

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 2004.

## Group Activities and Results

Based on 2004 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 2004, the Group ranked high among domestic producers in each category of major products produced by the Group. (Source: "China Petrochemical Economic Information Journal 2004") Details of the Company's principal subsidiaries are set out in note 15 to the financial statements under IFRS.

Details of movements in respect of the results of the Group for the year ended 31 December 2004 and the state of affairs and financial conditions of the Company and the Group for the year, such as assets and liabilities, bank loans and other borrowings, fixed assets, and reserves are set out in the financial statements for the year on page 72 to 121.

## Profit Appropriation

The profit appropriation plan of the Company for the year ended 31 December 2004 as proposed by the Board is as follows:

(Prepared under the PRC Accounting Rules and Regulations)

	RMB'000
Profit after tax	4,059,330
Minority interests	(88,065)
Profit attributable to shareholders	3,971,265
Transfer to reserves	
Statutory surplus reserve	(397,127)
Statutory public welfare fund	(397,127)
Retained profits brought forward	2,048,896
Dividend	(576,000)
Retained profits	4,649,907
Earnings per share (basic and fully-diluted)	RMB0.552

The proposed profit appropriation will be presented to shareholders for approval at the forthcoming 2004 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 twenty-first meeting of the fourth session of the Board was held on 23 March 2005 at which the Board proposed to distribute a final dividend to shareholders of RMB0.20 per share, with distributed dividends for the year totalling RMB1,440,000,000.

## **Financial Summary**

A summary of the results, total assets, liabilities and shareholders' funds of the Group for the year ended 31 December 2004 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 2004 are set out in notes 22 and 31 to the financial statements prepared under IFRS.

## **Interest Capitalised**

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

## **Property, plant and equipment**

Movements of the property, plant and equipment during the year are set out in note 12 to the financial statements prepared under IFRS.

**Subsidiaries**

As at 31 December 2004, the Company had equity interests of more than 50% in the following principal subsidiaries:

<b>Company Name</b>	<b>Principal Activities</b>	<b>Percentage of equity held by the Company (%)</b>	<b>Percentage of equity held by Subsidiary (%)</b>	<b>Registered Capital ('000)</b>
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 fiber 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 investment in joint ventures included 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 2004 is not material in relation to the profit of the Group for the said period and therefore is not equity accounted for. In addition, these equity investments included non-consolidated subsidiaries which do not affect the results or assets of the Group and, therefore, are not consolidated or equity accounted for.

The Group's equity interests in joint ventures included an investment of RMB650,878,000 representing a 38.26% equity interest in Shanghai Chemical Industry Park Development Company Limited ("SCIP") and an investment of RMB1,200,505,000 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 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 are set out in note 26 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 26 to the financial statements prepared under IFRS.

## **Donations**

During the year, the Group made donations for charitable purposes amounting to approximately RMB9,992,000.

## **Employees' Retirement Scheme**

Details of the Company's Employees' Retirement Schemes are set out in note 28 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 2004 were China International United Petroleum & Chemical Company Limited, Sinopec Transport & Storage Branch, Sinopec International Co. Ltd., SinoChemical International Oil Co. Ltd., and China National Offshore Oil Corporation. The total cost of purchases from these suppliers accounted for 75% of the total cost of purchases by the Group to RMB 19,112 million during the year. The cost of purchases from the largest supplier accounted for 31% of the total cost of purchase by the Group in 2004.

The Group's top five customers during 2004 were Sinopec Huadong Area Sales Company, Sinopec Acrylic Fibre Sales Branch, Sinopec Gaoqiao Branch, Shanghai Chlor-Alkali Chemical Company Limited and Sinopec Nanjing Petrochemical Factory. The total sales derived from these customers during the year represented 40% of the total annual revenue to RMB 15,673 million. The sales derived from the largest customer represented 29% of the total annual revenue in 2004.

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 2004.

	Before change	Change					Sub-total	After change
		Rationed share	Bonus share	Shares transferred 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

As of 31 December 2004, the total issued share capital of the Company comprises 7.2 billion shares, held by 158,520 shareholders. Based on the publicly available information and to the best knowledge of the Directors, the Company has maintained sufficient public float as at the latest practicable date prior to the date of this annual report. Of all the shareholders, 156,737 of which are A shares and 1,783 of them being holders of H shares.

## Purchase, Sale and Redemption of Shares

During 2004, no shares of the Company was purchased, sold or redeemed by the Company or its subsidiaries.

## Top 10 Shareholders

As at 31 December 2004, 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 shareholders (domestic shareholders or foreign shareholders)
China Petroleum & Chemical Corporation	-	4,000,000,000	55.56	Non-circulating	-	State-owned Shareholder
HKSCC (Nominees) Ltd.	22,551,000	1,915,886,857	26.61	Circulating	-	Foreign Shareholder
Hong Kong & Shanghai Banking Corporation (Nominees) Limited	420,000	355,764,000	4.94	Circulating	-	Foreign Shareholder
Xinghe Securities Investment Fund	-	27,158,673	0.38	Circulating	-	-
Bank of China - Haifutong Income Growth Securities Investment Fund	-	21,996,450	0.31	Circulating	-	-
Xinghua Securities Investment Fund	-	21,630,000	0.30	Circulating	-	-
Bank of Communications - Yifangda 50 Index Securities Investment Fund	-	17,700,628	0.25	Circulating	-	-
Shanghai Kangli Gong Mao Company	-	16,730,000	0.23	Non-circulating	-	Legal Person Shareholder
Agricultural Bank of China - Zhang Cheng Active and Selective Securities Investment Fund	-	16,055,104	0.22	Circulating	-	-
China Merchants Bank Co., Ltd. - Zhong Xin Jing Dian Pei Zhi Securities Investment Fund	-	15,560,885	0.22	Circulating	-	-

**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 concerted party of the other shareholders under the "Administration Measures for Disclosure of Shareholdings in Listed Companies". Of the above mentioned shareholders, HKSCC (Nominees) Ltd. and Hong Kong & Shanghai Banking Corporation (Nominees) Limited are nominee companies, while Xinghe Securities Investment Fund and Xinghua Securities Investment Fund are at the same time under the management of China Asset 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 the "Administration Measures for Disclosure of Shareholdings in Listed Companies".

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

Name of shareholders	Number of shares held at end of the year	Type of Shares
HKSCC (Nominees) Ltd.	1,915,886,857	H
Hong Kong & Shanghai Banking Corporation (Nominees) Limited	355,764,000	H
Xinhe Securities Investment Fund	27,158,673	A
Bank of China - Haifutong Income Growth Securities Investment Fund	21,996,450	A
Xinghua Securities Investment Fund	21,630,000	A
Bank of Communications - Yifangda 50 Index Securities Investment Fund	17,700,628	A
Agricultural Bank of China - Zhang Cheng Active and Selective Securities Investment Fund	16,055,104	A
China Merchants Bank Co., Ltd. - Zhong Xin Jing Dian Pei Zhi Securities Investment Fund	15,560,885	A
103 National Social Security Fund	14,178,727	A
Hong Kong & Shanghai Banking Corporation (Nominees) Limited	10,368,000	H

**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, Xinghe Securities Investment Fund and Xinghua Securities Investment Fund are at the same time under the management of China Asset 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".

## Information on the controlling shareholder and de facto controller of the Company

As at the end of 2004, China Petroleum & Chemical Corporation held 4 billion shares in the Company, representing 55.56% of the total share capital of the Company.

### (1) Controlling Shareholder

Company Name:	China Petroleum & Chemical Corporation
Authorised representative:	Chen Tonghai
Registered capital:	RMB86.7 billion
Date of incorporation:	February 2000
Major business:	Crude oil and natural gas business includes: exploring for, extracting and producing crude oil and natural gas; pipe crude oil, natural gas and products; refining crude oil to become petroleum products; and selling crude oil, natural gas and oil products. Chemical business includes producing and selling a variety of industrial chemical products.
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.



(2) De facto controller

Company Name: China Petrochemical Corporation

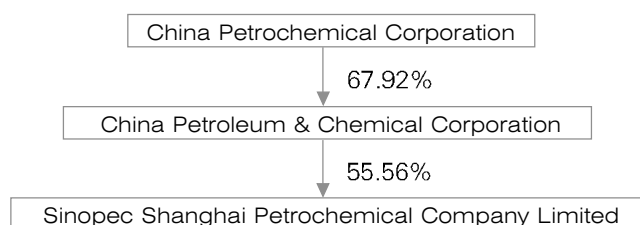
Authorised representative: Chen Tonghai

Registered capital: RMB104.9 billion

Date of incorporation: July 1998

Major business or management activities: provide well drilling, oil well logging and mine shaft work service; manufacturing of production equipment and maintenance service; project construction service and water and electricity etc. public project service such as water and electricity, as well as social service.

**Diagram of the ownership and controlling relationship between the Company and the de facto controller**



At the end of 2004, HKSCC (Nominees) Limited held 1,915,886,857 H Shares of the Company, representing 26.61% 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	59	2002/6/18 - 2005/6/28
Rong Guangdao	Vice Chairman and President	M	49	2004/6/18 - 2005/6/28
Du Chongjun	Vice Chairman	M	50	2004/6/18 - 2005/6/28
Han Zhihao	Director and Chief Financial Officer	M	53	2004/6/18 - 2005/6/28
Wu Haijun	Director and Vice President	M	42	2004/6/18 - 2005/6/28
Gao Jinping	Director	M	38	2004/6/18 - 2005/6/28
Liu Wenlong*	External Director	M	64	2002/6/18 - 2005/6/28
Zhang Baojian*	External Director	M	60	2002/6/18 - 2005/6/28
Gu Chuanxun	Independent Director	M	69	2002/6/18 - 2005/6/28
Wang Yongshou	Independent Director	M	64	2002/6/18 - 2005/6/28
Wang Xingyu	Independent Director	M	60	2002/6/18 - 2005/6/28
Chen Xinyuan*	Independent Director	M	40	2003/6/18 - 2005/6/28
Dai Shuming	Chairman of the Supervisory Committee	M	49	2004/6/18 - 2005/6/28
Zhang Chenghua	Supervisor	M	49	2002/6/18 - 2005/6/28
Zhu Weiyan	Supervisor	M	56	2002/6/18 - 2005/6/28
Zhang Jianjun*	External Supervisor	F	53	2002/6/18 - 2005/6/28
Lu Xiangyang*	External Supervisor	M	53	2002/6/18 - 2005/6/28
Zhou Yunnong*	Independent Supervisor	M	62	2003/6/18 - 2005/6/28
Liu Xiangdong*	Independent Supervisor	M	53	2002/6/18 - 2005/6/28
Zhang Zhiliang	Vice President	M	51	2002/6/18 - 2005/6/28
Yin Jihai	Vice President	M	47	2002/6/18 - 2005/6/28
Shi Wei	Vice President	M	45	2003/10/24 - 2005/6/28
Zhang Jianping	Vice President	M	42	2004/7/2 - 2005/6/28
Tang Chengjian	Vice President	M	49	2004/7/2 - 2005/6/28
Zhang Jingming	Company Secretary	M	47	2002/6/18 - 2005/6/28

\* External directors and supervisors whose remunerations were not paid by the Company.

The profiles of the Directors, Supervisors and senior management of the Company are set out on pages 65 to 71.

**Directors and Supervisors Who Also Hold Management Positions at the Company's Shareholders**

Name	Shareholder's name	Position held	Service term (yes or no)	Salary, allowance received
Liu Wenlong	China Petrochemical Corporation	Formerly assistant to President and chief economist of China Petrochemical Corporation	February 2000 - March 2004 (retired)	Yes
Zhang Baojian	China Petrochemical Corporation	Formerly Deputy Chief Accountant and Manager of Financial Planning of China Petrochemical Corporation	March 2003 - October 2004 (retired)	Yes
Zhang Jianjun	China Petrochemical Corporation	Deputy Director of Compliance Bureau, Deputy Manager of Compliance Department	February 2002 - February 2006	Yes
Lu Xiangyang	China Petrochemical Corporation	Deputy Director of Audit Bureau, Deputy Manager of Audit Department	June 1997 - February 2006	Yes

Name	Company's name	Position held	Service term	Salary, allowance received (yes or no)
Rong Guangdao	Shanghai Chlor-Alkali Chemical Co., Ltd.	Independent Director	23 December 2003- 23 December 2006	Yes

**Remuneration of Directors, Supervisors and Senior Management for the Year**

	RMB'000
Total remuneration for the year	3,140
Total remuneration paid to the 3 highest paid directors	759
Total remuneration paid to the 3 highest paid senior management staff members	610
Allowances paid to the independent directors	240
Other benefits provided to the independent directors	0

Remuneration Bands (RMB)	Number of people
200,000 - 300,000	9
100,000 - 200,000	8

## Employees

The Company has a total of 28,451 employees, of whom 18,605 are production workers, 7,451 are sales, financial and other personnel and 2,395 are administration personnel. 22 % 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 the 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 2004, the Company has passed the resolution in respect of the amendments to the articles of associations of the Company.

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

The independent directors of the Company attended the 2003 Annual General Meeting and the 2004 Board meetings, and have fully fulfilled the functions of independent directors. They participated in considering and approving the resolutions in respect of the 2003 annual report, the 2004 interim report, quarterly reports, 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 an 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.

Attendance at Board meetings by Independent Directors:

Name of Independent Director	Attendance at Board meetings during the year	Attendance in person (no. of times)	Attendance by proxy (no. of times)	Absence (no. of times)	Remark
Gu Chuanxun	11	10	1	0	Business trip
Wang Xingyu	11	11	0	0	-
Wang Yongshou	11	11	0	0	-
Chen Xinyuan	11	10	1	0	Business trip

For the matters which have been considered by the independent directors, all which were agreed and approved.

(3) Appraisal and motivation mechanism for senior management staff member

On 26 March 2003, a remuneration system for 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 and continued to be adopted in 2004.

## Directors, Supervisors and Senior Management's Interests in Shares

As at 31 December 2004, 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	-
Rong Guangdao	Vice Chairman and President	3,600	3,600	-
Du Chongjun	Vice Chairman	1,000	1,000	-
Han Zhihao	Director and Chief Financial Officer	Nil	Nil	-
Wu Haijun	Director and Vice President	1,500	1,500	-
Gao Jinping	Director	Nil	Nil	-
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	-
Dai Shuming	Chairman of the Supervisory Committee	Nil	Nil	-
Zhang Chenghua	Supervisor	Nil	Nil	-
Zhu Weiyuan	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	-
Yin Jihai	Vice President	Nil	Nil	-
Shi Wei	Vice President	Nil	Nil	-
Zhang Jianping	Vice President	Nil	Nil	-
Tang Chengjian	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, Supervisors and Senior Management in Shares, underlying Shares and Debentures

Other than as set out above, as at 31 December 2004, none of the Directors, Supervisors or Senior Management of the Company 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 (Chapter 571 of the Laws of Hong Kong) (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 Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

As at 31 December 2004, none of the Directors, Supervisors or Senior Management of the Company 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 2004, 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 who 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, Supervisors and Senior Management of the Company) 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.*	165,842,802 H shares	2.30%	7.12%	Beneficial owner; investment manager; other (lending pool)
HSBC Assets Management (Hong Kong) Limited*	151,664,000 H shares	2.11%	6.51%	Beneficial owner; investment manager; other (lending pool)

\* Such 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 2004, 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.

## 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 2004.

## Change of Directors, Supervisors and Senior Management

The Company convened the eighth meeting of the fourth session of the supervisory committee on 25 March 2004, Mr. Du Chongjun has resigned from the offices of Chairman of the supervisory committee and supervisor due to new job assignment, Mr. Dai Shuming was nominated as the candidate for a supervisor of the fourth supervisory committee. In the tenth meeting of the fourth session of the board of directors on 26 March 2004, directors Mr Xu Kaicheng, Mr Feng Jianping, Mr Jiang Baoxing and Mr Li Weichang have resigned from the offices of directors due to job changes. Mr Du Chongjun, Mr Han Zhihao, Mr Wu Haijun and Mr Gao Jinping were nominated as the members of the fourth session of the Board. In the eleventh meeting of the fourth session of the Board held on 27 April 2004, Mr. Feng Jianping has resigned from the office of deputy general manager due to job changes. In the 2003 Annual General Meeting held on 18 June 2004, the resignations of Mr Xu Kaicheng, Mr Feng Jianping, Mr Jiang Baoxing and Mr Li Weichang were approved, and the appointments of Mr Du Chongjun, Mr Han Zhihao, Mr Wu Haijun and Mr Gao Jinping as directors of the fourth session of the Board were approved; the resignation of Mr Du Chongjun as a supervisor of the fourth session of the Supervisory Committee was approved, and the appointment of Mr. Dai Shuming as a supervisor of the fourth session of the Supervisory Committee was approved. In the fourteenth meeting of the fourth session of the Board held on 18 June 2004, Mr. Rong Guangdao and Mr. Du Chongjun were appointed as the Vice chairmen, Mr Du Chongjun, Mr Han Zhihao, Mr Wu Haijun and Mr Gao Jinping were appointed as the executive directors of the fourth session of the Board. In the tenth meeting of the fourth session of the supervisory committee held on 18 June 2004, Mr. Dai Shuming was elected as the Chairman of the supervisory committee. In the fifteenth meeting of the fourth session of the Board held on 2 July 2004, Mr Zhang Jianping and Mr Tong Chengjian were appointed as deputy general managers upon the nomination of Mr Rong Guangdao.

## **Independence of independent Non-Executive Directors**

The Board has obtained written confirmations from all Independent Non-Executive Directors concerning their independence in accordance with rule 3.13 of the Listing Rules of The Hong Kong Stock Exchange Limited (the "Listing Rules"). The Board believes that the existing Independent Non-Executive Directors are independent based on the guidelines set out in rule 3.13 of the Listing Rules.

## **Model Code for Securities Transactions by Directors and Supervisors**

The Company has adopted Appendix 10 of the Listing rules entitled "Model Code for Securities Transactions by Directors of Listed Issuers" as rules for securities transactions initiated by the Directors and Supervisors. After specifically inquiring with all the Directors and the Supervisors, the Company confirms that its Directors' and Supervisors' securities transactions have been fully complied with the standard laid down in Appendix 10 of the Listing Rules during the reporting period.

## **Directors' and Supervisors' Interests in Contract**

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.

In addition, the remuneration of Directors and Supervisors has been fixed on the basis of China's relevant policies or regulations and the Company's Articles of Association and approved by the annual general meeting.

## **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 2004.



## Meetings of the Board

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

1. On 26 March 2004, the tenth meeting of the fourth session of the Board was convened. The meeting considered and approved the 2003 report of the Directors, the 2003 financial statements, the 2003 profit appropriation plan, the 2003 annual report, the 2003 summary of annual report, the report of the President and 2004 financial budget. The meeting also approved the resolution for the change of members for the fourth session of the Board, the Form-20F to be filed with Securities and Exchange Commission of the USA, the resolution for the reappointment of domestic and international auditors, the resolutions for the amendment to the articles of association and their appendices, and the resolution for convening the 2003 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 29 March 2004.
2. On 27 April 2004, the eleventh meeting of the fourth session of the Board was convened. The meeting considered and approved the first quarterly report for 2004 and the resignation of Mr. Feng Jianping from the office of deputy general manager of the Company. The relevant announcement was published in Shanghai Securities Journal, China Securities Journal, South China Morning Post of Hong Kong and Hong Kong Commercial Daily on 28 April 2004.
3. On 18 May 2004, the twelfth meeting of the fourth session of the Board was convened. The meeting considered and approved the Contract on the Presale of Commodity Properties between the Company and Shanghai Huayou Real Estate Development Company Limited and its supplementary provisions for the purchase of the 16th to 28th floors of Huamin Century Plaza (Office Building). The relevant announcement was published in Shanghai Securities Journal, China Securities Journal, South China Morning Post of Hong Kong and Hong Kong Commercial Daily on 20 May 2004.
4. On 25 May 2004, the thirteenth meeting of the fourth session of the Board was convened. The meeting considered and approved the letter of intent that entered into between the Company and Bioux (China) Investment Limited ("BOC"), the increase in credit facility for working capital to US\$ 100 million and the disposal of equity interests in Hangzhou Jinshan Real Estate Joint Development Company and Hangzhou Jinshan Hotel Company Limited.
5. On 18 June 2004, the fourteenth meeting of the fourth session of the Board was convened. The meeting elected Mr. Rong Guangdao and Mr. Du Chongjun as Vice chairmen of the fourth session of the Board; approved the appointments of Mr. Du Chongjun, Mr Han Zhihao, Mr Wu Haijun and Mr Gao Jinping as the executive directors of the fourth session of the Board. The relevant announcement was published in Shanghai Securities Journal, China Securities Journal, South China Morning Post of Hong Kong and Hong Kong Commercial Daily on 21 June 2004.

6. On 2 July 2004, the fifteenth meeting of the fourth session of the Board was convened. The meeting considered and approved the appointments of Mr Zhang Jianping and Mr Tang Chengjian as Vice presidents upon the nomination made by Mr Rong Guangdao. The relevant announcement was published in Shanghai Securities Journal, China Securities Journal, South China Morning Post of Hong Kong and Hong Kong Commercial Daily on 6 July 2004.
7. On 17 August 2004, the sixteenth meeting of the fourth session of the Board was convened. The meeting considered and approved the provision of guarantee at an amount of RMB 14,500,000 for Shanghai Jinpu Plastic Packaging Materials Company Limited in accordance with the 50% investment by the Company.
8. On 27 August 2004, the seventeenth meeting of the fourth session of the Board was convened. The meeting considered and approved the interim report for 2004 and the resolution for not distributing the interim dividend.
9. On 14 September 2004, the eighteenth meeting of the fourth session of the Board was convened. The meeting considered and approved the resolutions on the Project Construction Contract entered into between the Company and China Petrochemical Corporation Ningbo Engineering Co.; the Hoist Equipment Purchase Agreement that entered into between the Company and Shanghai Petrochemical Mechanical Manufacturing Co. Ltd.; and the Land Use Right Transfer Contract that entered into between the Company and SINOPEC Pipeline Storage and Transport Branch. The relevant announcements were published in Shanghai Securities Journal, China Securities Journal, South China Morning Post of Hong Kong and Hong Kong Commercial Daily on 15 September 2004.
10. On 22 October 2004, the nineteenth meeting of the fourth session of the Board was convened. The meeting considered and approved the third quarterly report for 2004.
11. On 30 November 2004, the twentieth meeting of the fourth session of the Board was convened. The meeting considered and approved the Asset Transfer Agreement that entered into between the Company and China Petroleum and Chemical Corporation for the transfer of the Catalysts-Related Assets. The relevant announcement was published in Shanghai Securities Journal, China Securities Journal, South China Morning Post of Hong Kong and Hong Kong Commercial Daily on 1 December 2004.

## Shareholders' Meeting

### 2003 Annual General Meeting

The Company held its 2003 Annual General Meeting ("AGM") on 18 June 2004 in Jinshan District, Shanghai, the PRC. The AGM was attended by 49 people in person or their proxies holding 6.234 billion shares, representing 86.58% 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 eight resolutions:

1. The report of the Directors for the year ended 31 December 2003;
2. The report of the Supervisory Committee for the year ended 31 December 2003;
3. The Audited Statement of Accounts of the Company for the year ended 31 December 2003 and the 2004 Financial Budget;
4. The Profit Appropriation Plan of the Company for the year ended 31 December 2003;
5. The reappointment of KPMG Huazhen and KPMG as the Company's PRC and international auditors respectively for the year ending 31 December 2004 was approved and the Directors were authorised to fix their remuneration;
6. Approved the resignations of Mr Xu Kaicheng, Mr Feng Jianping, Mr Jiang Baoxing and Mr Li Weichang from the offices of Directors of the fourth session of the Board of the Company; appointed Mr Du Chongjun, Mr Han Zhihao, Mr Wu Haijun and Mr Gao Jinping as Directors of the fourth session of the Board of the Company; approved the resignation of Mr Du Chongjun from the office of Supervisor of the fourth session of the Supervisory Committee; appointed Mr Dai Shuming as Supervisor of the fourth session of the Supervisory Committee of the Company;
7. Approved the amendments to the Articles of Association;
8. Approved the special resolution for the annex to the amendments to the Articles of Association.

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 21 June 2004.

## MAJOR EVENTS

### 1. Profit appropriation plan for 2004

Net profit of the Company for the year ended 31 December 2004 amounted to RMB3,971,265,000 under PRC Accounting Rules and Regulations (RMB3,971,103,000 under IFRS). After two transfers, each amounting to 10% of the profit after tax, or RMB397,127,000, made to the statutory surplus reserve and the statutory public welfare fund, respectively, profit available for distribution to shareholders amounted to RMB3,177,011,000 (RMB3,176,849,000 under IFRS). The Board proposed to declare a final dividend of RMB2.00 (incl. tax) per 10 shares. With reference to the total number of shares of 7,200,000,000 for the year ended 31 December 2004, the total dividend amount will be RMB1,440,000,000.

### 2. Material litigation

The Company was not involved in any material litigation or arbitration in 2004.

### 3. Acquisitions and sale

The details were set out in "5. Major connected transactions".

### 4. Trust financial management

During 2004, 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 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) Connected debts and liabilities**

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
Sinopec Pipeline Storage and Transport Branch	64,401	162,057	1,526	1,526
Other connected parties	82,372	88,726	142,630	179,656

**(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 2004:**

Type of transactions	Related parties	Amount RMB'000	Percentage of total amount of the type of transaction %
Sales of products and service fee	Sinopec Huadong Sales Company	11,472,712	29.12
	Other fellow subsidiaries	3,291,771	8.35
Purchases	China International United Petroleum & Chemicals Co. Ltd. (Unipecc)	7,944,599	31.09
	Sinopec Pipeline Storage and Transport Branch	6,885,060	26.94
	Sinopec International Co., Ltd.	1,612,230	6.31
Construction and installation fees	China Petrochemical Corporation & its subsidiaries	199,676	83.66

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.

**(4) Major connected transactions entered into by the Company during the reporting period:**

Type	Transaction date	Transaction details	Transaction parties	Pricing principles	Assets book value (RMB)	Appraised value (RMB)	Transaction price (RMB)	Method of settlement	Nature and Extent of Connected Person Interests
Labour	14 September 2004	Refurbishment of the Company's 400,000 tons/ year Pure Terephthalic Acid (PTA) Plant (note 1)	China Petrochemical Corporation Ningbo Engineering Co.	Tender	-	-	10,989,575	Through the payment system for the construction finances of the Company	Consideration payable upon completion
Assets purchase	14 September 2004	Hoist equipment purchase ( note 2)	Shanghai Petrochemical Mechanical Manufacturing Co. Ltd.	Appraisal	24,019,700	29,112,000	28,800,000	Paid by bank transfer	Consideration payable upon completion
Assets transfer	14 September 2004	Transfer of land use rights in respect of an area of 662,192.70 square meters located at Jiangqiao village, Quantang town, Pinghu, Zhejiang Province (note 3)	Sinopec Pipeline Storage and Transport Branch	Appraisal	23,597,900	50,360,000	50,360,000	Paid by bank transfer	Land use rights transferable upon completion
Assets transfer	30 November 2004	Transfer of catalysts-related assets (note 4)	China Petroleum & Chemical Corporation	Appraisal	40,885,200	49,916,200	49,916,200	Paid by bank transfer	Catalysts-Related Businesses transferable upon completion

**Note:**

- 1) It was considered and approved in the eighteenth meeting of the fourth session of the Board convened on 14 September 2004 by means of correspondence that the Company entered into the Project Construction Contract with China Petrochemical Corporation Ningbo Engineering Co., pursuant to which China Petrochemical Corporation Ningbo Engineering Co. will provide certain project construction contracting services in connection with the refurbishment of the Company's 400,000 tons / year Pure Terephthalic Acid (PTA) Plant. The Company and China Petrochemical Corporation Ningbo Engineering Co. are both under the same ultimate controller. The relevant announcement was published in Shanghai Securities Journal, China Securities Journal, South China Morning Post of Hong Kong and Hong Kong Commercial Daily on 15 September 2004;

- 2) It was considered and approved in the eighteenth meeting of the fourth session of the Board convened on 14 September 2004 by means of correspondence that the Company entered into the Hoist Equipment Purchase Agreement with Shanghai Petrochemical Mechanical Manufacturing Co. Ltd. for the purchase of TC1800S Demag Hoist Equipment, which has a lifting capacity of 450 tons. The Company and Shanghai Petrochemical Mechanical Manufacturing Co. Ltd. are both under the same ultimate controller. The relevant announcement was published in Shanghai Securities Journal, China Securities Journal, South China Morning Post of Hong Kong and Hong Kong Commercial Daily on 15 September 2004;
- 3) It was considered and approved in the eighteenth meeting of the fourth session of the Board convened on 14 September 2004 by means of correspondence that the Company entered into the Land Use Right Transfer Contract with Sinopec Pipeline Storage and Transport Branch for the transfer of land use rights legally owned by the Company in connection with an area of 662,192.70 square meters located at Jianqiao village, Quantang town, Pinghu, Zhejiang Province. The Company and Sinopec Pipeline Transport Branch are both under the same ultimate controller. The relevant announcement was published in Shanghai Securities Journal, China Securities Journal, South China Morning Post of Hong Kong and Hong Kong Commercial Daily on 15 September 2004;
- 4) It was considered and approved in the twentieth meeting of the fourth session of the Board convened on 30 November 2004 by means of correspondence that the Assets Transfer Agreement that Company entered into with China Petroleum and Chemical Corporation for the transfer of the Catalysts-Related Assets. China Petroleum and Chemical Corporation is the controlling shareholder of the Company. The relevant announcement was published in Shanghai Securities Journal, China Securities Journal, South China Morning Post of Hong Kong and Hong Kong Commercial Daily on 1 December 2004.

**6. Trust, sub-contract and leasing**

During 2004, 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 2004.

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 Annual General Meeting of the Company in 2005.

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

Name of Accounting Firm	Remuneration	Consecutive period
KPMG	US\$ 566,000	12 years
KPMG Huazhen	US\$ 84,000	12 years

Hu Qiong, the Certified Public Accountant of KPMG Huazhen has audited the Company for one year.

Hu Ganxin, the Certified Public Accountant of KPMG Huazhen has audited the Company for one year.

## 8. Material contracts

During 2004, 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% (2003:15%). 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 2005.



**11. Deposits**

The Company did not have any designated deposit during the reporting period. As at 31 December 2004, 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 2004	20,000	Bank loan	1 year	No	Yes
Shanghai Golden Conti Petrochemical Company Limited	25 August 2004	100,000	Bank loan	1 year	No	Yes
Shanghai Golden Conti Petrochemical Company Limited	9 May 2004	80,000	Bank loan	1 year	No	Yes
Zhejiang Jin Yong Acrylic Fibre Company Limited	21 December 1998	7,400	Bank loan	7 years	No	Yes
Zhejiang Jin Yong Acrylic Fibre Company Limited	6 December 2004	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 2004	50,000	Bank loan	1 year	No	Yes
Zhejiang Jin Yong Acrylic Fibre Company Limited	19 May 2004	40,000	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	26 November 2004	14,500	Bank loan	1 year	No	Yes
Zhejiang Jin Yong Acrylic Fibre Company Limited	30 June 2004	132,424	Bank loan	1 year	No	Yes
Shanghai Jinsen Hydrocarbon Resins Company Limited	23 March 2004	40,000	Bank loan	3 years	No	Yes
Hangzhou Jinshan Real Estate Company	29 September 2004	24,800	Bank loan	1 year	No	Yes
Jinshan Hotel	28 December 2001	13,250	Bank loan	5 years	No	Yes
Others	1 March 1999 to 20 December 2004	43,871	Bank loan and joint guarantee	1 year to 6 years	No	Yes
Amount of guarantees signed in 2004 (RMB'000)*						78,500
Guarantee amount (RMB'000)*						101,886
<b>Guarantees for subsidiaries:</b>						
Amount of guarantee provided for subsidiaries during the reporting period (RMB'000)						506,959
Guarantee amount provided for subsidiaries at the end of reporting period (RMB'000)						778,859
<b>Total amount of guarantee (including those provided for subsidiaries):</b>						
Total guarantee amount (RMB'000)						880,745
Guaranteed amount as a percentage of net asset value of the Company prepared in accordance with PRC Rules and Regulations						5%

\* Excludes the amount of guarantees given by the Company in favour of subsidiaries

RMb'000

**Guarantees not in compliance with the requirements of Document Zheng Jian Fa [2003] No.56:**

Amount of guarantee provided for the holding shareholder or the other connected parties of which less than 50% (not including 50%) shares are owned by the Company	46,786
Amount of debt guarantee provided for the companies with liabilities to assets ratio of over 70%	802,610
Whether the total guaranteed amount is over 50% of the net asset	None
Total amount of guarantee not in compliance with the requirements of Document Zheng Jian fa [2003] No.56	843,660

Guarantees issued to banks in favour of subsidiaries, associates and other non-listed companies are given to the extent of the Company'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 2004 and 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.

As at 31 December 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, companies (mainly subsidiaries) of liabilities-assets ratio (total liabilities divided by total assets) of more than 70% or the guarantees without back-to-back arrangement, amounting to RMB843,660,000.

**13. Disclosure**

Save 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 the reporting period, 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. Specific statement in respect of capital appropriations by the controlling shareholder and the related parties and the provision of special guarantees**

- (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 2004" 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 2004, 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 23 March 2005.

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 by the controlling shareholder and Other Related Parties for the year 2004" (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 for the Year 2004. Except for the audit procedures performed in the course of our audit of the financial statements for the Year 2004 on the Company'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 2004, the Summary should be read together with the audited financial statements.

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Postal code: 100738

Certified Public Accountants  
Registered in the People's  
Republic of China  
Hu Qiong  
Hu Ganxin  
23 March 2005

- (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, 23 March 2005