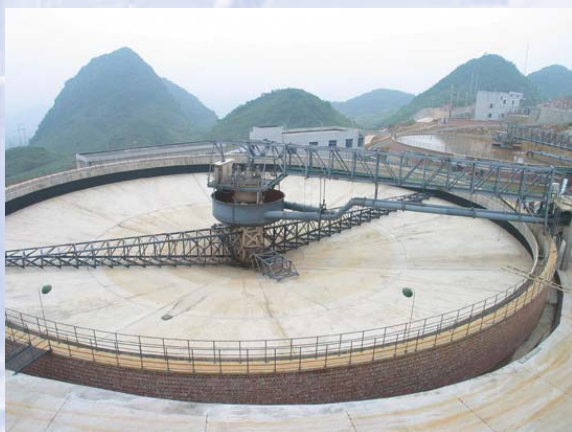


The Articles of Association, the Terms of Reference of the Audit Committee, the Terms of Reference of the Supervisory Committee and the Code of Conduct Regarding Securities Transactions by Directors and Specific Employees form the framework for the code of corporate governance practices of the Company. The Board has reviewed its corporate governance documents and is of the view that other than Code A.2.1, such documents have incorporated the principles and code provisions in the "Code on Corporate Governance Practices" (the "CG Code") as set out in Appendix 14 of the Hong Kong Listing Rules.

Code A.2.1 of the CG Code requires the roles of chairman and chief executive officer to be separate and not be performed by the same individual. Currently, Mr. Xiao Yaqing serves as the Chairman and Chief Executive Officer of the Company. The Directors are of the opinion that this arrangement is for the benefit of the long term development of the Company.

Other than the deviation mentioned above, the Board is of the view that the Company has complied with the code provisions of the CG Code.



### The Board

The second session of the Board consists of 9 Directors, with 4 Executive Directors, namely Mr. Xiao Yaqing, Mr. Xiong Weiping, Mr. Luo Jianchuan and Mr. Chen Jihua, 2 Non-executive Directors, namely Mr. Shi Chungui and Mr. Joseph C. Muscari, and 3 Independent Non-Executive Directors, namely Mr. Poon Yiu Kin, Samuel, Mr. Wang Dianzuo and Mr. Kang Yi. Mr. Xiao Yaqing is the Chairman and Chief Executive Officer ("CEO"). Mr. Shi Chungui was appointed as a Non-executive Director of the Company at the 2004 Annual General Meeting held on June 9, 2005 to replace Mr. Chen Xiaozhou. Mr. Poon Yiu Kin, Samuel was appointed as an Independent Non-Executive Director of the Company at the Extraordinary General Meeting of the Company held on October 14, 2005 to replace Mr. Chiu Chi Cheong, Clifton. After due enquiry, the Board considers Mr. Poon Yiu Kin, Samuel to be independent pursuant to the guidelines set out in Rule 3.13 of the Hong Kong Listing Rules. The term of office for all Directors is three years and will expire at the close of the Annual General Meeting of the Company for 2006. Owing to their workload, Mr. Chen Xiaozhou and Mr. Chiu Chi Cheong, Clifton resigned as Directors of the Company.

Each Director on the Board will act in the interests of the shareholders, and use his best endeavors to perform the duties and obligations as a Director in accordance with all the applicable laws and regulations. Duties of the Board include: deciding on the Company's business plan and investment scheme, preparing the Company's profit distribution and loss recovery proposals, formulating the Company's capital operation proposals, and implementing resolutions approved at Shareholders' meetings etc.

The Chairman of the Board is responsible for ensuring that the Directors perform their duties and obligations and discuss all material matters on a timely basis, and in ensuring that the Board operates effectively. The Chairman also conducted interviews individually with each of the Non-executive Directors to understand their opinion and advice on the operation of the Company and the duties of the Board.

The Secretariat Office of the Board offers comprehensive services to the Directors and answers their enquires on a timely basis in order to enhance their understanding of the Company. It also effectively maintains communications with shareholders to ensure that the views of the shareholders will reach the Board.

The Company has appointed a sufficient number of Independent Non-Executive Directors with suitable professional qualifications, such as expertise in accounting or financial management, in accordance with the requirements of the Hong Kong Listing Rules. The Company's 3 Independent Non-Executive Directors are independent of the Company and are professionals with extensive experience in the respective fields of finance, resources and metallurgy. They have provided the Company with professional advice with respect to the steady operation and development of the Company. They have also provided supervision in safeguarding and coordinating the interests of the Company and its shareholders.

The Company has received from each of the Independent Non-Executive Directors an annual confirmation of his independence pursuant to Rule 3.13 of the Hong Kong Listing Rules and considers each of the Independent Non-Executive Directors to be independent.

In 2005, the Company held five regular Board meetings, with an average participation rate of 76%, in which, Mr. Xiao Yaqing, Mr. Xiong Weiping, Mr. Chen Jihua and Mr. Poon Yiu Kin, Samuel, all had a participation rate of 100%. Mr. Kang Yi, Mr. Shi Chungui, Mr. Chiu Chi Cheong, Clifton, Mr. Joseph C. Muscari, Mr. Luo Jianchuan and Mr. Wang Dianzuo had a participation rate of 80%, 75%, 67%, 60%, 40% and 40%, respectively. Details of the meetings are recorded by a designated officer, and all proposals approved in each meeting are passed as resolutions of the Board, which are recorded and filed in accordance with relevant laws and regulations. The principal activities of the Board in 2005 were as follows:

- Review of the Company's annual business plan and budget;
- Review of the Company's annual and interim results;
- Review of annual profit distribution and final dividend distribution proposals;
- Review of significant investments and merger/acquisition projects;
- Review of the Company's remuneration scheme for Directors, Supervisors and senior management etc.

The schedule of the half-year and annual Board Meeting and the major agendas are confirmed in the previous year to ensure all Directors have the opportunity to propose the matters to be discussed at the meetings. Each board meeting will be notified 14 days before the convention of the meeting and the resolutions will be provided to the Directors 10 days prior to the meeting, which gives them sufficient time to review the resolutions.

The Board has formulated written guidelines on securities transactions by the Directors and relevant employees of the Company. The Board of the Company has notified the Directors in writing in advance that they shall not trade the securities of the Company within one month prior to the results announcement which requires their strict compliance. All Directors confirmed that they were in compliance with the guidelines during the year.

The total remuneration, including the basic salary, performance-linked salary, incentive-linked salary and insurance (or discretionary bonus) of the Directors in 2005 amounted to RMB5,346,000. Independent Non-Executive Directors are only entitled to receive director's fees but not other salaries or remuneration.

The remuneration of each Director for the year was as follows:

Xiao Yaqing: RMB1,376,000 (payment of a discretionary bonus of RMB594,000 is deferred);

Xiong Weiping: RMB1,155,000 (RMB336,000 (after tax) was used for the purchase of supplementary retirement insurance);

Luo Jianchan: RMB921,000 (RMB137,000 (after tax) was used for the purchase of supplementary retirement insurance) ;

Chen Jihua: RMB797,000 (RMB268,000 (after tax) was used for the purchase of supplementary retirement insurance);

Shi Chungui: RMB88,000;

Chen Xiaozhou: RMB38,000 ;

Joseph C. Muscari: RMB150,000 ;

Wang Dianzuo: RMB276,000 ;

Kang Yi: RMB276,000 ;

Chiu Chi Cheong, Clifton: RMB212,000;

Poon Yiu Kin, Samuel: RMB57,000.

As of December 31, 2005, no stock appreciation rights had been granted under the Stock Appreciation Rights Plan adopted by the Company.

According to Rule A.2.1 of Code on Corporate Governance, the duties of Chairman and CEO should be separately performed by two individual persons. Currently, Mr. Xiao Yaqing is the Chairman and CEO of the Company. The Directors are of the opinion that such arrangement benefits the long-term business development of the Company and better coordinates the Board and the administrative management personnel.

### Audit Committee

An Audit Committee has been established under the Board. The Audit Committee's duties are mainly to review the Company's financial reports, consider the appointment of independent auditors and approve audit and audit-related services, and supervise the Company's internal financial reporting procedures and management policies.

The Committee comprised three Independent Non-Executive Directors, namely Mr. Poon Yiu Kin, Samuel, Mr. Wang Dianzuo and Mr. Kang Yi. Since Mr. Chen Xiaozhou resigned the member of the Audit Committee in March 2005, the Board of the Company appointed Mr. Kang Yi as the member of Audit Committee of the second session of the Board by means of a written resolution on March 18, 2005. At the Board Meeting held on October 14, 2005 Mr. Poon Yiu Kin, Samuel was appointed as an Independent Non-Executive Director upon the resignation of Mr. Chiu Chi Cheong, Clifton. Mr. Poon has now become a member of the Audit Committee and also the Chairman of the Committee.

At least two meetings of the Audit Committee will be convened annually to review the accounting policies, internal control and the relevant financial issues, so as to ensure completeness, fairness and accuracy of the Company's financial statements and other relevant information. In 2005, the Audit Committee held three meetings with an average participation rate of 89% based on the participation rate of the current three members, in which, the participation rates of Mr. Chiu Chi Cheong, Clifton, Mr. Poon Yiu Kin, Samuel, Mr. Wang Dianzuo, Mr. Chen Xiaozhou and Mr. Kang Yi were 100%, 100%, 100%, 100% and 67%, respectively.

In 2005, the Audit Committee reviewed the Company's annual and interim financial reports, considered the reports concerning the Company's internal control, and submitted its audit reports and related advice to the Board. Details of the meetings are recorded by a designated officer, and all resolutions passed at each meeting are recorded and stored electronically in accordance with relevant rules.

### Compensation and Nomination Committee

A Compensation and Nomination Committee has been established under the Board. Duties of the Compensation and Nomination Committee include: review of the Company's remuneration policy, assessment of the performance of the Directors and senior management and nomination of candidates for appointment as Executive Directors for the next session of the Board. The Committee consists of two Executive Directors, namely Mr. Xiao Yaqing, Mr. Xiong Weiping and three Independent Non-Executive Directors, Mr. Poon Yiu Kin, Samuel, Mr. Wang Dianzuo, and Mr. Kang Yi. Mr. Xiao Yaqing serves as the Chairman of the Committee. The Committee convened three meetings, mainly focusing on the following tasks:

- preparation of remuneration policies for Directors and senior management;
- approval of terms in service contracts of Directors;
- assessment of achievement and performance of Executive Directors and senior management;
- nomination of candidates of Executive Director for the new Board;

The participation rate of the members of the Committee, namely Mr. Xiao Yaqing, Mr. Xiong Weiping, Mr. Wang Dianzuo and Mr. Kang Yi, were 100%, 100%, 100% and 100%, respectively. Mr. Poon Yiu Kin, Samuel, did not participate in any committee meeting as he was only appointed after the committee meetings took place.

Details of the meetings were recorded by a designated officer, and all proposals resolved in each meeting are filed and stored in accordance with the relevant laws and regulations.

Compensation and Nomination Committee regularly reviewed the Structure, number of Board members and the duties of Directors.

### Planning and Development Committee

A Planning and Development Committee has also been established under the Board. The Committee consists of Executive Directors, Mr. Xiong Weiping and Mr. Luo Jianchuan, and Independent Non-Executive Director, Mr. Wang Dianzuo. Mr. Wang Dianzuo is the Chairman of the Committee. Duties of the Committee include review and evaluation of the Company's development, financial budget, investment, business operation and strategic plan of annual investment returns.

### Supervisory Committee

The Supervisory Committee of the Company consists of 3 members, with 1 supervisor being elected from the staff as a representative of the employees. The Supervisory Committee is responsible for supervision over the Board and its members and senior management, so as to prevent them from abusing their authorities and violating the legal interests of shareholders, the Company and its staff. In 2005, the Supervisory Committee convened 2 meetings, at which the Company's financial position and legal compliance of corporate operations as well as work performance of the senior management were reviewed.

### Information Disclosure and Disclosure Committee

Great importance has been attached by the Company to the information disclosure on an accurate, timely, fair, justified and open basis in compliance with disclosure requirements in the Hong Kong Listing Rules. All discloseable information (including annual and interim results) shall be subject to approval of the Company's Disclosure Committee with CEO as its Chairman or

a representative authorised by the Committee. For the purpose of discloseable financial statements and the relevant information, the Chief Financial Officer shall confirm that the Company's results and financial position have been reflected on a true and fair basis under relevant accounting principles and requirements.

### Shareholders Meeting and Investor Relations

Shareholders' Meeting is the highest authority of the Company. It provides a good opportunity for direct communications and to building a sound relationship between the Board and the shareholders of the Company. Therefore, the Company attaches great importance to such meetings. In 2005, the Company convened 2 General Meetings respectively on June 9 and October 14 in the Meeting Room, 15/F, Block B, Tongtai Building, No. 33, Finance Street, Xicheng District, Beijing and the Conference Room of the Company, No. 12B Fuxing Road, Haidian District, Beijing, respectively. The meetings mainly reviewed and approved the following:

- the Report of the Directors, Report of Supervisory Committee and Consolidated Financial Report for 2004;
- the profit distribution and final dividend distribution proposals for 2004;
- the remuneration proposal of 2005 for the Company's Directors and Supervisors;
- amendment of the Articles of Association of the Company;
- changes to members of the Board;
- approval of relevant regulations.

On the whole, all resolutions were approved with an average rate of 99.8%.

The Chairman of the Board chaired such General Meetings and explained matters concerning the procedures for voting for shareholders' consideration and the shareholders voted on each resolution. members of Audit Committee and Compensation and Nomination Committee had been notified to attend the General meetings.

The Company has established a designated department for investor relations, which is responsible for matters concerning investor relations and has formulated the "Investor Management Measures" to regulate the relationships with the investors. The Company's management maintains close communications with investors, analysts and the media by various means including roadshows, individual interviews, meetings and investors' visits to the Company, thereby further increasing investors' recognition of the Company. In 2005, the Company arranged designated senior management to visit investors in 2 global roadshows, arranged 8

corporate visits for investors, arranged 70 visits for investors to the Company, and participated in investors' meetings arranged by investment banks. In addition, our investor relations department is also responsible for answering investors' enquiries and mails on a timely basis.

As at December 31, 2005, the market capitalization of shares held by the public was RMB19,470 million. For details of class of shareholders and the total shareholding, please refer to page 42.

### Corporate Management and Internal Control

The Company convenes regular Working Committee meetings, which are hosted by the CEO and attended by senior management, and President meetings, which are hosted by the President and attended by senior management, including department heads from the Company's headquarters. The Company's operation, implementation of investment projects and financial issues are considered and determined at such meetings. The Company's management including



managers from branches, subsidiaries, associated companies and department heads from the headquarters will convene a work meeting semi-annually in order to review the operational performance of the previous six months and to decide on the operations for the following six months. The meetings have facilitated coordination, communication and implementation of the Company's various operations.

In 2005, the Board and senior management attached much importance to the establishment and improvement of the internal control system. The Company has set up a special panel and a project management committee for all-round system establishment and comprehensive improvement in the Company's corporate internal control system in accordance with Article 404 of the U.S. Sarbanes-Oxley Act.

During the year, the Board had arranged a training session for Directors and Supervisors of the Company on Directors' responsibilities and obligations and on the latest amendments to the Hong Kong Listing Rules in order to ensure strict compliance to the relevant laws and regulations in their work.

The Directors have finished the reviews on financial control, operation control and risk management functions. In 2005, the Company adopted various measures to strengthen its internal control and risk management. Measures include: at the Company level, revising and improving the controls relating to information technology system and operational procedures, and at the market level, improving the sales management system to identify market risk; as well as consolidating the various professional management of the Company. The Company has developed a systematic risk evaluation measure and a risk management structure and system for risk management, which will enable the Company to

identify, evaluate and manage risks inside and outside the Company. In respect of financial control, an overall budget-based management system has been established; accounting system has been standardized; and treasury functions are managed centrally.

The Company attaches much importance to the establishment and perfection of the information system in order to enhance work efficiency.

### **Compliance and Exemption of Corporate Governance Obligations Imposed by New York Stock Exchange**

Based on its Listing Rules, New York Stock Exchange ("NYSE") imposes a series of corporate governance standards for companies listed on the NYSE. However, NYSE has granted permission to listed companies of foreign private issuers to follow "home country" practice and waivers for compliance with corporate governance standards. One of the conditions for such waiver is for the listed company to disclose in its annual report how the corporate governance practices in "home country" differ from those followed by companies under NYSE listing standards.

The Company has compared the material corporate governance standards generally adopted by the companies incorporated in the People's Republic of China (the "PRC") and the standards developed by NYSE, as follows:

### **A majority of Independent Directors**

NYSE requires that the board of a listed company must comprise a majority of Independent Directors. There is no identical corporate governance requirement in the PRC. The Board of the Company currently comprises 3 Independent Directors and 6 directors.

### Compensation Committee and Nomination Committees

NYSE requires a listed company to establish a Compensation committee and a Nomination committee comprising only Independent Directors. Each committee shall have a written charter that addresses the committee's purposes and responsibilities. The Compensation Committee is responsible to (i) review CEO's compensation and evaluate the CEO's performance; and (ii) make recommendations to the board with respect to non-CEO officers' compensation and other incentive-compensation plans. The Nomination Committee is responsible to evaluate and select candidates of Directors for the next Board and recommend them in the general meeting. Both committees shall be appraised annually to ensure their effectiveness.

The Company has established a Compensation and Nominating Committee, which comprises 3 Independent Non-Executive Directors and 2 Executive Directors to be responsible for the foregoing corporate governance functions. The Company believes that the current Committee complies with the common corporate governance requirements in the PRC and can function effectively.

### Corporate Governance Committee

NYSE requires a listed company to establish a Corporate Governance Committee which comprises entirely Independent Directors. The corporate governance committee shall be co-established with the Nominating Committee and have a written charter. The Corporate Governance Committee is responsible (I) for developing and recommending to the board a set of corporate governance guidelines applicable to the corporation; and (II) supervising the operation of the Board and the management.

The Corporate Governance Committee shall also be subject to evaluation annually. As most of other companies incorporated in the PRC, the Company believes that corporate governance matters are critical and shall be carried out by the Board. The Company accordingly does not separately maintain a Corporate Governance Committee.

### Auditors' remuneration

PricewaterhouseCoopers has been reappointed as the Company's external auditors at the last Annual General Meeting until the conclusion of the next Annual General Meeting.

A remuneration of RMB23,012,000 was paid to PricewaterhouseCoopers for the provision of audit and audit related services in 2005. During the same period, the remuneration of RMB978,000 was paid to PricewaterhouseCoopers for non-audit related services to the Company.

