

Report of the Supervisory Committee

1. Meetings of the Supervisory Committee during the period

The Supervisory Committee held four meetings during the period, mainly covering the following:

- (1) The 21st meeting of the Second Supervisory Committee was held on 20th February 2003, wherein the following resolutions were passed:
 - a. agreed with the 2002 Supervisory Committee working report of the Company;
 - b. agreed with the 2002 annual report and the report summary of the Company;
 - c. agreed with the financial and accounting statements of the Company for 2002;
 - d. agreed with the 2002 final financial report and the 2003 financial budget report of the Company; and
 - e. agreed with the 2002 profit appropriation plan of the Company;

The announcement of the resolutions of the meeting of the Supervisory Committee was published on Shanghai Securities, Hong Kong Wen Wei Po and The Standard on 21st February 2003.

- (2) The 22nd meeting of the Second Supervisory Committee was held on 20th July 2003, wherein the following resolutions were considered and passed:
 - a. The proposal in respect of investment in the establishment of Tianjin Capital New Materials Company Limited was considered and approved; and
 - b. The interim report and its summary for the six months ended 30th June 2003 to be announced in the PRC and Hong Kong were considered and approved.

The announcement of the resolutions of the meeting of the Supervisory Committee was published on Shanghai Securities, Hong Kong Wen Wei Po and The Standard on 25th July 2003.

1. Meetings of the Supervisory Committee during the period (Cont'd)

(3) The 23rd meeting of the Second Supervisory Committee was held on 23rd October 2003, wherein the following resolutions were considered and passed:

- a. To consider and approve the resolution in respect of the third quarterly report 2003 to be announced in the PRC and Hong Kong;
- b. To consider and approve the resolution in respect of the nomination of four candidates as supervisors of the Third Supervisory Committee of the Company (one of whom was Mr. Zhang Wenhui); and
- c. To consider and approve the resolution in respect of the resignation by Mr. Wang Zhanying as a supervisor of the third Supervisory Committee of the Company;

The announcement of the resolutions of the meeting of the Supervisory Committee was published on Shanghai Securities on 25th October 2003 as well as Hong Kong Wen Wei Po and The Standard on 27th October 2003.

(4) The first meeting of the third Supervisory Committee was held on 20th December 2003. The following resolution was passed at the meeting:

- a. To consider the resolution relating to the election of Mr. Zhang Wenhui as the Chairman of the Third Supervisory Committee.

The announcement of the resolutions of the meeting of the Supervisory Committee was published on Shanghai Securities, Hong Kong Wen Wei Po and the Standard on 23rd December 2003.

2. Independent opinion of the Supervisory Committee on the relevant issues of the Company in 2003

(1) Operations of the Company in compliance with the laws:

Pursuant to the relevant laws and regulations of the State in 2003, the Supervisory Committee of the Company has carried out supervision on the Company's shareholders' meetings, the convening procedures of the Board of Directors, resolutions and the implementation of the resolutions of the shareholders' meetings by the Board of Directors, and considered that the performance of the Company's Board of Directors in 2003 was strictly in compliance with the Company Law, Securities Law, Listing Rules, Articles of Association and other laws and regulations, and that their operating decisions were scientific and reasonable. None of the Directors and the senior management of the Company has been found to be in violation of the laws and regulations, the Articles of Association and acts which were detrimental to the interests of the Company in carrying out their duties.

2. Independent opinion of the Supervisory Committee on the relevant issues of the Company in 2003 (Cont'd)

(2) Inspection of the financial situation of the Company:

The Supervisory Committee of the Company carried out serious and careful inspections on the financial system and financial situation of the Company, and considered that the 2003 financial report of the Company could truly reflect the financial situation and operating results of the Company. The audit opinion and appraisals of PricewaterhouseCoopers Zhong Tian Certified Public Accountants Co., Ltd., the PRC were objective and fair.

(3) During the reporting period, the Company did not apply any proceeds from subscription.

(4) During the reporting period, the resolution in respect of the establishment of Tianjin Capital New Materials Company Limited jointly by the Company, Tianjin Sewage Engineering Company and Tianjin Senyuan Technology Development Company Limited was considered and approved in the 31st meeting of the Second Board on 24th July 2003. The terms of the connected transaction were negotiated on an arm's length basis and by all parties in accordance with the principles prevailing in the market. It fulfilled the requirements on information disclosure and safeguarded interests of non-related shareholders. As a result, the connected transaction has considered and protected the interests of shareholders as a whole and was fair and reasonable so far as the shareholders of the Company are concerned.

(5) The connected transactions of the Company were fair and reasonable, and were not detrimental to the interests of a listed company or minority shareholders, and no insider dealing has occurred.

(6) Implementation of the resolutions of the shareholders meetings:

The members of the Supervisory Committee of the Company attended the various Board meetings and shareholders' general meetings of the Company, and the Supervisory Committee of the Company has no objection to the various reports and resolutions raised for approval by the Board of Directors to the shareholders' general meetings. The Supervisory Committee of the Company carried out supervision on the implementation of the resolutions of the shareholders' general meetings and considered that the Board of Directors of the Company could seriously implement the relevant resolutions of the shareholders' general meetings.