

Report of the Directors

The Directors of the Company (“Directors”) hereby submit the Report of the Directors and the audited financial statements of the Company and the Group for the year ended 31 December 2005.

PRIMARY BUSINESS

The Company is principally engaged in the exploration, mining, processing, refining and sale of gold and non-ferrous metals and other mineral resources in the PRC, and is a large mining conglomerate primarily engaged in the production of gold and non-ferrous metals. The Company produces mainly gold bullions of 99.99% and 99.95% purity under the “ZIJIN” brand, and copper cathodes, copper concentrates and iron concentrates. Currently, the sales of gold products represent over 81.47% of total revenue.

Details regarding the key business of the Company’s subsidiaries and associates are set out in notes 19 and 20 to the financial statements, respectively.

OPERATING RESULTS

The operating results of the Group for the year ended 31 December 2005 are set out in the financial statements on page 55 to 130.

INVESTMENT IN SUBSIDIARIES

1. In January 2005, Zijin (International) Mining Company Limited (“Zijin International”) was formed in Beijing and its registered capital is RMB50 million. The Company invested RMB47.5 million and holds 95% shareholding of Zijin International. Xiamen Zijin Science and Technology Company Limited (“Xiamen Zijin”) invested 2.5 million and holds 5% shareholding of Zijin International. Zijin International mainly participates in domestic and international investments and risk explorations.
2. In August 2005, the restructured Guangdong Xinyi Dongkeng Gold Mine Company Limited’s registered capital is RMB20 million. The Company further invested RMB5.2 million and the accumulated investment is RMB16 million representing 80% shareholding of Guangdong Xinyi Dongkeng Gold Mine Company Limited. In November 2005, the restructured Xinyi Baoyuan Mining’s registered capital is RMB80 million. The Company further invested RMB20 million and the accumulated investment is RMB64 million representing 80% shareholding of Xinyi Baoyuan Mining. The Company plans to combine these two enterprises to form Guangdong Xinyi Zijin Mining Company Limited which will benefit the unified the Company’s investment and construction in Guangdong Xinyi area.

3. In February 2005, the Company formed Liaoning Zijin Mining Company Limited (“Liaoning Zijin”) in Shenyang and its registered capital is RMB100 million. The Company invested RMB75 million and holds 75% shareholding of Liaoning Zijin. Liaoning Central City Economy and Technology Development Company Limited invested RMB20 million and holds 20% shareholding of Liaoning Zijin. Shenyang Biyuetan Hotel Company Limited invested RMB5 million and holds 5% shareholding of Liaoning Zijin. The shareholders totally paid RMB20 million in first stage injection, in which the Company paid RMB15 million according to the shareholding. Liaoning Zijin mainly carries out mining investments and risk explorations in North-East Area in the PRC.
4. In February 2005, Songpan Zijin Industrial and Trading Company Limited was formed and its registered capital was RMB10 million. The Company invested RMB5.1 million and holds 51% shareholding. Sichuan XiBei Geology Team holds 49% shareholding. The company mainly carries out mining business in Songpan Gold Mine in Sichuan.
5. On 20 June 2005, Fujian Zijin Investment Company Limited and Gold Fields Fujian BVI Ltd. invested a company namely Fujian Jintian Zijin Mining Company Limited. Its capital is US\$833,000. Fujian Zijin Investment Company Limited invested US\$333,000 and holds 40% shareholding of Fujian Jintian Zijin Mining Company Limited and Gold Fields Fujian BVI Ltd. invested US\$500,000 and holds 60% shareholding of Fujian Jintian Zijin Mining Company Limited. Fujian Jintian Zijin Mining Company Limited mainly carries out mines exploration and mining business in Fujian province.
6. In July and August of 2005, the Company used RMB66.25 million to acquire 53% shareholding of Yunnan Huaxi Mining Company Ltd. from Jiujiang South Asia Investment Management Company Limited, Jiujiang Huiming Enterprise Development Company Limited, Beijing Fengde Investment Consultant Ltd., and Xiamen Qiaoxing Investment Management Ltd.
7. On 17 June 2005, the Group announced and proposed to establish Henan Jinda Mining Company Limited with an independent third party, and the company has been formed on 20 July 2005. Its registered capital is RMB229.87 million. The Group invested RMB129.88 million and holds 56.5% shareholding of Henan Jinda. The Third Geology Survey Team of Henan Bureau of Exploration & Development of Geology & Mineral Resource injected RMB99.99 million by an evaluated mining right and holds 43.5% shareholding of Henan Jinda. The company mainly carries out exploration and development of molybdenum in Tangjiaping, Shangcheng, Henan.
8. On 31 October 2005, the Company injected RMB70 million into Luoyang Yinhui Gold Refinery Company Limited (“Luoyang Yinhui”) for 70% shareholding. The other shareholder, Mr. Ma Yinshuan, contributed RMB30 million into Luoyang Yinhui for 30% shareholding. The registered capital of Luoyang Yinhui is RMB100 million as at 31 December 2005. The company is mainly engaged in gold refining and processing, with an annual capacity of 30 tonnes of gold.

INVESTMENT IN ASSOCIATE COMPANIES

1. On 6 April 2005, the Company invested 243.75 million to form Tibet Yulong Copper Joint Stock Company Limited (“Tibet Yulong”) and holds 39% shareholding of the company. The registered Capital of the company is RMB625 million. The Western Mining Company Limited invested RMB256.25 million and holds 41% shareholding of Tibet Yulong. Tibet Autonomous Region Bureau of Exploration & Development of Geology & Mineral Resource No. 6 Geology Team injected RMB62.5 million by evaluated assets and holds 10% shareholding of Tibet Yulong. Stated-owned Properties Management Company of Changdu District, Tibet Autonomous Region injected RMB50 million by evaluated assets and holds 8% shareholding of Tibet Yulong. Tibet Autonomous Region Mining Development Company Limited injected RMB12.5 million by audited assets and holds 2% shareholding of Tibet Yulong. Tibet Yulong mainly carries out mining business in Yulong Copper Mine which has 6.5 million tonnes estimated reserve of copper.
2. On 24 May 2005, Fujian Zijin Investment Company Limited invested RMB22.8 million to acquire 38% shareholding of Wuping Zijin Hydro-electricity Company Limited (“Wuping Zijin”) and its registered capital is RMB60 million. Shanghang County Ting River Hydro Power Company Limited invested RMB25.2 million and holds 42% shareholding of Wuping Zijin. Shanghang County Daguangming Power Group Company Limited invested RMB12 million and holds 20% shareholding of Wuping Zijin. The company invested in Wuping Zijin which mainly carries out power generation business (50,000kv capacity).
3. On 8 September, 2005, Gold Mountains (HK) International Mining Company Limited, a wholly-owned subsidiary of the Company, made a cash contribution of HK\$5,000 to participate in Kingbao Mining Limited, representing 50% shareholding in the company. The registered capital of the company was HK\$10,000. The other shareholder is Wanbao Mining Company Limited, which contributed HK\$5,000, representing 50% shareholding. Since its establishment, the company has been engaged in the risk prospecting of a nickel mine in Myanmar.
4. On 27 November, 2005, Fujian Zijin Investment Company Limited (“Zijin Investment”), a subsidiary of the Company, contributed RMB16 million in cash in Fujian Jinyi Copper Company Limited, which has a registered capital of RMB40 million. Other shareholders included: Master Achieve Enterprise Ltd. contributed RMB18 million, representing 45% shareholding in the company. Minxi Xinghang State-owned Assets Investment Operation Company Limited contributed RMB6 million in cash, representing 15% shareholding. Since its establishment, the company mainly invested RMB80 million in the construction of a high functional copper pipe and pipe material production line of annual capacity of 10,000 tonnes.

DISPOSAL OF EQUITY INTERESTS IN SUBSIDIARIES AND DISPOSAL OF ASSETS

1. On 22 September, 2005, Xiamen Zijin entered into a shareholding transfer contract with Mr. Li Bin, pursuant to which Xiamen Zijin transferred its 51% shareholding in Sichuan Shimian Zijin Platinum Industry Company Limited (“Zijin Platinum”) to Li Bin at a consideration of RMB1.1 million. Upon the completion of the transfer, Xiamen Zijin no longer have any shareholding in Zijin Platinum. Loss incurred under the above shareholder transfer was approximately RMB4.14 million.
2. On 26 November 2005, Zijin Investment entered into a share transfer contract to sell 60% shareholding of Huangping Xinda Mining Industry Company Limited to Mr. Zhu Minghai for a consideration of RMB3.006 million and it incurred a loss about RMB0.438 million.
3. Liaoning Zijin was formed in Shenyang in February 2005. Due to the loss of the target project, the company was deregistered in September 2005. The Company collected RMB14.7 million contributed capital from this investment.

FINAL DIVIDEND

As audited by Ernst & Young, the Group’s net profit for the year ended 31 December 2005 prepared under International Financial Reporting Standards (“IFRSs”) and PRC GAAP was RMB703,637,000 and RMB701,468,000, respectively. The Board of Directors has proposed (subject to the approval of the Shareholders in the forthcoming annual general meeting) to pay dividends of RMB0.08 per Share in cash on the basis of 5,256,523,640 Shares in issue of the Company as at the end of 2005. The payout ratio is 59.76% calculated based on the net profit under IFRSs.

CAPITAL CONVERSION

Apart from the above proposal for the declaration of a final dividend, on 29 March, 2005, the Board of Directors also proposed to convert a sum of RMB525,652,364 in the Company’s surplus reserve fund into 5,256,523,640 shares of a nominal value of RMB0.1 each. On the basis of the issued share capital of 5,256,523,640 shares as at the end of 2005, shareholders will be offered additional 10 ordinary shares for each 10 ordinary shares they hold.

The H share register of the Company will be closed from 18 April 2006 to 17 May 2006 (both days inclusive). Shareholders whose names appear on the H Share register of members of the Company at the close of business on Tuesday, 18 April 2006 (being the record date) will be entitled to attend the Annual General Meeting to be held by the Company on Thursday, 18 May, 2006 at Shanghang, and to receive the final dividends and the additional new Ordinary Shares to be issued pursuant to the capital conversion plan.

For the distribution of dividends, dividends for holders of Domestic Shares will be distributed and paid in RMB, while dividends for H Shares will be declared in RMB but paid in Hong Kong dollars (conversion of RMB into HK\$ shall be calculated on the average price of the medium prices of the conversion of RMB into HK\$ announced by Bank of China one calendar week preceding 18 May 2006).

The proposed distribution of final dividends and capital conversion are subject to approval by shareholders at the Annual General Meeting to be held on 18 May 2006 (Thursday).

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RESERVES

Details of movements in the reserves of the Company and the Group for the year ended 31 December 2005 are set out in note 37 to the financial statements and in the consolidated statement of changes in equity.

DISTRIBUTABLE RESERVES

According to the articles of association of the Company, the reserves available for distribution are based on the lower of the Company's profits determined under PRC general accepted accounting standards and regulations and IFRS.

In accordance with the Company Law of the PRC, profit after tax can be distributed as dividends after the transfer to the statutory surplus reserve and public welfare fund. As at 31 December 2005, the Company's reserves available for distribution (before proposed final dividend of RMB420,522,000) were approximately RMB526,427,000 (2004: RMB365,415,000 (restated)).

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Company and the Group for the year ended 31 December 2005 are set out in note 13 to the financial statements.

SHARE CAPITAL

Details of the movements in the share capital of the Company are set out in note 36 to the financial statements.

DONATIONS

During the year 2005, donations made by the Group and the Company was RMB30.97 million and RMB7.08 million, respectively.

BANK LOANS

Details of the Group's bank loans are set out in note 31 to the financial statements.

TAXATION

The corporate income tax rate of the Company is 33%, details of which are set out in note 9 to the financial statements.

PRE-EMPTIVE RIGHTS

According to the Articles of Association of the Company and the laws of the PRC, there are no provisions for limited pre-emptive rights requiring the Company to offer new shares to its existing shareholders in proportion to their shareholdings.

FINANCIAL HIGHLIGHTS

The financial highlights of the Group are set out in pages 4 to 5 of this annual report.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

On 23 June 2005, the Company issued 2,628,261,820 new shares by transferring the surplus reserve fund. Of these new shares, 801,088,000 H Shares commenced its listing on the Main Board of the Stock Exchange of Hong Kong Limited ("Stock Exchange") on 27 June 2005. Details regarding the issue of new Shares are set out in note 36 to the financial statements.

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities as of 31 December 2005.

SHARE OPTION SCHEME

The Company has adopted the Share Option Scheme on 28 June 2003.

As at the date of this report, the Company has not granted or agree to grant any option to its Directors or Supervisors or to the employees of the Company or its subsidiaries.

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MAJOR SUPPLIERS AND CUSTOMERS

Transactions of the Company's gold products were conducted and settled through the Shanghai Gold Exchange. Information about the ultimate customer is unknown.

The Company's total purchases from the five largest suppliers and the largest supplier amounted to RMB99.38 million and RMB34.31 million respectively, representing 50.68%, 17.5% of the total purchases, respectively. All transactions between the Company and the related suppliers were entered into under normal commercial terms.

As far as the Directors are aware, none of the Directors, Supervisors and their respective associates (as defined in the Listing Rules of the Stock Exchange ("Listing Rules")) has any interest in the above five largest suppliers in the year 2005.

SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

Each of the Directors and Supervisors has entered into a service contract with the Company respectively. All these contracts will be ended on 28 June, 2006.

Pursuant to article 92 of the Articles of Association, the terms for Directors will be for three years, (commencing from the date of its appointment or re-appointment) subject to re-appointment. Under the Company Law of the PRC, the term of appointment for supervisors are also for three years, and subject to re-appointment. Remuneration of Directors and Supervisors can be amended at Annual General Meetings.

Save as disclosed above, there are no service contracts (excluding contracts expiring or terminable by the Company within one year without payment of compensation other than statutory compensation) between the Company and any of the Directors or Supervisors.

TERMS OF DIRECTORS AND SUPERVISORS

During the year and up to the date of this report, the terms of the existing Directors and Supervisors are:

EXECUTIVE DIRECTORS:

TERMS

Chen Jinghe	3 years from his re-appointment on 28 June 2003
Liu Xiaochu	3 years from his re-appointment on 28 June 2003
Luo Yingnan	3 years from his re-appointment on 28 June 2003
Lan Fusheng	3 years from his re-appointment on 28 June 2003
Rao Yimin	3 years from his re-appointment on 28 June 2003

NON-EXECUTIVE DIRECTORS:

Ke Xiping	3 years from his re-appointment on 28 June 2003
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INDEPENDENT NON-EXECUTIVE DIRECTORS:

Yang Dali	3 years from his re-appointment on 28 June 2003
Yao Lizhong	3 years from his re-appointment on 28 June 2003
Loong Ping Kwan	3 years from his appointment on 15 August 2003

SUPERVISORS:

Zeng Qingxiang	3 years from his re-appointment on 28 June 2003
Xu Qiang	3 years from his re-appointment on 28 June 2003
Lan Liying	3 years from her re-appointment on 28 June 2003

BRIEF BIOGRAPHY OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Brief biography of directors, supervisors and senior management are set out in pages 17 to 21 in this report.

DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

Save for the service contracts of directors and supervisors as disclosed above, there were no contracts of significance to which the Company or its subsidiaries was a party and in which a director or supervisor of the Company had a material interest, either directly or indirectly, subsisting at the end of the year or at any time during the year.

Report of the Directors

INTERESTS AND SHORT POSITIONS OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVE IN THE ISSUED SHARES OF THE COMPANY

As at 31 December 2005, the interests and short positions of directors, supervisors and chief executive in the share capital of the Company or its associated corporations (as defined under Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, are as follows:

(a) Shareholdings of directors, supervisors or chief executive in the Company as at 31 December 2005:

Director	Number of Domestic Shares/amount of equity interests held	Nature of interests	Long/short positions	Proximate percentage of shareholding in such class of securities	Proximate percentage of shareholding in the registered capital
Ke Xiping	456,000,000 (note 1)	Company	Long	12.48%	8.67%
Chen Jinghe	20,000,000 (note 2)	Personal	Long	0.55%	0.38%

- (b) Shareholding of Directors, chief executive or supervisors in the Company's subsidiaries as at 31 December 2005:

Directors	Name of subsidiaries	Amount of equity interests held	Nature of interests	Long/short positions	Proximate percentage of shareholding in the registered capital
Chen Jinghe	Jiuzhaigou Zijin (note 3)	50,000 (note 4)	Personal	Long	0.13%
Liu Xiaochu	Jiuzhaigou Zijin	50,000 (note 4)	Personal	Long	0.13%
Luo Yingnan	Jiuzhaigou Zijin	50,000 (note 4)	Personal	Long	0.13%
Lan Fusheng	Jiuzhaigou Zijin	50,000 (note 4)	Personal	Long	0.13%
Rao Yimin	Jiuzhaigou Zijin	50,000 (note 4)	Personal	Long	0.13%
Zeng Qingxiang	Jiuzhaigou Zijin	50,000 (note 4)	Personal	Long	0.13%
Lan Liying	Jiuzhaigou Zijin	25,000 (note 5)	Personal	Long	0.06%

Notes:

- (1) Xiamen Hengxing Industrial Company Limited holds 190,000,000 Domestic Shares in the Company, and holds 49% shareholding in Fujian Xinhudu Engineering Company Limited (which is holding 266,000,000 Domestic Shares in the Company). Under Section 316 of the SFO, Xiamen Hengxing Industrial Company Limited is therefore interested in 456,000,000 Domestic Shares in the Company. Mr. Ke Xiping owns 73.21% interest in Xiamen Hengxing Industrial Company Limited. Under Section 316 of the SFO, Mr. Ke Xiping is regarded as being interested in such Shares.
- (2) On 12 July 2004, Fujian Xinhudu Department Store Company Limited and Shanghang County Jinshan Trading Company Limited, the shareholders of the Company, agreed to transfer 4,000,000 domestic shares and 6,000,000 domestic shares they held, to Mr. Chen Jinghe (a Director) respectively. (In June 2005, the Company issued bonus shares at a proportion of 10:10. Upon the share increment, Mr. Chen Jinghe is holding 20,000,000 Shares in the Company). The above share transfer has already been registered with the Domestic Share Trust, and report of interest has been reported to the Stock Exchange.

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- (3) Sichuan Jiuzhaigou Zijin Mining Company Limited (“Jiuzhaigou Zijin”) is a subsidiary in which the Company beneficially owns 60%.
- (4) The Committee of Labour Union of the Company owns 15% of the total registered capital of Jiuzhaigou Zijin on behalf of approximately 830 members. Among which, it holds an equity interest of RMB50,000 as an agent for and on behalf of each of Mr. Chen Jinghe, Mr. Liu Xiaochu, Mr. Luo Yingnan, Mr. Lan Fusheng, Mr. Rao Yimin and Mr. Zeng Qingxiang.
- (5) The Committee of Labour Union of the Company owns 15% of the total registered capital of Jiuzhaigou Zijin on behalf of approximately 830 members. Among which, it holds an equity interest of RMB25,000 as an agent for and on behalf of Ms. Lan Liying.

Save as disclosed above, none of the Directors, supervisors and the chief executive or their associates has any interest in the securities of the Company or its associated company (as defined in the SFO) during the year. None of the directors, supervisors and the chief executive or their spouse or children under the age of 18 years is holding any option to subscribe securities of the Company, or has exercised any such option.

Save as disclosed above, no arrangement has been entered into between the Company or its holding company or its subsidiaries during any time in the year, which will allow the Directors, supervisors or chief executive of the Company to be benefited by acquiring the shares or debentures of the Company or other body corporates.

SHAREHOLDING STRUCTURE

1. Change of issued shares

On 31 May 2005, the proposal of “Conversion of Reserve Funds into Capital” was passed in the AGM of 2004. Based on 2,628,261,820 Shares in issue by the end of 2004, the Company issued new shares to the shareholders on 10 to 10 basis at nominal value of RMB0.1 each.

The distribution of new shares was completed on 23 June 2005 and the new H Shares were started to trade on 27 June 2005 on the Stock Exchange.

As at 31 December 2005, the Company issued 5,256,523,640 ordinary shares at nominal value of RMB0.1 each.

	31 December 2005	31 December 2004
Domestic Shares	3,654,347,640	1,827,173,820
H Shares	1,602,176,000	801,088,000
Total Shares	5,256,523,640	2,628,261,820

Unit: share

2. The Status of Major Shareholders

As at 31 December, 2005, the Company has a total of 993 shareholders, of which 984 are holders of H Shares and 9 are holders of Domestic Shares.

The shareholdings of the Company's top ten shareholders as at 31 December, 2004 are as follows:

Shareholders' Names	Class of Shares	Number of Shares held	Proximate percentage of shareholding in the registered capital
1. Minxi Xinghang State-owned Assets Investment Company Limited	Domestic Shares	1,684,360,848	32.04%
2. HKSCC Nominees Limited (Note 1)	H Shares	1,590,253,600	30.25%
3. Xinhua Industrial Company Limited (Note 2)	Domestic Shares	691,600,000	13.16%
4. Shanghang County Jinshan Trading Company Limited	Domestic Shares	672,380,000	12.79%
5. Fujian Xinhua Engineering Company Limited (Note 2)	Domestic Shares	266,000,000	5.06%
6. Xiamen Hengxing Industrial Company Limited (Note 3)	Domestic Shares	190,000,000	3.61%
7. Fujian Gold Group Company Limited	Domestic Shares	60,286,084	1.15%
8. Fujian Xinhua Department Store Company Limited (Note 2)	Domestic Shares	57,474,000	1.09%
9. Chen Jinghe	Domestic Shares	20,000,000	0.38%
10. Fujian Minxi Geologist	Domestic Shares	12,246,708	0.23%

Notes:

- (1) HKSCC Nominees Limited is holding 1,590,253,600 H Shares in the Company as a nominee, representing 30.25% of the Company's Shares in issue. HKSCC Nominees Limited is a member of the Central Clearing and Settlement System, which carries out securities registration and trust business for customers.
- (2) Xinhua Industrial Company Limited, Fujian Xinhua Engineering Company Limited and Fujian Xinhua Department Store Company Limited are connected with each other. Xinhua Industrial Company Limited holds 51% in Fujian Xinhua Engineering Company Limited and holds 64.54% in Fujian Xinhua Department Store Company Limited.
- (3) Xiamen Hengxing Industrial Company Limited holds 49% in Fujian Xinhua Engineering Company Limited.

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SUBSTANTIAL SHAREHOLDERS

So far as the Directors are aware, as at 31 December 2005, the interests and short positions of substantial shareholders (other than directors, supervisors and the chief executives of the Company) 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:

Names of shareholders	Class of shares	Number of Shares/equity interest held	Proximate percentage of shareholding in the registered of capital	Proximate percentage of shareholding in Domestic Shares	Proximate percentage of shareholding in H Shares	Long/Short Position
Minxi Xinghang State-owned Assets Investment Company Limited	Domestic Share	1,684,360,848	32.04%	46.09%	—	Long
Xinhudu Industrial Company Limited	Domestic Shares	1,015,074,000 (Note 1)	19.31%	27.78%	—	Long
Chen Fashu	Domestic Shares	1,015,074,000 (Note 2)	19.31%	27.78%	—	Long
Shanghang County Jinshan Trading Company Limited	Domestic Shares	672,380,000	12.79%	18.40%	—	Long
Xiamen Hengxing Industrial Company Limited	Domestic Shares	456,000,000 (Note 3)	8.67%	12.48%	—	Long
Ke Xiping	Domestic Shares	456,000,000 (Note 4)	8.67%	12.48%	—	Long
Fujian Xinhudu Engineering Company Limited	Domestic Shares	266,000,000	5.06%	7.28%	—	Long
Merrill Lynch & Company Inc	H Shares	452,147,076	8.60%	—	28.22%	Long
Baring Asset Management	H Shares	80,256,000 (Note 6)	1.53%	—	5.01%	Long

Notes:

- (1) Xinhua Industrial Company Limited holds 691,600,000 Domestic Shares in the Company, and holds 51% in Fujian Xinhua Engineering Company Limited (which holds 266,000,000 Domestic Shares in the Company), and holds 64.54% in Fujian Xinhua Department Store Company Limited (which holds 57,474,000 Domestic Shares in the Company). Therefore, under Section 316 of the SFO, Xinhua Industrial Company Limited is interested in 1,015,074,000 Domestic Shares in the Company.
- (2) Mr. Chen Fashu holds 73.56% interests in the issued share capital of Xinhua Industrial Company Limited, therefore, under Section 316 of the SFO, Mr. Chen Fashu is deemed to be interested in 1,015,074,000 Domestic Shares in the Company.
- (3) Xiamen Hengxing Industrial Company Limited holds 190,000,000 Domestic Shares in the Company, and holds 49% in Fujian Xinhua Engineering Company Limited (which holds 266,000,000 Domestic Shares in the Company). Under Section 316 of the SFO, Xiamen Hengxing Industrial Company Limited is therefore interested in 456,000,000 Domestic Shares in the Company.
- (4) Mr. Ke Xiping holds 73.21% interests in the issued share capital of Xiamen Hengxing Industry Company Limited. Under Section 316 of the SFO, Mr. Ke Xiping is deemed to be interested in 456,000,000 Domestic Shares in the Company.
- (5) The 452,147,076 H Shares (long positions), representing 28.22% of the Company's total issued H Shares, are being held by Merrill Lynch Company Inc., of which 450,865,080 H Shares are held by the subsidiaries of Merrill Lynch Company Inc., including Merrill Lynch Group, Inc., ML Invest. Inc., ML Invest Holding Ltd., and Merrill Lynch Investment Managers Group Ltd., while 1,281,996 H Shares are being held by the subsidiaries of Merrill Lynch Company Inc., including Merrill Lynch Investment Managers Ltd., Merrill Lynch Int'l Incorporated, Merrill Lynch Int'l Holdings, Merrill Lynch Europe Plc., Merrill Lynch Europe Intermediate Holdings, Merrill Lynch Holdings Limited, ML UK Capital Holdings and Merrill Lynch International.
- (6) The 80,256,000 H Shares (long positions), representing 5.01% of the Company's total issued H Shares, are being held by Baring Asset Management, which are being held by the subsidiaries of Baring Asset Management, including Baring International Investment Management Limited, Baring Asset Management UK Holdings Limited, Baring Asset Management (Asia) Holdings Limited and Baring Asset Management (Asia) Limited.

Save as disclosed above, as far as the Directors, Supervisors and chief executive are aware, as at 31 December 2005, there are no interest or short position of other parties (other than Directors, Supervisors, the chief executive of the Company or senior management) in the shares or related securities of the Company which will fall to be disclosed to the Company and the Stock Exchange under provisions of Divisions 2 and 3 of Part XV of the SFO, and which will be required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein, or are the substantial shareholders (as defined in the Listing Rules) of the Company.

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CONNECTED TRANSACTIONS

Related party transactions entered into by the Group for the year ended 31 December 2005 are set out in note 39 to the financial statements. Certain of these transactions constitute connected transactions/ongoing connected transactions under the Listing Rules at the time when such transactions were entered into, and which are required to be disclosed under rule 14A.45 of the Listing Rules. Such transactions/ongoing connected transactions are summarised as follows:

Contracted Parties	Relationship with the Company	Contract Date	Nature of Transaction	Combined Consideration (RMB'000)		Under the applicable Listing Rules at the time
				2005	2004	
1. Services provided by Connected Parties						
Fujian Xinhua Engineering Company Limited	A shareholder of the Company	November 2002	Stripping works	87,434	86,226	Rule 14A.35 (note 1 and 1A)
Fujian Shanghang Hongyang Mine Engineering Company Limited	A shareholder of two subsidiaries	April 2002 April 2003	Stripping works	75,820	67,526	Rule 14A.35 (note 1 and 1B)
Tibet Autonomous Region Geologic Minerals Exploration & Development Bureau Dire Geothermal Geologic Team	Tibet Jindi shareholder	December 2003	Geologic exploration services	0	2,500	Rule 14A.32 (note 2)
Fuyun Jinbao Transportation Company	Company controlled by a shareholder of Xinjiang Jinbao	September 2005	Transportation services	16,121	3,661	Rule 14A.32 (note 3)
2. Financial assistance provided to Connected Parties						
Hunchun Gold and Copper Mining Company Limited	A shareholder of Hunchun Zijin	December 2002	Loan	0	2,512	Rule 14A.66(2) (note 4)
3. Transfer of equity interests and assets to Connected Parties						
Fuyun Jinbao Transportation Company	Company controlled by a shareholder of Xinjiang Jinbao	July 2004	Transfer of facilities	0	5,000	Rule 14A.32 (note 2)
4. Acquisition of shareholding in the Group's subsidiary held by a connected party						
Hunchun Gold and Copper Mining Company Limited	A shareholder of Hunchun Zijin	June 2005	Acquisition of shareholding in Hunchun Zijin	13,688	0	14A.32 (note 2)

Save as disclosed above, the disclosed related party transactions in the auditor report were not the discloseable connected transactions defined by Chapter 14A in the Listing Rules.

Note 1: Non-exempt connected transaction which has applied for a waiver. The Directors confirmed that: 1. such connected transactions has been or will continue to be conducted under normal and general business operations of the Group; 2. under normal commercial terms which are fair and reasonable and in the overall interests of shareholders; 3. Pursuant to rule 14A.35 of the Listing Rules, it will be subject to reporting, announcement and independent shareholders' approval requirements.

1A: For the three financial years ending 31 December 2005, the annual cap being the total value of transaction shall not exceed the higher of 20.9% of the total costs of sales of the Group or RMB105,000,000. The annual cap has been determined by reference to the Group's historical figures based on the relevant contract agreements, and on the possible increase in the Group's production scope in future.

1B: For the three financial years ending 31 December 2005, the annual cap being the total value of transaction shall not exceed the higher of 15.6% of the total costs of sales of the Group or RMB80,000,000. The annual cap has been determined by reference to the Group's historical figures based on the relevant contract agreements, and on the possible increase in the Group's production scope in future.

Note 2: Pursuant to Rule 14A.32 of the Listing Rules, such connected transactions have been conducted on normal commercial terms where each of the percentage ratios based on scale testing was less than 2.5%. It will be subject to reporting and announcement requirements, but can be exempted from obtaining independent shareholders' approval.

Note 3: Pursuant to Rule 14A.34 of the Listing Rules, such connected transactions have been conducted on normal commercial terms where each of the percentage ratios based on scale testing was less than 2.5%. It will be subject to reporting and announcement requirements, but can be exempted from obtaining independent shareholders' approval.

Note 4: Non-exempt connected transaction which has applied for a waiver from independent shareholders' approval requirement. It will be subject to reporting and announcement requirements but can be exempted from obtaining independent shareholders' approval. For the three financial years ending 31 December 2005, the relevant loan facilities shall not exceed the amounts of the continuation or renewal of the existing loan facilities (being RMB3,500,000). Such annual cap has been determined with reference to the relevant agreements.

In respect of the connected transactions mentioned in note 1 and note 4, the Company has obtained the transaction waivers for the three financial years ended 31 December 2005. The details of the transactions mentioned above shall be disclosed in the annual reports and accounts of the Company in compliance with the relevant requirements of the Listing Rules.

Report of the Directors

Accordingly, it is confirmed by the Directors that :

- (a) The connected parties in the above connected transactions have undertaken to the Company and the Stock Exchange to provide adequate access for the inspection of the relevant books and records, in order to review the above connected transactions and prepare the relevant reports.
- (b) The Company has undertaken to the Stock Exchange, if it is aware or has reasons to believe that the Independent Non-executive Directors and/or auditors are unable to confirm that the relevant transactions comply with the Listing Rules and the restrictions under the waiver conditions, it shall immediately notify the Stock Exchange. The Company may have to comply with the disclosure and independent shareholders' approval obligation, or make correction based on the instructions of the Listing Division of the Stock Exchange.
- (c) Independent directors of the Group has confirmed that all the connected transactions of the Group or its subsidiaries involved in the year 2005 were:
 - 1. entered into in the ordinary and usual course of business of the Group or its subsidiaries;
 - 2. entered into on normal commercial terms; or where no comparisons are available, then under terms which are fair and reasonable to the shareholders of the Company;
 - 3. entered into under the terms of the agreement governing such transactions; or where no such agreement is available, under terms not inferior from those available from or to independent third parties.
- (d) The Group's auditors have reviewed the transactions (details of which are set out in note 39 to the financial statements), and confirmed to the Board that:
 - 1. The transactions have been approved by the Board;
 - 2. Terms of the agreement of the relevant transactions are attached to the connected transactions;
 - 3. The aggregated amounts of the transactions have not exceeded the respective annual caps as set out in Note 1 and Note 4 above.

Except for Mr. Liu Xiaochu and Mr. Ke Xiping who have interests in the connected transaction between the Company and Fujian Xinhudu Engineering Company Limited, the other directors do not have any interests in the major transactions.

MANAGEMENT CONTRACTS

There was no management and administrative contracts relating to the business as a whole or any principal operations of the Company entered into by the Company or existing for the year ended 31 December 2005.

MAJOR LITIGATION, ARBITRATION

The Company has no major litigation, arbitration during the reporting period.

ACQUISITIONS, DISPOSALS AND MERGERS

The Company has no acquisitions, sale or merger of assets during the reporting period.

AMENDMENTS TO THE ARTICLES OF ASSOCIATION

At the 2004 annual general meeting of the Company held on 31 May 2005, resolutions on amendments of the Articles of Association of the Company were passed. Details of the amendments are set out in the Notice of Annual General Meeting sent to the shareholders on 7 April 2005 and the relevant announcement published on the Standard on the same date.

Relevant approval for the above amendments to the Articles of Association has obtained from the relevant authority on 21 June 2005.

AUDITORS

In the Annual General Meeting to be held, the Company will submit a resolution for the reappointment of Ernst & Young Hua Ming and Ernst & Young as the domestic and international auditors of the Company for the year 2006 respectively.

FUTURE TRANSACTIONS

As at 31 December 2005, the Group and the Company have entered future contracts to sell about 4,400 tonnes copper cathodes and the average price is RMB37,088 per tonne and the settlement dates range from May 2006 to November 2006. The Group and the Company have unrealised loss RMB10.287 million (2004: nil) by reference to the closing market price and the contract price as at 31 December 2005.

The Board of Directors (the "Board") noticed the consequence of the recent copper price trend to the hedging transaction, the Board will limit the hedging transaction volume at 30% of our mineral production and review the risk prudently and take necessary measures to minimise the risk.

Report of the Directors

POST BALANCE SHEET EVENTS

On 4 January 2006, Shanghang Jinshan Trading Company Limited, a shareholder of the Company, entered into an agreement for the transfer of 10,000,000 Domestic Shares it held to Mr. Chen Jinghe, the Chairman. The relevant share transfer has been registered with the Domestic Shares Trust, and also filed with the Stock Exchange.

Director	Number of Domestic Shares/Amount of equity interests held	Nature of interest	Long/short positions	Proximate percentage held in similar class of securities	Proximate percentage of shareholding in the registered capital
Chen Jinghe	10,000,000	Company	Long	0.27%	0.19%

On 15 March, 2006, Xiamen Hengxing Mining Company Limited, a shareholder of Guizhou Zijin Mining Company Limited (being a subsidiary of the Company) transferred 1,404,000 Shares it held in Guizhou Zijin to Xiamen Jinhuang Technology Consultant Company Limited. Xiamen Jinhuang Technology Consultant Company Limited is held as to 34% by Mr. Chen Jinghe, a Director, and as to 32.7% by his wife Mrs. Lai Jinlian. Mr. Chen Jinghe is accordingly deemed as being interested in such shares under Rule 316 of the SFO. The relevant share transfer has been registered with the Domestic Shares Trust, and also filed with the Stock Exchange.

Director	Name of subsidiary	Amount of equity interests held	Nature of interest	Long/short positions	Proximate percentage of shareholding in the registered capital
Chen Jinghe	Guizhou Zijin	1,404,000	Company	Long	2.34%

As at 31 March 2006, the Group and the Company have entered future contracts to sell about 9,575 tonnes copper cathodes and the average price is RMB40,996 per tonne and the settlement dates range from June 2006 to March 2007. As at 31 March 2006, the Group and the Company recorded a loss of RMB14,099,950 on the settlement of future contracts.

The details of the Group's other events after the balance sheet date are set out in note 44 to the financial statements.

On Behalf of the Board

Chen Jinghe

Chairman

Shanghang, Fujian, the PRC

29 March 2006