

CHAIRMAN'S STATEMENT

To all shareholders:

It is my pleasure to present to you the audited annual results of the Company for the year ended 31 December 2004 (the "Reporting Period").

In 2004, China's economy continued to grow rapidly and the demand for petrochemicals remained strong. By seizing market opportunities, following established development strategies, carefully organizing production and operation, significantly reducing costs, adhering to technology innovation, and strengthening management, the Company achieved satisfactory operating results during the Reporting Period, highlighted by the accomplishment of the following tasks:



Mr. Wang Yongjian
Chairman of the Board
of Directors

- 1) *An increase in the Company's economic benefits through the careful organization of its production.* In 2004, the Company's management, together with its staff, maintained the high operational capabilities of the Company's principal production facilities by carefully organizing production. In 2004, 0.801 million tons of ethylene was produced, representing an increase of 10.9% compared with the same period last year. In addition, 1.089 million tons of synthetic resins and 0.241 million tons of synthetic rubber were also produced. Through careful organization, the Company substantially increased the production volume of its principal products, seized market opportunities and achieved a significant increase of the Company's economic benefits.
- 2) *The enhancement of the Company's core competence through the steady progress of the Company's reform.* In 2004, the Company improved its incentive system by adopting a competitive mechanism for junior staff to compete for higher positions. The Company also enhanced its competence through full implementation of budget management and economic analysis.
- 3) *An increase in the Company's production of products with high added value through the adoption of a market-orientated approach.* In 2004, facing gigantic market demand, the Company, through close cooperation between its various departments, continued to adjust its product structure and improve its product mix in order to strengthen profitability. Based on the thorough market research, the Company has made substantial efforts to develop special-purpose materials that have high market demand and high added value, and for which, the domestic supply relies mainly on imports. As a result of these efforts, the Company further increased the sales proportion of special-purpose materials that are used for producing synthetic resin.
- 4) *The Company adhered to its policy of integrating its supply, production, sales and research, and further improved its sales and marketing activities.* In 2004, the Company, based on its prior experience, continued to strengthen its sales and marketing activities, and further harmonized the operations of its supply, production, sales and research departments. Through close cooperation between these departments, the Company adjusted its production plans in a timely manner in order to meet market changes and the different needs of different customers. Confronted with the price increase of production materials and the shortage in supply of power and energy sources, the Company overcame difficulties and actively located supply resources for the Company's expanding production. By continuing to adopt the sales strategy of "follow the market, maintain a stable production-sales ratio, and obtain the maximum sales price", the Company also reinforced its efforts to conduct market analysis, improved its ability to meet market changes, effectively avoided market risks and therefore guaranteed an increase in its economic benefits.

The net profit of the Company for the year ended 31 December 2004 amounted to RMB 2,895.9 million (2003: RMB 633.9 million), representing an increase of 356.8%. The amount of sales was RMB 17,939.8 million, representing an increase of 56.4% from RMB 11,473.9 million in 2003. The board (the "Board") of directors (the "Directors") of the Company recommended not to distribute a final dividend for the year ended 31 December 2004.

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Looking forward to 2005, crude oil price in the international market is expected to remain high, that will exert pressure on the Company's operational costs. The establishment and commencement of production of a number of joint venture petrochemical enterprises will not only intensify market competition, but will also exert a significant influence on the production and operations of the petrochemical industry in China. Nevertheless, the Board is confident that the momentum of the continuous growth of China's economy will continue to stimulate the increase in demand for petrochemical products. The Company will closely monitor the market's development, seize market opportunities, and maintain the high level of the Company's operating results through continuous implementation of its development strategies. These strategies include:

- 1) *Achieving higher capacity output through carefully organizing and optimizing the use of resources.* In 2005, the Company will continue to manage its operation and production base on the principle of maximizing its overall performance, reinforce the procurement of raw materials, optimize its use of resources, allocate the major materials and well operate its facilities. To guarantee further stable improvement of the operating results of the Company, in 2005 the Company will institute strict technological management; reinforce process control to continuously improve the operational level; and rely on technological advancement and innovation to eliminate bottlenecks and hidden troubles existing in production facilities in order to further improve the volume of the output of the main products of the Company.
- 2) *Enhancing the Company's competitiveness by carrying forward technical advancement through technical improvement.* In 2005, the Company will further increase the technical elements of its products through continuous technical improvement, and improve the profitability of its products by dedicating its efforts to the development of new products. Thereby, the Company will guarantee its sustainable development.
- 3) *Building up modern operation concepts and further improving sales and marketing activities.* In 2005, the Company will establish a market information network and a competitive information system in order to assist the Company in making decisions scientifically. The Company will continue to reinforce management of client relationships through its gradual implementation of a management system based on client performance evaluations and by maintaining a stable, close, and faithful client base. The Company will continue to reduce logistics costs by further optimizing logistics management; and it will also unblock logistics channels to provide better logistics services to its clients.
- 4) *Continuously improving the management skills of the Company by means of reinforcing basic management.* In 2005, the Company will undertake the requirements (promulgated by regulatory bodies in various jurisdictions) to normalize the management of listed companies as an opportunity to improve, in a manner suitable to the Company, its internal control system, and to guarantee that all work is done in a standardized, normalized and proceduralized manner. The Company will also enhance its corporate management level and corporate image on a full scale by operating its information system with the ERP system as the main line.

With dual listings on the SEHK and the NYSE, the Company is subject to and is continuously committed to meeting the disclosure requirements imposed on it. The Company has formulated internal control policies which apply to the Company as a whole and each of its principal operating divisions. These policies are intended to comply with the new rules adopted by the Securities Exchange Commission of the United States that apply to public companies and are reviewed regularly to maintain and improve the Company's standards for internal management.

At the Board meeting held on 29 December 2004, the Directors of the Company have unanimously passed the resolution in respect of a proposal for a merger between the Company and Beijing Feitian Petrochemical Co., Ltd. ("Beijing Feitian"), a wholly-owned subsidiary of New Sinopec, by way of merger by absorption under the Company Law of the PRC (the "PRC Company Law"). The Company entered into the agreement of merger by absorption with Beijing Feitian on 29 December 2004, as amended by an amendment agreement entered into on 14 January 2005 (together, the "Merger

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Agreement”). According to the Merger Agreement, the Company will be privatised by New Sinopec through Beijing Feitian by way of merger by absorption of the Company under Article 184 of the PRC Company Law at the cancellation price of HK\$ 3.80 per H share of the Company, with Beijing Feitian as the surviving corporation (the “Merger”). The Merger has been approved by the shareholders of the Company at a special general meeting held on 4 March 2005 and the independent shareholders of the Company at a special general meeting of independent shareholders held on the same date. Details of the above are set out in a joint announcement in relation to the Merger jointly issued by New Sinopec and the Company on 29 December 2004 (the “Joint Announcement”), a composite document in relation to the Merger jointly issued by New Sinopec and the Company to their respective shareholders on 17 January 2005, an announcement issued by the Company on 7 March 2005 on the poll results of the special general meeting and the special general meeting of independent shareholders (the “Poll Results Announcement”), as well as an announcement issued by the Company on 14 April 2005 in relation to the fulfilment of conditions, change to the expected timetable and the expected date of the withdrawal of the listing of the H shares of the Company on the SEHK. The Directors confirm that before the completion of the Merger, the business of the Company would be conducted in the usual, regular and ordinary course as requested under the Merger Agreement.

During the Reporting Period, the entire staff of the Company faced the changeable market situations, contributed their efforts to firmly grasp market opportunities, and made breakthrough in the Company’s operating results. I hereby express my sincere gratitude to all of them. I believe that, in its future development, the Company will definitely achieve further success in its operations based on the Company’s current technical level and market competitive edges.

On behalf of the Board of Directors

Wang Yongjian

Chairman

28 April 2005, Beijing, the PRC