

REPORT OF THE SUPERVISORY COMMITTEE

To Shareholders:

During the Year, all members of the Supervisory Committee had seriously carried out duties of the Supervisory Committee in accordance with relevant provisions of various legal documents and regulations like Company Law, Listing Rules and Articles of Association. With supervisory functions of the Supervisory Committee fully utilized and supervisory work implemented with diligence and responsibility, members of the Supervisory Committee attended all Board meetings and general meetings, General Manager's meetings and decision-making meetings of the Company so as to strengthen supervision over legality and compliance of work of the Board and operational decisions of the management as well as execution of resolutions approved by general meetings by the Board. With effective surveillance over the Company's operation and implementation of internal compliance system as well as the duty performance of the Company's Directors and senior management, the Supervisory Committee provided opinions and recommendations, listened carefully to financial manager's reporting with regard to the financial position and operating results of the Company and carried out diligent reviews and analysis.

The Supervisory Committee would like to render its independent opinion as follows:

1. OPERATION OF THE COMPANY IN COMPLIANCE WITH THE LAW

During the Year, the Company's operations had strictly complied with the Company Law, the Listing Rules, the Articles of Association and other applicable law and regulations, as well as established and continuously improved the relevant internal control systems. The Company's decision-making procedure is legitimate and all the resolutions passed at the general meetings are strictly implemented.

2. DISCHARGE OF DUTIES BY DIRECTORS, MANAGERS AND OTHER SENIOR MANAGEMENT

The Directors, managers and other senior management of the Company had performed their duties diligently, pragmatically and faithfully. No abuse of rights, violation of law or regulations or Articles of Association nor acts detrimental to the interests of Shareholders, the Company and the Company's staff members were found.

3. REPORT OF BOARD OF DIRECTORS

The Supervisory Committee had a detailed review of the report of the Board of Directors submitted by the Board for consideration at the AGM for the Year and considered that the report had objectively and thoroughly reflected various work done by the Company during the Year.

4. FINANCIAL REPORT

After detailed examination of the financial system and financial report of the Company, the Supervisory Committee considers that the financial report truly and fairly reflected the financial position, assets position and operation of the Company. No violation of discipline, regulations and financial system of the Company has been found. The financial report, which had been audited by the auditors, has objectively and truthfully reflected the financial position of the Company.

5. CONNECTED TRANSACTIONS

The Supervisory Committee considers the connected transactions of the Company to be ordinary and general ones and are fair and reasonable so far as Shareholders are concerned and are not detrimental to the interests of the Company and minority Shareholders.

6. LITIGATIONS

During the Year, the Company had no other material litigations.

The Supervisory Committee considers that the operational goals of the Group were achieved satisfactorily in 2006 but there are still problems in its operation and management. Product costs and expenses are still relatively high. The Group's principal operations remained at loss although it was significantly reduced. The corporate reform and innovation in management were less aggressive and communication and execution in functional units are yet to be improved. It is expected that the Company can overcome its operational difficulties by capturing the opportunities. The Board and the management should take measures based on thorough market research to enhance corporate management, adjust its product mix lower production costs and administrative expenses and raise its operational efficiency. The Group should by making best use of the huge benefits and limited opportunities arising from land transfer guarantee the construction of its industrial base. The Company is positioned to improve its profitability and competitiveness based on integration of its quality resources by putting efforts in business planning and adjustment leveraging its competitive advantages and strengthening principal operation.

In the Year 2007, the Supervisory Committee will fully and seriously utilize its function in supervising the decision-making, finance and Directors and senior management of the Company and use its best efforts in realizing the adjustments of development and improving the operation of the Company.

Wang Zhiqi

Chairman of Supervisory Committee

20 April 2007