

In 2004, the Supervisory Committee of the Company conscientiously performed its supervisory duties in accordance with the Company Law and relevant laws and regulations, the Company's Articles of Association and the Rules of Procedure for Supervisory Committee Meeting, thus helping preserve and increase the asset value of the Company, ensuring a standardized operation and safeguard the shareholders' lawful interests against any infringement.

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

1. The eighth meeting of the fourth session of the Supervisory Committee was convened on 25 March 2004 at the Company's headquarter, and the following was reviewed and approved:
 - (1) Report of the Supervisory Committee 2003;
 - (2) The Supervisory Committee's assessment report on the Company's operating results for the year 2003;
 - (3) The amendment of Article 154 of the Company's Articles of Association proposed at the 2004 Annual General Meeting;
 - (4) Resignation of Mr. Du Chongjun, the Chairman of the Supervisory Committee, from the position of Chairman of the fourth session of the Supervisory Committee because of new job assignment, the nomination of Mr. Dai Shuming as the candidate for a supervisor of the fourth session of the Supervisory Committee of the Company to be elected at 2003 Annual General Meeting.
2. The ninth meeting of the fourth session of the Supervisory Committee was convened on 26 April 2004 by means of correspondence and the 2004 first quarterly report of the Company was reviewed and approved.
3. The tenth meeting of the fourth session of the Supervisory Committee was held on 18 June 2004 at the Company's headquarter. The meeting elected Mr. Dai Shuming as the Chairman of the Supervisory Committee.

4. The eleventh meeting of the fourth session of the Supervisory Committee was convened on 26 August 2004 at the Company's headquarter. The Supervisory Committee reviewed and approved the evaluation on the 2004 interim results of the Company.
5. The twelfth meeting of the fourth session of the Supervisory Committee was convened on 21 October 2004 by means of correspondence and the 2004 third quarterly report was reviewed and approved.

II. Analysis on reasons for improvements of profitability of the Company in 2004

In 2004, the Company achieved a historical record of its operating results due to two reasons. First, the world economy maintained a favorable growth momentum, China's economy continued a rapid pace of development. The world petrochemical industry entered into the booming stage of a new development cycle. The Company benefited from such sound situation and improved its market share and operating performance. Secondly, the Board of Directors and Senior Management of the Company capitalized on market opportunities of high demand for petrochemicals and consistently high price of products and assisted the Company in overcoming the negative impact of high crude oil price. The Company made efforts to achieve a stable operation, made timely adjustment to its marketing strategy and policy, emphasized on cost saving and fully exploited the additional capacity brought about by the newly developed "Phase IV" project. As a result, the Company 's targets were met. At the same time, the Company put a lot of efforts on internal structuring and preparations for the next wave of development.

III. Compliance with relevant laws and regulations

During the reporting period, the Supervisory Committee monitored the Management's compliance with the Company Law as well as relevant laws and regulation and the implementation of resolutions passed at the shareholders' general meeting and the meetings of the Board of Directors. There have been no cases found that members of the Board of Directs and senior management violate the State laws and regulations, the Company's Articles of Association while exercising their duties; or infringe against the interests of the Company or shareholders by the Board of Directors, the General Manger's team or other senior management members in the discharge of their duties. The Supervisory Committee also considered that during 2004, the Company had enhanced its internal control resulting in decrease in operating expenses, the financial expenses and administrative expenses and increase in the quantity of crude oil process, the output of products and sales. The Company's asset quality has been improved considerably.

IV. Independent work of the Supervisory Committee

During the reporting period, members of the Supervisory committee positively fulfilled their duties and conducted meetings diligently by paying much attention to improve the quality discussion. They have actively attended meetings of the Board of Directors and furnished specific comments and suggestions on the operation and management of the Company. Major recommendations put forward in 2004 included reducing account receivable of its core business as well its side business, improving budget quality and strengthening the process control, making further adjustment to marketing strategy seeking for the best integrating point for product selling price and settlement, improving stock equipment and material management, while disposing the materials kept too long in stock, attention must be paid to standardized procedure and heighten the recovery value, attention should be paid to economic and technical benchmarks, strictly control feedstock unit consumption and energy consumption, improving site operational management standard, standardizing the practice of checking up and reorganizing and transferring of ownership, restructuring and spin-off avoid assets from running off.

In discharging of its ongoing supervision, the Supervisory Committee was committed to analyzing the financial reports of the Company every month, and through its emphasis on identifying problems, reminding the management of the existence of operation risks in a timely manner. Such supervisor work differs from that of the previous years in the following aspects: firstly, it requested the relevant units (departments) for explanations on any abnormal situations in the financial data, so as to clarify the situation and solve the problems; secondly, it recommended for improvement on the weaknesses existing in production, operation and management; thirdly, it made in-depth up-front investigations, supervised and urged the relevant units to be fully aware of any existing problems and to implement the relevant adjustment and improvement measures. The Supervisory Committee also conducted specific investigations on the implementation of the Company's billing system in product sales, provisions for bad debts, emergency purchases of materials and issues regarding the integrity of leading key officers, through jointly working with the Company's various functional departments such as the compliance office and audit department. In accordance with the requirements stipulated by the CSRC, the Supervisory Committee also made verifications on the bad debts written-off at the year end, provisions for various impairments, non-operating expenses and disposal of assets.

For its work in 2005, the Supervisory Committee will take into consideration the Company's various work including its reforms on the sales management system, disposal and streamlining on investment enterprises, reorganization and conversion of auxiliary operations, and the new round of development projects. With consideration of the above, the Supervisory Committee will further enhance its supervision on the Company's operations, and on the implementation of the internal control system, strengthen the review and analysis of operational weaknesses, ensure regulated operation in disposal of assets, ensure the preservation of values, and safeguard the lawful interests of all the shareholders while enhancing the Company's market competitiveness.

Supervisory Committee
Sinopec Shanghai Petrochemical Company Limited

Shanghai, 23 March 2005