarim fracture zones of the foundation base.

The Pamir arcuate fractures include frontal-ace nappe tectonics and flanking strike-slip faults. The Talimu fracture zone can be divided into Talasi strike-slip fault striking NW, Tianshan mountain suture zone striking NEE, and a series of nappe structure and overthrust nappe structure striking west-easterly. Due to the activity of Talasi strike-slip faulting and other faulting with WE strike, the regional basin sustained subsidence and transgression from Upper Jurassic to Lower Cretaceous, whereas sustained lifting after upper Cretaceous.

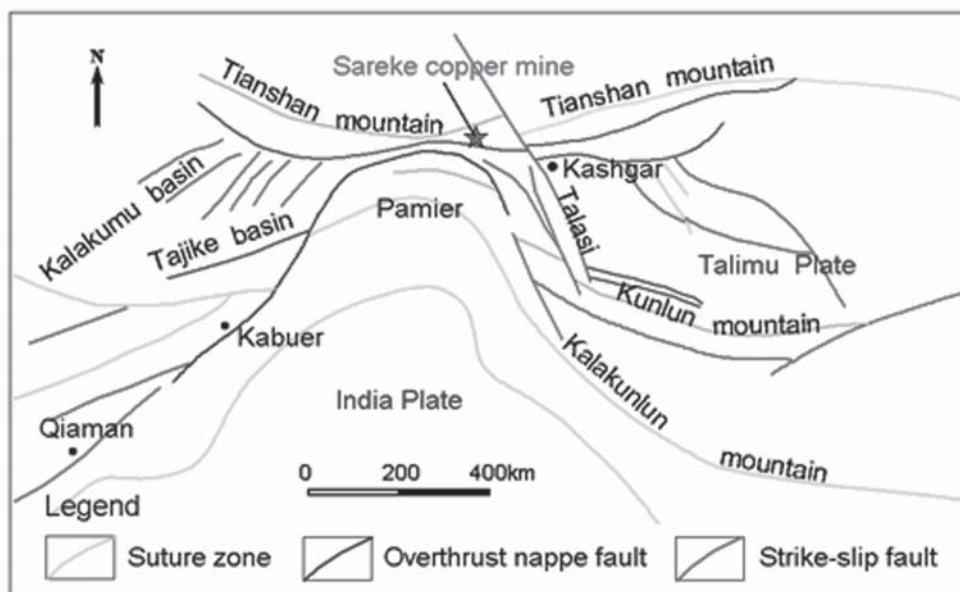


Figure 52: Regional Tectonic Map

5.1.3 Tectonics

In the Cretaceous period, there were stronger and multi-stages magmatic intrusive rocks in the Tuoyun basin, including Variscan granite, a volcanic rock at the Stage of Yanshan and basic rocks of the Himalayan period.

Mesozoic-Cenozoic sandstone and conglomerate copper mines are mainly distributed in the marginal sub-depression area of the Talimu basin. There are two kinds of sandstone copper deposits. One is located at the margin of stable ancient continent, which has continental sedimentation as the stable material source, such as Huayuan copper deposit, Yangye copper deposit and Dishui copper deposit. The other type is located at the margin of depression area, belonging to marine deposit or paralic sedimentation with multi-stages mineralization, such as Sareke copper mine and Kezilesayi copper deposit.

5.2 Mine Geology

5.2.1 Stratigraphy

From the oldest to the youngest, the strata of the mine area include Proterozoic, Silurian, Jurassic, Cretaceous and Quaternary, of which the third Section of Low Cretaceous and the second Section of Upper Cretaceous host the mineralization distribution.

As shown in Figure 53, Proterozoic rocks are distributed at the northwest corner of mine area, and composed of grey biotite phyllite and quartzite. Jurassic rocks are distributed in the north part, and are composed of grey pebbled sandstone and siltite. Silurian rocks are distributed in the south part, composed of low metamorphic carbon phyllite and sandstone.

Cretaceous rocks are distributed in the middle of mine area at a large scale, connecting with Silurian, Jurassic and Proterozoic rocks into an overturned composite syncline together with a NE strike.

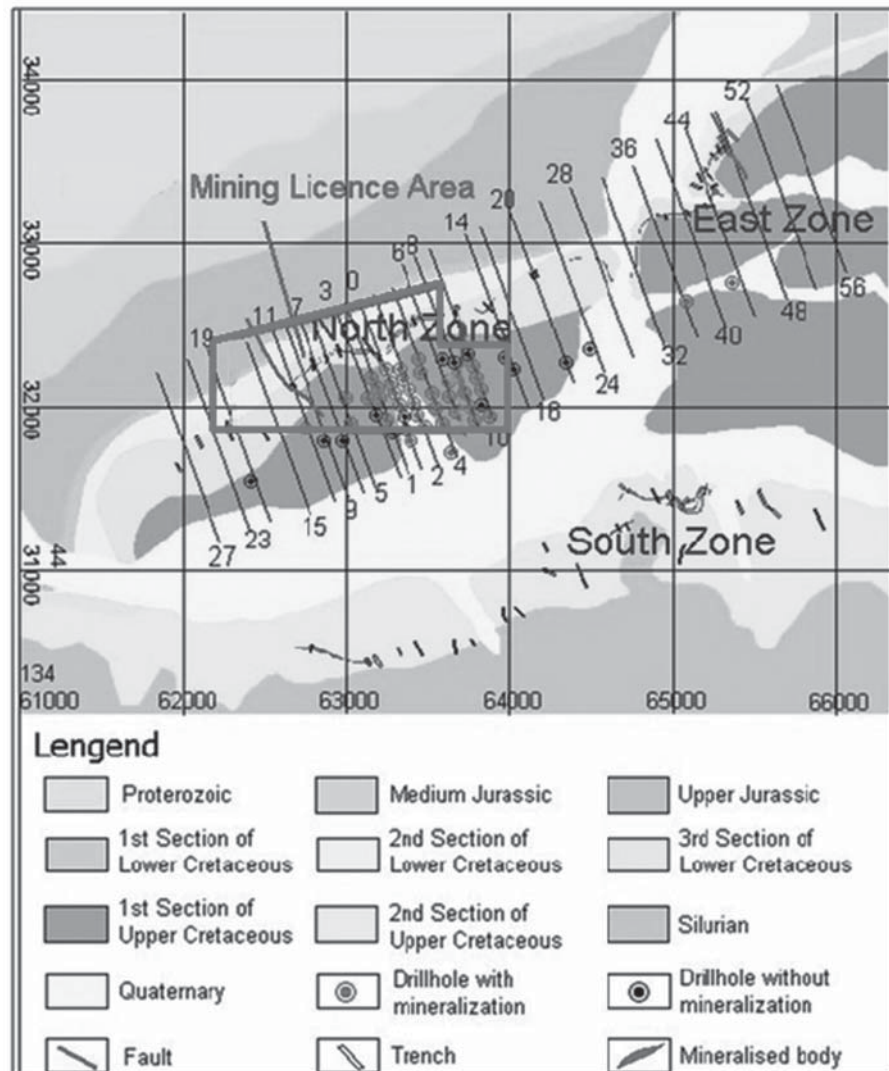


Figure 53: Geology Map of Sareke Copper Mine

The Cretaceous rocks can be divided into two Formations, i.e. the Kezhileshu Formation of the Lower Cretaceous (Kzls) and the Yingjisha Formation of the Upper Cretaceous (Yjs).

The Kezhileshu Formation (Kzls) consists of three Sections. The first Section is composed of grey conglomerate. The second Section is composed of grey siltite, sandstone, grit stone and pebbled sandstone. The third Section can be further divided into three Layers of grey mudstone or sandstone and two Layers of grayish-green conglomerate.

The Yingjisha Formation (Yjs) includes two Sections. The first Section is composed of purplish red sandstone and mudstone, whereas the 2nd Section is composed of grey or purplish red sandstone.

5.2.2 Tectonics and Magmatism

Generally, the folding structure of the mine area is a syncline of NE direction with an Upper Cretaceous core, a steeply inclined north wing and gently inclined south wing. In addition, a series of transverse cutting faults developed in the middle of mine area, breaking rock stratum and providing channels for migration of ore-forming fluid and leach water.

5.3 Ore body Geology

5.3.1 Characteristics of the Ore Body

Currently, there are three mineralised zones discovered in the Sareke mine area and named as the North zone, the South zone and the East zone.

North zone

The North zone is located in the north wing of syncline, and mineralised bodies are developed in Cretaceous greyish-green conglomerate, trending as a stratiform shape along a NE-SW direction, with the strike of 250° , dipping to 160° at angle of 30° . According to exploration result by Xinjiang Xinhui Geology and Mining Company Limited ("Xinjiang Xinhui") in 2008, there are three major bodies with two parallel ore bodies named#1 and#2-1, and one blind ore body named#3-1 which was discovered in the North zone, as illustrated in Figures 5-4, 5-5 and 5-6.

Ore body# 1 presents as a plank shape, with the length of 1000m, averaging 300m wide and 9.63m thick, at an average grade of 1.01% TCu (total copper).

Ore body# 2-1 ore body is about 1350m long, averaging 350m wide and 6.82m thick, at an average grade of 0.89%TCu and Ag 11.48g/t.

Ore body#3-1 body is a blind body, located between exploration line of 1 to line 6, presenting as lens-shape at an average grade of 0.76%TCu. Drillhole of ZK402 shows that the true thickness of ore body#3-1 is 56.35m with mineralization from borehole depth 221.95 to 289.94m, at an average grade of Cu 0.76% and Ag 11.48g/t.

South zone and East zone

A few surface trenches and several diamond drillholes were carried out in the South zone and East zone. Several mineralised bodies were discovered by the exploration work. SRK was told that the current prospecting programs including surface trenching and drilling was being carried out in the South zone by Xinjiang Xinhui. Due to a lack of geological data in the South zone and East zone, SRK has no detailed information about the mineralized bodies in these zones.

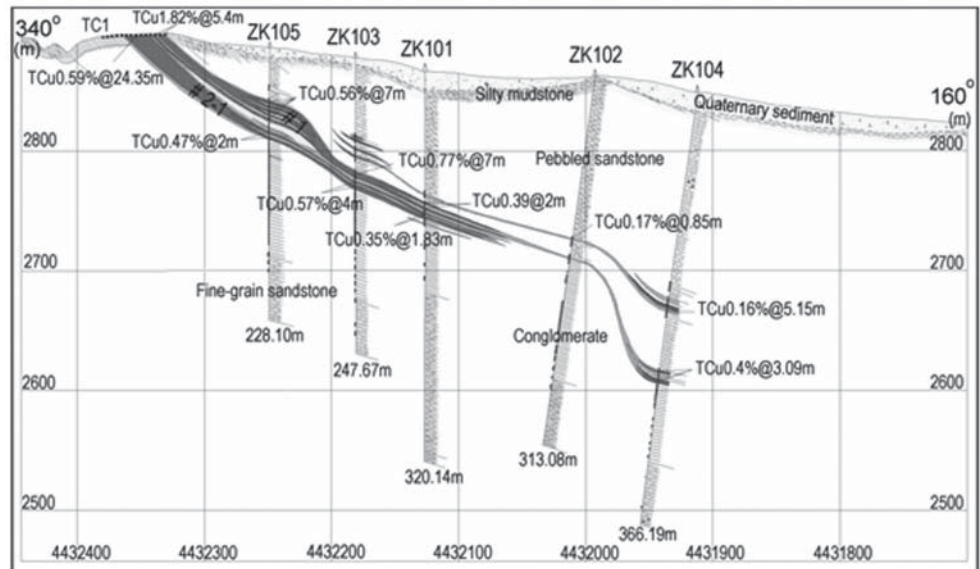


Figure 54: Cross Section of Exploration Line 1

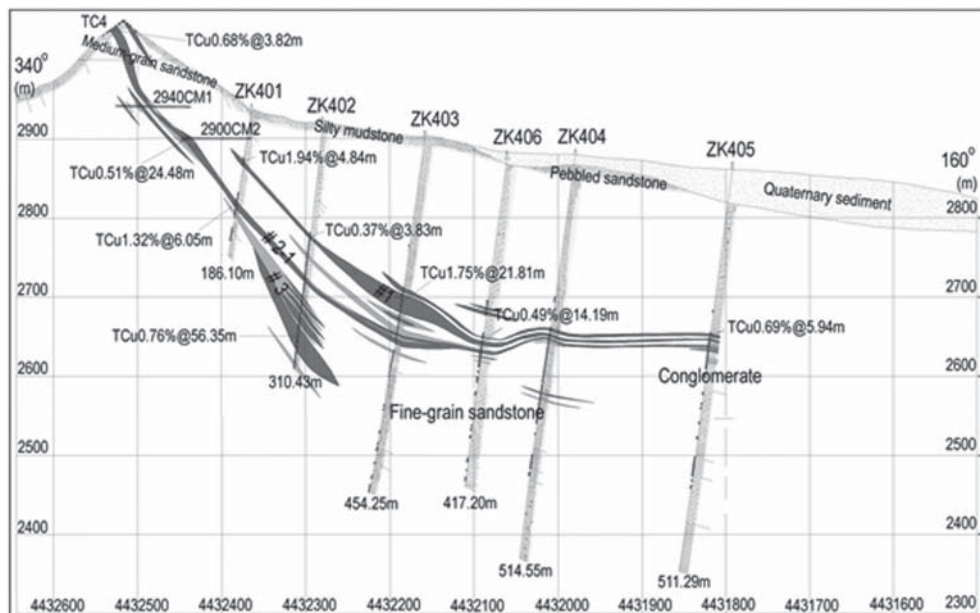


Figure 55: Cross Section of Exploration Line 4

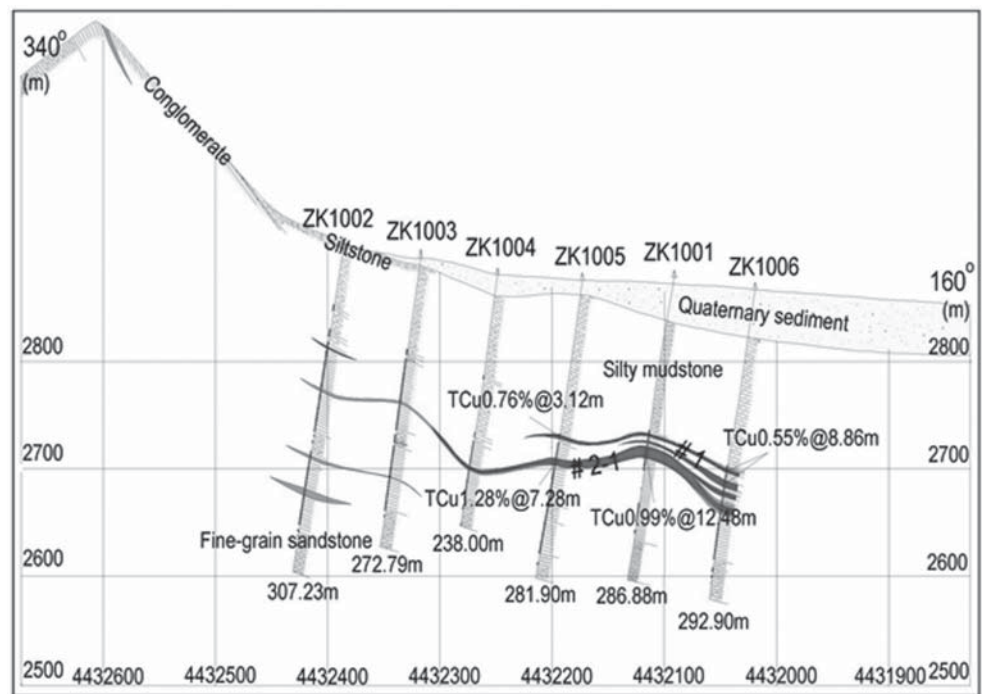


Figure 56: Cross Section of Exploration Line10

5.3.2 Ore Type and Composition

The ore in the Sareke copper mine has two ore types, oxidized ore and supergene ore. As the depth increases, the oxidized zone transits to supergene zone gradually with an oxidation percentage from 91.40% to 0.70%, as showing in Table 5-1.

Table 51: Mineral Phase Analysis Result of Copper Ore

Sampling		TCu (%)				Oxidation	
Location	Depth	CuSO ₄	CuO	CuS	Total Cu	(%)	Ore Type
TC0-1	Surface	0.00	0.93	0.21	1.14	81.58	Oxidized
TC6-1	Surface	0.00	0.68	0.24	0.92	73.91	Oxidized
TC7-1	Surface	0.00	0.65	0.23	0.88	73.86	Oxidized
TC46-2	Surface	0.44	0.41	0.08	0.93	91.40	Oxidized
ZK402	170.00	0.00	0.72	1.10	1.82	39.56	Supergene
ZK402	240.00	0.00	0.57	1.15	1.72	33.14	Supergene
ZK403	220-250	0.00	0.41	0.90	1.31	31.30	Supergene
ZK404	220-300	0.22	0.02	0.28	0.52	46.15	Supergene
ZK405	230-300	0.00	0.18	0.54	0.72	25.00	Supergene
ZK2401	200-220	0.00	0.13	0.26	0.39	33.33	Supergene
ZK204	81-95	0.00	0.07	0.90	0.97	7.22	Supergene
ZK603	168-174	0.00	0.21	0.57	0.78	26.92	Supergene
ZK002	68-73	0.00	0.02	2.82	2.84	0.70	Supergene
Average	0.05	0.38	0.71	1.15	43.39		

The industrial ore minerals include malachite and chalcocite, in which chalcocite occurs with granular crystalline, allotriomorphic and metasomatic texture, presenting as impregnate, lamellar and ribbon structure.

The major ore minerals consist of chalcocite, bornite, azurite and malachite, and less pyrite. The gangue minerals are mainly feldspar, quartz and clay. The accompanying useful component is mainly silver at an average grade of 10.69g/t.

5.4 Sampling, Assay and Quality Assurance and Quality Control (QA/QC)

5.4.1 Exploration

A total of 54 drillholes totalling 18,320.82m and trenching of 6438.05m³ was conducted in the mine area from 2008 to 2009. In addition, a high resolution ground magnetic survey, topography survey, geological mapping, ground hydrology, geotechnical survey, specific gravity measuring, ore processing tests, petrologic study and various relevant studies were also carried out by Xinjiang Xinhui. The details of work conducted in the Sareke mine area are listed in Table 52.

Table 52: Exploration Work Completed in Mine Area between 2008 and 2009

	Program	Unit	Exploration Work
Topography survey	1:2,000 topography survey	km ²	2.80
Geological mapping	1:10,000 geological sketch mapping	km ²	46.00
	1:10,000 geological revision survey	km ²	67.00
	1:2,000 geological sketch survey	km ²	4.00
Geological cross section	Geological section	m	36,034.50
Engineering	Trenching	m ³	6,438.05
	Adit	m	1,364.50
	Drilling	m	18,320.82
Sample preparation and assaying	Basic sample assaying	piece	7,067
	Physical mineral	piece	9
	Composite analysis	piece	9
	Multi-elements assaying	piece	9
	Spectral analysis	piece	34
	Specific gravity	piece	50
	Internal check	piece	490
	External check	piece	126

5.4.2 Sampling

Trenching

The trenching is mainly distributed perpendicular to the middle of the North zone and east of the South zone to reveal the mineralized bodies on the surface. The width of the trenches is 1.0-1.2m at the top, and 0.8-1.0m at the bottom. The trenches were dug at least 20cm into the bed rock. The channel sampling method was used to collect samples from the trenches with a channel section size of 10cm wide by 3cm deep. Each sample was less than 2.0m long with 1:100 logging including a description of rocks and alteration.

Adit

The adit is located in the exploration line between No. 0 and No. 6 in the middle of the North zone and was used to record 1:100 scale logging including the descriptions of rocks, structure, and alterations.

Drilling

A diamond drilling programme was carried out at the Sareke Copper Mine by the Xinjiang Xinhui between 2008 and 2009. The collar for each hole was drilled at 110mm diameter, then drilled at 75mm diameter. The drill collar was surveyed by compass and theodolite. All down-hole surveys were measured by timing compass and electronic compass. The recovery of drill core was generally above 85%, and more than 95% for the mineralized sections.

Sample Processing and Assaying

For the drill samples, the discontinuous sampling method was used to take the samples. The core was cut into two pieces along the major axis, one half was sent for assaying and the other half was preserved at the mine. A total of 5,377 core samples were sampled at a length range from 1.0m-2.2m.

For the trenching and adit samples, the channel sampling method was used, and a total of 1,690 samples were collected for assaying.

Processing of all samples was performed by the laboratory at the Sareke copper mine. Basic assaying and internal check of samples were performed by the No. 2 Brigade of Xinjiang Bureau of Geology, and external check of all samples was carried out by Minerals Experimental Institute of Xinjiang Uygur Autonomous Region. A total of 490 and 126 samples were sent for internal and external checks, with a reconciliation rate is 99% and 94% respectively.

5.5 Resources Estimation in 2009

Based on the geological work conducted in 2008 to 2009, the Prospecting Report of the Sareke Copper Deposit, Ulugqat County, Xinjiang Uygur Autonomous Region was submitted by Xinjiang Xinhui in February 2009. The resource estimation in the report followed the standards of Geological Exploration Standard of Copper, Lead, Zinc, Silver Nickel, Molybdenum released by the Ministry of Land and Resource and Geological Exploration Standard of Copper and Silver released by the State Reserves Committee.

5.5.1 Parameters Used in Resource Estimation

The following parameters were used in the Prospecting Report of 2009:

- Cut-off grade: 0.3%TCu
- Minimum industry grade: 0.5%TCu
- Minimum mineable thickness: 2m
- Maximum band thickness: 2m

5.5.2 Resource Estimation

The horizontal projection geological section method was adopted to estimate geological resource in the report. The exploration grid in the north zone of 100m by 100m was used to define the 332 category resources, and larger grid and extrapolation of 332 were used to define 333 category resources; while the extrapolation of 333 was used to define 334 predicted resource.

The Chinese resource statement of the North zone is summarized in Table 53.

Table 53: Resource Estimate Result by Xinjiang Xinhui as of February 2009

# body	Resource Category	Tonnage	Copper	Contained Metal (t)	Accompanying Silver	
			Average grade (%)		Average grade (g/t)	Contained Metal (t)
1	332	5,870,000	1.18	69,300	10.69	62.8
2-1		3,070,000	0.83	25,500		32.8
Sub-total : 332		8,940,000	1.06	94,800	10.69	95.6
1	333	2,590,000	0.85	22,000	10.69	27.7
2-1		5,620,000	0.74	41,600		60.0
2-2		100,000	0.96	1000		1.0
Sub-total : 333		8,310,000		64,600	10.69	88.7
3-1	334	542,000	0.76	4,100	10.69	5.8
3-2		8,000	0.66	50		0.1
Sub-total : 334		550,000		4,150	10.69	5.9

The above data of Chinese resource is sourced directly from geological reports completed by Xinjiang Xinhui. SRK cautions against putting any reliance on these figures beyond this context. The figures reported do not constitute resources as defined in JORC Code. as an indication, the 332 category may be compared to Indicated Resources, 333 category to Inferred Resource of the JORC Codes, while Chinese 334 category can be compared to an exploration target. Appendix 1 provides a comparison of the Chinese resource classification system to the JORC Code classification system.

5.6 Exploration Potential

Considerable exploration work has been completed in the North zone, so SRK believes that the overall resource potential of the zone has been explored. The exploration programs are under the way in the South and East zones. The two zones possess very good potential of hosting more mineralized bodies, and SRK believes more mineral resources will be discovered and estimated.

Previous exploration work of the Sareke copper mine by Xinjiang Xinhui between 2008 and 2009 generally followed the Chinese exploration standard. During the site visit, SRK found that the drill core was well kept in the storage warehouse, the borehole locations were well sealed, and more infill drillings were being carried out by Xinjiang Huawei Geology Engineering Ltd (“Huawei Company”) to define the ore bodies more accurately for the next mining activities and improve the resource category.

SRK recommends that China Daye further explore and define additional mineralised bodies in the South zone and East zone to expand the resources. SRK suggests that strict QA/QC procedures should be undertaken to ensure data quality; and that assaying samples should be sent to an international certified laboratory for assaying, as required by the JORC Code. Accordingly, competent persons who meet the definition defined in the listing rules of HKEx should participate in the exploration programs.

Table 61: Brief Information of the Boreholes for Data Verification

Borehole Type	Hole_Id	North	East	RL	Depth (m)	Ore Core Average Recovery
Surface Diamond Drilling	ZK003	4432158.588	25463309.142	2864.570	220.05	100%
	ZK001	4432088.000	25463331.000	2860.000	339.12	100%
	ZK603	4432136.746	25463641.435	2877.028	285.69	100%
	ZK1001	4432087.000	25463836.000	2880.000	286.88	100%
	ZK406	4432061.002	25463563.476	2874.256	417.20	94%

6.2 Borehole Re-Sampling Procedure

6.2.1 SRK Site Supervision

SRK took one quarter core as a verification core sample for the Sareke copper resource verification, and then sent the core sample to the mine laboratory for sample preparation. A total of 136 samples were sent to ALS (Guangzhou) Laboratory for assaying.

Figure 62 shows drill core kept in the storage at the mine site. The selected core samples have been split on the site as shown in Figure 63 before shipment of one quarter to the local laboratory and the other quarter was left in the storage. SRK was satisfied with the core sampling and sample processing preparation which was fully supervised by SRK.



Figure 62: View of Core Storage in Sareke Copper Mine



Figure 63: One Quarter Core Sampling of Sareke Copper Mine in June 2011

6.2.2 Data Verification Analysis Result

A total of 136 core duplicate samples were sent to ALS (Guangzhou) laboratory for assaying. SRK compared the assaying results of ALS (Guangzhou) laboratory with those of the laboratory of No.2 Geological Brigade of Xinjiang Land and Resource Bureau. Figure 6-4 and Table 6-2 show the comparison. The figure shows a good correlation between the two sets of data, and majority of samples for mineralization fell in the area of $\pm 10\%$ errors. Table 6-2 shows a comparison of the average grade of mineralized sections. All sections have a relative error less than 10%.

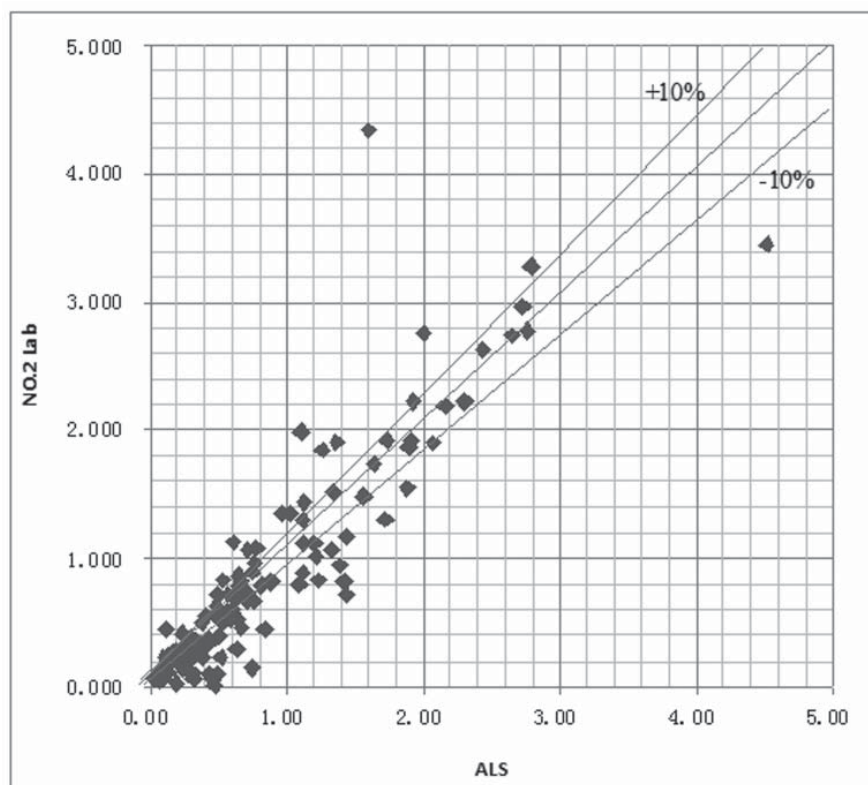


Figure 64: Comparison of Original Assays to Verification Assays of Duplicate Core Samples of Sareke Copper Mine

Table 6-2: Comparing Result of Verification Boreholes and Error Analysis

Borhole_ID	Average TCu (%)				
	No.2		Laboratory	ALS	Error (%)
	From	To			
ZK003	80.22	130.10	0.897	0.928	3.5
ZK001	180.73	236.64	0.529	0.488	7.7
ZK603	180.73	236.64	0.886	0.971	9.6
ZK1001	149.15	172.65	1.007	0.977	2.9
ZK406	190.04	259.84	0.408	0.411	0.6

Figures 6-5 and 6-6 show distributions of the original assays and the verification assays in drill-holes ZK003 and ZK603, respectively. The variations of the assays in the holes match well in general, which indicates that the original exploration defined the boundaries of mineralized bodies well. Considering this fact that only one quarter cores were used for the data verification, SRK considers the differences or errors between the two sets of data are acceptable, and so the original database can be used for a JORC Code resource reconciliation and estimate.

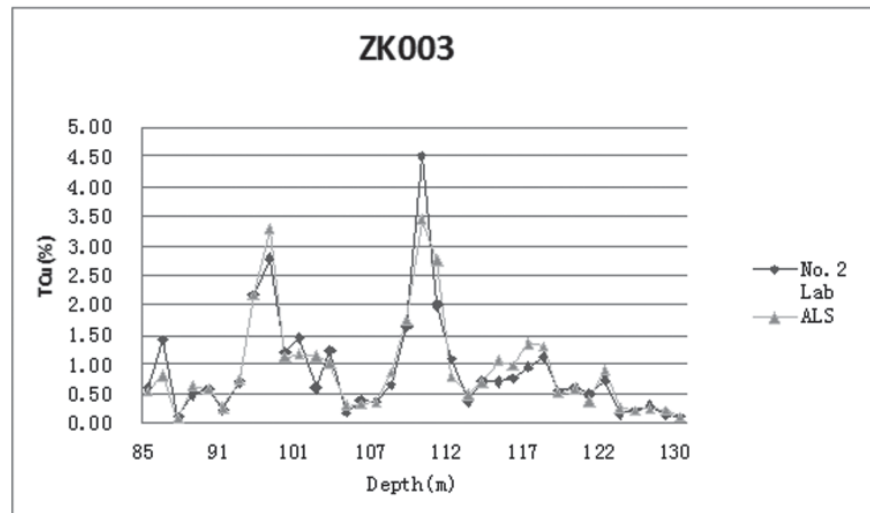


Figure 65: Comparison of Original Assays to Verification Assays of Drill-hole ZK003

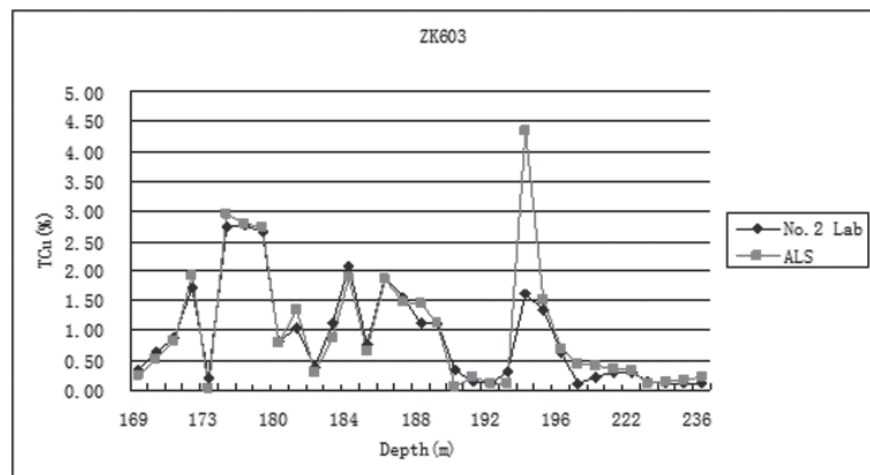


Figure 64: Comparison of Original Assays to Verification Assays of Drill-hole ZK603

6.3 Estimation and Reporting of Resources

All the available data from 2008 was input into Surpac version 5.2-D software for the estimation procedure. The database was validated within Surpac to search for errors such as missing or overlapping intervals, correct hole and trench lengths, azimuths and dips, duplicated samples, etc. The resources database comprises of 15 adits, 23 trenches and 53 boreholes with a total of 2,257 chemical samples.

6.3.1 Geological Model

Geological solid modelling was done using a sectional interpretation of the grade values from the assay tables at a 0.3% TCu cut-off.

The computer model sections of the deposit were digitized by selecting the actual drill holes, trenches and adits. Validation of each solid model triangulation was performed using standard Surpac software check routines and by slicing sections through the individual wireframes for comparisons against the drill holes, tunnels and trenches database. The topography model imported from the AutoCad file submitted by China Daye after valuation by SRK. The completely solid model is illustrated as Figure 64.

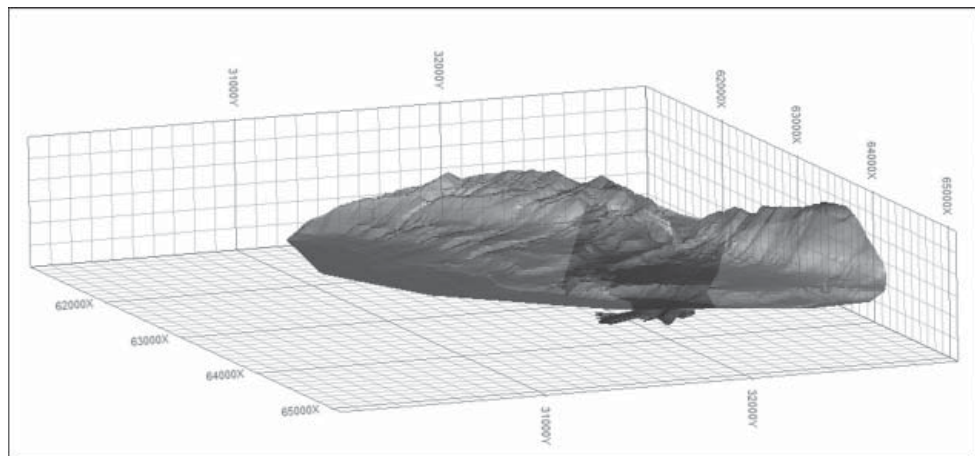


Figure 64: Geological Model in 3D View of the Sareke Copper Mine

6.3.2 Sample data statistics and compositing

Exploration data from the Surpac database containing the flagged raw sample intervals within the geological solid models were composited to 1.0 m down-hole length. Based on the sampling length statistics, the 1.0 m length was considered appropriate for compositing. Use of this composite size minimized splitting of raw samples to smaller intervals. Table 6-2 shows assaying composite statistics.

6.3.3 Top-Cutting

In order to avoid any disproportionate influence of random, anomalously high grade assays on the resource average grade, SRK studies the histograms and grade for the composites. The assay grades appear reasonably independent of sample length allowing for capping based on grades. According to the analysis of the composites grade distributions on log probability cumulative frequency and integrated with the analysis result by Laboratory of No.2 Geological Brigade of Xinjiang Land and Resource Bureau, SRK used the copper top-cutting value of 3.59%.

6.3.4 Specific Gravity

Based on the geological exploration, there are three basic types of ore, oxidized ore, supergene ore and primary sulphide ore. A total of 67 specific gravity (SG) samples were collected from surface, adits and boreholes, and the SG was measured by arithmetic average method, as provided in Table 63 by Xinjiang Xinhui.

Table 62: Statistics for Cu at 1m Composites

Variable	TCu (%)
Number of Samples	673
Minimum value	0.00
Maximum value	6.76
25.0 Percentile	0.37
50.0Percentile (median)	0.62
75.0 Percentile	1.23
90.0 Percentile	2.17
100.0 Percentile	6.76
Mean	0.93
Variance	0.69
Standard Deviation	0.83
Coefficient of Variation	0.89

Table 63: Summary Results of SG Testing Statistics

Variable	Ore type	
	Mixed*	Primary
Total sample	51	16
Minimum SG (t/m3)	2.33	2.63
Maximum SG (t/m3)	3.59	2.74
Mean SG (t/m3)	2.69	2.68
Total Average SG (t/m3)	2.68	

* *Mixed ore represents that the three types of ore (oxidized, supergene and primary) were mixed, then measured.*

According to the above table, the SG of 2.68t/m3 was applied in the resource estimate.

6.3.5 Block Model

The block models were created using Surpac software and were used to estimate tonnes and grade. An appropriate block cell size was selected for the deposits to enable SRK to generate a model that encapsulated the dipping mineralisation. A block size of 10m east-west (X), 10m north-south (Y) and 4m vertically (Z) was used. The parameters for block model construction are presented in Table 64.

Table 64: Block Model Parameters of Sareke Copper Deposit

Coordinates	Minimum	Maximum	Block Size
North	31600	32800	10
East	62500	64200	10
Elevation	2500	3200	4

6.3.6 Resource Estimation

Inverse distance cubic method was used for block estimation of copper grades. The parameters were based on the exploration grid as well as the mineralization continuity. Confidence in the quality of the estimate was carried out by validating the block model against the input data by cross section and grade checking against the drill-hole data to ensure that the model grades honour the local composite drill-hole grade. The resource summary in the North zone is listed in Table 65.

Classification of mineral resources was applied by SRK considering the criteria including the confidence in the geological interpolation, the exploration grid of the borehole data, and the spatial continuity of the mineralization. Indicated resource were classified where the average search distance was less than 120m in the block model, and Inferred resource were classified where the average search distance was more than 120m but less than 400m. The distribution of resource category is shown in Figure 65.

Table 65: Resource Estimation Summary, of Sareke Copper Deposit as 30th June 2011

Zone	Classification	Resource Tonnage (t)	Average Grade TCu (%)	Copper Metal (t)
North	Indicated	8,398,000	1.03	86,000
	Inferred	4,315,000	0.77	33,300

The information in this report which relates to Mineral Resource is based on information compiled by Dr. Anshun Xu who is a full time employee of SRK China. Dr. Xu is a fellow of AusIMM. Dr. Xu has sufficient experience which is relevant to the style of mineralisation and the type of deposits under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 edition of the “Australasian Code for Reporting of Exploration results, Mineral Resources and Ore Reserves”, the JORC Code. Dr. Xu consents to the reporting of this information in the form and context in which it appears.

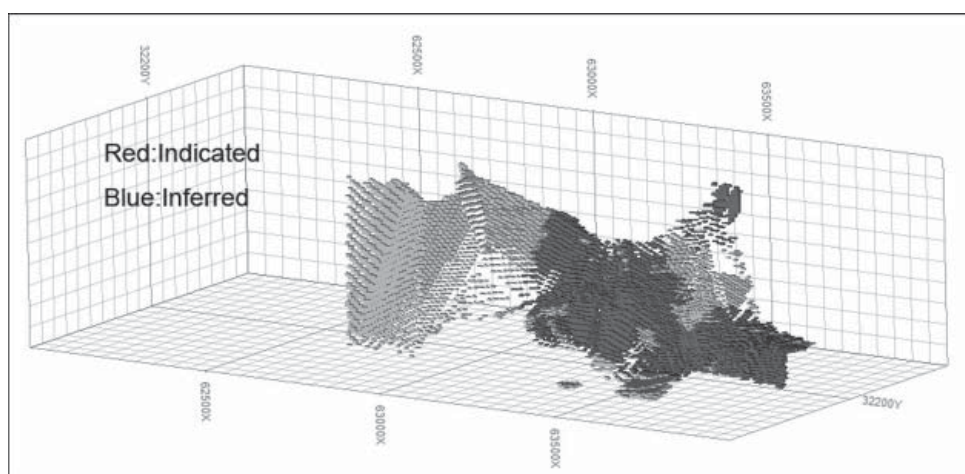


Figure 65: Resource Category Distribution at Sareke Copper Mine

6.3.7 Comparison of the Resource Estimation with Chinese Resource Statement

In general, Chinese resources can be compared with resource estimates completed using the JORC Code. The 332 category may be compared to Indicated Resources, and 333 to Inferred Resources.

Table 6-6 compares the reconciliation results with Chinese resource statements of the North zone. For the category of Indicated Resource and 332, there is a difference of about 6% for the overall tonnage, and the grades are very close, which is acceptable. There is a large difference between Inferred Resource and 333 category resources, while the grades are very close. SRK has not obtained detailed data about how Xinjiang Xinhui estimated the 333 category resource, but believes that the difference on the category is acceptable.

Table 66: Comparison between the Resource Reconciliation Results and Chinese Resource Estimation Statement of the North zone of the Sareke Copper Deposit

Zone	Category	JORC Code Tonnage		Category	Chinese Tonnage	
		(1000t)	TCu (%)		(1000t)	TCu (%)
North	Indicated	8,398	1.03	332	8,940	1.06
	Inferred	4,315	0.77	333	8,310	0.777

7 MINING ASSESSMENT

7.1 Mining Conditions

7.1.1 *Geotechnical Conditions*

The Sareke copper mine is located in a medium to high mountainous area at the west range of southwest Tianshan Mountain with an average elevation of 2500-4600m ASL.

Wall rock materials in the mine area are categorized mainly into three types:

- o Hard clastic sedimentary rocks are distributed in the northwest of the deposit featuring as sandstone with a good mechanical properties
- o Hard metamorphic rocks are distributed in the middle and southeast parts of the mine featuring as gneiss, schist, quartzite, marble and crystalline limestone.
- o Semi-hard clastic sedimentary rocks are distributed in the middle and east of the mine at the southeast side of Zhuoyoulesu river

The saturated uni-axial compressive strength of the tunnel roof and floor ranges from 33.4 to 112.0 Mpa, the tensile strength ranges from 2.75 to 8.99 Mpa and the shear strength ranges from 0.5 to 3.0 Mpa.

The feasibility study used the following parameters for the design of the mine:

- o F (hardness coefficient of rocks) equals to 8-10
- o Bulk density of 2.68 t/m³
- o Angle of repose of 36.5°
- o Bulk factor of 1.78

The mining area is in an earthquake prone area. The historical records show that there were 40 earthquakes with magnitude larger than 5. Constructions are required to resist earthquakes of a magnitude of 9.

The materials in the roof and floor of the orebodies are conglomerate, sandstone and siltstone. These materials are fine to medium-fine grained and locally silicified. These materials are hard and stable with a small number of fissures and fractures developed. Supportive measures are needed at the fractured areas.

As the mining area is in an earthquake prone area, it is SRK's opinion that the company should conduct additional geotechnical studies on the rock mechanics for an optimized supporting design.

7.1.2 Hydrogeology

The Sareke copper mine is in the continental climate zone and in a medium and high mountainous region. The area is very dry and has a long and cold winter.

From northeast to southwest, the Zhuoyoulesu River runs through the mine area into the Kezilesu River. The Zhuoyoulesu River is about 60km long and is an all season river. The monitoring records from August 2007 to May 2008 indicates a flow volume of 4.36m³/s or 137,000,000m³/a. The river is recharged by snow melt in spring. The high water months are May, June and July; while the low water period is from December to March the next year.

Aquifers in the deposit are in Quaternary cracks and fissures, Mesozoic cracks and fissures and fractured zones in bed rocks. Aquifers are normally recharged by rain and snow melt.

The proposed mine is beyond the impact range of the Zhuoyoulesu River.

The mine water generation is estimated to vary by season as follows:

- Dry season: 220m³/d
- Rain season: 500m³/d
- Storm day maximum: 4100m³/d

The threat of flooding comes from gully catchments during a storm. The mine will need to divert all gullies prior to forming the underground subsidence zones.

Empirically such hydrogeology structures like the Sareke deposit could generate gully water volumes ranging from 2400 to 3600m³/d.

It is SRK's opinion that the mine should establish system and facilities for the control and management of storm water and drains prior to mining near zones where fissure are developed.

7.2 Mine Design

7.2.1 Mine development

The feasibility study produced by ENFI provided three options for the development of mine:

- Vertical shaft and auxiliary decline
- Main decline with electric drive trucks
- Main decline with diesel trucks

By comparison in the feasibility study, the option of a main decline with diesel trucks has been selected.

In this option, a 5.1m x 4.8m main decline with a maximum slope angle of 12.5% (1:8) is to be developed. Each stope is to be connected by cross-cuts. Broken ore is to be loaded into 50t diesel powered trucks and then hauled to the crushing station on the surface. Waste rock is to be partly backfilled into the mined out area. The remaining waste is to be hauled to the waste rock dump on the surface. The main decline is to function for personal access, material transportation, cable conduit and air intake. The main decline is to be paved with 300 mm concrete. The decline portal coordinates are X=4,431,980, Y=463,005, Z=2,903. Figure 71 is a view of the decline portal.

A ventilation shaft is to be developed near exploration Line 14 at the east wing of the deposit. The designed diameter of the shaft is 4.5m; and the coordinates are X=4,432,450, Y=463,975, Z=2,893. The shaft is to be developed from the surface to the 2760 m ASL. The depth of the shaft is designed to be 133m. The shaft is also to function as an emergency exit and is to be equipped with a ladder.

The feasibility study designed the development system only for the primary mining zone. In the primary mining zone, main roadways are designed at the mining levels of 2640 m ASL and 2730 m ASL. Sublevel roadways are designed at mining levels of respectively 2640m, 2670m, 2730m, 2760m and 2820m. At level 2670m and level 2760m, ore is to be hauled to chutes at each level, loaded to 50t trucks and hauled to the surface crushing station.

A pump house and central substation are designed at the level of 2640m. Underground water is to be pumped to the surface and to be used in the concentrator.

Substations are also designed for the 2670m and 2760m levels. An underground workshop chamber is designed at 2730m and an underground explosive magazine chamber is designed at 2760m level.



Figure 71: View of Main Decline Portal

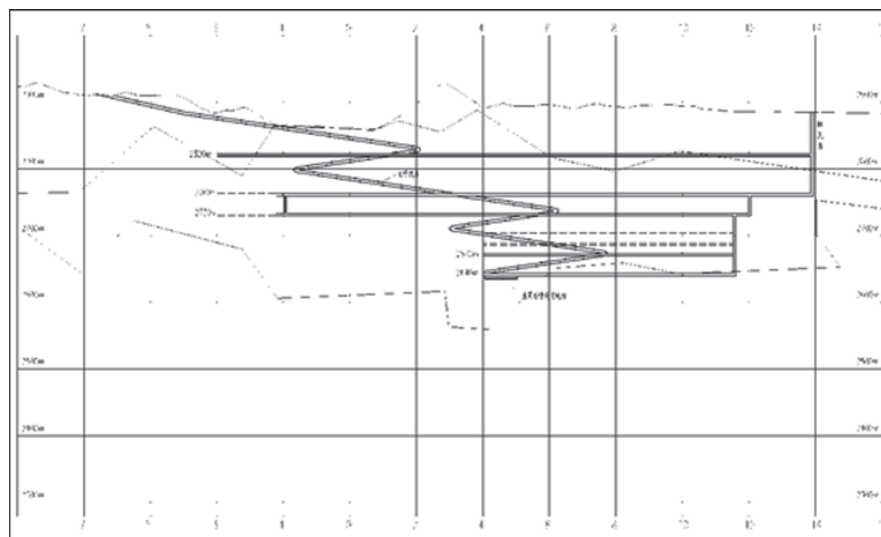


Figure 72: Projection of the Primary Mining Zone of the Sareke North Deposit

It is SRK's opinion that the option of a shaft plus auxiliary decline has a higher cost and more contaminations to underground air quality, and this would interfere with waste haulage, personal access and material haulage, although it requires less working force and equipment and one half year less of construction time.

7.2.2 Mining Method

Sareke copper deposit is relatively shallow and the orebody geometry varies largely in space. Orebodies feature typical clastic weathering. The host rock of the orebody is conglomerate, the floor is conglomerate and the roof is sandstone and siltstone. Faults and fissures are developed.

By studying the geological data and considering host rocks stability, wall rock stability, mining sequence, grade and cost, ENFI believes that three mining methods are available for use, which are respectively horizontal sublevel backfill stoping ("horizontal backfill"); room and pillar upwards sublevel backfill stoping ("room and pillar backfill") and upward driving sublevel stoping ("upward backfill").

It is understood by SRK that each of the methods mentioned has advantages and can be used alternately. The mine can select the appropriate method to suit the wall rock and host rock mechanics and grade.

The feasibility study considered only upward backfill for the design and provided the parameters for the other two methods.

The preferred mining method is determined by the orebody thickness, as follows:

- Thinner than 8m: horizontal backfill or upward backfill (single drive)
- Between 8 to 30m: room and pillar backfill or upward backfill (multiple drives)
- Thicker than 30m: room and pillar or upward backfill (multiple drives perpendicular to strike)

About 25% of mining is to be carried out by single drive backfill and about 75% is to be carried out by multiple drives backfill where 44% is by multiple drives along strike and 31% is by multiple drives perpendicular to strike.

The thicknesses of the orebodies are generally from 8 to 30m; therefore, the multiple drives-along strike backfill method is the major method to be used.

Stope layout:

Stopes are planned along strike, 85 to 90m long by 4.5m high. The designed drive dimension is 5.0m wide by 4.5m high. Drive are also to be developed along strike. Each stope is to be 4.5m high and each 18m high sublevel is to contain four stopes. Rib pillars are to be 2 to 3m wide and not recovered. Each mining level is designed to be 90m high.

Stope preparation:

Each stope is developed by sublevel drives, cross-cuts, backfill raise, chute and chute cross-cut.

Ore recovery:

Ore is to be recovered by two steps. The first step is to mine the stope and the second step is to recover pillars. Drill and blasting are to be used to break the material. Imported hydraulic double arm jumbos are to be used for rock drilling. Blast holes are planned in lines and hole-spacing is designed to be from 0.8 to 1m. The blast hole-diameter is to be from 45 to 48mm. The jumbo drilling capacity is expected to be 450m per shift per unit. The 6m³ diesel front-end loaders are to be used to load the ore and its productivity is forecast at 600t per shift per unit.

Stope ventilation:

Fresh air is designed to enter the mining face via sublevel cross-cuts and stope cross-cuts; while polluted air is to be exhausted to the surface via backfill raise, mining level on top and ventilation shaft. For the better discharge of blasting fumes, booster fans are to be installed at the mining face.

Mine support:

Support is generally not expected to be required; however, unstable areas are to be supported by rock bolting.

Mined out area backfill:

Mined out areas are to be backfilled in two steps. The stope is to be filled with cemented tailings; while the pillar is to be filled with un-cemented tailings. Waste rock is also used for backfilling where applicable. Before backfilling the mined out area is to be sealed by a wall with a spill way for water discharge.

The main technical-economic parameters are:

Stope productivity 1000~1200tpd;

Waste to ore ratio 34m³/kt;

Ore dilution 11%;

Ore loss 6%.

Figure 73 is an indication of the mining method of multiple drives backfill along strike.

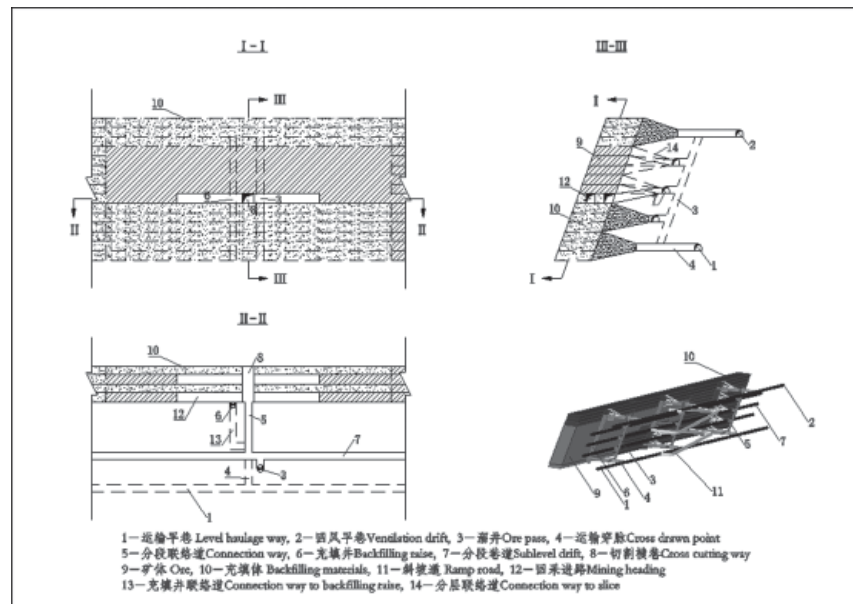


Figure 73: An Indication of the Mining Method of Multiple Drive Backfill along Strike

It is SRK's opinion that the mining method proposed by ENFI is suitable for the mine. However, the mine is under construction and therefore SRK has not had the opportunity to see how it works in the mine. Generally the productivity of tailings backfill is lower than that designed. The cold and long winter in the mine area also imposes difficulties on the tailings backfilling system. It is SRK's opinion that the mine should conduct mining method testing when mine development is completed to determine the most optimized operation parameters.

7.2.3 Equipment

Trackless mining is proposed, therefore the mine will have a relatively high level of mechanization. The main equipment to be used by the mine is listed in following table.

Table 71: Sareke Mine Main Equipment

Equipments	Mode	Unit	Quantity	Remarks
electric drill jumbo	AXERA6-226	set	3	manufactured by Sandvik
6m3diesel scraper	LH410	set	3	manufactured by Sandvik
2m3 diesel scraper		set	3	for removing ore from stopes (made in China)
portable air compressor	PES600	set	2	for development
portable rock drill	YT-28	set	10	for development
portable rock drill	YSP45	set	10	for development
50t diesel truck	Sandvik50	set	3	manufactured by Sandvik
20t diesel truck	AJK-20	set	2	to transport rock to the surface (made in China)
axial flow fan	DK-12-№28	set	2	made in China
in-pit booster fan	JK55-2№4	set	10	made in China
in-pit booster fan	JK55-2№4.5	set	10	made in China
slurry pump	BZ150E-50	set	6	made in China
management car	Jeep	set	3	made in China

SRK believes the equipment nominated is likely to meet the needs of production. However, considering underground ventilation and excavation conditions, SRK does not think that diesel trucks are an ideal choice.

Fresh air intake is from the main decline and exhausted from the air return shaft; while diesel trucks also utilise the main decline as its access and thus its emission will cause air contamination. Diesel trucks are similar to electric trucks regarding Capex, Opex, efficiency and maintenance.

7.2.4 Mining Services

Auxiliary systems of mine include ventilation, underground water drainage, air compression and water supply. Considering the fact that the mine has not been put into production, SRK can only conduct an assessment on the ENFI design.

Ventilation

As per the designed mining method and development system, diagonal ventilation was recommended by ENFI, which is to use the main decline for air intake and the air return shaft for the exhaust.

Fresh air is designed to flow to the underground mine through the main decline first, then to the excavation roadways, rock drilling roadways or rock drilling chambers through crossheadings and roadways of levels. Exhaust air is to be channelled to the air return roadways through air return raises and then discharged to the surface by the air return shaft.

The air quantity for underground mining is calculated based on the quantities of equipment, working faces, chambers and air quantity of each consumer, which totals to 150m³/s.

Considering wind resistance and air leakage factor, the designed fan capacity is 172m³/s under negative pressure of 985Pa. Two sets of DK40-8-No.22 type energy saving counter-rotating axial flow fans are to be arranged in a parallel connection. Each of them has a motor power of 2 × 200kW and efficiency approximately of 80%. The blade installation angle can be adjusted and an electric air door is equipped.

The fan is reversible and air reversing ratio (the volume ratio of reserved air current to the normal air current when the airflow direction is to be changed) is higher than 60%. As required by the safety regulations, one stand-by motor is reserved to each fan.

Because the main decline is going to be used for air intake, diesel trucks are expected to cause some pollution to the underground ventilation. Therefore, SRK suggests increasing air quantity and accelerating air velocity in the ventilation system to a level which matches international standards. SRK notes that the ENFI design does not include allowance for diesel engine pollution.

Water Drainage

According to the hydro-geological condition of the mine, normal water inflow is 220m³/d in the dry season, 500m³/d in the rainy season and 4100m³/d in a flood peak. A total of 800m³/d of water will be recycled for mining and backfilling.

The underground pump room of the initial mining area is constructed near to the decline on level 2640m. Water from levels and stope fill drains to level 2640 through a water drainage borehole and the air return shaft on each level and flows to the sump. It is then pumped to the surface via a pipeline in the decline, with a lift height of 264m. Four sets of MD85-67 × 5 type water pumps are selected with one for use and three for stand-by in normal water inflow circumstance; and three for use and one for stand-by in the maximum water inflow circumstance.

Pipes for water pumping are located at both sides of the decline and use two 168mm diameter (“φ”) × 6mm wall thickness seamless steel tubes with one for use and one for stand-by.

The slurry discharge chamber is constructed near the pump room having one set of NB250-25/6 type reciprocating slurry pumps of 25m³/h capacity, a pump pressure of 6MPa and motor power of 112kW.

Pipes for slurry discharge are located at the side of the decline and use one φ 89mm × 6mm wall diameter seamless steel tubes to pump the slurry to the decline portal.

SRK believes that the designed water drainage system can meet the ordinary production requirements. However, water discharged from stope fill contains sand and mud which need to be settled prior to discharge; otherwise the water drainage efficiency and drainage equipment may be impacted.

Air Compression and Water Supply

The main equipment used for the mine is electric hydraulic equipment; therefore no surface air-compressor room is needed. Pneumatic drills are used in certain small section roadway, so two sets of PES600 portable air compressors are provided for this purpose.

Water consumed by underground mine is mainly used for rock drilling, dust control and equipment washing with a total of 1200t/d. Water for the underground mine is pumped via the decline and levels. The water pipes in the decline and levels are of 133mm ϕ \times 5mm wall thickness and are located at one side of decline.

The main water supply pipes are installed with pressure reducing valves so that pressure can meet the requirement of production.

A drinking water tank is installed at each level and mining sections to provide a potable water supply.

SRK believes that air compression and water supply system are rationally designed and will not cause any adverse effect on mining production.

Stope Fill

As required by the mining technique, cemented and non-cemented stope fill is proposed to fill mined out stopes. The fill will use tailings from the processing plant as the main material. Portland cement is added for cemented fill. Related parameters are calculated as follows:

- Volume of mined out area for filling on average per day: 1306m³/d
- Materials needed for filling on average per day: 1714m³/d
- Materials needed for filling on average per year: 565,648m³/year

The stope fill system mainly includes the materials preparation station on the surface, boreholes and pipes. Fill material will be pumped to the mined out area through boreholes and pipes after being agitated in the materials preparation station and agitator tank.

There are three material preparation systems in the surface, two of which can be used for tailings back-fill as well as cemented tailings back-fill and one of which is only designed for tailings back-fill. Each system has a capacity of 80m³/h under a 3 shifts of 8 hours working schedule per day. One tailings buffer pumping station is also to be constructed.

Tailings from processing plant is pumped to the tailings tank of the preparation station, then pumped for dewatering, and finally for back-filling. Tailings not required for stope fill will be pumped to the tailings storage facility ("TSF") for storage.

Sedimentation ponds are to be constructed underground at a vertical interval of 50m to 100m. Fill water and slurry overflow will flow to the precipitation pit of each level, where coarse sand will be settled, water and slurry will flow to the water sump and be pumped to the surface by water pumps and slurry facilities. SRK believes the stope fill system should receive more consideration to minimise the impact of water and sand overflow. Effective measures and management should be taken to reduce impact on the mining activities caused by stope fill water and sand discharge.

It is SRK's opinion that filling system design does not allow for the freezing conditions in winter when back filling efficiency and effectiveness will be impacted greatly. An inability to fill stopes will not have an immediate impact on mining production, but may cause problems in the future if insufficient empty stopes cannot be filled.

7.3 Mining Schedule

7.3.1 Working schedule

As designed by ENFI, mining will be undertaken for 3 shifts per day, 8 hours per shift and 330 days per year. The designed mining and processing scale is 3,500tpd or 1,155ktpa. The mine life is forecast at 13 years.

The long and cold winter in the mine area will hinder the achievement of the designed working days of 330 days per annum. It is SRK's opinion that the working schedule of 300 days per annum is more appropriate. The project is classified as a medium size mine by resource estimation, but the design scale is for a large mine.

7.3.2 Mine plan

Mining is designed to be advanced from the bottom of the deposit to the top. ENFI produced the life of mining plan as the following table.

Table 72: Life of Mine Plan by ENFI

Item	Unit	Years									Total
		1	2 to 6	7	8	9	10	11	12	13	
Tonnage	lkt	580	1,155	1,155	1,155	1,155	1,155	690	600	387	12,652
Cu grade	%	0.892	0.892	0.872	0.855	0.842	0.809	0.732	0.708	0.729	0.852
Cu metal	t	5171.8	10299	10073	9876.7	9724.6	9338.3	5052.6	4248.7	2821.5	107814

It is a static plan and will change as the mine develops. This plan is based on ENFI's reserve estimate.

7.4 Ore Reserve Estimate

This section of this report relies on the feasibility study produced by ENFI dated May 2011 and the resource model produced by SRK.

Sareke Copper Mine has been designed by ENFI as an underground mine. When the ore reserves were estimated, the following parameters are used:

- Product: copper concentrate with minor silver
- Production capacity of mining: 3500tpd
- Feed to processing plant: 3500tpd
- Mining methods: horizontal backfill, room and pillar backfilling and upward backfill
- Development method: decline access and diesel truck haulage.
- Ventilation: diagonal ventilation
- Backfill material: tailings, both cemented and un-cemented
- Drainage and mud disposal: there is a pump house, sump and slurry pump room located near the decline at 2640m level
- Average mining loss rate is forecast at 11%
- Average mining dilution rate is forecast at 6%
- Reserve minimum mining width is 2m.

A block model interpolated by SRK using Surpac is used as the basis for ore reserves estimate. SRK uses the same cut-off grade, average mining dilution rate and mining loss as that used by ENFI to estimate the ore reserves. SRK's result indicates that there is about 7,956 kt of Probable Ore Reserves, which has an average copper grade of 0.96%Cu, that can be mined. A summary of ore reserves in various elevation ranges is presented in Table 7-3.

The ore reserve statement may support a seven year mine life at the capacity proposed by ENFI. SRK notes that there are Inferred Resources in the North zone, and more resource are likely to be defined in the South and East zones. Once the resource has been upgraded, it can be converted into ore reserve through considering the modifying factors, so the mine life can be extended.

Table 73: Ore Reserve Statement of the Sareke Copper Deposit, at Cut-off of 0.3%TCu as 30th June 2011

Elevation (m)	Probable Ore Reserve	
	Tonnage (kt)	Cu (%)
>=2820	870	0.76
2730~2820	2,127	0.97
2640~2730	4,648	1.03
<=2640	311	0.53
Total	7,956	0.96

The information in this report which relates to Ore Reserves is based on information compiled by Mr Qiuji Huang who is a full time employee of SRK China. Mr. Huang is a member of AusIMM. Mr Huang has sufficient experience which is relevant to the style of mineralisation and the type of deposits under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 edition of the “Australasian Code for Reporting of Exploration results, Mineral Resources and Ore Reserves”, the JORC Code. Mr Huang consents to the reporting of this information in the form and context in which it appears.

7.5 Conclusions

SRK has completed a site visit and reviewed geology, resource estimates and the feasibility study, and SRK believes that generally, the exploration level of the project is relative low; and so the mining design in the feasibility study is not robust. Therefore there is room for improvement regarding the mining method, production scale and working schedule. SRK notes the following technical issues in the feasibility study:

- The exploration conducted to date cannot provide all the data required by the feasibility study;
- In the mine development option of main decline plus shaft with diesel trucks, there is a risk of interference between ore transportation, personal access and material operation, underground air will be contaminated and operational cost will be high;
- The long and cold winter in the mine area will hinder the achievement of the designed working days of 330 days per annum. It is SRK's opinion that the working schedule of 300 days per annum is more appropriate. SRK also believes that the appropriate production scale should be at 3000tpd or 900ktpa;

- The tailings backfill method is a conventional method that is widely used in China. But the long and cold winter may lower the tailings backfill efficiency. SRK's opinion is that the mine should conduct mining method testing when mine development is completed to get the most optimized operation parameters;
- 50t diesel trucks are rarely used in mines in China; therefore their performance has not been broadly tested in China. SRK recommends the mine to having some training from the mines that already have these trucks in operation.

8 METALLURGICAL AND PROCESSING ASSESSMENT

8.1 Ore Amenability

8.1.1 Ore Characteristics

The Sareke Copper Mine Exploration Report stated copper and silver as the only valuable elements. Copper occurs mainly as chalcocite and malachite and is also found in a trace amount in bornite, covellite, chessylite, tetrahedrite and as minor natural copper. Silver minerals occur with the copper minerals and can be easily recovered in the copper concentrate. Other elements and minerals such as pyrite, magnetite, galena and gold are too sparse to be recovered. Gangue materials are mainly feldspar, quartz and clay minerals. The oxidization rate decreases from the surface and the average oxidization rate is 40.34%. The oxidization rate is the most important factor for processing technology and parameter selection. The oxidization rates of samples tested is referred to in the geological section of this report.

8.1.2 Metallurgical Testing

The metallurgical testing of various batches of samples and the historical production achievements of a 200tpd concentrator are listed in Table 81. The testing results and historical production achievements indicate a very good amenability of the ore; and a good quality concentrate can be produced with satisfied recovery. However, samples used for testing present a much higher grade than the average grade and the oxidization rate is much lower than the overall value in the deposit. As the samples cannot represent the overall scenario of the deposit, these testing results cannot be used as the sole basis for the flowsheet design. As the feed grade of practice in 2010 is much lower than that of tests, the concentrate grade and copper recovery in 2010's practice are both lower than that of tests. Although historical production has achieved a reasonable record by producing an average concentrate grade at 23.12%Cu with metal recovery of 71.17%, the overall ore amenability in the deposit cannot be verified.

Table 81: Metallurgical Test Results

	Mass	Grade		Metal Recovery	
	Recovery				
	%	Cu, %	Ag, g/t	Cu, %	Ag, %
Xinjiang Non-ferrous Design Institute, Grind fineness: 73.1%-0.074mm; Oxidization rate: 14.52%					
Concentrate	12.51	25.24	197.77	94.61	
Tailings	87.49	0.21		5.39	
Feed	100.00	3.34		100.00	

Daye Non-ferrous Design Institute, Grind fineness: 65%-0.074mm; Oxidization rate: 7.92%

Concentrate	6.17	25.14	177.70	90.18	76.67
Tailings	93.83	0.18	3.56	9.82	23.33
Feed	100.00	1.72	14.30	100.00	100.00

Daye Non-ferrous Design Institute, Grind fineness : 72%-0.074mm; Oxidization rate: 7.92%

Concentrate	5.39	29.36	221.40	92.27	83.45
Tailings	94.61	0.14	2.50	7.73	16.55
Feed	100.00	1.71	14.30	100.00	100.00

Production records from May to June 2010

Concentrate	1.56	23.12	71.17
Tailings	98.44	0.15	28.83
Feed	100.00	0.51	100.00

8.1.3 Ore Amenability

Both primary and supergene copper sulphide minerals show very good flotation characteristics and can be recovered effectively through flotation. However, copper oxide minerals have bad flotation characteristics and normally require sulfidation to produce a copper sulphide film on the surface prior to flotation. The flotation flow sheet and technical parameters are yet to be determined by sufficient metallurgical tests. Other technology to recover copper from copper sulphide is hydrometallurgy which makes copper recovery achievable through sulphuric acid leaching of copper oxide into water soluble copper sulphide and then producing copper metal by electrolysis. However the mine is restrained from supplies of sulphuric acid due to its remote location.

Both the test results from Xinjiang Non-ferrous Institute and Daye Non-ferrous Institute indicate good flotation characteristics of samples; however, the samples for testing were not representative of the orebody but only represent copper sulphide minerals. Testings are not carried for oxidized ore. Therefore the flotation characteristics of oxidized ore have not been determined. Table 82 summarizes the results of a study for copper loss in tailing carried out by Daye Non-ferrous Institute, indicating a copper sulphide recovery over 96% and an average of 97.94%; however, the average recovery of oxidized copper is only 11.49%.

Table 82: Copper loss in tailings

	Primary copper sulphide	Supergene Copper Sulphide	Free oxidized copper	Combined oxidized copper	Total copper
Head grade (%)	0.024	1.44	0.042	0.084	1.59
Tailing grade (%)	0.001	0.031	0.033	0.085	0.15
Loss in tailings (%)	3.94	2.03	74.26	95.64	8.82
Metal recovery in					
Concentrate (%)	96.06	97.97	25.74	4.36	91.18

The feasibility study produced by ENFI indicates a processing flow sheet that recovers copper sulphide and copper oxide in two separate circuits by prioritized flotation of copper sulphide. However, there are risks in the design as the testing samples are not representative. It is in SRK's opinion that additional metallurgical testwork should be conducted to verify the flotation characteristics of oxidized ore and optimise the process flowsheet.

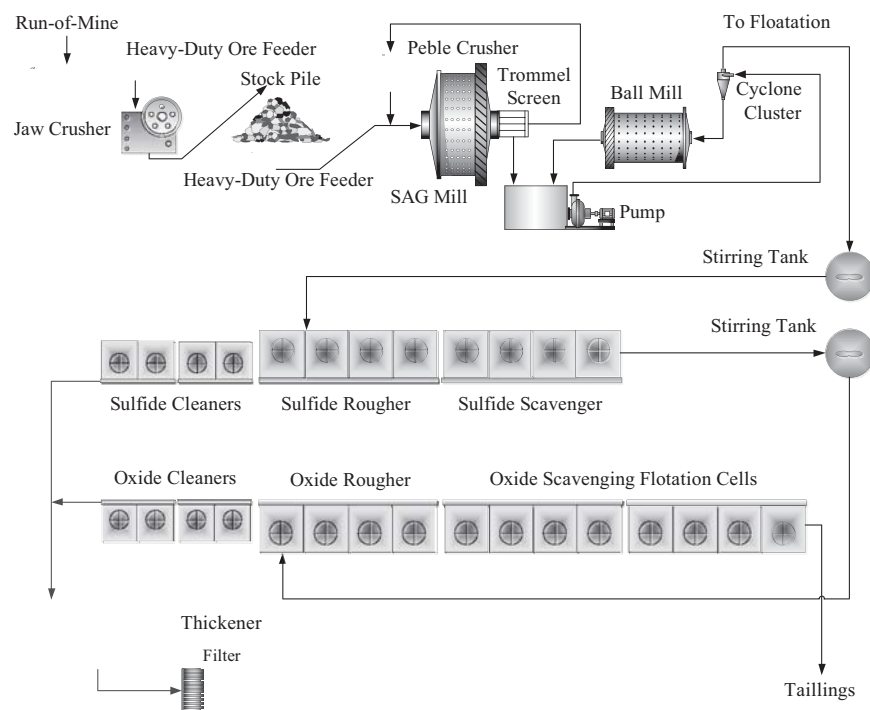
8.2 Designed Technology and Parameters

8.2.1 Designed Flow Sheet

It is claimed in the feasibility study by ENFI that due to the poor representativeness of processing testing samples, its flow sheet design is partly based on its previous experiences of other similar projects.

As proposed by the feasibility study, the concentrator is to be located close to the portal of the mine, which will be cost efficient for transportation. Land cleaning was under the way at the time of SRK's visit. The concentrator is proposed to commence production at the end of 2013 with an ore treatment capacity of 3,500tpd. The concentrator consists of crushing, grinding, flotation, thickening/filtering and tailings disposal as shown in Figure 81.

Figure 81: Designed Concentrator Flow Sheet



> *Crushing – Grinding*

The feasibility study compared three different options for crushing and grinding. By considering capital cost, operational cost and performance, the feasibility study selected the option of primary crushing and Semi Autogenous Grinding (“SAG”) in a ball mill which was tested by Luoyang Mine Equipment and Machinery Design Institute. The process crushes and grinds ore up to 500mm to 72% below 74 micron. It is SRK's opinion that the equipment selected is rational and able to handle the treatment of 3,500tpd.

> *Flotation*

ENFI designed two flotation circuits. Circuit one is to recover copper sulphide that involves primary crushing, two cleaning and one scavenging circuit to produce copper sulphide concentrate. Circuit two is to recover copper oxide and the tailings of circuit one is the feed for circuit two. Circuit two involves primary crushing, two cleaning and two scavenging circuits to produce copper oxide concentrate. It is SRK's opinion that circuit one is rational; while the rationality of circuit two is not verifiable as metallurgical testing has not been conducted for oxidized ore.

> *Concentrate thickening and filtering*

The combined concentrate of copper sulphide and copper oxide flows into a 18m ϕ thickener for thickening. The underflow of the thickener, containing 45 to 50% moisture, is pumped to a 28m² press filter to produce a filtration cake containing about 10% moisture. The cake is transported via belt conveyor to the fine concentrate warehouse, ready for sale.

> *Tailings disposal*

Tailings disposal is described in section 8.4.

8.2.2 Processing Performance

Table 83 summarizes the designed processing performance parameters. It is indicated in the table that the copper concentrate grade is 24.3% and the copper recovery is 82%. The plant operation schedule is 330 days per year. The plant is designed to produce 34,765.5 tonnes of copper concentrate per year containing copper metal of 8,448 tonnes. The annual production of silver in copper concentrate is forecast at 7,370kg with a silver grade of 212gpt in copper concentrate. However, whether the 82% copper recovery is achievable is yet to be confirmed, because of the lack of representativeness of samples selected for the metallurgical tests. It is recommended by SRK that the company conduct additional metallurgical testwork with samples being representative of the overall material in the deposit. Moreover, if the aggressive mining plan of 3,500tpa mining fails to be accomplished, this situation will decrease the recovery rate of the processing plant and increase the cost.

Table 83: The designed concentration performance in the FS

	Mass Recovery (%)	Quantity (tonne per day)	Cu Grade (%)	Cu Recovery (%)
Concentrate	3.01	105.35	24.3	82
Tailings	96.99	3394.65	0.166	18
Ore Feed	100	3500	0.892	100

8.3 Processing Support Services

8.3.1 Water Supply

Three overhead water tanks are to be placed being close to the concentrator. The three tanks are respectively for the purpose of fire fighting, living and production and their respective capacities are 1000m³, 400m³ and 4000m³. There are two sources of water supply. One supply comes from Zhuoyoulesu River which is 300m from the concentrator. It is proposed to develop three water bores on the river bed. The water generation of each water bore is forecast to be 125m³/h. From the water bores, water is to be pumped via a 156m head pump to the overhead tanks. Another source of water comes from the returned water from the TSF which is to be used for processing plant production.

8.3.2 Laboratory

The laboratory consists of two units that are respectively the metallurgical testing unit and the assaying unit. The metallurgical testing unit is to test ore characteristics for the guidance of production and for the trial of new technology, new techniques and new reagents. The assaying unit is to assay the ore grade, monitor production and product grade and monitor water quality. It is also the responsibility of the laboratory to collect samples, prepare samples and record production.

8.3.3 Workshops

An integrative workshop has been designed, consisting of units for daily maintenance, recharging, tyre maintenance, equipment checking, spare parts storage, bench works and welding.

8.3.4 Earthquake Resistance

The mine area is on the joint of Kunlun Mountain, Tianshan Mountain and Tarim Basin, featuring complex geological structures, well developed valleys, faults and folds and frequent earthquakes. Magnitude 5 to 6 earthquakes happen frequently in this area; therefore the earthquake resistance requirement for constructions and engineering is for magnitude 9. Xinjiang Baodi Geotech Ltd is working on the geotechnical investigation on the sites for the proposed plant and construction; while the results of this investigation will form advices to the mine on earthquake resistance design.

8.4 Tailings Storage Facilities (TSF)

The daily tailings discharge is forecast at 3,399.9t out of which 2,152t is to be back filled to the mined out area. As the mine is operated 330dpa therefore the annual tailings discharge is 0.41Mt or 0.24 Million m³ (bulk density of 1.7). According to ENFI, the designed mine life is 13 years; thus the life of mine tailings production is 3.15Mm³. By a fill factor of 0.85, the required volume of the TSF is 3.7Mm³. The earthquake resistance requirement for the TSF is magnitude 9.

Four options are proposed for the location of the TSF:

- Option 1 is to the southeast of the historical concentrator and to the south of the proposed backfill station. For this option the TSF dams are to be embanked on three sides.

- Option 2 is in a valley between the proposed concentrator and the backfill station. The valley is open to the north; however a coal mine is situated at the north end of the valley using the valley as it's access. The mine needs to develop a new access road for the coal mine if option 2 is selected.
- Option 3 and 4 are both in an open valley at the south of Zhuoyoulesu River. However the catchment of these two options is large.

By a comparison of economics, safety and environmental impact, the FS selected option 1.

Before disposal, tailings will be thickened to 72% solids in the form of a paste.

During its visit, SRK sighted the development of the TSF on the site of option 1 that is just next to the Zhuoyoulesu River to the south. It is the SRK's opinion that the dimensions of this site are limited, a large amount of civil works need to be done for the embankment on three sides and dust is easily generated, as the location is in a windy area. It is SRK's opinion that option 2 is the ideal option for the TSF. However, the client needs to assess the cost for the impact to the coal mine.

The total volume of the option 1 TSF is 3.7Mm³. As the mine is in an earthquake belt, the drainage system and starter dam should be built to a high standard. The upstream embankment method, which is susceptible to earthquake damage, should not be used.

9 OCCUPATIONAL HEALTH AND SAFETY**9.1 Project Safety Assessment and Approvals**

SRK has sighted a safety assessment report for the Sareke Copper Mine (Urumqi Denuo Safety Technology Consulting Ltd, May 2010), but SRK has not sighted the approval for this report.

9.2 Occupational Health and Safety Management and Records

SRK has not sighted the Occupational Health and Safety (“OHS”) management system/procedures and OHS records (for incidents and accidents) for the Sareke Copper Mine. Huixiang Yongjin Mining has stated that the OHS management system/procedures have yet to be developed and the recording of incidents and accidents will be established when the project is commissioned in 2013.

10 PROJECT COSTS

10.1 Capital Costs

The feasibility study produced by ENFI dated May 2011 forecast the capital cost to achieve 3,500tpd production as summarized in the table below.

Table 101: Capital Cost Budget for the 3,500tpd Production Design (Modified after ENFI, 2011)

Items	RMB000'
Mining facilities	176,100
Ore Processing plant	70,930
Tailings storage facilities	43,070
Production Service facilities	58,260
Living and office facilities	14,470
Other	48,090
Subtotal	410,920
Contingent (10%)	41,092
Working Capital	8,110
Grand Total	460,122

The majority of the capital costs listed will be spent from early 2011 to the end of 2013. SRK is of the opinion that proposed capital expenditure is likely to achieve the Companies' aims, and to result in achieving the forecast production for the mine and concentrator.

10.1.1 Project Schedule

Mine development started in early 2011 and the mine and ore processing plant are expected to commission production at the end of 2013. During the site visit, SRK noted that the decline was excavated to 1/3 of its total length; while site cleaning was going on for the ore processing plant. The construction progress is on the schedule.

10.2 Operating Costs

10.2.1 Forecast Operating Costs

The feasibility study forecast the average life of mine operating cost as shown in the table below.

The unit cost is comparable to that of similar mines in China. However it is a static forecast without consideration of inflation and the numbers will change from time to time during the mine operation.

ENFI also estimated the operating cost per tonne of ore once the production has reached its designed capacity. Table 10-3 and Table 10-4 give the details by using different methods. With the consideration of production value tax (value added tax), the average operating cost will be RMB153.71 per tonne of ore.

Table 102: Operating Cost Budget for the 3,500tpd Production Design (Expenditure Factor Method, ENFI, 2011)

Items	RMB/t ore
Support materials	47.32
Power	18.88
Spare and backup materials	2.57
Salary and welfare	16.71
Repair and maintenance fee	5.99
Interest	5.89
Others	18.48
Depreciation	20.53
Amortization	4.4
Value added tax	12.93
Total Cash Cost	128.77
Total	153.71

**Table 103: Operating Cost Budget for the 3,500tpd Production Design
(Manufacturing Cost Method, ENFI, 2011)**

Items	<i>RMB/t ore</i>
Mining cost	60.42
Ore Processing cost	34.27
Sales cost	4.41
Accounting cost	5.89
Management cost	6.59
<i>Depreciation for mining</i>	<i>12.37</i>
<i>Depreciation for ore processing</i>	<i>8.16</i>
<i>Amortization for management</i>	<i>4.41</i>
<i>Royalty (Resource compensation fee)</i>	<i>4.26</i>
<i>Value Added Tax</i>	<i>12.93</i>
<i>Total Cash Cost</i>	<i>128.77</i>
Total	153.71

11 PROJECT INFRASTRUCTURE

11.1 Road Access

Sareke copper mine is situated northeast of Wulukeqati Township which is 137km by tar road named S309 to the downtown of Ulugqat County which is 100km from the city of Kashgar where there is an airport and railway networks. The mine is accessible from the Town via S309 road (Kashgar to Kyrgyzstan).

11.2 Electrical Power Supply

The local electricity supply authority is installing a 110kv electricity transmission line to the Wulukeqati Town where a 110kv/35kv substation is to be situated. The mine is installing a 35kv double loop overhead line from the town to the mine. A 35kv/10kv substation with two units of 8000kVA transformers is to be installed at the mine, sending electricity to the individual transformers at the consuming ends. This project is expected to be completed by the end of 2011.

11.3 Heating Supply

The mine is in an area with a long and cold winter; therefore, heating is to be supplied to the mining and processing buildings. It is proposed to install 2 units of 2.8MW water boilers with 95 degree Celsius water supplying capacity of 5tph. The boilers are to be fueled by coal from a nearby coal mine.

11.4 Water Supply

The main water resource in the area is the Shuoyoulesu River and is located just down-gradient of the site. The Shuoyoulesu River (and associated groundwater) is the main water supply source for the site (i.e. along with the recycled mine water, process water and tailings return water). Huixiang Yongjin Mining has stated that the combination of the river/ groundwater and recycled tailings water will be sufficient for the project water supply.

At the time of the site visit, a groundwater well was being drilled adjacent to the Shuoyoulesu River and mine water was being discharged from site. Huixiang Yongjin Mining has stated that the current average rate of mine water discharge is 30m³/hr. In addition, Huixiang Yongjin Mining has also stated that a mine water collection tank will be constructed, and under normal operating conditions, the mine water will likely be fully reused.

11.5 Workshops and Repair Facilities

At the time of the site visit there were only temporary workshops on site for the project construction. Huixiang Yongjin Mining has stated that they will construct permanent workshops for the maintenance of the mining mobile equipment and the processing plant fixed equipment. SRK has not sighted the designs for these permanent workshop facilities.

12 WORKFORCE

12.1 Workforce Numbers

The feasibility study forecast the workforce required for the 3,500tpd production as shown in the table below.

Table 121: Workforce required for the 3,500tpd production

Item	Amount (person)
Mining	324
Ore processing plant	74
Production services	94
Administration and management	46
Total	538

12.2 Assessment of Workforce

It is SRK's opinion that the proposed workforce is sufficient for such a production provided that proper trainings are provided by the mine.

13 ENVIRONMENTAL AND SOCIAL ASSESSMENT

13.1 Environmental and Social Review Objective

The objective of this environmental due diligence review is to identify and/or verify the existing and potential environmental liabilities and risks, and assess any associated proposed remediation measures for the Sareke Project

The Sareke Copper Mine comprises:

- 200tpd disused/historical underground mine and processing plant (flotation)
- 3,500tpd (330 days per year), underground mine and processing plant (flotation) – currently under development.

13.2 Environmental and Social Review Process, Scope and Standards

The process for the verification of the environmental compliance and conformance for the Sareke Copper Mine comprised a review and inspection of the project's environmental management performance against:

- Environmental and social components of HKEx Listing Rules.
- Chinese National environmental regulatory requirements (Appendix 3).
- Equator Principles and World Bank/International Finance Corporation (IFC) environmental and social standards and guidelines (Appendix 4).
- Internationally recognised environmental management practices (Appendix 4).

The site visit by SRK for the environmental review of the Sareke Copper Mine was undertaken on 23 June 2011.

13.3 Status of Environmental Approvals

The details of the Environmental Impact Assessment ("EIA") report and approval for the Sareke Copper Mine are presented in Table 131.

Table 131: EIA Report and Approval

Project	Produced By	Production date	Approved By	Approval date
Sareke Copper Mine project (3,500tpd)	Xinjiang Environment Protection Technology Consulting Ltd	Dec-10	Not sighted	n/a

SRK has not sighted the EIA report approval for the Sareke Copper Mine. However, at the time of the site visit, Huixiang Yongjin Mining stated that EIA report approval will be received prior to the issuing of the project mining licence. SRK notes that the mining licence was received in May 2011.

The details of the Water and Soil Conservation Plan ("WSCP") report and approval for the Sareke Copper Mine project are presented in Table 132.

Table 132: WSCP Report and Approval

Project	Produced By	Production date	Approved By	Approval date
Sareke Copper Mine project (3,500tpd)	Xinjiang Environment Protection Technology Consulting Ltd	Feb-11	Not sighted	n/a

SRK has not sighted the WSCP report approval for the Sareke Copper Mine (i.e. approval by the relevant local water bureau).

The Final Check and Acceptance process for the Sareke Copper Mine has yet to be initiated. SRK notes that the Final Check and Acceptance report and approval process should be completed after the mine and processing plant are commissioned in 2013.

13.4 Environmental Compliance and Conformance

As SRK has not sighted the project EIA report approval, therefore SRK is not able to comment on the current level of the project compliance with EIA approval conditions (i.e. for the project construction). SRK also notes that, as the project is not operational, SRK is not able to comment on the project's operational environmental management. However, SRK can provide comments on the proposed project environmental protection measures (as outlined in the EIA, WSCP and feasibility study reports). These comments are provided in the following sections.

13.5 Land Disturbance

The project EIA report estimates that the total project area of land disturbance will be 30.688ha, comprising the mining and processing area/facilities, waste rock dump/yard and infrastructure (including roads). The EIA does not provide a breakdown of these estimated areas for these individual project components. SRK notes that the estimated area for the TSF is also not provided in the EIA report.

The project WSCP estimates that the total project area of land disturbance will be 47.31ha, with the TSF covering 30ha and waste rock dump covering 5ha. SRK notes these estimates of land disturbance provided in the WSCP appear to be consistent with observations made during the June 2001 site visit.

13.6 Flora and Fauna

The EIA report states that the project area flora is comprised of 'sparse, typical low coverage -coverage grassland' and that there are no recorded significant flora species. The EIA report states that the project area fauna is typical of the 'Western Desert Sub-Zone Area of the Tarim Basin', and that no rare and endangered fauna species have been recorded. The EIA report also states that there are no natural reserves/parks within or near the project area.

13.7 Waste Rock and Tailings Management

13.7.1 Waste Rock Management

The project waste rock generation rates and the waste rock dump engineering description (design and storage capacity) have been previously discussed with the Mining Assessment section.

There is a small existing/historical waste rock dump located adjacent to the old mine portal. Huixiang Yongjin Mining has stated that the waste rock in this dump has been stockpiled for approximately 3 years. Huixiang Yongjin Mining also stated that they plan to reuse some waste rock in site construction and also construct a new waste rock dump adjacent to the new main decline. SRK has not sighted a design for this proposed waste rock dump. SRK notes that the project Feasibility Study and EIA reports also state that 'some of the waste rock will be reused for mine backfill'. SRK has not sighted any estimates on the proportion (%) of the waste rock that may be reused for mine backfill.

SRK has not sighted a comprehensive Acid Rock Drainage ("ARD")/geochemical assessment of the waste rock. However, Huixiang Yongjin Mining has stated that the majority of the ore is sulphide (only about 7% is oxidised) and that the average total sulphur content in the ore is about 2%. SRK notes that the EIA report states that the average total sulphur content in the ore is low and ranges from 0.5-0.7%. SRK also notes that these two estimates are significantly different, and that the stated figure of 2% total sulphur is relatively high and the documented figure of 0.5-0.7% total sulphur is relatively low. However, SRK did not observe any evidence of ARD/leaching impacts from the existing/historical waste rock dump (i.e. waste rock has been stockpiled for approximately 3 years). In addition, the EIA report states that the site climatic conditions (low annual rainfall – 250mm and high annual evaporation – 2,400mm) are not conducive for waste rock oxidation and associated leaching, and that the waste rock dump 'does not require any special engineering protection', and 'will have little impact on the surrounding environment' (i.e. due to the local climatic conditions).

13.7.2 Tailings Management

The project tailings generation rates and the TSF engineering description (design and storage capacity) have been previously discussed with the Metallurgical and Processing Assessment section.

SRK notes that the project Feasibility Study and EIA reports refer to tailings storage management as comprising of a combination of mine backfill (paste tailings) and TSF (wet tailings). It is estimated that approximately 60-65% of tailings can be reused as mine backfill via a paste backfill plant. A TSF is proposed to be constructed within a valley near the northern boundary of the mining licence (i.e. approximately 300m up-gradient of the Shuoyoulesu River). Huixiang Yongjin Mining has stated that, at the time of the June 2011 site visit, the design for this TSF was being prepared (i.e. the TSF design was not available for this review). SRK has also not sighted the design for the proposed tailings paste backfill plant, and also whether the proposed tailings storage capacity for the mine backfill has been considered within the TSF design.

SRK notes from the TSF site inspection, that the TSF site has a small stream running through it (from snow melt). Huixiang Yongjin Mining has stated that the completed TSF design will have surface water management components comprising of upstream diversion channels and an underdrain to drain this small stream. Huixiang Yongjin Mining has also stated that the tailings water management will comprise collection and reuse (in processing) via an internal TSF pond pumping station and a downstream seepage collection pond.

SRK also noted during the June 2011 site visit, that there is an old disused small coal mine located just outside the northern boundary of mining licence, which will be impacted by the proposed TSF. Huixiang Yongjin Mining has stated that they are currently negotiating with the coal mine owners for appropriate compensation payment.

Although SRK has not sighted the design for the proposed TSF, SRK notes that the project Feasibility Study and EIA reports describe the following TSF design parameters:

- Dam wall construction – will utilise mine waste rock and compacted clay, and the dam will be lined with a geo-membrane.
- Stormwater/drainage management – flood design will initially be to a 1:50 year storm event and the final TSF will accommodate a 1:200 year storm event. Stormwater/drainage management will include an upstream diversion drains, underdrain, flood spillway, downstream seepage collection system and a return water collection system.

SRK has not sighted a comprehensive ARD/geochemical assessment of the tailings. However, SRK notes that the project EIA report states that the tailings will be inert and have a similar mineral content to the waste rock.

13.8 Water Aspects

The main water resource in the area is the Shuoyoulesu River located just down-gradient of the site. The groundwater in the project area is mainly related to Shuoyoulesu River along with some minor upstream springs. This Shuoyoulesu River (and associated groundwater) is the main water supply source for the site (i.e. along with the recycled mine water, process water and tailings return water). At the time of the site visit, a groundwater well was being drilled adjacent to the Shuoyoulesu River.

At time of the site visit, mine water was being discharged up-gradient of the Shuoyoulesu River and allowed to drain into the river. Huixiang Yongjin Mining has stated that there is no treatment and no monitoring of the mine water prior to discharge and that the current average rate of mine water discharge is estimated at 30m³/hr. SRK notes that at the time of the site visit, the actual level of direct discharge of mine water into the river was minimal as the seepage and evaporation rates along the surface drainage area appeared to be significant. Huixiang Yongjin Mining has stated that that a mine water collection tank will be constructed, and under normal operating conditions, the mine water will likely be fully reused and there will be no discharge into the Shuoyoulesu River. The project Feasibility Study and EIA reports also state that the mine water, tailings water and concentrate filtration water will be reused and not discharged from site.

The project Feasibility Study and EIA reports state that the stormwater for the site is minimal (i.e. due to the low annual precipitation) and that the surface water flows are mainly restricted to snow melt flows along existing drainage lines. Any site stormwater flows into these existing drainage lines, which then flow into the Shuoyoulesu River. The reports also state that the potential for flooding from the Shuoyoulesu River is also low due to the seasonal river flows mainly being as a result of snow melt.

SRK notes that no operational water monitoring program has yet been developed for the Sareke Copper Mine.

13.9 Air Emissions

13.9.1 Dust and Gas Emissions

At the time of the June 2011 site visit, the dust emissions sources for the site comprised of construction activities (mainly vehicle and mobile equipment) and open/unsealed areas. The main operational dust emission sources will be blasting (underground), ore handling/processing (crushing) and roads and open/unsealed areas.

The ore handling/processing facilities had not yet been constructed. However, SRK makes the observation that the existing/historical handling/processing facilities were enclosed (i.e. to reduce/control dust emissions).

The project Feasibility Study and EIA reports state that the proposed dust management measures will comprise underground dust suppression (wet sprays on active mining areas and ore handling), dust collection (bag-house) on ore crushing, enclosure of surface ore handling/processing facilities and construction of hardened/sealed roads. SRK notes that the use of water trucks for dust suppression spraying are not mentioned and were also not observed being used during the June 2011 site visit.

The construction gas emissions sources comprised of small temporary coal fired boilers. Huixiang Yongjin Mining has stated that one central coal fired boiler will be constructed for the project. The project Feasibility Study and EIA reports state the gas emissions from this boiler will be collected and treated through a wet scrubber prior to discharge through a 25m high stack.

SRK notes that no operational air quality monitoring program has yet been developed for the Sareke Copper Mine.

13.9.2 Greenhouse Gas Emissions

There is no Chinese National legislative requirement for the project to estimate its Greenhouse Gas emissions or to implement any emissions reductions. As such none of the project environmental assessment documentation reviewed address the issue of Greenhouse Gas emissions. However, energy efficiency and the reduction of Greenhouse Gas emissions are now considered as Chinese National policy directives. In addition, these are also components of IFC environmental requirements and are considered as internationally recognised environmental management practices. Therefore, SRK suggests that consideration be given to developing initiatives to quantify Greenhouse Gas emissions and assess possible emission reduction strategies for the Sareke Copper Mine.

13.10 Noise Emissions

The main operational noise emission sources will be blasting (underground), mine ventilation, air compressors, ore handling/processing (crushing) equipment and mobile equipment. The project Feasibility Study and EIA reports state that the potential noise impacts for the project are low due to the remote location (i.e. inclusive of the proposed relocation of the Erfenchang Village). However, these reports also refer to the use of noise management measures such as enclosure and insulation of high noise activities/facilities (e.g. crushing, milling), using low equipment where possible and the use of mufflers on high noise equipment.

13.11 Hazardous Materials Management

The hazardous materials for the project comprise hydrocarbons (fuel/oils), process reagents and explosives. At the time of the site visit, the permanent fuel and reagent storage facilities had yet to be built. However, Huixiang Yongjin Mining has stated that there will be one above ground fuel storage facility and one reagent storage facility (i.e. comprising a warehouse for dry reagent storage and above ground tanks for wet reagent storage). SRK has not sighted the designs for these facilities.

The mine explosives are currently stored in the original/historical magazine located adjacent to the old mine shaft. SRK notes that this is a secure facility but it does not fully comply with Chinese National requirements for explosives storage (i.e. which require that surface explosives storage facilities are to be situated at least 300m from the nearest building). Huixiang Yongjin Mining has stated that they are planning to build a new explosives storage magazine which will be 500m from the proposed new mine surface facilities).

13.12 Waste Management

13.12.1 Waste Oil

At the time of the site visit there were only temporary workshops on site for the project construction. Huixiang Yongjin Mining has stated that they will construct permanent workshops for the maintenance of the mining mobile equipment and the processing plant fixed equipment and that the waste oil generated from these maintenance activities will be filtered and reused on site.

13.12.2 Solid Wastes, Sewage and Oily Waste Water

At the time of the June 2011 site visit, there were only temporary small scale waste disposal facilities to cater for the project construction domestic and industrial wastes (i.e. a landfill area for solid waste and septic tanks for the sewage). Huixiang Yongjin Mining has stated that a permanent solid waste landfill facility will be constructed, and that surface sewage collection facilities will also be constructed. The grey water and oily waste water will be collected in an evaporation pond (and reused where possible) and the remaining domestic sewage will be stored in a separate collection basin prior to collection and reuse by the local village.

13.13 Contaminated Sites Assessment

At the time of the site visit, SRK did not observe any evidence of significant site contamination (i.e. resulting from the construction activities). However, there is some potential for the developed project operations to generate contaminated areas (i.e. due mainly to the proposed storage and handling of hydrocarbons). As such, SRK suggests that consideration is given to developing a contaminated sites assessment and management process for the Sareke Copper Mine.

13.14 Environmental Protection and Management Plan

SRK has not sighted an operational Environmental Protection and Management Plan (“EPMP”) for the Sareke Copper Mine. However, SRK notes that the project Feasibility Study and EIA reports outline the project’s proposed environmental management and monitoring program. In particular, it is stated that:

- A dedicated site safety and environmental department will be established.
- A site environmental management committee will be established, comprising members from all relevant site departments.
- An annual operational environmental monitoring program will be undertaken by the local qualified environmental monitoring station and will cover tailings water quality, crushing plant dust emissions and site noise emissions. Huixiang Yongjin Mining has stated that they plan to establish the contract with the local EPB Monitoring Station (for this site environmental monitoring program), after the project environmental Final Checking and Acceptance approval has been received (i.e. expected in 2013).

13.15 Emergency Response Plan

SRK has not sighted an operational Emergency Response Plan (“ERP”) for the Sareke Copper Mine. However, SRK notes that the project EIA report does refer to ‘site risk contingency plans’, which outline the components of the proposed site emergency response process.

13.16 Site Closure Planning and Rehabilitation

The Chinese National requirements for mine closure are covered under Article 21 of the *Mineral Resources Law (1996)*, the *Rules for Implementation of the Mineral Resources Law of the People's Republic of China (2006)*, the *Land Use Regulations of the People's Republic of China (1986.6.25)* and the *Land Rehabilitation Regulation issued by the State Council on October 21, 1988*. In summary these legislative requirements cover the need to conduct land rehabilitation, to prepare a site closure report and submit a site closure application for assessment and approval.

The recognised international industry practice for managing site closure is to develop and implement an operational site closure planning process and document this through an operational Closure Plan. While this site closure planning process is not specified within the Chinese National requirements for mine closure, the implementation of this process for a Chinese mining project will:

- Facilitate achieving compliance with these Chinese National legislative requirements; and
- Demonstrates conformance to a recognised international industry management practice.

SRK has not sighted a site rehabilitation plan for the Sareke Copper Mine (i.e. in accordance Chinese National legislative requirements). SRK also notes that there is currently no site closure planning process in place for the Sareke Copper Mine that is in line with the recognised international industry practice (i.e. including site closure and rehabilitation cost estimates). However, SRK notes that the project EIA report does outline a proposed closure planning process for the TSF and also the elements that will be included in a TSF closure design.

13.17 Social Aspects

The Sareke Copper Mine is located approximately 1km north of the Erfenchang Village in the Kizilsu Kirgiz Autonomous Prefecture, and approximately 137km northwest of the Ulugqat County centre and 237km northwest of Kashi City, Xinjiang Uyghur Autonomous Region.

The main administrative body for the project is the Xinjiang Uyghur Autonomous Region Government, with some delegation of operational regulation to the Ulugqat County. Huixiang Yongjin Mining has stated that the relationship with the regional and local governments is good and that they have not received any formal non-compliance notices in relation to the project development/construction. However, Huixiang Yongjin Mining has also stated that they have received a verbal directive from the local Ulugqat County Land and Resource Bureau to relocate the existing explosive magazine (i.e. as the current location does not comply with Chinese National requirements for explosives storage). Huixiang Yongjin Mining has stated that they have verbally acknowledged this directive and are planning to build a new explosives storage magazine which will be located 500m from the proposed new mine surface facilities.

The surrounding land use is a combination of agriculture (mainly livestock herding) and some mining. The local surrounding population is predominantly comprised of the Kirgiz ethnic group. There are no recorded cultural heritage sites within or surrounding the project area.

Under the Chinese National land tenure system, land is either owned by the state ("State Land") or by a rural collective economic organisation ("Collective Land"). There is no distinct ancestral or native land title system. Under this system, the land owner (i.e. the state or the collective) can grant land access and use rights to individuals and/or organisations for a specified time period and fee. Huixiang Yongjin Mining has stated that at the time of the site visit, negotiations were progressing with the Erfenchang Village for the relocation of approximately 20 residences/houses, which fall within the mining licence boundary, and that the Ulugqat County was coordinating this process. At the time of the site visit, Huixiang Yongjin Mining also stated that this land access/compensation and residential relocation process will need to be completed prior to the issuing of the project mining licence. SRK notes that the mining licence was received in September 2011.

The public consultation process for the development of the Sareke Copper Mine was undertaken as part of the project EIA (i.e. in accordance with Chinese national requirements). In May 2010, information regarding the development of the project was distributed to the nearby villages and towns. In conjunction with this process, public surveys were also undertaken of residents within nearby villages and towns. The results of these surveys showed a strong support for the project, with the development of the project perceived as having a significant positive impact on the local economy. The main environmental concern highlighted in the surveys was the potential impacts to the local water resources quality (i.e. through site discharges of wastewater and solid wastes). These concerns were incorporated into the project environmental management design and reported in the EIA report.

13.18 Evaluation of Environmental and Social Risks

The sources of environmental and social risks are project activities that may result in potential environmental impacts. These project activities have been previously described within this report.

The potential environmental and social risks for the Sareke Copper Mine are:

- Land disturbance, rehabilitation and site closure.
- Water management (i.e. tailings and mine water).
- Waste rock management.
- Tailings storage (i.e. TSF design, construction and operation).
- Dust management.
- Land contamination (hydrocarbon storage and handling).
- Land access/compensation

The above environmental and social risks are categorised as moderate/tolerable risks (i.e. requiring general operational risk management measures). Based on the review of the information provided and the site visit observations, it is SRK's opinion that the environmental and social risks for the Sareke Copper Mine are generally being managed or are proposed to be managed, in accordance with Chinese National requirements. SRK also notes that at time of this review, the following internationally recognised environmental management practices are not being undertaken for the Sareke Copper Mine:

- Internal/operational monitoring of the site environmental discharges/potential impacts.
- Operational environmental management planning.
- Site closure planning.
- Contaminated sites assessment and remediation process.

14 PROJECT RISK ANALYSIS

Mining is a relatively high risk industry. In general, the risk may decrease from exploration, development, to production stage. The Sareke Project is an exploration-development project with some previous production. Risks exist in different areas. SRK considers various technical aspects which may affect the feasibility and future cash flow of the project, in particular for the 3500tpd production, and conducts a risk assessment which has been summarized in Table 14-1.

Table 14-1: Project Risk Assessment of the Sareke Project

Risk Issue	Likelihood	Consequence	Overall
Geology and Resource			
Lack of Significant Resource	Unlikely	Moderate	Low
Lack of Significant Reserve	Possible	Major	High
Unexpected Groundwater ingress	Possible	Moderate	Medium
Mining			
Significant Production Shortfalls	Possible	Major	High
Pumping System Inadequacy	Unlikely	Moderate	Low
Significant Geological Structure	Possible	Moderate	Medium
Excessive Surface Subsidence	Unlikely	Minor	Low
Poor Underground Condition	Unlikely	Moderate	Low
Poor Mine plan	Possible	Moderate	Medium
Poor Road Transportation/safety	Unlikely	Moderate	Low
Ore Processing			
Lower Production Rate	Possible	Minor	Low
Lower Recovery	Possible	Major	High
Higher Production Cost	Possible	Moderate	Medium
Low Plant Reliability	Unlikely	Moderate	Low
Environmental and Social			
Land disturbance, rehabilitation and site closure	Certain	Moderate	Medium
Water management (i.e. tailings and mine water)	Possible	Moderate	Medium
Waste rock management	Possible	Moderate	Medium
Tailings storage (i.e. TSF design, construction and operation)	Possible	Moderate	Medium
Dust management	Likely	Moderate	Medium
Land contamination (hydrocarbon storage and handling)	Likely	Moderate	Medium
Land access/compensation	Certain	Moderate	Medium
Capital and Operating Costs			
Project Timing Delay	Unlikely	Moderate	Low
Mine Management-Plan	Possible	Minor	Low
Capital Cost Increases	Possible	Minor	Low
Capital Costs- ongoing	Unlikely	Minor	Low
Operating Cost Underestimated	Unlikely	Moderate	Low

In the risk assessment, various risk issues have been assessed for Likelihood, Consequence, and Overall Rating. SRK has used a modified matrix based on the AS/NZS 4360:1999 Standard, as follows:

The Likelihood of a risk is considered within a certain time frame, e.g. 5 years, as

- **Likely:** will probably occur
- **Possible:** may occur
- **Unlikely:** unlikely to occur.

The Consequence of a risk is classified into:

- **Major Consequence:** the factor poses an immediate danger to the project, if uncorrected, will have a material effect on the project cash flow and performance and could lead a project failure;
- **Moderate Consequence:** the factor, if uncorrected, will have a significant effect on the project cash flow and performance;
- **Minor Consequence:** the factor, if uncorrected, will have little or no effect on the project cash flow and performance.

The overall risk assessment combines the Likelihood and Consequence of a risk, and be classified as Low (unlikely and possible minor risks, and unlikely moderate risk), Medium ((likely minor, possible moderate, and unlikely major risks), and High (likely moderate and major, and possible major risks).

The full qualitative risk analysis process is described in Appendix 5.

15 REFERENCES

SRK notes that, unless otherwise specified, the references below have been translated from Chinese to English and the translated English versions have been reviewed.

1. China Enfi Engineering Corporation, *Feasibility Study of Sareke Copper Mine*, December 2009
2. Xinjiang Bureau of Industry and Commerce, *Business License No. 650000410000114, Xinjiang Huixiang Yongjin Mining Ltd*, 9 May 2007 (expiry 8 May 2027).
3. Xinjiang Bureau of Land and Resource, *Mining License No. C6500002009123120053788, Sareke Copper Mine*, 31st May 2011, (expiry 31st May 2013)
4. Xinjiang Environment Protection Technology Consulting Ltd, *Environmental Impact Assessment Report of Sareke Copper Mine 3500tpd Mining and Processing Project*, December 2010.
5. Xinjiang Institute of Water, *Water and Soil Conservation Plan Sareke Copper Mine Mining Project*, February 2011.
6. Xinjiang Institute of Water, *Water Resource Assessment Report of Sareke Copper Mine Mining and Processing Project*, February 2011
7. Urumqi Denuo Safety Technology Consulting Ltd, *Preliminary Safety Assessment on the Mining Project of Sareke Copper Mine*, May 2010.
8. Xinjiang Bureau of Land and Resource, *Exploration Permit No. T65120090302026521 of Sareke Copper Property*, 26 January 2011 (expiry 26 January 2012).
9. Xinjiang Xinhui Geology and Mining Company Limited, *Prospecting Report of Sareke Copper Mine, Ulugqat County, Xinjiang Uyghur Autonomous Region*, February 28, 2009.
10. Xinjiang Xinhui Geology and Mining Company Limited, attached maps and figures of *Prospecting Report of Sareke Copper Mine, Ulugqat County, Xinjiang Uyghur Autonomous Region*

APPENDICES

APPENDIX 1: RESOURCE AND RESERVE STANDARDS

Categorisation of Mineral Resources and Ore Reserves

The system for categorisation of mineral resources and ore reserves in China is in a period of transition which commenced in 1999. The traditional system, which is derived from the former Soviet system, uses five categories based on decreasing levels of geological confidence – Categories A, B, C, D and E. The new system (Rule 66) promulgated by the Ministry of Land and Resources (MLR) in 1999 uses three dimensional matrices, based on economic, feasibility/mine design and geological degrees of confidence. These are categorised by a three number code of the form “123”. This new system is derived from the UN Framework Classification proposed for international use. All new projects in China must comply with the new system, however, estimates and feasibility studies carried out before 1999 will have used the old system.

Wherever possible, the Chinese Resource and Reserve estimates have been reassigned by SRK to categories similar to those used by 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 (JORC Code) to standardise categorisation. Although similar terms have been used, SRK does not mean to imply that in their present format they are necessarily classified as “Mineral Resources” as defined by the JORC Code.

A broad comparison guide between the Chinese classification scheme and the JORC Code is presented in the following table.

JORC Code Resource Category	Chinese Resource Category	
	Previous system	Current system
Measured	A, B	111, 111b, 121, 121b, 2M11, 2M21, 2S11, 2S21, 331
Indicated	C	122, 122b, 2M22, 2S22, 332
Inferred	D	333
Non-equivalent	E	334

Definition of the New Chinese Resource and Reserve Category Scheme

Category	Denoted	Comments
Economic	1	Full feasibility study considering economic factors has been conducted
	2	Prefeasibility to scoping study which generally considers economic factors has been conducted
	3	No prefeasibility or scoping study conducted to consider economic analysis
Feasibility	1	Further analysis of data collected in “2” by an external technical department
	2	More detailed feasibility work including more trenches, tunnels, drilling, detailed mapping
	3	Preliminary evaluation of feasibility with some mapping and trenches
Geologically controlled	1	Strong geological control
	2	Moderate geological control via closely-spaced data points (e.g. small scale mapping)
	3	Minor work which is projected throughout the area
	4	Review stage

Relationship between JORC Code and the Chinese Reserves System

In China, the methods used to estimate the resources and reserves are generally prescribed by the relevant government authority, and are based on the level of knowledge for that particular geological style of deposit. The parameters and computational methods prescribed by the relevant authority include cut-off grades, minimum thickness of mineralisation, maximum thickness of internal waste, and average minimum ‘industrial’ or ‘economic’ grades required. The resource classification categories are assigned largely on the basis of the spacing of sampling, trenching, underground tunnels and drill holes.

In the pre-1999 system, Category A generally included the highest level of detail possible, such as grade control information. However, the content of categories B, C and D may vary from deposit to deposit in China, and therefore must be carefully reviewed before assigning to an equivalent “JORC Code type” category. The traditional Categories B, C and D are broadly equivalent to the ‘Measured’, ‘Indicated’, and ‘Inferred’ categories that are provided by the JORC Code and USBM/USGS systems used widely elsewhere in the world. In the JORC Code system the ‘Measured Resource’ category has the most confidence and the ‘Inferred’ category has the least confidence, based on increasing levels of geological knowledge and continuity of mineralisation.

Chinese Classification Scheme Comparison to JORC

Old Chinese Classification	A & B			C			D	E & F
New Chinese Classification								
“E” Economic Evaluation (1XX)	Designed Mining Loss Accounted	Recoverable Reserve (111)	Probable Recoverable Reserve (121)		Probable Recoverable Reserve (122)			
	Designed Mining Loss NOT Accounted (b)	Basic Reserve (111b)	Basic Reserve (121b)		Basic Reserve (122b)			
Marginal Economic (2MXX)		Basic Reserve (2M11)	Basic Reserve (2M21)		Basic Reserve (2M22)			
Submarginal Economic (2SXX)		Resource (2S11)	Resource (2S21)		Resource (2S22)			
Intrinsic Economic (3XX)				Resource (331)		Resource (332)	Resource (333)	Resource (334?)
“F” Feasibility Evaluation		Feasibility (010)	Pre-Feasibility (020)	Scoping (030)	Pre-Feasibility (020)	Scoping (030)	Scoping (030)	Scoping (030)
“G” Geological Evaluation		Measured (001)			Indicated (002)		Inferred (003)	Predicted (004)
Comparison to JORC Code								Unclassified
							Inferred Resource	
					Probable Reserve or Indicated Resource			
	Proved/Probable Reserve or Measured Resource							

APPENDIX 2: EXPLORATION LICENCE AND MINING LICENSE

**根据国家法律、法规规定,经审查
合格,授予探矿权,特发此证。**

证 号: T65120090302026521

探 矿 权 人: 新疆汇祥永金矿业有限公司

探矿权人地址: 新疆克州乌恰县新城7区91号

勘查项目名称: 新疆乌恰县萨热克铜矿普查

地 理 位 置: 新疆维吾尔自治区克孜勒苏柯尔克孜自治州乌恰县

图 幅 号: K43E024011

勘 查 面 积: 40.88平方公里

有 效 期 限: 2011年1月26日至2012年1月26日

勘 查 单 位: 新疆鑫汇地质矿业有限责任公司

勘查单位地址: 乌鲁木齐市北京南路22号万财大厦19层

发证机关
(专用章)

2011 年 1 月 26 日

中华人民共和国国土资源部印制



<div> <div> <div>中华人民共和国</div> <div>采 矿 许 可 证</div> <div>(副本)</div> </div> <div> <div>证号: C6500002009123120053788</div> <div> <div>采矿权人: 新疆汇祥永金矿业有限公司</div> <div>地 址: 乌恰县</div> <div>矿山名称: 新疆汇祥永金矿业有限公司新疆乌恰县萨热克铜矿</div> <div>经济类型: 有限责任公司</div> <div>开采矿种: 铜矿、银</div> <div>开采方式: 露天/地下开采</div> <div>生产规模: 50.00万吨/年</div> <div>矿区面积: 1.2286平方公里</div> <div>有效期限: 贰年 自 2011年5月31日 至 2013年5月31日</div> </div> </div> <div> <div>发证机关</div> <div>(采矿登记专用章)</div> <div>二〇一一年五月十一日</div> </div> </div>	<div> <div>矿区范围拐点坐标:</div> <div>(1980西安坐标系)</div> <div>点号 X坐标 Y坐标</div> <div>1, 4432408.94, 25462165.18</div> <div>2, 4432758.92, 25463566.15</div> <div>3, 4432378.93, 25463566.15</div> <div>4, 4432378.92, 25463976.14</div> <div>5, 4431858.94, 25463976.14</div> <div>6, 4431858.95, 25462166.18</div> </div> <div> <div>开采深度:</div> <div>由3060米至2612米标高 共有6个拐点圈定</div> </div>
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Mining license

APPENDIX 3: CHINESE ENVIRONMENTAL LEGISLATIVE BACKGROUND

The Chinese National *Mineral Resources Law (1996)*, *Rules for Implementation of the Mineral Resources Law of the People's Republic of China (2006)* and *Environmental Protection Law (1989)* provide the main legislative framework for the regulation and administration of mining projects within China. The *Environmental Protection Law (1989)* provides the main legislative framework for the regulation and administration of mining projects environmental impacts.

The following articles of the *Mineral Resources Law (1996)* summarise the specific provisions in relation to environmental protection:

- **Article 15 Qualification & Approval** – Anyone who wishes to establish a mining enterprise must meet the qualifications prescribed by the State, and the department in charge of examination and approval shall, in accordance with law and relevant State regulations examine the enterprise's mining area, its mining design or mining plan, production and technological conditions and safety and environmental protection measures. Only those that pass the examination shall be granted approval.
- **Article 21 Closure Requirements** – If a mine is to be closed down, a report must be prepared with information about the mining operations, hidden dangers, land reclamation and utilisation, and environmental protection, and an application for examination and approval must be filed in accordance with relevant State regulations.
- **Article 32 Environmental Protection Obligations of Mining License Holders** – In mining mineral resources, a mining enterprise or individual must observe the legal provisions on environmental protection to prevent pollution of the environment. In mining mineral resources, a mining enterprise or individual must economise on the use of land. In case cultivated land, grassland or forest land is damaged due to mining, the mining enterprise concerned shall take measures to utilize the land affected, such as by reclamation, tree and grass planting, as appropriate to the local conditions. Anyone who, in mining mineral resources, causes losses to the production and well-being of other persons shall be liable for compensation and shall adopt necessary remedial measures.

The following articles of the *Environmental Protection Law (1989)* summarise the specific provisions for environmental protection in relation to mining:

- **Article 13 Environmental Protection** – Units constructing projects that cause pollution to the environment must observe the state provisions concerning environmental protection for such construction projects. The environmental impact statement on a construction project must assess the pollution the project is likely to produce and its impact on the environment and stipulate the preventive and curative measures; the statement shall, after initial examination by the authorities in charge of the construction project, be submitted by specified procedure to the competent department of environmental protection administration for approval. The department of planning shall not ratify the design plan descriptions of the construction project until after the environmental impact statement on the construction project is approved.
- **Article 19 Statement of Requirement for Environmental Protection** – Measures must be taken to protect the ecological environment while natural resources are being developed or utilised.
- **Article 24 Responsibility for Environmental Protection** – Units that cause environmental pollution and other public hazards shall incorporate the work of environmental protection into their plans and establish a responsibility system for environmental protection, and must adopt effective measures to prevent and control the pollution and harms caused to the environment by waste gas, waste water, waste residues, dust, malodorous gases, radioactive substances, noise, vibration and electromagnetic radiation generated in the course of production, construction or other activities.
- **Article 26 Pollution Prevention & Control** – Installations for the prevention and control of pollution at a construction project must be designed, built and commissioned together with the principal part of the project. No permission shall be given for a construction project to be commissioned or used, until its installations for the prevention and control of pollution are examined and considered up to the standard by the competent department of environmental protection administration that examined and approved the environmental impact statement.
- **Article 27 Report on Pollution Discharge** – Enterprises and institutions discharging pollutants must report to and register with the relevant authorities in accordance with the provisions of the competent department of environmental protection administration under the State Council.

- **Article 38 Violation Consequences** – An enterprise or institution which violates this Law, thereby causing an environmental pollution accident, shall be fined by the competent department of environmental protection administration or another department invested by law with power to conduct environmental supervision and management in accordance with the consequent damage; in a serious case, the persons responsible shall be subject to administrative sanction by the unit to which they belong or by the competent department of the government.

In addition to the above articles, the following article in the *Environmental Impact Assessment (EIA) Law (2002)* summarises the provisions in relation to the approval of EIA reports of construction projects and the commencement of construction:

- **Article 25** – If the environmental impact assessment documents of construction projects are not examined by the law-stipulated examining and approving department or are not approved after being examined, the examining and approving department of the construction project must not approve its construction and the construction unit must not start construction.

The following articles of the *Construction Project Environmental Protection Law (1998)* and *Regulations on the Administration of Construction Project Environmental Protection (November 1998)* summarise the specific provisions for undertaking a project's Final Checking and Acceptance process:

- **Article 20** – The construction unit should, upon completion of a construction project, file an application with the competent department of environmental protection administration that examined and approved the said construction project environmental impact report, environmental impact statement or environmental impact registration form for acceptance checks on completion of matching construction of environmental protection facilities required for the said construction project. Acceptance checks for completion of construction of environmental protection facilities should be conducted simultaneously with the acceptance checks for completion of construction of the main body project. Where trial production is required for the construction project, the construction unit should, within 3 months starting from the date of the said construction project going into trial production, file an application with the competent department of environmental protection administration that examined and approved the said construction project environmental impact report, environmental impact statement or environmental impact registration form for acceptance checks on completion of matching construction of environmental protection facilities required for the said construction project.
- **Article 21** – For construction projects that are built in phases, go into production or are delivered for use in phases, acceptance checks for their corresponding environmental protection facilities should be conducted in phases.

- **Article 22** – Competent departments of environmental protection administration should, within 30 days starting from the date of receipt of the application for acceptance checks on completion of construction of the environmental protection facilities, complete the acceptance checks.
- **Article 23** – The said construction project may only formally go into production or be delivered for use when the matching construction of the environmental protection facilities required for the construction project has passed acceptance checks.

The following article of the *Water & Soil Conservation Law (1991)* summarises the provisions for the preparation and approval of Water and Soil Conservation Plans:

- **Article 19** – When the construction of a railway, highway or a water project is carried out, a mining or electrical power enterprise or any other large or medium-sized industrial facility; enterprise is established in a mountainous, hilly or sandstorm area, the environmental impact statement for the project must include a water and soil conservation programme approved by the department of water administration. The water and soil conservation programme shall be drawn up in accordance with the provisions of Article 18 of this Law. Where a township collective mining enterprise is to be set up or an individual is to apply for mining, in accordance with the provisions of the Law on Mineral Resources, in a mountainous, hilly or sandstorm area, a water and soil conservation programme approved by the department of water administration under the people's government at or above the county level must be submitted before the application for going through the approving procedures for mining operation is made. Water and soil conservation facilities in a construction project must be designed, constructed and put into operation simultaneously with the principal part of the project. When a construction project is completed and checked for acceptance, the water and soil conservation facilities shall be checked for acceptance at the same time, with personnel from the department of water administration participating.

The following are other Chinese laws that provide environmental legislative support to the *Minerals Resources Law (1996)* and the *Environmental Protection Law (1989)*:

- Environmental Impact Assessment (EIA) Law (2002).
- Law on Prevention & Control of Atmospheric Pollution (2000).
- Law on Prevention & Control of Noise Pollution (1996).
- Law on Prevention & Control of Water Pollution (1996).
- Law on Prevention & Control Environmental Pollution by Solid Waste (2002).
- Forestry Law (1998).
- Water Law (1988).
- Water Conservancy Industrial Policy (1997).
- Land Administration Law (1999).

- Protection of Wildlife Law (1989).
- Energy Conservation Law (1998).
- Electric Power Law (1995).
- Management Regulations of Prevention & Cure of Tailings Pollution (1992).
- Management Regulations of Dangerous Chemical Materials (1987).

The relevant environmental protection related Chinese legislation that are required to be utilised for project's design are a combination of the following National design regulations and emissions standards:

- Environment Protection Design Regulations of Construction Project (No.002) by Environment Protection Committee of State Council of PRC (1987).
- Regulations on the Administration of Construction Project Environmental Protection (1998).
- Regulations for Quality Control of Construction Projects (2000).
- Regulations for Environmental Monitoring (1983).
- Regulations on Nature Reserves (1994).
- Regulations on Administration of Chemicals Subject to Supervision & Control (1995).
- Regulations on Management of Chemicals Subject to Supervision & Control (1995).
- Environment Protection Design Regulations of Metallurgical Industry (YB9066-55).
- Comprehensive Emission Standard of Wastewater (GB8978-1996).
- Environmental Quality Standard for Surface Water (GB3838-1988).
- Environmental Quality Standard for Groundwater (GB/T14848-1993).
- Ambient Air Quality Standard (GB3095-1996).
- Comprehensive Emission Standard of Atmospheric Pollutants (GB16297-1996).
- Emission Standard of Atmospheric Pollutants from Industrial Kiln (GB9078-1996).
- Emission Standard of Atmospheric Pollutants from Boiler (GB13271-2001) — II – stage coal-fired boiler.
- Environmental Quality Standard for Soils (GB15618-1995).
- Standard of Boundary Noise of Industrial Enterprise (GB12348-90).
- Emissions Standard for Pollution from Heavy Industry; Non-Ferrous Metals (GB4913-1985).
- Control Standard on PCB's for Wastes (GB13015-1991).
- Control Standard on Cyanide for Waste Slugs (GB12502-1990).
- Standard for Pollution Control on Hazardous Waste Storage (GB18597-2001).
- Identification Standard for Hazardous Wastes-Identification for Extraction Procedure Toxicity (GB5085.3-1996).Standard of Landfill and Pollution Control of Hazardous Waste (GB 18598-2001).

**APPENDIX 4: EQUATOR PRINCIPLES AND INTERNATIONALLY RECOGNISED
ENVIRONMENTAL MANAGEMENT PRACTICES**

In seeking to obtain project financing or to list on a stock exchange, these institutions require the proponent to comply with such documents as the Equator Principles and the International Finance Corporation (IFC) Performance Standards and Guidelines. This is exemplified by the following preamble from the *Equator Principles* (July 2006):

Project financing, a method of funding in which the lender looks primarily to the revenues generated by a single project both as the source of repayment and as security for the exposure, plays an important role in financing development throughout the world. Project financiers may encounter social and environmental issues that are both complex and challenging, particularly with respect to projects in emerging markets.

The Equator Principles Financial Institutions (EPFIs) have consequently adopted these Principles in order to ensure that the projects we finance are developed in a manner that is socially responsible and reflect sound environmental management practices. By doing so, negative impacts on project-affected ecosystems and communities should be avoided where possible, and if these impacts are unavoidable, they should be reduced, mitigated and/or compensated for appropriately. We believe that adoption of and adherence to these Principles offers significant benefits to ourselves, our borrowers and local stakeholders through our borrowers' engagement with locally affected communities. We therefore recognise that our role as financiers affords us opportunities to promote responsible environmental stewardship and socially responsible development. As such, EPFIs will consider reviewing these Principles from time-to-time based on implementation experience, and in order to reflect ongoing learning and emerging good practice.

These Principles are intended to serve as a common baseline and framework for the implementation by each EPFI of its own internal social and environmental policies, procedures and standards related to its project financing activities. We will not provide loans to projects where the borrower will not or is unable to comply with our respective social and environmental policies and procedures that implement the Equator Principles.

The following Tables provide a brief summary of the Equator Principles and the IFC Performance Standards respectively. These documents are used by the EPFI's and stock exchanges in their review of the social and environmental performance of proponent companies.

Table A4-1: Equator Principles

Equat or Principles	Title	Key Aspects (Summary)
1	Review and Categorisation	Categorise such project based on the magnitude of its potential impacts and risks
2	Social and Environmental	Conduct a Social and Environmental Assessment
	Assessment	("Assessment". The Assessment should also propose mitigation and management measures appropriate to the nature and scale of the proposed project.
3	Applicable Social and Environmental Standards	The Assessment will refer to the applicable IFC Performance Standards, and applicable Industry Specific EHS Guidelines ("EHS Guidelines" and overall compliance with same.
4	Action Plan and Management System	Prepare an Action Plan (AP) which addresses the relevant findings of the Assessment. The AP will describe and prioritise the actions, mitigation measures, corrective actions and monitoring to manage the impacts and risks identified in the Assessment. Maintain a Social and Environmental Management System that addresses the management of these impacts, risks, and corrective actions required to comply with host country laws and regulations, and requirements of the applicable Standards and Guidelines, as defined in the AP.
5	Consultation and Disclosure	Consult with project affected communities. Adequately incorporate affected communities' concerns.
6	Grievance Mechanism	Establish a grievance mechanism as part of the management system. to receive and resolve concerns about the project by individuals or groups from among project-affected communities. Inform the affected communities about the grievance mechanism in the course of the community engagement process and ensure that the mechanism addresses concerns promptly and transparently, and is readily accessible to all segments of the affected communities.
7	Independent Review	Independent social or environmental expert will review the Assessment, AP and consultation process to assess Equator Principles compliance.
8	Covenants	Covenant in financing documentation: <ul style="list-style-type: none"> a) to comply with all relevant host country social and environmental laws, regulations and permits; b) to comply with the AP during the construction and operation of the project; c) to provide periodic reports not less than annually, prepared by in-house staff or third party experts, that (i) document compliance with the AP, and (ii) provide compliance with relevant local, state and host country social and environmental laws, regulations and permits; and d) to decommission the facilities, where applicable and appropriate, in accordance with an agreed decommissioning plan.
9	Independent Monitoring and Reporting	Appoint an independent environmental and/or social expert, or require that the borrower retain qualified and experienced external experts to verify its monitoring information.
10	EPFI Reporting	Each EPFI adopting the Equator Principles commits to report publicly at least annually about its Equator Principles implementation processes and experience, taking into account appropriate confidentiality considerations.

Table A4-2: IFC Performance Standards

IFC Performance Standard	Title	Objective (Summary)	Key Aspects (Summary)
1	Social and Environmental Assessment and Management Systems	Social and EIA and improved performance through use of management systems.	Social & Environmental Management System (S&EMS). Social & Environmental Impact Assessment (S&EIA). Risks and impacts. Management Plans. Monitoring. Reporting. Training. Community Consultation
2	Labour and Working Conditions	EEO. Safety and Health	Implement through the S&EMS. HR policy. Working condition. EEO. Forced & child labour. OH&S.
3	Pollution Prevention and Abatement	Avoid pollution. Reduce Emissions.	Prevent pollution. Conserve resources. Energy efficiency. Reduce waste. Hazardous materials. EPR. Greenhouse Gases
4	Community Health, Safety and Security	Avoid or minimise risks to community.	Implement through the S&EMS. Do risk assessment. Hazardous materials safety. Community exposure. ERP
5	Land Acquisition and Involuntary Resettlement	Avoid or minimise resettlement. Mitigate adverse social impacts	Implement through the S&EMS. Consultation. Compensation. Resettlement planning. Economic displacement
6	Biodiversity Conservation and Sustainable Natural Resource Management	Protect and conserve biodiversity	Implement through the S&EMS. Assessment. Habitat. Protected areas. Invasive species.
7	Indigenous Peoples	Respect. Avoid and minimise impacts. Foster good faith	Avoid adverse impacts. Consultation. Development benefits. Impacts to traditional land use. Relocation.
8	Cultural Heritage	Protect cultural heritage	Heritage Survey. Site avoidances. Consultation.

Summary Background Information on Some Key Internationally Recognised Environmental Management Practices.

The following provides background information on some key internationally recognised environmental management practices:

- **Land disturbance** – The main impact on the surrounding ecological environment is due to disturbance and contamination caused by surface stripping, waste rock and tailings storage, processing plant drainage, processing waste water, explosions, transportation and associated buildings that are erected. If effective measures are not taken to manage and rehabilitate the disturbed areas, the surrounding land can become polluted and the land utilization function will be changed, causing an increase in land degradation, water loss and soil erosion.
- **Flora and fauna** – Land disturbance from the development of mining and mineral processing projects may also result in impacts to or loss of flora and fauna habitat. The project development EIA should determine the extent and significance of any potential impacts to flora and fauna habitat. Where these potential impacts to flora and fauna habitat are determined to be significant, the EIA should also propose effective measures to reduce and manage these potential impacts.
- **Contaminated Sites Assessment** – The assessment, recording and management of contaminated sites within mining or mineral processing operations, is a recognised international industry practice (i.e. forms part of the IFC Guidelines) and in some cases a National regulatory requirement (e.g. an Australian environmental regulatory requirement). The purpose of this process is to minimise the level of site contamination that may be generated throughout a project's operation while also minimising the level and extent of site contamination that will need to be addressed at site closure.
 - A contaminated site or area can be defined as; *'An area that has substances present at above background concentrations that presents or has the potential to present a risk of harm to human health, the environment or any environmental value'*.
 - Contamination may be present in soil, surface water or groundwater and also may affect air quality through releases of vapours or dust. Examples of typical contaminated areas within a mining/mineral processing project are spillages to soil/water of hydrocarbons and chemicals, and uncontained storage and spillages to soil/water of ores and concentrates. The process to assess and record the level of contamination basically involves a combination of visual (i.e. suspected contamination observed from spillages/releases) and soil/water/air sampling and testing (i.e. to confirm contaminant levels). Once the level of contamination is defined, the area's location and contamination details are then recorded within a site register.

- Remediation/clean up of contamination areas involves the collection and removal of the contaminated materials for treatment and appropriate disposal, or in some cases the in-situ treatment of the contaminated (e.g. use of bioremediation absorbents on hydrocarbon spillage). The other key component to the management of contaminated areas is to also remove or remedy the source of the contamination (e.g. place hydrocarbon storage and handling within secondary containment).
- **Environmental Protection and Management Plan** – The purpose of an operational Environmental Protection and Management Plan (EPMP) is to direct and coordinate the management of the project's environmental risks. The EPMP documents the establishment, resourcing and implementation of the project's environmental management programs. The site environmental performance is monitored and feedback from this monitoring is then utilised to revise and streamline the implementation of the EPMP.
- **Emergency Response Plan** – The IFC describes an emergency as 'an unplanned event when a project operation loses control, or could lose control, of a situation that may result in risks to human health, property, or the environment, either within the facility or in the local community'. Emergencies are of a scale that have operational wide impacts, and do not include small scale localised incidents that are covered under operational area specific management measures. Examples of an emergency for a mining/mineral processing project are events such as pit wall collapse, underground mine explosion, the failure of a TSF or a large scale spillage/discharge of hydrocarbons or chemicals. The recognised international industry practice for managing emergencies is for a project to develop and implement an Emergency Response Plan (ERP). The general elements of an ERP are:
 - Administration – policy, purpose, distribution, definitions of potential site emergencies and organisational resources (including setting of roles and responsibilities).
 - Emergency response areas – command centres, medical stations, muster and evacuation points.
 - Communication systems – both internal and external communications.
 - Emergency response procedures – work area specific procedures (including area specific training).

- Checking and updating – prepare checklists (role and action list and equipment checklist) and undertake regular reviews of the plan.
- Business continuity and contingency – options and processes for business recovery from an emergency.
- **Site Closure Planning and Rehabilitation** – The recognised international industry practice for managing site closure is to develop and implement an operational site closure planning process and document this through an operational Closure Plan. This operational closure planning process should include the following components:
 - Identify all site closure stakeholders (e.g. government, employees, community etc.).
 - Undertake stakeholder consultation to develop agreed site closure criteria and post operational land use.
 - Maintain records of stakeholder consultation.
 - Establish a site rehabilitation objective in line with the agreed post operational land use.
 - Describe/define the site closure liabilities (i.e. determined against agreed closure criteria).
 - Establish site closure management strategies and cost estimates (i.e. to address/reduce site closure liabilities).
 - Establish a cost estimate and financial accrual process for site closure.
 - Describe the post site closure monitoring activities/program (i.e. to demonstrate compliance with the rehabilitation objective/closure criteria).

APPENDIX 5: PROJECT TECHNICAL REVIEW – QUALITATIVE RISK ANALYSIS

To ensure the technical integrity of the risk analysis process as applied in the project technical review process, the following Australian Standards for risk analysis and risk management have been utilised for overall guidance:

- AS/NZS 3931:1998 Risk Analysis of Technological Systems – Application Guide;
- AS/NZS 4360:1999 Risk Management; and
- HB 203:2004 Environmental Risk Management – Principles and Process.

These Australian Standards have been developed in line with comparable international standards.

A risk is generally described in terms of the severity/consequence and likelihood of an undesirable occurrence or incident. The greater the potential severity and likelihood of an undesirable occurrence, the higher the level of risk associated with the related activity.

The generic approach for this project technical review qualitative risk analysis has the following three steps:

1. Establish the context/define the scope of the analysis – goals/objectives, the analysis strategy and evaluation criteria.
2. Identify and analyse the risks in terms of consequence and likelihood.
3. Evaluate and rank the risks.

Qualitative Risk Analysis – Scope

The scope definition and context for the qualitative risk analysis can be summarised as follows:

- **Goals/Objectives** – The primary objective is to analyse the qualitative risks associated with the project's development, operational and closure aspects.
- **Strategy** – The strategy employed comprises the application of a qualitative risk analysis where the 'relative magnitude' of risks associated with the project are estimated. Inclusive within this process are also the concepts of inherent and residual risks. Inherent risks being those hazards that are present within the project without any remedial management, and residual risks are defined as those hazards remaining after the application of remedial risk management measures. The risks analysed are those considered as the 'inherent risks' for the project at the time of the technical review.

This qualitative risk analysis strategy has the following key steps:

- **Step 1** – Develop a qualitative risk matrix. This has relative significance rankings for the potential consequences/impacts, levels of event likelihood and the corresponding risk rankings from negligible to extreme.
- **Step 2** – Define the inherent risks (i.e. at the time of the technical review). List the sources of risks and apply the qualitative risk analysis to define the level of risk.

Qualitative Risk Analysis Matrix

The proposed qualitative risk matrix uses the following definitions for consequence and likelihood:

- Consequence:
 - **Catastrophic:** Disaster with potential to lead to business failure.
 - **Major:** Critical event/impact, which with proper remedial management, will be endured.
 - **Moderate:** Significant event/impact, which may be managed under normal procedures.
 - **Minor:** Consequences/impacts that may be readily absorbed, but some remedial management effort is still required.
 - **Insignificant:** No additional/remedial management required.
- Likelihood:
 - **Certain:** The event is expected to occur in most circumstances.
 - **Likely:** The event probably will occur in most circumstances (i.e. also could be on a regular basis such as weekly or monthly).
 - **Possible:** The event should occur at some time (i.e. once in a while).
 - **Unlikely:** The event could occur at some time.
 - **Rarely:** The event may occur only in exceptional circumstances.

Based on these definitions the Qualitative Risk Matrix is presented below.

	Consequences				
Likelihood	Insignificant	Minor	Moderate	Major	Catastrophic
Certain	Low risk	Moderate risk	Moderate risk	High risk	Extreme risk
Likely	Low risk	Moderate risk	Moderate risk	High risk	High risk
Possible	Negligible risk	Low risk	Moderate risk	Moderate risk	High risk
Unlikely	Negligible risk	Low risk	Low risk	Moderate risk	Moderate risk
Rarely	Negligible risk	Negligible risk	Negligible risk	Low risk	Moderate risk

The risk definitions from this risk matrix can be further grouped into risk evaluation categories that are based on regulatory compliance and the ability for the risk to be managed to a level that conforms to industry standards, guidelines and/or codes of practice. These are:

- **Category 1** – Unacceptable Inherent Risks (Extreme/high risks) – can be defined as those sources of risk that are essentially unacceptable, which if uncorrected, may result in business failure or critical impacts to business.
- **Category 2** – Tolerable Inherent Risks (Moderate risks) – can be defined as those sources of risk that are tolerable and while, at the time of the technical review, they are non-compliant/non-conforming they can be made to be compliant/conforming (acceptable risks) through the application of risk management measures.
- **Category 3** – Acceptable Inherent Risks (Low/negligible risks) – can be defined as those sources of risk that are acceptable and are compliant with legal requirements and conform to recognised industry standards, guidelines and codes of practice.

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**TECHNICAL REPORT ON THE YANXI COPPER
PROJECT, HAMI CITY, XINJIANG UYGUR
AUTONOMOUS REGION, PEOPLE'S REPUBLIC OF
CHINA**

**PREPARED FOR CHINA DAYE NON-FERROUS METALS
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1 SUMMARY**EXECUTIVE SUMMARY**

Roscoe Postle Associates Inc. (RPA) has been retained by China Daye Non-Ferrous Metals Mining Limited (Daye or China Daye) to prepare an independent Technical Report on the Yanxi Copper Project, near Hami City, Xinjiang Uygur Autonomous Region, People's Republic of China. Daye has acquired an 80% interest in the operating joint venture, Xinjiang Tongxing Mining Co., Ltd. (Tongxing), that holds the Yanxi Copper Project. The report is required by Daye in connection with and to be included in the circular of Daye in relation to its proposed reverse takeover and deemed new listing on The Stock Exchange of Hong Kong Limited (HKEx). This Technical Report conforms to National Instrument 43-101 (NI 43-101) Standards of Disclosure for Mineral Projects. The effective date of the information in this report is July 31, 2011.

Tongxing has discovered a significant porphyry copper deposit approximately 115 km southwest of Hami City. As of September 10, 2008, 31 diamond drill holes with an aggregate depth of 13,692 m have tested the Yanxi deposit. Based on the drill hole data from 25 drill holes, RPA estimated an initial Mineral Resource with an effective date of September 10, 2008, which included an Indicated Resource of 15.38 million tonnes at 0.75% Cu containing 254 million pounds (approximately 115,000 tonnes) of copper and an Inferred Resource of 10.63 million tonnes at 0.71% Cu containing 165 million pounds (approximately 74,800 tonnes) of copper. This estimate was reported in a previous RPA Technical Report dated October 30, 2008. Subsequent to this estimate, the Government of the People's Republic of China has proposed to build a railway across the Yanxi Copper Project. Under the law, Tongxing is required to leave a one kilometre allowance or pillar around the railway line. The position of the railway line affects the Mineral Resources for the Yanxi Copper Project and will likely impact on further exploration. The area of the Yanxi concession not affected by the railway pillar is about 11.14 km².

Table 1-1 shows the Mineral Resources outside the railway right-of-way.

**TABLE 1-1 MINERAL RESOURCES OUTSIDE THE RAILWAY RIGHT-OF-WAY
JULY 31, 2011**

China Daye Non-Ferrous Metals Mining Limited – Yanxi Copper Project

Location	Indicated Resources				Inferred Resources			
	Tonnes	Grade	Copper Content	Copper Content	Tonnes	Grade	Copper Content	Copper Content
	(Mt)	(% Cu)	(Mlb)	(tonnes)	(Mt)	(% Cu)	(Mlb)	(tonnes)
Main Lens	14.15	0.75	234	106,000	7.79	0.72	124	56,200
Other Lenses					0.4	0.61	5	2,300
TOTAL	14.15	0.75	234	106,000	8.19	0.71	129	58,500

Notes:

1. National Instrument 43-101 (NI43-101) and CIM (Canadian Institute of Mining, Metallurgy and Petroleum) definitions were followed for Mineral Resources.
2. Mineral Resources are estimated at a cut-off grade of 0.5% Cu within a mineralized envelope defined at 0.3% Cu.
3. Mineral Resources are estimated using an average long-term copper price of US\$2.50/lb, and a US\$/C\$ exchange rate of 1.04.
4. A minimum zone width of 5 m was used.
5. The Mineral Resource estimate is based on drilling information up to July 31, 2011 as confirmed by GobiMin Inc. and China Daye.

RPA makes the following recommendations for the Yanxi Copper Project.

Table 1-2 shows the work program recommended to advance the project. It is the opinion of RPA that the work recommended is justified by the results achieved to date on the Yanxi Copper Project.

TABLE 1-2 RECOMMENDED WORK PROGRAM**China Daye Non-Ferrous Metals Mining Limited – Yanxi Copper Project**

Item	<i>C\$'000 or RMB'000</i>
Diamond drilling (6 holes for 3,500 m)	420
Updating and extending the metallurgical testing	100
Preparation of a new Mineral Resource and Mineral Reserve estimate	50
Prefeasibility study	1,500 to 2,000
Studies for Chinese Mining Lease application	10
TOTAL	C\$2,580 or RMB 17,211

Notes:

1. A C\$/RMB exchange of 6.67 was used
2. Totals may not add due to rounding

Prior to carrying out any further drilling, RPA recommends that Daye introduce a field-managed quality assurance/quality control (QA/QC) program and undertake an investigation to determine why there is a variation in the analytical results between the various laboratories that are used for analyzing samples from the Yanxi deposit.

TECHNICAL SUMMARY

Daye holds an 80% equity interest in Tongxing. Tongxing holds an Exploration Right to the Yanxi Copper Project. This property is located about 115 km southwest of Hami City and has an area of 21.67 km², but the area has been reduced by a railway line and pillar that is planned to pass through the area. When the pillar is excluded, the area is about 11.14 km². Daye's partners in Tongxing are GobiMin Inc. (GobiMin), which holds an 8% interest, the No. 1 Geological Exploration Brigade of Xinjiang (the No. 1 Brigade), which holds a 6% equity interest, and the Bureau of Geological Exploration of Xinjiang, which owns a 6% equity interest in the property.

Tongxing's exploration right will expire on August 6, 2012, and Tongxing has applied for renewal. The property may be converted to a mining licence at any time subject to the necessary reporting conditions in China.

The Yanxi copper property is located in the Gobi desert. The property is easily accessible, mostly on sealed roads from Hami City. The property is flat. There is no development on the property, although Tongxing maintains a field camp about 15 km from the property. The area of the property has a continental steppe climate with hot, dry summers and cold, damp winters. Traditionally, field work is not carried out in winter, but technically it would be possible to explore the property throughout the entire year.

There has been regional exploration in the area southwest of Hami City for many years. In the 1980s, a porphyry copper belt that includes the Tuwu and Yandong deposits was located. In 2005, the No. 1 Brigade acquired the Yanxi property and the potential for the Yandong deposit to extend westward onto the Yanxi property was recognized. In 2006, the No. 1 Brigade completed a diamond drill hole (ZK9501) that intersected 101.35 m grading 0.56% Cu. After the formation of Tongxing in 2007, an exploration program that included geological mapping, ground geophysics, and the drilling of 31 diamond drill holes aggregating 13,692 m in 2007 and 2008 has outlined a significant porphyry copper deposit. Initial metallurgical testing has been completed which has shown that copper concentrates grading 19.27% Cu may be recovered from lower grade samples at 85.7% and copper concentrates grading 27.25% Cu may be recovered from higher grade samples at 91.25% using standard flotation methods.

The Yanxi copper deposit is located a few kilometres north of the Qiugemingtashi-Huangshan Suture Zone between the Tarim Plate and the Kazakhstan-Junggar Plate. Subduction has resulted in a number of copper-rich felsic intrusives in this area. Within the Yanxi copper property, a dike-like plagioclase porphyritic granodiorite strikes generally east-west and dips south at about 70°. Mineralization is generally located within the granodiorite, but some mineralization extends into the wall rocks. Alteration appears to be typical of porphyry copper deposits, however, further work is necessary to define the alteration envelopes in detail. Mineralogically, the major economic mineral is chalcopyrite, with minor tetrahedrite and bornite. Pyrite is the major gangue sulphide mineral.

The bulk of the work completed to date consists of diamond drilling. Of the total of 31 holes drilled in 2007 and 2008, 25 intersected the Yanxi copper deposit. Generally, core recovery is good and the core is handled to industry standards. The core is logged and sawn at the Tongxing field camp. Assaying is carried out at the laboratory of the No. 1 Brigade in Shanshan, a facility licensed by the Xinjiang Uygur Autonomous Region.

Field work is carried out by geologists from the No. 1 Brigade working under contract to Tongxing. During the collection of core samples by the No. 1 Brigade field party, duplicates, reference samples, or blanks are not included in the sample stream. Reference samples are added into the sample stream in the No. 1 Brigade laboratory. Duplicate pulps are sent to a separate licensed laboratory located in Urumqi and managed by the Bureau of Geological Exploration of Xinjiang.

Preliminary metallurgical studies have been completed on behalf of Tongxing by the Xinjiang Mineral Experimental Institute. It is apparent from this work that acceptable recoveries of copper can be achieved and that a saleable copper concentrate can be produced.

2 INTRODUCTION

Roscoe Postle Associates Inc. (RPA) has been retained by China Daye Non-Ferrous Metals Mining Limited (Daye or China Daye) to prepare an independent Technical Report on the Yanxi Copper Project, near Hami City, Xinjiang Uygur Autonomous Region, People's Republic of China (Figure 2-1). Daye has acquired an 80% interest in the operating joint venture, Xinjiang Tongxing Mining Co., Ltd. (Tongxing), that holds the Yanxi Copper Project. The report is required by Daye in connection with and to be included in the circular of Daye in relation to its proposed reverse takeover and deemed new listing on The Stock Exchange of Hong Kong Limited (HKEx). This Technical Report conforms to National Instrument 43-101 (NI 43-101) Standards of Disclosure for Mineral Projects. The effective date of the information in this report is July 31, 2011.

RPA prepared a NI 43-101 report on the Yanxi Copper Project for GobiMin Inc. (GobiMin) in 2008 (Gow, 2008). Subsequent to that report, the Government of the People's Republic of China has proposed to build a railway across the Yanxi Copper Project. Under the law, Tongxing is required to leave a one kilometre allowance or pillar about the railway line. The position of the railway line affects the Mineral Resources for the Yanxi Copper Project and will likely impact on further exploration.

Since the 2008 report, GobiMin has disposed of 32% of its 40% interest in the Yanxi Copper Project to Daye.

This is not an advanced report and information will be provided under Items 1 to 14 and 23 to 27 of Form 43-101F.

SOURCES OF INFORMATION

A site visit was carried out by Neil N. Gow, P.Geo., RPA Associate Consulting Geologist, Competent Person (CP) or Qualified Person (QP), on August 1, 2008. Mr. Gow is a registered Professional Geologist in the Province of Ontario (Reg.#433) and has worked as a geologist for a total of more than 40 years. Mr. Gow is responsible for the overall preparation of the Technical Report and is independent of the Issuer as laid out in Rule 18.22 of the Listing Rules of the Stock Exchange of Hong Kong Limited.

RPA has been advised by Daye and GobiMin that no further work has been completed on the Yanxi Copper Project since the time of the visit.

Discussions were held with both personnel from GobiMin and geologists of the No. 1 Geological Exploration Brigade of Xinjiang:

- Mr. Li Yufeng, General Manager, Xinjiang Tongxing Mining Co., Ltd.
- Mr. Yang Juntao, Person-in-charge, Yanxi Copper Deposit Project, No. 1 Geological Exploration Brigade
- Mr. Kong Lingchang, Planning Manager (Exploration), GobiMin

The documentation reviewed, and other sources of information, are listed at the end of this report in Section 27 References.

Units of measurements used in this report conform to the metric system. All currency in this report is Canadian dollars (C\$) unless otherwise noted.

μ	micron	km ²	square kilometre
°C	degree Celsius	kPa	kilopascal
°F	degree Fahrenheit	kVA	kilovolt-amperes
μg	microgram	kW	kilowatt
A	ampere	kWh	kilowatt-hour
a	annum	L	litre
bbl	barrels	L/s	litres per second
Btu	British thermal units	m	metre
C\$	Canadian dollars	M	mega (million)
cal	calorie	m ²	square metre
cfm	cubic feet per minute	m ³	cubic metre
cm	centimetre	min	minute
cm ²	square centimetre	MASL	metres above sea level
d	day	mm	millimetre
dia.	diameter	mph	miles per hour
dmt	dry metric tonne	MVA	megavolt-amperes
dwt	dead-weight ton	MW	megawatt
ft	foot	MWh	megawatt-hour
ft/s	foot per second	m ³ /h	cubic metres per hour
ft ²	square foot	opt, oz/st	ounce per short ton
ft ³	cubic foot	oz	Troy ounce (31.1035g)
g	gram	ppm	part per million
G	giga (billion)	psia	pound per square inch absolute
Gal	Imperial gallon	psig	pound per square inch gauge
g/L	gram per litre	RL	relative elevation
g/t	gram per tonne	s	second
gpm	Imperial gallons per minute	st	short ton
gr/ft ³	grain per cubic foot	stpa	short ton per year
gr/m ³	grain per cubic metre	stpd	short ton per day
hr	hour	t	metric tonne
ha	hectare	tpa	metric tonne per year
hp	horsepower	tpd	metric tonne per day
in	inch	US\$	United States dollar
in ²	square inch	USg	United States gallon
J	joule	USgpm	US gallon per minute
k	kilo (thousand)	V	volt
kcal	kilocalorie	W	watt
kg	kilogram	wmt	wet metric tonne
km	kilometre	yd ³	cubic yard
km/h	kilometre per hour	yr	year


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Figure 2-1

Legend:

- National Capital
- Province-Level Capital
- Secondary City
- Province-Level Border
- Road
- Railroad
- International Border



0 20 500 750 1000
Kilometres

China Daye Non-Ferrous Metals Mining Limited

Yanxi Copper Project
Xinjiang Uygur Autonomous Region
People's Republic of China
Location Map

June 2011

3 RELIANCE ON OTHER EXPERTS

This report has been prepared by Roscoe Postle Associates Inc. (RPA) for China Daye Non-Ferrous Metals Mining Limited (Daye). The information, conclusions, opinions, and estimates contained herein are based on:

- Information available to RPA at the time of preparation of this report,
- Assumptions, conditions, and qualifications as set forth in this report, and
- Data, reports, and other information supplied by Daye and other third party sources.

For the purpose of this report, RPA has relied on ownership information provided by both Daye and GobiMin. RPA has relied upon email correspondence with Daye's counsel, Zhong Lun Law Firm, for exploration licence information in Section 1, Summary, and Section 4, Property Description and Location. RPA has not researched property title or mineral rights for the Yanxi Copper Project and expresses no opinion as to the ownership status of the property.

RPA has relied on Daye and GobiMin for guidance on applicable taxes, royalties, and other government levies or interests, applicable to revenue or income from Yanxi Copper Project.

Except for the purposes legislated under provincial securities laws, any use of this report by any third party is at that party's sole risk.

4 PROPERTY DESCRIPTION AND LOCATION

The copper exploration being carried out south of Hami City is carried out through Tongxing.

The Yanxi Copper Project is located about 115 km southwest of Hami, a city in the eastern part of the Xinjiang Uygur Autonomous Region (Figures 2-1 and 4-1). The property is centred at about 92° 28' east longitude and 42° 05' north latitude. Initially, the Exploration Right as registered to Tongxing had an area of 21.67 km². The Exploration Right was issued by the Mineral Resources Survey of Xinjiang Uygur Autonomous Region Land and Resources Department on August 6, 2010. Subsequent to the RPA visit in 2008, the Government of the People's Republic of China has proposed to build a railway across the Yanxi property. Under the law, Daye is required to leave a one kilometre allowance or pillar around the railway line. The position of the railway line affects previously quoted Mineral Resources for the Yanxi Copper Project and will likely affect further exploration. The area of the Yanxi Concession not affected by the railway pillar is about 11.14 km². The property boundary and the railway right-of-way limits are shown in Figure 4-2.

The property is held under an exploration right that is valid until August 6, 2012, and is eligible for renewal. The boundaries of the property are defined by map staking. The government does not allow any competitive staking closer than 250 m from the property boundary to avoid problems between adjacent property owners. The relationship between adjacent properties is re-arranged when properties are taken to mining leases. Tongxing personnel know of no environmental liabilities associated with the Yanxi Copper Project. There have been no previous mining or other property disturbance.

Tongxing is required to pay holding costs of RMB200,000 per year (about C\$29,500). These expenditures must be made annually, and over-expenditures of one year may not be carried forward. Tongxing has all of the required permits in place to allow exploration to continue. Further, Tongxing is required to spend a minimum of RMB60,000/km² annually. This amounts to about C\$100,000 annually for the property.

Ownership interests for each partner in Tongxing are shown in Table 4-1.

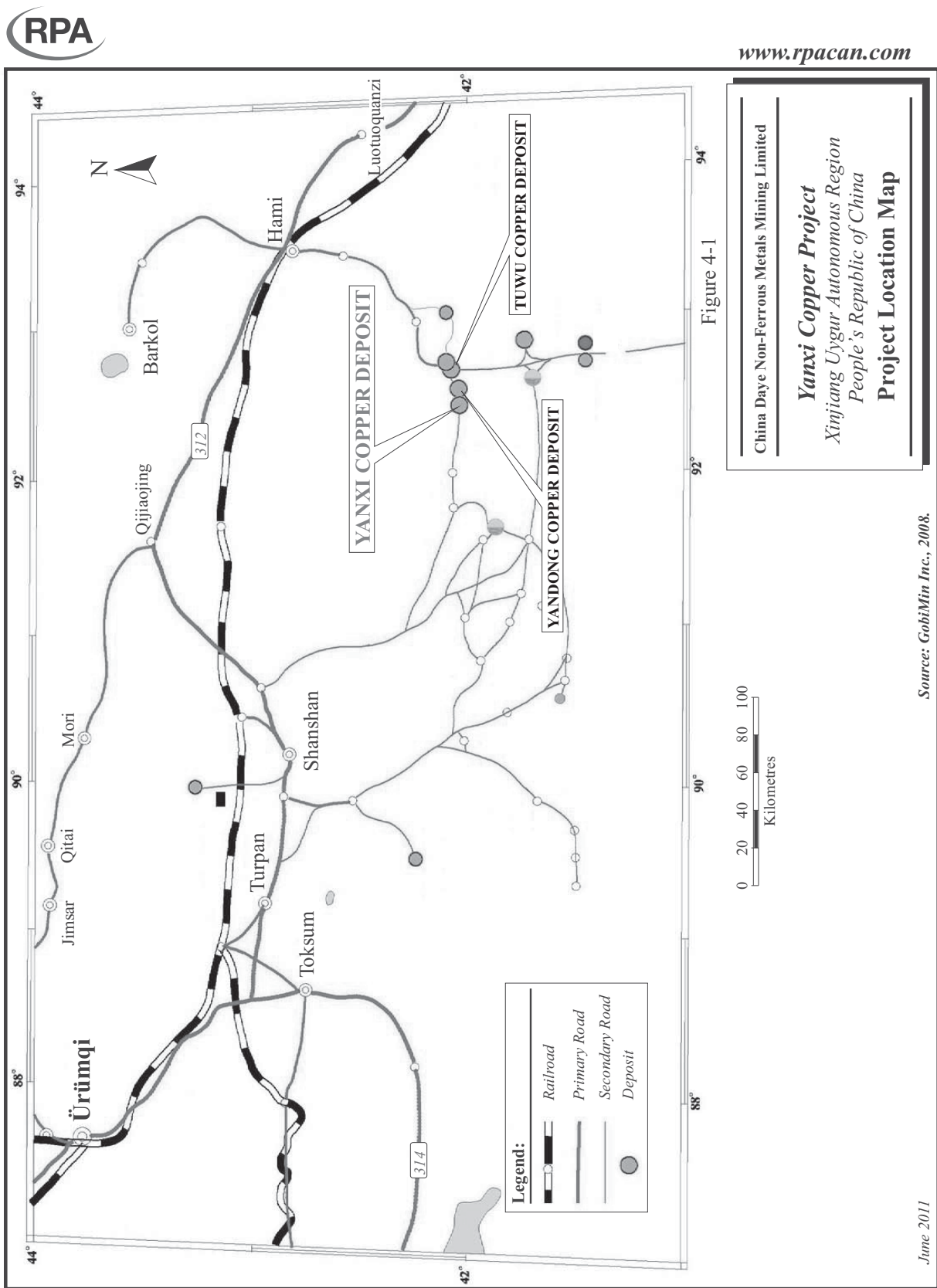
TABLE 4-1 OWNERSHIP

China Daye Non-Ferrous Metals Mining Limited – Yanxi Copper Project

Company	Equity Interest (%)
China Daye Non-Ferrous Metals Mining Limited	80
Xinjiang Weifu Mining Co., Ltd. ¹	8
Xinjiang Huaxing Mining Co., Ltd. ²	6
Turpan Jinyuan Mining & Metallurgy Co., Ltd. ³	6

Notes.

1. Xinjiang Weifu Mining Co., Ltd. is a wholly-owned subsidiary of GobiMin.
2. Xinjiang Huaxing Mining Co., Ltd. is a wholly-owned subsidiary of the Bureau of Geological Exploration of Xinjiang.
3. Turpan Jinyuan Mining & Metallurgy Co., Ltd. is a wholly-owned subsidiary of the No. 1 Geological Exploration Brigade.

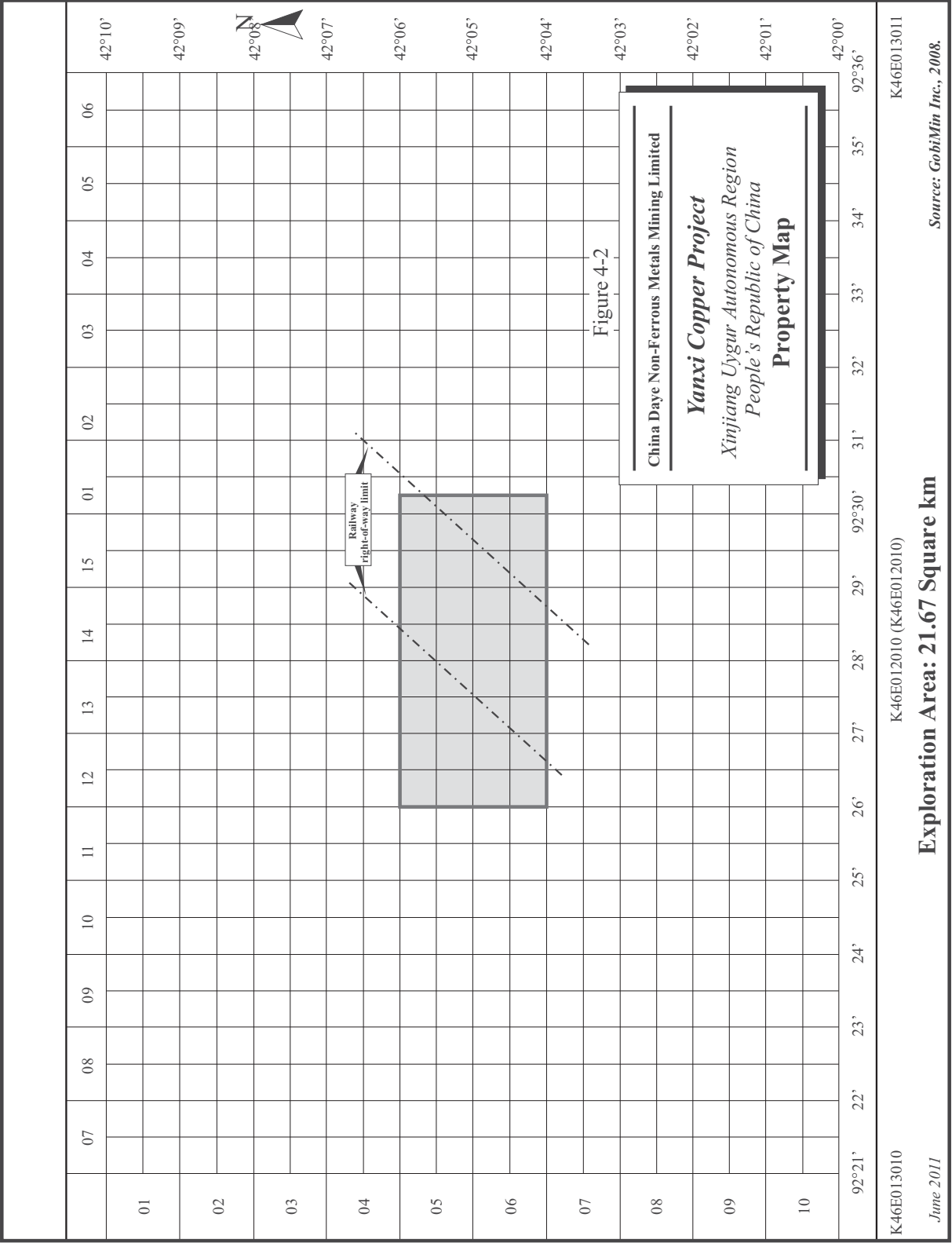


APPENDIX V-D

COMPETENT PERSON’S REPORT ON HAMI MINE



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5 ACCESSIBILITY, CLIMATE, LOCAL RESOURCES, INFRASTRUCTURE AND PHYSIOGRAPHY

ACCESSIBILITY

The nearest major airport to the Yanxi Copper Project is located at Urumqi, approximately 595 km west of Hami City. The Urumqi airport is an international airport and has regular air service to Beijing, Shanghai, and other Chinese cities. Hami City is connected to Urumqi by a sealed highway that is presently being upgraded. Typically, the highway is divided, with two or three lanes in each direction. There is also a reliable passenger rail service between Urumqi and Hami City.

A sealed road runs from Hami City to the Yanxi property and the distance from Hami City to the property is about 115 km.

Hami is a modern city with a population of about 540,000 people. It is an oasis area and produces significant quantities of fruit. Grazing is also locally important.

CLIMATE

The Urumqi area has a continental steppe climate with hot, dry summers and cold, damp winters. The average temperature in Urumqi in July is 24°C and the average January temperature is -16°C. The mean average annual temperature in Urumqi is 5.4°C and the yearly precipitation is about 273 mm. Detailed statistics for Hami City were not available to RPA but would not be significantly different from these figures.

In the Xinjiang Uygur Autonomous Region, field parties typically work between April and November. This field season is apparently traditional in western China. RPA was advised that, with certain preparation, work could probably be carried out throughout the year.

LOCAL RESOURCES

The city of Hami is sizeable and the district is able to supply unskilled labour and shops for vehicle maintenance. At the present time, there are no resources of electricity or water adjacent to the property. It should be noted that there are other mines operating in the Hami district, including a nickel-copper operation belonging to GobiMin.

INFRASTRUCTURE

There is no infrastructure on the Yanxi property. Tongxing maintains a field camp about 15 km from the property. The field camp comprises a number of clay brick buildings inside a fenced compound. The compound provides an adequate area for core logging, field personnel accommodation and the like.

PHYSIOGRAPHY

The Yanxi property is at an elevation of about 720 metres above sea level. It is flat, with variations in elevation of about 10 m to 15 m. At the time of the property visit, there was no vegetation on the property. There is very little rock cropping out on the property, although some exposures were noted.

Groundwater resources are reported to be scarce in the vicinity of the deposit.

6 HISTORY

There have been a number of regional programs that have led to the current stage of geological knowledge in the Yanxi area. Pre-Tongxing exploration history is listed below.

The first recorded geological work was completed in 1953 when Mr. B. M. Sinichin completed reconnaissance geology at a 1:500,000 scale and prepared a report titled "Summary of Gashun Gobi Geology".

In 1958, the No. 1 and No. 2 Geological Teams of the Bureau of Geological Exploration of Xinjiang launched 1:200,000 regional geological mineral surveys of the Dacatan Sheet (K-46-XIV). Regional stratigraphy was determined, but the results have been described as being of poor quality.

In 1977-1980, the No. 907 Aerial Geophysical Team completed airborne magnetic surveys to outline iron deposits in the area and defined 28 anomalies. These results were followed up by the 203 Team that prepared a report titled "Xinjiang Hami-Shanshan Regional Aerial Magnetic Anomaly Verification Report".

Various surveys were completed during the 1980s, which led to the discovery of the Tuwu and Yandong deposits and the identification of these deposits as being parts of a large porphyry copper \pm molybdenum camp. The Yandong deposit was discovered by the No. 1 Brigade, however, the No. 1 Brigade does not hold an ongoing interest in that deposit.

Various regional and local exploration programs have been undertaken by a number of geological teams. In 2006, copper mineralization was located by diamond drilling on the Yanxi property by the No. 1 Brigade. Diamond drill hole ZK9501 intersected 101.35 m grading 0.56% Cu and 0.022% Mo and demonstrated the westward continuation of the Yandong copper deposit.

In May 2010, a Scoping Study titled "Mineral Resources Development & Exploitation Plan" was completed by Urumqi Non-ferrous Metallurgy Design & Research Institute for GobiMin. RPA has not reviewed the May 2010 Scoping Study and cannot comment on it, but notes that the Scoping Study uses a different Mineral Resource than the RPA Mineral Resource.

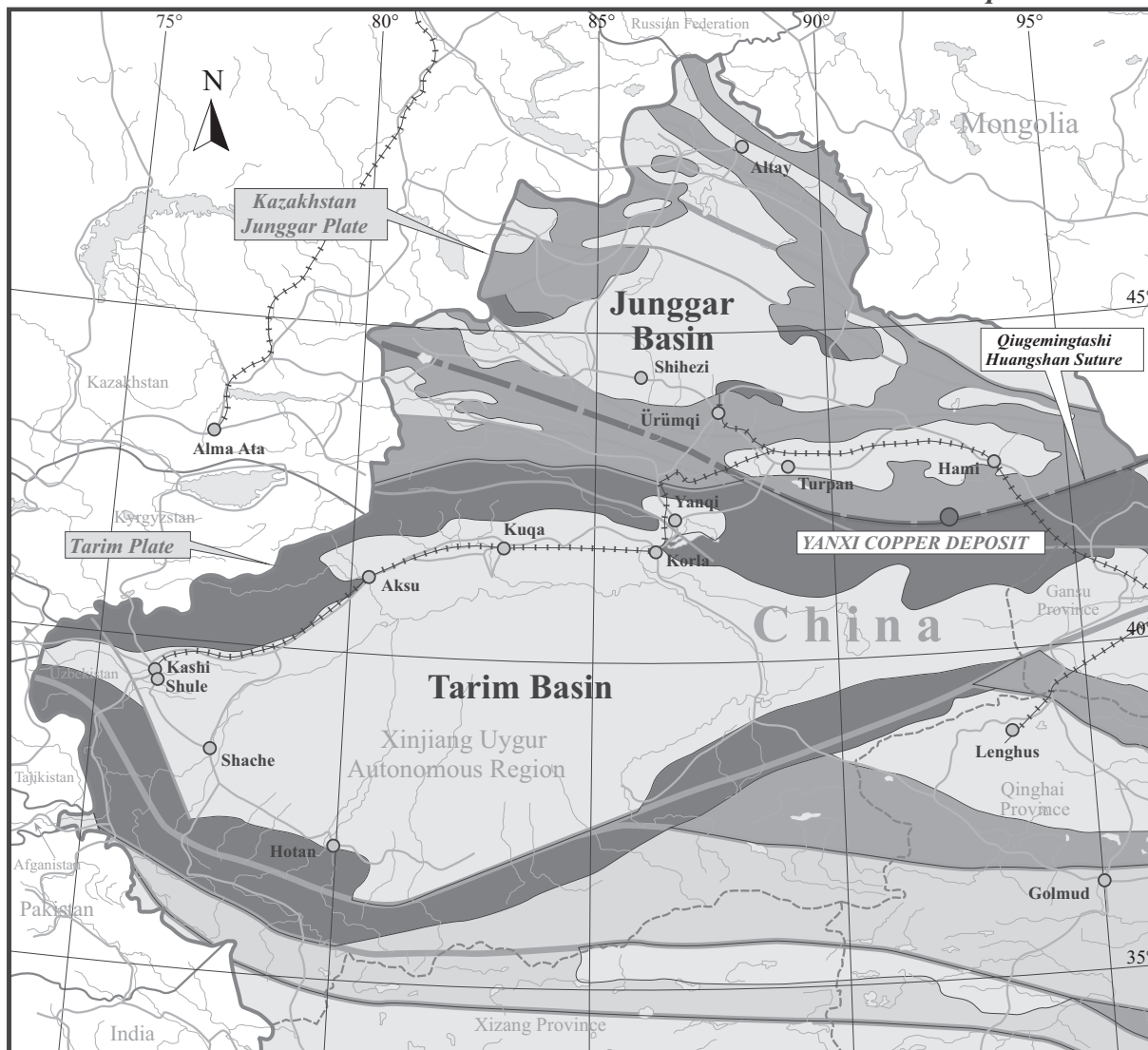
7 GEOLOGICAL SETTING AND MINERALIZATION

Tongxing has not completed any regional mapping in the Yanxi area. The following sections on regional and local geology are assembled from available literature.

REGIONAL GEOLOGY

The Yanxi deposit is located in Devonian-Carboniferous rocks described as belonging to the Dananhu-Tousuquan island arc that lies between the Kazakhstan-Junggar and Tarim plates. The deposit is located north of the Kangguertage Fault and Qiugemingtashi-Huangshan ductile zone that marks the suture in this area (Figure 7-1).

The supracrustal rocks have been intruded by diorite and granodiorite porphyries. These rocks are mineralized and there are a number of porphyry copper deposits known in an east-west belt. These deposits include Tuwu, Yandong, Linglong, and Chichu. The Tuwu deposit has been described as having an east-west strike of 1,400 m and a maximum width of 175 m, and has been tested to a depth of about 600 m. The deposit dips south at about 65° and plunges to the east. While substantial mineral resources are quoted in literature for deposits in the camp, RPA has been unable to confirm that any of the mineral resource statements are prepared to the standards set out in National Instrument 43-101.


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0 100 200 300 400 500
Kilometres

Figure 7-1

Legend:

	Mesozoic volcanic arc		Deep fault/suture
	Mesozoic flysch belt		Fault
	Paleozoic volcanic arc		Porphyry copper deposit
	Paleozoic flysch belt		
	Mesozoic - Cenozoic basin		

China Daye Non-Ferrous Metals Mining Limited

Yanxi Copper Project

Xinjiang Uygur Autonomous Region
People's Republic of China

Regional Geology

June 2011

LOCAL GEOLOGY

The rocks in the area of the Yanxi deposit belong to the Qi'eshan Group, which has been described as Carboniferous by Han et al. (2003) and Devonian by Qin et al. (2002). The group has been subdivided into a number of major units, which include:

- Unit 1 – Light grey-brown, brown and grey-green medium- to coarse-grained schistose greywacke greater than 100 m thick.
- Unit 2 – Purple-red andesitic volcanic breccia and grey-green tuff about 100 m thick.
- Unit 3 – Grey-green amygdaloidal basalt about 130 m thick.
- Unit 4 – Grey-green and light grey pebbly-lithic sandstone with intercalated basalt, andesite, and dacite flows about 170 m thick.
- Unit 5 – Grey-green amygdaloidal spilite-keratophyre lavas and brecciated flows about 200 m thick.
- Unit 6 – Polymict conglomerate with granite, basalt, and felsic porphyry clasts and intercalated fine-grained lithic sandstone, about 25 m thick.

The Qi'eshan Group is unconformably overlain by a relatively thin arenaceous unit. Both the Paleozoic and Mesozoic rocks are overlain by Quaternary alluvium.

The regional structure remains poorly defined, with Han et al. (2003) describing the sequence as a south-dipping succession and Wang et al. (2001) describing an east-west trending anticline.

PROPERTY GEOLOGY

The property geology consists of three main Carboniferous rock types:

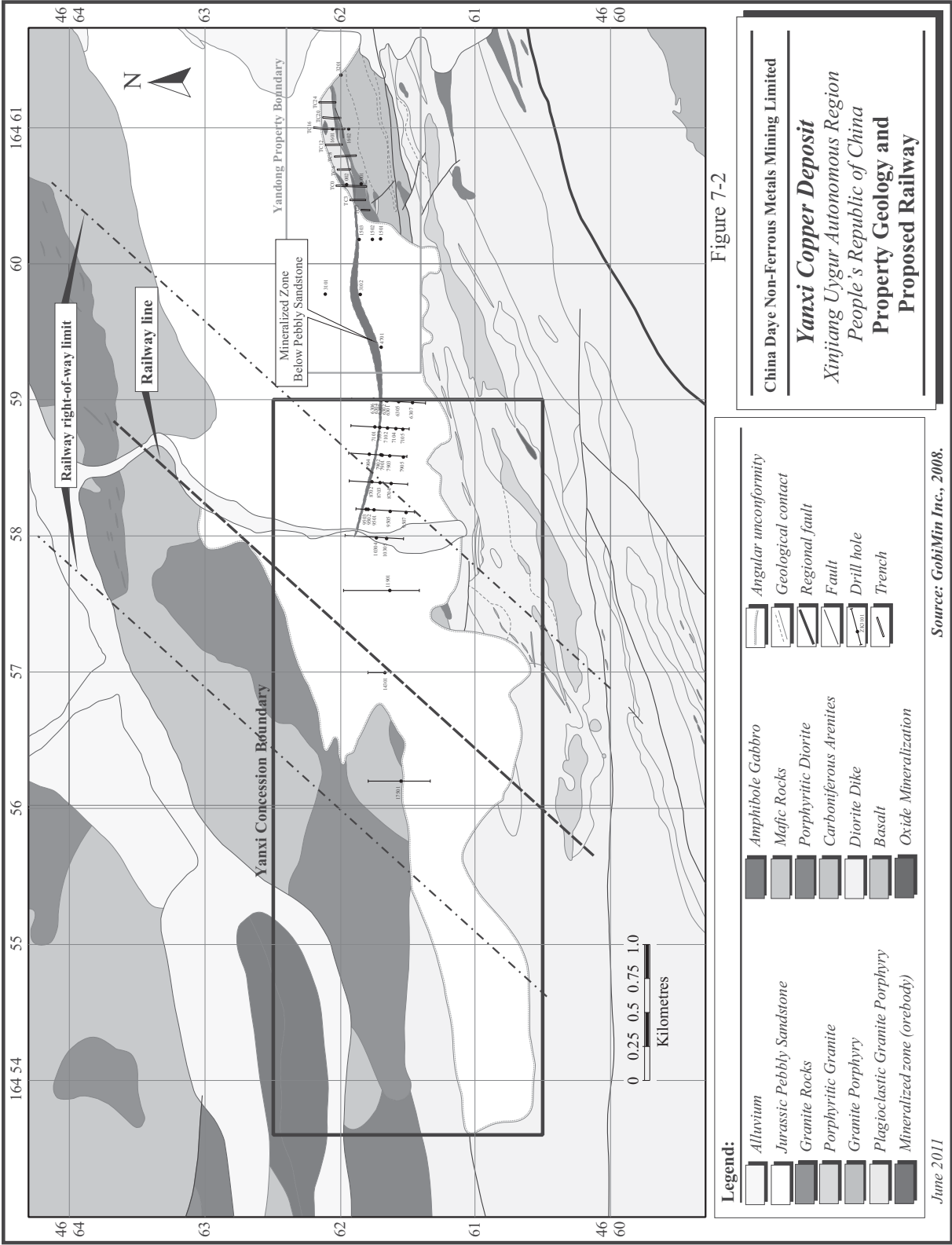
1. Basic to intermediate mafic volcanic and volcanoclastic rocks.
2. A unit composed of clastic sediments, tuffs and brecciated lava, and
3. A pebbly arenite unit.

The rocks are mapped as east-west striking, steeply south-dipping and broadly south-facing units. The supracrustal rocks are variously intruded by porphyritic diorite and granitic rocks and some mafic intrusive rocks, predominantly gabbros. Mineralization on the property is hosted in a plagioclase porphyritic granodiorite intrusive with an irregular dike-like shape (Figure 7-2). The intrusive strikes broadly east-west and dips south at about 70°. The granodiorite is irregular and appears to have formed by multiple intrusion of magma. The plagioclase porphyritic granodiorite is reported to have adakitic affinities (high Sr/Y and low La/Yb ratios and low Y and Yb trace element contents) that are considered to indicate that the magma formed by partial melting of subducting supracrustal rocks. This unit does not outcrop on the property as it is overlain by the Jurassic and Quaternary cover.

The Carboniferous rocks are unconformably overlain by a flat-lying Jurassic arenite unit that includes pebbly sandstone, coarse sandstone, and siltstone. The Jurassic cover rocks appear to have a maximum thickness of about 100 m where they have been tested on the property to date.



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MINERALIZATION

The economic mineralization at Yanxi is predominantly hosted in the plagioclase porphyritic granodiorite intrusive, with weaker mineralization in other rock types. The granodiorite is not exposed on the Yanxi property but outcrops on the adjacent Yandong property. At Yanxi, the granodiorite intrusive has an irregular dike-like shape and is up to 200 m wide, strikes east-west, and dips north at about 70°. It is not uniformly mineralized, but mineralization is subparallel to the margins of the intrusive (Figure 7-3). Weaker mineralization is present as discontinuous lower grade lenses in the wall rocks, both above and below the intrusive rocks.

Copper is the only mineral present in economic quantities. The major sulphide present is pyrite. Small quantities of tetrahedrite, molybdenite, bornite and sphalerite have also been recognized. Non-sulphide primary gangue minerals include plagioclase (oligoclase), quartz, K-feldspar, biotite and muscovite, while non-sulphide alteration minerals include secondary quartz, sericite, chlorite and carbonate. Tongxing has commenced a program to define the alteration associated with mineralization; the work was still in progress at the time of the RPA property visit.

Mineralization does not outcrop on the Yanxi property because of the presence of Jurassic sediments unconformably overlying mineralization. The mineralized zone continues to the east where it outcrops. Some trenching has been completed in this area, but the results of the trenching are not known. The present drilling appears to indicate that weathering of the sulphide minerals and the development of secondary mineralization is limited to non-existent.

A selection of grade intersections averaged at a cut-off grade of 0.5% Cu is set out in Table 7-1.

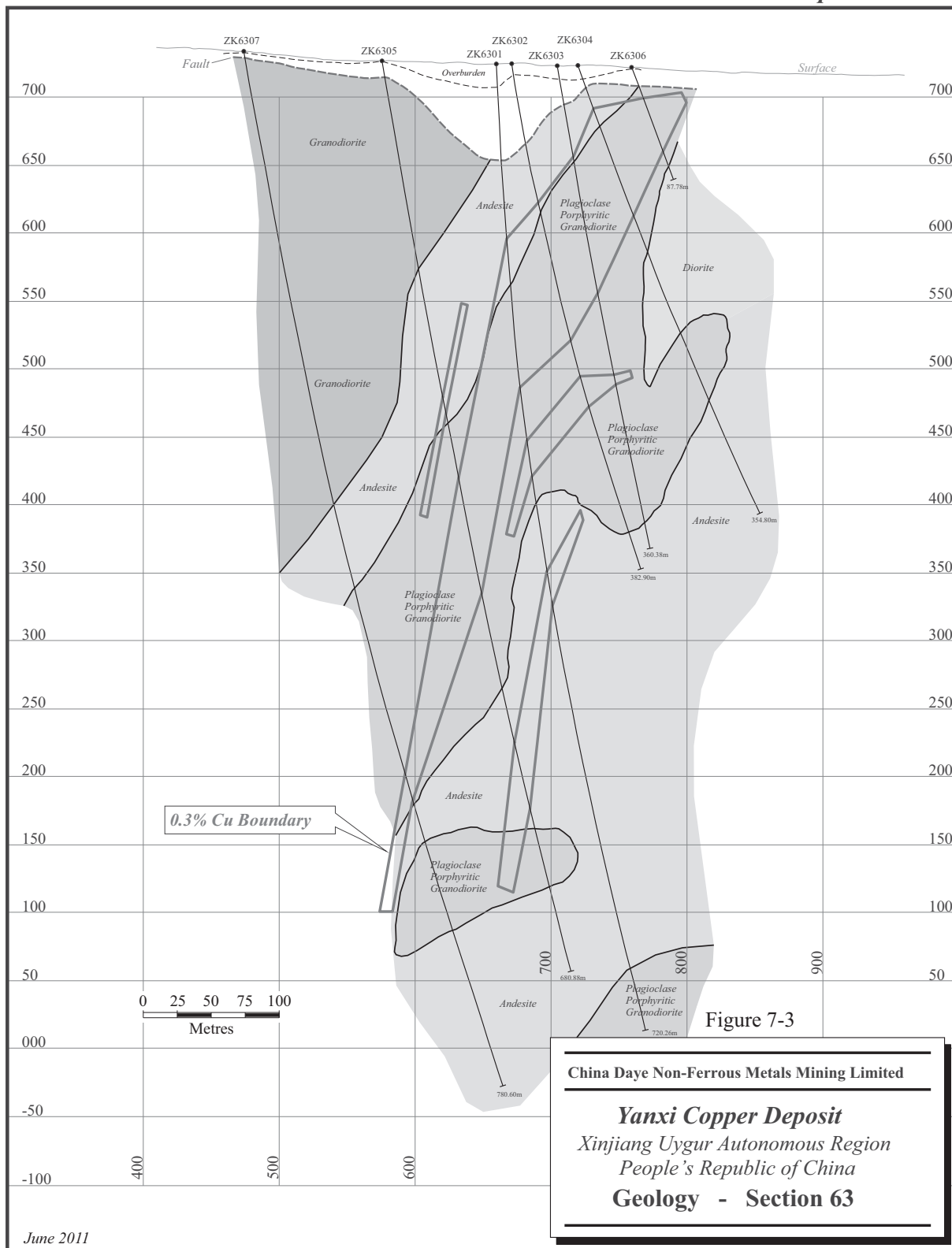
TABLE 7-1 DIAMOND DRILL HOLE DATA

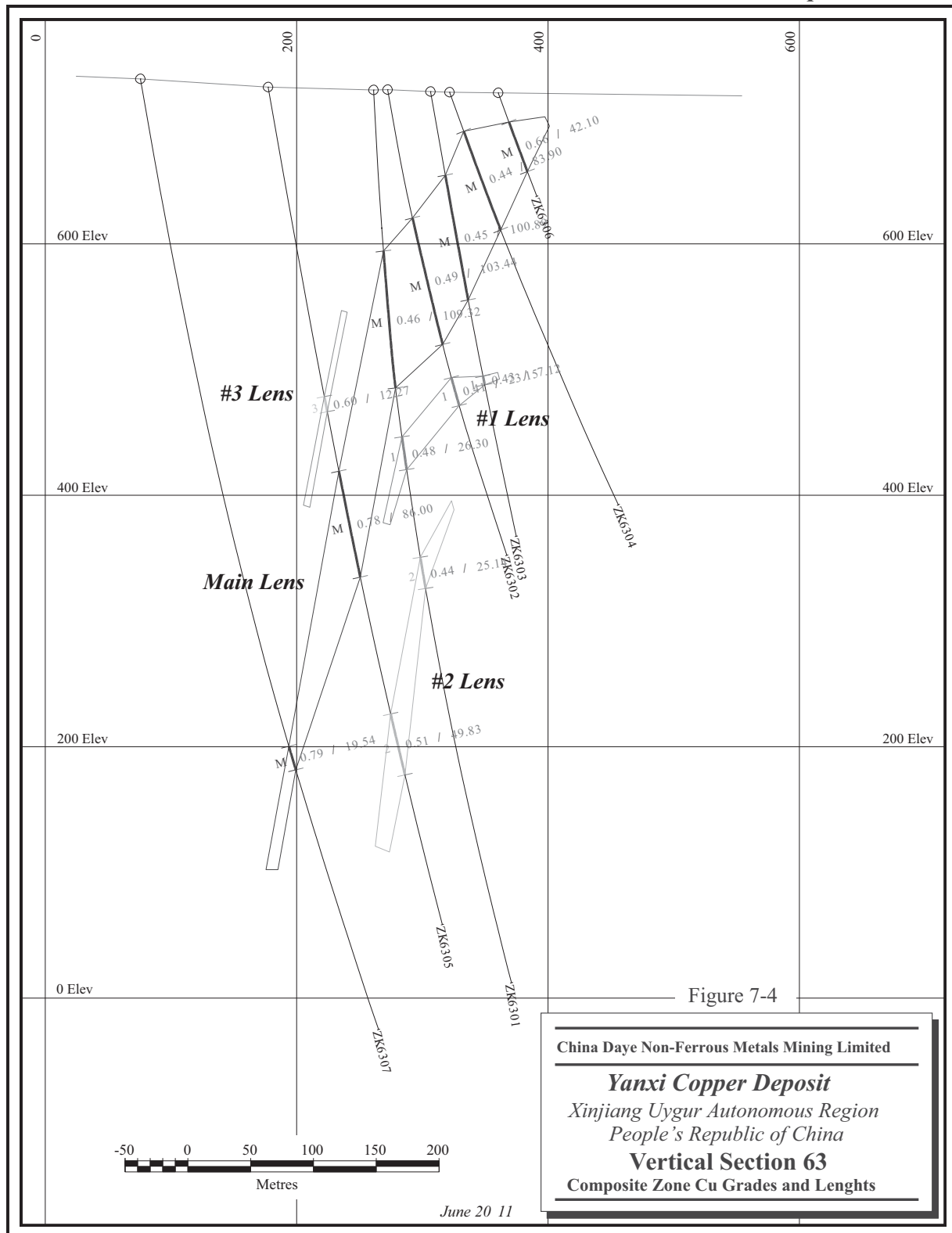
China Daye Non-Ferrous Metals Mining Limited – Yanxi Copper Project

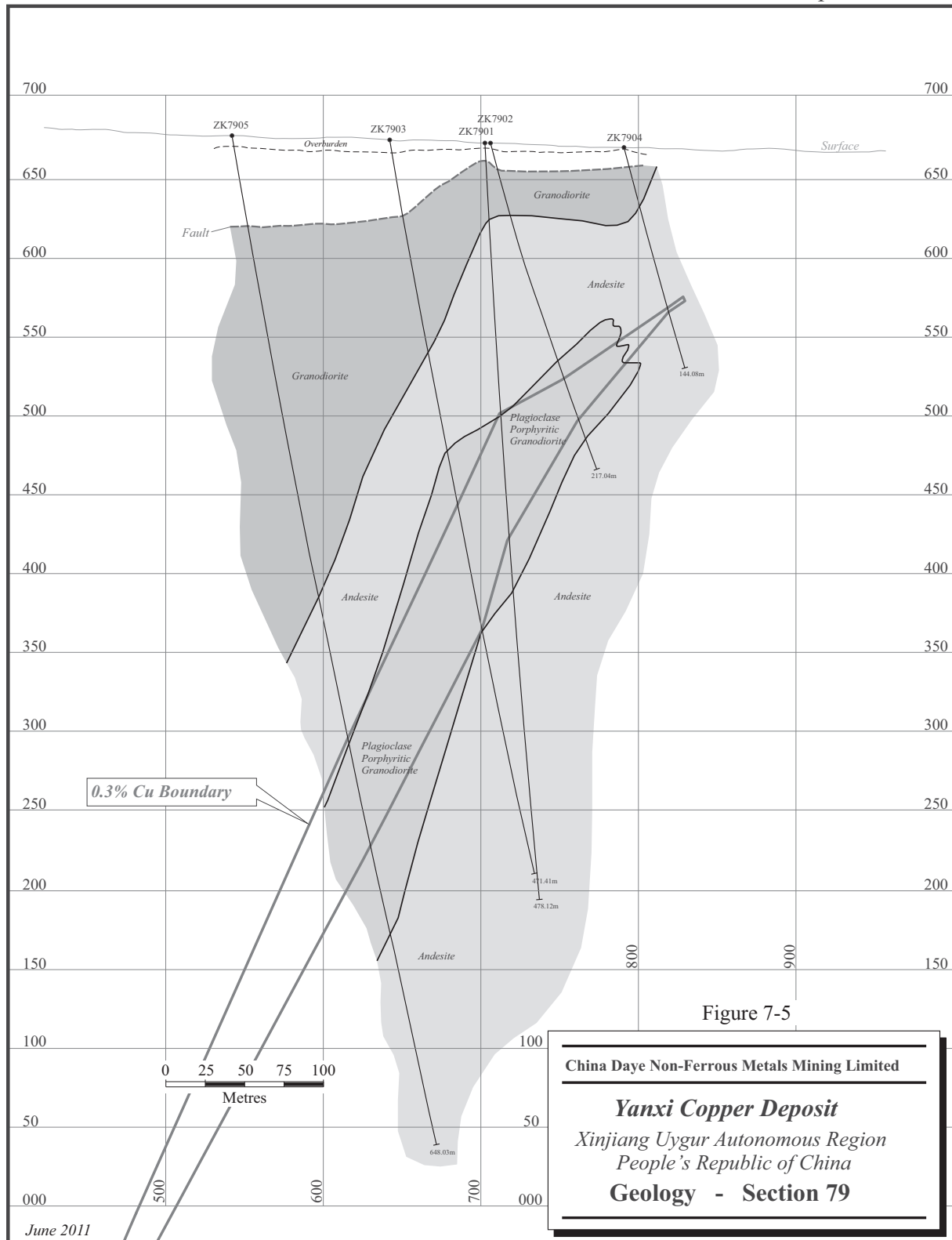
Hole ID	From (m)	To (m)	Length (m)	Cu%
ZK6301	185.36	211.00	25.64	0.68
ZK6302	147.40	159.66	12.24	0.68
ZK6303	156.14	168.46	12.32	0.86
ZK6304	81.47	116.90	35.43	0.52
ZK6305	250.25	260.73	10.45	0.63
	332.42	396.70	64.28	0.92
	532.40	555.03	22.63	0.67
ZK6306	39.18	63.86	24.68	0.88
ZK6307	546.14	550.85	4.71	2.17
ZK7102	129.08	142.74	13.66	0.65
	158.67	191.43	32.74	0.92
ZK7103	71.78	102.98	31.20	0.87
ZK7104	242.52	311.22	68.70	0.94
ZK7105	296.60	305.32	8.72	0.67
	343.14	419.71	76.57	0.64
ZK7901	212.38	250.24	37.86	0.86
ZK7902	160.33	182.33	22.00	0.79
ZK7903	256.46	314.54	58.08	1.03
ZK7905	387.43	395.80	8.37	0.61
	420.07	433.85	13.78	0.53
ZK8703	209.13	230.43	19.10	0.81
ZK8704	291.43	313.78	22.35	0.69
ZK9501	277.60	301.53	23.93	1.01
	329.26	336.86	7.60	0.97
ZK9502	107.93	113.89	5.96	2.68

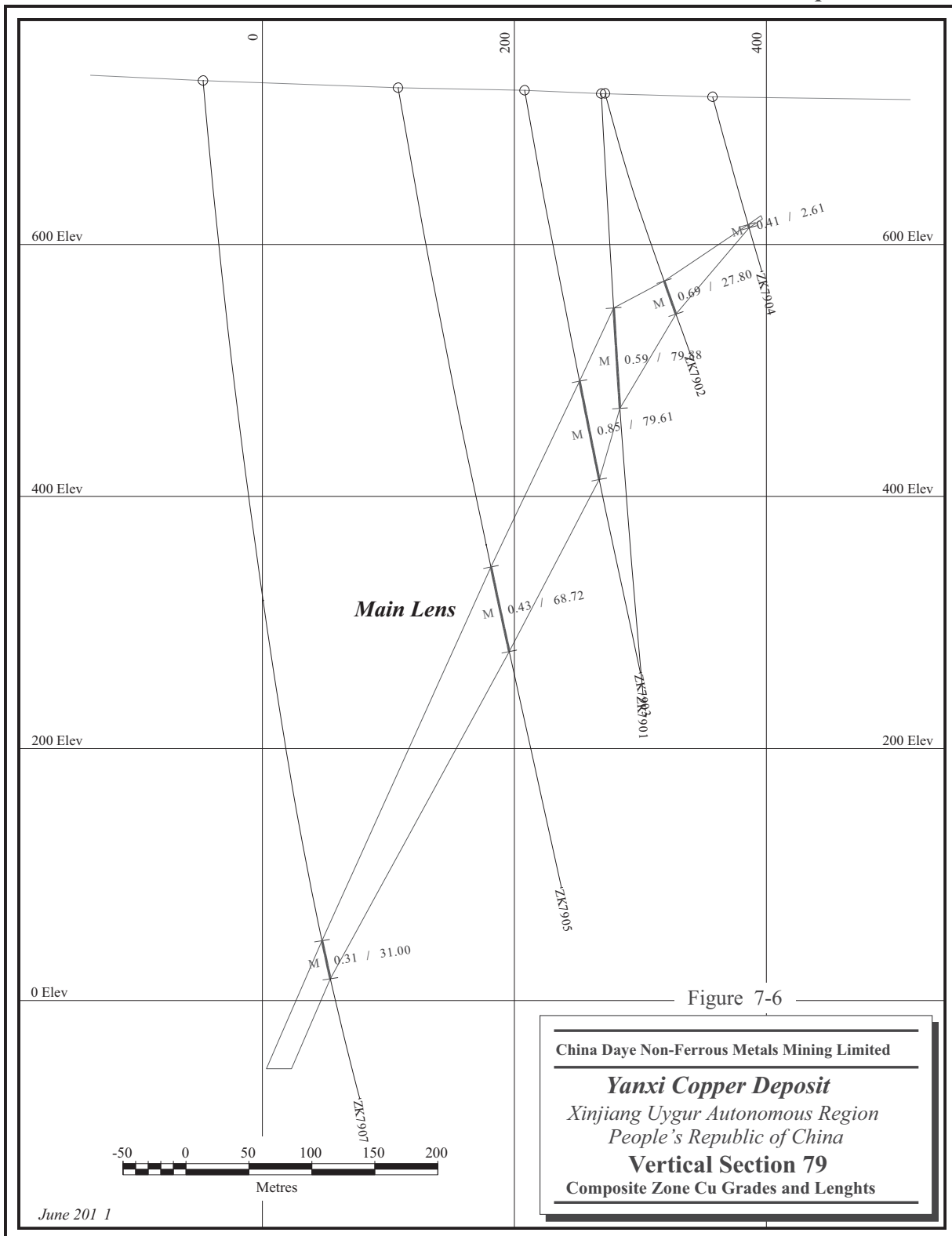
There is some indication that mineralization may continue to the west of the presently drilled area. Various exploration projects, mainly widely spaced soil geochemical and induced polarization (IP) surveys, followed by reconnaissance diamond drilling, are in progress to try to extend mineralization into this area.

Figures 7-3 to 7-6 show the geology and grade distributions on two drill sections of the Yanxi deposit.


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8 DEPOSIT TYPES

The Yanxi deposit is considered to be an example of porphyry copper deposit type. Porphyry copper deposits are typically large and relatively low grade, and are characterized by zoned alteration. The Yanxi deposit is unconformably overlain by younger sediments and there is essentially no secondary alteration resulting from weathering.

The Yanxi copper deposit is located in a regional belt of copper deposits. Further, although the Yanxi deposit does not outcrop, it is on the strike extension of the Yandong deposit located on the eastern side of the Yanxi property. The Yanxi deposit has been partially tested by trenching and diamond drilling.

9 EXPLORATION

Exploration by Tongxing started in 2007 and has been continuing through 2008. Initially, it concentrated on lines 63 to 103, with pre-reconnaissance exploration between lines 103 and 199. The bulk of the exploration completed by Tongxing to date has been diamond drilling, which is discussed in Section 9. Tongxing has also completed a number of geophysical surveys seeking to define and extend the mineralization. The geophysical surveys were completed on lines 200 m apart. RPA considers these lines to be too widely spaced for detailed geophysical surveys; however, the IP data were useful in delineating targets for the diamond drilling.

MAPPING

Geological mapping of the property has been completed by Tongxing at a scale of 1:10,000. The results of the mapping are summarized in Figure 7-2. Being overlain by Jurassic arenitic sediments, the deposit does not outcrop on the property, however, its strike continuation does outcrop on the adjacent Yandong property.

GROUND MAGNETIC SURVEY

Ground magnetic surveys covered an area of 3,600 m x 1,400 m. Readings were 20 m apart on lines spaced 200 m apart. The major feature of the magnetic profiles is the presence of a large magnetic high over the footwall of the mineralization. It probably reflects the presence of a higher concentration of mafic rocks in the footwall. The magnetic survey was not particularly useful in elucidating the geology, nor was it helpful for determining the locations of the 2006 drilling.

INDUCED POLARIZATION SURVEY

Tongxing has completed an IP survey on parts of the Yanxi property over an area of approximately 3,600 m x 700 m. The survey was conducted by a team from the No. 1 Brigade on lines 200 m apart. Individual lines were about 700 m long. A strong IP anomaly about 1,000 m long was detected over the projected position of the copper deposit, while irregular anomalies were found present in other parts of the property. The IP survey was useful in determining the location of the first holes drilled on the deposit. Tongxing has tested part of one of these other anomalies without locating economic sulphide mineralization.

10 DRILLING

Tongxing has completed 31 diamond drill holes with an aggregate depth of 13,692 m in the summer field seasons of 2007 and 2008. These drill holes are located towards the eastern edge of the exploration licence and were drilled on six sections. Details of the drill holes are included in Table 10-1. The locations of the drill holes are shown on Figure 7-2.

TABLE 10-1 DIAMOND DRILL HOLE DETAILS

China Daye Non-Ferrous Metals Mining Limited – Yanxi Copper Project

Section	Hole ID	X	Y	Z	Length (m)	Azimuth	Dip
63	ZK6301	4661661	458994.9	722.46	720.26	005	–87
	ZK6302	4661672	458996	722.74	382.9	005	–80
	ZK6303	4661706	458998.9	721.2	360.38	005	–80
	ZK6304	4661721	459000.2	720.64	354.8	005	–70
	ZK6305	4661578	458987.5	724.73	680.88	005	–80
	ZK6306	4661760	459003.6	720.14	87.78	005	–70
71	ZK6307	4661476	458978.8	731.245	780.6	005	–80
	ZK7101	4661752	458802.2	720.068	66.78	005	–75
	ZK7102	4661658	458793.8	723.879	241.28	005	–75
	ZK7103	4661718	458799.1	721.644	241.93	005	–75
	ZK7104	4661598	458788.6	724.568	380.19	005	–75
	ZK7105	4661537	458783.3	726.914	446.14	005	–75
79	ZK7901	4661704	458595.4	719.73	478.12	005	–97
	ZK7902	4661707	458595.7	719.906	217.04	005	–75
	ZK7903	4661643	458590.2	722.375	471.41	005	–80
	ZK7904	4661792	458603.1	717.226	144.08	005	–75
	ZK7905	4661543	458581.2	724.395	648.03	005	–80
	ZK7907	4661389	16458568	730.03	818.42	005	–85
87	ZK8702	4661774	458400.8	721.373	235.08	005	–75
	ZK8703	4661714	458395.5	725.85	301.23	005	–75
	ZK8704	4661633	458388.5	728.198	403.23	005	–75
	ZK8705	4661474	16458374	731.13	635.42	005	–75
95	ZK9501	4661759	458195.5	716.5	600.1	005	–85
	ZK9502	4661797	458198.9	714.834	377.03	000	–85
	ZK9503	4661803	458199.3	714.884	183.5	005	–70
	ZK9505	4661640	458185	718.368	602.13	005	–80
	ZK9507	4661525	458174.8	719.039	770.14	005	–80
103	ZK10304	4661740	457992.8	713.71	261.28	005	–85
	ZK10305	4661668	457987.5	714.702	495.7	005	–85
119	ZK11902	4661710	16457598	718.82	554.43	005	–85
151	ZK15101	4661405	16456799	747.08	751.8	005	–85
Totals					13,692.09		

Drilling was carried out by a number of different brigades under contract to the No. 1 Brigade. Drilling contractors included the Shandong No. 4 Brigade, the Shandong No. 4 Coal Brigade, and the Shandong No. 4 Metallurgical Brigade. The drill core was 75 mm in diameter. Core recoveries were generally good in bedrock.

The locations of the drill hole collars are surveyed by a survey party from the No. 1 Brigade. All of the holes were measured for deviation using a mechanical single-shot unit. Readings were taken every 50 m downhole.

Approximately 13,692.09 m of diamond drilling has been carried out on the property. A copper deposit approximately 1,000 m in length and 650 m in depth has been delineated. Intersections used in the Mineral Resource estimate set out in Section 13 are shown in Table 10-2.

TABLE 10-2 DIAMOND DRILL INTERSECTIONS

China Daye Non-Ferrous Metals Mining Limited – Yanxi Copper Project

Hole	From (m)	To (m)	Length (m)	Cu %	Zone Code	True Thickness (m)
ZK10304	220.65	230.90	10.25	0.43	M	5.00
ZK10305	417.80	441.10	23.30	0.40	M	11.65
ZK6301	128.40	237.72	109.32	0.46	M	49.64
ZK6301	277.00	303.30	26.30	0.48	1	13.21
ZK6301	373.95	399.09	25.14	0.44	2	13.17
ZK6302	104.06	207.50	103.44	0.49	M	59.95
ZK6302	234.75	257.90	23.15	0.41	1	14.13
ZK6303	67.57	168.46	100.89	0.45	M	54.04
ZK6303	230.19	237.31	7.12	0.43	1	3.91
ZK6304	33.00	116.90	83.90	0.44	M	56.72
ZK6305	250.25	262.52	12.27	0.60	3	6.68
ZK6305	310.70	396.70	86.00	0.78	M	47.38
ZK6305	508.20	558.03	49.83	0.51	2	28.73
ZK6306	24.68	66.78	42.10	0.66	M	28.42
ZK6307	544.24	563.78	19.54	0.79	M	12.17
ZK7102	126.74	191.43	64.69	0.71	M	40.67
ZK7103	70.14	105.28	35.14	0.82	M	21.45
ZK7104	208.97	311.22	102.25	0.77	M	65.20
ZK7105	296.60	419.71	123.11	0.54	M	81.60
ZK7901	170.36	250.24	79.88	0.59	M	34.52
ZK7902	156.23	184.03	27.80	0.69	M	18.48
ZK7903	234.93	314.54	79.61	0.85	M	43.73
ZK7904	105.32	107.93	2.61	0.41	M	1.61
ZK7905	387.43	456.15	68.72	0.43	M	38.63
ZK7907	689.42	720.42	31.00	0.31	M	17.52
ZK8703	211.33	230.43	19.10	0.81	M	11.65
ZK8703	252.68	282.63	29.95	0.45	4	18.29
ZK8704	284.33	313.78	29.45	0.63	M	18.14
ZK8704	346.33	353.43	7.10	0.43	4	4.42
ZK8705	539.17	547.17	8.00	0.43	M	5.39
ZK9501	272.10	352.68	80.58	0.61	M	38.57
ZK9502	174.82	212.29	37.47	0.50	M	17.10
ZK9505	484.83	498.68	13.85	0.45	M	7.26
ZK9505	530.13	555.73	25.60	0.45	5	13.48

Note: RPA defined a number of lenses, or zones of mineralization, in its interpretation. These zones were given letter codes to distinguish them.

11 SAMPLE PREPARATION, ANALYSES AND SECURITY

The major exploration effort completed on the Yanxi property has been the diamond drilling program. Diamond drill core is transported to the field camp, where it is logged and sawn by employees of the No.1 Brigade. The core is stored in the field camp, in available buildings or in the open. RPA makes the following observations:

- Core logging appears to be done well.
- Core recovery is excellent. Core loss is unlikely to affect the grade of the Mineral Resource estimate set out in Section 14.
- Core is split using a diamond saw.
- Samples are placed in fabric bags for transport to the No. 1 Brigade laboratory at Shanshan.

Samples are typically two metres to three metres in length. In economic mineralization, few samples are longer than three metres, although there are longer samples in areas of weak mineralization away from the main mineralized body. These sample lengths are considered appropriate for the style of mineralization being sampled.

RPA is of the opinion that the sampling method and approach are in keeping with industry standards. RPA has not noted any factors that might affect the overall accuracy of the Mineral Resource estimate.

Samples are placed in cloth bags and transported to the No. 1 Brigade headquarters at Lianmuqin, about 20 km west of Shanshan. The No. 1 Brigade maintains an in-house laboratory within the headquarters compound. The laboratory holds a current Metrology Accreditation Certificate issued by the Quality and Technology Supervision Bureau of Xinjiang Uygur Autonomous Region.

The samples sent to the No. 1 Brigade laboratory are analyzed for copper. Much of the equipment is locally made and appears to be effective.

The sampling and assay protocol is:

- The whole sample is passed through a jaw crusher that reduces the material to 2 mm to 3 mm. Equipment is cleaned with compressed air between samples.
- The sample is then passed through a roll crusher that reduces the material to less than 1 mm.

- The sample is then passed through a splitter and a 500 g sample is taken. The remainder is the reject material.
- The 500 g sample is pulverized to -80 mesh.
- The sample is mixed and a 100 g cut is taken. The remainder of the sample is kept at the No. 1 Brigade compound.
- The 1 g is pulverized to a nominal size of -160 mesh in small rod mills. The mills are washed with water between samples.
- A 0.1 g sample is cut and dissolved using a four-acid solution. All samples are analyzed using atomic absorption spectrometry (AAS).

The laboratory is reported to maintain a 10-day turnaround.

Sample rejects and pulps that remain from the assaying process are stored in the No. 1 Brigade headquarters compound.

While using the in-house laboratory at Lianmuqin for analysis for copper, the No. 1 Brigade also sends samples to the Mineral Experimental Research Laboratory of the Bureau of Geological Exploration of Xinjiang located in Urumqi (the Urumqi laboratory). The Urumqi laboratory uses Inductively Coupled Plasma Mass Spectrometry (ICP-MS) for a range of elements and carries out duplicate analysis on samples sent by the No. 1 Brigade laboratory.

The Urumqi laboratory has an accreditation with the China National Accreditation Centre for Conformity Assessment. The Urumqi laboratory is also accredited as an ISO 17025-2005 laboratory.

The sampling and assay protocols of the Urumqi laboratory are:

- The whole sample is passed through two jaw crushers to achieve a size of less than 4 mm.
- The sample is then passed through a roll crusher to achieve a size range of 1 mm to 2 mm.
- After mixing, two 100 g samples are taken. One sample is used for further processing, while the other 100 g sample goes to storage.
- The first 100 g sample is pulverized in a single stage process to -160 mesh to 200 mesh.
- A 0.1 g sample is taken from the pulverized material for dissolution using four-acid digestion.

The higher grade copper samples are analyzed using AAS and samples taken to examine alteration trends are analyzed using ICP-MS.

12 DATA VERIFICATION

The No. 1 Brigade does not include any blanks or reference samples with the samples sent to the in-house laboratory.

The in-house laboratory prepares internal duplicates so that 30% of all samples are duplicates. A further cut of the pulp is sent to the Urumqi laboratory for check analyses. Whereas the results of duplicate analyses are communicated to the field party, the results of the internal analyses of reference samples are not. All of the duplicate analyses are collated in the field. These analyses were examined by RPA and are considered to show an acceptable correlation between the two laboratories.

RPA also completed a program of check sampling. This work involved the collection of ten samples of core by quartering in the field, while twenty sample pulps were collected from the laboratory of the No. 1 Brigade near Shanshan. All of these samples were dispatched to the SGS Ltd. (SGS) laboratory in Tianjin, China, and analyzed by AAS using the SGS protocol AAS43B. A comparison of the results for the Shanshan laboratory and the SGS laboratory is included in Table 12-1.

RPA notes that there is a small systematic variation between the results of the Shanshan laboratory and the results of the SGS laboratory for the pulp analyses. The variation is approximately 8% overall. The analyses of the core show a less systematic variation, although the values from the Shanshan laboratory are higher on average than those from the SGS laboratory. RPA recommends that Daye and Tongxing introduce a quality assurance/quality control (QA/QC) program managed in the field and undertake an investigation of the variation of analytical results.

RPA considers that the interlaboratory variation noted does not invalidate the Mineral Resource estimate set out in Section 14.

TABLE 12-1 COMPARISON OF ANALYSES BETWEEN SHANSHAN AND SGS

China Daye Non-Ferrous Metals Mining Limited – Yanxi Copper Project

Sample No.	Shanshan Laboratory Cu %	SGS Laboratory Cu %
209	0.37	0.33
211	0.66	0.57
214	0.42	0.35
219	0.52	0.45
226	0.85	0.74
232	1.11	0.96
236	0.90	0.8
242	1.37	1.27
248	1.04	0.93
253	0.76	0.66
1969	0.37	0.33
1972	0.51	0.46
1978	0.32	0.29
1985	0.72	0.63
1988	1.14	1.02
1990	1.49	1.36
1997	1.07	1.01
2005	1.48	1.41
2008	1.11	1.02
2024	0.07	0.06
07G-ZK7102-H16	0.44	0.42
07G-ZK7102-H20	0.38	0.33
07G-ZK7102-H24	0.4	0.31
07G-ZK7102-H26	0.45	0.46
07G-ZK7102-H36	0.98	0.8
07G-ZK8703-H17	0.95	1.05
07G-ZK8703-H18	1.1	1.01
07G-ZK8703-H19	1.02	0.91
07G-ZK8703-H20	0.96	0.85
07G-ZK8703-H21	0.87	0.72

13 MINERAL PROCESSING AND METALLURGICAL TESTING

Tongxing has had initial mineral processing studies completed on samples from the Yanxi copper deposit. This work was completed at the Xinjiang Mineral Experimental Institute (the Institute) under contract to Tongxing. Three samples of core were collected by the Institute from two diamond drill holes. Two blended samples were prepared: a high-grade sample with a grade of 0.70% Cu that weighed 60 kg and a low-grade sample with a grade of 0.40% Cu that weighed 60 kg. Details of the sampling are shown in Table 13 1.

TABLE 13-1 METALLURGICAL SAMPLES

China Daye Non-Ferrous Metals Mining Limited – Yanxi Copper Project

Grade Type	Ore Type	Weight of Sample (kg)	Weight of Blended Sample (kg)	Blending Ratio	Copper Grade (%)
Low Grade	Lean Ore 1	206.5	46.80	78.3	0.35
	Rich Ore 2	87.4	13.20	21.7	0.58
	Total	—	60.00	100.0	0.40
High Grade	Rich Ore 1	150.1	24.00	40.0	0.88
	Rich Ore 2	87.4	36.00	60.0	0.58
	Total	—	60.00	100.0	0.70

The Institute noted that the drill holes sampled did not cover the full extent of the deposit and so were not representative of the entire deposit. The copper minerals were chalcopyrite, tetrahedrite, and bornite. The Institute considered that the two blended samples were amenable to beneficiation by flotation. The low-grade sample yielded a concentrate grade of 19.27% Cu with a recovery of 85.73%, while the high-grade sample yielded a concentrate grade of 27.25% Cu with a recovery of 91.25%. Molybdenum and silver have not been assayed systematically throughout the drilling. The primary molybdenum grade, based on limited sampling, is considered to be less than 0.01% Mo, and the grade in the concentrate is 0.10% Mo. The silver grade in the concentrate is about 50 g/t Ag to 60 g/t Ag.

While the Institute considers the results preliminary, it believes that these results provide useful information for assessing the property and for initial planning of a mill.

14 MINERAL RESOURCE ESTIMATE

GENERAL STATEMENT

RPA has completed an initial resource estimate for the Yanxi copper deposit by constructing a block model of the mineralized zones. The RPA resource estimate is in accordance with the Mineral Resources/Reserves Classification as recommended by the CIM Committee on Mineral Resources/Reserves (CIM definitions).

The estimate is based on drilling information up to September 10, 2008. Subsequent to the Government of the People's Republic of China decision to build a railway across the Yanxi Copper Project, Daye is required to leave a one kilometre allowance or pillar about the railway line. Table 14-1 shows the Mineral Resources outside the railway right-of-way.

TABLE 14-1 MINERAL RESOURCES OUTSIDE THE RAILWAY RIGHT-OF-WAY JULY 31, 2011

China Daye Non-Ferrous Metals Mining Limited – Yanxi Copper Project

Location	Indicated Resources				Inferred Resources			
	Tonnes (Mt)	Grade (% Cu)	Copper Content (Mlb)	Copper Content (tonnes)	Tonnes (Mt)	Grade (% Cu)	Copper Content (Mlb)	Copper Content (tonnes)
Main Lens	14.15	0.75	234	106,000	7.79	0.72	124	56,200
Other Lenses					0.4	0.61	5	2,300
TOTAL	14.15	0.75	234	106,000	8.19	0.71	129	58,500

Notes:

1. CIM (Canadian Institute of Mining, Metallurgy and Petroleum) definitions were followed for Mineral Resources.
2. Mineral Resources are estimated at a cut-off grade of 0.5% Cu within a mineralized envelope defined at 0.3% Cu.
3. Mineral Resources are estimated using an average long-term copper price of US\$2.50/lb, and a US\$/C\$ exchange rate of 1.04.
4. A minimum zone width of 5 m was used.
5. The Mineral Resource estimate is based on drilling information up to July 31, 2011 as confirmed by GobiMin Inc. and China Daye.

RPA used Gemcom Software International Inc. (Gemcom) Resources Evaluation Edition GEMS 6.1.3 to build the block model and to estimate the Mineral Resources. The main Mineral Resource estimation parameters are summarized in the following subsections.

DATABASE

The database for the current Mineral Resource estimate consists of 31 diamond drill holes totalling 13,692 m. Twenty-five of the drill holes intersected the Yanxi deposit and were used for resource estimation. Locations and other details of the holes are set out in Section 10.

GobiMin supplied data to RPA in spreadsheets that included collar, downhole survey, geology, and assay files. Validation revealed no errors in the database.

The density for the mineralization used in this estimate is based on 109 measurements from diamond drill core samples. The measurements were taken by immersion in water after the core was waxed. Sixty-four samples were selected from mineralization grading higher than 0.5% Cu and a further 45 samples were taken from mineralization grading lower than 0.5% Cu. For samples above 0.5% Cu, the average value obtained was 2.72 g/cm³, while for the samples below 0.5% Cu, the average value was 2.73 g/cm³. RPA selected a value of 2.72 g/cm³ for use in this resource estimate.

GEOLOGICAL INTERPRETATION AND 3D SOLIDS

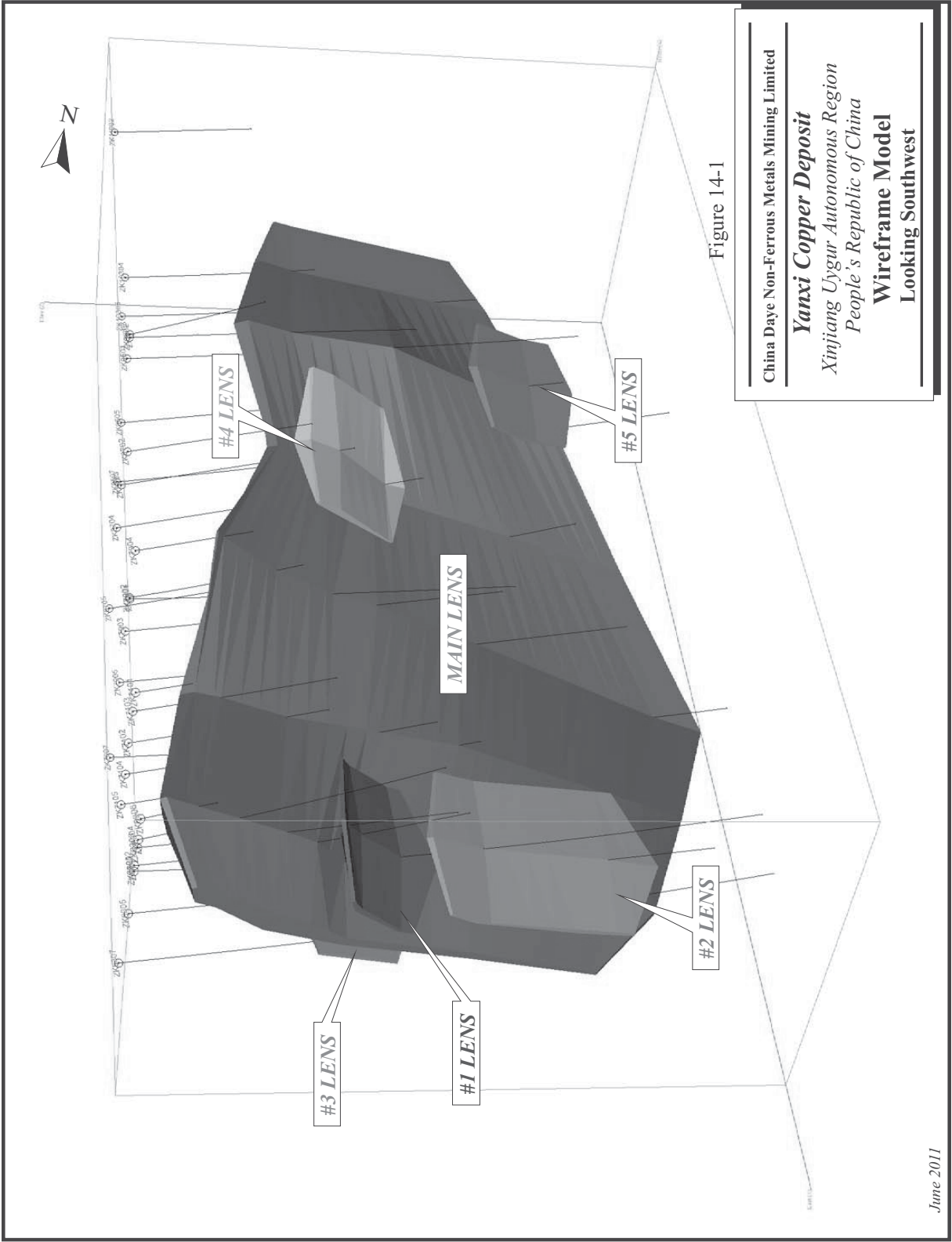
RPA prepared interpretations of the mineralized zone in sections that were spaced at 200 m intervals, corresponding to the spacing of the drill sections in the field. A threshold or minimum of 0.32 m was used to interpret the mineralized envelope. Tongxing already had an interpretation, although it was prepared at a different threshold grade than the cut-off used by RPA. The interpretations of RPA and Tongxing were very similar.

Mineralization is present in a number of lenses, but the Main Lens is considered to be the only significant lens with economic potential at this time. This lens extends about 1,000 m in strike length and up to about 650 m vertically. The thickest part of the lens has a true thickness of about 82 m.

A 3D wireframe model was developed from the interpretations prepared on sections and is shown in Figure 14-1.



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CUT-OFF GRADE

The Yanxi copper deposit is a relatively simple sheet-like body. Based on limited cost data, a cut-off grade of 0.5% Cu was used for this initial estimate. Assumptions used to estimate the cut-off grade are a price of US\$2.50/lb Cu, operating costs of US\$1/t, and metallurgical recovery of 90%.

$$\text{Cut-off grade} = \frac{\text{Operating cost}}{\text{Price} \times \text{Recovery}} = 0.5\% \text{ Cu}$$

The database of copper assays was checked for high values. While there are a few copper assays that are considered to be outlier values, there were insufficient high values to materially affect the average grade. For this reason, no cutting of outlier high values was carried out.

COMPOSITING AND STATISTICS

Basic statistics for all drill hole assays are listed in Table 14-2.

TABLE 14-2 BASIC STATISTICS OF DRILL HOLE ASSAYS

China Daye Non-Ferrous Metals Mining Limited – Yanxi Copper Project

Statistics	Core Length	Cu Grade
N = 2,694		
Mean	2.12 m	0.29 m
Median	2.05 m	0.18 m
Maximum Value	4.41 m	5.02 m
Standard Deviation	0.50	0.32
Coefficient of Variation	0.24	1.10

RPA composited assays into three-metre intervals downhole for intersections inside the mineralized lenses. Basic statistics for the composite data are shown in Table 14-3.

TABLE 14-3 STATISTICS OF DRILL HOLE COMPOSITE ASSAYS

China Daye Non-Ferrous Metals Mining Limited – Yanxi Copper Project

Statistics	Core Length	Cu Grade
N = 545		
Mean	2.91 m	0.57 m
Median	2.84 m	0.49 m
Maximum Value	3.00 m	2.62 m
Standard Deviation	0.38	0.31
Coefficient of Variation	0.13	0.55

Five short composite samples less than one metre were excluded from the variography. Statistics for the composited data, with the small composites removed, are shown in Table 14-4. The similarity of the data in Table 14-3 to those in Table 14-4 indicates that the elimination of the small composites did not affect the overall integrity of the composited database.

TABLE 14-4 STATISTICS OF DRILL HOLE COMPOSITE ASSAYS WITH SHORT COMPOSITES REMOVED

China Daye Non-Ferrous Metals Mining Limited – Yanxi Copper Project

Statistics	Core Length	Cu Grade
N = 540		
Mean	2.94 m	0.57 m
Median	2.92 m	0.49 m
Maximum Value	3.00 m	2.62 m
Standard Deviation	0.29	0.31
Coefficient of Variation	0.10	0.55

VARIOGRAPHY

RPA constructed a number of variograms using the three-metre composites within the mineralized envelopes of the Yanxi deposit. Because of the relatively small number of drill holes and composites, the variogram results were not considered to be sufficiently reliable to use for kriging parameters. Variography should be carried out again after the next round of drilling.

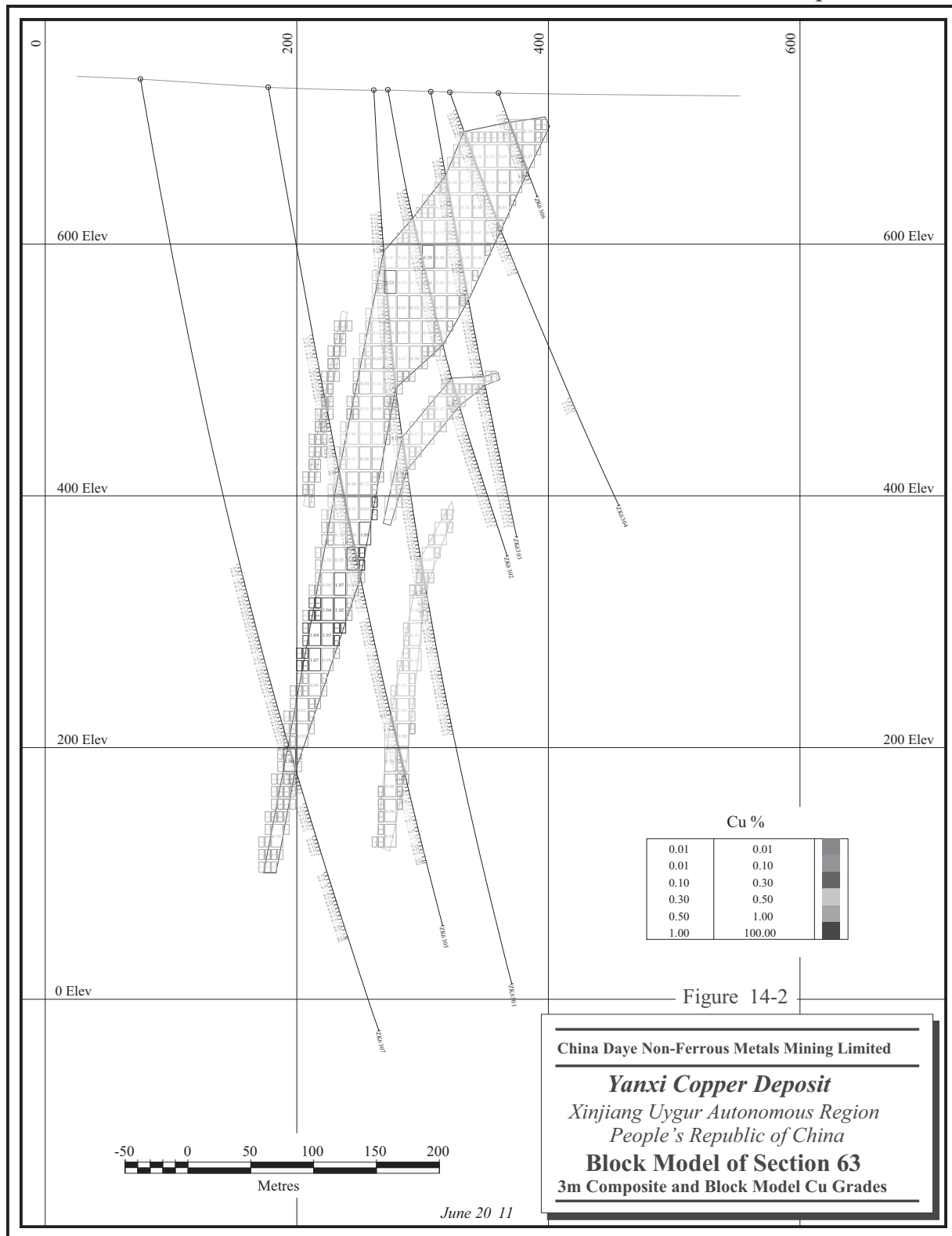
BLOCK MODEL AND GRADE INTERPOLATION

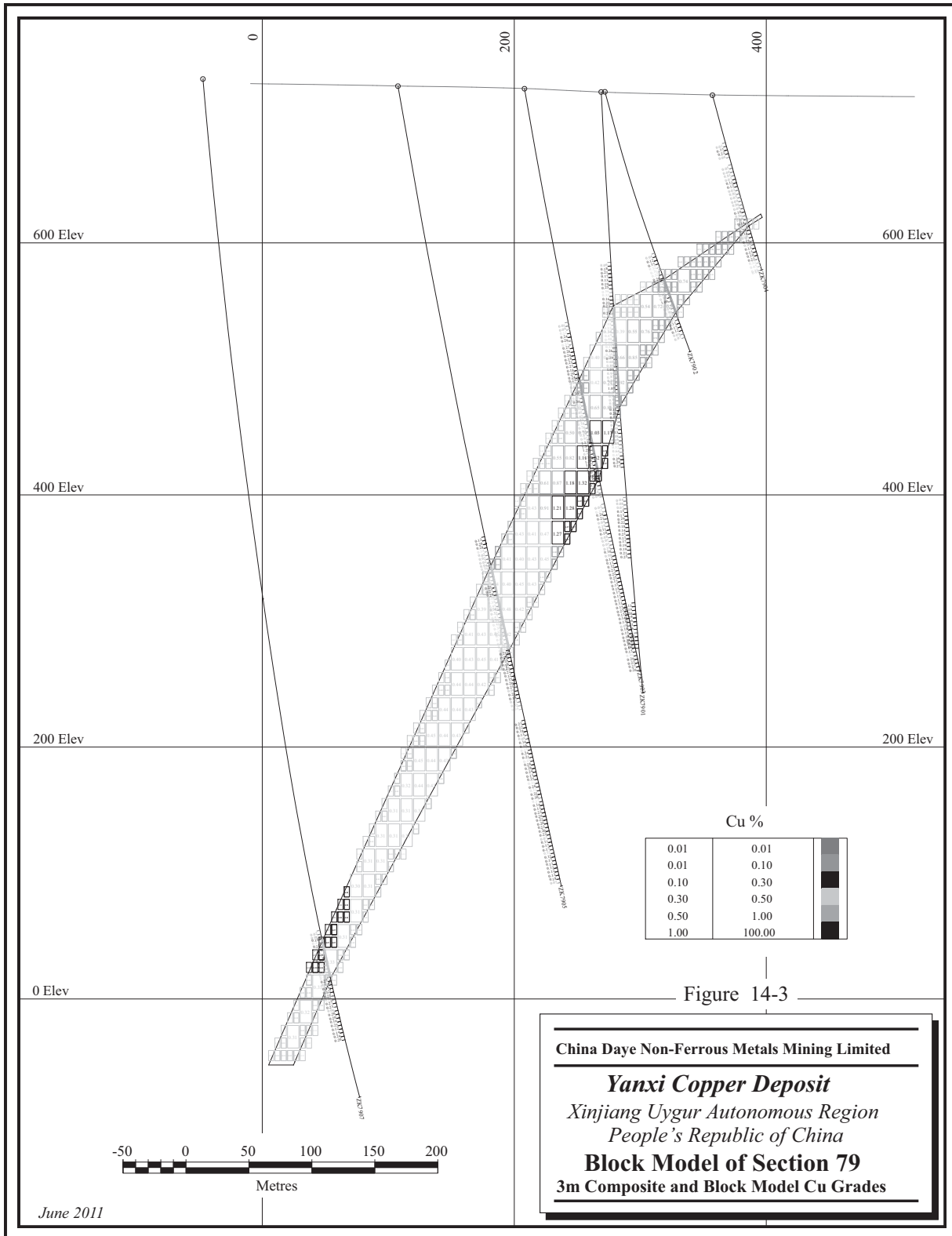
A block model was developed with blocks 50 m along strike by 20 m down dip by 10 m across the zones. The block model was rotated 5° to correspond to the general strike direction of the Yanxi deposit. Grade interpolation was carried out using inverse distance squared using search distances of 300 m along strike, 300 m down dip, and 100 m across dip. Block grade interpolation used a minimum of two composites and a maximum of twelve composites. Hard boundaries were established at the mineralized zone contacts and between each of the lenses. Two sections are shown in Figures 14-2 and 14-3 depicting the block model.

CLASSIFICATION OF MINERAL RESOURCES

The drilling used to estimate the existing Mineral Resource is not uniformly distributed. The eastern, upper part of the deposit is relatively well tested, while the lower and western parts of the deposit are tested by more widely spaced drilling. The better tested parts of the deposit are judged to meet the CIM requirements for an Indicated Mineral Resource, while the less well tested parts of the deposit are classified as an Inferred Mineral Resource. All of the mineralization in the smaller lenses is considered to be an Inferred Mineral Resource because of lower confidence in the geological and grade continuity.

Figure 14-4 is a longitudinal section of the deposit showing the diamond drill hole pierce points and the location of the Indicated and Inferred Mineral Resources.

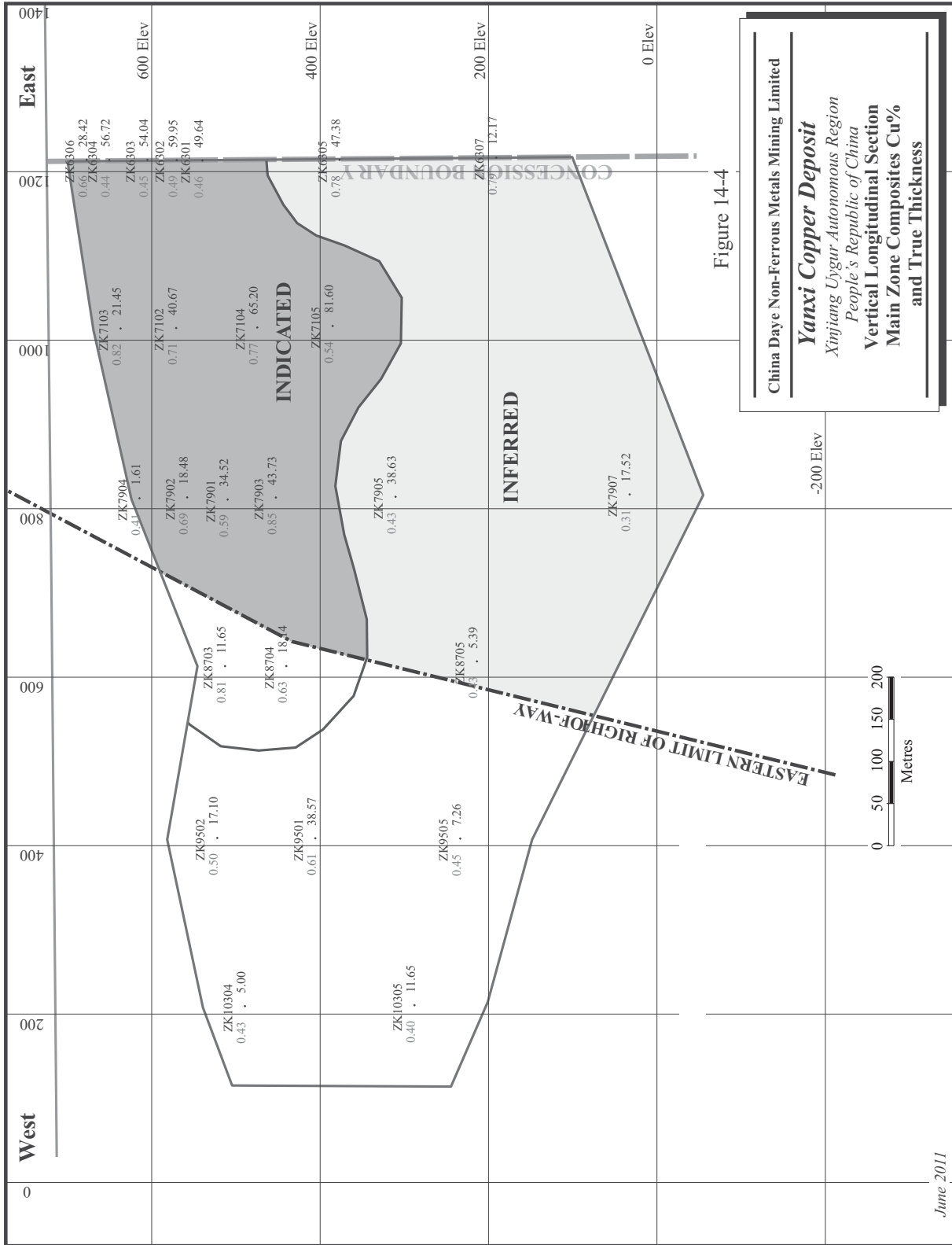

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APPENDIX V-D COMPETENT PERSON'S REPORT ON HAMI MINE



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BLOCK MODEL VALIDATION

The block model sections were examined on screen to check that all of the blocks within the mineralized envelopes had grades interpolated and that block grades corresponded to drill hole composite grades. The statistics of the block model grades were compared with the statistics of the assay grades and the composite grades. No anomalies were detected in these checks.

MINERAL RESOURCE SUMMARY

The Yanxi deposit has been intersected by 25 diamond drill holes to date. This drilling has succeeded in outlining a porphyry copper deposit. The deposit is probably not amenable to open pit mining but should be amenable to relatively large-scale underground mining. The deposit, as presently tested, lies between about 20 m and 650 m below surface. Mineralization is copper-dominated, with minor gold and molybdenum. The RPA Mineral Resource estimate is based on drilling information up to September 10, 2008. As noted earlier in this report, since the initial preparation of the Mineral Resource statement, a railway line has been planned through the Yanxi exploration right. Table 14-5 lists the Mineral Resources outside the railway right-of-way.

**TABLE 14-5 MINERAL RESOURCES OUTSIDE THE RAILWAY RIGHT-OF-WAY
JULY 31, 2011**

China Daye Non-Ferrous Metals Mining Limited – Yanxi Copper Project

Location	Indicated Resources				Inferred Resources			
	Tonnes (Mt)	Grade (% Cu)	Copper Content (Mlb)	Copper Content (tonnes)	Tonnes (Mt)	Grade (% Cu)	Copper Content (Mlb)	Copper Content (tonnes)
Main Lens	14.15	0.75	234	106,000	7.79	0.72	124	56,200
Other Lenses					0.4	0.61	5	2,300
TOTAL	14.15	0.75	234	106,000	8.19	0.71	129	58,500

Notes:

1. National Instrument 43-101 (NI 43-101) and CIM (Canadian Institute of Mining, Metallurgy and Petroleum) definitions were followed for Mineral Resources.
2. Mineral Resources are estimated at a cut-off grade of 0.5% Cu within a mineralized envelope defined at 0.3% Cu.
3. Mineral Resources are estimated using an average long-term copper price of US\$2.50/lb, and a US\$/C\$ exchange rate of 1.04.
4. A minimum zone width of 5 m was used.
5. The Mineral Resource estimate is based on drilling information up to July 31, 2011 as confirmed by GobiMin Inc. and China Daye.

15 MINERAL RESERVE ESTIMATE

This section is not applicable.

16 MINING METHODS

This section is not applicable.

17 RECOVERY METHODS

This section is not applicable.

18 PROJECT INFRASTRUCTURE

This section is not applicable.

19 MARKET STUDIES AND CONTRACTS

This section is not applicable.

20 ENVIRONMENTAL STUDIES, PERMITTING, AND SOCIAL OR COMMUNITY IMPACT

This section is not applicable.

21 CAPITAL AND OPERATING COSTS

This section is not applicable.

22 ECONOMIC ANALYSIS

This section is not applicable.

23 ADJACENT PROPERTIES

The Yanxi property is essentially joined on the eastern side by Yandong exploration licence of the Zhongyahuagin Mining Ltd. In fact, there is a 250 m gap between the two properties because the government will not allow properties to touch to avoid boundary problems between the property owners (Figure 7-2). The division of this boundary area is made when the properties are taken to a mining lease. There is little detail of the activities on the adjacent property, but the Yanxi deposit is thought likely to be the westerly continuation of the Yandong deposit. An Internet search by RPA indicated that a Hong Kong company, Pearl Oriental Innovation Limited, was to acquire a 100% equity interest in a property in the Yanxi area. RPA is advised that the property in question is the Yandong property.

The mineralization on the Yandong exploration licence was located by the No. 1 Brigade. The No. 1 Brigade sold its interest in the Yandong deposit and has no ongoing interest.

24 OTHER RELEVANT DATA AND INFORMATION

No additional information or explanation is necessary to make this Technical Report understandable and not misleading.

25 INTERPRETATION AND CONCLUSIONS

Tongxing, in which Daye is a partner, has discovered a significant porphyry copper deposit approximately 115 km southwest of Hami City. To September 10, 2008, 31 diamond drill holes with an aggregate depth of 13,692 m have tested the Yanxi deposit. Based on the drill hole data from 25 drill holes, RPA estimated an initial Mineral Resource with an effective date of September 10, 2008, which included an Indicated Resource of 15.38 million tonnes at 0.75% Cu containing 254 million pounds (approximately 115,000 tonnes) of copper and an Inferred Resource of 10.63 million tonnes at 0.71% Cu containing 165 million pounds (approximately 74,800 tonnes) of copper. This estimate was reported in a previous RPA Technical Report dated October 30, 2008. Subsequent to this estimate, the Government of the People's Republic of China has proposed to build a railway across the Yanxi Copper Project. Under the law, Tongxing is required to leave a one kilometre allowance or pillar around the railway line. The position of the railway line affects the Mineral Resources for the Yanxi Copper Project and will likely impact on further exploration. The area of the Yanxi concession not affected by the railway pillar is about 11.14 km².

Table 25-1 shows the Mineral Resources outside the railway right-of-way.

**TABLE 25-1 MINERAL RESOURCES OUTSIDE THE RAILWAY RIGHT-OF-WAY
JULY 31, 2011**

China Daye Non-Ferrous Metals Mining Limited – Yanxi Copper Project

Location	Indicated Resources				Inferred Resources			
	Tonnes (Mt)	Grade (% Cu)	Copper Content (Mlb)	Copper Content (tonnes)	Tonnes (Mt)	Grade (% Cu)	Copper Content (Mlb)	Copper Content (tonnes)
Main Lens	14.15	0.75	234	106,000	7.79	0.72	124	56,200
Other Lenses					0.4	0.61	5	2,300
TOTAL	14.15	0.75	234	106,000	8.19	0.71	129	58,500

Notes:

1. NI 43-101 and CIM definitions were followed for Mineral Resources.
2. Mineral Resources are estimated at a cut-off grade of 0.5% Cu within a mineralized envelope defined at 0.3% Cu.
3. Mineral Resources are estimated using an average long-term copper price of US\$2.50/lb, and a US\$/C\$ exchange rate of 1.04.
4. A minimum zone width of 5 m was used.
5. The Mineral Resource estimate is based on drilling information up to July 31, 2011 as confirmed by GobiMin Inc. and China Daye.

It is the opinion of RPA that the work recommended in Section 26 is justified by the results achieved to date on the Yanxi Copper Project.

26 RECOMMENDATIONS

RPA makes the following recommendations for the Yanxi Copper Project.

Table 26-1 shows the work program recommended to advance the project. It is the opinion of RPA that the work recommended is justified by the results achieved to date on the Yanxi Copper Project.

TABLE 26-1 RECOMMENDED WORK PROGRAM

China Daye Non-Ferrous Metals Mining Limited – Yanxi Copper Project

Item	<i>C\$'000 or RMB000</i>
Diamond drilling (6 holes for 3,500 m)	420
Updating and extending the metallurgical testing	100
Preparation of a new Mineral Resource and Mineral Reserve estimate	50
Prefeasibility study	1,500 to 2,000
Studies for Chinese Mining Lease application	10
	<hr/>
TOTAL	C\$2,580 or RMB 17,211
	<hr/> <hr/>

Notes:

1. A C\$/RMB exchange of 6.67 was used
2. Totals may not add due to rounding

Prior to carrying out any further drilling, RPA recommends that Daye introduce a field-managed QA/QC program and undertake an investigation to determine why there is a variation in the analytical results between the various laboratories that are used for analyzing samples from the Yanxi deposit.

27 REFERENCES

Gow, N.N., 2008, Technical Report on the Yanxi Copper Project, Xinjiang Uygur Autonomous Region, People's Republic of China. Independent Technical Report for GobiMin Inc

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Han, C., et al., 2003, Geologic Characteristics of the Tuwu Copper Deposit, Hami, Xinjiang. In Mao, J., et al., Tectonic Evolution and Metallogeny of the Chinese Altay and Tianshan: International Symposium of the IGCP-473 Project, IAGOD Guidebook Series 10, Urumqi, Xinjiang, China, published by Natural History Museum, London.

Jiang, S., 2007, Yanxi Copper Deposit Processing Test Report, Hami, Xinjiang. Report to Xinjiang Tongxing Mining Co., Ltd., by Xinjiang Mineral Experimental Institute.

Kirkham, R.V., and Dunne, K.P.E., 2000, World Distribution of Porphyry, Porphyry-associated Skarn, and Bulk-tonnage Epithermal Deposits and Occurrences. Natural Resources Canada, OFR 3792a, b.

28 DATE AND SIGNATURE PAGE

This report titled “Technical Report on the Yanxi Copper Project, Xinjiang Uygur Autonomous Region, People’s Republic of China” and dated December 29, 2011, was prepared and signed by the following author:

Dated at Toronto, Ontario
December 29, 2011

A handwritten signature in black ink, appearing to read 'Neil N. Gow', is positioned above the printed name.

Neil N. Gow P.Geo.
Associate Consulting Geologist

29 CERTIFICATE OF QUALIFIED PERSON**NEIL N. GOW**

I, Neil N. Gow, P.Geo., Competent Person, as an author of this report entitled "Technical Report on the Yanxi Copper Project, Xinjiang Uygur Autonomous Region, People's Republic of China" prepared for China Daye Non-Ferrous Metals Mining Limited and dated December 29, 2011, do hereby certify that:

1. I am an Associate Consulting Geologist with Roscoe Postle Associates Inc. of Suite 501, 55 University Ave Toronto, ON, M5J 2H7.
2. I am a graduate of the University of New England, Armidale, NSW, Australia in 1966 with a B.Sc. (Hons.).
3. I am registered as a Professional Geologist in the Province of Ontario (Reg.#433), Association of Professional Geoscientists of Ontario. I have worked as a geologist for a total of more than 40 years since my graduation, predominantly on non-ferrous metals. My relevant experience for the purpose of the Technical Report is:
 - Assessment of the El Pachon porphyry copper deposit, Argentina
 - Assessment and valuation of the Bajo Alumbra deposit, Argentina.
 - Assessment of porphyry copper deposits in the Philippines.
4. I have read the definition of "qualified person" set out in National Instrument 43-101 (NI 43-101) and of Competent Person as set out in the Stock Exchange of Hong Kong Limited Listing Rules 18.21 certify that by reason of my education, affiliation with a professional association (as defined in NI 43-101) and past relevant work experience, I fulfill the requirements to be a "qualified person" for the purposes of NI 43-101.
5. I visited the Yanxi Copper Property on August 1, 2008.
6. I am responsible for overall preparation of the Technical Report.
7. I am independent of the Issuer applying the test set out in Section 1.5 of NI 43-101 and the Stock Exchange of Hong Kong Limited Listing Rule 18.22.
8. I have prepared a previous independent technical report on the Yanxi Copper Property for a previous property owner.
9. I have read NI 43-101, and the Technical Report has been prepared in compliance with NI 43-101 and Form 43-101F1.
10. To the best of my knowledge, information, and belief, the Technical Report contains all scientific and technical information that is required to be disclosed to make the technical report not misleading.

Dated 29th day of December, 2011



Neil N. Gow, P.Geo.

The following is the text of a report prepared for inclusion in this circular, received from Jones Lang LaSalle Sallmanns Limited, an independent valuer, in connection with its valuation of the fair market value of mining assets of the Target Group as at 1 October 2011.



**JONES LANG
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29 December 2011

The Directors
China Daye Non-Ferrous Metals Mining Limited
Unit 2001, 20/F, Worldwide House,
19 Des Voeux Road Central,
Hong Kong

**INDEPENDENT VALUATION OF THE FAIR MARKET VALUE OF THE HUBEI
POLYMETALLIC MINES OF DAYE NONFERROUS METALS CO., LTD.**

SUMMARY

In accordance with your instructions, Jones Lang LaSalle Sallmanns Limited (“JLLS”) has prepared an independent opinion on 95.35% of the Fair Market Value as at 1 October 2011 (the “Valuation Date”) of four polymetallic metal mining and ore processing operations (the “Mineral Assets”) located in Hubei Province, China. China Daye Non-Ferrous Metals Mining Limited (“DAYE”/“the Company”) has entered into an agreement to acquire a 95.35% indirect interest in Daye Nonferrous Metals Co., Ltd. (“Daye Metal”), which holds 100% interest in the relevant Mineral Assets.

The Hubei polymetallic mineral assets consist of large scale and integrated copper (Cu), iron (Fe), molybdenum (Mo), gold (Au) and silver (Ag) mining and mineral processing operations. These operations are located in the vicinity of Huangshi City, Hubei Province. Feasibility Studies and Development and Utilisation Plans have been prepared by the Daye Nonferrous Design Institute Co. Ltd, a qualified Chinese institute.

In this report, “Mineral Assets” are defined according to the VALMIN Code as: “all property including but not limited to real property, intellectual property, mining and exploration tenements held or acquired in connection with the exploration of, the development of, and production from those tenements together with all plant, equipment, and infrastructure owned or acquired for the development, extraction, and processing of minerals in connection with those tenements.” The mineral assets relevant to the Hubei polymetallic tenements considered in this valuation are the four long established mining and mineral processing operations listed below:

- **Tonglvshan;** a virtually completed open cut mine and an operating underground mine and concentrator producing concentrates containing payable quantities of copper, iron, gold and silver. Mining commenced in 1971. The underground operation now produces 1.15M annual tonnes of ore. DAYE plans to lift the mining rate to 1.75M annual tonnes by 2014. Probable reserves as at September 2011 support an eight year mine life to 2019 and present inferred resources have potential to provide several further years of production.
- **Fengshan;** a completed open cut mine that commenced in 1972 and an operating underground mine and concentrator producing concentrates containing payable quantities of copper, gold, silver and molybdenum. The underground mine produces 0.76M annual tonnes of ore. Probable reserves plus indicated resources as at September 2011 indicate a ten year life and the present inferred resources have potential to materially extend the term of underground mining.
- **Tongshankou;** an operating open cut mine and concentrator producing concentrates containing payable quantities of copper and molybdenum. Open cut mining commenced in 1984 and is projected to continue into 2021 at approximately 1M annual tonnes of ore. An underground mine to produce copper, gold, silver and molybdenum ore is in development with initial production planned for 2014. Production is expected to ramp up to 1.15M annual tonnes of ore and the 2011 probable reserves suffice for some five years of underground mining. The current indicated resources are expected to provide an additional seven years or more and present inferred resources have potential to materially extend the mine life beyond 2027.
- **Chimashan;** an operating underground mine and concentrator producing concentrates containing payable quantities of copper and molybdenum. The mine commenced in 1958 and has now largely exhausted its reserves. Indicated resources appear sufficient for two to three years of production at around 70,000 annual tonnes of ore. Inferred resources and partly tested exploration potential may add to mine life.

Metalliferous concentrates from each of the mining operations are shipped to the Company's smelting and refining complex located in Huangshi City. The Huangshi smelting and refining operations are not included in this valuation. As over 85% of the smelter's feed is in the form of concentrates bought in from overseas, it is not considered a mineral asset in the context of this report.

This report has been prepared in accordance with Chapter 18 of the Listing Rules of the HKEx and the guidelines set out in the Code for the Technical Assessment and Valuation of Mineral and Petroleum Assets and Securities for Independent Expert Reports 2005 Edition (the "VALMIN Code"), prepared by the VALMIN Committee, a joint committee of the Australasian Institute of Mining and Metallurgy, the Australian Institute of Geoscientists and the Mineral Industry Consultants Association with the participation of the Australian Securities and Investment Commission, the Australian Stock Exchange Limited, the Minerals Council of Australia, the Petroleum Exploration Society of Australia, the Securities Association of Australia and representatives from the Australian finance sector.

This valuation has been carried out on a Fair Market Value basis. Fair Market Value is defined as "the amount of money (or the cash equivalent of some other consideration) determined by the Expert in accordance with the provisions of the VALMIN Code for which the Mineral or Petroleum Asset or Security should change hands on the Valuation Date in an open and unrestricted market between a willing buyer and a willing seller in an "arm's length" transaction, with each party acting knowledgeably, prudently and without compulsion".

The valuation contains calculations and forecasts based substantially on data contained in the Independent Technical Review and Competent Person's Report "Hubei Polymetallic Projects, China" (the "ITR") dated 29 December 2011, prepared by Minarco-MineConsult ("MMC") of Hong Kong, as well as those provided directly by the Company.

The conclusion of value is based on accepted valuation procedures and practices that rely substantially on the use of numerous assumptions and consideration of various factors that are relevant to the operation of the Company. Considerations of various risks and uncertainties that have potential impact on the businesses have also been made.

Given that DAYE advises that it plans to publish this valuation report in conjunction with the ITR, this valuation report makes direct and frequent reference to the ITR as the source of the detailed information on which this valuation is based.

Based on the results of our investigations and analyses outlined in the report which follows, and considering uncertainties in the inputs as discussed in this report and as reflected in the Sensitivity Analysis in Section 6 of this report, we are of the opinion that on a 100% equity basis, the Fair Market Values of the mining assets of Daye Metal comprised by the four mining projects in Hubei Province as at 1 October 2011 (the “Valuation Date”) are as follows:

Valuation Date	Mineral Asset	Valuation – 100% equity (RMB’000,000)	
		Range	Preferred Value
1 October 2011	TONGLVSHAN	1,800 to 2,200	2,000
1 October 2011	FENGSHAN	300 to 480	400
1 October 2011	TONGSHANKOU	340 to 650	550
1 October 2011	CHIMASHAN	16 to 22	20
	TOTAL	N.A.	2,970

In our opinion, the Preferred Value on a 95.35% equity basis for the four Hubei polymetallic mineral assets (in total) is RMB2,800 million as at the Valuation date of (1 October 2011.)

The Tonglvshan mine comprises some 68% of the value of the Hubei polymetallic mine portfolio. It is also the site of proposed major capital expenditures that are predicated upon its extensive mineral resource inventory. In the interests of materiality and transparency, an alternative but informal valuation of 3,000M RMB (100% equity basis) for the Tonglvshan mine is also presented.

The following pages outline the factors considered, the methodology and the assumptions employed in formulating our opinions and conclusions. Any opinions are subject to the assumptions and limiting conditions contained therein.

1. INTRODUCTION

China DAYE Non-Ferrous Metals Mining Limited (“DAYE”/“the Company”) entered into an acquisition agreement to acquire a 95.35% indirect interest in Daye Nonferrous Metals Co., Ltd. (“Daye Metal”), which in turn holds 100% interest in four polymetallic metal mining and ore processing operations (“Mineral Assets”) located in Hubei Province, China.

The Hubei polymetallic Mineral Assets that are the subject of this valuation are comprised by the four long established mining and mineral processing operations listed below:

- **Tonglvshan;** a virtually completed open cut mine and an operating underground mine and concentrator producing concentrates containing payable quantities of copper, iron, gold and silver. Mining commenced in 1971. The underground operation now produces 1.15M annual tonnes of ore. DAYE plans to lift the mining rate to 1.75M annual tonnes by 2014. Probable reserves as at September 2011 support an eight year mine life to 2019 and the present inferred resources have potential to provide several further years of production.
- **Fengshan;** a completed open cut mine that commenced in 1972 and an operating underground mine and concentrator producing concentrates containing payable quantities of copper, gold, silver and molybdenum. The underground mine produces 0.76M annual tonnes of ore. Probable reserves plus indicated resources as at September 2011 indicate a ten year life and the present inferred resources have potential to materially extend the term of underground mining.
- **Tongshankou;** an operating open cut mine and concentrator producing concentrates containing payable quantities of copper and molybdenum. Open cut mining commenced in 1984 and is projected to continue into 2021 at approximately 1M annual tonnes of ore. An underground mine to produce copper, gold, silver and molybdenum ore is in development with initial production planned for 2014. Production is expected to ramp up to 1.15M annual tonnes of ore and the 2011 probable reserves suffice for some five years of underground mining. The current indicated resources are expected to provide an additional seven years or more and p inferred resources have potential to materially extend the mine life beyond 2027.
- **Chimashan;** an operating underground mine and concentrator producing concentrates containing payable quantities of copper and molybdenum. The mine commenced in 1958 and has now largely exhausted its reserves. Indicated resources appear sufficient for two to three years of production at around 70,000 annual tonnes of ore. Inferred resources and partly tested exploration potential may add to mine life.

Metalliferous concentrates from each of the mining operations are shipped to the Company's smelting and refining complex located in Huangshi City, Hubei. The Huangshi smelting and refining operations are not included in this valuation. As over 85% of the smelter's feed is in the form of concentrates bought in from overseas, it is not considered a mineral asset in the context of this report.

The operations and current production capacities of the Mineral Assets considered in this valuation are summarised in Table 1.

TABLE 1 – SUMMARY OF DAYE HUBEI POLYMETALLIC MINING & PROCESSING OPERATIONS

Mining Project	TONGLVSHAN	FENGSHAN	TONGSHANKOU	CHIMASHAN
			Open Pit + Underground	
Mining Operation	Underground Present: 1.150M from 2015:	Underground	(in development) Open Pit: 1.0M U'ground:	Underground
Ore Mined & Processed (tpa)	1.750M	0.760M	1.150M	0.07M
Metal Production (ave.):				
Copper (tpa)	12,000	4,600	7,500	500
Iron in concentrate (tpa)	180,000	–	–	–
Molybdenum (tpa)	–	90	60	8
Gold (oz pa)	20,000	4,250	–	500
Silver (oz pa)	175,000	145,000	–	16,000
Mining commenced (Year)	1971	1972	1984	1958

NOTE: tpa = tonnes per annum, oz pa = ounces (troy) per annum, M = million

DAYE has requested that Jones Lang LaSalle Sallmanns Limited (“JLLS”) prepare an independent opinion on the Fair Market Value of the Mineral Assets as at 1 October, 2011 (the “Valuation Date”).

In accordance with the requirements of Chapter 18 of the Listing Rules of the HKEx, Runge Asia Limited trading as Minarco Mineconsult (“MMC”) of Hong Kong, has carried out a technical due diligence review of the mineral assets and prepared an Independent Technical Review and Competent Person's Report “Hubei Polymetallic Projects, China” dated 29 December, 2011 (the “ITR”). The valuation utilises calculations and forecasts that are based on data contained in the ITR.

We have conducted our valuation in accordance with Chapter 18 of the Listing Rules of the HKEx, and with the Code for the Technical Assessment and Valuation of Mineral and Petroleum Assets and Securities for Independent Expert Reports 2005 Edition (the “VALMIN Code”), prepared by the VALMIN Committee, a joint committee of the Australasian Institute of Mining and Metallurgy, the Australian Institute of Geoscientists and the Mineral Industry Consultants Association with the participation of the Australian Securities and Investment Commission, the Australian Stock Exchange Limited, the Minerals Council of Australia, the Petroleum Exploration Society of Australia, the Securities Association of Australia and representatives from the Australian finance sector, and with the requirements of Chapter 18 of the Listing Rules of the HKEx.

In order to form an opinion on the Fair Market Value of the Mineral Assets, it is essential to make assumptions of certain future events, e.g. economic and market factors. JLLS and its associates have taken all reasonable care in examining those assumptions made by the Company (as represented in the ITR), to ensure that they are appropriate to the case. These assumptions are based on the Company and their experts’ technical knowledge and experience in the mining industry.

The valuation procedures employed include the review of physical and economic conditions of the Mineral Assets, and an assessment of the key assumptions, estimates, and representations made by the proprietor or the operator of the Mineral Assets. All matters essential to the proper understanding of the valuation will be disclosed in the valuation report.

The currency employed in this valuation report is the Ren Min Bi (“RMB”), unless otherwise stated.

2. INDUSTRY OVERVIEW

2.1. Location

The People’s Republic of China (“PRC” or “China”) is located in the eastern portion of Asia, and as of 2010 is the world’s second largest economy by both notional GDP (USD 5.88 trillion) and PPP-adjusted GDP (USD 10.08 trillion). China’s economic output represents roughly 10% of the global economy by GDP. Having grown at an average rate of 10% per annum over the past 30 years, the PRC’s economy has grown more quickly and for a more sustained period of time than any other nations’ in recorded history. It is also the world’s largest exporter and its second largest importer, both by value. The currency is the Ren Min Bi, which as at the Valuation Date was in a managed float relative to the US Dollar, with an exchange rate of 6.45 to 1.

Hubei Province (“Hubei”) is a province located in the eastern-central area of China, and is the 9th largest by population (57,200,000 as of 2010) and 14th largest by area (185,900 km; see Figure 1). The province is well-known for its agricultural commodities sector, whose primary products are cotton, rice, wheat, and tea. Natural resources constitute another important sector of Hubei’s economy, with the area containing both base (e.g. copper, iron) and precious metals (e.g. gold), as well as industrial minerals (e.g. phosphorous, rock salt). The industrial sector comprises automobile manufacturing, heavy machinery, textiles, high-tech commodities, and power generation; the world-famous Three Gorges Dam is located in the western portion of Hubei.

The Mineral Assets – consisting of the Tong Lv Shan, Tong Shan Kou, Feng Shan, and Chi Ma Shan Projects, are located in Hubei, in the vicinity of Huangshi City, located in the southeastern corner of the province.

Figure 1: Hubei Province in Mainland China



Source: Wikipedia

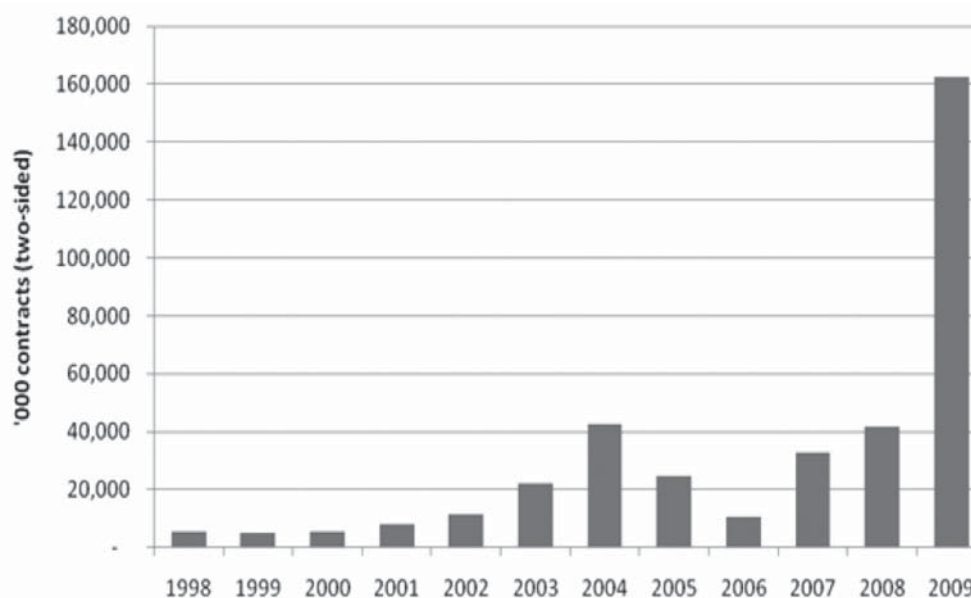
2.2. Domestic Copper Industry

The PRC copper industry is one of the largest in the world, producing 1.25 Mt of copper in 2010; which ranked second globally, behind Chile and ahead of Peru (3rd) and the U.S. (4th). China is expected to maintain its second-place position in 2011, with a year-end forecasted copper production of 1.42 Mt. Copper ore exists abundantly in China, but the distribution is relatively uneven, with the largest/highest grade reserves primarily concentrated in the provinces of Tibet, Yunnan, and Jiangxi. The largest players in the Chinese copper industry are Jiangxi Copper Co., Ltd., Western Mining Co., Ltd., Tongling Nonferrous Metals Group, Ltd., and Yunnan Copper Industry Group, Ltd.; these four companies have a combined market capitalization of over RMB166 billion.

Nearly the entirety of domestically produced copper is used within the country's border: indeed, China is the world's largest copper consumer, with total consumption estimated to be 6.8 Mt in 2010. Compared to production, China annually experiences a copper shortfall of roughly 5 Mt, and is therefore also the world's largest copper importer. As such, China's demand-side pressure has been significant in keeping high copper spot and future prices (see Figure 2).

In order to address this imbalance and reduce dependence on imports, the Chinese copper industry has also recently adopted an aggressive growth strategy based on acquiring mineral projects located in Africa. The Jinchuan Group, a privately held copper mining company, and China Nonferrous Metal Group have both been active in acquiring Zambian copper properties, while other resource sectors such as gold and iron have also seen Chinese acquisitions in South Africa, Nigeria, Sudan, Algeria, and Angola. And despite its political instability, the Democratic Republic of Congo has drawn strong interest from Chinese companies due to its vast, untapped copper reserves.

Figure 2: China SHFE Copper Futures Contracts from 1998-2009

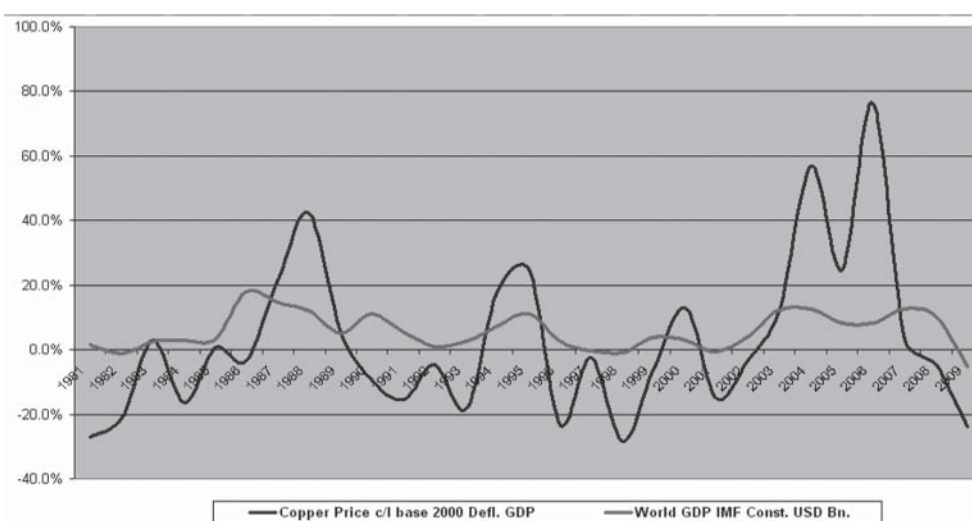


Source: HK Mercantile Exchange

2.3. Global Price and Supply/Demand Trends

Copper prices are considered a positively-correlated concurrent indicator of global economic growth (see Figure 2); this due to the metal's extensive use in the construction (e.g. roofing, piping), technology (e.g. circuits, soldering), and materials engineering sectors (e.g. alloying component), all of which have quick response times to macroeconomic fluctuations.

Figure 3: Historical Copper Price Δ vs. Global GDP Δ



Source: ICSG Copper, 2010

From between 1969 to 2002, copper's real price suffered a continual decline owing to an oversupply of copper mining capacity, which was exacerbated by the nationalization of copper mines in Chile – the world's leading copper producer (See Figure 4).

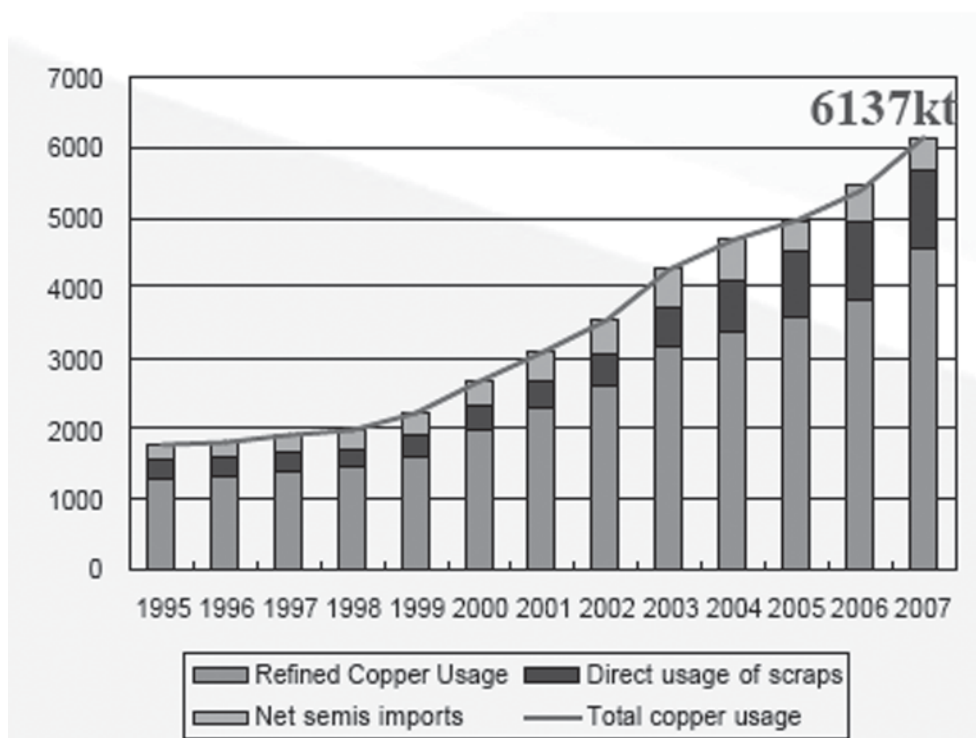
Figure 4: Real Price of Copper (¢/lb.) from 1900 to 2007



Source: ICSG Copper, 2010

Copper demand is projected to continue increasing, with a large driver being China's economic growth, specifically in its construction and electronics sectors; from 1995 to 2007, copper usage has increased over 200% (see Figure 5):

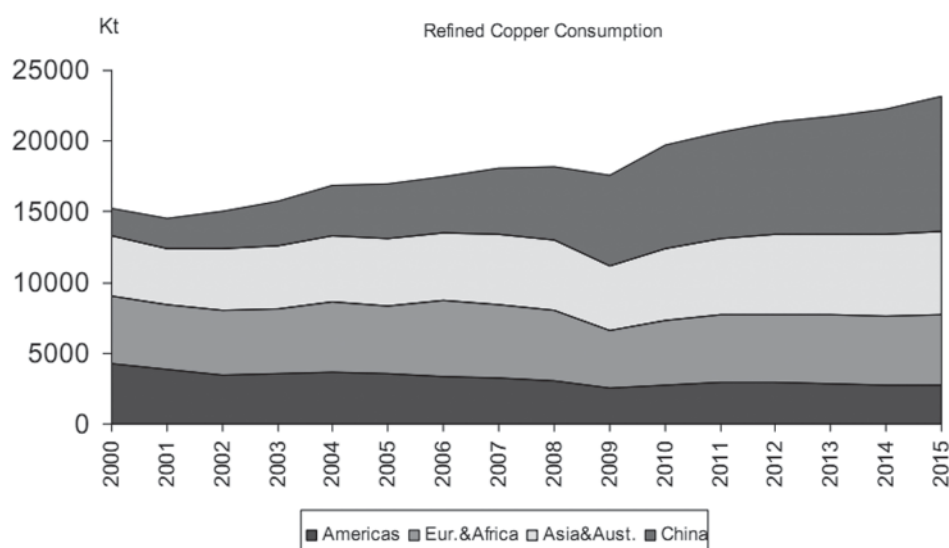
Figure 5: Chinese Refined Copper Consumption, 1995-2007



Source: ICSG, 2008

Additionally, developed economies are also expected to contribute significantly to copper demand because of the increasing prominence of electric and hybrid vehicles and renewable/smart-energy infrastructure; both of which require large quantities of copper to build. Taken together – and assuming the absence of any major economic downturns – with additional investment demand from investors and traders, copper demand is projected to increase over the next several years, as below:

Figure 6: Historical and Projected Global Copper Consumption to 2015



Source: ICSG Copper, 2010

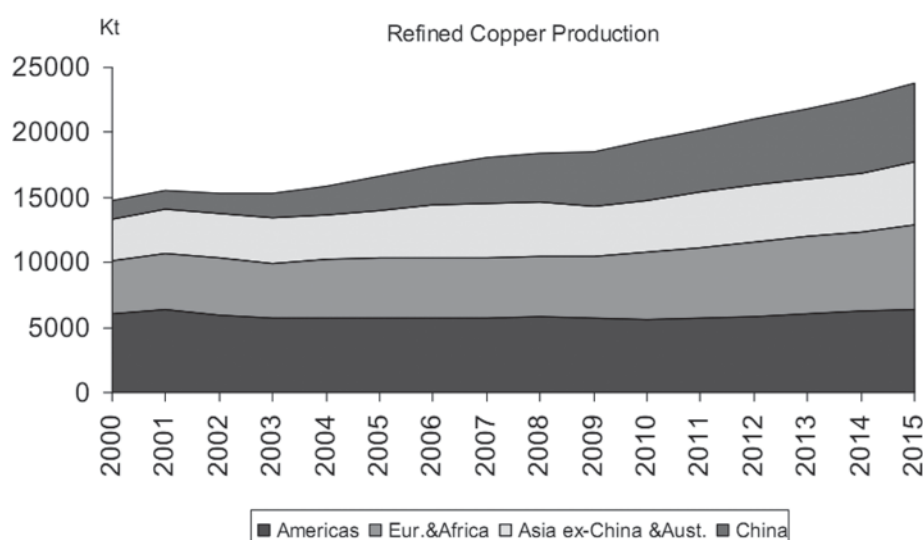
Copper supply is slated to continue increasing steadily in the coming years, despite longer lead times and rising costs. Additionally, industry consolidation – such as Barrick Gold’s acquisition of Equinox Minerals in April of 2011, or the merger of Quadra Mining and FNX Mining in 2010 – leads to greater capital and funding resources for industries, a critical component to offsetting the effects of rising costs. Currently, a sizeable number of green-field projects are forecasted to go online within the next four years (see Table 2):

TABLE 2: NEW COPPER PROJECTS PROJECTED ONLINE DATES AND CAPACITIES BY YEAR

Year	Annual Capacity Added (kt)	Projects
2011	626	16
2012	1,760	22
2013	1,296	17
2014	974	8
2015	480	3

Source: Bloomsbury Minerals, 2010

As a result, copper supplies are expected to grow and ease demand side pressure going into 2015 (see Figure 7):

Figure 7: Historical and Projected Copper Production to 2015

Source: ICSG Copper, 2010

Current consensus forecasts for copper prices all project continued increase in copper prices from its current USD 3.50-4.50/lbs. band; this is primarily the result of a high copper demand squeezing current mining capacity. But due to the number of projects that are currently ramping up, it is expected that the new online capacity will result in a supply wall, dropping copper into the USD 2.50-3.50/lbs. band in the medium term and to < USD 2.50 in the long term. Furthermore, because copper demand demonstrates a high sensitivity to global macroeconomic conditions, it is highly possible that future market shocks and growth slowdowns will materially affect copper price.

3. MINERAL RESOURCES AND ORE RESERVES

MMC has independently estimated the mineral resources relating to each of the mines that comprise the Mineral Assets, based on the data collected by the appropriate local Chinese Bureau as at 30 September 2011. MMC reports that the Mineral Resource estimate and underlying data complies with the recommendations in the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves 2004 Edition (“JORC Code”) and that it is suitable for public reporting and meets the reporting standards of Chapter 18 of the HKEx listing rules.

A detailed statement of the Mineral Resources is presented in Tables 5-1 and 5-2 of the ITR. The mineral resources of the four mines are summarised in Table 3 which shows the total mineral resources (sum of JORC Classes) for each mine.

For Tongshankou and Chimashan mines, MMC separately reported mineral resources inside and outside of the current mining licence. MMC reports that it has been advised that the Company is in the process of applying for a depth extension to its existing licences and based on MMC’s experience, approvals for these extensions are expected to be a formality. The mine totals in Table 3 include the mineral resources reported by MMC as lying outside the current mining licences.

TABLE 3 – SUMMARY OF DAYE HUBEI POLYMETALLIC MINERAL RESOURCES, SEPTEMBER 2011

Project	Location	JORC Class	Mineral Resource Tonnes	Copper %	Total Iron %	Molybdenum %
TONGLVSHAN	Underground	Indicated	16,370,000	1.16	27.21	
		Inferred	15,050,000	1.08	29.47	
		Total	31,420,000	1.12	28.30	
FENGSHAN	Underground	Indicated	12,720,000	0.82		0.005
		Inferred	14,500,000	0.73		0.008
		Total	27,220,000	0.77		0.007
TONGSHANKOU	Open Pit +	Indicated	38,090,000	0.63		0.009
	Underground	Inferred	23,230,000	0.55		0.020
		Total	61,320,000	0.60		0.013
CHIMASHAN	Underground	Indicated	300,000	0.58		0.001
		Inferred	200,000	0.84		0.02
		Total	500,000	0.68		0.008

NOTE: (a) Source including Cut Off Grades: ITR Table 5-1

(b) Tonglvshan resources include gold & silver resources stated separately in ITR Table 5-2.

Ore Reserves for the four mining operations were subsequently independently estimated by MMC based on the Mineral Resource estimates, relevant mine planning studies and reviews of the current site operations, and presented in Tables 6-1 to 6-4 of the ITR. MMC report that the Ore Reserve estimates comply with the recommendations outlined in the JORC Code and therefore, are suitable for public reporting and meet the reporting standards of Chapter 18 of the HKEx listing rules.

The Ore Reserve estimates prepared by MMC are summarised in Table 4.

TABLE 4 – SUMMARY OF DAYE HUBEI POLYMETALLIC ORE RESERVES, SEPTEMBER 2011

Project	JORC Class	Ore Reserve tonnes	Copper %	Total Iron %	Gold g/t	Silver g/t	Molybdenum %
TONGLVSHAN	Probable (Total UG)	12,750,000	1.11	25.72	0.46	3.86	
FENGSHAN	Probable (Total UG)	4,560,000	1.01				0.004%
TONGSHANKOU	Probable (Total OP)	10,340,000	0.63				0.010%
	Probable (Total UG)	6,200,000	0.87				0.006%
CHIMASHAN	Probable (Total UG)	35,000	0.77				

NOTE: (a) Source including Cut Off Grades: ITR Tables 6-1, 6-2, 6-3 and 6-4

It should be noted that the JORC Code specifies that a Mineral Resources inventory is inclusive of Ore Reserves i.e. ore reserves are a subset of mineral resources and they are not additive to the Mineral Resource inventory.

Inspection of Tables 3 and 4 shows that over the four mines as at May 2011, total ore reserve tonnes including allowances for mining losses and dilution, equate to approximately 30% of the total mineral resource tonnes. Provided that further drilling, sampling and metallurgical testing is carried out, as is usual practice in the mining industry, it is reasonable to expect that a material proportion of the remaining resource tonnage will over time be upgraded to ore reserves. From time to time, drilling may discover and add new mineralisation to the otherwise depleting resource inventory.

4. VALUATION METHODOLOGY**4.1. Hong Kong Stock Exchange Chapter 18 Compliance**

The value of the Hubei polymetallic mineral assets is determined in accordance with Chapter 18 of the Hong Kong Stock Exchange Listing Regulations (“Chapter 18”); specifically, Rule 18.30(3) states that:

“Indicated Resources and Measured Resources are only included in economic analyses if the basis on which they are considered economically extractable is explained and they are appropriately discounted for the probabilities of their conversion to mineral Reserves. All assumptions must be clearly disclosed. Valuations for Inferred Resources are not permitted”.

4.2. Selection of Valuation Methodology

We have selected the Net Present Value of Future Cash Flows as the most appropriate method for valuing the Hubei polymetallic mining operations of Daye Metal; these operations are valued as their own on-going business concerns, thereby representing the value of the Four Mines themselves.

These are currently operating, well established mines that have been in continuous operation for periods of 30 to 50 years (see Table 1). Established and ongoing mining operations having long term mineral inventories are particularly suited to valuation on an income basis using discounted cash flow methodology.

The Discounted Cash Flow (“DCF”) valuation method is based on the premise that the value of a business is the net present value of its future cash flows. In the mining industry, this approach requires assessment of:

- mineral resources, ore reserves and potential resources,
- the appropriate mining and processing methods to exploit and market those reserves, and
- an analysis of future production, production costs, market prices, cash flows, capital requirements and capital costs for the life of the potential reserves.

The DCF technique is particularly appropriate for mineral properties having defined resources. In the minerals industry it is the usual approach to the valuation of operating mines and of mineral properties having defined mineral resources.

Other methods of valuation that may be applied to mineral properties but which are not preferred in this instance, are:

Comparable Transactions

Requires the valuer look to transactions recently completed on an arm’s length basis where the subject business is sufficiently similar to that being valued. It is however, often difficult to find comparable assets and to obtain full details of such transactions as all relevant information may not be in the public domain. We are not aware of any suitable comparable transactions.

Orderly Realisation of Assets

The value achievable in an orderly realisation of assets is based on an assessment of the net realisable value of a business or asset, assuming its orderly realisation. This method is not appropriate in valuing operating assets such as the current DAYE mines that are reasonably expected to have operating lives extending over five to fifteen years and possibly more.

In carrying out this valuation, because the mines differ significantly in operating parameters, we have employed the DCF method to value each of the mines as a separate stand-alone operation. The valuation of each mineral asset is reported in Table 9.

5. ASSUMPTIONS**5.1. General**

We have assumed that management and technical personnel with appropriate and adequate qualifications and experience are in place and are operating diligently and effectively, now and in the future.

We assume that all present and proposed operations and associated facilities comprising the mineral assets will operate at the productivity levels set out in the current management plans (subject to modifications discussed in the ITR) and that health and safety, and environmental protection standards that are now usual in the mining industry will be observed.

We have assumed all the information provided by DAYE and Daye Metal, which is disclosed in the ITR as set out in Appendix V of the circular issued by DAYE, to be reliable and legitimate. In arriving at our opinion of value, we have relied to a considerable extent on such information and on the comments and opinions thereon that have been expressed by MMC in the ITR.

We have assumed that there will be no material change in the existing political, legal, technological, fiscal or economic conditions which may adversely affect the business of the mineral assets.

We assume that all operational and contractual terms bound by the contracts and agreements entered into by the boards and management of the mineral assets will be honored.

5.2. Sources of mineable material

The principal assets of the DAYE Hubei polymetallic mines are their respective and entire mineral resource and ore reserve inventories. The critical assessment of these inventories and their availability to support mine management's five year production forecasts and extended production scenarios (as disclosed in the ITR), underpins this valuation.

The mineral resources and ore reserves at 30 September 2011, as estimated and reported by MMC in the ITR dated 29 December 2011, are set out in Tables 2 and 3, above.

Mine valuations using DCF models require assumptions in respect of the tonnage and metal content of the ore that is reasonably expected to be mined and processed within a time frame which is a function of the ore reserve tonnages and the projected mining rates. As is usual for the mining industry, ore reserves of the Hubei mines are generally maintained at levels of approximately five to seven years production. As reserves are mined they are progressively replaced as drilling, sampling and mining provide the basis for upgrading indicated and inferred resources to reserve status. This is an integral part of the mining business and a fair market valuation considers the potential value reasonably resulting from that process.

We have estimated the likely years of operation at the production rates set out in the ITR based upon the present Probable Reserves together with estimates of nominally mineable material that under reasonable mining industry assumptions regarding technical and operational parameters are expected to arise from the remaining Indicated Resources. Such estimates are a tool used in the process of deriving income-based valuations in the mining industry. In this valuation, nominally mineable material estimated that is expected to develop from conversion of Indicated Resources is termed “notional ore”. This is an informal term and the notional ore tonnages and grades considered in this report have relevance only to the current valuation.

Bearing in mind that ore reserves are a subset of resources and are estimated taking into account mine plans, mining losses and dilution and other factors the estimation of notional ore is necessarily an approximation requiring elements of professional experience and judgement. We have compared the tonnage of probable ore relative to the tonnage of indicated resources for each mine, as shown in Table 5.

For Tonglvshan, the reserve tonnage is some 77% of the indicated resource tonnage. We consider this value implies that much of the present indicated resource relates to the current ore reserves and there is limited if any potential for further conversions.

However, comparable tonnage percentages for the other mines (Table 5) are rather less and we consider there is a high probability therefore, that additional ore reserves will in time arise from conversion of the current indicated resources of those mines. We note that the Hubei mines are all of similar geology (base metal sulphide mineralisation associated with skarn alteration at the contacts of granitic intrusions and reactive sedimentary host rocks; a comprehensive description of the geology of the projects is presented in the ITR.

Assuming that the Tonglvshan indicated resource-to-probable tonnage conversion ratio of 77% is a likely maximum, we estimate that a 60% tonnage conversion ratio is a reasonable and conservative expectation for the Tongshankou, Fengshan, and Chimashan mines. As set out in Table 5, tonnages of notional ore are estimated on the basis of the difference between the existing probable reserves: indicated resources ratio (as a percentage and 60%. Because the notional ore is sourced from the same indicated resource as the present ore reserves we have applied the reserve grades to the notional ore. Notional ore tonnages and grades have then been rounded down as a conservative measure having regard to the approximations inherent in the estimation processes. The employment of successive conservative approximations is a practical method of discounting for the geological and economic risks in this estimation procedure

Table 5 sets out the Probable Ore: Indicated Resource tonnage ratios (expressed as a percentage) together with the tonnages of “notional ore” estimated as potentially available from the remainder of the existing Indicated Resources.

TABLE 5 –DAYE HUBEI POLYMETALLIC MINES – ESTIMATES OF NOTIONAL ORE (FROM PROBABLE RESOURCES AT 30 SEPTEMBER 2011)

PROJECT	Probable as % of Indicated (tonnes)	Notional as % of Indicated (tonnes)	Notional ore (tonnes)	Copper %	Molybdenum %
TONGLVSHAN	77	nil	nil		
FENGSHAN	36	24	3,000,000	1.0	0.004
TONGSHANKOU					
(underground)	25	35	8,500,000	0.85	0.006
CHIMASHAN	12	48	145,000	0.6	

In the valuation cash flow models, the ore reserves as at 30 September 2011 are assumed to be mined at the forecast mining rates and when fully depleted, mining is assumed to exploit the notional ore derived from indicated resources (as shown in Table 5) until it too is depleted. The resulting mine life estimates are shown in Table 6.

TABLE 6 –DAYE HUBEI POLYMETALLIC MINES – MINE LIFE ESTIMATES AS AT VALUATION DATE, BASED ON FORECASTE PRODUCTION AND PROBABLE RESERVES PLUS NOTIONAL ORE

Project	Total Remaining Mine Life (Years)	Total Reserves + Notional Ore (tonnes)	Forecaste Production (tpa)	Production End Date
Tonglvshan	8	12,750,000	2011-2014: 1,150,000 2015-End: 1,750,000	2019
Fengshan	10	7,600,000	760,000	2021
Tongshankou (Open Pit)	10	10,340,000	1,000,000	2021
Tongshankou (Underground); begins production in 2014	16	14,700,000	1,150,000	2027
Chimashan	3	180,000	70,000	2014

We understand that these mines have operated more or less continuously over periods of 30 to 40 years and currently have relatively robust levels of reserves and resources. This may be interpreted as demonstrating a history of steady delineation of resources that have been progressively upgraded to reserves. Over that time the technical aspects of most facets of the operations will have become increasingly better understood thereby providing a reasonable level of confidence in the ability of the current management and technical teams to reliably forecast production.

MMC state in the ITR:

“All projects have numerous drill holes at depth below the current mining areas which have significant intersections of mineralisation. As a result MMC considers it likely that additional resource will be identified with further exploration drilling either from surface or underground.”

And also:

“All projects have numerous drill holes at depth below the current mining areas which have significant intersections of mineralisation. As a result MMC considers it likely that additional resources will be identified with further exploration drilling either from surface or underground.”

On the basis of their operational history and the opinions of MMC, there are reasonable expectations that provided further exploration is carried out these mines are likely to have operating lives in excess of that indicated in Table 6.

We consider the present ore reserve and the entire mineral resource inventories of the Tonglvshan, Fengshan and Tongshankou mines are potentially capable of supporting mining operations at the projected production rates for periods of up to 15 years.

In the Tonglvshan mine, plans are well advanced to develop the mine to greater depth in order to access the inferred resources. It is probable that the provision of mining access within the next few years will of itself facilitate the upgrading of part of the inferred resources to indicated status. The material potential additional value of inferred resources that will shortly be developed for mining, is not captured in the valuation model.

The five year plan for Tonglvshan proposes capital expenditure amounting to 1,022M RMB in order to deepen the underground mine and expand ore processing capability. This suggests management has confidence that the current inferred resources (approximately 50% of total resources) should provide an acceptable return on this investment through an extension of mine life by approximately six years beyond 2019.

Although the Chimashan mine has reserves and notional ore for only three years operation, the ITR notes that drill indicated mineralisation extends below the present resource limit and there are reasonable prospects for additions to resources and in time, reserves provided that appropriate exploration and drilling programmes are carried out.

5.3. Mining

We have accepted the forecast mine production rates set out in the various relevant tables in Section 7 (MINING) of the ITR. In those instances where MMC have expressed opinions concerning the likelihood of achieving Daye Metal's forecasts of mine production, we have adopted MMC's suggested rates.

5.4. Processing

We have assumed the concentrator (processing plant) production forecasts set out in relevant tables in Section 8 (PROCESSING PLANTS) of the ITR. In instances where MMC have expressed opinions concerning the likelihood of achieving Daye Metal's forecasts of processing plant production, we have adopted MMC's suggested rates. We have used the concentrator recoveries and concentrate grades set out in Section 8 of the ITR.

The processing plants produce the following various metalliferous concentrates:

- copper concentrate containing payable gold and silver
- iron concentrate
- molybdenum concentrate

5.5. Metal prices and revenues

Copper, molybdenum and iron concentrates are transported to and purchased by the adjacent Huangshi Smelter and Refinery that is owned by Daye Metal. The price paid for concentrates is reckoned by concentrate grade, the relevant metal price and a price discount factor that reflects the smelter's costs, metal recovery rates and other charges. Daye Metal has advised the current price discount factors to JLLS and we assume them to remain constant over the duration of the DCF models.

Steady metal prices (no escalation over time) are used for the duration of the cash flow models. The metal prices deemed to apply at Valuation Date, and which were determined in association with JLLS, are shown in Table 7.

TABLE 7 – METAL PRICES

METAL	RMB/tonne
Copper	50,000
Molybdenum	207,000
Fe (as concentrate)	830
	RMB/oz
Gold	10,500
Silver	200

5.6. Operating costs

Operating costs used in the DCF models are those presented as Project Forecast Operating Costs set out in Section 10 of the ITR. The costs for each mine originate in the relevant 2010 Feasibility Studies prepared by the Company and are considered by MMC to be reasonable.

MMC notes that the operating costs include: maintenance, depreciation and amortisation, management costs, sales costs, financial costs, production taxes and fees, and other costs applicable to mining and processing.

We have provided for costs associated with the drilling and further exploration of mineral resources in order to upgrade them to ore reserves. We have assumed that these activities are ongoing and that in general they result in upgrading resources to ore reserves at a rate approximately equal to the rate that reserves are depleted by mining. The cost of resource upgrading is related therefore, to the mining rate and an estimated cost per annual tonne of ore mined has been added to the operating costs.

Operating costs are held steady (no escalation) for the duration of the DCF models. In an environment of uncertain inflation and major metal price fluctuations, we consider the use of unescalated current operating costs together with unescalated current metal prices will tend to minimise the influence of these necessarily subjective inputs on the model outcomes.

5.7. Income tax

The present rate of Chinese income tax (25%) is applied to gross operating profit (mine revenues less mining and processing costs).

We have assumed that the “production taxes and fees” referred to in Section 5.6 above, are exclusive of income tax.

5.8. Capital costs

Capital costs used in the DCF models are those presented as Project Forecast Capital Expenditures set out in Section 10 of the ITR. The capital forecasts (five years to 2015) for each mine have been provided by the Company. MMC observe that they were unable to review these forecasts in detail.

We have assumed there will be capital expenditure requirements (sustaining capital) in the operating years beyond 2015 and have allowed continuing annual amounts that are a function of the lowest annual expenditure forecast by the Company in the 2011-2015 period.

We do not consider that working capital is material in modelling these long established on-going operations. As working capital can be expressed as a ratio of the total gross sales revenue, which in this case is dependent on the annual production capacity, there are minimal changes year-to-year owing to the stable production rates and by extension the stable gross sales revenues.

5.9. Other costs

Estimates of rehabilitation costs in the event of mine closures are provided in Tables 10-24 to 10-27 of the ITR. Given that each of the mines other than Chimashan are highly likely to operate beyond their modelled lives, rehabilitation costs have not been included. As there is a lower but still reasonable chance that the Chimashan life may be extended, the rehabilitation cost has likewise been excluded.

5.10. Depreciation & amortisation

As noted in Section 5.6 above, the Operating Costs supplied by Daye Metal include depreciation and amortisation. This non-cash cost has been estimated by JLLS for each operation and has been added back in the cash flow models.

5.11. Discount rate

In selecting the appropriate discount rate to be applied, we have taken into account a number of factors including the risk considered inherent in the operations, our knowledge of discount rates commonly applied in valuing mining projects using the DCF method and considerations of the current cost of finance.

We have selected a discount rate of 10% for the Tonglvshan, Fengshan and Tongshankou projects as in our opinion that is appropriate for the risks involved in these long established mature mining operations. The Chimashan project is a small-capacity and relatively-high cost operation that is assumed to be within five years of closure. As such, it is the lowest-margin of the Mineral Assets and the most sensitive to fluctuations in cash flow streams; therefore, unfavorable variations in mining conditions and/or copper and gold prices could precipitate early closure. To compensate for the high level of operational risk inherent in Chimashan, an additional 2% has been added to its discount rate, bringing it to 12% .

6. SENSITIVITY ANALYSES

For each mineral asset, we have examined the sensitivity of the Net Present Value (at constant discount rate) in relation to changes to some of the significant cash flow model parameters, such as metal prices, mining and processing costs, and capital expenditure. In the mining industry, these parameters are among those most commonly examined in the analysis of DCF models.

We have also examined the effect on Net Present Values of changes in the discount rate.

Each of the scenarios presented in Tables 8A, 8B, 8C and 8D represents a case where one parameter is changed while the other parameters are held constant.

TABLE 8A – TONGLVSHAN PROJECT SENSITIVITIES

Parameter	Variation in Parameter	Resulting NPV (RMB'000,000)	NPV @ 10% (RMB'000,000)	Resulting NPV (RMB'000,000)
Copper price	-10%/10%	1,870	2,090	2,320
Iron price	-10%/10%	1,990	2,090	2,190
Gold price	5%/15%	2,080	2,090	2,120
Total Operating Cost	5%/10%	2,020	2,090	1,960
Capital Cost	5%/10%	2,050	2,090	2,010
		Discount Rate 12.5%	Discount Rate 10.0%	Discount Rate 15.0%
NPV (RMB'000,000)		1,880	2,090	1,690

TABLE 8B – FENGSHAN PROJECT SENSITIVITIES

Parameter	Variation in Parameter	Resulting NPV (RMB'000,000)	NPV @ 10% (RMB'000,000)	Resulting NPV (RMB'000,000)
Copper price	-10%/10%	330	420	510
Gold price	5%/15%	410	420	450
Total Operating Cost	5%/10%	390	420	360
Capital Cost	5%/10%	410	420	390
		Discount Rate 12.5%	Discount Rate 10.0%	Discount Rate 15.0%
NPV (RMB'000,000)		380	420	340

TABLE 8C – TONGSHANKOU PROJECT SENSITIVITIES

Parameter	Variation in Parameter	Resulting NPV (RMB'000,000)	NPV @ 10% (RMB'000,000)	Resulting NPV (RMB'000,000)
Copper price	-10%/10%	340	550	760
Molybdenum price	10%/10%	540	550	560
Total Operating Cost	5%/10%	500	550	440
Capital Cost	+5%/+10%	520	550	490
		Discount Rate 12.5%	Discount Rate 10.0%	Discount Rate 15.0%
NPV (RMB'000,000)		420	550	320

TABLE 8D – CHIMASHAN PROJECT SENSITIVITIES

Parameter	Variation in Parameter	Resulting NPV (RMB'000,000)	NPV @ 12% (RMB'000,000)	Resulting NPV (RMB'000,000)
Copper Price	-10%/10%	17	21	24
Gold Price	5%/15%	20	21	22
Total Operating Cost	5%/10%	20	21	19
Capital Cost	+5%/+10%	20	21	19
		Discount Rate 10.0%	Discount Rate 12.0%	Discount Rate 15.0%
NPV (RMB'000,000)		21	21	20

Mining cash flow models are in general particularly sensitive to metal prices and grades. This effect is magnified in the case of the recent marked volatility of copper and gold prices. Prices at Valuation Date were approximately 10% less than the recent highs that were considerably above historical average trends.

Tables 8 et al show that a 10% decrease in copper price decreases NPV more markedly than a 10% increase in either operating or capital costs.

We note that simultaneous increases/decreases in copper and gold prices will serve to magnify the changes in NPV indicated in Tables 8 et al.

The Tonglvshan mine is the only iron producing operation of the Hubei group. Iron prices are observed to be much less volatile. However, should iron and copper prices fall in unison, the value of that mine would be materially and adversely affected.

Molybdenum is the lowest revenue producing metal in the other three mines and consequently price variations do not have material impacts, as demonstrated by the Tongshankou Project sensitivities (Table 8C).

Overall, our sensitivity analysis demonstrates that the DAYE Hubei polymetallic mining operations are highly sensitive to variations in metal prices, especially copper but less so for similar percentage changes in operating costs and capital expenditures.

7. RISK FACTORS

7.1. Resources and reserves

The projected production schedules used in this valuation assumes the progressive proving up of inferred mineral resources to mineable ore reserves. There is a risk that some of the existing inferred resources may not convert to reserves and that additional resources may not be found.

The grades of inferred resources, the resource category with the lowest confidence level, are approximate and these resources may not carry as much metal as presently estimated.

In the event that any of these scenarios should arise, the value of the project may be diminished.

7.2. Future metal prices and the global economy

Forecast revenues depend greatly upon future metal prices; the DAYE Hubei polymetallic mines are particularly sensitive to copper prices. The Tonglvshan mineral asset is also sensitive to iron prices. The DCF modelling shows how the value of each mineral asset is highly sensitive to metal price fluctuation, both positively and negatively. A major and prolonged fall in copper prices, particularly when coupled with falling gold and iron prices, would substantially reduce the value of all the assets and could in the worst case render uneconomic one or more of the projects.

7.3. Approvals for access to mineral resources and for higher production levels

Continuity of the Tongshankou and Chimashan mining operations is dependent on access for the underground mining of indicated and inferred mineral resources that lie outside the current limits of the relevant mining licences. Governmental approvals must be sought and granted prior to mining these resources. Delays in approvals could result in significantly reduced production levels, if not temporary stoppages. Through discussions with MMC, we understand that for operating mines, such governmental approvals are generally not withheld. The major risk would appear to be with the timing of approvals and the possible adverse effect on production should there be substantive delays.

We note that Tonglvshan is licensed to produce 1,320,000 tonnes per annum (“tpa”) of ore and underground production is planned to rise to 1,750,000 tpa 2014. Although there appears a reasonable probability that projected production levels will receive the appropriate approvals, failure to obtain such approvals by 2013 will significantly reduce the forecast production rates.

It is noted in the ITR that the Tongshankou open pit mine has reserves sufficient for a further seven years production at the planned mining rate of 1,500,000 tpa. This is significantly greater than its licensed production capacity of 990,000 tpa. The ITR notes that ore reserves are estimated on the basis of a production rate of approximately 1M tpa for an 11 year life. MMC estimated 2011 production in 2011 to be between 1.16 and 1.22Mt. We are not aware of the status of any application for an increase in licensed capacity and our model assumes continued open pit production at 1M tpa.

Delays in approvals either of mining licence extensions or of production rate increases such that production rates do in fact occur, would reduce the values of these mineral assets.

7.4. Commissioning of new underground mining facilities

The Company plans to further develop the Tonglvshan mine with internal shafts, haulage levels, ventilation and pumping works. The development of deeper levels from existing shafts and declines is planned at Fengshan. Construction has commenced on a substantial underground mine at Tongshankou. At Chimashan internal shaft sinking and level development is required to meet the planned production levels.

Any delay or failure to commission underground facilities as planned will impact negatively on the value of the relevant asset.

7.5. Open Pit operation

The only operating open pit is that at Tongshankou which has a projected life reckoned variously at between seven and eleven and a half years. MMC notes that pit design is based on geotechnical modelling and in the absence of comment to the contrary, we assume that slope stability is not considered a latent issue. As the pit is deepened, there is some increased risk of pit wall failures that could result in lost production and increased costs to the operation.

7.6. Processing plant expansions

In order to achieve the scheduled levels of production at the Tongshankou mine, the Company has advised there is a plan to expand the processing plant to an ore treatment rate of 6,000 tpd (approximately 2.150 M tpa). No proposal or feasibility study was reviewed by MMC. We have assumed this expansion attains full production during 2014. MMC remark that under favourable circumstances this plant could treat up to 2.650 tpa and thus avoid any requirement to stockpile sulphide ore. We have assumed the higher processing rate will be achieved but should this not occur, the value of the Tongshankou asset would be diminished.

7.7. Processing plant recoveries

In preparing the projected production schedules, we have used the Company's assumptions concerning rates of metal recovery in the various ore processing facilities. For various reasons including through the natural variability of ore mineralogy, it is possible that metal recovery might at times be lower than assumed, resulting in reduced metal production.

7.8. Extended mining life

MMC has commented in the ITR and in discussions with ourselves that they consider there is significant in-mine exploration potential associated with each of the projects. If the current ratios of operating costs to metal prices do not materially alter, we consider it is probable that some or all of these mines may operate beyond their modelled mine life. There is however, a risk this will not come about if the appropriate programmes to drill up resources and to conduct further in-mine exploration are not commenced in the near to medium term.

Furthermore, the extended mining life is highly dependent on achieving a final indicated resource-to-reserve tonnage conversion ratio of at least 60%. Even though that rate is expected to be achieved, given the 77% conversion ratio of Tonglvshan and its similarities to the other three projects, it is possible that resource conversion could fall short of this estimate and so materially affect the Valuation. We have selected 60% as a conservative estimate that reflects the level of risk in ascribing value to the Hubei polymetallic mineral resources.

7.9. Costs increases and overruns

Operating cost estimates employed in our DCF models are those prepared by the Company and tabulated in the ITR. MMC notes that these broad estimates are generally in line with costs for similar operations in China. It is possible, even probable that actual operating costs may eventually increase substantially from the estimates; such increases and any cost overruns in capital budgets would negatively impact the amount of free cash flow and consequentially reduce the value of the relevant asset.

7.10. Environmental issues

As much as the Company takes all necessary measures to minimize its impact on the safety of its employees and on the environment, there are ever present safety risks associated with underground mining as well as environmental risks related to the management of waste and tailings disposal sites. Mine accidents that result in human costs and/or production disruptions, and environmental damages requiring extensive remediation could be expensive and might have long term adverse effects.

7.11. Reliance on key executives

The future success of the Company is dependent, to a large extent, upon the continued service of its key executives and technical personnel. The loss of the services of such personnel without making immediate and adequate replacements could have a material adverse effect on any or all of the operations.

7.12. Realisation of forecast and future plans

This valuation is premised largely upon projected mining and processing plans and financial information provided by the Company to MMC and reported in the ITR. We have assumed the accuracy of the information provided and we have relied to a considerable extent on such information in arriving at our estimate of value.

Differences between projections of the future and the actual results are not unusual and in some cases, such variances may be material. Accordingly, to the extent that any of the above mentioned information should require adjustment, the valuation outcomes could change.

8. OPINION OF FAIR MARKET VALUES

Fair Market Value is defined as “the amount of money (or the cash equivalent of some other consideration) determined by the Expert in accordance with the provisions of the VALMIN Code for which the Mineral or Petroleum Asset or Security should change hands on the Valuation Date in an open and unrestricted market between a willing buyer and a willing seller in an “arm’s length” transaction, with each party acting knowledgeably, prudently and without compulsion”.

We have considered the Net Present Value calculations for each of the four mineral assets comprised by the DAYE Hubei polymetallic mining operations together with their associated sensitivity analyses; we conclude that the Fair Market Values of the 100 percent equity interests in each of these mineral assets are the Preferred Values set out in Table 9.

8.1. Preferred Values of the Hubei Polymetallic Mines**TABLE 9A – MINERAL ASSET VALUATIONS**

Valuation Date	Mineral Asset	Valuation – 100% equity (RMB '000,000)	
		Range	Preferred Value
1 October 2011	TONGLVSHAN	1,800 to 2,200	2,000
1 October 2011	FENGSHAN	300 to 480	440
1 October 2011	TONGSHANKOU	340 to 650	550
1 October 2011	CHIMASHAN	16 to 22	20
	TOTAL	N.A.	2,970

In our opinion, the Preferred Value on a 95.35% equity basis for the four Hubei polymetallic mineral assets (in total) is RMB2,800 million as at the Valuation date (1 October 2011).

Table 9A demonstrates that some 80% of the value of the Hubei polymetallic mine portfolio is represented by the Tonglvshan Mine. This is due largely to its superior copper grades and to substantial contributions from the recovery of its iron, gold and silver content.

8.2. Alternative Valuation of Tonglvshan Mine

We have noted above that the Tonglvshan mine carries most of the value of the portfolio and we have therefore carried out a further valuation that in our opinion reasonably assumes a longer (4 years) mine life with later stage upon production sourced from part of the inferred resource.

Under the HKEx Listing rules this is an informal valuation because inferred ore resources have been considered. For reasons stated in previous sections of this report, it is our opinion that a greater degree of confidence than is customary may be placed in these particular inferred resources.

Having regard to the VALMIN Code requirements in regard to materiality and transparency, we believe it necessary to draw attention to very substantial additional value that attaches to the inferred resources and for which the Company has definite plans for commercial development.

TABLE 9B – INFORMAL VALUATION OF TONGLVSHAN (EXTENDED MINE LIFE)

Valuation Date	Mineral Asset	Valuation – 100% equity (RMB'000,000)	
		Range	Preferred Value
27 September 2011	TONGLVSHAN	2,800 to 3,500	3,000

If it is assumed that the substantial capital expenditure planned for the Tonglvshan mine over the next five years results in successful development such that the mine operates out to 2025, its net present value is 50% greater than the short life model of Scenario 1.

9. CODE COMPLIANCE

This report has been prepared in accordance with Chapter 18 of the Listing Rules of the HKEx, and the guidelines set by the Code for the Technical Assessment and Valuation of Mineral and Petroleum Assets and Securities for Independent Expert Reports 2005 Edition (the “VALMIN Code”), prepared by the VALMIN Committee, a joint committee of the Australasian Institute of Mining and Metallurgy, the Australian Institute of Geoscientists and the Mineral Industry Consultants Association with the participation of the Australian Securities and Investment Commission, the Australian Stock Exchange Limited, the Minerals Council of Australia, the Petroleum Exploration Society of Australia, the Securities Association of Australia and representatives from the Australian finance sector.

The principal source for this valuation is the document entitled “China Daye Non-Ferrous Metals Mining Limited, Hubei Polymetallic Projects, China – Independent Technical Review and Competent Person’s Report” (the “ITR”) by Minarco-Mine Consult (“MMC”) and dated 30 August, 2011.

The authors of this valuation report have not visited the Hubei polymetallic mine sites. It was not possible to schedule site inspections within the time constraints regarding completion of this valuation. However, we recognise that MMC is a substantial mineral industry consulting firm that occupies a high standing in the international mineral industry. The ITR is based upon site visits and reviews of Company supplied data by a number of MMC consultants up to mid 2011. Mr Adamson and Mr Li have had informative discussions with MMC consultants who visited the property and authored the ITR. JLLS is satisfied therefore, that the observations recorded and the opinions expressed by MMC in the ITR are adequate for the purposes of this valuation and may be confidently relied upon for that purpose.

Yours faithfully,

For and on the behalf of

Jones Lang LaSalle Sallmanns Limited

Ian D. Buckingham

Principal Senior Consultant

Robert G. Adamson

Principal Consultant

Simon M. K. Chan

Regional Director

Note:

Mr. Buckingham holds Associateship and Fellowship Diplomas in Geology (RMIT) with extra studies in mining engineering and primary metallurgy, B.App.Sc. (Applied Geology) and a MBA from RMIT University. Mr. Buckingham is a Member of PESA and AAPG. Specific valuation assignments undertaken by Mr. Buckingham include: providing Specialist's advice to Grant Samuel when that company provided an Independent Expert's Report to Aberfoyle Limited in relation to the takeover offer by Western Metals NL; providing Specialist's advice to Grant Samuel and to KPMG Corporate Finance when both of those organisations provided the Independent Expert's Reports on the takeover offer by Rio Tinto for North Limited and Ashton Mining Limited respectively. As Project Director he managed the project team that undertook a review of the mining, legal, environmental and economic issues associated with the Ok Tedi Mine, PNG; participated in the strategic review team that evaluated and valued the WMC Corridor Sands Project, Mozambique. Mr. Buckingham has also undertaken a number of strategic development assignments evaluating several minerals commodities on behalf of global mining groups. Mr. Buckingham is currently the principal senior consultant of JLLS

Mr. Adamson holds the degrees of BSc and MSc (Hons) Geology and is a member of The Australasian Institute of Mining and Metallurgy (AusIMM), a Chartered Professional (Geology), a member of MICA and a member of PESA.

Mr. Adamson has over 40 years of professional experience in the mineral industry, initially in exploration and corporate management and, since 1993, as a consultant in economic geology. He has worked with major mining houses and junior companies on numerous exploration and consulting projects for base and precious metals, diamonds and uranium, and has considerable experience in the underground and surface mining of these commodities. Mr Adamson is experienced in the estimation of mineral resources and reserves and in exploration property appraisals. He has authored a number of Independent Geological Reports and Expert Witness Reports and mineral property valuations. He has worked throughout Australia and in New Zealand, southern and east Africa, Yukon Territory (Canada), PNG, the Philippines, Korea and China. He is a non-executive director on the boards of two mineral exploration companies listed on the Australian Stock Exchange Limited.

Mr. Chan has extensive work experience in valuation and corporate advisory industries. He has provided a wide range of valuation services to numerous listed and listing companies of different industries in China, Hong Kong, Singapore and the United States. Simon has also participated in certain large scale IPOs of State-owned and privately-owned enterprises in China. He has extensive valuation experience in mineral assets, mining rights and corresponding project investments. He has participated in various mining companies' project investments in China. He is a member of The International Association of Consultants, Valuers and Analysts (IACVA), the Canadian Institute of Mining, Metallurgy and Petroleum (CIM) and the certified public accountants in Hong Kong (HKICPA) and Australia (CPA (Aust)).

All of the above individuals disclose that they have no interest in DAYE, Daye Metal, its subsidiaries, or its assets; nor are they currently or previously employed, in any capacity, by DAYE, Daye Metal, or its subsidiaries. The Competent Evaluators' remuneration is not dependent on the present valuation results.

The following is the text of a report prepared for inclusion in this circular, received from Jones Lang LaSalle Sallmanns Limited, an independent valuer, in connection with its valuation of the net assets value of the Target Group as at 30 September 2011.

29 December 2011



Jones Lang LaSalle Sallmanns Limited
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The Board of Directors

China Daye Non-Ferrous Metals Mining Limited

Unit 2001, 20/F., Worldwide House,
19 Des Voeux Road Central,
Hong Kong

Dear Sirs,

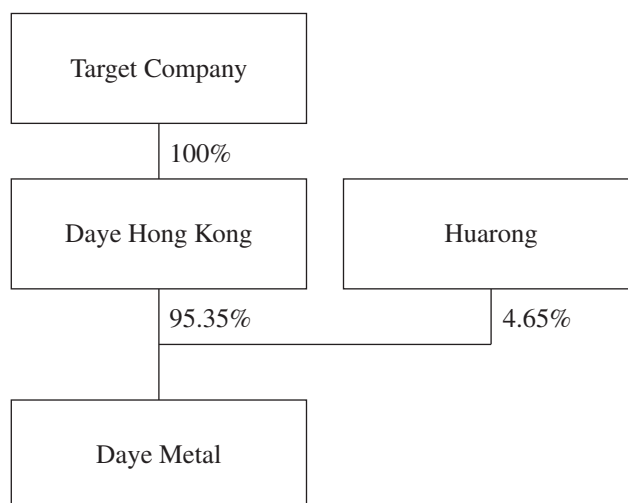
In accordance with your instructions, we have undertaken a valuation which requires Jones Lang LaSalle Sallmanns Limited to express an independent opinion of the net assets value of Prosper Well Group Limited (the "Target Company") and its subsidiaries (which will include the Daye Nonferrous Co., Ltd. ("Daye Metal"), its subsidiaries and branches) (collectively the "Target Group") as at 30 September 2011 (the "Valuation Date"). The report which follows is dated 29 December 2011.

The scope of our work was to estimate the net assets value of the Target Group for the purpose of providing a reference for China Daye Non-Ferrous Metals Mining Limited (the "Company") to determine whether condition precedent (h), as set out in the section headed "Letter from the Board – The Acquisition Agreement – Conditions precedent" in the circular dated as of the date hereof issued by the Company (the "Circular"), is satisfied.

Our valuation was carried out with reference to a fair value basis. Fair value is defined as "the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction."

We have conducted our valuation with reference to the International Valuation Standards issued by the International Valuation Standards Committee. We planned and performed our valuation so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to express our opinion of the subject assets. We believe that the valuation procedures we employed provide a reasonable basis for our opinion.

Prosper Well Group Limited is a company incorporated in the BVI with limited liability. The shareholding structure of the Target Group as at the Valuation Date is as follows:

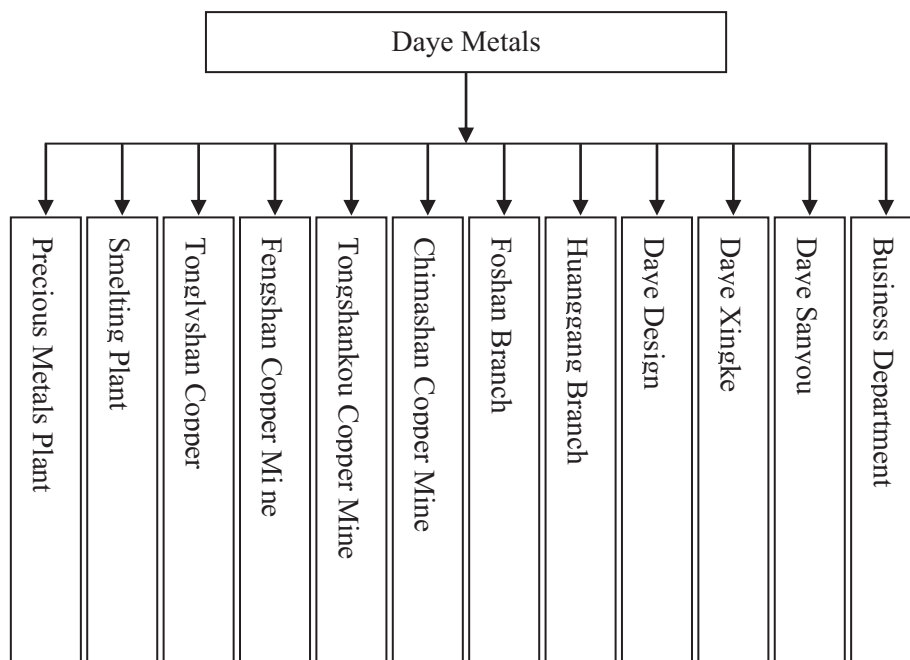


Note:

Huarong: China Huarong Asset Management Corporation

Daye Hong Kong: Rainbow Treasure Holdings Limited

Daye Metal was established in 2005 and engages in mining, smelting, refining and processing of copper, precious metals, iron ore and sulphide. Daye Metal is located in Huangshi City, Hubei Province, the PRC. Daye Metal owns four copper mines, two plants, two branch companies, three subsidiary companies and one business department, illustrated below:



In conducting our valuation, we have reviewed information from several sources, conducted interviews and discussions with the management and conducted research using public sources and publications.

The conclusion of value is based on accepted valuation procedures and practices that rely substantially on our use of numerous assumptions and our consideration of various factors that are relevant to the operation of the Target Group. We have also considered various risks and uncertainties that have potential impact on the Target Group.

We do not intend to express any opinion in matters which require legal or other specialized expertise or knowledge, beyond what is customarily employed by valuers. Our conclusions assume continuation of prudent management of the Target Group over whatever period of time that is reasonable and necessary to maintain the character and integrity of the assets valued.

The following pages outline the factors considered, methodology and assumptions employed in formulating our opinions and conclusions. Any opinions are subject to the assumptions and limiting conditions.

BASIS OF OPINION

We have conducted our valuation with reference to the International Valuation Standards issued by the International Valuation Standards Committee. We planned and performed our valuation so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to express our opinion of the subject assets. We believe that the valuation procedures we employed provide a reasonable basis for our opinion.

ASSUMPTIONS

In determining the net assets value of the Target Group, including the value of Intangible assets – mining right, the following key assumptions have been made:

- Our valuation has been made on the assumption that the seller sells the property interests on the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the values of the property interests.
- For the purpose of calculating the net assets value of the Target Group, in valuing those properties without proper title document, we have assumed that they will be occupied continuously by the Target Group for production use in foreseeable period which has been confirmed by the Director of the Target Group.
- We have assumed all the information provided by Daye Metal, which is disclosed in the technical report prepared by Runge Asia Limited as set out in Appendix V-A of the Circular (the “ITR”), to be reliable and legitimate, including the sources of mineable material, mining, processing, operating costs and capital costs etc., which are in line with the ITR and the Mining Assets Valuation Report as set out in Appendix VI of the Circular.
- In order to realise the future economic benefits of the business and maintain a competitive edge, manpower, equipment and facilities are necessary to be employed. For the valuation exercise, we have assumed that all proposed facilities and systems will work properly and will be sufficient for future operation.

APPROACH AND METHODOLOGY

In this report, we had considered the type of assets and liabilities and their conditions when arriving at the values of the subject items. We adopted appropriate valuation methodology for each different class of assets and liabilities.

Assets	Valuation Approach & Methodology
Cash on hand and in bank	Based on the book values which have been confirmed by bank statements.
Prepayments, deposits, bills and other receivables	Based on the economic realities with due consideration paid to their collectibilities, aging records, reputation and financial positions of the debtors which could result in provision of bad debts. Confirmation by checking to fair and representative subsequent receipts.
Inventories	Based on the quantities and conditions of the inventories as at the date of valuation provided by Daye Metal, the value as at the date of valuation were derived by multiplying their quantities with their corresponding market prices close to the date of valuation.
Land and Buildings***	Depreciated replacement cost approach* and Market approach**
Plant and machinery***	Depreciated replacement cost approach* and Market approach**
Intangible assets – mining right	Multi-Period Excess Earnings method****
Liabilities	Valuation Approach & Methodology
Trade payables	Based on book values. Checking of original contracts and/or invoices on sampling basis. Checking of subsequent settlements.
Other payables and accruals	Based on book values. Checking of original contracts and/or invoices on sampling basis. Checking of subsequent settlements.

*: Depreciated replacement cost is a kind of cost approach which is defined as the current cost of replacement (reproduction) of the subject asset less deduction for physical deterioration and all relevant forms of obsolescence and optimization. It is based on an estimate of the market value for the existing use of the subject asset. The application of depreciated replacement cost method in above assets is mainly due to their lack of active market and comparable transactions for the use of market approach and the lack of sufficient financial data for income approach for these assets.

- **:** *Market approach considers prices recently paid for similar assets, with adjustments made to market prices to reflect condition and utility of the appraised assets relative to the market comparative. Assets for which there is an established secondary market may be valued by this approach.*
- ***:** *Due to the nature of the Target Group's land, buildings and plant and machinery for production purpose, there are unlikely to be relevant comparable sales readily available, as such, they have been valued on the basis of their depreciated replacement cost; Furthermore, the market approach is adopted to estimate the value of residential properties, office equipment and motor vehicles by making reference to comparable sales transactions as available in the relevant market.*
- ****:** *The mining rights belonging to Daye Metal are valued as intangible assets, which represent the value of the rights to mine the mineral resources. In this study, for the intangible assets – mining right belonging to Daye Metal, the value was all developed through the application of an income approach technique known as the “Multi-Period Excess Earnings” method with reference to International Valuation Standard-210 Intangible Asset issued by the International Valuation Standards Committee. Under this method, based on Competent Person Report provided by Runge we first calculated the estimated respective after-tax cash flows to Daye Metal as the results of owning the subject intangible assets. Respective contributory asset charges are then netted from the after-tax cash flows to arrive at the respective residual after-tax cash flows. These respective benefits are capitalized at a respective discount rate which reflects all business risks including intrinsic and extrinsic uncertainties in relation to the subject intangible assets. This method is based on the principle that investors, who own only the subject intangible assets, will have to rent equipments, working capital and other incidental assets in order to operate the business and thus the charges on renting these contributory assets have to be taken into consideration.*

BOOK VALUES OF ASSETS AND LIABILITIES

The table below summarizes the book values of the assets and liabilities of the Target Group as at Valuation Date, which is provided by the management of Daye Metal.

The Target Group	Book Values <i>(RMB'000)</i>
Current Assets	6,657,998
Cash and cash equivalents	2,309,381
Trade receivables	292,146
Prepayments, deposits and other receivables	611,130
Inventories	3,445,341
Other current assets	—
Non-current Assets	8,339,532
Long-term investment	1,823
Fixed assets	4,423,784
Intangible assets-mining right	565,388
Deferred tax assets	33,162
Other non-current assets	3,315,376
Current Liabilities	5,825,688
Short-term borrowings	3,608,240
Trade payables	1,138,456
Other payables and accruals	873,376
Accrued payroll and taxes payable	166,030
Other current liabilities	39,586
Non-current Liabilities	4,862,637
Long-term borrowings	941,484
Long-term payables	490,000
Provisions	19,557
Deferred tax liabilities	2,995
Other non-current liabilities	3,408,601
Non-controlling interest	184,282
Net Assets	3,778,780

VALUATION COMMENTS

In general, we have undertaken the necessary and appropriate valuation procedures in the valuation of the subject items as at 30 September 2011. The methodologies adopted are generally considered being suitable with regard to the nature of the relevant assets and liabilities. The user of the Valuation Report should be aware of the condition relating to the validity period of the report, which is one year as stated in the Valuation Report.

OPINION OF VALUE

Based on the results of our investigation and analysis outlined in the Valuation Report, we are of the opinion that the net assets value of the Target Group as at 30 September 2011 is **RMB6.15 billion (RENMINBI SIX BILLION ONE HUNDRED AND FIFTY MILLION)**. The net assets value of the Target Group and the minority interest belonging to Huarong is RMB6.45 billion (**RENMINBI SIX BILLION FORTY HUNDRED AND FIFTY MILLION**). The details are as follows:

The Target Group	Values (RMB'000)
Current Assets	7,187,418
Cash and cash equivalents	2,309,381
Trade receivables	293,198
Prepayments, deposits and other receivables	611,748
Inventories	3,973,091
Other current assets	—
Non-current Assets	10,303,046
Long-term investment	803
Fixed assets ^{note}	4,724,706
Intangible assets-mining right	2,229,000
Deferred tax assets	33,162
Other non-current assets	3,315,376
Current Liabilities	6,171,831
Short-term borrowings	3,608,240
Trade payables	1,138,456
Other payables and accruals	873,376
Accrued payroll and taxes payable	166,030
Other current liabilities	385,729

The Target Group	Values (RMB'000)
Non-current Liabilities	4,862,637
Long-term borrowings	941,484
Long-term payables	490,000
Provisions	19,557
Deferred tax liabilities	2,995
Other non-current liabilities	3,408,601
Non-controlling interest	301,511
Net Assets (Rounded)	6,150,000

Notes:

1. The facility of Smelting Plant and Precious Metal Plant are included in the fixed assets. The total value of Smelting Plant' facility is approximately RMB1,886.79 million of which the value of land, buildings and construction-in-progress is approximately RMB994.23 million, machinery and equipment is approximately RMB892.56 million; The total value of Precious Metal Plant' facility is approximately RMB102.53 million, in which land, buildings and construction-in-progress is approximately RMB61.79 million, machinery and equipment is approximately RMB40.74 million.
2. The properties were valued with reference to their depreciated replacement cost and that they will be occupied continuously by the Target Group for production use, although certain of them have no proper titles.

Yours faithfully,
for and on behalf of

Jones Lang LaSalle Sallmanns Limited

Simon M. K. Chan
Regional Director

EXHIBIT A – ANALYSIS

The difference between net assets based on book value and the value is approximately RMB2.4 billion, which is mainly caused by how inventories, fixed assets, and intangible assets-mining right are accounted for under book value and the value. The detailed reasons for such differences are set out below:

- **Inventories**

The difference in the inventories' value between book value and the value is approximately RMB0.5 billion, resulting mainly from the difference in value of finished goods. The book value for finished goods is based on historical costs, which include mining cost, raw materials, labour costs and other related costs. On the other hand, the relevant value was derived by multiplying the quantities of these inventories (as provided by Daye Metal), with their corresponding market prices as at the valuation date or the date closest to the valuation date for which the relevant data is available, and such computation was based on the International Valuation Standards. As the market prices differ from the historical costs, the difference in value exists between book value and the value in this report.

- **Fixed assets (mainly include land and buildings)**

The difference in the fixed assets' value between book value and the value in this report is approximately RMB0.3 billion, which is due to the surplus in the value in the land and buildings, such increase is attributable to the following factors:

- (1) the Parent Company injected certain parcels of land by way of capital contribution to Daye Metal in 2005, when the land price was much lower. Also, the land transaction policy and the property market in China have changed dramatically since 2007, and ever since the price of land increased rapidly which caused a great value increment of land parcels in their value; and
- (2) in valuing buildings using the depreciated replacement cost method, reference must be made to the current market conditions when estimating the labour rates, material prices, equipment renting prices and finance costs. Most of the buildings of the Target Group were constructed before 1990's, and the increase in the costs of labour, material prices, equipment renting prices and finance costs in the past 10 years in China has contributed to the increase in the value of such buildings.

- **Intangible assets-Mining right**

The difference between the intangible assets-mining right's book value and the value in the report is approximately RMB1.7 billion. The book value of intangible assets-mining right includes the application fee, exploration costs and other related historical costs. On the other hand, the valuation of the value of intangible assets-mining right in the report was completed by taking into account the mining right as an intangible asset, that is, the right to mine the mineral resources. The Multi-Period Excess Earnings method was adopted in this exercise. As such, there is a difference in value between the book value and the value of the mining right.

APPENDIX VIII REPORTS ON THE VALUATIONS OF THE MINING ASSETS AND OVERALL ASSETS OF THE TARGET GROUP

In compliance with Chapter 18 of the Listing Rules, a valuation of the mining assets of the Target Group (“**Mining Assets Valuation**”) as set out in Appendix VI to this circular has been prepared by Jones Lang LaSalle Sallmanns Limited (“**JLLS**”). In order to ascertain the net asset value of the Target Group for the purpose of determining whether one of the conditions precedent which the China Times Completion is subject to is satisfied, JLLS also prepared a valuation of the overall assets of the Target Group (“**Overall Assets Valuation**”, together with the Mining Assets Valuation, the “**Valuations**”), which is set out in Appendix VII to this circular. In preparing the Mining Assets Valuation, JLLS has adopted the “net present value of future cash flows” methodology in valuing the mining assets of the Target Group, and in preparing the valuation of the mining rights of the Target Group as intangible assets, which forms part of the Overall Assets Valuation, JLLS has adopted the multi-period excess earnings method, which involves, among other things, JLLS’s estimate of the respective discounted after-tax cash flows to the Target Company as a result of owning the subject intangible assets. Both valuations constitute a profit forecast under Rule 11 of the Takeovers Code.

In valuing the mining assets and the mining rights of the Target Group in the Valuations, JLLS took into account the discounted estimated future cash flows to be derived from the Four Mines (the “**Cash Flow Forecast**”). As the Cash Flow Forecast relates only to the discounted estimated future cash flows to be derived from the Four Mines, it is not representative of, and should not be treated as a forecast or an indication of, the future profits of the Group, the Target Group or the Enlarged Group, as it does not take into account income from other business activities (such as trading) which are carried on or will be carried on by the Group, the Target Group or the Enlarged Group (as the case may be). Shareholders and potential investors should not rely on the Cash Flow Forecast in assessing the merits and demerits of the Acquisition and the future profitability of the Enlarged Group.

Set out below are the texts of the reports from the reporting accountants of the Company, PricewaterhouseCoopers, and J.P. Morgan, the financial adviser to the Company in respect of the Acquisition, in connection with the Valuations as required by Rule 10 of the Takeovers Code.

APPENDIX VIII REPORTS ON THE VALUATIONS OF THE MINING ASSETS AND OVERALL ASSETS OF THE TARGET GROUP

**(A) REPORT FROM PRICEWATERHOUSECOOPERS IN CONNECTION WITH THE
VALUATION OF THE MINING ASSETS OF THE TARGET GROUP AND THE
VALUATION OF THE OVERALL ASSETS OF THE TARGET GROUP**



羅兵咸永道

**REPORT FROM REPORTING ACCOUNTANT ON DISCOUNTED ESTIMATED FUTURE
CASH FLOWS IN CONNECTION WITH THE VALUATION OF THE FAIR MARKET VALUE
OF THE MINING ASSETS AND THE INTANGIBLE ASSETS – MINING RIGHT IN THE
VALUATION OF THE NET ASSETS VALUE OF PROSPER WELL GROUP LIMITED AND
ITS SUBSIDIARIES**

**TO THE BOARD OF DIRECTORS OF CHINA DAYE NON-FERROUS METALS MINING
LIMITED**

We have been engaged to report on the calculations of the discounted estimated future cash flows on which the valuations dated 29 December 2011 prepared by Jones Lang LaSalle Sallmanns Limited (the “Valuer”) in respect of the appraisal of the fair market value of the mining assets (the “Mining Valuation”) and the valuation of intangible assets – mining right (the “Intangible Assets Valuation”) in the valuation of the net assets value (the “Assets Valuation”) of Prosper Well Group Limited (the “Target Company”) and its subsidiaries (together, the “Target Group”) are based. The Mining Valuation and the Assets Valuation are set out in Appendices VI and VII respectively to the circular of China Daye Non-Ferrous Metals Mining Limited (the “Company”) dated 29 December 2011 (the “Circular”) in connection with the acquisition by the Company of the entire equity interest in the Target Company. The Mining Valuation and the Intangible Assets Valuation based on the discounted estimated future cash flows are regarded as profit forecasts under Rule 11.1(a) of The Codes on Takeovers and Mergers issued by the Securities and Futures Commission (the “Takeovers Code”).

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T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com*

APPENDIX VIII REPORTS ON THE VALUATIONS OF THE MINING ASSETS AND OVERALL ASSETS OF THE TARGET GROUP

Directors' Responsibility for the Discounted Estimated Future Cash Flows

The directors of the Company and the directors of Daye Nonferrous Metals Corporation Holdings Limited (the "Parent Company") are solely responsible for the discounted estimated future cash flows which are prepared in accordance with the bases and assumptions as set out in the Appendices VI and VII to the Circular. The responsibility includes carrying out appropriate procedures relevant to the preparation of the discounted estimated future cash flows for the Mining Valuation and the Intangible Assets Valuation and has applied an appropriate basis of preparation; and making estimates that are reasonable in the circumstances.

Reporting Accountant's Responsibility

It is our responsibility to report, as required under Rule 10.3 (b) of the Takeovers Code, on the calculations of the discounted future estimated cash flows on which the Mining Valuation and the Intangible Assets Valuation are based. We are not reporting on the appropriateness and validity of the bases and assumptions on which the discounted future estimated cash flows are based and our work does not constitute any valuation of the Target Company. We have not assessed the mineral resources, ore reserves and potential resources, the appropriate mining and processing methods to exploit and market those reserves, and the analysis of future production, production costs and market prices.

We conducted our work in accordance with the Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information". This standard requires that we comply with ethical requirements and plan and perform the assurance engagement to obtain reasonable assurance on whether the discounted estimated future cash flows, so far as the calculations are concerned, has been properly compiled in accordance with the bases and assumptions as set out in the Appendices VI and VII to the Circular. We reviewed the arithmetical calculations and the compilation of the discounted estimated future cash flows in accordance with the bases and assumptions.

The discounted estimated future cash flows in the Mining Valuation and the Intangible Assets Valuation do not involve the adoption of accounting policies. The discounted cash flows depend on future events and on a number of assumptions which cannot be confirmed and verified in the same way as past results and not all of which may remain valid throughout the period. Our work has been undertaken for the purpose of reporting solely to you under Rule 10.3(b) of the Takeovers Code and for no other purpose. We accept no responsibility to any other person in respect of our work, or arising out of or in connection with our work.

APPENDIX VIII REPORTS ON THE VALUATIONS OF THE MINING ASSETS AND OVERALL ASSETS OF THE TARGET GROUP

Opinion

Based on the foregoing, in our opinion, the discounted estimated future cash flows, so far as the calculations are concerned, has been properly compiled in all material respects in accordance with the bases and assumptions, for which the directors of the Company and the directors of the Parent Company are solely responsible and as set out in the Appendices VI and VII to the Circular.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 29 December 2011

APPENDIX VIII REPORTS ON THE VALUATIONS OF THE MINING ASSETS AND OVERALL ASSETS OF THE TARGET GROUP

**(B) REPORT FROM J.P. MORGAN IN CONNECTION WITH THE VALUATION OF
THE MINING ASSETS OF THE TARGET GROUP AND THE VALUATION OF THE
OVERALL ASSETS OF THE TARGET GROUP**

J.P.Morgan

29 December 2011

The Board of Directors
China Daye Non-Ferrous Metals Mining Limited (the “Company”)
Unit 2001, 20/F., Worldwide House
19 Des Voeux Road Central
Hong Kong

Dear Sirs,

We refer to the valuation report dated 29 December 2011 setting out an independent valuation of the Fair Market Value of the Mineral Assets of the Target Group (the “Mining Valuation Report”) and the valuation report dated 29 December 2011 on the net asset value of the Target Group (the “Assets Valuation Report”; together with the Mining Valuation Report, the “Valuation Reports”). The Mining Valuation Report and the Assets Valuation Report were prepared by Jones Lang LaSalle Sallmanns Limited (“JLLS”), as Competent Evaluator (as defined in the Listing Rules) in respect of the Mining Valuation Report, and they have been included in Appendix VI and Appendix VII, respectively, to the circular of the Company dated as of the date of this letter (the “Circular”). Unless the context requires otherwise, capitalised terms used in this letter shall have the same meanings as those defined in the Circular (including the Mining Valuation Report and the Assets Valuation Report).

APPENDIX VIII REPORTS ON THE VALUATIONS OF THE MINING ASSETS AND OVERALL ASSETS OF THE TARGET GROUP

We note that the Mining Valuation Report states that the valuation contained therein (the “Mining Valuation”) has been prepared based on, amongst other things, the Discounted Cash Flows methodology, and is therefore regarded as a profit forecast under Rule 11.1(a) of the Takeovers Code and is required to be reported on (as set out below) by us pursuant to Rule 10 of the Takeovers Code. We also note that the Assets Valuation Report states that the valuation of “Intangible assets – mining right” of the Target Group contained therein (the “Intangible Assets Valuation”; together with the Mining Valuation, the “Valuations”) has been prepared using the Multi-Period Excess Earnings Method, which involved (amongst other things) JLLS’ estimate of the respective discounted after-tax cash flows to the Company as a result of owning the subject intangible assets, and is therefore regarded as a profit forecast under Rule 11.1(a) of the Takeovers Code and is required to be reported on (as set out below) by us pursuant to Rule 10 of the Takeovers Code.

This letter also constitutes our report under Rule 11.1(b) of the Takeovers Code on the qualifications and experience of JLLS to prepare the Valuation Reports.

We have reviewed the Valuation Reports and discussed with the management of the Target Group and JLLS regarding the Valuations Reports, including the qualifications, bases and assumptions set out therein. We have reviewed the Competent Person’s Report on the Four Mines, the text of which is included in Appendix V-A to the Circular and discussed with Runge, the independent technical adviser responsible for preparing the Competent Person’s Report on the Four Mines, on the bases and assumptions of the discounted estimated future cash flows underlying the Valuations which were derived from the Competent Person’s Report on the Four Mines. We have considered the report addressed to you from PricewaterhouseCoopers dated 29 December 2011 as set out in Appendix VIII to the Circular on the calculations of the discounted estimated future cash flows on which the Valuations are based, and noted that Pricewaterhouse Coopers is of the opinion that, so far as such calculations are concerned, these have been properly compiled in all material respects in accordance with the bases and assumptions, for which the directors of the Company and the directors of the Parent Company are solely responsible and as set out in the Valuation Reports.

With regard to JLLS’s qualifications and experience, we have conducted reasonable checks to assess the relevant qualification, experience and expertise of JLLS, including reviewing the supporting documents on the qualifications of JLLS and discussed with JLLS on their qualifications and experience.

APPENDIX VIII REPORTS ON THE VALUATIONS OF THE MINING ASSETS AND OVERALL ASSETS OF THE TARGET GROUP

The assessment and review carried out by us as described in this letter are primarily based on the financial, economic, market and other conditions in effect, and the information made available to us as of the date of this letter. In arriving at our views, we have relied on information and materials supplied to us by or on behalf of third parties including the Group, the Target Group, JLLS and other advisers to the Company, and the opinions expressed by, and the representations of, the employees and/or the management of the Group, the Target Group, JLLS and other advisers to the Company, which we have assumed to be true, accurate, complete and not misleading and remain so as of the date hereof, and that no material fact or information has been omitted therefrom. Circumstances could have developed or could develop in the future that, if known to us at the time of the issue of this letter, may alter our assessment and review. Further, we would caution that qualifications, bases and assumptions of the Valuations are inherently subject to potential significant business, economic and competitive uncertainties and contingencies, which are beyond the control of the Company, the Target Group, JLLS and us.

Our work does not constitute any valuation of the Target Group and we have assumed, without independent verification, the accuracy of the findings of Runge in the Competent Person's Report on the Four Mines, the text of which is included in Appendix V-A to the Circular with respect to the mineral resources and ore reserves of the Target Group. In particular, we have not assessed the mineral resources, ore reserves and potential resources, the appropriate mining and processing methods to exploit and market those reserves, and the analysis of future production, production costs and market prices.

We are acting only as the financial adviser to the Company in relation to the Acquisition and the sponsor to the new listing application of the Company. We and our respective directors and affiliates will not, whether jointly or severally, be responsible to anyone other than the Company for providing advice in connection with the Acquisition and the new listing application of the Company, nor will we, our respective directors and affiliates, whether jointly or severally, owe any responsibility to anyone other than the Company.

Nothing in this letter should be construed as an opinion or recommendation to any person as to how to vote on the Acquisition, the Acquisition Agreement, the Whitewash Waiver, the proposed grant of the Specific Mandate and the Non-Exempt Continuing Connected Transactions (including the Annual Caps). Shareholders are recommended to read the letter from the Independent Board Committee as set out on pages 112 to 113 of the Circular and the letter from the Independent Financial Adviser as set out on pages 114 to 211 of the Circular.

APPENDIX VIII REPORTS ON THE VALUATIONS OF THE MINING ASSETS AND OVERALL ASSETS OF THE TARGET GROUP

On the basis of the foregoing and the information comprising the Valuation Reports, we are of the opinion that the bases and assumptions set out therein, for which the directors of the Company and the directors of the Parent Company are solely responsible, have been made by JLLS after due care, consideration and objectivity, and on a reasonable basis. We are also satisfied that JLLS has the qualifications and experience to prepare the Valuation Reports.

Yours faithfully,

For and on behalf of

David PW Lau

Managing Director

J.P. Morgan Securities (Asia Pacific) Limited

Set out below is a summary of certain provisions of the Memorandum of Association and Bye-Laws and of certain aspects of Bermuda company law.

1. MEMORANDUM OF ASSOCIATION

The Memorandum of Association states, inter alia, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the shares of the Company respectively held by them and that the Company is an exempted company as defined in the Bermuda Companies Act. The Memorandum of Association also sets out the objects (which includes paragraphs (b) to (n) and (p) to (t) inclusive of the Second Schedule of the Bermuda Companies Act) for which the Company was formed, as well as acting as a holding and investment company, and its powers, including the powers set out in the First Schedule to the Bermuda Companies Act, excluding paragraph 1 thereof. As an exempted company, the Company will be carrying on business outside Bermuda from a place of business within Bermuda.

In accordance with and subject to section 42A of the Bermuda Companies Act, the Memorandum of Association empowers the Company to purchase its own shares and pursuant to its Bye-Laws, this power is exercisable by the Board upon such terms and subject to such conditions as it thinks fit.

2. BYE-LAWS

The following is a summary of certain provisions of the Bye-Laws as amended on 31 October 2005 and 23 October 2006:

(a) Directors

(i) Power to allot and issue shares and warrants

Subject to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the Board may determine). Subject to the Bermuda Companies Act, any preference shares may be issued or converted into shares that are liable to be redeemed, at a determinable date or at the option of the Company or, if so authorised by the Memorandum of Association, are liable to be redeemed at the option of the holder, on such terms and in such manner as the Company before the issue or conversion may by ordinary resolution determine. The Board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may from time to time determine.

Subject to the provisions of the Bermuda Companies Act, the Bye-Laws, any direction that may be given by the Company in general meeting and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the Board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

(ii) Power to dispose of the assets of the Company or any of its subsidiaries

There are no specific provisions in the Bye-Laws relating to the disposal of the assets of the Company or any of its subsidiaries.

Note: The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Bye-Laws or the Bermuda Companies Act to be exercised or done by the Company in general meeting.

(iii) Compensation or payments for loss of office

Payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

(iv) Loans and provision of security for loans to Directors

There are no provisions in the Bye-Laws relating to the making of loans to Directors. However, the Bermuda Companies Act contains restrictions on companies making loans or providing security for loans to their directors, the relevant provisions of which are summarised in the paragraph headed “Bermuda Company Law” in this appendix.

(v) Financial assistance to purchase shares of the Company

Subject to the Bermuda Companies Act and, where applicable, the rules of any Designated Stock Exchange (as defined in the Bye-Laws), the Company may in accordance with any scheme approved by the members in general meeting provide, directly or indirectly, money or financial assistance for the purpose of or in connection with the purchase of, or subscription for, fully or partly paid shares in the Company or any holding company of the Company, being a purchase of or subscription of shares by a trustee for the benefit of the employees of the Company or its subsidiaries or any holding company of the Company or its subsidiaries whether incorporated in Bermuda or elsewhere.

Subject to the Bermuda Companies Act and, where applicable, the rules of any Designated Stock Exchange, the Company may give financial assistance on such terms as the Board thinks fit to directors and bona fide employees of the Company, its subsidiaries and any holding company of the Company and/or any subsidiary of any such holding company whether incorporated in Bermuda or elsewhere in order that they may buy shares in the Company or any holding company of the Company and such terms may include a provision stating that when a director ceases to be a director of, or an employee ceases to be an employee of the Company or such other company, shares bought with financial assistance shall or may be sold to the Company or such other company on terms as the Board thinks fit.

(vi) Disclosure of interests in contracts with the Company or any of its subsidiaries

A Director may hold any other office or place of profit with the Company (except that of auditor of the Company) in conjunction with his office of Director for such period and, subject to the Bermuda Companies Act, upon such terms as the Board may determine, and may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other provisions in the Bye-Laws. A Director may be or become a director or other officer of, or a member of, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. Subject as otherwise provided by the Bye-Laws, the Board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

Subject to the Bermuda Companies Act and to the Bye-Laws, no Director or proposed or intending Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the meeting of the Board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the Board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the Board approving any contract or arrangement or other proposal in which he or any of his associates is materially interested but this prohibition shall not apply to any of the following matters, namely:

- (aa) any contract or arrangement for giving to such Director or his associate(s) any security or indemnity in respect of money lent by him or any of his associates or obligations incurred or undertaken by him or any of his associates at the request of or for the benefit of the Company or any of its subsidiaries;
- (bb) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his associate(s) has himself/ themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub underwriting of the offer;
- (dd) any contract or arrangement in which the Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company;

- (ee) any contract or arrangement concerning any other company in which the Director or his associate(s) is/are interested only, whether directly or indirectly, as an officer or executive or a shareholder or in which the Director and any of his associates are not in aggregate beneficially interested in 5 percent. or more of the issued shares or of the voting rights of any class of shares of such company (or of any third company through which his interest or that of any of his associates is derived); or
- (ff) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his associate(s), as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

(vii) *Remuneration*

The ordinary remuneration of the Directors shall from time to time be determined by the Company in general meeting, such remuneration (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the Board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors shall also be entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably incurred or expected to be incurred by them in attending any Board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the Board go beyond the ordinary duties of a Director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the Board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration provided for by or pursuant to any other provision in the Bye-Law. A Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the Board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The Board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependants or any class or classes of such persons.

The Board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependants, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependants are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the Board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(viii) Retirement, appointment and removal

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) will retire from office by rotation provided that every Director shall be subject to retirement at least once every three years. The Directors to retire in every year will be those who have been longest in office since their last re election or appointment but as between persons who became or were last re elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot. but shall be eligible for re election at the meeting.

Note: There are no provisions relating to retirement of Directors upon reaching any age limit.

The Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the Board or, as an addition to the existing Board but so that the number of Directors so appointed shall not exceed any maximum number determined from time to time by the members in general meeting. Any Director so appointed shall hold office only until the next following general meeting of the Company and shall then be eligible for re-election at the meeting. Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification.

A Director may be removed by an ordinary resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) provided that the notice of any general meeting convened for the purpose of removing a Director shall contain a statement of the intention to do so and be served on such Director 14 days before the meeting and, at such meeting, such Director shall be entitled to be heard on the motion for his removal. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors unless otherwise determined from time to time by members of the Company.

The Board may from time to time appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period (subject to their continuance as Directors) and upon such terms as the Board may determine and the Board may revoke or terminate any of such appointments (but without prejudice to any claim for damages that such Director may have against the Company or vice versa). The Board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the Board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the Board.

(ix) Borrowing powers

The Board may from time to time at its discretion exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of the Company and, subject to the Bermuda Companies Act, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

Note: These provisions, in common with the Bye-Laws in general, can be varied with the sanction of a special resolution of the Company.

(b) Alterations to constitutional documents

No provision in the Bye-Laws may be rescinded, altered or amended and no new provision in the Bye-law shall be made until the same has been approved by a resolution of the Directors and confirmed by a special resolution of the members in general meeting. The Bye-Laws state that a special resolution shall be required to alter the provisions of the Memorandum of Association or to change the name of the Company.

(c) Alteration of capital

The Company may from time to time by ordinary resolution in accordance with the relevant provisions of the Bermuda Companies Act:

- (i) increase its capital by such sum, to be divided into shares of such amounts as the resolution shall prescribe;
- (ii) consolidate and divide all or any of its capital into shares of larger amount than its existing shares;
- (iii) divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares, which in the absence of such determination by the Company in general meeting, as the Directors may determine;
- (iv) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum of Association;
- (v) make provision for the issue and allotment of shares which do not carry any voting rights; and
- (vi) cancel any shares which, at the date of passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may, by special resolution, subject to any confirmation or consent required by law, reduce its authorised or issued share capital or, any share premium account or other undistributable reserve.

(d) Variation of rights of existing shares or classes of shares

Subject to the Bermuda Companies Act, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three fourths of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting, the provisions of the Bye-Laws relating to general meetings will mutatis mutandis apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy not less than one third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy whatever the number of shares held by them shall be a quorum. Every holder of shares of the class shall be entitled on a poll to one vote for every such share held by him, and any holder of shares of the class present in person or by proxy may demand a poll.

(e) Special resolution majority required

A special resolution of the Company must be passed by a majority of not less than three fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which not less than 21 clear days' notice, specifying the intention to propose the resolution as a special resolution, has been duly given. Provided that, except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than 95 per cent. in nominal value of the shares giving that right and, in the case of an annual general meeting, if so agreed by all members entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which less than 21 clear days' notice has been given.

(f) Voting rights (generally and on a poll) and rights to demand a poll

Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with the Bye-Laws, at any general meeting on a show of hands, every member who is present in person (or being a corporation, is present by its duly authorised representative) or by proxy shall have one vote and on a poll every member present in person or by proxy or, being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or instalments is treated for the foregoing purposes as paid up on the share.

On a poll, a member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way. At any general meeting a resolution put to the vote of the meeting is to be decided on a show of hands unless voting by way of a poll is required by the rules of the Designated Stock Exchange or (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 by (i) the chairman of the meeting or (ii) at least three members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy for the time being entitled to vote at the meeting or (iii) any member or members present in person or, in the case of a member 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 the members having the right to vote at the meeting or (iv) a member or members present in person or, in the case of a member 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 equal to not less than one tenth of the total sum paid up on all the shares conferring that right.

Subject to the Bermuda Companies Act, if a clearing house (or its nominee(s)) is a member of the Company it may authorise such persons as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be entitled to exercise the same rights and powers as if such person was the registered holder of the shares of the Company held by the clearing house (or its nominees).

Where the Company has any knowledge that any shareholder is, under the rules of the Designated Stock Exchange (as defined in the Bye-Laws), required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

(g) Requirements for annual general meetings

An annual general meeting of the Company must be held in each year other than the year of incorporation at such time (within a period of not more than 15 months after the holding of the last preceding annual general meeting unless a longer period would not infringe the rules of any Designated Stock Exchange) and place as may be determined by the Board.

(h) Accounts and audit

The Board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the provisions of the Bermuda Companies Act or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records shall be kept at the registered office or, subject to the Bermuda Companies Act, at such other place or places as the Board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right of inspecting any accounting record or book or document of the Company except as conferred by law or authorised by the Board or the Company in general meeting.

Subject to the Bermuda Companies Act, a printed copy of the Directors' report, accompanied by the balance sheet and profit and loss account, including every document required by law to be annexed thereto, made up to the end of the applicable financial year and containing a summary of the assets and liabilities of the Company under convenient heads and a statement of income and expenditure, together with a copy of the auditors' report, shall be sent to each person entitled thereto at least 21 days before the date of the general meeting and at the same time as the notice of annual general meeting and laid before the Company in general meeting in accordance with the requirements of the Bermuda Companies Act, provided that this provision shall not require a copy of those documents to be sent to any person whose address the Company is not aware of or to more than one of the joint holders of any shares or debentures.

Subject to the Bermuda Companies Act, at the annual general meeting or at a subsequent special general meeting in each year, the members shall appoint an auditor to audit the accounts of the Company and such auditor shall hold office until the members appoint another auditor. Such auditor may be a member but no Director or officer or employee of the Company shall, during his continuance in office, be eligible to act as an auditor of the Company. The remuneration of the auditor shall be fixed by the Company in general meeting or in such manner as the members may determine.

(i) Notices of meetings and business to be conducted thereat

An annual general meeting and any special general meeting at which it is proposed to pass a special resolution shall (save as set out in sub paragraph (e) above) be called by at least 21 clear days' notice in writing, and any other special general meeting shall be called by at least 14 clear days' notice (in each case exclusive of the day on which the notice is given or deemed to be given and of the day for which it is given or on which it is to take effect). The notice must specify the time and place of the meeting and, in the case of special business, the general nature of that business. The notice convening an annual general meeting shall specify the meeting as such.

(j) Transfer of shares

Subject to the Bermuda Companies Act, all transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form approved by the Board and may be under hand only. The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the Board may dispense with the execution of the instrument of transfer by the transferee in any case in which it thinks fit, in its discretion, to do so and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof.

The Board in so far as permitted by any applicable law may, in its absolute discretion, at any time and from time to time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the Board otherwise agrees, no shares on the principal register shall be transferred to any branch register nor may shares on any branch register be transferred to the principal register or any other branch register. All transfers and other documents of title shall be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the registered office in Bermuda or such other place in Bermuda at which the principal register is kept in accordance with the Bermuda Companies Act.

The Board may, in its absolute discretion, and without assigning any reason, refuse to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which the Company has a lien.

The Board may decline to recognise any instrument of transfer unless a fee of such maximum sum as any Designated Stock Exchange may determine to be payable or such lesser sum as the Directors may from time to time require is paid to the Company in respect thereof, the instrument of transfer, if applicable, is properly stamped, is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the Board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers of any shares or any class of shares may be suspended at such time and for such periods not exceeding 30 days in any year as the Board may determine.

(k) Power for the Company to purchase its own shares

The Bye-Laws supplement the Company's Memorandum of Association (which gives the Company the power to purchase its own shares) by providing that the power is exercisable by the Board upon such terms and conditions as it thinks fit subject to the Bermuda Companies Act, the Memorandum of Association and the rules of any Designated Stock Exchange.

(l) Power for any subsidiary of the Company to own shares in the Company

There are no provisions in the Bye-Laws relating to ownership of shares in the Company by a subsidiary.

(m) Dividends and other methods of distribution

Subject to the Bermuda Companies Act, the Company in general meeting may declare dividends but no dividend shall be declared in excess of the amount recommended by the Board. The Company in general meeting may also make a distribution to its members out of contributed surplus (as ascertained in accordance with the Bermuda Companies Act).

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to a member by the Company on or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the Board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the Board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the Board may think fit. The Company may also upon the recommendation of the Board by special resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Whenever the Board or the Company in general meeting has resolved that a dividend be paid or declared the Board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the Board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the Board and shall revert to the Company.

(n) Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company. In addition, a proxy or proxies representing either a member who is an individual or a member which is a corporation shall be entitled to exercise the same powers on behalf of the member which he or they represent as such member could exercise.

(o) Call on shares and forfeiture of shares

Subject to the Bye-Laws and to the terms of allotment, the Board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by installments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding 20 per cent. per annum as the Board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the Board may waive payment of such interest wholly or in part. The Board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or installments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the Board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the Board may serve not less than 14 clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the Board to that effect.

Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the Board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding 20 per cent. per annum as the Board determines.

(p) Inspection of register of members

The register and branch register of members shall be open to inspection between 10:00 a.m. and 12:00 noon on every business day by members without charge, or by any other person upon a maximum payment of five Bermuda dollars, at the registered office or such other place in Bermuda at which the register is kept in accordance with the Bermuda Companies Act or, upon a maximum payment of \$10, at the Registration Office (as defined in the Bye-Laws), unless the register is closed in accordance with the Bermuda Companies Act.

(q) Quorum for meetings and separate class meetings

For all purposes the quorum for a general meeting shall be three members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one third in nominal value of the issued shares of that class.

(r) Rights of the minorities in relation to fraud or oppression

There are no provisions in the Bye-Laws relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Bermuda law, as summarised in paragraph 4(e) of this appendix.

(s) Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

If the Company shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Bermuda Companies Act, divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(t) Untraceable members

The Company may sell any of the shares of a member who is untraceable if (i) all cheques or warrants (being not less than three in total number) for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) upon the expiry of the 12 year period, the Company has not during that time received any indication of the existence of the member; and (iii) the Company has caused an advertisement to be published in accordance with the rules of the Designated Stock Exchange giving notice of its intention to sell such shares and a period of three months has elapsed since such advertisement and the Designated Stock Exchange has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds, it shall become indebted to the former member of the Company for an amount equal to such net proceeds.

(u) Other provisions

The Bye-Laws provide that to the extent that it is not prohibited by and is in compliance with the Bermuda Companies Act, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

3. VARIATION OF MEMORANDUM OF ASSOCIATION AND BYE-LAWS

The Memorandum of Association may be altered by the Company by special resolution in general meeting. The Bye-Laws may be amended by a resolution of the Directors and confirmed by a special resolution of the members in general meeting. The Bye-Laws state that a special resolution shall be required to alter the provisions of the Memorandum of Association or to confirm any amendment to the Bye-Laws or to change the name of the Company. For these purposes, a resolution is a special resolution if it has been passed by a majority of not less than three fourths of the votes cast by such members of the Company as, being entitled to do so, vote in person or, in the case of such members as are corporations, by their respective duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which not less than 21 clear days' notice specifying the intention to propose the resolution as a special resolution has been duly given. Except in the case of an annual general meeting, the requirement of 21 clear days' notice may be waived by a majority in number of the members having the right to attend and vote at the relevant meeting, being a majority together holding not less than 95 percent in nominal value of the shares giving that right.

4. BERMUDA COMPANY LAW

The Company is incorporated in Bermuda and, therefore, operates subject to Bermuda law. Set out below is a summary of certain provisions of Bermuda company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Bermuda company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

(a) Share capital

The Bermuda Companies Act provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount or value of the premiums on those shares shall be transferred to an account, to be called the “share premium account”, to which the provisions of the Bermuda Companies Act relating to a reduction of share capital of a company shall apply as if the share premium account was paid up share capital of the company except that the share premium account may be applied by the company:

- (i) in paying up unissued shares of the company to be issued to members of the company as fully paid bonus shares;
- (ii) in writing off:
 - (aa) the preliminary expenses of the company; or
 - (bb) the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; or
- (iii) in providing for the premiums payable on redemption of any shares or of any debentures of the company.

In the case of an exchange of shares the excess value of the shares acquired over the nominal value of the shares being issued may be credited to a contributed surplus account of the issuing company.

The Bermuda Companies Act permits a company to issue preference shares and subject to the conditions stipulated therein to convert those preference shares into redeemable preference shares.

The Bermuda Companies Act includes certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. Where provision is made by the memorandum of association or Bye-Laws for authorising the variation of rights attached to any class of shares in the company, the consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required, and where no provision for varying such rights is made in the memorandum of association or Bye-Laws and nothing therein precludes a variation of such rights, the written consent of the holders of three fourths of the issued shares of that class or the sanction of a resolution passed as aforesaid is required.

(b) Financial assistance to purchase shares of a company or its holding company

A company is prohibited from providing financial assistance for the purpose of an acquisition of its own or its holding company's shares unless there are reasonable grounds for believing that the company is, and would after the giving of such financial assistance be, able to pay its liabilities as they become due. In certain circumstances, the prohibition from giving financial assistance may be excluded such as where the assistance is only an incidental part of a larger purpose or the assistance is of an insignificant amount such as the payment of minor costs.

(c) Purchase of shares and warrants by a company and its subsidiaries

A company may, if authorised by its memorandum of association or Bye-Laws, purchase its own shares. Such purchases may only be effected out of the capital paid up on the purchased shares or out of the funds of the company otherwise available for dividend or distribution or out of the proceeds of a fresh issue of shares made for the purpose. Any premium payable on a purchase over the par value of the shares to be purchased must be provided for out of funds of the company otherwise available for dividend or distribution or out of the company's share premium account. Any amount due to a shareholder on a purchase by a company of its own shares may (i) be paid in cash; (ii) be satisfied by the transfer of any part of the undertaking or property of the company having the same value; or (iii) be satisfied partly under (i) and partly under (ii). Any purchase by a company of its own shares may be authorised by its Board of directors or otherwise by or in accordance with the provisions of its Bye-Laws. Such purchase may not be made if, on the date on which the purchase is to be effected, there are reasonable grounds for believing that the company is, or after the purchase would be, unable to pay its liabilities as they become due. The shares so purchased may either be cancelled or held as treasury shares. Any purchased shares that are cancelled will, in effect,

revert to the status of authorised but unissued shares. If shares of the company are held as treasury shares, the company is prohibited to exercise any rights in respect of those shares, including any right to attend and vote at meetings, including a meeting under a scheme of arrangement, and any purported exercise of such a right is void. No dividend shall be paid to the company in respect of shares held by the company as treasury shares; and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) shall be made to the company in respect of shares held by the company as treasury shares. Any shares allotted by the company as fully paid bonus shares in respect of shares held by the company as treasury shares shall be treated for the purposes of the Bermuda Companies Act as if they had been acquired by the company at the time they were allotted.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Bermuda law that a company's memorandum of association or its Bye-Laws contain a specific provision enabling such purchases.

Under Bermuda law, a subsidiary may hold shares in its holding company and in certain circumstances, may acquire such shares. The holding company is, however, prohibited from giving financial assistance for the purpose of the acquisition, subject to certain circumstances provided by the Bermuda Companies Act. A company, whether a subsidiary or a holding company, may only purchase its own shares if it is authorised to do so in its memorandum of association or Bye-Laws pursuant to section 42A of the Bermuda Companies Act.

(d) Dividends and distributions

A company may not declare or pay a dividend, or make a distribution out of contributed surplus, if there are reasonable grounds for believing that (i) the company is, or would after the payment be, unable to pay its liabilities as they become due; or (ii) the realisable value of the company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts. Contributed surplus is defined for purposes of section 54 of the Bermuda Companies Act to include the proceeds arising from donated shares, credits resulting from the redemption or conversion of shares at less than the amount set up as nominal capital and donations of cash and other assets to the company.

(e) Protection of minorities

Class actions and derivative actions are generally not available to shareholders under the laws of Bermuda. The Bermuda courts, however, would ordinarily be expected to permit a shareholder to commence an action in the name of a company to remedy a wrong done to the company where the act complained of is alleged to be beyond the corporate power of the company or is illegal or would result in the violation of the company's memorandum of association and Bye-Laws. Furthermore, consideration would be given by the court to acts that are alleged to constitute a fraud against the minority shareholders or, for instance, where an act requires the approval of a greater percentage of the company's shareholders than actually approved it.

Any member of a company who complains that the affairs of the company are being conducted or have been conducted in a manner oppressive or prejudicial to the interests of some part of the members, including himself, may petition the court which may, if it is of the opinion that to wind up the company would unfairly prejudice that part of the members but that otherwise the facts would justify the making of a winding up order on just and equitable grounds, make such order as it thinks fit, whether for regulating the conduct of the company's affairs in future or for the purchase of shares of any members of the company by other members of the company or by the company itself and in the case of a purchase by the company itself, for the reduction accordingly of the company's capital, or otherwise. Bermuda law also provides that the company may be wound up by the Bermuda court, if the court is of the opinion that it is just and equitable to do so. Both these provisions are available to minority shareholders seeking relief from the oppressive conduct of the majority, and the court has wide discretion to make such orders as it thinks fit.

Except as mentioned above, claims against a company by its shareholders must be based on the general laws of contract or tort applicable in Bermuda.

A statutory right of action is conferred on subscribers of shares in a company against persons, including directors and officers, responsible for the issue of a prospectus in respect of damage suffered by reason of an untrue statement therein, but this confers no right of action against the company itself. In addition, such company, as opposed to its shareholders, may take action against its officers including directors, for breach of their statutory and fiduciary duty to act honestly and in good faith with a view to the best interests of the company.

(f) Management

The Bermuda Companies Act contains no specific restrictions on the power of directors to dispose of assets of a company, although it specifically requires that every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. Furthermore, the Bermuda Companies Act requires that every officer should comply with the Bermuda Companies Act, regulations passed pursuant to the Bermuda Companies Act and the Bye-Laws of the company. The directors of a company may, subject to the Bye-Laws of the company, exercise all the powers of the company except those powers that are required by the Bermuda Companies Act or the Bye-Laws to be exercised by the members of the company.

(g) Accounting and auditing requirements

The Bermuda Companies Act requires a company to cause proper records of accounts to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company and (iii) the assets and liabilities of the company.

Furthermore, it requires that a company keeps its records of account at the registered office of the company or at such other place as the directors think fit and that such records shall at all times be open to inspection by the directors or the resident representative of the company. If the records of account are kept at some place outside Bermuda, there shall be kept at the office of the company in Bermuda such records as will enable the directors or the resident representative of the company to ascertain with reasonable accuracy the financial position of the company at the end of each three month period, except that where the company is listed on an appointed stock exchange, there shall be kept such records as will enable the directors or the resident representative of the company to ascertain with reasonable accuracy the financial position of the company at the end of each six month period.

The Bermuda Companies Act requires that the directors of the company must, at least once a year, lay before the company in general meeting financial statements for the relevant accounting period. Further, the company's auditor must audit the financial statements so as to enable him to report to the members. Based on the results of his audit, which must be made in accordance with generally accepted auditing standards, the auditor must then make a report to the members. The generally accepted auditing standards may be those of a country or jurisdiction other than Bermuda or such other generally accepted auditing standards as may be appointed by the Minister of Finance of Bermuda under the Bermuda Companies Act; and where the generally accepted auditing standards used are other than those of Bermuda, the report of the auditor shall identify the generally accepted auditing standards used. All members of the company are entitled to receive a copy of every financial statement prepared in accordance with these requirements, at least five (5) days before the general meeting of the company at which the financial statements are to be tabled. A company the shares of which are listed on an appointed stock exchange may send to its members summarized financial statements instead. The summarized financial statements must be derived from the company's financial statements for the relevant period and contain the information set out in the Bermuda Companies Act. The summarized financial statements sent to the company's members must be accompanied by an auditor's report on the summarized financial statements and a notice stating how a member may notify the company of his election to receive financial statements for the relevant period and/or for subsequent periods.

The summarized financial statements together with the auditor's report thereon and the accompanied notice must be sent to the members of the company not less than twenty-one (21) days before the general meeting at which the financial statements are laid. Copies of the financial statements must be sent to a member who elects to receive the same within seven (7) days of receipt by the company of the member's notice of election.

(h) Auditors

At each annual general meeting, a company must appoint an auditor to hold office until the close of the next annual general meeting; however, this requirement may be waived if all of the shareholders and all of the directors, either in writing or at the general meeting, agree that there shall be no auditor.

A person, other than an incumbent auditor, shall not be capable of being appointed auditor at an annual general meeting unless notice in writing of an intention to nominate that person to the office of auditor has been given not less than twenty-one (21) days before the annual general meeting. The company must send a copy of such notice to the incumbent auditor and give notice thereof to the members not less than seven (7) days before the annual general meeting. An incumbent auditor may, however, by notice in writing to the secretary of the company waive the requirements of the foregoing.

Where an auditor is appointed to replace another auditor, the new auditor must seek from the replaced auditor a written statement as to the circumstances of the latter's replacement. If the replaced auditor does not respond within fifteen (15) days, the new auditor may act in any event. An appointment as auditor of a person who has not requested a written statement from the replaced auditor is voidable by a resolution of the shareholders at a general meeting. An auditor who has resigned, been removed or whose term of office has expired or is about to expire, or who has vacated office is entitled to attend the general meeting of the company at which he is to be removed or his successor is to be appointed; to receive all notices of, and other communications relating to, that meeting which a member is entitled to receive; and to be heard at that meeting on any part of the business of the meeting that relates to his duties as auditor or former auditor.

(i) Exchange control

An exempted company is usually designated as "non resident" for Bermuda exchange control purposes by the Bermuda Monetary Authority. Where a company is so designated, it is free to deal in currencies of countries outside the Bermuda exchange control area which are freely convertible into currencies of any other country. The permission of the Bermuda Monetary Authority is required for the issue of shares and securities by the company and the subsequent transfer of such shares and securities. In granting such permission, the Bermuda Monetary Authority accepts no responsibility for the financial soundness of any proposals or for the correctness of any statements made or opinions expressed in any document with regard to such issue. Before the company can issue or transfer any further shares and securities in excess of the amounts already approved, it must obtain the prior consent of the Bermuda Monetary Authority.

The Bermuda Monetary Authority has granted general permission for the issue and transfer of shares and securities to and between persons regarded as resident outside Bermuda for exchange control purposes without specific consent for so long as any equity securities, including shares, are listed on an appointed stock exchange (as defined in the Bermuda Companies Act). Issues to and transfers involving persons regarded as "resident" for exchange control purposes in Bermuda will be subject to specific exchange control authorisation.

(j) Taxation

Under present Bermuda law, no Bermuda withholding tax on dividends or other distributions, nor any Bermuda tax computed on profits or income or on any capital asset, gain or appreciation will be payable by an exempted company or its operations, nor is there any Bermuda tax in the nature of estate duty or inheritance tax applicable to shares, debentures or other obligations of the company held by non residents of Bermuda. Furthermore, a company may apply to the Minister of Finance of Bermuda for an assurance, under the Exempted Undertakings Tax Protection Act 1966 of Bermuda, that no such taxes shall be so applicable until 31st March 2035, although this assurance will not prevent the imposition of any Bermuda tax payable in relation to any land in Bermuda leased or let to the company or to persons ordinarily resident in Bermuda.

(k) Stamp duty

An exempted company is exempt from all stamp duties except on transactions involving “Bermuda property”. This term relates, essentially, to real and personal property physically situated in Bermuda, including shares in local companies (as opposed to exempted companies). Transfers of shares and warrants in all exempted companies are exempt from Bermuda stamp duty.

(l) Loans to directors

Bermuda law prohibits the making of loans by a company to any of its directors or to their families or companies in which they hold more than a twenty per cent. (20%) interest, without the consent of any member or members holding in aggregate not less than nine tenths of the total voting rights of all members having the right to vote at any meeting of the members of the company. These prohibitions do not apply to (a) anything done to provide a director with funds to meet the expenditure incurred or to be incurred by him for the purposes of the company, provided that the company gives its prior approval at a general meeting or, if not, the loan is made on condition that it will be repaid within six months of the next following annual general meeting if the loan is not approved at or before such meeting, (b) in the case of a company whose ordinary business includes the lending of money or the giving of guarantees in connection with loans made by other persons, anything done by the company in the ordinary course of that business, or (c) any advance of moneys by the company to any officer or auditor under Section 98(2)(c) of the Bermuda Companies Act which allows the company to advance moneys to an officer or auditor of the company for the costs incurred in defending any civil or criminal proceedings against them, on condition that the officer or auditor shall repay the advance if any allegation of fraud or dishonesty is proved against them. If the approval of the company is not given for a loan, the directors who authorised it will be jointly and severally liable for any loss arising therefrom.

(m) Inspection of corporate records

Members of the general public have the right to inspect the public documents of a company available at the office of the Registrar of Companies in Bermuda which will include the company's certificate of incorporation, its memorandum of association (including its objects and powers) and any alteration to the company's memorandum of association. The members of the company have the additional right to inspect the Bye-Laws of a company, minutes of general meetings and the company's audited financial statements, which must be presented to the annual general meeting. Minutes of general meetings of a company are also open for inspection by directors of the company without charge for not less than two (2) hours during business hours each day. The register of members of a company is open for inspection by members of the public without charge. The company is required to maintain its share register in Bermuda but may, subject to the provisions of the Bermuda Companies Act, establish a branch register outside Bermuda. Any branch register of members established by the company is subject to the same rights of inspection as the principal register of members of the company in Bermuda. Any person may on payment of a fee prescribed by the Bermuda Companies Act require a copy of the register of members or any part thereof which must be provided within fourteen (14) days of a request. Bermuda law does not, however, provide a general right for members to inspect or obtain copies of any other corporate records.

A company is required to maintain a register of directors and officers at its registered office and such register must be made available for inspection for not less than two (2) hours in each day by members of the public without charge. If summarized financial statements are sent by a company to its members pursuant to section 87A of the Bermuda Companies Act, a copy of the summarized financial statements must be made available for inspection by the public at the registered office of the company in Bermuda.

(n) Winding up

A company may be wound up by the Bermuda court on application presented by the company itself, its creditors or its contributors. The Bermuda court also has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the Bermuda court, just and equitable that such company be wound up.

A company may be wound up voluntarily when the members so resolve in general meeting, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum expires, or the event occurs on the occurrence of which the memorandum provides that the company is to be dissolved. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above. Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval.

Where, on a voluntary winding up, a majority of directors make a statutory declaration of solvency, the winding up will be a members' voluntary winding up. In any case where such declaration has not been made, the winding up will be a creditors' voluntary winding up.

In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators within the period prescribed by the Bermuda Companies Act for the purpose of winding up the affairs of the company and distributing its assets. If the liquidator at any time forms the opinion that such company will not be able to pay its debts in full, he is obliged to summon a meeting of creditors.

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. This final general meeting requires at least one month's notice published in an appointed newspaper in Bermuda.

In the case of a creditors' voluntary winding up of a company, the company must call a meeting of creditors of the company to be summoned on the day following the day on which the meeting of the members at which the resolution for winding up is to be proposed is held. Notice of such meeting of creditors must be sent at the same time as notice is sent to members. In addition, such company must cause a notice to appear in an appointed newspaper on at least two occasions.

The creditors and the members at their respective meetings may nominate a person to be liquidator for the purposes of winding up the affairs of the company provided that if the creditors nominate a different person, the person nominated by the creditors shall be the liquidator. The creditors at the creditors' meeting may also appoint a committee of inspection consisting of not more than five persons.

If a creditors' winding up continues for more than one year, the liquidator is required to summon a general meeting of the company and a meeting of the creditors at the end of each year to lay before such meetings an account of his acts and dealings and of the conduct of the winding up during the preceding year. As soon as the affairs of the company are fully wound up, the liquidator must make an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon shall call a general meeting of the company and a meeting of the creditors for the purposes of laying the account before such meetings and giving an explanation thereof.

5. GENERAL

Conyers Dill & Pearman, the Company's legal advisers on Bermuda law, have sent to the Company a letter of advice summarising certain aspects of Bermuda company law. This letter, together with a copy of the Bermuda Companies Act, is available for inspection as referred to in Appendix XI. Any person wishing to have a detailed summary of Bermuda company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

1. RESPONSIBILITY STATEMENTS

The Directors jointly and severally accept full responsibility for the accuracy of the information (other than those in relation to the Parent Group, the holding company of the Parent Company and the subsidiaries of such holding company, Cinda, Huarong and the Target Group) contained in this circular, and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular the omission of which would make any statement contained in this circular misleading.

The directors of the Parent Company jointly and severally accept full responsibility for the accuracy of the information in relation to the Parent Group, the holding company of the Parent Company and the subsidiaries of such holding company, Cinda, Huarong and the Target Group contained in this circular, and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular the omission of which would make any statement contained in this circular misleading.

2. FURTHER INFORMATION ABOUT THE GROUP AND THE TARGET GROUP**(1) Incorporation of the Company**

The Company was incorporated as an exempted limited liability company in Bermuda under the Bermuda Companies Act on 19 July 1990. The Company has established a place of business in Hong Kong at Unit 2001, World Wide House, 19 Des Voeux Road, Central, Hong Kong and was registered in Hong Kong as a non-Hong Kong company under Part XI of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) on 12 November 1990. Ms. Chan Yim Kum of Unit 2001, World Wide House, 19 Des Voeux Road, Central, Hong Kong was appointed as the agent of the Company for the acceptance of service of process and notices on behalf of the Company in Hong Kong at the above address.

As the Company is incorporated in Bermuda, it operates subject to the laws of Bermuda and its constitutive documents comprising the Memorandum of Association and Bye-Laws. A summary of certain relevant provisions of the Memorandum of Association and Bye-Laws and certain relevant aspects of the Bermudan company law are set out in Appendix IX to this circular.

(2) Changes in share capital of members of the Group and the Target Group

The following alterations in the share capital or the registered capital of the members of the Group and the Target Group took place within two years immediately preceding the Latest Practicable Date:

The Group

On 22 July 2010, the Company issued the Existing Convertible Notes, being Hong Kong dollar denominated 1% convertible notes in the principal amount of HK\$220,000,000. As at the Latest Practicable Date, none of the Existing Convertible Notes has been converted. Please refer to the Company's announcement dated 16 April 2010 for further information.

On 8 June 2010, the share capital of Reservoir Mongolia LLC increased from US\$10,000 to US\$100,000.

On 14 December 2010, the registered capital of 新疆滙祥永金礦業有限公司 (Xinjiang Huixiang Yong Jin Mining Company Limited) increased from RMB39,000,000 to RMB121,000,000.

Save as disclosed above, there has been no alteration in the share capital or the registered capital of any member of the Group within two years immediately preceding the Latest Practicable Date.

The Target Group***Daye Metal***

Daye Metal was incorporated in March 2005 in the PRC in the form of a limited liability company under the name 大冶有色金屬有限公司 (Daye Non-ferrous Metals Company Limited). Daye Metal was converted into a joint stock company in May 2010 with a registered capital of RMB1,420,000,000. Its capital was increased to RMB1,490,977,877 on 20 April 2010. Daye Metal was converted from a joint stock company into a sino-foreign equity joint venture in September 2011 with a registered capital of RMB1,490,977,877.

Save as disclosed above, there has been no alteration in the share capital or the registered capital of any member of the Target Group within two years immediately preceding the Latest Practicable Date.

3. FURTHER INFORMATION RELATING TO THE COMPANY UNDER THE TAKEOVERS CODE

As at the Latest Practicable Date, the Company had 5,591,195,552 Ordinary Shares and 16,485 Preference Shares in issue. It had issued share options pursuant to which if fully exercised, 307,700,000 Ordinary Shares may be issued. It also had the Existing Convertible Notes outstanding which are convertible into 355,987,055 Ordinary Shares.

As at the Latest Practicable Date, China Times was interested in 1,163,236,988 Ordinary Shares, representing approximately 20.80% of the total Ordinary Shares in issue. It also held 5,495 Preference Shares (representing approximately 33.33% of the total Preference Shares in issue). Save as disclosed above, none of China Times and persons acting in concert with it held any Ordinary Shares or Preference Shares, or any convertible securities, warrants or options in respect of the Ordinary Shares or Preference Shares as at the Latest Practicable Date.

(1) The Company

As at the Latest Practicable Date:

- (a) the Company was not interested in any securities, shares, options, warrants, derivatives or convertible securities of China Times and it had not dealt for value in any such securities during the period commencing six months prior to 1 February 2011 (being the date of the announcement of the Company in relation to, among others, the Acquisition Agreement and the First Supplemental Agreement) and ending on the Latest Practicable Date;
- (b) save as disclosed in the section headed “Further information about the Directors and substantial shareholders-Disclosures of interests” in this appendix, none of the Directors was interested in the securities, shares, options, warrants, derivatives or convertible securities of the Company or China Times and none of them had dealt for value in any such securities during the period commencing six months prior to 1 February 2011 (being the date of the announcement of the Company in relation to, among others, the Acquisition Agreement and the First Supplemental Agreement) and ending on the Latest Practicable Date;

- (c) save as disclosed in the subsection headed “Advisers to the Company” in this section, none of the subsidiaries of the Company, or pension funds of the Company or of a subsidiary of the Company or advisers to the Company as specified in class (2) of the definition of “associate” in the Takeovers Code (but excluding persons enjoying exempt principal trader status under the Takeovers Code) owned or controlled any securities, shares, options, warrants, derivatives or convertible securities of the Company and none of them had dealt for value in any such securities during the period commencing on 1 February 2011 (being the date of the announcement of the Company in relation to, among others, the Acquisition Agreement and the First Supplemental Agreement) and ending on the Latest Practicable Date;
- (d) no person had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or with any person who is an associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of “associate” in the Takeovers Code;
- (e) there were no securities, shares, options, warrants, derivatives or convertible securities of the Company which were managed on a discretionary basis by fund managers (other than fund managers enjoying exempt fund manager status) connected with the Company;
- (f) Messrs. Wan Bi Qi, Chen Xiang, Wang Qihong and Wang Guoqi and Ms. Yuan Ping, being the Directors who were interested in the securities of the Company as at the Latest Practicable Date, had confirmed that they would abstain from voting on the Acquisition and the Whitewash Waiver at the EGM;
- (g) none of the Directors or the Company had borrowed or lent any shares, warrants, options, convertible securities or derivatives of the Company;
- (h) there was no agreement or arrangement pursuant to which any Director would be given any benefit as compensation for loss of office or otherwise in connection with the Whitewash Waiver;
- (i) there was no agreement or arrangement between any Director and any other person which is conditional on or dependent upon the outcome of, or otherwise in connection with, the Whitewash Waiver; and
- (j) there was no material contract entered into by China Times or the Parent Company in which any Director has a material personal interest.

(2) The Sponsor

The Sponsor has made an application on behalf of the Company to the Listing Committee of the Stock Exchange for the listing of and permission to deal in, the Ordinary Shares in issue and the China Times Consideration Shares, Cinda Consideration Shares and Conversion Shares to be issued pursuant to the Acquisition. For the purpose of the deemed new listing application of the Company, J.P. Morgan is considered as an independent sponsor pursuant to Rule 3A.10 of the Listing Rules.

As at the Latest Practicable Date:

- (a) neither the Sponsor, nor any persons controlling, controlled by or under the same control as the Sponsor owned or controlled any securities, shares, options, warrants, derivatives or convertible securities of the Company;
- (b) neither the Sponsor, nor any persons controlling, controlled by or under the same control as the Sponsor had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with any person; and
- (c) there was no agreement, arrangement or understanding between the Sponsor or any persons controlling, controlled by or under the same control as the Sponsor on the one part and any of the Directors or shareholders of the Company on the other part, which was conditional on or dependent upon the outcome of, or otherwise in connection with, the Whitewash Waiver.

(3) Advisers to the Company

As at the Latest Practicable Date, none of Platinum Securities, or any persons controlling, controlled by or under the same control as Platinum Securities, any bank, financial and professional advisers to the Company in relation to the Acquisition and the Whitewash Waiver and any person controlling, controlled by or under the same control as such banks, financial and professional advisers, owned or controlled any securities, shares, options, warrants, derivatives or convertible securities of the Company.

Platinum Broking Company Limited, a company under the same control as Platinum Securities, carried out the following disposals of Ordinary Shares on the market during the period commencing on 1 February 2011 (being the date of the announcement of the Company in relation to, among others, the Acquisition Agreement and the First Supplemental Agreement) and ending on the Latest Practicable Date, pursuant to the instruction of one of its clients who is not connected to Platinum Securities, or any persons controlling, controlled by or under the same control as Platinum Securities: (i) on 26 May 2011, 1,460,000 Ordinary Shares were disposed of at a price of HK\$0.54 per share (amounting to a total of HK\$788,400), (ii) on 13 June 2011, 70,000 Ordinary Shares were disposed of at a price of HK\$0.53 per share (amounting to a total of HK\$37,100), and (iii) on 14 June 2011, 1,400,000 Ordinary Shares were disposed of at a price of HK\$0.53 per share (amounting to a total of HK\$742,000).

(4) Market prices of the Ordinary Shares

The table below sets out the closing prices of the Ordinary Shares on the Stock Exchange (a) on the Latest Practicable Date; (b) on 21 January 2011, being the Last Trading Day; and (c) at the end of each of the calendar months during the period commencing six months preceding the Last Trading Day and ending on the Latest Practicable Date:

Date	Closing price HK\$
31 August 2010	0.430
30 September 2010	0.455
29 October 2010	0.470
30 November 2010	0.485
31 December 2010	0.560
21 January 2011	0.590
31 January 2011(<i>Note</i>)	0.590
28 February 2011	0.590
31 March 2011	0.540
29 April 2011	0.610
31 May 2011	0.540
30 June 2011	0.530
29 July 2011	0.530
31 August 2011	0.490
30 September 2011	0.365
31 October 2011	0.430
30 November 2011	0.455
Latest Practicable Date	0.420

Note: Trading in the Ordinary Shares and Preference Shares was suspended during the period from 24 January 2011 to 1 February 2011 prior to the issue of the announcement on 1 February 2011 in relation to, among others, the Acquisition.

The highest and lowest closing market price of the Ordinary Shares on the Stock Exchange during the period commencing six months preceding 1 February 2011 (being the date of the announcement of the Company in relation to, among others, the Acquisition Agreement and the First Supplemental Agreement) and the Latest Practicable Date were HK\$0.650 on 2 February 2011 and 9 February 2011, and HK\$0.360 on 3 October 2011 and 4 October 2011, respectively.

(5) Shares issued

Save as disclosed in this appendix, the Company has not issued any shares, convertible securities, warrants, options or derivatives since 31 December 2010 up to and including the Latest Practicable Date.

4. FURTHER INFORMATION RELATING TO CHINA TIMES UNDER THE TAKEOVERS CODE

Set out below are details of China Times, the Parent Company (being the principal person acting in concert with China Times and is wholly-owned by Hubei SASAC) and their respective directors:

(1) China Times

Registered Address

Portcullis TrustNet (BVI) Limited
Portcullis TrustNet Chambers
P.O. Box 3444, Road Town
Tortola, British Virgin Islands

Director

Long Zhongsheng (龍仲勝)

Correspondence Address

Unit 2001, World Wide House,
19 Des Voeux Road Central
Hong Kong

(2) Parent Company

Registered Address

No. 115 Xialu Avenue, Huangshi City,
Hubei Province, the PRC

Directors

Zhang Lin (張麟)
Zhai Baojin (翟保金)
Wen Sen (溫森)
Wu Lijie (吳禮杰)
Wang Yunqing (王運清)
Kang Yi (康義)
Yao Zou (姚鄒)

Correspondence Address

Unit 2001, World Wide House,
19 Des Voeux Road Central
Hong Kong

China Times has confirmed that:

- (a) save as disclosed in the section headed “Further information about the Directors and substantial shareholders – Disclosures of interest” in this appendix, none of China Times, the Parent Company or persons acting in concert with any of them owned or controlled any shares, options, warrants or derivatives of the Company and none of them had dealt for value in any shares, options, warrants or convertible securities of the Company or any derivatives in respect of such securities in the six months prior to 1 February 2011, being the date of the announcement of the Company in relation to, among others, the Acquisition Agreement and the First Supplemental Agreement, and up to and including the Latest Practicable Date;
- (b) none of the directors of China Times owned or controlled any shares, options, warrants or derivatives of the Company and none of them had dealt for value in any shares, options, warrants or convertible securities of the Company or any derivatives in respect of such securities in the six months prior to 1 February 2011, being the date of the announcement of the Company in relation to, among others, the Acquisition Agreement and the First Supplemental Agreement, and up to and including the Latest Practicable Date;
- (c) none of China Times, the Parent Company or persons acting in concert with any of them have entered into any outstanding derivative in respect of securities in the Company;
- (d) none of China Times, the Parent Company or persons acting in concert with any of them have entered into any arrangement referred to in Note 8 to Rule 22 of the Takeovers Code (whether by way of option, indemnity or otherwise) in relation to the shares of the Company or China Times;
- (e) China Times has not entered into any agreements or arrangements which relate to the circumstances in which it may or may not invoke or seek to invoke a pre-condition or a condition to the Acquisition or the Whitewash Waiver;
- (f) none of China Times, the Parent Company or persons acting in concert with any of them have borrowed or lent any relevant securities in the Company (as defined in Note 4 to Rule 22 of the Takeovers Code);
- (g) as at the Latest Practicable Date, none of China Times, the Parent Company or persons acting in concert with any of them have received any irrevocable commitment from any Independent Shareholders that they will vote in favour of the resolution approving the Whitewash Waiver at the EGM;

- (h) none of China Times, the Parent Company or persons acting in concert with any of them have entered into any agreement, arrangement or understanding (including any compensation arrangement), with any of the Directors, recent directors, shareholders or recent shareholders of the Company in connection with or dependence upon the outcome of the Whitewash Waiver; and
- (i) none of China Times, the Parent Company or persons acting in concert with any of them have entered into any agreement, arrangement or understanding for the transfer, charge or pledge of any Ordinary Shares to any other person.

5. FURTHER INFORMATION ABOUT THE BUSINESS OF THE COMPANY

(1) Summary of material contracts

The following contracts (not being contracts in the ordinary course of business carried on or intended to be carried on by the Company or any of its subsidiaries) have been entered into by members of the Group at any time within two years before 1 February 2011, being the date of the announcement of the Company in relation to, among others, the Acquisition Agreement and the Supplemental Agreement, and up to the Latest Practicable Date, and are or may be material:

- (a) a placing agreement dated 23 April 2009 and entered into between the Company and Stand East Investments Limited as placee, pursuant to which the placee agreed to subscribe for 60,000,000 Warrants at an issue price of HK\$0.05 per warrant;
- (b) a placing and subscription agreement dated 18 November 2009 and entered into between China Times as subscriber, the Company and China Merchants Securities (HK) Co., Ltd. as placing agent, pursuant to which China Merchants Securities (HK) Co., Ltd. agreed to procure, on a best efforts basis, placee(s) to acquire approximately 439,516,000 Ordinary Shares at the placing price of HK\$0.64 per placing share;
- (c) a framework agreement dated 13 April 2010 (the “**Framework Agreement**”) and entered into between the Company as purchaser, GobiMin Inc. (“**GobiMin**”) as guarantor, and Alexis Resources Limited (“**Alexis**”) as vendor, pursuant to which the Company agreed to acquire 80% interest in Qianyi Limited (“**Qianyi**”) from Alexis at a consideration of HK\$280 million (the “**Qianyi Acquisition**”);

- (d) a supplemental agreement dated 27 May 2010 and entered into between the Company, GobiMin and Alexis pursuant to which the parties agreed to amend the Framework Agreement such that the conditions precedent for completion of the Qianyi Acquisition would be satisfied on or before 31 July 2010, or such other date mutually agreed between the parties;
- (e) a formal agreement dated 14 July 2010 (the “**Formal Agreement**”) entered into between the Company as purchaser, GobiMin as guarantor and Alexis as vendor pursuant to which the Company agreed to acquire the entire interest in Qianyi at a consideration of HK\$280 million;
- (f) a supplemental agreement dated 30 December 2010 to amend the Formal Agreement (the “**Qianyi Supplemental Agreement**”) entered into between the Company, GobiMin and Alexis pursuant to which the parties agreed to amend certain terms of the Formal Agreement;
- (g) the Acquisition Agreement dated 23 January 2011 and entered into between the Company, the Parent Company and the Vendors in relation to the Acquisition, details of which are set out in the section headed “Letter from the Board” in this circular;
- (h) the First Supplemental Agreement dated 31 January 2011 and entered into between the Company, the Parent Company and the Vendors, which is supplemental to the Acquisition Agreement, details of which are set out in the section headed “Letter from the Board” in this circular;
- (i) a supplemental agreement dated 30 August 2011 and entered into between the Company, GobiMin and Alexis pursuant to which the parties agreed to further amend certain terms of the Formal Agreement and the Qianyi Supplemental Agreement; and
- (j) the Second Supplemental Agreement dated 23 December 2011 and entered into between the Company, the Parent Company, China Times and Cinda, which is supplemental to the Acquisition Agreement and the First Supplemental Agreement, pursuant to which (1) the parties agreed to extend the date by which the conditions precedent to China Times Completion and the conditions precedent to Cinda Completion have to be fulfilled (or, if applicable, waived by the Company) as set out in the Acquisition Agreement to 30 June 2012; and (2) the non-competition undertaking given by the Parent Company to the Company in the Acquisition Agreement was amended.

The following contracts (not being contracts in the ordinary course of business) have been entered into, by members of the Target Group at any time within two years before 1 February 2011, being the date of the announcement of the Company in relation to, among others, the Acquisition Agreement and the First Supplemental Agreement, and up to the Latest Practicable Date, and are or may be material:

- (a) the Reorganisation Agreement dated 23 January 2011 and entered into between the Parent Company, the Vendors, the Target Company, Daye Hong Kong and Daye Metal, details of which are set out in the section headed “Letter from the Board” in this circular;
- (b) the share transfer agreement dated 26 September 2011 and entered into between the Target Company, China Times and Daye Hong Kong, pursuant to which, among others, the Target Company agreed to allot and issue 9,317 new shares in the share capital of the Target Company to China Times in consideration for China Times to transfer its equity interest in Daye Metal to Daye Hong Kong; and
- (c) the share transfer agreement dated 26 September 2011 and entered into between the Target Company, Cinda HK and Daye Hong Kong, pursuant to which, among others, the Target Company agreed to allot and issue 682 new shares in the share capital of the Target Company to Cinda HK in consideration for Cinda HK to transfer its equity interest in Daye Metal to Daye Hong Kong.

(2) Intellectual property rights of the Group and the Target Group

As of the Latest Practicable Date, the Target Group has registered or has applied for the registration of the following intellectual property rights.



*Trade marks**(a) Trade marks for which registration has been granted*

As of the Latest Practicable Date, the Target Group has applied for and has been granted the registration of a number of trade marks, details of which are as follows:

Trade mark	Registered Owner	Place of Registration	Class	Registration Number	Expiry Date
	Daye Metal	PRC	6	562099	19 August 2021
	Daye Metal	PRC	6	234472	14 October 2015
	Daye Metal	PRC	1	562018	19 August 2021
	Daye Metal	PRC	14	1923215	20 November 2012
大江	Daye Metal	PRC	14	3171005	6 March 2014
	Daye Metal	PRC	6	1079493	13 August 2017
大江彩铝	Daye Metal	PRC	6	3412651	20 July 2014
大江	Daye Metal	PRC	1	6347425	6 August 2020
	Daye Metal	PRC	6	3412652	20 July 2014
	Daye Metal	PRC	1	235632	29 October 2015
	Daye Metal	PRC	6	1191230	13 July 2018

(b) *Trade marks under application*

As of the Latest Practicable Date, Daye Metal has also applied for the registration of a number of trade marks, details of which are as follows:

Trademark	Registered Owner	Place of Registration	Class	Registration Number	Application Date
	Daye Metal	PRC	1	6347426	29 October 2007
	Daye Metal	PRC	6	7407188	19 May 2009

Notes:

Class 1 relates to chemicals used in industry, science and photography, as well as in agriculture, horticulture and forestry; unprocessed artificial resins, unprocessed plastics; manures; fire extinguishing compositions; tempering and soldering preparations; chemical substances for preserving foodstuffs; tanning substances; adhesives used in industry.

Class 6 relates to common metals and their alloys; metal building materials; transportable buildings of metal; materials of metal for railway tracks; non-electric cables and wires of common metal; ironmongery, small items of metal hardware; pipes and tubes of metal; safes; goods of common metal not included in other classes; ores.

Class 14 relates to precious metals and their alloys and goods in precious metals or coated therewith, not included in other classes; jewellery, precious stones; horological and chronometric instruments.

As of the Latest Practicable Date, the Group has not applied for or registered any trade marks.

*Patents**(a) Patents for which registration has been granted*

As at of the Latest Practicable Date, the Target Group (or, if applicable, together with the Parent Company, 中南大學(Central South University) or 黄石市聚鑫有色机械制造有限公司((Huangshi City Juxin Non-ferrous Machinery Company Limited)) has applied for and has been granted the registration of a number of patents, details of which are as follows:

Patent	Registered Owner	Place of Registration	Patent Number	Date of Application	Date of Grant	Expiry Date
Manufacture of copper arsenite and application of the same (亞砷酸銅的製備及應用)	Daye Metal 中南大學 (Central South University)	PRC	ZL2006 1 0031980.7	19 July 2006	15 April 2009	19 July 2026
Reducing process for mixing natural gas and steam in operation of copper fire refining (在銅火法精煉操作中利用天然氣與蒸汽混合還原工藝)	Daye Metal, Parent Company and Daye Design	PRC	ZL2007 1 0052672.7	4 July 2007	14 October 2009	4 July 2027
Sand casting copper anode mold technique (砂型鑄造銅陽極模工藝)	Daye Metal and Parent Company	PRC	ZL2007 1 0052781.9	16 July 2007	3 February 2010	16 July 2027
Movable arc hood used on the silver smelting furnace mouth (煉銀轉爐爐口活動式弧形煙罩)	Daye Metal, Parent Company and Daye Design	PRC	ZL2009 2 0228709.1	30 September 2009	16 June 2010	30 September 2019

Patent	Registered Owner	Place of Registration	Patent Number	Date of Application	Date of Grant	Expiry Date
Starting sheet automatic grinder (種板自動打磨機)	Daye Metal, Parent Company and Daye Design	PRC	ZL2009 2 0229136.4	30 October 2009	11 August 2010	30 October 2019
Assay furnace (試金爐)	Daye Metal, Parent Company and Daye Design	PRC	ZL 2009 2 0271205.8	17 November 2009	1 September 2010	17 November 2019
Starting furnace for acid making (制酸開工爐)	Daye Metal, Parent Company and Daye Design	PRC	ZL 2009 2 0271206.2	17 November 2009	1 September 2010	17 November 2019
Acid water mixer (酸水混合器)	Daye Metal, Parent Company and Daye Design	PRC	ZL 2009 2 0271207.7	17 November 2009	1 September 2010	17 November 2019
Sulfur absorption device (硫吸收裝置)	Daye Metal, Parent Company and Daye Design	PRC	ZL 2009 2 0271208.1	17 November 2009	1 September 2010	17 November 2019
Grass trimmer for plates (板材用打邊機)	Daye Metal, Parent Company and Daye Design	PRC	ZL 2010 2 0131963.2	11 March 2010	27 October 2010	11 March 2020
Combination exhaust muffler used for turbine generator set (汽輪發電機組用組合型排氣消音器)	Daye Metal, Parent Company and Daye Design	PRC	ZL 2010 2 0131994.8	11 March 2010	27 October 2010	11 March 2020
Large anode plate slim ear mould (大板陽極板薄型耳部模具)	Daye Metal, Parent Company and Daye Design	PRC	ZL 2010 2 0131980.6	11 March 2010	12 January 2011	11 March 2020
Flow production combined refining furnace for assorted brass casting anode plate (雜銅再生澆鑄陽極板連續生產組合式精煉爐)	Daye Metal, Parent Company and Daye Design	PRC	ZL 2010 2 0170790.5	24 April 2010	19 January 2011	24 April 2020

Patent	Registered Owner	Place of Registration	Patent Number	Date of Application	Date of Grant	Expiry Date
Protective device at the bottom of refining reverberatory furnace (精煉反射爐爐底保護裝置)	Daye Metal, Parent Company and Daye Design	PRC	ZL 2010 2 0191363.5	8 May 2010	19 January 2011	8 May 2020
Resistant magnesio-chrome brick used for refining reverberatory furnace (精煉反射爐耐磨鎂鉻爐襯磚)	Daye Metal, Parent Company and Daye Design	PRC	ZL 2010 2 0191395.5	8 May 2010	9 March 2011	8 May 2020
Attemperator for chute of the shaft furnace applied for melting recycled copper (熔雜銅豎爐溜槽保溫裝置)	Daye Metal, Parent Company and Daye Design	PRC	ZL 2010 2 0191349.5	8 May 2010	19 January 2011	8 May 2020
Charging door of gas-fired shaft furnace (燃氣豎爐加料操作工作門)	Daye Metal, Parent Company and Daye Design	PRC	ZL 2010 2 0191414.4	8 May 2010	19 January 2011	8 May 2020
Counterweight device used for shaft furnace charging system (豎爐加料系統配重裝置)	Daye Metal, Parent Company and Daye Design	PRC	ZL 2010 2 0191447.9	8 May 2010	19 January 2011	8 May 2020
On-line burning detection device used for shaft furnace applied for melting recycled copper (熔雜銅豎爐燃燒在線檢測裝置)	Daye Metal, Parent Company and Daye Design	PRC	ZL 2010 2 0192580.6	12 May 2010	19 January 2011	12 May 2020
Quantitative casting tundish for copper anode (銅陽極板定量澆鑄中間包)	Daye Metal, Parent Company and Daye Design	PRC	ZL 2010 2 0221695.3	29 May 2010	19 January 2011	29 May 2020

Patent	Registered Owner	Place of Registration	Patent Number	Date of Application	Date of Grant	Expiry Date
Puller used for blocked horizontal drill stems (水平鑽鑽杆卡杆拉拔器)	Daye Metal, Parent Company and Daye Design	PRC	ZL 2010 2 0221712.3	29 May 2010	19 January 2011	29 May 2020
Premixed natural gas burning tube (預混合天然氣燃燒槍)	Daye Metal, Parent Company and Daye Design	PRC	ZL2010 2 0221692.X	29 May 2010	19 January 2011	29 May 2020
Automatic guniting device (自動噴漿裝置)	Daye Metal, Parent Company and Daye Design	PRC	ZL 2010 2 0221693.4	29 May 2010	19 January 2011	29 May 2020
Sub-nanometer modification treatment function coating special for centrifugal cast steel sleeve (離心鑄鋼套專用亞納米變質處理功能塗料)	Daye Metal, Parent Company and 黃石市聚鑫有色機械製造有限公司 (Huangshi City Juxin Non-ferrous Machinery Company Limited)	PRC	ZL 2009 1 0060586.X	16 January 2009	16 March 2011	16 January 2029
A processing method for high secondary copper precipitate ores (一種高次生泥銅混合礦石礦物加工方法)	Daye Metal, Parent Company and Daye Design	PRC	ZL 2010 1 0196998.9	29 May 2010	3 August 2011	29 May 2030
Burning unit at the charging headwall of rotary furnace (回轉式熔煉爐加料端牆燃燒器裝置)	Daye Metal, Parent Company and Daye Design	PRC	ZL 2010 2 0527358.7	8 September 2010	31 August 2011	8 September 2020
Burning unit at the slag tapping headwall of rotary furnace (回轉式熔煉爐放渣端牆燃燒器裝置)	Daye Metal, Parent Company and Daye Design	PRC	ZL 2010 2 0527346.4	8 September 2010	31 August 2011	8 September 2020

(b) Patents under application

As of the Latest Practicable Date, the Target Group (or, if applicable, together with the Parent Company) has also applied for the registration of a number of patents, details of which are as follows:

Patents	Territory	Applicant	Application Number	Application Date
A decoking process used for non-ferrous metallurgical furnace (一種有色冶金工業爐清焦工藝方法)	PRC	Daye Metal	200910060416.1	5 January 2009
Assay furnace (試金爐)	PRC	Daye Metal and Parent Company	200910224305.X	17 November 2009
Copper ions balance process used for copper electrorefining (銅電解精煉生產中的銅離子平衡工藝)	PRC	Daye Metal and Parent Company	200910273032.8	30 November 2009
Grass trimmer for plates (板材用打邊機)	PRC	Daye Metal, Parent Company and Daye Design	2010101247963	11 March 2010
Flow production process for assorted brass casting anode plate (雜銅再生澆鑄陽極板連續生產工藝)	PRC	Daye Metal, Parent Company and Daye Design	201010156231.3	24 April 2010
An on-line operating method after boiling out by exhaust heat boiler (一種餘熱鍋爐煮爐後不停爐的方法)	PRC	Daye Metal, Parent Company and Daye Design	201010124775.1	11 March 2010
A method to improve the recovery of refractory associated molybdenum in copper ore (一種提高銅礦難選伴生鉬回收率的方法)	PRC	Daye Metal, Parent Company and Daye Design	201010196999.3	29 May 2010

Patents	Territory	Applicant	Application Number	Application Date
A deironing and impurity-reducing process for long ores (一種長石礦除鐵降雜聯合工藝選礦方法)	PRC	Daye Metal, Parent Company and Daye Design	201010196997.4	29 May 2010
Automatic feeding unit of vacuum filter (真空過濾機自動給礦裝置)	PRC	Daye Metal, Parent Company and Daye Design	201020506386.0	24 August 2010
Automatic feeding unit of vacuum filter (真空過濾機自動給礦裝置)	PRC	Daye Metal, Parent Company and Daye Design	201010263785.3	24 August 2010
A method to improve the technical specifications for processing graphite-mixed copper ore (一種提高含石墨銅礦石銅選礦技術指標的方法)	PRC	Daye Metal, Parent Company and Daye Design	201010280371.1	8 September 2010

As of the Latest Practicable Date, the Group has not applied for, or registered any patents.

Domain Names

As at the Latest Practicable Date, the Group has registered the following domain names:

Domain Name	Registrant	Expiry Date
www.hk661.com	the Company	9 January 2012

FURTHER INFORMATION ABOUT THE DIRECTORS AND SUBSTANTIAL SHAREHOLDERS – DISCLOSURE OF INTERESTS

Directors

As at the Latest Practicable Date, the interests or short positions of the Directors and chief executives in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as 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 which he has taken or deemed to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, as recorded in the register referred to therein or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, were as follows:

(a) Long Positions in the Ordinary Shares

Name of Director/ Chief Executive	Capacity	Nature of interests	Number of Ordinary Shares	Approximate percentage of shareholding interest (%)
Wang Qihong	Beneficial owner	Personal interest	1,500,000	0.03%
Wang Guoqi	Beneficial owner	Personal interest	900,000	0.02%

(b) Long Positions in underlying Ordinary Shares

Name of Director/ Chief Executive	Capacity	Nature of interests	Number of underlying Ordinary Shares (Notes 1 & 2)	Approximate percentage of shareholding interest (%)
Wan Bi Qi	Beneficial owner	Personal interest	50,000,000	0.89%
Chen Xiang	Beneficial owner	Personal interest	50,000,000	0.89%
Yuan Ping	Beneficial owner	Personal interest	5,000,000	0.09%

Notes: (1) All of such underlying shares represent the number of Ordinary Shares which may be issued upon exercise of the subscription rights attaching to the share options issued to the relevant director pursuant to the Share Option Scheme.

(2) All of the share options disclosed have an exercise price of HK\$0.61 and exercise period from 19 June 2009 to 18 June 2019.

Save as disclosed above, as at the Latest Practicable Date, no other interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations were notified to the Company and the Stock Exchange under Divisions 7 and 8 of Part XV of the SFO; or were recorded in the register required to be kept under section 352 of the SFO; or was otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Persons or entities who have interests (or long positions) and short positions in the shares or underlying shares of the Company and of other member of the Group

So far as it is known to the Directors and chief executive of the Company, as at the Latest Practicable Date, the following persons (not being Directors and chief executive of the Company) had an interest (or long positions) or short position in the shares or 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 who was, 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:

(a) Long positions in the shares of the Company

Name of Shareholder	Capacity	Number of shares	Approximate percentage of total relevant class of shares in issue
China Times	Beneficial owner	1,163,236,988 Ordinary Shares	20.80% (Note 1)
Parent Company	Controlled corporation	1,163,236,988 Ordinary Shares	20.80% (Note 1)
China Times	Beneficial owner	5,495 Preference Shares	33.33%
Parent Company	Controlled corporation	5,495 Preference Shares	33.33%

(ii) *Long positions in underlying shares of the Company*

Name of Shareholder	Capacity	Number of underlying shares
Alexis (Note 2)	Beneficial owner	355,987,055 Existing Convertible Notes
GobMin (Note 2)	Interest in a controlled corporation	355,987,055 Existing Convertible Notes
Belmont Holdings Group Limited (Note 2)	Interest in a controlled corporation	355,987,055 Existing Convertible Notes
Good Omen Investments Limited (Note 2)	Interest in a controlled corporation	355,987,055 Existing Convertible Notes
Tan Felipe (Note 2)	Interest in a controlled corporation	355,987,055 Existing Convertible Notes

Notes:

- Pursuant to the Acquisition Agreement, the Company has agreed to allot and issue: (a) 10,799,762,092 new Ordinary Shares and the China Times Convertible Notes, which are convertible into 2,007,672,096 new Ordinary Shares to China Times (or its nominee) upon the China Times Completion; (b) 936,953,542 new Ordinary Shares to Cinda (or its nominee) upon the Cinda Completion; and (c) 670,282,150 new Ordinary Shares to Huarong (or its nominee) upon the Huarong Completion. As announced by the Company on 14 October 2011 that the Company has been informed by Huarong that it was not able to obtain the regulatory and other approvals required in connection with the Huarong Reorganisation and hence, as provided in the Reorganisation Agreement, Reorganisation will not proceed. Huarong Completion will therefore not take place and Huarong Consideration Shares will not be issued in accordance with the Acquisition Agreement.*
- The Existing Convertible Notes were held by Alexis, which is wholly-owned by GobiMin, which in turn is controlled as to 43% by Belmont Holdings Group Limited. Belmon Holdings Group Limited is controlled as to 61.91% by Good Omen Investments Limited, which is a wholly-owned subsidiary of Tan Felipe.*

Save as disclosed above, the Directors and chief executive of the Company were not aware, as at the Latest Practicable Date, of any person (who are not Directors and chief executive of the Company) who had an interest (or long position) or short position in the shares or 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 who was, 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.

FURTHER INFORMATION ABOUT THE DIRECTORS
Particulars of service contracts

As at the Latest Practicable Date, none of the Directors had a service contract with the Company or any of its subsidiaries or associated companies which (a) has been entered into or amended within six months before 1 February 2011, being the date of the announcement of the Company in relation to, among others, the Acquisition Agreement and the First Supplemental Agreement; (b) is a continuous contract with a notice of 12 months or more; (c) is a fixed term contract with more than 12 months to run irrespective of the notice period; or (d) is not determinable within 12 months without payment of compensation (other than normal statutory obligations).

None of the independent non-executive Directors, has entered into a letter of appointment with the Company.

Directors' remuneration during the Track Record Period

The following table summarises the Directors' remuneration for the two years ended 30 April 2008 and 30 April 2009, the eight months ended 31 December 2009, the year ended 31 December 2010 and the six months ended 30 June 2011:

	30 April 2008 HK\$'000	30 April 2009 HK\$'000	31 December 2009 HK\$'000	31 December 2010 HK\$'000	30 June 2011 HK\$'000
Executive and non-executive Directors					
Fees	—	—	—	3,440	1,560
Other emoluments:					
– salaries, allowances, and other benefits	776	1,405	4,250	606	354
– retirement benefits scheme contributions	2	—	—	—	—
– share-based payment (Note)	2,210	498	31,493	—	—
Independent non-executive Directors					
Fees	—	—	—	150	150
Other emoluments:	298	90	—	—	—
Total	3,286	1,993	35,743	4,196	2,064

Note: Share-based payments represent the estimated value of share options granted to the Directors under the Share Option Scheme.

Save as disclosed above, no other payments have been paid or are payable, or any benefits in kind granted, in respect of the two years ended 30 April 2008 and 30 April 2009, the year ended 31 December 2010 and the six months ended 30 June 2011.

None of the Directors or any past directors of any member of the Group, or the five highest paid individuals has been paid any sum of money during the two years ended 30 April 2008 and 30 April 2009, the year ended 31 December 2010 and six months ended 30 June 2011 as an inducement to join or upon joining the Company or for loss of office as a director of any member of the Group or of any other office in connection with the management of the affairs of any member of the Group.

Agency fees or commissions received

Saved as disclosed in this circular, none of the Directors or the persons named under “Consent of experts” in this appendix had received any discounts, brokerage or other special terms, agency fee or commission from the Group in connection with the issue or sale of any capital of any member of the Group within the two years immediately preceding the Latest Practicable Date.

Disclaimers

Save as disclosed in this circular:

- (a) none of the Directors or any of the persons whose names are listed in the paragraph headed “Consent of experts” in this appendix were directly or indirectly interested in the promotion of the Company or in any assets which have been, within the two years immediately preceding the Latest Practicable Date, acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group;
- (b) none of the Directors or any of the persons whose names are listed in the paragraph headed “Consent of experts” in this appendix were materially interested in any contract or arrangement subsisting at the Latest Practicable Date which is significant in relation to the business;
- (c) none of the persons whose names are listed in the paragraph headed “Consent of experts” in this appendix have any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for shares in any member of the Group or is an officer or servant or a partner or in the employment of an officer or servant of the Group.
- (d) none of the Directors, their associates or the Shareholders who are interested in more than 5% of the issued share capital of the Company has any interest in the Company’s five largest customers and five largest suppliers.

SHARE OPTION SCHEME

The Company has adopted a Share Option Scheme pursuant to an ordinary resolution at the annual general meeting held on 13 October 2003.

The following is a summary of the principal terms of the rules of the Share Option Scheme:–

(a) Purpose

The purpose of the Share Option Scheme is to enable the Company to grant options to the Eligible Participants (as defined in paragraph (b) below) as incentives or rewards for their contribution to the Group.

(b) Who may join

The Board shall, in accordance with the provisions of the Share Option Scheme, offer to grant an option to eligible participants (including but not limited to the full-time or part-time employees, executive Directors (together the “Eligible Employees”), non-executive Directors, suppliers of goods or services, customers, shareholders and advisers of any member of the Group or any entity in which any member of the Group holds any equity interest) (together the “Eligible Participants”). The Board may make an offer of the grant of a right to subscribe for such number of Ordinary Shares as the Board may determine at an exercise price determined in accordance with paragraph (f) below.

(c) Maximum number of Ordinary Shares available for subscription

The maximum number of Ordinary Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option scheme (s) adopted by the Company, shall not exceed 30% of the relevant class of securities of the Company (or the subsidiary) in issue from time to time (excluding (i) Ordinary Shares issued upon the exercise of options granted pursuant to the Share Option Scheme and any other schemes; and (ii) any pro rata entitlements to further Ordinary Shares issued in respect of those Ordinary Shares mentioned in (i)). No options may be granted under the Share Option Scheme or any other share option scheme adopted by the Group if the grant of such option will result in the limit referred to in this paragraph (c) being exceeded.

Subject to the issue of a circular by the Company and the approval of the Shareholders in general meeting and/or such other requirements prescribed under the Listing Rules from time to time, the Board may:

- (i) renew this limit at any time to 10% of the Ordinary Shares in issue as at the date of the approval by the Shareholders of the Company in general meeting. Options previously granted under the schemes (including those outstanding, cancelled or lapsed in accordance with such schemes or exercised options) will not be counted for the purpose of calculating the limit as refreshed); and/or
- (ii) grant options beyond the 10% limit to Eligible Participants specifically identified by the Board whereupon the Company shall send a circular to the Shareholders containing, amongst others, a generic description of the specified participants who may be granted such options, the number and terms of the options to be granted and the purpose of granting options to the specified participants with an explanation as to how the terms of the options serve such purpose.

(d) Maximum number of options to any one individual

Subject to paragraph (e) below, the total number of Ordinary Shares issued and which may fall to be issued upon exercise of the options granted under the Share Option Scheme and any other share option scheme (s) of the Group (including both exercised or outstanding options) to each grantee in any 12-month period shall not exceed 1% of the issued share capital of the Company for the time being.

Where any further grant of options to a grantee under the Share Option Scheme would result in the Ordinary Shares issued and to be issued upon exercise of all options granted and proposed to be granted to such person (including exercised, cancelled and outstanding options) under the Share Option Scheme and any other share option schemes of the Group in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the Ordinary Shares in issue, such further grant shall be subject to the issue of a circular by the Company and the approval by the Shareholders in general meeting with such grantee and his associates abstaining from voting and/or other requirements prescribed under the Listing Rules from time to time.

(e) Grant of options to connected persons

Any grant of options under the Share Option Scheme to a Director, chief executive or substantial shareholder of the Company or any of their respective associates is required to be approved by the independent non-executive Directors (excluding any independent non-executive Director who or whose associate is the proposed grantee of an option). Where any grant of options to a substantial shareholder or an independent non-executive Director or any of their respective associates, would result in the Ordinary Shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant:

- (i) representing in aggregate over 0.1% of the Ordinary Shares in issue; and
- (ii) having an aggregate value, in excess of HK\$5 billion, based on the closing price of the Ordinary Shares as quoted on the Stock Exchange at the date of offer

such further grant of options will be subject to the issue of a circular by the Company and the approval of the Shareholders in general meeting on a poll at which all connected persons (as defined in the Listing Rules) of the Company shall abstain from voting and/or such other requirements prescribed under the Listing Rules from time to time.

(f) Exercise price for the Ordinary Shares

The exercise price in relation to each option offered to an Eligible Participant shall be determined by the Board in its absolute discretion but in any event must be at least the higher of (i) the closing price of the Ordinary Shares as stated in the Stock Exchange's daily quotations sheet on the date of offer to grant the option, which must be a trading day; (ii) the average closing price of the Ordinary Shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of offer to grant the option; and (iii) the nominal value of the Ordinary Share.

(g) Restrictions on the time of grant of options

For so long as the Ordinary Shares are listed on the Stock Exchange, an offer to grant option may not be made after a price sensitive event has occurred or a price sensitive matter has been the subject of a decision until such price sensitive information has been published in the newspapers. In particular, no options may be offered to be granted during the period commencing one month immediately preceding the earlier of (i) the date of the Board meeting (as such date is first notified to the Stock Exchange in accordance with paragraph 12 of the listing agreement made between the Company and the Stock Exchange) for the approval of the Company's annual or interim results; and (ii) the deadline for the Company to publish an announcement for its annual or interim results under such listing agreement, and ending on the date of actual publication of the results announcement, no offer to grant option may be made.

For so long as the Ordinary Shares are listed on the Stock Exchange, the Directors may not make any offer to grant options to an Eligible Participant who is a Director during the periods or times in which the Directors are prohibited from dealing in Ordinary Shares pursuant to the Model Code for Securities Transactions by Directors of Listed Companies prescribed by the Listing Rules or any corresponding code or securities dealing restrictions adopted by the Company.

Subject to paragraph (e) above, the Board shall, in accordance with the provisions of the Share Option Scheme, be entitled at any time following the date on which the Share Option Scheme is adopted by an ordinary resolution of the Company in general meeting (the “Adoption Date”) and before the tenth anniversary of the Adoption Date, to offer to grant an option to an Eligible Participant.

(h) Rights are personal to grantee

An option shall be personal to the grantee and shall not be assignable and no grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest (legal or beneficial) in favor of any third party over or in relation to any option or attempt so to do (save that the grantee may nominate a nominee in whose name the Ordinary Shares issued pursuant to the Share Option Scheme may be registered), except with the prior written consent of the Board from time to time. Any breach of the foregoing shall entitle the Company to cancel any outstanding option or any part thereof granted to such grantee.

(i) Time of exercise of option

An option shall be deemed to have been granted and accepted by the grantee and to have been taken effect when the duplicate offer document constituting acceptance of the option duly signed by the grantee together with a remittance in favor of the Company of HK\$1.00 by way of consideration for the grant thereof is received by the Company on or before the date upon which an offer for an option must be accepted by the relevant Eligible Participant. Such remittance shall in no circumstances be refundable.

An option shall, subject to conditions, be exercised in whole or in part and, other than where it is exercised to the full extent outstanding, shall be exercised in amounts or integral multiples of such number of Ordinary Shares as shall represent the Board lot for dealing in Ordinary Shares traded on the Stock Exchange for the time being, by the grantee (or by his or her legal personal representatives) by giving notice in writing to the Company stating that the option is thereby exercised and the number of Ordinary Shares in respect of which it is exercised. Each such notice must be accompanied by a remittance for the full amount of the exercise price for the Ordinary Shares in respect of which the notice is given.

The option period commences on the date upon which the option is deemed to be granted and accepted (the “**Commencement Date**”) and expires on the date of the expiry of the option as may be determined by the Board which shall not be later than the 10th anniversary of the Commencement Date (the “**Expiry Date**”) (the “**Option Period**”).

(j) Performance target

The Board has the discretion to require a particular grantee to achieve certain performance targets specified at the time of grant before any option granted under the Share Option Scheme can be exercised. Unless otherwise determined by the Directors and stated in the offer document to a grantee, a grantee is not required to achieve any performance targets before the exercise of an option granted to him.

(k) Rights on ceasing to be an Eligible Employee

In the event of the grantee ceasing to be an Eligible Employee for any reason (including his or her death) other than (1) the termination of his or her employment on one or more of the grounds including, but not limited to, misconduct, having committed any act of bankruptcy, insolvency or having made any arrangement or composition with creditors generally, or conviction for criminal offence; or (2) the termination of his or her employment for any reason (including his or her death) during the 12-month period following the Commencement Date in respect of his or her option, the grantee (or his or her legal personal representatives) may, exercise the option up to his or her entitlement at such date of cessation (to the extent not already exercised) within the period of one month following the date of such cessation, which date shall be the last actual working day on which the grantee was at work with the Group on which salary is paid whether in lieu of notice or not or such longer period as the Board may determine.

In respect of a grantee who is an Eligible Employee, the date on which the grantee ceases to be an Eligible Employee by reason of the termination of his or her employment on the grounds including, but not limited to, misconduct, or has committed any act of bankruptcy, insolvency, made arrangements or composition with creditors generally, or conviction for criminal offence, the option shall lapse automatically and not be exercisable (to the extent not already exercised).

(l) Rights on general offer

If a general offer is made to all the Shareholders (or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or in concert with the offeror) and such offer becomes or is declared unconditional during the Option Period of the relevant option, the grantee (or his or her legal personal representatives) shall be entitled to exercise the option in full (to the extent not already exercised) at any time within one month after the date on which the offer becomes or is declared unconditional.

(m) Rights on a compromise or arrangement

In the event of a compromise or arrangement between the Company and its members or creditors being proposed in connection with a scheme for the reconstruction or amalgamation of the Company, the Company shall give notice thereof to all grantees on the same day as it gives notice of the meeting to its members or creditors to consider such a scheme or arrangement and any grantee (or his or her legal personal representatives) may by notice in writing to the Company accompanied by a remittance of the full amount of the exercise price in respect of which the notice is given (such notice to be received by the Company not later than two business days prior to the proposed meeting) exercise the option (to the extent not already exercised) either to its full extent or to the extent specified in such notice. The Company shall as soon as possible and in any event no later than the day immediately prior to the date of the proposed meeting, allot and issue such number of Ordinary Shares to the grantee which falls to be issued on such exercise credited as fully paid and register the grantee as holder thereof.

(n) Rights on voluntary winding-up

In the event a notice is given by the Company to the Shareholders to convene a shareholders' meeting for the purpose of considering and, if thought fit, approving a resolution to voluntarily wind-up the Company, the Company shall forthwith give notice thereof to all grantees and any grantee (or his or her legal personal representatives) may by notice in writing to the Company accompanied by a remittance of the full amount of the exercise price in respect of which the notice is given (such notice to be received by the Company not later than two business days prior to the proposed shareholders' meeting) exercise the option (to the extent not already exercised) either to its full extent or to the extent specified in such notice. The Company shall as soon as possible and in any event no later than the day immediately prior to the date of the proposed shareholders' meeting, allot and issue such number of Ordinary Shares to the grantee which falls to be issued on such exercise credited as fully paid and register the grantee as holder thereof.

(o) Lapse of the options

An option shall lapse automatically and not be exercisable (to the extent not already exercised) on the earliest of:

- (i) the Expiry Date relevant to that option;
- (ii) the expiry of any of the periods referred to in paragraph (k), (l) , (m) or (n) above;
- (iii) the date of the commencement of the winding-up of the Company;

- (iv) in respect of a grantee who is an Eligible Employee, the date on which the grantee ceases to be an Eligible Employee by reason of the termination of his or her employment on the grounds including, but not limited to, misconduct, or has committed any act of bankruptcy, insolvency, made arrangements or composition with creditors generally, or conviction for criminal offence;
- (v) in respect of a grantee other than an Eligible Employee, the date on which the Directors shall at their absolute discretion determine that (i) the grantee or his associate has committed any breach of any contract entered into between the grantee or his associate on the one part and the Group or any entity in which any member of the Group holds any equity interest on the other part or that the grantee has committed any act of bankruptcy or has become insolvent or is subject to any liquidation or analogous proceedings or has made any arrangement or composition with his creditors generally; and (ii) the option shall lapse; and
- (vi) the date on which the Board shall exercise the Company's right to cancel the option at any time after the grantee commits a breach of paragraph (h).

(p) Ranking of Ordinary Shares

The Ordinary Shares to be allotted upon the exercise of an option shall not carry voting rights until completion of the registration of the grantee (or any other person) as the holder thereof. Subject as aforesaid the Ordinary Shares to be allotted upon the exercise of an option will be subject to all the provisions of the Bye-Laws of the Company for the time being in force and will rank *pari passu* in all respects with the fully-paid Ordinary Shares in issue on the relevant exercise date of an option, in particular but without prejudice to the generality of the foregoing, in respect of voting, transfer and other rights including those arising on a liquidation of the Company and rights in respect of any dividend or other distributions paid or made on or after the relevant date of such exercise of an option other than any dividend or other distributions previously declared or recommended or resolved to be paid or made if the record date therefor shall be before the relevant date of registration date of the grantee as the holder of the Ordinary Shares issued pursuant to the option.

(q) Effect of alterations to share capital

In the event of any alteration in the capital structure of the Company whilst any option remains exercisable, whether by way of capitalization of profits or reserves, rights issue, consolidation, reclassification, reconstruction, subdivision or reduction of the share capital of the Company, such corresponding alterations (if any) shall be made (except on an issue of securities of the Company as consideration in a transaction which shall not be regarded as a circumstance requiring alteration or adjustment) to:

- (i) the number of Ordinary Shares subject to any option granted so far as unexercised, and/or
- (ii) the exercise price; and/or
- (iii) the number of Ordinary Shares comprised in an option; and/or
- (iv) the method of exercise of any option; and/or
- (v) the maximum number of Ordinary Shares referred to in paragraph (c) above.

as the auditors or the independent financial adviser to the Company shall at the request of the Company certify in writing either generally or as regards any particular grantee to be in their opinion fair and reasonable (no such certification is required in the case of a capitalisation issue), provided that any such alterations shall be made on the basis that (i) a grantee shall have the same proportion of the issued share capital of the Company for which he or she is entitled to subscribe had he or she exercised all the options held by him or her immediately before such adjustments and the aggregate exercise price payable by a grantee on the full exercise of any option shall remain as nearly as possible the same (and in any event be greater than) as it was before such event; (ii) that no such alternations shall be made the effect of which would be to enable an Ordinary Share to be issued at less than its nominal value and (iii) that the issue of Ordinary Shares or other securities of the Group as consideration in a transaction shall not be regarded as a circumstance requiring any such adjustment.

(r) Alteration of Share Option Scheme

The Share Option Scheme may be altered in any respect by resolution of the Board except that the provisions of the Share Option Scheme as to:

- (i) the definition of “Eligible Employee”, “Eligible Participant”, “Expiry Date”, “Grantee” and “Option Period” in the Share Option Scheme; and
- (ii) the matters governed by Rule 17.03 of the Listing Rules; and

shall not be altered to the advantage of grantees or prospective grantees except with the prior sanction of an ordinary resolution of the Company in general meeting, provided that no such alteration shall operate to affect adversely the terms of issue of any option granted or agreed to be granted prior to such alteration except with the consent in writing of grantees holding in aggregate options which if exercised in full on the date immediately preceding that on which such consent is obtained would entitle them to the issue of three-fourths in nominal value of all Ordinary Shares which would fall to be issued upon the exercise of all options outstanding on that date, or the sanction of a special resolution passed at a meeting of the grantees.

Any change to the authority of the Directors or the administrators of the Share Option Scheme in relation to any alteration to the terms of the Share Option Scheme must be approved by the Shareholders in general meeting.

Any alteration to the terms and conditions of the Share Option Scheme which are of a material nature shall be approved by the Shareholders except where the alterations take effect automatically under the existing terms of the Share Option Scheme, or where the alterations are made for the purpose of better reflecting or achieving compliance with the requirements of Chapter 17 of the Listing Rules, or removing ambiguity or improving the clarity of the terms and conditions of the Share Option Scheme.

(s) Cancellation of options granted

The Board shall have the absolute discretion to cancel any options granted but not exercised. Cancelled Options may be re-issued after such cancellation has been approved, provided that re-issued options shall only be granted in compliance with the terms of the Share Option Scheme. For the avoidance of doubt, new options may be issued to an option holder in place of his cancelled options only if there are available unissued options (excluding the cancelled options) within the limits approved by the Shareholders.

(t) Termination of the Share Option Scheme

The Company may by ordinary resolution in general meeting at any time terminate the operation of the Share Option Scheme and in such event no further options will be offered but in all other respects the provisions of the Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any options (to the extent not already exercised) granted prior thereto or otherwise as may be required in accordance with the provisions of the Share Option Scheme and options (to the extent not already exercised) granted prior to such termination shall continue to be valid and exercisable in accordance with the Share Option Scheme.

(u) Conditions of the Share Option Scheme

The Share Option Scheme and the grant of any option hereunder is conditional upon:

- (i) the Listing Committee of the Stock Exchange granting the approval of the Share Option Scheme and any subsequent grant of options under the Share Option Scheme; and
- (ii) the Listing Committee granting the listing of and permission to deal in the Ordinary Shares in issue at the date of adoption of the Share Option Scheme and the Ordinary Shares falling to be issued pursuant to the exercise of options under the Share Option Scheme.

(v) Present status of the Share Option Scheme

As at the Latest Practicable Date, 307,700,000 options have been granted under the Share Option Scheme.

OTHER INFORMATION**Estate Duty**

The Directors have been advised that no material liability for estate duty is likely to fall on any member of the Group in Bermuda, BVI, Hong Kong, Mongolia, the PRC and other jurisdictions in which the companies comprising the Group are incorporated.

Litigation***The Group***

In June 2011, the Mongolian JV Partner initiated arbitration proceedings against CRML in Mongolia (the “**Mongolian Proceedings**”). Pursuant to the Mongolian Proceedings, the Mongolian JV Partner claimed that CRML had acted in breach of contract in failing to develop the Aleinuer Mine in accordance with various prior agreements and sought to recover the mining right from Reservoir Moly. On 4 October 2011, CRML received the written arbitral award issued by the Mongolian Arbitration Center in relation to the Mongolian Proceedings, pursuant to which the Mongolian Arbitration Center ruled that the mining right to the Aleinuer Mine had to be returned by Reservoir Moly to the Mongolian JV Partner.

On 12 October 2011, CRML lodged an appeal to the Court of Appeal of Mongolia against the arbitral award. The appeal was heard on 21 November 2011. On 1 December 2011, CRML received the written ruling issued by the Court of Appeal of Mongolia, which annulled the arbitral award issued by the Mongolian Arbitration Center on the basis of procedural irregularities and directed the dispute to be re-heard by the Mongolian Arbitration Center. No further appeal is possible under Mongolian law with respect to this decision of the Court of Appeal of Mongolia. Pending the outcome of the re-hearing by the Mongolian Arbitration Center, the mining right to the Aleinuer Mine remains vested in Reservoir Moly.

Save as disclosed above, as at the Latest Practicable Date, no member of the Group was a party to any litigation or claims of material importance (including any litigation or claims that may materially influence on its rights to explore or mine), and no such litigation or claim is known to the Directors to be pending or threatened against any member of the Group.

The Target Group

As at the Latest Practicable Date, no member of the Target Group was a party to any litigation or claims of material importance (including any litigation or claims that may materially influence on its rights to explore or mine), and no such litigation or claim is known to the directors of the Parent Company to be pending or threatened against any member of the Target Group.

Preliminary expenses

The Stock Exchange listing fee, SFC transaction levy, legal and other professional fees and printing and other expenses relating to the Acquisition are estimated to be approximately HK\$56,000,000 in aggregate and are payable by the Group.

Promoter

The Company does not have any promoter for the purposes of the Listing Rules.

Qualifications of experts

The following, are the qualifications of the experts who have given opinion or advice which are contained in this circular:

Name	Qualifications
J.P. Morgan Securities (Asia Pacific) Limited	Licensed to conduct Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 7 (providing automated trading services) regulated activities under the SFO
Platinum Securities Company Limited	A licensed corporation under the SFO licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
PricewaterhouseCoopers	Certified Public Accountants, Hong Kong
Jones Lang LaSalle Sallmanns Limited	Independent property valuer and mineral assets evaluator
Zhong Lun Law Firm	PRC legal counsel
Conyers Dill & Pearman	Bermuda legal counsel
Legal Consulting Law Firm	Mongolia legal counsel
Runge Asia Limited	Independent technical adviser
SRK Consulting China Limited	Independent technical adviser
John T. Boyd Company	Independent technical adviser
Roscoe Postle Associates Inc.	Independent technical adviser

Consents of experts

Each of J.P. Morgan, Platinum Securities, Jones Lang LaSalle Sallmanns Limited, Zhong Lun, Legal Consulting Law Firm, PricewaterhouseCoopers, Conyers Dill & Pearman, Runge, SRK, John T. Boyd and Roscoe has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its report(s) and/or letter(s) and/or valuation certificates and/or the references to its name included herein in the form and context in which they are respectively included.

Miscellaneous

- (a) Save as disclosed in this circular, within the two years immediately preceding the Latest Practicable Date:
 - (i) no share or loan capital of the Company or any of its subsidiaries has been issued or agreed to be issued fully or partly paid either for cash or for the consideration other than cash;
 - (ii) no share or loan capital of the Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
 - (iii) no founder, management or deferred shares of the Company or any of its subsidiaries have been issued or agreed to be issued;
 - (iv) no commission, discounts, brokerages or other special terms have been granted or agreed to be granted in connection with the issue or sale of any share or loan capital of the Company or any of its subsidiaries;
 - (v) no commission has been paid or is payable for subscription agreeing to subscribe, procuring subscription or agreeing to procure subscription of any share in the Company or any of its subsidiaries; and
 - (vi) the Group has no outstanding convertible debt securities or debentures.

- (b) No member of the Group is presently listed on any stock exchange or traded on any trading system.
- (c) There has not been any interruption in the business of the Group which may have or have had a significant effect on the financial position of the Group in the twelve months immediately preceding the Latest Practicable Date.
- (d) All necessary arrangements have been made to enable the Ordinary Shares to continue to be accepted as eligible securities of CCASS.
- (e) There is no arrangement under which future dividends declared by the Company are waived or agreed to be waived.

The English text of this circular shall prevail over the Chinese text.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours at the principal place of business of the Company at Unit 2001, World Wide House, 19 Des Voeux Road, Central, Hong Kong from the date of this circular up to and including the date of EGM (excluding Saturdays and public holidays):

- (a) the Memorandum of Association and Bye-Laws of the Company;
- (b) the memorandum of association and articles of association of China Times;
- (c) the accountant's report on the Target Group prepared by PricewaterhouseCoopers as set out in Appendix I to this circular;
- (d) the annual reports of the Company for each of the two years ended 30 April 2008 and 30 April 2009, the eight months ended 31 December 2009 and the year ended 31 December 2010;
- (e) the interim report of the Company for the six months ended 30 June 2011;
- (f) the report on unaudited pro forma financial information of the Enlarged Group prepared by PricewaterhouseCoopers as set out in Appendix III to this circular;
- (g) the letter, summary of values and valuation certificates relating to the property interest of the Enlarged Group prepared by Jones Lang LaSalle Sallmanns Limited, the texts of which are set out in Appendix IV to this circular;
- (h) the Competent Person's Reports on the Four Mines, the Aleinuer Mine, the Sareke Mine and the Hami Mine, the texts of which are set out in Appendix V to this circular;
- (i) the valuation report on the mining assets of the Target Group prepared by Jones Lang LaSalle Sallmanns Limited, the text of which is set out in Appendix VI to this circular;
- (j) the valuation report on the overall assets of the Target Group prepared by Jones Lang LaSalle Sallmanns Limited, the text of which is set out in Appendix VII to this circular;
- (k) the reports on the valuations of the mining assets and overall assets of the Target Group prepared by PricewaterhouseCoopers and J.P. Morgan, the texts of which are set out in Appendix VIII to this circular;
- (l) the letter summarizing certain aspects of Bermuda company law prepared by Conyers Dill & Pearman, the text of which is set out in Appendix IX to this circular;

- (m) the letter of recommendation from the Independent Board Committee, the text of which is set out on pages 112 to 113 of this circular;
- (n) the letter from Platinum Securities to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 114 to 211 of this circular;
- (o) the written consents referred to in section headed “Consents of experts” in Appendix X to this circular;
- (p) a copy of each of the material contracts referred to in section headed “Summary of Material Contracts” in Appendix X to this circular;
- (q) the Non-Exempt Continuing Connected Transaction Agreements referred to in the section headed “Continuing Connected Transactions” in this circular;
- (r) the PRC legal opinions prepared by Zhong Lun in respect of certain aspects and property interests of the Group;
- (s) the PRC legal opinions prepared by Zhong Lun in respect of certain aspects and property interests of the Target Group;
- (t) the Mongolia legal opinions prepared by Legal Consulting Law Firm in respect of certain aspects and property interests of each of Reservoir Moly and Reservoir Mongolia LLC, respectively;
- (u) the rules of the Share Option Scheme; and
- (v) this circular.

The above documents will be available on the website of the SFC at www.sfc.hk and the Company’s website at www.hk661.com from the date of this circular up to and including the date of the EGM.

