

In 2003, the Supervisory Committee of the Company exercised their lawful powers and conscientiously performed their supervisory duties in accordance with the Company Law, relevant laws and regulations and the Company's Articles of Association to preserve and enhance the asset value of the Company, safeguarding the regulated operations of the Company and protecting the shareholders' lawful interests against any infringement.

I. The Supervisory Committee convened four meetings during the reporting period:

1. The fourth meeting of the fourth session of the Supervisory Committee was convened on 25 March 2003 at the Company's office building; and the following was reviewed and approved:
 - (1) Report of the Supervisory Committee 2002;
 - (2) The Supervisory Committee's assessment report on the Company's operating results;
 - (3) Rules on the Operation of the Supervisory Committee of the Company;
 - (4) Resignation of Mr. Chen Xingyuan from Independent Supervisor due to his job duties and nomination Mr. Zhou Yunnong as Independent Supervisor to the fourth session of the Supervisory Committee, to be submitted to the general meeting of the Company for approval.
2. The fifth meeting of the fourth session of the Supervisory Committee was convened on 28 April 2003 by means of correspondence and the 2003 first quarterly report of the Company was reviewed and approved.
3. The sixth meeting of the fourth session of the Supervisory Committee was convened on 19 August 2003 at the Company's office building and the following was reviewed and approved:
 - (1) Evaluations and suggestions made by the Supervisory Committee on the 2003 interim operating results of the Company;
 - (2) Amendments made to the service contracts of the Supervisory Committee members, with new contracts to be signed in due course.

4. The seventh meeting of the fourth session of the Supervisory Committee was convened on 24 October 2003 at the Company's office building and the following resolutions were approved:

(1) Company's the 2003 third quarterly report.

(2) Signing of new service contracts for the Supervisory Committee members.

II. Analysis on reasons for improvements of profitability of the Company in 2003

In 2003, the Company recorded sound operating results due to two main reasons. First, the world economy improved and China's economy achieved continuously rapid growth. As market demand increased, there was more potential for growth in the Company's profits. The State put great efforts in regulating the market for petroleum products, achieving effective results and assuring substantial improvements in the market environment. Secondly, the Board of Directors and senior management of the Company seized market opportunities, leading the whole staff team to overcome the negative impact of the US-Iraq war, the "SARS" epidemic and the continuous hot climate. The Company fully leveraged on the advantage of enhanced production capacity resulting from the "Phase IV" Project which commenced operation in 2002, made timely adjustment to marketing strategies and optimised processing management, while there was a large increase in product output, and thereby exceeding the operating targets for the year. The above achievements have all laid a solid foundation for the Company's new round of reforms and developments to be launched by the Company.

III. Compliance with relevant laws and regulations

During the period, the Supervisory Committee monitored the management's compliance with Company Law as well as relevant laws and regulations, execution of Company's Articles of Association, and implementation of resolutions passed at the shareholders' general meetings and the Board of Directors. There have been no cases reported on violations of State laws and regulations, the Company's Articles of Association or management regulations; or infringement against the interests of the Company or shareholders by the Board of Directors, the General Manager's team or other senior management members in the discharge of their duties. The Supervisory Committee also considered that during 2003, the Company had enhanced financial and budget management, improved the internal control system and upgraded the asset quality of the Company.

IV. Independent work of the Supervisory Committee

During the reporting period, the Supervisors have conducted meetings diligently focusing 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 recommendations put forward in 2003 included recommendations regarding emphasizing accounts receivable, stringent management and scientific audit, enhancements on budget management and stringent control on sources of expenses increase, improvements on the standards of rank-and-file supervision and cost reduction; strengthening on marketing strategies research as a means to achieve better selling prices and placing better controls on stock clearing and disposal.

In order to enhance supervision on the normal course of activities, the Supervisory Committee was committed to analysing the financial reports of the Company every month in an attempt to improve budget management of the Company in every aspect. In 2003, the Supervisory Committee made monthly comparisons between expenses incurred in any particular month and targeted indicators, greatly enhancing its ability to discover problems in a timely manner. In accordance with the requirements of the China Securities Regulatory Commission, the Supervisory Committee placed emphasis on the review of provisions of bad debts, handling of obsolete stock, writing-off of fixed asset, implementation of approval process, the mechanisms and procedures for acquisition and disposal of assets, and the provision of loan guarantees to controlled or associate companies. The Supervisory Committee also supervised and coordinated the relevant departments, studied and reviewed the implementation of issuing sales by the Company, budget management by the Company's subsidiaries and investment returns for some companies controlled by the Company.

In 2004, the Supervisory Committee will further improve its supervision over the financial matters of the Company and enhance the review and analysis of operational management weaknesses. It aims to achieve a regulated operation of assets handling and to increase assets value and economic efficiency, with a view to safeguard the lawful interests of all shareholders.

Supervisory Committee
Sinopec Shanghai Petrochemical Company Limited

Shanghai, 26 March 2004