# Contents



Griffin Mining Limited is a mining and investment company whose principal asset is the Caijiaying zinc-gold mine, where Griffin has constructed the first new foreign owned and operated mine and processing facilities in the Peoples Republic of China. Further information on the Company is available on the Company's web site: www.griffinmining.com.

Griffin Mining Limited's shares are quoted on the Alternative Investment Market (AIM) of the London Stock Exchange (symbol GFM).

Registered number: EC13667 Bermuda.
Registered Office: Clarendon House, 2 Church Street, Hamilton HM11, Bermuda
United Kingdom office: 60 St James's Street, London SW1A 1LE. UK

**CAIJIAYING PROCESSING PLANT AUTUMN 2005**

# Chairman's Statement

Mladen Ninkov, Chairman, at Caijiaying

It gives me huge pride and pleasure to present to you, the shareholders and owners of Griffin Mining Limited ("Griffin" or the "Company"), the Annual Report and Accounts of the Company for the 2005 calendar year. You can justifiably be proud of the year the Company has had.

Against popular industry opinion and against most financial analysts' views, the Company successfully developed, built, commissioned and now operates very profitably, the Caijiaying Zinc-Gold mine in the People's Republic of China (the "PRC"). This is a landmark achievement for the Company, the mining industry and the PRC.

At Company level, the Caijiaying mining operations guarantee the long term financial success of Griffin. This financial success has been even further enhanced by the dramatic rise in the price of commodities, and in particular, the extraordinary rise in the price of zinc. As you are well aware, the Company's feasibility study was commissioned using a US$760 a tonne zinc price. Knowing that mining is essentially a fixed cost business, next years financial statements should admirably exhibit what a zinc price of US$3,300 a tonne can do for the financial performance of the Company.

Of course, this is just the beginning. With no debt on the balance sheet, no hedging commitments and a fully built and operating processing plant at Caijiaying located adjacent to a long life ore body, the financial future of the Company has been well secured. However, the Company remains fully focused on generating even greater returns for its shareholders. This will be achieved in three major ways:

1. A continuing drive to expand the throughput and, ipso facto, the amount of zinc metal being generated by the Caijiaying processing facilities. The plant was designed and built to process 200,000 tonnes of ore per annum. Within 7 months, the Company has already increased throughput by 50% and is currently processing approximately 300,000 tonnes of ore on an annualized basis. A striking achievement by the Company. Needless to say, the Company continues to drive to increase throughput even further.

2. As evidenced by the announcements made by the Company during the year and by the tables contained in the Review of Operations herein, the exploration potential of the greater Caijiaying area improves every day as we seek to discover the mysteries that Mother Nature has hidden beneath the surface. As this is written and spring rears its head, an RC drill rig has been mobilized at Caijiaying to begin drilling the epithermal gold targets south of Zone II. Furthermore, the Company has approved the driving of another decline into Zone II, from the base of which the Company has commissioned a significant underground

drilling program to investigate further zinc and gold mineralisation. The Company has every hope that Zone II will become a second mine for the Company and an alternative source of ore for the Caijiaying processing plant.

3. The Company continues to investigate and evaluate further potential acquisitions. That process has become substantially more difficult by the buoyancy of the commodities market which has filtered through to the financing of a large number of marginal and uneconomic mineral deposits. This will, inevitably, end in tears. In the interim, it has made the acquisition of any worthwhile project, of which there are very few, prohibitively expensive and incapable of being economically justified. The Company continues to move forward on a number of projects which will only be consummated if they display the risk reward profile required to generate the returns expected by the shareholders of the Company.

Traditionally I have made mention of the people who throughout the year have made an extraordinary contribution to the success of the Company. Unfortunately, the number of employees and contractors the Company now employs is far too large for me to list each individual who deserves such recognition. For that, I sincerely apologise. Simply put, the Company owes all of them, whether they have left our employ or whether they strive every day for the Company's benefit, a huge debt. That includes all of the on-site Chinese personnel, our expatriate employees, our Perth staff and our London staff.

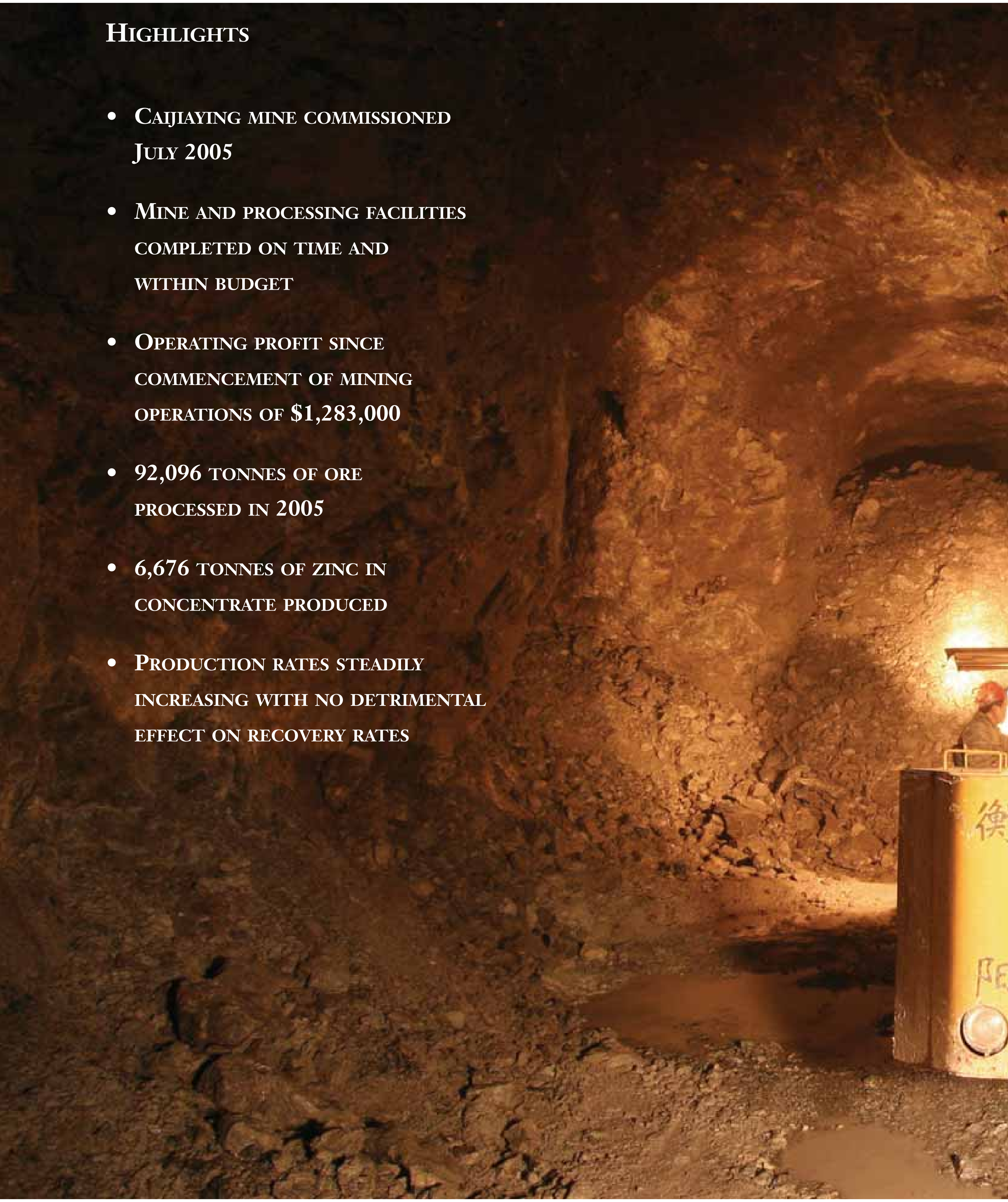
I would, however, like to make a special mention to some of the new members of the Griffin team. Welcome to our new Nominated Advisor and Nominated Broker, Collins Stewart, and in particular Jonathan Guy; to our new Group Operations Manager, Dominic Claridge; and our new Caijiaying Operations Manager, Dave Pelchen. They have all made wonderful contributions in the time they have worked with the Company.

On a personal level, a thank you is insufficient to repay the debt the Company owes to Rupert Crowe for his role in the Company's success. He has now ended his secondment to the Company and returned to CSA Australia Pty Ltd. Rupert will continue to guide the Company's exploration program and evaluate the Company's acquisitions.

Indulgently, I would also like to thank my fellow directors who have truly performed above and beyond anyone's reasonable expectations. In particular, thanks to Roger Goodwin for his continuing ability to handle the job of three people in the London office.

Lastly, and most importantly, thank you to you, the shareholders and owners of the Company, many of you who have been shareholders of the Company since the earliest days of late 1997. My hope is that the Company has repayed the loyalty, patience and financial commitment which you have shown over the past 8 years. Rest assured, the Company has, and will continue, to strive to do even better.

Mladen Ninkov
Chairman
16 May 2006



## Highlights

- Caijiaying mine commissioned July 2005
- Mine and processing facilities completed on time and within budget
- Operating profit since commencement of mining operations of $1,283,000
- 92,096 tonnes of ore processed in 2005
- 6,676 tonnes of zinc in concentrate produced
- Production rates steadily increasing with no detrimental effect on recovery rates

**Stoping at Caijiaying**

# REVIEW OF OPERATIONS

## *INTRODUCTION*

Griffin is a mining and investment company listed on the Alternative Investment Market of the London Stock Exchange. Its principal asset is the mine, processing facilities and extensive exploration ground located at Caijiaying, Hebei Province ("Caijiaying") in the Peoples Republic of China ("China" or the "PRC").

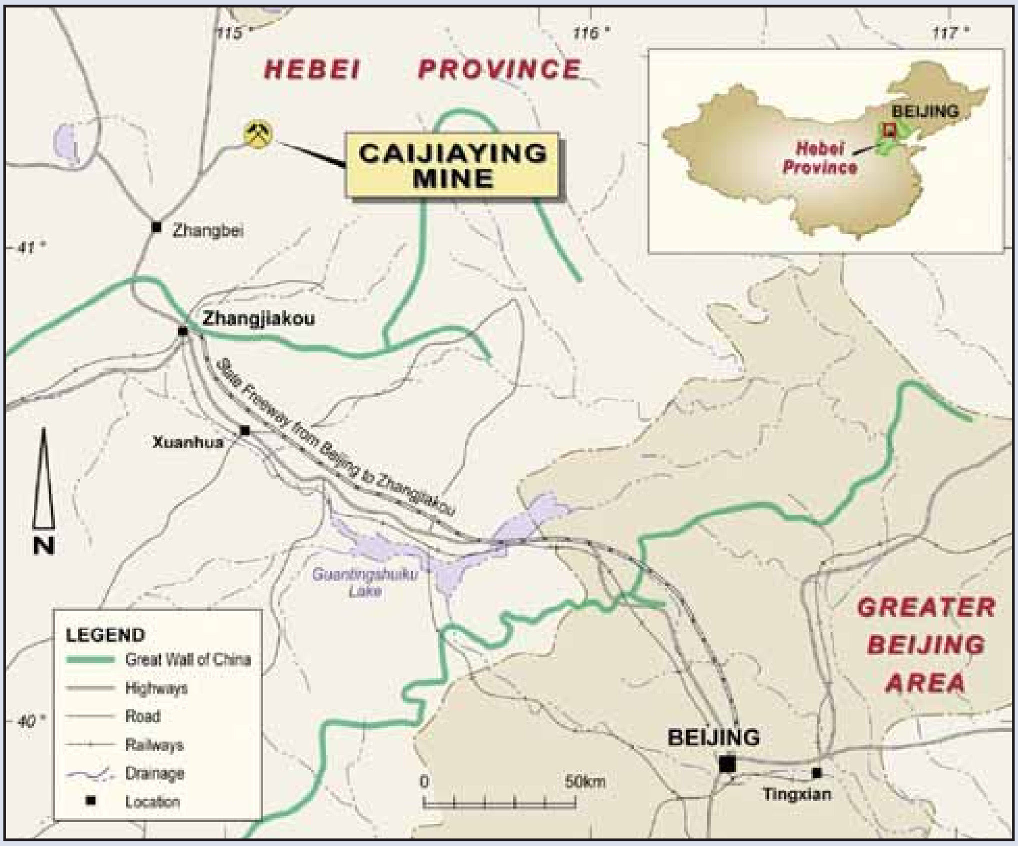
## *CAIJIAYING ZINC-GOLD MINE*

Griffin, through two joint ventures, has a controlling interest in mining and exploration licences over 67 square kilometres at Caijiaying.

During 2005, Griffin successfully commissioned the mine and processing facilities at Caijiaying with an initial design production rate of 200,000 tonnes of ore per annum (23 tonnes of ore per hour). This throughput was estimated to produce some 18,000 tonnes of zinc metal in concentrate. Production rates have been steadily increased since commissioning from 23 tonnes of ore per hour to 33 tonnes of ore per hour without any detrimental effect on recovery rates and without the need for additional capital expenditure. Steps continue to be taken by the Company's management to further increase production at Caijiaying. A precious metals circuit has been included in the processing facilities which will enable gold to be produced on site when commissioned.

The Group currently has neither debt nor any hedging commitments.

Continuing exploration in the area surrounding the mine at Caijiaying and within Griffin's tenement boundary has shown the area to be highly prospective, indicating significant potential for further economic base and precious metals mineralisation.




CAIJIAYING MINE LOCATION

### *CAIJIAYING AREA*

Caijiaying is located approximately 200 km north-west of Beijing in the Hebei Province of the PRC. The site is easily accessible by freeway from Beijing to Zhangjiakou and then via two alternative major sealed roads from Zhangjiakou to site. The site has significant water supplies available and has two independent connections to the electricity grid and three onsite back-up diesel generators. The site is also fully serviced by full telecommunications connectivity including broadband access for internet services.

The Caijiaying area is on the south-east edge of the Mongolian Plateau. Conditions are not severe with warm summers and cold, dry winters.

### *LEGAL STRUCTURE*

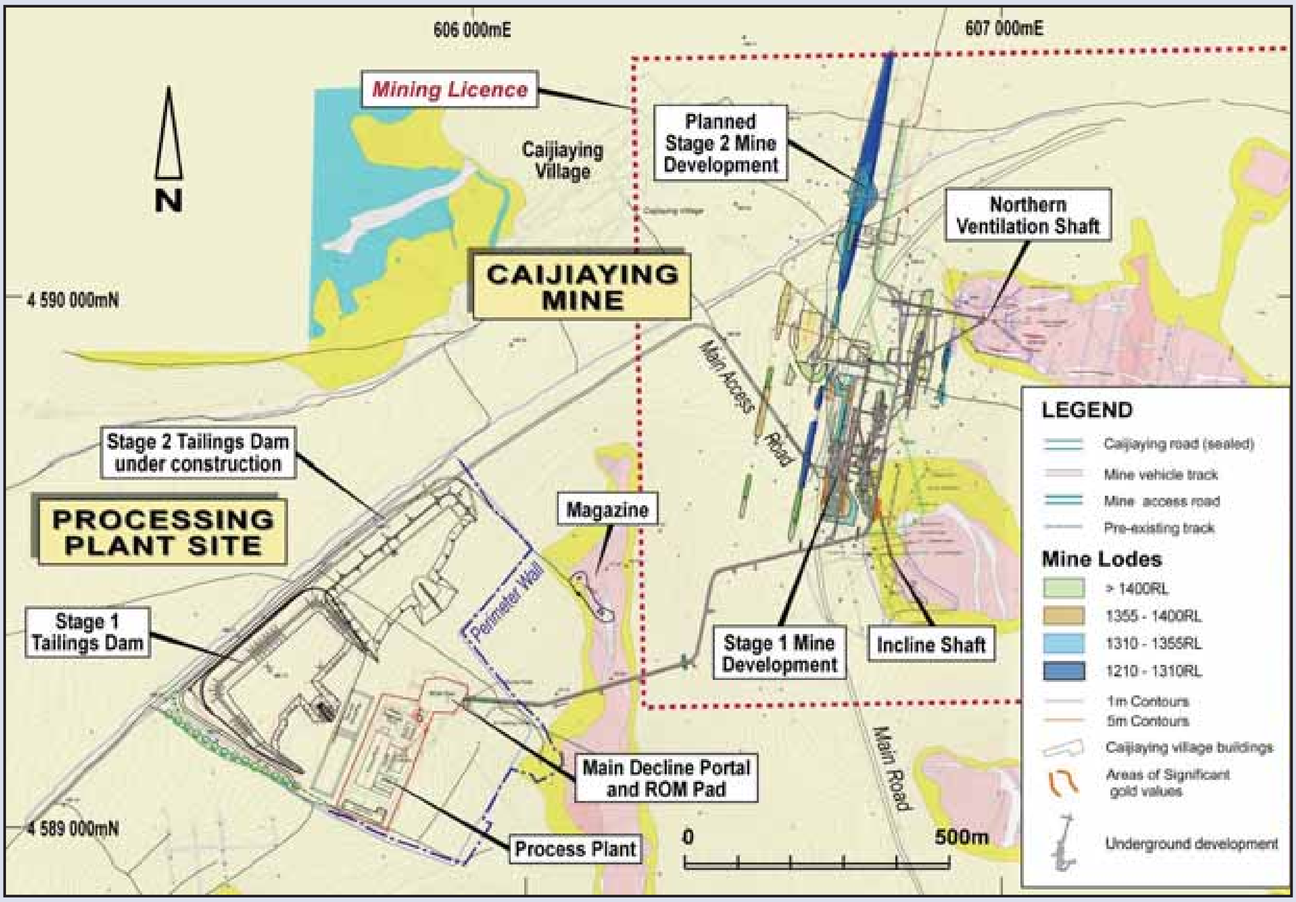
Griffin's initial interest in Caijiaying was obtained through the acquisition in 1997/98 of a 100% interest in China Zinc Pty Limited ("China Zinc") and its local Chinese subsidiary company, the Hebei Hua-Ao Mining Development Company Limited ("Hebei Hua-Ao").

Hebei Hua-Ao is a contractual co-operative joint venture entity established in 1994 in which Griffin, through China Zinc, holds a 60% equity interest and the Chinese joint venture partners (which include the Zhangjiakou City People's Government, the Hebei Bureau of the Ministry of Land and Resources and the Third Geological Brigade) have a 40% interest. Significantly, for the first three years of commercial production, 100% of the net cash flows from the Caijiaying mine accrue to Griffin through its wholly owned subsidiary, China Zinc.

In October 1998 Hebei Hua-Ao was the first foreign controlled joint venture to be awarded a new exploration licence for a hard rock deposit in the PRC when it received an exploration licence covering an area of 11.3 square kilometres at Caijiaying.

On 21 March 2002, Hebei Hua-Ao became the first foreign controlled joint venture to be granted a mining licence over a base metals deposit in the PRC when it was granted a mining licence over 1.56 square kilometres of the original 11.3 square kilometre licence area at Caijiaying. This is the area currently being mined at Caijiaying.

In January 2004 a second contractual joint venture company, the Hebei Sino Anglo Mining Development Company Limited ("Hebei Anglo"), was formed to hold an exploration licence over 55.7 square kilometres surrounding the original 11.3 square kilometre licence area at Caijiaying and any further areas of interest in Hebei Province. Griffin, through its wholly owned UK subsidiary company Panda Resources Limited, has a 90% interest in Hebei Anglo. The other Chinese shareholders remain the same as in Hebei Hua-Ao. Their 10% interest remains free carried until the commissioning of a full feasibility study on any new mineral deposits found by Hebei Anglo.




General layout Caijiaying mine

## *Caijiaying Operational Developments 2005/06*

The Caijiaying mine and processing facilities were successfully commissioned in July 2005 with full production, as outlined in the feasibility study, being achieved some three months later. The commissioning was achieved within budget and on time.

With the exception of the gold circuit, the plant consists almost entirely of Chinese manufactured equipment. This has a number of benefits including readily available and easily accessible spare parts, equipment and local personnel familiar with the equipment avoiding the need for expensive training and foreign staff.

Unexpectedly, during mine development, mineralisation was found at shallower levels than previously expected. As a result, some 40,000 tonnes of ore was extracted during mine development and stockpiled in advance of the processing plant being commissioned. This ready supply of ore enabled the plant to be tested to its specified design capacity at a very early stage of its operation.

As is normal industry experience, a number of teething problems were encountered during commissioning which were rectified quickly due to the skilled on-site labour force and a ready source of replacement equipment and spares.

As commissioning of the plant progressed, steady improvements were made in plant throughput, recoveries, concentrate grade and residual tailings grades. By the autumn of 2005, the process plant was working to the parameters of its design specifications with recoveries in excess of 90% and production rates in excess of 200,000 tonnes of ore on an annualised basis.

The Company continually seeks to increase the process plant's production rates. By February 2006, throughput had reached an annualised rate of 275,000 tonnes of ore, some 38% over design capacity, with no additional capital expenditure required. Mill capacity has still to reach is upper limit. Plant upgrades are planned for the 2006 summer period to further increase plant and throughput capacity.

The Company has taken a conscious decision to lower the head grade being fed into the mill from that envisaged in the feasibility study as current zinc prices have significantly lowered the economic cut-off grade that can be applied to the orebody, thus significantly prolonging the currently known mine life. The head grade has been lowered from 11.6% zinc to 8.5% zinc.

During 2005, the main production decline was developed to a depth of 200 vertical metres from surface (1300 metres above sea level "the 1300 level"). The production and ventilation drive at the 1400 level was completed linking the main decline with the northern ventilation shaft. A number of cross cuts and sub inclines have been driven from this level. Development into a number of lodes has been completed on the 1355, 1358 and 1368 levels.

This development work has given access to the Fu Long, Jin Long and Chang Long lodes allowing stoping to commence at each of these areas. Access has also been gained to the Hong Long lode to the west and more recently, a start has been made in accessing the main Ju Long lode at a lower level to the north, which is expected to provide a significant portion of production in future years. Further lodes have been identified for future access and development.

In the period to 31 December 2005, 155,000 tonnes of ore were mined, 92,096 tonnes of ore were processed and 6,321 tonnes of zinc metal in concentrate sold.

Zinc concentrate is currently being sold to Chinese smelters and other interested parties in China via an auction process held at Caijiaying each month. The price is calculated via a three round auction process. Payment from the successful bidder must be received in advance prior to the release of the concentrate from site.

After taking due account of indicative smelter charges and transportation costs, the prices received by Hua-Ao for zinc concentrate in 2005 have been in excess of indicative prices overseas.

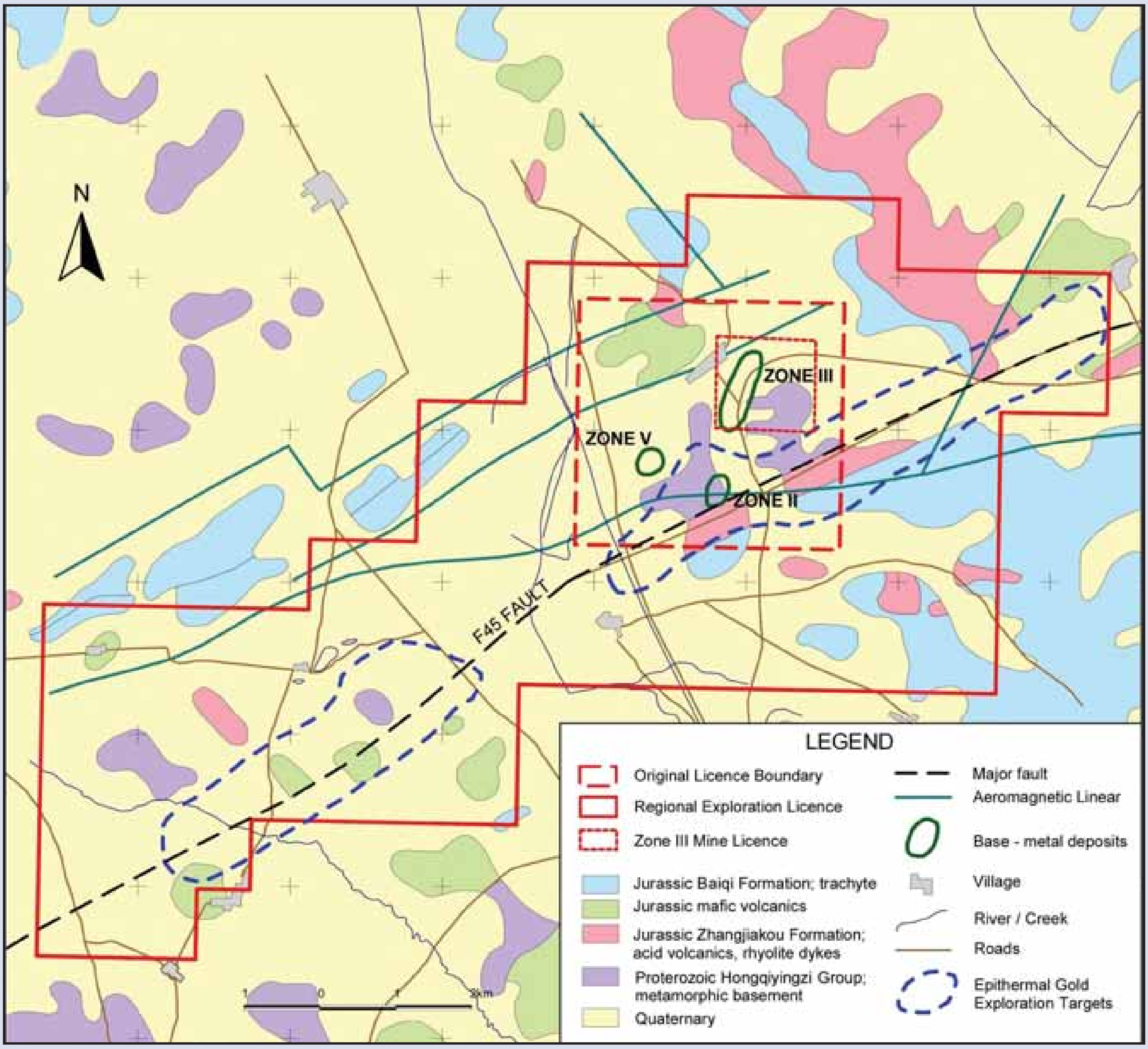
In view of the current high zinc prices and the ready availability of zinc ore at shallower levels, management has focused on the extraction and processing of zinc ore without extracting and processing gold rich ore.

As the mine is developed further and access is obtained to lower levels through scheduled mining, gold rich ore will begin to be extracted, particularly at the southern end of Zone III where higher grade gold is located. Griffin expects to produce gold doré bars on site.

## *Caijiaying Geology*

With the development of the Caijiaying Mine the geological understanding of the orebody has improved considerably. Essentially, the pre-mining interpretations of the origin of the orebody have been largely confirmed by mapping and detailed thin-section studies of the rocks. The belief that the zinc mineralisation was emplaced during a 131-204 million year-old volcanic episode that affected the 2.3 billion-year-old metamorphic basement rock is now accepted.

The base metal and minor gold mineralisation has replaced suitable horizons in the metamorphic rocks, particularly calcareous parts. Structural mapping has showed that the pre-existing rocks were complexly folded and faulted before the mineralisation was introduced and that, after being mineralised, the whole sequence was intruded by a set of porphyry sills and dykes, which have cut across the sequence, particularly along previous fault lines.




Caijiaying regional geology

Underground drilling in the Mine at Zone III has gradually confirmed the mineralised lodes as trending north-south as previously believed.

Griffin has also been trying to ascertain the controls on the distribution of high-grade gold within the Zone III orebody. Interestingly, the zinc mineralisation that contains high gold is identical with non-gold bearing zinc ore. Griffin has conducted some detailed studies on this issue and is now being assisted by a grant-funded academic research program organised by consultant Dr Noel White, which is being conducted at the University of Tasmania.

By maintaining the effort to understand the gold mineralisation in the mine, it is hoped that the studies will also help explain the distribution of the later epithermal mineralising event of gold/silver mineralisation that has been identified in the area along the major F45 Fault system. The latter is one of the major exploration targets in the area.

## *RESOURCE ESTIMATE AND RECONCILIATION*

The pre-mining resource estimate as compiled by Micromine Consulting Pty Ltd was as follows:

| Category | Cut-off Tonnes | Million Grade | Zinc % Grade g/t | Gold |
|---|---|---|---|---|
| Indicated | 4% | 16.9 | 7.84 | 0.75 |
| Inferred | 4% | 6.68 | 8.69 | 0.5 |
| Total | 4% | 23.6 | 8.08 | 0.68 |
| Indicated | 7% | 6.95 | 11.58 | 0.64 |
| Inferred | 7% | 3.60 | 11.73 | 0.49 |
| Total | 7% | 10.56 | 11.63 | 0.59 |

Since the start of mining at Caijiaying, the emphasis has been on converting this resource to measured status to enable detailed mine design and forward planning to be compiled. This is being achieved primarily by underground core drilling but augmented by mapping of drives and cross cuts. The initial lodes have been drilled out in detail at 10 metre x 10 metre spacing but, as the understanding of the

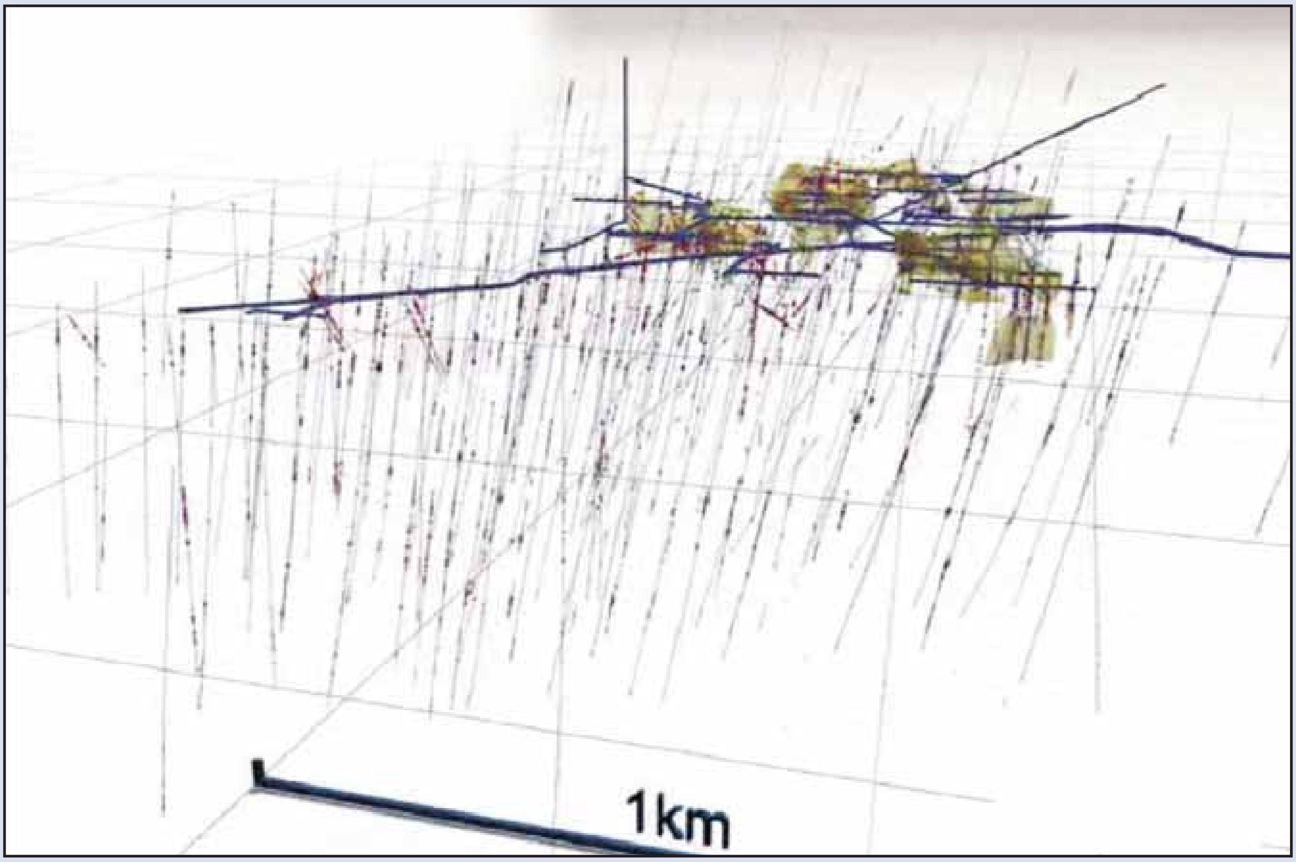



ILLUSTRATION OF THE UNDERGROUND DRILL DEFINED LODES AT THE END OF 2005 IN COMPARISON WITH THE TOTAL ZONE III ABOVE GROUND DRILL GRID mineralisation improves, this drill spacing is being increased. Up until the end of 2005, 23,000 metres of underground drilling had been completed in the Fu Long, Chang Long, Hong Long and parts of the Jin Long Lodes.

It is estimated that the amount of the total pre-mining resource that has been tested by the underground drilling program to date is only 10% of the total resource estimate. This is illustrated graphically in the preceding figure.

## *EMERGING ZINC/GOLD RESOURCE*

As part of the ongoing underground drilling program there has been a very encouraging increase in the number of significant gold results emerging from within the Lower Fu/Jin Long Lode system. This has been the first area contemplated for defining a mineable gold resource within Zone III.

The majority of the high gold values sit below the level of current mining activity (the 1355 level) and will not be mined until later in the mining schedule.

Significant intersections from underground drilling in Jin Long Lode (of greater than 3 metres at 3 grams per tonne gold) are shown in the following table:

| Hole UGCY | From | To | **Interval** | **Au g/t** | **Zn%** | Pb% | Ag g/t |
|---|---|---|---|---|---|---|---|
| - 005 | 76.0 | 81.0 | **5.00** | **3.86** | **7.26** | 0.01 | 11 |
| - 008 | 77.6 | 81.17 | **3.57** | **7.16** | **13.43** | 0.02 | 15 |
| - 015 | 27.3 | 38.26 | **10.96** | **4.92** | **3.76** | 0.14 | 15 |
| - 040 | 21.0 | 25.2 | **4.20** | **6.54** | **5.47** | 0.04 | 25 |
| - 079 | 30.0 | 34.3 | **4.30** | **3.24** | **5.46** | 0.02 | 18 |
| - 090 | 40.0 | 46.0 | **6.00** | **5.32** | **5.82** | 0.19 | 46 |
| - 105 | 68.9 | 71.9 | **3.00** | **4.00** | **6.15** | 0.01 | 6 |
| - 120 | 29.0 | 34.05 | **5.05** | **6.74** | **7.73** | 0.05 | 28 |
| - 123 | 38.0 | 48.2 | **10.20** | **8.65** | **5.04** | 0.02 | 21 |
| - 134 | 36.0 | 39.5 | **3.50** | **4.45** | **7.56** | 0.66 | 143 |
| - 154 | 17.0 | 20.45 | **3.45** | **3.72** | **5.45** | 0.01 | 6 |
| - 167 | 45.25 | 54.9 | **9.65** | **10.08** | **10.11** | 0.21 | 71 |
| - 168 | 60.55 | 66.0 | **5.45** | **8.92** | **10.17** | 0.14 | 47 |
| - 170 | 57.25 | 61.5 | **4.25** | **5.29** | **4.72** | 0.09 | 44 |
| - 190 | 72.75 | 76.7 | **3.95** | **3.59** | **5.88** | 0.02 | 17 |
| - 192 | 47.0 | 59.0 | **12.00** | **3.58** | **2.75** | 0.01 | 12 |
| - 200 | 42.7 | 49.5 | **6.80** | **6.55** | **2.60** | 0.22 | 44 |
| - 202 | 35.5 | 45.0 | **9.50** | **7.81** | **6.97** | 0.04 | 22 |
| - 213 | 40.0 | 45.0 | **5.00** | **11.15** | **4.67** | 0.13 | 27 |
| - 214 | 109.0 | 117.8 | **8.80** | **19.20** | **7.35** | 0.05 | 37 |
| - 214 | 134.9 | 141.1 | **6.20** | **14.27** | **13.96** | 0.04 | 13 |
| - 219 | 58.1 | 63.2 | **5.10** | **6.29** | **7.98** | 0.65 | 42 |
| - 223 | 82.3 | 105.0 | **22.70** | **8.36** | **6.44** | 0.20 | 62 |
| - 223 | 76.15 | 80.05 | **3.90** | **5.28** | **2.13** | 0.15 | 40 |
| - 223 | 70.5 | 74.0 | **3.50** | **4.56** | **2.25** | 0.02 | 11 |
| - 228 | 102.0 | 109.0 | **7.00** | **3.11** | **6.39** | 0.02 | 15 |
| - 231 | 34.0 | 37.0 | **3.00** | **3.25** | **2.18** | 0.04 | 7 |
| - 262 | 57.8 | 65.0 | **7.15** | **4.44** | **10.39** | 0.01 | 5 |
| - 268 | 22.8 | 26.0 | **3.20** | **3.51** | **8.06** | 2.89 | 75 |
| - 272 | 22.0 | 33.55 | **11.55** | **7.38** | **8.34** | 0.16 | 37 |
| - 272 | 36.0 | 50.1 | **14.10** | **3.02** | **3.49** | 0.03 | 25 |
| - 274 | 38.00 | 45.20 | **7.20** | **4.71** | **2.49** | 0.01 | 12 |
| - 275 | 34.90 | 43.10 | **8.20** | **3.93** | **6.19** | 0.04 | 16 |
| - 276 | 42.80 | 47.00 | **4.20** | **8.79** | **4.61** | 0.02 | 17 |
| - 294 | 41.00 | 45.55 | **4.55** | **4.70** | **13.12** | 0.02 | 13 |
| - 295 | 31.50 | 36.40 | **4.90** | **4.24** | **1.81** | 0.03 | 10 |
| - 313 | 52.95 | 57.00 | **4.05** | **3.20** | **3.04** | 0.01 | 25 |
| - 379 | 66.70 | 71.00 | **4.30** | **6.65** | **5.88** | 0.46 | 126 |

## *MINE DEVELOPMENT*

During 2005, mining activities were focused on access development to the various lodes for immediate mining of ore and the installation of capital infrastructure.

Capital development centred on the main production decline which was continued to the 1300 level, with development of cross cuts to the lodes at various levels. Although not an immediate mining level, the development of the decline to the 1300 level will enable diamond drilling to be completed on the large Ju Long lode system.

The primary ventilation system was established with the development of a 3 metre diameter shaft being sunk, which was connected through a series of drives to the stoping areas and connected to the main decline. The primary ventilation system is now established for the life of the mine.

Although the feasibility study had anticipated high water inflows to the underground workings, water flows have been steady at a rate, approximately one quarter of pumping design rates.

All mining to date has been in line with feasibility study proposals. All development and stoping is being carried out using non mechanised techniques. Mine haulage is the only area where mechanisation has been implemented. Locally manufactured trucks and loaders are being used by the mine contractors.

23,000 metres of stope definition drilling was completed in 2005 and, with conversion of resources continuing to be successful, drilling will continue throughout 2006 to enable the mining ore reserves to be updated and hence enable a life-of-mine plan to be developed for the operation.

Given the ore bodies have been seen to be amenable to mechanisation, the decision was made late in 2005 to convert suitable areas to a long-hole open stoping mining method. The mixture of mining techniques available will enhance the productivity of mining operations. Non mechanised mining will enable controlled mining on the orebody fringes, thus keeping dilution to a minimum and maximising ore recovery, while mechanised mining will allow for lower cost bulk mining in the main orebody cores.

## *ADMINISTRATION AND MANAGEMENT*

Griffin, in combination with the Beijing Engineering Non-Ferrous Institute, has structured the Caijiaying mine and processing facilities to be constructed in a flexible and cost effective manner, maintaining management control for the benefit of Griffin whilst at the same time accessing Chinese expertise in designing and installing their equipment. This system has helped keep costs under control and maintain vital timetables. With the benefit of these relationships and its experience in developing Caijiaying, Griffin is uniquely placed to develop additional projects in China.

Nearly 200 people are now employed by Hebei Hua-Ao at Caijiaying, with an additional 200 people working on site via a number of local contractors for the provision of mining services, ore haulage and other supporting services.

It is Company policy to employ local people and use local contractors wherever possible. This, together with improvements in infrastructure by the local authorities, is already bringing significant economic benefits to Caijiaying and the surrounding area.

In addition to local staff, a number of expatriate staff have been employed to assist in the technical aspects of the operation. Foreign staff currently include a mine manager, accountant, two geologists, metallurgist, mine superintendent and two alternate underground diamond drill supervisors. As more experienced local staff are employed and existing local personnel become fully trained, Griffin hopes to reduce the number of expatriate staff at Caijiaying.

## *Caijiaying Exploration Program*

With the Caijiaying mine in production, Griffin is re-setting its policy for long-term exploration of the Caijiaying area. The understanding gained from developing the Caijiaying mine will, with careful and systematic work, greatly improve the chances of further discoveries in the region.

As previously indicated, the first priority has been to systematically explore the immediate vicinity of the Zone III Mine. Regional exploration has only recently been gradually expanded further afield.

Following these principles, a regional reverse circulation ("RC") drilling exploration program of the area surrounding the Caijiaying mine was undertaken in 2005. This was designed to test the main targets outlined in the Company's previous annual reports.

The program was conducted by Drillcorp Western Deephole of Western Australia using a specially imported Hydco rig with auxiliary booster. A total of 16,211 metres were drilled in 82 days between July and November 2005. Targets for the RC drilling program were defined using the previously completed ground magnetic and IP surveys.

The majority of the RC program was centred on the attractive targets at Zone II, 1.2 km south of the mine. These comprised epithermal gold targets associated with the north-east trending F45 Fault and also north-south zinc lodes and targets defined by previous Chinese drilling as well as induced polarity ("IP") targets defined by Griffin.

### *Zone II*

A new zinc deposit was discovered at Zone II East by drilling an IP target 200 metres east of the previously known main zone. Two RC drill holes yielded intersections of:

- 52 metres @ 5.45% zinc from 72 metres depth including
  12 metres @ 12.35% zinc from 72 metres and
  4 metres @ 7.61% zinc from 92 metres
  and
- 12 metres @ 5.82% zinc including
  8 metres @ 9.82% zinc and
  8 metres @ 116 g/t silver

RC drill rig on Zone II Summer 2005

Follow-up work, including a trial decline with an underground drilling program, is planned in 2006 to delineate this deposit and assess it for possible mining.

The main part of Zone II, 200 metres to the west of Zone II East, was also confirmed as a precious metals prospect with significant gold and silver intersections of:

- 10 metres @ 2.21 g/t gold and
- 8 metres @ 228 g/t silver from 171 metres

This suggests much more precious metal enhancement than was obvious from previous work.

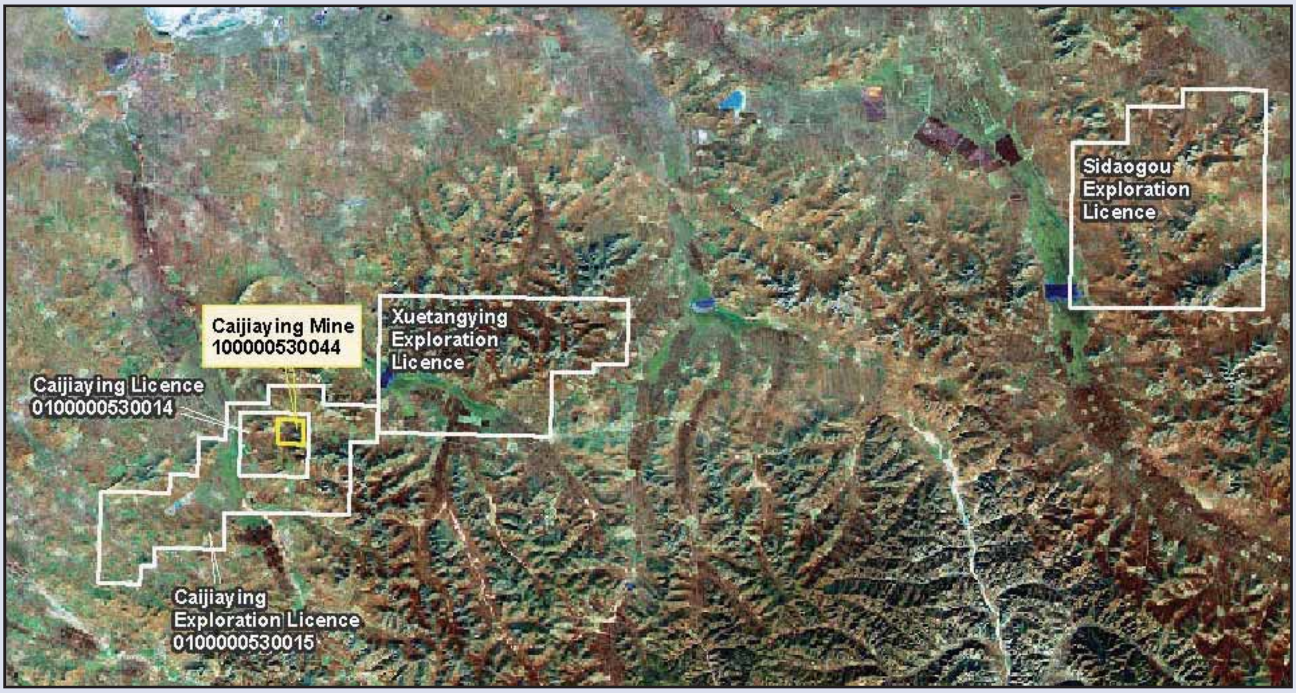
The zinc intersections from this zone are mainly in 4 metre composites and are in line with the previous Chinese results including:

- 4 metres @ 9.23% zinc from 116 metres
- 4 metres @ 8.16% zinc from 116 metres and
- 8 metres @ 5.06% zinc from 120 metres including 4 metres at 8.96% zinc
- 4 metres @ 5.89% zinc from 136 metres

***Area between Zone II & III***

It was not possible to test the 1 kilometre long area in the valley between Zone II and the mine at Zone III in 2005 due to what the Chinese authorities define as a newly planted "forest". A long lead time has been required for forestry permitting and land clearance to drill in this area. It has therefore been decided to conduct further deeper looking IP surveys over this area to better define the targets beneath the overburden before drilling more holes as soon as practicable.

The unknown potential of the Caijiaying area was further exemplified by an 8 metre wide zone of zinc mineralisation that was unexpectedly intersected in the mine access decline beneath the Zone III valley. It is planned to test this target to the north and south with underground drilling. If it proves extensive, it can easily be accessed by a branch off the main production decline.




SATELLITE IMAGERY OF THE CAIJAIYING AREA SHOWING EXISTING AND APPLIED FOR LICENCES

### *F45 Fault*

The primary target of the major F45 Fault zone, 1 to 1.3 kilometres south of the Caijiaying mine, has been confirmed with significant gold intercepts recorded in two holes 900 metres apart at approximately 150 metres depth. The two intersections recorded were:

- 4 metres @ 3.96 g/t gold and
- 3 metres @ 4.24 g/t gold

As both of the positive results are from a similar depth and some distance apart, they indicate the level of gold precipitation in this target area is similar to the level where gold is currently being proved in the mine in the south Jin/Fu Long Lode system. Defining the level of gold precipitation is an important step in targeting epithermal gold deposits and was a major aim of the survey.

As gold results continue to emerge from the mine underground drilling program, the geometry and nature of the gold mineralisation is becoming clearer and this knowledge is expected to impact favourably on the ongoing gold exploration program in the region.

Follow-up work planned for this target in 2006 comprises a first stage of further RC drilling along the now defined target. This will be undertaken in the Spring of 2006.

### *Regional Targets*

Two western targets were also tested by RC drilling. The holes that were drilled intersected Proterozoic basement (similar host rocks as in the Zone III mine) and so have potential for base metals. As the controls of base metals mineralisation become better understood, this area will need further work.

Zinc concentrate

## *THE FUTURE*

With the successful commissioning of the Caijiaying mine and processing facilities, Griffin has gained a well earned reputation as a mine developer, builder and operator in China. The Company is now uniquely placed to further expand its influence in the mining sector of the world's largest mineral producer. With this enhanced status, Griffin is being offered other high class mining projects by various arms of the PRC's local, provincial and central governments for development, modernisation and/or operation. It is the Company's intention to acquire further economically robust mining projects to expand operations should they become available and should they meet the rigorous mining and economic standards demanded by the Company.

Griffin will continue to initiate and investigate transactions both within its traditional mining base and other areas where its staff and consultants have particular expertise, in order to add further value to the Company.

## *FINANCIAL*

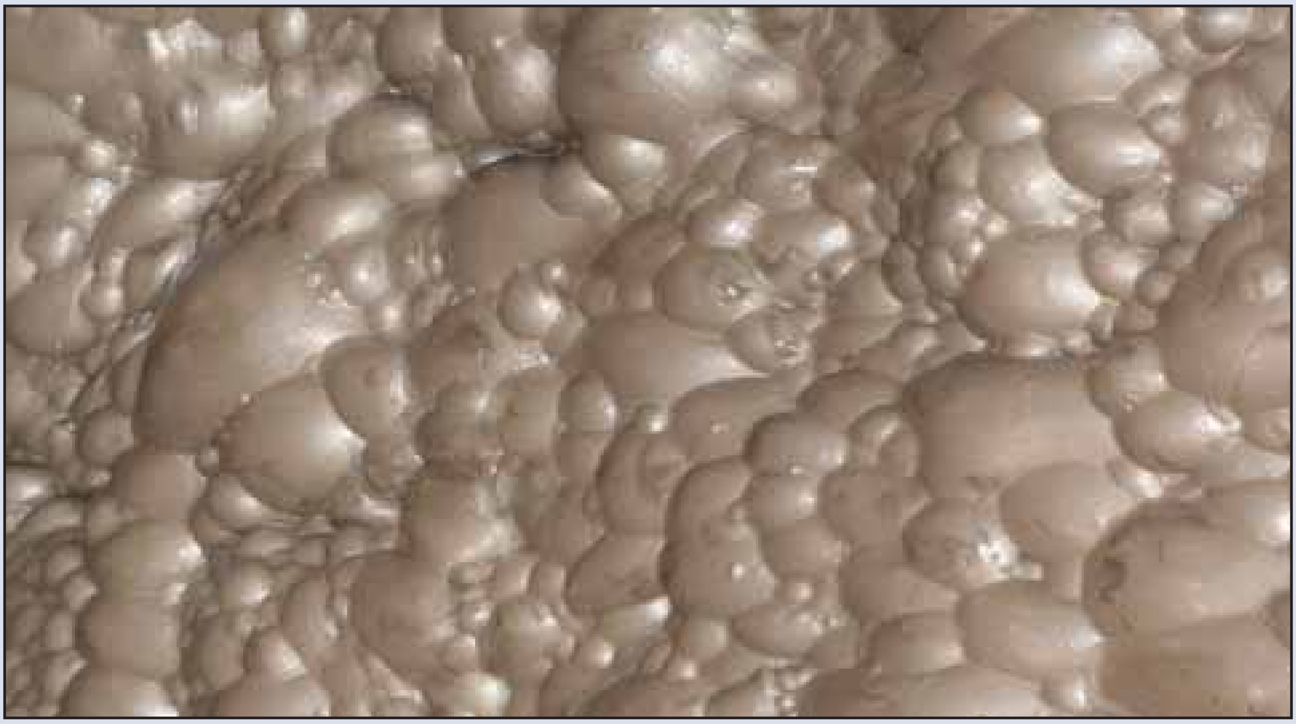
The Group recorded a profit for the year of $311,000 (2004 loss restated $111,000).

Since commissioning the Caijiaying mine in July 2005, the group has achieved an operating profit from mining operations of $1,283,000 in the 6 months to 31 December 2005.

The Company has applied International Financial Reporting Standards (IFRS) to its 2005 accounts in full. The adoption of revised IFRS2, covering share based payments, has resulted in a charge to profit in 2005 of $333,000 and an adjustment to the 2004 results for a charge to profit and loss of $509,000.

Foreign exchange losses of $411,000 were recorded in 2005 (2004 gains $939,000) on foreign currency deposits.

Following commissioning of the mine Griffin has been able to repatriate funds from the PRC including inter company charges, interest and loan repayments.



ZINC CONCENTRATE IN SUSPENSION AT CAIJAIYING

**CAIJIAYING PROCESSING PLANT AT COMMISSIONING**

# Directors and Senior Executives

## *Directors:*

**Mladen Ninkov, Chairman, Australian, aged 44,** holds a Masters of Law Degree from Trinity Hall, Cambridge and Bachelor of Laws (with Honours) and Bachelor of Jurisprudence Degree from the University of Western Australia. He is a principal of Keynes Capital. He has a mining, legal, fund management and investment banking background and is admitted as a barrister and solicitor of the Supreme Court of Western Australia. He was a director and Head of International Corporate Finance at ANZ Grindlays Bank Plc in London, a managing director of Maxwell Central and East European Partners plc in London and a Vice President of Prudential-Bache Securities Inc. in New York. He also worked at Skadden Arps Slate Meagher & Flom in New York and Freehill Hollingdale & Page in Australia. He was Chairman of Westgold Resources NL and a director of Ramsgate Resources NL, both companies listed on the Australian Stock Exchange, and was also a director of Mt Monger Gold Project Pty Ltd, Castle Hill Resources NL and Matu Mining Pty Ltd.

**Roger Goodwin, Finance Director, British, aged 51,** is a Chartered Accountant. He has been with the Company since 1996 having previously held senior positions in a number of public and private companies within the natural resources sector. He has a strong professional background, including that as a manager with KPMG, with considerable public company and corporate finance experience, and experience of emerging markets particularly in Africa, the CIS and Eastern Europe. Roger was named as one of the top 100 UK finance directors of 2004 by Finance Week magazine.

**Dal Brynelsen, Director, Canadian, aged 59,** is a graduate of the University of British Columbia in Urban Land Economics. Mr. Brynelsen has been involved in the resource industry for over 30 years. He has been responsible for the discovery, development and operation of several underground gold mines during his career. Mr. Brynelsen is the President and a director of Vangold Resources Limited and provides independent consulting services to private clients and institutions.

**William Mulligan, Director, USA, aged 62,** has a BSc from Thomas Clarkson University, an MS in Geological Engineering from the University of Connecticut and an MBA from NYU Bernard Baruch School of Business Administration. He is currently the Managing Director for Global Projects and Political Risk at AIG Global Trade and Political Risk Insurance Company, a wholly owned subsidiary of American International Group Inc., and a director of AIG Investment Bank (ZAO) Ltd based in Moscow. From 1994 to 1996 he was Executive Vice President for Corporate Development at Latin American Gold Limited. He was a director of Arcon International Plc, the Dublin based company which operates the Galmoy zinc mine in Ireland.

## *Senior Executives:*

**Dominic Claridge, Project Manager, Australian, aged 43** holds a degree in mining engineering from the University of Sydney (Australia). He has been involved in the mining industry for over 20 years having worked predominately with Australian mining companies, with short interludes in South Africa and Finland. He has worked in a variety of operations encompassing both underground and open cut mining, from small to medium sized mines. More recently he has worked in China as deputy general manager for an underground gold operation and was project manager for a start up gold operation in Australia.

**Jeff Haitian Sun, General Manager China, Chinese, aged 46,** is a Professor of Geology based in Beijing. He holds a PhD and MSc in mineral deposits from the Chinese University of Geosciences and has undertaken postdoctoral research in geology at the Norwegian University of Technology. Jeff has worked on a number of mineral projects both in China and overseas. Prior to joining Griffin he was engaged by Mundoro Mining Inc of Canada as a senior geologist.

**David Pelchen, Mine Manager, Australian, aged 47,** holds a degree in mining engineering from Ballarat C.A.E. He has worked in the mining industry for over 20 years primarily in Australia and New Zealand. Prior to his being appointed Mine Manager at Caijiaying he was General Manager for over 10 years of Mineral Hill Mine, an underground copper gold mine in Australia.

From left to right: Sitting **Mr Pei Xiaodong**, Director 3rd Geological Brigade and JV Director; Mr **Zhao Quanle**, Deputy Director MLR and JV Director (retired); **Mr Zhang Baoyi**, Chairman Zhangjiakou City Government and JV Director (retired); **Mr Qi Chengxiao**, JV Deputy General Manager (retired); **Mr Jin Shengchang**, JV Director and Chief Financial Officer; **Mr Ren Pingjun**, JV Deputy General Manager; Standing **Mr Jeff Haitian Sun**, General Manager China, Griffin Mining; **Mr Mladen Ninkov**, Chairman Griffin Mining and JV; **Mr Roger Goodwin**, Finance Director Griffin Mining and JV Director.

# DIRECTORS' REPORT

The Directors submit their report together with the audited consolidated accounts of Griffin Mining Limited ("the Company") and its subsidiaries ("the Group") for the year ended 31 December 2005.

## FINANCIAL RESULTS

The Group profit before taxation, amounted to US$311,000 (2004 - loss restated US$111,000). No taxation was charged (2004 - nil). The Group profit after taxation amounted to US$311,000 (2004 - loss restated US$111,000) and has been credited to reserves.

The profit per share amounted to 0.17 cents (2004 - loss restated 0.07 cents). The attributable net asset value per share at 31 December 2005 amounted to 18 cents (2004 - 17 cents).

The Directors do not recommend the payment of a dividend.

## PRINCIPAL ACTIVITIES

The principal activity of the Group is that of mining. A review of the Group's operations for the year ended 31 December 2005 and the indication of likely future developments are set out on pages 8 to 19.

## DIRECTORS

The Directors of the Company during the year were:

Mladen Ninkov – *Australian – Chairman*
Roger Goodwin – *British - Finance Director*
Dal Brynelsen – *Canadian*
William Mulligan – *American (US)*

Under the bye laws of the Company, the Directors serve until re-elected at the next Annual General Meeting of the Company. Being eligible all the Directors currently in office offer themselves for re-election at the forthcoming Annual General Meeting of the Company.

The beneficial interests of the Directors holding office at 31 December 2005 and their immediate families in the share capital of the Company were as follows:

| Name | At 31 December 2005 | | At 1 January 2005 | |
|---|---|---|---|---|
| | Ordinary shares no. | Options over ordinary shares no. | Ordinary shares no. | Options over ordinary shares no. |
| Mladen Ninkov | 33,001 | 6,000,000 | 33,001 | 6,000,000 |
| Roger Goodwin | 311,163 | 1,700,000 | 311,163 | 1,700,000 |
| Dal Brynelsen | 1 | 600,000 | 1 | 600,000 |
| William Mulligan | 300,001 | 600,000 | 300,001 | 600,000 |

The options granted to the Directors entitle the holder to subscribe for new ordinary shares in the Company at 30 pence per share on or before the 28 February 2007. These options vest with each option holder in 3 separate and equal instalments triggered by the following events:

a. The first third of each holder's options vested when granted;

# DIRECTORS' REPORT

b. The second third of each holder's options vested upon the commissioning of the plant at Caijiaying, China with an initial throughput of 200,000 tonnes per annum; and

c. The last third of each holder's options will vest upon the announcement of an upgrade in the throughput of the Caijiaying plant from 200,000 tonnes per year to 500,000 tonnes per year.

The options not already vested will not vest if an employee or a director resigns or leaves the Company prior to the vesting event taking place. All the options will vest immediately upon a takeover offer being made or a change in substantial control of the Company taking place prior to the options expiring.

On 15 March 2006 the Directors agreed to grant further options over 5,475,000 new ordinary shares to key employees and the Directors of the Company (the "New Options"). Each New Option will entitle the holder to subscribe for new ordinary shares in the Company at an exercise price of 65 pence per new ordinary share on or before 28 February 2009. The New Options will vest with each option holder in 3 separate and equal instalments as follows:

a. The first third of each holder's New Options vest immediately;

b. The second third of each holder's New Options will vest on 30 June 2006; and

c. The last third of each holder's New Options will vest on 31 December 2006.

The New Options not already vested will not vest if an employee or a director resigns or leaves the Company prior to the vesting event taking place. All the New Options will vest immediately upon a takeover offer being made or a change in substantial control of the Company taking place prior to the New Options expiring.

Upon exercise of the New Options and existing options granted, the resulting new ordinary shares will represent approximately 7.5 per cent of the Company's enlarged issued share capital or on exercise of the New Options immediately vesting and existing options currently vested the resulting new ordinary shares will represent approximately 4.25 per cent of the Company's enlarged share capital.

The New Options have been allocated as follows:

| | Number of Options to subscribe for one new ordinary share in the Company | | | |
|---|---|---|---|---|
| | New Options granted at 30 April 2006 | New Options vested at 30 April 2006 | Total number of Options held at 30 April 2006 | Total number of Options vesting at 30 April 2006 |
| **Directors:** | | | | |
| Mladen Ninkov (Chairman) | 2,000,000 | 666,667 | 8,000,000 | 4,666,667 |
| Roger Goodwin (Finance Director) | 575,000 | 191,667 | 2,275,000 | 1,325,000 |
| Dal Brynelsen (Director) | 200,000 | 66,667 | 800,000 | 466,667 |
| William Mulligan (Director) | 200,000 | 66,667 | 800,000 | 466,667 |
| **Management:** | 2,500,000 | 833,332 | 3,100,000 | 1,233,332 |
| Total | 5,475,000 | 1,825,000 | 14,975,000 | 8,158,333 |

All of the Directors' interests detailed are beneficial.

# Directors' Report

## Corporate Governance

Although incorporated in Bermuda and therefore not obliged to comply with the code of best practice established by the Combined Code issued by the Committee on Corporate Governance, the Company has reviewed and broadly supports this code. The Company does not comply where compliance would not be commercially justified allowing for the practical limitations relating to the Company's size.

The Board of directors includes a number of non-executive Directors who are free from any business or other relationship which could materially interfere with the exercise of their independent judgement. The Board meets regularly, at least once a quarter, and is responsible for the overall strategy of the Group, its performance, management and major financial matters. All Directors are subject to re appointment annually at each annual general meeting of the Company's shareholders.

Various safeguards and checks have been instigated as part of the Company's system of financial control. These include:

- preparation of regular financial reports and management accounts
- preparation and review of capital and operational budgets
- preparation of regular operational reports
- prior approval of capital and other significant expenditure
- regular review and assessment of foreign exchange risk and requirements

As part of these procedures all costs incurred on behalf of and by Hebei Hua-Ao are independently audited and checked by the Chinese authorities and approved by the directors of Hebei Hua-Ao.

## Auditors

Grant Thornton UK LLP have indicated their willingness to continue in office as auditors to the Company and a resolution proposing their appointment will be put to the forthcoming Annual General Meeting.

# DIRECTORS' REPORT

## STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS

Bermuda company law and generally accepted best practice requires the Directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that period. In preparing these accounts, the Directors have:

- selected suitable accounting policies and applied them consistently;
- made judgements and estimates that are reasonable and prudent;
- stated whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume the Company will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information on the Company's website. Legislation in the United Kingdom, where the Company's website is hosted, governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

This report was approved by the Board and signed on its behalf by:

Roger Goodwin
Finance Director and Company Secretary
16 May 2006
London

# Report of the Independent Auditor

## *Report of the Independent Auditor to the Members of Griffin Mining Limited*

We have audited the financial statements of Griffin Mining Limited for the year ended 31 December 2005 which comprise the consolidated income statement, the consolidated balance sheet, the consolidated statement of changes in equity, the consolidated cash flow statement, the accounting policies, and notes 1 to 21. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

## *Respective Responsibilities of Directors and Auditor*

The Directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable Bermuda law and International Financial Reporting Standards are set out in the Statement of Directors' Responsibilities. Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with International Financial Reporting Standards. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Company has not kept proper accounting records, or if we have not received all the information and explanations we require for our audit.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises the Chairman's Statement, Review of Operations and Directors' Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

## *Basis of Opinion*

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit 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 statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

## *Opinion*

In our opinion the financial statements give a true and fair view, in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, of the state of the Group's affairs at 31 December 2005 and of its profit for the year then ended.

GRANT THORNTON UK LLP
REGISTERED AUDITORS
CHARTERED ACCOUNTANTS
SOUTHAMPTON
16 May 2006

# Consolidated Income Statement

**For the year ended 31 December 2005**
**(expressed in thousands US dollars)**

| | Notes | 2005<br>$000 | 2004<br>Restated<br>$000 |
|---|---|---|---|
| **Revenue** | 1 | **6,120** | - |
| Cost of sales | 1 | **(2,440)** | - |
| **Gross profit** | | **3,680** | - |
| Net operating expenses | 1 | **(3,254)** | (1,557) |
| **Profit / (loss) from operations** | 2 | **426** | (1,557) |
| Foreign exchange (losses) / gains | | **(411)** | 939 |
| Finance income | 4 | **296** | 507 |
| **Profit / (loss) before tax** | | **311** | (111) |
| **Income tax expense** | 5 | **-** | - |
| **Profit / (loss) after tax attributable to equity share owners for the financial year** | | **311** | (111) |
| **Basic and diluted earnings / (loss) per share (cents)** | 6 | **0.17** | (0.07) |

# Consolidated Balance Sheet

**As at 31 December 2005**
**(expressed in thousands US dollars)**

| | Notes | 2005 | 2004 |
|---|---|---|---|
| | | | Restated |
| | | **$000** | $000 |
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 7 | **27,070** | 16,894 |
| Intangible assets – Exploration interests | 8 | **419** | 39 |
| | | **27,489** | 16,933 |
| **Current assets** | | | |
| Inventories | | **1,620** | - |
| Other current assets | 9 | **947** | 276 |
| Available-for-sale financial assets | 10 | **63** | 27 |
| Cash and cash equivalents | 11 | **6,663** | 12,985 |
| | | **9,293** | 13,288 |
| **Total assets** | | **36,782** | 30,221 |
| **EQUITY AND LIABILITIES** | | | |
| **Equity attributable to equity holders of the parent** | | | |
| Share capital | 13 | **1,838** | 1,773 |
| Share premium | 15 | **39,040** | 36,594 |
| Contributing surplus | 16 | **3,690** | 3,690 |
| Share based payments | | **842** | 509 |
| Investment revaluation reserve | 17 | **-** | - |
| Foreign exchange reserve | 18 | **215** | (143) |
| Profit and loss reserve | | **(12,740)** | (13,087) |
| **Total equity** | | **32,885** | 29,336 |
| **Non-current liabilities** | | | |
| Long-term provisions | 12 | **372** | - |
| **Current liabilities** | | | |
| Trade and other payables | | **3,525** | 885 |
| **Total liabilities** | | **3,897** | 885 |
| **Total equities and liabilities** | | **36,782** | 30,221 |
| Number of shares in issue | | **183,827,731** | 177,327,731 |
| **Attributable net asset value / total equity per share** | 19 | **$0.18** | $0.17 |

The accounts on pages 29 to 45 were approved by the Board of Directors and signed on its behalf by:

Mladen Ninkov
*Chairman*
16 May 2006

Roger Goodwin
*Finance Director*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

**For the year ended 31 December 2005**
**(expressed in thousands US dollars)**

| | Share capital | Share premium | Contributing surplus | Share based payments | Investment revaluation reserve | Foreign exchange reserve | Profit and loss reserve | Total |
|---|---|---|---|---|---|---|---|---|
| | $000 | $000 | $000 | $000 | $000 | $000 | $000 | $000 |
| At 31 December 2003 | 1,352 | 21,385 | 3,690 | - | (811) | (121) | (12,130) | 13,365 |
| Exchange differences on translating foreign operations | - | - | - | - | - | (22) | - | (22) |
| Loss for the year | - | - | - | - | - | - | (111) | (111) |
| Movement in fair value of financial assets | - | - | - | - | - | - | (35) | (35) |
| Issue of share capital | 421 | 15,209 | - | - | - | - | - | 15,630 |
| Cost of share based payments | - | - | - | 509 | - | - | - | 509 |
| Transfer | - | - | - | - | 811 | - | (811) | - |
| At 31 December 2004 | 1,773 | 36,594 | 3,690 | 509 | - | (143) | (13,087) | 29,336 |
| Exchange differences on translating foreign operations | - | - | - | - | - | 358 | - | 358 |
| Profit for the year | - | - | - | - | - | - | 311 | 311 |
| Issue of share capital | 65 | 2,446 | - | - | - | - | - | 2,511 |
| Cost of share based payments | - | - | - | 333 | - | - | - | 333 |
| Movement in fair value of financial assets | - | - | - | - | - | - | 36 | 36 |
| At 31 December 2005 | 1,838 | 39,040 | 3,690 | 842 | - | 215 | (12,740) | 32,885 |

# Consolidated Cash Flow Statement

**For the year ended 31 December 2005**
**(expressed in thousands US dollars)**

| | Notes | 2005 | 2004 Restated |
|---|---|---|---|
| | | **$000** | $000 |
| **Net cash flows from operating activities** | | | |
| Profit/(loss) before taxation | | **311** | (111) |
| Foreign exchange losses | | **360** | 93 |
| Finance income | | **(296)** | (507) |
| Adjustment in respect of share options | | **333** | 509 |
| Depreciation, depletion and amortisation | 7 | **557** | 5 |
| Increase in inventories | | **(1,620)** | - |
| (Increase) in other current assets | | **(671)** | (177) |
| Increase in trade and other payables | | **2,640** | 799 |
| **Net cash inflow from operating activities** | | **1,614** | 611 |
| **Cash flows from investing activities** | | | |
| Interest received | 4 | **296** | 507 |
| Payments to acquire intangible fixed assets | 8 | **(376)** | (557) |
| Payments to acquire tangible fixed assets – mineral interests | 7 | **(6,949)** | (5,082) |
| Payments to acquire tangible fixed assets – plant and equipment | 7 | **(3,409)** | (4,938) |
| Payments to acquire tangible fixed assets – other | 7 | **(9)** | (17) |
| **Net cash (outflow) from investing activities** | | **(10,447)** | (10,087) |
| **Cash flows from financing activities** | | | |
| Issue of ordinary share capital | 13/15 | **2,511** | 16,391 |
| Expenses paid in connection with share issue | 15 | **-** | (761) |
| | | **2,511** | 15,630 |
| **(Decrease)/increase in cash and cash equivalents** | 11 | **(6,322)** | 6,154 |

# Accounting Policies

## Basis of accounting

The accounts have been prepared in accordance with applicable International Financial Reporting Standards as issued by the International Accounting Standards Board.

The adoption of International Financial Reporting Standard 2 covering share based payments has resulted in a charge to profit in 2005 of $333,000 and a charge to profit in 2004 of $509,000. The adoption of revised International Accounting Standard 39 covering financial instruments has resulted in gains of $36,000 (2004 losses $35,000) being recognised in respect of the Company's marketable securities held for investment being taken to equity.

The significant accounting policies adopted are detailed below:

## Accounting convention

The accounts have been prepared under the historical cost convention, except for financial asets which are measured at fair value

## Consolidation basis

The Group accounts consolidate the accounts of the Company and all its subsidiary undertakings drawn up to 31 December each year. Subsidiaries are entities over which the Group has the power to control the financial and operating policies so as to obtain benefits from their activities. The Group obtains and exercises control through voting rights.

Unrealised gains on transactions between the Group and its subsidiaries are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Acquisitions of subsidiaries are dealt with by the purchase method. The purchase method involves the recognition at fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary, at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition. On initial recognition, the assets and liabilities of the subsidiary are included in the consolidated balance sheet at their fair values, which are also used as the bases for subsequent measurement in accordance with the Group accounting policies. Goodwill is stated after separating out identifiable intangible assets. Goodwill represents the excess of acquisition cost over the fair value of the group's share of the identifiable net assets of the acquired subsidiary at the date of acquisition.

Under the terms of the joint venture contract establishing the Hebei Hua' Ao Mining Development Company Limited, the Company is entitled to 100% of the net cash flows of the subsidiary for the first three years after commencement of commercial production reverting thereafter to 60% being the Company's share of the equity interest.

No minority interest in Hebei Hua' Ao Mining Development Company Limited is recognised in these financial statements as the minority interest's share of capital is extinguished by accumulated losses.

## Revenue

Revenue is measured by reference to the fair value of consideration received or receivable by the Group and comprises amounts received, net of VAT and production royalties, from sales of metal concentrates to third party customers. Sales are made on a cash on delivery / collection basis and are recognised on collection or delivery of the concentrate from the Group's processing facilities.

# Accounting Policies

## Non current assets

***Intangible assets***

Expenditure on licences, concessions and exploration incurred on areas of interest by subsidiary undertakings are carried as intangible assets until such time as it is determined that there are commercially exploitable reserves within each area of interest and the necessary finance in place, at which time such costs are transferred to tangible fixed assets to be amortised over the expected productive life of the asset. The Group's intangible assets are subject to periodic review by the Directors. Exploration, appraisal and development costs incurred in respect of each area of interest determined as unsuccessful are written off to the profit and loss account.

***Property, plant and equipment***

Mine development expenditure for the initial establishment of access to mineral reserves, together with capitalised exploration, evaluation and commissioning expenditure, and direct overhead expenses prior to commencement of commercial production are capitalised to the extent that the expenditure results in significant future benefits.

An impairment test is carried out at each balance sheet date to assess whether the net book value of the capitalised costs in each area of interest, together with the costs of development of undeveloped reserves, is covered by the discounted future net revenues from reserves within that area of interest. Any deficiency arising is provided for to the extent that, in the opinion of the Directors, it is considered to represent a permanent diminution in value of the related asset, and where arising, is dealt with in the profit and loss account as additional depreciation.

Property plant and equipment are shown at cost less depreciation and provisions for impairment in value (see note 7).

***Depreciation***

All costs capitalised within an area of interest, are amortised over the current estimated economic reserve of the area of interest on a unit of production basis.

Office equipment is depreciated over four years on a straight line basis.

## Mine closure costs

Mining operations are generally required to restore mine and processing sites at the end of their lives to a condition acceptable to the relevant authorities and consistent with the Group's environmental policies. Whilst the Group strives to maintain and where possible enhance the environment of the Group's processing sites, provision is made for site restoration costs in the accounts in accordance with local requirements.

## Inventories

Inventories are valued at the lower of cost or net realisable value.

Costs incurred in bringing each product to its present location and condition are accounted for as follows:

- Consumable stores and spares, at purchase costs on a first in first out basis
- Concentrate stockpiles at cost of direct materials, power, labour, and a proportion of site overhead
- Ore stockpiles at cost of direct material, power, labour contractor charges and a proportion of site overhead

# ACCOUNTING POLICIES

## FINANCIAL ASSETS

Financial assets, other than hedging instruments, are divided into the following categories: loans and receivables; financial assets at fair value through profit or loss; available-for-sale financial assets; and held-to-maturity investments. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments were acquired. The designation of financial assets is re-evaluated at every reporting date at which a choice of classification or accounting treatment is available. The Group has no financial assets at fair value through profit or loss or held-to-maturity investments.

All financial assets are recognised when the Group becomes a party to the contractual provisions of the instrument. All financial assets are initially recognised at fair value, plus transaction costs, unless they are classified as at fair value through profit or loss. Financial assets classified as at fair value through profit or loss are initially recognised at fair value.

Derecognition of financial assets occurs when the rights to receive cash flows from the investments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred. An assessment for impairment is undertaken at least at each balance sheet date.

Interest and other cash flows resulting from holding financial assets are recognised in the income statement when receivable, regardless of how the related carrying amount of financial assets is measured.

Available-for-sale financial assets include non-derivative financial assets that are either designated as such or do not qualify for inclusion in any other category of financial assets. All financial assets within this category are subsequently measured at fair value, with changes in value recognised in equity, net of any effects arising from income taxes. Gains and losses arising from securities classified as available-for-sale are recognised in the income statement when they are sold or when the investment is impaired. Marketable securities listed or traded on a recognised stock exchange are valued at the bid market price on such exchange or market.

In the case of impairment of available-for-sale assets, any loss previously recognised in equity is transferred to the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. Impairment losses recognised previously on debt securities are reversed through the income statement when appropriate.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivables. Loans and receivables are subsequently measured at amortised cost using the effective interest method, less provision for impairment. Any change in their value through impairment or reversal of impairment is recognised in the income statement.

Provision against trade receivables is made when objective evidence is received that the group will not be able to collect all amounts due to it in accordance with the original terms of those receivables. The amount of the write-down is determined as the difference between the asset's carrying amount and the present value of estimated future cash flows.

## FINANCIAL LIABILITIES

Financial liabilities are obligations to pay cash or other financial instruments and are recognised when the Group becomes a party to the contractual provisions of the instrument. All interest related charges are recognised as an expense in "finance cost" in the income statement. Finance charges, including premiums payable on settlement or redemption, and direct issue costs are charged to the income statement on an accruals basis using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

# Accounting Policies

## Foreign currency transactions

The accounts have been prepared in United States dollars being the local currency of Bermuda. Whilst registered in Bermuda the Company, together with its subsidiaries, operate in China, the United Kingdom, and Australia.

Monetary items have been translated at rates in effect at the balance sheet date. Foreign currency transactions have been translated at the rate in effect at the date of transaction. Any realised or unrealised exchange adjustments have been charged or credited to income.

The accounts of overseas subsidiary undertakings are translated at the rate of exchange ruling at the balance sheet date and profit and loss account items are translated at the actual rate for the year. The exchange difference arising on the retranslation of opening net assets is taken directly to the foreign exchange reserve. All other translation differences are taken to the profit and loss account.

## Equity

Equity comprises the following:

- “Share capital” represents the nominal value of equity shares.
- “Share premium” represents the excess over nominal value of the fair value of consideration received for equity shares, net of expenses of the share issue.
- “Contributing surplus” is a statutory reserve for the maintenance of capital under Bermuda company law and was created on a reduction in the nominal value of the Company’s ordinary shares on 15 March 2001.
- “Share based payments” represents equity-settled share-based employee remuneration until such share options are exercised.
- “Investment revaluation reserve” represents gains and losses due to the revaluation of certain financial assets and property, plant and equipment.
- “Foreign exchange reserve” represents the differences arising from translation of investments in overseas subsidiaries.
- “Profit and loss reserve” represents retained profits and losses.

## Equity settled share based payments

All share-based payment arrangements granted after 7 November 2002 that had not vested prior to 1 January 2005 are recognised in the financial statements.

All goods and services received in exchange for the grant of any share-based remuneration are measured at their fair values. Fair values of employee services are indirectly determined by reference to the fair value of the share options awarded. Their value is appraised at the grant date and excludes the impact of non-market vesting conditions (for example, production upgrades).

All share-based remuneration is ultimately recognised as an expense in the income statement with a corresponding credit to “Share based payments” in the balance sheet.

If vesting periods or other non-market vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognised in the current period. No adjustment is made to any expense recognised in prior periods if share options ultimately exercised are different to that estimated on vesting.

Upon exercise of share options the proceeds received net of attributable transaction costs are credited to share capital.

# Accounting Policies

## Significant judgements and estimates

In formulating accounting policies the directors are required to apply their judgement, and where necessary engage professional advisors, with regard to the following significant areas:

- Expenditure capitalised as intangible fixed assets
- Expenditure capitalised as property, plant & equipment
- Impairment review assumptions
- Provisions for mine closure costs
- Share based payments

The directors continually monitor the basis on which their judgements are formulated. Where required they will make amendments to these judgements. Where judgements and estimates are amended between accounting periods, full disclosure of the financial implications are given within the relevant notes to the Group accounts.

# Notes to the Financial Statements

## 1. Segmental reporting

The Group has one business segment, the Caijiaying zinc gold project in the Peoples Republic of China, which is its primary segment for the purpose of financial reporting. All sales and costs of sales in 2005 were derived from the Caijiaying zinc gold project. There were no sales prior to 30 June 2005. All operating costs in respect of the Caijiaying zinc gold project prior to 30 June 2005 have been capitalised in accordance with the Group's accounting policies.

| | 2005 | 2004 |
|---|---|---|
| | $000 | $000 |
| REVENUES | | |
| China | **6,120** | - |
| | | |
| COST OF SALES | | |
| China | **2,440** | - |
| | | |
| NET OPERATING EXPENSES | | |
| China | **(1,574)** | - |
| Australia | **(30)** | - |
| United Kingdom | **(1,650)** | (1,557) |
| | **(3,254)** | (1,557) |

All revenues, cost of sales, and operating expenses charged to profit relate to continuing operations.

| | 2005 | 2004 |
|---|---|---|
| TOTAL ASSETS | | |
| China | **30,511** | 17,401 |
| Australia | **251** | 131 |
| United Kingdom | **6,020** | 12,689 |
| | **36,782** | 30,221 |
| | | |
| CAPITAL EXPENDITURE | | |
| China | **10,734** | 10,577 |
| Australia | **-** | - |
| United Kingdom | **9** | 17 |
| | **10,743** | 10,594 |

## 2. Profit / (loss) from operations

Profit / (loss) from operations is stated after charging

| | 2005 | 2004 |
|---|---|---|
| | $000 | $000 |
| Depreciation depletion and amortisation | **557** | 5 |
| Staff costs | **1,140** | 244 |
| Fair values of options granted to directors and management | **333** | 509 |

| | No. | No. |
|---|---|---|
| Average number of persons employed by the Group in the year | **137** | 41 |

# NOTES TO THE FINANCIAL STATEMENTS

## 3. DIRECTORS' AND KEY PERSONNEL REMUNERATION

The following fees and remuneration were receivable by the Directors holding office and key personnel engaged during the year:

| | Fees | Salary | Share based payments | Total **2005** | Total 2004 |
|---|---|---|---|---|---|
| | $000 | $000 | $000 | **$000** | $000 |
| Mladen Ninkov | - | - | - | - | - |
| Dal Brynelsen | 37 | - | 21 | **58** | 82 |
| Roger Goodwin | - | 234 | 59 | **293** | 264 |
| William Mulligan | 37 | - | 21 | **58** | 82 |
| Key personnel | 83 | 277 | - | **360** | 144 |

Keynes Capital, the registered business name of Keynes Investments Pty Limited as trustee for the Keynes Trust, received fees under a consultancy agreement of $604,000 (2004 $420,000), for the provision of advisory and support services to Griffin Mining Limited and its subsidiaries during the year, 60% of which fees are charged to Hebei Hua-Ao. Mladen Ninkov is a director and employee of Keynes Investments Pty Limited.

Frick Pty Limited, as trustee for the Frick Trust, has been granted options over 6,000,000 new ordinary shares in the Company in respect of the services of Mladen Ninkov to Griffin. Mladen Ninkov is the sole director of Frick Pty Limited. The fair value of these options charged to the income statement in 2005 was $210,000 (2004 $320,000).

On 9 March 2004 the Directors agreed to grant options to the Directors and certain key management and on 22 March 2004 a total of 9,500,000 options were granted to the Directors and certain key employees of the Company. Each option entitles the holder to subscribe for new ordinary shares in the Company at 30 pence per share on or before the 28 February 2007.

The new options vest with each option holder in 3 separate and equal instalments triggered by the following events:

a. The first third of each holder's options vested when granted;

b. The second third of each holder's options vested upon the commissioning of the plant at Caijiaying, China with an initial throughput of 200,000 tonnes per annum; and

c. The last third of each holder's options will vest upon the announcement of an upgrade in the throughput of the Caijiaying plant from 200,000 tonnes per year to 500,000 tonnes per year.

The options not already vested will not vest if an employee or a director resigns or leaves the Company prior to the vesting event taking place. All the options will vest immediately upon a takeover offer being made or a change in substantial control of the Company taking place prior to the new options expiring.

The directors' options have been allocated as follows:

| | No. |
|---|---|
| Mladen Ninkov | 6,000,000 |
| Roger Goodwin | 1,700,000 |
| Dal Brynelsen | 600,000 |
| William Mulligan | 600,000 |
| Total | 8,900,000 |

# Notes to the Financial Statements

## 4. Finance income

| | 2005 | 2004 |
|---|---|---|
| | $000 | $000 |
| Bank and short term interest | 296 | 507 |

## 5. Income tax expense

| | 2005 | 2004 |
|---|---|---|
| | $000 | $000 |
| Taxation on profit / (loss) on ordinary activities | | |
| UK corporation tax | - | - |
| Overseas taxation | - | - |
| | - | - |

The Company is resident for corporation tax purposes in the United Kingdom.

*Factors affecting total current corporate tax charge for the year*

| | 2005 | 2004 |
|---|---|---|
| | $000 | $000 |
| Profit / (loss) on ordinary activities multiplied by the UK standard rate of corporation tax 30% (2004: 30%) as previously reported | 93 | 119 |
| UK standard rate of corporation tax of 30% on prior year adjustments | - | (153) |
| Expenses not deductible for tax purposes | 104 | 4 |
| (Losses) brought forward / losses carried forward | (197) | 30 |
| Current tax charge for the year | - | - |

The Company has unutilised tax losses estimated at $6.67m, and capital losses estimated at $2.5m.

## 6. Earnings / (Loss) per share

The calculation of the basic earnings/(loss) per share is based on the earnings attributable to ordinary shareholders divided by the weighted average number of shares in issue during the year. The calculation of diluted earnings per share is based on the basic earnings per share on the assumed conversion of all dilutive options and other dilutive potential ordinary shares.

Reconciliations of the earnings and weighted average number of shares used in the calculations are set out below.

| | **2005** | | | 2004 | | |
|---|---|---|---|---|---|---|
| | **Earnings $000** | **Weighted average number of shares** | **Per share amount (cents)** | Loss $000 | Weighted average number of shares | Per share amount (cents) |
| **Basic earnings/(loss) per share** | | | | | | |
| Earnings attributable to ordinary shareholders | **311** | **180,639,032** | **0.17** | (111) | 170,646,361 | 0.07 |
| **Dilutive effect of securities** | | | | | | |
| Options | | **3,677,894** | | | - | |
| **Diluted earnings/ (loss) per share** | **311** | **184,316,926** | **0.17** | (111) | 170,646,361 | 0.07 |

# NOTES TO THE FINANCIAL STATEMENTS

## 7. PROPERTY, PLANT AND EQUIPMENT

| | Mineral interests $'000 | Mill and mobile mine equipment $'000 | Office furniture and equipment $'000 | Total $'000 |
|---|---|---|---|---|
| At 1 January 2004 net of accumulated depreciation | - | 171 | 3 | 174 |
| Transfer from intangible assets | 6,419 | - | - | 6,419 |
| Foreign exchange adjustments | 269 | - | - | 269 |
| Additions at cost | 5,082 | 4,938 | 17 | 10,037 |
| Depreciation charge for the year | - | - | (5) | (5) |
| At 31 December 2004 net of accumulated depreciation | 11,770 | 5,109 | 15 | 16,894 |
| Foreign exchange adjustments | 190 | 176 | - | 366 |
| Additions at cost | 6,949 | 3,409 | 9 | 10,367 |
| Transfers | (410) | 410 | - | - |
| Depreciation charge for the year | (122) | (429) | (6) | (557) |
| At 31 December 2005 net of accumulated depreciation | 18,377 | 8,675 | 18 | 27,070 |
| At 1 January 2004 | | | | |
| Cost | - | 171 | 23 | 194 |
| Accumulated depreciation | - | - | (20) | (20) |
| Net carrying amount | - | 171 | 3 | 174 |
| At 31 December 2004 | | | | |
| Cost | 11,770 | 5,109 | 40 | 16,919 |
| Accumulated depreciation | - | - | (25) | (25) |
| Net carrying amount | 11,770 | 5,109 | 15 | 16,894 |
| At 31 December 2005 | | | | |
| Cost | 18,501 | 9,110 | 37 | 27,648 |
| Accumulated depreciation | (124) | (435) | (19) | (578) |
| Net carrying amount | 18,377 | 8,675 | 18 | 27,070 |

Mineral interests comprise the Group's interest in the Caijiaying ore bodies including fair values on acquisition, plus subsequent expenditure on licences, concessions, exploration, appraisal and construction of the Caijiaying mine including expenditure for the initial establishment of access to mineral reserves, commissioning expenditure, and direct overhead expenses prior to commencement of commercial production.

The office furniture and equipment disclosed above relates solely to the fixed assets of the Company.

# Notes to the Financial Statements

## 8. Intangible assets

EXPLORATION INTERESTS
China – Zinc / gold

| | |
|---|---|
| | **$000** |
| At 1 January 2004 | **6,285** |
| Foreign exchange adjustments | **(384)** |
| Additions at cost | **557** |
| Tranfer to property, plant and equipment | **(6,419)** |
| At 31 December 2004 | **39** |
| Foreign exchange adjustments | **4** |
| Additions at cost | **376** |
| At 31 December 2005 | **419** |

Intangible assets represent fair values on acquisition, plus subsequent expenditure on licences, concessions, exploration, appraisal and development work. Where expenditure on an area of interest is determined as unsuccessful such expenditure is written off to the profit and loss account. The recoverability of these assets depends, initially, on successful appraisal activities, details of which are given in the report on operations. The outcome of such appraisal activity is uncertain. Upon economically exploitable mineral deposits being established, sufficient finance will be required to bring such discoveries into production.

## 9. Other current assets

| | **2005** | 2004 |
|---|---|---|
| | **$000** | $000 |
| Other receivables | **107** | 108 |
| Prepayments | **840** | 168 |
| | **947** | 276 |

## 10. Available-for-sale financial assets

| | **2005** | 2004 |
|---|---|---|
| | **$000** | $000 |
| Quoted securities (cost $873,000- 2004 $873,000) | **63** | 27 |

Quoted securities are valued at the bid market price and are classified as available for sale.

## 11. Cash and cash equivalents

Analysis of changes in cash and cash equivalents

| | **2005** | 2004 |
|---|---|---|
| | **$000** | $000 |
| At 1 January | **12,985** | 6,831 |
| Net cash (outflow) / inflow | **(6,322)** | 6,154 |
| At 31 December | **6,663** | 12,985 |

Cash equivalents comprise bank deposits.

Included within the net cash outflows of $6,322,000 (2004 inflow $6,154,000) are foreign exchange losses of $411,000 (2004 gains $939,000) on cash deposits which have been treated as realised.

# NOTES TO THE FINANCIAL STATEMENTS

## 12. LONG-TERM PROVISIONS

PROVISIONS FOR MINE CLOSURE COSTS

| | 2005 | 2004 |
|---|---|---|
| | $000 | $000 |
| Provisions made during the financial year and transferred to fixed assets | 367 | - |
| Foreign exchange adjustments | 5 | - |
| At 31 December | 372 | - |

## 13. SHARE CAPITAL

| | 2005 | | 2004 | |
|---|---|---|---|---|
| | Number | $000 | Number | $000 |
| AUTHORISED: | | | | |
| Ordinary shares of US$0.01 each | 1,000,000,000 | 10,000 | 1,000,000,000 | 10,000 |
| CALLED UP ALLOTTED AND FULLY PAID: | | | | |
| Ordinary shares of US$0.01 each | | | | |
| At 1 January | 177,327,731 | 1,773 | 135,227,731 | 1,352 |
| Issued during the year | 6,500,000 | 65 | 42,100,000 | 421 |
| At 31 December | 183,827,731 | 1,838 | 177,327,731 | 1,773 |

On 4 February 2005 1,000,000 new ordinary shares in the Company were allotted at 20 UK pence ($0.38) per ordinary share on the exercise of warrants.

On 8 July 2005 4,925,000 new ordinary shares in the Company were allotted at 20 UK pence ($0.35) per ordinary share on the exercise of warrants.

On 2 August 2005 75,000 new ordinary shares in the Company were allotted at 20 UK pence ($0.38) per ordinary share on the exercise of warrants.

On 31 December 2005 500,000 new ordinary shares in the Company were allotted at 40 UK pence ($0.71) per ordinary share on the exercise of warrants.

## 14. SHARE OPTIONS AND WARRANTS

| | At 1 January 2005 Number | Exercised / lapsed Number | At 31 December 2005 Number |
|---|---|---|---|
| Warrants exercisable at 20 pence at anytime up to 31 August 2005. | 6,000,000 | (6,000,000) | - |
| Warrants exercisable at 30 pence at anytime up to 31 December 2004. | 500,000 | (500,000) | - |
| Warrants exercisable at 35 pence from 1 January 2005 to 30 June 2005. | 500,000 | (500,000) | - |
| Warrants exercisable at 40 pence from 1 July 2005 to 31 December 2005. | 500,000 | (500,000) | - |
| Options exercisable at 30 pence per share at anytime up to 28 February 2007. | 3,166,666 | - | 3,166,666 |
| Options exercisable at 30 pence per share from commencement of production to 28 February 2007. | 3,166,667 | - | 3,166,667 |
| Options exercisable at 30 pence per share from upgrade in throughput of Caijiaying mine to 500,000 tonnes of ore per annum to 28 February 2007. | 3,166,667 | - | 3,166,667 |
| | 17,000,000 | 7,500,000 | 9,500,000 |

# Notes to the Financial Statements

The following table shows the number and weighted average exercise price (WAEP) of all unexercised share warrants and options at the year end:

| | **2005 Number** | **2005 WAEP (pence)** | 2004 Number | 2004 WAEP (pence) |
|---|---|---|---|---|
| Outstanding at 1 January | 17,000,000 | 26.9 | 13,350,000 | 12.4 |
| Granted during the year | - | | 11,000,000 | 30.0 |
| Exercised during the year | (6,500,000) | 21.5 | (7,100,000) | 5.7 |
| Lapsed during the year | (1,000,000) | 32.5 | (250,000) | 20.0 |
| | 9,500,000 | 30.0 | 17,000,000 | 26.9 |

## 15. Share premium

| | **2005 $000** | 2004 $000 |
|---|---|---|
| At 1 January | **36,594** | 21,385 |
| Premium on shares issued in year | **2,446** | 15,970 |
| Expenses paid in connection with share issues | **-** | (761) |
| At 31 December | **39,040** | 36,594 |

## 16. Contributing surplus

The Contributing surplus is a statutory reserve for the maintenance of capital under Bermuda company law and was created on a reduction in the nominal value of the Company's ordinary shares on 15 March 2001.

## 17. Investment revaluation reserve

The adoption of revised International Accounting Standard 39 covering financial instruments has resulted in unrealised losses in prior years of $846,000 have been transferred to Profit and loss reserve.

## 18. Foreign exchange reserve

Exchange differences arising on the retranslation of opening net assets of overseas subsidiary undertakings, whose accounts are prepared in local currencies, are reflected in the foreign exchange reserve.

## 19. Attributable net asset value / total equity per share

The attributable net asset value / total equity per share has been calculated from the consolidated net assets / total equity of the Group at 31 December 2005 of $32,885,000 ($29,336,000 at 31 December 2004) divided by the number of ordinary shares in issue at 31 December 2005 of 183,827,731 (177,327,731 at 31 December 2004).

# NOTES TO THE FINANCIAL STATEMENTS

## 20. FINANCIAL INSTRUMENTS

The Group has not entered into derivative transactions such as interest rate swaps, forward rate agreements or forward currency contracts. The Group has no borrowings other than trade creditors and funds in excess of immediate requirements are placed in US dollar and sterling short term fixed and floating rate deposits. The Group has overseas subsidiaries operating in China and Australia, whose costs are denominated in local currencies.

In the normal course of its operations the Group is exposed to commodity price, foreign currency and interest rate risks.

The Group places funds in excess of immediate requirements in US dollar and sterling deposits with a number of banks to spread currency, interest rate and bank risk. These deposits are kept under regular review to maximise interest receivable and with reference to future expenditure and future currency requirements.

Commodity prices are monitored on a regular basis to ensure the Group receives fair value for its products.

## 21. SUBSIDIARY COMPANIES

At 31 December 2005, Griffin Mining Limited had interests in the share capital of the following principal subsidiary companies.

| Name | Class of shares held | Proportion of shares held | Nature of business | Country of incorporation |
|---|---|---|---|---|
| China Zinc Pty Limited | Ordinary | 100% | Holding company | Australia |
| Hebei Hua' Ao Mining Development Company Limited* | | 100% (reducing to 60% after 3 years from commercial production) ** | Zinc mining and development | China |
| Panda Resources Limited | Ordinary | 100% | Holding company | England |
| Hebei Sino Anglo Mining Development Company Ltd* | | 90% | Gold exploration and development | China |

* China Zinc Pty Ltd and Panda Resources Ltd are directly owned by the Company. China Zinc Pty Ltd has a controlling interest in Hebei Hua' Ao Mining Development Company Ltd, see below, and Panda Resources Ltd has a 90% controlling interest in Hebei Sino Anglo Mining Development Company Ltd.

** The joint venture contract establishing the Hebei Hua' Ao Mining Development Company Ltd provides that 100% of the cash flows generated by the joint venture in the first three years from commencement of commercial production be paid to the foreign party. Thereafter the foreign party will receive 60% of the cash flows, in accordance with its share in the equity interest in the joint venture.

Caijiaying plant winter 2006

# CORPORATE INFORMATION

| | |
|---|---|
| **United Kingdom office:** | $6^{th}$ & $7^{th}$ Floors, 60 St James's Street,<br>London. SW1A 1LE. UK.<br>Telephone: + 44 (0)20 7629 7772<br>Facsimile: + 44 (0)20 7629 7773<br>Email: griffin@griffinmining.com<br>Web site: www.griffinmining.com |
| **Registered office**: | Clarendon House,<br>2 Church Street, Hamilton,<br>Hamilton. HM11. Bermuda. |
| **China Zinc office:** | Level 9, BGC Centre,<br>28 The Esplanade, Perth, Western Australia 6000. Australia.<br>Telephone: + 61(0)8 9321 7143<br>Facsimile: + 61 (0)8 9321 7035 |
| **Directors:** | Mladen Ninkov (Chairman)<br>Roger Goodwin (Finance Director)<br>Dal Brynelsen<br>William Mulligan |
| **Company Secretary**: | Roger Goodwin |
| **Nominated Adviser and Broker for AIM:** | Collins Stewart Limited<br>$9^{th}$ Floor, 88 Wood Street,<br>London. EC2V 7QR. UK. |
| **Auditors**: | Grant Thornton UK LLP<br>31 Carlton Crescent,<br>Southampton. SO15 2EW. UK. |
| **Solicitors:** | Mallesons Stephen Jaques<br>Unit 12, Level 5, Tower E1, The Towers Oriental Plaza<br>No, 1 East Chang an Avenue, Dong Cheng District,<br>Beijing 100738. PRC<br><br>Conyers Dill & Pearman<br>Clarendon House, Church Street, P.O. Box HM 666,<br>Hamilton. HMCX. Bermuda. |
| **Bankers:** | National Westminster Bank PLC.<br>St James's and Piccadilly,<br>London. W1A 2DG. UK.<br><br>Anglo Irish Bank Corporation plc<br>10 Old Jewry,<br>London. EC2R 8DN. UK. |
| **UK Registrars & Transfer Agents:** | Capita IRG plc<br>Bourne House, 34 Beckenham Road,<br>Beckenham, Kent. BR3 4TU. UK. |