

1. Material litigation or arbitration

The Group was not involved in any material litigation or arbitration in 2005.

2. Company's purchase or disposal of assets, or merger or acquisition during the reporting period

Refer to the section of "Company's major connected transactions during the reporting period" below.

3. Company's major connected transactions during the reporting period

(a) Connected transactions in relation to routine operations

Upon approval and authorization by the 2005 Extraordinary General Meeting of the Company held on 28 June 2005, the Company entered into a Sales and Purchases Framework Agreement with Sinopec Corp. and a Comprehensive Services Framework Agreement with Sinopec. Under the Sales and Purchases Framework Agreement, the Company purchases raw materials from, and sells petroleum products and petrochemicals to, Sinopec Corp. and its associates. Under the Comprehensive Services Framework Agreement, the Company will accept transportation, design, construction and installation, insurance agency and financial services provided by Sinopec and its associates. The directors, including each of the independent non-executive directors confirm that these continuing connected transactions were conducted in accordance with the terms of Sales and Purchases Framework Agreement and the Comprehensive Services Framework Agreement throughout 2005. At the 2005 Extraordinary General Meeting and the 2005 Second Extraordinary General Meeting held on 30 December 2005, the caps of on-going connected transactions for the years ended 31 December 2005, 31 December 2006 and 31 December 2007 were also approved. The directors, including each of the independent non-executive directors confirm that these continuing connected transaction amounts did not exceed the caps so approved.

On 25 August 2005, the petrochemical products agency sales contract with Sinopec Corp. was considered and approved at the second meeting of the fifth session of the Board. Pursuant to the contract, the Company appoints Sinopec Corp. as a non-exclusive sales agent for the sales of synthetic resins, synthetic fibres, synthetic fibre monomers and polymers, organic petrochemical products and by-products from ethylene cracking and aromatic plants and other substandard products related to the above five products. An announcement in relation to the second meeting of the fifth session of the Board was published in "China Securities", "Shanghai Securities News", Hong Kong's "South China Morning Post" and "Hong Kong Commercial Daily" on 26 August 2005.

Necessity and continuity of connected transactions and the reasons to choose the connected parties (instead of other parties on the market) to conduct such transactions

The purchases by the Company of crude oil-related materials from and sales of petroleum products by the Company to Sinopec Corp. and its associates were conducted in accordance with the State's relevant policy and applicable State tariffs or State guidance prices. As long as the State does not lift its control over purchases of crude oil, sales of petroleum products and pricing thereof, such connected transactions will continue to happen. The Company sells petrochemicals to Sinopec Corp. and its associates and Sinopec Corp. and its associates act as an agency for the sale of petrochemicals in order to reduce the Company's inventories, expand its trading, distribution and sales networks and improve our bargaining power with our customers. The Company accepts transportation, design, construction and installation, insurance agency and financial services from Sinopec and its associates in order to secure steady and reliable services at reasonable prices.

Impact of connected transactions on the independence of the listed company

The prices of on-going connected transactions conducted by the Company with Sinopec Corp., Sinopec or their associates were determined, upon consultations of both parties, on the basis of (1) State tariffs; or (2) State guidance prices; or (3) market prices. Such connected transactions were entered into in line with the Company's production and operation needs. Hence, the aforesaid on-going connected transactions did not have a major impact on the independence of the Company.

Major connected transactions involving purchase of goods and provision of labour services

Type of transactions	Related parties	Amount RMB'000	Percentage of total amount of the type of transaction (%)
Income from sale of products and services	Sinopec Huadong Sales Company	15,855,347	34.54
	Other fellow subsidiaries	4,213,399	9.18
Purchases	Sinopec Transport and Storage Company	20,435,961	48.74
	Sinopec United Petroleum & Chemicals Co., Ltd.	5,020,417	11.97
	China Petrochemical International Co., Ltd.	1,724,362	4.11
Installation fees	Sinopec and its subsidiaries	183,191	42.73
Transportation costs	Sinopec Transport and Storage Company	364,019	66.36
	Others	51,478	9.38

This includes: an amount of RMB 20,068,746,000 for the connected transactions in respect of the sale of products or the provision of labor services to the controlling shareholder and its subsidiaries by the listed company during the reporting period.

The Group believes that the purchase of goods from the above connected parties will ensure a steady and secure supply of raw materials, and that the sales to the above connected parties will ensure that the Group's important sales channels and sales volume can be maintained such that they are beneficial to the Group. The aforesaid connected transactions were priced at market prices. The installation fees were paid to Sinopec in strictly compliance with the respective contracts. The aforesaid connected transactions did not have an adverse impact on the profit of the Company.

(b) Major connected transactions involving transfer of assets or equity interests

- i The Company transferred 12.67% of its equity interest in China Jin Shan United Trading Co., Ltd., to China Petrochemical International Co., Ltd., a wholly-owned subsidiary of the Company's controlling shareholder, Sinopec Corp., at a consideration of RMB10,000,000. RMB3,140,116 in gain was generated from the transaction. The pricing principle was based on a value appraised by a qualified asset appraiser independent from both the Company and China Petrochemical International Co., Ltd. The face value of such portion of assets amounted to RMB6,859,883.70 and its assessed value amounted to RMB9,999,300.00. The transaction represented an opportunity of the Company to increase its sales of products by expanding its trading, distribution and marketing network. Details of the transaction were disclosed in China Securities Journal, Shanghai Securities News, Hong Kong Commercial Daily and South China Morning Post on 29 April 2005.
- ii. The Company transferred its lawfully owned use rights of a piece of land covering an area of 690,000 sq. meters located at Zhusimen, Nanao Village, Cezi Township, Dinghai District, Zhoushan Municipality, Zhejiang Province, to China Petrochemical Corporation Pipelines Transportation Co., a branch company of the Company's controlling shareholder, Sinopec Corp., at a consideration of RMB62,741,700. RMB36,815,994 in gain was generated from the transaction. The pricing principle was based on a value appraised by a qualified property valuer independent from both the Company and China Petrochemical Corporation Pipelines Transportation Co. The face value of such portion of assets amounted to RMB21,795,806.89 and its assessed value amounted to RMB62,741,700. The Company was of the view that the disposal of the surplus land generated immediate working capital for the Company. The discrepancy between the face value and the assessed value was due to the increase in property valuation. An announcement in relation to the transaction was published in China Securities Journal, Shanghai Securities News, Hong Kong Commercial Daily and South China Morning Post on 30 September 2005.
- iii. The Company transferred 2% of its equity interest in Sinopec Finance Co., Ltd. to its controlling shareholder, Sinopec Corp. at a consideration of RMB82,000,000. RMB20,922,500 in gain was generated from the transaction. The pricing principle was based on an audit report compiled by a qualified audit firm independent from either the Company and Sinopec Corp. The face value of such portion of assets amounted to RMB61,077,500.00. As at 30 September 2005, the net asset value attributable to the Company's 2% equity interest amounted to RMB81,875,450 as reflected in the audited accounts of Sinopec Finance. The transaction was in line with the business strategy of the Company and the proceed of which was used to finance the core business of the Company. Details of the transaction were disclosed in China Securities Journal and Shanghai Securities News on 4 January 2006 and in Hong Kong Commercial Daily and South China Morning Post on 3 January 2006.

(c) Major connected transactions involving joint overseas investments

The Group did not have any major connected transactions involving joint overseas investments during 2005.

(d) Connected creditor's rights and liabilities

Connected party	Connected relationship	Net transaction RMB'000	Balance RMB'000	Net transaction RMB'000	Balance RMB'000
Sinopec PipelineStorage and Transport Branch	Owned by the same ultimate controller	162,057	-	1,526	-
Sinopec Corp.	Controlling shareholder	82,000	82,000 (Please refer to the reason i below)	5,276	5,276
Holdings company and other subsidiaries of Sinopec Corp.	Owned by the same controlling shareholder	76,029	164,763 (Please refer to the reason ii below)	150,234	29,422

Reasons for the creation of creditor's rights and liabilities

- i. An agreement was signed on 30 December 2005 on the transfer of the Company's 2% equity interest in Sinopec Finance to Sinopec Corp. at a consideration of RMB82,000,000. In accordance with the payment terms of the agreement, the Company was paid the consideration on 28 February 2006.
 - ii. A balance payment of equipment pre-payment in the amount of RMB164,763,000 was paid by the Company to Sinopec Corp. and its subsidiary, primarily as equipment pre-payments and progress payments for the 380,000 tons/year glycol project and the long-cycle facility of the 3,300,000 tons/year diesel hydrogenization project. Both facilities will be delivered during the first half of 2006.
- (e) Independent Non-executive Directors of the Company have reviewed the Group's connected transactions and confirmed that:
- such transactions were on-going businesses of the Company;
 - such transactions were conducted according to normal business terms; and
 - such transactions were conducted according to the relevant agreement terms and were fair and reasonable and to the benefits of the shareholders of the Company as a whole.

4. Trust

The Group did not enter into any trust arrangements during 2005.

5. Sub-contracting

The Group did not enter into any sub-contracting arrangements during 2005.

6. Leasing

The Group did not enter into any leasing arrangements during 2005.

7. Guarantees

Guaranteed entities	Date (Agreement signing date)	Guarantee amount (RMB '000)	Type of guarantee	Guarantee period	Guarantee expired	Guarantee connected party
Zhejiang Jin Yong Acrylic Fibre Company Limited	5 December 2005	50,000	Bank loan	1 year	No	Yes
Zhejiang Jin Yong Acrylic Fibre Company Limited	18 June 2002	16,500	Bank loan	5 years	No	Yes
Zhejiang Jin Yong Acrylic Fibre Company Limited	11 October 2005	100,000	Bank loan	3 years	No	Yes
Zhejiang Jin Yong Acrylic Fibre Company Limited	6 September 2005	30,000	Bank loan	1 year	No	Yes
Zhejiang Jin Yong Acrylic Fibre Company Limited	20 May 2005	50,000	Bank loan	1 year	No	Yes
Zhejiang Jin Yong Acrylic Fibre Company Limited	20 April 2005	40,000	Bank loan	1 year	No	Yes
Zhejiang Jin Yong Acrylic Fibre Company Limited	28 November 2005	110,000	Bank loan	3 years	No	Yes
Zhejiang Jin Yong Acrylic Fibre Company Limited	28 November 2005	14,500	Bank loan	1 year	No	Yes
Zhejiang Jin Yong Acrylic Fibre Company Limited	17 May 2005	50,000	Bank loan	1 year	No	Yes
Shanghai Jinchang Engineering Plastics Company Limited	11 March 2005	4,000	Bank loan	1 year	No	Yes
Shanghai Jinchang Engineering Plastics Company Limited	15 September 2005	4,842	Bank loan	1 year	No	Yes
Shanghai Jinchang Engineering Plastics Company Limited	14 September 2005	5,000	Bank loan	1 year	No	Yes
Shanghai Jinchang Engineering Plastics Company Limited	16 December 2005	3,000	Bank loan	1 year	No	Yes
Shanghai Jinchang Engineering Plastics Company Limited	19 December 2005	6,000	Bill credit	1 year	No	Yes
Shanghai Jinsen Hydrocarbon Resins Company Limited	23 March 2004	40,000	Bank loan	3 years	No	Yes
Jinshan Hotel	28 December 2001	5,000	Bank loan	5 years	No	Yes
Jinshan Hotel	11 June 2002	4,250	Bank loan	5 years	No	Yes
Jinshan Hotel	11 June 2002	4,000	Bank loan	5 years	No	Yes
Others	1 June 2004 to 25 October 2005	15,050	Bank loan	1 year to 5 years	No	Yes
						RMB'000
Amount of guarantees signed during the reporting period (not including those provided for subsidiaries)						14,000
Guarantee amount (not including those provided for subsidiaries)						68,300
of which: total outstanding amount of connected guarantee						68,300
Guarantees for subsidiaries						
Amount of guarantee provided for subsidiaries during the reporting period						467,342
Outstanding amount of guarantee provided for subsidiaries at the end of reporting period						483,842
Total amount of guarantee (including those provided for subsidiaries)						
Total guarantee amount						552,142
Guaranteed amount as a percentage of net asset value of the Company prepared in accordance with PRC Rules and Regulations						3%
of which:						
Amount of guarantee provided for shareholders, the de facto controller or the other connected parties						0
Amount of debt guarantee provided for the companies with liabilities to assets ratio of over 70%						474,250
Total amount of guarantee is over 50% of the net asset						0
Total guarantee amount of the above three items						474,250

8. Trust financial management

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

9. Other Material Contracts

There were no other material contracts during the year.

10. Performance of Undertakings

- 1) Neither the Company nor any shareholder holding more than 5% of the total shares has made any undertakings during the reporting period.
- 2) Work on share reform of the Company requires the consent of its controlling shareholder, Sinopec Corp.. Sinopec Corp. is currently conducting a comprehensive study in respect of the share reform work of its listed subsidiaries in accordance with the requirements of the relevant policies of the PRC, and to date no specific plan has been formulated.

11. Appointment and Dismissal of Accounting Firm

During the reporting period, the Company did not appoint new accounting firms. KPMG Huazhen and KPMG continued to be the Company's domestic and international auditors, respectively.

A resolution for reappointing KPMG Huazhen and KPMG as the domestic and international auditors of the Company, respectively, is to be tabled to the forthcoming 2006 Annual General Meeting of the Company.

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

Name of accounting Firm	Remuneration	Consecutive period
KPMG	RMB 5.135 million	13 years
KPMG Huazhen	RMB 1.015 million	13 years

Hu Qiong, the Certified Public Accountant of KPMG Huazhen has audited the Company for two years.

Wang Wenli, the Certified Public Accountant of KPMG Huazhen has audited the Company for one year.

12. Disciplinary actions upon the Company, the Board and directors

During the reporting period, the Company, the Board of Directors and directors had not been investigated, administratively punished or publicly criticized by the China Securities Regulatory Commission or publicly reprimanded by the Shanghai Stock Exchange.

13. Disclosure

Save as disclosed above, in relation to major events, or discloseable matters referred to in Article 67 of Securities Law of the PRC, and Article 17 of the Implementing Rules on the Disclosure of Information by Publicly Listed Companies (Trial Implementation), there were no other major events or discloseable matters of the Group during the year under review.

14. Tax rate

The charge for PRC income tax is currently calculated at the rate of 15% (2004:15%). The company has not received any notice from the Ministry of Finance to the effect that the 15% tax rate will be changed in 2006.

15. Deposits

The Company did not have any entrusted deposit during the reporting period. As at 31 December 2005, the Group did not have any time deposit which could not be collected upon maturity.

16. The Execution of the 2004 Profit Appropriation Plan

The Profit appropriation plan for 2004 was approved at the Company's 2004 Annual General Meeting. A dividend of RMB2.00 (tax included) per 10 shares will be distributed to shareholders, based on the total share capital of 7,200,000,000 shares at the end of 2004. Relevant announcement was published on Shanghai Securities News, China Securities Journal, Southe China Morning Post and Hong Kong Commercial Daily on 29 June 2005. On 11 July 2005, the company published the profit appropriation plan for A shares. In respect of the distribution of A-share dividend, the share right registration date was 14 July 2005, ex-dividend date was 15 July 2005. The dividend payment date for social public shares of A shares and H shares was 21 July 2005. Such profit appropriation plan has been implemented as scheduled.

17. Reserves

Details of the movement in reserves are set out in note 29 the the financial statements prepared under IFRS.

18. Financial Summary

A Summary of the results, total assets, liabilities and shareholders' funds of the Group for the year ended 31 December 2005 is set out on page 4.

19. Bank Loans and Other Borrowings

Details of bank loans and other borrowings of the Company and the Group as at 31 December 2005 are set out in note 34 to the financial statements prepared under IFRS.

20. Interest Capitalised

Details of the interest capitalised during the year are set out in note 8 to the financial statements prepared under IFRS.

21. Property, plant and equipment

Movements of the property, plant and equipment during the year are set out in note 14 to the financial statements prepared under IFRS.

22. Purchase, Sale and Redemption of Shares

During 2005, no shares of the Company was purchased, sold or redeemed by the Company or its subsidiaries.

23. 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.

24. Controlling shareholder

China Petroleum Chemical Corporation 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.

25. Other major events

There were no other major events during the reporting period.