

Doing Business in China

A Discussion of Disclosure Issues

Bernard J. Guarnera, President & CEO

Behre Dolbear & Company, Inc.

and

Dr. Qingping Deng, President

Behre Dolbear Asia, Inc

SME Mineral Processing Division Meeting

April 2006

BEHRE DOLBEAR

founded 1911 MINERALS INDUSTRY CONSULTANTS

Behre Dolbear is the preeminent international minerals industry consultancy responding to the needs of its clients by providing superior technical, operational, managerial and environmental services which add value to its clients' objectives, while adhering to the highest ethical and professional standards.



Beijing • Denver • Guadalajara • Hong Kong • London • New York • Santiago • Sydney • Vancouver

Our **People** Have Run The World's **Mines**

BEHRE DOLBEAR
founded 1911 MINERALS INDUSTRY CONSULTANTS

Behre Dolbear Asia, Inc. is a wholly-owned subsidiary of Behre Dolbear & Company, Inc. established for handling our business in Asian countries.

Discussion of:

- What's happening in China
- Disclosure issues for public companies

What's Happening Now!

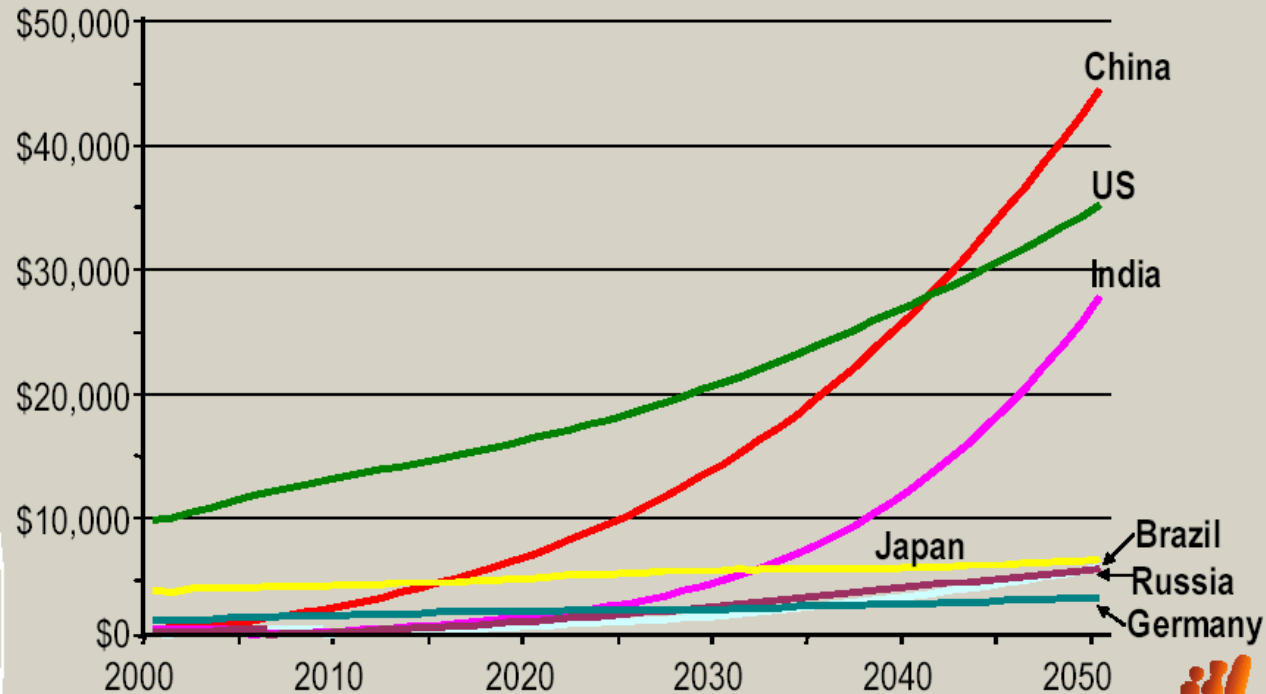
Driving Factors

- 20-year plan to move 400 million people into cities
- GDP growth of >10% per year

Projected GDP Growth

GDP – 2000 through 2050

US\$bn (2003)



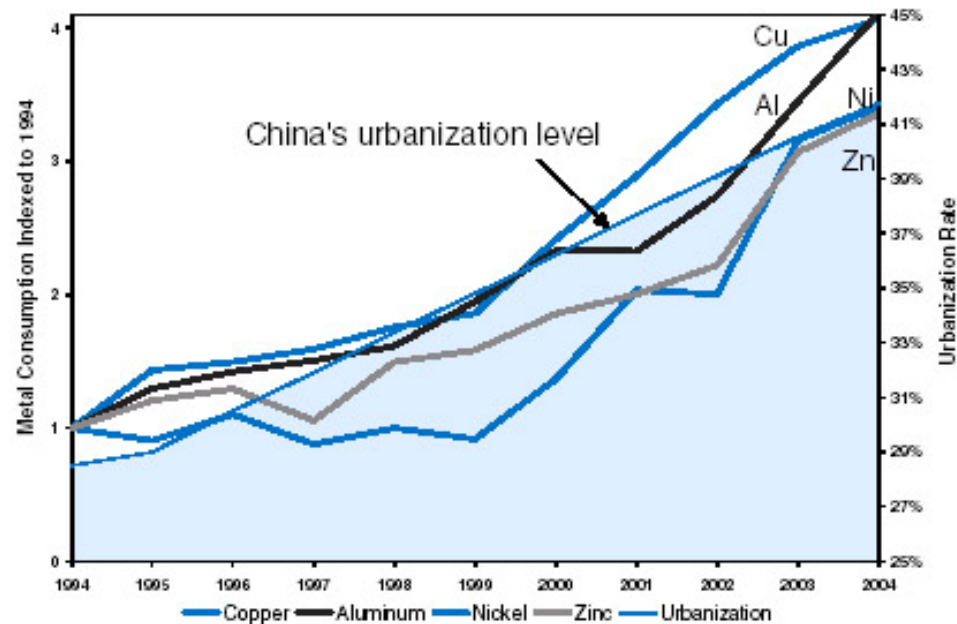
Source: Goldman Sachs
Page 2

bhpbilliton

BEHRE DOLBEAR
founded 1911 MINERAL & INDUSTRY CONSULTANTS

China Urbanization and Metals Demand

Exhibit 12: China urbanization rates has been driving base metal demand 1994-2004



Source: WBMS; National Bureau of Statistics of China, and Goldman Sachs Research estimates.

Consumption of World's Production

>10% of Energy (Coal and Oil)

22% of Copper

21% of Aluminum

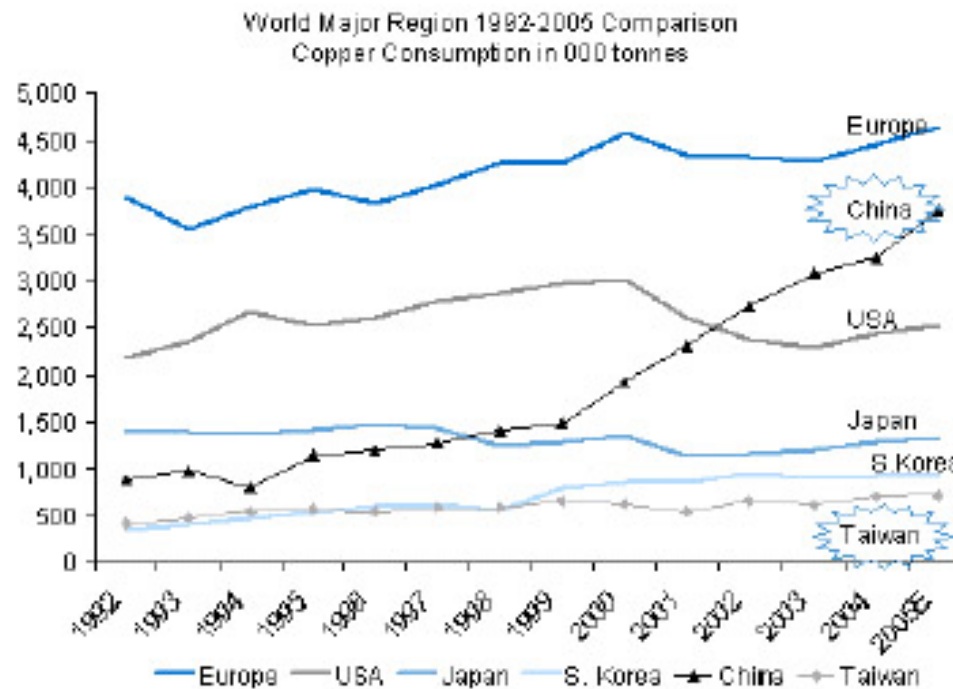
11% of Nickel

25% of Zinc

38% of Iron Ore

China and World Copper Consumption

Exhibit 2: China was a small factor in the prior cycles but the most important factor during this one



Source: Source: WBMS; Goldman Sachs Research estimates.

China and Copper

China – 22% of world supply; US 20%; India 2%

China – 2 lbs per capita; US 40 lbs; India <1 lb

China – A power grid equal to England and Scotland's each year for the next 17 years

(Source – Phelps Dodge 2/05)

Obtaining Mineral Rights

- ◆ Recommended to form a joint venture with a Chinese entity
- ◆ Ministry of commerce approves foreign investment in mineral industry
- ◆ State owns title to all minerals in the ground
- ◆ Private entities can obtain exploration or mining rights on first come basis
- ◆ Rights to radioactive minerals, rare earths, and some others limited to Domestic companies
- ◆ Civil law governs

Disclosure Issues Facing Public Companies

During the past few years and continuing through the present, Chinese mining companies have sought capital from external sources including the use of Initial Public Offerings on the Hong Kong and other western stock exchanges.

Chinese standards differ from western standards and Behre Dolbear's experience is that western mining and financial companies have difficulty in understanding the Chinese standards and converting financial and technical information into a form acceptable to regulatory and stock exchange requirements.

Transparency and Clarity

- ◆ Over-riding needs for investors
- ◆ These are demonstrated by full disclosure of all material items or events

What is a Material Item or Event?

- ◆ An item or event which can impact a company's performance, positively or negatively, by 10 percent or more
- ◆ An internal projection of performance, knowledge of which is important to those considering investments in a company

Disclosure Issues

- ◆ Financial and managerial issues
- ◆ Technical issues

Financial and Management Issues

Past, Present and Future Projections on

- Production
- Capital Costs
- Operating Costs
- Mine Life
- Sales Contracts
- Management Changes

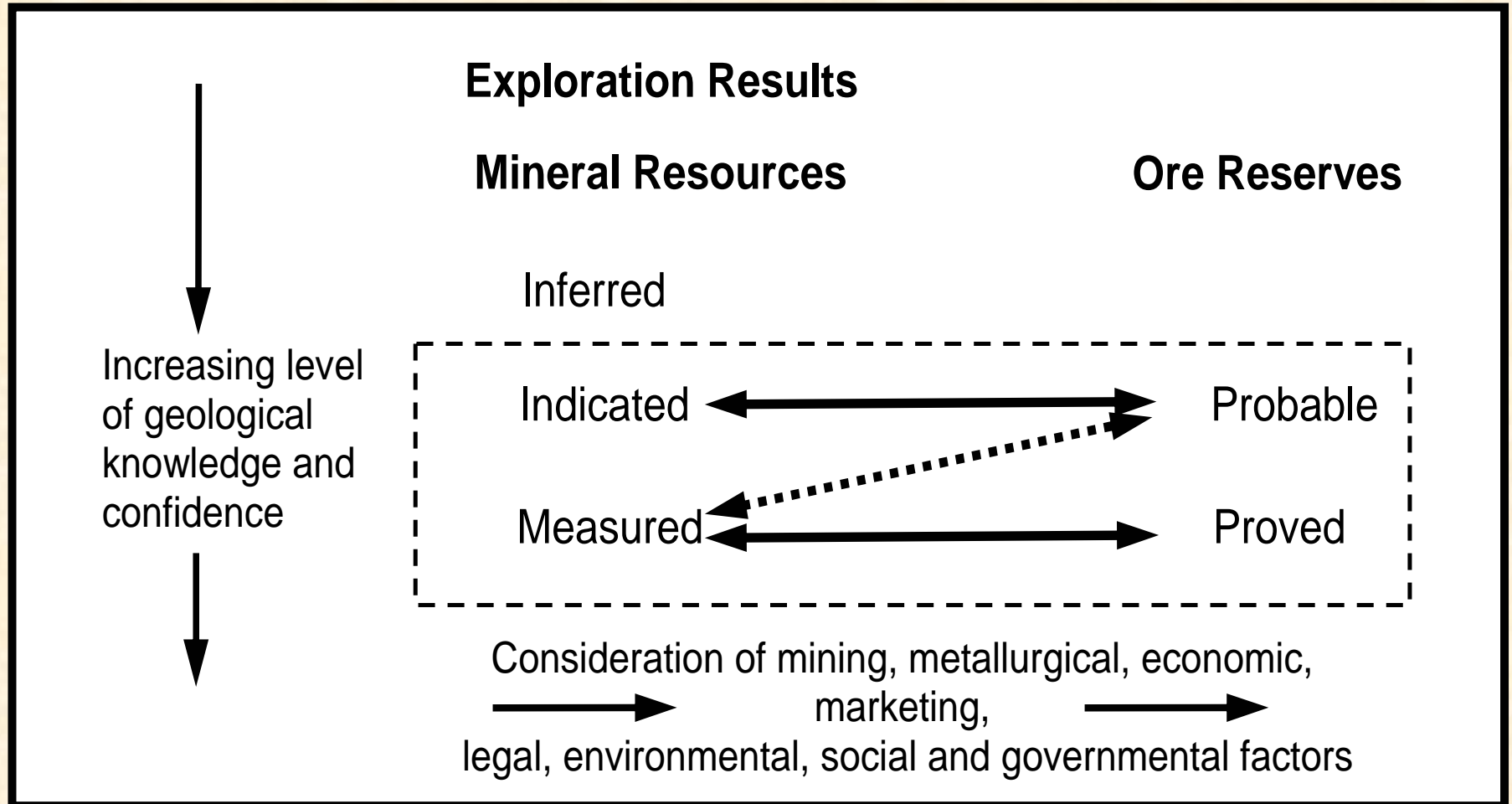
Technical Issues

- ◆ Reporting Standards
- ◆ Resource/Reserve Codes

Reporting Standards

- ◆ HKSE: Listing Rule Chapter 18
- ◆ NYSE and AMEX: SEC Industry Guide 7
- ◆ TSX and TSX.V: NI43-101
- ◆ ASX: VALMIN/JORC
- ◆ LSE and AIM: Chapter 19/Aim Guidance 16
- ◆ JSE: SAMREC

Australasian JORC Code



US SEC Reserve Classification

Industry Guide 7

Proven (Measured) Reserves

Probable (Indicated) Reserves

Mineral Resources – Usage Not Allowed

Recent Staff Opinions

Mineralized Material (Non-Reserve Deposit)

= Other Measured and Indicated Resources

Traditional Chinese “Reserve” Classification System

- ◆ Established in 1959 with a major revision in 1977 and 1999
- ◆ “Reserve” is in between the “Mineral Resource” and “Ore Reserve” in JORC Code, but is more of a “Mineral Resource”
- ◆ It is in-situ mineralized material, no mining loss has been deducted and no mining dilution has been added
- ◆ A cut-off grade has been applied, but the cut-off grade was “issued” by government authorities and will generally not change with the variation of economic conditions

Traditional Chinese Resource Classes

-level of geological confidence

A_1 – **Production Resources**, includes most detailed sampling data, such as ore-control information

$A_2/B/C_1$ – **Design Resources**, defined by underground workings and closely-spaced drill holes

$C_2/D/E$ – **Potential Resources**, defined only by drilling information with wider spacing

-level of project economics

Economic/Sub-Economic

Generic Correlation

1959 Chinese	1977 Chinese	JORC
A ₁	A	measured
A ₂	B	
B		
C ₁	C	measured and/or indicated
C ₂	D	indicated and/or inferred
D		inferred
E	E	NA

New Chinese Classification System

- ◆ Established by the Ministry of Land and Resources (“MLR”) in 1999
- ◆ Attempts to recognize economic parameters as well as parameters related to geological levels of confidence
- ◆ Based on the complex three-dimensional United Nations Framework Classification system

New Chinese Classification System

- ◆ Based on a three-dimensional matrix, or three-number code in the form of “123”
- ◆ The first digit represents economics:
 - 1 – Economic; 2M – Marginal Economic; 2S – Sub-Marginal Economic;
 - 3 – Intrinsic Economic.
- ◆ The second digit represents the level of technical study:
 - 1 – Feasibility Study; 2 – Pre-Feasibility Study;
 - 3 – Scoping Study or no Study
- ◆ The third digit represent level of geological confidence:
 - 1 – Measured; 2 – Indicated; 3 – Inferred; 4 – Reconnaissance.

Economic Status	Identified Mineral Resource			Undiscovered Mineral Resource
	Measured	Indicated	Inferred	Reconnaissance
Economic	Proven Reserve (111)			
	Reserve Base (111b)			
	Probable Reserve (121)	Probable Reserve (122)		
	Reserve Base (121b)	Reserve Base (122b)		
Marginal Economic	Reserve Base (2M11)			
	Reserve Base (2M21)	Reserve Base (2M22)		
Sub-Marginal Economic	Resource (2S11)			
	Resource (2S21)	Resource (2S22)		
Intrinsic Economic	Resource (331)	Resource (332)	Resource (333)	Resource (334)

Generic Correlation

Category	1999 Chinese	2004 JORC
Reserve	111, 121	proved reserve
	122	probable reserve
Resource	111b, 121b, 2M11, 2M21, 2S11, 2S21, 331	measured resource
	122b, 2M22, 2S22, 332	indicated resource
	333	inferred resource
	334	NA

Level of Technical Study Needed to Define Reserve for a New Mining Project

- ◆ Australasian JORC Code:
 - appropriate assessments, which may include feasibility studies
- ◆ Canada NI43-101:
 - at least a pre-feasibility study
- ◆ US SEC:
 - final bankable feasibility study (staff opinion)
- ◆ Chinese 1999 System:
 - at least a pre-feasibility study

贝里多贝尔

— 创建于1911年, 专营矿业咨询

纽约

电话: 212.684.4150
传真: 212.684.4438

悉尼

电话: 612.9954.4988
传真: 612.9929.2549

伦敦

电话: 44.207.170.4034
传真: 44.207.170.4035

丹佛

电话: 303.620.0020
传真: 303.620.0024

多伦多

电话: 416.369.9011
传真: 416.369.0449

温哥华

电话: 604.646.4666
传真: 604.687.1327

瓜达拉哈拉

电话: 5233.3121.1073
传真: 5233.3121.1490

圣地亚哥

电话: 562.243.0947
传真: 562.243.0022

香港

PO Box 33461, Sheung Wan Post Office, Hong Kong
电话: 852.8102.8598 传真: 852.8102.8599

hongkong@dolbear.com

北京

北京西城区莲花池东路丙1号503室
电话: 10.6337.0319 传真: 10.6337.0319

beijing@dolbear.com

我们的员工已经经营过世界上的许多矿山

www.dolbear.com

BEHRE DOLBEAR
founded 1911 MINERAL & INDUSTRY CONSULTANTS