

# Report of the Supervisory Committee

Dear Shareholders and their representatives,

Pursuant to the provisions in the Company law of the People's Republic of China and of the Articles of Association, the Supervisory Committee of Guangdong Nan Yue Logistics Company Limited (the "Company") exercises its supervisory functions in accordance to with the law. Based on the spirit of being responsible to the shareholders, the Supervisory Committee has faithfully performed its supervisory and inspection functions and provided a motivation for the regulated operation and development of the Company. Pursuant to the requirements of the law, regulations and the Articles of Association, I hereby present to shareholders the work report of the Supervisory Committee for the year 2006:

## I. MEETINGS OF THE SUPERVISORY COMMITTEE

1. On 17 April 2006, the third meeting of the second session of the Supervisory Committee was held, which was chaired by Mr. Wu Weijie, chairman of the Supervisory Committee. The meeting considered and approved the work report of the Supervisory Committee for 2005, and decided that the report be presented to the annual general meeting for consideration, which the resolution for changes of supervisors was voted down.
2. On 10 October 2006, an extraordinary meeting of the Supervisory Committee was held which heard the report on production by the operation team of the Company.
3. On 13 April 2007, the fourth meeting of the second session of the Supervisory Committee was held, which was chaired by Mr. Wu Weijie, chairman of the Supervisory Committee. The meeting considered and approved the work report of the Supervisory Committee for 2006, and decided that the report be presented to the annual general meeting of 2006 for consideration, and the meeting approved the resolution for the change of supervisory committee of the Second Session of Nan Yue Logistics Company Limited.

## II. WORK OF THE SUPERVISORY COMMITTEE DURING THE REPORT PERIOD

During the report period, the supervisors faithfully discharged their supervisory duties. The supervisors attended the Eighth and the Ninth Meeting of the Second Session of the Board meetings and the Tenth extraordinary meetings. They attended the annual general meeting of 2005 and had seriously supervised and inspected the procedures the Board meetings, the process of resolution, execution and implementation of the resolutions of the general meetings, the operation decisions of the management, the operation of the Company pursuant to the law, the operational behaviour of directors, managers and senior management and the connected transactions with the shareholders. In October 2006, the supervisors examined Guangdong Province Transportation Engineering Company Limited and Guangdong Southchina Logistics Enterprise Company Limited, subsidiaries of the controlling company, during which certain operational information and accounting evidence for 2005 and 2006 had been randomly selected for inspection.

## **Report of the Supervisory Committee**

The Supervisory Committee is of the view that:

1. During the report period, the decision making of the Company had followed the regulated procedures required by the law; that the Board was able to execute each of the resolutions and authorizations pursuant to the general meeting, and had faithfully safeguarded the interests of shareholders; however, the Board should enhance and ensure that the Supervisory Committee has the right to know for material decisions; the Company had improved the governance constitution and system according to the requirements of the Stock Exchange; the internal control of the Company is sound and the execution is effective.
2. The directors, managers and senior management of the Company have been able to faithfully discharge their duties according to the resolutions of the general meeting and have been devoted to their responsibilities and operating according to the law, have been honest and diligent, and the committee is not aware of any violation of the laws, regulations and the Articles of Association which will damage the interest of the Company and shareholders.
3. During the report period, the Company acquired the 30% of equity interest in Guangdong Fei Da Traffic Engineering Company held by Guangdong Provincial Expressway Company Limited in a open competitive bidding at the Guangzhou Enterprises Mergers and Acquisitions Services. Although this was a connected transaction, by bidding in the open market, no insider dealing was found and neither the interest of shareholders had been damaged, nor was there any loss of assets of the Company.
4. During the report period, the Company contributed a sum of RMB20 million for establishment of the Southern United Assets and Equity Exchange Company Limited, whereby 25% of its equity interest is held by the Company. The decision was in line with the requirements of the Company's Articles of Association.
5. During the report period, the amount of connected transactions continued to be voluminous. However, the Company was able to enter into the transactions at market prices based on the principles of being open, fair and just and there was no question of any harm to the interest of shareholders holding small to medium sizes of shareholdings.
6. Pursuant to the requirements of the Stock Exchange, the Company has fully disclosed all the relevant information at a timely manner.

### **III. FOCUS OF THE WORK OF THE SUPERVISORY COMMITTEE IN 2007**

In 2007, the Supervisory Committee will continue to put more emphasis on its supervisory functions and work harder in supervision as the focus of our work. We shall regularly hear from the Board and the operational team on the operation of the Company (which primarily includes the financial position, operation and management and material decisions), and we shall at irregular intervals inspect the operation of the Company and its subsidiaries, and we shall faithfully perform our duties by making all necessary enquires and supervision in respect of the operations of the Company pursuant to the law, the financial position, fulfilling of duties by directors and manager, acquisitions and disposal of assets and connected transactions, so as to ensure that the Company is operating according to the law and has effectively minimized any risk of operation and protected the lawful rights of the Company and shareholders to facilitate the sustainable and healthy development of the Company.