

# Report of the Supervisory Committee

## (I) Work of the Supervisory Committee

1. The Supervisory Committee of the Company held the 2006 first meeting on 25 April 2006 to elect Mr. Tao Shanwu as the Chairman of the Supervisory Committee, which considered and approved the Work Report of Supervisory Committee for the year 2005. At the meeting, the Work Report of the Board of Directors for the year 2005 and the Annual Report for the year 2005 were considered and analysed.
2. The Supervisory Committee of the Company held the 2006 second meeting on 27 April 2006 which considered and analysed the First Quarterly Report for 2006.
3. The Supervisory Committee of the Company held the 2006 third meeting on 28 August 2006 which considered and analysed the Interim Report for 2006.
4. The Supervisory Committee of the Company held the 2006 fourth meeting on 26 October 2006 which considered and approved the Third Quarterly Report for 2006.

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 2006 given by Ting Ho Kwan & Chan, Certified Public Accountants (practising) and Guangdong HengXin Delu Certified Public Accountants Company Limited prepared under IFRS and the PRC Accounting Rules and Regulations 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 with an explanatory statement but without qualification. Particulars of the explanatory statement are as follows:

GuangDong HengXin Delu Certified Public Accountants Company Limited presented their auditing reports with an explanatory statement but without qualification for the 2006 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 Rmb1,122,13,000 and net current liabilities amounted to Rmb1,083,198,000 at 31 December 2006. 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."

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

Notwithstanding that the Company had accumulated losses amounted to Rmb1,122,133,000 and net current liabilities amounted to Rmb1,083,198,000 at 31 December 2006 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 institution for renewal of loan facilities totalling approximately Rmb720,600,000 to the Company upon their expiry in 2007;
- (ii) continuing financial support received from China Luoyang Float Glass Group Company Limited ("CLFG"), the controlling shareholder company, together with the holding company of the CLFG; and

# Report of the Supervisory Committee

## (II) The Supervisory Committee provided independent opinions on the following issues *(Continued)*

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

- (iii) According to the announcement made on 18 December 2006, CLFG had signed a strategic agreement with China National Building Material Group Corporation ("CNBMG"). Upon the approval of the State-owned Assets Supervision and Administration Commission of the State Council, CNBMG will become the ultimate holding company of the group and will provide guarantees for procuring bank loans and for injecting capital contributions into the subsidiaries of the Company. (For details, please refer to the announcement)

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 recorded net current liabilities of Rmb1,083,198,000 as at 31 December 2006, under the PRC accounting rules and regulations. This is mainly attributable to operating loss for the year, mainly due to a significant decrease in selling prices from intensified market competition and the significantly increased cost of major capital goods as well as 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, 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.

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

25 April 2007