

Report of the Supervisory Committee

To the Shareholders,

During the year, all members of the Supervisory Committee of the Company duly discharged their duties of supervision stipulated by various laws and regulations, which include the Companies Law, the Listing Rules and the Articles of Association. They fully realized the Supervisory Committee's monitoring function and attended all the Board meetings, general meetings, working meetings of the general manager and the major meetings of the Company in which decisions were made with due care and diligence. They strengthened the supervision on the level of compliance of the work of the Board and the operational decision of the management of operations, as well as the implementation by the Board of the resolutions approved by the general meetings. The Supervisors formed their opinions and recommendations through their inspection of the operation of the Company and of the implementation of the internal systems, as well as their efficient supervision of the fulfillment of duties by the Directors and the senior managements. In relations to the Company's financial position and the annual report, the Supervisors listened with due care to the report of the Chief Financial Officer on the Company's financial position and results, which they have duly reviewed and analyzed.

Set out below are the independent opinions of the Supervisory Committee to the Shareholders:

1. Level of Compliance of the Company

During the year, the Company operated in accordance with the requirements of the Companies Law, the Listing Rules, the Articles of Association and other applicable laws and regulations. It has established the internal control systems with continuous improvement. Its decision-making procedures are in compliance with laws. The Company strictly implemented the resolutions of the general meetings.

2. Performance of Duties by the Directors, General Manager and Other Senior Management

The Directors, General Manager and other senior management performed their duties to the Company diligently, prudently and faithfully. It is not aware of any action of abusing powers, in breach of the laws and regulations of the PRC and the Companies Law or of prejudicial to or against the interests of the Shareholders, the Company and its staff.

3. Report of the Board

The Supervisory Committee reviewed the report of the Board intended to be submitted to the forthcoming Annual General Meeting for approval with due care. It is of the opinion that the report gives an objective and true picture of the works performed by the Company during the year.

4. Financial Reporting

The Supervisory Committee reviewed the Company's financial systems and the audited annual financial report with due care and diligence. In the opinion of the Supervisory Committee, the financial report gives a true and fair view of the financial position, assets and operational affairs of the Company. It is not aware of any breach of laws, regulations or the financial systems of the Company. The financial report audited by the auditor gives an objective and fair view of the Group's financial position.

5. Connected Transaction

The Supervisory Committee is of the view that the connected transactions of the Company are normal and ordinary transactions, are fair and reasonable as far as the Shareholders are concerned, and do not prejudice the interests of the medium and minority shareholders and of the Company.

6. Litigations

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

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

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

The Supervisory Committee will fully perform its supervisory function on the decision-making, finance and the Directors and senior management of the Company in 2007. It will carry out its supervisory duties diligently and devote efforts to assist the Company to achieve its goals as well as to enhance the operational efficiency of the Company.

Hou Wen Shan
Chairman
The Supervisory Committee

22 March 2007