

The Board of Directors of the Company (the "Board") have the pleasure in presenting their report together with the audited accounts of the Company and the Group for the year ended 31 December 2003.

Group Activities and Results

Based on 2003 net turnover and ethylene production, the Group is one of the largest petrochemical enterprises in the PRC. The Group is a highly integrated petrochemical complex which processes crude oil into a broad range of synthetic fibers, resins and plastics, intermediate petrochemical products and petroleum products. Based on sales volume in 2003, the Group ranked high among domestic producers in each category of major products produced by the Group. (Source: "China Petrochemical Economic Information Journal 2003") Details of the Company's principal subsidiaries are set out in the section entitled "Subsidiaries" on page 37.

Profit Appropriation

The profit appropriation plan of the Company for the year ended 31 December 2003 as proposed by the Directors is as follows:

(Prepared under the PRC Accounting Rules and Regulations)

	RMB'000
Profit after tax	1,429,166
Minority interests	(43,610)
Profit attributable to shareholders	1,385,556
Transfer to reserves	
Statutory surplus reserve	(138,556)
Statutory public welfare fund	(138,556)
Retained profits brought forward	1,300,452
Dividend	(360,000)
Retained profits	2,048,896
Earnings per share (basic and fully-diluted)	RMB 0.192

The proposed profit appropriation will be presented to shareholders for approval at the forthcoming 2003 Annual General Meeting.

Pursuant to the relevant regulations of the Ministry of Finance and the Company's Articles of Association, in case of any discrepancy between the profit figure obtained under PRC Accounting Regulations and that under International Accounting Standards, the lower figure is used.

Dividends

The fourth session of the Board held its tenth meeting on 26 March 2004 at which the Board proposed to distribute a final dividend to shareholders of RMB0.08 per share, with distributed dividends for the year totalling RMB576,000,000.

Financial Summary

A summary of the results, total assets, liabilities and shareholders' funds of the Group for the five years ended 31 December 2003 is set out on page 4.

Bank Loans and Other Borrowings

Details of bank loans and other borrowings of the Company and the Group as at 31 December 2003 are set out in notes 21 and 30 to the financial statements prepared under IFRS.

Interest Capitalised

Details of the interest capitalised during the year ended 31 December 2003 are set out in note 6 to the financial statements prepared under IFRS.

Fixed Assets

Movements of the fixed assets during the year ended 31 December 2003 are summarised in note 12 to the financial statements prepared under IFRS.

Subsidiaries

As at 31 December 2003, the Company had equity interests of over 50% in the following principal subsidiaries:

Company Name	Principal Activities	Percentage of equity held by the Company (%)	Percentage of equity held by Subsidiary (%)	Registered Capital ('000)
Shanghai Petrochemical Investment Development Company Limited	Investment management	100	-	RMB800,000
SPC Marketing Development Corporation	Trading in petrochemical products	100	-	RMB25,000
China Jinshan Associated Trading Corporation	Import and export of petrochemical products and equipment	80	-	RMB25,000
Shanghai Jinhua Industrial Company Limited	Trading in petrochemical products	-	81.46	RMB25,500
Shanghai Jindong Petrochemical Industrial Company Limited	Trading in petrochemical products	-	60	RMB40,000
Shanghai Golden Way Petrochemical Company Limited	Production of vinyl acetate products	-	75	US\$3,460
Shanghai Jinchang Engineering Plastics Company Limited	Production of polypropylene compound products	-	50.38	US\$4,750
Shanghai Golden-Phillips Petrochemical Company Limited	Production of polypropylene products	-	60	US\$50,000
Zhejiang Jin Yong Acrylic Fiber Company Limited	Production of acrylic fibre products	75	-	RMB250,000
Shanghai Petrochemical Enterprise Development Company Limited	Investment management	100	-	RMB455,000
Shanghai Golden Conti Petrochemical Company Limited	Trading in petrochemical products	-	100	RMB295,776

None of the subsidiaries has issued any debt securities.

The Group's other investments in joint ventures include non-controlling equity investments in various enterprises which are mainly engaged in manufacturing or trading activities related to the Group's operations. The Group's share of results attributable to these interests during the year ended 31 December 2003 is not material in relation to the profit of the Group for the said period and therefore is not equity accounted for. In addition, investments in non-consolidated subsidiaries represent the Company's interests in these subsidiaries which do not principally affect the results or assets of the Group and, therefore, are not consolidated or equity accounted for.

The Group's interests in joint ventures include an interest of RMB652,356,000 representing a 38.26% equity interest in Shanghai Chemical Industry Park Development Company Limited ("SCIP") and an interest of RMB637,684,000 representing a 20% equity interest in Shanghai Secco Petrochemical Company Limited ("Secco"), both companies incorporated in the PRC. The principal activity of SCIP is the planning, development and the operation of the Chemical Industry Park in Shanghai, PRC. The principal activity of Secco is the production of ethylene and other petrochemical products.

Reserves

Details of the movements in reserves during the year ended 31 December 2003 are set out in note 25 to the financial statements prepared under IFRS.

Statutory Public Welfare Fund

Details in relation to the nature, application and movements of the Statutory Public Welfare fund and the basis of its calculation, including the percentage and the profit figure used for calculating the amounts, are set out in note 25 to the financial statements prepared under IFRS.

Donations

During the year ended 31 December 2003, the Company made donations for charitable purposes amounting to approximately RMB10,080,000.

Employees' Retirement Scheme

Details of the Company's Employees' Retirement Schemes are set out in note 27 to the financial statements prepared under IFRS.

Staff Quarters

Pursuant to the directive "Cai Qi (2000) No.295 issued by the Ministry of Finance, the housing reform policy ceased in 2000. The Company did not dispose of any staff dormitories during the year under the housing reform policy.

Pre-emptive Rights

According to the articles of association of the Company and the laws of the PRC, no pre-emptive right exists which will require the Company to offer new shares to its existing shareholders in proportion to their shareholding.

Major Suppliers and Customers

The Group's top five suppliers during 2003 were China International United Petroleum & Chemicals Co. Ltd., Xuzhou Pipeline Storage and Transportation Branch, SinoChemical International Oil Co. Ltd., China National Offshore Oil Corporation and Shanghai Nanguang Petrochemical Company Ltd. The total cost of purchases from these suppliers accounted for 64% of the total cost of purchases by the Group during the year.

The Group's top five customers during 2003 were Sinopec Huadong Sales Company, Shanghai Chlor-Alkali Chemical Company Limited, Shanghai Gaoqiao Petrochemical Factory, China International United Petroleum & Chemicals Co. Ltd. and Zhangjiagang Free Trade Zone Huaying International Trading Company Ltd. The total sales derived from these customers during the year represented 36% of the total annual revenue.

None of the directors (or their associates) or shareholders of the Company, to the knowledge of the Board, held any interest in these suppliers or customers, other than Sinopec Huadong Sales Company and China International United Petroleum & Chemicals Co. Ltd., which are subsidiaries of the Company's controlling shareholder, China Petroleum & Chemical Corporation.

Share Capital Structure

Share capital structure and changes thereof for the year ended 31 December 2003.

	Before change	Change					Sub-total	After change
		Rationed share	Bonus share	from reserve funds	Increase	Others		
I. Shares not in circulation								
1. Promoter's shares								
comprising,	-	-	-	-	-	-	-	-
State-owned shares	-	-	-	-	-	-	-	-
Domestic legal person shares	4,000,000,000	-	-	-	-	-	-	4,000,000,000
Overseas legal person shares	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-
2. Legal person shares	150,000,000	-	-	-	-	-	-	150,000,000
3. Internal staff shares								
4. Priority shares or others	-	-	-	-	-	-	-	-
Sub-total of Promoter shares	4,150,000,000	-	-	-	-	-	-	4,150,000,000
II. Shares in circulation								
1. RMB ordinary shares	720,000,000	-	-	-	-	-	-	720,000,000
2. Domestic listed foreign shares	-	-	-	-	-	-	-	-
3. Overseas listed foreign shares	2,330,000,000	-	-	-	-	-	-	2,330,000,000
4. Others	-	-	-	-	-	-	-	-
Sub-total of Shares in circulation	3,050,000,000	-	-	-	-	-	-	3,050,000,000
III. Shares in total	7,200,000,000	-	-	-	-	-	-	7,200,000,000

For the year ended 31 December 2003, the share capital of the Company totalled 7.2 billion shares, which were held by 228,632 shareholders, with 226,083 of them being holders of A shares and 2,549 of them being holders of H shares.

Purchase, Sale and Redemption of Shares

During 2003, no shares of the Company was purchased, sold or redeemed by the Company or its subsidiaries.

Top 10 Shareholders

As at 31 December 2003, the top ten shareholders in the Company were as follows:

Rank	Name	Increase/decrease during the year	Number of shares held at end of the year	Percentage of total shareholdings(%)	Type of shares (circulating/ non-circulating)	Number of shares pledged or frozen	Type of Shares
1.	China Petroleum & Chemical Corporation	-	4,000,000,000	55.56	Non-circulating	-	Promotor legal person shareholder
2.	HKSCC (Nominees) Ltd.	35,002,546	1,893,017,857	26.29	Circulating	-	Foreign shareholder
3.	Hongkong & Shanghai Banking Corporation (Nominees) Limited	720,000	355,300,000	4.93	Circulating	-	Foreign shareholder
4.	Jingfu Securities Investment Fund	21,867,655	26,268,555	0.36	Circulating	-	Legal person shareholder
5.	Shanghai Kangli Gong Mao Company	-	16,730,000	0.23	Non-circulating	16,430,000	Legal person shareholder
6.	Tianyuan Securities Investment Fund	Not available	13,917,202	0.19	Circulating	-	Legal person shareholder
7.	Tongyi Securities Investment Fund	Not available	12,801,847	0.18	Circulating	-	Legal person shareholder
8.	Zhejiang Province Economic Construction and Investment Company	-	12,000,000	0.17	Non-circulating	-	Legal person shareholder
9.	Hongkong & Shanghai Banking Corporation (Nominees) Limited	-	10,336,000	0.14	Circulating	-	Foreign shareholder
10.	Jinghong Securities Investment Fund	7,870,988	10,036,320	0.14	Circulating	-	Legal person shareholder

Description of any connected relationships or concerted parties relationships among the top ten shareholders

Among the top ten shareholders of the Company, China Petroleum & Chemical Corporation, the state-owned shareholder, does not have any connected relationship with the other shareholders, and is not a connected party of the other shareholders under "Administration Measures for Disclosures of Shareholdings in Listed Companies". Of the above mentioned shareholders, Hongkong & Shanghai Banking Corporation (Nominees) Limited is a nominee company, while Jingfu Securities Investment Fund and Jinghong Securities Investment Fund are at the same time under the management of Da Cheng Fund Management Co. Ltd. The Company is not aware of whether or not there are connected relationships among the other shareholders, and whether or not they are concerted parties under "Administration Measures for Disclosures of Shareholdings in Listed Companies".

Top ten holders of shares in circulation as at the end of the reporting period as follows:

Rank	Name of shareholders	Number of shares held at end of the year	Type of Shares
1.	HKSCC Nominees Ltd.	1,893,017,857	H
2.	Hongkong & Shanghai Banking Corporation (Nominees) Limited	355,300,000	H
3.	Jingfu Securities Investment fund	26,268,555	A
4.	Tianyuan Securities Investment Fund	13,917,202	A
5.	Tongyi Securities Investment Fund	12,801,847	A
6.	Hongkong & Shanghai Banking Corporation (Nominees) Limited	10,336,000	H
7.	Jinghong Securities Investment Fund	10,036,320	A
8.	Kerui Securities Investment Fund	9,954,508	A
9.	Hansheng Securities Investment Fund	8,064,994	A
10.	Yulong Securities Investment Fund	8,031,884	A

Description of any connected relationships or concerted party relationships among the top ten holders of shares in circulation

Among the top ten holders of shares in circulation of the Company, Jingfu Securities Investment Fund and Jinghong Securities Investment Fund are at the same time under the management of Da Cheng Fund Management Co. Ltd. The Company is not aware of whether or not there are connected relationships among the other holders of shares in circulation, and whether or not they are concerted parties under "Administration Measures for Disclosures of Shareholdings in Listed Companies".

Legal Person Shareholders with Shareholdings of 10% of More

As at the end of 2003, China Petroleum & Chemical Corporation held 4 billion shares in the Company, representing 55.56% of the total share capital of the Company.

Authorised representative:	Chen Tonghai
Date of establishment:	25 February 2000
Registered capital:	RMB86.7 billion
SCOPE of operation:	Exploring for, extracting and selling crude oil and natural gas; oil refining; production, sale and transport of petro-chemical, chemical fibres and other chemical products; pipe transport of crude oil and natural gas; research and development and application of new technologies and information.
Major products:	Synthetic resin, synthetic fibre monomer and polymer, synthetic fibre, synthetic rubber, chemical fertilizer and intermediate petrochemical.
Security:	The shares held are not subject to any security.

At the end of 2003, HKSCC (Nominees) Limited held 1,893,017,857 H Shares of the Company, representing 26.29% of the total share capital of the Company.

Directors, Supervisors, Senior Management of the Company and Staff

Name	Position	Sex	Age	Term of Office
Lu Yiping	Chairman	M	58	2002/6/18-2005/6/18
Xu Kaicheng	Director	M	47	2002/6/18-2005/6/18
Rong Guangdao	Director and President	M	48	2002/6/18-2005/6/18
Feng Jianping	Director and Vice President	M	50	2002/6/18-2005/6/18
Jiang Baoxing	Director	M	58	2002/6/18-2005/6/18
Li Weichang	Director	M	50	2002/6/18-2005/6/18
*Liu Wenlong	External Director	M	63	2002/6/18-2005/6/18
*Zhang Baojian	External Director	M	59	2002/6/18-2005/6/18
Gu Chuanxun	Independent Director	M	68	2002/6/18-2005/6/18
Wang Yongshou	Independent Director	M	63	2002/6/18-2005/6/18
Wang Xingyu	Independent Director	M	59	2002/6/18-2005/6/18
*Chen Xinyuan	Independent Director	M	39	2003/6/18-2005/6/18
Du Chongjun	Chairman of the Supervisory Committee	M	49	2002/6/18-2005/6/18
Zhang Chenghua	Supervisor	M	48	2002/6/18-2005/6/18
Zhu Weiyan	Supervisor	M	55	2002/6/18-2005/6/18
*Zhang Jianjun	External Supervisor	F	52	2002/6/18-2005/6/18
*Lu Xiangyang	External Supervisor	M	52	2002/6/18-2005/6/18
*Zhou Yunnong	Independent Supervisor	M	61	2003/6/18-2005/6/18
*Liu Xiangdong	Independent Supervisor	M	52	2002/6/18-2005/6/18
Zhang Zhiliang	Vice President	M	50	2002/6/18-2005/6/18
Wu Haijun	Vice President	M	41	2002/6/18-2005/6/18
Yin Jihai	Vice President	M	46	2002/6/18-2005/6/18
Han Zhihao	Chief Financial Officer	M	52	2002/6/18-2005/6/18
Shi Wei	Vice President	M	44	2003/10/24-2005/6/18
Zhang Jingming	Company Secretary	M	46	2002/6/18-2005/6/18

* Non-salaried external directors and supervisors of the Company.

The profiles of the Director, Supervisors and senior management of the Company are set out on pages 63 to 69.

Remuneration of Directors, Supervisors and Senior Management for the Year

	RMB
Total remuneration for the year	2,526,224
Total remuneration paid to the 3 highest paid directors	622,406
Total remuneration paid to the 3 highest paid senior management staff members	445,860
Allowances paid to the independent directors	240,000
Other benefits provided to the independent directors	0
Name of directors and supervisors who did not receive remuneration from the Company	Li Weichang, Liu Wenlong, Zhang Baojian, Chen Xinyuan, Zhang Jianjun, Lu Xiangyang, Zhou Yunnong, Liu Xiangdong

Remuneration Bands (RMB)	Number of people
200,000 - 250,000	2
150,000 - 200,000	8
Below 150,000	6

Employees

The Company has a total of 31,008 employees, of whom 20,097 are production workers, 8,160 are sales, financial and other personnel and 2,751 are administrative personnel. 19.27% of the employees are university or college graduates or above.

Corporate Governance Structure

(1) Current status of corporate governance in the Company

The Company has strictly complied with relevant requirements of the Company Law, Securities Law, Corporate Governance Principles for Listed Companies, Guidelines for Formulating Independent Directors for Listed Companies, the Shanghai Stock Exchange and The Stock Exchange of Hong Kong Limited to put forward the advancement of the Company's system and management, improve the corporate governance structure, strengthen the formulation of the Company's system in order to enhance the overall image of the Company.

In 2003, the Company has passed the resolution in respect of the amendments to the articles of associations of the Company. Meanwhile, the board of directors of the Company has strengthened the communication with relevant securities regulatory commissions in Shanghai and has passed through the examinations successfully.

(2) Performance of duties by the Company's independent directors

The independent directors of the Company attended the 2002 Annual General Meeting, the 2003 Extraordinary General Meetings and the 2003 board meetings, and have fully fulfilled the functions of independent directors. They participated in considering and approving the resolutions in respect of the 2002 annual report, the 2003 interim report, the profit appropriation plan and connected transactions. They expressed their opinions on the basis of their work experience and professionalism and conscientiously performed their duties as independent directors. In addition, they gave independent opinions on major matters such as appointments of senior management staff members and connected transactions. The independent directors have fulfilled their duties in a independent, trustworthy and diligent manner to safeguard the interests of shareholders, in particular minority shareholders, in accordance with the authority conferred on them as stipulated by the relevant laws and regulations and the Articles of Association.

- (3) Actively promote and improve performance appraisal and bonus mechanisms for senior management On 26 March 2003, an remuneration system for Independent Directors and Directors, Supervisors and Senior Management of the Company was proposed at the fourth meeting of the fourth session of the Board and approved at the 2002 Annual General Meeting on 18 June 2003.

Directors, Supervisors and Senior Management's Interests in Shares

As at 31 December 2003, the interests held by Director, Supervisor and senior management in the Company were as follows (Unit: Share):

Name	Position	Number of Shares Held at the beginning of the year	Number of Shares Held at the end of year	Reason for Change
Lu Yiping	Chairman	3,600	3,600	-
Xu Kaicheng	Director	3,600	3,600	-
Rong Guangdao	Director and President	3,600	3,600	-
Feng Jianping	Director and Vice President	3,600	3,600	-
Jiang Baoxing	Director	3,600	3,600	-
Li Weichang	Director	1,000	1,000	-
*Liu Wenlong	External Director	Nil	Nil	-
*Zhang Baojian	External Director	Nil	Nil	-
*Gu Chuanxun	Independent Director	Nil	Nil	-
*Wang Yongshou	Independent Director	3,600	3,600	-
*Wang Xingyu	Independent Director	Nil	Nil	-
Chen xinyuan	Independent Director	Nil	Nil	-
Du Chongjun	Chairman of Supervisory Committee	1,000	1,000	-
Zhang Chenghua	Supervisor	Nil	Nil	-
Zhu Weiyan	Supervisor	Nil	Nil	-
*Zhang Jianjun	External Supervisor	Nil	Nil	-
Lu Xiangyang	External Supervisor	Nil	Nil	-
Zhou Yunnong	Independent Supervisor	Nil	Nil	-
*Liu Xiangdong	Independent Supervisor	Nil	Nil	-
Zhang Zhiliang	Vice President	3,600	3,600	-
Wu Haijun	Vice President	1,500	1,500	-
Yin Jihai	Vice President	Nil	Nil	-
Han Zhihao	Chief Financial Officer	Nil	Nil	-
Shi Wei	Vice President	Nil	Nil	-
Zhang Jingming	Company Secretary	Nil	Nil	-

The shares held by the above people are A shares and represented their personal interests in their capacity as beneficial owners.

Interests and Short Positions of Directors and Supervisors in Shares, underlying Shares and Debentures

Other than as set out above, as at 31 December 2003, none of the Directors, Supervisors or senior management had any interests or short positions in any shares, underlying shares of equity derivatives or debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

As at 31 December 2003, none of the Directors, Supervisors or Senior Management and their respective spouses and children under 18 years of age had been granted by the Company or had exercised any rights to subscribe for shares or debentures of the Company or any of its associated corporations.

Interests and short positions of substantial shareholders and other persons in shares and underlying shares

As at 31 December 2003, the interests and short positions of substantial shareholders (being persons who are entitled to exercise, or control the exercise of, 10% or more of the voting power at any general meeting of the Company) and other persons who are required to disclose their interests pursuant to Part XV of the SFO (including those which are entitled to exercise, or control the exercise of, 5% or more of the voting power at any general meeting of the Company but excluding the Directors and Supervisors) in the shares and underlying shares of equity derivatives of the Company as recorded in the register required to be kept under Section 336 of the SFO were as set out below:

(1) (a) Interests in ordinary shares of the Company

Name of shareholder	Number and type of shares held	% of total issued share capital	% of shareholding in the Company's total issued H shares	Capacity
China Petroleum & Chemical Corporation	4,000,000,000 promoter legal person shares	55.56%	-	Beneficial owner
J.P.Morgan Chase & Co.*	253,409,700 H shares	3.52%	10.88%	Beneficial owner; investment manager; other (lending pool)
HSBC Asset Management (Hong Kong) Limited*	132,166,000 H shares	1.84%	5.67%	Beneficial owner; investment manager; other (lending pool)

* Such H shares were held through a nominee.

(b) Interests in underlying shares of the Company

No interests of substantial shareholders or other persons who are required to disclose their interests pursuant to Part XV of the SFO in the underlying shares of equity derivatives of the Company were recorded in the register required to be kept under Section 336 of the SFO.

(2) Short positions in shares and underlying shares of the Company

No short positions of substantial shareholders or other persons who are required to disclose their interests pursuant to Part XV of the SFO in the shares or underlying shares of equity derivatives of the Company were recorded in the register required to be kept under Section 336 of the SFO.

Save as stated above, as at 31 December 2003, no interests or short positions of any person in the shares or underlying shares of equity derivatives of the Company were recorded in the register required to be kept under Section 336 of the SFO.

Change of Directors, Supervisors and Senior Management

The Company convened the fifth meeting of the fourth session of the board of directors on 29 April 2003. Mr Zhang Zhiliang, Mr Zhang Honglin and Mr Huang Jian have resigned from the offices of directors due to job changes. It was resolved at the eighth meeting of the fourth session of the board of directors held on 24 October 2003 that Mr Lu Yiping would no longer hold the position of President and Mr Rong Guangdao was appointed as President; Mr Xu Kaicheng would no longer hold the position of Vice Chairman due to job change; Mr Liu Xunfeng has resigned from the position of Vice President due to job change; in accordance with the nomination by the President, Mr Han Zhihao was appointed Chief Financial Officer and Mr Shi Wei was appointed Vice President of the Company.

Directors' and Supervisors' Interests in Contracts

None of the Director or Supervisor of the Company had any direct or indirect beneficial interests in any contracts of significance entered into or subsisting during the Year to which the Company or any of its subsidiaries was a party.

No Director or Supervisor of the Company has entered into any service contract with the Company which is not terminable by the Company within one year without payment of compensation other than statutory compensation.

Audit Committee

The audit committee and the management of the Company have reviewed the accounting principles, accounting standards and discussed matters relating to auditing, internal supervising and financial reporting, including the audited report for the year ended 31 December 2003.

Code of Best Practice

The Company has complied with "The Code of Best Practice" set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") for the year ended 31 December 2003.

Meetings of the Board

The Company has held six Board meetings during the reporting period, details of which are as follows:

1. On 26 March 2003, the fourth meeting of the fourth session of the board of directors was convened. The meeting considered and approved the 2002 report of the Directors, the 2002 financial statements, the 2002 profit appropriation, the 2002 annual report, the 2002 summary of annual report, the report of the President and 2003 financial budget. The relevant announcement was published in Shanghai Securities Journal, Chinese Securities Journal, South China Morning Post of Hong Kong and Hong Kong Commercial Daily on 27 March 2003.
2. On 29 April 2003, the fifth meeting of the fourth session of the board of directors was convened. The meeting considered and approved the first quarterly report for 2003, the Form 20-F to be filed with the Securities and Exchange Commission of the United States of America, the reappointment of KPMG Huazhen and KPMG as the Company's PRC and international auditors, respectively and authorisation of the board of directors to fix their remuneration; adjustment to the members of the board of directors of the Company; the remuneration system for independent directors; the amendment to the articles of association of the Company and its appendices and resolutions proposed at the 2002 Annual General Meeting. The relevant announcement was published in Shanghai Securities Journal, Chinese Securities Journal, South China Morning Post of Hong Kong and Hong Kong Commercial Daily on 30 April 2003.
3. On 20 August 2003, the sixth meeting of the fourth session of the board of directors was convened. The meeting considered and approved the 2003 interim report and the 2003 interim profit appropriation; the appointment of Mr. Chen Xinyuan, an independent director, as member of the Audit Committee; as well as relevant resolutions proposed at the Extraordinary General Meeting held on 21 November 2003. The relevant announcement was published in Shanghai Securities Journal, Chinese Securities Journal, South China Morning Post of Hong Kong and Hong Kong Commercial Daily on 21 August 2003.

4. On 17 September 2003, the seventh meeting of the fourth session of the board of directors was convened. The meeting considered and approved the entering into the Supply contract of Acrylonitrile and Supply Contract of Acrylonitrile between the Company and Shanghai Secco Petrochemical Company Limited; the entering into the Supply Contract of Acrylonitrile and Supply Contract of Acrylonitrile between the Company and Zhejiang Jinyong Acrylic Fiber Company Limited; as well as relevant resolutions proposed at the 2003 Extraordinary General Meeting. The relevant announcement was published in Shanghai Securities Journal, Chinese Securities Journal, South China Morning Post of Hong Kong and Hong Kong Commercial Daily on 26 September 2003.
5. On 24 October 2003, the eighth meeting of the fourth session of the board of directors was convened. The meeting considered and approved the third quarterly report for 2003, the appointment of Morrison & Foerster LLP as the US legal advisor; agreed that Mr Lu Yiping, Chairman, should no longer hold the position of President because of job needs; the appointment of Mr Rong Guangdao as the President of the Company; agreed that Mr Xu Kaicheng, vice Chairman, should no longer hold the position of Vice Chairman because of job change; the resignation of Liu Xunfeng, Vice President, from the office of Vice President because of job change and in accordance with the nomination by the President, Mr Han Zhihao was appointed a Chief Financial Officer and Mr Shi Wei was appointed a Vice President. The relevant announcement was published in Shanghai Securities Journal, Chinese Securities Journal, South China Morning Post of Hong Kong and Hong Kong Commercial Daily on 27 October 2003.
6. On 29 December 2003, the ninth meeting of the fourth session of the board of directors was convened. The meeting considered and approved the Acrylic Fibre Products Sales Agent Contract entered into by the Company and Zhejiang Jinyong Acrylic Fibre Company Limited, the Company's subsidiary with Shanghai Acrylic Fibres Sales Branch Company of China Petroleum & Chemical Corporation; and the retrofitting project for the Company's 1# vacuum atmospheric distillation plant at a nearby site. The relevant announcement was published in Shanghai Securities Journal, Chinese Securities Journal, South China Morning Post of Hong Kong and Hong Kong Commercial Daily on 31 December 2003.

Shareholders' Meeting

2002 Annual General Meeting

The Company held its 2002 Annual General Meeting on 18 June 2003 in Jinshan District, Shanghai, the PRC. The AGM was attended by 35 people in person or their proxies holding 6.047 billion shares, representing 83.99% of the Company's total share capital, which formed a quorum of the meeting in accordance with the requirements stipulated by the Articles of Association of the Company and the PRC Company Law.

The meeting approved the following resolution:

1. The report of the Directors for the year ended 31 December 2002;
2. The report of the Supervisory Committee for the year ended 31 December 2002;
3. The Audited Statement of Accounts of the Company for the year ended 31 December 2002 and the 2003 Budget;
4. The Profit Appropriation of the Company for the year ended 31 December 2002;
5. The reappointment of KPMG Huazhen and KPMG as the Company's PRC and international auditors respectively for the year ending 31 December 2003 was approved and the Directors were authorised to fix their remuneration;
6. Approved the resignations of Mr Zhang Zhiliang, Mr Zhang Honglin and Mr Huang Jian from the offices of Directors of the fourth session of the board of directors of the Company; appointed Mr. Chen Xinyuan as Director to the fourth session of the board of directors of the Company and to elect a new session of the board of directors of the Company; approved the resignation of Mr Chen Xinyuan from the office of Independent Supervisor of the fourth session of the Supervisory Committee; appointed Mr Zhou Yunnong as an Independent Supervisor of the fourth session of the Supervisory Committee of the Company;
7. The remuneration system for Independent Directors and Directors, Supervisors and Senior Management of the Company;
8. Authorise the board of directors to amend the Articles of Association as a special resolution.

Resolutions of the Annual General Meeting were published in Shanghai Securities Journal, Chinese Securities Journal, South China Morning Post of Hong Kong and Hong Kong Commercial Daily on 19 June 2003.

2003 Extraordinary General Meeting

The Company held its 2003 Extraordinary General Meeting ("EGM") on 21 November 2003 at Shangri-la Hotel, Shenzhen, the PRC. The EGM was attended by 7 people in person or their proxies holding 6.270 billion shares, representing 87.09% of the Company's total share capital, which formed a quorum of the meeting in accordance with the requirements stipulated by the Articles of Association of the Company and the PRC Company Law. The following resolutions were reviewed and approved by Independent Directors who have attended the EGM (other than shareholders of Sinopec Corp and its subsidiaries)

1. Approved the Contract for Supply of Acrylonitrile entered into between the Company and Shanghai Secco Petrochemical Company Limited;
2. Contract for Supply of Acrylonitrile entered into between Zhejiang Jinyong Acrylic Fiber Company Limited and Shanghai Secco Petrochemical Company Limited.

The relevant announcement was published in Shanghai Securities Journal, Chinese Securities Journal, South China Morning Post of Hong Kong and Hong Kong Commercial Daily on 24 November 2003.

Proposed amendments to the Company's articles of association

The Company proposes to make the following amendments to its articles of association in accordance with the amendments to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the Listing Rules) announced on 30 January 2004:

1. The existing Articles 83 and 88 shall be replaced by new provisions such that, where any shareholder is, under the Listing Rules, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.
2. The existing Articles 110 and 111 shall be replaced by new provisions, such that the period for a shareholder to lodge a notice of intention to propose a person for election as a director will commence no earlier than the day after the despatch of the notice of meeting appointed for such election and end no later than 7 days prior to the date of such meeting.
3. The existing Article 177 shall be replaced by a new provision, such that a director shall not vote on any board resolution approving any contract or arrangement or any other proposal in which he or any of his associates has a material interest nor shall he be counted in the quorum present at meeting.

The resolutions regarding the above amendments and certain other amendments will be put forward to the shareholders for approval by way of special resolution at the annual general meeting of the Company to be held on 18 June 2004. For details of the resolutions regarding the proposed amendments, please refer to the notice of annual general meeting published in Shanghai Securities Journal, Chinese Securities Journal, South China Morning Post of Hong Kong and Hong Kong Commercial Daily on 29 March 2004.

MAJOR EVENTS

1. Profit appropriation plan for 2003

Net profit of the Company for the year ended 31 December 2003 amounted to RMB1,385,556,000 under PRC Accounting Rules and Regulations (RMB1,401,690,000 under IFRS). After two transfers, each amounting to 10% of the profit after tax, or RMB138,556,000, made to the statutory surplus reserve and the statutory public welfare fund, respectively, profit available for distribution to shareholders amounted to RMB1,108,444,000 (RMB1,124,578,000 under IFRS). The Board of Directors proposed to declare a final dividend of RMB0.08 (incl. tax) per share. With reference to the total number of shares of 7,200,000,000 for the year ended 31 December 2003, the total dividend amount will be RMB576,000,000. The relevant announcement was published in the published in the Shanghai Securities Journal, Chinese Securities Journal, South China Morning Post of Hong Kong and Hong Kong Commercial Daily on 29 March 2003.

2. Material litigation

The Company was not involved in any material litigation or arbitration in 2003.

3. Acquisitions and sale

There was no significant acquisition or sale made by the Company in 2003.

4. Trust financial management

During 2003, no trust financial management was made by the Company.

5. Major connected transactions

- (1) The Stock Exchange of Hong Kong Limited (the "Stock Exchange") has confirmed that the conditional waivers (the "waivers") granted to the Company exempting it from compliance with certain ongoing disclosure and shareholders' approval requirements under the Listing Rules in relation to connected transactions as described in the prospectus of the Company dated 6 July 1993, would remain valid upon completion of the reorganisation of China Petrochemical Corporation ("Sinopec"), the former substantial shareholder of the Company.

Following completion of the reorganisation of Sinopec, the connected transactions which were previously carried out between the Company and Sinopec and their respective associates under the waivers are carried out between the Company and China Petroleum & Chemical Corporation and their respective associates. The Stock Exchange has confirmed that these connected transactions will be covered by the waivers on the basis that there is no change in the ultimate controlling shareholder of the Company.

The Board believes that the transactions listed below were entered into in the ordinary course of business and on normal commercial terms or in accordance with the terms of the agreements governing these transactions.

Details of the Group's connected transactions during the reporting year are set out in note 30 of the financial statements prepared in accordance with the PRC Accounting Rules and Regulations.

(2) Funds provided to and by connected parties

Connected parties	Funds provided to the connected parties		Funds provided by the connected parties to the listed company	
	Net transaction		Net transaction	
	amount RMB'000	Balance RMB'000	amount RMB'000	Balance RMB'000
China International United Petroleum & Chemical Company Ltd. (Unipecc)	42,135	46,807	13,071	13,071
Other connected parties	109,380	118,112	22,855	37,026

(3) The following transactions are the significant related party transactions relating to sales and purchases of goods and provision of services that occurred during the year ended 31 December 2003:

Type of transactions	Related parties	Amount RMB'000	Percentage of total amount of the type of transaction %
Sales	Sinopec Huadong Sales Company	8,145,616	27.55
	Other fellow subsidiaries	2,335,857	7.90
Purchases	China International United Petroleum & Chemicals Co. Ltd. (Unipecc)	12,616,258	63.12
	Other fellow subsidiaries	4,045,099	20.24
Construction and installation fees	China Petrochemical Corporation & its subsidiaries	297,525	70.17

The Group is of the opinion that the purchases of goods from the above related parties ensure a steady and secure supply of raw materials, and that sales to the above related parties ensure that the Group maintains important sales channels. The construction and installation fees were paid to China Petroleum & Chemical Corporation strictly in compliance with the respective contracts. These connected transactions are beneficial to the Group.

6. Trust, sub-contract and leasing

During 2003, the Group did not enter into any trust, sub-contract or lease arrangements relating to its own assets or the assets of any other company.

7. Auditors

KPMG Huazhen and KPMG were the Company's domestic and international auditors respectively in 2003.

A resolution for the reappointment of KPMG Huazhen and KPMG as the domestic and international auditors of the Company respectively, is to be proposed at the forthcoming 2004 Annual General Meeting of the Company

The only fees paid by the Company to KPMG Huazhen and KPMG are their audit fees as stated below:

	KPMG Huazhen (Domestic)	KPMG (International)
Audit fee for 2003	US\$70,000 (unpaid)	US\$480,000 (unpaid)
Audit fee for 2002	US\$60,000 (paid)	US\$490,000 (paid)
Travelling and accomodation expenses	Borne by the firm	Borne by the firm

KPMG Huazhen and KPMG have provided auditing services to the Company for a consecutive period of 11 years.

Miss Jin Naiwen, the Certified Public Accountant of KPMG Huazhen has audited the Company for 7 consecutive years.

Miss Song Chenyang, the Certified Public Accountant of KPMG Huazhen has audited the Company for 1 year.

8. Material contracts

During 2003, the Company has no material contracts or contract for which the Company did not perform its obligations.

9. Controlling shareholder

China Petroleum & Chemical Corporation ("Sinopec Corp") is the controlling shareholder of the Company, holding a 55.56% equity interest or 4,000 million shares.

Sinopec Corp is the largest company in Asia and China in terms of production, distribution and marketing of gasoline, diesel, coal and most of other major petroleum products. Sinopec Corp is also the largest manufacturer and distributor of petrochemical products in China and the second largest explorer, developer and producer of crude oil and natural gas in China.

10. Tax rate

The charge for PRC income tax is currently calculated at the rate of 15% (2002:15%). The Company has not received any notice from the Ministry of Finance to the effect that the 15% tax rate will not continue to be applicable to the Company in 2004.

11. Deposits

The Company did not have any designated deposit during 2003. As at 31 December 2003, the Group did not have any time deposit which could not be collected upon maturity.

12. Guarantees

Guaranteed entities	Date (Agreement signing date)	Guarantee amount (RMB '000)	Type of guarantee	Guarantee period	Guarantee expired	Guarantee connected for a party
Shanghai Golden Conti Petrochemical Company Limited	20 September 2003	20,000	Bank loan	1 year	No	Yes
Shanghai Golden Conti Petrochemical Company Limited	28 August 2003	140,000	Bank loan	1 year	No	Yes
Shanghai Golden Conti Petrochemical Company Limited	10 November 2003	120,000	Bank loan	1 year	No	Yes
Shanghai Golden Conti Petrochemical Company Limited	12 September 2003	120,000	Bank loan	1 year	No	Yes
Zhejiang Jin Yong Acrylic Fibre Company Limited	21 December 1997	62,110	Bank loan	7 years	No	Yes
Zhejiang Jin Yong Acrylic Fibre Company Limited	21 December 1997	4,800	Bank loan	7 years	No	Yes
Zhejiang Jin Yong Acrylic Fibre Company Limited	21 December 1998	14,800	Bank loan	7 years	No	Yes
Zhejiang Jin Yong Acrylic Fibre Company Limited	21 May 2003	10,000	Bank loan	1 year	No	Yes
Zhejiang Jin Yong Acrylic Fibre Company Limited	5 December 2003	50,000	Bank loan	1 year	No	Yes
Zhejiang Jin Yong Acrylic Fibre Company Limited	18 June 2002	24,500	Bank loan	5 years	No	Yes
Zhejiang Jin Yong Acrylic Fibre Company Limited	2 June 2003	130,000	Bank loan	3 years	No	Yes
Zhejiang Jin Yong Acrylic Fibre Company Limited	19 May 2003	50,000	Bank loan	1 year	No	Yes
Zhejiang Jin Yong Acrylic Fibre Company Limited	18 June 2003	30,000	Bank loan	1 year	No	Yes
Zhejiang Jin Yong Acrylic Fibre Company Limited	28 November 2002	110,000	Bank loan	3 years	No	Yes
Zhejiang Jin Yong Acrylic Fibre Company Limited	19 November 2003	14,500	Bank loan	1 year	No	Yes
Zhejiang Jin Yong Acrylic Fibre Company Limited	19 June 2003	119,598	Bank loan	1 year	No	Yes

12. Guarantees (continued)

Guaranteed entities	Date (Agreement signing date)	Guarantee amount (RMB '000)	Type of guarantee	Guarantee period	Guarantee expired	Guarantee for a connected party
Shanghai Golden-Phillips						
Petrochemical Company Limited	28 November 2002	68,100	Bank loan	2 year	No	Yes
Shanghai Jinsen Hydrocarbon						
Resins Company Limited	24 March 1999 and 17 May 2003	54,600	Bank loan	5 years	No	Yes
Shanghai Petrochem-Iwatani						
Gases Development Co. Ltd.	14 February 2003	10,000	Bank loan	3 years	No	Yes
Hanzhou Jinshan Real Estate Company	29 September 2003	24,800	Bank loan	1 year	No	Yes
Shanghai Bo-KA Chemical Co. Ltd.						
	30 April 2003 and 4 July 2003	10,000	Bank loan	1 year	No	Yes
Jinshan Hotel						
	28 December 2001 and 11 June 2002	13,250	Bank loan	5 years	No	Yes
Others						
	21 September 1998 to 25 September 2003	42,448	Bank loan	3 months and to 7 years guarantee	No	Yes
Amount of guarantees signed in 2003 (Rmb'000)					900,210	
Total amount in respect of guarantees to subsidiaries signed by the listed company					854,898	
Guarantee amount (Rmb'000)*					1,243,506	
Including: Guarantee for connected parties (Rmb'000)					1,243,506	
Guaranteed amount as a percentage of net asset value of the Company prepared in accordance with PRC Rules and Regulations					8%	

* These guarantees were granted to the Company's subsidiaries and the Group's associates and other unlisted investments.

Guarantees issued to banks in favour of subsidiaries, associates and other non-listed investment companies are given to the extent of the Company's and the Group's respective interest in these entities.

The Group monitors the conditions that are subject to the guarantees to identify whether it is probable that a loss has occurred, and recognises any such losses under guarantees when those losses are estimable. As at 31 December 2003 and 2002, the Company was of the view it was not probable that it would be required to make payments under the guarantees. Thus no liability has been accrued for a loss related to the Group's and the Company's obligation under the guarantees arrangement.

As at 31 December 2003, the Group and the Company issued guarantees in favour of related parties, in which the Group and the Company held less than 50% shareholdings, and companies (mainly wholly owned subsidiaries) of liabilities-assets ratio (total liabilities divided by total assets) of more than 70% amounting to RMB1,094,951,000.

13. Disclosure

Saved as disclosed above, in relation to major events, or discloseable matters referred to in Article 62 of the Securities Law of the PRC, Article 60 of the Provisional Regulations on the Administration of the Issue and Trading of Shares of the PRC and Article 17 of the Implementing Rules on the Disclosure of Information by Publicly Listed Companies (Trial Implementation), there was no major event or discloseable matter of the Group during the year under review.

14. Shareholders' commitment

Neither the Company nor any shareholder with a shareholding above 5% of the total shares in issue has disclosed in the designated newspapers or websites any commitment with any party.

15. During 2003, the Board and the Directors had not been investigated, administratively punished or publicly criticized by the China Securities Regulatory Commission or publicly reprimanded by the Shanghai Stock Exchange.

16. Disclosure of other significant event

- (1) Statement in relation to the use of funds by the controlling shareholder and other related parties.

Pursuant to the requirements of the Zheng Jian Fa [2003] No.56 "Notice on listed companies' issues relating to regulating the funding transactions with related parties and the guarantees provided to third parties" issued by the China Securities Regulatory Commission ("CSRC") and the State-owned Assets Supervision and Administration Commission of the State Council, KPMG Huazhen has issued a Statement in relation to the Use of Funds of Sinopec Shanghai Petrochemical Company Limited by the Controlling Shareholder and other Related Parties for the Year 2003" as shown below:

To the Board of Directors of Sinopec Shanghai Petrochemical Company Limited:

We have accepted the appointment and audited the Company's consolidated balance sheet and balance sheet as at 31 December 2003, and the consolidated income statement and profit appropriation statement, income statement and profit appropriation statement, consolidated cash flow statement and cash flow statement for the year then ended (the "financial statements") in accordance with the China's Independent Auditing Standards of the Certified Public Accountants. We issued an auditors' report with an unqualified audit opinion on these financial statements on 26 March 2004.

Pursuant to the requirements of the "Notice on listed companies' issues relating to regulating the funding transactions with related parties and the guarantees provided to third parties" issued by the CSRC and the State-owned Assets Supervision and Administration Commission of the State Council, the Company has prepared the "Summary of the use of funds of Sinopec Shanghai Petrochemical Company Limited by the controlling shareholder and Other Related Parties for the year 2003" (the "Summary").

The Company is responsible for preparing and disclosing the Summary and ensuring its truthfulness, legitimacy and completeness. We are not aware of any inconsistency, in all material respects, when comparing the information contained in the Summary with the financial information verified in the course of our audit and the related contents in the audited financial statements of the Company and its subsidiaries (the "Group") for the Year 2003. Except for the audit procedures performed in the course of our audit of the financial statements for the Year 2003 on the Group's related party transactions, we have not performed any additional audit and other procedures on the information contained in the Summary.

In order to have a better understanding on the use of funds by the Company's controlling shareholder and other related parties for the Year 2003, the Summary should be read together with the audited financial statements.

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Certified Public Accountants
Registered in the People's
Republic of China
Song Chenyang
Jin Naiwen
26 March 2004

- (2) Independent opinions of the Independent Directors on the possession of capital and guarantee by controlling shareholders and other connected parties

In accordance with the "Notice on listed companies' issues relating to regulating the funding transactions with related parties and the guarantees provided to third parties" (Zheng Jian Fa [2003] No.56) issued by the CSRC, Mr Gu Chuanxun, Mr Wang Yongshou, Mr Wang Xingyu and Mr Chen Xinyuan have reviewed the Company's controlling shareholders and other connected parties in respect of their possession of the Company's capital and guarantees, and believed that the Company's controlling shareholders and other connected parties had not been in breach in any material manner of the relevant requirements prescribed by the CSRC notice in respect of possession of the Company's capital and loan guarantees.

By order of the Board
Lu Yiping
Chairman

Shanghai, 26 March 2004