



Report of the Supervisory Committee

To the shareholders:

Pursuant to the State laws and regulations, especially following the “Company Law” of the People’s Republic of China and the articles of association of the Company, the Supervisory Committee of the Company performed the work in accordance with the law to safeguard the interests of the Company and the shareholders in 2002.

In 2002, the management of the Company focused on the tasks of “increasing total operating volume, following market changes closely, integrating the refining and chemical fertilizer businesses, optimizing resources, initiating reforms and innovation”, after identifying at the start of the year the direction of “deepening reform to enhance efficiency, lowering cost and expenses to increase benefits, streamlining to augment competitiveness”. The Company’s management thus initiated a large amount of arduous and intensive work. On top of that, the Company’s management achieved the targets for production and operation, as well as the efficiency target, which gradually strengthened the Company’s earning power and further enhanced its competitiveness.

On 29 March and 23 August in 2002, the Supervisory Committee convened two meetings (the fifth and sixth meetings of the Third Supervisory Committee), summarized the work of 2001 and that of the first half of 2002, and proposed the working plan of 2002. The Supervisory Committee revised the work plan for the year and reviewed the audited financial statements and the dividend distribution scheme at the sixth meeting of the Third Supervisory Committee.

During the year, the Supervisory Committee attended all the meetings of the Board of Directors and the General Manager’s office, reviewed the accounts and other accounting information of the Company on a periodic basis, surveyed and studied issues under five topics including the implementation of the Company’s examining and approving mechanism for external payment and the use of funds of large amounts, and participated in the supervision of the Company’s production and management through various channels. The Supervisory Committee considered that the competitiveness of the Company was increased further and the management level was improved steadily with continued implementation of reforms.

After reviewing the audited reports prepared by KPMG Certified Public Accountants in accordance with International Financial Reporting Standards, the Supervisory Committee considered that these reports have reflected the financial condition and the business results on a fair and all-around basis, and the comments on relevant items are objective and fair.

The Supervisory Committee has examined the Director’s Report, 2002 financial reports and the dividend distribution scheme, which are for consideration and approval at the tenth meeting of the Third Board of Directors for proposing at the 2002 Annual General Meeting for consideration. In our opinion, these reports have reflected the 2002 results and the assets position of the Company on a fair and all-around basis, and the dividend distribution scheme has taken into consideration shareholders’ interests and the Company’s long-term development interests. The transfers of statutory surplus reserve and public welfare fund during the year were in accordance with the laws, regulations and the articles of association of the Company. The directors, general manager and other senior management officers of the Company have adhered to the articles of association of the Company, and the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (“Listing Rules”) when they performed their duties. There has been no violation of law and regulations and no harmful act against the benefit of the Company or the interests of the shareholders and staff.



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The term of the current Supervisory Committee will expire in June this year. Reviewing its performance in the previous three years, the current Supervisory Committee under the leadership of the General Meeting, adhered to the principle of good faith, performed faithfully the duties prescribed by the articles of association of the Company, actively explored and innovated, carried out various initiatives with significant results in accordance with the "Company Law", "Listing Rules" and the Company's articles of association. Through formulating the "rules for the convention of Supervisory Committee's meetings", the Supervisory Committee has further fine-tuned its governing rules and regulations; has established the office of the Supervisory Committee and allocated staff members to man the office, which optimized the operating structure of the Supervisory Committee. "The scope of responsibilities of the Supervisory Committee" has also been determined to improve working efficiency. The Supervisory Committee has carried out effective supervision to the Company's financial activities, through examining the financial statements on a monthly basis, listening to the report of the Company's operating status and the financial director's report of the Company's financial status before the announcement of the interim results and annual results, and reviewing the information on economic activities such as the Company's annual report, interim report and quarterly report. Given the State's relevant fiscal and audit regulations, the Supervisory Committee surveyed and studied issues under 16 topics including the procedures for the Company to make decisions on its long-term investment and the investment return of the Company, the transfer and handling system of the various surplus funds of the Company and the implementation of transfer and handling of surplus funds. The Supervisory Committee has prepared documentation for the aforesaid survey or study and put forward 35 proposals on the adjustment and overall restructuring to the production and management, technological transformation, fund management, investment plan etc, which resulted in improvement in the management and administration of the Company. Simultaneously, through attending the meetings of the Board of Directors and the General Manager's office, the Supervisory Committee directly participated in the making of the Company's important decisions, and faithfully supervised whether the guiding theory in the course of decision-making and concrete decision were made in accordance with the laws and regulations of the State, the Company's articles of association, decision of the General Meeting and the shareholder's interests. During the three-year term, every supervisor has performed faithfully his or her duties as prescribed by law and the Company's articles of association to safeguard the interests of the shareholders and the Company. We take this opportunity to wish that the new Supervisory Committee would continue to contribute their efforts in standardizing the operation and promoting healthy development of the Company.

Last but not least, the Supervisory Committee would like to express its deepest gratitude to all the shareholders, the Board of Directors, management group and staff for their trust and support!

By order of the Supervisory Committee

Gu Yueguang

Chairman

17 April 2003, Ningbo, the PRC