

REPORT OF THE SUPERVISORY COMMITTEE



To Shareholders,

Since the incorporation of the Company, all members of the Supervisory Committee have performed their duties in strict compliance with the Company Law of the People's Republic of China, the Articles of Association of the Company and the relevant laws and regulations of Hong Kong in order to safeguard the interests of shareholders and the Company all along.

The Supervisory Committee had attended the Board of Directors' meetings of the Group and learned about the development and operating situation of the Company during 2003. We are of the opinion that the management has kept its promises and abided by the relevant laws. We believe that the management has made a significant contribution to the Company in respect of its operation, development and production management. The committee considers that the Company's management has been performing its duties in an effective and appropriate manner and in the ultimate interests of its shareholders.

The committee has carefully reviewed the financial statements, directors' report, auditors' report and profit distribution proposal which will be submitted for approval by shareholders at the forthcoming annual general meeting of the Company. We considered that:

1. the Company was operated in compliance with the laws and the procedure for decision making was lawful and the Company has established a complete internal management system in 2003.
2. all members of the Board of Directors and senior management have performed all their duties diligently, and have implemented all the resolutions passed at the general meetings and the Board of Directors' meetings, in compliance with the Articles of Association of the Company and the relevant laws and regulations without adversely affecting the interests of the shareholders of the Company.
3. the accounts of the Company for the financial year of 2003 were recorded clearly and the information contained was complete, and the figures were reliable which objectively reflected the financial standing and the operating results of the Company and were in compliance with the provisions of the relevant accounting systems. The Supervisory Committee approved the auditors' report of the Company prepared by KPMG without qualification.

The Supervisory Committee will continue to perform its duties and will proceed with its best endeavours to safeguard the interests of the shareholders. The Supervisory Committee is satisfied with the achievements attained by the Group and has confidence in the prospect of the Group.

Feng Lanshui

Chairman of the Supervisory Committee

Jinan, Shandong Province, The People's Republic of China
28 March 2004