

REPORT OF THE BOARD OF DIRECTORS

The Board of Directors is pleased to present the Company's audited financial statements for the year ended 31 December 2004.

Principal Activities and Results

The principal activities of the Company are the production and sale of (i) resins and plastics, (ii) synthetic rubber, and (iii) basic organic chemical products.

The operating results of the Company for the year ended 31 December 2004 and its financial position as at 31 December 2004 are set out in the audited income statement and balance sheet, respectively, which have been prepared in accordance with IFRS.

Dividends and Proposed Profit Appropriations

The Board has resolved not to distribute dividends for the year ended 31 December 2004. Pursuant to the Merger Agreement, the Company agreed that after the execution of the Merger Agreement and prior to the completion of the Merger, the Company may not declare, set aside or pay dividend or other distributions, unless it is provided otherwise in the Merger Agreement or applicable laws and regulations. During the Reporting Period, there were no arrangements under which a shareholder has waived or agreed to waive any dividends.

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Share Capital and Shareholders

1. Share Capital

As of 31 December 2004, the issued and fully paid share capital of the Company was as follows:

	Number of shares (‘000)	Percentage of total issued share capital
Domestic shares held by Parent Company of RMB 1.00 each	2,362,000	70
Foreign shares (in form of H shares) of RMB 1.00 each	<u>1,012,000</u>	<u>30</u>
Total	<u><u>3,374,000</u></u>	<u><u>100</u></u>

2. Purchase, Sale or Redemption of the Company's Listed Securities

For the year ended 31 December 2004, there was no purchase, sale, redemption or cancellation of any of the Company's listed securities.

3. Securities and Transactions in Securities

For the year ended 31 December 2004, there were no convertible securities, options, warrants or similar rights issued or granted by the Company, nor was there any issuance for cash of equity securities by the Company.

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4. Pre-emptive Rights

Under the Articles of Association of the Company and the laws of the PRC, there are no pre-emptive rights that require the Company to offer new shares to existing shareholders in proportion to their shareholding.

5. Substantial Shareholders

According to the records entered into the register kept by the Company pursuant to Section 336 of the Securities and Futures Ordinance, as of 31 December 2004, the interests held by the persons other than the Directors, supervisors or chief executives of the Company were as follows:

Long position in the domestic shares of the Company:

	Number of domestic shares	Percentage of the total issued domestic share capital	Percentage of total issued share capital
New Sinopec	2,362,000,000 (Note)	100.00	70.00

Note: These 2,362,000,000 domestic shares are directly held by New Sinopec.

6. Controlling Shareholder

The controlling shareholder of the Company is New Sinopec, whose controlling shareholder is Sinopec Group. Both New Sinopec and Sinopec Group are established in Beijing, the PRC.

Material Contracts

During the Reporting Period, the Company has not entered into any contracts which are or may be material other than in the ordinary course of business carried out or intended to be carried out by the Company, save and except for the Merger Agreement.

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Management Contracts

No contract concerning the management and administration of the whole or any substantial part of the business of the Company (other than the service contracts entered into by and between the Company and any Director) were entered into or existed during the year ended 31 December 2004.

Connected Transactions

For the year ended 31 December 2004, the amounts involved in connected transactions are set out in note 22 of the financial statements.

As stated in the prospectus of the Company (the "Prospectus") issued in June 1997 in connection with its global public offering, the SEHK has granted conditional waivers to the Company from strict compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") in respect of certain connected transactions mentioned in the Prospectus.

The independent non-executive Directors confirm that during the Reporting Period, (i) relevant connected transactions were entered into by the Company in the ordinary and usual course of its business, either on normal commercial terms or on terms that are otherwise fair and reasonable so far as the shareholders of the Company are concerned; and either in accordance with the terms of the agreement governing each such transaction or on terms no less favorable than terms available to/from independent third parties, and (ii) the amount of each category of the connected transaction has not exceeded its relevant cap as stated in the Prospectus.

The auditors of the Company have reviewed the transactions described above and have confirmed with the Board that:

- (a) the transactions described above have been approved by the Board; and
- (b) the transactions described above have been entered into in accordance with the terms of the agreements governing such transactions, or where there is no such agreement, nothing came to their attention that caused them to believe the transactions described above were not conducted on normal commercial terms (which expression was applied by reference to transactions of a similar nature made by similar entities within the PRC).

Major Litigation or Arbitration

For the year ended 31 December 2004, the Company was not involved in any material litigation or arbitration.

Disclosure of Major Events

1. Mr. Zhang Haoruo, an independent non-executive Director of the Company, passed away on 27 March 2004. The Company confirms that there will be no disruption to the operations of the Company and it will not make arrangement to fill the casual vacancy. The Company is in full compliance with Rule 3.19(2) of the Listing Rules as the remaining three independent non-executive Directors will continue to fulfill their roles as independent non-executive Directors of the Company.
2. At the 2003 shareholders' general meeting of the Company held on 18 June 2004, the Company decided to continue appointing KPMG and KPMG Huazhen as its international and domestic auditors, respectively.
3. Mr. Du Guosheng, the former Chairman of the Company, has left the Company due to change of job duties. To facilitate the convenient operation of the Company, Mr. Du Guosheng presented his resignation at the fourth meeting for the third session of the Board held on 10 July 2004, to resign from the positions of Chairman and Director. Nominated by the Directors of the Company, Mr. Wang Yongjian, the former non-executive Director was elected by the Board as the new Chairman of the Company.
4. For the purpose of improving corporate governance, standardizing the internal control system and minimizing risks, the Board resolved to adopt the *Internal Control Rules of Sinopec Beijing Yanhua Petrochemical Company Limited* at the fifth meeting for the third session of the Board held on 20 August 2004.
5. The Board passed a proposal of the Merger between the Company and Beijing Feitian by way of merger by absorption under the PRC Company Law at the sixth meeting for the third session of the Board held on 29 December 2004.
6. All the special resolutions relating to the Merger between the Company and Beijing Feitian have been passed at the special general meeting of the Company held on 4 March 2005. (Please see the Poll Results Announcement for details.)
7. All the special resolutions relating to the Merger between the Company and Beijing Feitian have been passed at the special general meeting of independent shareholders of the Company held on 4 March 2005. (Please see the Poll Results Announcement for details.)

Changes in Directors, Supervisors and Other Executive Officers

1. Directors

- (a) According to Article 95 of the Company's Articles of Association, a Director shall serve a term of three years. According to the service contract entered into between each Director and the Company, the term of employment of each of the existing Directors commences from the date of appointment, i.e., 27 June 2003 and ends on 26 June 2006.
- (b) Mr. Du Guosheng, the former Chairman of the Company, has left the Company due to change of job duties. For the convenience of the Company's operation, Mr. Du Guosheng presented his resignation at the fourth meeting for the third session of the Board held on 10 July 2004, to resign from positions of Chairman and Director. Nominated by the Directors of the Company, Mr. Wang Yongjian, the former non-executive Director was elected by the Board as the new Chairman of the Company.

2. Supervisors

In accordance with Article 116 of the Company's Articles of Association, a supervisor shall serve a term of three years. According to the service contract entered into between each supervisor and the Company, the term of employment of each of the existing supervisors of the Company commences from the date of appointment, i.e., 27 June 2003 and ends on 26 June 2006.

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Details of the Current Session of the Directors and Supervisors of the Company

During the Reporting Period, the details of the current session of the Directors and supervisors of the Company were as follows:

Name	Position	Sex	Age	Term of Office	Annual Emolument and Allowances (in RMB)
# Du Guosheng	Former Executive Director and Chairman	M	48	Until 10 July 2004	77,609
## Wang Yongjian	Executive Director and Chairman	M	45	Until June 2006	199,740
Yang Qingyu	Executive Director and Vice Chairman	M	58	Until June 2006	234,338
Xu Hongxing	Executive Director and General Manager	M	46	Until June 2006	226,713
* Wang Yuying	Non-executive Director	F	58	Until June 2006	-
* Wang Ruihua	Non-executive Director	M	57	Until June 2006	-
* Cui Guoqi	Non-executive Director	M	51	Until June 2006	-
* Xiang Hanyin	Non-executive Director	M	50	Until June 2006	-
* Zhang Yanning	Independent Non-executive Director	M	78	Until June 2006	-
* Liu Haiyan	Independent Non-executive Director	M	63	Until June 2006	-
* Yang Xuefeng	Independent Non-executive Director	M	66	Until June 2006	-
* Shang Bo	Chairman of the Board of Supervisors	M	57	Until June 2006	-
* Ren Jinxiang	Supervisor	M	57	Until June 2006	-
* Wang Guifen	Supervisor	F	52	Until June 2006	-
* Wang Shulan	Supervisor	F	50	Until June 2006	-
Liu Changwei	Supervisor	M	47	Until June 2006	214,897
Rong Guozhong	Supervisor	M	47	Until June 2006	173,681
* Zhang Jianjun	Supervisor	F	53	Until June 2006	-
* Geng Dianming	Independent Supervisor	M	58	Until June 2006	-
* Zhao Shaohua	Independent Supervisor	M	65	Until June 2006	-

Mr. Du Guosheng, the former executive Director and Chairman, resigned on 10 July 2004 due to change of job duties and has not received any emolument or allowance from the Company since then.

Mr. Wang Yongjian, became the executive Director and the Chairman with effect from 10 July 2004 and has since then received emolument and allowance from the Company.

* Such person has not received any emolument or allowance from the Company.

Directors', Supervisors' and Chief Executive Officer's Interests in Shares

As of 31 December 2004, none of the Directors, supervisors or chief executive officer of the Company had (a) any interests or short-term positions that were required to be registered in the registry preserved pursuant to Section 352 of the Securities and Futures Ordinance or (b) interests or short-term positions that were required to be reported to the Company or the SEHK pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, in any shares, relevant shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance).

Directors' and Supervisors' Service Contracts and Remuneration

Each of the Directors and supervisors has entered into a service contract with the Company.

For the year ended 31 December 2004, the aggregate amount of cash remuneration paid to the Directors was RMB 667,881, compared with RMB 606,184 in 2003. The aggregate amount of non-cash remuneration (consisting solely of pension and retirement benefit plans) paid to the Directors in 2004 was RMB 70,519, as compared with RMB 46,398 in 2003. The Directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Board with reference to Directors' duties, responsibilities and the Company's performance and results.

For the year ended 31 December 2004, the aggregate amount of cash remuneration paid to the supervisors was RMB 361,462, as compared with RMB 224,271 in 2003. The aggregate amount of non-cash remuneration (consisting solely of pension and retirement benefit plans) paid to the supervisors in 2004 was RMB 27,116, as compared with RMB 22,785 in 2003.

Details of Directors' and supervisors' remuneration and five highest paid individuals have been set out in note 6 of the financial statements. During the Reporting Period, there was no arrangement under which a Director or supervisor has waived or agreed to waive any remuneration.

No other service contract exists between the Company and any of the Directors or supervisors. Save as disclosed above, no Director or supervisor has entered into any service contract with the Company that is not terminable by the Company within one year without payment of compensation other than statutory compensation.

Directors' and Supervisors' Interests in Contracts

Except as disclosed above, there was no contract of significance to which the Company was a party, in existence during or at the end of the year under review in which a Director or supervisor of the Company had a material interest.

Loans to Directors, Supervisors and Senior Management

For the year ended 31 December 2004, the Company had not provided any loan to any of its Director, supervisor or senior management.

Employees' Benefit, Retirement Scheme and Employee Housing Subsidy

As of 31 December 2004, the Company had 10,002 employees as compared with 10,207 employees in 2003, representing a decrease of 205 employees. In addition, the Company offered its employees the opportunities for education and training based upon its development and actual performance of the employees.

The Company's employees' remuneration, mainly comprising of salary and bonus, is determined by the management with reference to the prevailing market practice.

The Company's employees participated in retirement benefit plans provided by the Company, details of which are set out in note 21 of the financial statements.

Under the relevant laws and regulations of the PRC, the policy for the allocation of housing as welfare benefits has ceased to apply. The Company is considering detailed measures for payment of housing subsidies through increasing wages or making lump sum payments to qualified employees. Once determined, these measures will be reflected in the financial statements of the Company of the relevant year. As disclosed in the Company's Prospectus dated 17 June 1997, Yanshan Company is willing to pay such a lump sum payment. For this purpose, the Company is not expecting any cash outflows.

Basic Medical Insurance for Employees

According to the Beijing Municipal Government Order (2001) No. 68, and in line with the arrangements of Beijing Municipal Labor Security Authority, the Company has implemented the Regulations of Beijing Municipality on Basic Medical Insurance (the "Regulations") on 1 September 2002. Prior to the implementation of such Regulations, the Company has been complying with relevant state regulations by drawing 14% of the employees' total current wages as welfare fees to be used as the medical expenditure for the employees of the Company, whilst relevant welfare fees were set out in the labor costs of the Company for the specific current term. After the implementation of the Regulations, the medical insurance fees to be paid represented 9% of the total wages, and such amount has been included in the 14% employee welfare fees to be drawn by the Company. As a result, there will be no impact on the income statement and the balance sheet of the Company upon implementation of the Regulations.

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Major Suppliers and Customers

For the year ended 31 December 2004, 70.0% of purchases (not including the purchase of items which are of a capital nature) were attributable to the Company's five largest supplier (including the Parent Company), while 62.7% of purchases (not including the purchase of items which are of a capital nature) were attributable to the Company's largest purchaser, the Parent Company.

The aggregate amount of sales attributable to the Company's five largest customers (including Yanshan Company) represented 20.9% of the Company's turnover. The amount of sales attributable to Yanshan Company, the Company's largest customer, represented 8.8% of the Company's turnover.

To the knowledge of the Directors, at no time during the year have the Directors and supervisors, their associates, or any shareholder of the Company (who to the knowledge of the Directors owns more than 5% of the Company's share capital) had any interests in these major suppliers and customers.

Reserves

Changes in reserves of the Company for the year ended 31 December 2004 are set out in the statement of changes in equity.

Fixed Assets

Changes in fixed assets of the Company for the year ended 31 December 2004 are set out in note 9 to the financial statements.

Bank Loans and Other Borrowings

Details of bank loans and other borrowings of the Company as of 31 December 2004 are set out in notes 17 and 18 to the financial statements.

Interest Capitalised

Interest capitalised in the Company's property, plant and equipment during the year ended 31 December 2004 amounted to RMB 2.6 million.

Taxation

The Company has been subject to the PRC enterprise income tax of 33% for the year ended 31 December 2004. The Company is not aware of any changes in government policy that may affect the Company's tax rate.

Details of the Company's taxation are set out in note 5 to the financial statements.

Auditors

At the 2003 Annual Shareholders Meeting held on 18 June 2004, a resolution was passed for the continued appointment of KPMG and KPMG Huazhen as the Company's international and domestic auditors, respectively.

Compliance with the Code of Best Practice

The Board of Directors believes that, for the year ended 31 December 2004, the Company complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

Audit Committee

The Board of Directors has established an audit committee in 2002. For the year ended 31 December 2004, the audit committee was composed of Mr. Yang Xuefeng, who was elected as Chairman, and Mr. Zhang Yanning and Mr. Liu Haiyan. All of its members are the independent non-executive Directors of the Company. The audit committee is responsible for the review and supervision of the Company's financial reporting process and internal controls as set out in the Code of Best Practice. For the year ended 31 December 2004, the audit committee held two meetings. The audit committee, together with the management of the Company, has reviewed the accounting policies adopted by the Company, and has discussed the contents of the auditing, internal supervising and the financial statements.

The Company has received from each of its independent non-executive Directors an annual confirmation of his independence, pursuant to Rule 3.13 of the Listing Rules. The Company hereby considers its independent non-executive Directors to be independent.

Impact of the Recent Economic Development

Unstable factors inevitably exist in the international economy, which might bring adverse impact on the production and operation of the Company in the near future. Nevertheless, the Company believes that the steady growth of China's economy will undoubtedly lead to a further increase in the demands for the products of the Company, whilst the commissioning of the ethylene facilities with 710,000 tons capacity will elaborate the scale merit of the Company.

Trust Deposits

As of 31 December 2004, the Company did not have any trust deposits with any financial institutions in the PRC. The Company has not encountered any difficulty with respects to withdrawing its deposits.

Public Float

As at 23 April 2005, being the latest practicable date prior to the issue of this annual report, based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has sufficient public float in compliance with Rule 8.08 of the Listing Rules.

By Order of the Board of Directors

Wang Yongjian

Chairman

28 April 2005, Beijing, the PRC