

SIGNIFICANT EVENTS

A. Corporate Governance

The Company has strictly complied with relevant requirements of the Company Law, Securities Law, Corporate Governance Principles for Listed Companies, the Shanghai Stock Exchange, The Stock Exchange of Hong Kong Limited and the New York Stock Exchange 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.

At the Annual General Meeting for 2003, the Company passed a resolution to approve the proposed amendments to the Articles of Association of the Company.

B. Interim dividend for 2004

The Board of Directors of the Company does not recommend any interim dividend for the six-month period ended 30 June 2004.

C. 2003 Profit Appropriation Plan

The profit appropriation plan for 2003 was approved at the Company's 2003 Annual General Meeting. A dividend of RMB0.80 (tax included) per 10 shares will be distributed to shareholders, based on the total share capital of 7,200,000,000 shares at the end of 2003. Relevant announcement was published on Shanghai Securities News, China Securities Journal, South China Morning Post and Hong Kong Commercial Daily on 21 June 2004. On 30 June 2003, the Company published the profit appropriation plan for A shares. In respect of the distribution of A-share dividend, the share right registration date was 5 July 2004, ex-dividend date was 6 July 2004. The dividend payment date for social public shares of A shares and H shares was 12 July 2004. Such profit appropriation plan has been implemented as scheduled.

D. Material Litigation and Arbitration

The Group was not involved in any material litigation or arbitration during the reporting period.

E. Acquisition and Sale

There was no significant acquisition and sale made by the Company during the reporting period.

F. Major Connected Transactions

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 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 will 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 connected transactions entered into during the reporting period 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.

The connected transactions entered into by the Group during the reporting period are described in detail in Note 29 to the interim financial statements prepared in accordance with PRC Accounting Rules and Regulations.

(a) Connected debts and liabilities

| Connected parties | Funds provided to the connected parties | | Funds provided by the connected parties to the listed company | |
|---|---|--------------------|---|--------------------|
| | Transaction amount RMB'000 | Balance RMB'000 | Transaction amount RMB'000 | Balance RMB'000 |
| China Petroleum & Chemical Corporation | | | | |
| Material Procurement Department | - | - | 57,784 | 57,784 |
| China Petrochemical Corporation Pipeline Transportation Company | 200 | 97,856 | - | - |
| Other | <u>105,676</u> | <u>70,220</u> | <u>19,699</u> | <u>36,470</u> |

Including: At the end of reporting period, the funds provided by the listed company to the controlling shareholder and its subsidiaries were RMB 6.67 million.

(b) The following transactions are the significant related party transactions relating to sales and purchases of goods and provision of services that occurred during the period ended 30 June 2004:

| Type of transactions | Related parties | Percentage of total amount of the type of transaction | |
|--|---|---|------------------|
| | | Amount RMB'000 | transaction % |
| Sales of products and service fee income | Sinopec Huadong Sales Company | 5,123,115 | 28.82 |
| | China Petroleum & Chemical Corporation and its subsidiaries | 2,178,942 | 12.26 |
| Purchases | China International United Petroleum & Chemicals Co. Ltd. (Unipecc) | 8,495,125 | 74.06 |
| | Other fellow subsidiaries of the Company | 803,671 | 7.01 |
| Construction and installation fees | China Petrochemical Corporation & its subsidiaries | <u>68,580</u> | <u>97.32</u> |

The Group is of the opinion that the purchases of goods from the above related parties ensure a stable and secure supply of raw materials, and that sales to the above related parties ensure that the Group maintains important sales channels and are therefore beneficial to the Group. The above transaction are carried out at market prices. The construction and installation fees were paid to China Petrochemical Corporation and its subsidiaries strictly in compliance with the respective contracts. These connected transactions do not have any adverse impact on the Group's profits.

G. Trust, Sub-contract and Lease Arrangements

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

H. Material Contracts

During the reporting period, the Company had no material contracts for which the Company did not perform its obligations.

I. Guarantees

| Guaranteed entities | Date (Agreement signing date) | Guarantee amount (Rmb'000) | Type of guarantee | Guarantee period (years) | Guarantee expired | Guarantee for a connected party |
|---|-------------------------------------|----------------------------------|----------------------|--------------------------------|----------------------|---------------------------------------|
| Zhejiang Jin Yong Acrylic Fibre Company Limited | 1997.12.21 | 62,110 | Bank Loan | 7 | No | Yes |
| Zhejiang Jin Yong Acrylic Fibre Company Limited | 1998.12.21 | 14,800 | Bank Loan | 7 | No | Yes |
| Zhejiang Jin Yong Acrylic Fibre Company Limited | 2003.12.05 | 50,000 | Bank Loan | 1 | No | Yes |
| Zhejiang Jin Yong Acrylic Fibre Company Limited | 2002.06.18 | 24,500 | Bank Loan | 5 | No | Yes |
| Zhejiang Jin Yong Acrylic Fibre Company Limited | 2003.06.02 | 105,000 | Bank loan | 3 | No | Yes |
| Zhejiang Jin Yong Acrylic Fibre Company Limited | 2004.05.19 | 50,000 | Bank Loan | 1 | No | Yes |
| Zhejiang Jin Yong Acrylic Fibre Company Limited | 2004.05.19 | 40,000 | Bank Loan | 1 | No | Yes |
| Zhejiang Jin Yong Acrylic Fibre Company Limited | 2002.11.28 | 110,000 | Bank Loan | 3 | No | Yes |
| Zhejiang Jin Yong Acrylic Fibre Company Limited | 2003.11.19 | 14,500 | Bank Loan | 1 | No | Yes |
| Zhejiang Jin Yong Acrylic Fibre Company Limited | 2004.01.29 | 82,766 | Bank Loan | 1 | No | Yes |
| Shanghai Golden -Phillips Petrochemical Company Limited | 2002.11.28 | 68,100 | Bank Loan | 2 | No | Yes |
| Shanghai Golden Conti Petrochemical Company Limited | 2004.05.09 | 120,000 | Bank Loan | 1 | No | Yes |

| Guaranteed entities | Date (Agreement signing date) | Guarantee amount (Rmb'000) | Guarantee Type of guarantee | Guarantee period (year) | Guarantee expired | Guarantee for a connected party |
|--|-------------------------------------|----------------------------------|-----------------------------------|-------------------------------|----------------------|---------------------------------------|
| Shanghai Golden Conti Petrochemical Company Limited | 2003.08.28 | 140,000 | Bank Loan | 1 | No | Yes |
| Shanghai Golden Conti Petrochemical Company Limited | 2004.04.22 | 30,000 | Bank Loan | 1 | No | Yes |
| Shanghai Golden Conti Petrochemical Company Limited | 2003.09.12 | 120,000 | Bank Loan | 1 | No | Yes |
| Shanghai Golden Conti Petrochemical Company Limited | 2004.03.16 | 165,532 | Bank Loan | 1 | No | Yes |
| Shanghai Jinsen Hydrocarbon Resins Company Limited | 2004.03.23 | 40,000 | Bank loan | 3 | No | Yes |
| Hangzhou Jinshan Real Estate Company | 2003.09.29 | 24,800 | Bank Loan | 1 | No | Yes |
| Jinshan Hotel | 2001.12.28 | 13,250 | Bank Loan | 5 | No | Yes |
| Others | 1999.03.01 | 56,392 | Bank loan and others | 1 to 6 | No | Yes |
| Amount of guarantees signed in first half of 2004 (RMB'000) ¹ | | | | | | 42,978 |
| Amount of guarantees as period end (RMB'000) ¹ | | | | | | 108,476 |
| Including: Guarantee for connected parties (RMB'000) ¹ | | | | | | 108,476 |
| Amount of guarantees to subsidiaries signed by the listed company in first half of 2004 (RMB'000) | | | | | | 498,264 |
| Total amount of guarantee provided by the Group not in compliance with the requirements of (Zheng Jian Fa [2003] No.56)(RMB'000) | | | | | | 1,177,051 |
| Total guarantee amount (RMB'000) | | | | | | 1,331,750 |
| Total guarantee amount as a percentage of net asset value of the Company prepared in accordance with PRC Accounting Rules and Regulations | | | | | | 8% |

Note 1: Exclude the amount of guarantees given by the Company in favour of subsidiaries.

Guarantees issued to banks in favour of subsidiaries are given to the extent of the Company's respective interest in these entities.

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

The Group monitors the conditions of the guarantees to identify whether it is probable that a loss has occurred, and recognizes any such losses under guarantees when those losses are estimable. As at 30 June 2004 and 31 December 2003, 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.

Note 2: As at 30 June 2004, 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 consolidated subsidiaries) of liabilities-assets ratio (total liabilities divided by total assets) of more than 70% amounting to RMB1,177,051,000.

J. 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, the Independent Directors, 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.

K. Commitments of the Company or any shareholder with a shareholding above 5% of the total shares in issue

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.

L. Deposits

The Company did not have any designated deposit during the reporting period. As at 30 June 2004, the Company did not have any time deposit which could not be collected upon maturity.

M. Trust Financial Management

During the reporting period, the amount of trust financial management was nil, the balance of the trust financial management was nil. The balance of overdue unreceivable capital and income was nil.

N. Auditors

KPMG Huazhen and KPMG were re-appointed as the Company's domestic and international auditors respectively for the year 2004, as approved at the 2003 Annual General Meeting.

O. Tax rate

The charge for PRC income tax applicable to the Company is currently calculated at the rate of 15% (2003: 15%). The Company has not received any notice from the Ministry of Finance that the 15% tax rate will not continue to be applicable to the Company in the future.

P. Disclosure

Save as disclosed above, in relation to major events, or discloseable matter 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 reporting period.

Q. Other Important Information

1. On 16 January 2004, the Company released 2003 result increase announcement, which was published on Shanghai Securities News, China Securities Journal and on the Shanghai Stock Exchange ("SSE") website www.sse.com.cn accessible by entering the Company's Code (600688) in the section headed "Listed Companies Information Search".
2. On 26 March 2004, the Company released 2003 Annual Results Announcement, Resolutions of the Tenth Meeting of the Fourth Session of the Board of Directors and Resolutions of the Eighth Meeting of the Fourth Session of the Supervisory Committee and the Notice for the Annual General Meeting for the year 2003, which were published on Shanghai Securities News, China Securities Journal and SSE website.
3. On 20 April 2004, the Company release results increase announcement for the first quarter of 2004, which was published on Shanghai Securities News, China Securities Journal and SSE website.
4. On 28 April 2004, the Company released 2004 First Quarter Report and Resolutions of the Eleventh Meeting of the Fourth Session of the Board of Directors, which were published on Shanghai Securities News, China Securities Journal and SSE website.
5. On 30 April 2004, the Company published the announcement regarding J.P.Morgan Chase & Co. increase shareholding on Shanghai Securities News, China Securities Journal and SSE website.
6. On 20 May 2004, the Company released the Resolutions of the Twelfth Meeting of the Fourth Session of the Board of Directors and Property Purchase Announcement, which were published on Shanghai Securities News, China Securities Journal and SSE website.
7. On 21 June 2004, the Company released the Resolutions of 2003 Annual General Meeting, Resolutions of the Fourteenth Meeting of the Fourth Session of the Board of Directors and Resolutions of the Tenth Meeting of the Fourth Session of the Supervisory Committee, which were published on Shanghai Securities News, China Securities Journal and SSE website.
8. On 30 June 2004, the Company published the 2003 profit appropriation plan in Shanghai Securities News, China Securities Journal and SSE website.