

Corporate Governance Report

Being one of the largest integrated gold mining companies based in PRC, the Company is committed to achieving high standards of corporate governance practices and has put in place a set of well-defined corporate governance processes to ensure the transparency of the Company and protect the overall interest and rights of shareholders as well as employees.

After our listing of H Shares on the Stock Exchange on 12 January 2006, the Company has fully complied with the requirements under Code on Corporate Governance Practices set out in Appendix 14 of the Listing Rules except for the code provision A.2.1 (division of responsibilities between the chairman and chief executive officer) and A.4.2 (Directors appointed to fill a casual vacancy be subject to election by shareholders at the first general meeting after appointment.)

The Board

The board of directors ("Board" or "Board of Directors") is the executive organization of the Company and shall be responsible for formulating and executing of the operation plans and management decisions of the Company as well as establishing the overall strategic direction of the Company. Its duties include evaluating the performance of senior management and supervising the system of the Company. The Board of Directors has to act in the best interest of the Company and its shareholders.

The Board of Directors comprises of eleven Directors, of whom four are executive Directors, three are non-executive Directors and four are independent non-executive Directors. The details of the Board of Directors are set out in the following table:

Director	Position
Mr. Xu Gaoming	Executive Director and Chairman
Mr. Wang Jianguo	Executive Director
Mr. Lu Xiaozhao	Executive Director
Mr. Jin Guangcai	Executive Director
Mr. Xu Wanmin	Non-executive Director
Mr. Di Qinghua	Non-executive Director
Mr. Qi Guozhong	Non-executive Director
Mr. Ning Jincheng	Independent Non-executive Director
Mr. Wang Yanwu	Independent Non-executive Director
Mr. Zheng Jingqiao	Independent Non-executive Director
Mr. Niu Zhongjie	Independent Non-executive Director

Pursuant to the articles of association of the Company ("Articles of Association"), the term of employment of the Directors shall be three years and the Directors are eligible for re-election. The chairman of the Company, Mr. Xu Gaoming and the other three executive Directors have been engaged in the management of gold mining management for years with rich experience. They shall be responsible for the business management of the Company, formulation and implementation of important strategies, daily business decision, and coordination of overall business operation.

All of the Directors can give sufficient time and attention to the Company's affairs.

Non-executive Directors and independent non-executive Directors possess wide expertise and are able to give professional advice in various aspects such as law, accounting, finance, tax, equity capital and industrial and commercial industries. The non-executive Directors would participate in board meetings of the Company to bring an independent judgement to bear on issues of strategy, policy, performance, accountability, resources, key appointments and standards of conduct. In addition, they would take the lead in board meetings where potential conflicts of interests arise. They also have to scrutinise the Company's performance in achieving agreed corporate goals and objectives.

Corporate Governance Report

Independent non-executive Directors are expressly identified in all corporate communications that disclose the names of the Directors.

The Company has received written confirmation from each of the Independent non-executive Directors to ensure they are in compliance with Rule 3.13 of the Listing Rules in respect of their independence. Apart from employment relationships with the Company, none of the directors of the Board has any financial, business, family or other material relationships.

The Company has established various internal control systems which allow the Board of Directors to maintain high standard of corporate governance in the management of the Company. To ensure that the Board of Directors performs its duties effectively, the management is required to submit business and financial reports of the Company to the Director regularly.

Directors would make further enquires if they require further enquiries than information volunteered by management. The Board of Directors has separate and independent access to the company secretary, qualified accountant and other senior management at all times to conduct informal discussions. It is at the Company's expense for the Board of Directors to contact the auditors, lawyers or other professionals to obtain independent professional opinions when appropriate. Management are regularly reminded by the company secretary that they have an obligation to provide the Board and its committees with adequate, complete and reliable information in a timely manner.

For the year ended 31 December 2005, the Board of Directors of the Company held nine meetings to discuss and approve various important matters. The table below lists the attendance of directors at the meetings held during the year up to the date of the report. The attendance illustrates the attention of the Board of Directors to the management of the Company's affairs. The matters processed by the Board of Directors in the meetings are all recorded, and the relevant records are kept pursuant to relevant laws and regulations.

Director	The number of meetings that Directors who should attend	The number of meetings that Directors who attended	Attendance (%)
Mr. Xu Gaoming	9	9	100
Mr. Wang Jianguo	9	9	100
Mr. Lu Xiaozhao	9	9	100
Mr. Jin Guangcai	9	9	100
Mr. Xu Wanmin	9	9	100
Mr. Di Qinghua	9	9	100
Mr. Qi Guozhong	9	6	67
Mr. Ning Jincheng	9	8	89
Mr. Wang Yanwu	9	8	89
Mr. Niu Zhongjie	5	4	80
Mr. Zheng Jinqiao	3	3	100

Prior to each regular Board meeting, the management of the Company shall submit materials relevant to the affairs discussed in the meeting to the Board of Directors. Notice convening the regular meeting shall be sent to the Directors at least fourteen days before the meeting so that arrangements can be made to attend the meeting. Documents required for the Board meeting shall be sent to the Directors at least three days before the meeting, to ensure that enough time is given to the Directors to review the documents and get prepared for the meeting.

The Board meeting is chaired by the chairman of the Company to ensure that sufficient time is allocated to the consideration and discussion of each matter in the agenda and each Director is given an equal opportunity to speak. In addition, Directors are given an opportunity to include matters in the agenda. Minutes of board meetings and meetings of board committees record detailed concerns raised by Directors and dissenting views expressed. Minutes of board meetings and meetings of board committees would be kept by secretary and such minutes are opened for inspection at any reasonable time on reasonable notice by any Director.

If a substantial shareholder or a Director has a conflict of interest in a matter to be considered by the board which the Board has determined to be material, the matter would not be dealt with by way of circulation or by a committee but a board meeting would be held. Independent non-executive Directors have no material interest in the transaction would be present at such Board meeting.

With respect to the re-election of newly appointed Director, the Company has complied with Paragraph 4(2) of Appendix 3 of the Listing Rules, which permits the Directors who has been appointed to fill a casual vacancy of the Board be subject to re-election at the next annual general meeting of the Company. As such, code provision A.4.2, which requires the re-election to take place in the next general meeting, were not adopted.

Every newly appointed Director would receive a comprehensive, formal and tailored induction on the first occasion of his appointment, and subsequently continuous briefing and professional development would be arranged to ensure that

he has a proper understanding of the operations and business of the Company and that he is fully aware of his responsibilities under statute and common law, the Exchange Listing Rules, applicable legal requirements and other regulatory requirements and the business and governance policies of the Company.

Board Committee

The Board of Directors has established four committees. Each committee has its terms of reference, including the review of matters of extraordinary nature, giving suggestions to the Board of Directors and making decisions on behalf of the Board of Directors relating to such matters when appropriate.

(1) Strategic Committee

The strategic committee of the Board is a body specifically set up by the Board according to the resolution of the general meeting and shall mainly be responsible for conducting research and giving advice regarding the long-term development strategies and material investment decisions of the Company.

The strategic committee comprises of six Directors, with one independent non-executive Director pursuant to the implementation measure. The committee now comprises of the following members:

Mr. Xu Gaoming

(Chairman of the committee)

Mr. Wang Jianguo

Mr. Lu Xiaozhao

Mr. Xu Wanmin

Mr. Qi Guozhong

Mr. Wang Yanwu

(Independent non-executive Director)

Corporate Governance Report

The principal terms of reference of the strategic committee are: (a) to conduct research and make suggestions concerning the long-term development strategic plans of the Company; (b) to conduct research and make suggestions concerning the material investment and financial proposals which are subject the approvals of the Board of Directors and the general meeting pursuant to the Articles of Association; (c) to conduct research and make suggestions concerning the material capital management and assets management projects which are subject to the approvals of the Board of Directors and the general meeting pursuant to the Articles of Association; (d) to conduct research and make suggestions concerning other significant events that influence the development of the Company; (e) to carry out inspection concerning the implementation of the above matters; (f) to be responsible for other matters as delegated by the Board.

No strategic committee meeting was held in 2005.

(2) **Audit Committee**

The audit committee of the Board of Directors is a body specifically set up by the Board according to the resolutions of general meetings and shall mainly be responsible for the communication, supervision and inspection of internal and external audit.

After our listing, the Company has been in full compliance with the requirements of Rules 3.21 of the Listing Rules.

The audit committee comprises of five members. Any former partner of KPMG should be prohibited from acting as a

member of the audit committee. Pursuant to the code, an independent non-executive Director specializing in accounting will be the chief member who will be in charge of the work of the committee. The committee now comprises of the following members:

Mr. Zheng Jinqiao
(Chairman of the committee)
 Mr. Wang Yanwu
 Mr. Ning Jincheng
 Mr. Xu Wanmin
 Mr. Niu Zhongjie

The principal terms of reference of the Audit Committee are: (a) to suggest recruiting or changing external audit organization; (b) to supervise the internal audit system of the Company and its implementation; (c) to facilitate the communication between internal audit and external audit; (d) to review the financial information and its disclosure; (e) to inspect the internal control system of the Company and to audit major connected transactions; (f) to develop and implement policy on the engagement of an external auditor to supply non-audit service; (g) to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standard. The audit committee would discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences; (h) to monitor integrity of financial statements of the Company and the Company's annual report and accounts, half-year report and to review significant financial reporting judgements contained in them. In this regard, in reviewing the Company's annual report and accounts, half-year report before

submission to the Board, the committee should focus particularly on: (i) any changes in accounting policies and practices; (ii) major judgmental areas; (iii) significant adjustments resulting from audit; (iv) the going concern assumptions and any qualifications; (v) compliance with accounting standards; and (vi) compliance with the Exchange Listing Rules and other legal requirements in relation to financial reporting; (vii) members of the committee would liaise with the Company's Board of Directors, senior management and the qualified accountant and the committee must meet, at least once a year, with the Company's auditors; (viii) the committee would consider any significant or unusual items that are, or may need to be, reflected in such reports and accounts and must give due consideration to any matters that have been raised by the Company's qualified accountant, compliance adviser and auditors; (i) to discuss with the management the system of internal control and ensure that management has discharged its duty to have an effective internal control system; (j) to consider any findings of major investigations of internal control matters as delegated by the Board or on its own initiative and management's response; (k) to ensure co-ordination between the internal and external auditors, and to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and to review and monitor the effectiveness of the internal audit function; (l) to review the external auditor's management letter, any material queries raised by the auditor to management in respect of the accounting records, financial accounts or systems of control and

management's response; (m) to report to the Board on the matters set out in Code C.3.3; and (n) to be responsible for other matters as authorized by the Company.

The terms of reference of audit committee are kept at the registered office of the Company.

The audit committee has been provided with sufficient resources to discharge its duty.

In 2005, no audit committee meeting was held and there was no audit committee report had been issued. On 11 April 2006, the Audit Committee met with the international auditors to discuss the general scope of their audit work. In addition, the Audit Committee had reviewed the financial statements for the year ended 31 December 2005 before the announcement of the Company's full year results. During the discussion, the audit committee has reviewed key areas in which management's judgement applied for adequate provision and disclosure, and critical accounting policies. Moreover, the Audit Committee has reviewed the internal audit plan for 2006.

(3) Nomination Committee

The nomination committee of the Board of Directors is a body specifically set up by the Board according to the resolutions of general meetings and shall mainly be responsible for making suggestions regarding the selection of the directors and managers of the Company, choosing and making suggestions relating to the selection standards and procedures.

Corporate Governance Report

The nomination committee comprises of the following members:

Mr. Ning Jincheng
(Chairman of the committee)
 Mr. Zheng Jinqiao
 Mr. Wang Yanwu
 Mr. Xu Wanmin
 Mr. Niu Zhongjie

The main duties of the nomination committee include: (a) making recommendations to the Board on the Board's scale and composition in accordance with the operating activities, scale of assets and shareholding structure of the Company; (b) studying the criteria and procedures for the election of directors and management personnel and making recommendations to the Board thereon; (c) seeking for the right candidates for the position of directors and management personnel; (d) reviewing the candidates for the position of directors and management personnel and making recommendations thereon; (e) reviewing other senior management proposed to be appointed by the Board and making recommendations thereon; (f) undertaking other tasks as delegated by the Board.

The nomination committee would hold a meeting to discuss the appropriateness of the candidates and consult the chairman about their proposals relating to the nomination of other executive Directors and have access to professional advice if considered necessary. The criteria include professional qualification, industrial experience and academic background.

Written notice of the intention to nominate a candidate together with the respective resume would be delivered to the Board of its consideration and approval.

Attendance of individual members of Nomination Committee to the committee meeting in 2005 are as follows:

Director	The number of meetings that Directors who should attend	The number of meetings that Directors who attended	Attendance (%)
Mr. Ning Jincheng	2	2	100
Mr. Zheng Jinqiao	0	0	N/A
Mr. Wang Yanwu	2	2	100
Mr. Xu Wanmin	2	2	100
Mr. Niu Zhongjie	0	0	N/A

Nomination committee had considered the proposal and made recommendations to the Board for:

- (a) appointment of Mr. Niu Zhongjie as an independent non-executive Director;
- (b) appointment of Mr. Zheng Jinqiao as an independent non-executive Director; and
- (c) appointment of Mr. Pang Chun Kit as joint company secretary and qualified accountant of the Company.

(4) Remuneration and Review Committee

The remuneration and review committee of the Board is a body specifically set up by the Board according to the resolutions of general meetings and shall mainly be responsible for formulating the review criteria of and conducting review for the Directors and senior management of the Company, as well as formulating and reviewing their remuneration packages and proposals. It is accountable to the Board. The committee would be provided with sufficient resources to discharge its duty.

The remuneration and review committee comprises of five members, the majority of whom are independent non-executive Directors. The members are as follows:

Mr. Wang Yanwu
(Chairman of the committee)
 Mr. Zheng Jinqiao
 Mr. Ning Jincheng
 Mr. Xu Wanmin
 Mr. Niu Zhongjie

The main duties of the remuneration and review committee include: (a) formulating remuneration packages or proposals according to the major areas, duties and importance of the management position of directors and senior management and the remuneration for relevant positions of other relevant enterprises; (b) establishing criteria, procedures and major assessment system for performance assessment and major proposals and systems for awards and punishments; (c) reviewing the performance of duties and conducting annual performance assessment of the

Company's Directors and senior management; (d) monitoring the implementation of the Company's remuneration system; (e) undertaking other tasks as delegated by the Board.

Moreover, the remuneration committee has to review and approve the compensation payable to executive Directors and senior management in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is otherwise fair and not excessive for the Company.

Besides, the committee would review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that such arrangements are determined in accordance with relevant contractual terms and that any compensation payment is otherwise reasonable and appropriate.

None of the Director or any of his associates is involved in deciding his own remuneration.

The remuneration committee makes available its terms of reference, explaining its role and the authority delegated to it by the Board, and copies of the terms of reference are kept at the registered office of the Company.

Corporate Governance Report

Attendance of individual members of remuneration and review committee to the committee meeting in 2005 are as follows:

Director	The number of meetings that Directors who should attend	The number of meetings that Directors who attended	Attendance (%)
Mr. Wang Yanwu	2	2	100
Mr. Zheng Jinqiao	1	1	100
Mr. Ning Jincheng	2	2	100
Mr. Xu Wanmin	2	2	100
Mr. Niu Zhongjie	1	1	100

The remuneration and review committee had considered annual salary review as well as bonus plan of Directors and senior management of the Company for 2004 and 2005.

Breakdown of the Directors' and the supervisors' remuneration for the year ended 31 December 2005 are set out in note 10 to the financial statements.

Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") as set out in Appendix 10 of the Listing Rules as the code of conduct for securities transactions by Directors. The Company having made specific enquiry of all directors to ensure that Directors have complied with the Model Code in trading the Company's securities.

The Board has established written guidelines for employees who are likely to possess unpublished price sensitive information in respect of their dealings in the securities of the Company.

Chairman and Chief Executive Officer

Code Provision A.2.1 of the Code states that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

The chairman is responsible for ensuring that the Directors are properly explained on matters discussing at Board meetings and complete with reliable information had been received by directors.

Mr. Xu Gaoming is the chairman and chief executive officer of the Company and has considerable industry experience. Thus, there is a derivation from the code provision A2.1. The Board is of the view that it is in the best interests of the Group to have an executive chairman so that the Board can have the benefit of a chairman who is knowledgeable about the business of the Group and is capable to guide discussions and brief the Board, in particular, the non-executive directors, in a timely manner on various issues and developments of the industry. In addition, the Board believes that this structure can assist the Group to implement decisions promptly and more efficiently.

Management Functions

The Board is responsible for formulating and executing the operation plans and management decisions of the Company as well as establishing the overall strategic direction. When the Board delegates its management functions to the management, clear directions will be given and management will report to the Board on regularly basis. The Board reserves most of the powers and delegates routine duties to management including bank loan arrangement. There would be a periodic review of the arrangement. Management have to obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Group.

Chief Financial Officer

Chief financial officer of the Company is responsible for the preparation of the interim and annual financial statements in accordance with the Hong Kong Accounting Standards and to make sure that the results and financial position of the Company are disclosed in an accurate and fair manner. Chief financial officer of the Company shall also be responsible for contacting the auditors regularly. The duties of the chief financial officer also include reviewing the financial risk management of the Company and make suggestions to the Board of Directors. Moreover, chief financial officer shall be responsible for giving advice to the Board of Directors regarding the disclosure of notifiable transactions, connected transactions and price-sensitive information.

Company Secretary

The company secretary shall directly be responsible to the Board of Directors. The company secretary is responsible for ensuring that the proceedings of the Board of Directors are complied with, making appropriate disclosures regarding the interests of securities of the Directors and giving advice to the Board of Directors regarding the disclosure of notifiable transactions, connected transactions and price-sensitive information. The company secretary acts as the principal channel of communication between the Company and the Stock Exchange. The company secretary also assists the Board of Directors in realizing and strengthening corporate governance practices in order to enhance the best interest of the Company and the shareholders.

Financial Reporting

Management provides financial information with explanation to the Board to assist the Board in assessing the financial position of the Company. Financial statements are the responsibilities of Directors. The board has to present a balanced, clear and understandable assessment extends to annual and interim reports, other price-sensitive announcements and other financial disclosures required under the Exchange Listing Rules, and reports to regulators as well as to information required to be disclosed pursuant to statutory requirements.

The reporting responsibilities of KPMG, the international auditors, are stated in the Auditors' Report on page 47 of the Annual Report.

There was no material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern. The Board has taken the same view as that of the audit committee in relation to the appointment of KPMG as international auditors.

Auditors' Remuneration

The Company's international auditors are KPMG. After considering and approving at the meeting of the audit committee held by the Company on 11 April 2006, the audit fee of the Company for the year ended 31 December 2005 was approximately RMB1 million. The Company also incurred approximately RMB5 million for the services provided by the reporting accountants and auditors in respect of the listing of H Shares of the Company on the Stock Exchange and the costs incurred have been charged to the share premium account. The services commenced in 2004 and it was not practicable to separate the amount payable for those services between the reporting accountants and auditors.

Corporate Governance Report

Internal Control

The Company has established various systems for internal management, so as to safeguard the assets and shareholders' interests of the Company and maintain a high standard of corporate governance for the management of the Company. To further strengthen its internal control, the Company conducts regular meetings with auditors, lawyers and other professionals to obtain independent and professional advices for the improvement of the Company's internal management system. In order to monitor the system effectively, the Company established an internal audit department and plans to perform internal control assessment in second half of 2006.

Investor relations and communications with shareholders

The Company highly values its relationship with investors and shareholders. It maintains its relationship with investors, fund managers and shareholders through one-on-one meetings, road shows, seminars and on-site inspection by investors, thereby allowing investors to have a deeper understanding of the Company's financial position, production operations, management decisions, overall strategic directions and latest development.

Voting by Poll

At the upcoming 2005 Annual General Meeting of the Company, the Chairman will demand a poll on all resolutions. The procedures for demanding a poll by the shareholders are incorporated in the circular accompanying with this report.

Each substantially separate issue be proposed by separate resolution at the forthcoming general meeting, the committee heads will be available to answer questions at general meeting, the level of proxies lodged on each resolution will be indicated, and the balance for and against each resolution will be disclosed at the commencement of general meeting. The chairman will also explain the procedures for demanding a poll, and then answer questions from shareholders at the commencement of the general meeting.