

Major Events

(1) Current Status of Corporate Governance in the Company

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, the Guidelines for Formulating Independent Directors for Listed Companies, the Shanghai Stock Exchange, The Stock Exchange of Hong Kong Limited and the New York Stock Exchange to put forward the advancement of the Company's system and management, to improve the corporate governance structure and to strengthen the formulation of the Company's system in order to enhance the overall image of the Company.

The Company passed the resolution in respect of the amendments to the articles of association and its appendices of the Company at its 2005 annual general meeting.

2. Performance of duties by the Company's independent directors

The independent directors of the Company attended the 2005 general meetings and the 2006 meetings of the Board, and have fully fulfilled the functions of independent directors. They participated in considering and approving the resolutions in respect of the 2005 annual report, the 2006 interim report, the quarterly reports, the profit appropriation plan and connected transactions. They expressed their opinions on the basis of their work experience and expertise and conscientiously performed their duties as independent directors. In addition, they gave independent opinions on major matters such as appointments of senior management 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 authorities conferred on them as stipulated by the relevant laws and regulations and the articles of association of the Company.

(2) Implementation of the Profit Appropriation Plan during the Reporting Period

The profit appropriation plan for 2005 was approved at the Company's 2005 annual general meeting. A dividend of RMB 1.00 (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 2005. The relevant announcement was published in the Shanghai Securities News, China Securities Journal, South China Morning Post (Hong Kong) and Hong Kong Commercial Daily on 16 June 2006. On 10 July 2006, the Company published the profit appropriation plan for A shares. In respect of the distribution of A-share dividends, the share right registration date was 13 July 2006, ex-dividend date was 14 July 2006. The dividend payment date for H shares and social public shares of A shares was 20 July 2006. Such profit appropriation plan has been implemented as scheduled.

(3) Material Litigation and Arbitration

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

(4) Transfer of assets

1. Disposal of asset

The Company has transferred to Sinopec Corp. a 81.79% equity interest owned by the Company's wholly owned subsidiary Shanghai Petrochemical Investment Development Company Limited in Shanghai Jin Hua Industrial Company Limited ("Jin Hua"). For details, please refer to "(5) Major Connected Transactions of the Company during the Reporting Period".

2. After the publication of the asset restructuring report or the announcement relating to the asset acquisition and disposal, the progress of the relevant matter and its impact on the operation and financial status during the reporting period

After the publication of the announcement relating to the asset acquisition, the consideration amount of RMB61,600,400 in respect of the transfer of Jin Hua has been credited to the Company in March 2006. A gain from investment for the year of RMB24,307,946 was booked. To date, a number of actions in respect of the transfer of asset rights have not been completed pending the approval from the State-owned Assets Supervision and Administration Commission of the State Council.

(5) Major Connected Transactions of the Company during the Reporting Period

1. Continuing connected transactions

During the reporting period, the Company purchased raw materials from, and sold petroleum products and petrochemicals to Sinopec Corp. and its associates in accordance with a Sales and Purchases Framework Agreement entered into with Sinopec Corp. The Company accepted transportation, design, construction and installation, insurance agency and financial services provided by Sinopec and its associates in accordance with the Comprehensive Service Framework Agreement entered into with Sinopec. The relevant connected transactions were conducted in accordance with the terms stipulated in the Sales and Purchases Framework Agreement and Comprehensive Service Framework Agreement. The amounts of the relevant connected transactions did not exceed the caps of on-going connected transactions approved at the 2005 extraordinary general meeting and the 2005 second extraordinary general meeting.

During the reporting period, the Company appointed Sinopec Corp. as a non-exclusive sales agent for the sales of synthetic resins, synthetic fibres, synthetic fibre monomers and polymers, organic petrochemical products, by-products from ethylene cracking and aromatic plants and other substandard products related to the above five products in accordance with a Petrochemical Products Agency Sales Contract entered into with Sinopec Corp. on 25 August 2005.

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 policies and applicable State tariffs or State guidance prices. As long as the State does not lift its control over the purchases of crude oil, the sales of petroleum products and the 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 its bargaining power with its 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.

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; (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.

Continuing connected transactions are as follows: (Prepared under PRC Accounting Rules and Regulations)

Type of transactions	Related parties	Percentage of total	
		Amount RMB'000	amount of the type of transaction %
Income from sale of products and services	Sinopec Huadong Sales Company	7,350,428	31.38
	Other fellow subsidiaries and associates	1,803,472	7.70
Purchases	Sinopec Transport and Storage Company	11,996,001	52.56
	Sinopec United Petroleum and Chemicals Co., Ltd.	3,177,358	13.92
	Other fellow subsidiaries and associates	1,151,915	5.05
Installation fees	Sinopec and its subsidiaries	117,349	36.90
Transportation costs	Sinopec Transport and Storage Company	157,749	66.09
	Others	19,371	8.12

This includes: an amount of RMB9,153.9 million 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 strict compliance with the respective contracts. The aforesaid connected transactions did not have an adverse impact on the profit of the Company.

2. Major connected transactions relating to transfer of assets and equity interests

The Company has transferred to Sinopec Corp. a 81.79% equity interest owned by the Company's wholly owned subsidiary Shanghai Petrochemical Investment Development Company Limited in Shanghai Jin Hua Industrial Company Limited for a consideration of RMB61,600,400. The relevant transfer agreement was entered at 8 February 2006. The transaction generated a gain of RMB24,307,946. The pricing principle was determined on the basis of a valuation report prepared by a qualified asset valuer independent from the Company and Sinopec Corp. and upon arm's length negotiations between the parties. On the asset disposal date, the book value of such portion of assets was RMB37,292,454 while the appraised value of such portion of assets was RMB53,600,422 as at 31 March 2005. The transaction was conducted in line with the Company's operation strategy and for the purpose of generating immediate working capital for the Company's core business. Details of the transaction were published in the Shanghai Securities News, China Securities Journal, Hong Kong's South China Morning Post and Hong Kong Commercial Daily on 25 January 2006.

3. Connected creditor's rights and liabilities

Connected parties	Relations with the listed company	Funds provided by the listed company to the connected parties		Funds provided by the connected parties to the listed company	
		Net transaction amount	Balance	Net transaction amount	Balance
Sinopec Corp	Controlling shareholder	-82,000	-	-2,761	2,515
China Petrochemical Corporation and other subsidiaries	Owned by the same controlling shareholder	-108,246	56,517	9,660	39,082
Total		-190,246	56,517	6,899	41,597

During the reporting period, the funds provided from the listed company to the controlling shareholder and its subsidiaries was RMB-190,246,000 and the balance of funds provided from the listed company to the controlling shareholder and its subsidiaries was RMB56,517,000.

Reasons accounting for the connected creditor's rights and liabilities:

The balance of funds provided by the Company to the holding company and other subsidiaries of Sinopec Corp. amounted to RMB56,517,000, which mainly comprised facility pre-payments and progress payments for the long-cycle facilities including the 380,000-ton/year ethylene glycol project and the 3,300,000-ton/year diesel hydrogenation project. According to the original schedule, facilities for the two projects were supposed to be delivered during the first half of 2006. However, due to adjustments in the project construction schedule, these facilities will be delivered by the end of year 2006.

(6) Trust Arrangement

During the reporting period, the Group did not enter into any trust arrangements relating to its own assets or the assets of any other company.

(7) Sub-contract Arrangement

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

(8) Lease arrangement

During the reporting period, the Group did not enter into any lease arrangements relating to its own assets or the assets of any other company.

(9) Guarantees (Prepared under PRC Accounting Rules and Regulations)

Company's external guarantees (excluding guarantees to subsidiaries):

Guaranteed entities	Date (Agreement signing date)	Guarantee amount (RMB'000)	Type of guarantee	Guarantee period	Guarantee expired	Guarantee for a connected party
Shanghai Jinsen Hydrocarbon Resins Company Limited	23 March 2004	40,000	Bank Loan	3 years	No	Yes
Others	1 June 2004 to 25 October 2005	24,747	Bank Loan	1-5 years	No	Yes
Amount of guarantees signed during the reporting period(RMB'000)						-
Amount of guarantees at the end of the reporting period(RMB'000)						64,747
Guarantees to subsidiaries:						
Amount of guarantees to subsidiaries signed by the Company during the reporting period(RMB'000)						190,000
Amount of guarantees to subsidiaries at the end of the reporting period(RMB'000)						520,799
Total guarantee amount (including guarantees to subsidiaries):						
Total guarantee amount(RMB'000)						585,546
Total guarantee amount as a percentage of net asset value of the Company						3.18
of which:						
Amount of guarantee provided for shareholders, the de facto controller or the other connected parties(RMB'000)						-
Amount of debt guarantee provided for the companies with liabilities to assets ratio of over 70% directly or indirectly(RMB'000)						516,250
Total amount of guarantee is over 50% of the net asset(RMB'000)						-
Total guarantee amount of the above three items(RMB'000)						516,250

(10) Trust Financial Management

During the reporting period, the Company did not arrange trust financial management.

(11) Performance of Undertaking

1. Neither the Company nor any shareholder with a shareholding above 5% of the total shares in issue has disclosed in any designated newspapers or websites any commitment with any party.
2. Work on share reform of the Company requires the consent of its controlling shareholder, Sinopec Corp. Sinopec Corp. is currently in the process of share reform and is conducting a comprehensive study in respect of the share reform work of its listed subsidiaries. To date no specific plan has been formulated.

(12) Disciplinary action upon the Company, the Board and the Directors

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

(13) Other Important Events

There were no important events during the reporting period.

(14) Disclosure of Information

Item	Publication	Publishing Date	Websites and hyperlinks
Announcement of the Transfer of Equity Interest in Sinopec Finance of the Company	"Shanghai Securities News", "China Securities Journal", Hong Kong's "South China Morning Post" and "Hong Kong Commercial Daily"	3 / 4 January 2006	On the Shanghai Stock Exchange ("SSE") website www.sse.com.cn , accessible by entering the Company's Code (600688) in the section headed "Listed Companies Information Search".
Announcement of the Resolutions Passed at the 2005 Second Extraordinary General Meeting of the Company	"Shanghai Securities News", "China Securities Journal", Hong Kong's "South China Morning Post" and "Hong Kong Commercial Daily"	3 / 4 January 2006	Shanghai Stock Exchange website www.sse.com.cn
Announcement of the Resolutions Passed at the Meeting of the Board of Directors of the Company	"Shanghai Securities News", "China Securities Journal", Hong Kong's "South China Morning Post" and "Hong Kong Commercial Daily"	4 January 2006	Shanghai Stock Exchange website www.sse.com.cn
Announcement of the Connected Transaction Regarding the Transfer of Equity Interest of the Company	"Shanghai Securities News", "China Securities Journal", Hong Kong's "South China Morning Post" and "Hong Kong Commercial Daily"	25 January 2006	Shanghai Stock Exchange website www.sse.com.cn
Announcement of the Resolutions Passed at 2006 First Extraordinary General Meeting of the Company	"Shanghai Securities News", "China Securities Journal", Hong Kong's "South China Morning Post" and "Hong Kong Commercial Daily"	25 January 2006	Shanghai Stock Exchange website www.sse.com.cn
Announcement of the Resolution Passed at Meeting of the Board of Directors of the Company	"Shanghai Securities News", "China Securities Journal", Hong Kong's "South China Morning Post" and "Hong Kong Commercial Daily"	25 January 2006	Shanghai Stock Exchange website www.sse.com.cn
Announcement of the Issue of Short-term Commercial Papers of the Company	"Shanghai Securities News", "China Securities Journal", Hong Kong's "South China Morning Post" and "Hong Kong Commercial Daily"	28 February 2006	Shanghai Stock Exchange website www.sse.com.cn

(14) Disclosure of Information *(continued)*

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Announcement of the Resolutions Passed at the Meeting of the Board of Directors of the Company	"Shanghai Securities News", "China Securities Journal", Hong Kong's "South China Morning Post" and "Hong Kong Commercial Daily"	27 March 2006	Shanghai Stock Exchange website www.sse.com.cn
Announcement of the Annual Report Summary and Results Announcement of the Company	"Shanghai Securities News", "China Securities Journal", Hong Kong's "South China Morning Post" and "Hong Kong Commercial Daily"	27 March 2006	Shanghai Stock Exchange website www.sse.com.cn
Announcement of the Resolutions Passed at the Meeting of the Supervisory Committee of the Company	"Shanghai Securities News", "China Securities Journal", Hong Kong's "South China Morning Post" and "Hong Kong Commercial Daily"	27 March 2006	Shanghai Stock Exchange website www.sse.com.cn
Announcement of the Profit Warning of the Company	"Shanghai Securities News", "China Securities Journal", Hong Kong's "South China Morning Post" and "Hong Kong Commercial Daily"	7 April 2006	Shanghai Stock Exchange website www.sse.com.cn
Announcement of the unusual increase in trading volume and stock price of A share of the Company	"Shanghai Securities News", "China Securities Journal"	15 April 2006	Shanghai Stock Exchange website www.sse.com.cn
Announcement of the Resolutions Passed at the Meeting of the Supervisory Committee of the Company	"Shanghai Securities News", "China Securities Journal", Hong Kong's "South China Morning Post" and "Hong Kong Commercial Daily"	27 April 2006	Shanghai Stock Exchange website www.sse.com.cn
Announcement of the Notice of 2005 Annual General Meeting of the Company	"Shanghai Securities News", "China Securities Journal", Hong Kong's "South China Morning Post" and "Hong Kong Commercial Daily"	27 April 2006	Shanghai Stock Exchange website www.sse.com.cn
Announcement of the First Quarterly Report of the Company	"Shanghai Securities News", "China Securities Journal", Hong Kong's "South China Morning Post" and "Hong Kong Commercial Daily"	27 April 2006	Shanghai Stock Exchange website www.sse.com.cn
Announcement of the Resolutions Passed at the Meeting of the Board of Directors of the Company	"Shanghai Securities News", "China Securities Journal", Hong Kong's "South China Morning Post" and "Hong Kong Commercial Daily"	27 April 2006	Shanghai Stock Exchange website www.sse.com.cn
Announcement of the Clarification of the Company	"Shanghai Securities News", "China Securities Journal", Hong Kong's "South China Morning Post" and "Hong Kong Commercial Daily"	7 June 2006	Shanghai Stock Exchange website www.sse.com.cn
Announcement of the Resolutions Passed at the Meeting of the Supervisory Committee of the Company	"Shanghai Securities News", "China Securities Journal", Hong Kong's "South China Morning Post" and "Hong Kong Commercial Daily"	16 June 2006	Shanghai Stock Exchange website www.sse.com.cn
Announcement of the Resolutions Passed at the 2005 Annual General Meeting of the Company	"Shanghai Securities News", "China Securities Journal", Hong Kong's "South China Morning Post" and "Hong Kong Commercial Daily"	16 June 2006	Shanghai Stock Exchange website www.sse.com.cn
Announcement of the Resolutions Passed at the Meeting of the Board of Directors of the Company	"Shanghai Securities News", "China Securities Journal", Hong Kong's "South China Morning Post" and "Hong Kong Commercial Daily"	16 June 2006	Shanghai Stock Exchange website www.sse.com.cn