

Supervisors' Report

1. Meetings of the Supervisory Committee during the Reporting Period

In 2006, two supervisory committee meetings were held by the supervisory committee. The supervisory committee of the Company aimed at protecting the interest of shareholders and the Company, strictly complied with the requirements of Company Act, Articles of Association and related laws and regulations when fulfilling duties.

2. Independent Work Report of the Supervisory Committee

In 2006, the supervisory committee aimed at protecting the interest of the Company and the rights of medium and small shareholders in a down-to-earth manner, duly performed the duties of the supervisory committee, monitored aspects such as capital operations, operating management, financial status and fulfillment of obligations by senior management and expressed opinion comprehensively.

i. Legal Compliance of the Company's Operations

The Board of the Company conscientiously carried out various resolutions according to the relevant resolutions in general meetings, during which its decision-making procedures were in compliance with the relevant requirements of the Company Act and the Articles and Association. It also set up rules and

systems for internal control, project investment management, connected transactions, resources purchase and project tendering management. None of the officers, including directors and managers, were aware of any violations of the laws, regulations and articles of association or any act which would prejudice the Company's interests.

ii. Inspection of the Financial Status of the Company

In 2006, the Supervisory Committee reviewed the financial system and position of the Company and considered that the financial report for 2006 truly reflected its financial position and operating results. At the interim and end of 2006, Peking Certified Public Accountants in the PRC and KPMG outside of the PRC audited the Company's interim and year-end financial statements and issued unqualified auditor reports, which have been reviewed by the Supervisory Committee without opinion.

iii. Acquisition of Assets

For the year 2006, the Supervisory Committee deemed the consideration paid by the Company for the acquisition of assets as reasonable and was not aware of any insider dealing or any act which would prejudice the interests of the Company and the Shareholders.

iv. 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.

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 2006, the annual electricity fee paid by the Group to Lingbao Electric amounted to RMB50,191,000. It is estimated that the annual electricity fee payable by the Group to Lingbao Electric for the financial year ended 31 December 2007 will not exceed approximately RMB67,600,000.

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.

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v. External Guarantees

The Company had no external guarantees in 2006.

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

In 2006, 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.