

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Governance Practice (“Practice Code”) effective for accounting periods commencing on 1 January 2005 or after has superseded the Code of Best Practice as set out in Appendix 14 of the Listing Rules. 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 recommended best practice.

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 about all directors by the Company, the Group confirms that all directors have complied with the provisions of the Model Code for the year ended 31 December 2005.

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 nine directors, including five executive directors, one non-executive director and three independent non-executive directors. There is no existence of 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, of them at least one 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 is an experienced registered accountant with expertise in accounting and financial management, one independent non-executive director is an experienced lawyer with expertise in Hong Kong, English and the PRC laws, one independent non-executive director is an experienced specialist with expertise in gold 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 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 2003 extraordinary general meeting in June, 2003 (other than experienced lawyer, Loong Ping Kwan, who was appointed in August, 2003). All directors (including lawyer Loong Ping Kwan) will have their terms of office expiring on 28 June, 2006 on which they will be re-elected. The Board has noted the requirement of the Practice Code that “each director (including directors with a specific term) is subject to retirement by rotation at least once every three years”. The Board considers that the requirement that “the Board is subject to re-election every three years” stipulated in the articles of association of the Group does not have conflicts with the Practice Code.

The functions of the chairman of the Board (chairman) and the managing director are undertaken by different person so that the operation of the Board is effectively divided from the daily operations management of the Group.

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 the Board acts in the best interests of the Group. The chairman should ensure 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 include 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 judgments according to their business expertise.

The managing director leads the management to oversee the daily management of the operations of the Group, including implementing the resolutions of the Board and is responsible to the Board for the overall operations of the Group.

The Board has convened four plenary board meetings for the year ended 31 December, 2005. The attendance of directors at the meetings was 100% with details as follows:

	Attendance
Chairman of the Board (chairman)	
Chen Jinghe	4/4
Executive directors	
Liu Xiaochu (<i>vice-chairman</i>)	4/4
Luo Yingnan (<i>managing director</i>)	4/4
Lan Fusheng	4/4
Rao Yimin	4/4
Non-executive directors	
Ke Xiping	4/4
Independent non-executive directors	
Yao Lizhong	4/4
Loong Ping Kwan	4/4
Yang Dali	4/4

Pursuant to the articles of association of the Group, meeting notices shall be issued 10 days before a board meeting. The "Practice Code" stipulates that "a notice of at least 14 days shall be given 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.

REMUNERATION OF DIRECTORS

The Group established the remuneration committee of the Board in March, 2001 and re-elected the remuneration committee of the Board in December, 2005 pursuant to the "Practice Code". The remuneration committee of the Board comprises independent non-executive directors, Mr. Yang Dali and Mr. Yao Lizhong, 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 remuneration committee convened two meetings during the reporting period, with 100% attendance.

At the meeting held in April 2005, the committee made an evaluation on the remuneration of its executive directors and senior management for 2004 and proposed amendments to the 2005 remuneration plan for consideration at the annual general meeting.

At the meeting held in December 2005, the committee made an arrangement as regard how to assess executive directors and senior management.

The major responsibilities of the remuneration committee are:

To formulate the remuneration plan and reward and penalty plan for executive directors and senior management.

To formulate the standard procedure and the evaluation system for appraising the performance of executive directors and senior management.

To appraise and evaluate the performance of duties by executive 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 shall be proposed by the remuneration committee, to 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 resolution of the general meeting/Board meeting, and on the directors' service contracts, and the growth of the Company's operation results in the year.

ANNUAL REMUNERATION

Details are as set out in note 7 to the financial statements.

DIRECTOR NOMINATION

The Group has not established a specialized nomination committee. Directors are selected pursuant to the Company Law of the People's Republic of China and the articles of association of the Group for appointment. All directors, including non-executive directors, are appointed for a term of three years. Upon expiry of the term, the Board will be re-elected and all directors will retire. The new Board will be re-elected at the general meeting. Former directors nominated can be re-elected. Director candidates are recommended by shareholders after discussion and are subject to election at the general meeting. As at 31 December, 2005, no directors of the Board of the Group resigned and were removed within the term of office.

AUDITOR'S REMUNERATION

For the year ended 31 December, 2005, the audit fees charged by the auditors of the Company was approximately RMB2.1 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 audit committee comprises of independent non-executive directors, Mr. Yang Dali and Mr. Yao LiZhong, and non-executive director, Mr. Ke Xiping. 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 meeting during the reporting period with 100% attendance.

Corporate Governance Report

At the meeting held in March 2005, the committee received the working report by the compliance and audit office and reviewed the audited report and connected transactions of the Group for 2004, and submitted its concluding opinions on relevant connected transactions and audit to the Board.

At the meeting held in August 2005, the committee reviewed the interim report and connected transactions of the Group for 2005, and submitted its concluding opinions on audit to the Board.

The annual report for the year ended 31 December 2005 of the Group has been reviewed by the audit committee.

DIRECTORS' RESPONSIBILITIES IN RESPECT OF FINANCIAL REPORTS

All directors of the Group have acknowledged their responsibility 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 54.

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 30 to 32.

SHAREHOLDERS' RIGHTS

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

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 5% 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.

INVESTOR RELATIONS

The Board fully recognizes that effective communication with investors is the key in building investor 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 queries 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 enterprises so that they can understand the Group's existing production status, investment status and business development, thereby enhancing confidence over the enterprises.

During the year, part of the articles of association of the Group was amended at the 2004 annual general meeting held on 31 May, 2005.

1. Article 10 of the articles of association: The Company's operating scope has been changed from "exploration, exploitation (exploiting, selecting, smelting) of solid mineral resources (for gold only)" to "exploration, exploitation (exploiting, selecting, smelting) of solid mineral resources (for the types of minerals with the mining right already secured only)", which broadens the types of minerals that can be operated by the Company.
2. In view of the fact that the Company has implemented the distribution plan for reserve fund capital conversion (ten additional shares for each ten existing shares), Article 16: The Company's total shares have been increased from 2,628,261,820 shares to 5,256,523,640 shares and the corresponding shareholdings by shareholders have been amended.
3. Article 19: The Company's registered capital has been changed from RMB262,826,182 to RMB525,652,364.

Corporate Governance Report

The total share capital of the Group is 5,256,523,640 shares of which 3,654,347,640 shares are domestic shares, representing 69.52% of the total issued share capital of the Company, and 1,602,176,000 shares are foreign shares listed overseas, representing 30.48% of the total issued share capital of the Company.

The Group's 2004 annual general meeting was held on 31 May, 2005 at its headquarter in Shanghang County, Fujian Province and considered: 1. the directors' report for 2004, 2. the supervisors' report for 2004, 3. the audited financial and international auditor reports as at 31 December, 2004, 4. the profit distribution plan for 2004, 5. approving the remuneration of directors and supervisors of the Company as at 31 December, 2004, 6. approving the proposed annual remuneration plan of directors and supervisors of the Company as at 31 December, 2005, 7. approving the appointment of Ernst & Young Hua Ming and of Ernest & Young as the domestic and international auditor of the Group for year ended 31 December, 2005; and authorizing the board to determine the relevant remuneration, 8. approving changing the Company to a foreign-invested joint stock company, 9. approving the plan for capital conversion from the reserve fund of the Company, 10. 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, 11. approving the proposal for amending the articles of association of the Company. All the above matters have been approved by voting at the general meeting.

As at 31 December, 2005, the total market capitalization of the Group was approximately HK\$18 billion. The negotiable market capitalization of H shares was approximately HK\$5.487 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 reference, 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 prepared 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.

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 increase in the management standard of the Group, the internal control system of the enterprise shall also be subject to continued revision and improvement.