

Report of the Supervisory Committee

To all shareholders,

During the reporting period, all the members of the Supervisory Committee of the Company have, in accordance with the provisions of the of the Company Law, Securities Law, the Articles of Association, other PRC laws and rules of domestic and international securities regulatory bodies, based on the principles of acting in good faith, performed faithfully their duties prescribed in laws and regulations concerned and in the Articles of Association to protect the interests of the Company and its shareholders.

During the reporting period, the Supervisory Committee held three meetings for several resolutions. The details are as follows:

- (1) On 25 April 2007, the fifth Supervisory Committee held its seventh meeting at the Company's Conference Room during which the Company passed the 2006 Report of the Supervisory Committee and reviewed 2006 audited financial statements and 2006 annual report and its summary. The Supervisory Committee also passed the summary of work for 2007. The Supervisory Committee passed the nomination of Ms. Zhang Zhengping as a candidate for the Sixth Supervisory Committee of the Company and the nomination of Mr. Wu Shiyuan and Ms. Sun Suhua as candidates for the Independent Supervisors of the Sixth Supervisory Committee of the Company. The Supervisory Committee reviewed and passed the first quarterly report for 2007.
- (2) On 12 June 2007, the first meeting of the Sixth Supervisory Committee was held at the Company's Conference Room. At the meeting, Ms. Zhang Zhengping was elected as Chairman of the Supervisory Committee, and Mr. Zhong Youxiang and Ms. Tang Min were confirmed as employee supervisors of the Sixth Supervisory Committee of the Company.
- (3) On 14 August 2007, the Sixth Supervisory Committee held its second meeting at the Company's Conference Room during which the Committee reviewed the Company's 2007 interim report and its summary. The Supervisory Committee passed the review opinion on 2007 interim report.

During the reporting period, all supervisors attended all board meetings, and provided effective supervision to ensure that all decisions were made by the Board according to laws and regulations and the Articles of Association, were in line with the Company's development and prospects and were in accordance with shareholders' interests. The Supervisory Committee actively participated in production operation, technological renovation and investment projects of the Company, and provided many good proposals.

In the opinion of the Supervisory Committee, the Directors and the senior management staff of the Company had performed their duties as provided in the Articles of Association and as required by the relevant laws and regulations. None of the Directors, managers and other senior management staff violated any PRC laws and regulations or the Articles of Association. They had neither abused their office nor act illegally to harm the interests of the Company or its shareholders and staff.

During the reporting period, the Company did not utilize any proceeds raised in the reporting period or the previous period.

During the reporting period, the Company did not have material asset acquisition and disposal.

During the reporting period, the controlling shareholder of the Company, PEGL, performed its undertakings in the Share Segregation Reform.



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During the reporting period, connected transactions of the Company were made on a fair and reasonable basis, which has been confirmed by independent non-executive Directors of the Company. No acts detrimental to the interests of the Company were found.

The continuing connected transactions of the Company from 2007 to 2009 were also considered and approved by the shareholders at the EGM held on 3 April 2007, in compliance with the requirements of Rule 14A35 of the SEHK Listing Rules.

The financial statements as of 31 December 2007 were audited by Shu Lun Pan Horwath Hong Kong CPA Limited and Zhong Rui Yue Hua Certified Public Accountants Co., Ltd, in accordance with international and domestic accounting standards respectively, and they issued unqualified Auditors' Report of the Company. 2007 financial statements fairly reflect the financial and operating situation of the Company.

During the reporting period, the Company actively carried out special corporate governance activities, carefully organized self-check and appraisal, and timely put forward and implemented relevant rectification measures. In accordance with the supervision opinion on corporate governance of the Company from Jiangsu Securities Regulatory and the appraisal by Shanghai Stock Exchange on corporate governance of the Company, and in light of the practical conditions and major problems pointed out and the improvement measures suggested in the "Internal Control Review Report" provided by Horwath Risk Advisory Services Limited, the Company constituted and revised a series of standard system and documents and strengthened training provided to the senior management to further improve the internal control system, enhance information disclosure management, perfect governance structure, and promote the standard operation of the Company.

The Supervisory Committee wishes to reinforce the achievements of special corporate governance activities and practically implement each measure for rectification, and through supervision and management enhancement on holding subsidiaries, further improve the internal control system, especially for capital utilization and guarantee to outside parties, as so to effectively control any risk that may go beyond control of the Company.

The Supervisory Committee is satisfied with the performance of the Board for the year and has great confidence in the future development of the Company.

By Order of the Supervisory Committee
Zhang Zhengping
Chairman

Nanjing, the PRC
27 March 2008

