

# Report of the Directors

The Directors are pleased to present their first report and the audited financial statements of the Company for the period from 1 September 2005 (date of incorporation) to 31 December 2005 and the Group for the year ended 31 December 2005.

## Group Reorganisation

The Company was incorporated in the PRC on 1 September 2005 as a joint stock limited company as a result of a reorganisation of HNG in preparation for the listing of the Company's shares on Stock Exchange. HNG is a state-owned enterprise established in August 2004. In the opinion of the Directors, the parent and ultimate holding company of the Group is HNG.

Pursuant to an agreement for the reorganisation (the "Reorganisation Agreement"), the Company became the holding company of the subsidiaries and branch now comprising the Group with effect from 31 December 2004 (the "Group Reorganisation"). Further details of the Group Reorganisation are set out in note 1 to the financial statements and in the Company's prospectus dated 21 March 2006.

Subsequent to the balance sheet date on 31 March 2006, the Company completed its initial public offering and the shares of the Company were listed on the Stock Exchange.

## Principal activities

The principal activities of the Company are investment holding and mining, processing and sale of nonferrous metals. Details of the principal activities of the principal subsidiaries are set out in note 18 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

## Results and dividends

The Group's profit for the year ended 31 December 2005 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 42 to 120.

As stated in the Company's prospectus dated 21 March 2006, a special dividend of RMB230,980,000 was paid by the Company to HNG in March 2006, which is prior to the Listing. The Directors did not recommend the payment of a final dividend for 2005.

## Use of proceeds from the Company's initial public offering

Subsequent to the balance sheet date in March 2006 and April 2006, the Company received an aggregate net proceeds of approximately HK\$1.9 billion from the issue of new H shares at the time of its listing on the Stock Exchange. Such net proceeds were derived after deduction of related issuance expenses. None of the listing proceeds has been utilised and they are, at the date of this report, deposited with banks. The Directors are of the opinion that the remaining proceeds will be applied in the coming years to their intended uses as set out in the Company's prospectus dated 21 March 2006.

# Report of the Directors

**Summary financial information**

A summary of the published results and assets, liabilities and minority interests of the Group for the last four financial years, as extracted from the Company's prospectus dated 21 March 2006 and audited financial statements for the year ended 31 December 2005 if appropriate, is set out on pages 2 to 3. This summary does not form part of the audited financial statements.

**Property, plant and equipment**

Details of movements in the property, plant and equipment of the Company and the Group during the year are set out in note 15 to the financial statements.

**Share capital**

Details of movements in the Company's share capital during the period are set out in note 35 to the financial statements.

**Pre-emptive rights**

There are no provisions for pre-emptive rights under the Company's Articles of Association or the laws of the People's Republic of China which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

**Purchase, redemption or sale of listed securities of the Company**

The Company's shares were listed on the Stock Exchange on 31 March 2006. Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the period and up to the date of this report.

**Reserves**

Details of movements in the reserves of the Company and the Group during the year are set out in note 36 to the financial statements and in the consolidated statement of changes in equity, respectively.

**Distributable reserves**

Details of reserves available for distribution are set out in note 36 to the financial statements.

**Charitable contributions**

During the year, the Group made charitable contributions totalling RMB3,534,000 (2004: RMB4,645,000).

**Major customers and suppliers**

In the year under review, sales to the Group's five largest customers accounted for less than 30% of the total sales for the year. Purchases from the Group's five largest suppliers accounted for less than 30% of the total purchases for the year.

## Directors and Supervisors

The Directors and Supervisors of the Company during the period are:

### *Executive Directors:*

Mr. He Renchun	(appointed on 1 September 2005)
Mr. Li Li	(appointed on 1 September 2005)
Mr. Liao Luhai	(appointed on 1 September 2005)
Mr. Chen Zhixin	(appointed on 1 September 2005)

### *Non-Executive Directors:*

Mr. Cao Xiuyun	(appointed on 1 September 2005)
Mr. Wu Longyun	(appointed on 1 September 2005)
Mr. Zhang Yixian	(appointed on 1 September 2005)
Mr. Yu Jiang	(appointed on 1 September 2005)

### *Independent Non-Executive Directors:*

Mr. Gu Desheng	(appointed on 1 September 2005)
Mr. Chan Wai Dune	(appointed on 1 September 2005)
Mr. Wan Ten Lap	(appointed on 1 September 2005)

### *Supervisors:*

Mr. Zeng Shaoxiong	(appointed on 1 September 2005)
Mr. He Hongsen	(appointed on 1 September 2005)
Mr. Liu Xiaochu	(appointed on 1 September 2005)
Mr. Jin Liangshou	(appointed on 1 September 2005)
Mr. He Liu	(appointed on 1 September 2005)
Ms. Li Junli	(appointed on 1 September 2005)
Mr. Zhan Yijie	(appointed on 1 September 2005)

### *Independent Supervisors:*

Ms. Chen Xiaohong	(appointed on 1 September 2005)
Ms. Liu Dongrong	(appointed on 1 September 2005)

In accordance with the Company's Articles of Association, all Directors and Supervisors are elected to a term of three years and may serve consecutive terms upon re-election.

The Company has received annual confirmations of independence from Messrs. Gu Desheng, Chan Wai Dune and Wan Ten Lap, and as at the date of this report still considers them to be independent.

## Directors', Supervisors' and Senior management's biographies

Biographical details of the Directors and Supervisors of the Company and the senior management of the Group are set out on pages 7 to 14 of the annual report.

## Directors' and Supervisors' service contracts

The Company has entered into service contracts with all its Directors and Supervisors for a period of 3 years. The Company's Directors and Supervisors receive compensation in the form of salaries, bonuses, housing allowances and other benefits-in-kind, including contributions to pension plans.

## Report of the Directors

### **Directors', Supervisors' and senior management remuneration**

The Directors' and Supervisors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Company's Board of Directors with reference to Directors' and Supervisors' duties, responsibilities and performance and the results of the Group. In compliance with the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules, the Company has a remuneration committee to formulate compensation policies and to determine and manage the compensation of the Company's senior management. Details of the Directors' and Supervisors' remuneration are disclosed in note 8 to the financial statements.

### **Directors' and Supervisors' interests in contracts**

None of Directors and Supervisors had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party during the year.

### **Directors' and Supervisors' interests and short positions in shares**

As at 31 December 2005, none of Directors and Supervisors and their respective associates had an interests and short positions in the share capital and underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO, which would be required to be notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or which would be required, pursuant to Section 352 of the SFO, to be entered into the register referred to therein or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

### **Directors' and Supervisors' rights to acquire shares or debentures**

At no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director and supervisors or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors or Supervisors to acquire such rights in any other body corporate.

### **Stock Appreciation Rights Plan ("STARs")**

In order to provide additional incentive for the senior management of the Company and to enhance the alignment between the performances of the senior management and shareholder value, the Company planned a STARs for its Directors and the Supervisors (excluding the independent Directors, independent Supervisors and the Supervisors nominated by our employees), secretary of the Board and senior management on 17 October 2005. The plan was designed to link the financial interests of the senior management with the future results of the Company's operations and performance of the H shares of the Company. No new H shares will be issued or transferred under STARs. Therefore, the shareholdings of shareholders will not be diluted. In 2005, no share appreciation rights was granted under STARs.

Apart from the STARs, at no time during the period was the Company or any of its subsidiaries a party to any arrangement to enable the Directors of the Company to acquire benefit by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

### **Substantial shareholders' and other persons' interests in shares**

As at 31 December 2005, the Company had not received any notice of interests to be recorded under Section 336 of the SFO as the Company had not been listed on the Stock Exchange as at that date.

**Connected transactions**

During 2005, the Company was not listed and did not have any connected transactions which were subject to the requirements of the Listing Rules<sup>1</sup>.

**Non-competition Agreement**

As disclosed in the prospectus, the independent non-executive Directors will review, on an annual basis, the exercise or non-exercise of the Option to Acquire CRB, the First Right Options to Purchase CRB's Products or the right of first refusal under the Non-competition Agreement (as defined in the prospectus). The non-competition restrictions took effect on 31 March 2006, therefore the Option to Acquire CRB, the First Right Options to Purchase CRB's Products or the right of first refusal under the Non-competition Agreement (as defined in the prospectus) were not in effect as at 31 December 2005.

**Related party transactions**

The Group is also involved in a number of related party transactions which have been disclosed in note 42 to the financial statements.

**Sufficiency of public float**

Based on public information and within the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public as of the date of this report.

**Directors' interests in a competing business**

During the year and up to the date of this report, the following Directors are considered to have interests in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group, as defined in the Listing Rules, as set out below:

Messrs. He Renchun and Cao Xiuyun are also Directors of HNG, which is also involved in the mining, processing, and trading of tungsten concentrates and mining and ore processing of zinc and lead concentrates.

As the Board of Directors of the Company is independent from the Board of Directors of HNG and the above Directors do not control the Board of the Company, the Group is capable of carrying on its businesses independently of, and at arm's length from, the business of HNG.

**Post balance sheet events**

Details of the significant post balance sheet events of the Group are set out in note 44 to the financial statements.

<sup>1</sup> The actual amount paid by the Zhuye Connected Persons (as defined in the prospectus) to our Group and the actual amount paid by the Group to the Zhuye Connected Persons have exceeded RMB31 million and RMB339 million, respectively compared to the figures of 2,700 million and 2,250 million for the year ended 2005 as stated in the prospectus of the Company dated 21 March 2006.

# Report of the Directors

## **Closure of register**

The H share register of the Company will be closed from 17 May 2006 (Wednesday) to 15 June 2006 (Thursday) (both days inclusive), during which period no H share transfers will be effected. Holders of the Company's H shares whose names appear on the register of members of the Company before the close of business hours on 17 May 2006 (Wednesday) are entitled to attend the Annual General Meeting and to vote in the meeting. In order to qualify to attend the Annual General Meeting and to vote in the meeting, the instruments of transfer of the holder of H shares of the Company must be delivered to the H Share Registrar of the Company, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:00 p.m. 16 May 2006 (Tuesday).

## **Board audit committee**

Written terms of reference of the board audit committee based primarily on "A Guide for Effective Audit Committees" issued by the Hong Kong Institute of Certified Public Accountants have been adopted by the Board of Directors.

The board audit committee provides an important link between the Board of Directors and the Company's auditors in matters falling within the scope of the audit of the Company and the Group. It will review the effectiveness of the external audit and of internal controls and risk evaluation and will provide comments and advice to the Board of Directors. The board audit committee comprises one non-executive Director and two independent non-executive Directors, namely, Mr. Zhang Yixian, Mr. Chan Wai Dune and Mr. Wan Ten Lap. The board audit committee has reviewed with management and the Company's auditors the audited results adopted by the Company and the Group.

## **Auditors**

The financial statements have been audited by Ernst & Young, who retired and being eligible for their reappointment as auditors of the Company, a resolution will be proposed at the forthcoming annual general meeting for their reappointment.

## **Taxation**

For the year ended 31 December 2005, no foreign shareholder who is not resident of the PRC is liable to Individual or Enterprise Income Tax, Capital Gains Tax, Stamp Duty or Estate Duty of the PRC in relation to their holding of shares of the Company. Shareholders are urged to consult their tax advisers regarding the PRC, Hong Kong and other tax consequences of owning and disposing of H shares.

BY ORDER OF THE BOARD

## **He Renchun**

*Chairman*

Shenzhen, PRC

25 April 2006

As at the date of this report, the Board of Directors of the Company comprises four executive Directors, namely, Mr. He Renchun, Mr. Li Li, Mr. Liao Luhai and Mr. Chen Zhixin, four non-executive Directors, namely, Mr. Cao Xiuyun, Mr. Wu Longyun, Mr. Zhang Yixian and Mr. Yu Jiang and three independent non-executive Directors, namely, Mr. Gu Desheng, Mr. Chan Wai Dune and Mr. Wan Ten Lap.