

SUPERVISORS' REPORT

To the shareholders,

In the year 2004, the Supervisory Committee (the "Supervisory Committee") of Baoye Group Company Limited (the "Company"), in compliance with the provision of the Company Law of the People's Republic of China (the "PRC Company Law"), the Rules Governing the listing of Securities on The Stock Exchange of Hong Kong Limited and the Articles of Association of the Company, under their fiduciary duties, took an active role to work reasonably and cautiously to protect the interests of the Company and its shareholders.

During the year, the Supervisory Committee attended the meeting of the Board and the Extraordinary General Meeting of the Company. It provided reasonable suggestions and opinions to the Board in respect of the operations and development plans of the Company. It also strictly and effectively monitored and supervised the Company's management, to ensure that they were in compliance with the laws and regulations of the PRC and the Articles of Association of the Company, and in the interests of shareholders and employees when making significant policies and decisions.

We have reviewed and agreed to the report of directors, audited financial statements and profit appropriation proposal to be proposed by the Board for presentation at the forthcoming Annual General Meeting. We are of the opinion that the directors, the general management and other senior management of the Company had during the year strictly observed their fiduciary duties, acted diligently and exercised their authorities faithfully in the best interests of the Company. None of the directors, general managers and senior management staff had been found to have abused their authorities, damaged the interests of the Company and infringed upon the interests of shareholders and employees.

The Supervisory Committee is satisfied with the achievement and cost-effectiveness of the Company in 2004 and has great confidence in the future of the Company.

Finally, I would, on behalf of the Supervisory Committee, like to thank all shareholders for their support and concern for the work of the Supervisory Committee.

By Order of the Supervisory Committee

Sun Guofan

Chairman

Shaoxing, Zhejiang, the PRC

1st April 2005