

Supervisors' Report

1. Meetings of the Supervisory Committee during the Reporting Period

In 2005, three meetings were held by the supervisory committee.

The sixth meeting of the first supervisory committee was held at the conference Room, 2/F of the registered office address on 21 May 2005, at which senior management of the Company presented their reports on the Company's operations in 2005. The financial statements for 2004, the budget proposal for 2005, the profit distribution proposal for 2004 and the audit report for 2004 issued by Peking Certified Public Accountants were approved of the meeting. Conclusions were drawn on the annual performance of the supervisory committee and the 2004 working report of the supervisory committee was considered and approved in the meeting for submission to the general meeting.

The seventh meeting of the first supervisory committee was held at the Conference Room, 2/F of the registered office address on 10 June 2005, at which the proposal for the amendments of staff allocation of the special committees under the Board was approved.

The first meeting of the 2nd supervisory committee was held at the Conference Room, 2/F of the registered office address on 24 September 2005, at which Mr. Gao Yang was elected to the office of the chairman of the Company's 2nd supervisory committee.

2. Independent Work Report of the Supervisory Committee

During the reporting period, the supervisors attended all Board meetings, and the chairman of the supervisory committee participated in the meetings for the general managers of the Company to listen to the work report of the Board and the management, as well as study and express opinions in respect of proposals regarding significant decision-making, major changes of staff and guarantees for funds.

i. Legal Compliance of the Company's Operations

In accordance with the relevant resolutions in general meetings, the Board conscientiously implemented various resolutions and its decision-making procedures were in compliance with the relevant requirements of the Company Law and the Articles of Association. It also set up rules and systems for internal control, project investment management, connected transactions, external guarantees management, materials purchase and engineering project tendering management. None of the directors, senior management and managers was aware of any violations of the laws, regulations and the articles of association or any act which prejudices the Company's interests.

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ii. **General Financial Position**

The Company's financial report for the year was jointly audited by KPMG (as international auditor) and Peking Certified Public Accountants (as PRC auditor), both of which issued an unqualified report thereon. During the year, the Company recorded a sales income and a net profit of RMB1,555,704,000 and RMB154,584,000 respectively, representing an increase of 28.8% as compared with the previous year.

iii. **Connected Transactions**

Upon review and examination, the Supervisory Committee was not aware of any act which would prejudice the Company's interest in the connected transactions of the Company and such connected transactions were fully disclosed pursuant to the requirements under Rule 14A.45 of the Listing Rules. The services provided by the connected persons in such connected transactions mainly include:

Lingbao Shuangxin Mining Industry Limited Liability Company ("Lingbao Shuangxin") (靈寶雙鑫礦業有限責任公司) supplied gold concentrates to our Company

For the three months ended 30 September 2005, Lingbao Shuangxin supplied gold concentrates to the Company. The total actual payments made by the Company to Lingbao Shuangxin amounted to approximately RMB7,679,000.

The purchase of gold concentrates by the Company from Lingbao Shuangxin in the year was driven by commercial reasons and was resulted from the Company's participation in bidding processes conducted by Lingbao Shuangxin during the year where bidding prices of the Company were accepted by Lingbao Shuangxin.

Lingbao Shuangxin is held as to 40% by Lingbao Guoshi Mining Limited Liability Company ("Lingbao Guoshi Mining") (靈寶郭氏礦業有限責任公司), a promoter of the Company. Lingbao Guoshi Mining held approximately 1.59% shareholding in the Company as at the date of this announcement. Accordingly, Lingbao Shuangxin is an associate of Lingbao Guoshi Mining and hence a connected person of the Company under the Listing Rules.

For details, please refer to the prospectus dated 30 December 2005 issued by the Company.

Continuing Connected Transactions

Lingbao Electric Company ("Lingbao Electric") (靈寶市電業總公司) supplies electricity to the Group

Lingbao Electric (also known as Lingbao Electric Bureau) supplies electricity to the Company on an ongoing basis, as the supply of electricity is essential to the operation of the business of the Group.

A total of seven electricity supply contracts have been entered into between Lingbao Electric and the Company for the supply of electricity to the Company. Three of such contracts were entered into on 20 November 2005, two on 10 February 2005, one on 10 August 2005 and the remaining one on 1 September 2005. The electricity supply contracts are valid for a period of three years. Under these electricity supply contracts, upon expiry of their respective terms, the contracts will continue to be in force upon written confirmation by both parties. Pursuant to these electricity supply contracts, the Company shall make payment to Lingbao Electric in full by the 25th day of each month.

Lingbao Electric is a company incorporated in the PRC and is a promoter of the Company. Lingbao Electric held approximately 2.27% shareholding in the Company as at the date of this announcement. Accordingly, Lingbao Electric is a connected person of the Company under the Listing Rules and the transactions with Lingbao Electric constitute continuing connected transactions.

For the year ended 31 December 2005, the annual electricity fee paid by the Group to Lingbao Electric amounted to RMB43,996,000. It is estimated that the annual electricity fee payable by the Group to Lingbao Electric for the two financial years ending 31 December 2006 and 2007 will not exceed approximately RMB63,700,000 and RMB67,600,000 respectively.

The Stock Exchange has granted a waiver to these continuing connected transactions from strict compliance with the announcement and independent shareholders' approval requirements pursuant to Rule 14A.42(3) of the Listing Rules.

For details, please refer to the prospectus dated 30 December 2005 issued by the Company.

iv. External Guarantees

The Company had no external guarantees in 2005.

v. Task performance of the Supervisory Committee during the Reporting Period

In 2005, the supervisory committee of the Company, to be accountable for the shareholders, has conscientiously performed their duties of supervision, ensured the full implementation of the resolutions in general meetings and safeguarded the interests of the shareholders in accordance with the Company Law, the Articles of Association and the relevant laws and regulations. It has also completed the tasks assigned under the Articles of Association and general meetings, benefiting the disciplined operations and sustainable development of the Company.