

Corporate Governance Report

The Company strives to comply with the relevant regulations of China Securities Regulatory Commission and the Stock Exchange of Hong Kong Limited (the “Stock Exchange”) as well as the regulations of other relevant regulatory organisations. The Articles of Association, the terms of reference for the Audit Committee, the terms of reference for the Supervisory Committee and the Model Code for Securities Transactions by Directors and specific employees are the bases of reference. The Company will continue to improve its corporate governance and enhance the transparency to shareholders.

OUR BOARD OF DIRECTORS

Our Board of Directors consists of eleven Directors, four of whom are executive Directors including Mr. He Renchun, Mr. Li Li, Mr. Liao Luhai and Mr. Chen Zhixin; another four of whom are non-executive Directors including Mr. Cao Xiuyun, Mr. Wu Longyun, Mr. Zhang Yixian and Mr. Yu Jiang; the remaining three of whom are independent non-executive Directors including Mr. Chan Wai Dune, Mr. Gu Desheng and Mr. Wan Ten Lap. Mr. He Renchun is the chairman. Our Directors are elected at Shareholder’s Meetings for a term of three years.

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 important matters on a timely basis, and for 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 Corporate Finance and Securities Department and the Secretariat Office of the Board offers comprehensive services to the shareholders and answers their enquiries on a timely basis in order to enhance their understanding of the Company. They also maintain effective communications with shareholders to ensure that the views of the shareholders will be communicated to 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 Listing Rules. The three independent non-executive Directors of the Company are independent of the Company and are professionals with extensive experience in the respective fields of accounting, nonferrous metals and finance. They have also provided professional comments on safeguarding and coordinating the interests of the Company and its shareholders.

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Pursuant to the requirement under Rule 3.13 of the Listing Rules, the Company has appointed three independent non-executive Directors, one of whom has professional qualification in accounting and financial management expertise. 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 Listing Rules and considers each of the independent non-executive Directors to be independent.

In 2005, the Company held four regular Board meetings, with an average attendance rate of 82%, in which, Mr. He Renchun, Mr. Li Li, Mr. Liao Luhai, Mr. Chen Zhixin, Mr. Wu Longyun and Mr. Zhang Yixian, Mr. Gu Desheng and Mr. Yu Jiang had an attendance rate of 100%. Mr. Cao Xiuyun had an attendance rate of 50%. Mr. Chan Wai Dune and Mr. Wan Ten Lap had an attendance rate of 25%. Those who failed to attend the meetings in person for various reasons voted by writing. Details of all 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:

1. Elected the Chairman and deputy Chairman;
2. Agreed to appoint the general manager, deputy general manager, financial controller, secretary of the Board and qualified accountant;
3. Agreed to convene an extraordinary general meeting with regard to the failure to issue a notice as required by the Articles of Association;
4. Agreed with the Company's application for conversion to a public company limited by shares and issue shares through listing overseas;
5. Passed the Articles of Association of the Company for the Listing;
6. Passed the proposal to reduce stockholding by state shareholders of the Company;
7. Reviewed the investment development plans of the Company and the use of proceeds raised;
8. Agreed to the establishment of a special committee by the Board of the Company and the appointment of the Company's independent auditor for the year 2005;
9. Reviewed the remuneration proposals (draft) for the Directors, Supervisors and senior management and the Company's incentive system;
10. Approved matters relating to financing, etc.

The Company includes all matters to be discussed in the agendas of the Board meeting. In general, each board meeting notification is sent out 14 days before 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.

Details of the Director's remuneration are disclosed in note 8 to the financial statements.

As of 31 December 2005, no stock appreciation rights had been granted under the Stock Appreciation Rights Plan. No senior management holds any interests in any of the Company's shares.

AUDIT COMMITTEE

An audit committee has been established by the Board. The audit committee's duties are mainly to review the Company's financial reports and internal control system, consider the appointment of independent auditors, provide recommendation to the Board, approve audit and audit-related services, and supervise the Company's internal financial reporting procedures and management policies. The committee consists of the Company's two independent non-executive Directors including Mr. Chan Wai Dune and Mr. Wan Ten Lap, and one non-executive Director Mr. Zhang Yixian. Mr. Chan Wai Dune is the chairman of the committee. The audit committee meetings will be held at least twice a year. Since the Listing, one meeting was held on 24 April 2006 with all committee members attending the meeting to review the Group's results for the year 2005.

REMUNERATION COMMITTEE

A remuneration committee has been established by the Board. The duties of the remuneration committee include: to consider the Company's policy of remuneration and other benefits, to assess the performance of the Company's Directors and senior management and to make recommendations to the Board regarding such matters. The committee consists of one non-executive Director Mr. Wu Longyun and one executive Director Mr. Liao Luhai, three independent non-executive Directors Mr. Chan Wai Dune, Mr. Gu Desheng and Mr. Wan Ten Lap. Mr. Wu Longyun is the chairman of the remuneration committee. The remuneration committee reviews the structure of the Board, the number of Directors in the Board and the work of Directors regularly. For the avoidance of doubt, the Directors and their associates do not participate in decisions making relating to their own remuneration.

The remuneration committee meeting will be held at least once a year. No meeting was held by the remuneration committee after the Listing.

STRATEGY COMMITTEE

A strategy committee has also been established by the Board. The Committee consists of four executive Directors Mr. He Renchun, Mr. Li Li, Mr. Liao Luhai, Mr. Chen Zhixin, two non-executive Directors Mr. Cao Xiuyun, Mr. Yu Jiang and two independent non-executive Directors Mr. Gu Desheng, Mr. Wan Ten Lap. Mr. He Renchun is the chairman of the strategy committee.

The duties of the strategy committee are to review and evaluate the development, budget, investment, business operation and strategic planning of the annual investment returns of the Company. The committee members perform their duties in accordance with their respective rules.

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The strategy committee meeting will be held at least once a year. No meeting was held by the strategy committee after the Listing.

SUPERVISORY COMMITTEE

The Company's supervisory committee consists of nine Supervisors. Six of the Supervisors are elected by our shareholders in the Shareholder's Meetings, including two independent Supervisors and four Supervisors elected as shareholders' representatives. The other three Supervisors are elected by our employees. Supervisors serve for a term of three years, after which they are subject to re-election. The Supervisory Committee is responsible for exercising supervision over the Board of Directors and its members and the senior management; and preventing them from abusing their power and authorities and jeopardizing the legal interests of the shareholders, the Company and its employees. One meeting was held by the supervisory committee in 2005. During the meeting, the committee reviewed the financial condition and operation of the Company in accordance with the law and the due diligence of the senior management, and the committee carried out their work actively in accordance with its fiduciary duties.

SHAREHOLDERS' MEETING AND INVESTOR RELATIONS

The Shareholders' Meeting provides a good opportunity for direct communications and the establishment of 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 three Shareholders' Meetings on 1 September at Changsha Huatian Hotel, on 15 September at Changsha Bestride Hotel and on 17 December at Changsha Bestride Hotel respectively. The meetings mainly reviewed and passed the following issues:

1. The Company's application for conversion to a public company limited by shares and issuing shares through listing overseas;
2. Articles of Association of the Company for the Listing;
3. Reduction of stockholding by state shareholders of the Company;
4. The investment and development plans of the Company and the use of proceeds raised;
5. The establishment of several special committees by the Board of the Company;
6. The appointment of the Company's independent auditor for the year 2005;
7. Review of the Company's incentive mechanism proposal;
8. The resolution relating to the proposal of the Share Allocation Scheme, etc.

All resolutions were approved with an average rate of 100%.

The Chairman of the Board chaired such Shareholders' Meetings and explained matters concerning the procedures for voting for shareholders' consideration and the shareholders voted on each resolution. Each Director had been notified of such meetings and some Directors attended the Shareholders' Meetings.

The Company has established a designated department for investor relations, which is responsible for matters concerning investor relations and has formulated the "Investor Relations Policy" 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 increases investors' understanding of the Company. In addition, our investor relations department is also responsible for answering investors' enquiries and mail on a timely basis.

CORPORATE MANAGEMENT AND INTERNAL CONTROL

The Company convened regular management meetings, which are hosted by the General Manager and attended by Chairman, Directors, senior management, and department heads from the Company's headquarters. The Company's operation, implementation of investment projects and financial issues were reviewed and determined at such meetings. The Company's management including managers from branches, subsidiaries, associated companies and department heads from the headquarters who convened at such management meetings regularly. The meetings have facilitated coordination, communication and implementation of the Company's various operations.

In 2005, great emphasis was placed by the Board and senior management of the Company on the establishment and improvement of the internal control system. The Company appointed Horwath Risk Advisory Services Limited to review the internal control system of the Company. The Company has set up a special panel to review the establishment and improvement in the Company's corporate internal control system, through the establishment of a regulatory system for business operations and internal management and also includes the establishment of a financial management system, management of connected transactions and management of disclosure of information.

The Board of the Company appointed Sidley Austin to arrange training for Director, Supervisors and senior management on Director's responsibilities and offer seminars on Listing Rules and the Securities and Futures Ordinance ("SFO") for Directors, Supervisors and senior management in order to ensure strict compliance with the relevant laws and regulations in their work.

CORPORATE GOVERNANCE

The Company has complied with the rules set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") since 31 March 2006 (date of listing of the Company) except the code provision on internal control which are to be implemented for the accounting period commencing on or after 1 July 2005.

MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") set out in Appendix 10 of the Listing Rules as its own code of conduct regarding Directors' securities transactions. Based on specific enquiry with all the Directors of the Company, the Directors have complied with the required standard as set out in the Model Code for the period ended 31 December 2005.