

## Report of the Directors

The Board hereby presents the report of the Directors and the audited financial statements of the Company and its subsidiaries (collectively as the "Group") for the year ended 31 December 2006 (the "year").

### Corporate reorganization

The Company was incorporated as a joint stock limited company under the Company Law of the People's Republic of China (the "PRC") on 16 April 2004. The Company is mainly engaged in the mining, processing, smelting and sales of gold products (the "Relevant Business"). Prior to the incorporation of the Company, the Relevant Business was operated by wholly-owned subsidiaries of Shandong Zhaojin Group Company Limited ("Zhaojin Group") (a PRC state-owned corporation). According to Note 1 in financial statements and the details related to corporate reorganization that stated in our prospectus (published on 24 November 2006), since the date of established, the Relevant Business together with related assets and liabilities were transferred to the Company from Zhaojin Group.

The Group successfully listed on the Main Board of The Stock Exchange of Hong Kong Limited ("Stock Exchange") on 8 December 2006.

According to the Board, prior to listing, Zhaojin Group was our parent company and held the ultimate controlling interest in our Company. After listing, we no longer have any parent company and ultimate holding party.

### Principal Operations

The Group is mainly engaged in the exploration, mining, ore processing, smelting and sales of gold and other metallic products, being a large integrated mining company specifying in the production of gold. The Company principally produces two kinds of gold products, which are Au9999 and Au9995 gold bullions with "Zhaojin" as their brands. Currently, the sales of gold products represents approximately 95% of the income of our principal operations.

During the year, there is no material change in the principal operations of the Group.

### Results

The Group's profit for the year ended 31 December 2006, and the financial conditions of the Company and the Group as at 31 December 2006 were set out on pages 68 to 151 of the financial statements in this annual report.

### Final Dividend

As at 31 December 2006, the final dividend for the financial year ended 31 December 2005 paid by the Company was approximately RMB57,735,000. The final dividend for the year 2006 which is to be distributed as proposed by the Board is RMB0.15 per share. The proposal has been reflected in the equity of the balance sheet as a reserved profit for distribution.

## Report of the Directors

For the distribution of dividend, dividend for domestic shares will be distributed and paid in Renminbi whereas dividend for H shares will be declared in Renminbi and paid in Hong Kong dollars (at the average exchange rate of the medium rate of converting Renminbi into Hong Kong dollars as quoted by the People's Bank of China for the week immediately preceding 28 May 2007).

The proposed final dividend is subject to the approval of the Shareholders at the Annual General Meeting ("AGM") to be held on Tuesday, 22 May 2007.

### Major Customers and Suppliers

The transactions of the gold products of the Company are conducted through the trading and settlement on the Shanghai Gold Exchange, with the number of ultimate customers unknown.

During the year, approximately 95% of the gold sales was conducted on the Shanghai Gold Exchange. Similar to the Stock Exchange, the Shanghai Gold Exchange is a platform for conducting gold transaction. Under the circumstances where purchaser and seller do not know each other, all transactions are conducted under the coordination and supervision of the Shanghai Gold Exchange. Therefore, the Shanghai Gold Exchange is deemed to be our sole customer.

The transactions between the Company and the relevant suppliers are conducted on normal commercial terms. The total amount of purchase from the five largest suppliers did not exceed 30% of the Group's total amount of purchase.

So far as the directors are aware of, none of the directors (the "Directors") and supervisors (the "Supervisors") of the Company or any of their associates or any Shareholders holding 5% or more of the Company's share capital and their associates (as defined in the Listing Rules of the Stock Exchange) have had any direct or indirect interests in our sole customer and the five largest suppliers for the year.

## **Reserves**

Details of changes in reserves of the Company and the Group as at 31 December 2006 are set out in the consolidated statement of changes in equity and Company statement of changes in equity of the financial statements on pages 74 and 79 of this annual report.

## **Distributable Reserves**

According to the Articles of Association of the Company, distributable reserves are based on the profits of the Company prepared according to the PRC Accounting Standards and IFRS, whichever is the lower.

According to the PRC Company Law, after transferring appropriate amounts into the statutory surplus reserve fund and statutory public welfare fund, profit after tax can be distributed as dividend.

As at 31 December 2006, in accordance with the PRC Accounting Standards, relevant Laws of the PRC and the Articles of Association of the Company, the distributable reserves of the Company amounted to RMB314,614,680, in which RMB109,307,250 was proposed to be the final dividend of the year. Besides, an amount of RMB2,091,022,000 from share premium account can be used for the issue of bonus shares.

## **Property, Plant, Equipment and Property Investment**

Details of changes in property, plant and equipment of the Company and the Group during the year are set out in notes 13 of the consolidated financial statements on pages 113 to 116 of this annual report.

The Group did not hold any investment property.

## **Share Capital**

The Company issued 172,800,000 H shares during its global offering on 8 December 2006. Subsequently, the Company exercised the Over-allotment Option for 25,915,000 H shares on 19 December 2006. The Company had issued a total of 198,715,000 H shares which are listed on the Stock Exchange, and the total consideration before deduction of any listing expenses amounted to HK\$2,519,706,200 (approximately RMB2,531,132,547).

## Report of the Directors

During the year, changes in share capital of the Company are set out in note 30 of the consolidated financial statements on pages 140 to 141 of this annual report.

### Use of Proceeds raised from Listing

The proceeds raised from the Company's newly issued and listed H shares on the Stock Exchange in December 2006 and the exercise of over-allotment option, after deduction of related issuance expenses, amounted to approximately HK\$2,400,000,000. None of the proceeds raised from Listing has been utilised as of 31 December 2006 and they have been deposited with banks. Such listing proceeds raised will be applied in the coming years to their intended uses as set out in the Company's prospectus dated 24 November 2006 as below:

- as to approximately HK\$500 million for expanding and improving Dayingezhuang Gold Mine and Xiadian Gold Mine and enhancing our existing ore processing capacity, with a view to enhance the ore processing capacity of each of these two mines by approximately 1,000 tonnes per day, as further described below:

#### **Dayingezhuang Gold Mine (expansion of ore processing capacity by 1,000 tonnes per day)**

Major construction works for this purpose include (i) the transformation of the south ventilation shaft; (ii) the expansion of the main and service shafts; (iii) the construction of the north ventilation shaft; (iv) the transformation of the ore processing plant; (v) the development of a power transformation station and pipe network connecting the production facilities. The initial approval of the project by the Labour Bureau and Health Bureau was granted in November 2005 with a construction period commencing from January 2006 to December 2008;

#### **Xiadian Gold Mine (expansion of ore processing capacity by 1,000 tonnes per day)**

Major construction works for this purpose include the construction of a new main vertical shaft and the expansion of the ore processing plant. Approvals of the project have been obtained with a construction period commencing from January 2006 to December 2008;

- as to approximately HK\$250 million for expanding our exploration activities, particularly in the Zhaoping fault-line area and other major gold deposits in China with a view to enhancing our gold reserves, the Company plans to purchase new instruments and equipment for conducting geological research and implementing geological exploration projects, including exploratory tunnelling and drilling. In respect of geological research, the Company plans to invest in research on 14 major geological research topics, such as study on the mineralisation of greenstone and ductile structural zones of Zhaoyuan city, the Company also intends to carry out geological exploration and have obtained exploration rights and the necessary approvals from the relevant PRC authorities for exploration projects in the Zhaoping fault region;

- as to approximately HK\$500 million for the acquisitions of operating gold mines with a view to expanding our scale and competitiveness and to enhancing our continuing development capability. The Company currently does not have definitive plans for the acquisition of any target operating gold mines with the net proceeds from the Global Offering;
- as to approximately HK\$150 million for the implementation of COAL in the gold mines. The Company acquires in the future to treat refractory gold concentrates they produce;
- as to approximately HK\$250 million for the acquisition of advanced exploration projects with a view to expanding our exploration area and to enhancing our future gold reserves. The Company currently does not have any definitive plans for the acquisition of any target projects with the net proceeds from the Global Offering; and
- as to the maximum of approximately HK\$170 million for repayment of our bank borrowings with a view to lowering our gearing ratio and enhancing our financial position. As at 30 September 2006, we had borrowings from four banks. These loans have varying terms with the earliest maturity date being 28 September 2007.

The remaining net proceeds in an amount of not more than 10% of the total net proceeds will be used for working capital and general corporate purposes.

As the final amount of proceeds raised from Listing were greater than the amount disclosed in the prospectus, and our Directors intend to apply the additional net proceeds raised in the same manner and same proportion as shown above.

To the extent that the net proceeds from the Global Offering are not immediately applied for the above purposes, our Directors intend that such net proceeds, to the extent permitted by applicable laws and regulations, will be placed on short-term deposits with authorized financial institutions and/or licensed banks in Hong Kong or the PRC.

### **Charity Donation**

During the year, the Group made charitable donation totalling RMB37,000.

### **Bank Borrowings**

Details of bank borrowings of the Company and the Group are set out in note 25 of the consolidated financial statements on pages 131 to 133 of this annual report.

### **Taxation**

The Company and its subsidiaries basically pay PRC corporate income tax at a rate of 33% of its taxable profits according to the relevant laws and regulations in the PRC. Details are set out in note 10 of the consolidated financial statements on pages 109 to 110 of this annual report.

## Report of the Directors

### Pre-emptive Rights

There is no provision or regulation for related pre-emptive rights under the Company's Articles of Association or PRC Law which requires the Company to issue new shares to the existing shareholders according to their respective proportions of shareholding.

### Purchase, Sale or Redemption of the Company's Listed Securities

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any listed securities of the Company.

### Directors and Supervisors

During the year and as at the date of this annual report, our Directors and supervisors are listed as follows:

#### Executive Directors:

Mr. Lu Dongshang  
Mr. Wang Peifu  
Mr. Ma Yushan

#### Non-executive Directors:

Mr. Guo Guangchang  
Mr. Wu Ping  
Mr. Liu Gendong  
Mr. Cong Jianmao

#### Independent non-executive Directors:

Mr. Li Dingan (appointed on 31 May 2006)  
Mr. Yan Hongbo  
Mr. Ng Ming Wah, Charles  
Mr. Zhai Yusheng

#### Supervisors:

Mr. Hou Wenshan  
Mr. Cheng Binghai  
Mr. Chu Yushan

## **Profiles of the Directors, Supervisors and Senior Management Personnel**

Details for the profiles of the Directors, Supervisors and Senior Management are set out on pages 22 to 28 of this annual report.

## **The Terms of Service of the Directors and the Supervisors**

According to the requirements of the Articles of Association, the terms of service of the Directors and the Supervisors are for three years as from the respective dates of appointment or re-appointment, and the Directors and the Supervisors are subject to re-appointment and re-election upon the expiry of their term.

## **Remuneration of the Directors and Supervisor**

The remuneration of each Director and Supervisor is approved at general meetings. Other emoluments will be determined by the Board with reference to the duties, responsibility, performance of the Directors and Supervisors and the results of the Group.

Details of the remuneration of the Directors and Supervisors are set out in note 8 of the consolidated financial statements on pages 105 to 109 of this annual report.

## **The Service Contracts of the Directors and the Supervisors**

Each of the existing Directors and Supervisors has entered a service contract with the Company, with a term of 3 years. The Directors and Supervisors' remuneration include salary, bonus, allowance and other benefits including pension.

Apart from the above disclosed, neither the Directors nor the Supervisors has a service contract with the Company with a term specifying that if the Company terminates the contract within one year, the Company will make compensation apart from statutory compensation.

## **Material Contracts in which Directors and Supervisors have substantial Interests**

None of the 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 ex-holding company, or any of its subsidiaries and fellow subsidiaries was a party during the year.

## Report of the Directors

### **Directors and Supervisors' Interests in shares, underlying shares or debentures of the Company**

As at 31 December 2006, none of the Directors, Supervisors, Senior Management Personnel of the Company and their respective associates had any interests and short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (as defined in the Securities And Futures Ordinance ("SFO")) which were required to notify the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including those deemed or taken to have under Part XV of the SFO), or interests and short positions to be entered in the register referred to Section 352 of the SFO or those were required to notify the Company and the Stock Exchange pursuant to requirements of the Model Code for Securities Transaction by Directors of Listed Companies (For such purposes, the relevant regulations in the SFO were also interpreted as applicable to the Supervisors).

### **Rights to purchase shares or debentures of Directors and Supervisors**

At no time during the year did any of the Directors or Supervisors hold any shares of the Company. None of the Directors and Supervisors had any interests in the share capital or debt securities of the Company or any of its associated corporations (as defined in the SFO). None of the Directors, Supervisors and their spouses and children under eighteen years old was granted the rights to subscribe the share capital or debt securities of the Company or any of its associated corporations and there was no exercise of such rights by any of such persons.

At no time during the year had the Company or any of its subsidiaries, holding companies or any fellow subsidiaries entered into any arrangement which enables the Directors and Supervisors having the right to acquire benefits by means of acquisition of shares or debentures in the Company or any other legal entities.

### **Five Highest Paid Personnel**

The five highest paid individuals in the Group during the year include two Directors. Full details of the five highest paid individuals are set out in note 8 of the consolidated financial statements on pages 108 to 109 of this annual report.



## Share Capital and Shareholders

### 1. Changes in Shares

The Company initially had 530,000,000 domestic shares, and the number of the share capital changed to 728,715,000 shares immediately after the completion of the Global Offering, out of which holders of the overseas-listed foreign shares hold 218,586,500 shares (including overseas-listed foreign shares held by PRC National Social Security Fund) representing 30% of the total number of issued ordinary shares of the Company.

### 2. Number of Shareholders

Details of the number of shareholders recorded in the register of members at 31 December 2006 of the Company are as follow:

<b>Classification</b>	<b>Number of Shareholders</b>
Domestic shares	5
overseas-listed foreign shares – H shares	9,678
Total number of Shareholders	9,683

### 3. Sufficiency of public float

Based on information that is publicly available to the Company and within the knowledge of the directors, the Board confirms that its public float has reached the requirement of the Listing Rules as at the date of the report.

## Report of the Directors

### SUBSTANTIAL SHAREHOLDERS

To the best knowledge of the Directors, Supervisors, and Senior Management Personnel of the Company, as at 31 December 2006, the interest and short positions of substantial shareholders in the issued share capital of the Company which will be required, pursuant to Section 336 of the SFO, to be entered into the register referred to therein, or holding 5% or above in the issued share capital of the Company which will be required to be notified to the Company are as follows:

	Name of Shareholders	Classification of shares	The number of shares held	Approximate percentage of shareholding in the registered capital of the Company	Approximate percentage of shareholding in the total amount of issued domestic shares of the Company	Approximate percentage of shareholding in the total amount of issued H shares of the Company	Long/short positions
1	Zhaojin Group	Domestic	271,628,500	37.3	53.2	-	Long
2	Shanghai Fosun	Domestic	106,000,000	14.5	20.8	-	Long
3	Shanghai Fosun	Domestic	79,500,000 (Note 1)	10.9	15.6	-	Short
4	Shanghai Yuyuan	Domestic	79,500,000 (Note 1)	10.9	15.6	-	Long
5	Shanghai Yuyuan	Domestic	5,300,000 (Note 2)	0.7	1.0	-	Long
6	Shanghai Yuyuan	Domestic	106,000,000	14.5	20.8	-	Long
7	NSSF Council	H share	19,871,500 (Note 3)	2.7	-	9.1	Long
8	Merill Lynch & Co., Inc	H share	11,856,000 (Note 3)	1.6	-	5.4	Long

**Notes:**

- (1) As disclosed in the Prospectus of the Group dated 24 November 2006, Shanghai Yuyuan and Shanghai Fosun entered into a share transfer agreement dated 23 September 2004, pursuant to which Shanghai Fosun has agreed to transfer to Shanghai Yuyuan 79,500,000 shares legally held by Shanghai Fosun, therefore the 79,500,000 shares is shown as long position for Shanghai Yuyuan and short position for Shanghai Fosun.
- (2) Shanghai Yuyuan holds 95% equity interest in Laomiao Gold, therefore the shares of 5,300,000 held by Laomiao Gold in the Company is shown as long position of Shanghai Yuyuan.
- (3) Pursuant to Section 336 of the SFO, shareholders of the Company are required to file DI forms when certain criteria is fulfilled and the full details of the requirements are available on SFO's official website. When a shareholder's holding in the Company changes, it is not necessary for the shareholder to notify the Company and the Stock Exchange unless certain criteria is fulfilled, therefore substantial shareholders' latest holdings in the Company may be different to what is filed with the Company and the Stock Exchange.

As at 31 December 2006, apart from the above disclosed and to the best knowledge of the Directors of the Company, no person had any interests in the shares or underlying shares of the Company which were required to be disclosed pursuant to SFO.

## Connected Transactions and Continuing Connected Transactions

During the year, the Company and the Group have the following connected transactions and continuing connected transactions, details of which are disclosed in compliance with the requirements of Chapter 14A of the Listing Rules.

### Continuing Connected Transactions which was non-exempt according to the requirements of the Stock Exchange

- i. The Company has been leasing certain land from Zhaojin Group (one of the major shareholders and promoters of the Company) for ancillary, non-production purposes. The current lease agreements for such land expired on 31 December 2006. Pursuant to three land use rights leasing agreements each dated 8 October 2006 between our Company and Zhaojin Group (the "Land Lease Agreements"), effective on 1 January 2007, Zhaojin Group has agreed to lease to the Company twenty-two parcels of land with an aggregate area of 655,522 sq. m relating to the above gold mines (the "Leased Land"). Each Land Lease Agreement contains an option for renewal after expiry at our request. The term of each lease is subject to the term of Zhaojin Group's land use rights with respect to the Leased Land. The Company also has a right to terminate any of the Land Lease Agreements with one month's written notice. In the event that any of the Land Lease Agreements is terminated by the Company before expiry, the aggregate rental payable by the Company would be reduced accordingly. The rental amounts stipulated in the Land Lease Agreement relating to the 11 parcels of land are subject to adjustment by reference to market rental every three years from its effective date. For each of the three years ended 31 December 2006, 2007 and 2008, the annual cap of the aggregate rentals payable to Zhaojin Group for leased land amounted to RMB3,761,067, RMB2,400,000 and RMB2,500,000 respectively. For the year ended 31 December 2006, the actual rental payable to Zhaojin Group by the Company is approximately RMB3,611,000.
- ii. PRC laws and regulations require gold refining to be carried out at a refinery that has been licensed by the SGE to produce standard gold bullion. As we are not a qualified gold refinery, we have appointed Shandong Zhaojin Gold and Silver Refinery Company Limited ("Zhaojin Refinery") (a licensed gold refinery in the PRC and the subsidiary of Zhaojin Group) to refine our gold since our incorporation. Pursuant to a non-exclusive gold refining agreement between the Company and Zhaojin Refinery dated 26 October 2006 (the "Gold Refining Agreement"), Zhaojin Refinery agrees to provide gold refining services to the Company for a term of three years commencing from 26 October 2006, renewable for another three years after expiry of the term at our request. The fees payable to Zhaojin Refinery is calculated on the basis of the unit price specified in the Gold Refining Agreement and the actual amount of work undertaken by Zhaojin Refinery. For each of the three years ended 31 December 2006, 2007 and 2008, the annual cap of fees payable to Zhaojin Refinery will be RMB2,686,100, RMB3,037,100 and RMB3,644,600 respectively. For the year ended 31 December 2006, the actual fees payable to Zhaojin Refinery by the Company were approximately RMB2,684,000.

## Report of the Directors

### Other Connected Transaction

- i. The Company entered into a non-competition agreement with Zhaojin Group on 17 November 2006, pursuant to which Zhaojin Group has agreed not to engage in business activities that compete with us (excluding existing businesses), and has also granted us options and pre-emptive rights to acquire the gold resource exploration and mining businesses of Zhaojin Group in Zhaoyuan district which may compete with our business.
- ii. The Company entered into an indemnity agreement with Zhaojin Group on 17 November 2006, pursuant to which Zhaojin Group has agreed to indemnify us against certain tax liabilities, liability for uncollected gold mineral resources compensation levies, liability or expenses in connection with leased properties, liability in connection with claims from China Gold Funds and liability in connection with certain potential litigation proceedings.
- iii. The Company entered into two fixed assets disposal agreement with Zhaojin Group on 31 March and 10 July 2006 respectively, the Group disposed certain properties, plant and equipment to Zhaojin Group at RMB1,447,020 and RMB1,572,734 respectively.

Our independent non-executive Directors have reviewed the continuing connected transactions set out in note 34 of financial statements on pages 145 to 147 in this annual report, and are of the view that the continuing connected transactions (i) were usual course of business; (ii) have been entered into by us on normal commercial terms or on terms no less favourable to us than terms to/by independent third parties; (iii) have been entered in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interest of our shareholders as a whole.

Our auditor has also reviewed those transactions (details of which are set out in note 34 in Notes to financial statements) and confirmed to our Directors that:

1. these transactions have been approved by our directors;
2. transactions were priced in accordance with our pricing policies when commodities or services had been provided by the Company;
3. connected transactions were in accordance with the agreed terms of related transactions; and
4. the aggregate amount of transactions does not exceed the caps set out in our prospectus dated 24 November 2006.

## Extraordinary General Meeting

During the year, the Company convened three extraordinary general meetings.

1. On 28 February 2006, the first extraordinary general meeting of the Company was held at the Company. The attending shareholders represented 530,000,000 shares of the Company and represented 100% of the total shares of the Company. At the meeting, the following resolutions were approved: (1) a resolution in relation to allowing the Company to raise capital in overseas market and the proposed issuance and listing of H shares in Hong Kong; (2) a resolution giving authorization to the Board in relation to the issuance and listing of H shares; (3) a resolution in relation to the amendments to the Articles of Association of the Company; (4) a resolution in relation to the effective term of the issuance and listing of H shares; and (5) a resolution in relation to the use of proceeds from the issuance of H shares.
2. On 26 April, 2006, the second extraordinary general meeting of the Company was held at the Company. The attending shareholders represented 530,000,000 shares of the Company and represented 100% of the total of shares of the Company. At the meeting, a resolution in relation to the provision of loan guarantees and trust loans of RMB 17,000,000 to Zhaoyuan Jintingling Mining Industry Company Limited, a subsidiary of the Company was approved.
3. On 10 November 2006, the third extraordinary general meeting of the Company was held at the Company. The attending shareholders represented 530,000,000 shares of the Company and represented 100% of the total of shares of the Company. At the meeting, a resolution in relation to the Procedures of General Meetings was approved.

## Litigation and Arbitration

As mentioned in the Prospectus dated 24 November 2006, the Company may be involved in a contractual dispute with Sparton International Resources Inc. ("Sparton"), in connection with a Letter of Intent between Sparton and Brigade 201 and the Company, pursuant to which the Company agreed, among other things, to purchase a portion of the equity interest in Yunnan JV from its owners, Sparton and Brigade 201, for an aggregate sum of RMB24,480,000. On 30 September 2006, following a breakdown in negotiations, the Company served a written notice to Sparton and Brigade 201 notifying them of the Company's termination of the Letter of Intent with immediate effect. Sparton threatened to institute legal proceedings against the Company for breach of contract unless the Company proceeded with the purchase of a portion of the equity interest in the Yunnan JV held by Sparton, or, alternatively, paid the sum of RMB4,000,000 to Sparton as compensation for business loss and reimbursement of expenses and provided a non-competition undertaking in respect of the geographic area covered by the Yunnan JV's project activities for two years. Although the Company cannot determine the outcome of any lawsuit that may ensue in connection with the Letter of Intent, nor can the Company guarantee that Sparton will not raise other claims including claims for over RMB4,000,000 nor quantify the Company's maximum liability in any such lawsuit, the Company's Directors believe, having received legal advice from the Company's PRC counsel, King & Wood, that any such lawsuit, if instituted against the Company, would not have a material adverse impact on the Company's business. The Company has obtained an indemnity from Zhaojin Group for any cost, damage, liability or loss that the Company may incur or suffer as a result of any legal proceedings with respect to the Letter of Intent.

As at the date of this annual report, Sparton and Brigade 201 did not conduct any litigation against the Company.

## Report of the Directors

Apart from the above disclosed, the Company and the Group have not been involved in any material litigation and arbitration. As far as the Directors are aware, the Company does not have any material litigation and arbitration which are pending to be solved or threaten the Company so as to adversely affect the Company's operating results and financial conditions.

### Compliance with the "Code on Corporate Governance Practices"

The Board is of the view that the Company has complied with the provisions in the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules during the year. No Director is aware of any information that reasonably reveals that there is any non-compliance with the Code on corporate Governance Practices set out in Appendix 14 of the Listing Rules by the Company during any time of the year.

For details of the Corporate Governance Report, please refer to pages 44 to 65 of this annual report.

### Compliance with the "Code of Conduct Regarding Securities Transactions by Directors of Listed Issuers"

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules as the code of conduct regarding Securities Transactions by the Directors of the Company.

All Directors are pleased to confirm, after making specific enquiries with the Board, that all Directors have fully complied with standards required according to the Code of Conduct Regarding Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules during the year.

### Audit Committee

The Company established its audit committee on 16 October 2004. The audit committee comprises two non-executive Directors and three independent non-executive Directors, namely Mr. Wu Ping, Mr. Liu Gendong, Mr. Yan Hongbo, Mr. Ng Ming Wah, Charles and Mr. Li Dingan.

The audit committee has adopted a written term of references which is in compliance with the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules. The audit committee is primarily responsible for the matters concerning the internal controls and financial reporting. It has reviewed the accounting principles, accounting standards and methods adopted by the Company together with the managements, discussed on the matters concerning the internal controls, as well as reviewed the Company's audited annual results for 2006.

The audit committee is of the view that the audited annual results for 2006 are prepared in accordance with the applicable accounting standards, laws and regulations, and appropriate disclosures have already been made.

## **Confirmation of Independence of the Independent Non-executive Directors**

The Company confirmed that it has received the annual confirmation of independence from each of the independent non-executive Directors in compliance with Rule 3.13 of the Listing Rules on 27 January 2007. The Company is of the view that the existing independent non-executive Directors remain independent in accordance with the relevant guidelines of Rule 3.13 of the Listing Rules.

## **Post Balance Sheet Event**

The details of post balance sheet event of the Group are set out in note 37 of the financial statements.

## **Auditor**

The financial statements of the Group prepared in accordance with the generally accepted accounting principles in Hong Kong have been audited by Ernst & Young.

A resolution in relation to the reappointment of Ernst & Young as the international auditor of the Company will be proposed at the 2006 annual general meeting.

By the order of the Board  
**Lu Dongshang**  
*Chairman*

22 March 2007