

Report of the Board of Directors²

The Board of Directors hereby presents the report of the Directors and the audited financial statements for the year ended 31 December 2004.

PRINCIPAL ACTIVITIES

The Company is principally engaged in the production and sale of gasoline, diesel, kerosene, naphtha, LPG, solvent oil, fuel oil, intermediate petrochemical products, asphalt, urea and petrochemical products such as PX, PP.

SUBSIDIARIES AND ASSOCIATES

Details of the subsidiaries and associates of the Company are set out in notes 16 and 17 to the financial statements.



DIVIDEND

An interim dividend of RMB0.09 per share was paid on 20 October 2004 (2003: RMB0.05 per share). The Board of Directors recommended the payment of a final dividend of RMB0.21 per share in respect of the year ended 31 December 2004 (2003: RMB0.09 per share).



RESERVES

Details of movements of the Group's reserves during the year are set out in the Consolidated Statement of Changes in Shareholders' Equity of the financial statements.

DONATIONS

The total amount of donations made by the Group during 2004 was approximately RMB30,025,000 (2003: RMB4,520,000), of which RMB23,060,000 was the expense arising from the Group's transfer of its social responsibilities (elementary and secondary schools and public security) to the local government.

RESULTS

The Group's results for the year ended 31 December 2004 and the Company's and the Group's financial positions as at that date are set out on page 41 to 90 of this annual report. The Group's profit attributable to shareholders for the year 2004 was RMB2,613 million, representing an increase of 140.19% from that of 2003.

PROPERTY, PLANT AND EQUIPMENT

Details of movements of the Group's fixed assets during the year are set out in note 14 to the financial statements.

² Please refer to the Group's financial statements and notes contained in this annual report when reading the following text.

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MAJOR CUSTOMERS AND SUPPLIERS

The proportions of major customers and suppliers in the Group's total sales and purchase for the year are shown as follows:

	Percentage share of the Group's total amount	
	Sales	Purchase
The largest customer	69.35%	
The aggregate amount of the five largest customers	82.70%	
The largest supplier		46.10%
The aggregate amount of the five largest suppliers		98.17%

Neither the Directors nor the Supervisors nor their respective associates own any beneficial interests in the aforesaid five largest customers and suppliers.

None of the shareholders holding 5% or more interest in the issued share capital of the Company has any beneficial interests in the said suppliers and customers with the exception of China Petroleum & Chemical Corporation ("Sinopec Corp"), the Company's controlling shareholder, which holds 100% equity interests in the largest customer of the Group, Sinopec Sales Huadong Company, 42% equity interests in the third largest customer, Sinopec Yizheng Chemical Fibre Company Limited ("Yizheng Chemical"), and 70% equity interests in the largest supplier, China International United Petroleum & Chemicals Company Limited.

PENSION FUND

Details of the pension fund are set out in note 9 to the financial statements. Contribution to the pension fund charged to the Group's consolidated income statement for the year ended 31 December 2004 was RMB109,332,000.

SUMMARY OF FIVE-YEAR FINANCIAL INFORMATION

A summary of the results and the consolidated balance sheets of the Group for the past five financial years is set out on page 6 of this annual report.

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SHARE CAPITAL

The Company's shareholding structure as at 31 December 2004 is as follows:

	Number of shares	Percentage share of total issued shares
State-owned legal person shares	1,800,000,000	71.32%
H shares	723,754,468	28.68%
Total share capital	2,523,754,468	100.00%

Based on the public information available to the Company and within the knowledge of the Company's Directors as at the latest practicable date before the issue of the Company's annual report, the Company's public float had met the requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

SHAREHOLDING OF SUBSTANTIAL SHAREHOLDERS

Substantial Shareholders

Save as disclosed below, the Directors of the Company are not aware of any persons (other than a Director or Supervisor of the Company or his/her respective associate(s)) who, as at 31 December 2004, had notifiable interest or short position in the shares or underlying shares of the Company which was recorded in the register to be kept under section 336 of the Securities and Futures Ordinance ("SFO"):

Name of shareholder	Nature	Class of shares	Capacity	Note	Number of shares/ underlying shares	% to	
						entire issued capital	all issued H shares
Sinopec Corp	Long position	State-owned legal person shares	Corporate	a	1,800,000,000	71.32	N/A
BP p.l.c.	Long position	H shares	Corporate	b	237,600,000	9.41	32.83
JP Morgan Chase & Co.	Long position	H shares	Beneficial owner/ Investment manager/ Custodian	c	67,219,000	2.66	9.29
	Lending pool	H shares	N/A	c	12,439,000	0.49	1.72
FMR Corp	Long position	H shares	Investment manager		44,126,000	1.75	6.10

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Notes:

- (a) Sinopec Corp held the above 1,800,000,000 State-owned legal person shares in the Company. China Petrochemical Corporation is the ultimate controlling shareholder of the Company, and is a State-authorized investment institution and a State-holding company. It has a 67.92% equity interest in Sinopec Corp.
- (b) ARCO Asia Pacific Investments Limited, which was a controlled corporation of BP p.l.c., had a direct holding in the above 237,600,000 H shares.
- (c) The shares in which JP Morgan Chase & Co. were deemed to be interested were held via JF Asset Management Limited, JF International Management Inc., JP Morgan Chase Bank, N.A. and J.P. Morgan Whitefriars Inc. respectively.

TRUST DEPOSIT AND OVERDUE TIME DEPOSIT

The Company did not have any trust deposit or any overdue time deposit as at 31 December 2004.

LOCAL TAX POLICIES

Details are set out in note 10 to the financial statements.

PRE-EMPTIVE RIGHTS

The Articles of Association of the Company and the laws of the PRC contain no provision requiring the Company to offer to its existing shareholders any pre-emptive rights to acquire new shares on a pro-rata basis to their shareholdings. However, the Company has to comply with the Listing Rules regarding the requirements on pre-emptive rights.

PURCHASE, SALE AND REDEMPTION OF THE COMPANY'S SHARES

For the year ended 31 December 2004, neither the Company nor its subsidiaries had purchased, sold or redeemed any of the Company's shares.

MATERIAL CONTRACT

On 7 December 2004, the Company entered into an agreement (the "Agreement") to sell naphtha to

SECCO Chemical Fibre Company Limited ("SECCO") until 31 December 2007. The price of the naphtha will be determined in accordance with the pricing formula in the Agreement which is based on the international market prices published by Platts. Relevant details were published in Hong Kong newspapers, South China Morning Post and Wen Wei Po, on 8 December 2004.

SECCO is held 30% by Sinopec Corp, 20% by Sinopec Shanghai Petrochemical Company Limited ("SPC"), and 50% by BP Chemicals Eastern China Investments Limited. Sinopec Corp is the holding company of the Company and SPC is a subsidiary of Sinopec Corp. SECCO is therefore an associate of a connected person of the Company under the Listing Rules. The sales under the Agreement constitute non-exempt continuing connected transactions for the Company, and are subject to reporting, announcement, and independent shareholders' approval requirements. Relevant details were published in the circular sent to all shareholders on 24 December 2004.

On 18 February 2005, the Company held an extraordinary general meeting, at which the Agreement and the continuing connected transactions including the caps were approved. Relevant details were published in Hong Kong newspapers, South China Morning Post and Wen Wei Po, on 21 February 2005.

PREPARATIONS FOR THE CONSTRUCTION OF A 1 MILLION TPA ETHYLENE PROJECT

On 9 September 2004, the Company's proposal on an ethylene project was officially approved by the National Development and Reform Commission ("NDRC"). Following the approval, the Company proceeded with the compilation of a feasibility report and the "Project Application Report" required for approval. In November 2004, the Expert Consultative Council of Sinopec Corp's Science and Technology

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Committee and Sinopec Consultancy Company conducted a joint evaluation of the Company's feasibility report on a 1 million tpa ethylene project (the "Project").

In January 2005, the "Project Application Report" required for the approval of the Project was submitted to the NDRC. On 7 March 2005, the Project's environmental impact report was approved by the State Environmental Protection Administration of China. Up to now, the NDRC has commissioned relevant companies to prepare for the evaluation of the Project. Construction of the Project will commence upon completion of evaluation and approval by relevant government departments.

On 25 March 2005, the Board of Directors of Sinopec Corp resolved to approve the Company's feasibility report on a 1 million tpa ethylene project. According to the resolution, the Project mainly includes a 1 million tpa ethylene project and the upgrade and expansion of auxiliary facilities including heat and electricity generators project. The total investment amount is estimated to be approximately RMB21.5 billion.

DIRECTORS

For the financial year ended 31 December 2004, the Board of Directors of the Company comprised twelve Directors, six of whom were Executive Directors, namely, Mr Sun Weijun (Chairman), Mr Zhan Juping (Deputy Chairman), Mr Xu Liqiao, Mr Sun Jianli, Mr Zhao Jinxuan and Mr Yu Renming. The two Non-executive Directors were Ms Wang Lisheng and Mr Hu Weiqing. The four Independent Non-executive Directors were Mr Sun Yongsen, Mr Cen Kefa, Mr Li Linghong and Ms Qiu Yun.

CHANGES IN SENIOR MANAGEMENT

The resignation of Mr Zhao Jinxuan as the Deputy General Manager of the Company was approved at the eighth meeting of the Fourth Board of Directors

held on 8 April 2005. The Board of Directors expressed their gratitude to Mr Zhao for his contribution to the Company's development.

AUDITORS

The re-appointment of KPMG as the Company's auditors was approved at the 2003 annual general meeting of the Company held on 18 June 2004.

KPMG has provided audit services to the Company for three consecutive years since 2002. KPMG has audited the Group's financial statements for the year ended 2004.

As their term of appointment is about to expire, KPMG expressed their wish for re-appointment. The resolution regarding the re-appointment of KPMG as the Company's auditors will be proposed at the coming annual general meeting.

AUDIT COMMITTEE

The audit committee reviewed the Company's annual results for the year ended 2004.

CODE OF BEST PRACTICE

The Directors were not aware of any information which reasonably indicated that the Company had not complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules during 2004. The code was replaced by the Code on Corporate Governance Practices, which took effect from 1 January 2005. The Company will, in compliance with the Code on Corporate Governance Practices pursuant to the relevant regulatory requirements, make timely disclosure.

By Order of the Board

Sun Weijun

Chairman

8 April 2005, Ningbo, the PRC