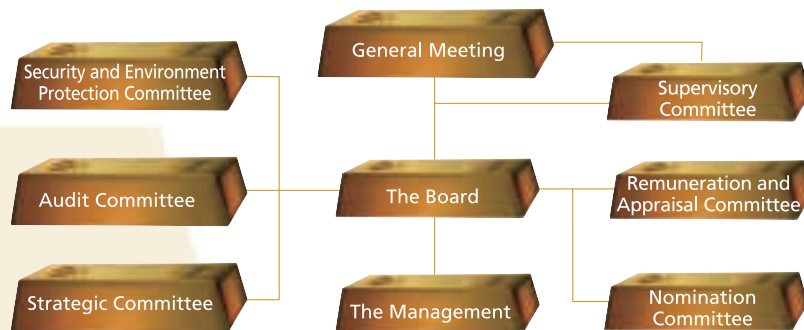


# Corporate Governance Report

## Report of Corporate Governance Practice

The corporate governance structure of the Company is set out as follows:



### (A) Corporate Governance Practice

As one of the largest gold mining overseas-listed companies in the PRC, we always commit to achieve the best corporate governance practice. The Board and the management of the Company believe that the Company should improve accountability and transparency and strike a balance among various interested groups (including but not limited to the Shareholders, government, clients, creditors and staff). The Company must uphold a high standard of corporate governance. The Directors understand their responsibilities of ensuring good corporate governance practice and procedure set by the Board, according to the Code of Corporate Governance Practice.

As a result, our Board, Supervisory Committee and senior management always endeavor to keep improving and implementing effective corporate governance policies, so as to ensure that all decisions comply with the principles of sincerity, consistency, openness, impartiality and fairness, thereby imposing a system of checks and balances. The Company will continue to improve its corporate governance structure, promote the quality of supervision and management and fulfill the Shareholders' and the public's expectations of the Company. The Company always governs its internal operations in accordance with the Articles of Association while providing all market participants and supervisory authorities with timely, accurate and complete information of the Company. The following is a general description of the measures adopted by the Company during the year:

- While preparing the financial report for the year ended 31 December 2006, the Company had adopted Hong Kong Financial Reporting Standard and Interpretations issued by Hong Kong Institute of Certified Public Accountants for compliance with International Financial Reporting Standard.
- The Company's appointment of Ernst & Young as its overseas auditors was approved at the 19th meeting of the Board authorised by the first extraordinary general meeting in 2006.

- The Company had set up Audit Committee, Strategic Committee, Nomination Committee, Remuneration and Appraisal Committee and Security and Environmental Protection Committee. Their terms of reference are formulated in writing in accordance with the Code of Corporate Governance Practice and are available on request.
- The Company had fully complied with the Code of Corporate Governance Practice as set out in Appendix 14 to the Listing Rules, without any deviation.

### **(B) Securities Transaction of Directors**

The Company had adopted all provisions of the Model Code for Securities Transactions by Directors of Listed Issuers (“Model Code”) as contained in Appendix 10 of the Listing Rules. Special enquiries were made to all directors, and they all confirmed that they had fully complied with the Model Code during the Year.

### **(C) The Board**

The Board is the core of a management structure. Directors shall be nominated by shareholders holding 5% or more of our shares and is elected at the general meeting, and aims to safeguard interests of the contributors, execute resolutions of the general meetings and make decisions in respect of the appointment of general manager and the appointment of management (mainly including deputy general manager, managers, chief financial officer) according to the nominations of the general manager, along with material operations of the company and investment planning. It also reviews the decisions made by the operating management and oversees internal control of the company and financial management system.

Being the first since its establishment, the current Board was established through election at the inaugural meeting convened on 15 April 2004. The Board comprises 11 directors, 3 of whom are executive directors, 4 of whom are non-executive directors and 4 of whom are independent non-executive directors. In accordance with the Articles of Association, all members of the Board (including all independent non-executive directors) have a term of three years and are eligible for re-election. Members of the Board are from different industry backgrounds and have extensive experience in science and technology, securities and finance, mining and metallurgy, corporate management and accounting. The independent non-executive directors appointed by the Company are in compliance with Rule 3.10 of the Listing Rules. The list of directors is set out on page 34 of this annual report, and the profiles of the Directors are set out on pages 22 and 25 of this annual report.

The main duties of the Board are to exercise management decisions with authority delegated by general meetings in respect of the Company’s strategic development, governance structure, investment and financing, financial supervision and human resources. The Board is responsible for deciding overall strategies and approving annual business plans and budgets of the Company so as to ensure that production and operation are properly planned, authorized, implemented and supervised. All substantial transactions or transactions with conflicts of interests of the Company are to be decided by the Board.

## Corporate Governance Report

Management staff of the Company are responsible for implementing decisions made by the Board and making decisions within their authority endowed by the Board in respect of the Company's operation.

Directors are elected or replaced by general meetings. Shareholders, and the Board are entitled to nominate a candidate for directorship by written notice. Directors have a term of three years and are eligible to offer themselves for re-appointment upon expiry of term.

The Company has 3 executive directors responsible for specific management duties, representing 27% of the directorship including Mr. Lu Dongshang, Mr. Wang Peifu and Mr. Ma Yushan. This helps the Board closely review and monitor the management procedure of the Company. Mr. Lu Dongshang, the chairman, and 2 other executive directors have years of extensive experience in the gold mining management industry and are responsible for the operating management, formulating and implementing important strategies, making daily operation decisions and coordinating overall business operations.

Each director had fulfilled his obligations in a conscientious, diligent and honest manner when performing his duties. During the year, the Board had convened 8 meetings to discuss the operating results, overall strategies, investment projects as well as operating and financial performance of the Company. Directors could attend meetings in person or through other electronic communication devices and may also consider the resolutions of the Board in writing.

This year, independent non-executive directors did not show any objection to any decisions of the Company. The attendance at the meetings was 96.9% (including attendance of alternate directors), please refer to the related form in this section.

The Board acknowledges its responsibilities for the preparation of the financial statements for each financial year, which give a true and fair view of the state of affairs of the Group and of the results and cash flow for that year and in compliance with relevant laws and disclosure provisions of the Listing Rules.

The directors confirmed that they have the responsibility to prepare company accounts to reflect the true and fair situation of the Group's business position, results and cash flow performance during the year. When preparing the accounts as at 31 December 2006, the directors confirmed that:

- appropriate accounting policy was chosen and applied consistently;
- the early adoption of all standards contained in the Hong Kong Financial Reporting Standard in compliance with the International Financing Reporting Standard was approved; and

- cautious and reasonable judgement and estimation were made and the accounts were prepared on a the continual operational basis.

The Board convenes meetings on a regular basis. A minimum of 4 meetings with directors' personal attendance are held each year, and provisional meetings will be convened if necessary. The secretary to the Board/ company secretary is responsible for helping the chairman in compiling agendas. Each director can request to have discussion topics included in the agenda.

Directors are free to express their views at the meetings of the Board. Important decisions will only be made after detailed discussion at the Board meetings. Directors confirm that they have responsibility to act in the interests of the public and the Company, particularly in the interests of minority shareholders. In the event of a conflict of interests between Shareholders' interests and any other interests, Shareholder's interests shall prevail.

The general manager and deputy general manager of the Company are invited to attend Board meetings. Other senior management staff are also invited to attend Board meetings from time to time for detailed explanation of the issues under discussion and respond to enquiries from the directors.

Detailed minutes of meetings are compiled for Board meetings or special committee meetings. Minutes of the meetings must record issues in details considered by the directors during the meeting as well as the resolutions made, including any worries or objections put forward by the directors.

Directors can provide comments for the draft minutes within a week available for all directors or special committee members. Draft minutes will then be approved with confirmation given by the chairman of the Board or the chairman of the special committee.

Minutes of Board meetings or special committee meetings are kept by the secretary to the Board/ company secretary and are available for inspection by the directors at all time.

All directors are free to communicate with the secretary to the Board/ company secretary who is responsible for ensuring and advising on compliance of all procedures in connection with the Board and all applicable rules and regulations.

The management shall on their own accord or upon enquiries provide appropriate and sufficient information to the directors and special committee members and/or respond as soon as possible, so as to keep them informed of the latest development of the Company to facilitate their performance of duties.

## Corporate Governance Report

Each director has been provided with a Director's Handbook containing guidance on practice. Provisions of Companies Ordinance or Listing Rules are quoted in the Director's Handbook to remind directors of the need to discharge their responsibilities, including disclosure of their interest to the supervisory bodies, potential conflict of interests and details of changes of personal data.

The Board and special committees are provided with sufficient resources for performance of duties including but not limited to hiring consultants when necessary at the expenses of the Company. Individual directors can also hire consultants for advice on any specific issues at the expenses of the Company.

All directors can obtain from the secretary to the Board/ company secretary timely information and latest development about rules and regulations and other continual responsibilities which directors of listed companies must observe so as to ensure that each director is informed of his own duties and that the Company implements Board procedures consistently and complies with the legislations properly.

### **(D) Chairman and General Manager**

The chairman of the Company is elected by the Board . The general manager is nominated and appointed by the chairman and the Board respectively. Mr. Lu Dongshang and Mr. Wang Peifu have been appointed as the chairman and the general manager of the Company respectively with clearly defined duties.

The chairman is responsible for leading the Board in such a way that it operates efficiently, ensuring that the Board studies all major and relevant issues in a timely and constructive manner and examining implementation of Board resolutions. The General Manager is responsible for managing the Group's operation and for coordinating the Group's business, implementing strategies formulated by the Board and rendering decisions on production and operation.

Defined duties of the chairman and general manager of the Company are stated in writing.

### **(E) Independent non-executive Directors**

The Company has 4 independent non-executive directors, representing 36% of the directorship. Mr. Zhai Yusheng, Mr. Yan Hongbo, Mr. Ng Ming Wah, Charles and Mr. Li Dingan, our independent non-executive directors, comply with the independence requirements of the Listing Rules. According to the Listing Rules, each independent non-executive director shall confirm his independence to the Stock Exchange prior to his appointment. On 27 January 2007, each independent non-executive director reconfirmed his independent status.

The 4 independent non-executive directors assumed duties in the Audit Committee, Nomination Committee, Remuneration and Appraisal Committee, Strategic Committee and Security and Environmental Protection Committee under the Board.

#### *Strategic Committee*

The Strategic Committee of the Board is a special committee which is established in accordance with the resolution passed in a general meeting. The Strategic Committee is responsible for discussing and determining the long-term development strategies and major investment decision of the Company.

The Strategic Committee of the Board was established on 16 October 2004, which currently comprises 5 members, including our executive director Mr. Lu Dongshang, our non-executive directors Mr. Guo Guangchang, Mr. Liu Gendong and our independent non-executive directors Mr. Zhai Yusheng and Mr. Yan Hongbo. The Committee is chaired by Mr. Lu Dongshang.

The major duties of the Strategic Committee of the Board include: discuss and make recommendation on the long-term development strategic plans of the Company, major investment and financing plans, major capital operations, assets operation scheme and other material events affecting the development of the Company. The Strategic Committee also carries out review in respect of the above issues.

During the year, the Strategic Committee has convened one meeting with the presence of all members except Mr. Guo Guangchang who has appointed Mr. Liu Gendong as his proxy to attend the meeting.

#### **(F) Remuneration and Appraisal Committee**

On 16 October 2004, the Remuneration and Appraisal Committee of the Board was set up, which comprises of 3 members, including independent non-executive directors Mr. Yan Hongbo, Mr. Zhai Yusheng and a non-executive director Mr. Wu Ping. The Committee is chaired by Mr. Yan Hongbo.

Main duties of the Remuneration and Appraisal Committee include:

- to advise the Board on remuneration policies and framework of the directors and senior management of the Company and to formulate such remuneration policies in accordance with formal and transparent procedures;
- to discharge the following duties as transferred by the board of directors, namely, to determine specific remuneration of all executive directors and senior management including non-monetary profits, rights to pension and quantum (including compensation for loss or termination of employment or appointment) as well as to advise the Board on remuneration of independent non-executive directors;

## Corporate Governance Report

- factors the Remuneration and Appraisal Committee should take into consideration including comparison of salaries paid by similar companies, time contributed by directors and their duties, terms of employment of other positions within the Group and whether to adjust salaries according to performance;
- to review and approve performance-based salary and the terms of directors' service contracts in accordance with corporate targets and approach approved by the Board from time to time;
- to review and approve payment of compensation in relation to loss or termination of employment or appointment of executive directors and senior management so as to ensure that such compensation is determined according to contractual terms;
- to review and approve compensation arrangements in relation to dismissal or removal of directors due to their misconducts so as to ensure that such compensation is determined according to contractual terms.
- to formulate remuneration policies and determine remuneration based on formal and transparent procedures, to ensure that the Company attracts, retains and motivates competent staff who are crucial to the continual development of the Company;
- to ensure that no director or any of his/her associates is involved in deciding his/her own remuneration;
- to formulate the standards or plans of the remuneration packages in accordance with the duties, responsibilities, importance and relevant positions in other relevant enterprises. The remuneration standards or plan principally include but not limited to salaries, bonuses, shares; performance assessment standards, procedures and major assessment system; major plans and systems for awards and punishments;
- to formulate annual evaluation target and conduct annual performance assessment;
- to review the duties performed by the directors and senior management of the Company; and
- to be responsible for monitoring the implementation of the Company's remuneration system.

Operation procedures of the Remuneration and Appraisal Committee include:

- Chairman of the Remuneration and Appraisal Committee shall report the conclusion of discussion to the Board after each meeting and provide recommendations;

- The Remuneration and Appraisal Committee can seek professional advices when necessary;
- Details about remuneration of directors and supervisors for the year ended 31 December 2006 are set out on pages 105 to 109 in this annual report in note 8 of the financial statements; and
- Duties of the Remuneration and Appraisal Committee during the year include implementations of directors' remuneration policy, performance assessment of executive directors and approval of contract terms of executive directors.

In evaluating the performance of the directors and senior management, the Company used budget targets and audited financial reports as benchmarks. At the same time, sales revenue and net profits as key performances indicators were used as business indices. The Company's remuneration policy is that remuneration is linked with Company's performance. Directors' remuneration is determined upon appraisal by the Remuneration and Appraisal Committee. Total income of senior management during the year comprises of a basic annual salary and a performance-based annual bonus. The remuneration of directors and supervisors are determined in general meetings according to related policies or stipulations of the PRC and the actual position of the Company. The management remuneration of directors and supervisors of the Company are determined on the basis of their specific duties undertaken in the Company.

The Remuneration and Appraisal Committee was established on 16 October 2004. On 10 November 2006, adjustments were made to our members at the 19th meeting of the first Board so as to meet the requirements of the Listing Rules. As there had been no adjustment to the remuneration of the directors and the senior management during the year, the Remuneration and Appraisal Committee did not convene any meeting during the Year.

#### **(G) Nomination Committee**

The Nomination Committee was established on 16 October 2004. On 10 November 2006, adjustments were made to our members at the 19th meeting of the first Board so as to meet the requirements of the Listing Rules. The Nomination Committee currently comprises of two independent non-executive directors, namely Mr. Zhai Yusheng and Mr. Ng Ming Wah, Charles and a non-executive director Mr. Wu Ping. The Committee is chaired by Mr. Zhai Yusheng.

The role and main duties of the Nomination Committee include:

1. to advise the Board on membership and composition of the Board in light of the Company's production and business activities, asset scale and equity structure;
2. to review criteria and procedure for selection of directors and general manager and provide recommendation to the Board;



## Corporate Governance Report

3. to extensively seek suitable candidates for director and general manager, to conduct examination and make recommendations on candidates of directors and general managers;
4. to conduct examination and make recommendations on other senior management staff pending referral to the Board for decision of their employment;
5. to assess independency of independent non-executive directors; and
6. to advise the Board on issues regarding appointment or re-appointment of directors and succession of directors (in particular the chairman and chief executive officer).

The working process of the Nomination Committee includes:

1. the Nomination Committee shall actively communicate with the relevant divisions of the Company to research on the demand of the Company for new directors and managers and to come up with written materials;
2. the Nomination Committee may extensively look for the candidates of directors and managers within the Company and its controlled companies as well as in the market of talents;
3. to obtain the information of the occupation, education background, job title, detailed working experience and all the concurrent positions of the initially proposed candidates and to come up with written materials;
4. to seek the nominees' opinions on nomination, otherwise he or she shall not be put on the list of candidates of directors and managers;
5. to convene meetings of the Nomination Committee and to check the qualification of initially proposed candidates according to the job qualifications of directors and managers;
6. to put forward the recommendation about the candidates of directors and managers and relevant materials to the Board one to two months prior to the election of new directors and the appointment of new managers; and
7. to conduct other follow-up work according to the decision and feedbacks of the Board.

The chairman of the committee shall report the conclusion of discussion and recommendations of the committee to the board of directors after each meeting.

During the year, the Nomination Committee has recommended Mr. Li Dingan to the Board as an independent non-executive director and he was appointed during the annual general meeting of the Company held on 31 May 2006.

During the year, the Nomination Committee has convened one meeting with the presence of all members except Mr. Wu Ping who has appointed Mr. Liu Gendong as his proxy to attend the meeting.

## **(H) Auditors Remuneration**

The overseas auditors hired by the Company is nominated by the Board and approved in the general meeting. Its remuneration was determined by Board of directors as authorised by the general meeting. During the year, the remuneration paid to overseas auditors for their auditing services to us was approximately RMB1,100,000.

## **(I) Audit Committee**

To materialize the best management practice, the Company set up an Audit Committee on 16 October 2004. Jurisdiction of the committee is formulated in accordance with recommendations of A guide for Effective Audit Committee issued by Hong Kong Institute of Certified Public Accountants. Its major duties include: to report to the Board, examine quality and procedure of the Group's annual and interim reports, review connected transactions, supervise the financial reporting procedures, revise soundness and effectiveness of internal control system of the Company, approve appointment of independent auditors, coordinate and review its efficiency and work quality, review written reports of in-house auditing staff and revise feedback from the management level to such reports.

Besides, the Audit Committee shall also undertake the following duties:

1. to advise the Board of directors on appointment, re-appointment and removal of hired external auditors, approve remuneration and terms of appointment of external auditors and to handle any problems in relation to the auditors' resignation or dismissal of auditors;
2. to revise and supervise the work of the external auditors;
3. to formulate and implement policies on non-auditing services provided by auditors and to advise the Board on related issues;
4. to review the Company's financial information and other related information;
5. to monitor the Company's financial reporting system and internal control procedures as well as related issues;
6. to advise on the Board as to whether the internal supervisory system is effective; and
7. In case of uncertain events or circumstances which may materially affect the Group's sustainable operation, such uncertain factors should be reported.

## Corporate Governance Report

Pursuant to the requirements of the Listing Rules, the Audit Committee currently comprises 3 independent non-executive directors, including Mr. Yan Hongbo, Mr. Ng Ming Wah, Charles and Mr. Li Dingan and 2 non-executive directors, including Mr. Wu Ping and Mr. Liu Gendong. The members of the Audit Committee shall have a term of three years. The Committee is chaired by Mr. Ng Ming Wah, Charles.

During the year, the Audit Committee had convened one meeting which was chaired by Mr. Ng Ming Wah, Charles, the chairman of the committee. For details about the attendance, please refer to the related form in this section. The attendance rate of the meeting was 100%. All matters passed during the meetings were duly recorded in accordance with related rules, and the records were filed upon review by all members of the Audit Committee with amendments. After each meeting, the chairman has submitted reports on the significant matters discussed to the Board.

Major work performed by the Audit Committee during the year included:

1. to review the Group's annual and interim reports as well as financial reports, recommendations on management put forward by auditors and responses from the Company's management;
2. to review matters related to accounting policies and accounting practices adopted by the Group;
3. to ensure that the connected transactions of the Company comply with the principle of impartiality, fairness and openness and fully protect interests of minority shareholders;
4. to assist the board of directors in making independent assessment of effectiveness of the Group's financial reporting procedures and internal control system;
5. to supervise internal auditing of the Company; and
6. to advise on significant events of the Company or remind the management of related risks.

*Attendance at the Board meetings and various special committee meetings*

**Attendance at the Board meetings in 2006**

<b>Name of Directors</b>	<b>Number of meetings should be attended during the year</b>	<b>Attendance in person</b>	<b>Attendance by way of proxy</b>	<b>Attendance by way of electronic communication</b>
Lu Dongshang	8	3	0	5
Wang Peifu	8	3	0	5
Ma Yushan	8	3	0	5
Guo Guangchang	8	0	3	5
Wu Ping	8	1	2	5
Liu Gendong	8	3	0	5
Cong Jianmao	8	3	0	5
Zhai Yusheng	8	2	1	5
Yan Hongbo	8	3	0	5
Ng Ming Wah, Charles	8	3	0	4
Li Dingan	3	1	0	2

**Attendance at the Audit Committee meetings in 2006**

<b>Name of Directors</b>	<b>Number of meetings should be attended during the year</b>	<b>Attendance in person</b>	<b>Attendance by way of proxy</b>	<b>Attendance by way of electronic communication</b>
Wu Ping	1	0	1	0
Liu Gendong	1	1	0	0
Yan Hongbo	1	1	0	0
Ng Ming Wah, Charles	1	1	0	0
Li Dingan	1	0	0	0

## Corporate Governance Report

### Attendance at the Nomination Committee meetings in 2006

Name of Directors	Number of meetings should be attended during the year	Attendance in person	Attendance by way of proxy	Attendance by way of electronic communication
Lu Dongshang	1	1	0	0
Zhai Yusheng	1	1	0	0
Wu Ping	1	0	1	0
Ng Ming Wah, Charles	1	1	0	0

### Attendance at the Strategic Committee meetings in 2006

Name of Directors	Number of meetings should be attended during the year	Attendance in person	Attendance by way of proxy	Attendance by way of electronic communication
Lu Dongshang	1	1	0	0
Zhai Yusheng	1	1	0	0
Liu Gendong	1	1	0	0
Yan Hongbo	1	1	0	0
Guo Guangchang	1	0	1	0

## Monitoring Mechanism

### Supervisory Committee

The Supervisory Committee was established in accordance with the PRC law to perform its supervisory duties independently under the law, so as to protect the infringement of lawful rights of the Shareholders, the Company and its staff. In addition, it reviews the financial position of the Company pursuant to the Articles of Association, monitors the decisions made by the Board and senior management for operation and management of the Company as to whether they meet the relevant requirements of the laws and regulations. The first Supervisory Committee was established through election at the inaugural meeting convened on 15 April 2004, comprising Mr. Hou Wenshan, Mr. Cheng Binghai and Mr. Chu Yushan. Mr. Chu Yushan is a representative supervisor of the staff, and Mr. Hou Wenshan is the Chairman of the Supervisory Committee. The number of members and composition of the Supervisory Committee are in accordance with the law and regulations.

During the year, the first Supervisory Committee has convened two meetings with 85% attendance.

All supervisors have attended all the Board meetings and performed their monitoring obligations on behalf of the Shareholders as to whether the financial activities of the Company, the performance of duties of Directors and senior management and the decision making procedures of the Board are in compliance with the laws and regulations. The Supervisors had performed their statutory duties impartially.

### **Internal Control and Internal Review**

The Board is responsible for the establishment and maintenance of the Company and its subsidiaries, internal control system for reviewing relevant financial, operating and supervisory control procedures to protect Shareholders' interests and the Group's assets. The Board reviews the effectiveness of the internal control system of the Company and its subsidiaries every year, and authorize the operating management to promote such internal control system, and the effectiveness of which is reviewed by the Audit Committee of the Board.

The internal control system includes a management framework with clearly defined duties for the purposes of:

- assisting the Company in accomplishing various business targets and ensuring that corporate assets will not be defalcated or disposed of;
- ensuring that the Company's accounting record provides reliable financial data for internal use or public disclosure; and
- ensuring compliance with related legislations and requirements.

Aiming at more effective review on the effectiveness of the internal control system, the Company set up an internal audit department in April 2004 to review, monitor and assess the disclosure of financial information, operations and internal control activities of the Company and its associates on a regular basis and when necessary, based on potential risks and the importance of internal control systems for different businesses and workflows. This can ensure the transparency of information disclosure, operating efficiency and effectiveness of the corporate monitoring mechanism. The independent and objective evaluation and recommendation are provided in the form of an audit report. The internal auditors are entitled to have access to all information of the Company and to make enquiries to relevant persons in performing their duties. The manager of the audit department directly reports the relevant outcomes and his/her opinions to the Audit Committee for consideration. After reviewing their reports, the Audit Committee puts forward its recommendation to the management of the Company and regularly reports to the Board.

## Corporate Governance Report

The Company sees great importance of the internal control and had set up relevant internal management systems and procedures for corporate governance, operation, construction, finance, and administrative personnel. The Company has set up and put forward an Internal Control System to the Board for approval. The Internal Control System summarizes and clarifies the objectives, content, methods and obligations of the internal control system. This will facilitate the Company's continuing review and assessment on implementation of the existing systems and the effectiveness of internal controls.

The Board has reviewed the internal control system of the Company and its subsidiaries in the year, and confirmed its effectiveness.

### Chief Financial Officer

The chief financial officer is in charge of the financial operation of the Company and reports to the general manager.

The chief financial officer is responsible for preparing financial statements in accordance with GAAP of the PRC and Hong Kong and to ensure compliance with disclosure requirements as stipulated by the China Securities Regulatory Commission and the Stock Exchange of Hong Kong Limited.

The chief financial officer is also responsible for preparing the Company's annual budget scheme and the budget implementation proposal, as well as monitoring the implementation of the Company's annual financial and operating plans. In addition, the chief financial officer shall work with and give recommendations to the Board in establishing relevant internal control systems.

### Relations with Shareholders, investors and other concerned parties

The Company is committed to ensuring that all Shareholders, especially the minority shareholders, can enjoy equal status and fully exercise their own rights.

### General Meeting

As the highest authority of the Company, the general meeting exercises its rights under the law to make decisions on significant events of the Company. The Company establishes and maintains various communication channels by way of publication of annual reports, interim reports and press announcements. To promote effective communication, Shareholders can choose to receive information to Shareholders from the Company via email. The information are also published in the website of the Company.

The annual general meeting or extraordinary general meeting (if applicable) serves as a direct communication channel between the Board and the Shareholders. All directors understand that general meetings provide a effective platform for direct communication between directors, supervisors and other senior management and Shareholders, where they shall report to Shareholders with regard to the Group's operations to secure effective communications with Shareholders. Accordingly, the Company had attached much importance to general meetings. In addition to a 45-day notice before the holding of a general meeting, the Company requires that all directors and senior management shall employ their best endeavors to attend the general meetings. Also, all Shareholders are encouraged to attend general meetings. At the general meetings, the Shareholders can make enquiries about the Company's operation status or financial information and the Shareholders are welcome to express their views therein.

Details about the polling process and the Shareholders' rights to request for decisions by way of a poll are included in notices or circulars to the Shareholders together with the annual reports. Results of polls are published in newspapers and on the website of the Company.

In 2006, the Company had convened one annual general meeting and three extraordinary general meetings. The shareholding held by Shareholders who attended the meetings represented 100% (530,000,000 shares) of all issued shares of the Company.

### **Largest Shareholder**

At the end of 2006, 271,628,500 ordinary shares are held by Zhaojin Group, the largest shareholder of the Company, representing 37.3% of the total issued ordinary shares of the Company. Number of shares held by other promoters include: 106,000,000 shares held by Shanghai Fosun, representing 14.5% of the total issued ordinary shares of the Company; 106,000,000 shares held by Shanghai Yuyuan, representing 14.5% of the total issued ordinary shares of the Company; 21,200,000 shares held by Guangxin Investments, representing 2.9% of the total issued ordinary shares of the Company; 5,300,000 shares held by Laomiao Gold, representing 0.7% of the total issued ordinary shares of the Company.

As the largest shareholder of the Company, Zhaojin Group has never overridden the general meeting to directly or indirectly intervene the Company's decision-making and operation. The Company has always kept independent from its largest shareholder in terms of assets, finance, organisation and business.



## Corporate Governance Report

### Independence from Zhaojin Group

The directors are satisfied that the Company can be independent of Zhaojin Group's business:

- **Management independence:** Among the Board, only one Director will continue to hold the Chairman's position with the Board of Zhaojin Group. In the opinion of the directors, as the management overlap only involves one director therefore the participation of the independent non-executive directors of the Company would be sufficient for managing the material conflicts of interests arising from the management overlap. Apart from Mr. Lu Dongshang none of the Directors or members of senior management of the Company (excluding the Supervisors of the Company) hold current positions in Zhaojin Group.
- **Production and operational independence:** Since incorporation, the Group have operated its business independently of Zhaojin Group, and have not shared its production teams, production facilities and equipment, or marketing, sales and general administration resources with Zhaojin Group or its associates, except as described in "Connected transactions" with respect to the provision of gold refinery and gold bullion trading services by Zhaojin Group, which are conducted on an arm's length basis and normal commercial terms. Zhaojin Group operates a gold bullion trading agency business through its SGE membership and had approximately 180 customers in addition to our Company as at 30 September 2006. The refinery business owned by Zhaojin Group through its majority interest in Zhaojin Refinery provides gold refinery services to gold mines in the Zhaoyuan district and had approximately 27 customers in addition to the Company as at 30 September 2006. Under the terms of the agreements with Zhaojin Group for these services, the Company may terminate the agreements at any time and the Company is not prohibited from engaging other service providers during the term of the agreements. In the Yantai region, there are three other qualified refineries and five other SGE members that the Company can readily engage on comparable terms as those the Company has agreed with Zhaojin Group to provide it with refinery or trading agency services, if necessary.
- **Independence of access to supplies and raw materials:** The Group's principal supplies and raw materials for production, namely, electricity and water, gold and silver concentrates, and auxiliary materials, are sourced from independent suppliers not related to Zhaojin Group.

- **Independence of access to customers:** The Group's customers mainly comprise purchasers of its standard gold bullion on the SGE. The anonymity and market-driven nature of SGE trades ensure that there is no customer independence issue. As far as the Directors are aware, the Group's other customers, being metallurgical enterprises that purchase silver and concentrates of sulphur and other metals from it, are independent of Zhaojin Group.
- **Financial independence:** The Group has an independent financial department that is independent from and does not share functions or resources with Zhaojin Group. The Group's financial auditing is undertaken separately from that of Zhaojin Group by its own staff. The Group have separate bank accounts and tax registration. While the Group has, in the past, enjoyed the benefit of shareholder loans from and/or bank loans guaranteed by Zhaojin Group, all such shareholder loans have been repaid and all such guarantees have been released. In their place, the Group has obtained bank financing at market rates from independent financial institutions and did not experience any difficulties in doing so. Given the Group's financial and cash flow position, the Directors believe that, if required, the Group is able to obtain further loans and credit facilities from financial institutions at market rates without material difficulty.

### Excluded Businesses

During the year, Zhaojin Group owned various exploration and mining permits with respect to gold mineral resources in certain areas in the Zhaoyuan district. These permits have not been transferred to the Group because the exploitation of such permits requires capital resources that the Directors believe would, at present, be better spent on our existing mines. Also, none of these permits are currently being exploited by Zhaojin Group, and none of these permits covers any area that overlaps with the areas covered by our exploration and mining permits. Under the non-competition agreement entered into between the Company and Zhaojin Group on 17 November 2006, the Company have an option and a right of first refusal to acquire Zhaojin Group's exploration and mining rights.

Under the non-competition agreement, Zhaojin Group has undertaken not to engage in further competitive activities apart from the Excluded Business described below.

In addition to the above permits, during the year, Zhaojin Group also had investments in Shandong Guoda Gold Co., Ltd. ("Shandong Guoda", 48% equity interest of which was held indirectly by Zhaojin Group), Xixia Zhaojin Mining Co., Ltd. ("Xixia Zhaojin", 51% equity interest of which are held by Zhaojin Group), Tuoli Zhaojin Beijiing Mining Co., Ltd. ("Tuoli Zhaojin", 90% equity interest of which are held by Zhaojin Group), Min Tianhao Gold Co., Ltd. ("Min Tianhao Gold", 80% equity interest of which are held by Zhaojin Group), which engage in a business similar to our business (together the "Excluded Businesses").

## Corporate Governance Report

### *Shandong Guoda Gold Co., Ltd. ("Shandong Guoda Gold")*

For the year, Zhaojin Group had an indirect 48% equity interest in Shandong Guoda Gold through Zhaoyuan Gold Smelting Co., Ltd, a wholly-owned subsidiary of Zhaojin Group. The remaining equity interest in Shandong Guoda Gold is held indirectly by Zijin Mining Group Co., Limited, an independent third party.

Shandong Guoda Gold is principally engaged in the business of gold smelting. It is not authorised to engage in gold exploration or mining operations. Zhaojin Group has confirmed that it is only a passive investor in Shandong Guoda Gold with no board representation therein, no specific right to appoint its own board representatives (except for its general right as a PRC shareholder to vote for PRC director nominees), and no participation in the management of Shandong Guoda Gold, and that it will remain as a passive investor and does not participate in the daily management of Shandong Guoda Gold.

Our Directors believe that the extent of competition from the business of Shandong Guoda Gold, if any, would not have a material impact on our business as a whole, for the following reasons:

- (a) smelting is not our core business.
- (b) whilst it has traditionally concentrated on gold smelting, Shandong Guoda Gold is in the process of changing its business focus from gold smelting to copper smelting.
- (c) we and Shandong Guoda Gold own and operate our respective gold smelting plants independently of each other, and the management of the Group is distinct from and remains independent from that of Shandong Guoda Gold. Our cyanidation and smelting plants have sufficient capacity to process all gold concentrates produced from our own mines, as well as third party concentrates as an ancillary business. There is no sharing of services or resources, including production technique and patent, between us and Shandong Guoda Gold. Therefore, we conduct our business independently from the business of Shandong Guoda Gold.

### **Other Companies**

Zhaojin Group also has equity interests in the following companies, all of which are principally engaged in the business of gold mining.

### *Xixia Zhaojin Mining Co., Ltd. ("Xixia Zhaojin")*

For the year, Zhaojin Group had a 51% equity interest in Xixia Zhaojin, with the remaining 49% equity interest being held by Xixia Jinchangyuan Mining Co., Ltd., an independent third party.

### ***Tuoli Zhaojin Beijing Mining Co., Ltd (“Tuoli Zhaojin”)***

For the year, Zhaojin Group had a 90% equity interest in Tuoli Zhaojin with the remaining 10% equity interest being held by Urumqi Julong Mining Co., Ltd, an independent third party.

Tuoli Zhaojin is principally engaged in the business of gold exploration and gold mining. It currently has two key gold mines, namely Mine No.2 and Mine No.3.

### ***Min Tianhao Gold Co., Ltd (“Min Tianhao”)***

For the year, Zhaojin Group had a 80% equity interest in Min Tianhao with the remaining 20% equity interests being held by Zhao Pengfei, an independent third party.

Gansu Tianhao is principally engaged in the business of gold exploration and gold mining. It currently has two key gold mines, namely Lufeng Mine and Lutian Mine. It currently also operates the Bojigou Mine.

We do not consider the businesses of the above three gold mining companies pose a competitive threat to our business in the following sense:

- (a) The size of these gold mines taken together is relatively insignificant as compared to the size of our gold mines.
- (b) These gold mines are all located outside the Shandong province, and therefore do not compete with our operating gold mines for mineral resources, human resources, exploration and mining expertise.
- (c) our common product, gold, is traded on the SGE where prices are determined by an open and ready market and where there is no competition in between the both parties for individual customers.
- (d) We and these three gold mining companies operate our respective gold mines independently of each other, and have our own respective exploration and mining rights. There is no overlap of directors and senior management between us and the three gold mining companies. The three gold mining companies are neither our suppliers nor our customers. Accordingly, we have been conducting, and will following the Listing continue to conduct, our business independently from the business of these three gold mining companies.

## Corporate Governance Report

### Reasons for not transferring Zhaojin Group's interest in the Excluded Businesses to our Company

#### *Shandong Guoda Gold*

Our Directors believe that there exists limited conflict between Zhaojin Group's interest in Shandong Guoda Gold's smelting business and Zhaojin Group's interests in our business, on the basis that (i) smelting is not our main business, and (ii) our own smelting operations at Jinchiling Gold Mine have sufficiently satisfied our purposes. In addition, Zhaojin Group is only a passive investor in Shandong Guoda Gold with no board representation or management participation. Accordingly, our Directors do not consider it necessary for us to acquire Zhaojin Group's interest in Shandong Guoda Gold.

#### *Xixia Zhaojin, Tuoli Zhaojin and Min Tianhao*

Compared to our operating mines taken as a whole, these three gold mining companies have a very short operating history. In addition, there are title issues pertaining to the exploration and mining rights of these mines. For these reasons, our Directors consider that an acquisition of these mines at the present time would represent a higher than usual investment risk and would likely involve a diversion of management resources. In addition, given the relatively limited extent of mineral exploitation by the mines operated by these companies, it may not be possible to place a reasonable price on the acquisition of these three companies at present. Accordingly, our Directors consider that it is currently neither suitable nor beneficial for us to acquire Zhaojin Group's interest in these three companies.

#### *Option to acquire Excluded Businesses*

Under the non-competition agreement between Zhaojin Group and us, Zhaojin Group has granted us an option to purchase its interests in all or any of the above Excluded Businesses. The option is exercisable by us at any time during the term of the non-competition agreement, which commences on the Listing Date and terminates upon the earlier of Zhaojin Group ceasing to be our controlling shareholder, or our Shares no longer being listed on the Stock Exchange. Accordingly, upon listing, when our Directors consider it beneficial for us to do so, such as when any title issues are resolved, when all necessary due diligence has been undertaken, or when the timing is considered appropriate or beneficial to us, we may exercise our option to purchase Zhaojin Group's equity interest in all or any of the Excluded Businesses, subject to compliance with all the applicable PRC laws, such as laws relating to the transfer of State-owned assets, and the approvals of relevant government authorities and our independent shareholders. Should we decide not to exercise such option, we have the right to request that Zhaojin Group dispose of its interests in these gold mining companies to independent third parties under the non-competition agreement.

With respect to Zhaojin Group's exploration and mining permits, as well as its interests in Xixia Zhaojin, Tuoli Zhaojin and Gansu Tianhao, we currently intend to exercise our option within three years after our Listing Date.

### **Information Disclosure and Investor Relation Management**

The Company strictly complies with the requirements on information disclosure under the Listing Rules and discloses to the Shareholders and related parties all information that is required to be disclosed to the best knowledge of the Company on a timely and fair basis.

The secretary to the Board/company secretary is responsible for information disclosure of the Company and reception of visits of its Shareholders and investors. The Company had formulated Information Disclosure Management System to ensure information disclosure on an open, fair and impartial basis and to improve the Company's transparency.

In 2006, the Company's management have received many visiting investors and maintained close contact and good communication with investors. The Company provides detailed information to Shareholders in the Investor Relations section on its website ([www.zhaojin.com.cn](http://www.zhaojin.com.cn)).

### **Other Concerned Parties**

The Company is committed to providing satisfactory services to customers and room for development to employees. The Company is committed to improve its profitability while maintaining its honesty and faithfulness with a high sense of responsibility toward its Shareholders, investors, employees, customers, suppliers and the society. Meanwhile, the Company oversees and develops its businesses in compliance with local rules and environmental protection regulations to improve its corporate governance, and actively participates in public welfare and environmental protection.