

# Chairman's Statement

To all shareholders:

I wish to take this opportunity to express my sincere gratitude towards your trust and support to Zijin Mining Group Company Limited (the "Company"). I am pleased to report herewith the operating results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2006 as follows:

In 2006, the Group further enlarged its production capacity in responding to the high prices of gold and other non-ferrous metals and achieved (turnover) sales income of RMB10,678,810,000, representing an increase of 251.71% over the previous year, and achieved net profit after tax (net profit attributable to shareholders) of RMB1,704,514,000, representing an increase of 142.24% over the previous year. Earnings per share (basic) was RMB0.16, representing an increase of 142.24% over the previous year. (Earning per share is based on the net profit attributable to shareholders in this year RMB1,704,514,000 (for 2005 was RMB703,637,000) and weighted average issued ordinary shares of this year was 10,513,047,280 shares (for 2005 was 10,513,047,280 shares (adjusted))).

## MARKET OVERVIEW

In 2006, the trend of the gold market was influenced by the bullish metal commodity markets as a result of the world economy growth, international monetary system crisis as a result of the soft US dollar, continuous upsurge of energy prices, impelling influence of the investment fund and geographical politic tensions. The 2006 average price of international spot gold was US\$603.46 per ounce (based on afternoon setting price of London Gold Market), up by 35.69% from the average price US\$444.74 per ounce in 2005. The highest price was US\$725 per ounce and the lowest price was US\$524.75 per ounce. The 2006 opening price was US\$530 per ounce, and closing price was US\$632 per ounce. The trend of domestic gold price was basically in parallel with international market.

The average price of gold which the Company sold during the year was RMB157.19 per gram (approximately US\$611 per ounce), up by 32% over the corresponding period in the previous year.

Copper price went up tremendously to US\$8,800 per tonne from US\$4,440 per tonne, and then fell back gradually. The average price was approximately US\$6,700 per tonne. In 2006, the macro-economy was good and the demand of copper was high. The long term low price of copper led to shortage in supply and decrease in stock of copper. In the circumstances of the imbalance of supply and demand, the involvement of investment funds was one of the major reasons to impel the copper price to a high position.

## INDUSTRIAL POSITION

According to the statistics of the China Gold Association in 2006, the national gold production in the PRC amounted to 240.078 tonnes, including 179.848 tonnes of mine-produced gold, representing 0.72% growth over last year. The Group produced 49.28 tonnes of gold, including 20.70 tonnes of mine-produced gold, representing approximately 20.53% of the total national gold output, and 11.51% of national mine-produced gold in the PRC. Gold enterprises in the PRC recorded a total profit of RMB6.1085 billion. Profits (net product profits of gold) recorded by the Group was RMB1.705 billion, representing 27.91% of the total profit generated by the gold industry in the PRC.

## BUSINESS OVERVIEW

In the reporting period, the Group produced 49,280 kg (1,584,388 ounces) of gold, (20,700 kg (665,520 ounces) of mine gold, 28,510 kg (916,617 ounces) of refined gold, 70 kg (2,251 ounces) of gold associated in other metals), representing a growth of 135% over last year. Copper output was 40,302 tonnes, (including 6,781 tonnes mine copper cathodes, 33,187 tonnes mine copper in concentrates form, 334 tonnes copper associated in other metals) representing a growth of 103% over the previous year. The Group produced 54,703 tonnes of zinc, (including 41,400 tonnes of refinery zinc, 13,303 tonnes of zinc in concentrates form) representing a growth of 37.5 times more than previous year. Output of iron concentrates was 600,000 tonnes, representing 71.43% growth over last year.

During the reporting period, the Group achieved a sales income of RMB10.679 billion, representing an increase of 251.71% over the previous year, and achieved a net profit after tax in the sum of RMB1.705 billion, representing an increase of 142.24% over the previous year. As at the end of 2006, the total assets of the Group amounted to RMB11.349 billion, representing a growth of 107.28% over the previous year, and net assets amounted to RMB5.054 billion, representing a growth of 58.98% over the previous year. Both the total assets and sales income of the Group exceeded RMB10 billion.

### I. Favorable Production and Operation, Gold Business Remains the Main Business, Business of Copper and Zinc Continuously Improving

#### 1. GOLD MINE BUSINESS

During the reporting period, the Group totally produced 20,700 kg of mine gold (665,520 ounces) which was mainly produced in 3 main gold mines, representing a growth of 35.6% over last year, of which, 13,870 kg (445,930 ounces) was produced at Zijinshan Gold Mine, 3,240 kg (104,168 ounces) was produced at Shuiyindong Gold Mine, and 1,100 kg (35,366 ounces) of gold was produced in the form of concentrates at Hunchun Shuguang Gold and Copper Mine, which was amounted to about 88% of total mine gold of the Group. Remaining about 12% gold outputs was contributed by new productive gold mines such as Shanxi Yixingzhai Gold Mine, Sichuan Jiuzhaigou Gold Mine, and Yunnan Dixu Gold Mine which produced 2,490 kg (80,056 ounces) of gold in total.

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During the reporting period, the Group produced 28,510 kg (916,617 ounces) of refinery gold, representing a growth of four times over last year, of which, Luoyang Zijin Yinhuai Gold Refinery Company Limited ("Luoyang Yinhuai") produced 27,660kg (889,289 ounces) of refinery gold, Xiamen Zijin Science and Technology Company Limited produced 850 kg (27,328 ounces) of refinery gold. The substantial growth in the Group's turnover was mainly contributable to the growth of sales of refined gold from Louyang Yinhuai.

Sales income from gold business of the Group represented 70.4% of the total annual sales income, and net profit of gold business represented 54% of the total net profit.

## 2. COPPER MINE BUSINESS

During the reporting period, the Group produced 40,302 tonnes of copper, representing a growth of 102.83% over last year. Ashele Copper Mine successfully achieved the production plan and produced 30,018 tonnes of copper in concentrates form. Zijinshan Copper Mine produced 6,781 tonnes of copper cathodes. Hunchun Gold and Copper Mine produced 3,169 tonnes of copper in concentrates form. Bayannaer Zijin produced 334 tonnes of copper from other associated metals.

Copper mine business grew rapidly. Its sales income represented about 16.4% of the total annual sales income, while it represented about 32% of the total net profit.

## 3. ZINC MINE BUSINESS

The Group's zinc mine business rapidly rises as a new force. During the reporting period, 13,303 tonnes of zinc was produced in concentrates form, representing 8.38 times over last year. Yunye Jingyuan produced 2,945 tonnes of zinc in concentrates form. Ashele Copper Mine produced 9,439 tonnes of zinc from other associated metals. Other mines produced 199 tonnes of zinc from other associated metals. Wulatehouqi Zijin produced 17,017 tonnes of zinc in concentrates form. It is an ore provider to Bayannaer Zijin. In order to avoid duplicate calculation, its production was not included in our statistics.

Bayannaer Zijin commenced production in July 2006, and has met the production plan quickly by producing 41,400 tonnes of zinc ingot.

Sales income of zinc mine business represented about 10.7% of total annual sales income, while net profit arising therefrom represented about 13% of the total net profit of the Group.

## 4. IRON MINE AND OTHER BUSINESS

During the reporting period, the Group produced 0.6 million tones iron concentrates (Xinjiang Jinbao Mengku Iron Mine), representing a growth of 71.43% over last year. Wulatehouqi Zijin produced 1,272 tonnes lead from other associated metals. Shanxi Zijin produced 17,349 kg of silver from other associated metals. Ashele Copper Mine produced 16,237 kg of silver from other associated metals.

Sales income from other business including iron ore represented about 2.5% of total sales income, while net profit arising therefrom represented about 1% of the total net profit of the Group.

## II. Prompt Expansion in Investment Scale

In 2006, the Group expanded the investment scale. It investigated 78 projects in PRC, and signed official agreements of 16 projects by way of setting-up new company or acquisition, mainly included Chongli Dongping Gold Mine, Shanxi Yixingzhai Gold Mine, Hunan Anhua Liaojiaping Gold Mine, Shandong Longkou Jintai Damoqujia Gold Mine, Shandong Longkou Jinfeng Gold Mine, Sichuan Shuajingsi Gold Mine, Yunnan Dixu Gold Mine, Yunnan Yuanyang Gold Mine, Heilongjiang Duobaoshan Copper Mine, Xinjiang Mengku reduction iron project and so on.

In 2006, the Group made a great progress in its internationalization course. By way of equity transfer, it controlled Mongolia Nari Tolgoi Gold Mine, Vietnam Ha Giang Lead-Zinc Mine and adjacent mines and Tuyen Quang Iron Mine, and became a substantial shareholder of Ridge Mining plc, a company listed on the London Stock Exchange. The Group recently announced an acquisition offer to Monterrico Metals plc, and bidding for Peru Michiquillay Copper Mine and that other important international projects are on-going.

The successful acquisition of the above projects, and the further construction and development will provide strong impetus for the continuous development of the Group.

## III. Smooth Progress of Construction Projects

Qinghai Deerni Copper Mine has overcome all kinds of difficulties in setting up a mine in a plateau, and has successfully established the mine and commenced trial production by the end of 2006.

After three years of construction and development, Anhui Tongling Jiaochong Gold and Multi-metal Ore Mine was just set-up, and its trial production will be commenced at the beginning of 2007.

Shanghang High Precision Copper Plate and Copper Belt Processing Project with 20,000 tonnes/year capacity and major projects of Guizhou Shuiyindong Technical Innovation Phase III were close to completion.

The development of Xinjiang Fuyun reduction iron project was in a good progress.

The initial and preparation work for Hebei Dongping Gold Mine technical innovation project and Xizang Yulong Project Phase I progressed smoothly.

## IV. Notable Effects of Geological Exploration Projects and Management of Mining Rights

In 2006, the Group reinforced the maintenance and management of Mines. As at 31 December 2006, the Group has a total of 179 mine exploration rights, covering an area of 5,972 sq.km. It included 35 newly acquired mine exploration rights which covers 740 sq.km. The Group has 27 mining rights, covering an area of 41.3 sq.km. It included 10 newly acquired mining rights which covers 8.9645 sq.km. The Group's ability of controlling resources is greatly improved.

After acquisitions and large inputs in exploration works, at the end of 2006, the Group has recorded a growth (after the deduction of the consumption in this year) in metal (ore) resource/reserves of gold resources of about 455 tonnes (included 57 tonnes gold associated with other metals), platinum and palladium of about 151 tonnes, copper of about 6.7 million tonnes, zinc of about 2.38 million tonnes, nickel of about 0.5446 million tonnes, lead of about 0.4 million tonnes, molybdenum of about 0.26 million tonnes (included 0.03 million tonnes molybdenum associated with other metals), tin of about 0.1 million tonnes, iron ores of about 188 million tonnes, and coal of about 300 million tonnes, respectively (on equity base for non-subsidiaries).

The above-mentioned resource reserves as recognized by Ministry of Land and Resources, include 448 tonnes of gold, 4.167 million tonnes of copper, 0.51 million tonnes of zinc, 0.168 million tonnes of molybdenum, 0.1 million tonnes of tin, 0.23 billion tonnes of coal, and 32.15 million tonnes of iron ore. Other reserves were submitted to the relevant authorities for assessment.

During the reporting period, the Group has invested RMB117.6464 million on geological exploration. Deep exploration of copper mine made great progress in Zijinshan Mine in the new phase of general exploration. A thick and high grade copper deposit has been found. Investigation in the east of Guizhou Shuiyindong demonstrated a prosperous future. It probably can be another major gold mine in future. Inner Mongolia Sanguikou of Neimeng Dongshengmiao Zinc Mine made a great breakthrough in progress by controlling tremendous potential resources. Geographical exploration in Burma Mwetaung Nickel Mine led to fruitful results.

## V. Scientific Research

In 2006, the technical center of the Company was awarded as the "National Recognized Enterprise Technical Center" by five national ministries collectively. The Company was awarded as the "Advanced Scientific and Technical Enterprise in National Gold Industry in the "Tenth Five" years" by the National Gold Association.

"The Research on the technics of Pretreatment of Refractory Guizhou Shuiyindong Gold Mine with Normal Pressure and Chemical Catalysing and Oxidation and its Industrial Application" and "The Technical Research on the Biological Copper Extraction of Zijinshan Copper Mine and its Technical Application" attained the first class award in technological advancement granted by China Gold Association and the first class award granted by China Nonferrous Metal Industry Association respectively.

The new technology of "application of bacteria-contained copper acid mining pit water to lixivate copper sulphide" obtained the national patent right, and applications for another six patents are processing.

"Zijin" brand gold bullion has obtained the recognition and certification of LBMA.

Copper cathodes in Zijinshang Gold and Copper Mine achieved the national standard. Most indexes of #0 Zinc Bullion produced by Bayannaer Refinery Plant achieved standard of superfine zinc.

## VI. Management

The board of directors, supervisory committee and management of the Company were re-elected in August 2006. The new leaders lodged the requirements of "specified rights and responsibilities, appropriate management, operation in order, efficient guarantee, simple and effective, exemplar in the industry" as a whole. They suggested to enhance the executive power, so that the Group can transfer from business function to managing function, and establish a management system appropriate for the development of Zijin.

## VII. Safe Environmental Protection

The Group firmly adopted its views in relation to scientific development and has established the policy of "safety and prevention first" and "coexistence of development and protection". Most of subsidiary mines should maintain safe environmental protection policies in advance and ensure that the execution of responsibility and normative operation are in order.

The environmental protection in Zijinshan Mine was assessed as the highest grade in the environmental estimation of experimental unit in 100 provincial enterprises by local authorities. Besides, Zijinshan Gold and Copper Mine and Gold Refinery Plant urged to implement the examination of clean production, striving to be a national environmental-friendly enterprise.

It should not be neglected that the Company gained progress in environmental safety. At the same time, however, some subsidiaries were not well managed. An accident of a slide of a dam for wastes and tailings in Guizhou Zijin happened in the maintenance period at the end of 2006. Fortunately, the Group adopted appropriate measures to minimize negative influences and has controlled the situation. One light injury has been reported and it caused certain economic loss. The accident is an important lesson to the Group.

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## PROSPECTS

### Business Environment

It is expected that market prices of metals may fluctuate in 2007 due to the changes of global political and economic situation, however, the apparent upsurge in international energy prices and US dollar devaluation trends driven by geographical politics shall strengthen further the shelter functions on gold investment, it is believed that gold prices may maintain at a higher price level in 2007.

The supply and demand of copper in 2007 will move towards a balanced situation with help from the sustaining growth of global economy. Consider the soaring market which uplifts market demands, the price level of copper and other non-ferrous metals shall be adjusted but still remains in a high position.

### Business Objectives

Guiding Ideology: By the adaptation of scientific and evolutive notions, the Group dedicates to urge the harmonious development of enterprises and related parties. The Group will seize all opportunities to explore new market potential. The Group will motivate the staff in utilizing their potential abilities. The Group shall focus on resolving the bottle-neck problem on both recruitment & management of talented people. The Group will accelerate the internationalization process, and exert financing functions and multiplier effect in capital market to inaugurate a new phase for the Company.

Business Objectives: The Group plans to produce approximately 55 tonnes of gold in 2007, of which 25 tonnes are produced from mines, and 30 tonnes are processed gold; approximately 55,000 tonnes of copper metal; approximately 130,000 tonnes of zinc metal, of which 40,000 tonnes are produced from mines, and 90,000 tonnes are refined and processed zinc; and approximately 800,000 tonnes of iron concentrates. Please note that the said plan was made on the basis of the current market situation and the existing conditions of the Company. The Board may, pursuant to changes in circumstances, vary the production plan.

### Business Strategies

A shares listing plays an important role for business expansion of the Group. To cope with the listing issue and smooth out the whole process, the Group will advocate additional resources to rationalize its production and operation, improve safety standard and strengthen the environmental protection program.

The Proposed A Share Issue may or may not proceed. Investors will therefore exercise with caution when dealing in the shares of the Company.

1. *To seize market opportunities, ensure the accomplishment of production plan and increase production*

As the major mine of the Group, Zijinshan Gold Mine will continue to be an exemplar and reach a new level in respect of production, operation, management, safety assurance, environment protection, talents training and delivering, and resource exploiting. Guizhou Shuiyindong Gold Mine should seriously implement the measures of security and environmental protection, minimize the negative impacts of the tailings accident and ensure the achievement of the annual production plan. Hunchun Shuguang Gold and Copper Mine will maintain its production capability by the adaptation of technology innovation and the deployment of "gold and copper concentrates hydrometallurgical refining process". Luoyang Zijinyinhui Refinery Plant will actively explore new source of raw materials and adopt effective measures to ensure safe operation of logistics system. Hebei Dongping Gold Mine, Yunnan Yuanyang Gold Mine, Guangnan Dixu Gold Mine, Funing Zhesang Gold Mine, Anhui Jiaochong Gold Complex Ore Mine, Shanxi Yixingzhai Gold Mine, Shandong Longkou Jinfeng Gold Mine, Shandong Longkou Damoqujia Gold Mine, Sichuan Jiuzhaigou Gold Mine, and Hunan Liaojiaping Gold Mine should well manage exploitation of existing resources and enhance production capacity.

Xinjiang Ashele Copper Mine, Zijinshan Copper Mine, Hunchun Shuguang Gold and Copper mine will stabilize the production capacity, explore the production potential, and prepare for and dilute the impact of price decrease of copper. Qinghai Deerni Copper mine will try to stabilize and achieve the production target and contribute the growth of the Company in 2007.

Bayanaoer Zijin Zinc industry will continue to be the major development of the Company. The Bayanaoer Zijin Zinc Refinery Plant expects to consolidate the production process for production of by-products. Wulatehouqi Lead and Zinc mine will further increase its production capacity.

Xinjiang Mengku Iron Mine will enhance the technique applied in the projects, so as to further increase production capacity and provide high quality raw material for reduction iron project.

Other manufacturing enterprises will increase production capacity and contribute to the development of the Company according to the Group's arrangements.



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### 2. *Project construction and initial works*

Shanghang High Precision Copper Plate and Copper Belt Processing Project will fend for commencement of production in the first half of the year and become the successful exemplar in product extension of the Company.

The emphases in 2007 are on combined open pit exploitation of Zijinshan Gold and Copper Mine, expansion project of Hunchun Shuguang Gold and Copper mine, Guizhou Shuiyindong Project Phase III, Hebei Dongping Gold Mine, Wuping Yueyang Silver and Gold Mine, Shandong Longkou Damoqujia Gold Mine, Wulatehouqi Zijin Zinc Mine, the technological reform of Hunan Anhua Tungsten and Antimony Mine, and construction projects of Xinjiang Fuyun Reduction Iron Project, Guangdong Xinyi Gold Mine, Yinyan Tin Mine, Xizang Yulong Copper Mine Phase I and Mongolia Nari Tolgoi Gold Mine. All the above-mentioned projects should be completed and commenced the production as planned.

Expedite initial works of Heilongjiang Duobaoshan Copper Mine, Henan Shangcheng Molybdenum Mine, and Xinjiang Wuqiawulagen Lead and Zinc Mine. Strive for the kick-off of construction in near terms.

International Projects: The Group would act actively to obtain initial approval on relative contracts signed or in process. These include several overseas projects like South Africa Platinum and Palladium Mine, Russia Kuton Gold Mine, Lantaersi Calcao Copper-Nickel Mine, Burma Mwetaung Nickel Mine, Vietnam Ha Giang Lead-Zinc Mine and Iron Mine. The Group would pay close attention to other important overseas projects, such as the acquisition of Peru Rio Blanco Copper Mine, and bidding for Michiquillay Copper Mine. The Group will prepare all necessary work to get a substantial break-through in the acquisition.

### 3. *Control of mineral resources*

The Group will continue to improve domestic and overseas mineral resources by way of acquisition, and exploration. The Group highly emphasizes on searching and the acquisition of potential primary exploration projects. In 2007, it is planned the Group will allocate about RMB1.5 billion on acquisition of resources and RMB150 million on exploration respectively. Please note that the said plan was made on the basis of the current market situation and the existing conditions of the Company. The Board may pursuant to changes in circumstances vary the said plan.

### 4. *Talent management*

The Group will pay more attention to talents in terms of hiring, evaluating, remunerating systems and enhance self-improvement programs. The Group will also hire talents from the market and nurture talents within the Group to solve the bottle-neck problem in the development course.

### 5. *Management*

The Group will focus on detailed management to further improve the execution quality. Pursuant to current law and regulations, the Group will also assign directors and supervisors to achieve effective control and management of subsidiaries.

### 6. *Technology innovations*

The Group will reinforce the management and technical force on geological exploration, mining, metallurgy, and experimental research, in order to contribute to the pivot scientific projects and construct a strong team in exploration, research, design, and implementation.

In the three years since listing, the integrity, diligence and hard-working of the staff and management enhanced greatly of the Company's value. Production of major products increased significantly. Prices of each product continuously went up. The Group also invested heavily to speed up the internationalization process and substantially increased the possession of resources. With the new management system of the Group established, employees enjoyed better remuneration packages, shareholders obtained substantial returns, and at the same time the Group carried out the economic and social developments of the regions where the mines are located. The Group tried hard to build a harmonious social relationship in the mine areas. The Company's brand awareness and reputation have been growing rapidly. Both opportunities and challenges will dominate the Company in 2007. The Company believes that year 2007 will be a brilliant year for Zijin Mining with endeavor of all employees and support of the society.

By order of the Board  
**Chen Jinghe**  
*Chairman*

Shanghang, Fujian, the PRC  
8 March 2007