

Corporate Governance Report

The Company has adopted and complied with the entire requirements of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Listing Rules, except for the following deviations:

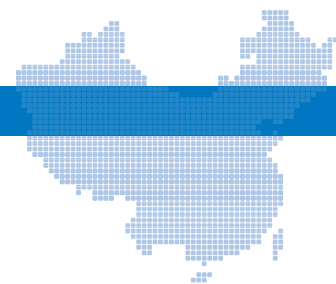
- (iv) The Chairman of the Board was unable to attend the annual general meeting of the Company but one of the Executive Directors of the Company was present to chair the meeting;
- (v) Non-Executive Directors did not have any fixed term of appointment, but they were subject to retirement by rotation and re-election at the annual general meeting at least once every three years in accordance with the provisions of the Articles of Association of the Company;
- (vi) The Chairman of the board of Directors and the Managing Director are not subject to the said retirement by rotation and re-election, and amendments have been proposed to be made to the Company's articles of association to be considered by the shareholders at the coming annual general meeting. If such amendments are approved, each director of the Company will be subject to the said requirement of retirement by rotation and re-election.

The status of the Company's compliance with the Code is set out below.

THE BOARD OF DIRECTORS

The Board of Directors (the "Board") is principally responsible for formulating strategies and supervising the operation and financial performance of the Group in order to achieve the Group's strategic objectives. Under the Chairman's leadership, the Board is responsible for formulating the objectives and business development plans, supervising the procedures established by the Group's management for identifying opportunities and risks, considering and deciding on any substantial acquisitions and disposals, as well as assuming responsibility for corporate governance. The duties of the Board exclude the management of daily operations for which the management is responsible. The management is responsible for the implementation of the strategies and plans adopted by the Board.

The Board is comprised of 10 members, namely (i) Mr. Hu You Lin (the Chairman), (ii) Mr. Gao Yi Shan, Mr. Dong Li Yong, Ms. Wang Pei Ping and Mr. Lu Wei Dong, David (Executive Directors), (iii) Mr. Pan Wan Qu, Mr. Shen Xiao Zhong (Non-executive Directors), and (iv) Mr. Cai Chuan Bing, Ms. Yu Chor Woon, Carol and Mr. Yu Zheng Hua (Independent Non-executive Directors). During the year, Mr. Shi Jun resigned from the office of non-executive director whilst Mr. Pan Wan Qu has been appointed as a non-executive director. Except for the Chairman of the Board and the Managing Director who are not subject to retirement by rotation and re-election at the annual general meeting at least once every three years, other directors, including non-executive directors, shall be subject to retirement by rotation and re-election at the annual general meeting regularly, and each director shall retire by rotation at least once every three years. The Company proposes to amend the articles of association to conform with the requirement under the code provision A.4.2. The appointment of non-executive directors is not subject to any fixed term but is subject to the said requirement of retirement by rotation and re-election at least once every three years.



The Board is required to ascertain whether there is any direct or indirect material relationships between a director and the Group in considering the independence of the Independent Non-executive Directors. The Board has received on an annual basis the confirmation of independence, which is prepared in accordance with the rule 3.13 of the Listing Rules, from each Independent Non-executive Directors, and is satisfied with their independence up to the date of this report.

The functions of the Chairman and the Managing Director are clearly segregated and are assumed by Mr. Hu You Lin and Mr. Gao Yi Shan respectively. The Chairman is responsible for leading and managing the Board as well as formulating the strategies of the Group. The Managing Director is responsible for formulating business objectives and budgets of the Group and implementing its strategies. The above separation can strengthen the accountability and independency of the two positions.

The Chairman, with the support of the Executive Directors and the Company Secretary, is dedicated to ensure that all the directors are properly briefed of the matters discussed at the Board meeting and receive adequate and reliable information on a timely basis. The Chairman also encourages the Directors to fully participate in and contribute to the functions of the Board. Any director any seek advice from independent professional during the course of duty at the cost of the Company.

If the Board considers that any major shareholder or director has any conflict of interests in any material proposal or transaction, when a Board meeting be convened and the Directors without material interests in the transaction shall attend the meeting to consider and decide on such matters. Directors who report to have any interests shall abstain from voting at the meeting.

During the year, the Board held meetings on a regular basis to discuss the overall strategy as well as the operation and financial performance of the Group and/ or departments. During the year, four full Board meetings were held. Except for Mr. Shi Jun and Mr. Pan Wan Qu who only attended two meetings (which meetings attended represented all the meetings held during the respective periods when they assumed office of directors) due to the resignation for the former and the new appointment for the latter during the year, and Mr. Dong Li Yong who was unable to present in person (but appointed Mr. Shi Jun as his proxy) at two of the four meetings (but who attended the other two meetings in person), all the other directors, including Mr. Hu You Lin, Mr. Gao Yi Shan, Ms. Wang Pei Ping, Mr. Lu Wei Dong, David, Mr. Shen Xiao Zhong, Mr. Cai Chuan Bing, Ms. Yu Chor Woon, Carol and Mr. Yu Zheng Hua attended all of the four Board meetings in person.

Before holding any regular Board meeting, the management provided the Board with all relevant information on the matters to be discussed and the reports on the operation and financial performance of the Group. The Company prepared a complete agenda and a report of the Board on a timely basis for dispatch to the directors and the Board committees. All matters dealt with at the Board meetings were properly recorded. The Company Secretary is responsible for preparing the minutes of the Board meeting, which will be circulated it to all directors.

SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules as its code in respect of securities transactions conducted by the Directors. Each of the directors of the Company has been provided with the Model Code after his initial appointment. In addition, a month prior to the tentative dates of holding of the Board meetings for the approval of the half-year and (as the case may be) annual results of the Company, the Company reminds the Directors not to deal with any securities of the Company until the results are published.

All the Directors in response to the specific enquiries made by the Company confirmed that they complied with the requirements set out in the Model Code throughout the year ended 31st December, 2005.

RESPONSIBILITIES OF THE DIRECTORS FOR THE FINANCIAL STATEMENTS

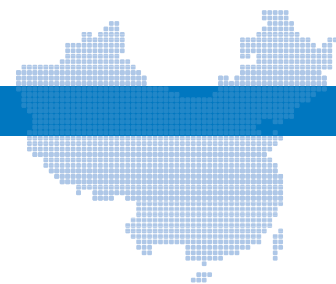
The Company's objective is to present a balanced, clear and comprehensible assessment on the financial statements. The Board acknowledges its responsibility for preparing the Company's financial statements which give a true and fair view on the affairs of the Group as well as the results and cash flow of the Company for each year. In preparing the financial statements for the year ended 31st December, 2005, the Directors selected and (save as disclosed therein) applied consistently the appropriate accounting policies, and made due, fair and reasonable judgments and assessments on a going concern basis.

After making appropriate enquiries, the Directors believe that the Group has adequate resources to continue its business in the foreseeable future, and therefore it is appropriate to adopt a going concern basis in preparing the financial statements.

COMPANY SECRETARY

The Directors may seek advice and services from the Company Secretary. The Company Secretary periodically reported to the Board the latest information on the matters of corporate governance and compliance. The Company Secretary is directly accountable to the Board and assists the Chairman to prepare the agenda of meeting and prepare and circulate the documents and/or materials of the Board to the Directors and the Board committees on a timely and complete basis, to ensure the compliance with the Board procedures, regulations and rules, as well as the proceedings of the Board being carried out efficiently.

The Company Secretary is also responsible for assisting the Group to conform with various continuing obligations provided under the Listing Rules, the Codes on Takeovers and Mergers and Share Repurchases, the Securities and Futures Ordinance, and the Companies Ordinance, such as the issuance and dispatch of reports, financial statements and interim reports within the period required under the Listing Rules.



Further, the Company Secretary provides advice to the Board on disclosures of interests in securities, connected transactions and price-sensitive information with an aim to help the Company comply with standards and disclosure requirements provided under the Listing Rules and in disclose (where required) such information in the annual report of the Board.

APPOINTMENT OF THE BOARD

The Board has set up two standing Board committees to assist the Board to conduct its duties and to monitor prescribed activities in respect of the Group. During the year, the Board ad hoc committees to deal with specific activities (such as approval of the final proofs of the annual report and certain detailed terms concerning grant options to subscribe for shares in the Company). Each committee has its terms of reference and the members of these committees are authorized to make decisions in matters within such terms. Most of the members of the standing committees are independent non-executive directors to enhance the independence of such committees.

(1) Audit Committee

The Audit Committee comprises of three members, namely Mr. Cai Chuan Bing (the Chairman), Ms. Yu Chor Woon and Mr. Shen Xiao Zhong. Mr. Cai Chuan Bing, an Independent Non-Executive Director of the Company, graduated from the Anhui Finance and Economics Institute, major in accounting. He is a member of the Chinese Institute of Certified Public Accountants, a senior accountant in the PRC, a member of the International Certified Internal Auditor Association, and the vice chairman of the China Internal Audit Society. He has extensive experience in audit and accounting. Ms. Yu Chor Woon, an Independent Non-Executive Director of the Company, graduated from the Hong Kong Polytechnic University, majoring in accounting. She is a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. Mr. Shen Xiao Zhong, a Non-Executive Director of the Company, graduated from Nanjing Finance and Economics University (formerly Nanjing Food Economic Institute) with a bachelor's degree in economics. Mr. Shen is a member of the Chinese Institute of Certified Public Accountants and a member of the International Certified Internal Auditor Association. The duties of the Audit Committee include the review of matters under the scope of audit, such as assessing of the overall effectiveness and efficiency of the internal control and risk management structure, reviewing the accounting principles and practices adopted by the Group and other financial reporting matters in order to ensure the completeness, accuracy and fairness of the financial statements, and also monitoring the relationships with the external auditor.

The Audit Committee is required to hold at least two meetings every year, one of which shall discuss with the external auditor on any matters of a concern as identified during the course of auditing. The Audit Committee reviews the interim and annual financial statements before submitting those financial statements to the Board. During the year, the Committee held two meetings with the management and the external auditor, reviewed the accounting principles and

practices adopted by the Group and the financial reports and connected transactions, and discussed with the management on the matters of auditing, internal control and financial reporting. All members of the Committee attended the meetings in person.

(2) Remuneration Committee

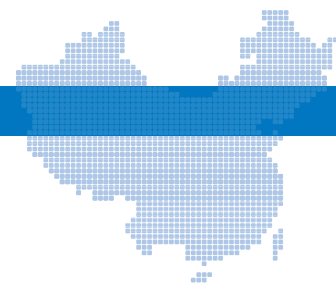
The Remuneration Committee comprises of three members, of which Mr. Yu Zheng Hua, an Independent Non-Executive Director, who assumes the post of Chairman of the Committee, and Mr. Cai Chuan Bing, an Independent Non-Executive Director, and Mr. Gao Yi Shan, an Executive Director, are members. The objective of the Committee is to review and formulate the policies and level of remuneration, the remuneration of the Directors and any other related matters. The Committee member who is also an Executive Director does not participate in the decision on his own remuneration.

The Committee is required to hold at least two meetings every year and their functions include determining the remunerations of the Executive Directors and the formulation of remuneration policies of the Group's management. The Committee held two meetings in 2005 and all its members attended the meetings. The matters discussed at such meetings included the roles and functions of the Committee, the procedure for its meetings and reporting, formulating the remuneration policies of the Executive Directors, assessing and reporting on the performance of the Directors, approving the terms of the Executive Directors' service contracts, discussing the existing remuneration system and performance approval system, remuneration levels as well as the grant of share options.

The Company has not established any nomination committee. As such, the functions of nomination committee are exercised by the Board, including reviewing the structure, size and members of the Board. The Company appoints new directors under formal procedures with adequate transparency. The Directors will identify suitable candidates to join the Board from time to time, and give recommendation to the Board. The principal criteria for selecting candidates are that the one can add value to the management through one's contribution to the strategic business, as well as the appointment of those who can strengthen and diversify the Board. In 2005, the Board nominated and appointed Mr. Pan Wan Qu as a non-executive director.

REMUNERATION OF THE AUDITORS

The Audit Committee and the Board have agreed to re-appoint the existing auditor as the Group's auditor, subject to the approval by shareholders at the general meeting. The auditor also declared its reporting responsibility in their report. For the year ended 31st December, 2005, the auditor received HK\$966,000 from the Group for the provision of regular financial statements audit service. In addition, the auditor of the Group also charged the Group \$300,000 for the provision of audit service on the acquisition of Yunnan Yuelong mining projects.



INTERNAL CONTROL

The Board dedicates to manage its risks and maintain a suitable and effective system of internal control, so as to safeguard the investments of shareholders and the assets of the Group. The Board, through the audit committee, conducts periodic review on the Group's efficiency of internal control systems, including financial, operation and compliance control and risk management procedures. Having noted the review report of the audit committee, the Board is satisfied that the Group has complied with the code provisions regarding internal control as set out in the Code during the period under review.

The internal control system is established on the basis of reasonably, but not absolutely, ensuring that the system is free from material misstatement or omission, and the purpose of which is to manage, instead of eliminate, the risk of the deficiency in the operating system, with an aim of achieving the Group's objectives.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

The Company encourages shareholders to attend the annual general meeting, which is convened by giving a notice of at least 21-days. All shareholders have legitimate rights to convene extraordinary general meetings and put forward an agenda for consideration by shareholders. The Chairman and/or directors shall attend meetings to respond to the questions about the Group's operations. Agenda items which are not directly connected shall be put forward by the Chairman of the meeting as a separate resolution at the general meetings and all material resolutions at the meetings shall be voted by way of poll.

In order to facilitate the effective communications with shareholders and investors, the Company strives to provide clear and complete information regarding the Group's performance in its annual reports, interim reports and announcements. The Company will continue to facilitate and improve investors relations and communications with potential shareholders.

On 30th December, 2005, which is the last trading day in 2005, the market capitalization of the Company amounted to about HK\$110 million (based on the issued capital of 200,000,000 shares and a closing price of HK\$0.55 per share) and the public float was 30%.

DIVIDEND POLICY

The Group's dividend policy is to provide a stable rate of dividend declaration having regard to the profitability, cash flow and business environment of the Group.

In view of its growth potential, the Group intends to maintain a healthy financial position and sufficient cash, so as to seize any expansion and investment opportunities which may arise.