

Report of Supervisory Committee

To all shareholders,

The appointment of the current members of the Supervisory Committee of the Company was approved by the shareholders at a general meeting convened in February 2003. Having the outstanding results achieved by the former members as foundation, the current members of the Supervisory Committee continued to perform the committee's obligations and duties in a legal manner and carried out various tasks strictly in compliance with the requirements and stipulations of the PRC Company Law and the Company's articles of association ("Articles of Association"). In order to protect the benefits of the Company and the Company's shareholders, the Supervisory Committee carried out its duties and exercised the supervisory powers conferred by the shareholders in an honest, diligent and faithful manner. Good effect was thus achieved on the standardised operation and continuous development of the Company as a result of which, the interests of the shareholders were protected, and the benefits and the legal interests of the Company's staff were not infringed.

I. Meetings of the Supervisory Committee and contents of resolutions

On 13 February, 2003, the First Meeting of the Second Supervisory Committee was convened at the Company's conference room on the third floor. Mr. Lu Tianfu was elected as the chairman of the Supervisory Committee in the meeting.

On 11 May, 2003, the Second Meeting of the Second Supervisory Committee was convened at the Company's conference room on the third floor. The "Resolution on 2002 Annual Working Report of the Company's Supervisory Committee" was considered and passed in the meeting.

On 26 September, 2003, the Third Meeting of the Second Supervisory Committee was convened at the Company's conference room on the third floor. The Announcement for the Interim Results and the Interim Report of the Group for the six months ended 30 June, 2003 was considered and passed in the meeting.

On 27 February, 2004, the Fourth Meeting of the Second Supervisory Committee was convened at the Company's conference room on the third floor. The financial report of the Group as at 31 December, 2003 was considered and passed in the meeting.

II. A review on the work of the Supervisory Committee during the reporting period

During the reporting period, apart from attending various meetings of the Board held in 2003, the Supervisory Committee also supervised and inspected the Company's finance, the operating decisions of the management, the Company's compliance with the laws, the operating activities of the Directors and senior management of the Company in a serious manner. The Supervisory Committee considered that:

1. The Company's operation has complied with and standardised in accordance with the Company Law, the Articles of Association and the relevant requirements of the laws and regulations of the PRC. The Company's Directors and senior officers have diligently fulfilled their duties. During the course of performing their duties, they are not aware of any action that is in violation of the laws, regulations and the Articles of Association.

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2. The Company strictly implemented the principles of “Three Separations”, and duly performed independence of personnel, integrity of assets, independence of finance. In the course of entering into related party transactions, the Company insisted on acting in a fair and legal manner. There is no matter that is detrimental to the benefits of the Company and the shareholders.
3. The Accountants issued their audit reports on the financial statements of the Company for the year ended 31 December, 2003, in the standard and unqualified form. The Company’s financial statements truly reflected the financial position of the Group and the Company as at 31 December, 2003, and operating results of the Group for the year then ended.

By Order of the Supervisory Committee

Lu Tianfu

Chairman of the Supervisory Committee

Shandong, the PRC

27 February, 2004