

# Supervisory Committee's Report

During the period of this report, in accordance with the PRC Company Law and the Articles of Association of the Company, all of the Supervisors of the Company have fulfilled their supervising responsibilities, preserved the rights of the Company and its Shareholders, followed the principles of honesty and trustworthiness, and carried out their duties with care and diligence. The Supervisory Committee held four meetings and has independently carried out the following work during the period under review:

1. A Supervisory Committee Meeting was held on 11th April, 2003 at the Company's headquarters, at which the Supervisory Committee's Report, the resolutions of the Supervisory Committee, the 2002 Annual Report, the Audited Financial Report for 2002, the proposed allocation of the profits of 2002 and the policies for the allocation of the profits of 2003 were considered and approved; and the "Restoration Fee Accounting Differences and the Retrospective Adjustments to the Financial Statements of 1999~2001" were reviewed.
2. A Supervisory Committee Meeting was held on 9th May, 2003 at the Company's headquarters, at which the resolution regarding the on-going connected transactions between the Company and the Parent Company was passed and a Supervisory Committee Meeting resolution and an announcement of the Supervisory Committee was made.
3. A Supervisory Committee Meeting was held on 13th August, 2003 at the Company's headquarters, at which the Company's 2003 Interim Report was reviewed.
4. A Supervisory Committee Meeting was held on 8th October, 2003 at the Company's headquarters, at which a questionnaire regarding the Jinan Securities Regulatory Office of the China Securities Regulatory Commission Supervisory Committee of Listed Company was reviewed and completed.
5. The Supervisory Committee provided its own opinions and suggestions on the Company's manufacturing operation, technological innovation and developing strategies and effectively monitored the guiding principles of decision-making and corresponding solutions to ensure that they were in compliance with the laws and regulations of the state, the Articles of Association of the Company, the resolutions of the Shareholders' general meeting, and the interest of the Shareholders.

The Supervisory Committee gave independent opinion on the following:

## **1. Operations of the Company were in compliance with laws**

Pursuant to the relevant laws and regulations of the State, the Supervisory Committee has carried out investigation and supervision on the procedures on convening the Shareholders and Directors' meetings, resolutions made and the implementation of the resolutions of the Shareholders' general meetings by the board of Directors, the carrying out of duties by the senior management and the management system of the Company, and no act against the law, regulations and the Articles of Association of the Company has been found. The Directors and managers have not violated any laws and regulations nor acted not in compliance with the Articles of Association of the Company when carrying out their duties. The Supervisory Committee considered that the performance of the board of Directors in 2003 was in compliance with relevant laws and regulations and the Articles of Association of the Company, and was serious and responsible, its decision procedures were systematic. The Company had further upgraded the internal control systems and reached all the operating targets successfully.

# Supervisory Committee's Report (Cont'd)

## 2. Inspection of the financial situation of the Company

The Supervisory Committee of the Company carried out supervision and inspections on the financial system and financial situation of the Company, and considered that the Company and its controlling Shareholders have, in accordance with the "Five Separations" principle, established independent financial accounts and had independent financial personnel. The Supervisory Committee has noted the unqualified auditors' opinion from Deloitte Touche Tohmatsu Certified Public Accountants Ltd. The Supervisory Committee was of the view that the financial statements truly, accurately and objectively reflected the Company's financial situation and operating results. The Company's results were true; all expenses and costs were in accordance with relevant laws, regulations, the Articles of Association of the Company and were in compliance with the relevant requirements of the "Enterprise Accounting Standard" and "Enterprise Accounting System".

## 3. Acquisition of Assets

In August, 2003, the Company acquired 80% equity interest in Zoucheng Nanmei Shipping Co., Ltd. for RMB10.164 million by internal resources. Details are disclosed in the announcements in *China Securities* and *Shanghai Securities* in the PRC, and *Wen Wei Po* and *South China Morning Post* in Hong Kong on 18th August, 2003.

On 29th December, 2003, Zoucheng Nanmei Shipping Co., Ltd. changed its name to Shandong Yanmei Shipping Co., Ltd..

On 30th December, 2003, the Company acquired another 12% equity interest in Shandong Yanmei Shipping Co., Ltd. from Shandong Chuangye Investment & Development Co., Ltd.. The purchase price was RMB1.528 million. Currently, the Company owns 92% equity interest in Shandong Yanmei Shipping Co., Ltd..

The consideration for the acquisition was fair and reasonable. The resolution, voting procedures, and the disclosure made by the board of Directors are in compliance with the relevant laws and regulations and the Company's Articles of Association; and are legal and valid and reflect the principles of integrity, fairness and equity. Such connected transaction contributes to the improvement of the marketing system, cost reduction and profit enhancement of the Company, and is therefore in the interests of the Company and all its Shareholders.

## 4. Connected transactions

The connected transactions during the period of this report between the Company and the Parent Company and its subsidiaries were just, fair and lawful, and did not impair the interests of the Company and the Shareholders.

On 29th May, 2003, the Second Supplemental Agreement was entered into between the Company and the Parent Company (contents of which were disclosed in the circular to Shareholders dated 30th May, 2003), and was approved by the independent Shareholders at the annual general meeting for the year 2002 held on 27th June, 2003.

The Supervisory Committee believes that the amendments to the ongoing connected transactions with the Parent Company pursuant to the Second Supplemental Agreement were fair and reasonable, protected the interests of the Company and the independent Shareholders, and reflected the principles of marketisation, justice and equity.

**Meng Xianchang**

*Chairman of the Supervisory Committee*

Zoucheng, PRC, 16th April, 2004