**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

**If you are in any doubt** about this circular or as to the action to be taken, you should consult your 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 Nonferrous Metals Company Limited, you should at once hand this circular and the accompanying proxy form to the purchaser(s) or transferee(s) or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).



中國有色金屬有限公司*

China Nonferrous Metals Company Limited

*(Incorporated in Bermuda with limited liability)*

**(stock code: 8306)**

# DISCLOSEABLE AND CONNECTED TRANSACTION

**Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders of the Company**

VINCO 域高

**Grand Vinco Capital Limited**

*(A wholly-owned subsidiary of Vinco Financial Group Limited)*

A letter of advice from the independent financial adviser to the independent board committee and independent shareholders of the Company is set out on pages 16 to 27 of this circular. The recommendation of independent board committee to the independent shareholders of the Company is set out on page 15 of this circular. A notice convening a special general meeting of the Company to be held at Suite 1704-1705, 17/F, Dah Sing Financial Centre, 108 Gloucester Road, Wanchai, Hong Kong on Monday, 4 January 2010 at 3:00 p.m. is set out on pages 44 to 45 of this circular.

A form of proxy for the special general meeting is enclosed. Whether or not you intend to attend the meeting, you are requested to complete the form of proxy and return the same to Tricor Investor Services Limited, the Company's branch share registrar in Hong Kong, at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong in accordance with the instructions printed thereon not less than 48 hours before the time appointed for the meeting (or any adjourned meeting). Completion and delivery of the form of proxy will not preclude you from attending and voting at the meeting (or any adjourned meeting) if you so wish.

This circular will remain on the GEM website at http://www.hkgem.com on the "Latest Company Announcements" page for seven days from the date of its publication.

11 December 2009

* *for identification purposes only*

# CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET OF THE STOCK EXCHANGE OF HONG KONG LIMITED

**GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.**

**Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the main board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.**

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*In this circular, the following expressions have the following meanings unless the context otherwise requires:*

| | |
|---|---|
| "Acquisition" | the proposed acquisition of the Sale Interest and the Sale Loan from the Vendor by the Purchaser pursuant to the Acquisition Agreement |
| "Acquisition Agreement" | the conditional acquisition agreement dated 23 October 2009 entered into between the Vendor, the Guarantor and the Purchaser in relation to the Acquisition |
| "associate(s)" | has the meaning ascribed thereto under the GEM Listing Rules |
| "Board" | board of Directors |
| "Business Day" | a day (other than a Saturday) on which licensed banks are generally open for business in Hong Kong throughout their normal business hours |
| "Company" | China Nonferrous Metals Company Limited (stock code: 8306), a company incorporated in Bermuda with limited liability, the issued Shares of which are listed on the GEM |
| "Completion" | completion of the sale and purchase of the Sale Interest and the Sale Loan in accordance with the Acquisition Agreement |
| "Consideration" | the aggregate consideration of RMB82.5 million payable by the Purchaser to the Vendor in cash for the Acquisition |
| "Convertible Bonds" | the 3% convertible bonds due 2015 in the outstanding principal sum of HK$618,048,825 issued by the Company on 9 July 2008 |
| "Director(s)" | director(s) of the Company |
| "Enlarged Group" | the Group as enlarged by the Target Company |
| "Feng Ye" | 深圳市楓葉投資有限公司 (Shenzhen Feng Ye Investment Company Limited#), a company established under the laws of the PRC with limited liability, which is as at the Latest Practicable Date holding 20% equity interest in the Target Company and will sell its 20% equity interest in the Target Company to the Vendor under the Transfer Agreement |

| | |
|---|---|
| "GEM" | the Growth Enterprise Market of the Stock Exchange |
| "GEM Listing Rules" | the Rules Governing the Listing of Securities on the GEM |
| "Group" | the Company and its subsidiaries |
| "Guarantor" or "Mr. Mei" | Mr. Mei Wei, a substantial Shareholder and the sole beneficial owner of Ruffy |
| "Hong Kong" | the Hong Kong Special Administrative Region of the PRC |
| "Independent Board Committee" | an independent board committee, comprising Mr. Zhao Shou Guo, Mr. Chen Mingxian and Mr. Chau Kam Wing, Donald, all being the independent non-executive Directors, to advise the Independent Shareholders as to the fairness and reasonableness of the Acquisition Agreement and the transactions contemplated thereunder |
| "Independent Financial Adviser" or "Vinco Capital" | Grand Vinco Capital Limited, a wholly-owned subsidiary of Vinco Financial Group Limited, a licensed corporation for type 1 (dealing in securities) and type 6 (advising on corporate finance) of the regulated activity as defined under the SFO, which is appointed by the Company as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Acquisition |
| "Independent Shareholders" | Shareholders other than Mr. Mei, Ruffy and their respective associates |
| "Latest Practicable Date" | 9 December 2009, being the latest practicable date prior to the printing of this circular of the purpose of ascertaining certain information contained in this circular |
| "Mine" | the mine area containing zinc and lead resources located in Naimanqi, Tongliao City, Inner Mongolia of the PRC with an aggregate exploitation area of 1.4325 $km^2$ |
| "Mineral Resources" | the mineral resources expected to be extracted from the Mine consisting mainly of zinc and lead |
| "PRC" | the People's Republic of China which, for the purposes of this document, excludes Hong Kong, the Macau Special Administrative Region of the People's Republic of China and Taiwan |

| | |
|---|---|
| "PRC GAAP" | the generally accepted accounting principles in the PRC |
| "Purchaser" | 深圳市睿汭科技有限公司 (Shenzhen City Ruirui Technology Company Limited#), a company established under the laws of the PRC with limited liability which is wholly owned by the Group |
| "Ruffy" | Ruffy Investments Limited, a company incorporated in the British Virgin Islands and wholly and beneficially owned the Guarantor, which is also registered holder of the outstanding face value of HK$568,048,825 of the Convertible Bonds |
| "Sale Interest" | 55% of the entire registered capital of the Target Company, being RMB1,100,000 |
| "Sale Loan" | all obligations, liabilities and debts owing or incurred by the Target Company to the Vendor on or at any time prior to the Completion whether actual, contingent or deferred and irrespective of whether or not the same is due and payable on Completion |
| "SFO" | Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) |
| "SGM" | a special general meeting of the Company to be convened for the purpose of considering, and if thought fit, approving the Acquisition Agreement and the transactions contemplated thereunder |
| "Share(s)" | ordinary share(s) of HK$0.0004 each in the capital of the Company |
| "Shareholder(s)" | holder(s) of the Share(s) |
| "Stock Exchange" | The Stock Exchange of Hong Kong Limited |
| "Target Company" | 奈曼旗煊大礦業有限公司 (Naimanqi Mining Company Limited)#, a company established under the laws of the PRC with limited liability which is beneficially owned as 35% by the Vendor as at the Latest Practicable Date, and will be beneficially owned as to 55% by the Vendor after completion of the transactions contemplated under the Transfer Agreement |

| | |
|---|---|
| "Transfer Agreement" | a share transfer agreement entered into between the Vendor and Feng Ye dated 8 May 2009 (as amended by the supplemental agreement dated 10 September 2009), pursuant to which the Vendor has agreed to purchase and Feng Ye has agreed to sell the 20% equity interest in the Target Company at a consideration of RMB12,600,000 |
| "Vendor" | 深圳市冠欣投資有限公司 (Shenzhen First Create Investment Company Limited)#, a company established under the laws of the PRC with limited liability which is beneficially owned as to 53% by Mr. Mei Wei (who is a Shareholder indirectly interested in more than 10% of the Shares through his wholly-owned subsidiary, Ruffy) |
| "HK$" | Hong Kong dollars, the lawful currency of Hong Kong |
| "RMB" | Renminbi, the lawful currency of the PRC |
| "%" | per cent |
| "$km^2$" | square kilometer(s) |

*For the purpose of illustration only, amounts denominated in RMB in this circular have been translated into HK$ at the rate of RMB0.88 = HK$1. Such translation should not be construed as a representation that the amounts in question have been, could have been or could be converted at any particular rate at all.*

# *The English translation of Chinese names or words in this circular is included for information purpose only, and should not be regarded as the official English translation of such Chinese names or words.*

中國有色金屬有限公司*
China Nonferrous Metals Company Limited
*(Incorporated in Bermuda with limited liability)*
**(stock code: 8306)**

*Executive Directors:*
Mr. Zhuo Ze Fan
Ms. Xie Yi Ping
Dr. Yu Heng Xiang
Mr. Ng Tang
Mr. Xu Bing
Mr. Kang Hongbo
Ms. Han Qiong

*Independent non-executive Directors:*
Mr. Zhao Shou Guo
Mr. Chau Kam Wing, Donald
Mr. Chen Mingxian

*Registered office:*
Clarendon House
2 Church Street
Hamilton HM11
Bermuda

*Head office and principal place of business in Hong Kong:*
Suite 1704-1705, 17/F
Dah Sing Financial Centre
108 Gloucester Road
Wanchai
Hong Kong

11 December 2009

*To the Shareholders*

Dear Sir or Madam

## DISCLOSEABLE AND CONNECTED TRANSACTION

### INTRODUCTION

Reference is made to the announcement of the Company dated 23 October 2009 in relation to the Acquisition. Pursuant to the Acquisition Agreement, (i) the Purchaser has conditionally agreed to acquire the Sale Interest and the Sale Loan from the Vendor at a total consideration of RMB82.5 million (equivalent to approximately HK$93.75 million), which will be fully settled in cash, and (ii) the Guarantor has agreed to guarantee the due performance by the Vendor of its obligations thereunder.

* *for identification purposes only*

The purposes of this circular are, among others, (i) to provide you with further information relating to the Acquisition and the Acquisition Agreement; (ii) to set out the recommendation from the Independent Board Committee to the Independent Shareholders; (iii) to set out the recommendation from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders; and (iv) to give you the notice of SGM.

**ACQUISITION AGREEMENT**

| | | | |
|---|---|---|---|
| Date | : | 23 October 2009 (after trading hours) | |
| Parties | : | Purchaser: | 深圳市睿汭科技有限公司 (Shenzhen City Ruirui Technology Company Limited#), as the purchaser |
| | | Vendor: | 深圳市冠欣投資有限公司 (Shenzhen First Create Investment Company Limited#), as the vendor, which is principally engaged in trading of metals and other commercial activities |
| | | Guarantor: | Mr. Mei, as guarantor of the performance by the Vendor of its obligations under the Acquisition Agreement. Mr. Mei is a merchant |

To the best knowledge, information and belief of the Directors having made all the reasonable enquiry, the Guarantor is a substantial Shareholder, who is beneficially interested in 509,181,818 Shares (representing approximately 16.63% of the entire issued Shares), while the Vendor is beneficially owned as to 53% by the Guarantor, thus being a connected person of the Company under the GEM Listing Rules.

**Assets to be acquired**

(1) The Sale Interest (being RMB1,100,000, representing 55% of the entire registered capital of the Target Company). The Vendor is beneficially interested as to 35% of the registered capital of the Target Company as at the Latest Practicable Date, which was acquired by the Vendor at a purchase cost of RMB22,800,000 in June 2007. The remaining 20% interest in the registered capital of the Target Company will be purchased by the Vendor at the consideration of RMB12,600,000 under the Transfer Agreement. Immediately before Completion, the Vendor will be beneficially interested in 55% of the registered capital of the Target Company, as completion of the Transfer Agreement is a condition precedent (as described in the section headed "Conditions precedent" below); and

(2) The Sale Loan, being all obligations, liabilities and debts owing or incurred by the Target Company to the Vendor on or at any time prior to the Completion whether actual, contingent or deferred and irrespective of whether or not the same is due and payable on Completion, which will be assigned to Purchaser upon Completion. As at 30 September 2009, the Sale Loan was in the sum of approximately RMB3,700,000, which represented approximately 61.67% of the total liabilities due from the Target Company to its shareholders and directors.

**Consideration**

The Consideration is RMB82.5 million (equivalent to approximately HK$93.75 million), which will be satisfied by the Purchaser in cash in the following manner:

(1) RMB24.75 million (equivalent to approximately HK$28.125 million) payable on or before 31 December 2009; and

(2) RMB57.75 million (equivalent to approximately HK$65.625 million) payable in five (5) equal installments (being RMB11. 55 million for each installment), with the first installment to be paid at Completion, and the remaining four (4) installments to be paid on the last business day in the four (4) successive months after the date of Completion.

For the avoidance of doubt, no interest will be accrued on any part of the Consideration. The Purchaser shall be, at its sole discretion, entitled to pay the balance of the Consideration (or any part thereof) in one lump sum at any time before the payment of the last installment.

The Consideration was arrived at after arm's length negotiations between the parties to the Acquisition Agreement after taking into account, among others, the business prospects of the Target Company, the possible future earnings to be contributed by the Target Company to the Group, the synergetic effect on the Group's current mining business, and the potential reserves of Mineral Resources as described in the section "Information on the Mine" below.

The Directors considered that the Consideration is fair and reasonable, because the fair value of the Mine should be at least roughly equal to the Consideration based on the results of the independent valuation report to be obtained by the Company as condition precedent (as described in the section headed "Conditions precedent").

**Conditions**

Completion is subject to the following conditions precedent:

(i) the Purchaser being satisfied with the results of the due diligence review of the assets, liabilities, operations and affairs of the Target Company and the Mine;

(ii) all necessary consents and approvals required to be obtained in respect of the Acquisition Agreement and the transactions contemplated thereby having been obtained, including but not limited to the approval of the relevant PRC authority for registration of the Purchaser as a new shareholder of the Target Company;

(iii) the passing by the Independent Shareholders at the SGM of an ordinary resolution to approve the Acquisition Agreement and the transactions contemplated thereunder;

(iv) the obtaining of a PRC legal opinion by the Purchaser (in form and substance satisfactory to the Purchaser) in relation to the transactions contemplated under the Acquisition Agreement;

(v) completion of the acquisition of an additional 20% equity interest in the Target Company by the Vendor as contemplated under the Transfer Agreement having taken place in a manner satisfactory to the Purchaser, so that the Vendor is formally registered in the relevant PRC governmental authority as the holder of 55% equity interest in the Target Company;

(vi) the obtaining of a technical report prepared by an independent technical personnel (in form and substance satisfactory to the Purchaser);

(vii) the obtaining of a valuation report in relation to the Target Company and/or the Mine prepared by an independent valuer appointed by the Purchaser (in form and substance satisfactory to the Purchaser) indicating that the value of the Mine will be not less than RMB82.5 million; and

(viii) the warranties provided by the Vendor under the Acquisition Agreement remaining true and accurate in all material respects at the date of Completion.

The independent technical personnel and the independent valuer to be appointed by the Group for preparing the technical report and the valuation report respectively for fulfillment of conditions (vi) and (vii) above will be qualified in their respective jurisdictions. The valuation of the Mine will be based on the amount of estimated mineral assets present in Mine as provided in the technical report. Moreover, the independent valuer has the relevant experience in the assessment and valuation of mineral assets to be acquired by listed issuers on the Stock Exchange.

If the above conditions precedent have not been satisfied (or waived by the Purchaser) on or before 31 March 2010 (or such later date as the Vendor and the Purchaser may agree), the Acquisition Agreement shall cease and determine and neither party shall have any obligations and liabilities towards each other thereunder save for antecedent breaches of the terms of the Acquisition Agreement. In such case, the Vendor shall refund the deposit of RMB24.75 million paid by the Purchaser (if this has been paid).

As at the Latest Practicable Date, condition (vii) has been fulfilled. Save as aforesaid, none of the conditions above has been fulfilled.

**Completion**

Completion shall take place on the date falling within five Business Days after the fulfillment (or waiver) of the conditions precedent referred to above, or such later date as the Vendor and the Purchaser may agree.

**Profit Guarantee**

Pursuant to the Acquisition Agreement, the Vendor warrants and guarantees to the Purchaser that the audited net profits after tax and any extraordinary or exceptional items but before minority interests of the Target Company attributable to its shareholders will not be less than RMB20,000,000 for the financial year ending 31 December 2010 (the "**2010 Guaranteed Profit**"). If the actual audited net profits after tax and any extraordinary or exceptional items but before minority interests of the Target Company for the financial year ending 31 December 2010 (the "**2010 Actual Profit**") is less than the 2010 Guaranteed Profit, the Vendor shall indemnify the Purchaser in one of the following ways: (i) paying to the Purchaser on a dollar-for-dollar basis in cash an amount of 55% of the difference between the 2010 Guaranteed Profit and the 2010 Actual Profit (the "**2010 Profit Guarantee Shortfall Amount**"); or (ii) procuring Ruffy or other associates of the Guarantor to set off the 2010 Profit Guarantee Shortfall Amount against the outstanding face value of the Convertible Bonds held by Ruffy or other associates of the Guarantor on a dollar-for-dollar basis. In case the outstanding face value of the Convertible Bonds held by Ruffy or other associates of the Guarantor is not sufficient to set off in full against the 2010 Profit Guarantee Shortfall Amount, the deficit has to be paid by the Vendor in cash. In any event, the 2010 Profit Guarantee Shortfall Amount shall not exceed RMB11,000,000 (which figure is determined by multiplying RMB20,000,000 (which is the guaranteed level of profits of the Target Company before minority interest) by 55% (which is the percentage equity interest in the Target Company to be held by the Group)). In the event that the Target Company records a loss in its audited financial statements for the year ending 31 December 2010, the 2010 Actual Profit for the relevant financial year shall for the purpose of the profit guarantee be deemed as zero.

Pursuant to the Acquisition Agreement, the Vendor warrants and guarantees to the Purchaser that the audited net profits after tax and any extraordinary or exceptional items but before minority interests of the Target Company attributable to its shareholders will not be less than RMB30,000,000 for the financial year ending 31 December 2011 (the "**2011 Guaranteed Profit**"). If the actual audited net profits after tax and any extraordinary or exceptional items but before minority interests of the Target Company for the financial year ending 31 December 2011 (the "**2011 Actual Profit**") is less than the 2011 Guaranteed Profit, the Vendor shall indemnify the Purchaser in one of the following ways: (i) paying to the Purchaser on a dollar-for-dollar basis in cash an amount of 55% of the difference between the 2011 Guaranteed Profit and the 2011 Actual Profit (the "**2011 Profit Guarantee Shortfall Amount**"); or (ii) procuring Ruffy or other associates of the Guarantor to set off the 2011 Profit Guarantee Shortfall Amount against the outstanding face value of the Convertible Bonds held by Ruffy or other associates of the Guarantor on a dollar-for-dollar basis. In case the outstanding face value of the Convertible Bonds held by Ruffy or other associates of the Guarantor is not sufficient to set off in full against the 2011 Profit Guarantee Shortfall Amount, the deficit has to be paid by the Vendor in cash. In any event, the 2011 Profit Guarantee Shortfall Amount shall not exceed RMB16,500,000 (which figure is determined by multiplying RMB30,000,000 (which is the guaranteed level of profits of the Target Company before minority interest) by 55% (which is the percentage equity interest in the Target Company to be held by the Group)). In the event that the Target Company records a loss in its audited financial statements for the year ending 31 December 2011, the 2011 Actual Profit for the relevant financial year shall for the purpose of the profit guarantee be deemed as zero.

The Company will publish an announcement if any of the 2010 Actual Profit and the 2011 Actual Profit is less than the 2010 Guaranteed Profit and the 2011 Guaranteed Profit respectively, and will include details of such shortfall in the Company's next published annual reports after determination of the 2010 Actual Profit and the 2011 Actual Profit. The independent non-executive Directors will also provide an opinion in the Company's next published annual report as to whether the profit guarantee under the Acquisition Agreement if fulfilled.

**INFORMATION OF THE TARGET COMPANY**

The Target Company is a company incorporated in the PRC on 11 April 2005 with limited liability and whose entire registered share capital is RMB2,000,000. As at the Latest Practicable Date, the registered capital of Target Company is beneficially owned as to 45% by an independent third party, as to 35% by the Vendor, and as to 20% by Feng Ye. The 35% equity interest in the Target Company was acquired by the Vendor in June 2007 at a purchase cost of RMB22,800,000. By the Transfer Agreement, the Vendor has agreed to purchase and Feng Ye has agreed to sell the 20% equity interest in the Target Company at a consideration of RMB12,600,000. It is a condition precedent to the Completion that the transactions contemplated under the Transfer Agreement will be completed in a manner satisfactory to the Purchaser, so that the Vendor is formally registered in the relevant PRC governmental authority as the holder of 55% equity interest in the Target Company.

The Target Company was, as at 30 September 2009, indebted to the Vendor in the sum of RMB3,700,000, and to other shareholders and directors in the sum of RMB2,300,000. Therefore, the Sale Loan represented 61.67% of the total obligations and liabilities due from the Target Company to its shareholders and directors as at 30 September 2009.

The Target Company is principally engaged in the exploitation and mining of the Mineral Resources at the Mine, and trading of mineral resources.

Set out below is the unaudited financial information of the Target Company for the period for the past two financial years as prepared under PRC GAAP:

| | **For the year ended 31 December 2008** | **For the year ended 31 December 2007** |
|---|---|---|
| | *RMB* | *RMB* |
| | (unaudited) | (unaudited) |
| Turnover | 4,567,000 | 6,930,000 |
| Loss before taxation | 2,802,000 | 2,992,000 |
| Loss after taxation | 2,802,000 | 2,992,000 |

The unaudited net assets value of the Target Company as at 31 December 2008 was approximately RMB2,190,000.

Upon Completion, the Target Company will become a 55%-owned subsidiary of the Company and its results will be consolidated into the Group's financial statements.

## INFORMATION ON THE MINE

The Mine is located in Naimanqi, Tongliao City, Inner Mongolia of the PRC with an aggregate exploitation area of about 1.4325 $km^2$.

Up to the Latest Practicable Date, the relevant PRC authority has already issued the exploitation license to the Target Company. The Mine mainly contains lead and zinc resources. The exploitation license has granted the Target Company the right for the extraction and exploitation of Mineral Resources at the Mine. The expiry date of the exploitation license is 13 July 2010 (which can be extended for another 5 years subject to the approval of the PRC government). To the best knowledge, information and belief of the Directors, as (i) the Target Company has not committed any material breaches of the PRC environmental laws and the conditions stated in the exploitation license up to the Latest Practicable Date and (ii) the Directors are not aware of any circumstances or legal obstacles which may impede the possibility for extension of the validity period of the exploitation license, the likelihood for extension of the validity period of the exploitation license by the relevant PRC authority is reasonably high. The permissible size of production from the Mine under the exploitation license is 45,000 tonnes per annum. The Target Company is required to pay various costs and expenses to the relevant PRC authority(s) in relation to the exploitation license.

## REASONS FOR THE ACQUISITION

The Group is principally engaged in research and development, manufacture, sale and distribution of a series of fertilisers in the PRC under the brand name of "Fuwanjia" (富萬稼), and the mining and processing industry of zinc and lead.

Competition for the fertilisers industry has been keen. Although the Group was able to attain net profit for the last three financial years, the Group's fertilisers business did not demonstrate a promising growth trend over such period. Accordingly, the Group has been actively seeking different investment opportunities which are expected to have future growth and will enhance Shareholders' value as a result. In July 2008, the Group completed the acquisition of Straight Upward Investments Limited, which together with its subsidiaries are engaged in the mining and processing industry of zinc and lead, and the Group has been engaged in the mining industry since then. Owing to the persistent high economic growth and high demand for these resources in the PRC, the Directors consider that the Acquisition will enable the Group to strengthen its participation in the mining industry of zinc and lead and to generate more revenues and income therefrom for the benefit of the Group and its shareholders. Moreover, it is expected that the Acquisition will have a synergetic effect on the mining operations of the Group.

In addition, taking into account of the market potentials of the businesses of the Target Company, and the possible earnings contribution of the Target Company to the Group in the future, the Directors consider that the Acquisition can broaden the Group's income base and improve its financial performance.

As the Target Company is in possession of a valid exploitation license for the Mine and is currently operating, it is relatively easy for the Group to takeover the Target Company and develop the Mine. Although the Target Company is operating at a loss for the last two financial years, it is not uncommon during initial development stages of a mining operation where processing system has to be calibrated. The Directors plan that the production capacity of the Target Company will be expanded after Completion, so as to increase the revenue generated therefrom. More importantly, such expansion is particularly sensitive to the increase of the profit margin of the Target Company, as the production costs will not rise to the same extent as the revenue does due to economy of scale. As a result of the gradually improved economic conditions in most part of the world, the demand (and so the price) for natural resources and commodities (including lead and zinc) is expected to rise in the forthcoming years. The Board considers that such upward trend is likely to continue in the foreseeable future due to the development needs of the developing countries like PRC, Brazil and India. Hence, it is expected that the Target Company will be able to generate profits in the future. From the viewpoint of the Group, the profitability of the Target Company has been assured by the Vendor, as the Vendor has already provided the dollar-for-dollar profit guarantee for the years ending 31 December 2010 and 2011.

As the Vendor has already entered into the Transfer Agreement with Feng Ye for the acquisition of 20% equity interest in the Target Company, the Group could not directly purchase the 20% equity interest in the Target Company from Feng Ye. Having regard to the fact that the price of zinc in the PRC market has increased from RMB13,170 per tonne to RMB16,240 per tonne for the period from 8 May 2009 (the date of the Transfer Agreement) to 20 October 2009, representing an increase of about 23%, it is logical and reasonable for the Group to pay a premium over the acquisition costs paid by the Vendor for acquiring the Sale Interest due to the increase in the value of the Mine. Moreover, considering that the Vendor has provided the dollar-for-dollar profit guarantee of the Target Company for the years ending 31 December 2010 and 2011, the price-earning ratio of the Target Company for 2010 and 2011 is only about 7.5 times ((RMB82.5 million/55%)/RMB20 million) and 5 times ((RMB82.5 million/55%)/RMB30 million) respectively, which is relatively low when compared with acquisition of similar mines to the best knowledge, information and belief of the Directors. Lastly, it is a condition precedent to the Completion that the Purchaser having obtained a valuation report indicating the value of the Mine/the Target Company will not be less than RMB82,500,000 (i.e. the consideration payable by the Group). This serves as an additional safeguard to protect the interests of the Company and its Shareholders as a whole. With regard to the recent surge of zinc prices, the development prospects of the Target Company, the future demand of zinc and lead, the profit guarantee provided by the Vendor and the safeguard provided by adding the valuation report as a condition precedent, the Board considers it is justifiable for the Group to pay the premium for the Acquisition to the Vendor.

With regard to the above, the Directors (including the independent non-executive Directors) consider that the terms of the Acquisition (including the Consideration) are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

## IMPLICATIONS UNDER THE GEM LISTING RULES

The Acquisition constitutes a discloseable transaction for the Company under Chapter 19 of the GEM Listing Rules, as the relevant percentage ratios exceeds 5% but less than 25%. As the Vendor is beneficially owned as to 53% by Mr. Mei (who is indirectly interested in more than 10% of the issued Shares through his wholly-owned subsidiary, Ruffy), the Vendor is regarded as an associate of a substantial Shareholder, thus being a connected person of the Company under the GEM Listing Rules. The Acquisition is regarded as a connected transaction under the GEM Listing Rules. Since the Consideration exceeds HK$10 million, the Acquisition is subject to announcement, reporting and Independent Shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

## SGM

Set out on pages 44 to 45 of this circular is a notice convening the SGM which will be held at Suite 1704-05, 17/F Dah Sing Financial Centre, 108 Gloucester Road, Wanchai, Hong Kong at 3:00 p.m. on Monday, 4 January 2010 at which resolutions will be proposed to approve, among others, the Acquisition Agreement and the transactions contemplated thereunder.

The Acquisition is subject to, among other things, the approval by the Independent Shareholders at the SGM to be taken by way of a poll. Ruffy, Mr. Mei and their respective associates, who are holding in aggregate 509,181,818 Shares representing 16.63% of the entire issued Shares as at the Latest Practicable Date, are required to abstain from the voting at the SGM on the resolution to approve the Acquisition. There is (i) no voting trust or other agreement or arrangement or understanding entered into by or binding upon Mr. Mei, Ruffy and their respective associates; and (ii) no obligation or entitlement of each of Mr. Mei, Ruffy and their respective associates as at the Latest Practicable Date, whereby it has or may have temporarily or permanently passed control over the exercise of the voting right in respect of its Shares to a third party, either generally or on a case-by-case basis.

A form of proxy for the SGM is enclosed. Whether or not you propose to attend the SGM, you are requested to complete the form of proxy and return the same to Tricor Investor Services Limited, the Company's branch share registrar in Hong Kong, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong in accordance with the instructions printed thereon not less than 48 hours before the time appointed for the meeting (or any adjourned meeting). Completion and delivery of the form of proxy will not preclude you from attending and voting at the meeting (or any adjourned meeting) if you so wish.

## RECOMMENDATIONS

Your attention is drawn to the letter from the Independent Board Committee set out on page 15 of this circular. The Independent Board Committee, having taken into account the advice of the Independent Financial Adviser, the text of which is set out on pages 16 to 27 of this circular, considers that the Acquisition Agreement is entered into upon normal commercial terms following arm's length negotiations between the parties thereto and that the terms of the Acquisition Agreement are fair and reasonable so far as the Independent Shareholders are concerned and the Acquisition is in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the resolutions to be proposed at the SGM to approve the Acquisition Agreement and the transactions contemplated thereunder.

## FURTHER INFORMATION

Your attention is also drawn to the additional information set out in the appendices to this circular.

Yours faithfully
By order of the board of Directors of
**China Nonferrous Metals Company Limited**
**Zhuo Ze Fan**
*Chairman*

中國有色金屬有限公司*
China Nonferrous Metals Company Limited

*(Incorporated in Bermuda with limited liability)*
**(stock code: 8306)**

11 December 2009

*To the Independent Shareholders*

Dear Sir or Madam,

## DISCLOSEABLE AND CONNECTED TRANSACTION

We refer to the circular dated 11 December 2009 issued by the Company (the "**Circular**"), of which this letter forms part. Terms used in this letter shall bear the same meanings as given to them in the Circular unless the context otherwise requires.

We have been appointed as members of the Independent Board Committee to consider the Acquisition Agreement and the transactions contemplated thereunder and to advise the Independent Shareholders as to the fairness and reasonableness of the Acquisition, and to recommend how the Independent Shareholders should vote at the SGM. Vinco Capital has been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard. We wish to draw your attention to the letter from the Board, as set out on pages 5 to 14 of the Circular, and the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders which contains its advice to us in respect of the Acquisition, as set out on pages 16 to 27 of the Circular.

Having taken into account of the advice of the Independent Financial Adviser, we consider that the Acquisition Agreement is entered into upon normal commercial terms following arm's length negotiations between the parties thereto, and that the terms of the Acquisition Agreement are fair and reasonable so far as the Independent Shareholders are concerned, and the Acquisition is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the SGM to approve the Acquisition Agreement and the transactions contemplated thereunder.

Yours faithfully,
the Independent Board Committee

| **Zhao Shou Guo** | **Chau Kam Wing, Donald** | **Chen Mingxian** |
|---|---|---|
| *Independent non-executive Director* | *Independent non-executive Director* | *Independent non-executive Director* |

* *for identification purposes only*

*The following is the text of a letter of advice from Grand Vinco Capital Limited to the Independent Board Committee and the Independent Shareholders in connection with the Acquisition which has been prepared for the purpose of incorporation in this circular:*

VINCO 域高

**Grand Vinco Capital Limited**
Units 4909-4910, 49/F., The Center
99 Queen's Road Central, Hong Kong

11 December 2009

To the Independent Board Committee and the Independent Shareholders of
*China Nonferrous Metals Company Limited*

Dear Sirs,

## DISCLOSEABLE AND CONNECTED TRANSACTION

### A. INTRODUCTION

We refer to our engagement as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in connection with the Acquisition Agreement and the transactions contemplated thereunder, details of which are set out in the section headed "Letter from the Board" in the circular issued by the Company to the Shareholders dated 11 December 2009 (the "**Circular**") of which this letter forms part. Capitalized terms used in this letter shall have the same meanings ascribed to them in the Circular unless the context otherwise requires.

On 23 October 2009, the Purchaser, a wholly-owned subsidiary of the Company entered into the Acquisition Agreement with the Vendor and the Guarantor for the acquisition of the Sale Interest and the Sale Loan from the Vendor at a total consideration of RMB82.5 million (equivalent to approximately HK$93.75 million), in which the Guarantor has agreed to guarantee the due performance by the Vendor of its obligations thereunder.

As the applicable percentage ratios as calculated under Chapter 19 of the GEM Listing Rules exceed 5% but less than 25%, the Acquisition constitutes a discloseable transaction for the Company under Chapter 19 of the GEM Listing Rules. In addition, as the Vendor is beneficially owned as to 53% by Mr. Mei (who is indirectly interested in more than 10% of the issued Shares through his wholly-owned subsidiary, Ruffy), the Vendor is regarded as an associate of a substantial Shareholder and therefore a connected person of the Company under the GEM Listing Rules. Accordingly, the Acquisition constitutes a connected transaction under the GEM Listing Rules. Given that the Consideration exceeds HK$10 million, the Acquisition is subject to the reporting, announcement requirements and approval of the Independent Shareholders at the SGM to be taken by way of a poll. As at the Latest Practicable Date, Ruffy, Mr. Mei and their respective associates, who are in aggregate holding 509,181,818 Shares (representing 16.63% of the entire issued Shares), are required to abstain from voting for the relevant resolution at the SGM to approve the Acquisition Agreement and the transactions contemplated thereunder.

The Independent Board Committee, comprising Mr. Zhao Shou Guo, Mr. Chau Kam Wing, Donald and Mr. Chen Mingxian, all being the independent non-executive Directors, has been formed to advise the Independent Shareholders on the Acquisition Agreement and the transactions contemplated thereunder. We have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Acquisition. In our capacity as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders for the purposes of the GEM Listing Rules, our role is to give you an independent opinion as to whether the Acquisition Agreement and the transactions contemplated thereunder are on normal commercial terms, in the ordinary course of business, fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

## B. BASIS OF OUR OPINION AND RECOMMENDATION

In forming our opinion and recommendation, we have relied on the information, facts and representations contained or referred to in the Circular and the information, facts and representations provided by, and the opinions expressed by the Directors, management of the Company and its subsidiaries. We have assumed that all information, facts, opinions and representations made or referred to in the Circular were true, accurate and complete at the time they were made and continued to be true, accurate and complete as at the date of the Circular and that all expectations and intentions of the Directors, management of the Company and its subsidiaries, will be met or carried out as the case may be. We have no reason to doubt the truth, accuracy and completeness of the information, facts, opinions and representations provided to us by the Directors, management of the Company and its subsidiaries. The Directors have confirmed to us that no material facts have been omitted from the information supplied and opinions expressed. We have no reason to doubt that any relevant material facts have been withheld or omitted from the information provided and referred to in the Circular or the reasonableness of the opinions and representations provided to us by the Directors, management of the Company and its subsidiaries.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other facts not contained in the Circular, the omission of which would make any statement in the Circular misleading.

We have relied on such information and opinions and have not, however, conducted any independent verification of the information provided, nor have we carried out any independent investigation into the business, financial conditions and affairs of the Group or its future prospect.

Based on the foregoing, we confirm that we have taken all reasonable steps, which are applicable to the Acquisition, as referred to in Rule 17.92 of the GEM Listing Rules (including the notes thereto).

For the purpose of this letter, unless otherwise specified, an exchange rate of RMB0.88 to HK$1 has been adopted for illustrative purpose only. No representation is made that any amounts in RMB or HK$ have been, could have been or could be converted at the above rate or at any other rates or at all.

This letter is issued for the information for the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the Acquisition Agreement and the transactions contemplated thereunder and, except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

## C. PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendation in relation to the Acquisition Agreement and the transactions contemplated thereunder, we have taken into consideration the following principal factors and reasons:

### 1. Information of the Group

The Group is principally engaged in research and development, manufacture, sale and distribution of a series of fertilisers in the PRC under the brand name of "Fuwanjia" (富萬稼), and the mining and processing industry of zinc and lead.

As stated in the Letter from the Board, the Directors considered that the Group's fertilisers business did not demonstrate a promising growth trend over the past three financial years given the keen competition in the fertilisers industry. Accordingly, the Group has been actively seeking different investment opportunities which are expected to have future growth and will enhance Shareholders' value as a result. Upon completion of the acquisition of Straight Upward Investments Limited (which together with its subsidiaries are engaged in the mining and processing industry of zinc and lead) in July 2008, the Group has been engaged in the mining industry since then.

A summary of the Group's financial results for the two financial years ended 31 December 2008 as extracted from the annual reports 2007 and 2008 and for the six months ended 30 June 2009 as extracted from the interim report 2009 of the Company is set out below:

| | **For the six months ended 30 June** | **For the year ended 31 December** | |
|---|---|---|---|
| | **2009** | **2008** | **2007** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| | *(approximately)* | *(approximately)* | *(approximately)* |
| Turnover | 164,047 | 219,771 | 144,759 |
| (Loss)/Profit attributable to equity holders of the Company | (18,937) | 8,636 | 10,067 |
| | **As at 30 June 2009** | **As at 31 December 2008** | **As at 31 December 2007** |
| Net assets attributable to equity holders of the Company | 532,147 | 545,536 | 116,356 |

As illustrated in the table above, the Group's turnover for the six months ended 30 June 2009 amounted to approximately RMB164,047,000 (equivalent to approximately HK$186,417,045) and the loss attributable to equity holders of the Company for the six months ended 30 June 2009 amounted to approximately RMB18,937,000 (equivalent to approximately HK$21,519,318). The net assets attributable to equity holders of the Company amounted to approximately RMB532,147,000 (equivalent to approximately HK$604,712,500). For the six months ended 30 June 2009, the Group's segment revenue from fertilizers and nonferrous metal mine site were approximately RMB76,896,000 (equivalent to approximately HK$87,381,818) and RMB87,151,000 (equivalent to approximately HK$99,035,227) respectively. Meanwhile, the segment results from fertilizers and nonferrous metal mine site were approximately RMB7,747,000 (equivalent to approximately HK$8,803,409) and RMB21,030,000 (equivalent to approximately HK$23,897,727).

For the two years ended 31 December 2007 and 2008, the Group recorded a turnover of approximately RMB144,759,000 (equivalent to approximately HK$164,498,864) and approximately RMB219,771,000 (equivalent to approximately HK$249,739,773), representing an increase of approximately 51.82%. For the two years ended 31 December 2007 and 2008, the Group recorded a net profit attributable to equity holders of the Company of approximately RMB10,067,000 (equivalent to approximately HK$11,439,773) and approximately RMB8,636,000 (equivalent to approximately HK$9,813,636), representing a decrease of approximately 14.21%. As discussed with the Directors, the decrease in the Group's net profit attributable to equity holders of the Company was mainly attributable to high initial cost of the newly acquired mining business of the Group during the year ended 31 December 2008.

As stated in the Group's 2009 interim report on 14 August 2009, the Group will continue to seek for quality mines in China with different mineralization reserves for acquisition as well as exploring opportunities in acquiring downstream business of smelting for vertical integration. Accordingly, we are of the view that the Acquisition is in line with the Group's strategy and will further enhance the Group's interest in its mining segment.

**2. Background to and reasons for the Acquisition**

*i. Information of the Target Company*

The Target Company is a company incorporated in the PRC on 11 April 2005 with limited liability and whose entire registered share capital is RMB2,000,000, of which is beneficially owned as to 45% by an independent third party, as to 35% by the Vendor, and as to 20% by Feng Ye as at the Latest Practicable Date. In June 2007, the Vendor acquired the 35% equity interest in the Target Company at a purchase cost of RMB22,800,000. Pursuant to the Transfer Agreement, the Vendor has agreed to purchase and Feng Ye has agreed to sell the 20% equity interest in the Target Company at a consideration of RMB12,600,000 (being a condition precedent to the Completion that the transactions contemplated under the Transfer Agreement shall be completed in a manner satisfactory to the Purchaser so as to ensure the Vendor be formally registered in the relevant PRC governmental authority as the holder of 55% equity interest in the Target Company).

Up to the Latest Practicable Date, the Target Company has already been granted the exploitation license issued by the relevant PRC authority and it is principally engaged in the exploitation and mining of the Mineral Resources at the Mine, and trading of mineral resources.

The table below is a summary of the unaudited financial information of the Group for the past two financial years ended 31 December 2007 and 2008 as prepared under PRC GAAP:

| | **For the year ended 31 December** | |
|---|---|---|
| | **2008** | **2007** |
| | *RMB'000* | *RMB'000* |
| | *(approximately)* | *(approximately)* |
| Turnover | 4,567 | 6,930 |
| Loss before taxation | 2,802 | 2,992 |
| Loss after taxation | 2,802 | 2,992 |

As illustrated in the above table, we noted that the Target Company has been operating at losses for the past two financial years ended 31 December 2008. According to the Directors, we understand that it is not uncommon for a mining operation to be operated at losses at the initial development stages, which were mainly attributable to the calibration of the processing system and we are further confirmed by the Directors that the Company plans to expand the current production capacity of the Target Company upon Completion so as to improve its financial performance and results.

As at 30 September 2009, the Target Company was indebted to the Vendor and other shareholders and directors in an aggregate amount of RMB3,700,000 and RMB2,300,000 respectively. As such, the Sale Loan represented 61.67% of the total obligations and liabilities due from the Target Company to its shareholders and directors as at 30 September 2009.

The unaudited net assets value of the Target Company was approximately RMB2,190,000 (equivalent to approximately HK$2,488,636) as at 31 December 2008. Taking into account the estimated fair market value of exploitation license (the "Exploitation License") of the Mine of approximately RMB173,000,000 (equivalent to approximately HK$196,590,909) as at 31 October 2009, the unaudited net assets value of the Target Company would be approximately RMB175,190,000 (equivalent to approximately HK$199,079,545).

Upon Completion, the Target Company will become a 55%-owned subsidiary of the Company and its results will be consolidated into the Company's financial statements.

*ii. Information on the Mine*

The Mine is located in Naimanqi, Tongliao City, Inner Mongolia of the PRC with an aggregate exploitation area of about 1.4325 $km^2$.

Up to the Latest Practicable Date, the Target Company has already been granted the Exploitation License issued by the relevant PRC authority. Currently, the Exploitation License has granted the Target Company the right for the extraction and exploitation of Mineral Resources at the Mine with the expiry date on 13 July 2010 (which can be extended for another 5 years subject to the approval of the PRC government). According to the valuation report in relation to the Mine (the "Valuation Report") prepared by an independent valuer (the "Independent Valuer") as set out in Appendix I to the Circular, the estimated fair market value of the Exploitation License of the Mine as at 31 October 2009 is RMB173,000,000 (equivalent to approximately HK$196,590,909).

According to the Directors' best knowledge, information and belief, the likelihood for the Target Company to extend the validity period of the Exploitation License by the relevant PRC authority is reasonably high, given that (i) the Target Company has not committed any material breaches of the PRC environmental laws and the conditions stated in the Exploitation License up to the Latest Practicable Date; and (ii) the Directors are not aware of any circumstances or legal obstacles which may hinder the possibility for the extension of the validity period of the Exploitation License. As stipulated in the Exploitation License, the allowable size of production from the Mine would be 45,000 tonnes per annum and the Target Company is required to pay various costs and expenses to the relevant PRC authority(s) regarding the Exploitation License.

*iii. Prospect of the mining industry in the PRC*

As quoted from the Shanghai Metals Exchange ("SHMET"), the zinc price has showed an overall increasing trend for the period from 24 October 2008 to 23 October 2009 (being approximately 12 months before the date of entering into the Acquisition Agreement). The zinc price rose from the average of RMB9,050 per tonne (averaging the highest and lowest price of the day of RMB9,100 per tonne and RMB9,000 per tonne) on 24 October 2008 to RMB15,925 per tonne (averaging the highest and lowest price of the day of RMB15,900 per tonne and RMB15,950 per tonne) on 23 October 2009, representing an increase of approximately 75.97% for the relevant period. Meanwhile, we have reviewed the demand and supply statistics published on 29 October 2009 from www.chinamining.org (being sponsored by the China Mining Association, a juridical association approved by the State Council of the PRC) and we noted that the apparent monthly consumption for refined zinc (as calculated from the aggregate amounts of outputs and imports and minus the amounts of exports) has showed an overall increasing trend from 363,307 tonnes to 444,167 tonnes for the period from October 2008 to September 2009, representing an increase of approximately 22.26%. For the same period, the apparent monthly consumption for refined lead have been fluctuated and remained at 345,336 tonnes in September 2009, representing a slight decrease of approximately 3.86% as compared to the apparent monthly consumption in October 2008.

In addition, according to the statistics available from the National Bureau of Statistics of China, we noted that the growth rate of the gross domestic product of the PRC in the first quarter, second quarter and third quarter of 2009 were approximately 6.1%, 7.9% and 8.9% respectively. As further advised by the Directors, the demand and price for the natural resources and commodities may also experience positive growth from the gradual recovery of the PRC economy.

Based on the foregoing, we are of the view that the prospect of the mining industry is expected to experience a steady growth in the near future. As such, we are of the view that the Acquisition is in the interests of the Company and Independent Shareholders as a whole.

*iv. Reasons for the Acquisition*

As stated in the Letter from the Board, the Directors considered that the Group's fertilisers business did not demonstrate a promising growth trend over the past three financial years given the keen competition in the fertilisers industry. Accordingly, the Group has been actively seeking different investment opportunities which are expected to have future growth and will enhance Shareholders' value as a result. Upon the completion of the acquisition of Straight Upward Investments Limited (which together with its subsidiaries are engaged in the mining and processing industry of zinc and lead) in July 2008, the Group has been engaged in the mining industry since then.

According to the Directors, in view of the persistent high economic growth and high demand for the nonferrous resources in the PRC, the Acquisition will further increase the Group's investment in the mining industry in the PRC and further strengthen its participation in the mining industry of zinc and lead. The Directors believe that the Acquisition will be able to expand its mining portfolio and business, giving rise to a synergetic effect on the existing mining operations of the Group and thereby broadening the Group's income base and improving its financial performance.

As discussed with the Directors, it would be relatively easy for the Group to takeover the Target Company and develop the Mine given the Target Company has already been granted the Exploitation License for the Mine and is currently operating. We noted that the Company plans to expand the current production capacity of the Target Company upon Completion so as to improve its financial performance and results. As further advised the Directors, we are given to understand that such expansion is particularly sensitive to the increase of the profit margin of the Target Company as the production costs will not increase to the same extent as the revenue does as a result of the economy of scale. As such, it is expected that the Target Company will be able to generate profits in the future. Furthermore, the profitability of the Target Company has been guaranteed by the Vendor on a dollar-for-dollar basis for the two years ending 31 December 2010 and 2011.

In addition, the Directors believe that, as a result of the gradually improved economic conditions in most part of the world, the demand and price for natural resources and commodities (including lead and zinc) is expected to rise in the forthcoming years due to the development needs of the developing countries like PRC, Brazil and India.

Taking into account the (i) business development of the Group in the mining industry in the PRC; (ii) the future prospects of the lead and zinc industry and the gradually improved economy in the PRC as illustrated in the above; (iii) the Acquisition will contribute to the Group's revenue by broadening the Group's mining portfolio and diversifying the Group's income stream; and (iv) the expected increase in the profit margin of the Target Company and the profit guaranteed by the Vendor on a dollar-for-dollar basis for the two years ending 31 December 2010 and 2011, we thus consider that the Acquisition is in the interests of the Company and the Independent Shareholders as a whole.

**3. Principal terms of the Acquisition Agreement**

Pursuant to the Acquisition Agreement, (i) the Purchaser has conditionally agreed to acquire the Sale Interest and the Sale Loan from the Vendor at a total consideration of RMB82.5 million (equivalent to approximately HK$93.75 million), which will be fully settled in cash, and (ii) the Guarantor has agreed to guarantee the due performance by the Vendor of its obligations thereunder.

*i. The Consideration*

The Consideration is RMB82.5 million (equivalent to approximately HK$93.75 million), which will be satisfied by the Purchaser in cash of (i) RMB24.75 million (equivalent to approximately HK$28.125 million) payable on or before 31 December 2009; and (ii) RMB57.75 million (equivalent to approximately HK$65.625 million) payable in five (5) equal installments (being RMB11.55 million for each installment), with the first installment to be paid at Completion, and the remaining four (4) installments to be paid on the last business day in the four (4) successive months after the date of Completion.

As stated in the Letter from the Board, the Consideration was determined after arm's length negotiations between the parties to the Acquisition Agreement with reference to, among others, (i) the business prospects of the Target Company; (ii) the possible future earnings to be contributed by the Target Company to the Group; (iii) the Acquisition is expected to result in the synergetic effect on the Group's current mining business; (iv) the potential reserves of Mineral Resources at the Mine; and (v) the fact that the Acquisition will be conditional, among other things, upon the Purchaser having obtained a valuation report in relation to the Target Company and/or the Mine prepared by the Independent Valuer indicating that the value of the Mine will not be less than RMB82.5 million.

According to the Valuation Report, the 100% controlling and estimated fair market value of the Exploitation License of the Mine as at 31 October 2009 is RMB173,000,000 (equivalent to approximately HK$196,590,909). Based on the Valuation Report, the 55% interest in the Target Company to be acquired by the Group would be valued at approximately RMB95,150,000 (equivalent to approximately HK$108,125,000).

We have discussed with the Independent Valuer and have reviewed and assessed the Valuation Report regarding, among other things, the assumptions, bases and methodologies adopted by the Independent Valuer in conducting the valuation of the Mine, we are given to understand that the Independent Valuer has adopted market approach to estimate values through analysis of recent sales of comparable assets. We noted that this valuation approach is generally used for mine valuation in the PRC. Having discussed with the Independent Valuer on (i) the rationale of adopting the market approach as the valuation methodology and (ii) the bases and assumptions in arriving the valuation using the market approach, we concur with the Independent Valuer that the market approach applied in deriving the valuation is reasonable for valuing the Mine. Further to our discussion with the Directors, no material has come to our attention that would lead us to believe that the Valuation Report prepared by the Independent Valuer is not true or omits a material fact.

Taking into account that the 55% of the estimated fair market value of the Exploitation License of the Mine would be valued at approximately RMB95,150,000 (equivalent to approximately HK$108,125,000), the Consideration thus represents a discount of approximately 13.29% to the value of the Target Company.

Having considered the aforesaid, we are of the opinion that the Valuation Report may provide a valid benchmark for the Directors to assess the fairness and reasonableness of the Consideration. Based on the fact that the Consideration is at discount to the value of the Target Company as appraised by the Independent Valuer and the potential benefits of the Acquisition as discussed in the above, we are of the opinion that the pricing of the Consideration is fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

*ii. Profit Guarantee*

Pursuant to the Acquisition Agreement, the Vendor warrants and guarantees to the Purchaser that the audited net profits after tax and any extraordinary or exceptional items but before minority interests of the Target Company attributable to its shareholders will not be less than RMB20,000,000 for the financial year ending 31 December 2010 (the "2010 Guaranteed Profit"). If the actual audited net profits after tax and any extraordinary or exceptional items bur before minority interests of the Target Company for the financial year ending 31 December 2010 (the "2010 Actual Profit") is less than the 2010 Guaranteed Profit, the Vendor shall (i) pay to the Purchaser on a dollar-for-dollar basis in cash an amount of 55% of the difference between the 2010 Guaranteed Profit and the 2010 Actual Profit (the "2010 Profit Guarantee Shortfall Amount"); or (ii) procure Ruffy or other associates of the Guarantor to set off the 2010 Profit Guarantee Shortfall Amount against the outstanding face value of the Convertible Bonds held by Ruffy or other associates of the Guarantor on a dollar-for-dollar basis. However, in case the outstanding face value of the Convertible Bonds held by Ruffy or other associates of the Guarantor is not sufficient to set off in full against the 2010 Profit Guarantee Shortfall Amount, the deficit has to be paid by the Vendor in cash. Also, in any event, the 2010 Profit Guarantee Shortfall Amount shall not exceed RMB11,000,000 (which figure is determined by multiplying RMB20,000,000 (which is the guaranteed level of profits of the Target Company before minority interest) by 55% (which is the percentage equity interest in the Target Company to be held by the Group). In the event that the Target Company records a loss in its audited financial statements for the year ending 31 December 2010, the 2010 Actual Profit for the relevant financial year shall for the purpose of the profit guarantee be deemed as zero.

Pursuant to the Acquisition Agreement, the Vendor warrants and guarantees to the Purchaser that the audited net profits after tax and any extraordinary or exceptional items but before minority interests of the Target Company attributable to its shareholders will not be less than RMB30,000,000 for the financial year ending 31 December 2011 (the "2011 Guaranteed Profit"). If the actual audited net profits after tax and any extraordinary or exceptional items but before minority interests of the Target Company for the financial year ending 31 December 2011 (the "2011 Actual Profit") is less than the 2011 Guaranteed Profit, the Vendor shall (i) pay to the Purchaser on a dollar-for-dollar basis in cash an amount of 55% of the difference between the 2011 Guaranteed Profit and the 2011 Actual Profit (the "2011 Profit Guarantee Shortfall Amount"); or (ii) procure Ruffy or other associates of the Guarantor to set off the 2010 Profit Guarantee Shortfall Amount against the outstanding face value of the Convertible Bonds held by Ruffy or other associates of the Guarantor on a dollar-for-dollar basis. However, in case the outstanding face value of the Convertible Bonds held by Ruffy or other associates of the Guarantor is not sufficient to set off in full against the 2011 Profit Guarantee Shortfall Amount, the deficit has to be paid by the Vendor in cash. Also, in any event, the 2011 Profit Guarantee Shortfall Amount shall not exceed RMB16,500,000 (which figure is determined by multiplying RMB30,000,000 (which is the guaranteed level of profits of the Target Company before minority interest) by 55% (which is the percentage equity interest in the Target Company to be held by the Group). In the event that the Target Company records a loss in its audited financial statements for the year ending 31 December 2011, the 2011 Actual Profit for the relevant financial year shall for the purpose of the profit guarantee be deemed as zero.

*iii. Refund of deposit*

In addition, in any event that any of the conditions precedent have not been satisfied (or waived by the Purchaser) on or before 31 March 2010 (or such later date as the Vendor and the Purchaser may agree), the Acquisition Agreement shall cease and determine and neither party shall have any obligations and liabilities towards each other thereunder save for antecedent breaches of the terms of the Acquisition Agreement. In such case, the Vendor shall refund the deposit of RMB24.75 million (equivalent to approximately HK$28.125 million) paid by the Purchaser (if this has been paid).

Given that the Vendor has already entered into the Transfer Agreement with Feng Ye for the acquisition of 20% equity interest in the Target Company, the Group could not purchase the 20% equity interest in the Target Company from Feng Ye directly. Taking into consideration that the price of zinc in the PRC market has increased from RMB13,170 per tonne to RMB16,240 per tonne for the period from 8 May 2009 (the date of the Transfer Agreement) to 20 October 2009, representing an increase of approximately 23%, the Directors considered that it is logical and reasonable for the Group to pay a premium over the acquisition costs paid by the Vendor for acquiring the Sale Interest due to the increase in the value of the Mine. Having considered that (i) the recent surge of zinc prices in the PRC market; (ii) the development prospects of the Target Company; (iii) the prospects of the mining industry; (iv) the potential benefits resulted from the Acquisition; (v) the dollar-for-dollar profit guaranteed by the Vendor for the two years ending 31 December 2012; and (vi) the safeguard provided by obtaining a valuation report indicating the value of the Mine will not be less than RMB82.5 million as a condition precedent, we concur with the Directors' view that the it is justifiable for the Group to pay the premium for the acquisition of 20% equity interest in the Target Company from Feng Ye.

Based on the foregoing analysis, we consider that the principal terms of the Acquisition Agreement are and are fair and reasonable and in the interest to the Company and Independent Shareholders as a whole.

**4. Financial effects of the Acquisition**

*i. Earnings*

According to the Group's interim report 2009, the Group recorded loss attributable to equity holders of the Company of approximately RMB18,937,000 (equivalent to approximately HK$21,519,318) for six months ended 30 June 2009.

Upon Completion, the Target Company will become a 55%-owned subsidiary of the Group. As such, the results of the Target Company will be consolidated into the Group's consolidated profit and loss account. As advised by the Directors, the Group's revenue and profit is expected to be improved due to the potential substantial contribution from the Target Company to its revenue and profit in 2009 and thereafter given the persistent high economic growth and high demand for zinc and lead resources in the PRC.

*ii. Net assets*

According to the Group's interim report 2009, the net assets attributable to equity holders of the Company was approximately RMB532,147,000 (equivalent to approximately HK$604,712,500) as at 30 June 2009.

Upon Completion, the Target Company will become a 55%-owned subsidiary of the Group. As such, the net assets and working capital of the Target Company will be consolidated into the Group's financial statements less the amount of the Consideration.

In view of the above, on balance, we consider that there is no material adverse impact on the financial position of the Group as a result of the Acquisition. Therefore, we consider that the Acquisition is in the interest of the Company and the Independent Shareholders as a whole.

## D. CONCLUSION

Having taken into account the above principal factors and reasons, we are of the view that the terms of the Acquisition Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned, the Acquisition Agreement are in the interests of the Company and Independent Shareholders as a whole. Therefore, we advise the Independent Board Committee to recommend the Independent Shareholders, and the Independent Shareholders, to vote in favour of the ordinary resolution to be proposed at the SGM approving the Acquisition Agreement and the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of
**Grand Vinco Capital Limited**
**Alister Chung**
*Managing Director*

**GRANT SHERMAN APPRAISAL LIMITED**

Room 1701, 17/F
Jubilee Centre
18 Fenwick Street
Wanchai
Hong Kong

11 December 2009

The Board of Directors
China Nonferrous Metals Company Limited
Suites 1704-1705
17/F, Dah Sing Financial Centre
108 Gloucester Road, Wanchai
Hong Kong

Dear Sirs/Madam,

In accordance with your instructions, we have made an appraisal of the fair market value of an exploitation license (the "Exploitation License") in connection with the right to explore mineral resources from a mine located in Naimanqi, Tongliao City, Inner Mongolia of the PRC with an aggregate exploration area of 1.4325 km$^2$ (the "Mine"). The Exploitation License is legally owned by Naimanqi Mining Company Limited (奈曼旗煊大礦業有限公司) (the "Target Company") of which 55% of equity interest is to be acquired by Shenzhen City Ruirui Technology Company Limited (深圳市睿汭科技有限公司) (the "Purchaser"), a wholly-owned subsidiary of China Nonferrous Metals Company Limited (the "Company").

This letter identifies the business appraised, describes the basis of valuation and assumptions, explains the valuation methodology utilized, and presents our conclusion of value.

Fair market value means the price that would be paid in an arm's-length transaction between an informed and willing seller under no compulsion to sell and an informed and willing buyer under no compulsion to buy.

The purpose of this appraisal is to express an independent opinion of the fair market value of the Exploitation License of the Mine as of 31 October 2009 (the "Appraisal Date"). It is our understanding that this appraisal is used for acquisition purposes only.

## INTRODUCTION

### The Company

The Company is listed on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited (Stock Code: 8306). The Company and its subsidiaries (together referred to as the "Group") are principally engaged in research and development, manufacture, sale and distribution of a series of fertilisers in the PRC under the brand name of "Fuwanjia", and mining and processing industry of zinc and lead.

**Background of the Transaction**

On 23 October 2009, the Purchaser, a company established under the laws of the PRC with limited liability and wholly owned by the Company, and 深圳市冠欣投資有限公司 (Shenzhen City First Create Investment Company Limited) (the "Vendor") entered into an agreement in relation to the acquisition of the 55% of equity interest in the Target Company by the Purchaser at a consideration of RMB82.5 million, which will be fully settled in cash.

**The Target Company, the Exploitation License and the Mine**

The Target Company is a company incorporated in the PRC on 11 April 2005 with limited liability and registered capital of RMB2 million. The Target Company is principally engaged in the exploitation and mining of the mineral resources expected to be extracted from the Mine, that is zinc and lead ("Mineral Resources"), and trading of mineral resources.

**The Mine**

The Mine is located in Naimanqi, Tongliao City, Inner Mongolia of the PRC with an aggregate exploration area of 1.4325 $km^2$. According to the working report of detailed survey on the potential mineral resource reserves issued in November 2009 (the "Technical Report") by Brigade 208 of China Nuclear Construction Corporation (核工業二零八隊) ("Brigade 208"), an ore containing the Mineral Resources was believed to have been discovered in the Mine.

The following tables summarize the information of the mineral resources discovered in the Mine pursuant to the Technical Report as well as their market prices and general usage:

| | | Minerals Resource Estimate in the Mine* | |
|---|---|---|---|
| **Minerals** | **Category#** | **Contained Metals (t)** | **Average Grade** |
| Lead | 122b | 133,128 | 2.33% |
| | 333 | 34,480 | 1.93% |
| **Total** | | 167,608 | 2.18% |
| Zinc | 122b | 60,041 | 1.9% |
| | 333 | 24,679 | 1.5% |
| **Total** | | 84,720 | 1.75% |

# *China's solid Minerals Resource Classification (GB/T17766-1999)*

* *Source: Technical Report*

| Minerals | Market Price as of Appraisal Date# | General Usage |
|---|---|---|
| Zinc (Zn) | RMB16,300/ton | • galvanize steel to prevent corrosion<br>• alloys such as brass and nickelled silver<br>• anodes of batteries |
| Lead (Pb) | RMB15,950/ton | • lead-acid batteries as car batteries<br>• shielding from radiation (e.g. in X-rays room)<br>• projectiles for firearms and fishing sinkers |

# *Source: Bloomberg*

**The Exploitation License of the Mine**

The Exploitation License granted to the Target Company by the relevant PRC authorities is only valid for the period between 13 July 2007 and 13 July 2010, which is extendable for another 5 years subject to the approval of the PRC government. The permissible production capacity of the Mine under exploitation license is 45,000 tonnes per annum. The Target Company is required to pay various costs and expenses to the relevant PRC authority(s) in relation to the exploitation license.

**INDUSTRY OVERVIEW**

**Location of the of the Lead and Zinc Ore**

The lead and zinc ore is located in the Naimanqi, Tongliao City, Inner Mongolia (內蒙古自治區通遼市奈曼旗煊大礦業有限公司). Inner Mongolia is located in the northern part of China, while Tongliao City is in the eastern part of Inner Mongolia, adjacent to the western part of Jilin Province and northern part of Liaoning Province. The city has a total area of 59.3 thousand square kilometer and resident population of 3.09 million. 35 percent of the population resides in the urban areas while the rest lives in rural areas. Tongliao City has a semi-arid continental monsoon climate, with average annual temperature between 0 to 6 degree Celsius and average annual rainfall between 350 to 400 mm.

Tongliao City is rich in mineral resources. There are 41 different types of minerals and more than 190 mining spots found. There are around 12.1 billion tones of coal reserve and 800 million tones of petroleum reserve in the region. More than 10 ores with iron, zinc, tungsten and copper and more than 30 mining spots are found in the area. The city has the country's largest reserve in silica sand and has a significant reserve in graphite.

**The Nonferrous Metal Market in China**

At present, about three million of people were employed in the nonferrous metal industry in China. In 2008, the total production and consumption of the ten most common nonferrous metals in China were 25.2 million tones and 25.17 million tones respectively. The lead and zinc production contributed 37.8 percent and 33 percent respectively to the total global production while the consumption of lead and zinc were 35.7 percent and 31.7 percent of the total consumption in the world.

In May 2009, the China Government announced the Nonferrous Metal Industry Promotion Planning《有色金屬產業調整和振興規劃》. The plan aims at helping the industry to restore normal production, eliminate production with laggard technology, restructure the industry and reduce energy consumption. In eliminating backward production, the Government plans to eliminate 600 thousand tones of outdated lead smelting capacity and 400 thousand tones of outdated zinc smelting capacity. The plan also aims at creating a few strong and large enterprises, with targets of having 60 percent of both lead and zinc metal to be produced by the ten largest metal production enterprises in the industry in 2011.

**Current Lead and Zinc Market**

The lead and zinc prices exhibited large fluctuation patterns in recent years, imitating similar fluctuations in the world financial market.

The lead price surged from the trough of about USD1000 per metric tone, in June 2006, to the peak of USD3989 per metric tone, on 10 October 2007 (Source: Bloomberg, London Metal Exchange). Then it fell from the peak to another trough of USD844.5 per metric tone on 19 December 2008 before it bounced back to the current level of around USD2300 per metric tone in October 2009. The Zinc price dropped from USD4603 per metric tone on 24 November 2006 to USD1047 per metric tone on 12 December 2008. The price then rose to current level of USD2000 per metric tone in October 2009.

Compared to the volatile prices, the usage and supply of the world's lead and zinc had been in a steady upward trend. According to the statistics from the International Lead and Zinc Study Group (the "ILZSG"), the lead production from mines in 2006, 2007 and 2008 were 3,525 thousand tones, 3,623 thousand tones and 3,910 thousand tones respectively. The zinc production from mines in 2006, 2007 and 2008 were respectively 10,477 thousand tones, 11,129 thousand tones and 11,702 thousand tones.

Data from ILZSG also showed that 38 percent of lead was used in replacement batteries, 35 percent was used in industrial batteries and 8 percent was used in original equipment batteries, which in total, 81 percent of lead was used in making batteries. Compared with that of 77 percent in 2005, increasing demand of lead for making batteries was obvious. The ILZSG expected optimistically a 3 percent of growth in the world lead metal usage in 2009 and 7.2 percent growth in 2010. China would be the major driving force in the lead market. From 1994 to 2007, net export of lead in China was recorded. However the trend reversed in 2008, making a net import of lead in 2008. This trend was predicted to continue in the coming yeas whereas ILZSG forecasted that there will be 25 percent growth in lead demand in China in 2009 and further growth of 7.8 percent in 2010.

For zinc, over half of its first usage goes to galvanization and nearly half of the end usage goes to construction. The demand of zinc metal will shrink 5.6 percent in 2009 but will grow 11.9 percent in 2010, according to the ILZSG. In 2010 it is expected that the demand for zinc metal will increase 7.6 percent, 23.9 percent and 3.2 percent in China, Europe and the U.S respectively.

**Regulations Governing the Exploitation of Mineral Resources**

Mineral resources in the PRC are owned by the state. The mining of mineral resources is highly regulated by the PRC government.

Under the Mineral Resources Law of PRC (礦產資源法) and the Rules for Implementation of the Mineral Resources Law (礦產資源法實施細則), a qualified exploration or mining company can apply for licenses of exploration rights or mining rights in a designated area for a specific period of time for production purposes. The rights will be granted based on the approved geological exploration and reserves report together with relevant documents such as qualifications certificates, proposal for development and use of mineral resources and environmental report. The qualified company has to apply for the renewal of the mining license prior to the expiry date of the mining license. The relevant PRC authority may consider various matters including the conduct of the applicant and the term of the mining license in approving the application. The mining permits are transferable to other entities upon meeting certain minimum exploration expenditure requirements in accordance with the Regulations for Transferring Exploration and Mining Rights (探礦權採礦權轉讓管理辦法).

## BASIS OF VALUATION AND ASSUMPTIONS

We have appraised the Exploitation License of the Mine on the basis of fair market value. Fair market value is defined as the estimated amount at which the asset might be expected to exchange between a willing buyer and a willing seller, neither being under compulsion, each having reasonable knowledge of all relevant facts, and with the buyer and seller contemplating retention of the business at its present location for continuation of current operations unless the break-up of the business or the sale of its assets would yield greater investment returns.

Our investigation included discussions with the management of the Group (the "Management") concerning the history and nature of the business of the Target Company, as well as other records and documents provided by the Management. We have assumed that the data, information, opinions and representation provided to us by the Management in the course of the valuation are true and accurate. Before arriving at our opinion of value, we have considered the following principal factors:

– The global economic outlook in general and specific economic and competitive elements affecting the mining industry and its markets;

– The quantity and quality of the Mineral Resources that has been discovered in accordance with the Technical Reports;

– Appropriate rates of return as indicated by alternative investment opportunities of comparable magnitude, character and risk;

– The stage of exploitation development for the Mine; and

– The business risks involved in the mining industry.

Due to the changing environment in which the Target Company is operating, a number of assumptions have to be established in order to sufficiently support our concluded value of the Exploitation License. The major assumptions adopted in this appraisal are:

– There will be no material changes in the existing political, legal, fiscal and economic conditions in the PRC;

– Exchange rates, interest rates and inflation rates in the PRC will not differ materially from those presently prevailing;

– There will be no material changes in the current taxation law in the PRC, that the rates of tax payable remain unchanged and that all applicable laws and regulations will be complied with;

– The Technical Report conducted by Brigade 208 has been prepared on a reasonable basis, reflecting estimates which have been arrived at after due and careful consideration;

– The Exploitation License is in compliance with all applicable laws and regulations in the PRC and valid until the Mining License is granted;

– The Target Company can successfully extend the Exploitation License from relevant authorities;

– Industry trends and market conditions for the mining industry will not deviate significantly from economic forecasts; and

– The market prices of mineral resources discovered in the Mine will not differ materially from those presently prevailing in the PRC.

We were furnished, for the purpose of this appraisal, with statutory documents and the Technical Report by the Management. We have reviewed and examined the above information and have no reason to doubt the truth and accuracy of the information contained therein. We have also consulted public sources of financial and business information to supplement the information provided by the Management. In arriving at our opinion of value, we have relied to a very considerable extent on the above-mentioned information.

## VALUATION METHODOLOGY

To develop our opinion of value of the Exploitation License, we considered the three generally accepted approaches to value: the Cost Approach, the Market Approach and the Income Approach. We consider that Cost Approach is not applicable to this appraisal as it cannot reflect the fair market value of the Exploitation License which is driven by estimated quantities and quality of the Mineral Resources available for exploitation rather than costs for acquisition of the Exploitation License and conducting exploitation studies of the Mine. For the Income Approach, we consider that it is not appropriate to develop the fair market value of the Exploitation License without provision of an accurate and reliable financial projection. Based on the information provided by the Management and market transactions data from public sources, we concluded that the most appropriate method for valuing the Exploitation License in this appraisal is the Market Approach.

### Market Approach

The market approach, also referred to as the guideline merger and acquisition method, is used to estimate value through the analysis of recent sales of comparable assets. In this method, the market value of the Exploitation License is based on the transaction prices of exploitation rights at which mines of same mineral contents are being acquired.

The market approach provides an indication of value by comparing the prices at which similar properties have exchanged between willing buyers and sellers. When the market approach is used, an indication of the value of a specific item of the asset is obtained by reference to considerations for acquisition of comparable properties. Requirements for successful use of this approach include:

1. The existence of an active market;

2. Past transactions of comparable properties;

3. Access to pricing information; and

4. Arm's length transactions between independent parties.

**Past Market Transactions**

In this appraisal, we have selected nine past market transactions as to acquisition of exploitation rights of mines with similar mineral contents. A summary of these guideline transactions is shown as below:

| | Type of Transaction | Source of Information | Transaction Date | Transaction Price (RMB) | Major Mineral Resources | Location | Area ($m^2$) |
|---|---|---|---|---|---|---|---|
| 1 | Private Negotiation *(Note 1)* | Company announcement | 30 Jan 2008 | 650,000,000 | zinc, lead, copper, Arsenic, Bismuth, Silver | 雲南省綠春縣 | 3,665,600 |
| 2 | Private Negotiation *(Note 2)* | Company announcement | 15 Oct 2007 | 120,000,000 | zinc, lead | 陝西省鎮安縣 | 907,800 |
| 3 | Private Negotiation *(Note 3)* | Company announcement | 14 July 2007 | 910,000,000 | zinc, lead, silver, cadmium | 內蒙古赤峰市 | 4,000,000 |
| 4 | Private Negotiation *(Note 4)* | Company announcement | 21 Apr 2006 | 801,838,200 | zinc, lead | 雲南省昭通市 | 330,000 |
| 5 | Auction | Government official website | 9 Jun 2004 | 101,000,000 | zinc, lead and silver | 四川省甘洛縣 | 692,000 |
| 6 | Auction | Government official website | 9 Jun 2004 | 51,500,000 | zinc, lead | 四川省甘洛縣 | 1,880,000 |
| 7 | Auction | Government official website | 9 Jun 2004 | 11,600,000 | zinc, lead | 四川省甘洛縣 | 718,000 |
| 8 | Auction | Government official website | 9 Jun 2004 | 30,000,000 | zinc, lead | 四川省甘洛縣 | 520,000 |
| 9 | Auction | Government official website | 9 Jun 2004 | 17,300,000 | zinc, lead | 四川省甘洛縣 | 860,000 |

*Note 1* The purchaser acquired a controlling shareholding (90%) of a company which holds an exploitation license. The exploitation license is the major valuable asset in the company.

*Note 2* The acquired assets included the entire issued share capital of the target company and a sale loan of HK56 million owing to shareholder of the target company.

*Note 3* A joint venture was set up whereas one of the parties invested RMB910 million of assets to the joint venture to get a shareholding of 47.7%. The RMB910 million assets represented the asset value of a company holding an exploitation license. That company had a RMB468.96 million of net book value of assets without inclusion of the value of the exploitation license.

*Note 4* The purchaser acquired entire controlling shareholding of a company which holds an exploitation license. The exploitation license is the major valuable asset in the company. The net book asset value of the company was RMB682 million without inclusion of the value of the exploitation license.

<table>
<tr><th></th><th colspan="7">Contained Minerals (tonnes)</th></tr>
<tr><th></th><th>Copper</th><th>Lead</th><th>Zinc</th><th>Cadmium</th><th>Arsenic</th><th>Bismuth</th><th>Silver</th></tr>
<tr><td>1</td><td>260,400</td><td>295,200</td><td>70,500</td><td>Nil</td><td>1,053,000</td><td>37,200</td><td>903</td></tr>
<tr><td>2</td><td>Nil</td><td>29,921</td><td>57,964</td><td>Nil</td><td>Nil</td><td>Nil</td><td>Nil</td></tr>
<tr><td>3</td><td>Nil</td><td>279,937</td><td>785,813</td><td>4,122</td><td>Nil</td><td>Nil</td><td>464</td></tr>
<tr><td>4</td><td>Nil</td><td colspan="2">305,000</td><td>Nil</td><td>Nil</td><td>Nil</td><td>Nil</td></tr>
<tr><td>5</td><td>Nil</td><td colspan="2">146,000</td><td>Nil</td><td>Nil</td><td>Nil</td><td>45</td></tr>
<tr><td>6</td><td>Nil</td><td colspan="2">94,400</td><td>Nil</td><td>Nil</td><td>Nil</td><td>Nil</td></tr>
<tr><td>7</td><td>Nil</td><td colspan="2">44,400</td><td>Nil</td><td>Nil</td><td>Nil</td><td>Nil</td></tr>
<tr><td>8</td><td>Nil</td><td colspan="2">71,900</td><td>Nil</td><td>Nil</td><td>Nil</td><td>Nil</td></tr>
<tr><td>9</td><td>Nil</td><td colspan="2">31,600</td><td>Nil</td><td>Nil</td><td>Nil</td><td>Nil</td></tr>
</table>

In view of the fact that the quality and quantity of mineral resources as mentioned in the above market transactions are not exactly the same as the Mine, and thus, we consider that it is appropriate to adjust the above transaction prices so as to deduce the fair market value of the Exploitation License of the Mine. Specifically, we have made appropriate adjustments to the transaction prices based on one or more of the following factors:

1. Mineral resources available for exploitation;

2. Estimated quantity and quality of the mineral resources;

3. Market prices of minerals at different dates of transactions; and

4. The area of the mines available for the exploitation.

Following the above adjustment on the transaction prices of the guideline transactions, an estimate on the fair market value of the Exploitation License can be obtained by summing up the fair market values of the exploitation right attributed from each mineral resource expected to be explored in the Mine. A summary of the breakdown value is shown as below:

**Fair Market Value of the Exploitation License**
*(in millions RMB)*

| Lead | Zinc | Total |
|---|---|---|
| 114,000,000 | 59,000,000 | **173,000,000** |

## CONCLUSION OF VALUE

Based on the investigation and analysis outlined above and on the appraisal method employed, it is our opinion that, as of the Appraisal Date, the fair market value of the Exploitation License of the Mine is reasonably stated by the amount of **RENMINBI ONE HUNDRED SEVENTY THREE MILLION (RMB173,000,000) ONLY**.

This conclusion of value was based on the International Valuation Standards (Eighth Edition 2007) and generally accepted valuation procedures and practices that rely extensively on the use of numerous assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained.

We hereby certify that we have neither present nor prospective interest in the Company and its subsidiaries, the Exploitation License, the Mine or the value reported.

Respectfully submitted,
For and on behalf of
**GRANT SHERMAN APPRAISAL LIMITED**

**Keith C.C. Yan,** ASA
*Managing Director*

**Kelvin C.H. Chan,** FCCA, CFA
*Director*

*Note:* Mr. Keith C.C. Yan is an Accredited Senior Appraiser (Business Valuation) and he has been conducting business valuation of various industries, including computer software, in the Greater China region for various purposes since 1988. Mr. Kelvin C.H. Chan is a CFA Charterholder and a fellow member of the Association of Chartered Certified Accountants. He has been working in the financial industry since 1996, with experiences covering the area of corporate banking, equity analysis and business valuation. Mr. Yan and Mr. Chan have followed and adopted appropriate guidelines and rules in their respective professional associations as mentioned above.

## 1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:

(a) the information contained in this circular is accurate and complete in all material respects and is not misleading;

(b) there are no other matters the omission of which would make any statement in this circular misleading; and

(c) all opinions expressed in this circular have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

## 2. DISCLOSURE OF INTERESTS

### (a) Interests and short positions of the Directors and the chief executive of the Company in the securities of the Company and its associated corporations

As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executive of the Company in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be 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 they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

*(i) Long positions in Shares*

| Name of Director | Type of interests | Number of Shares | Percentage of interests |
|---|---|---|---|
| Zhuo Ze Fan *(Note 1)* | Interest in controlled corporation | 768,144,014 (Long position) | 25.09% |

*Note 1:* Mr. Zhuo Ze Fan, a Director of the Company, holds the entire issued shares of Callaway Group Limited, which in turn is interested in 758,144,014 Shares. Mr. Zhuo Ze Fan also holds 10,000,000 share options in his personal name. So Mr. Zhuo is interested in 768,144,014 Shares under the SFO. His spouse, Ms. Cui Yan Wen, are deemed to be interested in 768,144,014 Shares under the SFO.

*(ii) Long positions in underlying Shares of equity derivatives*

The following Directors have been granted options under the share option scheme of the Company, details of which are set out below:

| Name of Director | Capacity | No. of options outstanding | Approx. % of interests | Date granted | Period during which options exercisable | Exercise price per Share |
|---|---|---|---|---|---|---|
| Zhuo Ze Fan | Beneficial owner | 10,000,000 | 0.33% | 4 Dec 09 | 4 Dec 2010 to 3 Dec 2014 | HK$0.26 |
| Ng Tang | Beneficial owner | 3,000,000 | 0.10% | 4 Dec 09 | 4 Dec 2010 to 3 Dec 2014 | HK$0.26 |
| Kang Hongbo | Beneficial owner | 1,500,000 | 0.05% | 20 May 09 | 20 Mar 2010 to 19 May 2014 | HK$0.234 |
| | Beneficial owner | 10,000,000 | 0.33% | 4 Dec 09 | 4 Dec 2010 to 3 Dec 2014 | HK$0.26 |
| | Subtotal: | 11,500,000 | | | | |
| Xu Bing | Beneficial owner | 1,500,000 | 0.05% | 20 May 09 | 20 Mar 2010 to 19 May 2014 | HK$0.234 |
| Han Qiong | Beneficial owner | 4,000,000 | 0.13% | 4 Dec 09 | 4 Dec 2010 to 3 Dec 2014 | HK$0.26 |
| Chan Mingxian | Beneficial owner | 3,500,000 | 0.11% | 17 Aug 09 | 17 Jun 2010 to 16 Aug 2014 | HK$0.272 |

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and the chief executive of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be 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 they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

**(b) Persons who have an interest or short position which is discloseable under Divisions 2 and 3 of Part XV of the SFO and substantial Shareholders**

So far as is known to the Directors, as at the Latest Practicable Date, the following person (not being Director or chief executive of the Company) had, or was deemed to have, interests or short positions in the shares or underlying shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or who were 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 member of the Enlarged Group:

*Interests and short positions in Shares*

| Name of Shareholders | Type of interests | Position | Number of Shares | Approximate percentage |
|---|---|---|---|---|
| Callaway Group Limited *(Note 1)* | Beneficial owner | Long | 758,144,014 | 24.76% |
| Cui Yan Wen *(Note 1)* | Interest of Spouse | Long | 768,144,014 | 25.09% |
| Ruffy *(Note 2)* | Beneficial owner | Long | 1,168,505,268 | 38.17% |
| | Beneficial owner | Short | 136,363,636 | 4.45% |
| Mr. Mei *(Note 2)* | Interest in controlled corporation | Long | 1,168,505,268 | 38.17% |
| | Beneficial owner | Long | 61,050,000 | 1.99% |
| | | | 1,229,555,268 | 40.16% |
| | Interest in controlled corporation | Short | 136,363,363 | 4.45% |
| Merry Intake Limited *(Note 3)* | Person having a security interest | Long | 2,193,290,907 | 71.64% |

*Note 1:* Mr. Zhuo Ze Fan, a Director of the Company, holds the entire issued shares of Callaway Group Limited, which in turn is interested in 758,144,014 Shares. Mr. Zhuo Ze Fan also holds 10,000,000 share options in his personal name. So Mr. Zhuo is interested in 768,144,014 Shares under the SFO. His spouse, Ms. Cui Yan Wen, are deemed to be interested in 768,144,014 Shares under the SFO.

*Note 2:* These Shares and the short positions in the Shares were held by Ruffy, which is wholly-owned by Mr. Mei. Mr. Mei was deemed to be interested in these Shares and the short positions in the Shares under the SFO.

*Note 3:* Merry Intake Limited acquired the interest in the Shares as a result of being the chargee of certain securities of the Company and is not directly holding any securities of the Company. Merry Intake Limited is a wholly-owned subsidiary of the CCB International Group Holdings Limited ("CCBI"), which in turn is wholly-owned by China Construction Bank Corporation ("CCB"). The largest single shareholder of CCB is Central Huijin Investments Limited (which holds more than 30% of the CCB). Pursuant to the SFO, each of CCB, CCBI and Central Huijin Investments Limited is deemed to be interested in the shares of the Company to the same extent as Merry Intake Limited is.

*Long positions in members of the Enlarged Group*

| Name of shareholders | Equity interest held | Approximate percentage of shareholding in the members of the Enlarged Group |
|---|---|---|
| Best Era Assets Limited | RMB6,000,000 in the registered capital of 陝西巨川富萬股份有限公司 (Sian Juchuan Fuwan Company Limited#) | 12% |
| 上海西域實業有限公司 (Shanghai Xiyu Industrial Company Limited#) | RMB6,000,000 in the registered capital of 陝西巨川富萬股份有限公司 (Sian Juchuan Fuwan Company Limited#) | 12% |
| 北京北大青鳥有限責任公司 (Beijing Beida Qingniao Company Limited#) | RMB5,500,000 in the registered capital of 陝西巨川富萬股份有限公司(Sian Juchuan Fuwan Company Limited#) | 11% |
| 河南豫光金鉛集團有限公司 (Henan Yuguang Gold and Lead Group Company Limited#) | RMB37,500,000 in the registered capital of 烏拉特中旗天寶礦業有限責任公(Wulatezhong Qi Tianbao Mining Company Limited#) | 25% |
| 栗昌 (Li Chang#) | RMB900,000 in the registered capital of the Target Company | 45% |

Save as disclosed above, as at the Latest Practicable Date, the Directors were not aware of any other person (other than the Directors and the chief executive of the Company) who had, or was deemed to have, interests or short positions in the Shares or underlying Shares (including any interests in options in respect of such capital), which would fall to be disclosed to the Company and the Stock Exchange 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 member of the Enlarged Group.

## 3. DIRECTORS' OTHER INTEREST

As at the Latest Practicable Date, so far as the Directors are aware of, none of themselves or the controlling shareholders (as defined in the GEM Listing Rules) of the Company or their respective associates had any interest in a business which competes or may compete with the business of the Group or any other conflicts of interest with the Group.

As at the Latest Practicable Date, none of the Directors has any interest, either direct or indirect, in any assets which have been acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group since 31 December 2008, being the date to which the latest published audited financial statements of the Company were made up.

There is no contract or arrangement entered into by any member of the Enlarged Group subsisting at the Latest Practicable Date in which any Director is materially interested and which is significant to the business of the Enlarged Group.

## 4. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contracts with the Enlarged Group (excluding contracts expiring or terminable by the employer within one year without payment of compensation other than statutory compensation).

## 5. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2008, being the date to which the latest audited financial statements of the Company were made up.

## 6. EXPERT

Each of Grand Vinco Capital Limited and Grant Sherman Appraisal Limited has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter(s) and report(s) (as the case may be) and/or references to its name in the form and context in which they respectively appear.

The following are the qualifications of the experts who have provided its advice and reports (as the case may be), which are contained in this circular:

| **Name** | **Qualification** |
|---|---|
| Grand Vinco Capital Limited | A licensed corporation for type 1 (dealing in securities) and type 6 (advising on corporate finance) of the regulated activity as defined under the SFO |
| Grant Sherman Appraisal Limited | Professional valuers and surveyors |

As at the Latest Practicable Date, each of Grand Vinco Capital Limited and Grant Sherman Appraisal Limited was not beneficially interested in the share capital of any member of the Enlarged Group nor did it have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any Shares, convertible securities, warrants, options or derivatives which carry voting rights in any member of the Group nor did it have any interest, either direct or indirect, in any assets which have been, since the date to which the latest published audited financial statements of the Company were made up (i.e. 31 December 2008), acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

## 8. DOCUMENT AVAILABLE FOR INSPECTION

Copies of the Acquisition Agreement and the Transfer Agreement are available for inspection during normal business hours at the Company's principal place of business in Hong Kong mentioned herein from the date of this circular up to and including the date of the SGM.

中國有色金屬有限公司*
China Nonferrous Metals Company Limited

*(Incorporated in Bermuda with limited liability)*
**(stock code: 8306)**

## NOTICE OF SGM

**NOTICE IS HEREBY GIVEN** that a special general meeting ("**SGM**") of China Nonferrous Metals Company Limited (the "**Company**") will be held at Suites 1704-05, 17/F, Dah Sing Financial Centre, 108 Gloucester Road, Wanchai, Hong Kong at 3:00 p.m. on Monday, 4 January 2010 for the purposes of considering and, if thought fit, passing the following resolution as an ordinary resolution:

## ORDINARY RESOLUTION

1. "**THAT**

   (a) the acquisition agreement dated 23 October 2009 (the "**Acquisition Agreement**") entered into between深圳市睿汭科技有限公司(Shenzhen City Ruirui Technology Company Limited#) (the "**Purchaser**"), which is a wholly-owned subsidiary of the Company, as purchaser,深圳市冠欣投資有限公司(Shenzhen First Create Investment Company Limited#) (the "**Vendor**") as vendor and Mr. Mei Wei as guarantor of the performance of the Vendor's obligations under the Acquisition Agreement in relation to the acquisition of the 55% equity interest in奈曼旗煊大礦業有限公司(Naimanqi Mining Company Limited)# by the Purchaser, a copy of the which has been produced to this meeting marked "A" and signed by the Chairman of the meeting for the purpose of identification, and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified; and

   (b) the directors of the Company be and are hereby authorised to do all other acts and things and execute all documents which they consider necessary or expedient for the implementation of and giving effect to the Acquisition Agreement and the transactions contemplated thereunder."

Hong Kong, 11 December 2009

By order of the Board
**China Nonferrous Metals Company Limited**
**Zhuo Ze Fan**
*Chairman*

* *for identification purposes only*

*Registered office:*
Clarendon House
2 Church Street
Hamilton HM11
Bermuda

*Head office and principal place of business in Hong Kong:*
Suite 1704-05, 17/F
Dah Sing Financial Centre
108 Gloucester Road
Wanchai
Hong Kong

*Notes:*

1 A member entitled to attend and vote at the meeting convened by the above notice is entitled to appoint one or more proxy to attend and, subject to the provisions of the bye-laws of the Company, vote in his stead. A proxy need not be a member of the Company. If more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which each such proxy is so appointed.

2 In order to be valid, the form of proxy must be deposited together with a power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority, at the offices of the Company's branch registrars in Hong Kong, Tricor Investor Services Limited, at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the meeting or adjourned meeting. Completion and return a form of proxy will not preclude a member from attending in person and voting at the above meeting or any adjournment thereof, should you so wish.

3. In the case of joint holders of shares, any one such holders may vote at the meeting, either personally or by proxy, in respect of such shares as if he was solely entitled thereto, but if more than one of such joint holders are present at the meeting personally or by proxy, that one of the said persons so present whose name stands first in the register of members of the Company in respect of such shares shall alone be entitled to vote in respect thereof.

4. The voting on the resolution at the SGM will be conducted by way of a poll.

\# *The English translation is for identification purposes only.*