

SUPERVISORY COMMITTEE'S REPORT

During this reporting period, in accordance with the PRC Corporate Laws and the Articles of Association, all 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 actively carried out their duties with care and diligence. The supervisory committee held two meetings and has independently carried out the following work during the period under review:

1. The eleventh meeting of the second session supervisory committee was held in the afternoon on 25th April, 2005 at the conference room of the Company's headquarters. All of the five supervisors duly attended the meeting as required to meet the quorum set out in the Corporate Laws and Articles of Association. This meeting was presided by Mr. Meng Xianchang, chairman of the supervisory committee, at which *the 2004 annual supervisory committee's report, the 2004 annual report, the audited financial report for 2004, the proposed allocation of the profits of 2004, supervisory committee agenda regulation and proposal for next selection meeting of supervisory committee and recommendation for candidates of the third session supervisory committee* were considered, approved and passed.
2. The first meeting of the third session supervisory committee was held in the afternoon on 28th June, 2005 at the conference room of the Company's headquarters. All of the five supervisors duly attended the meeting as required to meet the quorum set out in the Corporate Laws and Articles of Association. This meeting was presided by Mr. Meng Xianchang, chairman of the supervisory committee, at which *proposal for selecting the chairman and vice-chairman of Company's third session supervisory committee meeting* was approved.

The Supervisory Committee gave independent opinion on the following:

1. Operations of the Company in 2005 were in compliance with laws

Pursuant to the relevant laws and regulations of the State, the supervisory committee, via sitting in the Board's meeting and shareholders' meeting, auditing and examining the Company's operations, the supervisory committee has carried out investigation and supervision on matters such as the resolutions of and the procedures on convening the Shareholders and Directors' meetings, the implementation of the resolutions of the Shareholders' general meetings by the Board, the carrying out of duties by the senior management of the Company and the management system of the Company. No act against the law, regulations and the Articles has been found. No breach of laws and regulations of the Directors and managers of the Company have been found. The supervisory committee considered that the performance of the Board in 2005 was in compliance with relevant laws and regulations of the State and the Articles, and was serious and responsible and its decision procedures were systematic. The Company had also further upgraded the internal control systems and reached all the operating targets successfully.

2. Inspection of the financial situation of the Company

The supervisory committee carried out supervision and inspections on the financial system and financial conditions of the Company, and considered that the Company, in accordance with accounting standards and principles issued by Financial Department of P.R.C, has established financial management principles and accounting principles which are suitable to the Company. In the reporting period, Deloitte has issued an unqualified opinion on the relevant information such as the financial statements. The supervisory committee held the view that the contents and format of the Company's financial statements were in conformity with all the rules set by the Securities Supervision Committee of PRC and the Stock Exchange, and the information provided can accurately and objectively reflect the Company's financial situation and operating results. The performance of the Company is true and all costs, expenses and provisions were in accordance with the relevant laws, regulations and the Company's Articles of Association.

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3. Usage of Raised Funds

The supervisory committee takes the view that the projects actually invested by the funds are consistent with the projects undertaken to be invested.

4. Fairness of Assets Acquisition

In the reporting period, the Company acquired 95.67% equity interest in Heze Nenghua Limited owned by the Yankuang Group. The Acquisition Agreement was approved in the first extraordinary shareholders' meeting of 2005 on 19th August, 2005. The equity interest transfer procedures were completed on 7th December, 2005 and the consideration for the acquisition of equity interest was RMB584.01 million.

The agreement is fair and reasonable, did not contravene of the principles of integrity, fairness and equity and did not impair the interests of the Company.

5. Connected transactions

During the reporting period, 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.

Meng Xianchang

Chairman of supervisory committee

Zoucheng, China, 21st April, 2006