
REPORT OF SUPERVISORY COMMITTEE

1. Daily work of the Supervisory Committee

- (1) In 2002, the Supervisory Committee executed their duties in strict compliance with the PRC Company Law and the Company's Articles of Associations on the inspection of the Company's legal operation, financial management, and the performance of their duties of directors, general manager and other senior managerial staff;
- (2) Members of the Supervisory Committee were present at the 12 meetings of the Board 2002. The following were presented to the supervisors: the 2001 audited financial report of the Company; the proposed profit distribution plan of the Company for 2001; the 2002 profit forecast; the proposal in respect of the order in which the proceeds from issuance of A shares will be used; the proposal to grant to the directors of the Company a general unconditional mandate to allot, issue and deal with additional H shares, not exceeding 20% of the aggregate nominal amount of the H shares. Through attendance at these meeting, the supervisors are well with the Company's operation, development situation and the formation of significant strategies;
- (3) In 2002, the supervisory committee held three meetings. The details are as follows: the first meeting of Supervisory Committee was held on 25 March 2002, at which the supervisors reviewed the Company's operation, financial situation and the performance of their duties of senior managerial staff. In addition, the Supervisory Committee approved the 2001 report of the Supervisory Committee and decided to pur forward this report to 2001 annual general meeting for approval. The second meeting of the Supervisory committee was held on 19 August 2002, at which the following resolutions were passed: (a) the 2002 interim financial report of the

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Company; (b) the proposed profit distribution plan of the Company for the first half of 2002; (c) the 2002 interim report of the Company was approved; and

- (4) Members of the Supervisory Committee of the Company were present at the 2002 annual general meeting, at which the Supervisory Committee gave an account of the 2001 report of the Supervisory Committee, and expressed their independent opinion on the Company's operation, financial situations and performance of their duties of the directors and senior managerial staff.

2. Supervisory Committee's view of the Company's operation for 2002

- (1) In 2002, the operation of the Company was in strict compliance with the PRC Company Law, the Company's articles of associations and other relevant PRC laws and regulations. In performing their duties, the directors and the senior management of the Company strictly executed the resolutions passed at the 2001 annual general meeting and board meetings. As far as the Supervisory Committee is aware, the directors and the senior management of the Company have not contravened any relevant PRC laws and regulations and/or the Company's articles of associations; and

- (2) In 2002, the Company's stable condition, sound financial management, and strict internal controlling system enabled the smooth operation of the Company. The financial statements represent a true and fair view of the financial situation and the operating results of the Company in 2002. The 2002 audited financial reports prepared by Ernst & Young and Shanghai Zhonghua Huayu C.P.A. respectively are objective and fair.
- (3) In 2002, the proceeds from the issuance of 350,000,000 A shares by the Company was used as stated in the resolution in respect of the order in which the proceeds from issuance of A share will be used passed at the 2001 AGM.
- (4) The connected transactions of the Company entered into in 2002 were fair and reasonable. As far as the Supervisory Committee is aware, there is no inside transaction, and these connected transactions conformed to principles of fairness, openness and impartiality. The terms and conditions of these connected transactions were negotiated on an arm's length basis and were conducted on normal commercial terms. Such transactions were not detrimental to the interests of the Company and its shareholders.