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Application has been made for all the Ordinary Shares of Metal-Tech Ltd., in issue and to be issued pursuant to the Placing, to be admitted to trading on AIM, a market operated by the London Stock Exchange plc. It is expected that Admission will become effective and that dealings in the Ordinary Shares will commence on AIM on 13 May 2005. The Ordinary Shares are not dealt in on any other recognised investment exchange and no application has been or is being made for the Ordinary Shares to be admitted to trading on any such exchange.

AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk tends to be attached than to larger or more established companies. AIM securities are not admitted to the Official List of the UK Listing Authority (the "UKLA"). A prospective investor should be aware of the risks of investing in such companies and should make the decision to invest only after careful consideration and, if appropriate, consultation with an independent adviser. Neither the UKLA nor the London Stock Exchange has examined or approved the contents of this document.

The whole of the text of this document should be read and your attention is drawn to the section entitled "Risk Factors" in Part III of this document.

This document, which is an admission document required by the rules of AIM, comprises an admission document drawn up in accordance with the POS Regulations and the AIM Rules ("Admission Document").

The Directors of the Company, whose names appear on page 5 of this document, accept responsibility for the information contained in this document and compliance with the AIM Rules. To the best of the knowledge and belief of the Directors, who have taken all reasonable care to ensure that such is the case, the information contained in this document is in accordance with the facts and this document does not omit anything likely to affect the import of such information.

Metal-Tech Ltd.

(Incorporated and registered in the State of Israel under the Israeli Companies Ordinance with registered number 51-11163-94)

Placing of up to

8,076,923 Ordinary Shares of NIS0.2 at a price of 130 pence per share

and

Admission to trading on AIM

NOMINATED ADVISER AND BROKER TO THE COMPANY

DURLACHER

Share capital immediately following Admission

<i>Authorised</i>			<i>Issued and fully paid</i>	
<i>Number</i>	<i>Amount</i>		<i>Number</i>	<i>Amount</i>
100,000,000	20,000,000	Ordinary Shares of NIS0.2 each	38,376,923	NIS7,675,385

Durlacher, which is authorised and regulated in the United Kingdom by the Financial Services Authority, is the Company's nominated adviser and broker and, in each case, is acting exclusively for the Company and no-one else in connection with the Placing and Admission. Durlacher is not acting for, nor will it be responsible to, any person other than the Company for providing the protections afforded to its own customers or for advising any other person on the contents of this document or any transaction or arrangement referred to in this document. No representation or warranty, express or implied, is made by Durlacher as to any of the contents of this document (without limiting the statutory rights of any person to whom this document is issued). Durlacher has not authorised the contents of, or any part of, this document for the purposes of Regulation 13(1)(g) of the POS Regulations.

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In the State of Israel, this admission document will not be considered a public offer requiring the publication of a prospectus if it is distributed only to, and directed at, investors listed in the First Addendum (the "Addendum") to the Israel Securities Law, 5728-1968, mainly joint investment funds, provident funds, insurance companies, banks, portfolio managers, investment advisers, members of the Tel Aviv Stock Exchange purchasing for themselves or for the other entities listed in the Addendum, underwriters purchasing for themselves, venture capital funds and corporations with a shareholder equity in excess of NIS250 million, each as defined in the Addendum (collectively, "Institutional Investors"). Institutional Investors may be required to submit written authorisation that they fall within the scope of the Addendum. In addition, the Company will not distribute and direct this document to investors in the State of Israel who do not fall within one of the definitions in the Addendum.

All the Placing Shares to be issued by the Company under the Placing will, on Admission, rank *pari passu* in all respects with the existing issued Ordinary Shares of the Company and will rank in full for all dividends or other distributions which are declared, made or paid after the date of this document on the ordinary share capital of the Company. Copies of this document will be available free of charge during normal business hours on any weekday (except Saturdays, Sundays and public holidays) at the offices of Durlacher Limited, Moorgate Hall, 155 Moorgate, London EC2M 6XB from the date of this document and for a period of one month from Admission.

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KEY INFORMATION

The following information is extracted from, and should be read in conjunction with, the full text of this document. Prospective investors should read the whole of this document, including the risk factors set out in Part III of this document, and not rely on the following summarised information.

Business Overview

- Metal-Tech is a growing, profitable speciality metal-based chemicals company operating in the chemicals and powdered metals markets.
- Metal-Tech's technology and engineering abilities enable the Group to undertake joint ventures with local partners operating in the mining sector which convert low quality raw minerals into higher value minerals.
- The Group's primary focus is currently on tungsten and molybdenum-based products.
- Of the Group's 2004 sales, approximately 57 per cent. originated from Asia, approximately 19 per cent. from the United States, approximately 18 per cent. from Europe and Israel and approximately 6 per cent. from other territories.
- The Group's customers include Element 6 (part of the De Beers group), Praxair, Multi-Metals (Bosch group), Boehlerit, a top 5 US quoted diversified industrial company, Kohsei and Metherma.
- The Group is positioned to benefit from growth opportunities in China due to its geographical proximity to China through its Mongolian joint venture.
- The Company has at least one key customer which supplies scrap materials to the Group in exchange for finished products. Such a customer is largely hedged from raw material price movements because only the difference between the scrap metal price and the finished product is paid.
- Some of the Group's sales are based on tailored products to satisfy customer requirements.
- The Group's 2005 budgeted revenues are underpinned by binding contracts representing approximately 67 per cent. of sales by volume.
- Key competitive advantages include:
 - the Group's ability to source raw materials at a discount of up to 35 per cent. to the published reference price arising from the Group's expertise in the treatment of low grade metals and concentrates and its ability to recycle and process scrap metal; and
 - the Group's ability to vary sources of raw materials.
- Metal-Tech possesses know-how in hydrometallurgy and powder metallurgy.
- The Group employs highly skilled scientists, metallurgists and engineers, many of whom emigrated to Israel from the Former Soviet Union. This capability assists the Company's commitment to research and development and its ability to develop, construct and manage international production such as in Uzbekistan and Mongolia.
- The Directors believe that the Group has the opportunity to expand through undertaking further joint ventures and also by diversifying into the production and/or sale of other metals and cross-selling these new products to customers.
- The Company also intends to drive growth by investing in additional capacity.

DIRECTORS, SECRETARY, REGISTERED OFFICE AND ADVISERS

Directors	Ariel (“Aik”) Rosenberg, <i>Executive Chairman and President</i> Ran Maimon, <i>Chief Executive Officer</i> Modi Mordechai Ashkenazy, <i>Chief Financial Officer</i> Meir Klausner, <i>Chief Operating Officer</i> Dr Graham Bernard Lawson, <i>Non-executive Director</i> Peter Thomson Syme, <i>Non-executive Director</i>
Company Secretary	Ronen Magen
Registered and Head Office	Emek Sara Ramat-Hovav Industrial Area P.O. Box 2412 Beer-Sheva 84874 Israel
Nominated Adviser and Broker	Durlacher Limited Moorgate Hall 155 Moorgate London EC2M 6XB
Solicitors to the Company as to English law	Berwin Leighton Paisner Adelaide House London Bridge London EC4R 9HA
Solicitors to the Company as to Israeli law	S. Friedman & Co. The Trade Tower 25 Hamered Street Tel Aviv 68125 Israel
Solicitors to the Placing	Simmons & Simmons CityPoint One Ropemaker Street London EC2Y 9SS
Auditors and Reporting Accountants	Kost Forer Gabbay & Kasierer (a member of Ernst & Young Global) 3 Aminadav Street Tel Aviv 67067 Israel
Bankers	United Mizrahi Bank Ltd. Beer-Sheva Business Center Branch 130 K.K.L. Street Beer-Sheva Israel Israel Discount Bank Ltd. City Center Branch 8 Henrietta Sold Street Beer-Sheva Israel

Bank Leumi Le Israel B.M.
Beer-Sheva Business Center Branch
54 Haazmaut Street
Beer-Sheva
Israel

Registrar

Capita IRG Plc
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TY

Financial Adviser to the Company

Cukierman & Co. Consulting Ltd.
3 Daniel Frish Street
Tel Aviv 64731
Israel

EXPECTED TIMETABLE OF PRINCIPAL EVENTS

	2005
Publication of this document	9 May
Admission effective and dealings commence in the Ordinary Shares on AIM	13 May
CREST accounts credited with Depository Interests (where appropriate)	13 May
Definitive share certificates expected to be dispatched in respect of the Placing Shares (where applicable)	6 June

PLACING STATISTICS

Placing Price	130 pence
Number of Ordinary Shares in issue at the date of this document	30,300,000
Number of new Ordinary Shares being placed on behalf of the Company ⁽¹⁾	8,076,923
Number of Ordinary Shares in issue immediately following Admission ⁽¹⁾	38,376,923
Estimated net proceeds receivable by the Company pursuant to the Placing ⁽¹⁾⁽²⁾	£9,356,000
Approximate market capitalisation of all issued Ordinary Shares at the Placing Price following Admission ⁽¹⁾	£49,890,000
Approximate percentage of the issued share capital on Admission represented by the Placing Shares ⁽¹⁾	21%
AIM EPIC code	MTT

(1) Assuming that the Placing is fully subscribed.

(2) Stated after deducting the estimated total expenses of the Placing and other related costs payable by the Company of approximately £1,144,000 (excluding VAT).

EXCHANGE RATES

Throughout this document, other than in Part IV or where otherwise indicated, the following exchange rates have been used:

US\$1 : NIS4.374

£1 : NIS8.274

£1 : US\$1.892

PART I: INFORMATION ON THE GROUP

The financial information contained in this Part I has been extracted from Part IV of this document and has been extracted without material adjustment. Prospective investors should read the whole of this document and not rely solely on the information in this Part I.

1 INTRODUCTION

Metal-Tech is a growing, profitable speciality metal-based chemicals company, and the Group has production facilities in Israel, Uzbekistan and Mongolia (the latter being expected to commence operations during the third quarter of 2005). The Group's products, which are principally molybdenum and tungsten-based, are sold worldwide and are used in a variety of applications including the manufacture of stainless steel, cutting tools and catalysts. The Group's customers include Element 6 (De Beers group), Praxair, Multi-Metals (Bosch group), Boehlerit, a top 5 US quoted diversified industrial company, Kohsei and Metherma. For the financial year ended 31 December 2004, the Company's sales were approximately US\$59.0 million and its profit before tax was approximately US\$9.5 million. The Directors estimate that revenues for the three month period ended 31 March 2005 were in excess of US\$22 million.

The specialist manufacturing process developed by Metal-Tech allows it to recover and produce quality-controlled metals, metal oxides and ceramic powders from a range of low quality raw materials, such as sludge, scrap, industrial waste and low quality ores and concentrates.

Metal-Tech draws on four key areas of expertise to drive its growth:

- manufacturing;
- research and development;
- sales and technical support; and
- engineering.

The Directors believe that the Group's key strengths are as follows:

- advanced low cost production capability - the Company's hydrometallurgy and powder metallurgy process is able to produce metal-based chemicals from sludge, scraps and low quality raw materials;
- established market position as a result of:
 - Metal-Tech's technological capabilities, customer service and support;
 - advance contracts already in place;
 - discounted (up to 35 per cent.) to the published reference price long-term raw material supply agreements; and
 - its ability to use scrap metal and other low-grade mined raw materials;
- international presence - the Group has a presence in Israel, Uzbekistan and Mongolia;
- ability and know-how of certain Directors to initiate and manage new joint venture projects similar to the Uzbek and Mongolian joint ventures;
- geographically diversified raw material sources - the Group has secured supplies of mined raw materials through exclusive long-term relationships and through its scrap recycling processes;
- product and process development - the Company's scientists are developing various hydrometallurgy processes that enable the recovery of a wide range of valuable metals such as copper and gold from low quality mined raw materials;

- the Directors believe that the Group can grow its revenues by:
 - production capacity increases;
 - growth in demand in the Group’s customer markets;
 - recovery of additional metals such as gold, copper, tantalum, cobalt and nickel;
 - the development of new products; and
 - the geographical proximity of the Group’s planned manufacturing plant in Mongolia to the growing stainless steel market in China;
- established relationships with customers and distributors;
- strong sales growth record - between 1994 and 2001 revenues grew at a compound annual growth rate of approximately 27 per cent. and between 2001 and 2004 by approximately 63 per cent.;
- intellectual property and know-how in its hydrometallurgy and powder metallurgy; and
- a management team with access to scientists originally from the Former Soviet Union, together with other scientists in Israel, with technological and metallurgical expertise.

2 BACKGROUND AND HISTORY

Metal-Tech was founded in 1986. The issued share capital of the Company is currently held by Hillah (90 per cent.) and Ran Maimon (10 per cent.). The issued share capital of Hillah is held by Ariel Rosenberg. The Company is primarily engaged in the production of tungsten and molybdenum-based products from both mined raw materials and scrap.

Between 2001 and 2004 the Company invested in international expansion by establishing a wider manufacturing presence worldwide. The Group increased its production capacity to 2,350 tonnes in 2004 as a result of investment in its Israeli production facilities and by the establishment of joint venture facilities in Mongolia and Uzbekistan. The Directors believe there is scope for an increase in capacity at these existing sites and for the joint ventures to obtain future supplies of raw materials at discounted prices.

Metal-Tech’s investment in research and development has enabled it to develop manufacturing plants in Uzbekistan and Mongolia as well as new products and technologies. The Company’s increased revenues in 2004 reflect the investments made over the previous three years.

The Group employs a total of 283 people, 89 of whom are based in Israel. The majority of the employees are in manufacturing/production (227) and research and development (19) with the remainder in sales and marketing (10) and management, finance and other roles (27).

3 THE BUSINESS OVERVIEW

During the financial year ended 31 December 2004, the Group sold its products to over 35 customers worldwide, with the 10 largest customers accounting for approximately 80 per cent. of total sales. Only 2 per cent. of total sales in 2004 were made directly to Israel-based customers.

The Group’s physical product offering comprises:

- molybdenum-based products; and
- tungsten-based products.

In addition, the Company operates a process for recycling lithium batteries into metal substances. This process is not currently a significant revenue generator.

The Group is involved in four major areas of activity:

- **manufacturing:** the Group's three plants in Israel, Uzbekistan and, once operational, in Mongolia process raw materials, recycle scrap and make speciality metal-based chemicals and powders;
- **sales and customer support:** marketing the Group's products to customers and distributors. Products are tailored to meet the needs of certain customers;
- **engineering:** providing support to the Group's international projects in the design, construction and implementation of production facilities. Currently, the engineering team is working on the implementation of the joint venture manufacturing facility in Mongolia; and
- **research and development:** focusing on the development of new products, processing technologies and recycling techniques for metals.

A core aspect of the Group's business comprises the management of the Shim-Tech and UTL joint ventures in Mongolia and Uzbekistan respectively as well as its own manufacturing site in Israel. A key feature of the joint ventures is that they have contracted with established local third party mining companies for the extraction and supply of raw materials used in the production of molybdenum and they have an agreement to supply raw materials to the Company at a significant (up to 35 per cent.) discount to the published reference price. The Group's customers benefit from an ongoing supply of raw materials which the Directors believe to be a major advantage. The Group's products are sold to customers in China, Japan, North America and Western Europe. Whilst advantageous to the Group, the joint ventures also benefit the Group's local partners as this provides these partners with an outlet for their molybdenum production, especially as the Group is able to purchase and process low quality raw materials with high contamination levels. The Company's know-how has enabled it to process these low quality raw materials.

The Directors intend to enter into further joint ventures as suitable opportunities arise. The focus will be on opportunities that will provide access to key raw materials or expertise which is complementary to the Group's existing business. The Directors believe that the experience gained by the Group in establishing its first two joint ventures and by utilising its relationships in certain natural resource rich territories means it is well placed to expand its joint venture operations.

The Group's sales have grown as follows:

Table 1: Group sales

Years ended 31 December:
(US\$'000s)

	2002	2003	Per cent. change	2004	Per cent. change
Tungsten products	10,987	13,598	24%	16,516	21%
Molybdenum products	52	4,035	nm	42,143	nm
Other products and services	534	350	nm	313	nm
Group sales	11,573	17,983	55%	58,972	228%

Over the same period, the Group's net income (loss) has been as follows:

Table 2: post-tax profits

Years ended 31 December:
(US\$'000s)

	2002	2003	2004
Net income (loss)	(931)	(1,082)	8,871

For the financial year ended 31 December 2004, the Group's sales were divided between (i) the regions in the proportions shown in Chart 1 and (ii) the products in the proportions shown in Chart 2.

Chart 1: 2004 sales split by geography

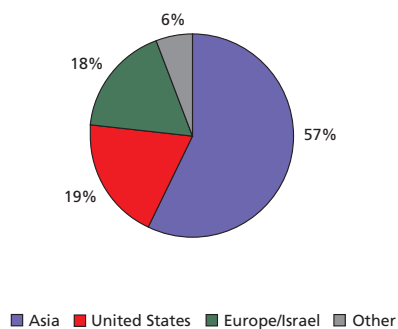


Chart 2: 2004 sales split by products

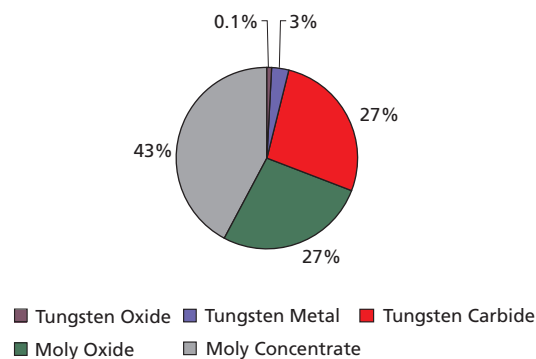


Table 3 highlights some of the key industrial applications of various metals used in particular industries (only some of which are produced by the Group):

Table 3: industries and applications

<i>Industry</i>	<i>Base metals and chemicals used</i>	<i>Representative applications</i>
Stainless steel, foundry	Iron, molybdenum, tungsten, chromium, nickel and vanadium	<ul style="list-style-type: none"> • Rust free, general use • Building industry • Car industry • Molybdenum is used to increase resistance to corrosion
Lights	Tungsten and molybdenum	<ul style="list-style-type: none"> • Filaments for high temperature • High light emission
Electric	Tungsten, molybdenum, copper and rhenium	<ul style="list-style-type: none"> • High temperature connector • Heat sink • Heating elements
Hard metal, automotive machine industry	Tungsten, silicon carbide, cobalt, nickel and tantalum	<ul style="list-style-type: none"> • Cutting tools • Abrasion resistance • Stamping and dies
Mining	Hard metals, tungsten, silicon carbide, cobalt, nickel and tantalum	<ul style="list-style-type: none"> • Drills, blasting equipment, grinding equipment, abrasion resistance
Catalysts	Tungsten, molybdenum, cobalt, nickel and vanadium	<ul style="list-style-type: none"> • Petroleum industry, desulpharisation, chemical industry
Agro	Molybdenum, cobalt and other	<ul style="list-style-type: none"> • Additives

4 OPPORTUNITIES

The Directors believe that the opportunities for the Group's products and services are driven by the following factors:

- **Growth in Chinese market demand for molybdenum-based products**

The Chinese economy grew by 9.1 per cent. in 2003 and, as it has grown, so has demand for molybdenum-based products, in particular stainless steel. High quality stainless steel requires about 2 per cent. molybdenum additives. The increased use of catalysts for the production of low sulphur oil products will require additional molybdenum quantities. The Directors believe that China will continue

to be an important growing market and that the Group is ideally placed, with its joint venture in Mongolia, to service this market.

- **The existence of large quantities of low-grade metals in different mining sites worldwide which the Group is able to exploit**

The Directors believe there are substantial quantities of low-grade molybdenum-bearing raw materials that are stored and unused across the world.

- **Replacement of lead with low-toxic tungsten products**

Lead is toxic, contaminates water and is harmful to animals and humans if ingested. Governments are looking to prohibit the use of lead in certain products. Tungsten is one of the alternatives to lead in numerous applications and products, including in radioactive screening, fishing tackle and ammunition rounds.

- **Increased pressure to recycle discarded products, such as lithium batteries**

The Directors believe that international environmental regulations will tighten, which will provide opportunities for companies which are able to recycle hazardous waste materials and especially for those that are able to manufacture such waste products into commercially useful end products. The Group, with its scrap recycling capabilities, as well as its ability to recycle lithium batteries, is able to recycle these waste products.

- **Expansion of relationships with diversified key customers of the Group**

The Group has established customers including a top 5 US quoted diversified industrial company, Element 6 (De Beers group), Praxair, Multi-Metals (Bosch Group), Boehlerit, Kohsei and Metherma. It intends to (i) expand relationships with these customers by diversifying into other metal production and (ii) win new customers through the expansion of the Group's sales and marketing teams.

5 STRATEGY

Metal-Tech's strategy is focused on generating sales and profitability by:

- capitalising on the Group's current position as an international producer of tungsten and molybdenum-based products, in part by focusing on markets requiring customised special metals;
- replicating the model of the Group's existing joint ventures in Uzbekistan and Mongolia in other geographical locations and by expanding operations through the acquisition and renovation of plants in Western Europe and the US;
- optimising the Group's existing supply arrangements which offer access to raw materials at significant discounts (up to 35 per cent. to the published reference prices) by increasing production capacity;
- continuing to invest in the Company's intellectual property and know-how;
- capitalising on the Group's human resource talent pool originating from the Former Soviet Union;
- developing new products from existing metals;
- diversifying into other niche complementary metals and chemicals such as nickel and rhenium using Metal-Tech's hydrometallurgical know-how;
- exploiting opportunities for recycling waste materials; and
- expanding the Group's technical support and sales and marketing functions in order to support its international customer base.

6 THE GROUP

Ramat-Hovav, Israel

Metal-Tech’s Ramat-Hovav facility is located in southern Israel. The location of the plant confers the following two advantages on the Company:

- neighbouring facilities provide the Company with relatively cheap raw material inputs such as hydrogen; and
- Ramat-Hovav qualifies as a Zone “A” development area (pursuant to the Israeli Law for the Encouragement of Capital Investments, 1959), offering government grants and tax incentives for businesses established in the development area.

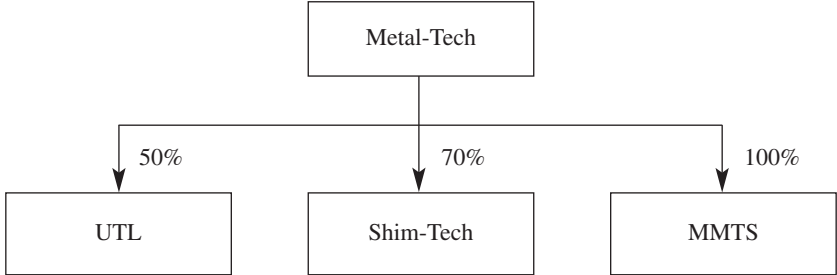
The facility occupies a total area of approximately 20,000 square metres of land. The Ramat-Hovav plant is ISO 9001 and ISO 14001 certified.

The Ramat-Hovav plant has two production lines:

- Hydrometallurgy recycling plant: the plant processes and recycles various types of metal-based wastes into tungsten chemicals.
- Metallurgy plant: the plant produces quality-controlled tungsten metal powders and carbides. The plant’s production process is divided into two discrete systems. The first system produces nano-sized powder and the other produces coarser grain sizes.

Those companies which are trading in the Group are is shown in Chart 3 as follows:

Chart 3: corporate structure



UTL

Metal-Tech holds a 50 per cent. equity interest in UTL. In 2000 UTL engaged Metal-Tech’s engineering and project division to deliver a turn-key production facility. The project was completed on schedule in summer 2002 and the plant commenced operations later that year. The other shareholders of UTL are:

- UzKTJM (30 per cent.): since January 2004 UzKTJM has been managed by an external manager appointed by the economic court of the Tashkent region for the purpose of restoring the Company’s financial position; and
- AGMK (20 per cent.): the second largest mining company in Uzbekistan with substantial proven reserves of copper, molybdenum and gold. AGMK treats 26 million tonnes of ore per year and produces approximately 110,000 tonnes of copper cathodes and approximately 600 tonnes of molybdenum concentrate per year.

The activities of UTL are being conducted on behalf of the Company according to the Company’s specific business needs so that the Company obtains benefits from the operations of UTL. In addition, the Company has the decision making powers to obtain the majority of the benefits of UTL.

UzKTJM is 100 per cent. owned and AGMK is 98 per cent. owned by the Government of Uzbekistan.

Pursuant to a decree issued by the Government of Uzbekistan in 2000, UTL was incorporated with the object of replacing the obsolete operations of UzKTJM with a new, modern production plant. Pursuant to the decree, UTL was granted the exclusive right and obligation to buy 100 per cent. of the molybdenum production of an AGMK mine, situated in Almalik, Uzbekistan. These raw materials are supplied to UTL. UTL's production facilities were partly funded by a loan of approximately US\$14.9 million from the National Bank of Uzbekistan as a result of a loan provided by Bank Leumi Le-Israel B.M. on a non-recourse basis. These funds are secured by a sovereign guarantee provided by the Uzbek Government, 80 per cent. of which is covered by an insurance policy provided to the bank by IFTRIC. UTL currently has an annual production capacity of approximately 600 tonnes of molybdenum oxide per year. Metal-Tech has the ability to manage the majority of the activities of UTL. UTL is obliged to sell all its production to the Company.

Shim-Tech

In September 2003, Metal-Tech formed Shim-Tech, a 70/30 consolidated joint venture with Erdenet. Erdenet is a Mongolian copper mining enterprise which is 51 per cent. owned by the Government of Mongolia and 49 per cent. owned by the Government of Russia. Shim-Tech has an exclusive supply agreement with Erdenet which terminates in 2026 under which Erdenet will supply and Shim-Tech is obligated to purchase all of Erdenet's molybdenum production from Erdenet's copper mine.

Metal-Tech's engineering and projects division has been commissioned by Shim-Tech to install a turn-key molybdenum oxide production facility in two stages. The planned total annual capacity of the plant is expected to be 1,500 tonnes. The first stage of production is anticipated to commence during the third quarter of 2005 and the plant is intended to be operating at full capacity by the end of 2007. All molybdenum production will be shipped directly from Mongolia to customers and the Directors believe that the Chinese market is a natural destination due to its close proximity to Mongolia.

MMTS

MMTS is a 100 per cent. owned Swiss trading subsidiary set up in October 2004 to handle all sales of molybdenum products of the Group. MMTS is structured as an international trading company which purchases all molybdenum concentrate and oxide products from UTL and Shim-Tech and then sells the products directly to its customers. MMTS' effective profit tax rate for the income derived from foreign sources is 9.4 per cent.

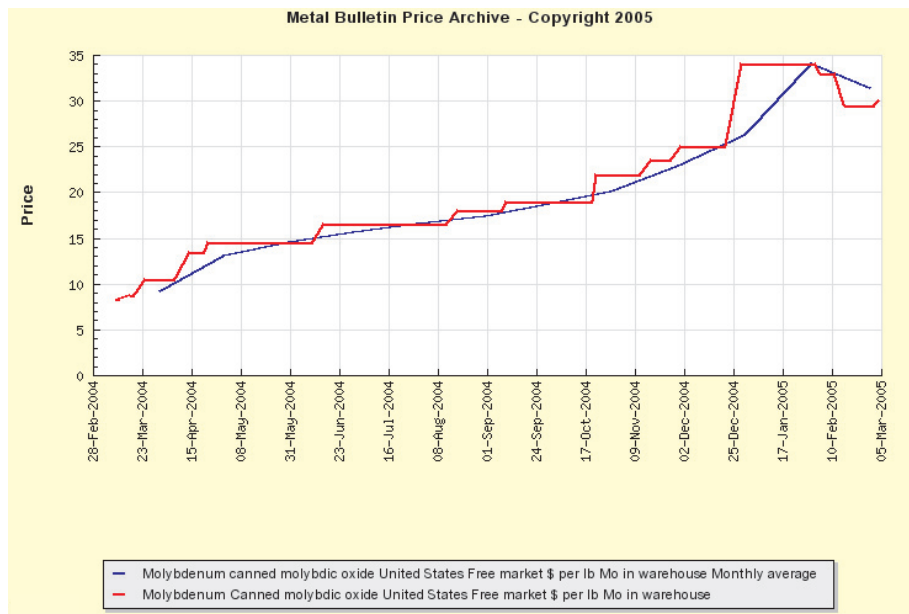
7 THE MARKET

Global market for molybdenum

Global demand for molybdenum is approximately 140,000 tonnes per annum. The market for molybdenum is dominated by its use as an alloy agent with steel. The market for stainless steels, super alloys, low alloy steels and high-speed steel accounts for around 70 per cent. of world demand for molybdenum. Since the early 1980s, the global market for stainless steel has grown at an average annual rate of approximately 5 per cent. The Directors believe that this growth rate will continue for at least the next 12 months, in large part due to the demand from emerging markets such as China and India.

Historical prices for molybdenum are set out in Chart 4 below:

Chart 4: historical molybdenum prices



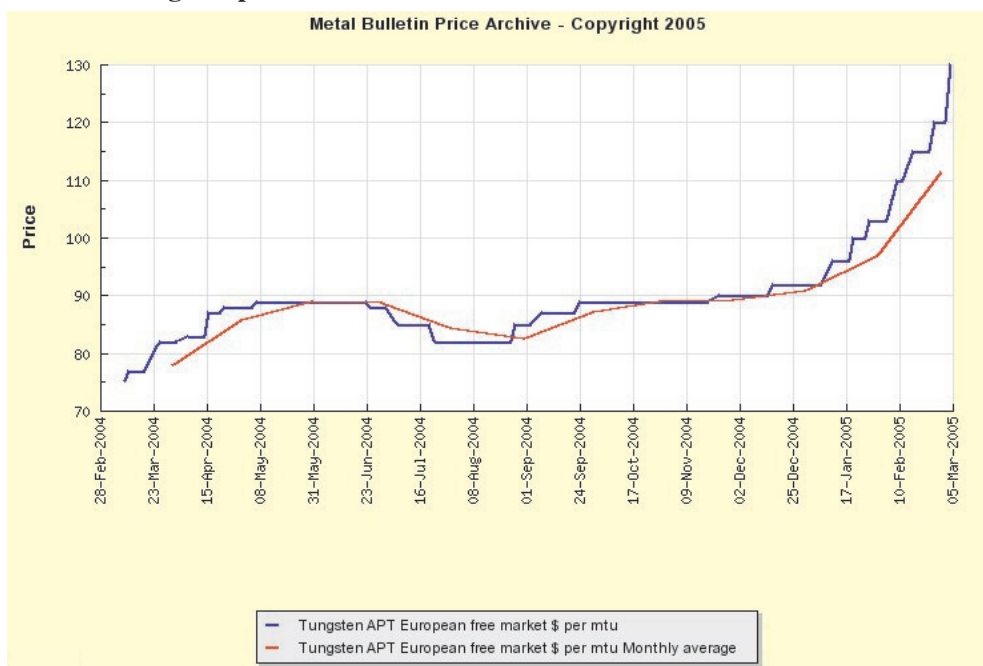
Source: Metal Bulletin

Global market for tungsten

Global demand for tungsten in 2002 was approximately 37,000 tonnes. Based on industry expert extrapolations of the 2002 growth rate, global demand in 2005 is expected to be approximately 40,000 tonnes. As a result of industrial growth predominantly in emerging markets, the Directors believe that global demand for tungsten may increase by 4 per cent. per annum. Global demand for lead is approximately 3,000,000 tonnes per annum and, if tungsten were to be used more extensively as a replacement for lead, the global market for tungsten could grow at a higher rate.

Historical prices for tungsten are set out in Chart 5 below:

Chart 5: historical tungsten prices



Source: Metal Bulletin

8 PRODUCTS, CUSTOMERS AND COMPETITORS

Customers

The Company's customers for molybdenum and tungsten include:

- Boehlerit (Austria)
- Element Six (South Africa), a subsidiary of the De Beers group
- Kohsei (Japan)
- Lahuerta (Spain)
- Metherma (Germany)
- Multi-Metals (USA), a subsidiary of Robert Bosch Tool Corporation
- Praxair (USA)
- a top 5 US quoted diversified industrial company

Molybdenum-based products

Molybdenum is a semi-rare heavy metal with a specific weight of 10.2 Kg/dm³ and a high melting point of 2,617°C. Its special properties are heat resistance, anti-corrosion and its ability to act as a catalyst in the context of certain industrial applications.

Competitors encountered by the Group for molybdenum-based products include:

- H.C. Starck (Germany)
- Molybmet (Chile)
- Climax (USA)
- JDC (China)

Molybdenum oxide and other molybdenum-based chemicals

The Group produces several grades of molybdenum oxide. The Group's output grades range from technical quality to high purity. The main application for molybdenum in its technical grade is as an approximately 2-3 per cent. additive in the production of stainless steel where it prevents corrosion. The principal applications of high purity molybdenum oxide are as catalysts for the oil industry, lubricants and special sintered materials for the lighting industry and for jet engines. Higher purity molybdenum-based products can command an increased selling price of up to a premium of US\$2.00 per kg.

The Directors believe that the market for molybdenum oxide will continue to grow as a result of the forecasted continued growth in the stainless steel market. The strongest growth in demand has been in China where there have been ongoing problems with molybdenum supply shortages.

Molybdenum metal powders and metal products

In the second half of 2005, the Group expects to start production of molybdenum metal powders and sintered products using its newly-installed production line in Uzbekistan. The Directors intend to market these products to the Group's current customers, as well as to new customers.

Tungsten-based products

Tungsten is a semi-rare metal whose special properties are its heat resistance, weight and hardness. Its melting point is 3,410°C while its boiling point is 5,660°C. Tungsten is one of the heaviest metals known, with a specific weight of 19.3 kg/dm³. Given its low-toxicity, tungsten is increasingly replacing lead in many applications.

Competitors encountered by Metal-Tech for tungsten-based products include:

- Allied Material (Japan)
- H.C. Starck (Germany), a subsidiary of the Bayer Group
- Osram Sylvania (USA), a subsidiary of the Siemens Group
- TaeguTec Ltd (Korea), a subsidiary of the IMC Group

- Metalworking Products Inc. (USA), a subsidiary of Allegheny Technologies Company
- Wolfram Bergau (Austria)

Tungsten carbide powder

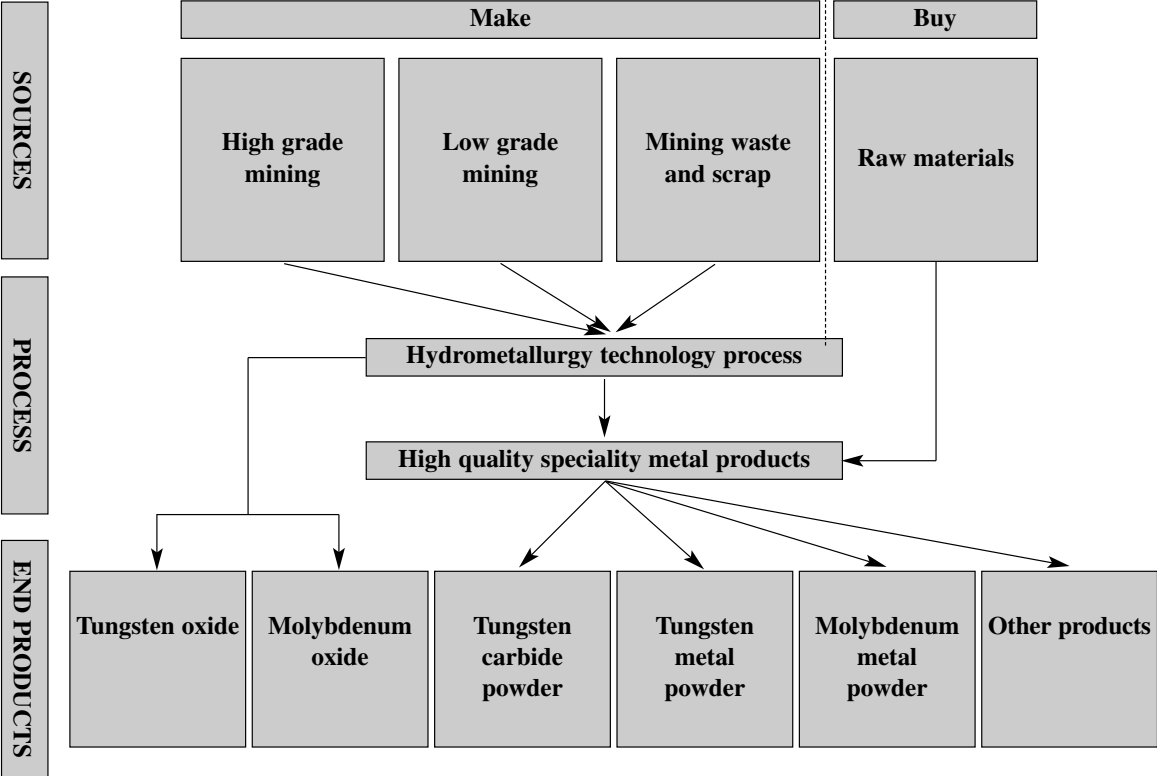
The Group produces tungsten carbide. Tungsten carbide’s hardness is comparable to that of a diamond. Through a powder metallurgy process, tungsten carbide is incorporated with other powders such as cobalt and tantalum to produce hard metals. Production is tailored to certain customers’ specific requirements and is focused on very small grain sizes (800 to 1,300 nanometres).

Tungsten carbide powder’s hardness and temperature resistance are its crucial properties, which is why it is used in the production of cutting tools used in metal works and other heavy-duty applications such as drill bits for oil and mining industries. Approximately 89 per cent. of the Group’s tungsten-based product revenues in 2004 arose from the sale of tungsten carbide.

Tungsten oxide

Instead of buying virgin raw materials, the Group has the capability to produce tungsten oxide from scrap and other metal-bearing waste materials. Below in Chart 6 is a diagram highlighting the process depending upon whether the Group decides to buy or produce tungsten oxide:

Chart 6: Products flow chart



Tungsten oxides are used by Metal-Tech for the production of tungsten metal powder and are also sold as oxides (mainly as pigments for the ceramics industry). The Group focuses on a fine grain size of 1.3 microns.

Tungsten metal powder

Tungsten metal powder is used to make different products known as “heavy metals” due to their weight, strength and radiation shielding properties. Typical products are balancing weights for aircraft, boats and car engines, penetrators and anti-tank rounds for artillery shells, high voltage contactors and light bulb filaments for the electrical industry.

9 RECYCLING SERVICES

The Company has developed and implemented a process for recycling lithium batteries and electronic waste into metal substances. This process has been approved by the Israeli Ministry of Environment.

Lithium batteries have high power density, good reliability and are a high power source. They are used in products such as radio receivers, military and civil communications equipment, cellular telephones and computer emergency power packs. Used lithium batteries are considered hazardous as a chemical reaction could cause them to explode. Metal-Tech currently recycles lithium batteries supplied by the Israel Defence Force at its Israeli production facility. Although Metal-Tech does not currently do so, the recycled material (mainly iron) could be resold, while the lithium may be recovered and may be sold on as lithium chloride.

As environmental legislation tightens in the European Union and elsewhere, opportunities are emerging for companies with recycling capabilities and hydrometallurgical know-how (such as Metal-Tech) to handle hazardous wastes on behalf of third parties, making them safe for disposal and recovering metals and raw materials for internal consumption or third party sale.

10 OVERVIEW OF MONGOLIA AND UZBEKISTAN

Mongolia

Mongolia is a land-locked country, more than six times the size of the UK, sandwiched between Russia and China and occupying about 1.5 million square kilometres of the Central Asian plateau.

Until the collapse of the Former Soviet Union, Mongolia was very closely integrated into that country's economic system. With this system's disintegration, Mongolia's economy faltered. Recently, there have been visible signs of economic progress: new buildings and a steep rise in car ownership and consumer goods spending. Inflation has remained in the single digit range and the government, supported by the World Bank, also sees solid growth occurring in the sectors of agro-food processing, meat export, tourism and IT based activity. However, the Mongolian government's plans to privatise state industries and entities have been slow to get off the ground.

The country's principal export earners are copper and cashmere. Mongolia has rich mineral resources (including gold, copper, tin, coal, uranium and tungsten) and gold mining output has been increasing steadily since 1990. In 2002, 121 enterprises extracted 11 tons of gold.

Uzbekistan

The Republic of Uzbekistan is land-locked by Kazakhstan, Kyrgyzstan, Tajikistan, Afghanistan and Turkmenistan. Independence from the Former Soviet Union was declared on 1 September 1991. This was endorsed in a popular referendum on 29 December 1991, in which Islam Karimov was also confirmed as President. Following a referendum in 2002, Mr Karimov is due to retain his office until 2008.

Major British companies active in Uzbekistan include: BAT, John Laing, BAE Systems, Shell and Trinity Energy, OXUS Resources, Ernst & Young, PricewaterhouseCoopers, Massey Ferguson, Marconi/Buzton, Rank Xerox and Intertek Testing Services.

Uzbekistan has substantial natural resources, including gas, oil, gold and silver. Agriculture is also important: Uzbekistan is the world's third largest exporter of cotton. In the absence of substantive economic reform, the strength of the Uzbek economy is largely dependent on gold and cotton prices.

11 RESEARCH AND DEVELOPMENT

A key part of the Group's business is the development of technologies and processes relating to the production of metal-based oxides and metal powders from industrial waste, mining ores and tailings.

Part of the know-how behind the Group's research and development programme originates from a team of scientists, some of whom were educated in the Former Soviet Union.

The Directors believe that there are new applications for tungsten-based products to replace lead. The use of lead is becoming unlawful in a number of countries due to its toxic properties. In response, new tungsten-based composite materials intended to replace lead are being developed by the Group. The potential applications of the composite material include radioactive shields made for x-ray operators, ammunition made from tungsten/rubber and tungsten/plastic combinations and weights (e.g. fishing sinkers and wheel-balancing weights). Metal-Tech is evaluating the feasibility of becoming a vertically integrated producer of these end-products with manufacturing being outsourced until volumes justify internal production.

Metal-Tech continues to invest in hydrometallurgical research and development and is investigating new ways to recycle tailings and scrap materials to recover raw materials. In particular, Metal-Tech is in the trial stages of developing a new leaching process that is intended to process low-grade molybdenum. The Directors believe that this process might also be applicable to the recovery of other metals such as copper, gold and tungsten.

As of 31 December 2004, 19 employees of the Group were involved in the Group's research and development efforts.

Intellectual Property

Ariel Rosenberg has assigned to the Group six patent registrations and applications in the US, the UK, Germany, Switzerland and Israel under the terms of the Intellectual Property Assignment. These registrations and applications span two groupings of patents and cover a high efficiency recovery process for the pyrolysis treatment and halogenation of multi-element waste and a high efficiency process for treating mixed metal waste. These assigned patent registrations and applications are in the process of being transferred into the name of the Company in each applicable jurisdiction.

Patent and design applications are filed in countries where the Directors believe that it will assist the Company in securing strategic advantage over competitors.

Pursuant to the Intellectual Property Assignment, if the Company transfers rights to certain patents relating to treating mixed metal waste, the Company will pay Ariel Rosenberg a fee of 5 per cent. of the amount received by the Company as consideration for such transfer. Ariel Rosenberg will also be entitled to a royalty of 5 per cent. of any revenues accrued by the Company through its use of the assigned intellectual property excluding the patents and patent applications referred to in annex B to the Intellectual Property Assignment (further details of which are set out paragraph 12.4 of Part VI).

12 CURRENT TRADING AND PROSPECTS

Revenues have developed favourably and have been above management expectations since 31 December 2004. Tungsten prices increased significantly during the first quarter of 2005 to 31 March 2005 whilst the price of molybdenum remained largely unchanged in that period from prices seen at the end of 2004. The Directors estimate that, as a result of these favourable prices and the continued development of the business, sales for the first quarter of 2005 were in excess of US\$22 million. Due to the positive start to the year and the underlying strength in the business, the Directors are optimistic about the Group's prospects for the current financial year.

13 BOARD OF DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Board of Directors

- **Executive Directors**

Ariel Rosenberg, *Executive Chairman and President - aged 56*

Mr Rosenberg has previously owned businesses operating in various industries including the textiles, metals, chemicals, energy and environment industry. Since 1994, Mr Rosenberg has successfully turned Metal-Tech around from being a loss-making enterprise into a growing and profitable organisation. Mr Rosenberg has a BSc in mechanical engineering from King's College, London.

Ran Maimon, Chief Executive Officer - aged 44

Mr Maimon has been an employee of the Company for 15 years. From 1991 to 1995 Mr Maimon was technical manager for Metal-Tech. In November 1995, Mr Maimon was promoted to CEO. Prior to Metal-Tech, Mr Maimon worked as a mechanical engineer from 1986 to 1991 on various projects for Dead Sea Works Ltd. Mr Maimon holds a BSc in mechanical engineering and an MA in business administration and industrial management, both from the Ben-Gurion University in Beer-Sheva, Israel.

Modi Ashkenazy, Chief Financial Officer - aged 35

Mr Ashkenazy was recently appointed as Chief Financial Officer. He has 10 years of experience in international corporate finance transactions including mergers and acquisitions, financial restructuring and venture capital fundraising. Previously, Mr Ashkenazy worked for PricewaterhouseCoopers between 1995 and 1997. Mr Ashkenazy writes a weekly column in a leading financial newspaper in Israel (Globes) about European markets. Mr Ashkenazy holds a BA (cum laude) in economics and accounting and an MBA from the GSBA of Recanati, Tel Aviv University.

Mr Ashkenazy has been appointed under a contract expiring 6 months after the date of Admission. At the end of that period, either a replacement Chief Financial Officer will be appointed or a new contract will be agreed with Mr Ashkenazy. The Directors intend to commence, as soon as practicable after Admission, an executive search process to find a replacement for Mr Ashkenazy.

Meir Klausner, Chief Operating Officer - aged 39

Mr Klausner has been employed by the Company since September 1996 and was recently appointed as Chief Operating Officer. Prior to this, Mr Klausner worked for 4 years as a senior investment adviser at Bank Leumi Le Israel. From 1986 to 1992, Mr Klausner served as an economist at Dead Sea Works Ltd. Mr Klausner holds a BA in economics from Ben-Gurion University in Beer-Sheva.

- **Non-executive Directors**

The following have been appointed non-executive Directors of the Company:

Dr Graham Lawson, Non-executive Director - aged 62

Dr Lawson has held international board level appointments since 1981 in industrial minerals, chemicals and medical products companies on three continents. Dr Lawson's last executive appointment, held for seven years until his retirement in May 2002, was as Chief Executive of Watts Blake Bearn & Co plc. Prior to this, Dr Lawson was technical director of Borax Consolidated Ltd (a Rio Tinto subsidiary). Dr Lawson is a Companion of the Chartered Management Institute, a Fellow of the Royal Academy of Engineering, a Fellow of the Institution of Chemical Engineers and a Chartered Engineer.

Peter Syme, Non-executive Director - aged 61

Mr Syme is currently non-executive chairman of Weir Strachan and Henshaw, Weir Group's defence and nuclear business. Previously, Mr Syme was divisional managing director of Weir Services. Prior to that, Mr Syme held the role of managing director of Weir Pumps and, before that, was at JOY Manufacturing UK, where he was responsible for manufacturing and selling a range of compressors, pumps and mining equipment throughout Europe.

The Company intends to appoint a further non-executive Director within 3 months of Admission to comply with the Israeli Act.

- **Senior Management**

Michael Holin, Head of Research and Development - aged 58

Mr Holin has been head of research and development since 1996. Previously, Mr Holin was employed as a process manager for the Company. Prior to joining Metal-Tech, Mr Holin worked for 18 years as production and research manager in various chemical producing firms. Mr Holin holds an MSc in chemical engineering from Ben-Gurion University in Beer-Sheva.

Zvi Shva, General Manager Shim-Tech - aged 53

Mr Shva has over 20 years experience as a manager in the public administration and business sectors, including in the Former Soviet Union. Mr Shva has significant experience in Central Asia and the building and management of hydrometallurgical plants in Uzbekistan and Mongolia. Mr Shva has a Bachelor's Degree from the Hebrew University of Jerusalem and a Master's Degree from the School of Public Administration and Policy in Haifa.

Haim Krispel, General Manager UTL - aged 39

Mr Krispel has been general manager of the UTL joint venture since 2002. Previously, Mr Krispel represented Metal-Tech in Uzbekistan. Mr Krispel has experience in engineering, having worked for companies in Israel and internationally for over 10 years. Mr Krispel has a Master's Degree in Engineering from the Israel Institute of Technology.

Employees

As at 31 December 2004, the Group employed 283 people worldwide. The split of employees by entity (within the Group) and by area of activity is as follows:

By entity:	By area of activity:
Metal-Tech - 89	Manufacturing / production - 227
UTL - 177	Research and development - 19
Shim-Tech - 15	Sales and marketing - 10
MMTS - 2	Management, finance and others - 27

14 PLACING AND USE OF PROCEEDS

By way of the Placing, the Company is raising up to £10,500,000, before expenses, through the issue of up to 8,076,923 new Ordinary Shares (assuming that the Placing is fully subscribed).

Pursuant to the Placing, Cukierman is acting as placing agent to Durlacher for the placing of 1,153,846 Ordinary Shares at the Placing Price to institutional investors resident in Continental Europe and Israel.

The net proceeds of the Placing available to the Company will be used principally for:

- investment in new projects
- expansion of current plant capacity
- acquisition of plants in Western Europe and the Americas
- repayment of short-term debt
- any other purpose which the Company determines is in the course of its core business.

Pursuant to the Placing, the Placing Shares have been conditionally placed with institutional investors in the United Kingdom, France, Switzerland and Israel at the Placing Price. The Placing Shares will represent approximately 21 per cent. of the issued share capital of the Company at Admission (assuming that the Placing is fully subscribed). The Placing Shares will be issued as fully paid and will, on issue, rank *pari passu* with the Ordinary Shares already in issue at Admission.

Application has been made for the Placing Shares to be admitted to trading on AIM.

15 DIVIDEND POLICY

Metal-Tech intends to pay a modest dividend for the fiscal year ended 31 December 2005. The Company's dividend policy will be reviewed annually by the Board, however the Board's current intention is to pursue a progressive dividend policy.

Under the Israeli Act, dividends may only be paid out of the last two years' net profits or the Company's retained earnings, whichever is higher, and based on the Company's last financial statements (audited or reviewed) provided that such statement relates to a period not earlier than 6 months before the proposed distribution. Under the Israeli Act, the Board is authorised to declare dividends unless otherwise stated in the articles of association of the Company, provided that there is no reasonable concern that the distribution of dividends will prevent the Company from satisfying its existing and foreseeable obligations as and when they become due.

Dividends paid by the Company to non-Israeli companies are subject to the withholding of Israeli income tax at source at the rate of 25 per cent. The withholding is generally reduced to the rate of 15 per cent. of the gross dividend under the provisions of the UK:Israel Double Taxation Treaty where the dividends are subject to tax in the United Kingdom. A summary of the taxation of dividends is set out in paragraph 11 of Part VI of this document.

16 CORPORATE GOVERNANCE

The Directors recognise the importance of sound corporate governance and intend that the Company will comply with the main provisions of the Combined Code insofar as appropriate given the Company's size. The Board includes two non-executive Directors, Dr Graham Lawson and Peter Syme, and the Company intends to appoint a third non-executive Director within three months of Admission in order to comply with the Israeli Act (see paragraph 16 of Part VI). In addition, the roles of Chairman and Chief Executive have been separated.

The Company has established, audit, remuneration and nomination committees of the Board with formally delegated duties and responsibilities.

The audit committee currently consists of two non-executive Directors, Peter Syme and Dr Graham Lawson. It will receive and review reports from management and the Group's auditors relating to the interim and annual accounts and the accounting and internal control systems in use throughout the Group. The audit committee will have unrestricted access to the Group's auditors. However, it should be noted that the Audit Committee does not currently include a member with recent and relevant financial experience.

The remuneration committee currently consists of two non-executive Directors, Peter Syme and Dr Graham Lawson. It will make recommendations to the Board on matters relating to the remuneration and terms of employment of the executive directors of the Company and on proposals for the granting of share options and other equity incentives pursuant to any share option scheme or equity incentive scheme in operation from time to time. It will also assess the suitability of candidates proposed for appointment by the Board. The remuneration and terms and conditions of the non-executive Directors will be set by the Board.

The nomination committee will initially consist of two non-executive Directors, Peter Syme and Dr Graham Lawson, and will meet as and when necessary to assess the suitability of candidates proposed for appointment to the Board. In exercising this role, the committee shall have regard to the recommendations put forward in the Combined Code.

The Company has adopted a model code for directors and employee share dealings which, taking account of the fact that the Company is incorporated in Israel, is appropriate for a company whose securities are traded on AIM and is in accordance with Rule 21 of the AIM Rules.

17 CONTROLLING SHAREHOLDER

Hillah is at the date of this document (and will on Admission be) the registered holder of 27,270,000 Ordinary Shares which (following the Placing) will represent approximately 71 per cent. of the issued share capital of the Company (assuming that the Placing is fully subscribed). As such, Hillah will be regarded as a controlling shareholder of Metal-Tech. The entire issued share capital of Hillah is legally and beneficially owned by Ariel Rosenberg.

Although Ariel Rosenberg is an executive Director of the Company, Metal-Tech is satisfied that it is capable of carrying on its business independently of Hillah and that all transactions and relationships between Metal-Tech and each of Hillah and Ariel Rosenberg will continue to be at arm's length and on a normal commercial

basis. To ensure that this is the case, Metal-Tech has entered into a relationship agreement (a summary of which is set out in paragraph 12.3 of Part VI of this document) under which Ariel Rosenberg has given certain undertakings so as to ensure that Metal-Tech is capable of carrying on its business independently of Hillah and Ariel Rosenberg.

18 LOCK-IN AGREEMENTS

None of the shareholders of Metal-Tech is selling any Ordinary Shares pursuant to the Placing. Following the Placing, the interests of the Directors and persons connected with them will amount, in aggregate, to approximately 79 per cent. of the enlarged share capital the Company at Admission (assuming that the Placing is fully subscribed).

Under the terms of the Placing Agreement entered into between the Company, the Directors and Durlacher, the Directors have each agreed, amongst other things, not to dispose (and to procure that none of their connected persons will dispose) of any of their Ordinary Shares in the period of 12 months from Admission and, for a further period of 12 months thereafter, only to dispose of their Ordinary Shares through Durlacher (for so long as Durlacher continues to act as nominated adviser and broker to the Company), subject to certain specified exceptions.

Further details of the Placing Agreement are set out in paragraph 10 of Part VI of this document.

19 DETAILS OF SHARE OPTIONS

As soon as practicable after Admission, the Company intends to adopt the Share Option and Warrant Scheme, further details of which are set out in paragraph 5 of Part VI of this document.

20 ADMISSION, SETTLEMENT AND DEALINGS

Application has been made to the London Stock Exchange for the entire issued and to be issued share capital of the Company to be admitted to trading on AIM. It is expected that Admission will be effective (and that dealings in the Ordinary Shares will commence) on 13 May 2005.

Securities of non-UK incorporated companies, such as the Company, cannot be held or transferred in CREST, a computerised paperless share transfer and settlement system which allows shares and other securities to be held in electronic, rather than paper, form. However, to enable investors to settle such securities through CREST, a depository or custodian can hold the relevant securities and issue dematerialised DIs representing the underlying securities, which are held on trust for the holders of the DIs. The Articles, which have been adopted conditional on Admission, permit the Company to issue DIs in uncertified form.

With effect from Admission, it will be possible for CREST members to hold and transfer interests in Ordinary Shares within CREST pursuant to a DI arrangement established by the Company. CREST is a voluntary system and holders of Ordinary Shares who wish to receive and retain share certificates will also be able to do so. The Ordinary Shares will not themselves be admitted to CREST. Instead, the Registrar, acting as depository, will issue DIs in respect of the underlying Ordinary Shares. The DIs will be independent securities constituted under English law which may be held and transferred through CREST. DIs will have the same international security identification number (ISIN) as the underlying Ordinary Shares and will not require a separate listing.

Application has been made by the Registrar for the DIs in respect of the underlying Ordinary Shares to be admitted to CREST with effect from Admission. Holders of Ordinary Shares in certified form who wish to hold DIs through CREST may be able to do so and should contact the Registrar. Further details of CREST and the arrangements in respect of DIs are set out at paragraph 15 of Part VI of this document.

21 ADDITIONAL INFORMATION

The attention of prospective investors is drawn to the information contained in parts II to VI of this document which provides additional information on the Group. In particular, prospective investors are advised to consider carefully the risk factors set out in Part III of this document.

SRK are of the opinion that that at current production rates there is a low risk that the operations will close permanently within the next 30 years even if additional resources are not confirmed. The evidence for this is that:

1. The two mines have been in production for over thirty years performing consistently through the full cycle periods of high and low metal prices.
2. The mineralised resources of both operations are large but low grade, depending on the large scale of operation to achieve economic viability. The geological models are well understood and show continuity at depth below current pit levels and both have potential to increase their mineral resources.
3. The conventional open pit mining designs, equipment selection and process plant designs are appropriate for such operations but due to their age are in need of reinvestment capital to enhance productivity and flexibility, and to maintain market competitiveness.
4. Due to the low grade nature of the orebodies and limited opportunity to selectively mine higher grades of ore, particularly at Almalyk, the financial successes of the operations show sensitivity to metal price and cost inflation. Nevertheless the long term mining depletion and treatment strategies are robust within a reasonable range of assumptions regarding plant capacities and metal recoveries.
5. The low incremental cost of recovering molybdenum concentrates from the copper concentrates provides confidence of supply for as long as each mine continues to operate.

The supply of Mo concentrates to Metal-Tech's joint venture companies in Uzbekistan and Mongolia is considered to be assured for the next 30 years.

Yours Faithfully

TONY MARTIN PhD, PrSciNat, MAusIMM
Director and Corporate Geological Consultant
SRK Consulting

KEN OWEN PrEng FSAIMM
Director and Corporate Mining Consultant
SRK Consulting

A Technical Assessment of the Life of the Almalyk Copper Gold Molybdenum Operation

Uzbekistan

SUMMARY

SRK Consulting were appointed to assess the sustainability of the large copper mining operations at Almalyk in Uzbekistan with a view to meeting long term contractual agreements for the supply of molybdenite concentrates to UZMETAL Technology Limited (“UTL”) a joint venture company established by Metal-Tech, the Uzbek Refractory and Resistant Metals Integrated Plant and OSC Almalyk Mining Metal Plant (“AGMK”).

Metal-Tech is planning to upgrade its Uzbekistan facility and produce metallic molybdenum. To raise money for this and other projects Metal-Tech is applying for its issued and to be issued share capital to be admitted to trading on the AIM Market of the London Stock Exchange.

The on site visits to Almalyk included technical discussions with senior members of the management teams on both operations which were facilitated by translators.

The AGMK Kalmakyr deposit was discovered in 1948 and started producing in 1961. Production rates increased to 26 Mt/a in 1986 and this was maintained until 1994 when only 13 Mt was mined as a result of equipment supply problems. Around 26 Mt/a have been mined since 1999. The mine has therefore successfully maintained production for more than 30 years, through periods of low metal prices and considerable political change.

The AGMK operation is situated 70 km southeast of Tashkent in eastern Uzbekistan. The town of Almalyk developed around the mine has no rail links, but the infrastructure is in other respects good.

The Kalmakyr Deposit consists of an immense stockwork hosted by syenite porphyry intruded into volcanic rocks and limestone. There is apparently no discernable primary variation of grade with depth although there was supergene enrichment near surface. A granodiorite body intruded into the syenite forms a barren core to the mineralisation at depth and small offshoots cut the orebody at higher levels.



Partners MJ Brown, JM Brown, AC Burger-Priole, IS Cameron-Clarke, JAC Cowan, M Harley, T Hat, PR Labrum, RRM McNeil, HAC Mouton, BJ Middleton, MJ Morris, SO Muller, GP Murray, PH Rosewams, PE Schmidt, PJ Shepherd, AA Smithan, DCH Steffen, RJ Stuart, AH Swart, PJ Terbrugge, HM Udenstad, D van Bladenen, DJ Verter, HO Waldeck, A Wood
Directors AJ Barrett, PR Labrum, BJ Middleton, E Mokibi, PE Schmidt, PJ Terbrugge, MB Zungu
Associates JCI Bushoff, FM Cassford, CO Delgosh, NM Holdcroft, SA McDonald, LSA Mactear, GP Nel, JP Odendaal, VE Reddy, D Visser, AC White
Consultants JH de Beer, PSci Nat, MSc; GA Jones, PEng, PhD, WD Orlepp, PEng, MEng, K Owen, MSc, Eng, DIC, RP Plasket, PEng, MSc; TR Stacey, PEng, DSc; DWA Warwick, PhD, Nat, BSc (Hons)



Corporate Shareholder: Kagiso Enterprises (Pty) Ltd 

Staffan, Robertson and Kirsten (South Africa) (Pty) Ltd Reg No 1995/012892/07

Cape Town +27 (0) 21 409 2400
Durban +27 (0) 31 312 1355
East London +27 (0) 43 748 6292
Harare +263 (4) 496 182
Johannesburg +27 (0) 11 441 1111
Pretoria +27 (0) 12 361 5621

Port Elizabeth +27 (0) 41 581 1911
Pretoria +27 (0) 12 361 5621
Rustenburg +27 (0) 14 594 1260

No data pertaining to the Mineral Resource was seen by SRK and the information quoted here is verbal from senior staff at the mine. The remaining Kalmakyr Resource is said to be around 1,200 Mt at 0.6% Cu, 0.5 g/t Au, 3 g/t Ag and 0.005% Mo and of this 25% is reported to be in the B category and 75% in C₁. These would probably equate to the Measured and Indicated categories respectively. A mineralised zone of similar size and grade is said to lie adjacent to the Kalmakyr pit beneath 100 m of overburden.

Ore supplied to the Almalyk concentrator from the Kalmakyr open pit which is now 4 km long, 2 km wide at surface and 400 m deep. The mine appears to be operating well and there are no perceivable technical problems. Long term plans include installation of in-pit crushers and conveyors when the pit approaches 500 m in depth in 2015. This system will be designed for higher ore throughput.

SRK have not identified any fatal flaws in the operation but there are identified areas that could impact future operations. These include:

- Underinvestment in new technology at both mine and plant could reduce competitiveness.
- Any significant change in the cut-off grade may require a reduction in the labour force or expansion of throughput to improve productivity and maintain profitability.

SRK are of the opinion that:

- The Kalmakyr pit contains a very large but low-grade Resource and an adjacent deposit could add further life to the operation.
- There is no risk attached to the resource under current economic conditions, and the risks of continuity of production beyond 20 years are linked more to commercial assumptions, (prices and costs) than to technical operational issues.
- The ageing plant will require ongoing investment in capital equipment replacement and the application of new technologies to remain competitive.
- Under the current political climate in Uzbekistan there is likely to be a social imperative to maintain production at Almalyk even at the expense of profitability.

SRK confirms that there is a high probability that AGMK's operations at Almalyk will be sustainable for a considerable period and well in excess of thirty years if current costs, prices and efficiencies are maintained.

There is a low probability of technical issues causing production stoppages, and a very low probability that the mine will permanently cease operations within the next thirty years.

A Technical Assessment of the Life of the Almalyk Copper Gold Molybdenum Operation Uzbekistan

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SRK House
265 Oxford Road, Ilitvo
2196 Johannesburg

PO Box 55291
Northlands
2116 South Africa

e-Mail: johannesburg@srk.co.za
URL: <http://www.srk.com>

Tel: +27 (0) 11 441 1111
Fax: +27 (0) 11 880 8088

A Technical Assessment of the Life of the Almalyk Copper Gold Molybdenum Operation Uzbekistan

1 Introduction

AGMK, a state-owned company in Uzbekistan, produces copper and gold along with a number of minor metal by-products including molybdenum.

An agreement was reached in 2002 between AGMK and Metal-Tech, an Israeli company specialising in the down-stream metallurgical processing of the molybdenum minerals.

Metal-Tech has provided the technology and investment for the plant and buys all of the concentrates produced by AGMK. The Uzmetal plant producing high-grade Mo oxides was commissioned in 2002 and since that time has processed around 1,200 t of Mo metal in oxide. Metal-Tech is now planning to add additional equipment to produce metallic molybdenum.

To raise the capital for this and other projects (including a similar plant in Mongolia to be covered by a separate SRK report) Metal-Tech is applying for its issued and to be issued share capital to be admitted to trading on the AIM Market of the London Stock Exchange. As part of this process, an independent assurance is required that the supply of molybdenite concentrates will continue to be provided by AGMK for the next 20 to 30 years.

This SRK report describes the Almalyk operation, and assesses the sustainability of the AGMK mining operation in terms of its ability to feed the Uzmetal plant with molybdenite concentrates.

1.1 Consultants qualifications and confidentiality

SRK is part of an international group (the SRK Group) comprising more than 500 professional staff, offering expertise in a wide range of resource engineering disciplines. The SRK Group's independence is ensured by the fact that it holds no equity in any project, which permits SRK to provide clients with conflict-free and objective recommendations.



Partners MJ Brauns, JM Brown, AC Burger-Prinle, IS Cameron-Clarke, JAC Cowan, M Harley, T Hart, PR Labrum, RMW Michell, HRC Mouton, BJ Middleton, MJ Morris, SO Muller, GP Murray, PH Rosewarne, PE Schmidt, PJ Shepherd, AA Smithan, OIH Stoffen, RJ Stuart, AH Swart, PJ Terbrugge, HM Udenstad, Ovan Bladenen, DJ Venter, HO Waldeck, A Wood
Directors AJ Baroff, PR Labrum, BJ Middleton, E Mokob, PE Schmidt, PJ Terbrugge, MB Zungu
Associates JCI Eschoff, FM Cosford, CO Dolgish, NM Holdcroft, SA McDonald, LGA Muzlar, GP Nel, JP Orendaa, VB Reddy, D Vrezer, AC YWala
Consultants JH de Beer, PSci Nat, MSc; GA Jones, PrEng, PrD, ND Orlepp, PrEng, MEng, K Owen, MSc; Eng, DIC, RPP Plasket, PrEng, MSc; TR Stacey, PrEng, DSc; DW Warwick, PrSci Nat, BSc (Hons)

Cape Town +27 (0) 21 409 2400
Durban +27 (0) 31 312 1355
East London +27 (0) 43 748 6292
Harare +263 (4) 496 182
Johannesburg +27 (0) 11 441 1111
Pretoria +27 (0) 33 345 6311



Corporate Shareholder: Kagiso Enterprises (Pty) Ltd 

Port Elizabeth +27 (0) 41 581 1911
Pretoria +27 (0) 12 361 5821
Rustenburg +27 (0) 14 594 1260

Stellen, Robertson and Kirsten (South Africa) (Pty) Ltd Reg No 1995/012896/07

The Uzbek operation was visited by two SRK consultants from 15 to 18 March 2005 and the individuals who have written this technical report are Anthony Martin, B.Sc. D.Phil. Pr.Sci.Nat. Reg. 400042/04, MAusIMM, and Kenric C. Owen Pr Eng. B.Sc(Eng). M.Sc.,D.I.C, FSAIMM.

Dr. Martin is a corporate geologist with SRK Consulting Zimbabwe with 33 years of experience, 27 of which have been spent in the mining industry. He has audited the Resources and Reserves of a number of deposits in Zimbabwe and elsewhere over the past 20 years.

Mr Owen is a corporate mining engineer with SRK with 30 years experience in the mining industry in South Africa and Brazil. For 20 years he has worked on producing mines in South Africa, including a period as General Manager of a large diamond mine and for the past 10 years has had wide international experience as a mining consultant in South Africa, South America and Australia.

1.2 Disclaimer

All of the opinions in this report are based on information provided by UTL and discussions held with senior staff which required the services of an interpreter throughout. While plans and tables formed part of the database seen by SRK, even these required some explanation through the interpreter. Therefore SRK cannot verify for the accuracy of some of the information particularly that provided verbally, and cannot accept responsibility for opinions based on incorrect data.

Similarly the information and opinions reflect various technical and economic conditions at the time of writing. Given the nature of the mining business, these conditions can change over time.

2 Description of the AGMK Operation

2.1 History

The mineralisation of the Kalmakyr ore body was discovered in 1948 in an old pit with showings of malachite and chrysocolla. Geochemical soil sampling defined a large, 10-km long copper anomaly and more detailed trenching and drilling lead to the discovery of the very large Kalmakyr porphyry copper/gold/molybdenum deposit and two other deposits in close proximity to it. The nearby Kurgashinkan lead deposit to the south was initially mined and depleted some 20 years ago. Mining of the Kalmakyr orebody started in 1961 at 8 million tonnes per year (Mt/a) following several years of construction and pre-stripping. A steady production rate of around 19 (Mt/a) was achieved in 1978 increasing to 26 Mt/a in 1986. This was maintained until the break-up of the Soviet Union in 1994, when ore production dropped to 13 Mt/a as a result of equipment supply problems. After re-establishing the supply chain the mine returned to its former production rates in 1999. Since then it has maintained production at around 26 to 27 Mt/a.

The Dalnee ("Far Away") orebody actually lies in contact with the Kalmakyr deposit at its southern extremity. As yet no mining has taken place over this deposit because it lies below 100 m of cover.

2.2 Political Issues

Natural resources in Uzbekistan are vested in the state.

The country is run on a democratic parliamentary system with an executive President. All decrees relating to mining and investment agreements with the private sector are approved by parliament and signed by the President. These agreements are considered to be inviolable and none have been rescinded by the Government of Uzbekistan.

To date the Government has only approved agreements for smaller projects such as UTL's Mo refining (Almalyk) and Newmont's dump treatment at the giant Murantau gold deposit. Approval has also been granted to allow exploitation of a number of small deposits elsewhere in the country.

The agreement with UTL dated 18 January 2000 stipulates the scope, responsibilities, shareholders rights, investment capital, payback conditions and administrative process. The duration of the agreement is implied for the remaining life of the AGMK mine for all Mo concentrates.

2.3 Locality and Infrastructure

The AGMK copper/gold operation is situated 70 km southeast of Tashkent in eastern Uzbekistan. Almalyk, with a population of around 140,000 people is essentially a mining town and all accommodation was built by the mine which also funds essential services to the community.

Access to Almalyk is by a dual highway in moderate state of repair and the journey by road from the centre of Tashkent takes just over an hour, but there is no railway to the mine. Road and rail links connect Tashkent to surrounding countries (Turkmenistan and Afghanistan, south; Kyrgyzstan, east; Kazakhstan, north and west and Tajikistan southeast). There is an international airport in Tashkent with services to Moscow and other regional and international destinations.

The mine is provided with power from the national utility which is produced by both thermal and hydro stations.

There appear to be no infrastructure problems associated with the AGMK operation. Although short power outages do occur periodically these do not significantly curtail production.

2.4 Topography and Climate

Almalyk lies in the foothills of the Kuramin Range at an altitude around 500 m. The area is a little cooler than Tashkent where temperatures reach 40° in the summer and average around 10° in winter with a minimum of -10°. The average annual rainfall is 600 mm, mostly falling in April/May and September/October. Several rivers of moderate size flow in the vicinity of the mine, fed by snow-melt from the mountains to the north. Water is obtained from these rivers and inflows into the pit, and domestic water from boreholes. There is no shortage of water.

3 Geology

Uzbekistan covers a portion of the Tien Shan orogenic belt stretching from northwest China through Kyrgyzstan and westwards into Uzbekistan and Kazakhstan. Within the eastern part of Uzbekistan the basement consists of gneisses and metasedimentary rocks of early Proterozoic age overlain by Late Proterozoic volcanics intercalated with clastic and chemical metasediments.

The overlying Cambrian to Middle Ordovician consists of interbedded volcanic and sedimentary rocks host the Kalmakyr mineralisation and other hydrothermal deposits in Uzbekistan, including the Muruntau gold deposit.

Overlying the early Palaeozoic is a succession of sediments of Ordovician to early Silurian age, unconformably overlain by Devonian calc-alkaline volcanic rocks, with further sedimentary and volcanic units deposited through to the Carboniferous.

Intrusive into these packages are a variety of felsic and mafic rocks of different ages including late Proterozoic gneissic granites and more widespread gabbro-diorite and tonalitic intrusives associated with the Cambro-Ordovician and perhaps its mineralisation. Ordovician to early Silurian granitoids occur throughout the Tien Shan and these range in composition from granodiorite to leucogranite. The Devonian intrusives occur as dykes and small felsic stocks of variable composition followed by Permian granitoid intrusions.

The meta-sedimentary successions have been subjected to various orogenic events from the late Proterozoic to early Cambrian, Caledonian, Hercynian and Alpine. These have produced a complex fold patterns, trending in a northeasterly direction.

The Kalmakyr Deposit is hosted by a syenite porphyry intruded into a sequence of felsic to intermediate volcanic rocks and intercalated limestone. The syenite forms an elongate body trending in a northwesterly direction and the adjacent Dalnee porphyry strikes east-west.

Following the intrusion of the syenite, a very large and pervasive hydrothermal system has penetrated into much of this intrusion and to a limited extent the country rocks. Whereas the mineralisation within the surrounding rocks tends to be associated with shear-hosted veins, that in the porphyry forms an

immense stockwork emanating from larger, easterly trending feeder veins within the syenite. There is very little disseminated mineralisation present and most of the sulphide occurs within the veins. There is greater correlation between gold and molybdenum than with copper and as a result, the molybdenite concentrates sent to the Uzmetal plant contain between 3 and 20 g/t Au.

This significant gold component is a major reason why AGMK are anxious to have the molybdenite treated in Uzbekistan where the gold-rich residues from the UTL operation are sent back to the AGMK.

Plate 3.1 Syenite Porphyry Kalmakyr Pit



Plate 3.2 Stockwork Mineralisation Kalmakyr Pit

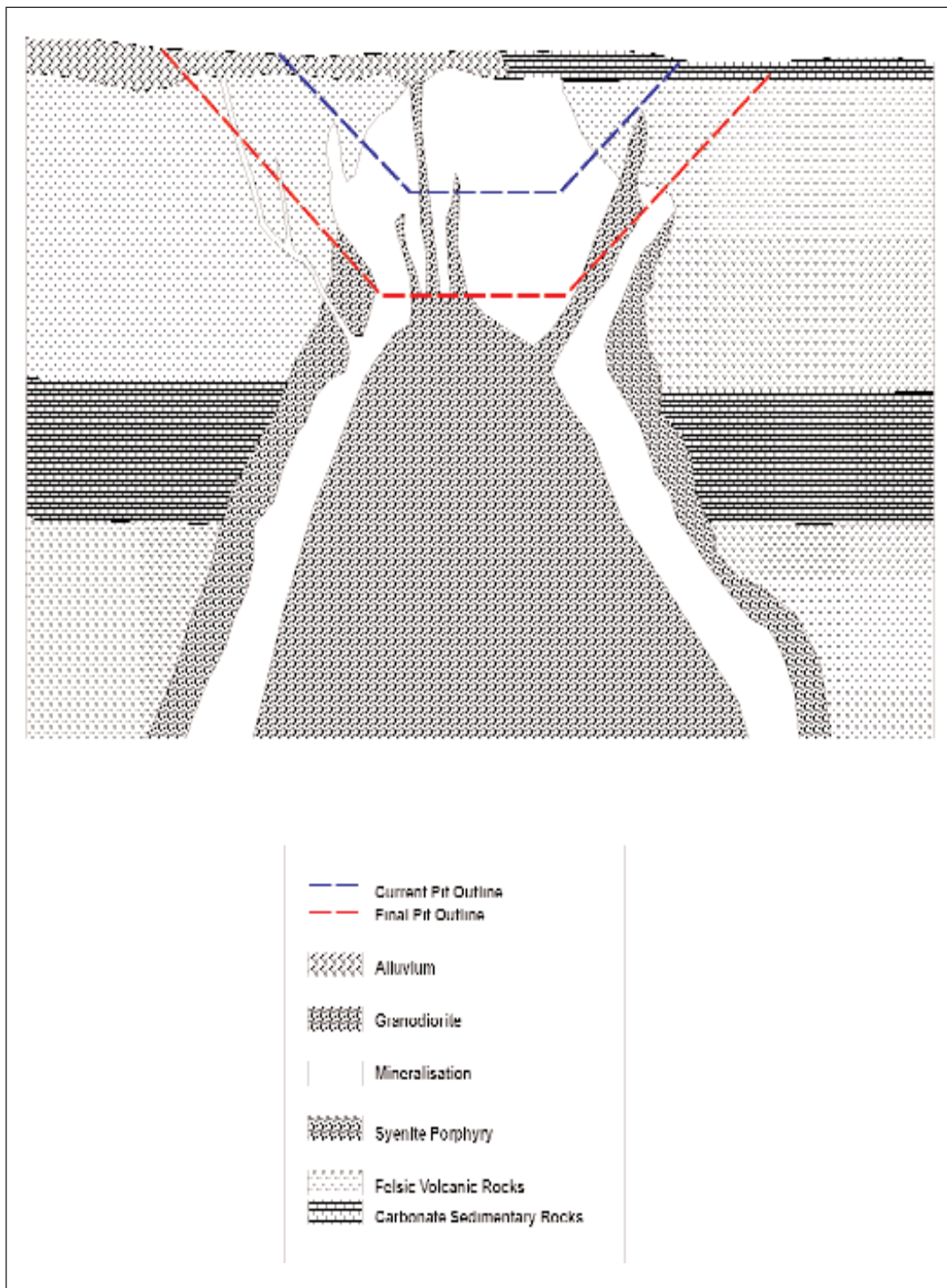


According to the mine staff there is no discernable primary variation of grade or mineralogical characteristics with depth within the porphyry although supergene enrichment has occurred and the depth to dominant sulphide minerals is around 150 m, but very variable.

A younger granodiorite body has followed the same channel-way as the syenite and forms a barren core to the mineralisation at depth. This body splits into narrower dykes and fingers above the main body and some of these have already been intersected within the pit (Figure 3.1).

Despite the presence of the granodiorite there remains a significant resource below the current pit floor.

Figure 3.1 Schematic Section through the Kalmakyr Deposit



4 Mineral Resource

The remaining mineral Resource of the Kalmakyr deposit in all categories is said to be over 1,200 Mt grading at 0.6% Cu, 0.5 g/t Au, 3 g/t Ag and 0.005% Mo, with minor amounts of recoverable Te and Se.

No data pertaining to the resource was seen and the information quoted in this report is verbal from senior staff at the mine.

The resources have been defined following a number of drilling campaigns over many years initially on a 160-m grid with infill to 80 and 20 m. It is said that 25% of the total resource is in the B category and 75% in C₁, and these would probably equate to the Measured and Indicated categories respectively (Appendix 1).

The resource estimation is purely arithmetic, with weighted averages of grades for each borehole and a similar calculation for a number of holes within a block. Block end area measurements are combined with length to give volumes and the bulk density used is 2.6 t/m³. A cut-off of 0.23% Cu is used to define mining block selection.

The reconciliation or mine-call-factor between mill feed content and mined material is said to average 95% although the inevitable monthly fluctuations do occur. Similarly good correspondence is reported between resource estimates and the mined content.

Previous mining is said to amount to over 1,000 Mt of mill feed ore excluding 160 Mt of low grade mixed oxides and sulphide and 11 Mt of oxide material. These are stockpiled in dumps kept separate from the waste.

Only the primary zone of the porphyry is being mined at present. The oxides were depleted some 20 years ago and more recently the supergene zone.

5 Mine Operations

All ore supplied to the Almalyk concentrator comes from the Kalmakyr open pit which is now some 4 km long and 2 km wide at surface with its lowest level some 400 m below. (Plate 2.1).

Plate 2.1 Satellite Photograph of the Kalmakyr Pit and Surrounding Area



Blast holes are drilled on a 6-m grid to a depth of 6 m and both ore and waste are loaded by excavator into trucks for transport to the in-pit rail haulage system or directly to stockpiles from the upper parts of the pit. All blast holes are sampled and used to control the grade.

Plate 5.2 In-pit Ore Loading onto 1,200-t Trains



5.1 Geotechnical

A major slope failure occurred in 1991 when 20 Mm³ were displaced on the southwest wall of the pit. Despite the large volume of material, it only slipped a few metres and did not significantly disrupt production and this slip is being systematically removed. Geotechnical monitoring was subsequently established and no slope failures affecting production have since been recorded. As the open pit deepens so the likelihood of failure will increase, but this can be obviated by following a risk management approach to slope designs and groundwater management.

5.2 Mine planning

Short term planning compiles excavation schedules for ore and waste from multiple benches. The short term plans are linked to a longer term plan to ensure that waste is removed to expose sufficient ore to feed the plant.

Long term planning includes replacement of the current rail transport system in 2015 by an in-pit crushing and conveying system when the pit approaches 500m in depth. This system will be designed for higher production and will be fed by a truck haulage fleet operating below 500m depth. The rail system will continue to transport waste on the upper benches.

These measures are planned to increase production to 37 Mt/a in 2015 and 40 Mt/a in 2020 and molybdenum production will also increase.

5.3 Process Plant

Concentrator: The concentrator has been expanded on a number of occasions during its life. It is currently undergoing further renovation in the flotation section and recent improvements to the molybdenum recovery circuit have resulted in an improvement of the concentrate to between 30 and 40%. The copper concentrate sent to the smelter averages 17%.

There may be justification to improve computer control systems and replace some of the older equipment with newer technology.

Smelter: Although the smelter was not visited, the outward appearance would suggest that it requires an upgrade programme to improve efficiency and reduce costs.

Socio economic changes could impact the current operating procedures and costs of operations.

5.4 Operations

The mine and plant operations run on a 24/7 roster with three eight hour shifts.

5.5 Operating and Capital Costs

Although no costs were made available for review, SRK estimates that the Kalmakyr open pit will run above midrange costs if benchmarked against international operations. The railroad transports ore to the process plant 12 km from the pit. The bench heights have been designed for the existing shovel size. The shovels are old and trade off studies may provide justification for their replacement with modern high capacity shovels. Recently the older Belaz truck fleet has been supplemented with new Terex 140t capacity trucks.

AGMK has an environmental department which assists with pollution control. It is understood that the mine pays a penalty to Government as a result of pollution of surface water and this would add to the operating costs. The legislation pertaining to environmental measures is not known and nor are costs associated with rehabilitation.

One would assume that as the operation has run successfully for the past few years it would be free of debt and all capital would have been depreciated. Further as a government operation, it would not be encumbered with significant royalties, but AGMK has social costs associated with running the town, including local hospitals and schools.

SRK have estimated the revenues and costs of the Almalyk mining, concentrating and smelting complex from production data and their own experience of similar operations elsewhere. Details of these are tabulated below.

Table 5.1 Almalyk Production and Revenue Estimates

Head-feed		Mt/a	26,000,000
Cu grade		%	0.50%
Contained Cu		t	130,000
Au grade		g/t	0.3
Contained Au		kg	7,800
Contained Au		oz	250,419
Mo grade		%	0.004%
Contained Mo		t	1,040
Recovered Cu	85%	t	110,500
Recovered Au	50%	t	3,900
Recovered Mo	60%	t	624
Cu Price and Revenue	\$1.10	\$/lb	\$267,896,200
Au Price and Revenue	\$400	\$/oz	\$50,083,800
Mo Price and Revenue	\$8.00	\$/lb	\$10,982,400
Total metal Revenue			\$328,962,400
Contained value per ton		\$/t	\$12.65
Cu concentrate grade and metal tonnes	17%	t	650,000
Mo concentrate grade and metal tonnes	35%	t	1,783
Copper production		lbs	243,542,000
Production cost		\$	\$270,617,100
Cost per lb Cu		\$/lb	\$1.11
Cost less by product credits		\$	\$209,550,900
Cost per lb Cu with credits		\$/lb	\$0.86

SRK estimates the cost of the Almalyk operation based on Cu alone at \$1.11/lb and with the credits from Au and Mo at \$0.86/lb. This makes Almalyk one of the higher cost producers worldwide and highlights its dependency on the by product credits. The revenue proportion of each metal is given in Table 5.2.

Table 5.2 Proportion of Metal Revenue

Cu	81.4%
Au	15.2%
Mo	3.3%

Table 5.3 Almalyk Cost Summary Estimates

Annual head-feed			t	26,000,000	
Stripping ratio waste:ore		2		1	
Mining		\$/t Mined		\$/t Treated	
Drilling		0.09	\$/t	0.27	
Blasting		0.13	\$/t	0.39	
Loading		0.16	\$/t	0.48	
Hauling		0.24	\$/t	0.72	
Transport		0.36	\$/t	0.36	
Pumping		0.03	\$/t	0.03	
Dumps		0.05	\$/t	0.05	
Roads		0.03	\$/t	0.03	
Rail maintenance		0.07	\$/t	0.21	
Mining Costs		1.16	\$/t	2.54	<i>a</i>
Concentrator				\$/t Treated	
Crushing			\$/t	0.6	
Grinding			\$/t	1.6	
Flotation			\$/t	0.9	
Tailings			\$/t	0.05	
Concentrator Costs			\$/t	3.15	
Smelting				\$/t Treated	
Cu Concentrate	650,000		t		
Costs	50	\$32,500,000	\$/t	1.25	<i>a</i>
Refining				\$/t Treated	
Cu Produced	110,500		t		
Cost	\$0.05/lb	\$12,177,100	\$/t	0.47	<i>a</i>
Sales			\$/t	1.50	
Administration			\$/t	1.50	
Total Operating costs			\$/t	10.41	<i>b</i>
Total revenue			\$/t	12.66	
Contribution per tonne			\$/t	2.25	
Ratio of contribution over revenue				18%	
Annual contribution				\$58,415,500	

Notes

a SRK estimates due to non availability of data

b Excludes replacement capital

The revenue contribution of \$2.25/t gives a contribution ratio of 18% without expenditure of replacement capital.

6 Labour complements

The staff employed on the operations numbers is over 20,000 and it is apparent that there is a high priority socio-economic need to provide and sustain employment in the region.

7 Environmental Issues

AGMK has an environmental department which monitors the environmental impacts and assists with pollution control. There is legislation pertaining to environmental issues and it is reported that the relevant Government agency conducts compliance checks at the mine.

At Almalyk a sulphuric acid plant consumes most of the SO_2 emissions from the smelter and those from the Uzmetal plant are returned to this facility.

Although the tailings dam was not visited, a distant view shows it to be well vegetated with grass and there do not appear to be any significant environmental problems associated with it.

In an operation the size and age of that at Almalyk with a smelter and refinery there is likely to be some pollution, but SRK were unable to assess the extent of this, or the mitigation measures in place.

8 Risks

SRK has not identified any fatal flaws in the operation (defined as a stoppage of greater than three month's duration) but has identified areas that could impact future operations. These include:

- * Underinvestment in new technology and computer control systems that is likely to reduce the competitiveness of the operation.
- * The plant appears to be in a run-down state and further replacement capital will be required to avoid major breakdowns in future. A significant rehabilitation programme has recently been initiated by AGMK.
- * Socio economic changes associated with changes in internal cost inflation could impact operations and mitigation may require some hard decisions by management, such as reduction in the labour force or expansion to improve productivity.
- * The fairly regular grade distribution of the primary orebody combined with the railroad haulage constrains the ability to mine selectively.

9 Conclusions

The mine has a very large but low-grade resource available for mining that at current production rates will last in excess of 30 years from the Kalmakyr pit alone. The nearby Dalnee deposit is said to be of similar size and grade and this would add a further life to the operation if the economics of starting a mine at a depth of 100 m are positive.

The evidence that the mine will last at least 30 years is:

- There is a very large resource albeit of low Cu grade but with significant Au credits
- It is assumed that AGMK is debt free and only requires expenditure of replacement capital
- The operation appears to be reasonably well-run with long-term plans
- There is a social imperative to keep Almalyk town going and its people employed
- The operation is mature and there are unlikely to be any unforeseen negative technical impacts

The down-side risks perceived by SRK are:

- A rising cut-off grade could significantly affect production.
- Lack of replacement capital could significantly affect the mine's competitiveness and also the delivery of concentrates.

SRK confirms that there is a high probability that AGMK's operations at Almalyk will be sustainable for a considerable period if the relationship between current costs, prices and efficiencies are maintained. This will require new technology, including equipment with lower operating costs.

There is low probability of technical issues causing production stoppages, and a low probability that the mine will permanently cease operations over the next 30 years.

TONY MARTIN PhD, PrSciNat, MAusIMM
Corporate Geological Consultant
SRK Consulting

KEN OWEN PrEng FSAIMM
Corporate Mining Consultant
SRK Consulting

APPENDIX 1 Russian Resource Categories

RUSSIAN DEFINITIONS OF RESOURCE CATEGORIES	
A-reserves	<p>The highest Russian category; corresponds to Proved Reserves or Measured Resources (see comments to “запасы” article). According to official Russian definition, the A-reserves must satisfy the following conditions:</p> <ul style="list-style-type: none"> – sizes, shapes and setting of ore bodies are defined; character and regularities of the morphology variation and structure of the bodies are studied; waste and low grade parts are identified and contoured within the ore bodies; position and amplitude of dislocations (if there are) are found; – natural varieties of the mineral are defined, commercial (metallurgical) types and sorts of the mineral are distinguished and outlined; composition, properties and mineral distributions of useful and hazardous components are defined; quality of the commercial (metallurgical) types and sorts distinguished are characterised in all aspects in accordance with the Conditions; – metallurgical properties of the ore are studied so that the data obtained are enough for projecting of metallurgical scheme of the ore processing with complex recovery of all commercial components; – hydrogeological, engineering-geological, geo-cryological, mining-geological and other natural conditions are studied so thoroughly, that it is enough to get necessary initial data for the deposit development projecting; – the contour of the ore bodies is defined by boreholes or underground workings in accordance with the Conditions. <p>Approximate correspondence: IAEA, Australia, USA – Reasonably Assured; Canada – Measured; France – Reserves I; Germany – Proven</p>
B-reserves	<p>corresponds to Proved Reserves or Measured Resources (see comments to “запасы” article). According to official Russian definition, the B-reserves must satisfy the following conditions:</p> <ul style="list-style-type: none"> – sizes, main peculiarities and variability of shapes, structure and setting of the ore bodies, spatial distribution of internal waste and low grade portions are defined; positions and amplitudes of large fractures (if there are any) are established, possible extent of small-amplitude disjunctive dislocations are characterised; – natural varieties of the minerals are defined, commercial (metallurgical) types of the minerals are distinguished and, if possible, outlined; if it is impossible to outline the types, spatial distribution regularities and quantitative ratio of commercial (metallurgical) types and sorts of the minerals, mineral forms of commodities and hazardous components are defined; quality of the commercial (metallurgical) types and sorts distinguished are characterised in all aspects in accordance with the Conditions; – metallurgical properties of the ore are studied so that data obtained are enough to choose an in principle metallurgical scheme of processing for the ores with rational and complex recovery of all commercial commodities; – hydrogeological, engineering-geological, geo-cryological, mining-geological and other natural conditions are studied so completely, that it is enough to qualitatively and quantitatively characterise their main parameters and to evaluate influence of these parameters on stripping and operation of the deposit; – contours of the ore bodies are defined by boreholes or underground workings in accordance with the Conditions including (if the ore bodies and ore quality are stable)

	<p>a limited extrapolation zone which is well established by geological criteria, geophysical data and geochemical investigations.</p> <p>Approximate correspondence: IAEA, Australia, USA – Reasonably Assured; Canada – Measured; France – Reserves I; Germany – Proven</p>
C₁-reserves	<p>largely corresponds to Proved Reserves or Measured Resources (see comments to “заначи” article). According to official Russian definition, the C₁-reserves must satisfy the following conditions:</p> <ul style="list-style-type: none"> – sizes and characteristic shapes, main peculiarities of setting and structure of the ore bodies are clarified; as for stratum-type deposits and for building and facing materials deposit, presence of intense small-amplitude tectonic dislocation areas are checked; – natural varieties and commercial (metallurgical) types of the ore are defined; general spatial distribution regularities and quantitative ratio of commercial (metallurgical) types and sorts of the ore, mineral forms of useful and hazardous components are defined; quality of the commercial (metallurgical) types and sorts distinguished are characterised in all aspects in accordance with the Conditions; – metallurgical properties of the ore are studied so, that data obtained are enough to substantiate commercial validity of the reserves; – hydrogeological, engineering-geological, geo-cryological, mining-geological and other natural conditions are studied so completely, that it is enough to provisionally characterise their main parameters; – contours of the ore bodies are defined by boreholes or underground workings in accordance with the Conditions taking into account geophysical investigation data and substantiated geological interpolations. <p>Approximate correspondence: IAEA, Australia, USA – Reasonably Assured; Canada – Indicated; France – Reserves II; Germany – Probable</p>

A Technical Assessment of the Life of the Erdenet Copper Molybdenum Operation Mongolia

SUMMARY

SRK Consulting were appointed to assess the sustainability of the large copper mining operations at Erdenet in Mongolia with a view to meeting long term contractual agreements for the supply of molybdenite concentrates to Shim-Tech Co. Ltd. (“Shim-Tech”), a joint venture company established by Erdenet Co. Ltd. (“Erdenet”) (30 per cent.) and Metal-Tech (70 per cent.).

Metal-Tech is currently constructing the first phase of its molybdenum oxide processing facility in Mongolia. To raise money for this and other projects Metal-Tech is applying for its issued and to be issued share capital to be admitted to trading on the AIM Market of the London Stock Exchange.

The on site visits to Erdenet included technical discussions with senior members of the management teams on both operations which were facilitated by translators.

Erdenet in Mongolia produces copper and molybdenum. In 2004 an off take agreement was reached between Erdenet and Metal-Tech to produce molybdenum oxide from the sulphides produced by Erdenet.

The Erdenet deposit was discovered in 1948 and produced the first concentrates in 1978. Planned production rates were achieved in 1982 and for the last four years have remained steady at around 25 Mt/a. The mine has therefore successfully maintained production for more than 20 years, through periods of low metal prices and considerable political change.

The Erdenet operation is situated 400 km northwest of Tashkent in central Mongolia and has road and efficient rail links to Ulaanbaatar and neighbouring countries. The town of Erdenet has a well developed infrastructure and the mine has adequate and reliable supplies of water and electricity.

The Erdenet copper molybdenum granite porphyry consists of a sericitic quartz core surrounded by an intermediate argillic zone and peripheral chlorite/epidote alteration. Ore grade mineralisation is restricted to the two inner zones with higher grades occurring within the siliceous core. The mineralised zone is



Partners: MJ Brauns, JM Brown, AC Burger-Prinle, IS Cameron-Clarke, JAC Cowan, M Harley, T Hart, PR Latham, RMW Mitchell, HRC Mouton, BJ Middleton, MJ Morris, SO Muller, GP Murray, PH Rosewarne, PE Schmidt, PJ Shepherd, AA Smithan, OIH Stoffen, RJ Stuart, AH Swart, PJ Terbrugge, NM Udenstad, O van Bladen, DJ Vanter, HO Waldeck, A Wood
Directors: AJ Barrett, PR Latham, BJ Middleton, E Mokob, PE Schmidt, PJ Terbrugge, MB Zungu
Associates: JCI Eschoff, FM Cosford, CO Dalgleish, NM Holdcroft, SA McDonald, LGA Maclear, GP Nel, JP Oudendaal, VB Reddy, D Visser, AC Ylstra
Consultants: JH de Beer, PSci Nat, MSc; GA Jones, PrEng, PrD, ND Orlepp, PrEng, MEng, K Owen, MSc; Eng, DIC, RPP Plasket, PrEng, MSc; TR Stacey, PrEng, DSc; DWW Warwick, PSci Nat, BSc (Hons)



Corporate Shareholder: Kagiso Enterprises (Pty) Ltd 



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Cape Town +27 (0) 21 409 2400
Durban +27 (0) 31 312 1355
East London +27 (0) 43 748 6292
Harare +263 (4) 496 182
Johannesburg +27 (0) 11 441 1111
Pretoria +27 (0) 11 334 5311

Port Elizabeth +27 (0) 41 581 1911
Pretoria +27 (0) 12 361 5821
Rustenburg +27 (0) 14 594 1250

approximately 2 km long and 1.3 km wide and is open on one side and at depth. Exploration is planned for completion in 2005 to assess the lateral extensions.

The computer-generated Erdenet Resource in the January 2005 statement is quoted at 874 Mt at 0.48% Cu and 0.017% Mo based on a 0.25% Cu cut-off. Estimates have been made for a range of cut-off grades and the mine management is considering whether to use a 0.35% cut-off for future operations. This would reduce the mine life to 27 years from 35 years for the 0.25% Cu cut-off.

The open pit is currently 300 m deep and is presently extracting both supergene and primary ore with minor oxides. The pit is well laid out and has a low stripping ratio. Excavators load trucks for ore transport with cycle times of less than 20 minutes and there is no re-handling or stockpiling of ore. Long term plans have yet to be finalized for the final pit depth.

The plant is down-slope from the primary crushers near the southern pit rim and makes optimum use of gravity. Recent refitting of about half the flotation capacity has been completed and copper recovery to concentrate is 84% with a grade of 27% Cu.

Molybdenum recovery is only 20% and the concentrate at 46% Mo, is usually contaminated with copper. This may be the result of overgrinding that could be reduced by two-stage milling and flotation. Improved recovery of molybdenite will have a significant impact on concentrate supply and Shim-Tech should initiate research into this as Erdenet will not have the same incentive to do this.

SRK has estimated the production costs using data provided by Erdenet and benchmark cost from SRK's experience. This indicates that the production costs at Erdenet are \$0.73/lb and \$0.67/lb net of Mo credits based on the 0.35% Cu cut-off Reserve.

SRK have not identified any fatal flaws in the operation but there are identified areas that could impact future operations. These include:

- The lowering of the grade with potential recovery problems as the pit moves into the primary sulphide zone
- An increase in both mining and milling costs for the harder primary zone.

SRK are of the opinion that:

- The Erdenet pit contains a large, but low-grade Resource with potential to increase this through near-surface exploration.
- There is no risk attached to the resource under current economic conditions, and the risks of continuity of production beyond 20 years are linked more to commercial assumptions, (prices and costs) than to technical operational issues.
- There is likely to be a social and political imperative to maintain production at Erdenet even at the expense of profitability.

SRK confirms that there is a high probability that Erdenet's operations at the Erdenet mine will be sustainable for a considerable period and well in excess of twenty years if current costs, prices and efficiencies are maintained.

There is a low probability of technical issues causing production stoppages, and a very low probability that the mine will permanently cease operations within that period.

A Technical Assessment of the Life of the Erdenet Copper Molybdenum Operation Mongolia

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A Technical Assessment of the Life of the Erdenet Copper Molybdenum Operation Mongolia

1 Introduction

Erdenet is a Mongolian/Russian joint venture formed to exploit a large granite-hosted copper/molybdenum deposit in Mongolia.

Metal-Tech is an Israeli company specialising in down-stream processing of minor metals. In 2004 a joint venture company, Shim-Tech (a joint venture company in which Metal-Tech has a 70 per cent. interest and Erdenet has a 30 per cent. interest) was formed to market the molybdenite concentrates and later to produce molybdenum oxides and metal at Erdenet. The first stage of the treatment project is under construction and the plant is expected to be commissioned in the third quarter of 2005.

To raise the capital for this and other expansion plans including an upgrade of a similar plant in Uzbekistan (covered by a separate SRK report) Metal-Tech is applying for its issued and to be issued shares to be admitted to trading on the AIM Market of the London Stock Exchange. As part of this process, there is a requirement for an independent assurance that the supply of molybdenite concentrates will continue to be provided by Erdenet for the foreseeable future.

SRK Consulting were appointed to assess the sustainability of the large copper mining operations at Almalyk in Uzbekistan and at Erdenet in Mongolia with the view to meeting contractual agreements for the supply of molybdenite concentrates to Metal Tech.

The on-site visit to Erdenet from 20 to 22 March 2005 included technical discussions with senior members of the management teams on both operations which were facilitated by translators. The reviews focussed on the following:

1. The geological setting,
2. Exploration methods used to generate the resource database,
3. Resource and Reserve estimation methodology,



Partners: MJ Brauns, JM Brown, AC Burger-Prinle, IS Cameron-Clarke, JAC Cowan, M Harley, T Hart, PR Labrum, RMW Mitchell, HRC Moutse, BJ Middleton, MJ Morris, SO Muller, GP Murray, PH Rosewarne, PE Schmidt, PJ Shepherd, AA Smithan, OIH Stoffen, RJ Stuart, AH Swart, PJ Terbrugge, HM Ueberstadt, O van Bladen, DJ van der Horst, HO Waldeck, A Wood
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Port Elizabeth +27 (0) 41 581 1911
Pretoria +27 (0) 12 361 5821
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4. Economic assumptions and other modifying factors to convert Resources to Reserves,
5. Mine layouts and equipment and the depletion sequence,
6. The ore processing facilities,
7. The extent of the support infrastructure.

The operation is situated in an emerging economy and although SRK has commented on political and economic issues that could impact the operations it is suggested that the commercial assumptions relating to metal prices, exchange rates, internal inflation and the fiscal environment should be referred to appropriate expertise or industry consensus views.

Similarly SRK have not undertaken any due diligence on tenure or contractual arrangements and again these should be referred to appropriate legal opinion.

1.1 Consultants qualifications and confidentiality

SRK is part of an international group (the SRK Group) comprising more than 500 professional staff, offering expertise in a wide range of resource engineering disciplines. The SRK Group's independence is ensured by the fact that it holds no equity in any project, which permits SRK to provide clients with conflict-free and objective recommendations.

The Erdenet operation was visited by two SRK consultants from 20 to 22 March 2005 and the individuals who have written this technical report are Anthony Martin, B.Sc. D.Phil. Pr.Sci.Nat. Reg. 400042/04, MAusIMM, and Kenric C. Owen Pr Eng. B.Sc(Eng). M.Sc.,D.I.C, FSAIMM.

Dr. Martin is a corporate geologist with SRK Consulting Zimbabwe with 33 years of experience, 27 of which have been spent in the mining industry. He has audited the Resources and Reserves of a number of deposits in Zimbabwe and elsewhere over the past 20 years.

Mr Owen is a corporate mining engineer with SRK with 30 years experience in the mining industry in South Africa and Brazil. For 20 years he has worked on producing mines in South Africa, including a period as General Manager of a large diamond mine and for the past 10 years has had wide international experience as a mining consultant in South Africa, South America and Australia.

1.2 Disclaimer

All of the opinions in this report are based on information provided by Erdenet and discussions held with senior staff which required the services of an interpreter throughout. While plans and tables formed part of the database seen by SRK, even these required some explanation through the interpreter. Therefore SRK cannot verify for the accuracy of some of the information particularly that provided verbally, and cannot accept responsibility for opinions based on incorrect data.

Similarly the information and opinions reflect various technical and economic conditions at the time of writing. Given the nature of the mining business, these conditions can change over time.

2 Description of the Erdenet Operation

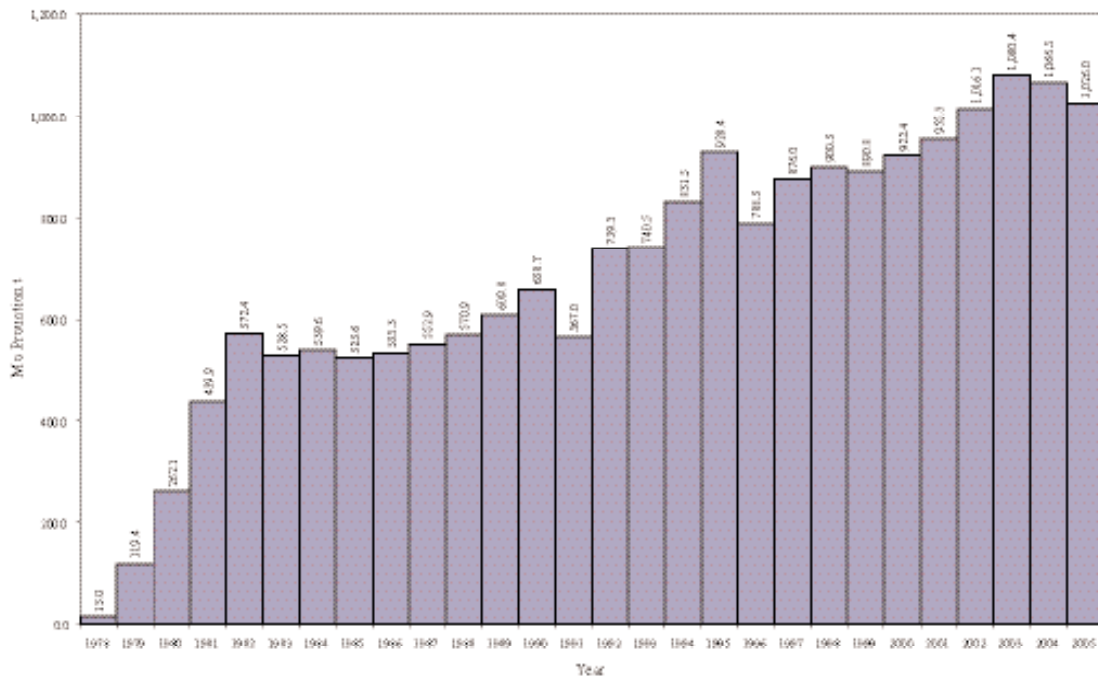
2.1 History

The mineralisation of the Erdenet ore body was discovered in 1948 in an old pit with showings of malachite and azurite. The property was examined by Czech geologists in 1961 and a resource was estimated by 1964. More detailed work exploration by a team from Russian in 1970/2 led to the design and construction of a treatment plant to produce concentrates and supporting service infrastructure including the town of Erdenet. Waste stripping began in 1977 and the first concentrates were produced in 1998.

Planned production rates were achieved in 1982 and remained fairly constant through to 1991 when there was a slight drop and a similar reduction in 1996. Through the period to 2004, the production

increased steadily and has been maintained at over 1,000 t of contained metal in concentrate for the past four years (Figure 2.1).

Figure 2.1 Molybdenum Metal Production 1978 to 2004



2.2 Political Issues

Mongolia is run on a democratic parliamentary system with the Prime Minister holding executive power and the President as a titular head. Since 1990 the Government has followed free market policies and actively encouraged private investment.

In Mongolia, as in many other countries, mineral ownership is vested in the state. Exploration and mining leases are granted to companies in accordance with procedures laid down by parliamentary legislation.

All decrees relating to exploration and exploitation of natural resources and agreements with the private sector are approved by parliament. There are numerous companies currently operating in the country and it is understood that these agreements are considered to be inviolable and none have been rescinded by the Government of Mongolia.

Shim-Tech received parliamentary approval in September 2003 and while SRK have not conducted a legal due diligence on this, they have no reason to believe that it is not in good standing.

Erdenet is 51 per cent. owned by Mongolian Government with 49 per cent. held by the Russian Government. The management of the Mine rests with Mongolia and the Chief Executive is a parliamentary appointee.

2.3 Locality and Infrastructure

The Erdenet copper/molybdenum operation is situated 410 km northwest of Ulaanbaatar in north central Mongolia. The town of Erdenet, with a population of around 80,000 people is essentially a mining town and all accommodation was built by the mine which provides essential services to the community. However all homes are privately owned. Due to the potential for economic opportunities around the town of Erdenet a large informal settlement exists on the outskirts of the town.

Access to the town of Erdenet is by a paved road in a reasonable state of repair and the journey by road from the centre of Ulaanbaatar takes four to five hours. Main roads and rail links connect Mongolia to

surrounding countries (China to the south and Russia to the north). There is an international airport in Ulaanbaatar with services to Moscow, Beijing and Seoul and also destinations within the country.

The mine is provided with power from the national utility which is produced from the abundant coal in Mongolia and there are connections to the Russian grid from where around 20% of the country's power is imported. Power outages are rare and have not disrupted production at Erdenet at all during the past year.

The rail system is efficiently run and Erdenet and Metal-Tech have not experienced problems with movement of concentrates to their markets or the delivery of supplies and equipment.

Small rivers flow in the vicinity of the Mine, fed by the spring rains and snow-melt from the surrounding hills. Water is obtained from these rivers and inflows into the pit. There is no shortage of water.

There appear to be no infrastructure problems associated with the Erdenet operation.

2.4 Topography and Climate

The town of Erdenet lies in gently rolling country at an altitude of around 1,500 m. Like Ulaanbaatar the area experiences cold winters where temperatures drop to minus 30° with mild summer temperatures reaching a maximum of 30°. The average annual precipitation is 250 mm, mostly falling in April/May with a little snow in winter.

3 Geology

The Erdenet copper molybdenum deposit is hosted by a Permian granite porphyry which is part of a suite of generally porphyritic diorite to leucogranite stocks and dykes intruded into a sequence of Permian rocks of andesitic affinity¹. These late Palaeozoic intrusives exhibit compositional trends similar to the surrounding volcanic rocks and are assumed to be genetically related.

The hydrothermal alteration of the granite is similar to that seen in porphyry deposits elsewhere and consists of a sericitic quartz core surrounded by an intermediate argillic zone and peripheral chlorite/epidote alteration. Ore grade mineralisation is restricted to the two inner zones with higher copper grades occurring within the siliceous core, although molybdenum shows less variation. The primary mineralisation includes chalcopyrite, bornite, covellite and minor chalcocite and molybdenite, which is overlain by a 30 to 300-m thick supergene zone containing dominant secondary chalcocite with various carbonates and oxides near surface.

The Erdenet mineralised zone is approximately 2.2 km along its east-west axis and 1.5 km north to south. The eastern end of the deposit is terminated by a north-trending fault with an associated dyke swarm of andesitic composition. Other faults with small displacements disrupt the ore zone and have dislocated the sericitic core into a number of smaller blocks although several discrete sericitic zones probably existed prior to this movement. The more extensive argillic zone is similarly affected.

Pre-rifting Vendian and Early Cambrian sequences form the basement to the Permian, with Triassic volcanic rocks overlying them.

¹ Geral B.M. 2005, Erdenetiin Ovoo Copper-Molybdenum Porphyry Deposit in Central Mongolia. in Porter T.M., Ed. Super Porphyry Copper & Gold Deposits. PGC Publishing, Adelaide.

Plate 3.1 Sericitic Core with Quartz and Molybdenite Erdenet Pit

There appears to be no discernable primary variation of grade or mineralogical characteristics with depth below the supergene zone down to bottom of the current Resource blocks. The supergene zone extends down to around 300 m from surface and the oxide zone is still being intermittently mined on some of the upper benches. These oxides are sent to a privately operated SXEW plant with a capacity to produce 3000 t/a of copper.

The mineralised zone remains open at depth but more importantly also to the west. Exploration of this area will start shortly and completion is expected in September 2005. The geologists on the mine believe that this will significantly increase the Resource.

4 Mineral Resource and Reserve

The last Resource estimate of the Erdenet mineralised zone was made in 1998 and since that time the annual statements have been produced by subtracting the surveyed volume depletion with the mined grade estimated from blast hole sampling.

The resources have been defined following a number of drilling campaigns over many years initially on a 250-m square grid (C₂ Category) with infill to 250 by 125 m (C₁) and 125-m square (B). Around 90% of the total resource is in the B category and C₁ Categories, and these would probably equate to the Measured and Indicated categories respectively (Appendix 1).

The resource estimation is purely arithmetic, with weighted averages of grades for each borehole and a similar calculation for a number of holes within a block. Block end area measurements are combined with length to give volumes and the bulk density used is 2.55 t/m³. A cut-off of 0.25% Cu is used to define the perimeters of the mineralisation.

In 2004 the mine acquired SurPac software and during the last year has re-estimated the Resource and by applying a pit design, economic parameters and dilution (6% tonnage increase at zero grade) and are now providing a Reserve. The two estimates are reported to be very similar.

The Reserves have been estimated from the 15 × 15 × 15-m Resource blocks by Erdenet using to the following inputs and economic and technical modifying factors.

Annual head-feed	27 Mt
Cu recovery	84%
Mo recovery	40%
Cu concentrate grade	27%
Mo concentrate grade	50%
Final inter-ramp angle	50°
Overall slope	40 to 45°
Interim slopes	37 to 40°
Cu revenue	\$2500 per tonne
Mo revenue	\$17 per pound
Mining cost	\$0.70c per tonne
Hauling cost	\$0.23 per tonne
Process cost	\$2.85 per tonne
Overhead cost	\$0.29 per tonne

The concentrate treatment and refining costs were estimated as the concentrate is the product sold.

The Mineral Reserve of the Erdenet deposit in all categories in the January 2005 statement is quoted at 874 Mt at 0.48% Cu and 0.017% Mo based on a 0.25% Cu cut-off. Using the SurPac software Erdenet have estimated Reserves for a range of cut-off grades in 0.05% increments up to 0.45% Cu. The grade-tonnage curves from these data are given in Figure 4.1 and in Table 4.1 with the Life of Mine estimates based on current production rates.

Figure 4.1 Grade-Tonnage Curves for Erdenet Reserves

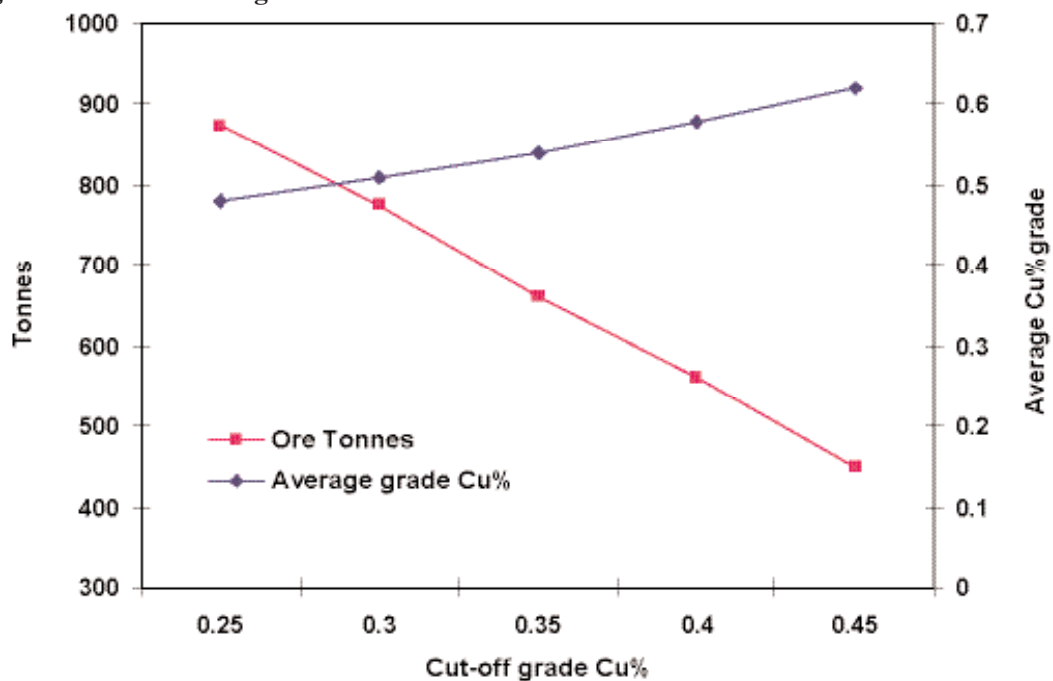


Table 4.1 Grade-Tonnage Data and Life of Mine for Erdenet Reserves

Cut off grade	Cu%	0.25	0.3	0.35	0.4	0.45
Mass	Mt	874	775	663	561	451
Reserve Grade	Cu%	0.48	0.51	0.54	0.58	0.62
Reserve Grade	Mo%	0.017	0.017	0.018	0.019	0.020
Life of Mine	Years	18	22	27	30	35

The historic reconciliation between the Reserve, mined and mill feed grades were not examined in detail but for 2004 gave the acceptable results tabulated below.

Reserve Grade	Mined Grade	Mill-Feed Grade
Cu%	Cu%	Cu%
0.627	0.629	0.609

5 Mining

All ore supplied to the Erdenet concentrator comes from the open pit which is now some 2.2 km long and 1.5 km wide at surface with its lowest level some 300 m below. (Plate 2.1). As the ore underlies a hill, stripping ratios are low and currently stand at 0.76 waste:ore.

Mainly the mixed supergene and primary zones of the porphyry are being mined at present but there are small amounts of oxides mined intermittently and sent to an SXEW plant nearby.

5.1 Mine planning

Pit optimization studies which started in 2004 indicate that the pit depth will extend to 700 m 905-m elevation) under favourable long-term assumptions of metal prices (\$1.30/lb), costs and a 0.25% Cu cut-off (see Figure 4.1 and Table 4.1). However the current Life-of-Mine is more conservative and assumes a higher cut-off at 0.35% Cu and a final pit elevation at 1040 m with a 27 year life.

The pit has been developed to expose the secondary enriched sulphides over the full footprint of the orebody. This has required advanced waste removal but has also facilitated initial mining at a higher grade. The profile of the pit at the end of 2004 was close to the secondary / mixed interface and a fall off in copper grade is expected in future.

To keep the produced metal sales constant, mines often have a strategy to commission additional treatment capacity as mining moves to lower grade ore in order to maintain metal output. In the case at Erdenet, the production rate would have to be increased by between 35% and 40 % to account for the lower grade.

The mining depletion sequence advances bench faces on multiple levels east and west. The long face availability provides opportunities for selectivity and facilitates ore blending.

5.2 Geotechnical

The mine does not follow a strategy of maximising slope angles at this stage. There is little evidence of ground water but this does increase after the winter thaw and spring rains. The depletion plan has targeted the shallower, higher grade secondary sulphides over the full footprint of the orebody.

Some of the pit design parameters are given below.

Final inter-ramp angle	50°
Overall slope	40 to 45°
Interim slopes	37 to 40°

Plate 2.1 North Wall of the Erdenet Pit



5.3 Mining Operations

The mine operations run on a 24/7 roster with three eight hour shifts.

Blast holes of 200 mm diameter are drilled on a nominal 6 to 9-m grid to a depth of 16 m. Fragmentation of the argillic ore is good, notwithstanding some larger rocks from the upper part of the bench (stemming section), but less so in the quartz-rich zones.

All holes are sampled for grade control and mine reconciliations and efforts are made to achieve a constant head-feed grade by blending from various benches.

Both ore and waste are loaded by excavator into trucks for transport to the crushers and waste dumps respectively and a low grade stockpile has been kept separate from the barren waste. Haul distances are minimal with cycle times of less than 20 minutes from any part of the well-designed pit and there is no re-handling or stockpiling of ore.

Formal testing of competing suppliers' equipment, namely Komatsu and Caterpillar, resulted in the decision to remain with rope shovels and Belaz trucks manufactured in Russia. For the current production rate, twenty-two 100-t trucks are matched with nine rope shovels and an electro hydraulic excavator. There is excess loading capacity in the fleet but this improves flexibility and reduces shovel movements.

5.4 Process Plant

The plant is down-slope from the primary crushers near the southern pit rim.

Plate 5.1 Concentrator and Technical Offices



As blasting gives good fragmentation, most of the head feed does not require primary crushing and currently the two primary crushers with double sided tipping crushing to 300 mm have capacity to more than double the head-feed rate.

Secondary and third stage crushing prepares feed for two stage conventional milling through 8 sets of small mills. Grinding media consumption appears high due to the siliceous nature of the feed and the steel fines are collected magnetically to prevent problems in the flotation circuit.

Recent refitting of about half the flotation capacity has been done with large WEMCO and Outokumpu cells (120 m³ and 100 m³). Copper recovery to concentrate is 84% with a grade of 27% Cu.

The molybdenum circuit only recovers about 20% % of the Mo and the concentrate usually contains some Cu contamination. Testwork suggests that 20% of the Mo is irrecoverable, indicating potential to improve recoveries through design or reagent improvements. Reagents are thought to be of low quality.

Because the highly siliceous head-feed requires excessive grinding energy, the soft Molybdenite is subject to overgrinding with much of the mill product of this mineral at less than 20 µm. SRK suggests that a trial be conducted where the milling cut size is increased, the coarse material floated first and these tailings subjected to re-grinding before secondary flotation in order to reduce losses in the fines.

Molybdenum concentrate grade is 46% with some opportunity for improvement.

5.5 Operating and Capital Costs

SRK has assumed that there are no preferential sales agreements for Erdenet's products at less than market rates. SRK has also assumed that there are no royalties, revenue based taxes, withholding taxes or duties that will impact on the costs of the operation and that fiscal stability will endure.

One would assume that as the operation has run successfully for the past few years it would be free of debt and all capital would have been depreciated. Further as a government operation, it would not be encumbered with significant royalties, but Erdenet may carry costs associated with running the town, including local hospitals and schools.

SRK has estimated the production and costs for the Life-of-Mine going forward using data provided by Erdenet and benchmark cost from SRK's experience. This indicates that the production costs at Erdenet are \$0.73/lb and \$0.67/lb net of Mo credits based on the 0.35% Cu cut-off Reserve.

The tables below give a breakdown of the calculations for these cost estimates.

Table 5.1 Erdenet Production and Revenue Estimates

Headfeed		t/a	25,000,000
Cu Head feed grade		%	0.54%
Contained Cu		t/a	135,000
Mo grade		%	0.018%
Contained Mo		t/a	4,500
Cu Recovered	85%	t/a	114,750
Mo Recovered	20%	t/a	900
Cu revenue at \$1.10/lb		\$/a	\$278,263,013
Mo revenue at \$17.6/kg		\$/a	\$15,840,000
Total revenue		\$	\$294,103,013
Contained value per ton	\$11.76	\$/t	
Less Treatment & Refining	\$1.90	\$/t	\$47,453,630
Sales revenue		\$	\$246,649,383
Headfeed value per tonne Treated		\$/t	9.87
Cu concentrate grade	27%		
Cu in concentrate		t/a	425,000
Mo concentrate grade	46%		
Mo in concentrate		t/a	1,957

Improved molybdenum recovery will have a significant impact on the quantum of concentrate delivered by Shim-Tech.

Table 5.2 Erdenet Cost Summary Estimates

		Production	Unit Costs	
Annual Head-feed	t	25,000,000		
Stripping ratio Waste : Ore	0.76			
Cost per tonne Treated				
Mining – Ore & Waste	\$/t		1.80	<i>a</i>
Concentrator – Crush, grind, float & tails	\$/t		3.03	<i>a</i>
Smelting			1.19	
Concentrate production	t	425,000		
Cost \$70 per tonne	\$	\$29,750,000		<i>b</i>
Refining	\$/t		0.71	
Cu Production	t	114,750		
Cost 0.70 /lb	\$/lb	\$17,703,630		<i>c</i>
Admin and Sales at 25.7% of direct costs			2.57	<i>d</i>
Total operating costs	\$/t		9.30	<i>e</i>
Cost per tonne treated excl. TCRC's	\$/t		7.40	
Revenue per tonne	\$/t		9.87	
Contribution	\$/t		2.47	
Ratio of contribution over revenue			25%	
Annual contribution	\$	\$61,671,633		
Total Cost	\$	\$184,977,750		
Total Cu Production	lb	252,909,000		
Costs per lb of Cu Production	\$/lb		0.73	
Mo Credits	\$	\$15,840,000		
Costs per lb of Cu Production after Mo Credit	\$/lb		0.67	

*Notes**a Provided by mine planning section from Budget**b Assumes sales to a Chinese smelter**c Erdenet estimates TCRC's at 35% of revenue**d Estimated by Erdenet**e Excluding replacement capital***5.6 Labour complements**

The staff employed on the operations numbers over 6,000 and it is apparent that there is a high priority socio economic need to provide and sustain employment in the region.

6 Environmental Issues

Erdenet has an environmental department which assists with pollution control, but there appear to be few environmental problems. There is well-defined legislation pertaining to environmental issues and it is understood that the relevant Government agency routinely conducts compliance checks at the mine and on all exploration being undertaken elsewhere in the country.

At Erdenet the only significant environmental issue is said to be dust control and this applies mainly to the tailings dam. The Erdenet dam is located well away from human habitation but during the visit by

SRK the spring winds were creating significant air pollution. Mitigation of this would be almost impossible.

There is reported to be no acid mine drainage from the operations and as the mine has no smelter, there are no SO₂ emissions from the Erdenet operation.

An acid generation plant is being installed at the Shim-Tech plant that will consume emissions from their roasting kilns.

7 Risks

SRK has not identified any fatal flaws in the operation (defined as a stoppage of greater than three month's duration) but has identified areas that could impact future operations. These include:

- The Mongolian government has a free market economy policy. There is a risk of conflict of objectives between social and community responsibility and maximisation of shareholder return. State-run mining enterprises have in rare circumstances successfully addressed both, for example at the state run Codelco mines in Chile. In contrast government policy applied to British Coal resulted in the closure of the mines and loss of many jobs.
- Being part of a free market economy also means that London Metal Exchange prices are used to determine concentrate value and revenue. Any changes in prices (or internal cost inflation) could impact the life of the operation if the profit imperative leads to a higher cut-off and a commensurately lower Resource base. However the current mine planning scenarios still under discussion suggest that the optimum cut-off is 0.35% Cu (against the current 0.25% with a 35-year LoM) which gives a LoM of 27 years. In Erdenet's worst-case scenario with a cut-off of 0.45% Cu the LoM is 18 years. SRK consider the risk of an 18-year life to be low, particularly as the orebody is open on one side and there is an Erdenet expectation of a significant increase in the Resource base upon completion of further exploration.
- As the mine moves into the primary ore at depth the grades will drop by at least 15% and there is a possibility that metallurgical recoveries will be affected and costs of both mining and milling the harder primary zone will increase.

8 Conclusions

The Mongolian Government has adopted free policies and is actively encouraging investment in the country.

Erdenet is close to major Chinese markets.

The Resource base is robust and could be increased with further exploration of near-surface prospects.

Erdenet are planning for a long term future for the mine as indicated by the recent pit optimization designs which provide flexibility to adapt to changes in metal prices or production costs.

In the late 90s the treatment plant was upgraded (larger flotation cells installed) and further improvements are planned.

SRK has not identified any fatal flaws in the operation and conclude that there is low probability of technical issues causing production stoppages at the Erdenet operation in Mongolia.

SRK consider that the continued supply of molybdenum concentrates is assured for the long term (beyond 20 years). Improved recovery performance will have a significant impact on concentrate supply.

TONY MARTIN PhD, PrSciNat, MAusIMM
Corporate Geological Consultant
SRK Consulting

KEN OWEN PrEng FSAIMM
Corporate Mining Consultant
SRK Consulting

APPENDIX 1 Russian Resource Categories

	RUSSIAN DEFINITIONS OF RESOURCE CATEGORIES
A-reserves	<p>The highest Russian category; corresponds to Proved Reserves or Measured Resources (see comments to “запасы” article). According to official Russian definition, the A-reserves must satisfy the following conditions:</p> <ul style="list-style-type: none"> – sizes, shapes and setting of ore bodies are defined; character and regularities of the morphology variation and structure of the bodies are studied; waste and low grade parts are identified and contoured within the ore bodies; position and amplitude of dislocations (if there are) are found; – natural varieties of the mineral are defined, commercial (metallurgical) types and sorts of the mineral are distinguished and outlined; composition, properties and mineral distributions of useful and hazardous components are defined; quality of the commercial (metallurgical) types and sorts distinguished are characterised in all aspects in accordance with the Conditions; – metallurgical properties of the ore are studied so that the data obtained are enough for projecting of metallurgical scheme of the ore processing with complex recovery of all commercial components; – hydrogeological, engineering-geological, geo-cryological, mining-geological and other natural conditions are studied so thoroughly, that it is enough to get necessary initial data for the deposit development projecting; – the contour of the ore bodies is defined by boreholes or underground workings in accordance with the Conditions. <p>Approximate correspondence: IAEA, Australia, USA – Reasonably Assured; Canada – Measured; France – Reserves I; Germany – Proven</p>
B-reserves	<p>corresponds to Proved Reserves or Measured Resources (see comments to “запасы” article). According to official Russian definition, the B-reserves must satisfy the following conditions:</p> <ul style="list-style-type: none"> – sizes, main peculiarities and variability of shapes, structure and setting of the ore bodies, spatial distribution of internal waste and low grade portions are defined; positions and amplitudes of large fractures (if there are any) are established, possible extent of small-amplitude disjunctive dislocations are characterised; – natural varieties of the minerals are defined, commercial (metallurgical) types of the minerals are distinguished and, if possible, outlined; if it is impossible to outline the types, spatial distribution regularities and quantitative ratio of commercial (metallurgical) types and sorts of the minerals, mineral forms of commodities and hazardous components are defined; quality of the commercial (metallurgical) types and sorts distinguished are characterised in all aspects in accordance with the Conditions; – metallurgical properties of the ore are studied so that data obtained are enough to choose an in principle metallurgical scheme of processing for the ores with rational and complex recovery of all commercial commodities; – hydrogeological, engineering-geological, geo-cryological, mining-geological and other natural conditions are studied so completely, that it is enough to qualitatively and quantitatively characterise their main parameters and to evaluate influence of these parameters on stripping and operation of the deposit; – contours of the ore bodies are defined by boreholes or underground workings in accordance with the Conditions including (if the ore bodies and ore quality are stable)

	<p>a limited extrapolation zone which is well established by geological criteria, geophysical data and geochemical investigations.</p> <p>Approximate correspondence: IAEA, Australia, USA – Reasonably Assured; Canada – Measured; France – Reserves I; Germany – Proven</p>
C₁-reserves	<p>largely corresponds to Proved Reserves or Measured Resources (see comments to “заначи” article). According to official Russian definition, the C₁-reserves must satisfy the following conditions:</p> <ul style="list-style-type: none"> – sizes and characteristic shapes, main peculiarities of setting and structure of the ore bodies are clarified; as for stratum-type deposits and for building and facing materials deposit, presence of intense small-amplitude tectonic dislocation areas are checked; – natural varieties and commercial (metallurgical) types of the ore are defined; general spatial distribution regularities and quantitative ratio of commercial (metallurgical) types and sorts of the ore, mineral forms of useful and hazardous components are defined; quality of the commercial (metallurgical) types and sorts distinguished are characterised in all aspects in accordance with the Conditions; – metallurgical properties of the ore are studied so, that data obtained are enough to substantiate commercial validity of the reserves; – hydrogeological, engineering-geological, geo-cryological, mining-geological and other natural conditions are studied so completely, that it is enough to provisionally characterise their main parameters; – contours of the ore bodies are defined by boreholes or underground workings in accordance with the Conditions taking into account geophysical investigation data and substantiated geological interpolations. <p>Approximate correspondence: IAEA, Australia, USA – Reasonably Assured; Canada – Indicated; France – Reserves II; Germany – Probable</p>

PART III: RISK FACTORS

An investment in the Ordinary Shares involves a high degree of risk. Accordingly, prospective investors should carefully consider the specific risk factors set out below in addition to the other information contained in this document before investing in the Ordinary Shares. In addition to the other information contained in this document, the Board considers the following risks to be the most significant for potential investors in the Company. These should be considered carefully in evaluating whether to make an investment in the Company, but the risks listed do not necessarily comprise all those associated with an investment in the Company and are not set out in any particular order of priority.

If any of the following risks actually occurs, the Group's business, financial condition, capital resources, results and/or future operations could be materially adversely affected. In such a case, the price of the Ordinary Shares could decline and investors may lose all or part of their investment. Additional risks and uncertainties not currently known to the Board may also have an adverse effect on the Group's business and the information set out below does not purport to be an exhaustive summary of the risks affecting the Group.

An investment in the Ordinary Shares described in this document is speculative. Potential investors are, accordingly, advised to consult a person authorised for the purposes of the FSMA who specialises in advising on investments of this kind before making any investment decisions. A prospective investor should consider carefully whether an investment in the Company is suitable in the light of his or her personal circumstances and the financial resources available to him or her.

Considerations relating to the Group's business and financial condition

The Group has incurred losses in the past and may incur losses in the future.

The results of the Group's operations may fluctuate, as they have in the past, and it may not be able to achieve revenue growth and profitability in the future as a result of the fact that its results are influenced by a number of factors, many of which are beyond the Group's control. If it does not realise sufficient revenue levels to sustain profitability, it may require additional financing, which may or may not be available.

If the Group is unable to retain its current personnel and to hire and retain additional appropriately qualified personnel, its ability to develop and market successfully its products could be harmed. This is particularly true of certain key executives.

The future success of the Group also depends to a significant extent on its ability to hire and retain key development, sales, operational and financial personnel. Although the Company has entered into contracts with certain of its current key personnel, there can be no assurance that the Company will be able to continue to retain, attract and train appropriately qualified personnel for the development of the Group's products and business.

Metal-Tech has a small team of senior management with significant relationships with key customers and joint venture partners. Ariel Rosenberg and Ran Maimon play a particularly significant role in strategic planning, new business initiatives and customer relations. Accordingly, the loss of either or both of these two individuals may adversely impact upon the Group's ability to market and develop its business.

The Group's future operating results will be highly dependent upon how well it manages growth.

The Group has experienced, and may continue to experience, periods of rapid growth and expansion of the number of its employees and the size of its operations. This growth and expansion has placed, and could continue to place, a significant strain on the Group's limited financial, management and other resources, which may impact upon the Group's future operating results.

The Group's international operations expose the Group to further risks that it would not otherwise face.

Due to the fact that the Group sells a substantial portion of its services outside Israel, it is subject to additional risks related to operating in foreign countries. These risks include: difficulties in managing and

administering a globally-dispersed business and financial interests; applicable foreign regulations; difficulty in enforcing or adequately protecting intellectual property; and economic weakness or political instability in particular foreign economies and markets.

In particular, the Group operates joint ventures in Mongolia and Uzbekistan which are governed by a long-term contract and government decree, respectively.

There is no assurance that unforeseen events or circumstances might not alter the economic terms of these projects or, in a more extreme case, lead to the loss of the Group's entire investment.

There is a concentrated ownership structure, which may have a negative effect on a publicly-traded company.

Metal-Tech's shares are and will be (immediately prior to Admission) owned by two shareholders. Hillah (which is controlled by Ariel Rosenberg) holds 90 per cent. of the Ordinary Shares and Ran Maimon holds 10 per cent. of the Ordinary Shares. Whilst subject to lock-in restrictions set out under the Placing Agreement (details of which are set out in paragraph 18 of Part I and paragraph 10 of Part VI of this document), there is no assurance that the subsequent sale of shares by Hillah might not have a negative impact on the Company's share price.

In addition, Hillah (which is controlled by Ariel Rosenberg) and Ran Maimon will continue to have substantial control over the Company following Admission. Accordingly, potential investors may have a limited ability to influence the Company's decision-making.

There is a high degree of customer concentration, which may pose risks.

In the year ended 31 December 2004, approximately 37 per cent. of Company sales were to one customer with a second customer accounting for approximately 20 per cent. of sales. Although these customers may not always be end-users of the Group's products, if either or both of them were to cease purchasing the Group's products, this might impact adversely upon the Group's financial results. Further, in the year ended 31 December 2004, approximately 80 per cent. of the Group's sales were to 10 customers.

The Company may be unable to adequately protect its intellectual property.

The complexity of the Group's manufacturing processes and the industry in which it operates often makes it difficult to identify infringement of intellectual property rights by other participants. This, together with the protracted and costly nature of litigation, particularly in North America, may make it difficult to take swift and/or decisive action to prevent infringement of the Company's rights.

No assurance is given that the Group will develop products which are capable of being protected or that any protection gained will be sufficiently broad in its scope to protect the Group's intellectual property rights and exclude competitors from developing similar competing technology. The commercial success of the Group will also depend, in part, on its current and future products not infringing intellectual property owned by third parties. Competitors may have filed applications, or may have been granted or may obtain patents or other intellectual property protection which may relate to products competitive with those of the Group.

Considerations relating to the Group's industry

Trends in metal prices are uncertain and may fluctuate.

Metal-Tech's revenues are affected by world metal prices. If metal prices fall, the product prices will also fall, reducing the Group's revenues and profits, which may adversely impact upon the Group's financial results.

Metal-Tech faces competition and may not be able to compete effectively.

The market in which the Group operates is highly competitive and is characterised by technological change and evolving industry standards. The Group faces increased competition from large multinational and mid-sized companies as well as smaller regional companies in many of the markets in which it operates. Certain

of the Group's competitors may have greater financial and technological resources, larger sales and marketing organisation and greater name recognition than the Company, and may therefore be better able to adapt to changes and trends in the industry. In addition, the Group is unable to assure investors that future competitors will not emerge and develop and introduce new products which will compete with the Group.

The Group is exposed to exchange rate fluctuations as a result of its international operations.

As a consequence of the international nature of the Group's business, the Group is exposed to risks associated with changes in foreign currency exchange rates. A majority of the Group's revenues and substantially all of its cost of sales are in US dollars whilst most of its salary costs are in NIS. Fluctuations in exchange rates may result in gains or losses which may be material and may also cause fluctuations in reported financial information which are not necessarily related to the Group's operating results.

Sources of supply of tungsten.

China is an important worldwide source of supply for tungsten. If China was to cease supplying tungsten, this might adversely impact upon the price of tungsten and/or the ability of the Group to source tungsten. Although the Group might seek to mitigate this by obtaining alternative sources of supply for tungsten and/or increasing its recycling capability, the effect of China ceasing to supply tungsten might still reduce sales by the Group, so affecting the Group's financial performance.

Risks related to the Group's operations in Israel

Potential political, economic and military instability in Israel may harm the Company's results or operations.

The Group's principal offices are located in Israel. Accordingly, political, economic and military conditions in Israel directly affect the Group's operations. Since the establishment of the State of Israel in 1948, a number of armed conflicts have taken place between Israel and her Arab neighbours. A state of hostility, varying in degree and intensity, has led to security and economic problems for Israel. The future of peace efforts between Israel and her Arab neighbours remains uncertain. Any future armed conflicts or political instability in the region could negatively affect business conditions and harm the Group's operations. In addition, several countries still restrict business with Israel and Israeli companies. These restrictive laws and policies may adversely affect the Group.

The City Code on Takeovers and Mergers.

Metal-Tech is incorporated in Israel and its head office and place of central management is in Israel. Accordingly, transactions in shares of the Company are not subject to the provisions of the UK City Code on Takeovers and Mergers.

Under the Israeli Act, a potential bidder for the Company's shares, who would as a result of a purchase of shares hold either 25 per cent. or more of the voting rights in the Company when no other party holds 25 per cent. or more, or 45 per cent. of the voting rights in the Company where no other shareholder holds 45 per cent. of the voting rights, would be required to make a special purchase offer (tender offer) as set out in the provisions of the Israeli Act.

The Israeli Act requires a special purchase offer to be submitted to shareholders. A majority acceptance is required to accept the offer. An offeror who is regarded as a 'controlling shareholder' under Israeli law will be disregarded. A special purchase offer may not be accepted unless shares that carry at least five per cent. of the voting rights in the target company are acquired. Further details of the provisions of the Israel Act on mergers and acquisition are set out in paragraph 19 of Part VI.

The Group's operations may be adversely affected by the obligation of the Company's personnel to perform military service.

Some of the Company's executive officers and employees in Israel are obliged to perform annual military reserve duty. In addition, in the event of a military conflict or war, these persons could be required to serve in the military for extended periods of time. The Group's operations could be disrupted by the absence for a

significant period of one or more of the Company's executive officers or key employees due to military service. Any disruption to the Company's personnel may adversely affect the Group.

Israeli law.

The rights and responsibilities of shareholders will be governed by Israeli law and these differ in some respects from the rights and responsibilities of shareholders under English law or the law of other non-Israeli jurisdictions. Metal-Tech is incorporated under Israeli law. The rights and responsibilities of holders of Ordinary Shares are governed by the Company's articles of association (further details of which are set out in paragraph 4 of Part VI) and by Israeli law. In particular, a shareholder of an Israeli company has a duty to act in good faith towards the company and other shareholders and to refrain from abusing his power in the company, including, among other things, in voting at the general meeting of shareholders on certain matters.

Additionally, as the Company is incorporated in Israel, many of its executive officers and directors are non-residents of the UK, and its assets and the assets of these persons are located outside the UK. Therefore, it may be difficult to enforce in Israel a judgment obtained in the UK against the Company or any of such persons.

Further, the Company's employment agreements with each of Ariel Rosenberg, Ran Maimon and Meir Klausner provide for either party to terminate the relevant agreement upon giving written notice to the other (12 months in the case of Ariel Rosenberg and Ran Maimon; 6 months in the case of Meir Klausner). Notwithstanding this, if any such employee gives notice of termination of his agreement, it may be difficult under Israeli law to require the employee to serve his full period of notice.

Tax benefits available to the Company require it to meet several conditions and may be terminated or reduced in the future, which would increase taxes.

The Company's qualification as an "Approved Enterprise" under Israeli law entitles it to certain tax benefits with respect to certain of its activities in Israel. To maintain its qualification as an "Approved Enterprise", the Company must continue to meet conditions set out under Israeli law and the approvals received from the Israeli Investment Centre under the (Israeli) Law for the Encouragement of Capital Investments, 1959. If the Company fails to comply with these conditions, the benefits it has received could be cancelled or reduced and the Company could be required to pay increased taxes or refund the amounts of the tax benefits it has received, together with interest. The termination or reduction of these tax benefits, or the Company's inability to get approvals for expanded or new programmes, could increase the tax payable by the Company, thereby reducing its profits.

Other considerations relating to an investment in Ordinary Shares

Substantial future sales of Ordinary Shares could impact the market price of Ordinary Shares. There has been no prior public market in the Ordinary Shares before and an active trading market may not develop or be sustained in the future.

The Company is seeking to be admitted to trading on AIM and as such there is a liquidity risk for shareholders. It may be more difficult for an investor to realise his or her investment in a small AIM traded company than a company listed on the Official List of the London Stock Exchange. AIM has been in existence since June 1995, but its future success and liquidity as a market for the Ordinary Shares cannot be guaranteed. The share price of publicly traded companies can be volatile. The price at which the Ordinary Shares will be traded and the price at which investors may realise their investment will be influenced by a large number of factors, some specific to the Group and its operations and some which may affect industrial companies or quoted companies generally. Prospective investors should be aware that the value of the Ordinary Shares could go down as well as up and that investors may therefore not recover their original investment especially as the market in the Ordinary Shares may have limited liquidity.

Forward-looking statements in this document are no guarantee of future performance and only reflect views and assumptions as of the date of this document and are subject to risks, uncertainties, market conditions and other factors, some of which are beyond the control of the Company and difficult to predict.

PART IV: ACCOUNTANTS' REPORT ON METAL-TECH LTD.

The following is the text of a report on Metal-Tech Ltd. by Kost Forer Gabbay & Kasierer (a member of Ernst & Young Global), Reporting Accountants.



The Directors
Metal-Tech Ltd.
Emek-Sara
Ramat Hovav Industrial Area
PO Box 2412
Beer-sheva 84874
Israel

The Directors
Durlacher Limited
Moorgate Hall
155 Moorgate
London
EC2M 6XB
United Kingdom

9 May 2005

Dear Sirs,

Metal-Tech Ltd.

We report on the financial information set out below. This financial information has been prepared for inclusion in the Admission Document dated 9 May 2005, of Metal-Tech Ltd. ("the Company").

Basis of preparation

The financial information set out on pages 68 to 88 is based on the audited consolidated financial statements of the Company for the three years ended 31 December 2004. The financial information has been prepared on the basis set out in note 3 of this part IV to which no adjustments were considered necessary.

The financial information is presented in accordance with International Financial Reporting Standards ("IFRS").

Responsibility

Such financial statements are the responsibility of the Directors of the Company who approved their issue.

The Company's directors are responsible for the information contained in the Admission Document in which this report is included.

It is our responsibility to compile the financial information set out in our report from the financial statements, to form an opinion on the financial information, and to report our opinion to you.

Basis of opinion

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. The evidence included that previously obtained by us relating to the audit of the financial statements underlying the financial information. It also included an

assessment of significant estimates and judgments made by those responsible for the preparation of the financial statements underlying the financial information and whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We did not audit the financial statements of a subsidiary, which statements reflect total assets constituting 27 per cent., 47 per cent. and 49 per cent. as of 31 December 2004 and 2003, respectively, and total revenues of 2 per cent., 0 per cent. and 0 per cent. for the years ended 31 December 2004, 2003 and 2002, respectively, of the related consolidated totals. Those financial statements were audited by Benny Pecht, Certified Public Accountant, at 26 Romema Street, Neot Afeka, Tel-Aviv, Israel, whose report has been furnished to us, and our opinion, insofar as it relates to amounts included for this subsidiary, is based solely on his report.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

Opinion

In our opinion, based on our audits and the report of the other auditors, the financial information gives, for the purposes of the Admission Document dated 9 May 2005, a true and fair view of the state of affairs of the Company as at the dates stated and of its cash flows and results for the periods then ended.

Consent

We consent to the inclusion in this Admission Document dated 9 May 2005, of this report and accept responsibility for the purposes of paragraph 45(2) of Schedule 1 to the Public Offers of Securities Regulations 1995.

Yours faithfully,

KOST FORER GABBAY & KASIERER

A Member of Ernst & Young Global

CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands

			<i>December 31,</i>	
	<i>Note</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents		2,467	328	355
Short-term deposits	4	164	66	–
Short-term restricted cash	5	748	775	605
Trade receivables	6	13,432	2,769	2,901
Due from minority interest in subsidiary	2	283	827	–
Other accounts receivable	8	1,715	1,121	555
Inventories	7	12,747	8,500	6,629
		<u>31,556</u>	<u>14,386</u>	<u>11,045</u>
LONG-TERM RESTRICTED CASH	5	<u>1,495</u>	<u>2,250</u>	<u>2,419</u>
FIXED ASSETS:				
Cost	9	32,974	28,381	28,264
Less – accumulated depreciation		11,643	9,329	7,096
		<u>21,331</u>	<u>19,052</u>	<u>21,168</u>
TOTAL ASSETS		<u>54,382</u>	<u>35,688</u>	<u>34,632</u>

Continued next page...

CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands (except share data)

			<i>December 31,</i>	
	<i>Note</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>
LIABILITIES AND SHAREHOLDERS' EQUITY				
CURRENT LIABILITIES:				
Short-term bank credit	10	4,203	4,624	3,456
Short-term loans and current maturities	11	6,336	7,296	3,107
Trade payables		20,025	7,192	5,425
Related parties	16	1,505	124	206
Other accounts payable	12	4,596	4,261	3,692
		<u>36,665</u>	<u>23,497</u>	<u>15,886</u>
LONG-TERM LIABILITIES:				
Long-term loans	13	6,771	10,710	15,693
Accrued severance pay		188	112	108
		<u>6,959</u>	<u>10,822</u>	<u>15,801</u>
MINORITY INTEREST				
		<u>493</u>	<u>–</u>	<u>227</u>
SHAREHOLDERS' EQUITY:				
	18			
Ordinary shares of NIS 1 par value each:				
Authorized: 100,000,000 shares at				
December 31, 2004, 2003 and 2002;				
Issued and outstanding: 30,300,000 shares				
at December 31, 2004, 2003 and 2002				
		2,031	2,031	2,031
Additional paid-in capital		7,405	7,405	7,405
Accumulated net loss on cash flow hedges		(242)	(267)	–
Retained earnings (accumulated deficit)		1,071	(7,800)	(6,718)
		<u>10,265</u>	<u>1,369</u>	<u>2,718</u>
		<u>54,382</u>	<u>35,688</u>	<u>34,632</u>

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS

U.S. dollars in thousands (except shares and per share amounts)

	Note	Year ended December 31,		
		2004	2003	2002
Revenues	20a	58,972	17,983	11,573
Cost of revenues	19a	44,672	16,720	11,393
Gross profit		14,300	1,263	180
Research and development expenses, net	19b	243	254	285
Selling and marketing expenses	19c	1,111	509	138
General and administrative expenses	19d	1,796	568	389
Total operating expenses		3,150	1,331	812
Operating income (loss)		11,150	(68)	(632)
Financial expenses, net	19e	(1,655)	(2,026)	(485)
Other income (expense), net		18	(42)	1
Income (loss) before taxes on income		9,513	(2,136)	(1,116)
Taxes on income	15	809	–	–
		8,704	(2,136)	(1,116)
Minority interest		167	1,054	185
Net income (loss)		8,871	(1,082)	(931)
Basic and diluted earnings (loss) per share		0.29	(0.04)	(0.03)
Weighted average number of shares used in computing basic and diluted net earnings (loss) per share		30,300,000	30,300,000	30,300,000

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

U.S. dollars in thousands

	Share capital	Additional paid-in capital	Accumulated net gain (loss) on cash flow hedges	Retained earnings (accumulated deficit)	Total
Balance as of January 1, 2002	2,031	7,405	–	(5,787)	3,649
Net loss	–	–	–	(931)	(931)
Balance at December 31, 2002	2,031	7,405	–	(6,718)	2,718
Net loss on cash flow hedges	–	–	(267)	–	(267)
Net loss	–	–	–	(1,082)	(1,082)
Balance at December 31, 2003	2,031	7,405	(267)	(7,800)	1,369
Net gain on cash flow hedges	–	–	25	–	25
Net income	–	–	–	8,871	8,871
Balance at December 31, 2004	2,031	7,405	(242)	1,071	10,265

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	<i>Year ended December 31,</i>		
	<i>2004</i>	<i>2003</i>	<i>2002</i>
<i>Cash flows from operating activities:</i>			
Net income (loss)	8,871	(1,082)	(931)
Adjustments required to reconcile net income (loss) to net cash provided by (used in) operating activities (a)	1,528	515	1,552
Net cash provided by (used in) operating activities	<u>10,399</u>	<u>(567)</u>	<u>621</u>
<i>Cash flows from investing activities:</i>			
Investment in associate	–	–	(18)
Purchase of fixed assets	(4,703)	(311)	(7,707)
Investment grants	–	175	346
Proceeds from sale of fixed assets	92	14	21
Short-term deposits, net	(98)	(66)	2,685
Restricted cash	782	(1)	1,741
Net cash used in investing activities	<u>(3,927)</u>	<u>(189)</u>	<u>(2,932)</u>
<i>Cash flows from financing activities:</i>			
Minority investment in a subsidiary	1,204	–	–
Proceeds from short and long-term loans	1,263	1,747	2,362
Repayment of short and long-term loans	(6,379)	(2,186)	(578)
Short-term bank credit, net	(421)	1,168	171
Net cash provided by (used in) financing activities	<u>(4,333)</u>	<u>729</u>	<u>1,955</u>
Increase (decrease) in cash and cash equivalents	2,139	(27)	(356)
Cash and cash equivalents at the beginning of the year	328	355	711
Cash and cash equivalents at the end of the year	<u>2,467</u>	<u>328</u>	<u>355</u>

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	<i>Year ended December 31,</i>		
	2004	2003	2002
(a) <i>Adjustments required to reconcile net income (loss) to net cash provided by (used in) operating activities:</i>			
Income and expenses not involving cash flows:			
Minority interest	(167)	(1,054)	(185)
Depreciation	2,390	2,241	936
Accrued severance pay	76	4	14
Foreign exchange differences on short and long-term liabilities, net	217	(355)	(234)
Capital gains on sales of fixed assets	(18)	(3)	(1)
Other	(40)	33	–
	<u>2,458</u>	<u>866</u>	<u>530</u>
Changes in operating assets and liabilities:			
Decrease (increase) in related parties payables, net	1,381	(82)	15
Decrease (increase) in trade receivables, net	(10,663)	132	(581)
Increase in other accounts receivable	(594)	(599)	(81)
Increase in inventory	(4,247)	(1,871)	(1,450)
Increase (decrease) in trade payables	12,833	1,767	(54)
Increase in other accounts payable	360	302	3,173
	<u>(930)</u>	<u>(351)</u>	<u>1,022</u>
	<u>1,528</u>	<u>515</u>	<u>1,552</u>
(b) <i>Supplemental disclosure of cash flows activities:</i>			
Interest received	35	3	135
Interest paid	258	367	401
Income taxes paid	–	–	–

The accompanying notes are an integral part of the consolidated financial statements.

U.S. dollars in thousands

NOTE 1: – GENERAL

a. Company description:

Metal-Tech Ltd., an Israeli corporation (“the Company”) and its subsidiaries (“the Group”) manufacture, process and market high purity and quality Tungsten and Molybdenum oxide and powders. In addition, the Group is engaged in research and development in the fields of metallurgy, recycling and fuel conservation.

b. The Group is currently dependent on two main suppliers for Molybdenum raw material. Both are minority shareholders in the Company’s subsidiaries in Uzbekistan and in Mongolia. If either supplier should be unable or unwilling to continue to sell the Group raw materials in required volumes or on a timely basis, any resulting supply delays could result in the loss of sales, which could adversely affect operating results. See also Notes 2a and 2b.

c. As for major customers, see Note 20b.

NOTE 2: – INVESTMENTS IN SUBSIDIARIES

	<i>Country of incorporation</i>	<i>Equity interest</i>	
		<i>2004</i>	<i>2003</i>
		<i>%</i>	<i>%</i>
Uzmetal Technology Ltd. (a)	Uzbekistan	50	50
Shim Technology Ltd. (b)	Mongolia	70	70
Metek Metal-Tech SA (c)	Switzerland	100	–
Jar Ltd. – Inactive	Russia (Birubijan autonomous region)	100	100
Soltek Ltd. – Inactive	Israel	100	100

a. Uzmetal Technology Ltd. (“UTL”):

In March 2000, the Company together with AGMK and UzKTJM (two Uzbek companies) established Uzmetal. The equity interest in Uzmetal is as follows: the Company-50%, UzKTJM-30% and AGMK-20%. In May 2000, the Company entered into an agreement with Uzmetal under which the Company undertook to obtain financing and manage the procurement, planning, construction and supply of peripheral equipment in a project for the erection of a molybdenum production plant in Uzbekistan, for a total amount of \$17,490. The project was financed as follows: (i) 15%-Company credit; (ii) 85%-National Uzbeki bank credit through a transfer from Bank Leumi in Israeli secured 80% by the Israeli Foreign Trade Risks Insurance Corporation Ltd (“IFTRIC”) for 5 years.

The plant was completed in 2002. Since then, UTL is engaged in processing all raw materials at the AGMK site and UTL is obligated to sell all of its production of Molybdenum to the Company unless the Company approves otherwise.

UTL was granted tax exemption for all corporate activities for five years ending in March 2005 and thereafter will be subject to the applicable tax laws in Uzbekistan.

The minority shareholders had committed to invest in UTL the amount of \$2,500. As of December 31, 2004 and 2003, the receivables due from minority shareholders amounted to \$1,200 and \$2,000, respectively, against which the minority interest in the subsidiary in the amount of \$917 and \$1,173, respectively, has been offset.

The Company has determined that UTL is a Special Purpose Entity (“SPE”) in accordance with SIC 12 “Consolidation – Special Purpose Entities”, as in substance, the activities of UTL are being conducted on behalf of the Company according to its specific business needs so that the Company obtains benefits from the operations of UTL. In addition, by setting up an “autopilot” mechanism, the Company has the decision-making powers to obtain the majority of the benefits of the activities of the SPE. Accordingly, UTL is consolidated in the Company’s financial statements since its incorporation.

U.S. dollars in thousands

NOTE 2: – INVESTMENTS IN SUBSIDIARIES (Cont.)

b. Shim Technology Co., Ltd. (“Shim-Tech”):

In September 2003, the Company together with Erdenet Co. Ltd. (“Erdenet”), a Mongolian mining company, established Shim-Tech. The equity interest in Shim-Tech is as follows: the Company-70% and Erdenet -30%. In May 2004, the Company entered into an agreement with Shim-Tech under which the Company undertook to obtain financing and manage the procurement, planning, construction and supply of peripheral equipment in a project for the erection of a molybdenum production plant in Mongolia, for a total amount of \$23,850. The project will be financed as follows: (i) 30%– equity invested by the shareholders; (ii) 34%-Company credit; (iii) 36%-National Mongolian bank credit through a transfer from an Israeli bank secured by the Israeli Foreign Trade Risks Insurance Corporation Ltd (“IFTRIC”) for 7 years. In addition, Erdenet is to sign a guarantee in favor of the Israeli bank in respect of any amounts that have not been guaranteed by IFTRIC. As of December 31, 2004, the financing agreements have not been signed. Subsequent to the balance sheet date a financing agreement with Mizrahi bank was signed at a total amount of \$4,250.

The plant has not been completed as of December 31, 2004. Until the plant will be ready, Shim-Tech is engaged in trading, commercial and intermediary activities in Molybdenum concentrate with the Group and with Erdenet. Erdenet has undertaken to supply, for twenty two years starting in 2004, its molybdenum concentrates solely to Shim-Tech and Shim-Tech is obligated to sell all of its production of Molybdenum to the Company.

The minority shareholders had committed to invest in Shim-Tech the amount of \$1,603. As of December 31, 2004, the receivables due from minority shareholders amounted to \$1,199, against which the minority interest in the subsidiary in the amount of \$1,199 has been offset.

c. Metek Metal-Tech SA:

Metek Metal-Tech SA, a Swiss corporation, was established and commenced operations in November 2004. Metek Metal-Tech SA is engaged in managing the Group’s sales and marketing activities of manufacturing products outside of Israel.

NOTE 3: – SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) on a historical cost basis except for derivative financial instruments which are measured at fair value.

These consolidated financial statements are the Group’s first IFRS financial statements. The Group first adopted IFRS’s in 2004 with a date of transition to IFRS’s as of January 1, 2002. Prior to adoption of IFRS’s, the Group did not present consolidated financial statements.

a. Use of estimates:

The preparation of financial statements in accordance with IFRS requires estimates and assumptions by the management that affect the amounts and disclosures reported in the financial statements and the accompanying notes. The actual results could differ from the estimates.

b. Functional and reporting currency:

The majority of the Group’s sales are made outside Israel in non Israeli currencies, mainly the U.S. dollar. A substantial portion of the Group’s expenses, mainly costs of revenues is incurred in U.S. dollars or linked thereto. The financing of the Group is mainly in U.S. dollars. Therefore, the Company has determined that the U.S. dollar is the currency of the primary economic environment of the Group, and thus its functional and reporting currency.

U.S. dollars in thousands

NOTE 3: – SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Accordingly, monetary accounts, maintained in currencies other than the U.S dollars are translated into U.S dollars at rates in effect at the balance sheet date. Transactions in non dollars currencies are translated at exchange rates at the date of transactions. All translation gains and losses are reflected in the consolidated statements of operations as financial income or expenses, as appropriate.

c. Principles of consolidation:

The consolidated financial statements include the accounts of the Company and its subsidiaries. Significant intercompany transactions and balances between the Company and its subsidiaries were eliminated in consolidation.

The financial statements of subsidiaries are prepared for the same reporting periods as the parent company, using consistent accounting policies.

Minority interest represents the interests not held by the Group.

d. Cash equivalents:

The Company considers all highly liquid investments originally purchased with maturities of three months or less to be cash equivalents.

e. Short-term deposits:

The Company classifies deposits with original maturities of more than three months and less than one year as short-term deposits. The short-term deposits are presented at cost, including accrued interest.

f. Restricted cash:

Restricted cash is primarily invested in certificates of deposit, which mature within one year to three years and serve as collateral for a long– term loan.

g. Trade receivables:

Trade receivables are recognized and carried at original invoice amount less an allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written-off when identified by management.

h. Inventories:

Inventories are stated at the lower of cost or market value. Cost is determined as follows:

Raw materials – using the “first-in, first-out” method.

Work-in-progress and finished products – on basis of production costs as follows: Raw materials – using the “first-in, first-out” method, labor and overhead component – on average basis.

i. Property and equipment:

Property and equipment are stated at cost, net of accumulated depreciation and net of investment grants. Investment grants are recorded at the time the Company is entitled to such grants. Depreciation is calculated by the straight-line method over the estimated useful lives of the assets at the following annual rates:

	%
Buildings	2-6.5
Machinery and equipment	10-20
Computers and peripheral equipment	20-33
Office furniture and equipment	6-20
Motor vehicles	15-20

U.S. dollars in thousands

NOTE 3: – SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Borrowing costs in respect of credit used to finance the acquisition of construction of property and equipment capitalized to the cost of such asset until the assets are ready for their intended use.

The carrying values of plant and equipment are reviewed for impairment either annually, or when events or changes in circumstances indicate the carrying value may not be recoverable (whichever is earlier). If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. The recoverable amount of plant and equipment is the greater of net selling price and value in use.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in the income statement in the cost of sales line item.

j. Severance pay:

Pursuant to Israeli severance pay law, employees are entitled to one month's salary for each year of employment or a portion thereof. The Company's liability for severance pay is calculated based on the most recent salary of the employees multiplied by the number of years of employment, as of the balance sheet date. The Company's liability for all of its employees is fully provided by monthly deposits with insurance policies and by an accrual.

The deposited funds include profits accumulated up to the balance sheet date. The deposited funds may be withdrawn only upon the fulfillment of the severance pay obligation, pursuant to Israeli severance pay law or labor agreements. The value of the deposited funds is based on the cash surrender value of the insurance policies.

Severance pay expenses for the years ended December 31, 2004, 2003 and 2002, amounted to \$397, \$347 and \$309, respectively.

The number of full time employees of the Group as of December 31, 2004, 2003 and 2002 was 283, 189 and 174, respectively.

k. Revenue recognition:

The Group generates revenues mainly from selling Tungsten and Molybdenum oxide and powders. The Company does not grant a right of return to its customers.

Revenues from Tungsten and Molybdenum oxide and powders sales are recognized when the significant risks and benefits of ownership are transferred to the buyer, it is probable that the economic benefits associated with the transaction will flow to the Company, and the amount of revenues can be measured reliably.

l. Research and development:

Research and development costs are expensed to operations as incurred.

m. Government grants:

Royalty-bearing grants and non-royalty bearing grants from the Government of Israel for funding approved research and development projects are recognized at the time the Company is entitled to such grants, on the basis of the costs incurred and included as a deduction from research and development expenses.

U.S. dollars in thousands

NOTE 3: – SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Royalty-bearing grants amounted to \$186, \$162 and \$0 for the years ended December 31, 2004, 2003 and 2002, respectively.

Non-royalty bearing grants amounted to \$0, \$0 and \$82 for the years ended December 31, 2004, 2003 and 2002, respectively.

n. Income taxes:

The Company accounts for income taxes under the liability method of accounting. Under the liability method, deferred taxes are determined based on the differences between the financial statement and tax basis of assets and liabilities at enacted tax rates in effect in the year in which the differences are expected to reverse. Deferred tax assets in respect of carryforward losses and other temporary deductible differences are recognized to the extent that it is probable that they will be utilized.

o. Exchange rates and linkage basis:

1. Assets and liabilities in or linked to foreign currencies are included in the financial statements according to the representative exchange rate as published by the Bank of Israel on December 31, 2004.
2. Assets and liabilities linked to the Israeli CPI are included in the financial statements according to the relevant index for each asset or liability.

Data regarding exchange rate of Euro and New Israeli Shekels (NIS) in relation to the U.S dollar:

<i>As of</i>	<i>Exchange rate of Euro</i>	<i>Exchange rate of NIS</i>
December 31, 2004	0.733	NIS 4.308
December 31, 2003	0.791	NIS 4.379
December 31, 2002	0.953	NIS 4.737
<i>Changes during the year</i>		
2004	(7.3)%	(1.6)%
2003	(17.0)%	(7.6)%

p. Fair value of financial instruments:

The carrying amounts of cash and cash equivalents, short-term bank deposits, short-term restricted cash, trade receivables, other accounts receivable, short term bank credit, trade payables and other accounts payable approximate their fair value due to the short-term maturity of such instruments.

The carrying amounts of the Group's principal long-term loans approximate their fair value as the interest rates are variable.

The fair value of derivative instruments is based on current quotes from banks.

q. Concentrations of credit risk:

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents, short term deposits, short term and long term restricted cash and trade receivables.

Cash and cash equivalents are invested in U.S. dollars and in NIS with major banks in Israel. Management believes that the financial institutions that hold the Company's investments are financially sound and, accordingly, minimal credit risk exists with respect to these investments.

U.S. dollars in thousands

NOTE 3: – SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Trade receivables are mainly result from customers located in the Far East, Europe and the U.S. The Company performs ongoing credit evaluations of its customers and to date has not experienced any material losses. As for major customers see Note 20b.

r. Derivative instruments:

Derivative instruments are recognized as either assets or liabilities in the balance sheet at fair value. The accounting for changes in the fair value (i.e., gains or losses) of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and further, on the type of hedging relationship.

For derivative instruments that are designated and qualify as a fair value hedge (i.e., hedging the exposure to changes in the fair value of an asset or a liability or an identified portion thereof that is attributable to a particular risk), the gain or loss on the derivative instrument as well as the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in current earnings during the period of the change in fair values. For derivative instruments that are designated and qualify as a cash flow hedge (i.e., hedging the exposure to variability in expected future cash flows that is attributable to a particular risk associated with a forecasted transaction), the effective portion of the gain or loss on the derivative instrument is recognized directly in shareholders' equity and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. The remaining gain or loss on the derivative instrument in excess of the cumulative change in the present value of future cash flows of the hedged item, if any, is recognized in current earnings during the period of change. For derivative instruments not designated as hedging instruments, the gain or loss is recognized in current earnings during the period of change.

s. Basic and diluted net earnings or loss per share:

Basic earnings or loss per share have been computed using the weighted average number of ordinary shares outstanding during the period. Diluted earnings or loss per share are computed based on the weighted average number of ordinary shares outstanding during each period, plus the effect of potential ordinary shares considered outstanding during the period, except if the effect of such potential ordinary shares is anti-dilutive.

t. Impact of recently issued accounting standards:

In December 2003, the International Accounting Standards Board ("IASB") released revised IAS 32, Financial Instruments: Disclosure and Presentation and IAS 39, Financial Instruments: Recognition and Measurement. These standards replace IAS 32 (revised 2000), and supersedes IAS 39 (revised 2000), and should be applied for annual periods beginning on or after January 1, 2005. The amendments are not expected to have a material impact on the Group's consolidated financial statements.

In December 2003, as a part of the IASB's project to improve International Accounting Standards, the IASB released revisions to the following standards that supersede the previously released versions of those standards: IAS 1, Presentation of Financial Statements; IAS 2, Inventories; IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors; IAS 10, Events after Balance Sheet Date; IAS 16, Property, Plant and Equipment; IAS 17, Leases; IAS 21, The Effects of Changes in Foreign Exchange Rates; IAS 24, Related Party Disclosures; IAS 27, Consolidated and Separate Financial Statements; IAS 28, Investments in Associates; IAS 31, Interests in Joint Ventures; IAS 33, Earnings per Share and IAS 40, Investment Property. The revised standards will be applied for annual periods beginning on or after January 1, 2005. The amendments are not expected to have a material impact on the Group's consolidated financial statements.

U.S. dollars in thousands**NOTE 3: – SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

On February 19, 2004, the International Accounting Standards Board (IASB) issued International Financial Reporting Standard 2, Share-Based Payment (IFRS 2), on the accounting for share-based payment transactions, including grants of share options to employees. IFRS 2 requires an entity that follows IAS to recognize the effect of share-based payment transactions in the financial statements based on the awards' fair value. The IFRS will be effective for annual periods beginning on or after January 1, 2005 and will apply to grants of shares, share options or other equity instruments that were granted after November 7, 2002 and had not yet vested at the effective date. The adoption of this standard will not have a material effect on the Company's financial position and results of operations.

NOTE 4: – SHORT-TERM DEPOSITS

	<i>Annual interest rate %</i>	<i>2004</i>	<i>December 31, 2003</i>	<i>2002</i>
In Euro	0.75	164	66	–

NOTE 5: – SHORT-TERM AND LONG-TERM RESTRICTED CASH

	<i>Annual interest rate %</i>	<i>2004</i>	<i>December 31, 2003</i>	<i>2002</i>
In U.S. dollars	1.2	2,243	3,000	3,024
Less – current maturities		(748)	(775)	(605)
		<u>1,495</u>	<u>2,250</u>	<u>2,419</u>

The restrictions are released each year in equal parts until 2007, in accordance with the repayment schedule of a long-term loan (see Note 13).

NOTE 6: – TRADE RECEIVABLES

U.S. dollars in thousands	<i>2004</i>	<i>December 31, 2003</i>	<i>2002</i>
Abroad	12,834	2,373	2,472
In Israel	643	420	451
	<u>13,477</u>	<u>2,793</u>	<u>2,923</u>
Less – allowance for doubtful accounts	45	24	22
	<u>13,432</u>	<u>2,769</u>	<u>2,901</u>

NOTE 7: – INVENTORIES

U.S. dollars in thousands	<i>2004</i>	<i>December 31, 2003</i>	<i>2002</i>
Raw materials	3,771	1,777	1,832
Work in progress	1,015	650	766
Finished goods	7,961	6,073	4,031
	<u>12,747</u>	<u>8,500</u>	<u>6,629</u>

As for charges, see Note 16.

U.S. dollars in thousands

NOTE 8: – OTHER ACCOUNTS RECEIVABLE

	<i>December 31,</i>		
	<i>2004</i>	<i>2003</i>	<i>2002</i>
Government authorities	1,636	1,054	390
Prepaid expenses	17	18	15
Advances from suppliers	30	–	95
Others	32	49	55
	<u>1,715</u>	<u>1,121</u>	<u>555</u>

NOTE 9: – FIXED ASSETS

	<i>Land and buildings</i>	<i>Machinery and equipment</i>	<i>Computers and communi- cation equipment</i>	<i>Office furniture and equipment</i>	<i>Motor vehicles</i>	<i>Total</i>
Cost:						
Balance at January 1, 2004	6,625	20,827	422	174	333	28,381
Additions during the year	99	4,290	33	24	295	4,741
Disposals during the year	–	–	–	–	(148)	(148)
Balance at December 31, 2004	<u>6,724</u>	<u>25,117</u>	<u>455</u>	<u>198</u>	<u>480</u>	<u>32,974</u>
Accumulated depreciation:						
Balance at January 1, 2004	1,496	7,424	175	100	134	9,329
Additions during the year	296	1,951	72	14	62	2,395
Disposals during the year	–	–	–	–	(81)	(81)
Balance at December 31, 2004	<u>1,792</u>	<u>9,375</u>	<u>247</u>	<u>114</u>	<u>115</u>	<u>11,643</u>
Depreciated cost at December 31, 2004	<u>4,932</u>	<u>15,742</u>	<u>208</u>	<u>84</u>	<u>365</u>	<u>21,331</u>
Depreciated cost at December 31, 2003	<u>5,129</u>	<u>13,403</u>	<u>247</u>	<u>74</u>	<u>199</u>	<u>19,052</u>
Depreciated cost at December 31, 2002	<u>5,190</u>	<u>15,452</u>	<u>238</u>	<u>72</u>	<u>216</u>	<u>21,168</u>

- (1) Depreciation expense amounted to \$2,390, \$2,241 and \$936 in 2004, 2003 and 2002, respectively.
- (2) As of December 31, 2004, investment grants received and related accumulated depreciation amounted to \$5,150 and \$3,635, respectively.
- (3) Rights in real estate:

In April 1994, the Company entered into an agreement with the Israel Lands Administration (hereafter – the Administration) for the lease of a plot with an area of approximately 10,000 sq.m. in the Ramat-Hovav industrial zone over a period of 49 years ending in 2042. The company paid discounted lease fees in the amount of \$33.

In January 1994, the Company entered into a development agreement with the Administration, under which additional land, with an area of approximately 10,000 sq.m. was allotted to the company. The Company paid discounted usage fees in the amount of \$47 for the use of the land over the lease period. In October 2000, an agreement was signed with the Administration for the use of the land over a period ending in 2042.

- (4) Plant under construction as of December 31, 2004 amounted to \$3,691 and is included in machinery and equipment.
- (5) As for charges, see Note 16.

U.S. dollars in thousands

NOTE 10: – SHORT-TERM BANK CREDIT

	<i>Annual interest rate %</i>	<i>2004</i>	<i>December 31, 2003</i>	<i>2002</i>
NIS – unlinked	Prime + 2.0	677	693	829
U.S dollars	Libor + 1.5-2.0	1,866	2,530	1,534
Euro	Libor + 1.5-2.5	1,660	1,362	1,057
British Pounds	–	–	39	36
		<u>4,203</u>	<u>4,624</u>	<u>3,456</u>

As of December 31, 2004, the Company has unused credit line in the amount of \$908.

As for collateral, see Note 16.

NOTE 11: – SHORT-TERM LOANS AND CURRENT MATURITIES OF LONG-TERM LOANS

	<i>Annual interest rate %</i>	<i>2004</i>	<i>December 31, 2003</i>	<i>2002</i>
In U.S. dollar (1)	–	295	1,278	–
In NIS – unlinked	–	–	–	78
In U.S. dollar	Libor + 2.55	835	301	491
		<u>1,130</u>	<u>1,579</u>	<u>569</u>
Current maturities of long-term loans (see Note 13)		<u>5,206</u>	<u>5,717</u>	<u>2,538</u>
		<u>6,336</u>	<u>7,296</u>	<u>3,107</u>

(1) This loan was provided by a minority shareholder of UTL. The loan bears no interest and has no maturity date.

(2) As for collateral, see Note 16.

NOTE 12: – OTHER ACCOUNTS PAYABLE

	<i>2004</i>	<i>December 31, 2003</i>	<i>2002</i>
Employees and payroll accruals	343	269	225
Accrued liabilities	2,835	3,217	3,443
Accrued income taxes	996	–	–
Derivative instruments (Note 14)	242	267	–
Advances from customers	–	444	–
Other	180	64	24
	<u>4,596</u>	<u>4,261</u>	<u>3,692</u>

U.S. dollars in thousands

NOTE 13: – LONG-TERM LOANS

a. Composed as follows:

	<i>Annual interest rate %</i>	<i>2004</i>	<i>December 31, 2003</i>	<i>2002</i>
Loans from banks:				
U.S. dollar ⁽¹⁾	Libor + 1.15	10,414	14,258	15,290
Euro	Libor + 1.7-3.1	1,155	1,672	2,001
U.S. dollar	Libor + 1.75	22	63	500
NIS – unlinked	Prime + 1.25	16	70	103
		<u>11,607</u>	<u>16,063</u>	<u>17,894</u>
Less – current maturities		(5,206)	(5,717)	(2,538)
		<u>6,401</u>	<u>10,346</u>	<u>15,356</u>
Other long-term loans:				
NIS – unlinked ⁽²⁾	–	370	364	337
		<u>6,771</u>	<u>10,710</u>	<u>15,693</u>

(1) This loan in the original amount of \$14,867 was provided in 2001 in connection with the construction of the plant in Uzbekistan. The loan is to be repaid in equal semi-annual installments for five years commencing in 2002, see also Note 2a.

(2) Capital notes due to the Company's shareholders bear no interest and have no maturity date.

b. The long-term loans are repayable in the following years subsequent to the balance sheet date:

U.S. dollars in thousands	<i>December 31, 2004</i>
First year – current maturities	<u>5,206</u>
Second year	3,977
Third year	2,424
Fourth year	–
	<u>6,401</u>
	<u>11,607</u>

c. The Company is required to maintain certain financial covenants and as of December 31, 2004, is in compliance with all such requirements.

d. As for collateral, see Note 16.

U.S. dollars in thousands

NOTE 14: – DERIVATIVE FINANCIAL INSTRUMENTS

To hedge against the risk of overall changes in cash flows resulting from forecasted transactions of foreign currency receipts related to sales during the year, the Company has instituted a foreign currency cash flow hedging program. The Company hedges portions of its forecasted receipts denominated in € with forward contracts. These forward contracts are designated as cash flow hedges, as defined by IAS 39 and are all effective.

In 2004, the Company has entered into the following transactions in derivatives:

1. Twelve forward contracts, each for the exchange of €200 thousands into dollars at rates of \$1.2675-\$1.27105, which are to be carried out at the beginning of each month during the period from January 25, 2005 to December 23, 2005.

In 2003, the Company had entered into the following transactions in derivatives:

1. Twelve forward contracts, each for the exchange of €150 thousands into dollars at rates of \$1.1371-\$1.1405, which are to be carried out at the beginning of each month during the period from June 2, 2003 to May 3, 2004.
2. Twelve forward contracts, each for the exchange of €200 thousands into dollars at rates of \$1.1783-\$1.1881, which are to be carried out at the beginning of each month during the period from January 30, 2004 to December 31, 2004.

The Company recognized losses of \$225, \$6 and \$0 during the years ended December 31, 2004, 2003 and 2002, respectively, related to the forward exchange contracts.

NOTE 15: – TAXES ON INCOME

a. Tax rates:

On 29 June 2004, the Israeli Government passed the Amendment to the Income Tax Ordinance (No. 140 and Temporary Provision), 2004, which progressively reduces the tax rates applicable to companies from 36% to 35% in 2004 to a rate of 30% in 2007.

b. Measurement of taxable income under the Income Tax (Inflationary Adjustments) Law, 1985:

Results for tax purposes in Israel are measured in terms of earnings in NIS after certain adjustments for increases in the Israeli Consumer Price Index (“CPI”). As explained in Note 2b, the financial statements are measured in U.S. dollars. The difference between the annual change in the Israeli CPI and in the NIS/dollar exchange rate causes a further difference between taxable income and the net income shown in the financial statements.

c. Tax benefits under the Law for the Encouragement of Capital Investments, 1959 (“the Law”):

Three programs of the Company have been granted an “Approved Enterprise” status, under the Law. In addition, the Company filed an application for its fourth program in November 2004. According to the Law, the Company is entitled to investment grants (at percentages mentioned below of investment cost) and also to a tax benefit, which grants the Company tax exemption for a period of two years and a reduced tax rate of 10%-25% (depending on the level of foreign investments in the Company) for a period of five years. Pursuant thereto, the income of the Company derived from the following “Approved Enterprise” programs will be eligible for these benefits for periods stated below:

1. Benefit period for the first program commenced in 1989 and expired in 2002. The investment grants received for this program were 38% of investment cost.

U.S. dollars in thousands

NOTE 15: – TAXES ON INCOME (Cont.)

2. Benefit period for the second program commenced in 1999 and is to expire in 2012. The investment grants received for this program were 24% of investment cost.
3. Benefit period for the third program commenced in 1994 and is to expire in 2007. The investment grants received for this program were 36% of investment cost.

The entitlement to the above benefits is conditional upon the Company fulfilling the conditions stipulated by the above law, regulations published thereunder and the letters of approval for the specific investments in “approved enterprises”. In the event of failure to comply with these conditions, the benefits may be cancelled and the Company may be required to refund the amount of the benefits, in whole or in part, including interest. As of December 31, 2004, management believes that the Company is meeting all of the aforementioned conditions. As of December 31, 2004, the Company had not utilized any of the aforementioned tax benefits.

The period of tax benefits, detailed above, is subject to limits of the earlier of 12 years from the commencement of production, or 14 years from receiving the approval, whichever is earlier.

Since the Company is operating under more than one program and since part of its taxable income is not entitled to tax benefits under the abovementioned law and is taxed at the regular tax rate, its effective tax rate is the result of a weighted combination of the various applicable tax rates.

By virtue of this law, the Company is entitled to claim accelerated depreciation on equipment used by the “Approved Enterprise” during five tax years.

If tax-exempt profits are distributed to shareholders they would be taxed at the corporate tax rate applicable to such profits as if the Company had not elected the alternative system of benefits, currently 25% for an “Approved Enterprise”.

Income from sources other than the “Approved Enterprise” during the benefit period will be subject to tax at the regular rate prevailing at that time.

- d. Non-Israeli subsidiaries are taxed according to the applicable laws in their countries of residence except for Uzmetal which was granted tax exemption for five years commencing in March 2000 and thereafter will be subject to the applicable laws in Uzbekistan.
- e. Net operating loss carryforwards:
The Company and its Swiss and Mongolian subsidiaries have no accumulated losses for tax purposes as of December 31, 2004. The Uzbekistan carryforward losses for tax purposes as of December 31, 2004 amounted to \$2,565.
- f. The difference between income tax expense applicable to income before taxes of the statutory income tax rate and the income tax expense in the financial statements is primarily due to utilization of carryforwards losses for which deferred taxes were not previously provided. Taxes on income included in the statements of operations in the year ended December 31, 2004, relates primarily to subsidiaries.

U.S. dollars in thousands

NOTE 16: – TRANSACTIONS WITH RELATED PARTIES

a. Transactions with related parties:

	<i>Year ended December 31,</i>		
	2004	2003	2002
Expenses:			
Salaries to officers and directors	79	79	77
Bonuses ⁽¹⁾	986	–	–
	1,065	79	77

b. Balances with related parties:

	December 31,		
	2004	2003	2002
Accrued bonus ⁽¹⁾	986	–	–
Other liability ⁽²⁾	519	124	206

(1) The bonus was calculated in accordance with the employment agreements with the CEO and the Chairman of the Board of Directors, both of whom are shareholders, according to which each is entitled to a bonus equal to 5% of the annual increase in the pre-tax income of the Group provided that the Group's profit exceeds \$1,000. Subsequent to the balance sheet date the Company has signed new employment agreements with these executives according to which each is entitled to a bonus equal to 5% of the annual increase in the net income of the Group subject to a maximum bonus cap of £450,000 each equal to three times their gross basic salary.

(2) Amounts owed to shareholders on a current account basis, bearing no interest and with no maturity date.

NOTE 17: – COMMITMENTS AND CONTINGENT LIABILITIES

a. In accordance with the provisions of the Law for the Encouragement of Capital Investments, 1959, the Company and its subsidiaries in Israel received grants from the State of Israel in respect of investments in their plants (see Note 14). The conditions in the letters of approval extending the grants from the State of Israel primarily include the requirements that the investments be made according to the approved plan and that at least 30% of the investments be financed by outstanding share capital. Non-fulfillment of these conditions would require the refund of the grants linked to the Consumer Price Index in Israel from the date of receipt plus interest. To guarantee fulfillment of the conditions for receiving the grants, the Company and its subsidiaries have recorded floating charges on all of their assets in favor of the State of Israel. In the opinion of management, as of December 31, 2004, the Company and its subsidiaries are meeting the required conditions.

b. Charges:

As collateral for the Company's liabilities, fixed charges have been placed on motor vehicles and inventory.

Certain bank loans are collateralized by a floating charge (a continuing charge on the Company's present and future assets but permitting the Company to dispose of such assets in the ordinary course of business) on all of the assets of the Company and its subsidiaries.

U.S. dollars in thousands

NOTE 17: – COMMITMENTS AND CONTINGENT LIABILITIES (Cont.)

c. Royalty commitments:

Royalties to the Office of the Chief Scientist (“OCS”):

Under the research and development agreement of the Company with the OCS and pursuant to applicable laws, the Company is required to pay royalties at the rate of 3% of sales of products developed with funds provided by the OCS, up to an amount equal to 100% of the OCS research and development grants received, linked to the U.S. dollar plus interest on the unpaid amount received based on the 12-month LIBOR rate at the date of grants received. The Company is obligated to repay the Israeli Government for the grants received only to the extent that there are sales of the funded products.

The Company did not accrue any royalties for each of the three years in the period ended December 31, 2004 as no revenues were recorded.

As of December 31, 2004, the Company had a contingent obligation to pay royalties in the amount of approximately \$348. This obligation will be recorded when payment becomes probable.

d. Regarding bonus to CEO and Chairman of the Board of Directors see Note 16b.

NOTE 18: – SHAREHOLDERS’ EQUITY

a. Share Split:

All share and per share data included in these financial statements have been retroactively adjusted to reflect a one-for-five share split as approved by the Company’s shareholders on 20 February 2005.

b. The share capital is composed as follows:

	<i>Authorized</i>	<i>Issued and outstanding</i>
	<i>December 31, 2004, 2003 and 2002</i>	
	<i>Number of shares</i>	
Ordinary shares of NIS 0.2 par value each	100,000,000	30,300,000

c. Dividends:

Pursuant to the terms of the credit provided by a bank, the Company is restricted from paying cash dividends to its shareholders exceeding 50% of the Company’s net profit.

NOTE 19: – SUPPLEMENTARY INFORMATION TO STATEMENTS OF OPERATIONS

a. Cost of revenues:

	<i>Year ended December 31,</i>		
	<i>2004</i>	<i>2003</i>	<i>2002</i>
Materials	36,115	10,667	7,801
Salaries and related benefits	2,423	1,637	1,254
Depreciation	2,390	2,243	688
Maintenance and repairs	955	695	480
Electricity, water and gas	636	631	468
Packaging, transportation and shipping	657	598	486
Others	1,496	249	216
	<u>44,672</u>	<u>16,720</u>	<u>11,393</u>

U.S. dollars in thousands

NOTE 19: – SUPPLEMENTARY INFORMATION TO STATEMENTS OF OPERATIONS (Cont.)

b. Research and development costs, net:

	<i>Year ended December 31,</i>		
	<i>2004</i>	<i>2003</i>	<i>2002</i>
Salaries and related benefits	182	167	292
Supplies and materials	123	86	27
Subcontractors	97	146	22
Others	27	17	26
	<u>429</u>	<u>416</u>	<u>367</u>
Less – research and development grants	(186)	(162)	(82)
	<u>243</u>	<u>254</u>	<u>285</u>

c. Selling and marketing expenses:

	<i>Year ended December 31,</i>		
	<i>2004</i>	<i>2003</i>	<i>2002</i>
Commissions	823	358	37
Travel	131	97	52
Others	157	54	49
	<u>1,111</u>	<u>509</u>	<u>138</u>

d. General and administrative expenses:

	<i>Year ended December 31,</i>		
	<i>2004</i>	<i>2003</i>	<i>2002</i>
Salaries and related benefits	1,336	232	161
Communications	132	88	70
Professional fees	147	61	55
Depreciation and amortization	40	27	25
Others	141	160	78
	<u>1,796</u>	<u>568</u>	<u>389</u>

e. Financial expenses, net:

	<i>Year ended December 31,</i>		
	<i>2004</i>	<i>2003</i>	<i>2002</i>
Financial expenses:			
Interest in respect of loans	(926)	(1,005)	(529)
Bank commissions and other expenses	(228)	(84)	(125)
Foreign exchange differences	(524)	(965)	–
	<u>(1,678)</u>	<u>(2,054)</u>	<u>(654)</u>
Financial income:			
Interest in respect of deposits	23	28	139
Foreign exchange differences	–	–	30
	<u>23</u>	<u>28</u>	<u>169</u>
	<u>(1,655)</u>	<u>(2,026)</u>	<u>(485)</u>

U.S. dollars in thousands

NOTE 20 :- REVENUES BY GEOGRAPHIC AREAS AND MAJOR CUSTOMERS

The Group manages its business on a basis of one reportable segment.

- a. Revenues classified by geographical destinations based on the customer location:

	<i>Year ended December 31,</i>		
	<i>2004</i>	<i>2003</i>	<i>2002</i>
United States	11,473	6,955	3,901
China	21,878	–	–
Japan	11,830	100	–
Germany	4,172	3,614	1,009
Austria	3,994	2,771	3,239
Europe (other than Germany and Austria)	1,166	1,501	1,074
Israel	1,198	1,145	1,347
Others	3,261	1,897	1,003
	<u>58,972</u>	<u>17,983</u>	<u>11,573</u>

- b. Information about major customers (in percentage):

	<i>Year ended December 31,</i>		
	<i>2004</i>	<i>2003</i>	<i>2002</i>
Customer A	<u>37%</u>	<u>–</u>	<u>–</u>
Customer B	<u>20%</u>	<u>–</u>	<u>–</u>
Customer C	<u>7%</u>	<u>18%</u>	<u>16%</u>
Customer D	<u>–</u>	<u>7%</u>	<u>27%</u>
Customer E	<u>4%</u>	<u>14%</u>	<u>–</u>

- c. The Company's long-lived assets by geographic area are as follows:

	<i>December 31,</i>		
	<i>2004</i>	<i>2003</i>	<i>2002</i>
Israel	4,483	4,772	5,185
Uzbekistan	13,157	14,280	15,983
Mongolia	3,691	–	–
	<u>21,331</u>	<u>19,052</u>	<u>21,168</u>

PART V: UNAUDITED PRO FORMA STATEMENT OF NET ASSETS

The unaudited pro forma statement of net assets of the Company set out below has been prepared to illustrate the effect of the Placing on the net assets of the Company as at December 31, 2004, as if it had occurred on that date. This statement has been prepared for illustrative purposes only and, because of its nature, may not give a true picture of the net assets of the Company.

The net assets of the Company as at December 31, 2004 have been extracted without material adjustment from the Accountants' Report on the Company set out in Part IV of this document. No account has been taken of any changes in the composition of the net assets since December 31, 2004.

	<i>December 31, 2004</i>	<i>Adjustments</i>	<i>Notes</i>	<i>Pro forma</i>
	<i>US\$'000</i>	<i>US\$'000</i>		<i>US\$'000</i>
CURRENT ASSETS:				
Cash and cash equivalents	\$ 2,467	17,702	(1)	\$ 20,169
Short-term deposits	164	-		164
Short-term restricted cash	748	-		748
Trade receivables	13,432	-		13,432
Due from minority interest in subsidiary	283	-		283
Other accounts receivable	1,715	-		1,715
Inventories	12,747	-		12,747
	31,556	17,702		49,258
LONG-TERM RESTRICTED CASH	1,495	-		1,495
FIXED ASSETS, NET	21,331	-		21,331
	54,382	17,702		72,084
CREDITORS: amounts falling due within one year:				
	36,665	-		36,665
NET CURRENT ASSETS	(5,109)	17,702		12,593
TOTAL ASSETS LESS CURRENT LIABILITIES				
	17,717	17,702		35,419
CREDITORS: amounts falling due after more than one year				
Accrued severance pay	188	-		188
Long-term loans	6,771	-		6,771
	6,959	-		6,959
MINORITY INTEREST	493	-		493
NET ASSETS	\$ 10,265	17,702		\$ 27,967

Notes:

- (1) The proceeds of the Placing of approximately \$17.702 million, net of estimated expenses and other related costs of \$2.164 million, both translated at an exchange rate of £1 = US\$1.892.

PART VI: ADDITIONAL INFORMATION

1 Responsibility statement

The Directors, whose names appear on page 5 of this document, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

2 The Company

- 2.1 The Company was incorporated and registered in Israel on 31 March 1986 under the Israeli Companies Ordinance, 1983 as a private company limited by shares with registered number 51-11163-94 under the name Desheg Businesses & Properties Limited. On 21 September 1989, the Company changed its name to Metek Metal Technology Ltd. On 30 March 2000, the Company changed its name to Metaltek Metal Technology Ltd. On 1 May 2000, the Company changed its name to Metal-Tech Ltd. On 18 January 2001, the Company changed its name to Metek Metal Technology Ltd. On 24 July 2001, the Company changed its name to its current name Metal-Tech Ltd. Conditional upon Admission, the Company will change its status to a "Public Company".
- 2.2 The Company's registered office is located at Emek Sara, Ramat-Hovav Industrial Area, P.O. Box 2412, Beer-Sheva 84874, Israel.
- 2.3 The Israeli Act is the legislation applicable to the Company.

3 Share capital

- 3.1 As at 9 May 2002, being three years prior to the date of publication of this document, the authorised share capital of the Company was NIS20,000,000 divided into 20,000,000 ordinary shares of NIS1 each.
- 3.2 By a resolution of the Board passed on 9 April 2005 and by a shareholders resolution dated 9 April 2005 the Company ratified all prior issues and transfers of shares in the Company and acknowledged that the only shareholders of the Company as at 9 April 2005 were (i) Hillah, being the holder of 27,270,000 Ordinary Shares and (2) Ran Maimon, being the holder of 3,030,000 Ordinary Shares.
- 3.3 By a shareholders' resolution passed on 20 February 2005 it was resolved that each ordinary share of NIS1 in the share capital of the Company be sub-divided into 5 Ordinary Shares.
- 3.4 By a shareholders' resolution dated 9 May 2005, it was resolved:
 - 3.4.1 (conditional on Admission) that the directors be generally authorised in accordance with article 5.3 of the articles of association referred to in paragraph 3.4.3 below to allot Relevant Securities (as defined in such articles of association) to such persons at such times and on such terms as they think proper provided that such authority is limited to:
 - (a) the allotment of 8,076,923 Ordinary Shares pursuant to the Placing;
 - (b) the allotment of Relevant Securities (other than pursuant to paragraph (a) above) up to an aggregate nominal amount equal to NIS 2,558,461; and
 - (c) the allotment of 1,918,846 Ordinary Shares upon the exercise of options and warrants (if and when exercised) to be granted pursuant to the Share Option and Warrant Scheme;

such authority, unless and to the extent previously revoked, varied or renewed by the Company in general meeting, to expire on 12 May 2010, but so that the Company may, before the expiry of such period, make an offer or agreement which would or might require Relevant Securities to be allotted after the expiry of such period and the directors may allot Relevant Securities

pursuant to such an offer or agreement as if the authority conferred by this resolution had not expired;

3.4.2 (conditional on Admission) that the directors be empowered, subject to article 5.4 of the articles of association referred to in paragraph 3.4.3 below, to allot Equity Securities (as defined in the articles of association referred to in paragraph 3.4.3) for cash pursuant to the authority conferred by paragraph 3.4.1 above as if article 5.2 of such articles of association did not apply to any such allotment, provided that this power shall be limited to the allotment of Equity Securities:

- (a) pursuant to the Placing;
- (b) in connection with an issue or offer of Equity Securities by way of rights or otherwise open for acceptance for a period fixed by the directors in favour of holders of Equity Securities and any other persons entitled to participate in such issue or offer where the Equity Securities respectively attributable to the interest of such holders and persons are proportionate (as nearly as practicable) to the respective numbers of Equity Securities held by or deemed to be held by them on the record date for such allotment, subject to such exclusions or other arrangements as the directors consider expedient in relation to dealing with fractional entitlements or legal or practical problems arising under the laws of any territory or the requirements of any relevant regulatory body or any stock exchange; and
- (c) otherwise than pursuant to sub-paragraphs (a) and (b) above up to an aggregate nominal amount of NIS 767,538;

and shall expire on 12 May 2010, save that the Company may, before such expiry, make an offer or agreement which would or might require Equity Securities to be allotted after such expiry and the directors may allot Equity Securities in pursuance of such offer or agreement as if the power had not expired;

3.4.3 (conditional on Admission) to adopt new articles of association;

3.4.4 (conditional on Admission) to notify the change in the status of the Company from a "Private Company" to a "Public Company" at the Israeli Companies Registrar;

3.4.5 to ratify, confirm and approve the remuneration of the directors as provided for in the letters of appointment and the employment agreements referred to in paragraph 7.1 below;

3.4.6 to ratify, confirm and approve the directors' and officers' insurance policy referred to in paragraph 6.12 below; and

3.4.7 to approve the indemnification agreements entered into by the Company and each of the Directors referred to in paragraph 12.14 below.

3.5 At the date of this document the authorised and issued fully paid share capital of the Company is:

<i>Class of shares</i>	<i>Authorised</i>		<i>Issued and Fully Paid</i>	
	<i>NIS</i>	<i>Number</i>	<i>NIS</i>	<i>Number</i>
Ordinary Shares	20,000,000	100,000,000	6,060,000	30,300,000

3.6 The authorised and issued fully paid share capital of the Company immediately following Admission will be as follows:

<i>Class of shares</i>	<i>Authorised</i>		<i>Issued and Fully Paid</i>	
	<i>NIS</i>	<i>Number</i>	<i>NIS</i>	<i>Number</i>
Ordinary Shares	20,000,000	100,000,000	7,675,385	38,376,923

- 3.7 At Admission 1,918,846 Ordinary Shares (representing approximately 5 per cent. of the issued share capital of the company on Admission) will be reserved for the exercise of the options and warrants proposed to be issued under the Share Option and Warrant Scheme (further details of which are set out in paragraph 5 below). Following the Placing and after allowing for 1,918,846 Ordinary Shares reserved for issue pursuant to the exercise of options and warrants granted under the Share Option and Warrant Scheme, 59,704,231 Ordinary Shares will remain authorised but unissued.
- 3.8 Save as disclosed in this paragraph 3 and paragraph 8 below, there has been no issue of shares in the Company or any other member of the Group in the three years immediately preceding the date of this document and (other than pursuant to the Placing and on any exercise of the options or warrants proposed to be issued under the Share Option and Warrant Scheme) no such issues are proposed.
- 3.9 Save as disclosed in this paragraph 3 and paragraph 5 below, on Admission no share or loan capital of the Company or any other member of the Group will be under option or will be agreed conditionally or unconditionally to be put under option. Further, save as disclosed above, no share or loan capital of the Company has been issued or is now proposed to be issued fully or partly paid, either for cash or a consideration other than cash.
- 3.10 Save as disclosed in paragraphs 10 and 12 below, no commissions, discounts, brokerages or other special terms have been granted by the Company in connection with the issue or sale of any share or loan capital of the Company or any other member of the Group in the three years immediately preceding the date of this document.
- 3.11 Other than pursuant to the Placing, none of the Ordinary Shares have been marketed or are available in whole or in part to the public in conjunction with the application for the Ordinary Shares to be admitted to trading on AIM.

4 Memorandum and articles of association

The Company's Memorandum of Association includes, amongst the Company's objects, the object of manufacturing all products and any part of them, intermediary and complementary parts, raw materials, finished products or unfinished products of all sorts without limit. The objects of the Company are set out fully in clause 2 of its Memorandum of Association. In addition, clause 2(11) of the Memorandum of Association and Article 3 of the Articles (as defined below) state that the Company may carry on any business and perform any act which is not prohibited by law. The liability of the members is limited.

As stated in paragraph 3.4.3 of this Part VI, the Company has, conditional on Admission, adopted new articles of association (the "Articles"). The Articles include the following provisions:

4.1 Allotment of shares

Subject to the provisions of the Israeli Act, the terms of any shareholders' resolution creating new shares and the provisions referred to in paragraph 4.2 below, the unissued shares forming part of the authorised share capital of the Company shall be under the control of the Board which is entitled to allot them for cash or non-cash consideration on such terms and at such times as the Board deems fit.

4.2 Pre-emption rights

Subject to the terms of any shareholders' resolution to the contrary, the Company shall not, subject to certain exceptions, allot its shares to any person for cash unless it shall first have made an offer to each shareholder to allot to him on the same or more favourable terms a proportion of those shares which is as nearly as practical equal to the proportion in nominal value of the shares held by him on the record date for any such allotment of the aggregate of all such shares, but subject to such exclusions or other arrangements as the Board may deem necessary or expedient in their exclusive discretion to deal with fractional entitlements or legal or practical problems under the laws or the requirements of any regulatory authority or stock exchange in any jurisdiction.

4.3 *Voting rights*

Subject to the restrictions referred to in paragraph 4.4 below and subject to any special rights or restrictions as to voting attached to any class of shares (of which, upon Admission, there will be none), every shareholder who is present in person or by proxy shall have one vote for each share held by him on every resolution whether voting on a show of hands, by a written ballot or by any other means. A corporate member may authorise any person to be its representative at a general or class meeting and such person shall be entitled to exercise such powers as the corporate member could exercise if it was an individual member.

4.4 *Restrictions on voting*

A shareholder shall not be entitled to vote or count as part of the quorum at any general meeting unless all calls and others sums then payable by him in respect of his shares in the Company have been paid.

4.5 *Transfer of shares*

Any member may transfer all or any of his shares by submitting to the Company a written instrument of transfer in any customary form or in any other form satisfactory to the Board, together with the share certificate(s) or such other evidence of title as the Board may reasonably require.

The Board has an absolute discretion to refuse to register a transfer of any share which is not fully paid up or upon which the Company has a lien without giving a reason, but they must provide the transferee with a notice of the refusal within two months after the date on which the transfer was lodged. Such discretion may not be exercised to prevent dealings in such shares taking place on an open and proper basis.

4.6 *Alteration of capital*

By resolution and subject to relevant legislation, the Company may:

- (i) increase or reduce its share capital;
- (ii) consolidate and divide all or any of its share capital, whether issued or unissued, into shares of larger amounts;
- (iii) sub-divide all or any of its share capital, whether issued or unissued, into shares of smaller amounts; and/or
- (iv) cancel any shares which at the date of the resolution have not been taken or agreed to be taken by any persons.

4.7 *Variation of rights*

Unless otherwise provided by the terms of issue, the rights attached to any class of shares for the time being issued may be varied only with the consent of a resolution passed at a separate general meeting of the holders of those shares. The rights attached to shares of any class shall not be deemed to be varied, modified or abrogated by the creation or issue of further shares.

4.8 *General meetings*

All general meetings shall be held at such time (being, in the case of annual general meetings, once in every year and not more than 15 months after the previous annual general meeting) and place as the Board may determine provided that, for so long as the shares of the Company are solely listed on a stock exchange or investment exchange in the United Kingdom and not on a stock exchange or investment exchange outside the United Kingdom, all general meetings must be held in the United Kingdom.

The quorum for general meetings is one or more shareholders present in person or by proxy (or deemed by the Israeli Act to be present) and holding in aggregate at least 25 per cent. of the voting rights in the issued share capital of the Company.

Subject to the Israeli Act, any shareholder or shareholders holding at least 1 per cent. of the voting rights in the issued share capital of the Company may request in writing, in accordance with the requirements as to form and content set out in the Articles, that the Board includes a subject in the agenda of a general and/or class meeting and such request must be delivered to the secretary of the Company with a copy to the chairman of the Company:

- (a) in the case of a resolution to be considered and, if thought fit, passed at an annual general meeting of the Company, not less than 90 days and not more than 120 days prior to (but excluding) the date of the first anniversary of the immediately preceding annual general meeting;
- (b) in the case of a resolution to be considered and, if thought fit, passed at an extraordinary general or class meeting of the Company, not less than 90 days and not more than 120 days prior to (but excluding) the date of such meeting provided that, where such meeting has been convened on less than 90 days' prior notice, such notice must be received by the secretary of the Company not later than 5pm Israel time on the tenth day following (but excluding) the day on which notice of such meeting was given.

The Articles authorise the chairman of a general or class meeting to take such action as he thinks fit to promote the orderly conduct of the business of the meeting, including asking any person(s) to leave the meeting and, if necessary, having such person(s) excluded from the meeting. The Articles also authorise the Board to make such arrangements as it shall in its absolute discretion consider to be appropriate in relation to general or class meetings, including arrangements in order to regulate attendance, ensure the safety of people attending and facilitate attendance.

4.9 *Dividends*

Subject to any special or restricted rights conferred upon shareholders as to dividends (of which, on Admission, there will be none), any dividend paid by the Company must be allocated among the shareholders in proportion to the sums paid up or credited as paid up on account of the nominal value of their respective holdings in respect of which such dividend is being paid, but without taking into account the premium paid up on these shares. A decision regarding the payment of a dividend shall be taken by the Board.

The Board may prevent the distribution of a dividend in respect of shares which have not been fully paid up. The Board may also:

- 4.9.1 deduct from any dividend payable to any shareholder all sums (if any) presently payable by such shareholder to the Company on account of calls or otherwise in relation to the shares of the Company;
- 4.9.2 retain any dividend or other monies payable or property distributable in respect of a share upon which the Company has a lien and may apply that dividend in or towards the satisfaction of the debts, liabilities or engagements in respect of which the lien exists.

Any dividend unclaimed after a period of two years from the date of declaration of the dividend (and any other money payable in respect of a share which is unclaimed after a like period from the date the same was payable) shall be forfeited and shall revert to the Company and the payment by the Board of any unclaimed dividend (or any other money payable in respect of a share) into a separate account shall not constitute the Company a trustee in respect of it.

4.10 *Return of capital*

If the Company is wound up, then (subject to applicable law and to the rights of any holders of shares with special rights upon a winding up of which, on Admission, there will be none) the assets of the Company available for distribution among the shareholders shall be distributed to them in proportion to the nominal value of their respective holdings of the shares in respect of which such distribution is being made.

4.11 *Directors*

4.11.1 Minimum and maximum number

Unless altered by a shareholders' resolution of the Company, the minimum number of directors of the Company is four and the maximum number is nine.

4.11.2 Remuneration and expenses

Subject to Israeli law, the directors shall be paid remuneration by the Company for their services to the extent that such remuneration has been approved by a general meeting of the Company. Any such fees shall be distinct from any other remuneration or other amounts payable to a director under any other provisions of the Articles. In addition (but subject to the prior approval of a general meeting of the Company and to Israeli law), the Board may grant special remuneration to any director who serves on any committee or who otherwise performs any special or extra services to or at the request of the Company.

Subject to Israeli law, the directors may be paid all reasonable travel, hotel and incidental expenses properly incurred in the performance of their duties as directors including expenses incurred in attending Board or committee meetings or general or class meetings.

4.11.3 Appointment, retirement, removal and shareholding qualification

Subject to the Articles (including the provisions referred to in paragraph 4.8 above), in relation to the appointment of directors (other than an external director), the Company may, by a resolution in general meeting, appoint any person who is willing to act to be a director, either to fill a vacancy or as an additional director.

At each annual general meeting, any director (other than an external director) who has been appointed by the Board since the previous general meeting shall retire from office. In addition, at each annual general meeting (but excluding for these purposes external directors):

- (i) one-third of the directors (or, if their number is not an integral multiple of three, the number nearest to one-third but not exceeding one-third) shall retire from office (but so that, if there are fewer than three directors who are subject to retirement by rotation, one shall retire); and
- (ii) any director who is not required to retire by rotation in accordance with the requirement referred to in paragraph (i) above, but who has been in office for three years or more since his appointment or his last reappointment or who would (but for the operation of this provision) have held office at not less than three consecutive annual general meetings without retiring, shall also retire from office.

A director (other than an external director) retiring under (i) or (ii) above shall be eligible for re-appointment and (unless he is removed from office or his office is vacated in accordance with the provisions of the Articles referred to below) shall retain office until the close of the meeting at which he retires or (if earlier) when a resolution is passed at the meeting not to fill the vacancy or to appoint another person in his place or the resolution to re-appoint him is put to the meeting and lost.

Subject to complying with applicable legal requirements, the Company in general meeting may remove a director (including, in certain specific circumstances, an external director) by a resolution of shareholders and elect another person in his place. In addition, the office of any director who is not an external director shall be vacated if:

- (a) the director dies;
- (b) the director is found to be legally incompetent;
- (c) the director becomes bankrupt;

- (d) the director is prevented by applicable law from serving as a director of the Company;
- (e) the Board terminates the director's office in accordance with Section 231 of the Israeli Act upon the occurrence of certain circumstances relating to criminal acts, bankruptcy and/or breach of fiduciary duty;
- (f) a court order is given in respect of that director in accordance with Section 233 of the Israeli Act;
- (g) the director is removed from office by a resolution of the general meeting of the Company approved by shareholders;
- (h) the director's period of office has terminated in accordance with the Articles; or
- (i) the director resigns in writing.

Further information regarding the appointment and removal of statutory external directors under Israeli law is set out in paragraph 16 of Part VI of this document.

A director shall not be required to hold any shares in the Company.

4.12 *Directors' interests*

Subject to the provisions of the Israeli Act and the Articles, the Company may enter into any contract or otherwise transact any business with:

- (i) any director where such director has a personal interest (directly or indirectly); and
- (ii) any third party where a director has a personal interest (directly or indirectly).

Except in accordance with the provisions of the Israeli Act and the Articles, a director shall neither participate in deliberations concerning nor vote upon a resolution approving a transaction with the Company in which he has a personal interest.

4.13 *Borrowing powers*

The Company may borrow or secure the payment of any sum(s) of money for the purposes of the Company and may secure or provide for the repayment of such sum(s) in such manner, at such times and upon such terms and conditions as it thinks fit. The Board shall restrict the borrowings of the Company and exercise all voting and other rights or powers of control exercisable by the Company in relation to any subsidiaries so as to secure (so far, as regards any subsidiary, as by such exercise they can secure) that the aggregate principal amount outstanding at any time in respect of all monies borrowed by the Group (as defined in the Articles) (exclusive of any intra-group borrowings), but less cash deposited, shall not, without the previous sanction of a shareholders' resolution of the Company, exceed an amount equal to three times the aggregate of the Company's share capital and consolidated reserves.

4.14 *Insurance and indemnity of officers*

Subject to the provisions of the Israeli Act, the Company may exculpate an officer in advance from all or some of that officer's liability resulting from his/her breach of his/her duty of care to the Company.

Subject to the Israeli Act, the Company may enter into a contract to insure against any liability on the part of an officer of the Company that may be imposed upon him as a result of an action carried out while an officer in each of the following circumstances:

- (i) a breach of duty of care towards the Company or towards another person;
- (ii) a breach of fiduciary duty towards the Company provided that the officer acted in good faith and had reasonable grounds to assume that the action would not harm the interests of the Company; and
- (iii) a financial liability imposed upon him in favour of a third party.

Subject to the provisions of the Israeli Act, the Company may undertake to indemnify in advance an officer of the Company in respect of any of the following liabilities or expenses which are imposed upon him as a result of an action taken in his capacity as an officer and which arise from the categories of events listed in paragraphs (i) to (iii) above (and in respect of amounts which the directors may, at the time of the giving of such undertaking to indemnify, deem to be reasonable) or which arise from an event that occurred prior to the giving of the indemnity:

- (a) a financial liability imposed upon him in favour of a third party by a judgment, including a settlement or a decision of an arbitrator which is given the force of a judgement by court order;
- (b) reasonable litigation expenses, including legal fees, which the officer has expended or is obliged to pay by a court in proceedings commenced against him by the Company or in its name or by any other person or pursuant to a criminal charge in respect of which he is acquitted or a criminal charge in respect of which he is convicted of an offence which did not require proof of criminal intent.

4.15 *Branch register*

The Company may, subject to and in accordance with the provisions of the Israeli Act, cause a branch register or registers of shareholders to be kept at any place outside of Israel as the Board may think fit and, subject to all applicable requirements of law, the Board may from time to time adopt such rules and procedures as it may think fit in connection with the keeping of such a branch register or registers.

4.16 *Redeemable Shares*

The Company shall have the power to issue redeemable shares and redeem the same all in accordance with, and subject to, the provisions of the Israeli Act.

5 Share Option and Warrant Scheme

5.1 By resolutions of the Board passed on 27 March 2005 and 4 May 2005, the Company resolved that, as soon as practicable after Admission and conditional upon obtaining the necessary approvals from the Israeli Income Tax Authority and the Israeli Securities Authority, the Company will adopt a Share Option and Warrant Scheme pursuant to which options and warrants in respect of an aggregate maximum amount not exceeding 1,918,846 Ordinary Shares (representing 5 per cent. of the issued share capital at Admission) in the aggregate and at an exercise price equal to the Placing Price, will be granted to certain employees and third parties service providers of the Group, as follows:

5.1.1 options in respect of 763,701 Ordinary Shares to Ran Maimon;

5.1.2 options in respect of 127,923 Ordinary Shares to senior management of the Company, namely Meir Klausner, Michael Hollin, Zvi Shva, Haim Krispel and Yehoo Madmoni, in amounts to be determined by the Board;

5.1.3 options in respect of 127,923 Ordinary Shares to middle management employees of the Company to be determined by the Board;

5.1.4 options in respect of 127,923 Ordinary Shares to other employees of the Company who have been employed by the Company for not less than 12 months prior to the date of Admission;

5.1.5 warrants in respect of 771,376 Ordinary Shares to be granted at the Board's discretion to certain third parties service providers, who assist the Group in achieving its business goals in the construction and operations of new production facility.

5.2 The vesting period for the employees (including senior and middle management) will be three years and the exercise period will expire ten years after the grant of the options. It is proposed that all such options will be granted in accordance with the terms of Section 102 of the Israeli Income Tax Ordinance pursuant to which the grant of the options to employees will enjoy certain tax benefits subject to conditions.

6 Directors' interests

- 6.1 As at 8 May 2005 (being the latest practicable date prior to the date of this document) the interests (all of which are beneficial unless stated otherwise) of the Directors and persons connected with them (within the meaning of section 346 of the Act) in the share capital of the Company together with any options in respect of such capital, the existence of which is known to or could with reasonable diligence be ascertained by that Director, whether or not held through another party, were as follows:

Directors' interests in the share capital of the Company

<i>Director</i>	<i>Immediately prior to Admission</i>			<i>Immediately following Admission</i>		
	<i>Number of ordinary shares</i>	<i>Percentage of issued share capital</i>	<i>Options</i>	<i>Number of Ordinary Shares</i>	<i>Percentage of issued share capital</i>	<i>Options</i>
Ariel Rosenberg*	27,270,000	90%	–	27,270,000	71%	–
Ran Maimon	3,030,000	10%	–	3,030,000	8%	–
Meir Klausner	–	–	–	–	–	–
Modi Ashkenazy	–	–	–	–	–	–
Dr Graham Lawson	–	–	–	–	–	–
Peter Syme	–	–	–	–	–	–

*Ariel Rosenberg is interested in the Ordinary Shares set out against his name, all of which are held by Hillah.

- 6.2 Save as disclosed in this Part VI, none of the Directors nor any person connected with the Directors (within the meaning of section 346 of the Act), has any interest whether beneficial or non-beneficial in any share capital of the Company.
- 6.3 Save as set out in the table below, the Directors are not aware of any person who is or, immediately following Admission, will be interested directly or indirectly in three per cent. or more of the enlarged share capital of the Company:

<i>Name</i>	<i>Per cent. of the Enlarged Share Capital of the Company following Admission</i>
Hillah	71
Ariel Rosenberg*	71
Ran Maimon	8
Genesis Smaller Companies SICAV	5

*Ariel Rosenberg's interest in the shares of the Company arises as a result of his shareholding in Hillah.

- 6.4 The Company is not aware of any person or persons (other than (i) Hillah and (ii) Ariel Rosenberg) who directly or indirectly, jointly or severally, exercise or could exercise control over the Company.
- 6.5 Except as set out in paragraphs 6.6 to 6.11 below, no Director has any interest, whether directly or indirectly, in any transactions which are or were unusual in their nature or conditions or which are or were significant to the business of the Group and which were effected by any member of the Group in the current or immediately preceding financial year or which were effected during an earlier financial year and which remain in any respect outstanding or unperformed.
- 6.6 Ariel Rosenberg has entered into the following agreements with the Company:
- 6.6.1 a relationship agreement dated 9 May 2005 between the Company (1) and Ariel Rosenberg (in his capacity as the controlling shareholder of the Company) (2) (further details of which are set out in paragraph 12.3 below);
- 6.6.2 the Intellectual Property Assignment (further details of which are set out in paragraph 12.4 below);

- 6.6.3 an employment agreement dated 7 April 2004 relating to the terms and conditions of Mr Rosenberg's employment as President and Executive Chairman of the Company (further details of which are set out in paragraph 7.1.1 below);
 - 6.6.4 a loan agreement recorded in a letter dated 5 April 2005 between the Company (1), Ariel Rosenberg (2) and Ran Maimon (3) (further details of which are set out in paragraph 12.5 below);
 - 6.6.5 an indemnity agreement dated 9 May 2005 (further details of which are set out in paragraph 12.14 below).
- 6.7 Ran Maimon has entered into the following agreements with the Company:
- 6.7.1 an employment agreement dated 7 April 2005 relating to the terms and conditions of Mr Maimon's employment as Chief Executive Officer of the Company (further details of which are set out in paragraph 7.1.2 below);
 - 6.7.2 a loan agreement recorded in a letter dated 5 April 2005 between the Company (1) Ariel Rosenberg (2) and Ran Maimon (3) (further details of which are set out in paragraph 12.5 below);
 - 6.7.3 an indemnity agreement dated 9 May 2005 (further details of which are set out in paragraph 12.14).
- 6.8 Modi Ashkenazy has:
- 6.8.1 an interest in the following agreements relating to the business of the Company:
 - 6.8.1.1 a financial advisory engagement letter dated 1 September 2004 between the Company (1) and Cukierman & Co. Consulting Ltd. (in which, at the date of this document, Mr Ashkenazy holds 37 per cent. of the issued share capital) (2) (further details of which are set out in paragraph 12.13 below);
 - 6.8.1.2 an agreement dated 1 April 2005 between Durlacher (1) and Cukierman (of which Mr Ashkenazy is a director) (2) pursuant to which Durlacher undertakes, subject to certain conditions, to allocate to Cukierman a minimum amount representing 10 per cent. of funds raised by the Company pursuant to the Placing for the purpose of distributing new Ordinary Shares to certain investors. In consideration, Durlacher has undertaken to pay Cukierman a success fee calculated by reference to the gross proceeds of the Placing Shares allocated by Cukierman to such investors at the Placing Price.
 - 6.8.2 entered into the following agreements with the Company:
 - 6.8.2.1 an employment agreement dated 7 April 2005 relating to the terms and conditions of Mr Ashkenazy's employment as Chief Financial Officer of the Company (further details of which are set out in paragraph 7.1.3. below);
 - 6.8.2.2 an indemnity agreement dated 9 May 2005 (further details of which are set out in paragraph 12.14 below).
- 6.9 Meir Klausner has entered into the following agreements with the Company:
- 6.9.1 an employment agreement dated 7 April 2005 relating to the terms and conditions of Mr Klausner's employment as Chief Operating Officer of the Company (further details of which are set out in paragraph 7.1.4 below);
 - 6.9.2 an indemnity agreement dated 9 May 2005 (further details of which are set out in paragraph 12.14 below).

- 6.10 Dr Graham Lawson has entered into the following agreements with the Company:
- 6.10.1 a letter of appointment dated 9 April 2005 between (further details of which are set out in paragraph 7.1.5 below);
- 6.10.2 an indemnity agreement dated 9 May 2005 (further details of which are set out in paragraph 12.14 below).
- 6.11 Peter Syme has entered into the following agreements with the Company:
- 6.11.1 a letter of appointment dated 9 April 2005 (further details of which are set out in paragraph 7.1.5 below);
- 6.11.2 an indemnity agreement dated 9 May 2005 (further details of which are set out in paragraph 12.14 below).
- 6.12 The Company has in place a directors' and officers' liability insurance policy consisting of an aggregate coverage of US\$10 million for the benefit of all directors and officers of the Company who may serve from time to time.
- 6.13 Niri Rosenberg, an employee of the Company, is the daughter of Ariel Rosenberg. Ronen Magen, the husband of Niri Rosenberg, and Ayelet Maimon, the wife of Ran Maimon, are also employees of the Company.
- 6.14 Other than in relation to the Group, the Directors currently hold, and have during the five years preceding the date of this document held, the following directorships or partnerships:

<i>Name</i>	<i>Current directorships/partnerships</i>	<i>Previous directorships/partnerships</i>
Ariel Rosenberg	Hillah	–
Modi Ashkenazy	Cukierman & Co. Consulting Ltd. Cukierman Ninety Holdings Ltd.	–
Dr Graham Lawson	–	Cerapasta Ltd. WBB Devon Clays Ltd. Clay & Minerals (Thailand) Ltd. Watts Blake Bearne & Co PLC WBB Fuchs GmbH WBB Espana SA WBB Pacific Clays Donbas Clays JVC Sibelco Minerals & Chemicals Ltd.
Peter Syme	Active Corporate Management Limited Syme Winchester Partnership	Belmont House Limited First Engineering Holdings Limited Dawnhole Oiltools Limited Renewable Technology Ventures Limited Weir Materials Limited Weir Pumps Limited Weir Group Investments Limited Houtston Engineers Limited Weir Engineering Services Limited P.S.L International Limited Strachan & Henshaw Limited Weir Drilling Services Limited

- 6.15 None of the Directors has any unspent convictions in relation to indictable offences.

- 6.16 None of the Directors has been the subject of any public criticism by any statutory or regulatory authority (including designated professional bodies).
- 6.17 None of the Directors has been a director of a company at the time of, or within the preceding 12 months of, that company being the subject of a receivership, compulsory liquidation, creditors' voluntary liquidation, administration, company voluntary arrangement or any composition or arrangement with its creditors generally or any class of its creditors.
- 6.18 None of the Directors has been a partner of a partnership at the time of, or within the 12 months preceding the date of, that partnership being placed into compulsory liquidation or administration or being entered into a partnership voluntary arrangement; nor in that time have the assets of any such partnership been the subject of a receivership.
- 6.19 No asset of any Director has at any time been the subject of a receivership.
- 6.20 None of the Directors is or has been bankrupt nor made at any time an individual voluntary arrangement.
- 6.21 None of the Directors is or has ever been disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of any company.
- 6.22 Save as disclosed in paragraphs 6.6 and 6.7 there are no outstanding loans granted by any member of the Group to any of the Directors or by any of the Directors to any member of the Group; nor has any guarantee been provided by any member of the Group for the benefit of any of the Directors.
- 6.23 The business address of each of the Directors is as follows:

<i>Name</i>	<i>Address</i>
Ariel Rosenberg	Emek Sara, Ramat-Hovav, P.O. Box 2412, Beer-Sheva 84874, Israel
Ran Maimon	Emek Sara, Ramat-Hovav, P.O. Box 2412, Beer-Sheva 84874, Israel
Modi Ashkenazy	3 Daniel Frish Street, Tel Aviv 64731, Israel
Meir Klausner	Emek Sara, Ramat-Hovav, P.O. Box 2412, Beer-Sheva 84874, Israel
Dr Graham Lawson	2 Gerardes Lodge, Grayswood Road, Haslemere, Surrey GU27 1BG, UK
Peter Syme	Netherdale, Mansfield Terrace, Dunlop, Kilmarnock KA3 4AE, UK

7 Directors' service agreements and letters of appointment

- 7.1 The following agreements have been entered into between the Directors and the Company:
- 7.1.1 an employment agreement dated 7 April 2005 between the Company (1) and Ariel Rosenberg (2) pursuant to which Ariel Rosenberg is employed as President and Executive Chairman of the Company. The agreement is terminable by either party on 12 months' written notice to the other. Ariel Rosenberg's annual salary under the agreement is £150,000 and the agreement also entitles him to other benefits commensurate with his position, including a contribution from the Company to a manager's insurance policy for retirement allowance at the rate of 5 per cent. of the employee's basic salary, a contribution from the Company to a manager's insurance policy to cover disability at the rate of 2.5 per cent. of the employee's basic salary, a contribution from the Company to a manager's insurance policy to cover liability for severance pay at the rate of 8.33 per cent. of the employee's basic salary, a contribution from the Company to an education fund for the benefit of the employee at the rate of 7.5 per cent. of the employee's basic salary and the use of a company car. In addition, the employee is entitled to a bonus of 5 per cent. of any annual increase in the Company's audited net profits up to a maximum amount of 3 times his gross base annual salary. In addition, the employee is entitled to an unquantified special bonus to be paid to the extent that he provides the Company with any incremental new business which has a material effect on the Company and which is approved by the remuneration committee of the Company. The agreement includes a non-compete clause which is expressed to operate for 1 year after termination of employment. The Company agrees to maintain, subject to applicable law, directors' and officers' liability insurance in amounts commensurate with the business risk of the employee's duties. The

Company further agrees to reimburse all relevant legal and related expenses not covered by such insurance. On termination of his employment, Ariel Rosenberg is entitled to receive, as severance pay, his then current monthly salary multiplied by the number of full years he has been employed by the Company. This payment is funded by the manager's insurance policy referred to above. Ariel Rosenberg commenced his employment with the Company on 7 April 2005;

- 7.1.2 an employment agreement dated 7 April 2005 between the Company (1) and Ran Maimon (2) pursuant to which Ran Maimon is employed as the Chief Executive Officer of the Company. The agreement is terminable by either party on 12 months' written notice to the other. Ran Maimon's annual salary under the agreement is the NIS equivalent of £150,000 (linked to the Israeli Consumer Price Index) and the agreement also entitles him to other benefits commensurate with his position, including a contribution from the Company to a manager's insurance policy for retirement allowance at the rate of 5 per cent. of the employee's basic salary, a contribution from the Company to a manager's insurance policy to cover disability at the rate of 2.5 per cent. of the employee's basic salary, a contribution from the Company to a manager's insurance policy to cover liability for severance pay at the rate of 8.33 per cent. of the employee's basic salary, a contribution from the Company to an education fund for the benefit of the employee at the rate of 7.5 per cent. of the employee's basic salary and the use of a company car. In addition, the employee is entitled to a bonus of 5 per cent. of any annual increase in the Company's audited net profits up to a maximum amount of 3 times his gross base annual salary. In addition, the employee is entitled to an unquantified special bonus to be paid to the extent that he provides the Company with any incremental new business which has a material effect on the Company and which is approved by the remuneration committee of the Company. The agreement includes a non-compete clause which is expressed to operate for 1 year after termination of employment. The Company agrees to maintain, subject to applicable law, directors' and officers' liability insurance in amounts commensurate with the business risk of the employee's duties. The Company further agrees to reimburse all relevant legal and related expenses not covered by such insurance. On termination of his employment, Ran Maimon is entitled to receive, as severance pay, his then current monthly salary multiplied by the number of full years he has been employed by the Company. This payment is funded by the manager's insurance policy referred to above. Ran Maimon has been employed by the Company since 1991;
- 7.1.3 an employment agreement dated 7 April 2005 between the Company (1) and Modi Ashkenazy (2) pursuant to which Modi Ashkenazy is employed as the Chief Financial Officer of the Company. The agreement is for a fixed term of six months. Modi Ashkenazy's monthly salary under the agreement is US\$5,000. The agreement includes a non-compete clause which is expressed to operate for 1 year after termination of employment. Under the agreement, Mr Ashkenazy may continue to be employed or engaged in any other business activities which he was pursuing at the date of the agreement;
- 7.1.4 an employment agreement dated 7 April 2005 between the Company (1) and Meir Klausner (2) pursuant to which Meir Klausner is employed as the Chief Operating Officer of the Company. The agreement is terminable by either party on 6 months' written notice to the other. Meir Klausner's annual salary under the agreement is the NIS equivalent of US\$60,000 (linked to the Israeli Consumer Price Index) and the agreement also entitles him to other benefits commensurate with his position, including a contribution from the Company to a manager's insurance policy for retirement allowance at the rate of 5 per cent. of the employee's basic salary, a contribution from the Company to a manager's insurance policy to cover disability at the rate of 2.5 per cent. of his basic salary, a contribution from the Company to a manager's insurance policy to cover liability for severance pay at the rate of 8.33 per cent. of his basic salary, a contribution from the Company to an education fund for the benefit of the employee at the rate of 7.5 per cent. of the employee's basic salary and the use of a company car. The agreement includes a non-compete clause which is expressed to operate for 1 year after termination of employment. On termination of his employment, Meir Klausner is entitled to receive, as severance pay, his then current monthly salary multiplied by the number of full years he has been

employed by the Company. This payment is funded by the manager's insurance policy referred to above. Meir Klausner has been employed by the Company since 1996;

7.1.5 letters of appointment dated 9 April 2005, pursuant to which Peter Syme and Dr Graham Lawson are appointed as non-executive directors of the Company, the appointment being (subject to the provisions for retirement and re-appointment contained in the Articles) for an initial period of 1 year, in each case at an annual fee of £20,000.

7.2 The aggregate remuneration paid (including benefits in kind) to the Directors by members of the Group in respect of the year ended 31 December 2004 was approximately US\$1.1 million. It is estimated that the aggregate remuneration and benefits in kind payable to the Directors by members of the Group in respect of the current financial year (under the arrangements in force at the date of this document) will be approximately US\$1 million.

8 The Company and its principal subsidiaries

8.1 The Company is the holding company of the Group and has the following principal subsidiaries:

<i>Name and registered office</i>	<i>Country of registration or incorporation</i>	<i>Principal activity</i>	<i>Issued share capital</i>	<i>Number</i>	<i>Per cent. of issued share capital held directly by the Company</i>
Uzmetal Technology Ltd 1 Haidarova Street, Chirchik, Uzbekistan	Republic of Uzbekistan	Production of metals from the molybdenum concentrate	US\$5,000,000 divided into 10 ordinary shares of US\$500,000 each	003111	50%
Shim Technology Co., Ltd. 1 Amaryn Talbai, Erdenet City, Orkhon aimag 213900 Mongolia	Mongolia	Production of metals from the molybdenum concentrate	6,199,950,600 Mongolian tugrugs divided into 747,000 ordinary shares of 8,299.80 Mongolian tugrugs each	2788691	70%
Metek Metal-Tech SA c/o Fiduciaire Rhedanienne S.A., 26 Rue Fre-Fleuri, 1950 Sion, Switzerland	Switzerland	Sales and marketing	CHF 100,000 divided into 10,000 ordinary shares of CHF10 each	CH 626.3.009.533.3	100%*

*By a shareholders' resolution of MMTS passed on 19 April 2005, the 10,000 ordinary shares of CHF10 each were converted from warrants to bearer into certificated form.

8.2 As mentioned in paragraph 8.1 above, of the above companies, only MMTS is wholly-owned by the Company.

9 Principal establishments

9.1 The Company's head office and principal place of business is at Emek-Sara, Ramat-Hovav Industrial Area, Beer-Sheva 84874, Israel.

9.2 The principal establishments of the Group are as follows:

<i>Company</i>	<i>Location</i>	<i>Tenure</i>	<i>Current rent (per annum excl. of VAT)</i>	<i>Term of lease</i>
Metal-Tech Ltd.	Beer-Sheva, Israel	Lease	—*	31 December 2039
Metal-Tech Ltd.	Beer-Sheva, Israel	Lease	—*	31 December 2042
Uzmetal Technology Ltd	Chirchik, Uzbekistan	Right of possession and perpetual use	—	Perpetual
Shim-Technology Co., Ltd.	Orkhon aimag, Mongolia	Licence	approximately US\$1,000	11 August 2034

*The Company has prepaid the rent for the remainder of the term.

10 Placing arrangements

Under the Placing Agreement, Durlacher has agreed (conditionally, amongst other things, on Admission taking place not later than 13 May 2005 or such later time as the Company and Durlacher may agree, being in any event no later than 3pm on 7 June 2005) as agent for the Company to use its reasonable endeavours to procure subscribers for the Placing Shares at the Placing Price. The Placing is not being underwritten.

Under the Placing Agreement and subject to its becoming unconditional, the Company has agreed to pay Durlacher a commission on the gross proceeds of the Placing Shares and a corporate finance fee, together in each case with any applicable VAT.

The Company will pay certain other costs and expenses (including any applicable VAT) of, or incidental to, the Placing including all fees and expenses payable in connection with Admission, expenses of the registrars, printing and advertising expenses, postage and all other legal, accounting and other professional fees and expenses.

The Placing Agreement contains warranties given by the Company and the executive Directors to Durlacher as to the accuracy of the information contained in this document and other matters relating to the Group and its business, subject to the terms of the indemnity agreements referred to in paragraph 12.14 below. Durlacher is entitled to terminate the Placing Agreement in certain specified circumstances prior to Admission including if a matter has arisen before Admission which would render any such warranties untrue or incorrect. The Placing Agreement cannot be terminated on or after Admission.

Each of the Directors has undertaken, subject to certain limited exceptions, not to dispose of any Ordinary Shares in which he is interested for a period of 12 months from Admission and for a further 12 months thereafter he will only dispose of his Ordinary Shares through Durlacher or the brokers for the time being of the Company.

11 Taxation

The following is only a summary of the main UK and Israeli tax consequences which will apply to shareholders of the Company who are resident or ordinarily resident individuals or companies resident in the UK (including resident through permanent establishment). It does not purport to be a comprehensive analysis of all the tax consequences applicable to all types of shareholders and is based on current law and practice. If you are in any doubt as to your own tax position or are resident or subject to tax in a jurisdiction outside the UK, you should seek independent professional advice without delay.

11.1 Dividends

Dividends paid by the Company would normally be subject to the deduction of Israeli income tax at source at the rate of 25 per cent. The UK:Israel Double Taxation Treaty (“the Treaty”) provides for this withholding to be reduced to 15 per cent. of the gross dividend where the recipient is subject to tax on the dividends received in the United Kingdom. This relief under the Treaty would not be available if the shareholder had a permanent establishment in Israel and the shares held are effectively connected with the business or trade of that permanent establishment. Application of the reduced rate of withholding tax under the Treaty can be agreed in advance between the Company and the Israeli Tax Authority and the shareholders will need to confirm their tax residence in order to benefit from the reduced rates of withholding under the Treaty.

As mentioned in Part IV of this document, the Company has received “Approved Enterprise” status in Israel under the Law for the Encouragement of Capital Investments, 1959. Under Israeli law, dividends paid out of “Approved Enterprise” profits would in any event be subject to a reduced rate of withholding tax of 15 per cent.

The Company will not be obliged to make any withholding on account of UK tax on payment of any dividends. Shareholders who are domiciled in the UK will be liable to UK tax on the gross dividend paid by the Company. However, relief may be available for the Israeli withholding tax, with the provision that the relief cannot exceed the amount of UK tax payable on the dividend. UK resident individual shareholders who are not domiciled within the UK will generally be subject to UK income

tax on the dividend receipt only if the dividend is remitted to the UK. In such a case, it should be noted that advantage can only be taken of the reduced rate of withholding tax under the Treaty if the dividends are remitted to the UK and therefore subject to UK tax.

UK resident companies will, where double tax relief is claimed, be liable to UK tax on the gross dividend paid by the Company, subject to credit for Israeli withholding tax deducted at source. The credit given in the UK for Israeli tax suffered on the dividend cannot exceed the UK corporation tax liability on the dividend.

A UK resident company may also seek relief for the underlying tax (tax borne by the Company and its subsidiaries on the profits out of which the dividend is paid) associated with the dividend where the UK company owns 10 per cent. or more of the voting rights in the Israeli company. The Treaty also contains a “tax sparing” clause which enables a UK company owning at least 10 per cent. of the voting power in the Company to seek credit for the underlying Israeli tax against UK corporation tax on dividend receipts which would have been paid by the Company but for the availability of Israeli tax relief under certain sections of the Law for Encouragement of Capital Investments, 1959, as amended.

As the credit given for Israeli tax suffered on the dividend cannot exceed the UK corporation tax liability on the dividend, a UK company may, subject to satisfying the provisions within the UK Double Taxation regulations, be entitled to claim credit for any excess unrelieved Israeli tax (both withholding, and where available, underlying tax) against dividends received from certain other sources.

For both individuals and companies having insufficient taxable income to give rise to a UK tax charge on which relief may be obtained for the withholding tax deducted under Israeli law, the taxpayer can elect to treat the Israeli withholding tax as an expense to be deducted from the gross dividend so that the taxable receipt is reduced to the amount of the dividend net of withholding tax.

11.2 *Approved retirement benefit schemes*

Inland Revenue approved retirement benefit schemes are generally exempt from UK tax on investment income and therefore not entitled to benefit from the dividend provisions of the Treaty. Any Israeli withholding tax suffered cannot be relieved; nor will it be refunded.

11.3 *Capital gains tax*

An individual, who is resident and ordinarily resident in the UK, shall be liable to capital gains tax where a gain arises on the disposal of chargeable assets situated anywhere in the world (including shares in the Company held as an investment) subject to the application of relevant reliefs and exemptions. Capital gains tax is charged at the rate equivalent to the rate of income tax applied to an individual's top slice of income.

A company resident in the UK for tax purposes will be liable for corporation tax in respect of a gain on the disposal of shares in the Company, subject to the availability of an allowance for inflation and the substantial shareholdings exemption. Under Israeli law, foreign residents are generally liable to Israeli taxation on capital gains derived from an Israeli source at the rate of 25 per cent. The sale of shares (or rights to shares) in the Company would be considered as arising from an Israeli source and be subject to Israeli taxation at the rate of 25 per cent. However, according to current Israeli regulations, shareholders resident outside of Israel are exempt from Israeli capital gains tax on the sale of Israeli source shares listed on a foreign stock exchange (as defined) provided such gains are not attributable to a permanent establishment of the shareholder in Israel. Under Israeli law, UK resident companies will not be entitled to such exemption if an Israeli resident (i) has a controlling interest of 25 per cent. or more in such UK resident company or (ii) is the beneficiary of or is entitled to 25 per cent. or more of the revenues or profits of such UK resident company, whether directly or indirectly.

In any event, UK residents disposing of shares in the Company could rely on the Treaty which exempts UK shareholders from Israeli tax on capital gains where the capital gains are subject to tax in the UK and are not attributable to a permanent establishment of the shareholder in Israel.

However, where shares in the Company are, for example, held by a UK company that qualifies for the substantial shareholding exemption from corporation tax on the disposal of shares, or by an Inland Revenue approved retirement benefits scheme, it is unlikely that the Israeli tax authority will accept that the benefits of the Treaty apply as the capital gain would not be subject to UK tax. Therefore the exemption contained within the Israeli domestic regulations may be the only protection available from Israeli taxation.

However, for this protection to be relevant, AIM will have to be accepted as a “foreign stock exchange” for the purposes of the Israeli domestic regulations. To date, no formal confirmation has been received from the Israeli tax authority that AIM is recognised as such. Accordingly, UK shareholders who are unable to benefit from the Treaty may be exposed to Israeli capital gains tax on the sale of their shares in the Company. Shareholders who are likely to find themselves in this position should obtain the Israeli tax authority’s formal view on this matter as early as is possible.

11.4 *Stamp duty and stamp duty reserve tax*

The following comments are intended as a guide to the general UK stamp duty and stamp duty reserve tax position and do not relate to persons such as market makers, brokers, dealers intermediaries and persons connected with voluntary arrangements or clearing services for whom special rules apply.

The Company is obliged under the Israeli Stamp Duty Act 1961 to pay 1 per cent. of the proceeds of the Placing as stamp duty within 30 days from the issuance of the Ordinary Shares.

If the Company maintains a share register in the UK, UK stamp duty will be chargeable (at 0.5 per cent. of the purchase price) on transfers on sale of Ordinary Shares on that UK register.

UK stamp duty at a fixed rate of £5 per transfer will be payable where an investor wishes to deposit the Ordinary Shares with the depository in order that DIs will be issued under the depository interest arrangements outlined in paragraph 15 of this Part VI.

UK stamp duty reserve tax (at 0.5 per cent. of the purchase price) will be chargeable in respect of an agreement to sell ordinary shares or DIs representing the Ordinary Shares. Where a stamp duty reserve tax charge arises, payment of stamp duty within six years of the date of an agreement on a transfer executed pursuant to the agreement will generally cancel this charge to stamp duty reserve tax.

The above comments are intended as a general guide to the current position. Any person who is in any doubt as to his taxation position, and who requires more detailed information than the general outline above or who is subject to tax in a jurisdiction other than the United Kingdom, should consult his professional advisers.

12 Material contracts

The following are the only contracts (not being contracts entered into in the ordinary course of business) which have been entered into by members of the Group in the two years preceding the date of this document and which are or may be material:

- 12.1 the Placing Agreement, details of which are set out in paragraph 10 above;
- 12.2 a nominated adviser and broker engagement letter dated 8 March 2005 between the Company (1) and Durlacher (2) pursuant to which Durlacher is retained by the Company as nominated adviser and broker to the Company in relation to both (i) the Placing and Admission and (ii) following Admission. The engagement letter has been superseded by the Placing Agreement save to the extent set out in the Placing Agreement;
- 12.3 a relationship agreement dated 9 May 2005 between the Company (1) and Ariel Rosenberg (2) pursuant to which Ariel Rosenberg, as the controlling shareholder of the Company (as such term is

defined in the agreement), has given certain undertakings to the Company. According to the agreement, Ariel Rosenberg is the legal and beneficial holder of the entire issued share capital of Hillah. As mentioned in paragraph 17 of Part I of this document, at the date of this document Hillah is the registered holder of 90 per cent. of the issued share capital of the Company. Under the agreement, Ariel Rosenberg has undertaken to the Company to exercise all voting rights and powers of control available to him in relation to the Company in order that, amongst other things, (i) the Company is capable of carrying on its business independently of him, (ii) all transactions, agreements or arrangements entered into between the Company, Ariel Rosenberg and his Associates (as defined in the agreement) will be made at arm's length and on a normal commercial basis, (iii) no variations will be made to the Company's articles of association which would be contrary to the maintenance of the Company's ability to carry on its business independently of Ariel Rosenberg (iv) the provisions of the agreement will be observed and (v) any dealings or disputes between any of Ariel Rosenberg or his Associates and the Company shall be passed to and dealt with on behalf of the Company by a committee comprising only the Independent Directors (as defined in the agreement). Ariel Rosenberg has also undertaken to the Company (i) not to undertake activity which would conflict with the Company or would render the Company incapable of carrying on its business independently and (ii) not to propose or vote in favour of any resolution which has the effect of waiving the pre-emption rights on issue of shares set out in the Company's articles of association (as amended from time to time) unless such resolution is supported by a majority of the Independent Directors. The agreement will terminate if Ariel Rosenberg ceases to exercise or control the exercise of 30 per cent. or more of the rights to vote at general meetings of the Company or to be able to control the appointment of directors who are able to exercise a majority of votes at board meetings of the Company;

- 12.4 the Intellectual Property Assignment pursuant to which Ariel Rosenberg has agreed to assign and transfer to the Company, and the Company has agreed to receive, certain intellectual property rights in connection with or relating to the Company's business. In consideration for this, Mr Rosenberg will receive (i) a royalty fee in the gross amount of 5 per cent. of revenues received by the Company through the use of such intellectual property (excluding certain patents or patent applications set out in annex B to such assignment) and (ii) a fee of 5 per cent. of the amount received by the Company in consideration for the transfer of such intellectual property (excluding patents or patent applications set out in annex B to such assignment);
- 12.5 a loan agreement recorded in a letter dated 5 April 2005 between the Company (1) Ariel Rosenberg (2) and Ran Maimon (3) pursuant to which Ariel Rosenberg and Ran Maimon advanced loans to the Company: US\$1,440,000 from Ariel Rosenberg and US\$425,000 from Ran Maimon. The loans bear no interest and have no maturity date. Subsequently, the Company repaid US\$1,000,000 of the amount owed to Mr Rosenberg. As at the date of this document, the aggregate outstanding amount of the loans is US\$865,000;
- 12.6 a consultancy agreement dated 17 July 2003 between the Company (1) and Garik Ibragimov ("GI") (2) pursuant to which GI agreed to provide the Company with certain consultancy services in relation to the operation of UTL. The consideration payable to GI by the Company for these services is US\$900,000;
- 12.7 an agreement dated 28 February 2005 between the Company (1) Mr Victor Mikhajlov (2) Mr Igor Chijenok (3) and Mr Ujguyr Sultanov (4) pursuant to which each individual undertook to assist UTL and the Company in the operation, production and delivery of UTL's products to the Company. In consideration for the provision of these services, each individual is entitled to a commission payable by the Company which is directly related to the value of each invoice issued by UTL to the Company in respect of UTL's products. The agreement may be terminated by mutual consent;
- 12.8 a joint venture agreement dated 5 September 2003 between the Company (1) and Erdenet (2) pursuant to which Shim-Tech was formed in Mongolia as a limited liability company to utilise and extract metals (including molybdenum oxides and rhenium) produced by Erdenet and sold to Shim-Tech, on an exclusive basis, in accordance with a separate commercial agreement. The Company undertook to supply Shim-Tech, on a turn-key basis, with a modern state-of-the-art plant for the processing of

molybdenum oxides and other products, in accordance with a supply agreement between Shim-Tech and the Company. The Company also undertook to market and sell Shim-Tech's products. The Company is entitled to hold a 70 per cent. ownership interest in the assets of Shim-Tech and Erdenet is entitled to hold the remaining 30 per cent. All of the money and contributions for each of these interests was paid in and/or made in full by the Company and Erdenet. The agreement contains various provisions relating to the management of Shim-Tech. The agreement states that the parties can transfer their rights and obligations under the agreement in accordance with Shim-Tech's constitutional documents. An amendment to the joint venture agreement was signed by the parties on 28 May 2004 pursuant to which the authorised share capital of Shim-Tech was increased to US\$7,155,000. Following this agreement, Shim-Tech and Erdenet entered into a supply agreement for the supply of molybdenum concentrates by Erdenet to Shim-Tech;

- 12.9 a turn-key supply agreement dated 15 May 2004 between the Company (1) and Shim-Tech (2) pursuant to which the Company agreed to supply Shim-Tech, on a turn-key basis, with a plant for the processing of molybdenum within 18 months at a cost of US\$23,850,000. In case of a delay in delivering the plant, the Company is obliged to pay a penalty of 0.02 per cent. of the above cost per each week of delay but subject to a cap of US\$238,500. The agreement states that payment of the above cost is to be satisfied as follows: (i) a letter of credit from Metal-Tech of US\$10,000,000 to be opened by Shim-Tech, (ii) a loan of up to US\$8,841,500 and (iii) the provision of services and equipment by Metal-Tech to Shim-Tech of a value of US\$5,008,500. Under the agreement, the Company agreed to guarantee the proper fulfilment of certain of its obligations;
- 12.10 a turn-key supply agreement dated 8 June 2004 between the Company (1) and Shim-Tech (2) pursuant to which the Company agreed to supply to Shim-Tech, on a turn-key basis, part of the plant referred to in paragraph 12.9 for a consideration of US\$5,000,000. Under the agreement, the Company agreed to guarantee the proper fulfilment of certain of its obligations;
- 12.11 an agreement dated 18 November 2004 between the Company (1) and United Mizrahi Bank Ltd ("UMB") (2) pursuant to which the Company assigned US\$4,250,000 bills of exchange received from Shim-Tech (the "Bills") to UMB. The Company agreed to guarantee the payment of ten per cent. of the value of each Bill if a payment of a Bill is not satisfied by Shim-Tech for any reason whatsoever. Any payment received in respect thereof from third parties, including IFTRIC, is to be credited to the Company's account. The first three sets of Bills were discounted and payment of approximately US\$3,600,000 was received by the Company;
- 12.12 a trust agreement dated 2 December 2004 between UMB (1) Shim-Tech (2) and Erdenet (as guarantor) (3) pursuant to which UMB agreed to provide financing for 90 per cent. of the consideration payable by Shim-Tech under the supply agreement dated 8 June 2004 (further details of which are set out in paragraph 12.10 above) on the basis of a bill discounting insurance policy issued by IFTRIC. Under the agreement, the parties agreed with the Company that the discounting of the Bills is to be effected in up to five instalments of twelve bills each on or against submission of invoices from the Company to UMB. The Bills (the amounts of which were left blank) were delivered in trust to UMB, which undertook (and was authorised) to release and complete the amounts on the Bills, in accordance with the terms stipulated in the agreement. The agreement states that Shim-Tech and Erdenet will indemnify UMB for any claims, damages, losses and liabilities arising from (i) any breach by Shim-Tech or Erdenet of the agreement, (ii) any untrue statements or any actions or inactions on their part which are not the result of UMB's wilful misconduct and/or breach of the agreement and/or (iii) any action performed by UMB in good faith during the performance of its authorisations under the agreement;
- 12.13 a financial advisory engagement letter dated 1 September 2004 between the Company (1) and Cukierman & Co. Consulting Ltd. ("Cukierman Consulting") pursuant to which Cukierman Consulting was retained by the Company as its advisor in connection with Admission. In consideration, the Company undertook to pay Cukierman Consulting a retainer fee of US\$30,000 for a period of six months. In addition, the Company undertook to pay Cukierman Consulting a fee directly related to the proceeds of the Placing. The letter contains certain undertakings and indemnities given by the Company;

12.14 indemnity agreements dated 9 May 2005 between the Company and each of the Directors pursuant to which the Company undertook to indemnify each of the Directors, to the maximum extent permitted by applicable law, including reasonable litigation expenses and attorneys' fees, against any action as defined in the agreement, being any financial obligation imposed by a court judgment, including settlement and arbitration awards in respect of any act or omission taken or made by them in their capacity as directors and officers of the Company or any of its subsidiaries or affiliates (as defined in the agreement). The total indemnified amount for each of the Directors must not exceed 25 per cent. of the Company's total shareholder equity at the time of the actual indemnification. The Company must not indemnify the Directors for any liability for which they receive payment by virtue of an insurance policy or another indemnity agreement, other than for amounts in excess of the amounts paid to them pursuant to such insurance policy or other indemnity agreement.

13 Working capital

The Directors are of the opinion that, having made due and careful inquiry, the Company has sufficient working capital for its present requirements, that is for at least the period of 12 months from the date of Admission.

14 Litigation

No member of the Group is or has been involved in any legal or arbitration proceedings which may have, or have had during the 12 months preceding the date of this document, a significant effect on the Group's financial position and, so far as the Directors are aware, there are no proceedings pending or threatened against any member of the Group.

15 CREST

15.1 Introduction

CREST is a paperless settlement system allowing securities to be transferred from one person's CREST account to another without the need to use share certificates or written instruments of transfer. Securities issued by non-UK registered companies, such as the Company, cannot be held or transferred in the CREST system. However, to enable investors to settle such securities through the CREST system, a depositary or custodian can hold the relevant securities and issue dematerialised depositary interests ("DIs") representing the underlying securities which are held on trust for the holders of the DIs.

With effect from Admission, it will be possible for CREST members to hold and transfer interests in Ordinary Shares within CREST pursuant to a depositary interest arrangement established by the Company. CREST is a voluntary system and holders of Ordinary Shares who wish to receive and retain share certificates will also be able to do so. No temporary documents of title will be issued.

The Ordinary Shares will not themselves be admitted to CREST. Instead the Registrar, acting as depositary, will issue DIs in respect of the underlying Ordinary Shares. The DIs will be independent securities constituted under English law which may be held and transferred through the CREST system. DIs will have the same international security identification number (ISIN) as the underlying Ordinary Shares and will not require a separate listing on AIM. The DIs will be created and issued pursuant to a deed poll (the "Deed Poll") entered into by the Registrar, which will govern the relationship between the Registrar, as depositary, and the holders of DIs.

Application has been made for the DIs in respect of the underlying Ordinary Shares to be admitted to CREST with effect from Admission.

Holders of Ordinary Shares in certificated form who wish to hold DIs through the CREST system may be able to do so and should contact the Registrar.

15.2 Summary of the Deed Poll

As mentioned above, the DIs will be created pursuant to and issued on the terms of the Deed Poll. The Deed Poll is executed by the Registrar, as depositary, in favour of the holders of the DIs from time to time. Prospective holders of DIs should note that they will have no rights against CRESTCo or its subsidiaries in respect of the underlying Ordinary Shares or the DIs representing them.

Ordinary Shares will be transferred to an account of the Registrar or its nominated custodian (the “Custodian”) and the Registrar will issue DIs to participating members.

Each DI will be treated as one Ordinary Share for the purposes of determining, for example, eligibility for any dividends. The Registrar will pass onto holders of DIs any stock or cash benefits received by it as holder of Ordinary Shares on trust for such DI holder. DI holders will also be able to receive from the Registrar notices of meetings of holders of Ordinary Shares and other information to make choices and elections issued by the Company to its shareholders.

In summary, the Deed Poll contains, amongst other things, provisions to the following effect:

- 15.2.1 The Registrar will hold (itself or through the Custodian), as bare trustee, the underlying securities issued by the Company and all and any rights and other securities, property and cash attributable to the underlying securities pertaining to the DIs for the benefit of the holders of the DIs. The Registrar will re-allocate securities or distributions allocated to the Registrar or the Custodian *pro rata* to the Ordinary Shares held for the respective accounts of the holders of DIs, but will not be required to account for fractional entitlements arising from such re-allocation.
- 15.2.2 Holders of DIs warrant, *inter alia*, that the securities in the Company transferred or issued to the Registrar or Custodian on behalf of the Depositary/Custodian are free and clear of all liens, charges, encumbrances or third party interests and that such transfers or issues are not in contravention of the Company’s articles of association or any contractual obligation, law or regulation.
- 15.2.3 The Registrar and any Custodian must pass onto DI holders all rights and entitlements received by the Registrar or the Custodian in respect of the underlying securities. Rights and entitlements to cash distributions, to information, to make choices and elections and to attend and vote at meetings shall, subject to the Deed Poll, be passed on in the form in which they are received, together with amendments and additional documentation necessary to effect such passing-on. If arrangements are made which allow a holder to take up rights in the Company’s securities which require further payment, the holder must put the Registrar in cleared funds before the relevant payment date or other date notified by the Registrar if it wishes the Registrar to exercise such rights.
- 15.2.4 The Registrar will be entitled to cancel DIs and treat the holders as having requested a withdrawal of the underlying securities in certain circumstances including where a DI holder fails to furnish to the Registrar such certificates or representations as to material matters of fact, including his identity, as the Registrar deems appropriate.
- 15.2.5 The Deed Poll contains provisions excluding and limiting the Registrar’s liability. For example, the Registrar shall not be liable to any DI holder or any other person for liabilities in connection with the performance or non-performance of obligations under the Deed Poll or otherwise except as may result from its negligence or wilful default or fraud or that of any person for whom it is vicariously liable, provided that the Registrar shall not be liable for the negligence, wilful default or fraud of any Custodian or agent which is not a member of its group unless it has failed to exercise reasonable care in the appointment and continued supervision of such Custodian or agent. Furthermore, the Registrar’s liability to a holder of DIs will be limited to the lesser of (a) the value of the shares and other deposited property properly attributable to the DIs to which the liability relates and (b) that proportion of £10 million which corresponds to the portion which the amount the Registrar would otherwise be liable to pay to the DI holder

bears to the aggregate of the amounts the Registrar would otherwise be liable to pay to all such holders in respect of the same act, omission or event or, if there are no such amounts, £10 million.

15.2.6 The Registrar is entitled to charge holders of DIs fees and expenses for the provision of its services under the Deed Poll.

15.2.7 The holders of DIs are required to agree and acknowledge with the Registrar that stamp duty reserve tax will be payable on agreements to sell the DIs.

15.2.8 Each holder of DIs is liable to indemnify the Registrar and any Custodian (and their agents, officers and employees) against all liabilities arising from or incurred in connection with, or arising from any act related to, the Deed Poll so far as they relate to the property held for the amount of DIs held by that holder, other than those resulting from the wilful default, negligence or fraud of the Registrar or the Custodian or any agent if such Custodian or agent is a member of the Registrar's group or if, not being a member of the same group, the Registrar shall have failed to exercise reasonable care in the appointment and continued use of such Custodian or agent.

15.2.9 The Registrar may terminate the Deed Poll by giving 30 days' notice. During such notice period, holders may cancel their DIs and withdraw their deposited property and, if any DIs remain outstanding after termination, the Registrar must, among other things, deliver the deposited property in respect of the DIs to the relevant DI holders or, at its discretion, sell all or part of such deposited property. It shall, as soon as reasonably practicable, deliver the net proceeds of any such sale, after deducting any sums due to the Registrar, together with any other cash held by it under the Deed Poll pro rata to holders of DIs in respect of their DIs.

15.2.10 The Registrar or the Custodian may require from any holder information as to the capacity in which DIs are or were owned and the identity of any other person with or previously having any interest in such DIs and the nature of such interest and evidence or declarations of nationality or residence of the legal or beneficial owners of DIs and such information as is required for the transfer of the relevant Ordinary Shares to the holders. Holders agree to provide such information requested and consent to the disclosure of such information by the Registrar or Custodian to the extent necessary or desirable to comply with their legal or regulatory obligations. Furthermore, to the extent that the Company's memorandum or articles of association require disclosure to the Company of, or limitations in relation to, beneficial or other ownership of the Company's securities, the holders of DIs are to comply with the Company's instructions with respect thereto.

It should also be noted that holders of DIs may not have the opportunity to exercise all of the rights and entitlements available to holders of the Ordinary Shares including, for example, the ability to vote on a show of hands. In relation to voting, it will be important for holders of DIs to give prompt instructions to the Registrar to vote the underlying shares on their behalf.

16 External directors

Under the Israeli Act, companies incorporated under the laws of the State of Israel, which shares have been offered to the public in or outside Israel, are required to appoint two external directors within three months following such offering. The Israeli Act provides that a person may not be appointed as an external director if the person or the person's relative, partner, employer or any entity under the person's control has, at the date of appointment, or had during the two years preceding the date of appointment, any affiliation with:

- the Company; or
- any entity controlling the Company; or
- any entity controlled by the Company or by its controlling entity at the time of appointment.

The term affiliation includes:

- any employment relationship;
- a business or professional relationship maintained on a regular basis;
- control; and
- service as an office holder.

The term affiliation shall not include an affiliation resulting from such person acting as a director of the Company over a period of no more than three months and during which the Company first offered its shares to the public.

No person can serve as an external director if the person's position or other business creates or may create a conflict of interest with the person's responsibilities as an external director. Until two years after termination of office, a company may not engage an external director to serve as an office holder and cannot employ or receive services from that person, either directly or indirectly, including through a corporation controlled by that person. No person shall serve as an external director of the Company if that person serves as a director in another company in which a director of the Company serves as an external director. No person shall serve as an external director if that person is a member of the Israeli Securities Authority or its employee or a member of the Stock Exchange in Israel or its employee.

External directors are elected by a majority vote at a shareholders' meeting, provided that either:

- the majority of shares voted at the meeting, including at least one-third of the shares of non-controlling shareholders, or their representatives, voted at the meeting, vote in favour of election (in the calculation of the votes, abstaining votes shall not be counted); or
- the total number of shares of non-controlling shareholders that vote against the election of the directors does not exceed one per cent. of the aggregate voting rights in the Company.

Pursuant to the provisions of the Israeli Act, the Company intends to recommend to shareholders that two external directors be appointed to the Board at a shareholders' meeting to be held not later than three months following Admission. Although one or both of the current non-executive directors of the Company may qualify for this role, assuming that the composition of the Board remains unchanged in the period up to the shareholders' meeting, at least one of the external directors to be appointed at that meeting will need to be a new addition to the Board. The reason for this is that the Israeli Act provides that, if at the time of the appointment of the external directors all of the directors are of one sex (which is the case at the date of this document), at least one of the external directors must be of the opposite sex. Accordingly, one of the external directors will need to be female.

The initial term of an external director is three years and may be extended for an additional three years.

An external director is entitled to compensation as shall be provided in regulations under Israeli law and is otherwise prohibited from receiving any other compensation, directly or indirectly, in connection with service providers as an external director.

Subject to the provisions of the Israeli Act, an external director may only be removed from office in one or more of the following circumstances:

- (a) by a competent court which, upon the application of either the Company, a director, a shareholder or a creditor of the Company, orders the termination of the office of that director because it has determined either that (i) he is permanently unable to fulfill his functions or (ii) during his appointment he has been found guilty in a court outside of Israel of bribery, deceit, an offence of a manager of a corporate body or an offence involving the misuse of inside information;
- (b) by a competent court which, upon the application of a director or shareholder of the Company, orders the termination of the office of that director because it has determined that he has ceased to fulfil one of the conditions required under the Israeli Act for his appointment as an external director or that he has breached his fiduciary duty to the Company; or

- (c) by a shareholders' resolution passed by the same majority required for the appointment of an external director provided that the Board has determined, after providing the director with a reasonable opportunity to state his position, that either (i) he no longer complies with the conditions set out in the Israeli Act for the appointment of such a director or (ii) he has breached his fiduciary duty to the Company.

17 Audit committee and internal auditor

At Admission, the audit committee of the Company will comprise Peter Syme and Dr Graham Lawson. However, this committee will not constitute an audit committee for the purposes of Israeli law until after a shareholders' meeting is held at which the two external directors are appointed so that the audit committee comprises at least two external directors (see paragraph 16 above).

17.1 Under the Israeli Act, the board of directors of a public company must appoint an audit committee, comprising at least three directors including all of the external directors, but excluding the chairman of the board of directors, any controlling shareholder, any relative of a controlling shareholder and any director employed by the Company or who provides services to the Company on a regular basis. For these purposes:

- (a) "control" means the ability to direct the activity of a corporation (excluding an ability deriving merely from holding the office of director or another office in the corporation) and a person shall be presumed to control a corporation if he holds half or more of a certain type of means of control of the corporation; and
- (b) "means of control" in a corporation means either (i) the right to vote at a general meeting of a company or a corresponding body of another corporation or (ii) the right to appoint directors of the corporation or its general manager. In addition to the role set out in paragraph 16 of Part I, under Israeli law the role of the audit committee is to detect any flaws in the management of the company's business, including in consultation with the internal auditor and the company's independent accountants, and to recommend ways of correcting the same. In addition, the approval of the audit committee is required to effect specified actions and transactions with office holders and controlling shareholders.

A controlling shareholder is defined in paragraph 18.10 below.

Under the Israeli Act, an audit committee may not approve an action or a transaction with a controlling shareholder or with an officeholder unless, at the time of approval, the two external directors are serving as members of the audit committee and at least one of the external directors was present at the meeting at which any approval was granted.

17.2 Under the Israeli Act, the board of directors must appoint an internal auditor proposed by the audit committee. The role of the internal auditor is to examine whether the Company's actions comply with the law, integrity and orderly business procedure. The internal auditor may not be an interested party, an officeholder or a member or representative of the Company's external auditors.

18. Fiduciary duties of officeholders and shareholders

18.1 The Israeli Act imposes a duty of care and a duty of loyalty on all officeholders of a company. The duty of care requires an officeholder to act with the level of care with which a reasonable officeholder in the same position would act under the same circumstances.

18.2 The duty of care of an officeholder includes a duty to use reasonable means to obtain:

- 18.2.1 information on the viability of a given action brought for his/her approval or performed by him/her by virtue of his/her position; and
- 18.2.2 all other important information pertaining to these actions.

- 18.3 The fiduciary duty of an officeholder requires an officeholder to act in good faith and for the benefit of the company, including the duty to:
- 18.3.1 refrain from any conflict of interest between (i) the performance of his/her duties in the company and (ii) the performance of his/her other duties or his/her personal affairs;
 - 18.3.2 refrain from any activity competing with the company;
 - 18.3.3 refrain from exploiting any business opportunity of the company to receive a personal gain for himself/herself or others; and
 - 18.3.4 disclose to the company any information or documents relating to company's affairs which the officeholder has received due to his/her position as an officeholder.
- 18.4 Under the Israeli Act, a director's compensation arrangements require the approval of the audit committee, the board of directors and the shareholders, in that order.
- 18.5 The Israeli Act requires that an officeholder of a company discloses to the company any personal interest that he/she may have and all related material information known to him/her, in connection with any existing or proposed transaction by the company. A personal interest of an officeholder includes an interest of a company in which the officeholder is, directly or indirectly, a 5 per cent. or greater shareholder, director or general manager or in which the officeholder has the right to appoint at least one director or the general manager. In the case of an extraordinary transaction, the officeholder's duty to disclose applies also to a personal interest of the officeholder's relative, which term is defined in the Israeli Act as the person's spouse, siblings, parents, grandparents, descendants, spouse's descendants and the spouses of any of the foregoing.
- 18.6 Under Israeli law, an extraordinary transaction is a transaction:
- 18.6.1 other than in the ordinary course of business;
 - 18.6.2 otherwise than on market terms; or
 - 18.6.3 that is likely to have a material effect on the company's profitability, assets or liabilities.
- 18.7 Under the Israeli Act, once an officeholder complies with the above disclosure requirement, the board of directors may approve a transaction between the company and an officeholder or a third party in which an officeholder has a personal interest. A transaction that is adverse to the company's interest may not be approved.
- 18.8 If the transaction is an extraordinary transaction with an officeholder, approval of both the audit committee and the board of directors is required. Under specific circumstances, shareholder approval may also be required. A director who has a personal interest in an extraordinary transaction which is considered at a meeting of the board of directors or the audit committee generally may not be present at this meeting or vote on this matter unless a majority of members of the board of directors or the audit committee, as the case may be, has a personal interest. If a majority of the members of the board of directors has a personal interest, shareholder approval is also required.
- 18.9 Under the Israeli Act, each shareholder has a duty to act in good faith in exercising his rights and fulfilling his obligations towards the company and other shareholders and to refrain from abusing his power in the company, such as in shareholder votes on the following matters: (i) any alteration of the articles of association (ii) an increase in the company's authorised share capital (iii) a merger or (iv) approval of certain actions and transactions that require shareholder approval. Each shareholder also has the general duty to refrain from depriving other shareholders of their rights.

In addition, specified shareholders have a duty of fairness towards the company. These shareholders include any controlling shareholder, any shareholder who knows that he possesses the power to determine the outcome of a shareholder vote in a general meeting or in a class meeting and any shareholder who, pursuant to the provisions of the articles of association, has the power to appoint or to prevent the appointment of an officeholder or any other power with respect to the company. However, the Israeli Act does not define the substance of this duty of fairness.

18.10 Under the Israeli Act, the disclosure requirements which apply to an officeholder (described above) also apply to a controlling shareholder of a public company. For these purposes, a controlling shareholder is a shareholder who has the ability to direct the activities of a company, including a shareholder who holds 25 per cent. or more of the voting rights of the company where no other shareholder holds more than 50 per cent. of the voting rights, but excluding a shareholder whose power derives solely from his or her position on the board of directors or any other position within the company.

Extraordinary transactions with a controlling shareholder of a public company or with another person in which a controlling shareholder has a personal interest, and the engagement of a controlling shareholder as an officeholder or employee, require the approval of the audit committee, the board of directors and the shareholders of the company, in that order. The shareholder approval must be by a majority vote provided that either:

- at least one-third of the shares of non-interested shareholders who vote at the meeting vote in favour of the matter; or
- the total number of shares of non-interested shareholders who vote at the meeting against the matter does not exceed 1 per cent. of the aggregate voting rights in the company.

19 Anti-Takeover Provisions; Mergers and Acquisitions

19.1 Mergers are permitted under the Israeli Act, provided that each party to the transaction obtains the approval of its board of directors and shareholders. For the purposes of the shareholder vote of each party, unless a court rules otherwise, the merger will not be deemed to have been approved if a majority of the shares not held by the other party, or by any person who holds 25 per cent. or more of the shares or the right to appoint 25 per cent. or more of the directors of the other party, have voted against the merger. Upon the request of a creditor of either party to the proposed merger, the court may delay or prevent the merger if it concludes that there exists a reasonable concern that, as a result of the merger, the surviving company will be unable to satisfy the obligations of that party. Finally, a merger may not be completed unless at least (i) 30 days have passed since the merger was approved by the shareholders of each party to the merger and (ii) 50 days have passed from the time that the requisite proposals for approval of the merger have been filed with the Israeli Registrar of Companies.

19.2 In addition, provisions of the Israeli Act that deal with “arrangements” between a company and its shareholders may be used to effect “squeeze-out” transactions in which the target company becomes a wholly-owned subsidiary of the acquirer. These provisions generally require that the merger be approved by a majority of the participating shareholders holding at least 75 per cent. of the shares who vote on the matter. In addition to shareholder approval, court approval of the transaction is required, which entails further delay.

19.3 The Israeli Act also provides that an acquisition of shares in a public company must be made by means of a tender offer if, as a result of the acquisition, a person would become a holder of 25 per cent. or more of the company. This rule does not apply if there is already another 25 per cent. shareholder of the company. Similarly, the Israeli Act provides that an acquisition of shares in a public company must be made by means of a tender offer if, as a result of the acquisition, the purchaser would become a holder of 45 per cent. or more of the company, unless there is already another 45 per cent. shareholder of the company.

This requirement does not apply if the acquisition is made in a private placement provided that the company’s shareholders approve such private placement as a private placement which is intended to grant to the placee a holding of either (a) 25 per cent. or more of the company, if there is not already another 25 per cent. shareholder of the Company, or (b) 45 per cent. or more of the company, if there is not already another 45 per cent. shareholder of the company. In addition, this requirement will not apply upon the purchase of shares from either (i) a holder of 25 per cent. or more of the company which results in a person becoming a holder of 25 per cent. or more of the company or (ii) a holder of 45 per cent. or more of the company which results in the purchaser holding more than 45 per cent. of the company.

The tender offer must be extended to all shareholders. The tender offer may be consummated only if (i) at least 5 per cent. of the company's outstanding shares will be acquired by the offeror and (ii) the number of shares tendered in the offer exceeds the number of shares whose holders objected to the offer.

- 19.4 Shares that are acquired in violation of this requirement to make a tender offer will be deemed "dormant shares" and will have no rights whatsoever for so long as they are held by the acquirer.
- 19.5 If, as a result of an acquisition of shares, the acquirer will hold more than 90 per cent. of a company's outstanding shares, the Israeli Act requires that the acquisition be made by means of a tender offer for all of the outstanding shares. If less than 5 per cent. of the outstanding shares are not tendered in the tender offer, all the shares that the acquirer offered to purchase will be transferred to it. The law provides for appraisal rights if any shareholder files a request in court within three months following the consummation of a full tender offer. If more than 5 per cent. of the outstanding shares are not tendered in the tender offer, then the acquirer may not acquire the shares in the tender offer that will cause his shareholding to exceed 90 per cent. of the outstanding shares.

20 Miscellaneous

- 20.1 There has been no significant change in the financial or trading position of the Group since 31 December 2004, being the date to which the Accountants' Report set out in Part IV of this document was prepared.
- 20.2 The total costs and expenses relating to the Placing (including those fees and commissions referred to in paragraph 10 above) payable by the Company are estimated to amount to approximately £1,144,000 (excluding VAT). The net proceeds of the Placing will be £9,365,000 (assuming that the Placing is fully subscribed).
- 20.3 In the opinion of the Directors, the minimum amount which must be raised for the purposes mentioned in paragraph 21 of Schedule 1 to the Regulations by the allotment of Ordinary Shares pursuant to the Placing is as follows:
- | | |
|---|--------------------------|
| 20.3.1 Purchase price of property | nil |
| 20.3.2 Costs and expenses payable under the Placing | approximately £1,144,000 |
| 20.3.3 Repayment of money borrowed in respect of paragraphs 20.3.1 and 20.3.2 above | nil |
- 20.4 Other than pursuant to the Placing, none of the Ordinary Shares has been marketed or is available in whole or in part to the public in conjunction with the application for the Ordinary Shares to be admitted to AIM.
- 20.5 The accounting reference date of the Company is 31 December.
- 20.6 Save as disclosed in this document, there are no investments in progress which are significant.
- 20.7 There have been no interruptions in the Company's business which have or have had in the last 12 months a significant effect on the Company's financial position.
- 20.8 There are no arrangements in existence under which future dividends are to be waived or agreed to be waived.
- 20.9 Save as disclosed in this document, there are no exceptional factors which have influenced the Company's activities.
- 20.10 Save as disclosed in this document, there are no patents or other intellectual property rights, licences or particular contracts which are or may be of fundamental importance to the business of the Company.
- 20.11 The Placing Price of 130 pence represents a premium of NIS 10.56 above the nominal value of NIS 0.2 per Ordinary Share. The Placing Price is payable in full on application.

- 20.12 The Ordinary Shares are in registered form. No temporary documents of title will be issued.
- 20.13 In making any investment decision in respect of the Placing, no information or representation should be relied on in relation to the Placing, the Group or the new Ordinary Shares, other than as contained in this document. No person has been authorised to give any information or make any representation other than those contained in this document and, if given or made, such information or representations must not be relied on as having been authorised. Neither the delivery of this document nor any subscription made under it shall, under any circumstances, constitute a representation or create any implication that there has been no change in the affairs of the Company since the date of this document or that the information in this document is correct as of any time subsequent to the date of this document.
- 20.14 The audited accounts set out in Part IV of this document relating to the Group do not constitute statutory accounts within the meaning of section 240 of the Act. Kost, Forer, Gabbay & Kasierer (a member of Ernst & Young Global), certified public accountants and registered auditors, of 3 Aminadav Street, Tel Aviv 67067, Israel, have given unqualified audit reports on the statutory accounts of the Group for the three financial years ended 31 December 2004 in their capacity as the auditors of the Group.
- 20.15 Kost, Forer, Gabbay & Kasierer (a member of Ernst & Young Global) has given and has not withdrawn its written consent to the issue of this document with the inclusion in it of its reports and the references to the reports and to its name in the form and context in which they are included and it has authorised the contents of its reports for the purposes of regulation 13(1)(g) of the POS Regulations.
- 20.16 Durlacher is registered in England and Wales under number 1742592 and its registered office is at 155 Moorgate, London EC2M 6XB. Durlacher is authorised and regulated by the Financial Services Authority.
- 20.17 Durlacher has given and has not withdrawn its written consent to the issue of this document with the inclusion of its name and references to it in the form and context in which they appear.
- 20.18 SRK Consulting has given and has not withdrawn its written consent to the issue of this document with the inclusion of its name and references to it in the form and context in which they appear.
- 20.19 No person (excluding professional advisers otherwise disclosed in this document and trade suppliers) has:
- 20.19.1 received, directly or indirectly, from any member of the Group within the 12 months preceding the date of application for Admission; or
 - 20.19.2 entered into contractual arrangements (not otherwise disclosed in this document) to receive, directly or indirectly, from any member of the Group on or after Admission,
- any of the following:
- (a) fees totalling £10,000 or more;
 - (b) securities in any member of the Group with a value of £10,000 or more calculated by reference to the Placing Price; or
 - (c) any other benefit with a value of £10,000 or more at the date of Admission.

21 Documents available for inspection

Copies of the following documents will be available for inspection during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted) at the registered office of the Company and at the offices of Berwin Leighton Paisner, Adelaide House, London Bridge, London EC4R 9HA up to and including 1 month after Admission:

- 21.1 the memorandum of association and articles of association of the Company;

- 21.2 the reports by Kost, Forer, Gabbay & Kasierer (a member of Ernst & Young Global) set out in Part IV of this document;
- 21.3 the unaudited pro forma statement of net assets and letter from Kost, Forer, Gabbay & Kasierer (a member of Ernst & Young Global) set out in Part V of this document;
- 21.4 the audited accounts referred to in paragraph 20.14 above;
- 21.5 the employment agreements and letters of appointment referred to in paragraph 7.1 above;
- 21.6 the material contracts referred to in paragraph 12 above;
- 21.7 the letters of consent referred to in paragraph 20.15, paragraph 20.17 and paragraph 20.18 above;
- 21.8 the report of SRK Consulting set out in Part II of this document;
- 21.9 the Deed Poll referred to in paragraph 15 above; and
- 21.10 this document.

Dated 9 May 2005

DEFINITIONS

The following definitions apply throughout this document, unless the context requires otherwise:

“Act” or “Companies Act”	Companies Act 1985 (as amended);
“Admission”	the admission of the Ordinary Shares, issued and to be issued pursuant to the Placing, to trading on AIM becoming effective in accordance with the AIM Rules;
“AGMK”	OAO Almalik Mining Metal Plant, a company registered and existing under the Laws of the Republic of Uzbekistan and which has its registered address at 53 Amir Timur Street, Almalik, Uzbekistan;
“AIM”	AIM, a market operated by the London Stock Exchange;
“AIM Rules”	the rules of the London Stock Exchange governing the admission to and operation of AIM;
“Board”	the board of directors of the Company;
“Combined Code”	the revised Combined Code containing the principles of good Corporate Governance and the Code of Best Practice published in July 2003 by the Financial Reporting Council;
“Company” or “Metal-Tech”	Metal-Tech Ltd., a company incorporated in the State of Israel with registered number 51-11163-94;
“CREST”	the relevant system (as defined in the CREST Regulations) operated by CRESTCo which facilitates the transfer and holding of title to shares in uncertificated form;
“CRESTCo”	CRESTCo Limited;
“CREST Regulations”	Uncertified Securities Regulations 2001 (SI 2001 No. 01/3755)
“Cukierman”	Cukierman & Co Investment House Limited;
“DI”	a depository interest representing underlying Ordinary Shares;
“Directors”	the directors of the Company as at the date of this document, whose details are set out on page 5 of this document;
“Durlacher”	Durlacher Limited, a company incorporated in England and Wales with registered number 1742592;
“Erdenet”	Erdenet Co. Ltd. a company incorporated under the laws of Mongolia;
“FSA”	Financial Services Authority of the United Kingdom;
“FSMA”	Financial Services and Markets Act 2000;
“Former Soviet Union”	a former communist country in eastern Europe and northern Asia, established in 1922 and including Russia and 14 other soviet socialist republics and officially dissolved on 31 December 1991;
“Group”	the Company and its subsidiaries;
“Hillah”	Hillah Consultants Ltd. Inc. of Gunlogsgade 61, 5th Floor, 2300 Copenhagen S, Denmark;
“IAS”	International Accounting Standards;

“Intellectual Property Assignment”	the assignment agreement assigning certain intellectual property rights dated 24 March 2005 from Ariel Rosenberg to the Company, further details of which are set out in paragraph 12.4 of Part VI of this document;
“Israeli Act”	Israeli Companies Law 5759–1999;
“IFTRIC”	Israeli Foreign Trade Risk Insurance Company;
“London Stock Exchange”	London Stock Exchange plc;
“MMTS”	Metek Metal-Tech SA, a company incorporated in Switzerland with registered number 626.3.009.533.3. and registered address c/o Fiduciaire Rhedanienne S.A., 26 Rue Fre-Fleuri, 1950 Sion, Switzerland;
“NIS”	New Israeli Shekel(s), the lawful currency of the State of Israel;
“Official List”	Official List of the UKLA;
“Ordinary Shares”	ordinary shares of NIS0.2 each in the capital of the Company;
“Placing”	the conditional placing by Durlacher of the Placing Shares to investors at the Placing Price pursuant to the terms and conditions of the Placing Agreement as described in this document;
“Placing Agreement”	the conditional agreement dated 9 May 2005 between the Company, Durlacher and the Directors relating to the Placing, a summary of the principal terms and conditions of which is set out in paragraph 10 of Part VI of this document;
“Placing Price”	130 pence per Placing Share;
“Placing Shares”	8,076,923 Ordinary Shares to be issued by the Company and subscribed for pursuant to the Placing Agreement;
“POS Regulations” or “Regulations”	Public Offers of Securities Regulations 1995 (as amended);
“Registrar”	Capita IRG plc, details of which are set out on page 6;
“Shareholder”	a holder of Ordinary Shares;
“Share Option and Warrant Scheme”	the share option and warrant scheme of the Company proposed to be adopted after Admission, a summary of the principal provisions of which is set out in paragraph 5 of Part VI of this document;
“Shim-Tech”	Shim Technology Co., Ltd., a company incorporated in Mongolia under number 2788691 and which has its registered address at 1 Amaryn Talbai, Orkhon aimag 213900, Mongolia;
“United Kingdom” or “UK”	United Kingdom of Great Britain and Northern Ireland;
“United States” or “US” or “U.S.”	United States of America;
“uncertified” or “in uncertified form”	recorded on the relevant register of the share or security concerned as being held in uncertified form in CREST and title to which, by virtue of the CREST Regulations, may be transferred by means of CREST;
“US\$”	US dollars, the lawful currency of the US;

“UTL”	Uzmetal Technology Limited, a company incorporated in the Republic of Uzbekistan under number 003111;
“UzKTJM”	Uzbek Refractory and Resistent Metals Integrated Plant, a company registered and existing under the laws of the Republic of Uzbekistan and which has its registered address at 5 Haidarova Street, Chirchik, Republic of Uzbekistan.

GLOSSARY OF TECHNICAL TERMS

“catalyst”	substance that accelerates a chemical reaction or process but which is chemically unchanged by it;
“cobalt”	hard, brittle metallic element used for heat resistant and magnetic alloys;
“concentrates”	the product after the mineral content of mineral ores has been increased;
“dumps and tailings”	wastes from mining operations;
“heavy metals”	metallic elements with a high specific gravity;
“hydrometallurgy”	the treatment of metal or the separation of metal from ores and ore concentrates by liquid processes, such as leaching, extraction, and precipitation;
“industrial waste”	waste resulting from industrial activity;
“leaching process”	the act of removing soluble or other constituent elements by the action of a percolating liquid;
“low quality ores”	ores that contain a lower percentage of valuable minerals;
“mining tails”	waste from mining operations;
“molybdenum”	silver-white metallic element used to strengthen and harden steel;
“powder metallurgy”	the production of solid metal from metal powder using pressure and sintering;
“rhenium”	dense grey metal that is a by-product of refining molybdenum, used in alloys and catalysts;
“sintered materials”	heating a powder material just below melting point so that it forms one solid mass;
“sludge”	semi-liquid waste material from industrial processes;
“tantalum”	hard grey heavy metallic element with special quality for electrical capacitors;
“technical oxide”	molybdenum concentrate that has been ‘roasted’ to remove sulphides;
“tungsten”	dense hard metallic element with a high melting point used in alloys due to its high strength and weight;
“tungsten carbide”	tungsten fused with carbon, a very hard material used for cutting tools; and
“turn-key”	a project that is ready to be put into operation and fully ready for use.