

SINOPEC SHANGHAI PETROCHEMICAL CO LTD

Form 6-K

March 31, 2005

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SECURITIES AND EXCHANGE COMMISSION

Washington D.C. 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER

PURSUANT TO RULE 13a-16 OR 15d-16 UNDER

THE SECURITIES EXCHANGE ACT OF 1934

For the month of March 2005

Commission File Number: 1-12158

Sinopec Shanghai Petrochemical Company Limited

(Translation of registrant's name into English)

Jinshanwei, Shanghai

People's Republic of China

(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.

Form 20-F Form 40-F

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Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):

Indicate by check mark whether by furnishing the information contained in this Form, the registrant is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes No

If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82- Not Applicable

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SINOPEC SHANGHAI PETROCHEMICAL COMPANY

LIMITED

Date: March 31, 2005

By: /s/ Lu Yiping

Name: Lu Yiping
Title: Chairman

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To: Business Editor

[For Immediate Release]

Shanghai Petrochemical Announces 2004 Annual Results

Profit Attributable to Shareholders Increases by 183.31% to RMB3,971.1 million

Hong Kong, March 23, 2005 Sinopec Shanghai Petrochemical Company Limited (HKEx: 338; SSE: 600688; NYSE: SHI) announced today the annual results for the year ended December 31, 2004 of the Company and its subsidiaries (the Group), based on its financial statements prepared in accordance with International Financial Reporting Standards (IFRS).

Turnover for 2004 increased by 33.26% to RMB39,402.5 million (approximately US\$4,760.5 million) as compared to 2003. Profit before tax was RMB4,696.3 million (approximately US\$567.4 million), representing an increase of 195.30% as compared to 2003. Profit attributable to shareholders was RMB3,971.1 million (approximately US\$479.8 million), representing an increase of 183.31% as compared to 2003. Earnings per share was RMB0.552 (approximately US\$0.067) compared with earnings per share of RMB0.195 (approximately US\$0.024) in 2003. The Board of Directors of the Company has recommended a final dividend of RMB0.20 (approximately US\$0.024) per share for 2004, equivalent to RMB20.00 (approximately US\$2.416) per American Depositary Share.

Mr. Lu Yiping, Chairman of the Company, said, In 2004, the world economy continued to improve and China's economy also continued its rapid growth. The petrochemical industry also experienced the prosperous stage of a new development cycle. Moreover, as international crude oil prices continued to rise and demand for petrochemical products grew dramatically, the weighted average prices of the Group's major petrochemical products in 2004 rose substantively higher than those of the previous year. The Group also continued to strengthen operation management, maintained high-load, stable operation of the major plants and exercised stringent cost and expense controls, contributing to the significant year-on-year growth in the Company's operating results in 2004.

During 2004, the weighted-average sale prices of the Company's four major product categories, namely synthetic fibers, resins and plastics, intermediate petrochemicals and petroleum products, recorded year-on-year increases of 19.43%, 34.42%, 45.42% and 22.16%, respectively, as compared to 2003. The net sales of the four major product categories increased by 16.11%, 36.34%, 53.10% and 26.84%, respectively, as compared to 2003.

Taking advantages of robust domestic demand in the petrochemical market in 2004, the Company increased the load factor of its production plants and the overall quality of its production operation. As a result, a total of 7,268,100 tons of commercial products were produced, a slight increase compared with the previous year. During 2004, the Company's crude oil processing volume reached 9,109,400 tons, an increase of 5.80% over the previous year. Compared to the previous year, gasoline output increased by 2.63% to 918,300 tons; diesel output increased by 14.11% to 2,838,600 tons; while output of jet fuel rose 23.45% to 710,900 tons. The output of ethylene and synthetic fiber polymers grew 0.81% and 3.86% to 956,000 tons and 527,200 tons, respectively. The quality of the Company's products was consistently maintained at a high level, and the Company remained the largest ethylene producer in China.

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Shanghai Petrochemical Announces 2002 20034 Annual Results P.2

In 2004, the Company made continuous efforts on key projects execution and vigorously carried forward the earlier stage preparations for the projects in the next round development. Among which, the mechanical completion of 8,000,000 T/Y atmospheric and vacuum distillation plant was achieved in December 2004 and the plant was put into operation in February 2005. As one of the plants to form a complete set, earth breaking of the 3,300,000 T/Y diesel hydrogenation plant commenced construction took place at the end of December. Commissioning of the first stage expansion of the PTA plant to 400,000 T/Y was successfully carried out at its first try in October. The feasibility Study Report for a new 380,000 T/Y EO/EG plant was approved by the State Development and Reform Commission in July and on January 25, 2005, the project construction commenced. The mechanical completion of Shanghai SECCO s, 900,000 T/Y Ethylene Complex, a Joint Venture between SINOPEC Corp., Bio Chemicals East China Investments Limited and the Company completed on schedule. Commissioning of the plants will take place gradually in the first Quarter. Commercial operation of the plants are expected to commence within the first half of the year.

Looking forward to 2005, Mr. Lu Yiping said, The world economy is continuing to improve, and the PRC economy should continue its upward trend in the current growth cycle. Following the implementation of macro-economic control measures for a year, the overheating aspect of the economy was mitigated, with the factors contributing to instability and uncertainty being suppressed and the sectors demonstrating weaknesses being strengthened. All of these should lay a sound foundation for a stable and fast growth of the economy. The continued development of the global as well as the domestic economy should bring attractive opportunities to the development of the petrochemical industry.

Mr. Lu continued, Although the overall macro-economic environment is improving, petrochemical enterprises are still subject to a number of unstable and uncertain factors, such as likely high volatility in international crude oil prices and intensified market competition due to further fulfillment of the PRC s obligations for its WTO accession. The Company will respond to significant changes occurring to the macro-economic environment. By fully capitalizing on the prevailing excellent business and operation environment, it intends to improve the quality of the overall operation of its production system. In accordance with our development plans, earlier stage preparation work for the third phase of expansion of its ethylene capacity and relevant supporting plants will be actively carried forward, and further efforts will be devoted to improving the sales and marketing network, with a view to obtaining once again outstanding operating results for the Company in 2005.

Shanghai Petrochemical is one of the largest petrochemical companies in the PRC and was one of the first Chinese companies making a global securities offering. Located in Jinshan District in the southwest of Shanghai, it is a highly integrated petrochemical complex which processes crude oil into a broad range of products in synthetic fibers, resins and plastics, intermediate petrochemicals and petroleum categories.

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Shanghai Petrochemical Announces 2002 20034 Annual Results P.3

This press release contains statements of a forward-looking nature. These statements are made under the "safe harbor" provisions of the U.S. Private Securities Litigation Reform Act of 1995. You can identify these forward-looking statements by terminology such as "will," "expects," "anticipates," "future," "intends," "plans," "believes," "estimates" and similar statements. The accuracy of these statements may be impacted by a number of business risks and uncertainties that could cause actual results to differ materially from those projected or anticipated, including risks related to: the risk that the PRC economy may not grow at the same rate in future periods as it has in the last several years, or at all, including as a result of the PRC government's macro-economic control measures to curb over-heating; uncertainty as to global economic growth in future periods; the risk that prices of the Company's raw materials, particularly crude oil, will continue to increase; not be able to raise its prices accordingly which would adversely affect the Company's profitability; the risk that new marketing and sales strategies may not be effective; the risk that fluctuations in demand for the Company's products may cause the Company to either over-invest or under-invest in production capacity in one or more of its four major product categories; the risk that investments in new technologies and development cycles may not produce the benefits anticipated by management; the risk that the trading price of the Company's shares may decrease for a variety of reasons, some of which may be beyond the control of management; competition in the Company's existing and potential markets; and other risks outlined in the Company's filings with the U.S. Securities and Exchange Commission. The Company does not undertake any obligation to update this forward-looking information, except as required under applicable law.

For the convenience of the reader amounts in Renminbi (RMB) have been translated into United State dollars at the rate of US\$1.000=RMB8.277 being the average of the buying and selling rates quoted by the People's Bank of China on 31 December 2004. No representation is made that the RMB amounts could have been, or could be, converted into United States dollars at the rate.

End

Encl: Summary of Consolidated Income Statement

For further information, please contact:

Ms. Christy Lai / Ms. Sally Wong

Rikes Communications Limited

Tel: (852) 2520 2201

Fax: (852) 2520 2241

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(Prepared under International Financial Reporting Standards)

Summary of Consolidated Income Statement

| | For the years ended 31 December | |
|-------------------------------------|--|----------------|
| | 2004 | 2003 |
| | RMB 000 | RMB 000 |
| Turnover | 39,402,533 | 29,567,140 |
| Profit before tax | 4,696,229 | 1,590,365 |
| Income tax expense | (637,061) | (145,065) |
| Profit after tax | 4,059,168 | 1,445,300 |
| Minority interests | (88,065) | (43,610) |
| Profit attributable to shareholders | 3,971,103 | 1,401,690 |
| Basic earnings per share | RMB0.552 | RMB0.195 |

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(A joint stock limited company incorporated in the People's Republic of China)

(Stock Code: 338)

Resolutions of the 21st Meeting of the Fourth Session of the Board of Directors

The Company and all members of the Board of Directors confirm that the information contained in this announcement is true, accurate and complete, and jointly and severally accept full responsibility for any false or misleading statements or material omissions in this announcement.

The notice for convening the 21st meeting of the fourth session of the board of directors of Sinopec Shanghai Petrochemical Company Limited to be held at conference room No.8 of the Company's main building on 23 March 2005 was sent to all directors on 11 March 2005 by way of facsimile transmission and courier. Of the 12 directors entitled to attend the meeting, 9 directors were in attendance while Mr. Lu Yiping, Chairman of the board of directors, was absent due to business engagement and authorized Mr. Rong Guangdao, Vice Chairman, to chair the meeting and act as his irrevocable voting proxy. Directors Mr. Wu Haijun and Mr. Zhang Baojian were absent due to business engagements and authorized Mr. Rong Guangdao, Vice Chairman, as their irrevocable voting proxies. The convening of the meeting complied with the PRC Company Law and the Articles of Association of the Company. Members of the Supervisory Committee and senior management of the Company attended the meeting. Resolutions were considered and approved as follows:

1. The President's Working Report was passed with 12 votes in favor, 0 vote against and 0 abstaining vote;
2. The Directors' Working Report was passed with 12 votes in favor, 0 vote against and 0 abstaining vote. The resolution will be submitted to the annual general meeting for approval;
3. The 2004 Audited Financial Report and 2005 Financial Budget and Funding Plan were passed with 12 votes in favor, 0 vote against and 0 abstaining vote. The resolution shall be submitted to the annual general meeting for approval;
4. The 2004 profit appropriation plan was passed with 12 votes in favor, 0 vote against and 0 abstaining vote. The Board of Directors have recommended that a final dividend of RMB2.00 per 10 shares (including tax) for the year to be distributed to all shareholders amounting RMB1,440,000,000. Accordingly, undistributed profit was RMB1,737,011,000 and will be carried forward to 2005. The resolution will be submitted to the annual general meeting for approval;
5. The 2004 Annual Report and its Summary were passed with 12 votes in favor, 0 vote against and 0 abstaining vote;
6. A resolution was passed with 12 votes in favor, 0 vote against and 0 abstaining vote to re-appoint KPMG Huazhen as the Company's domestic auditors for 2005 and KPMG as the Company's international auditors, and to authorize the Directors to fix their remuneration. The resolution will be submitted to the annual general meeting for approval;
7. The Shanghai Petrochemical Internal Control Handbook was passed with 12 votes in favor, 0 vote against and 0 abstaining vote, and the internal control monitoring team was authorized to approve the annual revisions of the Internal Control Handbook and update the relevant

information therein; to audit

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the assessment reports of the internal control during the year and to deal with, or make rectifications to problems arising from the course of internal control, while reporting major problems to the board of directors for evaluation;

Sinopec Shanghai Petrochemical Company Limited

23 March 2005

As of the date of this announcement, the executive directors of the Company are Lu Yiping, Rong Guangdao, Du Chongjun, Han Zhihao, Wu Haijun and Gao Jinping; the non-executive directors of the Company are Liu Wenlong and Zhang Baojian, and the independent non-executive directors of the Company are Gu Chuanxun, Wang Xingyu, Wang Yongshou and Chen Xinyuan.

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(A joint stock limited company incorporated in the People's Republic of China)

(Stock Code: 338)

2004 Annual Results Announcement

1. Important Message

- 1.1 Sinopec Shanghai Petrochemical Company Limited (the Company) and all of its Directors jointly and severally accept full responsibility for the authenticity, accuracy and completeness of the information contained in this announcement and confirm that there are no material omissions or false or misleading statements in this announcement. This announcement is extracted from the Company's 2004 annual report (the full report will be posted on www.sse.com.cn and www.spc.com.cn simultaneously). Investors should read the full text of the 2004 annual report for details.
- 1.2 Mr. Lu Yiping, Chairman; Mr. Rong Guangdao, Vice Chairman and President and Mr. Han Zhihao, Director and Chief Financial Officer of the Company hereby warrant the accuracy and completeness of the annual financial statements.

2. Corporate Information

2.1 Corporate Information

| | <u>A shares</u> | <u>H shares</u> | <u>ADS</u> |
|--------------------------|--|---|-------------------------|
| Shares Short Name: | | | SHI |
| Shares Stock Code: | 600688 | 338 | |
| Stock Exchange Listings: | Shanghai Stock Exchange | The Stock Exchange of Hong Kong Limited | New York Stock Exchange |
| Registered Address: | 48 Jinyi Road, Jinshan District, Shanghai, People's Republic of China | | |
| General Office: | 48 Jinyi Road, Jinshan District, Shanghai, People's Republic of China | | |
| Postal Code: | 200540 | | |
| Company Website: | http://www.spc.com.cn | | |
| Email Address | spc@spc.com.cn | | |

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2.2 Correspondence Information

| | Secretary to the Board of Directors | Securities representative |
|-------------------------|--|--|
| Name: | Zhang Jingming | Tang Weizhong |
| Correspondence Address: | 48 Jinyi Road, Jinshan District, Shanghai, People's Republic of China | 48 Jinyi Road, Jinshan District, Shanghai, People's Republic of China |
| Telephone: | 86-21-5794 3143/5237 7880 | 86-21-5237 7880 |
| Fax: | 86-21-5794 0050/5237 5091 | 86-21-5237 5091 |
| E-mail: | spc@spc.com.cn | tom@spc.com.cn |

3. Highlights of Financial Data and Financial Indicators

Prepared under the People's Republic of China (PRC) Accounting Rules and Regulations

3.1 Major financial data

Unit: RMB 000

| | For the years ended 31 December | | | |
|--|--|-------------|---|-------------|
| | 2004 | 2003 | Increase/ decrease compared to last year (%) | 2002 |
| Income from principal operations | 39,402,533 | 29,567,140 | 33.26 | 22,322,896 |
| Total profit | 4,693,059 | 1,576,602 | 197.67 | 1,036,238 |
| Net profit | 3,971,265 | 1,385,556 | 186.62 | 908,965 |
| Net profit excluding non-recurring items | 4,078,483 | 1,485,198 | 174.61 | 1,009,815 |
| Net cash flow from operating activities | 4,908,020 | 2,692,641 | 82.28 | 2,322,574 |

| | As at 31 December | | | |
|--|--------------------------|-------------|-------------------------------|-------------|
| | 2004 | 2003 | Increase/ decrease | 2002 |

compared

to last

year

(%)

| | | | | |
|--|------------|------------|--------|------------|
| Current assets | 8,613,655 | 7,993,651 | 7.76 | 6,945,672 |
| Current liabilities | 7,432,559 | 8,479,655 | -12.35 | 7,065,576 |
| Total assets | 28,757,089 | 27,580,828 | 4.26 | 26,562,285 |
| Shareholders' equity (excluding minority interest) | 18,902,281 | 15,507,016 | 21.90 | 14,481,460 |

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3.2 Major financial indicators

| | For the years ended 31 December | | | |
|---|--|-------|--------|-------|
| | Increase/ decrease compared to last year | | | |
| | 2004 | 2003 | (%) | 2002 |
| Earnings per share (RMB) | 0.552 | 0.192 | 187.50 | 0.126 |
| Return on net assets (%) | 21.01 | 8.94 | 135.01 | 6.28 |
| Return on net assets based on net profit excluding non-recurring items (%) (fully diluted) | 21.58 | 9.58 | 125.26 | 6.97 |
| Return on net assets based on net profit excluding non-recurring items (%) (Weighted average) | 23.71 | 9.91 | 139.25 | 7.20 |
| Net cash flow per share from operating activities (RMB) | 0.682 | 0.374 | 82.35 | 0.323 |

| | As at 31 December | | | |
|--|--|-------|-------|-------|
| | Increase/ decrease compared to last year | | | |
| | 2004 | 2003 | (%) | 2002 |
| Net asset value per share (RMB) | 2.625 | 2.154 | 21.87 | 2.011 |
| Adjusted net asset value per share (RMB) | 2.623 | 2.149 | 22.06 | 1.996 |

3.3 Non-recurring items

RMB 000

| | Amount |
|----------------------|--------|
| Non-operating income | 83,058 |

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| | |
|--|-----------|
| Non-operating expenses (excluding provision for impairment losses on fixed assets) | (236,371) |
| Gain on disposal of long-term equity investments | 21,860 |
| Written back of provision for long-term equity investments | 5,314 |
| Tax effect for the above items | 18,921 |
| Total | (107,218) |

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- 3.4 Differences between financial statements prepared under PRC Accounting Rules and Regulations and International Financial Reporting Standards (IFRS)

Unit: RMB 000

| | PRC Accounting Rules | |
|----------------------------|---|-------------|
| | <u>and Regulations</u> | <u>IFRS</u> |
| Net profit | 3,971,265 | 3,971,103 |
| Explanation of differences | For details, please refer to section 10.4 | |

4. Change of Share Capital and Shareholders

- 4.1 Change of Share Capital for the year ended 31 December 2004

Unit: share

| | Change Shares transferred | | | | | | | Sub-total | After change |
|--|---------------------------------|-------------------|----------------|-----------------------|----------|--------|--|---------------|--------------|
| | Before change | Rationed share | Bonus share | from reserve funds | Increase | Others | | | |
| I. Shares not in circulation | | | | | | | | | |
| 1. Promoter 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 | |

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4.2 Top Ten Shareholders and Top Ten Holders of Shares in Circulation

Total number of shareholders as at end of the reporting period 158,520
 Top ten shareholders as at the end of the reporting period as follows:

| Name of shareholders | Increase/ decrease during the year | Number of shares held at end of the year | Percentage | | Number of shares pledged or frozen | Type of shareholders (domestic or foreign shareholders) |
|--|---|---|---------------------------------------|--|---|---|
| | | | of total share- holdings (%) | Type of shares (circulating/ non-circulating) | | |
| 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 | | |

Table of Contents**Description of any connected relationships or concerted party 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 shareholder (full name) | Number of Shares in circulation as at 31 December 2004 | Type (A, B, H shares or others) |
|--|---|--|
| HKSCC (Nominees) Ltd. | 1,915,568,857 | H |
| Hong Kong & Shanghai Banking Corporation (Nominees) Limited | 355,720,000 | 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 |

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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, HKSCC (Nominees) Ltd. and Hong Kong & Shanghai Banking Corporation (Nominees) Limited are nominee companies; 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 the Administration Measures for Disclosure of Shareholdings in Listed Companies. Our controlling shareholder and our de facto controller is not connected to any of the top ten shareholders in circulation.

4.3 Information on the controlling shareholder and de facto controller 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.

(2) De facto controller

Company Name: China Petrochemical Corporation

Authorised representative: Chen Tonghai

Registered capital: RMB104.9 billion

Date of incorporation: August 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.

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

5. Directors, Supervisors, Senior Management and Substantial Shareholders

5.1 Changes in Shareholdings of Directors, Supervisors and Senior Management of the Company

| Name | Position | Sex | Age | Term of Office | Number of | Number of | Reasons |
|----------------|--------------------------------------|-----|-----|----------------------|----------------|----------------|---------|
| | | | | | shares held at | shares held at | |
| | | | | | the beginning | the end of the | for |
| | | | | | of the year | year | change |
| Lu Yiping | Chairman | M | 59 | 2002/6/18 -2005/6/18 | 3,600 | 3,600 | |
| Rong Guangdao | Vice Chairman and President | M | 49 | 2004/6/18 -2005/6/18 | 3,600 | 3,600 | |
| Du Chongjun | Vice Chairman | M | 50 | 2004/6/18 -2005/6/18 | 1,000 | 1,000 | |
| Han Zhihao | Director and Chief Financial Officer | M | 53 | 2004/6/18 -2005/6/18 | Nil | Nil | |
| Wu Haijun | Director and Vice President | M | 42 | 2004/6/18 -2005/6/18 | 1,500 | 1,500 | |
| Gao Jinping | Director | M | 38 | 2004/6/18 -2005/6/18 | Nil | Nil | |
| Liu Wenlong* | External Director | M | 64 | 2002/6/18 -2005/6/18 | Nil | Nil | |
| Zhang Baojian* | External Director | M | 60 | 2002/6/18 -2005/6/18 | Nil | Nil | |
| Gu Chuanxun | Independent Director | M | 69 | 2002/6/18 -2005/6/18 | Nil | Nil | |
| Wang Yongshou | Independent Director | M | 64 | 2002/6/18 -2005/6/18 | 3,600 | 3,600 | |
| Wang Xingyu | Independent Director | M | 60 | 2002/6/18 -2005/6/18 | Nil | Nil | |
| Chen Xinyuan* | Independent Director | M | 40 | 2003/6/18 -2005/6/18 | Nil | Nil | |
| Dai Shuming | Chairman of Supervisory Committee | M | 49 | 2004/6/18 -2005/6/18 | Nil | Nil | |
| Zhang Chenghua | Supervisor | M | 49 | 2002/6/18 -2005/6/18 | Nil | Nil | |

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| Name | Position | Sex | Age | Term of Office | Number of | Number of | Reasons |
|----------------|------------------------|-----|-----|-----------------------|----------------|----------------|---------|
| | | | | | shares held at | shares held at | |
| | | | | | the beginning | the end of the | for |
| | | | | | of the year | year | change |
| Zhu Weiyan | Supervisor | M | 56 | 2002/6/18 -2005/6/18 | Nil | Nil | |
| Zhang Jianjun* | External Supervisor | F | 53 | 2002/6/18 -2005/6/18 | Nil | Nil | |
| Lu Xiangyang* | External Supervisor | M | 53 | 2002/6/18 -2005/6/18 | Nil | Nil | |
| Zhou Yunnong* | Independent Supervisor | M | 62 | 2003/6/18 -2005/6/18 | Nil | Nil | |
| Liu Xiangdong* | Independent Supervisor | M | 53 | 2002/6/18 -2005/6/18 | Nil | Nil | |
| Zhang Zhiliang | Vice President | M | 51 | 2002/6/18 -2005/6/18 | 3,600 | 3,600 | |
| Yin Jihai | Vice President | M | 47 | 2002/6/18 -2005/6/18 | Nil | Nil | |
| Shi Wei | Vice President | M | 45 | 2003/10/24 -2005/6/18 | Nil | Nil | |
| Zhang Jianping | Vice President | M | 42 | 2004/7/2 -2005/6/18 | Nil | Nil | |
| Tang Chengjian | Vice President | M | 49 | 2004/7/2 -2005/6/18 | Nil | Nil | |
| Zhang Jingming | Company Secretary | M | 47 | 2002/6/18 -2005/6/18 | Nil | Nil | |

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

The shares held by the above people are A shares and represented their personal interests in their capacity as beneficial owners.

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

| Name | Shareholder's name | Position held | Service term | Salary, |
|---------------|---------------------------------|---|--|--------------------------------------|
| | | | | allowance received (yes or no) |
| 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 - | Yes |
| Lu Xiangyang | China Petrochemical Corporation | Deputy Director of Audit Bureau, Deputy Manager of Audit Department | June 1997 - | Yes |

5.3 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 |

5.4 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

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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.

5.5 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 | | Capacity |
|---|--|---------------------------------|---|--|
| | | % of total issued share capital | shareholding in the Company's total issued H shares | |
| 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 H 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.

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(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.

5.6 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 annual report for the year ended 31 December 2004.

6. Business Review

We have seen a prosperous year last year for the global petroleum and petrochemical industry. The growth of the industry was driven by an overall growth of the world's economy. China's petrochemical industry showed an unprecedented affluence and had strong increase in demand growth as a result of continued rapid growth of the national economy and an upsurge of international crude oil prices. The price level of crude oil continued to rise, and the economic efficiency of the petroleum and the petrochemical sector increased remarkably. In 2004, the Company capitalized on market opportunities, ensured safe production, improved management structure, enlarged market sales and intensified internal reforms. The Company recorded substantial improvement in our production, reforms development and economic efficiency. The Company achieved record highs in crude oil processing, production output and product sales and maintained significant growth in terms of its operating results compared to 2003.

Strong Market Demand for Petrochemical Products

The demand for petrochemical products grew strongly in 2004 and the average prices of petrochemical products were remarkably higher than those of the previous year. As a result, the economic efficiency of the whole sector stayed at its historic best. As at 31 December 2004, the weighted average prices of the Company's synthetic fibres, resin and plastics, intermediate petrochemical products and petroleum products increased by 19.43%, 34.50%, 51.36% and 21.72%, respectively, on a year-on-year basis.

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Existing Developments and Future Developments

At the end of 2003, the construction of 8,000,000 ton/year atmosphere and vacuum distillation plants commenced. Soon after equipment installation was completed on 15 December 2004, we commenced preparation for production. Its auxiliary project, the 3,300,000 ton/year hydrogenated diesel project commenced construction on 27 December 2004. Expansion of the capacity of the PTA plant to 400,000 ton/year was completed at the end of September 2004. The expanded plant was successfully commissioned on 1 October 2004. The 150,000 ton/year PET plant that adopted the three-kettle process was successfully commissioned on 1 September 2004. A 72- hour test-run was then completed at the beginning of October 2004. In July 2004, the construction of the technology upgrade project for industrial polyester filament of 12,000 ton/year commenced, and was completed at the end of the year. Its fifth production line was successfully commissioned on 28 December 2004. The feasibility study report on a new 380,000 ton/year glycol project was approved by the State Development and Reform Commission in July 2004. The project commenced construction on 25 January 2005. Preparation for future developments such as project proposal optimization, project registration and project approval submission is now underway.

Facilities for the 900,000 ton/year Shanghai Secco Petrochemical Company Limited, jointly invested by the Company, China Petroleum & Chemical Corporation and BP Chemicals East China Investments Limited was completed as scheduled on 30 December 2004. Commissioning of the major production plants will gradually commence in the first quarter of 2005.

Research and Development of technology and new product

In 2004, the Company made new breakthrough in its efforts on technology and products research and development and had successfully completed upgrade of its existing plants. The 150,000 ton/year PET plant adopted the three-kettles process and the selective hydro-desulphurisation of catalytic gasoline project had passed the technology assessment conducted by Sinopec Group. The designing of a 400,000 ton/year proprietary PTA plant, the industrialized experimentation of membrane separation, purification of hydrogen from diesel hydrogenation process, as well as the industrialized experimentation of isopentene isomerization, all proceeded smoothly. The research on antibacterial polypropylene fibres has made good progress. According to publicly available statistics, 518,300 tons of new products (excluding clean gasoline) were produced by the Company in 2004. The output value of new product was RMB4.355 billion, representing an increase of 38.61% from the previous year. The output value ratio for new products was 12.64%, an increase of 2.16 percentage points from the previous year. 789,000 tons of synthetic resins of various types were produced, and the ratio of special resins was 81.17%, an increase of 3.55 percentage points from the previous year. 158,500 tons of differentiated synthetic fibres were produced, and the ratio of differentiated synthetic fibre was 43.99%, an increase of 3.48 percentage points from the previous year. 56 patents were applied for during the year, of which 46 were inventory patents. The Company's technology centre was granted Achievement Award for Technologies Centre Endorsed by the State by the State Development and Reform Commission.

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Outlook and Business Initiatives for 2005

We expect that in 2005 the PRC economy will continue its upward rising trend. Following the implementation of macro-economic control measures, the overheating aspect of the economy was mitigated, with the factors contributing to instability and uncertainty being suppressed. Sectors demonstrating weaknesses were strengthened. All of these will lay a sound foundation for a stable and fast growth of the economy. The continued development of the global as well as the domestic economy will bring attractive opportunities to the development of the petroleum and petrochemical industry. In 2005, notwithstanding the commissioning of major joint-venture projects such as Shanghai Secco and Nanjing Yanba, general growth in demand for petrochemical products in the Asia-Pacific region and world-wide is expected to exceed the growth in our production capacity. As a result, production and sales are expected to remain strong as the world's petrochemical industry will continue to grow. On the other hand, although the overall macro-economic environment is improving, petrochemical enterprises are still subject to a number of instable and uncertain factors, such as volatility in international crude oil prices; increasing pressure on inflation; further fulfillment of the PRC's obligations for its WTO accession; intensified market competition; persisting short supply of coal, power and transportation facilities; and increasing pressure on environmental protection. All of these factors will have an impact on the production and operation of the petrochemical industry in the PRC, thereby increasing costs and risks to the petroleum and petrochemical industry.

The Company will proactively react to the significant changes occurring to the macro-economic environment. By fully capitalizing on the prevailing excellent business and operation environment, it endeavors to improve the quality of the overall operation of its production system, so as to maintain steady growth in product output, further improve the sales and marketing network and expand total product sales, with a view to obtaining once again outstanding operating results for the Company in 2005.

7. Board of Directors Report

7.1 Management's Discussion and Analysis on the Major Operating Results of the Group

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

A. OPERATING RESULTS

General

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

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

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Critical Accounting Policies

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

Impairments

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

Depreciation

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

Provision for Doubtful Debts

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

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This chart shows the annual sales volume and net sales after sales tax (Prepared under IFRS):

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

The following table sets forth a summary statement of income for the years indicated (Prepared under IFRS):

| | Years ended 31 December | | | | | |
|---|-------------------------|---------------|------------------|---------------|------------------|-------------|
| | 2002 | | 2003 | | 2004 | |
| | NET SALES | | NET SALES | | NET SALES | |
| | <i>Millions</i> | <i>% of</i> | <i>Millions</i> | <i>% of</i> | <i>Millions</i> | <i>% of</i> |
| <i>of RMB</i> | <i>Net Sales</i> | <i>of RMB</i> | <i>Net Sales</i> | <i>of RMB</i> | <i>Net Sales</i> | |
| Net sales | 21,722.9 | 100.0 | 28,942.7 | 100.0 | 38,664.1 | 100.0 |
| Cost of sales | (19,853.9) | (91.4) | (26,396.2) | (91.2) | (33,223.6) | (85.9) |
| Gross profit | 1,869.0 | 8.6 | 2,546.5 | 8.8 | 5,440.5 | 14.1 |
| Selling and administrative expenses | (421.2) | (1.9) | (444.7) | (1.5) | (408.1) | (1.0) |
| Operating income | 1,447.8 | 6.7 | 2,101.8 | 7.3 | 5,032.4 | 13.1 |
| Other operating income | 136.6 | 0.6 | 121.1 | 0.4 | 277.0 | 0.7 |
| Other operating expenses | (154.8) | (0.7) | (216.5) | (0.7) | (284.2) | (0.7) |
| Share of (losses)/profits of associates | 16.1 | 0.1 | (24.0) | (0.1) | (36.9) | (0.1) |
| Net financing costs | (400.7) | (1.9) | (392.0) | (1.4) | (292.0) | (0.8) |
| Profit before tax | 1,045.0 | 4.8 | 1,590.4 | 5.5 | 4,696.3 | 12.2 |
| Income tax | (84.5) | (0.4) | (145.1) | (0.5) | (637.1) | (1.7) |
| Profit after tax | 960.5 | 4.4 | 1,445.3 | 5.0 | 4,059.2 | 10.5 |
| Minority interests | (44.2) | (0.2) | (43.6) | (0.2) | (88.1) | (0.2) |

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| | | | | | | |
|-------------------------------------|-------|-----|---------|-----|---------|------|
| Profit attributable to shareholders | 916.3 | 4.2 | 1,401.7 | 4.8 | 3,971.1 | 10.3 |
|-------------------------------------|-------|-----|---------|-----|---------|------|

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RESULTS OF OPERATIONS

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

Net sales

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

Synthetic fibers

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

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

Resins and plastics

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

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

Intermediate petrochemicals

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

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

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Petroleum products

Net sales of petroleum products increased by 26.84% as compared with RMB10,329.1 million in 2003 to RMB13,101.9 million in 2004, due to an increase of 21.22% in the weighted average price and 3.84% in sales volume of these products. The weighted average price of gasoline, diesel oil and aviation kerosene increased by 14.66%, 20.70% and 26.74%, respectively. The sales volume of gasoline and aviation kerosene decreased by 25.76% and 6.18%, while the sales volume of diesel oil increased by 13.39%.

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

Trading and other activities

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

Cost of sales

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

Crude Oil

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

Total cost of crude oil processed by us in 2004 was RMB19,615.6 million, an increase of 24.43% as compared with RMB15,764.9 million in 2003 and accounted for 59.04% of the cost of sales. Reflecting substantial increases in the price of crude oil in international market, the weighted average cost of crude oil for the Group was RMB2,305.85 per ton, representing an increase of 25.50% as compared to last year. The weighted average cost of imported oil, offshore oil and Shengli oil are RMB2,302 per ton, RMB2,472 per ton & RMB1,702 per ton respectively.

Other expenses

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

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Selling and administrative expenses

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

Operating income

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

Other operating income

Other operating income was RMB277.0 million in 2004, an increase of 128.78% as compared with RMB121.1 million in 2003 primarily due to an increase in income from gain on disposal of property, plant and equipment, services and investments.

Other operating expenses

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

Net financing costs

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

Profit before tax

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

Income tax

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

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

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Profit after tax

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

B. LIQUIDITY AND CAPITAL RESOURCES

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

Capital Resources

Cash flows provided from operating activities

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

Borrowings

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

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

Debt-equity ratio

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

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

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

C. RESEARCH AND DEVELOPMENT, PATENTS AND LICENSES, ETC.

We maintain a range of technology development units, including Petrochemical Research Institute, Fiber Research Institute and Technology Development Company, for research and development with respect to new technology, new products, production processes and equipment, downstream processing of petrochemical products, oil refining, chemical machinery, chemical technology, catalysts and environmental protection. Our research and development expenditures in 2002, 2003 and 2004 were RMB84.0 million, RMB101.2 million and RMB74.7 million respectively, representing approximately 0.4%, 0.3% and 0.2% of our total sales, respectively, in those years.

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

D. OFF-BALANCE SHEET ARRANGEMENTS

As of 31 December 2004, our contingent liabilities amounted to RMB101.9 million in respect of guarantees issued to banks in favour of our associated companies and other unlisted investments while such contingent liabilities as of 31 December 2003 was RMB129.1 million. Our guarantees issued to bank in favour of associated companies, other unlisted investments companies and subsidiaries are limited to the respective share in equity interest held by us. Please refer to section 8.3 and 8.5 for the detailed information of our guarantees and capital commitments.

E. CONTRACTUAL OBLIGATIONS

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

| | As of 31 December 2004 | | | | |
|--------------------------------|------------------------|--------------------|--------------------|------------------|-------|
| | Payment due by period | | | | |
| | Total (RMB) | Less than | | | After |
| 1 year (RMB) | | 1-3 years (RMB) | 4-5 years (RMB) | 5 years (RMB) | |
| Contractual obligations | | | | | |
| | <i>(in thousand)</i> | | | | |

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| | | | | | |
|-------------------------------|-----------|-----------|-----------|--------|--------|
| Short-term loan | 3,742,727 | 3,742,727 | | | |
| Long-term loan | 3,272,192 | 1,257,578 | 1,886,758 | 62,297 | 65,559 |
| Total contractual obligations | 7,014,919 | 5,000,305 | 1,886,758 | 62,297 | 65,559 |

Table of Contents**F. OTHER INFORMATION***Foreign Exchange Risks*

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

Capital Expenditures

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

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

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

Ethylene Joint Venture

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

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

Purchase, Sale and Investment

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

Table of Contents**Pledge of Assets**

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

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

The financial statements prepared in accordance with IFRS differ in certain significant respects from U.S. GAAP. Please see section 10.5 for supplementary information for North American shareholders. As a result of these differences and the effect after tax, our net profit reported under U.S. GAAP was higher than net profit reported under IFRS by RMB175.0 million in 2004, RMB166.7 million in 2003 and RMB208.3 million in 2002. Shareholders' equity reported under U.S. GAAP was higher than shareholders' equity reported under IFRS by RMB64.7 million as of 31 December 2004 and lower by RMB110.2 million as of 31 December 2003.

7.2 Summary of segmental results (Prepared under PRC Accounting Rules & Regulations)

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

Price-setting principles of
connected transactions

The Board of Directors of the Company believes that the above connected transactions were entered into in the normal course of business and were conducted on normal commercial terms or in accordance with the terms of the relevant agreements. The above transactions were confirmed by the Company's independent non-executive Directors.

Description on the necessity and

Connected transactions mainly comprised purchase of crude oil and sale of petroleum products. The distribution of crude oil, the major production raw material of the Group,

continuity of connected transactions

and the prices and sale of petroleum products are regulated by the State and executed by Sinopec Corp. As long as the State does not give up control over the purchase of crude oil as well as the sale and prices of petroleum products, such connected transactions will continue to happen.

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7.3 Analysis of the geographical segments for the principal operations

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

7.4 Suppliers and customers of the Company

| | <u>RMB million</u> | | |
|---|--------------------|-------------------------------|-----|
| Total purchases from the top five suppliers | 19,112 | Percentage of total purchases | 75% |
| Total sales to the top five customers | 15,673 | Percentage of total sales | 40% |

7.5 Major investments made out of funds other than proceeds from subscription

For details of projects made out of funds other than proceeds from subscription, please see 7.1(F) - Capital Expenditures.

7.6 The Board of Directors proposal for profit appropriation

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 of Directors proposed to declare a final dividend of RMB2.00 (incl. tax) per ten 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.

7.7 Purchase, sale and redemption of shares

During the year of 2004, the Company and its subsidiaries did not purchase, sell or redeem any of the shares of the Company.

7.8 Compliance with Code of Best Practice

None of the Directors is aware of any information that would reasonably indicate that the Company is not, or was not during the reporting period, in compliance with Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

8. Significant Events

8.1 Assets Purchase

Please see 8.4(c) - Major connected transactions

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8.2 Assets Transfer

Please see 8.4(c) - Major connected transactions

8.3 Material guarantees

| <u>Guaranteed entities</u> | <u>Date</u> | <u>Guarantee</u> | <u>Type of</u> | <u>Guarantee</u> | <u>Guarantee</u> | <u>Guarantee</u> |
|---|-------------------------------------|------------------|-------------------------------------|----------------------|------------------|------------------|
| | <u>(Agreement</u> | <u>amount</u> | | | | |
| | <u>signing date)</u> | <u>(Rmb 000)</u> | <u>guarantee</u> | <u>period</u> | <u>party</u> | <u>connected</u> |
| 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 |

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| | |
|---|---------|
| Amount of guarantees signed in 2004 (<i>Rmb 000</i>)* | 78,500 |
| Guarantee amount (<i>Rmb 000</i>)* | 101,886 |
| Including: Guarantee for connected parties (<i>Rmb 000</i>)* | 101,886 |
| Amount of guarantees to subsidiaries signed by the company in 2004 (<i>Rmb 000</i>) | 506,959 |
| Total guarantee amount (<i>Rmb 000</i>) | 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*

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 RMB880,745,000.

8.4 Major connected transactions

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.

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(a) Connected debts and liabilities

RMB 000

| | Funds provided to the connected parties | | Funds provided by the connected parties to the listed company |
|--------------------------|---|---------|---|
| | Net transaction amount | Balance | Net transaction amount |
| <u>Connected parties</u> | | | |