

Report of the Supervisory Committee

(I) Work of the Supervisory Committee

1. The Supervisory Committee of the Company held the 2005 first meeting on 26 April 2005 which considered and approved the Work Report of Supervisory Committee for the year 2004. At the meeting, the Work Report of the Board of Directors for the year 2004 and the Annual Report for the year 2004 were considered and analysed.
2. The Supervisory Committee of the Company held the 2005 second meeting on 28 April 2005 which considered and analysed the First Quarterly Report for 2005.
3. The Supervisory Committee of the Company held the 2005 third meeting on 26 May 2005 which considered the transaction concerning the Company's external investment in establishment of Luobo Group Longhao Glass Company Limited and Longbo Group Longhai Glass Company Limited.
4. The Supervisory Committee of the Company held the 2005 fourth meeting on 26 August 2005 which considered and analysed the Interim Report for 2005.
5. The Supervisory Committee of the Company held the 2005 fifth meeting on 26 October 2005 which considered and approved the Third Quarterly Report for 2005.

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.

(II) 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 under regularized standard 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 2005 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 2005 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 Company had accumulated losses amounted to RMB968,937,000 and net current liabilities amounted to RMB497,756,000 at 31 December 2005. Notwithstanding the measures taken by the Company's 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 explanatory paragraph does not affect the audit opinion made."

Report of the Supervisory Committee *(Continued)*

(II) 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)*

Appendix: Note 2 on the financial statements: Basis of preparation

Notwithstanding that the Company had accumulated losses amounted to RMB968,937,000 and net current liabilities amounted to RMB497,756,000 at 31 December 2005 in its consolidated financial statements, the directors of the Company are of the opinion that 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 RMB861,050,000 to the Company upon their expiries in 2006; and
- (ii) continuing financial support received from the holding company and the controlling shareholder of the holding company.

The Supervisory Committee 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. If the above assumption for the operation on a going concern basis is not fulfilled, the assets of the Company and the Group shall be adjusted to realisable value and provision shall be made for the possible debt. Meanwhile, long-term liability shall be transferred to current liability.

In accordance with the said audit statement and under the PRC accounting standards and regulations, the Company confirms the net current liabilities of RMB497,756,000 as at 31 December 2005. This is mainly attributable to operating loss for the year 2002 and 2003, mainly due to a significant decrease in selling prices from intensified market competition and a number of necessary provisions. The increased bank loans were due to reduction in cash inflow and changes in receivables. The Group's operation was affected by the net current liabilities to a certain extent. However, the Group recorded a net profit of RMB4,953,000 in 2005. 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.

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

25 April 2006