Unless otherwise specified, financial information included in the Management's Discussion and Analysis has been extracted from financial statements prepared in accordance with IFRS.

A. OPERATING RESULTS

General

Our financial performance has been affected by factors arising from operating in a planned economy which are beyond our control. However, with China's WTO accession, the impact of these factors has gradually been decreasing.

In 2004, the world economy continued to improve. China's economy also continued its rapid growth. In 2004, the petrochemical industry experienced a relative booming period of the industrial business cycle. Accordingly, we experienced dramatic increases in the weighted average prices of most of our major products due to significant rises in the market prices for these products related to sharply rising crude oil prices and increased demand for our products. In addition, we continued to optimize our production and operation system, and maintained strict control of production costs while maintaining operation of key production plants at high level of capacity utilization. These factors contributed to a dramatic increase in our 2004 operation results as compared with 2003.

Critical Accounting Policies

Our principal accounting policies are set forth in the note to our consolidated financial statements. According to IFRS, we shall adopt the most appropriate accounting policies and forecast skills, so as to truthfully and fairly reflect our operating results and financial conditions. However, different accounting policies, forecast skills and assumptions applied to key areas may result in substantial difference in the figure of our operating results, especially with respect to impairments mentioned in the following paragraph.

Impairments

If circumstances indicate that the net book value of an asset or an investment may not be recoverable, the asset may be considered "impaired," and an impairment loss may be recognized in accordance with IAS 36 "Impairment of Assets." We review the carrying amounts of long-lived assets periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. We test these assets for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to the estimated recoverable amount. The amount of impairment loss is the difference between the carrying amount of the asset before the reduction and the estimated recoverable amount. The recoverable amount is the greater of the estimated net selling price and the value in use. It is difficult to precisely estimate selling prices because quoted market prices for our assets are often not readily available. In determining the value in use, we discount cash flows that we expect the asset to generate to their present value. Determining cash flows that we expect an asset to generate requires significant judgment relating to the expected level of sales volume, selling prices and the amount of operating costs.

Depreciation

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account their estimated residual value. We review the estimated useful lives of the assets regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives are based on our historical experience with similar assets and taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes form previous estimates.

Provision for Doubtful Debts

We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of our customers to make the required payments. Our projection is based on the aging of the trade debtor balance, customer credit-worthiness, and historical write-off experience. If the financial condition of our customers were to deteriorate, actual write-offs might be higher than expected amount.

SUMMARY

The following table sets forth the Group's sales volumes and net sales, net of sales taxes, for the years indicated:

	For the Years ended 31 December								
	2002			2003			2004		
	Net Sales			Net Sales			Net Sales		
	Sales Volume ('000 tons)	(Millions of RMB)	% of Total	Sales Volume ('000 tons)	(Millions of RMB)	% of Total	Sales Volume ('000 tons)	(Millions of RMB)	% of Total
Synthetic Fibres	363.5	3,374.3	15.5	395.4	4,092.6	14.1	384.4	4,751.8	12.3
Resins and Plastics	1,146.8	6,440.7	29.6	1,389.8	8,864.3	30.6	1,409.7	12,086.0	31.3
Intermediate Petrochemicals	786.3	2,555.0	11.8	1,021.8	3,851.3	13.3	1,075.8	5,896.6	15.3
Petroleum Products	4,100.2	7,991.2	36.8	4,650.4	10,329.1	35.7	4,828.9	13,101.9	33.9
All others	-	1,361.8	6.3	-	1,805.4	6.3	-	2,827.8	7.2
Total	6,396.8	21,723.0	100.0	7,457.4	28,942.7	100.0	7,698.8	38,664.1	100.0

The following table sets forth a summary statement of income for the years indicated:

	For The Years Ended 31 December					
	2002		2003		2004	
	Millions of RMB	% of Net Sales	Millions of RMB	% of Net Sales	Millions of RMB	% of Net Sales
Net sales	21,722.9	100	28,942.7	100.0	38,664.1	100.0
Cost of sales	(19,853.9)	(91.4)	(26,396.2)	(91.2)	(33,223.6)	(85.9)
Gross profit	1,869.0	8.6	2,546.5	8.8	5,440.5	14.1
Selling and administrative expenses	(421.2)	(1.9)	(444.7)	(1.5)	(408.1)	(1.0)
Operating income	1,447.8	6.7	2,101.8	7.3	5,025.2	13.1
Other operating income	136.6	0.6	121.1	0.4	277.0	0.7
Other operating expenses	(154.8)	(0.7)	(216.5)	(0.7)	(284.2)	(0.7)
Share of (losses)/profits of associates	16.1	0.1	(24.0)	(0.1)	(36.9)	(0.1)
Net financing costs	(400.7)	(1.9)	(392.0)	(1.4)	(292.0)	(0.8)
Profit before tax	1,045.0	4.8	1,590.4	5.5	4,696.3	12.2
Income tax	(84.5)	(0.4)	(145.1)	(0.5)	(637.1)	(1.7)
Profit after tax	960.5	4.4	1,445.3	5.0	4,059.2	10.5
Minority interests	(44.2)	(0.2)	(43.6)	0.2	(88.1)	(0.2)
Profit attributable to shareholders	916.3	4.2	1,401.7	4.8	3,971.1	10.3

RESULTS OF OPERATIONS

Year ended December 31, 2004 compared with year ended December 31, 2003.

Net sales

Total net sales increased by 33.59% to RMB38,664.1 million in 2004 compared with RMB28,942.7 million in 2003. In 2004, the price of our petrochemical products increased dramatically compared with 2003. The weighted average price of synthetic fibers, resins and plastics, intermediate petrochemicals and petroleum products for 2004 increased by varying, resulting in the dramatic increase of our net sales compared with 2003.

(i) Synthetic fibers

Net sales of synthetic fiber products increased by 16.11% to RMB4,751.8 million in 2004 compared with RMB4,092.6 million in 2003, due to a 19.43% increase in their weighted average prices compared with 2003, while the sales volume of synthetic fibers decreased by 2.78% compared with 2003 as a result of decrease in the sales volume of certain synthetic fiber products other than acrylic fiber and industrial fiber. Compared with 2003, the weighted average price of polyester fiber, polyester industrial fiber, acrylic fiber and acrylic top increased by 18.36%, 14.58%, 17.96% and 17.75%, respectively.

Net sales of synthetic fiber products account for 12.29% of our total net sales in 2004, a decrease of 1.85% compared with 2003.

(ii) Resins and plastics

Net sales of resins and plastics increased by 36.34% as compared with RMB8,864.3 million in 2003 to RMB12,086.0 million in 2004, attributable to a significant increase of 34.42% in weighted average price and a slight increase of 1.44% in sales volume. Among our resins and plastics products for 2004. During this period, the average sales price of polyester pellet, PVA, polyethylene and polypropylene increased by 25.57%, 24.94%, 44.54% and 30.03%, respectively. The sales volume of polyester pellet, PVA and polyethylene increased by 9.92%, 5.01% and 1.50%, respectively, while the sale volume of polypropylene decreased slightly by 1.29%.

Net sales of resins and plastics account for 31.26% of our total net sales in 2004, increased by 0.63% compared with 2003.

(iii) Intermediate petrochemicals

Net sales of intermediate petrochemicals increased by 53.10% as compared with RMB3,851.3 million in 2003 to RMB5,896.6 million in 2004, due to a significant increase of 45.42% in weighted average price and a 5.29% increase in sales volume compared with 2003. Among our intermediate petrochemical products, the weighted average price of ethylene, pure benzene, ethylene glycol, butadiene and ethylene oxide increased respectively by 74.56%, 76.42%, 42.23%, 26.16% and 35.65%, while the sales volume of major products decreased slightly, except for pure benzene and ethylene glycol, the sales volume of which increased by 6.71% and 11.31%, respectively.

Net sales of intermediate petrochemicals account for 15.25% of our total net sales in 2004, increased by 1.94% compared with 2003.

(iv) Petroleum products

Net sales of petroleum products increased by 26.84% as compared with RMB10,329.1 million in 2003 to RMB13,101.9 million in 2004, due to an increase of 22.16% in the weighted average price and 3.84% in sales volume of these products. The weighted average price of gasoline, diesel oil and aviation kerosene increased by 14.66%, 20.70% and 26.74%, respectively. The sales volume of gasoline and aviation kerosene decreased by 25.76% and 6.18%, while the sales volume of diesel oil increased by 13.39%.

Net sales of petroleum products account for 33.89% of our total net sales in 2004, decreased by 1.80% as compared with the previous year.

(v) Trading and other activities

Revenues from trading and other activities increased by 56.64% to RMB2,827.8 million in 2004 compared with RMB1,805.3 million in 2003.

Cost of sales

Cost of sales increased by 25.86% to RMB33,223.6 million in 2004 compared with RMB26,396.2 million in 2003, accounts for 85.93% of the net sales for 2004, primarily due to a significant increase in the price of crude oil which is our major raw material, and the increase in the volume of certain intermediate raw materials we purchased to meet our requirements for production and operation. We have strengthened the management of production and operation, and closely controlled the consumption of raw materials and energy in the production process. These efforts, however, could not completely offset the significant increase in cost of sales due to the aforesaid factors.

(i) Crude Oil

In 2004, we processed 9,109,400 tons of crude oil increased by 5.80% compared with 8,610,000 tons in 2003 (of which 602,500 tons were processed on a sub-contracted basis), an increase of 499,300 tons as compared to the same period last year (56,900 tons of sub-contracting processing in 2003). Excluding oil processed on a sub-contracted basis, the volume of crude oil processed by us of imported oil, offshore oil and Shengli oil, respectively, were 7,968,200 tons, 459,300 tons and 79,400 tons.

Total cost of crude oil processed by us in 2004 was RMB19,615.6 million, an increase of 24.43% as compared with RMB15,764.9 million in 2003 and accounted for 59.04% of the cost of sales. Reflecting substantial increases in the price of crude oil in international market, the weighted average cost of crude oil for the Group was RMB2,305.85 per ton, representing an increase of 25.10% as compared to last year. The weighted average cost of imported oil, offshore oil and Shengli oil are RMB2,302 per ton, RMB2,472 per ton & RMB1,702 per ton respectively.

(ii) Other expenses

Expenses for other ancillary materials was RMB6,091.6 million in 2004, an increase of 54.64% as compared with RMB3,939.4 million in 2003 primarily due to increase in the volume of intermediate petrochemicals, such as ethylene, ethylene glycol, propylene and polyvinyl alcohol, purchased during the year. Depreciation decreased slightly from RMB1,850.0 million in 2003 to RMB1,794.1 million in 2004. The decrease of depreciation was primarily due to write off or full depreciation of certain production equipment during the reporting period. Energy and power costs increased from RMB732.5 million in 2003 to RMB 792.0 million due to an increase in the price of coal and electricity in 2004. Labor and maintenance costs also increase from RMB1,090.7 million and RMB787.2 million in 2003 to RMB1,172.4 million and RMB920.5 million respectively during the year.

Selling and administrative expenses

Selling and administrative expenses was RMB408.1 million, a decrease of 8.22% compared with RMB444.7 million in 2003, primarily due to our continued efforts in internal optimization, and improved efficiency in operation and management.

Operating income

Operating income was RMB5,025.2 million, a significant increase of 150.46% as compared with RMB2,101.8 million in 2003, primarily due to significant increase in net sales related to increase in weighted average price of our major products during the year, which offset the negative impact of a significant increase in the cost of crude oil.

Other operating income

Other operating income was RMB277.0 million in 2004, an increase of 128.74% as compared with RMB121.1 million in 2003 primarily due to an increase in income from gain on disposal of property, plant and equipment, services and investments.

Other operating expenses

Other operating expenses increased by 31.33% from RMB216.4 million in 2003 to RMB284.2 million in 2004, primarily due to the increase in employee reduction expenses by RMB48.4 million during the year.

Net financing costs

Our net financing costs was RMB 292.0 million in 2004, a decrease of 25.51% as compared with RMB392.0 million in 2003, which was primarily due to the increase percentage of our lower interest rate foreign currency loans and reduced our total amount of borrowings in 2004.

Profit before tax

Our profit before tax was RMB4,696.2 million, an increase of 195.29% as compared with RM1,590.4 million in 2003 during the year.

Income tax

Our income tax increased by 339.08% to RMB637.1 million in 2004 compared with RMB145.1 million in 2003. This increase was primarily due to a substantial increase in gross profit. In 2004, we were entitled to a tax refund of RMB 75.6 million in respect of purchase of domestically manufactured equipment for technological improvement.

We continued to pay income tax at a preferential rate of 15% in 2004. This preferential rate was first applied to us under approval from State tax authorities effective from January 1, 1993. According to relevant taxation regulation issued by the Ministry of Finance and the State Administration of Taxation, the first nine H-Share listed companies (including the Company) were permitted to pay income tax at a 15% tax rate for years in 1996 and 1997. From 1998 to 2004, the tax privilege was not revoked by the relevant government authorities. However, we cannot be sure whether the Ministry of Finance will maintain the 15% tax rate in 2005.

Profit after tax

Profit after tax was RMB4,059.2 million in 2004, a significant increase of 180.85% as compared with RMB1,445.3 million in 2003 mainly due to the significant increase in profit before tax.

B. Segment Report prepared under PRC Accounting Rules & Regulations

Summary of segmental results:

By segment	Income from principal operations (RMB'000)	Cost of sales (RMB'000)	Gross profit margin (%)	Increase/decrease of income from principal operations compared to last year (%)	Increase/decrease of cost of sales compared to last year (%)	Increase/decrease of gross profit margin compared to last year (percentage points)
Synthetic fibres	4,777,981	4,378,130	8.37	16.11	13.92	1.76
Resins and plastics	12,154,361	9,610,613	20.93	36.45	24.49	7.60
Intermediate petrochemicals	5,941,589	3,861,757	35.00	53.14	39.77	6.21
Petroleum products	13,692,352	11,807,416	13.77	26.38	24.22	1.50
All others	2,836,250	2,351,166	17.10	54.96	66.63	-5.83
Including: connected transactions	14,758,628	13,428,681	9.01	40.81	39.33	0.96

Price-setting principles of connected transactions	The Board of Directors of the Company believes that the above connected transactions were entered into in the normal course of business and were conducted on normal commercial terms or in accordance with the terms of the relevant agreements. The above transactions were confirmed by the Company's independent non-executive Directors.
Description on the necessity and continuity of connected transactions	Connected transactions mainly comprised purchase of crude oil and sale of petroleum products. The distribution of crude oil, the major production raw material of the Group, and the prices and sale of petroleum products are regulated by the State and executed by Sinopec Crop. As long as the State does not give up control over the purchase of crude oil as well as the sale and prices of petroleum products, such connected transactions will continue to happen.

Analysis of the geographical segments for the principal operations

Region	Income from principal operations RMB'000	Change compared with 2003(%)
Eastern China	37,364,574	42.10
Other regions in China	1,944,062	10.02
Exports	93,897	-93.77

C. LIQUIDITY AND CAPITAL RESOURCES

The Group's primary sources of capital are operating cash flow and loans from unaffiliated banks. The Group's primary uses of capital are costs of goods sold, operating expenses and capital expenditures.

Capital Resources

Cash flows provided from operating activities

Net cash flow provided from operating activities was RMB4,589.7 million in 2004, an increase of RMB2,312.8 million as compared with RMB2,277 million in 2003. Due to the significant increase in the net sales of our major products in the year, profit before tax net of depreciation of RMB6,490.3 million in 2004, an increase of RMB 3,049.9 million compared with RMB3,440.4 million in 2003. Increased inventories led to an increase in operating cash outflow by RMB 223.5 million in 2004 (as compared with an increase in operating cash outflow by RMB 120.6 million in 2003). Change in accounts payable and other payables led to an increase in operating cash outflow by RMB 376.9 million in 2004 (as compared with cash outflow by RMB 478.8 million in 2003). Increase in debtors, bills receivable and deposits led to a decrease in operating cash inflow by RMB 515 million in 2004 (as compared with a decrease in operating cash inflow of RMB346.0 million in 2003). In addition, our income tax payment increased significantly due to a significant increase in profit during the reporting period. In 2004, income tax payment led to an increase in operating cash outflow by RMB550.9 million (as compared with RMB78.1 million cash outflow in 2003).

Borrowings

Our borrowings in 2004 was RMB7,014.9 million, a decrease of RMB1,766.7 million compared with RMB8,781.6 million in 2003, of which short-term borrowings was RMB5,000.3 million, a decrease of RMB574.4 million compared with RMB5,574.7 million in 2003. Short-term borrowings were primarily used to meet our needs for working capital during the production and operation process, all carried floating interest rates and were denominated in Renminbi. Long-term borrowings was RMB2,014.6 million in 2004, a decrease of RMB1,192.2 milllion as compared with RMB3,206.8 million in 2003. Most of our long-term borrowings are used for capital expansion projects.

We managed to maintain our asset-liability ratio by enhancing control over both liabilities, including bank borrowings, and financing risks. We generally do not experience any seasonality in borrowings. Rather, due to the planned nature of capital expenditures, long-term borrowings can be arranged in advance of expenditures while short-term borrowings are used to meet operational needs. The terms of our existing bank loans do not restrict our ability to pay dividends on our shares.

Debt-equity ratio

Our debt-equity ratio was 9.9% in 2004 compared to 17.6% in 2003. The ratio is computed by (total long-term loans) /(total long-term loans + shareholders' equity).

D RESEARCH AND DEVELOPMENT, PATENTS AND LICENSES, ETC.

We maintain a range of technology development units, including Petrochemical Research Institute, Polyester Fiber Research Institute and Acrylic Fibre Research Institute, for research and development with respect to new technology, new products, new production processes and equipment and environmental protection. Our research and development expenditures in 2002, 2003 and 2004 were RMB84.0 million, RMB101.2 million and RMB74.7 million respectively, representing approximately 0.4%, 0.3% and 0.2% of our total sales, respectively, in those years.

We are not, in any material aspect, dependent on any patents, licenses, industrial, commercial or financial contracts or new production processes.

E OFF-BALANCE SHEET ARRANGEMENTS

As of 31 December 2004, our contingent liabilities amounted to RMB101.9 million in respect of guarantees issued to banks in favour of our associated companies and other unlisted investments while such contingent liabilities as of 31 December 2003 was RMB129.1 million. Our guarantees issued to bank in favour of associated companies, other unlisted investments companies and subsidiaries are limited to the respective share in equity interest held by us. Please refer to section 12 of Major events and note 30 to the financial statements under IFRS.

F. CONTRACTUAL OBLIGATIONS

The following table sets forth our obligations to make future payments under contracts effective as of 31 December 2004.

	As of 31 December 2004 Payment due by period				
	Total (RMB'000)	Less than 1 year (RMB'000)	1-3 years (RMB'000)	4-5 years (RMB'000)	After 5 years (RMB'000)
Contractual obligations					
Short-term loan	3,742,727	3,742,727	-	-	-
Long-term loan	3,272,192	1,257,578	1,886,758	62,297	65,559
Total contractual obligations	7,014,919	5,000,305	1,886,758	62,297	65,559

G. OTHER INFORMATION

Employees

As at December 31, 2004, the number of our employees was 28,451.

Our staff costs for the year ended 31 December 2004 was RMB1,172.4 million.

Foreign Exchange Risks

Since we purchase our major raw materials (crude oil) through Sinopec Corp from overseas, and also export a portion of our petroleum products directly through Sinopec Corp, a change in exchange rates will indirectly affect the prices of our raw materials and products which will have a discernible impact on our profitability. In addition, as discussed above, since a small part of our debts are denominated in foreign currencies, a change in the relevant exchange rates will affect the level of our financial expense which will also have an impact on our profitability.

Capital Expenditures

In 2004, our capital expenditures amounted to RMB2,206.0 million, representing an increase of RMB921.1 million as compared with RMB1,284.9 million in 2003. The expenditures in 2004 were for the following projects:

Project	Amount	Progress as at December 31, 2004
	RMB'000	
Renovation of No. 1 atmosphere and vacuum distillation facility	392,900	in progress
400,000 tons/year PTA unit renovation	246,000	in progress
150,000 tons/year polyester renovation	150,000	completed
12,000 tons/year terylene filament	198,000	in progress
Material supply pipeline between Shanghai Petrochemical and SECCO	180,000	in progress
Shanghai Petrochemical south-north key pipeline expansion	181,700	in progress

The estimated capital expenditure for 2005 is RMB2,700 million, mainly for the completion of the aforesaid projects, and also the 380,000 ton per year glycol project, unit for adding hydrogen in diesel oil, renovation to the oil refining process and other technological renovation projects.

Ethylene Joint Venture

Late in 2001, we established Secco, a Sino-foreign equity joint venture together with BP and Sinopec Corp. We own 20%, while BP and Sinopec Corp own 50% and 30%, of the equity interest of Secco, respectively. Secco's total registered capital is US$901,440,964, of which we will provide the Renminbi equivalent amount of US$180,287,952. As of 31 December 2004, we paid approximately RMB1,200.5 million of the above sum. All of our contribution will be made in 2005.

We plan to fund our capital expenditures from operating cash income and available bank loans.

Purchase, Sale and Investment

Except as disclosed in the annual report, during the year 2004, there was no material purchase or sale of our subsidiaries or associated companies or any other material investments.

Pledge of Assets

At 31 December 2004, no property and equipment were pledged by us. (2003: RMB414.3 million).

Accounting principles generally accepted in the United States of America ("U.S. GAAP") Reconciliation

The financial statements prepared in accordance with IFRS differ in certain significant respects from U.S. GAAP. Please see section D for supplementary information for North American shareholders. As a result of these differences and the effect after tax, our net profit reported under U.S. GAAP was higher than net profit reported under IFRS by RMB175.0 million in 2004, RMB166.7 million in 2003 and RMB208.3 million in 2002. Shareholders' equity reported under U.S. GAAP was higher than shareholders' equity reported under IFRS by RMB64.7 million as of 31 December 2004 and lower by RMB110.2 million as of 31 December 2003.