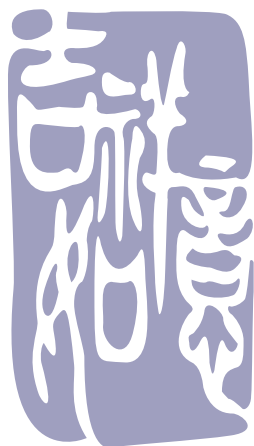




**An Open Chinese Non-ferrous Metals  
Industry and Yunnan Metallurgical Group --  
a Company Developing Through  
Innovation – Welcomes You !**



**Mr Cassidy, Chairman of The Sentient Group**  
**Members of the Sentient Council**  
**The Sentient Group Investors from around the globe**  
**Ladies and Gentlemen**

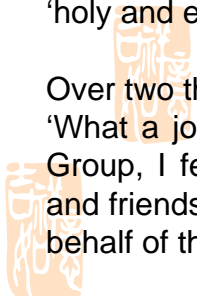
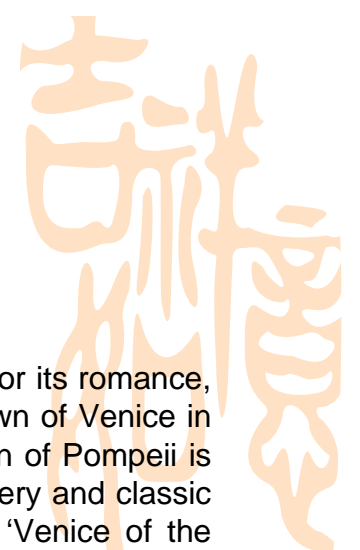
China's Suzhou, a charming and graceful town renowned worldwide for its romance, is numbered amongst the ancient towns of the world. The ancient town of Venice in Italy is recognized as the 'Pearl in the Adriatic Sea'. The ancient town of Pompeii is famous for its savage beauty. And Lijiang, replete with stunning scenery and classic landscapes is well-known as the 'Suzhou of the Plateaus' and the 'Venice of the East'. UNESCO has listed this ancient town, with its magnificent scenery, as a World Heritage Site. The vistas created by the Jinsha River, Lancang River and Nu River flowing in parallel, but never converging, were listed for their natural heritage values and the Dongba Culture, found only in this region, has been listed for its value as a repository of a unique local cultural heritage.

Since ancient times Lijiang has been celebrated for its prosperity and abundance. Here, clouds of fortune enhance life's bounties; water from melted snow cleanses the spirit of the earth; and one's heart and mind are conscious of the peaceful co-existence and deep intimacy of man and nature.

'Sentient' has been rendered into Chinese using the characters for 'holy' and 'exceptional'. It is indeed a shrewd move to hold the Annual Council Meeting of a 'holy and exceptional' business in such a 'mystical and enchanting' town!

Over two thousand years ago, the ancient Chinese sage Confucius said, and I quote, 'What a joy it is to greet friends from afar!' As a strategic partner of The Sentient Group, I feel immense delight in being able to personally welcome my colleagues and friends to the scenic ancient town of Lijiang for your Annual Council Meeting. On behalf of the Yunnan Metallurgical Group, I warmly welcome each of you.

There is a Chinese saying which goes, 'It must be remembered that the best season in the year is the season when yellows and greens are in abundance'. October is filled with golden hues and is the harvest season. What better time to tell you about what is currently happening in China's non-ferrous metals industry as well as developments at Yunnan Metallurgical Group.



## **One: An Overview of the Operational Characteristics of China's Non-ferrous Metals Industry**

### **1. China has developed into one of the world's largest producers and consumers of non-ferrous metals.**

In 2006 the annual production of China's ten main types of non-ferrous metals reached 19.17 million tonnes, an increase of 16.85% over the previous year. This made China the world's number one producer for the fifth consecutive year. China not only ranks first in production, but also in apparent consumption. China continues to increase its percentage of world production of non-ferrous metals. The overall strength of the industry and its ability to influence international markets continues to increase.

### **2. There have been dramatic improvements in the economic performance of large scale businesses and this has no doubt contributed to the stimulation of the national economy.**

In 2006 large scale non-ferrous companies (excluding independent gold producers) had an operating revenue of USD182.8 billion generated by their main businesses, an increase of 65.61% over the previous year; pre-tax profits reached USD22.4 billion, an increase of 87.28% over the previous year and an increase of 40.22 percentage points year on year. Net Profits reached USD14.9 billion, an increase of USD7.3 billion, and almost double the previous year.

### **3. Imports and exports of non-ferrous metals continue to grow.**

In 2006 foreign trade in non-ferrous metals reached a total of USD65.43 billion dollars, an increase of 39.7% over the previous year. Imports accounted for USD41.45 billion dollars, an increase of 36.5% over the previous year with the largest imports being copper, aluminium, nickel, zinc and lead, in that order.

In 2006 China's exports of non-ferrous metals reached a total of USD23.98 billion dollars, an increase of 45.4% over the previous year with the main imports consisting of aluminium, copper, molybdenum, silver, gold, zinc, tungsten, rare earths, lead, magnesium, nickel, antimony and tin, in that order.

### **4. New advances have been made in the development of resources overseas and the cooperation thereon.**

Over the past few years a number of businesses have been proactive in seeking

opportunities overseas to develop mineral resources and other forms of cooperation in mining with some major achievements. In March this year the Aluminium Corporation of China (CHALCO) formally signed an agreement to participate in the development of the Aurukun Bauxite Mine and Port Development Project in North Queensland, a total investment of AUD3 billion dollars. Minmetals, Yunnan Metallurgical Group and Jinchuan Group have achieved pleasing results in the development of mineral resources both in China and abroad.

## **5. The direction of China's non-ferrous metal businesses will result in better and more rapid development.**

This year production in China's non-ferrous metals industry is continuing to grow rapidly. Output continues to increase, the economic performance of business continues to improve, investments in fixed assets continue to rise and the speed of structural readjustment and technological advance is increasing.

### **My friends,**

Although China is a major producer and consumer of non-ferrous metals, as China has one of the largest populations on the globe, per capita consumption levels for non-ferrous metals are still relatively low. At present the annual per capital consumption level of non-ferrous metals in China is only 10 kilos, placing China well behind South Korea, America, France, Australia, Canada, Japan and Italy in terms of per capita consumption. With the sustained development of the Chinese economy there will be rapid growth in the demand for non-ferrous metals, which offers an extremely bright future for the non-ferrous metals business.

## **Two: Yunnan Metallurgical Group Recognises the Need for Harmony and Innovation as the Group Continues to Develop.**

Yunnan is China's 'Animal Kingdom' and 'Plant Kingdom' as well as China's 'Non-ferrous Metals Kingdom'. Historic records show that the history of non-ferrous metals in China can be traced back to the Han Dynasty, more than two thousand years ago. Yunnan's abundant mineral resources have provided an excellent environment for the development of the non-ferrous metals industry in Yunnan and have also provided an ample and secure resource base for the development of Yunnan Metallurgical Group.

### **1. Background to Yunnan Metallurgical Group**

Yunnan Metallurgical Group's core business is focused on aluminium, lead, zinc and germanium. The Group undertakes the exploration, mining, beneficiation, smelting

and processing of these metals. In addition, the Group is also involved in the production of chemicals, scientific research, major project design and construction, domestic and foreign trade, and tertiary education relevant to these minerals. The Group is one of the top 520 major national businesses. In 2006 the Group was ranked in 267th place in the top 500 companies in China. We were also ranked in 140th place in the top 500 manufacturing companies in China as well as 11th place in the top 50 non-ferrous metals companies in China. The Group presently has 43 separate entities, which include 14 companies in which the Group is a controlling shareholder (two are listed on the local stock exchanges as A shares), 16 companies in which we are shareholders, 11 wholly-owned subsidiaries, and two non-profit organisations. We have a National Technology Centre and a Post-Doctoral Work Station. The Group presently has an annual production capacity of 410,000 tonnes of aluminium, 192,000 tonnes of zinc, 113,000 tonnes of lead, 100,000 tonnes of iron alloys and an annual production capacity of 20 tonnes for our germanium product range. In 2006 the Group signed a total of 98 design and consulting contracts and completed 61 research projects. Our Jinsha brand lead ingots, YL brand re-melted aluminium ingots, and Yinxin brand zinc ingots are registered on the London Metals Exchange.

## 2. Development History

In 1998 the Group's production figures were as follows: aluminium 44,000 tonnes; lead 59,700 tonnes; zinc 54,300 tonnes; and germanium 5,842 kilograms. Total sales revenue was only USD251 million. At that time the Group companies' production capacities were very low; the level of technology was also very low and equipment used was quite basic. We had also failed to concentrate on core business lines and were not in a position to handle market risks well.

After a review of our situation and probable market trends in the industry during the Tenth Five Year Plan (2000-2005) we made a series of strategic decisions: production and operations would focus on aluminium, lead, zinc and germanium, four core business lines. We believed that we had a competitive advantage with these products in terms of resource development and judged that there was a market for these products. We were determined to grow our core businesses big and strong. We continued to upgrade existing technology with new advanced technology and raised the bar of our traditional business to a new height. The Group put considerable time and effort into restructuring our business and strove to become a technological leader. We believed that these measures would equip our Group with the capability to sustain our business development well into the future. The measures just mentioned have indeed borne fruitful results. 2006 product output and sales revenue growth rates over 1998 levels are as follows: aluminium output has increased by 9.32 fold, lead 1.9 fold, zinc 3.54 fold, germanium 3.42 fold and total sales revenue 7.49 fold.

In terms of our aluminium business, the Group has already completed phase one of



the technical upgrading of Yunnan Aluminium Company Limited. We have invested USD289 million in some of the world's most advanced 300KA pre-baked anode-electrolysis technology for mega-sized products. The overall level of technology employed at Yunnan Aluminium Company can now be considered as 'cutting edge' for China and 'advanced' in international terms.

In terms of our lead and zinc business, we have integrated some of the most advanced lead and zinc smelting technology in the world with our own patented technology and have invested USD293 million into large scale automatic equipment, thereby enabling the Chihong Zinc and Germanium Company's Qujing base to become China's, and perhaps even the world's, foremost and advanced lead and zinc smelting business.

Chihong Zinc and Germanium Company's base at Qujing has already reached a level of essentially zero generation of gas, effluent and slag, qualifying the Company as the only business in Yunnan Province that is included in the National Government's first list of enterprises that have implemented the concept of 'recycling economy'.

It is with great pride that I stand here before you today and am able to tell you that these two projects have enabled the Group to become the most advanced enterprise in the lead, zinc and aluminium processing business in China. The China Non-ferrous Metals Association has stated that, 'Yunnan Metallurgical Group holds the best technology in a number of areas relating to aluminium, lead and zinc smelting in China's non-ferrous industry'.

### 3. Our Core Driver for Business Development

Innovation is the soul of a business' competitive drive. Innovation, however, requires wisdom, courage and insight. Lead smelting creates a considerable amount of pollution which can endanger the environment and peoples' health. The Chinese Government has been looking for a way to solve this difficult problem for a considerable time. In the past the ISA smelt furnace from Australia was solely used for the smelting of copper and tin. However Yunnan Metallurgical Group has come up with a world first by integrating ISA smelting furnace technology with the lead-rich blast-furnace smelting technology invented by our own group. We have used this new hybrid technology for lead smelting thereby giving birth to the world's first fully automated high efficiency, energy saving, clean and environmentally friendly lead-smelting technology. This technology is cutting edge technology for the lead smelting industry. In 2004, the International Federation of Inventors Association awarded our Group one of the 19 Gold Medals for Technology. In 2005, the advent of this technology was considered as one of the 'Ten Most Newsworthy Items in China's Non-ferrous Industry'.

Yunnan Province is endowed with the largest reserves of lead and zinc in China, some 21 million tonnes. However one third of the reserves are marmatite, a type of mineral



which is difficult to beneficiate and has a low rate of recovery. The Group spent seven years on research and development and came up with the world's first industry-based technology for hydrometallurgical oxygen-pressure leaching that is capable of treating marmatite ore. This big stride forward for zinc hydrometallurgy technology in China has brought about all-round advancements in the level of technology used for the smelting of zinc. The Group received a 'Class One Technology Advancement Award' from the Yunnan Government and a 'Class One Technology Advancement Award' from the China Non-ferrous Metals Industry Association for this technology. We have applied for the 'National Scientific Advancement Awards', China's premier award in the field of science.

Our focus on technological advancement and innovation has resulted in the Group receiving 'Yunnan Provincial Technological Advancement Awards' for six research projects along with China's Non-ferrous Metals Industry Scientific and Technology Awards for five research projects. The China Non-ferrous Metals Industry Association has also awarded the Group the distinction of being a 'Technologically Advanced Business'.

#### 4. Corporate Culture and Social Responsibility.

Harmony is a value cherished in China. The philosophical concepts of 'nature and man uniting as one', 'knowledge and act combined as one' and the 'unification of feelings with nature' have come down from ancient China. These concepts emphasize the creative benefits of harmony. I believe that the reason Yunnan Metallurgical Group has been successful in growing its business is due to 'an approach that is people oriented, strives for harmony and is determined to innovate'. Mr Chen Zhi, the Chairman of the Board, has encapsulated our Group's values as, 'the use of kindness to win over people's hearts and minds; only through the search for truth and practicality can one strive for excellence; expansion of the Reforms creates new mechanisms, strict management produces results; aim high, go out and integrate with the world; accelerating the pace of development will make us strong; due governance will assist in people reaching a comfortable standard of living.' The Group is concerned about and cares for each individual employee and believes that each individual life has value. China has been undergoing a period of restructuring of its industry and businesses and the overall system under which we operate in has been undergoing a fundamental transformation. During this period of transition the Group has been able to resolve problems associated with the Reforms, through sustained development. We have been able to guarantee employment for all our employees. Since the establishment of the Group we have not made a single employee redundant. Over the past few years the livelihood of our employees has improved dramatically as we have pioneered new areas of development. All employees share a strong feeling of 'belonging' to the Group and all employees do not hesitate to give 100% to the Group's development.

The importance that we attach to people and talent means that we presently have 21



personnel who have qualified as 'Experts who Made Outstanding Contributions to the Province' and 40 personnel who receive special expert's subsidies from the State Council and the Provincial Government.

I believe that the production process, the quality of products, the sale of products, the management of customer groups, community relations, and a company's social obligations are all part of a business' social responsibility. Yunnan Metallurgical Group attaches a great deal of importance to environmental protection and the scientific, appropriate and full utilization of resources. We would never sacrifice the environment for economic benefits. All of our businesses meet or exceed national environmental protection standards. The Group's occupational health and production safety levels are among the most advanced in the industry. Recently Yunnan Aluminium Company was awarded China's highest accolade in terms of environmental protection, the 'Fourth China Baoshan Iron and Steel Group's Environmental Excellence Award'. This is the first time in China that a business from the non-ferrous metals industry, and from Yunnan Province, has won this award.

At the same time as operating a profitable business, our Group has been a good corporate citizen and has supported various philanthropic causes in China. In recent years we have donated almost USD8 million to poverty alleviation projects and disaster relief operations. The Group has undertaken an activity entitled "have pride in YMG and work towards a better future" in providing financial assistance to enable needy students to attend school. All employees have made voluntary contributions and we have established five 'Primary Schools of Hope' in the poorer mountainous regions of Yunnan. The Group has also received many awards, including national and provincial awards for being an 'Advanced Organisation in Opening up Plant Affairs to Public Scrutiny', the 'Outstanding Chinese Business in terms of Social Responsibility Award', Yunnan's 'Ten Largest Philanthropic Businesses Award', the 'National May First Labour Award' and was awarded as a 'National Model for Harmonious Industrial Relations'.

## 5. Achievement and Honour

Figures can be dry but they also don't lie!

In 2006 the Group made a historic breakthrough by producing 663,000 tonnes of non-ferrous metal for the first time, ranking us second in the national standings: we reached fourth place in aluminium production and third place in the production of lead and zinc.

In 2006 the Chihong Zinc and Germanium Company, a member of our Group, was honoured as the enterprise with 'China's Best Performing Shares' based on earnings



per share - the shares returned an enormous dividend of ten shares plus USD4 for every ten shares held, creating an unprecedented high dividend in China's stock market. The company has also been awarded China's 'Best One Hundred Market Value Management Award' and is ranked as the 'Number One Listed Company in China's Mining Industry'. The Yunnan Aluminium Company is ranked as 46th in the 'Top One Hundred Growing Listed Companies in China'. Both companies have established an excellent reputation in China's capital markets and with shareholders due to their excellent performance and high returns.

In 2006 the Group's sales revenue, profit and foreign trade levels made historic breakthroughs. Sales revenue reached USD1.88 billion and foreign trade volume, USD664 million dollars. Overall profits reached USD255 million, almost doubling our economic performance over the previous year.

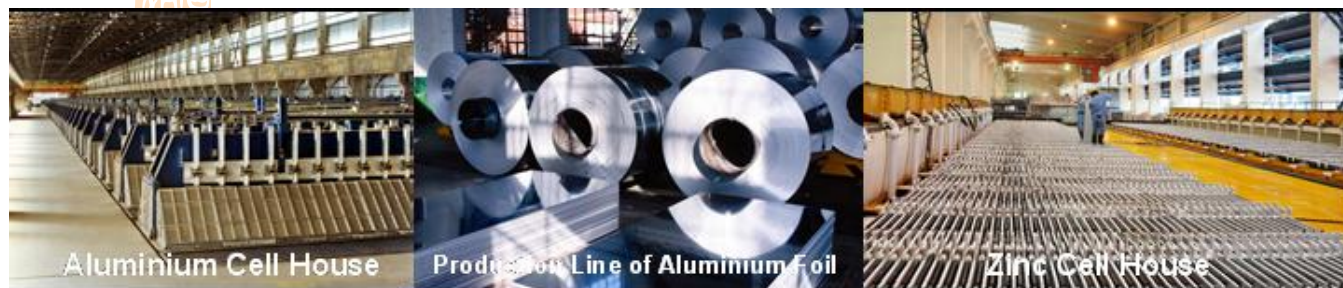
In 2006 the Group had total assets of USD1.96 billion, an increase of 34.37% over 2005 and net assets of USD823 million, an increase of 63.29%.

The Group's sales revenue for the first half of this year has reached USD1.06 billion, an increase of 25.9% over the same period for last year. Profits are up to USD144 million, an increase of 58.49% per cent over the same period for last year. This year's total sales revenue forecast is USD2.13 billion with profits of USD333 million. All indications point to continued solid growth for our Group.

The Group is a shareholder and operator of Yunnan Xinmeilu Aluminium Foil Company. The company's main business is the production of seven-micron aluminium foil. When this business was under the management of a foreign shareholder, production consistently failed to reach quality and quantity standards and the company suffered serious losses. Since our Group took over the management of the company, not only have we brought product quality and quantity up to standard using the same equipment, but we have also turned it into a profitable business. Furthermore, this is currently China's only plant which is able to produce substantial quantities of 4.5-micron aluminium foil. I believe this achievement alone speaks for the Group's management capabilities.

China's aluminium industry has set an electricity consumption target of 14,000kwh per tonne of aluminium by the end of China's Eleventh Five Year Plan (2010). The present national average is 14,500kwh per tonne. However since 2000, our Group has achieved 13,500kwh per tonne, the best performance of any aluminium smelter in China. If the cost of electricity in China is calculated at RMB0.40 yuan per kwh, with an annual smelting capacity of 400,000 tonnes, the Group is able to save approximately USD21 million in electricity costs over the national average, a saving that gives us a clear advantage in terms of production costs.

The Group is the only producer of lead sheet below 0.8mm in China.



The Group sets the standard for germanium products in China and is China's major exporter of germanium products.

## 6. Development Goals

Faced with the direction in which the global non-ferrous metals business is developing, we have come to recognise that the role that a highly skilled and motivated workforce, advanced technology and social capital play in promoting economic development is prerequisite for sustained business development. A company must build a new economic structure in which market needs and resource development become the central focus. While striving to improve our competitiveness in our traditional business areas, we should proactively develop new business lines in fields where we have resource advantages, where our products have a market and where we have advanced technology. With this in mind, during the Eleventh Five Year Plan (2006 – 2010) the Group has decided to focus on five main business lines: aluminium, lead and zinc, manganese alloys, titanium and silicon.

**In terms of the aluminium business,** the Group will invest USD533 million in a bauxite project with an annual alumina capacity of 800,000 tonnes. We will invest USD107 million in a production line for super-tough wide aluminium sheet and strip with an annual capacity of 80,000 tonnes.

**In relation to lead and zinc,** in addition to the four million tonnes of metal reserves that the Group controls, we have been awarded the exploration rights for an area of 140 square kilometres in Inner Mongolia Autonomous Region, an area rich in lead and zinc deposits. Working together with our partners there, we expect to substantially increase our lead and zinc resources. We also plan to construct a zinc smelter with an annual capacity of 200,000 tonnes.

**In the area of manganese alloys,** the Group presently owns China's largest high-quality manganese deposits. We are presently making adjustments to our technology and product mix to expand our production of manganese alloys with low to medium carbon content which enjoys bigger market demand.

**In the area of titanium,** Yunnan has some of China's main titanium deposits which have a high grade of titanium and low levels of calcium and magnesium.



It represents a rarely-found high quality of raw material suitable for manufacturing titanium dioxide through chloride process. Our company already controls most of the major titanium resources in Yunnan and plans to produce high-quality titanium dioxide which is in huge demand in China. We are presently undertaking a project that will have an annual capacity of 80,000 tonnes of rich titanium slag, 10,000 tonnes of titanium sponge and 60,000 tonnes of titanium dioxide using chloride process. We have already signed a contract to import advanced titanium dioxide chloride processing technology. The project has been progressing well. We look forward to welcoming Sentient in becoming a partner in this project.

**In relation to silicon**, the Group has taken advantage of Yunnan's high quality silicon resources and abundant hydropower. We aim at producing poly-crystalline silicon which has a huge market demand here while at the same time the product's technological threshold is very high. We plan to build a production line for poly-crystalline silicon with an annual capacity of 3,000 tonnes. We have already signed a contract with the foreign supplier to import the technology. This project has also been progressing well.

Ladies and Gentlemen, non-ferrous metals have a bright lustre! The non-ferrous metals industry is a great sector! The industry's development to a certain extent contributes to civilisation. The rapidly developing Yunnan Metallurgical Group stands ready to work together with you to build a bright future for the non-ferrous industry.

**Thank you!**

