

In 2001, the Supervisory Committee of the Company exercised their functions and powers and conscientiously performed their duties in accordance with the Company Law, relevant laws and regulations and the Articles of Association of the Company to ensure that the operations of the Company are regulated and to safeguard shareholders' interests.

(1) The Supervisory Committee convened two meetings during the period.

1. The Supervisory Committee convened the ninth meeting of its third session on 12 April 2001 at the Company's office and the following was reviewed and approved at the meeting:

- (1) Report of the Supervisory Committee 2000
- (2) The Supervisory Committee's opinion on the Company's Annual Report 2000

2. The Supervisory Committee convened the tenth meeting of its third session on 23 August 2001 at the Company's office and the following was reviewed and approved at the meeting:

- (1) The Supervisory Committee's opinion on the Company's Interim Report 2001
- (2) "Regulations Governing the Work of the Supervisory Committee" revised by the Company

(2) Analysis of the decline in profit in 2001

The relatively substantial decline in the Company's profit in 2001 was mainly due to the following reasons: 1) the petrochemical industry was adversely affected by the marked slowdown in global economic growth, a sharp fall in export and sluggishness of the light textile market; 2) the petrochemical industry entered a cyclical downturn and, despite a mild decrease in average international crude oil prices compared to the previous year, the prices of major petrochemical products continued to fall; 3) non-operating expenditures increased during the period due to the termination by the Company of its employment contracts with some of the Company's employees as a result of its reform in labour redeployment. The negative impact had been partially offset by management initiatives to increase physical production, enhance management of details and reduce costs and expenditures, but a decrease in profits for 2001 was unavoidable.

(3) Compliance with relevant laws and regulations

During the period, the Supervisory Committee monitored the management's compliance with the relevant laws and regulations of the PRC and their implementation of resolutions passed at the shareholders' meeting and by the Board of Directors. No cases of violations of PRC laws and regulations, the Articles of Association of the Company or management regulations by the Board of Directors, the General Manager's team or other senior management were observed in the discharge of their duties and there was no infringement of the interests of the Company or its shareholders.

Certain connected transactions have been conducted between the Company and its associate companies in the course of the Company's normal business operations, and such transactions have been carried out in such manners that are open, fair and equitable. In particular, extraordinary shareholders' meetings were convened to ensure interests of minority shareholders were not prejudiced in the course of the establishment of a Sino-foreign joint venture by the Company, Sinopec and BP. Funding for projects in progress has been subject to effective controls. Asset disposals in the course of the Company's operations have been carried out according to regulated procedures.

(4) Independent Work of the Supervisory Committee

During the reporting period, the Supervisory Committee revised the "Regulations Governing the Work of the Supervisory Committee," with a view to improving the quality of its work. The Supervisors have attended all meetings of the Board of Directors and have furnished specific comments on the management of the Company's operations. Monthly analyses of the Company's financial statements have been conducted to enhance day-to-day supervision. Supervision over procedural matters has also been enhanced in accordance with the requirements of the China Securities Regulatory Commission. The Supervisors have carried out inspection of the quality of the physical operation of the Company's assets and have furnished constructive opinions on the Company's stock and inventories in a timely manner based on detailed studies and surveys. The Supervisory Committee has also studied the diversified operations and external investments of the Company and has made efforts to procure improvements in corporate management.

In 2002, the Supervisory Committee shall commit to ensure the preservation and growth in the Company's asset value and to safeguard shareholders' interests by making ongoing improvements in corporate governance and the supervisory system of the Company.

Supervisory Committee
Sinopec Shanghai Petrochemical Company Limited

Shanghai, 29 March 2002