

Report of the Board of Supervisors



Mr. Zou Haifeng
Chairman of the Board of Supervisors

During 2000, the Company conducted its business in accordance with the articles of association of the Company, the PRC Company Law, and relevant international and domestic regulations. The board of supervisors carried out its duties in accordance with the articles of association of the Company, and supervised and advised the management of the Company on all relevant matters.

The board of supervisors held a meeting on 10th April, 2000, at which the report of the board of supervisors, and the financial statements and profit appropriation statement to be proposed at the 1999 Annual General Meeting by the directors were considered and approved.

The board of supervisors held a meeting on 11th January, 2001 at which a resolution on a change of supervisors was passed. On 18th February, 2001, Messrs. Zou Haifeng, Yang Jigang, Yan Weidong, Li Shumin and employees' representative Mr. Wang Huaiqing were elected as supervisors of the new board at the Company's extraordinary general meeting, and Mr. Zou Haifeng was elected as the chairman of the board of supervisors on the same day.

The board of supervisors participated in all meetings of the directors held during 2000 to ensure that the directors at all times acted in accordance with the relevant regulations of the PRC for the further development of the Company and to increase its profits and to promote the benefit of the shareholders. The board of supervisors ensured that the directors carried out their duties strictly in accordance with the resolutions of the annual general meeting and the extraordinary general meeting, and that the additional issuance of 150 million A shares, the appropriation of profits and significant decisions were also made in accordance with relevant regulations and the articles of association. The internal financial management system has also improved gradually.

The directors, general manager, and other senior management are not aware of any information relating to the Company's affairs that contravene the laws and regulations of the PRC, the articles of association of the Company or which may be prejudicial to the interest of the Company.

The board of supervisors also reviewed the connected transactions between the Company and Jilin Chemical Group Company and China National Petroleum Company to ensure that these connected transactions were entered into on a fair and reasonable basis and have not caused any effect which is harmful to the interests of the Company.

The use of funds raised from the A Share issue was in accordance with the Company's use of proceeds plan as described in the Company's previous announcements.

The auditors' reports provided by Ernst & Young and Ernst & Young Hua Ming under IAS and PRC accounting standards, respectively, have been reviewed and certified to be authentic, accurate and complete by the board of supervisors.

Taking into account the various technical upgrade programmes carried out in recent years, the operation conditions of existing production facilities and future market of its products, the Company wrote off certain production equipment utilizing outdated technology, which caused heavy pollution and whose products had poor market demand. These outdated equipment related to the production of certain chemical fertilizers, dyestuff and other chemical products. The original cost of these fixed assets amounted to approximately RMB1,290 million. The net book value of these fixed assets written-off amounted to approximately RMB597 million, related severance payment amounted to approximately RMB297 million, and loss in inventories amounted to approximately RMB37 million. The board of supervisors believes that this exercise will improve the quality of the assets, enhance the competitiveness of the Company and also serve to build a strong foundation for the better growth of the Company in the future.

In 2001, the board of supervisors will continue to focus on their responsibilities and to protect the interest of the Company and its shareholders pursuant to the articles of association of the Company.

On behalf of the board of Supervisors

Zou Haifeng

Chairman

Jilin, the PRC

29 March, 2001