

The Code on Corporate Governance Practice (“Practice Code”) effective for accounting periods commencing on 1 January 2005 or after has superseded the Code of Best Practice as set out in Appendix 14 of the Listing Rules. Save as disclosed herein, the Group has applied the principles as set out in the Code on Corporate Governance Practice and has complied with the relevant code provisions and most of the recommended best practices.

## SECURITIES TRANSACTIONS BY DIRECTORS

The Group has adopted the Model Code for Securities Transactions by Directors of Listed Companies as set out in Appendix 10 of the Listing Rules as the model code for the trading of securities by directors of the Group. The effective date was 23 December 2003. Following enquiries with all directors of the Company, the Group confirms that all directors have complied with the provisions of the Model Code for the year ended 31 December 2006.

## BOARD COMPOSITION AND PRACTICE

The Board of the Group is jointly responsible to all shareholders for leading and overseeing the operations of the Group so as to ensure the achievement of the objective of value adding to shareholders.

The Board comprises eleven directors, including six executive directors, one non-executive director and four independent non-executive directors. There is no related connections in respect of finance, business or family relations between the members of the Board.

Pursuant to the Listing Rules, a listed issuer must have at least three independent non-executive directors and at least one of them shall possess appropriate professional qualifications or appropriate expertise in accounting or financial management. The professional composition of independent non-executive directors of the Group is: one independent non-executive director who is an experienced registered accountant with expertise in accounting and financial management, one independent non-executive director who is an experienced lawyer with expertise in Hong Kong, and English laws, and two independent non-executive directors who are experienced specialists in smelting and mining operations.

All independent non-executive directors have submitted annual confirmations of their independence pursuant to Rule 3.13 of the Listing Rules. The Group considers that all independent non-executive directors have complied with the Independence Guideline of Rule 3.13 of the Listing Rules and are considered as independent directors pursuant to the provisions of the guideline.

## Corporate Governance Report

Pursuant to the Company Law of the PRC and the articles of association of the Company, each director (including non-executive directors and independent non-executive directors) is appointed for a term of three years and can be re-elected. The board was elected at the second 2006 extraordinary general meeting on 18 August 2006. The number of directors has been increased from nine to eleven, of which six directors were reappointed, three directors were resigned, and five new directors were appointed. All directors will have their terms of office expiring on 18 August 2009 on which they will be re-elected, which is in line with the rule that “each director (including directors with a specific term) is subject to retirement by rotation at least once every three years”.

Mr. Chen Jinghe is both the Chairman of the Board of Directors and President of the Company. The Board considers that although such structure deviates from Rule A.2.1 of the Corporate Governance Code, the effective operation of the Group will not be impaired since Mr. Chen is the promoter of the Group and gains respects in the Group as a specialist in mining industry technology and management.

Led by the chairman of the Board (chairman), the Board is responsible for approving and monitoring the overall development strategy of the Group, approving annual budgets and business plans, approving major investment projects related to the business development of the Group, assessing the performance of the Group, supervising the work of the management and ensuring that the Board acts in the best interests of the Group. The chairman should ensure that the Board operates effectively and performs its proper duties and holds discussions on various important and proper businesses of the Company in a timely manner. All directors are entitled to propose any matter that needs to be submitted to the Board for discussion in the agenda of the board meeting. The chairman has delegated the secretary of the Board to draft the agenda of each board meeting. With the assistance of executive directors and the company secretary, the chairman will ensure that all directors will be provided with sufficient and reliable information in a timely manner to enable them to make necessary analyses according to their business expertise.

As the president, Mr. Chen fully delegates the daily operation management to relevant managers. Executive directors and senior vice president are responsible for the daily management of various businesses, including implementing resolutions of the Board and responsible to the president for the business operation of the Group. The president is responsible to the Board for the overall operations of the Group.

# Corporate Governance Report

The Board has convened five plenary board meetings for the year ended 31 December 2006, including the fourteenth, fifteenth, and sixteenth board meetings for the second term, and the first and second board meetings for the third term. The attendance of directors at the meetings was as follows:

	<b>Attendance</b>
<b>Chairman of the Board</b> ( <i>chairman, president</i> )	
Chen Jinghe	5/5
<b>Executive directors</b>	
Liu Xiaochu ( <i>vice-chairman</i> )	5/5
Luo Yingnan ( <i>vice-chairman</i> )	5/5
Lan Fusheng ( <i>vice-chairman</i> )	5/5
Rao Yimin ( <i>retired director</i> )	3/3
Huang Xiaodong ( <i>new director</i> )	2/2
Zou Laichang ( <i>new director</i> )	2/2
<b>Non-executive director</b>	
Ke Xiping	4/5
<b>Independent non-executive directors</b>	
Yao Lizhong ( <i>retired director</i> )	3/3
Yang Dali ( <i>retired director</i> )	3/3
Loong Ping Kwan	5/5
Chen Yuchuan ( <i>new director</i> )	2/2
Lin Yongjing ( <i>new director</i> )	2/2
Su Congfu ( <i>new director</i> )	2/2

The "Practice Code" stipulates that "a notice shall be given at least 14 days before a regular board meeting to enable all directors to reserve time for attending the meeting. For other board meetings, a reasonable notice shall be given." The Company has adopted the provisions of the "Practice Code" and issues meeting notices 14 days before convening a board meeting so that all directors can have sufficient time and opportunities to attend the meeting. All meeting papers will be sent to all directors no less than three days before a meeting is convened. Both the company secretary and qualified accountant will attend all board meetings. Matters discussed and resolved at board meetings will be recorded by the company secretary in detail and a summary of minutes will be made or resolutions will be filed.

# Corporate Governance Report

## NOMINATION AND REMUNERATION OF DIRECTORS

The new Board established the nomination and remuneration committee. It comprises independent non-executive directors, Mr. Su Congfu (chief commissioner), Mr. Chen Yuchuan, Mr. Lin Yongjing, Mr. Loong Ping Kwan, non-executive director, Mr. Ke Xiping, and chairman of the Board, Mr. Chen Jinghe. The remuneration committee also comprises various working group members. Detailed regulations for the remuneration committee are amended pursuant to the "Practice Code" and are published on the web site of the Company.

The major responsibilities of the nomination and remuneration committee are:

- To review structure, number of members, and constitution (including skills, knowledge and experiences) of the Board, and propose any possible changes to the Board at regular intervals;
- To look for qualified person to take the position of director, and propose and provide suggestions to the Board;
- To assess the independence of independent non-executive directors;
- To provide suggestions on appointment, reappointment and renewal of directors (especially chairman and president) to the Board;
- To formulate the remuneration plan, and reward and penalty plan for directors and senior management;
- To appraise and evaluate the performance of duties by directors and senior management;
- To ensure that no director or his associate can determine his own remuneration.

## PROCEDURE AND BASIS FOR DETERMINATION OF REMUNERATION

Pursuant to the Articles of Association, the remuneration plan and awarding plan for directors, supervisors and senior management shall be proposed by the nomination and remuneration committee. Remuneration of directors and supervisors shall be considered for approval at the general meeting. Remuneration of senior management shall be considered and approved by the Board. Confirmation of the remuneration of the Directors, Supervisors and senior management shall be based on the annual results of the Company and resolution of the general meeting/Board meeting.

## ANNUAL REMUNERATION

Details are as set out in note 8 to the financial statements.

## AUDITOR'S REMUNERATION

For the year ended 31 December 2006, the audit fees charged by the auditors of the Company was approximately RMB2.6 million, and the auditor did not charge any fees other than the audit fees.

## AUDIT COMMITTEE

The Group established the audit committee in July 2001 with a number of working group members. The Board amended and issued the "Implementation Articles for the Audit Committee" on 26 January 2003. The articles have been published on the web site of the Company.

The new Board has adjusted the audit committee. Currently, it comprises of independent non-executive directors, Mr. Lin Yongjing, Mr. Su Congfu, Mr. Chen Yuchuan, Mr. Loong Ping Kwan, non-executive director, Mr. Ke Xiping, and executive director Mr. Liu Xiaochu. The Board considers that members of the audit committee have sufficient professional knowledge and experience in accounting and financial management to enable them to perform their duties.

The major responsibilities of the audit committee are:

- To propose hiring or changing the external audit institution;
- To oversee the Company's internal audit system and its implementation;
- To audit the Company's financial information and its disclosure (including the annual report, the interim report and any feasible financial review);
- To audit the Company's financial reporting and internal control system and to audit major connected transactions;
- The audit committee has held meetings on a regular basis since its establishment and convened two meetings during the reporting period with 100% attendance.

At the meeting held in March 2006, the committee received the working report by the compliance and audit office and reviewed the audited report and connected transactions of the Group for 2005, and submitted its concluding opinions on relevant connected transactions and audit to the Board.

At the meeting held in August 2006, the committee reviewed the interim report and connected transactions of the Group for 2006, and submitted its concluding opinions on audit to the Board.

The annual report for the year ended 31 December 2006 of the Group has been reviewed by the audit committee.

# Corporate Governance Report

## DIRECTORS' RESPONSIBILITIES IN RESPECT OF FINANCIAL REPORTS

All directors of the Group have acknowledged their responsibilities for preparing financial reports of the Group. Directors ensure that the preparation of financial reports of the Group is in compliance with relevant regulations and applicable accounting standards and that financial reports of the Group are issued in a timely manner.

The responsibility statement made by the auditor of the Company in respect of financial reports of the Group is set out in the auditor's report on page 62 to 63.

## SHAREHOLDING INTERESTS OF SENIOR MANAGEMENT

The shareholding interests of senior management of the Group are detailed in "Interests and Short Positions of Directors, Supervisors and Chief Executive in the issued shares of the Company" on pages 37 to 39.

## SHAREHOLDERS' RIGHTS

The articles of association of the Group have stipulated the rights and obligations of all shareholders.

Shareholders holding more than 10% (including 10%) of the outstanding shares with voting right of the Company can demand in writing to convene an extraordinary general meeting.

The Company shall issue a written notice 45 days before the holding of a general meeting and inform all registered shareholders about the matters to be considered at the meeting and the date and venue of the meeting. Shareholders who intend to attend the general meeting shall return the written reply for attending the meeting to the Company 20 days before the meeting.

At the annual general meeting convened by the Company, shareholders holding more than 3% of the shares with voting right of the Company are entitled to make new proposals in writing. The Company shall include the matters in the proposals which are within the scope of the terms of reference of the general meeting in the agenda of the meeting.

The Board shall give explanations and reasons at the general meeting if it decides not to include the general meeting proposals in the agenda of the meeting. It shall also publish the content of the proposals and the Board's explanations together with resolutions of the general meeting following the conclusion of the general meeting.

Voting at the general meeting is by poll.

The Group communicates with shareholders through the issuance of annual reports, interim reports and press announcements. All communications with shareholders are also published on the web site of the Group, [www.zjky.cn](http://www.zjky.cn).

## INVESTOR RELATIONS

The Board fully recognizes that effective communication with investors is the key in building investors' confidence and attracting new investors.

The Group holds press conferences and briefings to investment analysts immediately following the announcement of its annual and interim results. Senior management such as the chairman of the Board and the financial controller of the Group will be present to analyze the performance of the Group during the period, expound the business development of the Group and answer questions raised by investors.

Results announcements of the Group will also be published timely on the web site of the Group.

The Group will also arrange for professional investors to visit its subsidiaries so that they can understand the Group's existing production status, investment status and business development, thereby enhancing confidence over the Group.

During the year, part of the articles of association of the Group was amended at the 2005 annual general meeting held on 18 May 2006 and the second extraordinary general meeting held on 18 August 2006. Please refer to the detailed information in the circular or on the web site of the Group, [www.zjky.cn](http://www.zjky.cn).

The Group's first extraordinary general meeting of 2006 was held on 7 April 2006, at its headquarter in Shanghang County, Fujian Province and considered: 1. the agreement in relation to the provision of exploitation contracting services entered into between the Company and Fujian Xinhua Engineering Co., Ltd., and the annual caps for the three years ended 31 December 2008; 2. the agreement in relation to the provision of exploitation contracting services entered into between the Company and Fujian Shanghang Hongyang Mining Engineering Co., Ltd., and the annual caps for the three years ended 31 December 2008; 3. authorizing the Board of signing relevant contracts. All the above matters have been approved by voting at the general meeting.

The Group's 2005 annual general meeting was held on 18 May 2006 at its headquarter in Shanghang County, Fujian Province and considered: 1. the directors' report for 2005; 2. the supervisors' report for 2005; 3. the audited financial and international auditor reports as at 31 December 2005; 4. the profit distribution plan for 2005; 5. approving the proposed annual remuneration plan of directors and supervisors of the Company as at 31 December 2005; 6. approving the appointment of Ernst & Young Hua Ming and of Ernst & Young as the domestic and international auditor of the Group for the year ended 31 December 2006; and authorizing the board to determine the relevant remuneration; 7. approving the plan for capital conversion from the reserve fund of the Company; 8. the proposed changes of the Articles of Association; 9. approving the granting of a mandate to the Board of issuing not more than 20% of the total nominal value of domestic shares or H shares in issue; 10. authorization to the Board. All the above matters have been approved by voting at the general meeting.

## Corporate Governance Report

The Group's second extraordinary general meeting of 2006 was held on 18 August 2006, at its headquarter in Shanghang County, Fujian Province and considered: 1. revised version of Articles of Association; 2. election of the 3rd term of the Board by poll; 3. election of supervisors representing shareholders of the 3rd Supervisory Committee by poll; 4. approving the supervisors representing employees elected by the employee representative committee; 5. approving the remuneration plan of directors and supervisors of the Company, and authorizing the Board to sign the service contract/ appointment letter with every new director and supervisor according to the appropriate terms and conditions, and carry out its responsibility to make things happen. All the above matters have been approved by voting at the general meeting.

The Group's third extraordinary general meeting of 2006 was held on 28 December 2006, at its headquarter in Shanghang County, Fujian Province and considered: 1. the agreement in relation to the purchase of zinc concentrates entered into between the Company's subsidiary-Bayannaer Zijin Nonferrous Metals Co., Ltd. and Gansu Jianxin Industrial Co., Ltd., and the annual caps for the three years ended 31 December 2008; 2. authorizing the Board of signing relevant contracts. All the above matters have been approved by voting at the general meeting.

As at 31 December 2006, the total market capitalization of the Group was approximately HK\$57 billion. The market capitalization of H shares was approximately HK\$17.4 billion.

### INTERNAL CONTROL

The Board is solely responsible for the internal control system of the Group, including defining the management structure and relevant terms of delegation, determining the adoption of appropriate accounting policy, providing reliable financial information for internal use and public announcement, and ensuring compliance with relevant laws and regulations. The above internal control system aims to reasonably (but not absolutely) ensure that there are no significant misrepresentations or losses and manage (but not completely eliminate) the risks of faults in the operating system and the Group's failure in reaching standards.

The executive directors and senior management of the Group are given corresponding authority to manage and monitor all operating systems of enterprises and deal with relevant affairs.

The Group has established an internal accounting system. The draft budget has to be approved by the Board before implementation. There are relevant procedures in the Group's budget management system and investment management system for assessing and reviewing major operating expenditure and capital expenditure. Operating results will be reported to executive directors through regular financial analyses.



## Corporate Governance Report

The Group has established a dedicated internal audit institution and appropriate internal control procedures to ensure that accounting and management information are recorded in a comprehensive, accurate and timely manner. Besides, regular reviews are conducted to ensure that the preparation of financial statements is in compliance with the accounting standards, accounting policy and applicable laws and regulations, which is extended to all subsidiaries controlled by the Group. The annual working plan of the audit department is subject to approval by the supervisory committee of the Group and the audit committee of the Board.

The Group has established an information disclosure management system which stipulates the relevant procedures for processing price-sensitive information. The Board conducts at least two reviews each year on internal control through the annual report and the interim report so as to assess the effectiveness of the internal control system.

The Board considers that the existing internal control system of the enterprise basically covers the current operating conditions of the enterprise. However, with the sustained development of the enterprise and a continued improvement in the management standard of the Group, the internal control system of the enterprise shall also be subject to continued revision and improvement.