

REPORT OF THE BOARD OF SUPERVISORS

To all shareholders:

During the reporting period, the Board of Supervisors has complied with the Company Law of PRC, the regulations associated therewith, and the Company's Articles of Association and has bona fide performed its duties as set forth in the Company's Articles of Association, to protect the Company's interest and the interest of the Company's shareholders.

In 2002, confronted with more intense fluctuation in the world economy and the market competition after China's accession to the WTO, the senior management of the Company coped with the realities objectively, based itself upon its own characteristics and implemented corresponding reforming measures and strategies decisively. The Company fully utilised the production capacity advantages upon completion of the Ethylene Project, further enhanced the ability to respond to market conditions through integration of the internal management system, and thereby achieved a satisfactory operation performance. The Board of Supervisors strengthened its supervising and managing efforts, and by attending Board of Directors' meetings, participated in the management's decision-making process. In addition, the Board of Supervisors implements supervision on the daily production and operational activities of the Company via overseeing the efficiency and capacity thereof. The Board of Supervisors regularly reviews the Company's financial statements and accounts and believes that the Company has prepared the financial statements and accounts accurately, comprehensively and on a timely basis. So far as the Board of Supervisors is aware, no irregularity was disclosed in the financial statements and accounts.

The Board of Supervisors supervised the Directors and other Executive Officers in the performance of their duties. The Board of Supervisors believes that all Directors and other Executive Officers had performed their duties in accordance with the principles of honesty and trustworthiness, and acted in the best interests of the Company. So far as the Board of Directors is aware and save as disclosed in announcements, the Directors and other executive officers have complied with the relevant regulations set out in Appendix 14 of the Listing Rules and relevant regulations of China Securities Regulatory Commission and have not violated any laws, regulations or the Company's Articles of Association.

The Board of Supervisors had comprehensively analysed the financial statements of the Company to be presented in the annual shareholders' meeting. The Board of Supervisors believes that during the reporting period the operating results of the Company reflected the true business position, all expenses and costs were rational, the distribution of profit were in the interests of shareholders and for the future development of the Company, and were in accordance with the laws and regulations, as well as the Company's Articles of Association.

The Board of Supervisors has always received strong support in its work from all shareholders, the Board of Directors and the entire staff of the Company. The Board of Supervisors wishes to express its deepest appreciation to all parties concerned.

By Order of the Board of Supervisors
Shang Bo
Chairman of the Board of Supervisors

11 April 2003, Beijing, the PRC



Mr. Shang Bo
Chairman of the
Board of Supervisors