

FUTURE PLANS

We aim to become a leading producer of specialty metals and precious metals. In support of this strategy, our capital expenditure plans till 2009 will focus on the following areas:

Increase our production efficiency and capacity

We intend to increase our production efficiency through the introduction of larger scale mining equipment at our Sandaozhuang Mine over the next two years. We also aim to improve our recovery rates and hence our operational efficiency through the implementation of technological and process improvements at our flotation, roasting and smelting facilities. Our Directors believe this will result in an overall reduction in unit operating costs at our mine and Minarco considers that our plans are such that is achievable.

We intend to undertake technical improvement programs at each of our ore processing facilities, (excluding the new 10,000 tpd capacity at our No. 2 Ore Processing Plant), to improve product yield, production efficiency and recovery rates. These programs will involve the implementation of further automation and process control improvements as identified by our research and development team. Our Directors believe this can be achieved through the expansion of our research and development function, including the hiring of additional research and development personnel, and the formation of strategic alliances or similar arrangements with suitable technology enterprises.

We intend to increase our daily mining ore volume through application to the PRC authorities.

In addition, we also have the intention to build a new molybdenum roasting and smelting plant with a designed roasting capacity of approximately 40,000 tonnes per annum. The total cost associated with the plant is estimated to be approximately RMB800 million. However, such plan is still at a very preliminary stage. Whether we are going to or are able to build this plant, and the timing of the construction of this plant, will depend on a detailed feasibility study which has yet to be completed, market conditions and outlook, domestic regulatory approval process as well as our financial resources, etc.

Expand our downstream processing capabilities

We intend to expand our downstream processing capabilities by acquiring additional production equipment or adding new production lines. We may also consider forming strategic alliances, joint ventures or entering into cooperation agreements for the expansion of our downstream processing capacities.

Capitalize our tungsten reserves through the development of our own tungsten production facilities

Our Sandaozhuang Mine orebody contains the second largest defined reserve of tungsten in the world. We intend to increase our tungsten production capabilities at our Sandaozhuang Mine through the construction of our own tungsten recovery facilities. Our development plans provide for an aggregate additional 15,200 tpd of processing capacity, with facilities to be constructed at our No. 1 Ore Processing Plant, No. 3 Ore Processing Plant and our Sanqiang and Dadongpo flotation plants.

FUTURE PLANS AND USE OF PROCEEDS

Invest in or acquire molybdenum reserves and other specialty metal and precious metal reserves prudently

We believe that a sufficient level of molybdenum reserves is crucial to our long-term sustainable development. We will continually seek and actively participate in appropriate opportunities in the investment and acquisition of molybdenum resources. We will consider acquisitions of further molybdenum reserves in the vicinity of the Luoyang area where we have a strategic advantage. We will also consider the investment in or the acquisition of suitable molybdenum mines and mining rights as and when suitable acquisition opportunities arise elsewhere in the PRC. In addition, we will closely track the market development of other specialty and precious metals and seek selectively to invest in or acquire mines or mining operations of such other specialty metals and precious metals prudently as and when suitable opportunities arise in the PRC.

USE OF PROCEEDS

Assuming that the Over-allotment Option is not exercised and an Offer Price of HK\$5.90 per H Share (being the mid-point of the estimated Offer Price range of between HK\$5.00 and HK\$6.80 per H Share), we estimate that the net proceeds to us from the Global Offering will be approximately HK\$6.1 billion, after deducting the underwriting commissions and other estimated expenses payable by us in relation to the Global Offering. We intend to use the net proceeds to us from the Global Offering as follows:

- approximately 20% of the net proceeds (approximately HK\$1.2 billion) will be used to expand our molybdenum production capabilities;
- approximately 20% of the net proceeds (approximately HK\$1.2 billion) will be used on the development of our own tungsten production and downstream processing capabilities;
- approximately 40% of the net proceeds (approximately HK\$2.4 billion) will be used for the acquisition of mines and mining rights in relation to mines with identified mining resources;
- approximately 10% of the net proceeds (approximately HK\$0.6 billion) will be used to repay the aggregate principal amounts and interest accrued on a portion of our short-term bank borrowings from various branches of Bank of Communications, China Construction Bank, Industrial and Commercial Bank of China, China Everbright Bank, CITIC Bank and Bank of China, which are predominantly denominated in RMB, bear an interest rate from 5.02% to 6.7% per annum, mature within one year after the Listing Date, and have been predominately used by us to fund our working capital and capital expenditure needs; and
- approximately 10% of the net proceeds (approximately HK\$0.6 billion) will be used for working capital and other general corporate purposes.

If the Over-allotment Option is exercised in full, the net proceeds of the Global Offering will be increased by up to approximately HK\$615 million (based on the mid-point Offer Price of HK\$5.90 per H Share). We will apply such additional net proceeds in the same proportions as set out above.

FUTURE PLANS AND USE OF PROCEEDS

If the Offer Price is fixed at HK\$5.00 (being the lowest price of the estimated Offer Price range), the net proceeds will be reduced by approximately HK\$939 million. In such circumstances, we intend to reduce the application of the proceeds for the above uses in the proportions as set out above.

If the Offer Price is fixed at HK\$6.80 (being the highest price of the estimated Offer Price range), the net proceeds will be increased by approximately HK\$939 million. In such circumstances, we intend to increase the application of the proceeds for the above uses in the proportions as set out above.

Consistent with our strategy to grow our business through acquisition, we have identified a number of preliminary potential acquisition targets for assessment. These targets are in various stages of review consistent with the guidelines outlined in the section headed “Business — Strategies” in this prospectus, and we may or may not decide to proceed with any or all of them as a result of these reviews, our financial position and market outlook. In addition to these opportunities, we will continue to identify and review potential acquisition targets as they become available to us or we become aware of them through the normal course of our business. While our reviews are ongoing, to date, we have not identified any definitive acquisition or investment targets and, as at the Latest Practicable Date, we had not entered into any definitive agreement with any parties in respect of the acquisition of any mines or mining rights. Pending the outcome of these reviews, the use of net proceeds from the Global Offering for the purposes described above, and to the extent permitted under relevant PRC and Hong Kong law, we intend to deposit the proceeds in short-term interest-bearing accounts with licensed third-party financial institutions or invest the proceeds in short-term money market instruments.