

In 2002, the Supervisory Committee of the Company exercised its lawful powers and conscientiously performed its duties in accordance with the Company Law, relevant laws and regulations and the Company's Articles of Association to ensure regulated operations of the Company and safeguard shareholders' lawful interests from any infringement.

### **I. The Supervisory Committee convened five meetings during the period.**

1. The eleventh meeting of the third session of the Supervisory Committee was convened on 28 March 2002 at the Company's headquarters, at which meeting the following was reviewed and approved:
  - (1) Report of the Supervisory Committee 2001; and
  - (2) Report on the Supervisory Committee's assessment of the Company's operations and management.
2. The twelfth meeting of the third session of the Supervisory Committee was convened on 26 April 2002 by means of correspondence, by which the following was reviewed and approved:
  - (1) the nomination of seven people, namely Du Chongjun, Chen Xinyuan, Liu Xiangdong, Zhang Jianjun, Lu Xiangyang, Zhang Chenghua and Zhu Weiyan, as Supervisors for the 4th session of the Supervisory Committee; and
  - (2) the Company's first quarterly report 2002.
3. The first meeting of the fourth session of the Supervisory Committee was convened on 18 June 2002 at the Company's headquarters, at which meeting the following was reviewed and approved:
  - (1) the election of Du Chongjun as Chairman of the Supervisory Committee; and
  - (2) the appointment of the Director and Deputy Director of the Office of the Supervisory Committee.
4. The second meeting of the fourth session of the Supervisory Committee was convened on 20 August 2002 at the Company's headquarters, at which meeting a resolution approving the report of the assessment of the 2002 interim operating results of the Company was approved.
5. The third meeting of the fourth session of the Supervisory Committee was convened on 22 October 2002 by means of correspondence, and a resolution approving the Company's third quarterly report for 2002 was reviewed and approved.

## **II. Compliance with relevant laws and regulations**

During the period, the Supervisory Committee monitored management's compliance with relevant national laws and regulations and their implementation of resolutions passed by the shareholders and the Board of Directors. There were no reported cases of violations of national laws and regulations, the Articles of Association or management regulations or infringements upon the interests of the Company or shareholders by the Board of Directors, the General Manager's team or other senior management in the discharge of their duties.

## **III. Independent Work of the Supervisory Committee**

During the reporting period, the Supervisors have conducted meetings and have focused diligently on constructive discussions. They have actively attended meetings of the Board of Directors and furnished specific comments on the management of the Company's operations. Major proposals were put forward in 2002 in relation to enhanced management of accounts receivable to reduce bad debt risk; expenditure controls to reduce costs and increase efficiency; further optimization of inventory structure to reduce inventories; active reduction of raw material and energy consumption to meet advanced standards; and enhanced management of external investments to improve returns. The Supervisors have also conducted two meetings with KPMG Certified Public Accountants to discuss opportunities to improve the Company's management.

The Supervisors have continued to conduct a monthly analysis of the Company's financial statements and have enhanced the contents and expanded the list of recipients of such analyses to enhance day-to-day supervision. In accordance with the requirements of the China Securities Regulatory Commission, steps have been taken to verify and enhance supervision of procedures in respect of provision for asset depreciation, applications of funds in major projects, fairness of prices in acquisition or disposal of assets, disposal of slow-moving items, asset impairment and loan guarantees furnished on behalf of subsidiaries and associate companies. Quality inspections of the physical operation of the Company's assets have continued to be carried out. Special investigations have been conducted in respect of the Company's accounts receivable, authorization for open-account sales and implementation of the bills system. Shortcomings identified in the supervision and inspection process have been rectified in a timely manner.

In 2003, the Supervisory Committee shall continue to ensure the preservation of or growth in the Company's asset value and to safeguard shareholders' lawful interests from infringement through ongoing improvements in the corporate governance structure, strengthening regulation of proper use of assets, advancing financial budget management and continuous enhancements of the system of checks and balances.

*Supervisory Committee*  
*Sinopec Shanghai Petrochemical Company Limited*

*Shanghai, 26 March 2003*