

Report of the Supervisory Committee

To shareholders,

During the reporting period, all members of the supervisory committee (the "Supervisory Committee") of Luoyang Glass Company Limited carried out its monitoring duties honestly in a positive, pragmatic and prudent manner according to the provisions of the PRC Company Law and the Articles of Association of the Company based on the principle of fidelity in order to safeguard the interests of the Company and its shareholders.

During the reporting period, the Supervisory Committee held six meetings

1. The Supervisory Committee held a meeting on 28 March 2003, at which Mr. Tao Shanwu was elected as the Chairman of the 4th Supervisory Committee of the Company.
2. The Supervisory Committee held a meeting on 29 April 2003 to consider and approve the Work Report of Supervisory Committee for the year 2002, Work Report of Board of Directors for the year 2002, financial report for the year 2002 and the First Quarterly Report for 2003.
3. The Supervisory Committee held a meeting on 28 August 2003 to consider and approve the 2003 Interim Report and its summary;
4. The Supervisory Committee held a meeting on 29 October 2003 to consider and approve the Third Quarterly Report for 2003.

The Supervisory Committee was present at general meetings and the board of directors meetings and effectively monitored its compliance with laws and safeguarding the interests of shareholders.

The Supervisory Committee provided independent opinions on the following issues

1. Compliance of relevant laws and regulations

The Supervisory Committee is of the opinion that the Board of Directors operated in standard matter in accordance with the PRC Company Law, Articles of Associations of the Company and relevant laws and regulations. Directors and senior managers executed their duties of within their terms of reference. No violation of any laws, regulations and the Articles of Association of the Company or harming the Company's interests was found.

2. The Company's financial status

The Supervisory Committee concurs with the unqualified audit opinions to the financial statements for the year ended 31 December 2002 given by KPMG Huazhen and KPMG prepared under the PRC Accounting Rules and Regulations and IFRS respectively. The Supervisory Committee believed that it truly, objectively, completely and accurately reflected the financial situation and operating results of the Company. The Supervisory Committee approved the Board's explanation of the unqualified audit opinion, with explanatory paragraph, so expressed by the Company's auditors.

3. Connected transaction

The Supervisory Committee is of the opinion that relevant connected transactions were reached on ordinary commercial terms and do not adversely affect the interests of the Company.

4. The Supervisory Committee agreed on the audit report presented by KPMG Huazhen and KPMG with an explanatory statement but without qualification. Particulars of the explanatory statement are as follows:

KPMG Huazhen and KPMG presented their auditing reports with an explanatory statement but without qualification for the 2003 operating results of the Company. Particulars of the explanatory statement are as follows:

"Besides, we would draw the attention of the users of financial statements to the disclosures made in note 2 on the financial statements, that the Group had net loss amounted to Rmb342,513,000 for the year, accumulated losses amounted to Rmb1,018,682,000 and net current liabilities amounted to Rmb330,871,000 at 31 December 2003. Notwithstanding the steps taken by the management to address this situation as set out in Note 2 on the financial statements, there exists a fundamental uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. The expressed audit opinion is not affected thereby."

In accordance with the said audit statement and under the PRC accounting standards and regulations, the Company confirms the net current liabilities of Rmb330,871,000 as at 31 December 2003. This is mainly attributable to operating loss and increased bank loans due to reduction in cash inflow and changes in receivables. (The Company recorded a loss of Rmb342,513,000 for the year, mainly attributable to a significant decrease in sell prices in the 1st half of 2003 resulting from intensified market competition, a number of necessary provisions and the increased non-operating expenses). The Group's operation was affected by the net current liabilities to a certain extent. However, in the opinion of the Board, cash inflow status will be improved with the gradual effect from optimisation of the Group's product mix, which will in turn significantly reduce the reliance on bank loans for its operation. Furthermore, the Company may obtain financial support, if necessary, from its controlling company and other financial institutions to cope with the potential financing difficulties. In addition, the Company will take economic and legal actions to recover receivables which will be used for repayment of bank loans. In such a case, a reduction in net current liabilities, even a balance of net current assets will be achieved.

Appendix: Note 2 to financial statements: Preparation basis for financial statements

Report of the Supervisory Committee *(Continued)*

The Supervisory Committee provided independent opinions on the following issues *(continued)*

4. **The Supervisory Committee agreed on the audit report presented by KPMG Huazhen and KPMG with an explanatory statement but without qualification. Particulars of the explanatory statement are as follows: *(continued)***

Notwithstanding that the Company and the Group incurred loss for the year and had net current liabilities as at 31 December 2003, the directors of the Company are of the opinion that the Company and the Group are able to continue as a going concern and to meet their obligations as and when they fall due having regard to the following:

- (i) agreements obtained from financial institutions for renewal of loan facilities totalling approximately Rmb444,000,000 to the Company upon their expiry in 2004; and
- (ii) continuing financial support received from the ultimate holding company.

The directors believe that the Company and the Group will have sufficient cash resources to satisfy its future working capital and other operating requirements. Accordingly, it is appropriate that these financial statements should be prepared on a going concern basis and do not include any adjustments that would be required should the Company and the Group fail to continue as a going concern.

5. **The Supervisory Committee agreed on the special resolution of the Board of Directors regarding provisions for asset impairment and considers that it is in line with the actual situation and long-term interest of the Company.**

By order of the Supervisory Committee
Tao Shanwu
Chairman of the Supervisory Committee

22 April 2004