Contents

IMPORTANT:

The board of directors (the "Board") and Supervisory Committee of Sinopec Shanghai Petrochemical Company Limited (the "Company" or "SPC") as well as its directors, supervisors and senior management warrant that there are no false representations, or misleading statements contained in, or material omissions from this report, and severally and jointly accept full responsibility for the truthfulness, accuracy and completeness of the information contained in this report.

Directors Mr. Lei Dianwu and Mr. Xiang Hanyin were absent from the 27th meeting of the Fifth Session of the Board due to business engagement. Mr. Lei Dianwu and Mr. Xiang Hanyin appointed and authorized Mr. Rong Guangdao, as their irrevocable voting proxies. The Board considered and approved the 2007 Annual Report.

The Company prepared the financial statements for the year ended 31 December 2007 (the "Reporting Period") in accordance with the China Accounting Standards for Business Enterprises as well as the International Financial Reporting Standards ("IFRS"). They have been audited by KPMG Huazhen and KPMG respectively, and both firms have issued unqualified opinions on the financial statements in their auditors' reports.

Mr. Rong Guangdao, Chairman and President of the Company, Mr. Du Chongjun, Vice Chairman and Vice President and Mr. Han Zhihao, Director and Chief Financial Officer overseeing the accounting operations hereby warrant the truthfulness and completeness of the financial report contained in this report.

Company Profile

Sinopec Shanghai Petrochemical Company Limited is one of the largest petrochemical enterprises in the People's Republic of China (the "PRC") based on sales in 2007. It is also one of the largest PRC producers of ethylene. Ethylene is one of the most important intermediate petrochemical products used in the production of synthetic fibres, resins and plastics. With the exception of petroleum products, the Company is a major competitor in every product market in which it participates.

Located at Jinshanwei in the southwest of Shanghai, the Company is a highly integrated petrochemical complex which processes crude oil into a broad range of synthetic fibres, resins and plastics, intermediate petrochemical products and petroleum products. The Company sells most of its products in the PRC domestic market and derives most of its revenues from customers in Eastern China, one of the fastest growing regions in the PRC.

The Company's rapid development is supported by the ever-increasing demand in the PRC for downstream petrochemical products. Relying on the competitive advantage from its vertical integration, the Company is optimizing its product mix, improving the quality and variety of its existing products, upgrading technology and increasing the capacity of its key upstream plants.

In July 1993, the Company became the first company incorporated under the laws of the PRC to make a global equity offering, and its shares were listed on the Shanghai Stock Exchange, the Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") and the New York Stock Exchange.

Since the listing of its shares, the Company has made continuing efforts to improve and enhance its operation and management efficiency with an aim to become a world-class petrochemical corporation.

公司辦公大樓
Headquarters of the Company

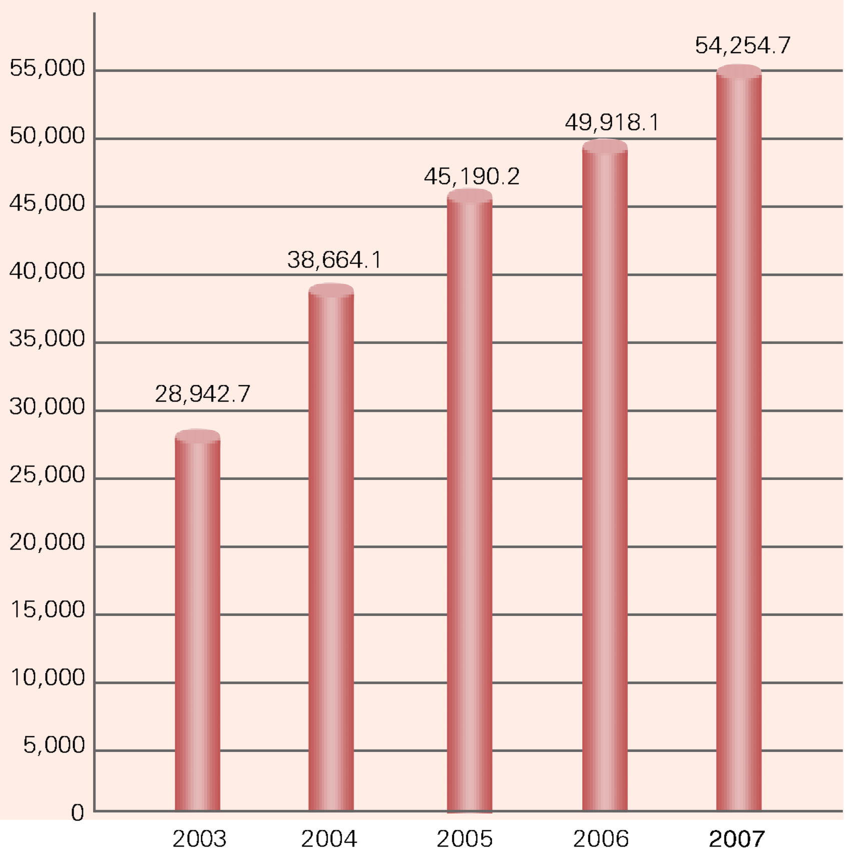
Financial Highlights

(Prepared under International Financial Reporting Standards)

Expressed in RMB millions	**2007**	2006	2005	2004	2003
Year ended 31 December:					
Net sales	**54,254.7**	49,918.1	45,190.2	38,664.1	28,942.7
Profit before taxation	**2,151.4**	964.2	2,287.6	4,696.2	1,590.4
Profit after taxation	**1,683.1**	911.0	1,921.3	4,059.2	1,445.3
Profit attributable to equity shareholders of the Company	**1,634.1**	844.4	1,850.4	3,971.1	1,401.7
Earnings per share	**RMB0.23**	RMB0.12	RMB0.26	RMB0.55	RMB 0.20
At 31 December:					
Total equity attributable to equity shareholders of the Company	**20,648.0**	18,976.3	18,830.0	18,417.0	15,021.9
Total assets	**29,853.1**	27,406.1	26,810.4	28,276.6	27,101.5
Total liabilities	**8,901.0**	8,093.7	7,632.9	9,486.5	11,738.4

Net sales

(RMB millions)



1. Major business data

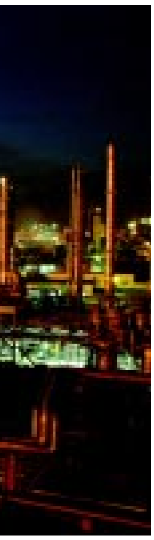
(Prepared under the China Accounting Standards for Business Enterprises)

RMB'000

	For the years ended 31 December					
	2007	2006		Increase / decrease compared to the previous year(%)	2005	
		(After adjustment)[Note]	(Before adjustment)[Note]		**(After adjustment)**[Note]	(Before adjustment)[Note]
Income from principal operations	**55,404,687**	**51,478,855**	50,479,436	7.63	**46,943,740**	45,897,807
Total profit	**2,121,094**	**924,975**	843,669	129.31	**2,163,283**	2,137,208
Net profit attributable to equity holders of the Company	**1,592,110**	**805,705**	736,851	97.60	**1,726,663**	1,704,627
Net profit attributable to equity holders of the Company excluding non-recurring items	**1,105,002**	**594,580**	577,682	85.85	**1,311,614**	1,298,766
Net cash flow from operating activities	**1,784,572**	**2,040,679**	2,040,679	-12.55	**4,245,115**	4,245,115

	As at 31 December					
	2007	2006		Increase / decrease compared to the previous year(%)	2005	
		(After adjustment)[Note]	(Before adjustment)[Note]		**(After adjustment)**[Note]	(Before adjustment)[Note]
Total assets	**30,494,334**	**28,055,503**	27,684,200	8.69	**27,473,567**	27,101,918
Shareholders' equity (excluding minority interests)	**20,999,444**	**19,369,719**	19,273,088	8.41	**19,262,065**	19,166,908

Note: "Before adjustment" represents the balance/amounts prepared under the old PRC Accounting Rules and Regulations. "After adjustment" represents the balances/amounts prepared under the current China Accounting Standards for Business Enterprises (2006).



(Prepared under the China Accounting Standards for Business Enterprises)

2. Major Financial Indicators

	For the years ended 31 December					
	2007	2006		Increase / decrease compared to the previous year(%)	2005	
		(After adjustment)Note	(Before adjustment)Note		(After adjustment)Note	(Before adjustment)Note
Basic earnings per share (RMB)	**0.221**	**0.112**	0.102	97.32	**0.240**	0.237
Diluted earnings per share (RMB)	**0.221**	**0.112**	0.102	97.32	**0.240**	0.237
Basic earnings per share excluding non-recurring items (RMB)	**0.153**	**0.083**	0.080	84.34	**0.182**	0.180
Return on net assets (fully diluted)(%)	**7.582**	**4.160**	3.823	increased by 3.422 percentage points	**8.964**	8.894
Return on net assets (weighted average)(%)	**7.888**	**4.171**	3.834	increased by 3.717 percentage points	**9.031**	8.955
Return on net assets based on net profit excluding non-recurring items (fully diluted)(%)	**5.262**	**3.070**	2.997	increased by 2.192 percentage points	**6.809**	6.776
Return on net assets based on net profit excluding non-recurring items (weighted average)(%)	**5.474**	**3.078**	3.006	increased by 2.396 percentage points	**6.860**	6.823
Net cash flow per share from operating activities (RMB)	**0.248**	**0.283**	0.283	-12.37	**0.590**	0.590

	As at 31 December					
	2007	2006		Increase / decrease compared to the previous year(%)	2005	
		(After adjustment)Note	(Before adjustment)Note		(After adjustment)Note	(Before adjustment)Note
Net asset value per share attributable to equity holders of the Company (RMB)	**2.917**	**2.690**	2.677	8.44	**2.675**	2.662

Note: "Before adjustment" represents the balance/amounts prepared under the old PRC Accounting Rules and Regulations. "After adjustment" represents the balances/amounts prepared under the current China Accounting Standards for Business Enterprises (2006).

3. Non-recurring items for the year ended 31 December 2007

Non-recurring Items	Amount RMB'000
Gain from disposal of non-current assets	841,883
Subsidy income	93,900
Employee reduction expenses	(208,013)
Net expenses of non-operating income/(expenses) other than those mentioned above	(47,198)
Less: Tax effect for the above items	(193,602)
Total	486,970
Include:	
Non-recurring items attributable to equity shareholders of the Company	487,108
Non-recurring items attributable to minority shareholders	(138)

4. Items accounted for at fair value

Item	Balance as at the beginning of the Reporting Period	Balance as at the end of the Reporting Period	Change during the Reporting Period	Resulting on profit for the Reporting Period
Available-for-sale financial assets	105,185	478,793	373,608	-
Total	105,185	478,793	373,608	-

5. Return on net assets and earnings per share prepared in compliance with the "Regulation on the preparation of information disclosures by companies publicly issuing securities, No. 9" issued by the China Securities Regulatory Commission:

	Return on net assets		Earnings per share	
Profit for the reporting period	**Fully diluted (%)**	**Weighted average (%)**	**Fully diluted RMB**	**Weighted average RMB**
Net profit attributable to equity holders of the Company	7.582	7.888	0.221	0.221
Net profit attributable to equity holders of the Company excluding non-recurring items	5.262	5.474	0.153	0.153

6. For differences between financial statements prepared under International Financial Reporting Standards ("IFRS") and the China Accounting Standards for Business Enterprises

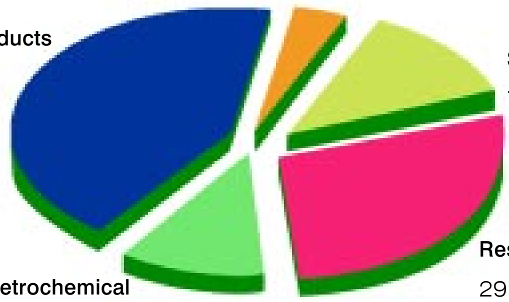
Please refer to Section C of this annual report.

Principal Products

The Group produces over 60 different types of products including a broad range of synthetic fibres, resins and plastics, intermediate petrochemical products and petroleum products. As a result of the Group's high degree of integration, many of the petroleum products and intermediate petrochemical products produced by the Group are used primarily in the production of the Group's downstream products.

The following table sets forth the net sales of the Group's major products for 2007 as a percentage of total net sales and their typical uses.

Major products sold by the Group	% of 2007 net sales	Typical uses
Manufactured Products		
Synthetic Fibres		
Polyester staple	1.29	Textiles and apparel
Acrylic staple	4.94	Cotton type fabrics wool type fabrics delre, and acrylic top
Acrylic top	1.11	High bulk hand knitting yarn, blankets and fabrics
Others	0.64	
Subtotal:	7.98	
Resins and Plastics		
Polyester chips	8.49	Polyester fibres, films and containers
PE pellets	10.64	Films, ground sheeting, wire and cable compound and other injection moulding products such as housewares and toys
PP pellets	8.59	Extruded films or sheets, injection moulding products such as housewares, toys and household electrical appliances and automobile parts
PVA	1.13	PVA fibres, building coating materials and textile starch
Others	0.42	
Subtotal:	29.27	



Major products sold by the Company	% of 2007 net sales	Typical uses
Intermediate Petrochemical Products		
Ethylene	1.30	Feedstock for PE, EG, PVC and other intermediate petrochemicals which can be further processed into resins and plastics and synthetic fibre
Ethylene oxide	2.20	Intermediate for chemical and pharmaceutical industry, dyes, detergents and adjuvant
Benzene	3.88	Intermediate petrochemical products, styrene, plastics, explosives, dyes, detergents, epoxies and polyamide fibre
Butadiene	1.79	Synthetic rubber and plastics
Ethylene glycol	3.43	Fine chemicals
Others	4.68	
Subtotal:	17.28	
Petroleum Products		
Gasoline	5.23	Transportation fuels
Diesel	21.06	Agricultural fuels
Jet oil	5.57	Transportation fuels
Others	6.91	
Subtotal:	38.77	
Others	6.70	
TOTAL:	100.00	

Change in share capital for the year ended 31 December 2007

1. Changes in share capital as at 31 December 2007

   As at 31 December 2007, there was no change to the share capital structure of the Company.

2. Issue and listing of shares as at 31 December 2007

   (i) Issue of shares during the past three years

   As at 31 December 2007, the Company did not issue new shares nor place any shares during the past three years.

   (ii) Change of the Company's total number of shares and share structure

   There was no change to the Company's total number of shares or share structure as a result of bonus issue or share placement during the Reporting Period.

   (iii) Current employee shares

   The Company had no employee shares as at 31 December 2007.

Shareholders

1. Total Number of shareholders and their shareholding as at 31 December 2007

Total number of shareholders at the end of the Reporting Period 143,670

Shareholding of the Top 10 Shareholders

Name of Shareholder	Type of shareholders	Percentage of total shareholding (%)	Number of shares held	Increase / decrease during the year	Types of shares	Number of non-circulating shares held	Number of shares pledged or frozen
China Petroleum & Chemical Corporation	State-owned Shareholder	55.56	4,000,000,000	0	Non-circulating	4,000,000,000	Nil
HKSCC (Nominees) Ltd.	Foreign Shareholder	32.00	2,303,698,101	378,572,700	Circulating	0	Unknown
China Minsheng Banking Corp., Ltd. - Orient Jing Xuan Hun He Xing Kai Fang Shi Securities Investment Fund	Others	0.81	58,632,469	Unknown	Circulating	0	Unknown
Shanghai Kangli Gong Mao Company	Others	0.23	16,730,000	0	Non-circulating	16,730,000	Unknown
Bank of Communication-Fortis Haitong Select Securities Investment Fund	Others	0.18	13,000,000	Unknown	Circulating	0	Unknown
Zhejiang Province Economic Construction and Investment Company	Others	0.17	12,000,000	0	Non-circulating	12,000,000	Unknown
Shanghai Pudong Development Bank- Chang Xin Jinli Trendence Equity Securities Investment Fund	Others	0.11	7,999,926	Unknown	Circulating	0	Unknown
Bank of China- Fortis Haitong Equity Securities Investment Fund	Others	0.10	7,431,143	Unknown	Circulating	0	Unknown
Bank of China-Tongzhi Securities Investment Fund	Others	0.08	5,949,944	Unknown	Circulating	0	Unknown
Shanghai Textile Development Company	Others	0.08	5,650,000	0	Non-Circulating	5,650,000	Unknown

Shareholders *(continued)*

Top 10 holders of shares in circulation

Name of shareholders	Number of shares in circulation held	Type of Shares
HKSCC (Nominees) Ltd.	2,303,698,101	Overseas listed foreign shares
China Minsheng Banking Corp., Ltd. - Orient Jing Xuan Hun He Xing Kai Fang Shi Securities Investment Fund	58,632,469	RMB-denominated ordinary shares
Bank of Communication-Fortis Haitong Select Securities Investment Fund	13,000,000	RMB-denominated ordinary shares
Shanghai Pudong Development Bank - Chang Xin Jinli Trendence Equity Securities Investment Fund	7,999,926	RMB-denominated ordinary shares
Bank of China- Fortis Haitong Equity Securities Investment Fund	7,431,143	RMB-denominated ordinary shares
Bank of China-Tongzhi Securities Investment Fund	5,949,944	RMB-denominated ordinary shares
China Merchants Bank Co., Ltd. - Shang Zheng Hong Li JiaoYi Xing Kai Fang Shi Securities Investment Fund	5,411,788	RMB-denominated ordinary shares
Bank of China-Harvest Shanghai and Shenzhen 300 Index Securities Investment Fund	5,287,605	RMB-denominated ordinary shares
ICBC - Bosera Select Equity Securities Investment	5,066,654	RMB-denominated ordinary shares
Bank of China-Fortis Haitong Select Mixed Securities Investment Fund 2 Portfolio	5,000,000	RMB-denominated ordinary shares

Description of any connected relationship or connected parties relationships on the above shareholders	Of the above-mentioned shareholders, China Petroleum & Chemical Corporation ("Sinopec Corp"), the State-owned shareholder, does not have any connected relationship with the other shareholders, and is not a concert party of the other shareholders under the "Administrative Measures on Acquisition of Listed Companies". Of the above-mentioned shareholders, HKSCC (Nominees) Limited is a nominee shareholder. Apart from the above, the Company is not aware whether there are other connected relationships amongst the other shareholders, and whether they are concert parties under the "Administrative Measures on Acquisition of Listed Companies".

2. Information on the controlling shareholder and de facto controller of the Company

(1) Controlling shareholder

Name of controlling shareholder:	China Petroleum & Chemical Corporation ("Sinopec Corp.")
Authorised representative:	Su Shulin
Registered capital:	RMB86.7 billion
Date of incorporation:	25 February 2000
Major business:	Crude oil and natural gas business includes: exploring for, extraction, production and trading of crude oil and natural gas; processing of petroleum; production of petroleum products, trading, transportation, distribution and sales of petroleum products; production, distribution and trading of petrochemical products.

(2) De facto controller

Name of the de facto controller:	China Petrochemical Corporation ("Sinopec")
Authorised representative:	Su Shulin
Registered capital:	RMB104.9 billion
Date of incorporation:	24 July 1998
Major business :	Provide well drilling services, oil well logging services and mine haft work services; manufacturing of production equipment and maintenance services; project construction services and public works and social services such as water and electricity.

2. **Information on the controlling shareholder and de facto controller of the Company** *(continued)*

(3) Change of controlling shareholder and de facto controller of the Company

During the Reporting Period, there was no change to the controlling shareholder and the de faco controller of the Company.

(4) Diagram of the ownership and controlling relationship between the Company and the de facto controller

State-owned Assets Supervision Commission of the State Council

↓ 100%

China Petrochemical Corporation

↓ 75.84%

China Petroleum & Chemical Corporation

↓ 55.56%

Sinopec Shanghai Petrochemical Company Limited

3. **Other legal shareholders holding more than 10% of the Company's share capital**

As at 31 December 2007, HKSCC (Nominees) Limited held 2,303,698,101 H shares of the Company representing 32.00% of the total issued share capital of the Company.

4. **Public Float**

Based on information that is publicly available to the Company and within the knowledge of its directors as at 3 April 2008, the Company has a sufficient public float which complies with the requirement under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Hong Kong Listing Rules").

Interests and Short Positions of Substantial Shareholders and Other Persons in Shares and the Underlying Shares

As at 31 December 2007, the interests and short positions of the Company's substantial shareholders and other persons who are required to disclose their interests pursuant to Part XV of the Securities and Futures Ordinance ("SFO") of Hong Kong (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 of Hong Kong were as set out below:

(1) (a) Interests in ordinary shares of the Company

Name of shareholders	Capacity	Number of share interests held or regarded as held	% of total issued share capital	% of shareholding in the Company's total issued H shares
China Petroleum & Chemical Corporation	Beneficial owner	4,000,000,000 Promoter legal person shares (L)	55.56	-
UBS AG	Beneficial owner	152,143,314 (L) 32,346,500 (S)	2.11 (L) 0.45 (S)	6.53(L) 1.39(S)
Government Singapore Investment Corporation Pte Ltd	Beneficial owner	138,933,700(L)	1.93 (L)	5.96 (L)

Note: (L): Long positions; (S): Short positions; (P): Lending pool

(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 of Hong Kong in the underlying shares of equity derivatives were recorded in the register required to be kept under Section 336 of the SFO of Hong Kong.

(2) Short positions in shares and underlying shares of the Company

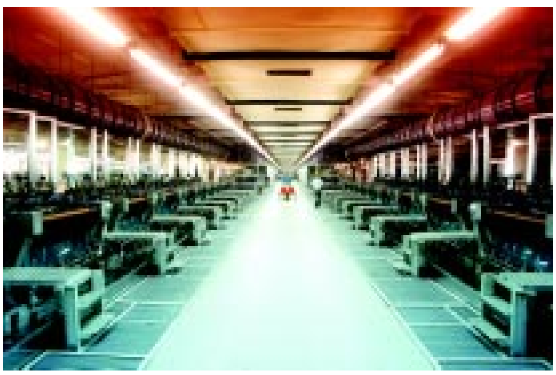
No short positions of substantial shareholders or other persons who are required to disclose their interests pursuant to Part XV of the SFO of Hong Kong in the shares or underlying shares of equity derivatives of the Company were recorded in the register required to be kept under Section 336 of the SFO of Hong Kong.

Save as disclosed above, as at 31 December 2007, no interests or short positions of any other 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 of Hong Kong.

Directors, Supervisors and Senior Management

Name	Position	Sex	Age	Commencement of service term	End of service term	Number of shares held at the beginning of the year (share)	Number of shares held at the end of the year (share)	Increase/ decrease of Shares	The remuneration during the Reporting Period (RMB'000)
Rong Guangdao	Chairman and President	M	52	2005/6/28	2008/6/28	3,600	3,600	-	544
Du Chongjun	Vice Chairman and Vice President	M	53	2005/6/28	2008/6/28	1,000	1,000	-	544
Han Zhihao	Director and Chief Financial Officer	M	56	2005/6/28	2008/6/28	0	0	-	466
Shi Wei	Director and Vice President	M	48	2005/6/28	2008/6/28	0	0	-	466
Li Honggen	Director and Vice President	M	51	2006/6/15	2008/6/28	0	0	-	440
Dai Jinbao	Director	M	51	2006/6/15	2008/6/28	0	0	-	219
Lei Dianwu	External Director	M	45	2005/6/28	2008/6/28	0	0	-	0
Xiang Hanyin	External Director	M	53	2005/6/28	2008/6/28	0	0	-	0
Chen Xinyuan	Independent Director	M	43	2005/6/28	2008/6/28	0	0	-	80
Sun Chiping	Independent Director	M	49	2005/6/28	2008/6/28	0	0	-	80
Jiang Zhiquan	Independent Director	M	57	2005/6/28	2008/6/28	0	0	-	80
Zhou Yunnong	Independent Director	M	65	2005/6/28	2008/6/28	0	0	-	80
Gao Jinping	Chairman of the Supervisory Committee	M	41	2006/6/15	2008/6/28	0	0	-	458
Zhang Chenghua	Supervisor	M	52	2005/6/28	2008/6/28	0	0	-	233
Wang Yanjun	Supervisor	F	47	2005/6/28	2008/6/28	0	0	-	217
Lu Xiangyang	External Supervisor	M	56	2005/6/28	2008/6/28	0	0	-	0
Geng Limin	External Supervisor	M	53	2005/6/28	2008/6/28	0	0	-	0
Liu Xiangdong	Independent Supervisor	M	56	2005/6/28	2008/6/28	0	0	-	0
Yin Yongli	Independent Supervisor	M	68	2005/6/28	2008/6/28	0	0	-	0
Zhang Jianping	Vice President	M	45	2005/6/28	2008/6/28	0	0	-	465
Tang Chengjian	Vice President	M	52	2005/6/28	2008/6/28	0	0	-	459
Zhang Jingming	Company Secretary and Corporate Counsellor	M	50	2005/6/28	2008/6/28	0	0	-	289
Total									5,120

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



Major work experiences of Directors, Supervisors and Senior Management:

Directors

Rong Guangdao, 52, is Chairman, President and Deputy Secretary of the Communist Party Committee of the Company. Mr. Rong joined the Shanghai Petrochemical Complex (the "Complex") in 1973 and has held various positions, including Deputy Director of the No.1 Chemical Plant and Deputy Director and Director of the Ethylene Plant. In April 1994 he was appointed Vice President of the Company, and in June 1995 he was elected Director of the Company. In October 2003, Mr. Rong was appointed President of the Company. In May 2004, Mr. Rong was elected Chairman of the China Jinshan Associated Trading Corporation. In June 2004, Mr. Rong was elected as Vice Chairman of the Company. In April 2005, Mr. Rong was elected as Deputy Secretary of the Communist Party Committee. In June 2005, Mr. Rong was elected as Chairman of the Company. In November 2006, Mr. Rong was appointed Director and Vice Chairman of Shanghai Secco Petrochemical Company Limited ("Shanghai Secco"). Mr. Rong has rich experience in management of large-scale petrochemical enterprise operations. In 1985 Mr. Rong graduated from the Automated Instrument Department of the Shanghai Petrochemical College for Workers and Staff Members. In 1997 he obtained an MBA from China Europe International Business School. He is a senior engineer by professional title.

Du Chongjun, 53, is Secretary of the Communist Party Committee, Vice Chairman and Vice President of the Company. He joined the Complex in 1974 and has held various positions, including General Manager, Deputy Secretary and Secretary of the Communist Party Committee of the Acrylic Fibre Plant of the Complex, General Manager and Secretary of the Communist Party Committee of Shanghai Jinyang Acrylic Fibre Plant and General Manager of the Acrylic Fibre Division of the Company. In May 1999 he was appointed Deputy Secretary of the Communist Party Committee and Secretary of the Communist Party Discipline Supervisory Committee. From June 1999 to June 2004 he was Chairman of the Supervisory Committee of the Company. In October 2003 he was appointed Secretary of the Communist Party Committee of the Company. In June 2004, Mr. Du was appointed Vice Chairman of the Company. In June 2005, Mr. Du was appointed Vice President of the Company. Mr. Du has extensive experience in large-scale enterprise operation, management and internal supervision. Mr. Du graduated, majoring in enterprise management, from East China Institute of Chemical Technology in 1986. In 1999 Mr. Du graduated, majoring in computer application management, from Shanghai Second Polytechnic University. He is a senior economist by professional title.

Han Zhihao, 56, is Executive Director and Chief Financial Officer of the Company. Mr. Han joined the Complex in 1976 and has held various positions including Deputy Director of the Vehicle Transportation Department, Deputy Director and Director of the Finance Department of the Complex, Director of the Finance Department and Deputy Chief Accountant of the Company. In 1998, he was appointed Chief Accountant of the Company. In October 2003, he was appointed Chief Financial Officer of the Company. In June 2004, he was elected Director of the Company. Mr. Han has rich experience in corporate finance and financial management. He graduated from Shanghai University of Finance and Economics majoring in financing and accounting in 1990. In 2002, he obtained an MBA from East China University of Science and Technology - University of Canberra in Australia. Mr. Han is a senior accountant by professional title.

Shi Wei, 48, is Executive Director and Vice President of the Company. Mr. Shi joined the Complex in 1982 and has held various positions including Assistant to the Manager and then Deputy Manager of the Refining and Chemical Division of the Company, and Manager of the Environmental Department. In April 2001, he was appointed Secretary of the Communist Party Committee and then Manager of the Refining and Chemical Division in July 2002. In October 2003, Mr. Shi was appointed Vice President of the Company. In June 2005, he was appointed Director of the Company. In 1982, Mr. Shi graduated from East China University of Science and Technology majoring in oil refining engineering and obtained a bachelor's degree in engineering. Mr. Shi completed the post-graduate studies in Business Management at East China University of Science and Technology in 1998. Mr. Shi is a senior engineer by professional title.

Li Honggen, 51 is Executive Director and Vice President of the Company. Mr. Li joined the Complex in 1973 and has held various positions including Deputy Director of No. 1 Chemical Plant of the Company, Deputy Director and Director of the Ethylene Plant of the Company and Deputy Manager and Manager of the Refining and Chemical Division of the Company. In August 2000, he was appointed Vice President of Shanghai Chemical Industrial Park Development Company Limited. In August 2002, he was appointed Vice President of Shanghai Secco. In March 2006, he was appointed Vice President of the Company. In June 2006, he was appointed Director of the Company. Mr. Li graduated from East China Institute of Chemical Technology majoring in engineering management and completed a post-graduate course majoring in engineering management at East China University of Science and Technology in 1998. He is an engineer by professional title.

Dai Jinbao, 51, is Executive Director of the Company, Deputy Secretary of the Communist Party Committee of the Company's Refining and Chemical Division and Chairman of the Labor Union. Mr. Dai joined the Complex in November 1973 and was Deputy Director of No. 1 Chemical Plant of the Company. In December 1997, he was appointed Director of No.1 ethylene Complex of the Refining and Chemical Division of the Company. In May 2003, he was appointed Chairman of the Labor Union of the Company's Refining and Chemical Division. In August 2005, he was appointed Deputy Secretary of the Communist Party Committee of the Company's Refining and Chemical Division. In June 2006, he was appointed Director of the Company. Mr. Dai graduated form the Shanghai Second Polytechnic University majoring in business management. Mr. Dai is an engineer by professional title.

Lei Dianwu, 45, is Director of Development and Planning Division of Sinopec Corp. In June 2005, Mr. Lei was elected External Director of the Company. Mr. Lei has held various positions including Deputy Director of Planning Division of Yangzi Petrochemical Company, Director of the Preparation Office of the Joint Venture of Yangzi Petrochemical Company, Vice President and Manager of production division of Yangzi BASF Stylene Company Limited. He acted as Deputy Manager and Deputy Director of the Joint Venture Office at Yangzi Petrochemical Company, Director of Project Development Department in China Dong Lian Petrochemical Limited Liabilities Company (中國東聯石化有限責任公司), Deputy General Manager of Yangzi Petrochemical Limited Liabilities Company and Deputy Director of Development and Planning Division of Sinopec Corp. In March 2001, he assumed the current position of Director of Development and Planning Division of Sinopec Corp. Mr. Lei has rich experience in enterprise planning and investment development management. Mr. Lei graduated from the East China Petroleum Institute with a major in basic organic chemicals and obtained a bachelor's degree in engineering. He is a senior engineer by professional title.

Xiang Hanyin, 53, is Deputy Director of Chemical Division of Sinopec Corp. In June 2005, Mr. Xiang was elected External Director of the Company. Mr. Xiang commenced work in February 1982 and was Deputy Director of the Chemical Plant of Yizheng Chemical Fibre Company and Director of Chemical Plant of Yizheng Chemical Fibre Co., Ltd. In February 2000, he assumed the current position of Deputy Director of Chemical Division of Sinopec Corp. Mr. Xiang has rich experience in management of chemical enterprise operating. Mr. Xiang graduated from Nanjing Chemical College with a major in basic organic chemicals and a bachelor's degree in engineering in 1982. In 2000, he completed post-graduate studies in enterprise management at Nanjing University. He is a senior engineer by professional title.

Chen Xinyuan, 43, currently Dean, Professor and Tutor to doctoral students of the College of Accounting, Shanghai University of Finance and Economics, and was elected as an Independent Director of the Company in June 2003. Between June 2000 and June 2003 he was an Independent Supervisor of the Company. After graduation from the Accounting Faculty, Hangzhou College of Commerce in July 1985, Mr. Chen undertook post-graduate studies at the Accounting Faculty of Shanghai University of Finance and Economics and continued as a lecturer. He commenced his doctoral studies in accounting while teaching and received his doctorate in June 1994. He has been a tutor to doctoral students since December 1998. Mr. Chen has also studied in West Germany for one year. He is an expert in financial reporting and accounting, given his experience in the academic aspects of accounting and notable achievements in accounting research. He is also experienced in business management.

Sun Chiping, 49, is President and Secretary of the Communist Party Committee of the Industrial and Commercial Bank of China, Shanghai Branch. In June 2005, Mr. Sun was elected Independent Director of the Company. Mr. Sun started to be involved in the finance industry in March 1979 and has held various positions including accountant, team leader and Deputy Director of the People's Bank of China, Shanghai Branch, sub-branch in both Huang Pu and Jing an Districts. He joined the ICBC, Shanghai Branch, operating division and was Deputy Secretary of the Communist Party Committee and Secretary of the Communist Party Discipline Supervisory Committee. He also acted as Deputy Director, President and Deputy Secretary of the Communist Party Committee of ICBC, Shanghai Branch, Rep. Office (Sub-branch) in Xu Hui District, General Manager of International Business Division of ICBC, Shanghai Branch, Assistant to the President of the ICBC, Shanghai Branch and concurrently General Manager of International Business Division of ICBC, Shanghai Branch and Deputy President of ICBC, Shanghai Branch. In November 2000, he became Deputy President, President and Secretary of the Communist Party Committee of ICBC, Guangdong Branch. In August 2002, he assumed the current position as President of ICBC, Shanghai Branch and Secretary of the Communist Party Committee. Mr. Sun graduated from Shanghai University of Finance and Economics with a major in Finance. He studied for a master degree at Shanghai University of Finance and Economics and the Shanghai-Hong Kong Management School jointly organized by University of Hong Kong and Fudan University and obtained a Master in Economics and an MBA. Mr. Sun has been engaged in the management of banking business for many years and has extensive experience in finance practice. He is a senior economist by professional title.

Jiang Zhiquan, 57, is Secretary of the Communist Party Committee and Chairman of Shanghai Construction (Group) General Company. In June 2005, Mr. Jiang was elected Independent Director of the Company. Mr. Jiang started work in December 1968, and has held various positions including a cadre and Deputy Director of Shanghai Construction and Industry Bureau, Manager of the Fourth Construction Company of Shanghai, Deputy Secretary of the Communist Party Committee (executive) of Shanghai Construction Engineering Administration Bureau, Deputy Secretary of the Communist Party Committee (executive), Vice Chairman and General Manager of Shanghai Construction (Group). In March 2001, he assumed the current positions as Secretary of the Communist Party Committee and Chairman of Shanghai Construction (Group) General Company. Mr. Jiang is experienced in operational decision making and large-scale enterprise management. Mr. Jiang graduated from the Shanghai-Hong Kong Management School jointly run by University of Hong Kong and Fudan University in July 2000 and obtained an MBA. He is a senior economist by professional title.

Zhou Yunnong, 65, has been an Independent Director of the Company since June 2005. He joined the Complex in October 1972 and has held various positions including Deputy President of the Complex, Deputy Director of the Human Resource Department of China Petrochemical Corporation, Deputy Secretary of Communist Party Committee of the Complex, Vice President of the Company, Secretary of the Communist Party Committee of Sinopec Jinshan Industrial Company and the Governor of Jinshan District of Shanghai. From November 1999 to April 2002 he was a Senior Advisor to Shanghai Jinshan District. From June 2003 to June 2005, Mr. Zhou was appointed Independent Supervisor of the Company. Mr. Zhou has extensive experience in business management and public administration management. Mr. Zhou graduated from East China Normal University in August 1964, majoring in radio. He is a senior engineer by professional title.

Supervisors:

Gao Jinping, 41, is Chairman of the Supervisory Committee, Deputy Secretary of the Communist Party Committee, Secretary of the Communist Party Discipline Supervisory Committee of the Company and Chairman of the Labor Union of the Company. Mr. Gao joined the Complex in 1990 and has held various positions including Deputy Secretary of the Communist Youth League of the Complex, Deputy Secretary of the Communist Party Committee of the Experimental Plant and Chemical Division of the Company. In October 2001, Mr. Gao was elected as Director of the Propaganda Division of the Company. In May 2003, Mr. Gao was appointed Deputy Secretary of the Communist Party Committee of the Company and Chairman of the Labor Union of the Company. In June 2004, Mr. Gao was elected Director of the Company. In April 2006, Mr. Gao was appointed Secretary of the Communist Party Discipline Supervisory Committee of the Company. In June 2006, Mr. Gao was appointed Chairman of the Supervisory Committee of the Company. Mr. Gao graduated from the Food Processing Faculty of Shanghai Aquatic Products University with a major in cooling and cold storage technology and obtained a bachelor’s degree in engineering in July 1990. In 2001, he completed his post-graduate studies in business administration in the aspect of industrial economics at Shanghai Academy of Social Sciences. He has senior professional title.

Zhang Chenghua, 52, is a Supervisor, Deputy Secretary of the Communist Party Discipline Supervisory Committee, Director of Supervisory Office, Director of Supervisory Committee Office and Director of the Communist Party Committee Office of the Company. Mr. Zhang joined the Complex in 1974 and worked in the Thermal Power Plant of the Complex as Deputy Secretary of the Communist Party Committee, Deputy Secretary of the Communist Party Committee cum Chairman of Labor Union of the Thermal Power Plant of the Complex. In December 1999, Mr. Zhang was appointed Deputy Secretary of the Communist Party Committee, Secretary of the Communist Party Discipline Supervisory Committee and Chairman of Labor Union of the Thermal Power Plant of the Complex. In March 2002, Mr. Zhang was appointed Deputy Secretary of the Communist Party Discipline Supervisory Committee and Director of Supervisory Division of the Company. In April 2002, Mr. Zhang was appointed Director of Supervisory Committee Office of the Company. In June 2002, Mr. Zhang was appointed Supervisor of the Company. In April 2004, Mr. Zhang was appointed Director of the Communist Party Committee Office. Mr. Zhang graduated, majoring in party administrative management, from Shanghai Party Institute in January 1999. In 2001, he completed his post-graduate studies in business administration in the aspect of industrial economics at Shanghai Academy of Social Sciences. He has senior professional title.

Wang Yanjun, 47, is a Supervisor and Vice Chairwoman of the Labor Union of the Company. Ms. Wang joined the Complex in July 1982 and was Chairwoman of the Labor Union of the Plastics Plant of the Company. In January 1999, Ms. Wang was appointed Chairwoman of the Labor Union of Plastics Division of the Company. In June 2002, Ms. Wang was Chairwoman of the Labor Union of Chemical Division of the Company. In July 2004, Ms. Wang was appointed Deputy Secretary of the Communist Party Committee, Secretary of Communist Party Discipline Supervisory Committee of the Communist Party Committee and Chairwoman of the Labor Union of Chemical Division of the Company. In January 2005, Ms. Wang was appointed Vice Chairwoman of the Labor Union of the Company. In June 2005, Ms. Wang was appointed Supervisor of the Company. Ms. Wang graduated from East China University of Science and Technology majoring in basic organic chemistry in July 1982. In 2001, she completed her post-graduate studies in business administration in the aspect of industrial economics at Shanghai Academy of Social Sciences. She has senior professional technical qualifications.

Lu Xiangyang, 56, is Deputy Director of the Auditing Bureau of China Petrochemical Corporation and Deputy Director of Auditing Department of Sinopec Corp.. He was appointed External Supervisor of the Company in June 2002. Mr. Lu commenced work in 1970 and has held various positions including Deputy Director, Director of the Financial Department of Qianguo Refinery, Deputy Director of the Production Auditing Division of the Auditing Department of China Petrochemical Corporation, Director of the Production Auditing Division of the Auditing Department of the Sinopec Huaxia Auditing Company and Deputy Manager of the Sinopec Huaxia Auditing Company. He was appointed Deputy Director of the Auditing Bureau of China Petrochemical Corporation and Deputy Director of the Auditing Department of Sinopec Corp. in June 1997. Since March 2006, Mr. Lu holds concurrently the post of the director of auditing of Sinopec Group's Asset Management Company. Mr. Lu graduated from Xi'an College of Petroleum Industry in 1985, with a major in industrial enterprise accounting. He is an accountant with many years of management experience in finance and auditing.

Geng Limin, 53, is Deputy Secretary of the Communist Party Committee, Secretary of the Disciplinary Committee and Chairman of the Labour Union of the Chemical Sales Branch of Sinopec Corp. In June 2002, Mr. Geng was appointed External Supervisor of the Company. Mr. Geng commenced work in 1971 and has held various positions including Deputy Director of Enterprise Carders Division of Human Resources and Education Department of China Petrochemical Corporation and Director of Business Carders Division of Human Resources and Education Department of China Petrochemical Corporation, deputy Director of the Supervisory Bureau of China Petrochemical Corporation and Deputy Director of the Supervisory Division of Sinopec Corp. Since January 2007, Mr. Geng has been Deputy Secretary of the Communist Party Committee, Secretary of the Disciplinary Committee and Chairman of the Labour Union of the Chemical Sales Branch of Sinopec Corp. Mr. Geng has been working on staff management and disciplinary supervision for years, with extensive practical and performance supervision experience. Mr. Geng graduated from Daqing College for workers and staff members with a major in English in 1981. He graduated from the law faculty of Beijing Ren Wen Correspondence University in 1987 and is an interpreter.

Liu Xiangdong, 56, is President of Zhengda International Finance Corporation. He was elected as an Independent Supervisor of the Company in June 2000. Mr. Liu has held various positions including Planning and Credit Officer and Deputy Head and Head of the Credit Division of banks. He has also been Deputy Director and Director of the Planning Department of the Industrial and Commercial Bank of China, Shanghai Branch, Chief Economist and Director of the Planning Division of the Industrial and Commercial Bank of China, Shanghai Branch. He has been Deputy Director of the Industrial and Commercial Bank of China, Shanghai Branch since October 1997. He was appointed General Manager of Investment Division of the Industrial and Commercial Bank of China in June 2002. Mr. Liu has been working in the banking sector for many years and has abundant experience in business management practices. He holds a master's degree in economics and is a senior economist.

Yin Yongli, 68, is Chairman of Management Committee of Tianhua Certified Public Accountant. In June 2005, he was appointed Independent Supervisor of the Company. Mr. Yin has held various positions including Deputy Chief and Chief of finance section of Shandong Shengli Refinery, Deputy Chief Accountant of Qilu Petrochemical Company, Chief Accountant of Planning and Financing Department of China Petrochemical Corporation and Chief Accountant and Deputy Director of Financing Department of China Petrochemical Corporation and Director of Shihua Auditing Firm. In September 2001, he was Chairman of China Rightson Certified Public Accountants. Since June 2004, Mr. Yin has been appointed Chairman of Huazheng Certified Public Accountant. Since June 2005, Mr. Yin has been Chairman of Management Committee of Tianhua Certified Public Accountant. Mr. Yin has engaged in financing and auditing for many years and has rich experience in financing management and enterprise auditing. Mr. Yin graduated from Shandong Institute of Finance and Economics in 1964. Mr. Yin is a professional accountant and is a certified accountant.

Senior Management:

Zhang Jianping, 45, is Vice President of the Company. Mr. Zhang joined the Complex in 1987 and has held various positions including Deputy Chief Engineer of the Aromatics Plant of the Refining and Chemical Division, Deputy Director of the Plastics Plant, Deputy Manager of Plastic Division of the Company and Director of the Petrochemical Research Institute. In April 2001, he was appointed Director of the Production Department of the Company. In February 2002, Mr. Zhang became Assistant to President of the Company and Director of the Production Department. In July 2004, Mr. Zhang was appointed Vice President of the Company. Mr. Zhang graduated in 1984 from East China Institute of Chemical Technology specializing in petroleum refinery. He obtained a master's degree in 1987 from East China Institute of Chemical Technology specializing in oil processing. He is a senior engineer.

Tang Chengjian, 52, is Vice President of the Company. Mr. Tang joined the Complex in 1974 and has held various positions including Deputy Secretary of the Communist Party Committee, Chairman of the Labor Union and Deputy Director of the Thermal Power Plant of the Complex, Deputy Director of the Thermal Power Plant of the Company, Director of the Thermal Power Plant of the Company's General Thermal Power Plant and Deputy Director of the Company's General Thermal Power Plant. In January 1998, Mr. Tang was appointed Director of the Company's General Thermal Power Plant. In July 2004, Mr. Tang was appointed Vice President of the Company. Mr. Tang graduated from the Shanghai Electric Power College specializing in steam turbine in 1974 and graduated from Shanghai Electric Power Institute with a major in power plant and electrical system in 1986. In 1991, Mr. Tang graduated from the Shanghai Second Polytechnic University majoring in management engineering. In 2001, he obtained an MBA degree from the China Europe International Business School. He is an engineer.

Zhang Jingming, 50, is Secretary to the Board of directors and General Counsel in-house of the Company. Mr. Zhang joined the Complex in 1978. He has held various positions including Project Manager of the International Department, the Company's Securities Affairs Representative in Hong Kong, Deputy Director of the International Department and Deputy Director of the Board Secretariat. In June 1999, Mr. Zhang was appointed Secretary to the Board and Director of the Board Secretariat. In June 2001, Mr. Zhang was appointed Director of Strategy Research Department of the Company. In January 2005, Mr. Zhang was appointed General Counsel in-house of the Company. Mr. Zhang graduated from the Shanghai Foreign Language Institute in 1987. During 1992 and 1993, he enrolled at the fourth Sino-British joint research MBA program at Northwestern Polytechnic University. Mr. Zhang subsequently left for the University of Hull in the United Kingdom to pursue his studies in an MBA program, and in July 1995, he was conferred an MBA by the University of Hull. In 2002, Mr. Zhang completed his studies in a research master program in international economic law at East China University of Politics and Law. He is a senior economist by professional title.

Management Positions Held at the Company's Shareholders

Name	Shareholder's name	Position held	Commencement of Service term	End of Service term	Salary and allowance received (yes or no)
Lei Dianwu	Sinopec Corp.	Director of Development and Planning Division	May 2006	May 2009	yes
Xiang Hanyin	Sinopec Corp.	Deputy Director of Chemical Division	May 2006	May 2009	yes
Geng Limin	Sinopec Corp.	Deputy Secretary of the Communist Party Committee, Secretary of the Disciplinary Committee and Chairman of the Labour Union of the Chemical Sales Branch	January 2007	-	yes
Lu Xiangyang	Sinopec Corp.	Deputy Director of Audit Department	May 2006	May 2009	yes

Management Positions Held at the other company

Other than the information as set out in section (1) "Directors, Supervisors and Senior Management", no Director, Supervisor and Senior Management held any position in other company during the Reporting Period.

Remuneration of Directors, Supervisors and Senior Management

1. Procedures of determining remuneration of directors, supervisors and senior management:

   Relevant proposals on remuneration of the directors are put forward by the Remuneration and Appraisal Committee to the Board taking into account the performance of the directors and with reference to the general standards of other listed companies in the sector. The proposals are confirmed upon consideration and approval by the Board and general meeting.

   Relevant proposals on remuneration of the supervisors are put forward by the Supervisory Committee to the Board taking into account the performance of the supervisors and with reference to the general standards of other listed companies in the sector. The proposals are confirmed upon consideration approval by the Board and general meeting. The Remuneration and Appraisal Committee appraises the performance of senior management personnel of the Company each year. It determines appraisal yardsticks in accordance with the job responsibilities of senior management personnel, and determines their remuneration according to the appraisal results.

The implementation plan on remuneration of the directors, supervisors and senior management will be approved by the Board and be proposed to the shareholders general meeting for approval.

For details of remuneration of directors, supervisors and senior management, please refer to note 10 of notes to the financial statement prepared under IFRS.

For the two financial years ended 31 December 2006 and 2007, the Company has not entered into any arrangement pursuant to which a director of the Company has waived or agreed to waive any of his emoluments.

2. Remuneration of directors, supervisors and senior management is determined by the principles of "efficiency, motivation and fairness" and approved in accordance with "Remuneration System for Directors, Supervisors and Senior Management".

3. Directors and supervisors not receiving salary and allowance from the Company

Names of directors and supervisors not receiving salary and allowance from the Company	Salary and allowance received from shareholders or other connected entities
Lei Dianwu	yes
Xiang Hanyin	yes
Lu Xiangyang	yes
Geng Limin	yes
Liu Xiangdong	no
Yin Yongli	no

4. The five highest paid individuals

Please refer to note 10 of notes to the financial statement prepared under IFRS.

5. Pension scheme

Please refer to notes 10, 29(f) and 30 of notes to the financial statement prepared under IFRS.

6. Staff remuneration

Remuneration packages of the Company's employees include salary, bonus and allowances, together with medical insurance coverage, pension and other benefits. In accordance with the relevant regulations of the PRC, the Company also participates in the social security scheme implemented by the relevant authority. Pursuant to the scheme, the Company contributes to the scheme by a proportion of the monthly salary of the staff.

Change of Directors, Supervisors and Senior Management

During the Reporting Period, no director, supervisor or member of senior management of the Company resigned.

Interests and Short Positions of Directors, Supervisors and Senior Management in Shares, Underlying Shares and Debentures

Other than the shares held by the Company's directors, supervisors and senior management as set out in paragraph 5.1 above as at 31 December 2007, 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 SFO (Chapter 571 of the Laws of Hong Kong)) 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 Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies set out under Appendix 10 of the Listing Rules.

As at 31 December 2007, 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.

Directors' and Supervisors' interests in Contract

None of the directors or supervisors of the Company had any direct or indirect beneficial interests in any contracts of significance entered into or subsisting during the year to which the Company or any of its associated corporations.

No director or supervisor of the Company has entered into any service contracts with the Company which is not terminable by the Company within one year without payment of compensation other than statutory compensation.

Model Code for Securities Transactions

The Company has adopted and applied the Model Code for Securities Transactions to regulate securities transactions of the directors and supervisors. After making specific queries with all directors and supervisors and obtaining written confirmations from each director and supervisor, the Company has not identified any director or supervisor who did not fully comply with the Model Code for Securities Transactions during the Reporting Period.

Employees

As at 31 December 2007, the Company and its subsidiaries (the "Group") had 19,252 employees in total. Among them, there were 11,067 production staff, 6,769 sales representatives, financial personnel and other personnel and 1,416 administrative staff. There were 30.10% of the employees who had tertiary qualifications or above. The Group is responsible for the retirement insurance for 11,921 people.

Current Status of Corporate Governance in the Company

The Company has strictly complied with the regulatory documents such as the Company Law, Securities Law and Corporate Governance Principles for Listed Companies and Guidelines for Establishing the Independent Directors System for Listed Companies issued by the China Securities Regulatory Commission ("CSRC"), as well as the relevant requirements of the Shanghai Stock Exchange, The Stock Exchange of Hong Kong Limited and the New York Stock Exchange. It continuously enhances and revamps the Company's system and management, improves the corporate governance structure, strengthens the formulation of the Company's system and enhances the overall image of the Company.

During the Reporting Period, pursuant to the requirements of CSRC's Notice on the "Relevant Matters Regarding the Special Project on Enhancing the Corporate Governance of Listed Companies" (Zeng Jian Gong Si Zi [2007] Document No.27) and CSRC Shanghai Regulatory Bureau's (Shanghai Regulatory Bureau) Notice on "Pushing Forward the Special Project on Corporate Governance of Listed Companies" under the Jurisdiction of Shanghai (Hu Zeng Jian Gong Si Zi [2007] No.39), the Company established the corporate governance matters task force with the Chairman as the head, Director and Chief Financial Officer as the deputy head and the independent directors, Supervisors and the relevant department heads as members, and initiated corporate governance enhancement activities between April and October 2007. On 12 July 2007, the "Self-evaluation Report and Rectification Plan for the Special Project on Corporate Governance of Sinopec Shanghai Petrochemical Company Limited" was approved at the twenty-first meeting of the fifth session of the Board, with evaluations by investors and the general public and specific inspection by Shanghai Regulatory Bureau on the Company's corporate governance work conducted in the subsequent two months.

Regarding the issues of not yet starting the second share reform procedure after the Company's first share reform proposal was rejected and failing to complete the compilation of the "Work Rules for the General Manager" and the "Work System for the Independent Directors" as noted by Shanghai Regulatory Bureau's "Notice on the Adjustment of Corporate Governance Matters of Sinopec Shanghai Petrochemical Company Limited", the Company has devised the corresponding rectification measures and implemented such rectifications with reference to the Company's self-evaluation results. Firstly, the Company actively communicated with the shareholders of non-circulating shares and urged the controlling shareholder Sinopec Corp. to initiate the second share reform plan on 3 December 2007. Secondly, the "Work Rules for the General Manager", the "Work System for the Independent Directors" and the "Work System for Investor Relations" were considered and approved at the twenty-forth meeting of the fifth session of the Board. Besides the aforementioned, the Company also completed the amendment to the Articles of Association and the "Management System for Information Disclosure" during the Reporting Period.

Through specific corporate governance activities and the amendment of documents such as the Articles of Association, the Company has further enhanced the relevant systems and the corporate governance standards. The Company's Directors, Supervisors and senior management have obtained new understandings on the importance and necessity of establishing a governance system, whereas the Company's internal system has also become healthier and more regulated. Under the guidance of the regulatory authorities, the Company will operate in strict compliance with the relevant laws and regulations and will further strengthen the establishment of regulated and systematic corporate governance, so as to ensure a lawful, healthy and sustained development of the Company.

Performance of duties by the Company's independent directors

During the Reporting Period, the independent directors of the Company fully utilized their own working experience and professional expertise to discharge their duties as independent directors in a conscientious and responsible manner. At the shareholders' meeting and Board meetings, the Company's independent directors discussed and considered the resolutions in respect of the 2006 annual report, the 2007 interim report, quarterly reports, the profit appropriation plan and gave independent opinions on major matters such as appointments of senior management and connected transactions. The independent directors have fulfilled their duties in an independent, trustworthy and diligent manner to effectively safeguard the interests of shareholders, in particular minority shareholders, in accordance with the authority conferred on them as stipulated by the relevant laws and regulations and the Articles of Association.

1. Attendance at meetings of the Board by independent directors:

Name of independent director	Attendance at meetings of the Board during the year	Attendance in person (no. of times)	Attendance by proxy (no. of times)	Absence (no. of times)
Chen Xinyuan	10	10	0	0
Sun Chiping	10	9	1	0
Jiang Zhiquan	10	10	0	0
Zhou Yunnong	10	10	0	0

2. Disagreement from independent directors on the relevant issues of the Company

   During the Reporting Period, none of the independent directors of the Company had disagreement on any board resolutions or other issues of the year.

The independency of the Company's business, staff members, assets, organizations, finance as vis-a-vis the controlling shareholder

1. Business: The listed company and the controlling shareholder are separate in respect of business. The listed company is independently engaged in businesses within the scope of operation authorized under the "Enterprise Legal Person Business Licence" and its business is independent in its entirety with autonomous operation ability.

2. Staff members: The listed company and the controlling shareholder are separate in respect of staff members. The Company is completely independent from the controlling shareholder in the management of labor, human resources and salary, and the Company's senior management do not hold any positions in the controlling shareholder.

3. Assets: The listed company and the controlling shareholder are separate in respect of assets. The Company owns independent property rights in their entirety in respect of the properties, facilities, equipment and intangible assets such as the trademarks used in the course of production and operation. Such assets can be used in entirety in the course of the Company's production and operation activities.

4. Organization: The listed company and the controlling shareholder are separate in respect of organization. No workplace is shared between the listed company and the controlling shareholder. The Company has set up institutions such as the shareholders' meeting, the Board of Directors and the Supervisory Committee, as well as an independent internal structure, pursuant to the stipulations of laws, regulations, regulatory documents and the Articles of Association. All departments have clearly defined duties and responsibilities in good coordination, and are independently exercising their operation and management authorities.

5. Finance: The listed company and the controlling shareholder are separate in respect of finance, with an independent finance and accounting department and independent accounting and auditing systems and financial management system, as well as conducting audits and making financial decisions independently. The Company owns independent bank accounts and tax registration accounts and pays tax independently according to the law.

Appraisal and reward mechanisms for senior management staff members

The remuneration system for senior management of the Company was considered and approved at the 2002 Annual General Meeting on 18 June 2003. In 2007, the Company continued to adopt the remuneration system for appraising and rewarding the Company's senior management staff.

The establishment and situation of the Company's internal control system

The Company has established and implemented a full internal control system which covers aspects such as production, operation, financial, investment, human resources and information disclosure. In order to effectively prevent operation management risks and financial management risks and to ensure the truthfulness of accounting information, the Company compiled the "Internal Control Manual" which was fully implemented in 2005 after a year of trial in 2004. Amendments are made to the manual annually in accordance with the domestic and overseas regulatory requirements, the needs of the corporate management and the internal control inspection recommendations made by external auditors. The 2007 edition of "Internal Control Manual" comprises 53 operation procedures in 15 categories and sets out 1,194 control points and 178 authorization control indicators. The scope of control covers the major areas of the Company's production, operation and development, such as financial management, accounting and auditing, procurement, product sales, capital expenditure, human resources and information management.

The Company set up an internal control task force with the President and the Chief Financial Officer as its chief and deputy chief, respectively. As the leading organ of the Company's overall internal control system, the task force is mainly responsible for approving annual amendments to the "Internal Control Manual" and making relevant updates accordingly; reviewing the annual assessment report on internal control; handling and rectifying issues identified during an internal control review; and referring major issues to the Board for review and approval. The internal control task force has an internal control office, which is the department in charge of internal control inspection and supervision. The office submits regular reports on internal control inspection and supervision to the Audit Committee of the Board.

The Board's self-assessment report on the Company's internal control

For the details, please refer to the appendix of the annual report.

The Company is committed to improving its corporate governance standards by implementing stringent corporate governance measures and enhancing accountability and transparency, with a view to bringing higher return for the shareholders. It is the Company's belief that adopting a good corporate governance system and a world-class governance model is essential for the development of the Company into a competitive international petrochemical enterprise.

Code of Corporate Governance

For 2007, the Group complied with all the principles and provisions set out in the Code of Corporate Governance Practices (the "Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), except for the following deviation:

Code provision A.2.1: Roles of chairman and chief executive officer should be separate; responsibilities of chairman and chief executive officer should be clearly established and set out in writing.

Deviation: Mr. Rong Guangdao is the chairman and president of the Company.

Reason: Mr. Rong Guangdao has extensive experience in large-scale petrochemical production and management. Mr. Rong is the most suitable candidate to serve the positions of the chairman and the president for the Company. For the time being, the Company is unable to identify another person who possesses better or similar abilities and talent as Mr. Rong to serve each of the positions.

Set out below are the corresponding practices of the Company in relation to the relevant Code requirements for the reference of the shareholders.

A. Directors

A.1 The board of directors (the "Board")

The Board of the Company shall meet at least once per quarter. In 2007, ten Board meetings were held, all of which were conducted by the 5th Board. For details of attendance of the directors, please refer to the attendance record set out in page 34. Before each Board meeting, the secretary to the Board will consult each director for matters to be tabled to the relevant meeting. Any matters so raised by the directors will be included in the agenda of the relevant regular Board meeting. During the year, all notices and draft agenda of all Board meetings were sent to all directors no later than 14 days before the date of the meeting.

All directors maintain communication with the Company Secretary, who is responsible for ensuring compliance of Board procedures and advising the Board on matters concerning corporate governance and regulatory compliance. The Company Secretary has been responsible for preparing and maintaining minutes of Board meetings and meetings of Board committees, and for the delivery of the same to the directors within a reasonable period from the conclusion of the respective meetings. Such minutes have been open for inspection by any director / member of Board committees. Directors have been entitled to seek independent professional advice at the Company's expense.

If a substantial shareholder or a director has a conflict of interest in a material matter, for which a Board meeting should be held, the directors concerned shall abstain from voting and shall not be counted in the quorum present at such Board meeting.

A.2 Chairman and Chief Executive Officer

Chairman of the Company is responsible for providing the directors with all such information concerning the performance of Board duties. The Chairman of the Company is committed to improving the quality and timeliness of the information provided to the director. The Chairman of the Company plays an important role in promoting good corporate governance within the Company. One of the important roles of the Chairman of the Company is to lead the Board, encourage the directors to carry out their duties in a sincere manner with mutual support and close cooperation and make active contribution to the production, operation, reform and development of the Company. The Chairman should be primarily responsible for drawing up and approving the agenda for each Board meeting. Another major responsibility of the Chairman is to develop effective measures to facilitate the development of the Company. Major governance initiatives in 2007 include: fully implement the low-cost strategy and push forward safety and environmental protection work to ensure smooth and effective production operations; accelerate the development of the structural adjustment program and advance technological innovations, thus striving for enhancement of corporate competitiveness; continuously strengthen internal management to further elevate the Company's operational efficiency; continue to carry out reform such as clean-up and shake-up investment at subsidiary level, restructuring and segregation in a pro-active and steady manner; and further strengthen the establishment of team structure and the promulgation of corporate culture, thereby promoting the development of corporate harmony.

A.3 Board composition

The Company discloses the composition of its Board by position (including chairman, executive directors, independent non-executive directors and non-executive directors) in all its publications. The Company has four independent non-executive directors, representing one third of the total number of directors. To allow the shareholders a more thorough understanding about our directors and composition of our Board, the profiles of each Board member and their respective roles and responsibilities are made available on the website of the Company.

A.4 Appointments, re-election and removal

All of the directors of the Company (including non-executive directors) should be appointed for a specific term. According to the Articles of Association of the Company, directors shall be elected by shareholders at a general meeting for a term of three years, and shall be eligible for reelection upon expiry of their terms of office. However, the term of an independent director may not exceed a total of six years. All new directors of the Company shall be subject to approval by shareholders at the first general meeting after their appointment.

A.5 Responsibilities of directors

To ensure his / her understanding of the operations and businesses of the Company, every newly appointed director would receive a comprehensive set of orientation materials after his/her appointment, which would include a briefing on the Group's business, duties and responsibilities of a director, as well as other legal requirements. In addition, all non-executive directors would receive information provided by the management regularly, including strategic plans, business reports and analyses on economic activities, and so forth. As such, the non-executive directors are able to perform their duties effectively. The functions of non-executive directors include the following: participating in board meetings to bring an independent judgement; taking a lead at the Company's Board meeting where potential conflicts of interests arise; serving as members of the Board committees if invited; and scrutinising the Company's performance.

The Company secretary is responsible for ensuring that all directors have received the latest updates required by the Listing Rules and other legal requirements.

A.6 Supply of and access to information

To facilitate the directors to perform their duties more effectively and to make informed decisions, the agenda of all meetings of the Board or Board committees together with all relevant documents will be sent to each Board member three days before the date of the relevant meeting. The directors may have formal or informal meetings with the senior management before any Board meeting. The directors and member of Board committees were entitled to access to papers and minutes of Board / Board committee meetings.

B. Remuneration of Directors and Senior Management

B.1 The level and make-up of remuneration and disclosure

The Company established the Remuneration and Appraisal Committee in 2001, with two-thirds of the members being independent non-executive directors. The exact terms of reference were set out in "Rules of Procedures for the Remuneration and Appraisal Committee of Sinopec Shanghai Petrochemical Company Limited" posted on the website of the Shanghai Stock Exchange (www.sse.com.cn). In March 2003, the Remuneration and Appraisal Committee submitted to the Board proposals on remuneration to the directors, supervisors and senior management of the Company. The proposals were implemented following the approval by shareholders at the general meeting. The Committee could seek advice from independent professionals if required in accordance with the applicable procedures at the expense of the Company.

C. Accountability and Audit

C.1 Financial Reporting

All directors regularly receive from the management comprehensive reports covering strategic proposals, operations update, financial objectives, plans and initiatives. The Board presents a balanced, clear and understandable assessment of the affairs and prospects of the Group in annual and interim reports, other price-sensitive announcements and other financial disclosures required under the Listing Rules.

C.2 Audit Committee

The Company established its audit committee in June 1999. The establishment of the audit committee reflects the commitment of the Company in improving the transparency of its financial reporting system and financial arrangements. The composition and terms of reference of the audit committee were set out in "Rules of Procedures for the Audit Committee of Sinopec Shanghai Petrochemical Company Limited" posted on the website of the Shanghai Stock Exchange (www.sse.com.cn). The committee could seek advice from independent professionals in accordance with the applicable procedures at the expense of the Company.

D. Delegation by the Board

D.1 Management functions

The Board and the management of the Company are subject to clearly defined terms of reference set out in the Articles of Association of the Company.

D.2 Board Committees

Currently the Board of the Company has two committees, namely the Audit Committee and the Remuneration and Appraisal Committee, for which terms of reference have been prescribed. The Board committees reported to the Board after every meeting in respect of their work progress and results of discussion.

E. Communication with Shareholders

E.1 Effective Communication

The Board is committed to maintaining smooth communications with the shareholders. All executive directors, independent non-executive directors and chairmen of the audit committee and remuneration committee attended the 2006 annual general meeting so as to directly communicate with the shareholders.

E.2 Voting by Poll

The Company regularly informs its shareholders on the procedures of voting by way of a poll. The procedure for demanding voting by way of a poll is contained in the notice of annual general meeting and the enclosed circular. Explanation of the relevant procedures is also provided at the annual general meeting. An external auditor is retained as the scruntineer at each general meeting.

Directors' securities transactions

For the directors' securities transactions, the Company has adopted a code of conduct not less exacting than the required standards specified by the Model Code for Securities Transactions regarding the transaction of shares of the Company by the directors. Having made specific enquiries with all directors of the Company, it is confirmed that all directors have complied with the Model Code for Securities Transactions throughout the whole year of 2007.

Board of Directors

(1) Composition of the Board

The Board consists of 12 directors, including six executive directors, two non-executive directors and four independent non-executive directors, among whom there is one Chairman and one Vice Chairman. The personal particulars and terms of offices of the Directors are set out under the section headed "Directors, supervisors and senior management" from page 16 to 23 of this annual report.

In 2007, the Board of the Company held ten meetings. The attendance record of each director is set out below:

Name of director	Position	Number of meetings held in the term of office	Number of attendance in person	% of Attendance
Rong Guangdao	Executive Director and Chairman	10	10	100%
Du Chongjun	Executive Director and Vice Chairman	10	10	100%
Han Zhihao	Executive Director	10	10	100%
Shi Wei	Executive Director	10	9	100% (attendance by proxy: 10%)
Li Honggen	Executive Director	10	10	100%
Dai Jinbao	Executive Director	10	10	100%
Lei Dianwu	Non-executive Director	10	8	100% (attendance by proxy: 20%)
Xiang Hanyin	Non-executive Director	10	9	100% (attendance by proxy: 10%)
Chen Xinyuan	Independent Non-executive Director	10	10	100%
Sun Chiping	Independent Non-executive Director	10	9	100% (attendance by proxy: 10%)
Jiang Zhiquan	Independent Non-executive Director	10	10	100%
Zhou Yunnong	Independent Non-executive Director	10	10	100%

The Company strictly complies with the requirement of Rule A.1.3 of Appendix 14 to the Listing Rules that notices of regular Board meetings of the Company are issued at least 14 days prior to the meetings.

The Company Secretary is responsible for delivering detailed information (including information on each Board committee) in respect of the Board meeting no later than five days before the meeting, so as to ensure that all directors have thoroughly understood the matters to be discussed at the meeting.

For extraordinary Board meetings held by way of correspondence according to the needs of the Company's management, the relevant information is sent to all directors through email and fax, allowing sufficient time for the directors to consider the relevant matters. The Company Secretary gives prompt reply to enquiries raised by the directors and take appropriate actions in order to assist the directors and ensure their compliance with the applicable requirements of the Company Law, the Articles of Association and the Listing Rules.

The minutes of each Board meeting is signed by the attending directors and the recorder and kept for a long period for inspection by the directors when required.

The Company adopts the policy that when there are matters involving material conflict of interests, such as a connected transaction, to be considered at a Board meeting, the connected directors abstain from voting.

(2) Appointment and Dismissal of Directors

The term of office of a director of the Company is three years, renewable upon re-election after expiry. The term of office of an independent non-executive director may not exceed six years. The Company enters into Director's Service Agreement with the director for a term of three years (the term of an appointment to fill a casual vacancy will be less than three years). The appointment and dismissal of directors shall be approved by shareholders at the general meeting. No appointment or dismissal of directors took place in 2007.

(3) Functions of the Board

The Board is primarily responsible for formulating and supervising the strategic development of the Company; determining the objectives, strategies, policies and business plans of the Company; reviewing and monitoring the operation and financial performance; as well as formulating appropriate risk management policies, thereby ensuring the achievement of the Company's strategic objectives.

Subject to the Articles of Association, the Board shall convene at least four regular meetings every year. The convener of the Board meetings shall be responsible for determining the topics to be considered. In practice, the Board convenes a minimum of four meetings each year and ten Board meetings were held during 2007.

(4) Qualifications and Independence of Independent Directors

The four independent non-executive directors of the Company possess extensive experience as well as academic and professional qualifications in management, accounting and finance respectively, ensuring the Board's ability in protecting the interests of shareholders as a whole. During the Reporting Period, independent directors contributed significantly to improving the Company's corporate governance structure and protecting the interest of minority shareholders.

For example, independent non-executive director Mr. Chen Xinyuan currently serves as the Dean, Professor and advisor to doctoral students at the Faculty of Accounting of Shanghai University of Finance & Economics. He is very familiar with financial reporting and accounting, given his years of experience in the academic aspects of accounting and notable achievements in accounting research. He is also experienced in business management. The Company confirms that it has received from each independent director a confirmation of his independence pursuant to Rule 3.13 of the Listing Rules, confirming to the Company annually in respect of his independence. The Company considers all independent directors to be independent.

(5) Measures for Ensuring the Directors' Performance of Duties

All directors of the Company receive a comprehensive set of orientation materials upon appointment. Updates on new laws and regulations and internal publications of the Company are also provided to the directors from time to time. The Company also arranges relevant continuing professional training for the directors, so that they will fully acknowledge their responsibilities under the relevant laws and requirements such as the Listing Rules, as well as the current operations of the Company.

When the directors of the Company were required to express their opinions on the matters of external guarantee, financing and connected transactions of the Company, the Company would appoint a professional in the relevant field, such as an auditor, sponsor or legal adviser to provide independent professional advice, in order to assist the directors in carrying out their duties.

Chairman and Chief Executive Officer

Mr. Rong Guangdao is both the Chairman and President of the Company.

Mr. Rong Guangdao has extensive experience in large-scale petrochemical production and management, and is very familiar with Shanghai's petrochemical industry as well as the operation of the Company. Given his abundant experience, Mr. Rong is the best person to serve as both the Chairman and the President of the Company. For the time being, the Company is unable to identify another person who possesses similar abilities and talent as Mr. Rong to serve one of the two positions.

Board Committees

Two committees were set up under the Board, namely the Remuneration and Appraisal Committee and the Audit Committee. Specific rules of procedures for each committee stipulating its duties and authorities have been laid down. The meetings of these committees are conducted by reference to the procedures of the Board meetings (including requirements on the issue of meeting notice, minutes and records).

(1) Remuneration and Appraisal Committee

A. Role and Functions of the Remuneration and Appraisal Committee

The principal duty of the Remuneration and Appraisal Committee is to formulate and review the remuneration policies and proposals for the directors and senior management, and to stipulate performance appraisal standards of and conduct performance appraisal of the directors and senior management of the Company.

"Rules of Procedures for the Remuneration and Appraisal Committee" have been published on the designated websites for information disclosure of the Company.

B. Members of the Remuneration and Appraisal Committee

The Committee comprises three directors, among whom two are independent non-executive directors and one is executive director.

Chairman: Zhou Yunnong, Independent Non-executive Director

Members: Chen Xinyuan, Independent Non-executive Director and Dai Jinbao, Executive Director

C. Meetings of the Remuneration and Appraisal Committee

The Remuneration and Appraisal Committee convenes at least one meeting each year. In 2007, the Committee convened one meeting with attendance as follows:

Members of Remuneration and Appraisal Committee	Position	Attendance in Person	Attendance by Proxy	% of Attendancy
Zhou Yunnong	Independent Non-executive Director	1	0	100%
Chen Xinyuan	Independent Non-executive Director	1	0	100%
Dai Jinbao	Executive Director	1	0	100%

D. Procedures and Basis for the Determination of Remuneration of Directors and Senior Management

Relevant proposals on remuneration will be put forward by the Remuneration and Appraisal Committee to the Board taking into account the performance of the directors and with reference to the general standards of other listed companies in the sector. The allowance of the directors will be determined upon approval of the relevant proposal by the Board and the general meeting.

The Remuneration and Appraisal Committee reviews the implementation of the remuneration evaluation and formulate annual remuneration budget every year. It also appraises the performance of senior management personnel each year, and determines their remuneration according to the appraisal results.

E. Work Report of the Remuneration and Appraisal Committee during the Year

The Remuneration and Appraisal Committee reviewed the remuneration policy on directors and conducted annual appraisal with directors and the senior management.

2. Audit Committee

A. Role and Functions of the Audit Committee

The Audit Committee is principally responsible for advising the Board on the appointment and dismissal, remuneration and terms of engagement of external auditors; supervising the Company's internal audit system and its implementation; reviewing the financial information of the Company and its disclosure, including verifying the completeness of financial statements, annual reports, interim reports and quarterly reports of the Company; reviewing the major opinions stated in the financial reports of the Company's statements and reports; reviewing the financial control, internal control and risk management systems of the Company; and examining the material connected transactions of the Company.

"Rules of Procedures for the Audit Committee" have been published on the designated websites for information disclosure of the Company.

B. Members of the Audit Committee

The Committee comprises three independent non-executive directors.

Chairman: Chen Xinyuan (accounting expert)

Members: Sun Chiping and Zhou Yunnong

C. Meetings of the Audit Committee

The Audit Committee convenes at least two meetings each year. In 2007, the Committee convened two meetings with attendance as follows:

Members of Audit Committee	Attendance in Person	Attendance by Proxy	% of Attendancy
Chen Xinyuan	2	0	100%
Sun Chiping	2	0	100%
Zhou Yunnong	2	0	100%

D. Work Report of the Audit Committee during the Year

The Audit Committee reviewed with the management the accounting principles and standards adopted by the Company and discussed matters regarding auditing, internal control and financial reporting, including reviews of the audited annual report for the twelve months ended 31 December 2006, the interim report for the period ended 30 June 2007, and so forth.

3. Nomination of Directors

The Board identifies suitable candidates for directors or senior management within the Company or in the human resources market after it has evaluated the requirements for any new directors or senior management personnel. Candidates for independent directorship may be nominated by the Board or by shareholders jointly or severally holding 1% or more of the issued shares of the Company. Candidates for non-independent directorship may be nominated by the Board or by shareholders jointly or severally holding 5% or more of the issued shares of the Company. Candidate for presidency shall be nominated by the Board, Company Secretary by the Chairman, and other senior management personnel by the President.

The person who nominates a candidate for directorship shall seek the nominee's consent before submitting the nomination. He / she shall acquire a thorough understanding of the occupation, qualifications, office, detailed work history and all concurrent posts of the respective nominee, as well as provide the relevant information in writing to the Company. A candidate shall undertake to the Company in writing, stating his / her consent to the nomination and warranting to disclose his / her information in a true and complete manner and to fulfill his / her duties in good faith upon appointment.

The Board shall convene a Board meeting to evaluate the qualifications of the candidates for directorship and senior management according to the needs of the Company. Candidates for directorship shall satisfy the relevant basic requirements set out in the Articles of the Association of the Company. A candidate for senior management shall possess the professional skills and qualities required for the relevant position, and shall have years of experience serving as a middle or senior management member in leading petrochemical enterprises.

The Board shall vote on the nominations of nominated directors and candidates for senior management, determining the nominated directors and appointing senior management. Upon consideration and approval by the Board, the relevant particulars of the nominated directors and newly appointed senior management personnel shall be announced together with the relevant resolutions of the Board.

Nomination of directors shall be tabled before a general meeting by way of a resolution.

For the number of Board meetings and attendance records during the year, please refer to page 34 of this annual report.

Supervisory Committee

The Company's Supervisory Committee comprises seven members, including three staff supervisors, two external supervisors and two independent supervisors, one of whom serves as the Chairman. Particulars and term of office of each supervisor are set out under section headed "Directors, Supervisors and Senior Management" from pages 16 to 23 in this annual report.

During 2007, the Supervisory Committee convened five meetings. Attendance of each supervisor is set out below:

Name of Supervisor	Position	Number of meetings held during the respective term of office	Number of attendance in Person	% of Attendance
Gao Jinping	Staff Supervisor and Chairman	5	5	100%
Zhang Chenghua	Staff Supervisor	5	5	100%
Wang Yanjun	Staff Supervisor	5	4	100% (attendance by proxy: 20%)
Lu Xiangyang	External Supervisor	5	5	100%
Geng Limin	External Supervisor	5	5	100%
Liu Xiangdong	Independent Supervisor	5	3	100% (attendance by proxy: 40%)
Yin Yongli	Independent Supervisor	5	4	100% (attendance by proxy: 20%)

During 2007, the Company's Supervisory Committee established and refined the check-and-balance system of the Company and promoted and regulated the corporate governance structure in accordance with the relevant laws and regulations including the Company Law and the Code of Corporate Governance for Listed Companies. The Supervisory Committee discharged its supervisory duties and exercised supervision over the management's compliance with the relevant laws and regulations including the Company Law and the Code of Corporate Governance for Listed Companies. It also supervised the enforcement of resolutions passed at general meetings and Board meetings, the compliance with decision-making procedures and the implementation of the internal control system, thereby facilitating the preservation and appreciation of the Company's asset value, ensuring the regulated operation of the Company and safeguarding the Company's legitimate interests.

Directors' Responsibilities in relation to the Financial Statements

The following statement, which should be read in conjunction with the domestic and international auditors' reports on pages 152-153 and 84-85, respectively, sets out the responsibilities of the directors in relation to the financial statements.

- Annual reports and accounts

  The directors acknowledge their responsibilities in preparing financial statements which give a true and fair view of the state of affairs of the Company for each financial year.

- Accounting policies

  During the preparation of the financial statements of the Company, the directors should adopt appropriate accounting policies, viz. the Accounting Standards for Business Enterprises issued by the Ministry of Finance of the People's Republic of China, and International Financial Reporting Standards, International Accounting Standards, and in line with all applicable accounting standards.

- Accounting records

  The directors are responsible for ensuring that the Company keeps accounting records which reflect with reasonable accuracy the financial positions of the Company and which enable the preparation of financial statements in accordance with the Hong Kong Companies Ordinance and the applicable accounting standards.

- Going concern

  The directors, having made appropriate enquiries, consider that the Company has adequate resources to continue in operational existence for the foreseeable future and that, for this reason, it is appropriate to adopt the going concern basis in preparing the financial statements.

Auditors' Remuneration

KPMG and KPMG Huazhen are the Company's international and domestic auditors, respectively. KPMG has been the Company's auditors for 15 years (1993-2007) in succession.

Item	Amount (RMB)	Auditor
Audit Fees	7,227,000	KPMG
Audit Fees	1,500,000	KPMG Huazhen

Internal Control

Please refer to the part "The establishment and situation of the Company's internal control system" of the section "Corporate Governance Structure" in this annual report.

The Board reviews the Company's internal control system twice a year through the auditing division of the Auditing Committee, with the aim of ensuring the integrity of the Company's internal control system and safeguarding shareholders' interests and the Company's assets. The Auditing Committee reviewed the Company's internal control status for the 2006 and the first half of 2007 in March and August 2007. The Committee reported its work to the Board and adopted the Board's recommendations to further improve the Company's internal control system with enhanced effectiveness and efficiency.

Shareholders' Rights

The Company maintains good communication with shareholders. The Company's major communication channels include shareholders' general meetings, Company website, email account, and fax and telephone of the Secretary Office of the Board. Through the above communication channels, shareholders may sufficiently express their opinions or exercise their rights. For example, a shareholders' Q & A session was arranged at the 2006 general meeting and the A share market general meeting regarding the share reform, allowing direct communication between shareholders, directors and the management.

For details of the procedures, voting and proxy arrangements of the Company's general meetings, please refer to the Articles of Association the Company published on the website of the Shanghai Stock Exchange.

Investor Relations

The Company convenes results briefings once every six months after the release of its annual and interim results. In 2007, the Company held two large-scale results briefings and press conferences in Hong Kong, while over 100 "one-to-one" meetings were held within and outside China. The Company has also received several hundred domestic and foreign investors at the Company headquarters, as well as conscientiously replying to phone queries and letters from investors, intermediaries and fund managers. In addition, the Company also dispatched delegates to attend relevant meetings organized by securities research companies.

The Company's website is regularly revised to update the investors and the public about the Company's latest development.

Amendments to the Articles of Association

On 19 June 2007, the Company amended its Articles of Association and its appendices upon approval by the 2006 Annual General Meeting. For details, please refer to the notice of the annual general meeting published in China Securities Journal, Shanghai Securities News, South China Morning Post and Hong Kong Commercial Daily on 30 April 2007.

1. **Information on the annual general meeting**

   The Company held the 2006 annual general meeting on 19 June 2007. The resolution announcement was published in Shanghai Securities News, China Securities Journal, South China Morning Post and Hong Kong Commercial Daily on 20 June 2007.

2. **Information on the extraordinary general meeting**

   The Company held the 2007 extraordinary general meeting on 13 December 2007. The resolution announcement was published in Shanghai Securities News, China Securities Journal, South China Morning Post and Hong Kong Commercial Daily on 14 December 2007.

Management Discussion and Analysis

(Unless otherwise specified, financial information included in the "Management Discussion and Analysis" section has been extracted from financial statements prepared under IFRS.)

A. Operating Results

General - Review of the Company's Operation during the Reporting Period (Business Review)

In 2007, the world economy maintained relatively fast growth while the global petrochemical industry was still at a prosperous stage. Through strengthening and enhancing macro-economic control measures, China's economy maintained a solid trend of relatively fast growth, optimized structure, better economic efficiency and improved livelihood. Driven by a relatively fast growth of the domestic economy and a continued boom of the global petrochemical industry, the petrochemical industry in China was able to overcome negative impact such as further rises in international crude oil prices, the inverted domestic market prices for petroleum products and fluctuations in the petrochemical product market, attaining satisfactory results with continued rapid growth and further improvements in economic growth quality. In 2007, the Group fully implemented an overall cost leadership strategy as its main course of action to optimize resource allocation, accelerate structural adjustment, push forward reforms and restructuring and strengthen internal management. As a result, the Company has been able to maintain a stable production operation in general, with the upstream-downstream business chain structure effectively improved and economic efficiency witnessing a substantial increase over the previous year.

(1) Making further progress in system optimization and maintaining stable operation in general

In 2007, the Group further pushed ahead the effort on optimizing of the feedstock, product structure and fuel and power structure. The Group ensured a safe and stable operation of its production facilities on a long production cycle basis and properly completed successful the scheduled turnaround. Energy conservation and emission reduction measures were implemented, and stable production operation achieved. During the year, the average on-stream availability and the average load factor of the Group's major production facilities were 93.37% and 95.42%, respectively. Operation of major production facilities remained steady, with the number of non-scheduled suspensions decreased by 8.82% compared to the previous year while the duration of non-scheduled suspensions decreased by 4.02% compared to the previous year. Total production output amounted to 8,964,000 tons, representing an increase of 7.11% over the previous year. No major safety-related incidents or environmental pollution incidents took place during the year.

In 2007, the Group processed 8,938,400 tons of crude oil, generally on a par with the previous year. Production outputs of gasoline, diesel and jet fuel increased by 5.78% over the previous year. The output of gasoline was 645,900 tons, down 15.19% from the previous year; the output of diesel and jet fuel were 2,929,100 tons and 695,700 tons, respectively, representing respective increases of 6.82% and 30.33% over the previous year. Due to the scheduled turnaround of certain key facilities such as ethylene plant, the Group produced 869,400 tons of ethylene and 455,900 tons of propylene, down 9.46% and 11.94%, respectively, compared to the previous year. The Group also produced 1,019,000 tons of synthetic resins and copolymers, representing a decrease of 6.32% from the previous year; 532,400 tons of synthetic fibre monomers, representing a decrease of 3.11% from the previous year; 631,900 tons of synthetic fibre polymers, representing an increase of 4.52% over the previous year; and 307,900 tons of synthetic fibres, representing a decrease of 6.69% from the previous year. Meanwhile, the quality of the Group's products was consistently maintained at a premium level.

In 2007, the Group's turnover amounted to RMB55,328.4 million, up 9.35% over the previous year and set a historic high. The Group's output-to-sales ratio and receivable recovery ratio were 100.07% and 100.04%, respectively. The Group's annual total import and export amount (excluding crude oil imports) was US$1,784 million, up 13.47% over the previous year.

(2) Market demand for petrochemical products remained robust, with product prices driven up by rising costs

In 2007, domestic demand for petrochemical products remained relatively strong. Due to further increases in energy and raw material prices, prices for a majority of petrochemical products in the domestic market were driven up by rising costs. For the year ended 31 December 2007, the weighted average prices (excluding tax) of the Group's synthetic fibres, resins and plastics, intermediate petrochemicals and petroleum products increased by 4.58%, 1.45%, 13.28% and 3.13%, respectively over the previous year. However, as China's petroleum product pricing mechanism has yet to conform with the international practice, domestic petroleum product prices remained substantially below costs.

(3) Impact of crude oil costs

In 2007, international crude oil prices declined initially but rose again later, soaring at high levels and making successive historic highs (the Brent crude oil price recorded a highest closing price of US$95.76 per barrel, while the WTI ("West Texas Intermediate") crude oil price on the New York Mercantile Exchange recorded a highest closing of US$98.18 per barrel). According to statistics, the 2007 annual average price of Brent crude oil increased by 9.91% over the previous year up to US$72.65 per barrel (2006: US$66.10 per barrel). For the year ended 31 December 2007, the Group processed 8,938,400 tons of crude oil (including the trade of processing with supplied crude oil), representing an increase of 18,100 tons over the previous year. Of this volume, offshore oil accounted for 302,700 tons and imported oil accounted for 8,635,700 tons. Crude oil processed by the Group's own business account totalled 8,913,000 tons, up 1.17% over the previous year. Of the Group's cost of sales, crude oil costs accounted for RMB34,456.3 million or 65.45% of the Group's annual cost of sales. The average cost of crude oil processed was RMB3,865.85 per ton, up 2.26% over the previous year. The crude oil costs increased by RMB1,148.7 million as compared to 2006.

(4) Capital expenditure projects proceeded smoothly, with some of newly completed key projects being put into operation successively

In 2007, the Group put a lot of effort on the construction of the structured adjustment projects relating to structural adjustment. The 380,000-ton/year ethylene glycol plant, the 3,300,000-ton/year diesel hydrogenation plant and the 1,200,000-ton/year delayed coking facility commenced operation on 6 March, 18 June and 12 December respectively. The project of adding flue gas desulphurization facilities to the boilers of coal-fired power plant completed the 168-hour test run in late September. The 620-ton/hour steam-boiler and 100 megawatt power generation project successfully commenced power generation and transmission on 30 December. The completion and commencement of such projects laid a solid foundation for the Group's efforts on structural enhancement, energy conservation and emission reduction.

The Shanghai Secco 900,000-ton/year ethylene joint-venture project between the Group, Sinopec Corp. and BP Chemicals East China Investments Ltd. operated properly in 2007, and 1,003,000 tons of ethylene were produced during the year, representing an increase of 25,000 tons over the previous year.

(5) Enhancing our systems and effectively carrying out tasks on energy conservation and emission reduction

In 2007, the Group enhanced its systems and fulfilled its duties in accordance with the relevant requirements of the State's energy conservation and emission reduction policy. The Group established a leadership taskforce on energy conservation and emission reduction to devise the energy conservation and reduction emission planning during the Eleventh Five-year Plan, setting out clear objectives on energy conservation and emission reduction and initiating a wide range of campaigns for "cutting down expenses on fuel, electricity, steam and water". The oil-fired power station which had been operating for over 30 years was officially closed in 15 September. Accordingly, approximately 300,000 tons/year of residual oil used for power generation can be applied for deep-processing, while reducing approximately 8,000 tons of sulphur dioxide emission per year as well. During the year, a series of energy conservation and emission reduction projects such as cracking furnace renovation, utilization of residual heat from heaters and burner renovation, with specific energy conservation management carried out for heaters which accounted for over 60% of the Group's total energy consumption. The "biological deodorization technology" developed by the Group was successfully applied on the ethylene glycol plant and the treatment of sulphuric gases, thereby effectively improving the air quality of vicinities. In 2007, the Group's overall energy consumption per RMB10,000 of product value was 1.563 tons of standard coal, down 10.48% from the previous year. The overall energy consumption was 7,496,000 tons of standard coal, down 4.36% from the previous year. The overall ratio of reaching benchmark from waste water discharge reaching a set standard, industrial waste water discharge volume, hazardous waste treatment rate and the ratio of reaching for gaseous emission reaching a set standard all met the environmental protection standards upon inspection.

(6) Making progress in the development and application of new technologies and products with reference to the actual production operation needs

In 2007, the Group continued to make progress in the development of new technologies and products with reference to the actual needs of corporate development and production operation. The polyester pilot plant was completed and commenced operation in the first quarter, creating the conditions for the development of new polyester products and adjustment in product-mix adjustment. The studies on industrial application of domestically-made bimodal polyethylene catalyst were successfully completed, laying the foundation for replacing imported catalysts with domestic products. New products such as large diameter low melt droop PE tube pellet and special high-gloss and heat-resistant polypropylene were successively launched in the market. Projects such as the development and application of gasoline blending technology and the heat transmission enhancement technology for cracking furnaces have generated considerable economic gains. Eight research products, including acrylic staple fibre for glossing knitting threads and polypropylene for medical use, were recognized as new high-technology research achievement projects of Shanghai Municipality, thereby obtaining special financial subsidies. As for information system development, projects such as application of advanced control system for the delayed coking and No. 2 ethylene facilities, the Company laboratory management system and the Company emergency control centre were completed and commenced operation during the year. According to statistics, the Group's output of new products amounted to 793,600 tons during the year; the output value ratio was 17.35%, while the output to sales ratio was 95.96%. A total of 234,300 tons of differentiated synthetic fibres was produced, and the ratio of differentiated synthetic fibres was 76.13%. A total of 788,600 tons of special resin was produced, and the ratio of special resin was 84.22%. Forty patent applications were submitted during the year, of which 39 were invention patents.

(7) Further enhancement of corporate management and internal reform, with significant results in reforms and clean-up work on auxiliary businesses

In 2007, the Group further enhanced its internal control, the "Three Basics" work (fundamental management, grass-root team building-up and basic skill training) and staff training. Based on the execution of internal control in recent years and inspection results, the Group undertook a comprehensive amendment to The Internal Control Manual of Shanghai Petrochemical and the new edition was adopted on 1 April 2007 upon consideration and approval by the Board. During the year, self-checking and professional review were conducted over the implementation of all procedures and the effectiveness of control with reference to The Guidelines for Internal Control Checking and Assessment, and internal control inspection was also conducted by KPMG. Through the compilation of the guidelines for the implementation of "Three Basics" tasks and the appraisal scoring manual, the professional management of production and facilities was further strengthened. Major production facilities operated in a stable state, with significant improvements witnessed by several technical or economic indicators. By proactively adopting the training approach of centralized management and grade-by-grade implementation, as well as publishing the entire 66-set, 8.72 million-word staff training materials, the Group strengthened the effort on education and training and further enhanced the quality of its staff.

In 2007, the Group actively promoted the implementation of reforms and clean-up work on auxiliary businesses. Nine non-core business enterprises completed reforms and handled relevant business registrations, with 2,011 employees involved in the reforms. Meanwhile, the Group conducted the clean-up work on auxiliary businesses through various approaches, including division reforms, transfers and disposals as well as dismissals. 38 projects involving dismissals were completed during the year. By 31 December 2007, the Group reduced its work force by 3,670 employees, which reduction included voluntary resignees and retirees, representing 16% of the total work force of 22,922 employees as at the beginning of the year.

(8) Analysis of the reasons for the significant increase in operating results for the year

The significant increase in the operating results during the Reporting Period was mainly attributable to the following reasons:

a. In 2007, the Group's share of profit of associates and jointly controlled entities and investment income amounted to RMB1,437 million, representing 66.81% of the profit before taxation of RMB2,151million and was an increase of 149.05% over the previous year. Of this amount, the investment income from Shanghai Secco was RMB588 million, an increase of RMB43 million as compared to the previous year; the gain on disposal of available-for-sale securities transferred from equity amounted to RMB771 million.

b. After its completion and commencement in March 2007, the new 380,000-ton/year ethylene glycol plant capitalized on the substantial increase in ethylene glycol prices in the domestic market and achieved impressive economic benefits.

Accounting estimates and judgements

The Group's financial conditions and results of operations are sensitive to accounting methods, assumptions and estimates that underpin the preparation of the financial statements. The Group bases the assumptions and estimates on historical experience and on various other assumptions that the Group believes to be reasonable and which form the basis for making judgements about matters that are not readily apparent from other sources. On an on-going basis, management evaluates its estimates. Actual results may differ from those estimates as facts, circumstances and conditions change.

The selection of critical accounting policies, the judgements and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing the financial statements. The Group believes the following critical accounting policies involve the most significant judgements and estimates used in the preparation of the financial statements.

Impairments for long lived assets

If circumstances indicate that the net book value of a long-lived asset may not be recoverable, the asset may be considered "impaired", and an impairment loss may be recognised in accordance with IAS 36 "Impairment of Assets". The carrying amounts of long-lived assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested 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 recoverable amount. For goodwill, the recoverable amount is estimated annually. The recoverable amount is the greater of the net selling price and the value in use. It is difficult to precisely estimate selling price because quoted market prices for the Group's assets and cash generating units are not readily available. In determining the value in use, expected cash flows generated by the assets are discounted to their present value, which requires significant judgement relating to level of sale volume, selling price and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of sale volume, selling price and 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 the estimated residual values. The Group reviews 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 the Group's 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.

Impairment for bad and doubtful debts

The Group estimates impairment losses for bad and doubtful debts resulting from the inability of the customers to make the required payments. The Group bases the estimates on the aging of the accounts receivable balance, customer credit-worthiness, and historical write-off experience. If the financial condition of the customers were to deteriorate, actual write-offs would be higher than estimated.

Allowance for diminution in value of inventories

Any excess of the cost over the net realisable value of each item of inventories is recognised as a provision for diminution in the value of inventories. Net realisable value represents the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale. The Group bases the estimates on all available information, including the current market prices of the finished goods and raw materials, and historical operating costs. If the actual selling prices were to be lower or the costs of completion were to be higher than estimated, the actual allowance for diminution in value of inventories could be higher than estimated.

Income tax

As discussed in note 32(b) to the financial statements under IFRS regarding the prior years' tax privilege, the directors of the Company consider that it is uncertain whether the relevant tax authorities will retrospectively claim additional EIT from the Company and that it is not possible to reliably estimate the eventual outcome of this matter. Consequently, no provision has been made in these financial statements in respect of the EIT differences arising from prior years.

Summary

The following table sets forth the Group's sales volumes and net sales (net of sales taxes) for the years indicated (prepared under IFRS):

	For the Years ended 31 December								
	2007			2006			2005		
	Sales Volume ('000 tons)	**Net Sales (Millions of RMB)**	**% of Total**	Sales Volume ('000 tons)	Net Sales (Millions of RMB)	% of Total	Sales Volume ('000 tons)	Net Sales (Millions of RMB)	% of Total
Synthetic Fibres	**296.0**	**4,328.7**	**7.9**	337.0	4,711.7	9.4	355.2	4,764.0	10.6
Resins and Plastics	**1,549.0**	**15,878.8**	**29.3**	1,558.9	15,753.3	31.6	1,505.8	13,958.3	30.9
Intermediate Petrochemicals	**1,232.4**	**9,372.7**	**17.3**	1,009.3	6,775.7	13.6	1,010.5	6,556.0	14.5
Petroleum Products	**5,376.2**	**21,036.6**	**38.8**	5,109.8	19,387.6	38.8	5,400.0	17,955.0	39.7
All others	**-**	**3,637.9**	**6.7**	-	3,289.8	6.6	-	1,957.0	4.3
Total	**8,453.6**	**54,254.7**	**100.0**	8,015.0	49,918.1	100.0	8,271.5	45,190.3	100.0

The following table sets forth a summary statement of the Group's income for the years indicated (prepared under IFRS):

	For the Years ended 31 December					
	2007		2006		2005	
	Millions of RMB	% of Net sales	Millions of RMB	% of Net sales	Millions of RMB	% of Net sales
Synthetic fibres						
Net sales	4,328.7	7.9	4,711.7	9.4	4,764.0	10.6
Operating expenses	(4,410.8)	(8.1)	(4,515.4)	(9.0)	(4,500.6)	(10.0)
Operating profit	(82.1)	(0.2)	196.3	0.4	263.4	0.6
Resins and plastics						
Net sales	15,878.8	29.3	15,753.3	31.6	13,958.3	30.9
Operating expenses	(15,222.3)	(28.1)	(14,591.2)	(29.3)	(12,467.6)	(27.6)
Operating profit	656.5	1.2	1,162.1	2.3	1,490.7	3.3
Intermediate petrochemicals						
Net sales	9,372.7	17.3	6,775.7	13.6	6,556.0	14.5
Operating expenses	(8,558.9)	(15.8)	(6,095.3)	(12.2)	(5,575.0)	(12.3)
Operating profit	813.8	1.5	680.4	1.4	981.0	2.2
Petroleum Products						
Net sales	21,036.6	38.8	19,387.6	38.8	17,955.0	39.7
Other income	93.9	0.2	282.1	0.6	632.8	1.4
Operating expenses	(21,774.7)	(40.2)	(21,367.4)	(42.8)	(19,034.7)	(42.1)
Operating profit	(644.2)	(1.2)	(1,697.7)	(3.4)	(446.9)	(1.0)
Others						
Net sales	3,637.9	6.7	3,289.8	6.6	1,957.0	4.3
Operating expenses	(3,489.2)	(6.4)	(3,078.0)	(6.2)	(1,717.2)	(3.8)
Operating profit	148.7	0.3	211.8	0.4	239.8	0.5
Total						
Net sales	54,254.7	100	49,918.1	100.0	45,190.3	100.0
Other income	93.9	0.2	282.1	0.6	632.8	1.4
Operating expenses	(53,455.9)	(98.6)	(49,647.3)	(99.5)	(43,295.1)	(95.8)
Operating profit						
Net financing costs	892.7	1.6	552.9	1.1	2,528.0	5.6
Investment income	(177.9)	(0.3)	(165.4)	(0.3)	(179.4)	(0.4)
Share of profits/(losses) of associates and jointly controlled entities	770.7	1.5	-	-	-	-
	665.9	1.2	576.7	1.1	(61.0)	(0.1)
Profit before tax	2,151.4	4.0	964.2	1.9	2,287.6	5.1
Income tax	(468.3)	(0.9)	(53.2)	(0.1)	(366.3)	(0.8)
Profit after tax	1,683.1	3.1	911.0	1.8	1,921.3	4.3
Attributable to:						
Equity shareholders of the Company	1,634.1	3.0	844.4	1.7	1,850.5	4.1
Minority interests	49.0	0.1	66.6	0.1	70.8	0.2
Profit after tax	1,683.1	3.1	911.0	1.8	1,921.3	4.3

Results of operations

The year ended 31 December 2007 compared to the year ended 31 December 2006.

Net sales

The total net sales of the Group increased by 8.69% to RMB54,254.7 million in 2007 compared to RMB49,918.1million in 2006. In 2007, the demand for petrochemical products remained strong, driving product prices to rise. However, the pace for such increase has slowed down. The weighted average prices of synthetic fibres, resins and plastics, intermediate petrochemicals and petroleum products for the year 2007 increased to varying extent as compared to 2006.

(i) Synthetic fibres

The net sales of synthetic fibre products decreased to RMB4,328.7 million in 2007, representing a 8.13% decrease compared to RMB4,711.7 million in 2006. Although the weighted average price of synthetic fibres had increased by 4.58%, the profit margin of synthetic fibre products was substantially reduced as raw material costs of synthetic fibres remained at high levels. As such, sales volume of synthetic fibres in 2007 decreased by 12.17% as compared to 2006 because the sales volume of certain major synthetic fibre products, except acrylic fibre, had decreased by varying extent in 2007.

Net sales of synthetic fibre products accounted for 7.98% of the Group's total net sales in 2007, representing a decrease of 1.46 percentage points as compared to 2006.

(ii) Resins and plastics

The net sales of resins and plastics increased to RMB15,878.8 million in 2007, representing an increase of 0.80% compared to RMB15,753.3 million in 2006. Weighted average price of resins and plastics in 2007 had increased by 1.45% compared to 2006 and sales volume in 2007 had decreased by 0.64% compared to 2006. Amongst the Group's resins and plastics products, the sales volume and average sales price of polyester pellet for 2007 increased by 9.41% and decreased by 0.23%, respectively, the sales volumes of polyethylene and polypropylene for 2007 decreased by 9.06% and 2.38%, respectively, while their average sales prices increased by 2.84% and 0.04%, respectively.

Net sales of resins and plastics accounted for 29.27% of the Group's total net sales in 2007, representing a decrease of 2.29 percentage points as compared to 2006.

(iii) Intermediate petrochemicals

The net sales of intermediate petrochemicals increased substantially to RMB9,372.7 million in 2007, representing an increase of 38.33% compared to RMB6,775.7 million in 2006, with the weighted average price of intermediate petrochemicals and sales volume increased by 13.28% and 22.10%, respectively, as compared to 2006. Amongst the Group's intermediate petrochemical products, the weighted average prices of the Group's major products such as pure benzene, ethylene glycol and ethylene oxide increased by 20.97%, 34.37% and 13.18%, respectively, while the weighted average prices of ethylene and butadiene decreased by 1.52% and 17.21%, respectively. The sales volumes of pure benzene, ethylene glycol and ethylene oxide increased by 2.09%, 1,924.92% and 109.79%, respectively, except for ethylene and butadiene which their sales volumes had decreased.

The net sales of intermediate petrochemicals accounted for 17.28% of the Group's total net sales in 2007, representing an increase of 3.71 percentage points as compared to 2006.

(iv) Petroleum products

The net sales of petroleum products increased to RMB21,036.6 million in 2007, representing an increase of 8.51% compared to RMB19,387.6 million in 2006, with an increase of 3.13% in the weighted average price as compared to 2006. The weighted average prices of gasoline, diesel oil and jet fuel increased by 3.63%, 5.95% and 4.64%, respectively. Due to the price limits set by the State, the petroleum products' segment reported a negative profit margin. The Group's sales volume of gasoline decreased by 7.50%, while the sales volumes of diesel and jet fuel increased by 6.12% and 34.49%, respectively.

The net sales of petroleum products accounted for 38.77% of the Group's total net sales in 2007, representing a decrease of 0.07 percentage points as compared to 2006.

(v) Other activities

Revenues from other activities increased to RMB3,637.9 million in 2007, representing an increase of 10.58% compared to RMB3,289.8 million in 2006. Such increases in revenue were mainly attributed to increases in the trading volume of petrochemical products.

Operating Expenses

The Group's operating expenses comprise cost of sales, selling and administrative expenses, other operating expenses and other operating income.

Such operating expenses increased substantially to RMB53,455.9 million in 2007 compared to RMB 49,647.3 million in 2006, representing an increase of 7.67%. The operating expenses of resins and plastics, intermediate petrochemicals, petroleum products, and other activities amounted to RMB15,222.3 million, RMB8,558.9 million, RMB21,774.7 million and RMB3,489.2 million, respectively, representing increases of 4.33%, 40.42%, 1.91% and 13.36%, respectively, as compared to 2006. The operating expenses of synthetic fibres amounted to RMB4,410.8 million, representing a decrease of 2.32% compared to 2006.

(i) Synthetic fibres

The operating expenses of synthetic fibres decreased by RMB104.6 million compared to 2006, primarily due to decrease in the sales volume of synthetic fibres.

(ii) Resins and plastics

The operating expenses of resins and plastics increased by RMB631.1 million compared to 2006, primarily due to increased costs for raw materials such as ethylene and propylene. Moreover, sales volume of polyester chips increased by more than 40,000 tons, or 9.41%, compared to 2006, which also contributed to the increase in the operating expenses of resins and plastics.

(iii) Intermediate petrochemicals

The operating expenses of intermediate petrochemicals increased by RMB2,463.6 million compared to 2006, primarily due to increased costs for raw materials such as naphtha.

(iv) Petroleum products

The operating expenses of petroleum products increased by RMB407.3 million compared to 2006, primarily due to the increase in crude oil price (which is a major production raw material of the Group) which directly led to a significant increase in the operating expenses of petroleum products.

(v) Other activities

The operating expenses of other activities increased by RMB411.2 million compared to 2006, which was primarily attributable to increased purchasing costs as a result of increased business volume.

Cost of sales

Cost of sales increased to RMB52,646.5 million in 2007, representing an increase of 7.04% compared to RMB49,182.2 million in 2006. Cost of sales accounted for 97.04% of the net sales for 2007, primarily due to a moderate increase in 2007 in crude oil price which was the Group's major raw material and increase in the purchase of other raw materials.

(i) Crude Oil

In 2007, the Group processed 8,938,400 tons of crude oil (of which 25,400 tons imported crude oil were processed on a sub-contracting basis), representing an increase of 18,100 tons compared to 8,920,300 tons in 2006 (of which 110,000 tons imported crude oil were processed on a sub-contracting basis in 2006). The volumes of imported crude oil and offshore crude oil processed by the Group were 8,635,700 tons and 302,700 tons, respectively.

The total cost of crude oil processed by the Group in 2007 amounted to RMB34,456.3 million, representing an increase of 3.45% compared to RMB33,307.6 million in 2006 and accounting for 65.45% of the total cost of sales. The weighted average cost of crude oil for the Group was RMB3,865.85 per ton, representing an increase of 2.26% compared to 2006. The weighted averaged cost of imported crude oil and offshore crude oil were RMB3,871 per ton and RMB3,721 per ton, respectively.

(ii) Other expenses

The expenses for other ancillary materials were RMB10,022.5 million in 2007, representing an increase of 26.84% compared to RMB7,901.8 million in 2006, which was primarily due to a significant increase in the purchasing costs of intermediate petrochemicals such as propylene and acrylonitrile during the Reporting Period. Depreciation expenses decreased from RMB1,848.5 million in 2006 to RMB1,698.8 million in 2007. Energy and power costs increased to RMB1,190.2 million due to increases in coal prices and electricity tariffs in 2007. Compared to the same period of 2006, labor costs decreased slightly to RMB1,209.0 million because of the decrease in the total number of employees during 2007, while maintenance costs increased to RMB1,023.8 million.

Selling and administrative expenses

Selling and administrative expenses amounted to RMB504.7 million, representing a decrease of 3.31% compared to RMB522.0 million in 2006 primarily due to a decrease in the Group's cost of sales in its sales operations during the Reporting Period.

Operating profit

Operating profit amounted to RMB892.7 million in 2007, representing a significant increase of 61.46% compared to RMB552.9 million in 2006, which was primarily due to a significant improvement in the Group's operating efficiency during the Reporting Period.

Other operating income

Other operating income amounted to RMB216.6 million in 2007, a decrease of 27.17% compared to RMB297.4 million in 2006, which was primarily due to a decrease in income from the disposal of property, plant and equipment during the Reporting Period.

Other operating expenses

Other operating expenses increased from RMB240.5 million in 2006 to RMB521.3 million in 2007, representing an increase of 116.76%, which was primarily due to an increase of RMB124.4 million in the Group's employee reduction expenses in 2007 compared to 2006. In addition, the Group's provision made for impairments of fixed assets in 2007 increased by RMB150.3 million compared to 2006.

Net financing costs

The Group's net financing costs were RMB177.9 million in 2006, representing an increase of 7.56% compared to RMB165.4 million in 2006, which was primarily due to the Group's repayment of loans in an amount of US$175.3 million in 2007. As a result of the appreciation of Renminbi against the US dollar, the Group's foreign exchange gain in 2007 decreased by RMB45.31 million compared to 2006.

Investment income

The Group's investment income was RMB770.7 million in 2007, mainly due to income from the disposal of available-for-sale securities transferred from equity.

Profit before tax

The Group's profit before tax was RMB2,151.4 million in 2007, representing an increase of 123.13% compared to RMB964.2 million in 2006.

Income tax

The Group's income tax increased to RMB468.2 million in 2007, representing a significant increase of 780.08% compared to RMB53.2 million in 2006. Such increase was primarily due to the substantial increase in profit before taxation and an adjustment in income tax rate.

Effective from 1 January 1993, the Group began to enjoy a preferential income tax rate of 15% based on the approval of the State's tax authorities. According to the relevant taxation regulations 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 rate of 15% for the years of 1996 and 1997. From 1998 to 2006, this tax privilege has not been revoked by the relevant government authorities. During the Reporting Period, the Company was notified by the Shanghai Municipal Office of the State Administration of Taxation that the income tax rate for 2007 would be adjusted from the previous 15% to 33%. Following the implementation of the "Enterprise Income Tax Law of The People's Republic of China" since 1 January 2008, the income tax rate of the Group will be unified at 25%.

Profit after tax

Profit after tax was RMB1,683.1 million in 2007, representing an increase of 84.75% compared to RMB911.0 million in 2006.

B. Analysis of the Company's principal operations and performance

(prepared under the China Accounting Standards for Business Enterprises)

1. Principal operations by segment or product

By segment or product	Operating income (RMB'000)	Operating cost (RMB'000)	Gross profit margin (%)	Increase/ decrease of Operating income compared to last year (%)	Increase/ decrease of operating cost compared to last year (%)	Increase/ decrease of gross profit margin compared to last year
Synthetic fibres	4,342,215	4,073,362	6.19	-8.15	-6.83	Decrease 1.33 percentage points
Resins and plastics	15,927,089	14,266,976	10.42	0.80	3.82	Decrease 2.61 percentage points
Intermediate petrochemicals	9,406,507	7,374,649	21.60	38.32	31.74	Increase 3.91 percentage points
Petroleum products	21,997,362	21,622,897	1.70	10.11	1.57	Increase 8.26 percentage points
Others	3,731,514	3,235,785	13.28	-10.58	10.03	Decrease 16.25 percentage points
Including: connected transactions	22,907,085	21,655,983	5.46	13.60	1.84	Increase 10.91 percentage points

Price-setting principles of connected transactions	The directors of the Company (including independent non-executive directors) are of the view that the connected transactions were conducted on normal commercial terms which are no less favourable than those offered to or by any third party, and were conducted in the ordinary course of business. This was confirmed by the independent non-executive directors of the Group.
Description of the necessity and continuity of connected transactions	The purchases by the Company from Sinopec Corp. and its associates of crude oil related materials and sales of petroleum products by the Company to them were conducted in accordance with the State's relevant policy and applicable State tariffs or State guidance prices. As long as the State does not revoke its control over purchases of crude oil, sales of petroleum products and the pricing thereof, such connected transactions will continue to take place. The Company sold petrochemicals to Sinopec Corp. and its associates and Sinopec Corp. and its associates act as an agency for the sale of petrochemicals in order to reduce the Company's inventories, expand its trade, distribution and sales networks and improve the Company's bargaining power with our customers. The Company accepts transportation, design, construction and installation, insurance agency and financial services from Sinopec and its associates in order to secure steady and reliable services at reasonable prices.

2. Principal operations by geographical location

Geographical location	Operating income RMB'000	Increase/decrease of operating income operations compared to the previous year (%)
Eastern China	50,970,046	6.64
Other regions in China	4,233,635	22.72
Exports	201,006	-14.22

C. Liquidity and Capital Resources

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

Net cash inflows from operating activities (prepared under IFRS)

The Group's net cash inflows provided by operating activities amounted to RM1,442.0 million in 2007, representing a decrease of RMB254.6 million compared to RMB1,696.6 million in 2006. Because of the increase in the costs of the Group's crude oil which was slightly below the increase in the sales prices of various major products during the Reporting Period, net cash inflows from profit before tax (net of depreciation) amounted to RMB3,853.7 million in 2007, representing an increase of RMB1,065.8 million of net cash flows compared to RMB2,787.9 million in 2006. Increased inventories balance at the end of the year 2007 led to an increase in cash outflows of RMB1,034.6 million in 2007 (as compared with an increase in cash outflows of RMB48.3 million during the same period of 2006). Changes in the year-end amounts of accounts payables, other payables and bills payable led to a decrease in cash outflows of RMB643.3 million in 2007 (as compared with a decrease in cash outflows of RMB345.6 million during the same period of 2006). Increases in the year-end balances of debtors, bills receivables and deposits led to a decrease in operating cash inflows of RMB387.7 million in 2007 (as compared with a decrease in cash inflows of RMB585.3 million during the same period of 2006 as a result of an increase in such year-end balances). In addition, the Group's income tax payment increased significantly due to a significant increase in profit during the Reporting Period. In 2007, income tax payment led to a cash outflow of RMB674.5 million (as compared with RMB63.4 million of cash outflow in 2006).

Cash flow breakdowns of the Group during the reporting period
(prepared under the China Accounting Standards for Business Enterprises)

	2007 RMB'000	2006 RMB'000
Net cash inflow from operating activities	**1,784,572**	2,040,679
Net cash outflow from investing activities	**(511,231)**	(1,352,541)
Net cash outflow from financing activities	**(1,272,703)**	(1,138,260)

Borrowings

The Group's total borrowings in 2007 amounted to RMB4,731.3 million, representing a decrease of RMB602.7 million, of which short-term bank loans decreased by RMB180.7 million, the current portion of long-term bank loans increased by RMB2.4 million and long-term loans decreased by RMB424.4 million. On 11 December 2006, the Company issued short-term commercial papers to institution investors within the PRC inter-bank debenture market. The short-term commercial papers had a principal amount of RMB2,000,000,000 with a term of 365 days. Each unit of the commercial papers bore a face value of RMB100 and the commercial papers were issued at the face value of RMB100 each, carrying a par interest rate of 3.83%. The commercial papers had matured on 11 December 2007 and were fully redeemed.

The Group managed to maintain its asset-liability ratio at a safe level by enhancing controls over both liabilities (including borrowings) and financing risks. The Group generally does not experience any seasonality in borrowings. Indeed, due to the nature of the capital expenditures plan, long-term bank loans can be arranged in advance of expenditures while short-term borrowings are used to meet operational needs. The terms of our existing borrowings do not restrict the Group's ability to pay dividends on its shares.

Liability-to-asset ratio (prepared under IFRS)

The Group's liability-to-asset ratio was 29.82% in 2007 compared to 29.53% in 2006. The ratio is calculated using this formula: total liabilities/total assets.

D. Research and Development, Patents and Licenses

The Group generates a number of technology development units, including the Petrochemical Research Institute, the Polyester Fibre Research Institute, the Acrylic Fibre Research Institute and the Environmental Protection Research Institute. These units are charged with various research and development tasks with respect to new technology, new products, new production processes and equipment and environmental protection. The Group's research and development expenditures for the years ended 2005, 2006 and 2007 were RMB79.5 million, RMB51.6 million and RMB53.5 million, respectively, representing approximately 0.2%, 0.1% and 0.1% of the total sales, respectively, for those years.

The Group was not, in any material aspect, bound by any patents; licenses; industrial, commercial or financial contracts; or new production processes.

E. Off-Balance Sheet Arrangements

Please refer to section Major Events - Guarantees and note 31 to the financial statements under IFRS for details of the Group's external guarantee and capital commitments.

F. Contractual obligations

The following table sets forth the Group's obligations to future principal under contracts as of 31 December 2007.

	As of 31 December 2007 Payment due by period			
	Total (RMB'000)	Less than 1 year (RMB'000)	1-3 years (RMB'000)	4-5 years (RMB'000)
Contractual obligations				
Short-term loan	3,672,942	3,672,942	-	-
Long-term loan	1,058,316	419,027	634,859	4,430
Total contractual obligations	4,731,258	4,091,969	634,859	4,430

G. Description of substantial changes in the Company's major financial data during the reporting period as compared to the previous year (prepared under China Accounting Standards for Business Enterprises (2006))

(Details of reporting items with annual changes of 30% or more and occupying 5% or more of the Group's total assets at the reporting date or 10% or more of the total profit for the reporting period, together with reasons for the changes.)

Item	For the years ended 31December 2007 RMB'000	2006 RMB'000	Change RMB'000	%	Reason for change
Operating profit	**2,118,437**	647,762	1,470,675	227.04	A substantial increase in investment income
Profit before income tax	**2,121,094**	924,975	1,196,119	129.31	A substantial increase in investment income
Net profit for the year	**1,641,166**	872,260	768,906	88.15	A substantial increase in investment income
Net profit attributable to equity shareholders of the Company	**1,592,110**	805,705	786,405	97.60	A substantial increase in investment income
Sales tax and surcharges	**1,073,695**	681,362	392,333	57.58	Pursuant to the Ministry of Finance's Document Cai Shui [2006] No.33, the Company paid a 30% consumption tax of the tax payable for naphtha used for continued production of non-taxable consumer goods and external sales
Investment income	**1,549,331**	663,861	885,470	133.38	Gain on disposal of available-for-sale securities transferred from equity in the stock market increased substantially
Income tax	**479,928**	52,715	427,213	810.42	Income tax rate adjustment and a substantial increase in profit before income tax

Item	As at 31December 2007 RMB'000	As at 31December 2006 RMB'000	Change RMB'000	%	Reason for change
Bills receivable	**1,800,856**	1,273,233	527,623	41.44	Discount rate substantially increase, and the Company reduced the discount quantity in the current period
Short-term loans	**3,672,942**	1,853,692	1,819,250	98.14	The Company redeemed RMB2,000 million of short-term commercial papers in December and borrowed short-term loans to compensate the Company's funding needs

H. Analysis of the reporting period's performance and results of the companies in which the Company has controlling interests or investment interests

As at 31 December 2007, the Company had more than 50% equity interests in the following principal subsidiaries:

Company	Place of registration	Principal Activities	Place for principal activities	Class of legal person shares	Percentage of the equity held by the company	Percentage of the equity held by subsidiaries (%)	Registered Capital ('000)	Net Profit/ (loss) for 2007 ('000)
Shanghai Petrochemical Investment Development Company Limited	China	Investment management	China	Limited company	100	-	RMB800,000	45,849
China Jinshan Associated Trading Corporation	China	Import and export of petrochemical products and equipment	China	Limited company	67.33	-	RMB25,000	14,305
Shanghai Jinchang Engineering Plastics Company Limited	China	Production of polypropylene compound products	China	Limited company	-	50.38	US$4,750	6,031
Shanghai Golden Phillips Petrochemical Company Limited	China	Production of polypropylene products	China	Limited company	-	60	US$50,000	148,101
Zhejiang Jin Yong Acrylic Fiber Company Limited	China	Production of acrylic fiber products	China	Limited company	75	-	RMB250,000	(93,805)
Shanghai Petrochemical Enterprise Development Company Limited	China	Investment management	China	Limited company	100	-	RMB455,000	(176,196)
Shanghai Golden Conti Petrochemical Company Limited	China	Production of Petrochemical products	China	Limited company	-	100	RMB545,776	33,348

None of the subsidiaries have issued any debt securities.

The Company's equity interests in its associates comprised an equity interest of 38.26%, amounting to RMB687.4 million, in Shanghai Chemical Industry Park Development Co., Ltd., a company set up in the PRC; and an equity interest of 20%, amounting to RMB2,087.6 million, in Shanghai Secco Petrochemical Company Limited, a company set up in the PRC. The principal business of Shanghai Chemical Industry Park Development Co., Ltd. consists of planning, developing and operating the Chemical Industry Park in Shanghai, PRC, while the principal business of Shanghai Secco Petrochemical Company Limited is the production of petrochemicals such as ethylene.

Results analysis of the companies in which the Group has controlling interests or investment interests and which affected 10% or more of the Group's net profit: Shanghai Secco Petrochemical Company Limited, which is primarily engaged in the production and distribution of petrochemicals, recorded operation income of RMB24,218.6 million and operating profit of RMB289.69 million in 2007.

I. Major suppliers and customers

The Group's top five suppliers in 2007 were Sinopec Pipeline Transport & Storage Branch, China International United Petroleum & Chemical Co., Ltd., Sinochem Petroleum Company, Shanghai Secco Petrochemical Company Limited and China National Offshore Oil Corporation. Total costs of purchases from these suppliers accounted for 69% of the total cost of purchases by the Group during the year, amounting to RMB37,093.8 million. The cost of purchases from the largest supplier amounted to RMB22,377.5 million, representing 42% of the total costs of purchases by the Group during the year.

The Group's top five customers during 2007 were Sinopec Huadong Sales Company, Sinopec Shanghai Gaoqiao Branch, Shanghai Secco Petrochemical Company Limited, Shanghai Chlor-Alkali Chemical Company Limited and Shanghai Petrochemical Asphalt Co., Ltd. The total sales derived from these customers represented 38% of the Group's total turnover during the year, amounting to RMB21,291.1 million. The sales derived from the largest customer amounted to RMB17,884.4 million, representing 32% of the turnover during the year.

To the knowledge of the Board, none of the directors (or their associates) or shareholders of the Company held any interest in the above suppliers and customers, namely Sinochem International Company, China National Offshore Oil Corporation, Shanghai Chlor-Alkali Chemical Company Limited. Sinopec Transport & Storage Branch, China International United Petroleum & Chemical Company Limited, Sinopec Huadong Sales Company and Sinopec Gaoqiao Branch are subsidiaries of the Company's controlling shareholder, Sinopec Corp. The Company owns an equity interest of 20% in Shanghai Secco Petrochemical Company Limited and 35% interest in Shanghai Petrochemical Asphalt Co., Ltd.

J. Others

Employees

Please refer to "Directors, Supervisors, Senior Management and Employee" headed "Employees" for details.

Purchase, Sale and Investment

Save and except as disclosed in the annual report, there was no material purchase or sale of our subsidiaries or associates or any other material investments during 2007.

Pledge of Assets

As at 31 December 2007, no fixed asset was pledged by the Group (31 December 2006: RMB nil).

Company's Outlook on Future Developments (Business Prospects)

1. Industry's trends and competition posed to the Company

In 2008, the global situation will remain relatively stable. Nevertheless, affected by factors such as a volatile financial market and high oil prices, the world economy will continue to grow but at a slower rate, and with increasing uncertainties. Due to the ever-accelerating industrialization, urbanization, marketization and globalization, the economy of China is likely to maintain a steady and relatively fast growth, though the growth rate may witness a moderate decline. The domestic petrochemical market is expected to remain prosperous due to the gradually increasing demand for petroleum, natural gas, petroleum products and major petrochemicals, as driven by economic growth. However, petrochemical companies will still be exposed to a number of challenges as follows: high oil prices that is becoming a long term trend; possible new changes to the business cycle of the global petrochemical industry; the State's control over prices of domestic petroleum products that has not been loosened up; the impact of a tightening monetary policy, accelerated RMB appreciation, export tax rebates and the EU's REACH legislation; intensifying market competition caused by rapid expansion of the petrochemicals production capacity, both domestically and overseas; and more stringent requirements on safety, environmental protection, energy conservation and emission reduction as a result of the State's sustainable development strategy. All the above factors will have certain impact on the production operation of the petrochemical industry in China, adding risks to the operation of petrochemical companies.

In response to the changes in the foreign and domestic macro-economic environment, the Group will strive to intensify reform programs, adjust restructure, capitalize on business opportunities and accelerate development. It will also enhance management and regulate operation, striving to continue to achieve satisfactory operating results in 2008.

2. The Company's opportunities, challenges and strategies ahead

2008 will be a crucial year of transition for the implementation of China's Eleventh Five-year Plan. During the Eleventh Five-year Plan, economic globalization deepens, with all sorts of technological innovations emerging and economic growth drivers diversifying. Between 2006 and 2010, the world economy is expected to grow at an annual average rate of between 3% and 4%, whereas demand for petroleum will grow at an annual average rate of 1% to 2% and demand for ethylene will maintain an annual average growth rate of 4% to 5%. China's economy will maintain its steady and strong growth, with the domestic demand for petroleum and ethylene expected to increase to around 420 million tons and 26 million tons respectively by 2010.

For China's petroleum and petrochemical industry, the Eleventh Five-year Plan on the one hand presents room for massive development and a rare opportunity for strategic development: the State will further strengthen and enhance the macro-economic control measures along the lines of changing the economic growth approach and improving the socialist market economy, so as to facilitate the healthy and rapid development of the national economy. On the other hand, the industry also faces challenges such as more severe constraints over resources; more stringent requirements on environmental protection; difficult tasks on energy conservation and emission reduction; intensifying market competition; the need for improving overall skill and technological standards, and so forth.

During the period of the Eleventh Five-year Plan, the Group will base on a scientific development vision to persist with the development objective of "becoming a first-class China enterprise and an advanced corporation internationally, and building a modernized petrochemical enterprise with world-class competitiveness". The Group will be committed to matching external expansion with internal development, focusing on internal development as its mission and fully implementing the overall cost leadership strategy. Through the development of the structural adjustment project, the Group will effectively correct deficiencies such as inferior ancillary capacity in oil refining and the lack of full rationality in the petrochemical product mix and in the energy and power structure. Through integrated efforts on technological advancements and structural adjustments, quality enhancements and effective cost reductions, the Group will achieve a transformation and renewal of its obsolete facilities and an optimization and upgrade of its business structure, thereby further capitalizing on the Group's core operations and enhancing its overall competitiveness and economic efficiency.

3. New business initiatives for 2008

In 2008, in the face of mounting pressure brought by the continued rise in international crude oil prices and the State's control on domestic petroleum product prices, as well as the tough challenge posed by the rapidly expanding petrochemical production capacity and intensifying competition, the Group will aim for a full implementation of its overall cost leadership strategy and strive for the building of a harmonious enterprise. It will further optimize its resource allocation; enhance the "Three Basics" management; ensure safety and environmental protection; emphasize energy conservation and emission reduction; speed up reforms and developments; and further enhance the development of team structure and develop corporate culture, with a view to continuously increasing the enterprise's market competitiveness and improving risk management.

i. Reinforcing management foundation to ensure smooth and satisfactory production operations

The Group will continue to push forward the "Three Basics" tasks to reinforce the frontline staff's self-improvement efforts on basic skill training, effectively strengthening the all-encompassing full-process management of safety, production and facilities, so as to lay a solid foundation for the smooth and satisfactory operation of the production facilities. The Group will continue to enforce the HSE management system with every effort and strictly comply with the "Order on Production Safety", as well as fully implementing the safety and environmental protection accountability system at various levels. The Group will also further reinforce its effort on environmental protection and continue to push for clean production, striving to reduce the emission of "three wastes" and preventing major or serious incidents involving safety, environmental protection or occupational hazards. In addition, the Group will continue to work hard on the "Three Basics" tasks to enhance the operational standards and to achieve higher levels on major technical and economic indices for its facilities. Moreover, the Group will dedicate itself to strengthen the all-round and full-process management of production facilities, giving its best effort to the routine maintenance and large-scale inspection and maintenance turnaround of production facilities.

ii. Full implementation of the overall cost leadership strategy in light of the challenge posed by high oil prices

The Group will continue to utilize its overall advantage of being vertically integrated combing refining with petrochemical processing to further enhance the effective utilization rate of overall resources, so as to progress towards the objective of becoming an energy-conserving and environment-friendly petrochemical enterprise. The Group will maintain its direction of processing appropriately inferior and heavier crude oil resources to further improve the crude oil resource structure and processing method, so as to accomplish improvements in the business structure, product mix and fuel and power structure. Pursuant to the energy conservation and emission reduction control targets promulgated by the Eleventh Five-year Plan, the Group will further enhance its objective system and responsibility system to enhance an integrated utilization of energy and to carry out good recycling of water resources. The Group will also further enhance its internal control system and management, striving to reduce procurement costs for crude oil, bulk chemical raw material and fuel purchases, operating costs of facilities and various production operation charges, as well as regulating corporate operation acts to reduce operating risks and financial risks.

iii. Seeking satisfactory and rapid completion of projects through dedicated efforts on corporate development tasks

The Group will accelerate the development of the structural adjustment project and will push ahead with technological innovations, striving to enhance its corporate competitiveness. It will make dedicated efforts on the construction of the structural adjustment project to ensure that the new 600,000-ton/year PX aromatics complex, the new 150,000-ton/year C5 segregation plant, the #3 and #4 boilers of adding flue gas desulphurization facilities to the furnaces of coal-fired power plants, the flue-gas recovery expansion project and the 220,000-volt transformer station alteration project will reach the planned stages on time and in good quality. It will also continue to strive for corporate competitiveness enhancement by advancing technological innovations, with reference to the needs of production operation, optimization adjustment; energy conservation and emission reduction. In addition, the Group will steadily push forward the development of an information system through dedicated efforts on information system security management, installation of advance control systems and enhanced application of systems such as the ERP.

iv. Making steady progress on institutional and systematic reforms with an emphasis on making overall plans and taking all factors into consideration

The Group will continue to push forward various internal reforms in an active and steady manner, so as to eliminate the institutional, systematic and structural obstacles affecting development. The Group will strive to resolve the settlement tasks on the reform of ancillary businesses by further improving the reformed enterprises tracking mechanism and expressing concerns and support to the reformed enterprises, so as to facilitate their stable and healthy development. It will also continue to make steady efforts on the clean-up work at the subsidiary level according to the principle of focusing on and highlighting the principal operation, with a view to completing the clean-up work within the year. In addition, the Group will focus on the progress and enhancement of reform measures already in place to conscientiously complete the implemented program of professional integrated management and to further improve the relevant business flow and implementation methods, from the perspectives of regulatory flow, efficiency enhancement and quality improvement. Meanwhile, the Group will actively push forward the institutional reform of the Company's internal business department.

v. Strengthening the staff contingent building based on the people-first principle

The Group will strive to integrate the all-round development of its staff and the all-round progress of the enterprise to the realization of growth and development. The Group will give its best efforts on staff contingent building, by way of strengthened efforts on staff selection and job position exchanges, as well as an enhancement of the democratic, open, competitive and meritocratic staff selection and assignment system. It will initiate a wide range of activities such as positional drills, technique competitions, operational drills and mentorship scheme, so as to elevate the occupational competence of the staff. In addition, the Group will also reinforce the management knowledge and skill training for the professional and technical staff to raise their professional competence. The Group will also actively carry out publicity and educational campaigns on legal issues, so as to strengthen the legal knowledge and law-abiding spirit of the entire staff, thereby forming a healthy atmosphere of working in strict compliance with the law.

vi. Cultivating a corporate atmosphere of fairness, justice, solidarity and harmony

The Group will strive to promulgate a culture of harmony, with dedicated efforts to cultivate a corporate atmosphere of fairness, justice, solidarity and harmony. The Group will continue to actively push forward the promulgation of its corporate culture, enriching the content of the "Love your work and do your job conscientiously, be a sensible person; Follow the rules of operation and observe the labour discipline, be an honest person; be courteous and keep your word, be a civilized person" professional ethics practice to effectively strengthen the entire staff's senses of truthfulness, responsibility and occupation. In addition, the Group will emphasize the development of harmonious labour relation, by dutifully enforcing the "Labour Contract Law" and "Employment Assurance Law" to safeguard the lawful interests of the staff. Moreover, the Group will also further improve the work environment and conditions for the staff, with focused efforts on resolving the practical issues on the staff's general concern, as well as further enhancing various fringe benefits such as medical insurance and bodychecks and the supplementary staff livelihood security system, so as to reinforce the staff's sense of belonging to the Group.

4. The risks to which the Company may be exposed to in its future development

i. The cyclical characteristics of the petroleum and petrochemical industry as well as the volatility of crude oil and refinery products' prices may have an adverse impact on the Group's operation and production.

A large part of the Group's revenue is derived from the sale of petrochemicals. Historically, such products have been cyclical in nature and sensitive towards the supply and prices of raw materials as well as towards the overall economic situations. The markets where many of the Group's products are available respond sensitively to changes in industrial output and output level, the conditions of regional and global economies, cyclical changes in the prices and supply of substitutes, and changes in consumer demand. The above factors have a major impact, from time to time, on the prices of the Group's products available on the regional and global markets. Historically, these markets have experienced short supply during various periods which led to an increase in prices and profits, followed by a period of increased output which might result in oversupply and a decline in prices and profits. Given the reduction of tariffs and other import restrictions as well as China's relaxed control over the distribution and pricing of products, many of the Group's products will be subject to the impact of the petrochemical cycle of the regional and global markets. In addition, the prices of crude oil and petrochemicals will remain volatile and uncertain. Increased crude oil prices and fallen petrochemicals prices are likely to have an adverse impact on the Group's business, operating results and financial condition.

ii. Substantial capital expenditures and financing requirements are needed for the Group's development plans, presenting a number of risks and uncertainties.

The petrochemical industry is a capital intensive sector. The Group's capability to maintain and increase income, net income and cash flows has a bearing upon ongoing capital expenditures. The Group's capital expenditures amounted to approximately RMB2,134.1 million for 2007 (2006: RMB2,008.8 million), which were met by financing activities and part of the Group's internal funds. As at 31 December 2007, Sinopec Corp. (as the Group's controlling shareholder) provided guarantee to the Group's US$1.25 million long-term borrowings (2006: US$2.7 million).

The Group's capability to secure external financing in the future is subject to a number of uncertainties which include:

- the Company's operating results, financial condition and cash flow in future;
- China's economic conditions and the market conditions for the Group's products;
- financing costs and conditions of the financial market; and
- grant of government approval documents and other risks associated with the development of infrastructure projects in China, and so forth.

The Company's failure to secure sufficient financing required for operation or development plans may have an adverse impact on the Group's business, operating results and financial condition.

iii. The Group may be exposed to intensifying competition.

Eastern China, a major market of the Group, has been experiencing a stronger economic growth and a higher demand for petrochemicals than other regions, which the Company believes, will prompt rival petrochemical companies to attempt to expand their sales and set up their sales networks in our major markets. This tendency is believed to continue and may intensify. Intensifying competition may have a material adverse impact on the Group's financial condition and operating results.

iv. The Group may not be able to pass on all increased costs due to rising crude oil prices.

At present, a significant amount of crude oil is being consumed by the Group for the production of petrochemical products. The Group attempted to mitigate the effect of increased costs due to rising crude oil prices by passing on the increased costs to the Group's customers. However, whether the Group's ability to pass on the increased costs to its customers is subject to the market conditions and the State's control. Because there was a time lag between rising crude oil prices and increasing petrochemical products prices, and that the State imposes stringent control over petroleum product prices, rising crude oil prices cannot be totally offset by increasing the sales prices of the Group's products. This may have a major adverse impact on the Group's financial condition, operating results or cash flow.

v. The Group's business operations may be affected by existing or future environmental protection regulations.

The Group is subject to the scrutiny of a number of environmental protection laws and regulations in China. Such laws and regulations permit the government to:

- levy a tax on emission of wastes;
- levy a fine and a charge on acts that have seriously damaged the environment; and
- shut down any facilities which are not in compliance with the law, and request that a rectification be made or that the operation which is damaging the environment be suspended, all of which at the judgement of the Central Government.

Wastes are produced during the Group's production operation. Besides, operating permits are required for the Group's production equipment, and such permits may be subject to renewal, revision or revocation. The Group's operations are in full compliance with all applicable Chinese environment protection laws and regulations already promulgated and being enforced. However, the State has already enforced strict laws and environmental standards and may enforce stricter laws and stricter environmental standards. The Group cannot assure that the State or local governments will not enact more regulations or more strictly enforce certain (existing) regulations which may cause additional expenses on environmental protection measures.

vi. The Group will be under a longstanding impact of competition and imported products from foreign companies upon China's accession to the World Trade Organization ("WTO").

As a member state of WTO, China has undertaken to lift or reduce some tariffs and non-tariff barriers imposed on foreign players in the Chinese domestic petrochemical market, while such barriers used to benefit us. In particular, the tax rates of tariffs imposed on imported petrochemicals which are in competition with the Group's products have been reduced, and

- participation by foreign companies in investing in China's domestic petrochemical industry has been permitted to increase;
- restrictions on import of crude oil by non-state-owned companies will be relaxed gradually;
- foreign investment enterprises will be granted with the right to import and trade in petrochemical products; and
- foreign companies will be permitted to distribute and market petroleum products in China's domestic retail and wholesale markets.

If these measures are implemented, the Group will consistently be affected by intensified competition and import from overseas. The Group believes that China's accession to the WTO will bring about a substantial amount of investments and businesses to China and accordingly, more opportunities will be available for the Group's product sales. The Group also truly believes that its products have been and will be able to maintain their competitiveness against products imported into China. However, tariff breaks on imported products may reduce the cost of imported products or may have an adverse impact on the revenues from the sale of some of our products, including a small number of major products. On the other hand, the Chinese Government may also lower the tariffs on our production equipment to be imported by us in future and lift the existing restrictions on the use of imported raw materials. Although the Group is confident that it is able to capitalize on new sales opportunities, the eventual impact of China's accession to the WTO on our business and operating results remains to be seen.

vii. The Group's profits, dividends and cash and cash equivalents may be reduced due to fluctuations in the value of the Renminbi.

The People's Bank of China has set the conversion of Renminbi into foreign currencies, including US dollars. On July 21, 2005, the PRC government significantly changed its policy of pegging the value of the Renminbi to the US dollar by permitting the Renminbi to fluctuate within a narrow band against a basket of certain foreign currencies. Since the adoption of this new policy, the value of the Renminbi against the US dollar has fluctuated daily within a narrow band. During 2007, RMB witnessed a relatively substantial appreciation against the US dollar because of factors such as a depreciation of the US dollar. In addition, the PRC government continues to receive significant international pressure to further liberalize its currency policy, and as a result may further change its currency policy. A small portion of our cash and cash equivalents is denominated in foreign currencies, including the US dollar. Any increase in value of the Renminbi against other currencies, including the US dollar, may decrease the Renminbi value of our cash and cash equivalents that are denominated in foreign currencies. On the other hand, most of our revenues is denominated in Renminbi but a major part of our procurement of crude oil, certain equipment and certain debt repayments are denominated in foreign currencies. Any devaluation of the Renminbi in the future will increase our costs and jeopardize our profitability. Any devaluation of the Renminbi may also have an adverse impact on the value of dividends payable in foreign currencies by the Company for H shares and American Depository Receipts.

viii. Risks of the possibility of a higher tax rate.

In June 2007, the State Administration of Taxation issued a notice stating that the first nine joint-stock enterprises authorized by the State Council to issue shares in Hong Kong in 1993 were still adopting expired preferential tax policies, and that the relevant local taxation authorities should correct the situation immediately. The discrepancies between the income taxes for the previous years calculated by the expired preferential tax rates and the income taxes calculated by the applicable tax rates should be treated in accordance with the relevant regulations stipulated by the "Law on the Administration of Taxation Collection of The People's Republic of China".

The Company is among the afore-mentioned nine companies and applied the preferential corporate income tax rate of 15% in the previous years. After receiving the notice from Shanghai Municipal Office of the State Administration of Taxation in August 2007, the Company has adjusted the 2007 income tax rate from the previous 15% to 33%. Currently, the Company is uncertain whether the local taxation authority will demand retroactive payment of the income tax differences for the previous years, and is unable to estimate reliably the final results and possible risks regarding the matter. Following the implementation of the "Enterprise Income Tax Law of The People's Republic of China" on 1 January 2008, the income tax rate of the Group will be unified at 25%. Meanwhile, as the Company's 15% tax rate has become invalid, the past results of the Company may not be applied to project the Company's future results.

ix. Risks regarding the control by the majority shareholder.

Sinopec Corp., the controlling shareholder of the Group, owns 4,000,000,000 shares of the Group, representing 55.56% of the total share capital of 7,200,000,000 shares and assumes an absolute controlling position. Sinopec Corp. may, by taking advantage of its controlling position, exercise influences over the Group's production operation, funds allocations, appointments or removals of senior staff, etc, thereby producing an adverse impact on the Group's production operation as well as shareholders' interests.

x. Risks regarding the failure to complete the share reform.

The Company initiated its first share reform proposal in October 2006, but the first share reform proposal failed to obtain approvals by shareholders of the circulating A shares because such shareholders were not satisfied with the share reform proposal. In December 2007, the Company initiated the second share reform proposal, but the second share reform proposal was again rejected. According to the relevant regulations, starting from 8 January 2007, Shanghai Stock Exchange began to adopt a special arrangement of differentiated systems for listed companies that were unable to complete share reform, which involved the arrangement that the range of share price movement for such A shares were unitarily adjusted up or down by 5%, with a trading information disclosure system equivalent to that of ST and ST* stocks applied for such stocks. The Company does not rule out the possibility that the CSRC and Shanghai Stock Exchange may, depending on market conditions, introduce further arrangements of differentiated systems in a gradual manner for companies which have not yet completed the share reform. In addition, the CSRC will keep paying special attention to the implementation of share reform by the listed companies which have not yet implemented share reform when reviewing any securities-related applications by such listed companies, their substantial shareholders or ultimate controllers. Such regulations may have an adverse impact on the operating environment, market image and market financing activities of the Company.

Investments by the Company

1. Application of Capital Raised

The Company did not raise capital or use the previous capital raised during the Reporting Period.

2. Projects from non-raised capital

In 2007, the capital expenditure of the Group amounted to RMB2,134.1 million, representing an increase of 6.24% or RMB125.3 million as compared to RMB2,008.8 million in 2006. Major projects include the following:

Project	Total project investment RMB million	Project progress as at 31 December 2007
600,000-ton/year PX aromatics complex	1,001.5	Under construction
1,200,000-ton/year delayed coking facility	874.0	Completed
620-ton/hour steam-boiler and 100 megawatt power generation project	672.7	Completed
Total	2,548.2	

The Group's capital expenditure for 2007 is estimated at approximately RMB 2,500 million.

Reasons for changes in accounting policies, accounting estimates or amendments to major accounting errors of the Company and the impacts thereof

Effective from 1 January 2007, the Group has adopted the China Accounting Standards for Business Enterprises (2006). The details are set out in note 4 to the financial statements prepared under China Accounting Standards for Business Enterprises (2006). During the reporting period, the Company did not make any changes to accounting estimates or major accounting errors.

Daily Operation of the Board

1. The convening and the resolutions of the Board meetings

(i) The seventeenth meeting of the fifth session of the Board was held on 25 January 2007 by means of correspondence. At the meeting, the Board considered and approved the appointment of Mr. Zhang Jingming, the Company's Secretary to the Board, as the authorized representative with full mandate to handle all matters and sign all relevant documents in relation to the e-Submission System, with 12 voted in favour, 0 voted against and 0 abstained.

(ii) The eighteenth meeting of the fifth session of the Board was held on site on 29 March 2007. Announcement whereof was published in "China Securities Journal", "Shanghai Securities News", "South China Morning Post" and "Hong Kong Commercial Daily" on 30 March 2007.

(iii) The nineteenth meeting of the fifth session of the Board was held on 26 April 2007 by means of correspondence. Announcement whereof was published in "China Securities Journal", "Shanghai Securities News", "South China Morning Post" and "Hong Kong Commercial Daily" on 27 April 2007.

(iv) The twentieth meeting of the fifth session of the Board was held on 28 June 2007 by means of correspondence. Announcement whereof was published in "China Securities Journal" and "Shanghai Securities News" on 29 June 2007.

(v) The twenty-first meeting of the fifth session of the Board was held on 12 July 2007 by means of correspondence. At the meeting, the Board considered and approved the "Self-evaluation Report and Rectification Plan for the Special Project on Corporate Governance of Sinopec Shanghai Petrochemical Company Limited", with 12 voted in favour, 0 voted against and 0 abstained.

(vi) The twenty-second meeting of the fifth session of the Board was held on site on 24 August 2007. Announcement whereof was published in "China Securities Journal" and "Shanghai Securities News" on 27 August 2007.

(vii) The twenty-third meeting of the fifth session of the Board was held on site on 19 October 2007. Announcement whereof was published in "China Securities Journal" and "Shanghai Securities News" on 22 October 2007.

(viii) The twenty-fourth meeting of the fifth session of the Board was held on 26 October 2007 by means of correspondence. Announcement whereof was published in "China Securities Journal" and "Shanghai Securities News" on 29 October 2007.

(ix) The twenty-fifth meeting of the fifth session of the Board was held on 13 December 2007 by means of correspondence. Announcement whereof was published in "China Securities Journal" and "Shanghai Securities News" on 17 December 2007.

(x) The twenty-sixth meeting of the fifth session of the Board was held on 19 December 2007 by means of correspondence. Announcement whereof was published in "China Securities Journal" and "Shanghai Securities News" on 21 December 2007.

2. Board's execution of the resolutions made at shareholders' meetings

Two shareholders' meetings were convened during the Reporting Period. The Board strictly handled all matters within the scope of authorization as approved by the shareholders' meetings and faithfully executed the resolutions made thereat.

The 2006 Profit Appropriation Plan of the Company was implemented in accordance with the resolution made at the 2006 annual general meeting. The announcement on dividend payments for A shares was published in the China Securities Journal and Shanghai Securities News on 2 July 2007. dividends for A shares and H shares were paid on 12 July 2007. other resolutions were executed faithfully.

3. Performance of duties by the Board's Audit Committee

The Audit Committee of the Board held two meetings in 2007. At the first meeting held on 28 March, 4 resolutions were approved: (i) the 2006 annual report of the Company was considered and approved; (ii) the resolution on renewing the reappointment of the Company's domestic and international auditors for 2007 was considered and approved; (iii) the Company's 2006 internal control assessment report was considered and approved; (iv) the Company's "Internal Control Manual (2007 Edition)" was a considered and approved. At the second meeting held on 23 August, two resolutions were approved: (i) the 2007 interim report of the Company was considered and approved; (ii) the Company' internal control mechanism and execution inspection report for the first half of 2007 (full text and summary) was considered and approved.

The Audit Committee has reviewed with the management the accounting principles and standards adopted by the Company and has discussed matters regarding auditing, internal control and financial reporting, including a review of the audited annual report for the twelve months ended 31 December 2007.

4. **Performance of duties by the Board's Remuneration and Appraisal Committee**

The Remuneration and Appraisal Committee of the Board held one meeting in 2007. At the meeting, the committee was presented explanations on the appraisal and remuneration distribution of the Company's senior management in 2006 by the Company's various departments, as well as making proposals regarding the remunerations of the Company's Directors, Supervisors and the senior management for 2007, with such proposals submitted to the Board.

The Remuneration and Appraisal Committee has reviewed details regarding the remuneration of the Company's Directors, Supervisors and senior management in the audited annual report for the twelve months ended 31 December 2007.

Plan for Profit Appropriation or Additions to Statutory Reserves by the Board

Under the China Accounting Standards for Business Enterprises, the 2007 net profit of the Company amounted to RMB1,924,334,000; after RMB192,434,000 was made to the statutory surplus reserve under the statutory 10% rate, profit available for distribution to shareholders amounted to RMB1,731,900,000. The Board proposed to declare a final dividend of RMB0.90 (inclusive of tax) per 10 shares. With reference to the total number of shares of 7,200,000,000 for the year ended 31 December 2007, the total dividend amount will be RMB648 million.

In 2007, the Supervisory Committee of the Company conscientiously discharged its supervisory duties in accordance with the "Company Law" and the relevant legislations, the Articles of Association of the Company and the "Rules of Procedure for Supervisory Committee Meeting of Sinopec Shanghai Petrochemical Company Limited", thus helping preserve and increase the asset value of the Company, ensuring a standardized operation and safeguarding the shareholders' lawful interests.

(1) Meetings of the Supervisory Committee during the Reporting Period

Five meetings of the Supervisory Committee were convened during the Reporting Period, main content are as follows:

(i) The ninth meeting of the fifth session of the Supervisory Committee was convened on 28 March 2007, and the following was considered and approved:

(a) the work report of the Supervisory Committee for the year 2006;

(b) the annual report of the Company for the year 2006;

(c) the Supervisory Committee's comments and recommendations on the Company's operating results for the year 2006;

(ii) The tenth meeting of the fifth session of the Supervisory Committee was convened on 25 April 2007 (by correspondence), and the following was considered and approved:

(a) the 2007 first quarterly report of the Company;

(b) the Supervisory Committee's comments and recommendations on the Company's operating results for the 2007 first quarterly report.

(iii) The eleventh meeting of the fifth session of the Supervisory Committee was convened on 23 August 2007, and the following was considered and approved:

(a) the 2007 interim report of the Company;

(b) the Supervisory Committee's comments and recommendations on the Company's operating results for the 2007 interim report.

(iv) The twelfth meeting of the fifth session of the Supervisory Committee was convened on 18 October 2007 (by correspondence). The relevant matters regarding the Company's 2008-2010 continuing connected transactions were considered and approved.

(v) The thirteenth meeting of the fifth session of the Supervisory Committee was convened on 25 October 2007 (by correspondence), and the following was considered and approved:

(a) the 2007 third quarterly report of the Company;

(b) the Supervisory Committee's comments and recommendations on the Company's operating results for the 2007 third quarterly report.

(2) Work carried out by the Supervisory Committee during the Reporting Period

During the Reporting Period, members of the Supervisory Committee discharged their duties diligently; conducted meetings on a regular basis; focused on improving the quality of meeting deliberation and attended Board meetings. The Supervisory Committee is of the view that the Company operated in compliance with the law, with its internal control system established and enhanced, and the decision-making process lawful and in compliance with the regulations. No breaches of laws, regulations, the Articles of Association or acts that damage the Company's interests were discovered as the directors and senior management of the Company discharge their duties with the Company. The financial statements truthfully reflected the Company's financial position and operating results. During the Reporting Period, the Company has not raised any funds. No damage on the shareholders' interest of loss of asset for the Company was discovered as the Company disposed of its assets. Connected transactions were fair and just and no damage on the Company's interest was discovered. During the Reporting Period, the accounting firm did not issue any non-standard auditing report.

Major recommendations made to the Company in 2007 were: (i) to further analyze the relevant factors to lower the on-trip crude oil loss rate in maritime shipment and crude oil loss rate in processing, so as to reduce the lag behind the leading domestic peers; (ii) to pay more attention and adopt further measures to raise the receivable recovery ratio and reduce receivables; (iii) to further enhance measures to effectively reduce receivables for auxiliary businesses, particularly clearing up receivables of three years or above, while striving for the reduction of receivables for the core businesses; (iv) to further strengthen the management and application of inventories, reducing inventories' hold on capital; (v) to further strengthen its management to emphasize economic and technical indicators, in order to control resource and energy consumption, enhance site management quality, and raise the planned target of overall refining yield of petroleum products.

In discharging their routine monitoring duties, regular meetings of the Supervisory Committee Office were convened and the Company's quarterly reports were analyzed quarterly. The main aspects of the Supervisory Committee's work were as follows:

First, relevant units (departments/offices) were requested to provide explanations on any specific unusual financial data for clarifying, analyzing and resolving the problem. Secondly, recommendations were made on improving the weaknesses existing in production, operation and management. Thirdly, the Supervisory Committee carried out research and inspection into the basic level with reference to the actual operation of the Company's assets, and compiled research and inspection reports with recommendations on the enhancement of management and supervision. Fourthly, specific inspections were carried out by the Supervisory Committee and the relevant departments regarding the preservation and value enhancement of the Company's assets, making specific inspection reports with recommendations on management enhancement and reforms.

During 2008, the Supervisory Committee will, in accordance with the newly published Company Law, the Articles of Association and the "Rules of Procedure for Supervisory Committee Meeting" to discharge their supervisory duties diligently with reference to the Company's actual condition. With a focus on the Company's economic benefits, the Supervisory Committee will further strengthen its supervision on the senior management's acts in discharging the Company's business and will continuously regulate that the senior management act in honesty, in accordance with the Company's need of implementing the low-cost strategy. It will also further strengthen the supervision, inspection, analysis and assessment of the Company's operation management to control operating risks. The Supervisory Committee will also further enhance the inspection and research on the execution of operation management systems, so as to strengthen the execution ability of the systems and raise the scientific management standards. Through supervision and inspection, the Supervisory Committee will further advance the modernized corporate system, reinforce and improve the Company's management structure, enhance the supervision and control mechanisms and facilitate the preservation and value enhancement of the Company's assets, such that the lawful interests of all shareholders of the Company can be safeguarded.

1. **Material litigation or arbitration**

The Company was not involved in any material litigation or arbitration in 2007.

2. **Disposal of assets**

On 12 December 2007, the Company transferred to China Ping An Trust & Investment Co., Ltd., by way of an electronic bidding at the Shanghai United Assets and Equity Exchange, 7,604,140 shares of Guotai Junan Securities Co. Ltd. held by the Company (the "Guotai Junan Shares"), and 617,917 shares of Guotai Junan Asset Management Co., Ltd held by the Company (the "Guotai Management Shares"), for a consideration of RMB175,000,000. Of this amount, the considerations for the Guotai Junan Shares and the Guotai Management Shares were RMB173,813,600 and RMB1,186,400 respectively. On 19 December 2007, the Board of the Company considered and approved the relevant resolution in relation to the transaction and agreed to the transaction.

Based on the asset appraisal reports, Zhong Feng Ping Bao Zi (2007) No. 050 (中鋒評報字(2007)第050號資產評估報告書) and Zhong Feng Ping Bao Zi (2007) No. 051 (中鋒評報字(2007)第051號資產評估報告書), which were prepared by Beijing Zhong Feng Asset Appraisal Co., Ltd. (北京中鋒資產評估有限責任公司), a company qualified to carry on securities business, the Guotai Junan Shares and the Guotai Management Shares were valued at RMB65,547,700 and RMB1,186,400 respectively as at the appraisal date of 31 December 2006. The total value of the Shares was valued as RMB66,734,100. As at 31 December 2006, the audited book value of the Guotai Junan Shares and the Guotai Management Shares was RMB7,084,300 and RMB575,700 respectively, giving a total value of RMB7,660,000. Through the transaction, the Company recorded a net income of RMB166,257,300 (before taxation).

Details in relation to the matter were disclosed in "China Securities Journal", "Shanghai Securities News", and the websites of HKEx, SSE and the Company on 21 December 2007.

3. **Major Connected Transactions**

(a) Connected transactions in relation to routine operations

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

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

The prices of on-going connected transactions conducted by the Company with Sinopec, Sinopec Corp. or their associates were determined, upon negotiations between both parties, on the basis of (1) State tariffs; or (2) State guidance prices; or (3) market prices. Such connected transactions were entered into in line with the Company's production and operation needs: The purchases by the Company of crude oil and related materials from and sales of petroleum products, etc by the Company to Sinopec Corp. and its associates were conducted in accordance with the State's relevant policy and applicable State tariffs or State guidance prices, so that it is beneficial to ensure the safe and stable supply of the raw materials of the Group and stabilize the sales channels and sales volume. As long as the State does not lift its control over purchases of crude oil, sales of petroleum products and pricing thereof, such connected transactions will continue to happen. The Company accepts transportation, design, construction and installation, insurance agency and financial services from Sinopec and its associates in order to secure steady and reliable services at reasonable prices. The Company sells petrochemicals to Sinopec Corp. and its associates and Sinopec and its associates act as an agency for the sale of petrochemicals in order to reduce the Company's inventories, expand its trading, distribution and sales networks and improve our bargaining power with our customers.

The connected transactions conducted by the Company with Sinopec, Sinopec Corp. or their associates are carried out in the ordinary course of the Company's business under normal commercial terms or terms not less favourable than those given by/to the Group to/by independent third parties. The aforesaid connected transactions did not have a significant adverse impact on the production operation and profit of the Company and were in the overall interests of the Company and the shareholders.

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

Type of transactions	Related parties	Amount RMB'000	Percentage of the total amount of this type of transaction (%)
Income from sale of products and services	Sinopec Huadong Sales Company	17,884,389	32.28
	Other related parties	5,022,696	9.07
Purchases	Sinopec Transport and Storage Company	22,377,518	41.58
	Other related parties	16,356,661	30.39
Installation fees	Sinopec and its subsidiaries	206,256	34.78
Transportation costs	Sinopec Transport and Storage Company	254,128	67.58

This includes: an amount of RMB20,853,142,000 for the connected transactions in respect of the sale of products or the provision of labor services to the controlling shareholder and its subsidiaries by the listed company during the Reporting Period.

On 13 December 2007, the Company's 2007 extraordinary general meeting considered and approved the Product Supply and Sales Services Framework Agreement and the Comprehensive Services Framework Agreement for 2008 to 2010, and approved the annual caps for the relevant connected transactions for the years ending 31 December 2008, 31 December 2009 and 31 December 2010.

(b) Connected creditor's rights and liabilities

		Funds provided to connected parties		Funds provided by connected parties to the company	
Connected party	Connected relationship	Net transaction RMB'000	Balance RMB'000	Net transaction RMB'000	Balance RMB'000
Sinopec Corp.	Controlling shareholder	-	-	-	-
Holding Company and other subsidiaries of Sinopec Corp.	Actual controller and other subsidiaries	(41,068)	44,661	31,348	66,691
Total		(41,068)	44,661	31,348	66,691

* Cause of connected creditor's rights and liabilities: As at the end of the Reporting Period, the balance of funds provided by the Group to connected parties mainly consisted of the RMB40,000,000 balance of a trust loan provided to the Group's associate Shanghai Jinpu Plastics Packaging Material Company Limited, as well as the outstanding receivables arising from the Group's product sales to associates.

(c) Independent non-executive directors of the Company have reviewed the Group's connected transactions and confirmed that:

- such transactions were on-going business of the Company;
- such transactions were conducted according to normal commercial terms; and
- such transactions were conducted according to the relevant agreement terms.

4. Trust

The Company did not enter into any trust arrangements during 2007.

5. Sub-contracting

The Company did not enter into any sub-contracting arrangements during 2007.

6. Leasing

The Company did not enter into any leasing arrangements during 2007.

7. Guarantees

The Company's External guarantees(excluding guarantees to subsidiaries with controlling interests)

Guaranteed entities	Date (Agreement signing date)	Guarantee amount (RMB '000)	Type of guarantee	Guarantee period	Guarantee expired	Guarantee for a connected party
Shanghai Jinpu Plastics Packaging Material Company Limited	20 July 2007	14,500	Joint guarantee	20 July 2007 - 20 July 2008	No	Yes
Others	21 December 2004	16,247	Joint guarantee	21 December 2004 - 21 December 2009	No	Yes

	RMB'000
Amount of guarantees signed during the Reporting Period	(19,003)
Amount of guarantees at the end of the Reporting Period	30,747
Group's guarantees to subsidiaries	
Amount of guarantees to subsidiaries signed by the Company during the Reporting Period	191,500
Amount of guarantees to subsidiaries at the end of the Reporting Period	545,000
Total guarantee amount (including guarantees to subsidiaries)	
Total guarantee amount	575,747
Total guarantee amount as a percentage of net asset value (Under China Accounting Standards for Business Enterprises (2006)) of the Company (%)	2.70
of which:	
Amount of guarantee provided for shareholders, the de facto controller or the other connected parties	-
Amount of debt guarantee provided for the companies with liabilities to assets ratio of over 70% directly or indirectly	558,250
Total amount of guarantee is over 50% of the net asset	-
Total guarantee amount of the above three items	558,250

8. Trust financial management

The Company did not enter into any trust financial management during 2007.

9. Other material contracts

There were no other material contracts during 2007.

10. Performance of undertakings

During and until the Reporting Period, there were no undertaking by the Company or Shareholders with shareholdings of over 5%.

11. Appointment and dismissal of accounting firm

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

12. Disciplinary actions upon the Company and its directors, supervisors, senior management, shareholders and de facto controller

During the Reporting Period, the Company and its directors, supervisors, senior management, shareholders and de facto controller had not been investigated, administratively punished or publicly criticized by the China Securities Regulatory Commission or publicly reprimanded by the Stock Exchanges.

13. Other major events and factors, and analysis of solutions

(a) Analysis of securities investments

No.	Type of Securities	Stock code	Abbreviation	Initial investment cost (RMB)	Number of shares held (share)	Book value at the end of the Reporting Period (RMB)	Percentage of total securities investment (%)	Gain in the Reporting Period
1	Stock	600837	HTSEC	11,164,000.00	4,952,049	223,353,756.47	47	0
2	Stock	600000	SPDB	2,928,958.12	4,000,000	211,200,000.00	44	628,270,571.83
3	Stock	600527	JNGX	1,280,865.93	2,835,833	44,238,994.80	9	19,609,518.94
Gain of the sold securities investment in the Reporting Period				-	-	-	-	122,844,286.65
Total				15,373,824.05		478,792,751.27	100	770,724,377.42

(b) Trading in the shares of other listed companies

	Stock	Number of shares held at the beginning of the Reporting Period (shares)	Number of shares sold during the Reporting Period (shares)	Number of shares held at the end of the Reporting Period (shares)	Amount of capital used (RMB)	Resulting investment gain (RMB)
Sold	SPDB	20,485,100	16,485,100	4,000,000	-	628,270,571.83
Sold	JNGX	4,113,900	1,278,067	2,835,833	-	19,609,518.94
Sold	NHPRECL	289,980	289,980	-	-	5,959,846.73
Sold	ZXDQ	3,036,250	3,036,250	-	-	88,016,385.73
Sold	CSGM	124,114	124,114	-	-	1,704,200.00
Sold	TJRP	60,000	60,000	-	-	558,587.70
Sold	LJHG	307,340	307,340	-	-	783,253.49

During the Reporting Period, the investment gain from sale of new shares subscribed in offerings was: nil.

14. Tax rate

The charge for PRC income tax is currently calculated at the rate of 33% (2006:15%). In August 2007, the Company is notified by the Shanghai Municipal Office of the State Administration of Taxation that from 2007, the income tax rate for the Company will be adjusted from the original 15% to 33%. Following the implementation of the "Enterprise Income Tax Law of The People's Republic of China" since 1 January 2008, the income tax rate of the Group will be unified at 25%

15. Deposits

The Company did not have any entrusted deposits during the Reporting Period. As at 31 December 2007, the Group did not have any time deposits which could not be collected upon maturity.

16. The Execution of the 2006 Profit Appropriation Plan

The Profit Appropriation Plan for 2006 was approved at the Company's 2006 annual general meeting. A dividend of RMB 0.40 (tax included) per 10 shares was distributed to shareholders, based on the total share capital of 7,200,000,000 shares as at the end of 2006. The relevant announcement was published on China Securities Journal, Shanghai Securities News, South China Morning Post and Hong Kong Commercial Daily on 20 June 2007. On 2 July 2007, the Company published the profit appropriation plan for A shares. In respect of the distribution of A-share dividend, the share right registration date was 6 July 2007 and the ex-dividend date was 9 July 2007. The dividend payment date for social public shares of A shares and H shares was 12 July 2007. Such profit appropriation plan was implemented as scheduled.

17. Reserve

Details of changes in reserves are set out in note 28 to the financial statements prepared under IFRS.

18. Financial summary

A Summary of the results, total assets, liabilities and shareholders' equity of the Group as at 31 December 2007 are set out on page 4 of this annual report.

19. Bank loans and other borrowings

Details of bank loans and other borrowings of the Company and the Group as at 31 December 2007 are set out in note 33 to the financial statements prepared under IFRS.

20. Interest capitalized

Details of interest capitalized during the year are set out in note 7 to the financial statements prepared under IFRS.

21. Property, plant and equipment

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

22. Purchase, sale and redemption of shares

During the year, no shares of the Company were purchased, sold or redeemed by the Company or its subsidiaries.

23. Pre-emptive rights

According to the Articles of Associations of the Company and the laws of the PRC, there is no pre-emptive right which requires the Company to offer new shares to existing shareholders of the Company in proportion to their shareholdings.

24. Controlling shareholder

Sinopec Corp. is the controlling shareholder of the Company, holding a 55.56% equity interest or 4,000 million shares.

Sinopec Corp. is the PRC's and Asia's largest company in terms of production, distribution and marketing of gasoline, diesel, jet coal and most of other petroleum products. Sinopec Corp. is also the largest producer and distributor of petrochemical products in China and the second largest explorer, developer and producer of crude oil and natural gas in China.

25. Implementation of share option incentive scheme and the impact

There were no implementation of share option incentive scheme and impact during the Reporting Period.

26. Other important events

There were no other important events during the Reporting Period.

KPMG

Independent Auditors' Report
To the shareholders of Sinopec Shanghai Petrochemical Company Limited
(Established in The People's Republic of China with limited liability)

We have audited the consolidated financial statements of Sinopec Shanghai Petrochemical Company Limited ("the Company") set out on pages 86 to151, which comprise the consolidated and company balance sheets as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2007 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG

Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

7 April 2008

Consolidated Income Statement

For the year ended 31 December 2007
(Prepared under International Financial Reporting Standards)
(Expressed in Renminbi)

	Note	2007 RMB'000	2006 RMB'000
Turnover		55,328,384	50,599,485
Sales taxes and surcharges		(1,073,695)	(681,362)
Net sales		54,254,689	49,918,123
Other income	3	93,900	282,142
Cost of sales		(52,646,516)	(49,182,232)
Gross profit		1,702,073	1,018,033
Selling and administrative expenses		(504,712)	(521,990)
Other operating income	4	216,553	297,394
Other operating expenses			
Employee reduction expenses	6	(208,013)	(83,603)
Others		(313,245)	(156,927)
Total other operating expenses	5	(521,258)	(240,530)
Profit from operations		892,656	552,907
Financial income		82,280	137,997
Financial expenses		(260,206)	(303,386)
Net financing costs	7	(177,926)	(165,389)
Investment income	8	770,725	-
Share of profits of associates and jointly controlled entities		665,897	576,682
Profit before taxation	9	2,151,352	964,200
Taxation	11(a)	(468,216)	(53,238)
Profit after taxation		1,683,136	910,962
Attributable to:			
Equity shareholders of the Company		1,634,080	844,407
Minority interests		49,056	66,555
Profit after taxation		1,683,136	910,962
Basic earnings per share	12	RMB 0.23	RMB 0.12
Dividends attributable to the year	13	648,000	288,000

The notes on pages 94 to 151 form part of these financial statements.

Consolidated Balance Sheet

As at 31 December 2007
(Prepared under International Financial Reporting Standards)
(Expressed in Renminbi)

	Note	2007 RMB'000	2006 RMB'000
Non-current assets			
Property, plant and equipment	14(a)	14,977,237	13,359,862
Investment property	15	512,793	501,904
Construction in progress	16	962,313	2,008,447
Interest in associates and jointly controlled entities	18	3,068,135	2,787,795
Other investments	19	714,427	528,931
Lease prepayments and other assets		649,337	603,290
Goodwill	20	22,415	22,415
Deferred tax assets	11(b)	9,629	30,310
Total non-current assets		20,916,286	19,842,954
Current assets			
Inventories	21	5,197,849	4,163,256
Trade debtors	22	212,257	358,690
Bills receivable	22	1,757,131	1,212,110
Deposits, other debtors and prepayments		262,918	239,114
Amounts due from related parties	22,26	515,222	695,286
Income tax recoverable		98,222	-
Cash and cash equivalents	23	893,165	894,650
Total current assets		8,936,764	7,563,106
Current liabilities			
Loans and borrowings	24	4,091,969	4,270,337
Trade creditors	25	1,504,454	1,385,577
Bills payable	25	300,575	7,026
Other creditors		1,442,284	732,951
Amounts due to related parties	25,26	904,870	599,773
Income tax payable		17,580	34,386
Total current liabilities		8,261,732	7,030,050
Net current assets		675,032	533,056
Total assets less current liabilities carried forward		21,591,318	20,376,010

The notes on pages 94 to 151 form part of these financial statements.

As at 31 December 2007
(Prepared under International Financial Reporting Standards)
(Expressed in Renminbi)

	Note	2007 RMB'000	2006 RMB'000
Total assets less current liabilities brought forward		21,591,318	20,376,010
Non-current liabilities			
Loans and borrowings	24	639,289	1,063,654
Total non-current liabilities		639,289	1,063,654
Net assets		20,952,029	19,312,356
Shareholders' equity			
Share capital	27	7,200,000	7,200,000
Reserves	28	13,448,038	11,776,343
Total equity attributable to equity shareholders of the Company		20,648,038	18,976,343
Minority interests		303,991	336,013
Total equity		20,952,029	19,312,356

Approved and authorised for issue by the board of directors on 7 April 2008.

Rong Guangdao
Chairman and President

Du Chongjun
Vice Chairman and Vice President

Han Zhihao
Director and Chief Financial Officer

The notes on pages 94 to 151 form part of these financial statements.

Balance Sheet

As at 31 December 2007
(Prepared under International Financial Reporting Standards)
(Expressed in Renminbi)

	Note	2007 RMB'000	2006 RMB'000
Non-current assets			
Property, plant and equipment	14(b)	13,516,420	11,578,597
Investment property	15	569,326	584,247
Construction in progress	16	937,341	2,004,706
Investments in subsidiaries	17	1,921,103	2,134,113
Interest in associates and jointly controlled entities	18	2,274,480	2,274,480
Other investments	19	434,554	114,095
Lease prepayments and other assets		505,853	546,508
Goodwill	20	22,415	22,415
Deferred tax assets	11(b)	8,103	24,376
Total non-current assets		20,189,595	19,283,537
Current assets			
Inventories	21	4,780,473	3,584,431
Trade debtors	22	62,710	39,292
Bills receivable	22	1,616,858	920,733
Deposits, other debtors and prepayments		138,719	32,433
Amounts due from related parties	22,26	457,604	608,475
Income tax recoverable		98,222	-
Cash and cash equivalents	23	634,533	551,693
Total current assets		7,789,119	5,737,057
Current liabilities			
Loans and borrowings	24	3,548,739	4,001,726
Trade creditors	25	1,174,332	735,602
Bills payable	25	285,594	1,141
Other creditors		1,348,442	641,559
Amounts due to related parties	25,26	1,367,447	471,765
Income tax payable		-	19,754
Total current liabilities		7,724,554	5,871,547
Net current assets / (liabilities)		64,565	(134,490)
Total assets less current liabilities carried forward		20,254,160	19,149,047

The notes on pages 94 to 151 form part of these financial statements.

As at 31 December 2007
(Prepared under International Financial Reporting Standards)
(Expressed in Renminbi)

	Note	2007 RMB'000	2006 RMB'000
Total assets less current liabilities brought forward		20,254,160	19,149,047
Non-current liabilities			
Loans and borrowings	24	450,000	873,710
Total non-current liabilities		450,000	873,710
Net assets		19,804,160	18,275,337
Shareholders' equity			
Share capital	27	7,200,000	7,200,000
Reserves	28	12,604,160	11,075,337
Total equity		19,804,160	18,275,337

Approved and authorised for issue by the board of directors on 7 April 2008.

Rong Guangdao
Chairman and President

Du Chongjun
Vice Chairman and Vice President

Han Zhihao
Director and Chief Financial Officer

The notes on pages 94 to 151 form part of these financial statements.

Consolidated Statement of Changes in Shareholders' Equity

For the year ended 31 December 2007
(Prepared under International Financial Reporting Standards)
(Expressed in Renminbi)

	Note	Share capital	Share premium	Reserves	Retained earnings	Total equity attributable to equity shareholders of the Company	Minority Interests	Total
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2006		7,200,000	2,420,841	4,392,598	4,816,548	18,829,987	347,453	19,177,440
Unrealised gain for changes in fair value of available-for-sale securities, net of deferred tax		-	-	21,949	-	21,949	-	21,949
Total income and expense recognised directly in equity		-	-	21,949	-	21,949	-	21,949
Profit attributable to shareholders		-	-	-	844,407	844,407	66,555	910,962
Total recognised income and expense		-	-	21,949	844,407	866,356	66,555	932,911
Appropriation	28	-	-	73,685	(73,685)	-	-	-
Dividends approved in respect of previous year	13(b)	-	-	-	(720,000)	(720,000)	-	(720,000)
Dividends paid to minority shareholders		-	-	-	-	-	(77,995)	(77,995)
At 31 December 2006		7,200,000	2,420,841	4,488,232	4,867,270	18,976,343	336,013	19,312,356
At 1 January 2007		7,200,000	2,420,841	4,488,232	4,867,270	18,976,343	336,013	19,312,356
Unrealised gain for changes in fair value of available-for-sale securities, net of deferred tax		-	-	842,002	-	842,002	-	842,002
Transfer to profit or loss on disposal of available-for-sale securities, net of deferred tax		-	-	(516,387)	-	(516,387)	-	(516,387)
Total income and expense recognised directly in equity		-	-	325,615	-	325,615	-	325,615
Profit attributable to shareholders		-	-	-	1,634,080	1,634,080	49,056	1,683,136
Total recognised income and expense		-	-	325,615	1,634,080	1,959,695	49,056	2,008,751
Adjustment to reserves	28	-	-	(36,733)	36,733	-	-	-
Appropriation	28	-	-	192,434	(192,434)	-	-	-
Dividends approved in respect of previous year	13(b)	-	-	-	(288,000)	(288,000)	-	(288,000)
Dividends paid to minority shareholders		-	-	-	-	-	(81,078)	(81,078)
At 31 December 2007		7,200,000	2,420,841	4,969,548	6,057,649	20,648,038	303,991	20,952,029

The notes on pages 94 to 151 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2007
(Prepared under International Financial Reporting Standards)
(Expressed in Renminbi)

	Note	2007 RMB'000	2006 RMB'000
Cash generated from operations	(a)	**2,459,119**	2,051,780
Interest paid		**(342,574)**	(344,064)
Income tax paid		**(674,547)**	(63,386)
Income tax refunded		**-**	52,285
Net cash from operating activities		**1,441,998**	1,696,615
Investing activities			
Interest income received		**46,421**	56,827
Investment income received		**393,062**	47,596
Proceeds from disposal of property, plant and equipment		**68,708**	254,843
Proceeds from disposal of investments		**1,114,701**	351,178
Capital expenditure		**(2,134,123)**	(2,008,779)
Purchase of investments and addition of interests in associates		**-**	(54,206)
Net cash used in investing activities		**(511,231)**	(1,352,541)
Financing activities			
Net proceeds from issue of corporate bonds		**-**	2,977,800
Proceeds from loans		**17,605,887**	13,936,126
Repayment of loans		**(16,166,938)**	(15,910,127)
Redemption of corporate bonds		**(2,000,000)**	(1,000,000)
Dividends paid to equity shareholders of the Company		**(288,000)**	(720,000)
Dividends paid to minority shareholders		**(81,078)**	(77,995)
Net cash used in financing activities		**(930,129)**	(794,196)
Increase / (decrease) in cash and cash equivalents		**638**	(450,122)
Cash and cash equivalents at 1 January		**894,650**	1,347,237
Effect of exchange rate fluctuations on cash held		**(2,123)**	(2,465)
Cash and cash equivalents at 31 December		**893,165**	894,650

The notes on pages 94 to 151 form part of these financial statements.

For the year ended 31 December 2007
(Prepared under International Financial Reporting Standards)
(Expressed in Renminbi)

(a) Reconciliation of profit before taxation to cash generated from operations:

	2007 RMB'000	2006 RMB'000
Profit before taxation	2,151,352	964,200
Interest income	(46,421)	(56,827)
Income from unlisted investment	(122,709)	(97,179)
Share of profits of associates and jointly controlled entities	(665,897)	(576,682)
Transfer from equity on disposal of available-for-sale securities	(770,725)	-
Interest expense	260,206	303,386
Depreciation for property, plant and equipment	1,687,435	1,810,990
Depreciation for investment property	14,879	12,678
Impairment losses on property, plant and equipment	200,295	50,000
Amortisation of lease prepayments	16,972	29,400
Unrealised exchange gain	(16,535)	(78,841)
Loss / (gain) on disposal of property, plant and equipment	44,045	(19,569)
Increase in inventories	(1,034,593)	(48,278)
Increase in debtors, bills receivable and deposits	(387,688)	(585,256)
Increase in trade creditors, other creditors and bills payable	643,342	345,628
Increase / (decrease) in balances with related parties	485,161	(1,870)
Cash generated from operations	2,459,119	2,051,780

The notes on pages 94 to 151 form part of these financial statements.

1. Significant accounting policies

The significant accounting policies adopted in the preparation of the financial statements are set out below:

(a) Statement of compliance

The financial statements of Sinopec Shanghai Petrochemical Company Limited ("the Company") and its subsidiaries (collectively "the Group") have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). IFRS include International Accounting Standard ("IAS") and related interpretations. These financial statements also comply with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

(b) Basis of preparation of the financial statements

The consolidated financial statements are prepared on the historical cost basis except for certain property, plant and equipment which are modified by the revaluation as stated in note 1(f) and available-for-sale equity securities which are stated at fair value (see note 1(e)). The accounting policies have been consistently applied by the Group.

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key assumptions and estimation made by management in the application of IFRS that have significant effect on the financial statements and have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities in the next financial year are disclosed in note 35.

1. Significant accounting policies *(continued)*

(c) Basis of consolidation

(i) Subsidiaries and minority interests

The consolidated financial statements of the Group include the financial statements of the Company and all of its principal subsidiaries. Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Minority interests represent the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the Company, whether directly or indirectly through subsidiaries, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Minority interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity shareholders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of the Company.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (see note 1(v)).

(ii) Associates and jointly controlled entities

An associate is an entity in which the Group or the Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A jointly controlled entity is an entity which operates under a contractual arrangement between the Group or the Company and other parties, where the contractual arrangement establishes that the Group or Company and one or more of the other parties share joint control over the economic activity of the entity.

1. Significant accounting policies *(continued)*

(c) Basis of consolidation *(continued)*

(ii) Associates and jointly controlled entities (continued)

An investment in an associate or a jointly controlled entity is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the associate's or the jointly controlled entity's net assets.

When the Group's share of losses exceeds its interest in the associate or the jointly controlled entity, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or the jointly controlled entity.

Unrealised profits and losses resulting from transactions between the Group and its associates and jointly controlled entities are eliminated to the extent of the Group's interest in the associate or jointly controlled entity, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in the profit or loss.

In the Company's balance sheet, its investments in associates and jointly controlled entities are stated at cost less impairment losses (see note 1(v)).

(d) Goodwill

Goodwill represents the excess of the cost of a business combination or an investment in an associate or a jointly controlled entity over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (see note 1(v)). In respect of associates or jointly controlled entities, the carrying amount of goodwill is included in the carrying amount of the interest in the associate or jointly controlled entities.

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination or an investment in an associate or a jointly controlled entity is recognised immediately in profit or loss.

1. Significant accounting policies *(continued)*

(e) Other investments in equity securities

The Group's and the Company's policies for investments in equity securities, other than investments in subsidiaries, associates and jointly controlled entities, are as follows:

Investments in available-for-sale equity securities are carried at fair value with any change in fair value recognised directly in equity. When these investments are derecognised or impaired, the cumulative gain or loss previously recognised directly in equity is recognised in profit or loss. Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the balance sheet at cost less impairment losses (see note 1(v)).

(f) Property, plant and equipment

Property, plant and equipment are stated in the balance sheet at cost or valuation (see note 14(d)) less accumulated depreciation and impairment losses (see note 1(v)). Revaluations are performed with sufficient regularity to ensure that the carrying amount of these assets does not differ materially from that which would be determined using fair value at balance sheet date.

The cost of self-constructed assets includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs.

Gains or losses arising from the retirement or disposal of items of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the items and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the costs / revalued amount of property, plant and equipment over their estimated useful lives on a straight-line basis, after taking into account their estimated residual values, as follows:

Buildings	15 to 40 years
Plant, machinery, equipment and others	5 to 26 years

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value are reviewed annually.

1. Significant accounting policies *(continued)*

(g) Investment property

Investment properties are properties which are owned or held under a leasehold interest either to earn rental income and / or for capital appreciation.

Investment properties are stated in the balance sheet at cost less accumulated depreciation. Depreciation is provided over their estimated useful lives on a straight-line basis, after taking into account their estimated residual values. Estimated useful life of the investment property is 40 years.

(h) Lease prepayments and other assets

Lease prepayments and other assets represent prepayments for land use rights and catalysts used in production. They are carried at cost less accumulated amortisation and impairment losses (see note 1(v)). The costs of lease prepayments and other assets are written off on a straight-line basis over the respective periods of the rights and the estimated useful lives of the catalysts.

(i) Construction in progress

Construction in progress represents buildings, various plant and equipment under construction and pending installation, and is stated at cost less government grants that compensate the Company for the cost of construction, and impairment losses (see note 1(v)). Cost comprises direct costs of construction as well as interest charges, and foreign exchange differences on related borrowed funds to the extent that they are regarded as an adjustment to interest charges, during the period of construction.

Construction in progress is transferred to property, plant and equipment when the asset is substantially ready for its intended use.

No depreciation is provided in respect of construction in progress.

(j) Inventories

Inventories, other than spare parts and consumables, are carried at the lower of cost and net realisable value. Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

1. Significant accounting policies *(continued)*

(j) Inventories *(continued)*

When inventories are sold, the carrying amount of the inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

Spare parts and consumables are stated at cost less any provision for obsolescence.

(k) Trade receivables, bills and other receivables

Trade receivables, bills and other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of doubtful debts (see note 1(v)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

Trade receivables, bills and other receivables are derecognised if the Group's contractual rights to the cash flows from these financial assets expire or if the Group transfers these financial assets to another party without retaining control or substantially all risks and rewards of the assets.

(l) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(m) Trade and other payables

Trade and other payables are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(n) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand and time deposits with banks and other financial institutions with an initial term of less than three months at acquisition. Cash equivalents are stated at cost, which approximates fair value.

1. Significant accounting policies *(continued)*

(o) Translation of foreign currencies

Foreign currency transactions during the year are translated into Renminbi at the applicable exchange rates ruling at the transaction dates.

Monetary assets and liabilities denominated in foreign currencies are translated into Renminbi at rates quoted by the People's Bank of China at the balance sheet date. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated into Renminbi at the foreign exchange rate ruling at the date of the transaction.

Foreign currency translation differences relating to funds borrowed to finance the construction of property, plant and equipment to the extent that they are regarded as an adjustment to interest costs are capitalised during the construction period. All other exchange gains and losses are dealt with in profit or loss.

(p) Revenue recognition

Revenues associated with the sale of petroleum and chemical products are recognised in profit or loss when the significant risks and rewards of ownership have been transferred to the buyer. Revenue excludes value added tax and is after deduction of any trade discounts and returns. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due to the possible return of goods, or when the amount of revenue and the costs incurred or to be incurred in respect of the transaction cannot be measured reliably.

Revenue from services rendered is recognised in profit or loss upon performance of the services.

Dividend income is recognised in profit or loss on the date the shareholder's right to receive payment is established.

Gains or losses arising from the retirement or disposal of unlisted investments are determined as the difference between the net disposal proceeds and the carrying amount of the investment and are recognised in profit or loss on the date of retirement or disposal.

Rental income from investment property is recognised in profit or loss on a straight-line basis over the term of the lease.

1. Significant accounting policies *(continued)*

(q) Government grants

Government grants are recognised in the balance sheet initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted in arriving at the carrying amount of the asset and consequently are recognised in profit or loss over the useful life of the asset.

(r) Net financing costs

Net financing costs comprise interest payable on borrowings calculated using the effective interest rate method, interest income on bank deposits, foreign exchange gains and losses and bank charges.

Interest income from bank deposits is recognised in the profit or loss as it accrues using the effective interest method.

All interest and other costs incurred in connection with borrowings are expensed as incurred as part of net financing costs, except to the extent that they are capitalised as being directly attributable to the acquisition or construction of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

(s) Repairs and maintenance expenses

Repairs and maintenance expenses are charged to the profit or loss as and when they are incurred.

(t) Research and development costs

Research and development costs comprise all costs that are directly attributable to research and development activities or that can be allocated on a reasonable basis to such activities. Because of the nature of the Group's research and development activities, no development costs satisfy the criteria for the recognition of such costs as an asset. Both research and development costs are therefore recognised as expenses in the period in which they are incurred.

1. Significant accounting policies *(continued)*

(u) Employee benefits

The contributions payable under the Group's retirement plans are charged to the profit or loss on an accrual basis according to the contribution determined by the plans. Further information is set out in note 30.

Termination benefits, recorded as employee reduction expenses in the profit or loss, are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(v) Impairment loss

(i) Impairment of trade accounts receivable, bills and other receivables, bills and investments in equity securities other than investments in subsidiaries, associates and jointly controlled entities, that do not have a quoted market price in an active market (see note 1 (v) (ii)) are accounted as follows:

Trade accounts receivable, bills and other receivables and investments in equity securities other than investments in subsidiaries, associates and jointly controlled entities, that do not have a quoted market price in an active market are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, an impairment loss is determined and recognised. The impairment loss is measured as the difference between the asset's carrying amount and the estimated future cash flows, discounted at the current market rate of return for a similar asset where the effect of discounting is material. Impairment losses for trade accounts receivable, bills and other receivables are reversed if in a subsequent period the amount of the impairment loss decreases. Impairment losses for investments in equity securities are not reversed.

(ii) Impairment of other long-lived assets is accounted as follows:

The carrying amounts of other long-lived assets, including property, plant and equipment, construction in progress, lease prepayment, other assets and investments in associates and jointly controlled entities, are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested 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 recoverable amount. For goodwill, the recoverable amount is estimated at each balance sheet date.

The recoverable amount is the greater of the fair value less costs to sell and the value in use. In determining the value in use, expected future cash flows generated by the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

1. Significant accounting policies *(continued)*

(v) Impairment loss *(continued)*

(ii) Impairment of other long-lived assets is accounted as follows: *(continued)*

The amount of the reduction is recognised as an expense in profit or loss unless the asset is carried at revalued amount for which an impairment loss is recognised directly against any related revaluation reserve to the extent that the impairment loss does not exceed the amount held in the revaluation reserve for that same asset. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit and then, to reduce the carrying amount of the other assets in the unit on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

The Group assesses at each balance sheet date whether there is any indication that an impairment loss recognised for an asset, except in the case of goodwill, in prior years may no longer exist. An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. A subsequent increase in the recoverable amount of an asset, when the circumstances and events that led to the write-down or write-off cease to exist, is recognised as income unless the asset is carried at revalued amount. Reversal of an impairment loss on a revalued asset is credited to the revaluation reserve except for impairment loss which was previously recognised as an expense in the income statement; a reversal of such impairment loss is recognised as an income. The reversal is reduced by the amount that would have been recognised as depreciation had the write-down or write-off not occurred. An impairment loss in respect of goodwill is not reversed.

(w) Dividends payable

Dividends are recognised as a liability in the period in which they are declared.

1. Significant accounting policies *(continued)*

(x) Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, except differences relating to goodwill not deductible for tax purposes and the initial recognition of assets or liabilities which affect neither accounting nor taxable income. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date. The effect on deferred tax of any changes in tax rates is charged or credited to the profit or loss, except for the effect of a change in tax rate on the carrying amount of deferred tax assets and liabilities which were previously charged or credited directly to equity upon initial recognition, in such case the effect of a change in tax rate is also charged or credited to equity.

A deferred tax asset is recognised only to the extent that it is probable that future taxable income will be available against which the assets can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(y) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

1. Significant accounting policies *(continued)*

(z) Related parties

Parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control or jointly control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and / or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group.

(aa) Segment reporting

A segment is a distinguishable component of the Group that is engaged in providing products or services and is subject to risks and rewards that are different from those of other segments.

The Group evaluates performance based on operating profits before income tax and non-operating income and expenses. Certain administrative expenses are allocated based on the percentage of sales.

Inter-segment transfer pricing is based on cost plus an appropriate margin, as specified by Group policy.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items mainly comprise income-earning assets and revenue, interest-bearing loans, borrowings and expenses, and corporate assets and expenses.

Segment capital expenditure is the total cost incurred during the year to acquire segment assets that are expected to be used for more than one period.

2. Changes in accounting policies

The IASB has issued a number of new and revised IFRS and Interpretations that are first effective or available for early adoption for the current accounting period of the Group and the Company.

There have been no significant changes to the accounting policies applied in these financial statements for the years presented as a result of these developments. However, as result of the adoption of IFRS 7, Financial instruments: Disclosures and the amendment to IAS 1, Presentation of financial statements: Capital disclosures, there have been some additional disclosures provide as follows:

As a result of the adoption of IFRS 7, the financial statements include expanded disclosure about the significance of the Group's financial instruments and the nature and extent of risks arising from those instruments, compared with the information previously required to be disclosed by IAS 32, Financial instruments: Disclosure and presentation. These disclosures are provided throughout these financial statements, in particular in note 36.

2. Changes in accounting policies *(continued)*

The amendment to IAS 1 introduces additional disclosure requirements to provide information about the level of capital and the Group's and the Company's objectives, policies and processes for managing capital. These new disclosures are set out in note 27.

Both IFRS 7 and the amendment to IAS 1 do not have any material impact on the classification, recognition and measurement of the amounts recognised in the financial instruments.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 37).

3. Other income

During the year ended 31 December 2007, the Group recognised a grant income of RMB 93,900,000 (2006: RMB 282,141,800). These grants were for compensation of losses incurred due to the distortion of the correlation of domestic refined petroleum product prices and the crude oil prices, and the measures taken by the Group to stabilize the supply in the PRC refined petroleum product market during the respective year. There are no unfilled conditions and other contingencies attached to the receipts of these grants. There is no assurance that the Group will continue to receive such grant in the future.

4. Other operating income

	2007 RMB'000	2006 RMB'000
Income from rendering of services	36,282	35,068
Gain on disposal of property, plant and equipment	7,745	83,386
Rental income from investment property	40,021	42,643
Amortisation of deferred income	-	23,033
Income from unlisted investments	122,709	97,179
Others	9,796	16,085
	216,553	297,394

5. Other operating expenses

	2007 RMB'000	2006 RMB'000
Employee reduction expenses (Note 6)	208,013	83,603
Loss on disposal of property, plant and equipment	51,790	63,817
Impairment losses on property, plant and equipment (i)	200,295	50,000
Service fee	30,000	20,174
Donations	14,250	380
Others	16,910	22,556
	521,258	240,530

(i) Impairment loss recognised on property, plant and equipment, primarily relates to the assets of synthetic fibres segment, was RMB 181 million (2006: RMB 50 million) for the year ended 31 December 2007. The impairment loss relates to certain synthetic fibres facilities that have reduced volume of production during the year. In measuring the amounts of impairment charges, the carrying amounts of these assets were compared to the present value of the expected future cash flows of the assets, as well as information about their fair values less costs to sell.

6. Employee reduction expenses

In accordance with the Group's voluntary employee reduction plan, the Group recorded employee reduction expenses of RMB 208,013,000 during the year ended 31 December 2007 (2006: RMB 83,603,000) payable in cash in respect of the voluntary resignation of approximately 2,622 employees (1,280 employees in 2006).

7. Net financing costs

	2007 RMB'000	2006 RMB'000
Interest income	(46,421)	(56,827)
Net foreign exchange gain	(35,859)	(81,170)
Financial income	(82,280)	(137,997)
Interest on loans and borrowings	329,643	367,716
Less: borrowing costs capitalised as construction in progress*	(69,437)	(64,330)
Financial expenses	260,206	303,386
Net financing costs	177,926	165,389

* The borrowing costs during 2007 have been capitalised at a rate of 5.27%-7.47% per annum (2006: 5.18%-5.85%) for construction in progress.

8. Investment income

Investment income represents the gain on disposal of available-for-sale securities transferred from equity during the year ended 31 December 2007 (2006: Nil).

9. Profit before taxation

Profit before taxation is arrived at after charging:

	2007 RMB'000	2006 RMB'000
Cost of inventories sold#	52,619,391	49,182,232
Depreciation for property, plant and equipment#	1,687,435	1,810,990
Depreciation for investment property#	14,879	12,678
Amortisation of lease prepayments and other assets#	16,972	29,400
Repairs and maintenance expenses#	1,023,794	874,461
Research and development costs#	53,548	51,610
Employee's pension costs#		
- Municipal retirement scheme costs	197,191	207,071
- Supplementary retirement scheme costs	55,048	61,692
Staff costs#	1,209,035	1,210,266
Rental income from investment property	40,021	42,643
Impairment losses		
- Trade and other receivables	3,901	18,215
- Property, plant and equipment	200,295	50,000
Share of profits of associates	645,178	572,655
Share of profits of jointly controlled entities	20,719	4,027
Auditors' remuneration - audit services	8,727	7,721

\# Cost of inventories sold includes RMB 4,246,822,000 (2006: RMB 4,248,968,000) relating to staff costs, depreciation and amortisation, repairs and maintenance expenses, research and development costs and pension costs, which amount is also included in the respective total amounts disclosed separately above for each of these types of expenses.

The consolidated profit attributable to equity shareholders of the Company includes a profit of RMB 848,356,000 (2006: RMB 148,083,000) which has been dealt with in the financial statements of the Company.

10. Directors' and supervisors' emoluments

(i) Directors' and supervisors' emoluments:

	2007			
	Salaries and other benefits RMB'000	Retirement scheme contributions RMB'000	Discretionary bonus RMB'000	Total RMB'000
Rong Guangdao	162	7	375	544
Du Chongjun	162	7	375	544
Han Zhihao	138	7	321	466
Li Honggen	138	7	295	440
Gao Jinping	138	6	314	458
Shi Wei	138	7	321	466
Dai Jinbao	79	7	133	219
Zhang Chenghua	83	7	143	233
Wang Yanjun	70	7	140	217
Chen Xinyuan	80	-	-	80
Sun Chiping	80	-	-	80
Jiang Zhiquan	80	-	-	80
Zhou Yunnong	80	-	-	80
	1,428	62	2,417	3,907

	2006			
	Salaries and other benefits RMB'000	Retirement scheme contributions RMB'000	Discretionary bonus RMB'000	Total RMB'000
Rong Guangdao	161	7	288	456
Du Chongjun	161	7	288	456
Han Zhihao	137	7	252	396
Li Honggen	189	7	159	355
Gao Jinping	137	6	243	386
Shi Wei	137	7	243	387
Dai Jinbao	71	7	105	183
Zhang Chenghua	83	7	124	214
Wang Yanjun	70	6	120	196
Chen Xinyuan	80	-	-	80
Sun Chiping	80	-	-	80
Jiang Zhiquan	80	-	-	80
Zhou Yunnong	80	-	-	80
	1,466	61	1,822	3,349

10. Directors' and supervisors' emoluments *(continued)*

(i) Directors' and supervisors' emoluments: *(continued)*

For the years ended 31 December 2007 and 2006, no emolument was paid to the directors or supervisors as an inducement to join or upon joining the Company or as compensation for loss of office.

(ii) Individuals with highest emoluments

Of the five individuals with the highest emoluments, four (2006: five) are directors and supervisors whose emoluments are disclosed in Note 10(i). The emolument in respect of the other one (2006: nil) individual is as follows:

	2007 RMB'000	2006 RMB'000
Salaries and other benefits	138	-
Retirement scheme contributions	6	-
Discretionary bonus	321	-
	465	-

The emolument of the individual with the highest emoluments is within the following band:

RMB	2007 Number of individuals	2006 Number of individuals
400,000 - 500,000	1	-

11. Taxation

(a) Taxation in the consolidated income statement represents:

	2007 RMB'000	2006 RMB'000
Current tax		
-Provision for income tax for the year	557,078	71,183
-Under / (over)-provision in respect of prior years	2,439	(6,911)
Deferred taxation	(91,301)	(11,034)
	468,216	53,238

A reconciliation of income tax calculated at the applicable tax rate with income tax expense is as follows:

	2007 RMB'000	2006 RMB'000
Profit from ordinary activities before taxation	2,151,352	964,200
Expected PRC income tax expense at a statutory tax rate of 33% (2006: 15%)	709,946	144,630
Tax effect of non-deductible expenses	47,056	7,361
Tax effect of non-taxable income	(32,201)	(5,414)
Under / (over)-provision in prior years	2,439	(6,911)
Effect of change in tax rate on deferred tax	(23,083)	-
Tax effect of share of profits recognised under the equity method	(219,746)	(86,503)
Tax effect of unused tax losses not recognised for deferred tax	22,621	9,688
Tax effect of differential tax rate on subsidiaries' income	(38,816)	(9,613)
Actual tax expense	468,216	53,238

11. Taxation *(continued)*

(a) Taxation in the consolidated income statement represents: *(continued)*

The State Administration of Taxation ("SAT") issued a tax circular "Enterprise Income Tax Issues relating to Nine Companies Listed Overseas" ("Circular No. 664") in June 2007 which requested the relevant local tax authorities to rectify, immediately, the expired concessionary tax policy for the nine listed companies authorised by the State Council to issue shares in Hong Kong in 1993 which, at the time of writing, was still being applied. The notice stated that the difference in enterprise income tax ("EIT") arising from the expired preferential rate and the applicable rate should be settled according to the provisions of "Law on the Administration of Tax Collection".

The Company is one of the nine listed companies mentioned above and applied the preferential EIT rate of 15% in prior years. The Company communicated with the relevant tax authority to assess the situation and was informed that the EIT rate for the Company would be adjusted from the original 15% to 33% from 2007. The Company has not been requested to pay additional EIT in respect of any prior year.

In response to the SAT notice and communication with the relevant tax authority, the charge for PRC income tax for the year is calculated at the rate of 33% (2006: 15%) on the estimated assessable income of the period determined in accordance with relevant income tax rules and regulations. The directors of the Company consider that it is uncertain whether the relevant tax authorities will retrospectively claim additional EIT from the Company and that it is not possible to reliably estimate the eventual outcome of this matter. Consequently, no provision has been made in these financial statements in respect of the EIT differences arising from prior years.

The Company did not carry out business overseas and therefore does not incur overseas income taxes.

Pursuant to the PRC enterprise income tax law passed by the Tenth National People's Congress on 16 March 2007, the new enterprise income tax rates for domestic and foreign enterprises are unified at 25 percent. and will be effective from 1 January 2008.

As the EIT rate applicable to the Company will be changed from 33% in 2007 to 25% in 2008, deferred tax recognised as at 31 December 2007 is based on the 25% tax rate that is expected to apply to the period when the asset is realised or the liability is settled (2006: 15%).

11. Taxation *(continued)*

(b) Deferred taxation:

(i) Deferred tax assets and deferred tax liabilities are attributable to the items detailed in the tables below:

	The Group					
	Assets		Liabilities		Net balance	
	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
Current						
Provisions	40,075	12,141	-	-	40,075	12,141
Non-current						
Provision for impairment losses	77,310	16,342	-	-	77,310	16,342
Land use rights	30,592	18,880	-	-	30,592	18,880
Capitalisation of borrowing costs	-	-	(32,070)	(20,799)	(32,070)	(20,799)
Fair value of available-for-sale securities	-	-	(115,855)	(3,873)	(115,855)	(3,873)
Others	11,822	7,619	(2,245)	-	9,577	7,619
Deferred tax assets / (liabilities)	159,799	54,982	(150,170)	(24,672)	9,629	30,310

	The Company					
	Assets		Liabilities		Net balance	
	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
Current						
Provisions	37,387	12,141	-	-	37,387	12,141
Non-current						
Provision for impairment losses	77,310	16,342	-	-	77,310	16,342
Land use rights	30,592	18,880	-	-	30,592	18,880
Capitalisation of borrowing costs	-	-	(32,070)	(20,799)	(32,070)	(20,799)
Fair value of available-for-sale securities	-	-	(105,116)	(2,188)	(105,116)	(2,188)
Deferred tax assets / (liabilities)	145,289	47,363	(137,186)	(22,987)	8,103	24,376

11. Taxation *(continued)*

(b) Deferred taxation: *(continued)*

(i) Deferred tax assets and deferred tax liabilities are attributable to the items detailed in the tables below (continued):

As at 31 December 2007, a subsidiary of the Company provided valuation allowance against tax value of losses carried forward for PRC income tax purpose. The total deductible losses available to offset their future PRC taxation income are RMB 112,444,000, if any. The deductible losses carried forward of RMB 14,539,000, RMB 29,357,000 and RMB 68,548,000 will expire in 2010, 2011 and 2012, respectively.

(ii) Movements in deferred tax assets and liabilities are as follows:

	The Group			
	Balance at 1 January 2006 RMB'000	Recognised in income statement RMB'000	Recognised in reserve RMB'000	Balance at 31 December 2006 RMB'000
Current				
Provisions	11,396	745	-	12,141
Non-current				
Provision for impairment losses	8,842	7,500	-	16,342
Land use rights	19,403	(523)	-	18,880
Capitalisation of borrowing costs	(16,492)	(4,307)	-	(20,799)
Fair value of available-for-sale securities	-	-	(3,873)	(3,873)
Others	-	7,619	-	7,619
Net deferred tax assets	23,149	11,034	(3,873)	30,310

	The Group			
	Balance at 1 January 2007 RMB'000	Recognised in income statement RMB'000	Recognised in reserve RMB'000	Balance at 31 December 2007 RMB'000
Current				
Provisions	12,141	27,934	-	40,075
Non-current				
Provision for impairment losses	16,342	60,968	-	77,310
Land use rights	18,880	11,712	-	30,592
Capitalisation of borrowing costs	(20,799)	(11,271)	-	(32,070)
Fair value of available-for-sale securities	(3,873)	-	(111,982)	(115,855)
Others	7,619	1,958	-	9,577
Net deferred tax assets	30,310	91,301	(111,982)	9,629

11. Taxation *(continued)*

(b) Deferred taxation: *(continued)*

(ii) Movements in deferred tax assets and liabilities are as follows: *(continued)*

	The Company			
	Balance at 1 January 2006 RMB'000	Recognised in income statement RMB'000	Recognised in reserve RMB'000	Balance at 31 December 2006 RMB'000
Current				
Provisions	11,396	745	-	12,141
Non-current				
Provision for impairment losses	8,842	7,500	-	16,342
Land use rights	19,403	(523)	-	18,880
Capitalisation of borrowing costs	(16,492)	(4,307)	-	(20,799)
Fair value of available-for-sale securities	-	-	(2,188)	(2,188)
Net deferred tax assets	23,149	3,415	(2,188)	24,376

	The Company			
	Balance at 1 January 2007 RMB'000	Recognised in income statement RMB'000	Recognised in reserve RMB'000	Balance at 31 December 2007 RMB'000
Current				
Provisions	12,141	25,246	-	37,387
Non-current				
Provision for impairment losses	16,342	60,968	-	77,310
Land use rights	18,880	11,712	-	30,592
Capitalisation of borrowing costs	(20,799)	(11,271)	-	(32,070)
Fair value of available-for-sale securities	(2,188)	-	(102,928)	(105,116)
Net deferred tax assets	24,376	86,655	(102,928)	8,103

12. Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of RMB 1,634,080,000 (2006: RMB 844,407,000) and 7,200,000,000 (2006: 7,200,000,000) shares in issue during the year.

The amount of diluted earnings per share is not presented as there were no dilutive potential ordinary shares in existence for either year.

13. Dividends

(a) Dividends attributable to the year

	The Group and the Company	
	2007 RMB'000	2006 RMB'000
Final dividend proposed after the balance sheet date of RMB 0.09 per share (2006: RMB 0.04 per share)	648,000	288,000

Pursuant to a resolution passed at the directors' meeting on 7 April 2008, a final dividend of RMB 0.09 per share totalling RMB 648,000,000(2006: RMB 0.04 per share totalling RMB 288,000,000) was proposed for shareholders' approval at the Annual General Meeting. The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

(b) Dividends attributable to the previous financial year, approved and paid during the year

	The Group and the Company	
	2007 RMB'000	2006 RMB'000
Final dividend in respect of the previous financial year, approved and paid during the year, of RMB 0.04 per share (2006: RMB 0.10 per share)	288,000	720,000

14. Property, plant and equipment

(a) The Group

	Buildings RMB'000	Plant and other fixed assets RMB'000	Total RMB'000
Cost or valuation:			
At 1 January 2006	5,501,887	26,702,532	32,204,419
Additions	41,376	147,671	189,047
Transferred from construction in progress (Note 16)	128,200	502,704	630,904
Disposals	(47,923)	(812,917)	(860,840)
At 31 December 2006	5,623,540	26,539,990	32,163,530
At 1 January 2007	5,623,540	26,539,990	32,163,530
Additions	27,041	145,737	172,778
Transferred from construction in progress (Note 16)	113,445	3,419,832	3,533,277
Disposals	(97,443)	(537,517)	(634,960)
At 31 December 2007	5,666,583	29,568,042	35,234,625
Accumulated depreciation and impairment losses:			
At 1 January 2006	2,953,509	14,599,743	17,553,252
Charge for the year	164,172	1,646,818	1,810,990
Impairment loss	-	50,000	50,000
Written back on disposals	(35,814)	(574,760)	(610,574)
At 31 December 2006	3,081,867	15,721,801	18,803,668
At 1 January 2007	3,081,867	15,721,801	18,803,668
Charge for the year	184,765	1,502,670	1,687,435
Impairment loss	48,335	151,960	200,295
Written back on disposals	(33,524)	(400,486)	(434,010)
At 31 December 2007	3,281,443	16,975,945	20,257,388
Net book value:			
At 31 December 2007	2,385,140	12,592,097	14,977,237
At 31 December 2006	2,541,673	10,818,189	13,359,862

14. Property, plant and equipment *(continued)*

(b) The Company

	Buildings RMB'000	Plant and other fixed assets RMB'000	Total RMB'000
Cost or valuation:			
At 1 January 2006	4,380,973	23,969,498	28,350,471
Additions	23,338	16,738	40,076
Transferred from construction in progress (Note 16)	125,445	442,419	567,864
Disposals	(67,827)	(574,085)	(641,912)
At 31 December 2006	4,461,929	23,854,570	28,316,499
At 1 January 2007	4,461,929	23,854,570	28,316,499
Additions	65,822	66,126	131,948
Transferred from construction in progress (Note 16)	113,237	3,404,994	3,518,231
Disposals	(16,307)	(207,760)	(224,067)
At 31 December 2007	4,624,681	27,117,930	31,742,611
Accumulated depreciation and impairment losses:			
At 1 January 2006	2,591,082	13,004,208	15,595,290
Charge for the year	124,404	1,374,520	1,498,924
Impairment loss	-	50,000	50,000
Written back on disposals	(51,382)	(354,930)	(406,312)
At 31 December 2006	2,664,104	14,073,798	16,737,902
At 1 January 2007	2,664,104	14,073,798	16,737,902
Charge for the year	157,411	1,286,481	1,443,892
Impairment loss	48,335	151,960	200,295
Written back on disposals	(7,746)	(148,152)	(155,898)
At 31 December 2007	2,862,104	15,364,087	18,226,191
Net book value:			
At 31 December 2007	1,762,577	11,753,843	13,516,420
At 31 December 2006	1,797,825	9,780,772	11,578,597

14. Property, plant and equipment *(continued)*

(c) All of the Group's buildings are located in the PRC (including Hong Kong).

Buildings in Hong Kong with a net book value of RMB 32,944,000 (2006: RMB 34,129,000) were held under medium-term leases.

(d) The Company was established in the PRC on 29 June 1993 as a joint stock limited company as part of the restructuring of Shanghai Petrochemical Complex ("SPC"). On the same date, the principal business undertakings of SPC together with the relevant assets and liabilities were taken over by the Company. As required by the relevant PRC rules and regulations, a valuation of the assets and liabilities to be injected into the Company was carried out as at 1 January 1993 by the State-owned Assets Administration Bureau and the injected assets and liabilities were reflected in the financial statements on this basis.

In accordance with IAS 16, subsequent to this revaluation, which was based on depreciated replacement costs, property, plant and equipment are carried at revalued amount, being the fair value at the date of the revaluation less any subsequent accumulated depreciation and impairment losses. Revaluation is performed periodically to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date. Based on a revaluation performed as of 5 February 2005, which was based on depreciated replacement costs, the carrying value of property, plant and equipment did not differ materially from their fair value.

15. Investment property

	The Group RMB'000	The Company RMB'000
Cost:		
At 1 January 2006	528,465	603,138
Additions	-	12,196
At 31 December 2006	528,465	615,334
At 1 January 2007	528,465	615,334
Additions	25,768	-
At 31 December 2007	554,233	615,334

15. Investment property *(continued)*

	The Group RMB'000	The Company RMB'000
Accumulated depreciation:		
At 1 January 2006	13,883	16,166
Charge for the year	12,678	14,921
At 31December 2006	26,561	31,087
At 1 January 2007	26,561	31,087
Charge for the year	14,879	14,921
At 31December 2007	41,440	46,008
Net book value:		
At 31 December 2007	512,793	569,326
At 31 December 2006	501,904	584,247

Investment property represents certain floors of an office building rented out under the terms of operating leases.

The fair value of the investment property of the Group and the Company as at 31 December 2007 were estimated by the directors to be approximately RMB 715,779,000 and RMB 796,208,000, respectively, by reference to market values of like properties in the relevant regions (2006: the Group and the Company: RMB 622,098,000 and RMB 728,806,000 respectively). The investment property has not been valued by an external independent valuer.

Rental income of RMB 40,021,000 was received by the Group during the year ended 31 December 2007 (2006: RMB 42,643,000).

16. Construction in progress

	The Group		The Company	
	2007 RMB'000	2006 RMB'000	**2007 RMB'000**	2006 RMB'000
At 1 January	**2,008,447**	787,376	**2,004,706**	743,452
Additions	**2,487,143**	1,851,975	**2,450,866**	1,829,118
Transferred to property, plant and equipment (Note 14)	**(3,533,277)**	(630,904)	**(3,518,231)**	(567,864)
At 31 December	**962,313**	2,008,447	**937,341**	2,004,706

Construction in progress comprises costs incurred on property, plant and equipment not yet commissioned.

17. Investments in subsidiaries (The Company)

	2007 RMB'000	2006 RMB'000
Unlisted shares at cost, net of provision for impairment losses	1,921,103	2,134,113

These amounts represent the investments by the Company in its consolidated subsidiaries. At 31 December 2007, the following list contains the particulars of subsidiaries, all of which are limited companies established and operated in the PRC, which principally affected the results and assets of the Group.

Company	Registered capital '000	Percentage of equity held by the Company %	Percentage of equity held by subsidiaries %	Principal activities
Shanghai Petrochemical Investment Development Company Limited	RMB 800,000	100	-	Investment management
China Jinshan Associated Trading Corporation	RMB 25,000	67.33	-	Import and export of petrochemical products and equipment
Shanghai Jinchang Engineering Plastics Company Limited	US$ 4,750	-	50.38	Production of polypropylene compound products
Shanghai Golden Phillips Petrochemical Company Limited	US$ 50,000	-	60	Production of polypropylene products

17. Investments in subsidiaries (The Company) *(continued)*

Company	Registered capital '000	Percentage of equity held by the Company %	Percentage of equity held by subsidiaries %	Principal activities
Zhejiang Jin Yong Acrylic Fibre Company Limited	RMB 250,000	75	-	Production of acrylic fibre products
Shanghai Petrochemical Enterprise Development Company Limited	RMB 455,000	100	-	Investment management
Shanghai Golden Conti Petrochemical Company Limited	RMB 545,776	-	100	Production of petrochemical products

None of the subsidiaries have issued any debt securities.

18. Interest in associates and jointly controlled entities

	The Group		The Company	
	2007 RMB'000	2006 RMB'000	**2007 RMB'000**	2006 RMB'000
Interest in associates				
- Unlisted shares, at cost	**-**	-	**2,146,488**	2,146,488
- Share of net assets	**2,967,944**	2,708,323	**-**	-
Interest in jointly controlled entities				
- Unlisted shares, at cost	**-**	-	**127,992**	127,992
- Share of net assets	**100,191**	79,472	**-**	-
	3,068,135	2,787,795	**2,274,480**	2,274,480

18. Interest in associates and jointly controlled entities *(continued)*

The particulars of these associates and jointly controlled entities, which are limited companies established and operating in the PRC, which principally affected the results or assets of the Group at 31 December 2007 are as follows:

		Percentage of equity		
Company	**Registered capital '000**	**held by the Company %**	**held by subsidiaries %**	**Principal activities**
Shanghai Chemical Industry Park Development Company Limited	RMB 2,372,439	38.26	-	Planning, development and operation of the Chemical Industry Park in Shanghai,PRC
Shanghai Secco Petrochemical Company Limited	US$ 901,441	20	-	Manufacturing and distribution of chemical products
Shanghai Jinpu Plastics Packaging Material Company Limited	US$ 20,204	-	50	Production of polypropylene film
Shanghai Jinsen Hydrocarbon Resins Company Limited	US$ 23,395	-	40	Production of resins products
Shanghai Yamatake Automation Company Limited	US$ 3,000	-	40	Service and maintenance of building automation systems and products
BOC-SPC Gases Co., Ltd.	US$ 32,000	50	-	Production and sales of industrial gases

18. Interest in associates and jointly controlled entities *(continued)*

Summary financial information on associates:

	Assets RMB'000	Liabilities RMB'000	Equity RMB'000	Revenues RMB'000	Profit RMB'000
2007					
100 per cent	**28,956,271**	**(15,016,047)**	**13,940,224**	**24,972,018**	**3,044,526**
Group's effective interest	**6,752,902**	**(3,784,958)**	**2,967,944**	**5,183,450**	**645,178**
2006					
100 per cent	29,206,140	(16,392,029)	12,814,111	22,477,236	2,747,085
Group's effective interest	6,751,136	(4,042,813)	2,708,323	4,671,386	574,437

19. Other Investments

	The Group		The Company	
	2007 RMB'000	2006 RMB'000	**2007 RMB'000**	2006 RMB'000
Available-for-sale equity securities	**478,793**	105,185	**434,554**	81,994
Other unlisted investments	**272,834**	462,584	**-**	32,101
	751,627	567,769	**434,554**	114,095
Less: Provision for impairment losses	**(37,200)**	(38,838)	**-**	-
	714,427	528,931	**434,554**	114,095

20. Goodwill

	The Group and the Company RMB'000
Cost:	
At 31 December 2007 and 2006	**22,415**

Goodwill related to the Company's purchase of the entire equity in Shanghai Jinyang Acrylic Fibre Plant in 1996.

21. Inventories

(a) Inventories in the balance sheet comprise:

	The Group		The Company	
	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
Raw materials	1,669,945	873,130	1,489,544	703,528
Work in progress	1,871,324	1,661,487	1,849,203	1,571,581
Finished goods	986,782	1,014,225	849,914	794,466
Spare parts and consumables	669,789	614,414	591,812	514,856
	5,197,849	4,163,256	4,780,473	3,584,431

At 31 December 2007, the Group and the Company had inventories carried at net realisable value with carrying amount of RMB 626,212,000 and RMB 623,006,000, respectively (2006: RMB 208,157,000 and RMB 208,129,000, respectively).

(b) The analysis of the amount of inventories recognised as an expense is as follows:

The cost of inventories recognised as an expense in the consolidated income statement amounted to RMB 52,646,516,000 for the year ended 31 December 2007 (2006: RMB 49,182,232,000).

22. Trade accounts receivable

	The Group		The Company	
	2007	2006	2007	2006
	RMB'000	RMB'000	RMB'000	RMB'000
Trade debtors	236,848	389,601	81,877	58,558
Less: Impairment losses for bad and doubtful debts	(24,591)	(30,911)	(19,167)	(19,266)
	212,257	358,690	62,710	39,292
Bills receivable	1,757,131	1,212,110	1,616,858	920,733
Amounts due from related parties	515,222	695,286	457,604	608,475
	2,484,610	2,266,086	2,137,172	1,568,500

The aging analysis of trade accounts receivable (net of impairment losses for bad and doubtful debts) is as follows:

	The Group		The Company	
	2007	2006	2007	2006
	RMB'000	RMB'000	RMB'000	RMB'000
Invoice date:				
Within one year	2,483,551	2,255,783	2,136,632	1,559,724
Between one and two years	1,059	10,303	540	8,776
	2,484,610	2,266,086	2,137,172	1,568,500

Sales are generally on a cash basis. Subject to negotiation, credit is generally only available for major customers with well-established trading records.

23. Cash and cash equivalents

	The Group		The Company	
	2007	2006	2007	2006
	RMB'000	RMB'000	RMB'000	RMB'000
Deposits with a related party	29,736	79,913	29,536	79,001
Cash at bank and in hand	863,429	814,737	604,997	472,692
Cash and cash equivalents in the balance sheet	893,165	894,650	634,533	551,693

24. Loans and borrowings

Loans and borrowings are repayable as follows:

	The Group		The Company	
	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
Long term bank loans				
- Between two and five years	29,360	504,834	-	450,000
- Between one and two years	489,929	558,820	450,000	423,710
	519,289	1,063,654	450,000	873,710
Long term loans from related parties				
- Between two and five years	100,000	-	-	-
- Between one and two years	20,000	-	-	-
	120,000	-	-	-
	639,289	1,063,654	450,000	873,710
Loans due within one year				
- Current portion of long term bank loans	419,027	416,645	259,097	383,034
- Short term bank loans	2,317,642	1,853,692	2,062,642	1,618,692
- Corporate bonds	-	2,000,000	-	2,000,000
- Loans from related parties	1,355,300	-	1,227,000	-
	4,091,969	4,270,337	3,548,739	4,001,726
	4,731,258	5,333,991	3,998,739	4,875,436

At 31 December 2007 and 2006, no loans and borrowings were secured by the way of pledge of property, plant and equipment.

24. Loans and borrowings *(continued)*

Included in loans and borrowings are the following amounts denominated in currencies other than the functional currency of the entity to which they relate:

	The Group		The Company	
	2007	2006	2007	2006
	'000	'000	'000	'000
United States Dollars	USD86,556	USD 261,901	USD 85,116	USD 260,101

25. Trade accounts payable

	The Group		The Company	
	2007	2006	2007	2006
	RMB'000	RMB'000	RMB'000	RMB'000
Trade creditors	1,504,454	1,385,577	1,174,332	735,602
Bills payable	300,575	7,026	285,594	1,141
Amounts due to related parties	904,870	599,773	1,367,447	471,765
	2,709,899	1,992,376	2,827,373	1,208,508

The maturity analysis of trade accounts payable is as follows:

	The Group		The Company	
	2007	2006	2007	2006
	RMB'000	RMB'000	RMB'000	RMB'000
Due within 1 month or on demand	2,439,156	1,677,458	2,652,495	1,025,303
Due after 1 month and within 3 months	270,743	314,918	174,878	183,205
	2,709,899	1,992,376	2,827,373	1,208,508

26. Amounts due from/ to related parties

Amounts due from/ to related parties are unsecured, interest free and have no fixed repayment terms.

27. Share capital

	The Group and the Company	
	2007	2006
	RMB'000	RMB'000
Registered, issued and paid up capital:		
4,870,000,000 A shares of RMB 1.00 each	**4,870,000**	4,870,000
2,330,000,000 H shares of RMB 1.00 each	**2,330,000**	2,330,000
	7,200,000	7,200,000

All A and H shares rank pari passu in all respects.

Capital management

The Group optimises the structure of its capital, comprising equity and loans. In order to maintain or adjust the capital structure, the Group may issue new shares, adjust the capital expenditure plan, sell assets to reduce debt, or adjust the proportion of short-term and long-term loans. The Group monitors capital on the basis of debt-to-equity ratio, which is calculated by dividing current and non-current loans, by the total of equity attributable to equity shareholders of the Company and liability-to-asset ratio, which is calculated by dividing total liabilities by total assets. The Group's strategy is to make appropriate adjustments according to the operating and investment needs and the changes of market conditions, and has maintained the debt-to-equity ratio and the liability-to-asset ratio at a range considered as reasonable by management. As at 31 December 2007, the debt-to-equity ratio and the liability-to-asset ratio of the Group were 22.91% (2006: 28.11%) and 29.82% (2006: 29.53%), respectively.

The schedule of the contractual maturities of loans and commitments are disclosed in note 33 and note 31, respectively.

There were no changes in the Group's approach to capital management during the year. Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

28. Reserves

Movements on reserves comprise:

	The Group		The Company	
	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
Share premium				
At 1 January and 31 December (note (a))	2,420,841	2,420,841	2,420,841	2,420,841
Statutory surplus reserve				
At 1 January	3,248,104	3,174,419	3,248,104	3,174,419
Appropriation (note (b))	192,434	73,685	192,434	73,685
General surplus reserve transfer to statutory surplus reserve (note (c))	82,089	-	82,089	-
Adjustment to statutory surplus reserve (note (b))	(36,733)	-	(36,733)	-
At 31 December (note (b))	3,485,894	3,248,104	3,485,894	3,248,104
General surplus reserve				
At 1 January	82,089	82,089	82,089	82,089
General surplus reserve transfer to statutory surplus reserve (note (c))	(82,089)	-	(82,089)	-
At 31 December (note (c))	-	82,089	-	82,089
Capital reserve				
At 1 January and 31 December (note (d))	4,180	4,180	4,180	4,180
Discretionary surplus reserve				
At 1 January and 31 December (note (e))	1,280,514	1,280,514	1,280,514	1,280,514
Excess over share capital				
At 1 January and 31 December (note (f))	(148,604)	(148,604)	(148,604)	(148,604)
Fair value reserve				
At 31 December (note (g))	347,564	21,949	315,345	12,397
Retained profits (note (h))	6,057,649	4,867,270	5,245,990	4,175,816
	13,448,038	11,776,343	12,604,160	11,075,337

28. Reserves *(continued)*

Notes:

(a) The application of the share premium account is governed by Sections 178 and 179 of the PRC Company Law.

(b) According to the Company's Articles of Association, the Company is required to transfer 10% of the Company's profit after taxation, as determined under China Accounting Standards for Business Enterprises, to a statutory surplus reserve until the reserve balance reaches 50% of the registered capital. The transfer to this reserve is made before distribution of a dividend to shareholders.

The statutory surplus reserve can be used to make good of previous years' losses, if any, and may be converted into share capital by the issue of new shares to shareholders in proportion to their existing shareholdings or by increasing the par value of the shares currently held by them, provided that the balance after such issue is not less than 25% of the registered capital.

Commencing from 1 January 2007, the Group has adopted the China Accounting Standards for Business Enterprises issued by the Ministry of Finance of the PRC (the "MOF") on 15 February 2006, certain PRC accounting policies have been changed and applied retrospectively. The net profits as determined in accordance with the China Accounting Standards for Business Enterprises for prior periods have been restated and the statutory surplus reserve has been adjusted based on 10% of the restated net profits. The adjustment to the statutory surplus reserve was reflected as a movement in the current year.

(c) From 1 January 2007, general surplus reserve has been combined with statutory surplus reserve under the China Accounting Standards for Business Enterprises issued by the MOF on 15 February 2006.

(d) This reserve represents gifts or grants received from China Petrochemical Corporation, the ultimate parent company and which are required to be included in this reserve fund by PRC regulations.

(e) The transfer to this reserve from the retained profits is subject to the approval by shareholders at general meetings. Its usage is similar to that of statutory surplus reserve.

(f) Effective from 1 January 2002, land use rights which are included in lease prepayments are carried at historical cost. Accordingly, the surplus on the revaluation of land use rights net of deferred tax is reversed to shareholders' equity. Under China Accounting Standards for Business Enterprises, land use rights are carried at revalued amounts.

(g) The fair value reserve comprises the cumulative net change in the fair value of available-for-sale securities, net of deferred tax, held at the balance sheet date, which is based on reliably measured fair values at year end.

(h) According to the Company's Articles of Association, the reserve available for distribution is the lower of the amount determined under China Accounting Standards for Business Enterprises and the amount determined under IFRS. As of 31 December 2007, the retained earning available for distribution of the Company was RMB 5,630,080,000 (2006: RMB 4,186,180,000). Final dividend of RMB 648,000,000 (2006: RMB 288,000,000) in respect of the financial year 2007 was declared after the balance sheet date.

29. Related party transactions

(a) Most of the transactions undertaken by the Group during the year ended 31 December 2007 have been affected with such counterparties and on such terms as have been determined by China Petroleum & Chemical Corporation ("Sinopec Corp"), the immediate parent company, and relevant PRC authorities.

Sinopec Corp negotiates and agrees the terms of crude oil supply with suppliers on a Group basis, which is then allocated among its subsidiaries, including the Group, on a discretionary basis. During the year ended 31 December 2007, the value of crude oil purchased in accordance with Sinopec Corp's allocation was as follows:

	2007 RMB'000	2006 RMB'000
Purchases of crude oil	33,334,157	31,223,530

(b) Other transactions between the Group and other related parties during the year ended 31 December 2007 were as follows:

	2007 RMB'000	2006 RMB'000
Sales of goods and service fee income	22,907,085	20,173,106
Purchases other than crude oil	5,400,022	2,579,394
Insurance premiums paid	106,000	98,643
Net withdrawal from deposits in a related party	(50,177)	(101,353)
Interest received and receivable	908	229
Loans borrowed	1,475,300	576,000
Loans repayment	40,000	626,000
Interest paid and payable	9,813	7,529
Transportation fees	254,128	344,928
Construction and installation fees	206,256	194,958
Proceeds from sales of property, plant & equipment	-	52,547
Gains from disposal of investments	25,822	24,308
Sales commissions	194,645	182,840
Net decrease of guarantees	(19,003)	(18,550)

(c) Deposits with related parties

	The Group		The Company	
	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
Deposits, with maturity within 3 months	29,736	79,913	29,536	79,001

29. Related party transactions *(continued)*

(d) Loans with related parties

	The Group	
	2007	2006
	RMB'000	RMB'000
Short-term loans	1,355,300	-
Long-term loans	120,000	-
	1,475,300	-

(e) Key management personnel compensation and post-employment benefit plans

	2007	2006
	RMB'000	RMB'000
Short-term employee benefits	5,301	4,529
Post-employment benefits	89	84
	5,390	4,613

Post-employment benefits are included in "contributions to defined contribution retirement plans" as disclosed in Note 29(f).

(f) Contributions to defined contribution retirement plans

The Group participates in defined contribution retirement plans organised by municipal governments for its staff. The contributions to defined contribution retirement plans are as follows:

	2007	2006
	RMB'000	RMB'000
Municipal retirement scheme costs	197,191	207,071
Supplementary retirement scheme costs	55,048	61,692

At 31 December 2007 and 2006, there was no material outstanding contribution to post-employment benefit plans.

29. Related party transactions *(continued)*

(g) Transactions with other state-owned entities in the PRC

The Group is a state-controlled enterprise and operates in an economic regime currently dominated by entities directly or indirectly controlled by the PRC government (collectively referred as "state-controlled entities") through its government authorities, agencies, affiliations and other organisations.

Apart from transactions with related parties, the Group has transactions with other state-controlled entities include but are not limited to the following:

- sales and purchase of goods and ancillary materials;
- rendering and receiving services;
- lease of assets, purchase of property, plant and equipment;
- placing deposits and obtaining finance; and
- use of public utilities.

These transactions are conducted in the ordinary course of the Group's business on terms comparable to those with other entities that are not state controlled. The Group has established its procurement policies, pricing strategy and approval process for purchases and sales of products and services which do not depend on whether the counterparties are state-controlled entities or not.

Having considered the transactions potentially affected by related party relationships, the entity's pricing strategy, procurement policies and approval processes, and the information that would be necessary for an understanding of the potential effect of the related party relationship on the financial statements, the directors are of the opinion that the following transactions require disclosure of numeric details.

(i) Transactions with other state-controlled energy and chemical companies

The Group's major domestic suppliers of crude oil are China National Offshore Oil Corporation and its subsidiaries ("CNOOC Group"), which are state-controlled entities.

During the year ended 31 December 2007, the aggregate amount of crude oil purchased by the Group's refining segment from CNOOC Group was RMB 1,126,222,000 (2006: RMB 1,682,519,000).

The amounts due from /to CNOOC Group are nil as at 31 December 2007 (31 December 2006: Nil).

29. Related party transactions *(continued)*

(g) Transactions with other state-owned entities in the PRC *(continued)*

(ii) Transactions with state-controlled banks

The Group deposits its cash with several state-controlled banks in the PRC. The Group also obtains short-term and long-term loans from these banks in the ordinary course of business. The interest rates of the bank deposits and loans are regulated by the People's Bank of China. The Group's interest income from and interest expenses to these state-controlled banks in the PRC are as follows:

	2007 RMB'000	2006 RMB'000
Interest income	45,992	56,597
Interest expenses	231,707	324,267

The amounts of cash deposited at and loans from state-controlled banks in the PRC are summarised as follows:

	2007 RMB'000	2006 RMB'000
Cash and cash equivalents at state-controlled banks in the PRC	745,401	731,971
Short-term loans and current portion of long-term loans	2,711,739	2,245,225
Long-term loans excluding current portion of long-term loans	465,000	983,710
Total loans from state-controlled banks in the PRC	3,176,739	3,228,935

30. Retirement schemes

As stipulated by the regulations of the PRC, the Group participates in a defined contribution retirement plan organised by the Shanghai Municipal Government for its staff. The Group is required to make contributions to the retirement plan at a rate of 22% of the salaries, bonuses and certain allowances of its staff in 2007 (2006: 22%). A member of the plan is entitled to a pension equal to a fixed proportion of the salary prevailing at his retirement date. The Group has no other material obligation for the payment of pension benefits associated with this plan beyond the annual contributions described above. Pursuant to a document "Lao Bu Fa (1995) No.464" dated 29 December 1995 issued by the Ministry of Labour of the PRC, the Company has set up a supplementary defined contribution retirement plan for the benefit of employees. Employees who have served the Company for five years or more may participate in this plan. The Company and participating employees make defined contributions to their pension saving accounts according to the plan. The assets of this plan are held separately from those of the Company in an independent fund administered by a committee consisting of representatives from the employees and the Company. In April 2003, the Company revised certain terms of the plan and increased the amounts of contributions. For the year ended 31 December 2007, the Group's contribution to this plan amounted to RMB 55,048,000 (2006: RMB 61,692,000).

31. Capital commitments

The Group and the Company had capital commitments outstanding at 31 December not provided for in the financial statements as follows:

	The Group and the Company	
	2007	2006
	RMB'000	RMB'000
Property, plant and equipment		
Contracted but not provided for	311,991	398,335
Authorised by the Board but not contracted for	3,546,960	2,061,660
	3,858,951	2,459,995

32. Contingent liabilities

(a) Financial guarantees issued

At 31 December, the Group and the Company had the following financial guarantees:

	The Group		The Company	
	2007	2006	2007	2006
	RMB'000	RMB'000	RMB'000	RMB'000
Guarantees issued to banks in favour of:				
- subsidiaries	-	-	545,000	353,500
- associates	14,500	40,000	14,500	40,000
- joint ventures	16,247	9,750	-	-
	30,747	49,750	559,500	393,500

Guarantees issued to banks in favour of subsidiaries, associates and joint ventures 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 recognise any such losses under guarantees when those losses are estimable. At 31 December 2007 and 2006, it is not probable that the Group will be required to make payments under the guarantees. Thus no liability has been accrued for a loss related to the Group's obligation under the guarantee arrangements.

(b) Income tax differences

As discussed in note 11, the Group has certain income tax exposures with regard to prior years. At present, the directors of the Company consider that it is not possible to reliably estimate the eventual outcome of this matter and therefore no provision has been made in the financial statements for additional taxes, penalties and interest, if any.

33. Details of bank loans

The interest rates and terms of repayment for long term bank loans of the Group and the Company are as follows:

Repayment terms and last payment date	Interest rate at 31 December 2007	Interest type	The Group 2007 RMB'000	The Group 2006 RMB'000	The Company 2007 RMB'000	The Company 2006 RMB'000
Arranged by Central Treasury of the Company:						
U.S. Dollars denominated:						
Due in 2007	5.70%	Floating	-	383,034	-	383,034
Payable semi-annually through 2008(Note)	1.80%	Fixed	9,097	23,710	9,097	23,710
Renminbi denominated:						
Due in 2008	6.30%-7.47%	Fixed	250,000	400,000	250,000	400,000
Due in 2009	6.30%-7.47%	Fixed	450,000	450,000	450,000	450,000
Arranged by subsidiaries:						
U.S. Dollars denominated:						
Payable annually through 2011	Interest free	-	10,519	14,055	-	-
Renminbi denominated:						
Payable due in 2007	5.85%	Fixed	-	8,500	-	-
Payable due in 2008	5.27%-6.72%	Fixed	135,000	110,000	-	-
Payable due in 2009	5.27%-6.48%	Fixed	35,000	-	-	-
Payable due in 2010	5.91%	Fixed	100,000	-	-	-
Payable annually through 2010	Interest free	-	61,500	82,000	-	-
Payable annually through 2011 and after	Interest free	-	7,200	9,000	-	-
Total long-term bank loans outstanding			1,058,316	1,480,299	709,097	1,256,744
Less: Amounts due within one year (Note 24)			(419,027)	(416,645)	(259,097)	(383,034)
Amounts due after one year (Note 24)			639,289	1,063,654	450,000	873,710

Note: Guaranteed by China Petrochemical Corporation

The weighted average short term interest rates for the Group and the Company were 5.34% and 5.27% respectively at 31 December 2007 (2006: the Group and the Company 5.87% and 5.95% respectively).

34. Segment reporting

Segment information is presented in respect of the Group's business segments. The format is based on the Group's management and internal reporting structure. In view of the fact that the Company and its subsidiaries operate mainly in the PRC, no geographical segment information is presented.

The Group principally operates in four operating segments: synthetic fibres, resins and plastics, intermediate petrochemicals and petroleum products. All of the Group's products are produced through intermediate steps from the principal raw material of crude oil. The specific products of each segment are as follows:

(i) The synthetic fibres segment produces primarily polyester and acrylic fibres mainly used in the textile and apparel industries.

(ii) The resins and plastics segment produces primarily polyester chips, low density polyethylene resins and films, polypropylene resins and PVA granules. The polyester chips are used in the processing of polyester fibres and construction coating materials and containers. Low density polyethylene resins and plastics are used in cable jacketing, sheeting, the manufacture of moulded products, such as housewares and toys and for agricultural and packaging uses. Polypropylene resins are used in the manufacturing of extruded films or sheets and injection moulded products such as housewares, toys and household electric appliance and automobile parts.

(iii) The intermediate petrochemicals segment primarily produces ethylene and benzene. Most of the intermediate petrochemicals produced by the Group are used by the Group as raw materials in the production of other petrochemicals, resins, plastics and synthetic fibres. A portion of the intermediate petrochemicals as well as certain by-products of the production process are sold to outside customers.

(iv) The Group's petroleum products segment has crude oil distillation facilities used to produce vacuum and atmospheric gas oils used as feedstocks of the Group's downstream processing facilities. Residual oil and low octane gasoline fuels are produced primarily as a co-product of the crude oil distillation process. A proportion of the residual oil is further processed into qualified refined gasoline and diesel oil. In addition, the Group produces a variety of other transportation, industrial and household heating fuels, such as diesel oils, jet fuels, heavy oils and liquefied petroleum gases.

(v) All other operating segments represent the operating segments which do not meet the quantitative threshold for determining reportable segments. These include sales of consumer products and services and a variety of other commercial activities, which are not allocated to the above four operating segments.

34. Segment reporting *(continued)*

Reportable information on the Group's operating segments is as follows:

Turnover and other income

	2007 RMB'000	2006 RMB'000
Manufactured Products		
Synthetic fibres		
- external sales	4,342,215	4,727,261
- intersegment sales	85	71
Total	4,342,300	4,727,332
Resins and plastics		
- external sales	15,927,089	15,800,015
- intersegment sales	75,183	63,767
Total	16,002,272	15,863,782
Intermediate petrochemicals		
- external sales (note a)	9,406,507	6,800,577
- intersegment sales	16,966,433	14,536,675
Total	26,372,940	21,337,252
Petroleum products		
- external sales (note a)	21,997,362	19,977,755
- intersegment sales	1,336,695	1,187,744
- other income	93,900	282,142
Total	23,427,957	21,447,641

34. Segment reporting *(continued)*

Turnover and other income *(continued)*

	2007 RMB'000	2006 RMB'000
All others		
-external sales	3,655,211	3,293,877
-intersegment sales	3,402,717	3,582,206
Total	7,057,928	6,876,083
Eliminations of intersegment sales	(21,781,113)	(19,370,463)
Turnover and other income	55,422,284	50,881,627

Note (a): External sales include sales to Sinopec Corp Group companies as follows:

	2007 RMB'000	2006 RMB'000
Sales to Sinopec Corp Group companies		
Intermediate petrochemicals	2,968,753	2,335,250
Petroleum products	17,884,389	15,842,808
Total	20,853,142	18,178,058

Profit before taxation

	2007 RMB'000	2006 RMB'000
Profit from operations		
Synthetic fibres	(82,083)	196,255
Resins and plastics	656,475	1,162,103
Intermediate petrochemicals	813,762	680,425
Petroleum products	(644,234)	(1,697,730)
All others	148,736	211,854
Consolidated profit from operations	892,656	552,907
Net financing costs	(177,926)	(165,389)
Investment income	770,725	-
Share of profits of associates and jointly controlled entities	665,897	576,682
Profit before taxation	2,151,352	964,200

34. Segment reporting *(continued)*

Assets	2007 RMB'000	2006 RMB'000
Segment assets		
Synthetic Fibres	2,756,536	2,877,473
Resins and Plastics	2,768,515	3,115,456
Intermediate Petrochemicals	7,440,853	5,876,117
Petroleum Products	8,929,073	8,507,134
All others	2,639,287	2,263,875
Total segment assets	24,534,264	22,640,055
Interest in associates and jointly controlled entities	3,068,135	2,787,795
Unallocated	2,250,651	1,978,210
Total assets	29,853,050	27,406,060

Liabilities	2007 RMB'000	2006 RMB'000
Segment liabilities		
Synthetic Fibres	325,867	254,614
Resins and Plastics	1,195,267	851,001
Intermediate Petrochemicals	705,922	366,284
Petroleum Products	1,650,818	1,076,017
All others	274,309	177,411
Total segment liabilities	4,152,183	2,725,327
Unallocated	4,748,838	5,368,377
Total liabilities	8,901,021	8,093,704

34. Segment reporting *(continued)*

Depreciation and amortisation

	2007 RMB'000	2006 RMB'000
Synthetic Fibres	227,503	236,559
Resins and Plastics	351,273	353,321
Intermediate Petrochemicals	603,707	664,667
Petroleum Products	352,532	407,835
All others	169,392	178,008
Segment depreciation and amortisation	1,704,407	1,840,390
Unallocated	14,879	12,678
Depreciation and amortisation	1,719,286	1,853,068

Impairment losses

	2007 RMB'000	2006 RMB'000
Synthetic fibres	180,681	50,000
All others	19,614	-
Impairment losses	200,295	50,000

Total capital expenditures for segment long-lived assets

	2007 RMB'000	2006 RMB'000
Synthetic Fibres	130,392	145,513
Resins and Plastics	16,973	45,418
Intermediate Petrochemicals	773,720	1,083,542
Petroleum Products	1,098,320	586,570
All others	114,718	147,736
Capital expenditures for segment long-lived assets	2,134,123	2,008,779

35. Accounting estimates and judgements

The Group's financial condition and results of operations are sensitive to accounting methods, assumptions and estimates that underlie the preparation of the financial statements. The Group bases the assumptions and estimates on historical experience and on various other assumptions that the Group believes to be reasonable and which form the basis for making judgements about matters that are not readily apparent from other sources. On an on-going basis, management evaluates its estimates. Actual results may differ from those estimates as facts, circumstances and conditions change.

The selection of critical accounting policies, the judgements and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing the financial statements. The principal accounting policies are set forth in note 1. The Group believes the following critical accounting policies involve the most significant judgements and estimates used in the preparation of the financial statements.

Impairments for long lived assets

If circumstances indicate that the net book value of a long-lived asset may not be recoverable, the asset may be considered "impaired", and an impairment loss may be recognised in accordance with IAS 36 "Impairment of Assets". The carrying amounts of long-lived assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested 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 recoverable amount. For goodwill, the recoverable amount is estimated annually. The recoverable amount is the greater of the net selling price and the value in use. It is difficult to precisely estimate selling price because quoted market prices for the Group's assets and cash generating units are not readily available. In determining the value in use, expected cash flows generated by the assets are discounted to their present value, which requires significant judgement relating to level of sale volume, selling price and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of sale volume, selling price and 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 the estimated residual values. The Group reviews 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 the Group's 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.

35. Accounting estimates and judgements *(continued)*

Impairment for bad and doubtful debts

The Group estimates impairment losses for bad and doubtful debts resulting from the inability of the customers to make the required payments. The Group bases the estimates on the aging of the accounts receivable balance, customer credit-worthiness, and historical write-off experience. If the financial condition of the customers were to deteriorate, actual write-offs would be higher than estimated.

Allowance for diminution in value of inventories

Any excess of the cost over the net realisable value of each item of inventories is recognised as a provision for diminution in the value of inventories. Net realisable value represents the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale. The Group bases the estimates on all available information, including the current market prices of the finished goods and raw materials, and historical operating costs. If the actual selling prices were to be lower or the costs of completion were to be higher than estimated, the actual allowance for diminution in value of inventories could be higher than estimated.

Income tax

As discussed in note 32(b), the directors of the Company consider that it is uncertain whether the relevant tax authorities will retrospectively claim additional EIT from the Company and that it is not possible to reliably estimate the eventual outcome of this matter. Consequently, no provision has been made in these financial statements in respect of the EIT differences arising from prior years.

36. Financial Instruments

Overview

Financial assets of the Group include cash and cash equivalents, other investments, trade debtors, bills receivable, other debtors and amounts due from other related parties. Financial liabilities of the Group include loans and borrowings, trade creditors, bills payable, other creditors and amounts due to related parties. The Group has no derivative instruments that are designated and qualified as hedging instruments at 31 December 2007 and 2006.

36. Financial Instruments *(continued)*

Overview *(continued)*

The Group has exposure to the following risks from its use of financial instruments:

- credit risk;
- liquidity risk; and
- market risk

The Board of Directors has overall responsibility for the establishment, oversight of the Group's risk management framework, and developing and monitoring the Group's risk management policies.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations. Internal audit department undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Group's audit committee.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers. The majority of the Group's trade debtors and amounts due from related parties relate to sales of petroleum and chemical products to third parties and related parties operating in the petroleum and chemical industries. The Group performs ongoing credit evaluations of its customers' financial condition and generally does not require collateral on trade debtors and related parties. The Group maintains an impairment loss for doubtful accounts and actual losses have been within management's expectations. The details of the Group's credit policy for and quantitative disclosures in respect of the Group's exposure on credit risk relating to trade receivables are set out in Note 22.

The carrying amounts of trade debtors, bills receivables, other debtors, and amounts due from related parties, represent the Group's maximum exposure to credit risk in relation to financial assets.

36. Financial Instruments *(continued)*

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach in managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. The Group prepares monthly cash flow budget to ensure that they will always have sufficient liquidity to meet its financial obligation as they fall due. The Group arranges and negotiates financing with financial institutions and maintains a certain level of standby credit facilities to reduce the liquidity risk.

At 31 December 2007, the Group has standby credit facilities with several PRC financial institutions which allows the Group to borrow up to RMB 2,900,000,000 (2006: RMB 2,900,000,000) on an unsecured basis, at a weighted average interest rate of 6.29% (2006: 5.95%). At 31 December 2007, the Group's outstanding borrowings under these facilities were RMB 1,812,642,000 (2006: RMB 1,618,692,000) and were included in short-term bank loans.

The following table sets out the remaining contractual maturities at the balance sheet date of the Group's and the Company's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on prevailing rates current at the balance sheet date) and the earliest date the Group and the Company would be required to repay:

The Group

	2007				
	Carrying amount RMB'000	Total contractual undiscounted cash flow RMB'000	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000
Loans and borrowings (current)	4,091,969	4,179,154	4,179,154	-	-
Loans and borrowings (non-current)	639,289	723,741	39,271	549,201	135,269
Trade creditors	1,504,454	1,504,454	1,504,454	-	-
Bills payable	300,575	300,575	300,575	-	-
Other creditors	1,442,284	1,442,284	1,442,284	-	-
Amounts due to related parties	904,870	904,870	904,870	-	-
	8,883,441	9,055,078	8,370,608	549,201	135,269

36. Financial Instruments *(continued)*

Liquidity risk *(continued)*

The Group *(continued)*

	2006				
	Carrying amount RMB'000	Total contractual undiscounted cash flow RMB'000	Within 1 year or on demand RMB'000	More than 1 years but less than 2years RMB'000	More than 2 years but less than 5 years RMB'000
Loans and borrowings (current)	4,270,337	4,405,610	4,405,610	-	-
Loans and borrowings (non-current)	1,063,654	1,193,902	52,731	611,552	529,619
Trade creditors	1,385,577	1,385,577	1,385,577	-	-
Bills payable	7,026	7,026	7,026		
Other creditors	732,951	732,951	732,951	-	-
Amounts due to related parties	599,773	599,773	599,773	-	-
	8,059,318	8,324,839	7,183,668	611,552	529,619

The Company

	2007				
	Carrying amount RMB'000	Total contractual undiscounted cash flow RMB'000	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000
Loans and borrowings (current)	3,548,739	3,617,250	3,617,250	-	-
Loans and borrowings (non-current)	450,000	512,550	31,275	481,275	-
Trade creditors	1,174,332	1,174,332	1,174,332	-	-
Bills payable	285,594	285,594	285,594	-	-
Other creditors	1,348,442	1,348,442	1,348,442	-	-
Amounts due to related parties	1,367,447	1,367,447	1,367,447	-	-
	8,174,554	8,305,615	7,824,340	481,275	-

36. Financial Instruments (continued)

Liquidity risk (continued)

The Company (continued)

	2006				
	Carrying amount RMB'000	Total contractual undiscounted cash flow RMB'000	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000
Loans and borrowings (current)	4,001,726	4,130,314	4,130,314	–	–
Loans and borrowings (non-current)	873,710	991,484	46,494	470,204	474,786
Trade creditors	735,602	735,602	735,602	–	–
Bills payable	1,141	1,141	1,141	–	–
Other creditors	641,559	641,559	641,559	–	–
Amounts due to related parties	471,765	471,765	471,765	–	–
	6,725,503	6,971,865	6,026,875	470,204	474,786

Market risk

(a) Currency risk

Currency risk arises on financial instruments that are denominated in a currency other than the functional currency in which they are measured. The Group's currency risk exposure primarily relates to short-term and long-term debts denominated in US dollars.

The Group has no hedging policy on foreign currency balances, and principally reduces the currency risk by monitoring the level of foreign currency.

36. Financial Instruments (continued)

Market risk (continued)

(a) Currency risk (continued)

Included in loans and borrowings are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	The Group		The Company	
	2007	2006	**2007**	2006
	'000	'000	**'000**	'000
United States Dollars	**USD 86,556**	USD 261,901	**USD 85,116**	USD 260,101

A 5 percent strengthening of Renminbi against USD at 31 December would have increased net profit for the year and retained earnings of the Group by approximately RMB 21,181,000 (2006: RMB 86,917,000). This analysis has been determined assuming that the change in foreign exchange rates had occurred at the balance sheet date and had been applied to the foreign currency balances to which the Group has significant exposure as stated above, and that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2006.

Other than the amounts as disclosed above, the amounts of other financial assets and liabilities of the Group are substantially denominated in the functional currency of respective entity of the Group.

(b) Interest rate risk

The Group's interest rate risk exposure arises primarily from its short-term and long-term debts. Debts carrying interest at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. The interest rates of loans and borrowings of the Group are disclosed in note 33.

As at 31 December 2007, it is estimated that a general increase / decrease of 100 basis points in variable interest rates, with all other variables held constant, would decrease / increase the Group's net profit for the year and retained earnings by approximately RMB 12,146,000 (2006: RMB 17,642,000). This sensitivity analysis has been determined assuming that the change in interest rates had occurred at the balance sheet date and the change was applied to the Group's debts in existence at that date with exposure to cash flow interest rate risk. The analysis is performed on the same basis for 2006.

37. Financial Instruments (continued)

Fair value

The disclosures of the fair value estimates, methods and assumptions, set forth below for the Group's financial instruments, are made to comply with the requirements of IFRS 7 and IAS 39 and should be read in conjunction with the Group's consolidated financial statements and related notes. The estimated fair value amounts have been determined by the Group using market information and valuation methodologies considered appropriate. However, considerable judgment is required to interpret market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Group could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

The fair value of long term loans is estimated by discounting future cash flows thereon using current market interest rates offered to the Group for debts with substantially the same characteristics and maturities ranging 7.17% to 7.74% (2006: 6.00% to 6.48%).The following table presents the carrying amounts and fair values of the Group's long term loans at 31 December 2007 and 2006.

	2007		2006	
	Carrying amount RMB'000	Fair value RMB'000	Carrying amount RMB'000	Fair value RMB'000
Liabilities				
Long term loans	1,058,316	1,034,682	1,480,299	1,445,950

The fair value of available-for-sale equity securities was based on quoted market price on a PRC stock exchange. Unquoted equity investments are individually and in the aggregate not material to the Group's financial condition or results of operations. There are no listed market prices for such interests in the PRC and, accordingly, a reasonable estimate of fair value could not be made without incurring excessive costs. The Group intends to hold these unquoted equity investments for long term purpose.

The fair values of all other financial instruments approximate their carrying amounts due to the short-term maturity of these instruments.

37 Possible impact of amendments, new standards and interpretations issued but not yet effective for the annual accounting period ended 31 December 2007

Up to the date of issue of these financial statements, the IASB has issued the following amendments, new standards and interpretations which are not yet effective for the annual accounting period ended 31 December 2007 and which have not been adopted in these financial statements:

	Effective for accounting period beginning on or after
IFRS 8, Operating Segments	1 January 2009
Revised IAS 1, Presentation of financial statements	1 January 2009
Revised IAS 23, Borrowing costs	1 January 2009
IFRIC 11, IFRS 2 - Group and treasury share transactions	1 March 2007
IFRIC 12, Service concession arrangements	1 January 2008
IFRIC 13, Customer loyalty programmes	1 July 2008
IFRIC 14, IAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction	1 January 2008

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. Up to the date of issuance of these financial statements, the Group believes that the adoption of IFRIC 11, IFRS 2, IFRIC 12, IFRIC 13, IFRIC 14 and IAS 19 are not applicable to any of the Group's operations and that the adoption of IFRS 8, Revised IAS 1 and Revised IAS 23 are unlikely to have a significant impact on the Group's results of operations and financial position.

38. Non-adjusting post balance sheet events

In March 2008, the Group received a grant income of RMB 247,280,000 as a compensation of losses incurred due to the distortion of the correlation of domestic refined petroleum product prices and the crude oil prices, and the measures taken by the Group to stabilize the supply in the PRC refined petroleum product market during the first quarter of 2008.

39. Parent companies

The Directors consider the immediate parent company and the ultimate parent company at 31 December 2007 to be China Petroleum & Chemical Corporation and China Petrochemical Corporation, respectively, which are incorporated in the PRC. China Petroleum & Chemical Corporation produces financial statements available for public use.

KPMG Huazhen

All Shareholders of Sinopec Shanghai Petrochemical Company Limited:

We have audited the accompanying financial statements of Sinopec Shanghai Petrochemical Company Limited (the Company), which comprise the consolidated balance sheet and balance sheet as at 31 December 2007, the consolidated income statement and income statement, the consolidated statement of changes in equity and statement of changes in equity, the consolidated cash flow statement and cash flow statement for the year then ended, and notes to the financial statements.

Management's Responsibility for the Financial Statements

The Company's management is responsible for the preparation of these financial statements in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with China Standards on Auditing for Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements comply with the requirements of China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China and present fairly, in all material respects, the consolidated financial position and financial position of the Company as at 31 December 2007, and the consolidated results of operations and results of operations and the consolidated cash flows and cash flows of the Company for the year then ended.

KPMG Huazhen

Certified Public Accountants
Registered in the People's Republic of China

Hu Qiong

Beijing, the People's Republic of China

Wang Wenli

7 April 2008

Consolidated Balance Sheet

As at 31 December 2007
(Prepared under China Accounting Standards for Business Enterprises)

	Note	2007 RMB'000	2006 RMB'000
Assets			
Current assets			
Cash at bank and on hand	7	893,165	894,650
Bills receivable	8	1,800,856	1,273,233
Trade debtors	9	563,093	624,890
Advance payments	10	123,939	350,895
Other receivables	11	254,420	234,324
Inventories	12	5,197,849	4,163,256
Total current assets		8,833,322	7,541,248
Non-current assets			
Available-for-sale financial assets	13	478,793	105,185
Long-term equity investments	14	3,543,769	3,463,444
Investment property	15	512,793	501,904
Fixed assets	16(a)	15,259,283	13,606,924
Construction in progress	17	965,463	2,009,797
Intangible assets	18(a)	597,897	605,719
Long-term deferred expenses		173,807	185,180
Deferred tax assets	19(a)	129,207	36,102
Total non-current assets		21,661,012	20,514,255
Total assets		30,494,334	28,055,503

The notes on pages 166 to 253 form part of these financial statements.

As at 31 December 2007
(Prepared under China Accounting Standards for Business Enterprises)

	Note	2007 RMB'000	2006 RMB'000
Liabilities and shareholders' equity			
Current liabilities			
Short-term loans	21	3,672,942	1,853,692
Bills payable	22	300,575	42,726
Trade creditors	22	1,913,118	1,510,688
Receipts in advance	22	429,516	403,620
Employee benefits payable	24	85,651	89,458
Taxes payable	5(3)	70,533	269,498
Interest payable		11,796	26,386
Other payables	22	1,236,529	397,382
Short-term debentures payable	23	-	2,000,000
Current portion of non-current liabilities	26	419,027	416,645
Total current liabilities		8,139,687	7,010,095
Non-current liabilities			
Long-term loans	26	639,289	1,063,654
Deferred tax liabilities	19(a)	150,170	24,672
Other non-current liabilities		261,753	251,350
Total non-current liabilities		1,051,212	1,339,676
Total liabilities		9,190,899	8,349,771
Shareholders' equity			
Share capital	27	7,200,000	7,200,000
Capital reserve	28	3,203,842	2,878,227
Surplus reserve	29	4,766,408	4,573,974
Retained earnings	25	5,829,194	4,717,518
Total equity attributable to equity holders of the Company		20,999,444	19,369,719
Minority interests	6(1)	303,991	336,013
Total equity		21,303,435	19,705,732
Total liabilities and shareholders' equity		30,494,334	28,055,503

These financial statements have been approved by the Board of Directors of the Company on 7 April 2008.

Rong Guangdao	**Du Chongjun**	**Han Zhihao**
Chairman and President	Vice chairman and Vice President	Director and Chief Financial Officer

The notes on pages 166 to 253 form part of these financial statements.

Balance Sheet

As at 31 December 2007
(Prepared under China Accounting Standards for Business Enterprises)

	Note	2007 RMB'000	2006 RMB'000
Assets			
Current assets			
Cash at bank and on hand	7	634,533	551,693
Bills receivable	8	1,669,202	980,026
Trade debtors	9	420,734	347,630
Advance payments	10	105,211	328,882
Other receivables	11	213,481	241,935
Inventories	12	4,780,473	3,584,431
Total current assets		7,823,634	6,034,597
Non-current assets			
Available-for-sale financial assets	13	434,554	81,994
Long-term equity investments	14	5,081,193	4,917,355
Investment property	15	569,326	584,247
Fixed assets	16(b)	13,753,579	11,842,516
Construction in progress	17	940,491	2,006,056
Intangible assets	18(b)	460,638	496,160
Long-term deferred expenses		167,582	176,213
Deferred tax assets	19(b)	126,519	36,102
Total non-current assets		21,533,882	20,140,643
Total assets		29,357,516	26,175,240

The notes on pages 166 to 253 form part of these financial statements.

Balance Sheet (continued)

As at 31 December 2007
(Prepared under China Accounting Standards for Business Enterprises)

	Note	2007 RMB'000	2006 RMB'000
Liabilities and shareholders' equity			
Current liabilities			
Short-term loans	21	3,289,642	1,618,692
Bills payable	22	285,594	1,141
Trade creditors	22	1,797,640	879,972
Receipts in advance	22	397,112	373,774
Employee benefits payable	24	68,212	39,800
Taxes payable	5(3)	46,333	271,382
Interest payable		11,796	26,386
Other payables	22	1,585,040	604,183
Short-term debenture payable	23	-	2,000,000
Current portion of non-current liabilities	26	259,097	383,034
Total current liabilities		7,740,466	6,198,364
Non-current liabilities			
Long-term loans	26	450,000	873,710
Deferred tax liabilities	19(b)	137,186	22,987
Other non-current liabilities		261,753	251,350
Total non-current liabilities		848,939	1,148,047
Total liabilities		8,589,405	7,346,411
Shareholders' equity			
Share capital	27	7,200,000	7,200,000
Capital reserve	28	3,171,623	2,868,675
Surplus reserve	29	4,766,408	4,573,974
Retained earnings	25	5,630,080	4,186,180
Total equity		20,768,111	18,828,829
Total liabilities and shareholders' equity		29,357,516	26,175,240

These financial statements have been approved by the Board of Directors of the Company on 7 April 2008.

Rong Guangdao
Chairman and President

Du Chongjun
Vice chairman and Vice President

Han Zhihao
Director and Chief Financial Officer

The notes on pages 166 to 253 form part of these financial statements.

Consolidated Income Statement

For the year ended 31 December 2007
(Prepared under China Accounting Standards for Business Enterprises)

	Note	2007 RMB'000	2006 RMB'000
Operating income	30	55,404,687	51,478,855
Less: Operating costs	31	50,573,669	47,940,228
Business taxes and surcharges	32	1,073,695	681,362
Selling and distribution expenses		504,712	521,990
General and administrative expenses		2,268,946	2,126,485
Financial expenses	33	177,926	165,389
Impairment loss	34	236,633	59,500
Add: Investment income	35	1,549,331	663,861
Including: income from investment in associates and jointly controlled enterprises		655,897	566,682
Operating profit		2,118,437	647,762
Add: Non-operating income	36	121,441	414,646
Less: Non-operating expenses	37	118,784	137,433
Including: loss from disposal of non-current assets		51,790	63,817
Profit before income tax		2,121,094	924,975
Less: Income tax	38	479,928	52,715
Net profit		1,641,166	872,260
Attributable to:			
Equity shareholders of the Company		1,592,110	805,705
Minority shareholders		49,056	66,555
Basic and diluted earnings per share	49	RMB0.221	RMB0.112

These financial statements have been approved by the Board of Directors of the Company on 7 April 2008.

Rong Guangdao
Chairman and President

Du Chongjun
Vice chairman and Vice President

Han Zhihao
Director and Chief Financial Officer

The notes on pages 166 to 253 form part of these financial statements.

Income Statement

For the year ended 31 December 2007
(Prepared under China Accounting Standards for Business Enterprises)

	Note	2007 RMB'000	2006 RMB'000
Operating income	30	50,074,300	45,258,463
Less: Operating costs	31	45,729,716	42,378,529
Business taxes and surcharges	32	1,060,568	673,002
Selling and distribution expenses		417,220	416,050
General and administrative expenses		1,897,274	1,828,254
Financial expenses	33	141,419	128,483
Impairment loss	34	233,873	46,387
Add: Investment income	35	1,739,783	754,591
Including: income from investment in associates and jointly controlled enterprises		628,075	544,599
Operating profit		2,334,013	542,349
Add: Non-operating income	36	114,534	353,011
Less: Non-operating expenses	37	104,039	118,662
Including: loss from disposal of non-current assets		38,825	57,855
Profit before income tax		2,344,508	776,698
Less: Income tax	38	420,174	1,793
Net profit		1,924,334	774,905

These financial statements have been approved by the Board of Directors of the Company on 7 April 2008.

Rong Guangdao
Chairman and President

Du Chongjun
Vice chairman and Vice President

Han Zhihao
Director and Chief Financial Officer

The notes on pages 166 to 253 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2007
(Prepared under China Accounting Standards for Business Enterprises)

	Note	2007 RMB'000	2006 RMB'000
Cash flows from operating activities:			
Cash received from sale of goods and rendering of services		64,955,246	60,084,837
Refund of taxes		-	65,135
Other cash received relating to operating activities		9,796	298,227
Sub-total of cash inflows		64,965,042	60,448,199
Cash paid for goods and services		(59,334,641)	(55,530,913)
Cash paid to and for employees		(2,050,838)	(1,812,453)
Cash paid for all types of taxes		(1,491,320)	(826,167)
Other cash paid relating to operating activities		(303,671)	(237,987)
Sub-total of cash outflows		(63,180,470)	(58,407,520)
Net cash inflow from operating activities	39(1)	1,784,572	2,040,679
Cash flows from investing activities:			
Cash received from disposal of investments		1,114,701	351,178
Cash received from investment income		393,062	47,596
Net cash received from disposal of fixed assets and intangible assets		68,708	254,843
Other cash received relating to investing activities		46,421	56,827
Sub-total of cash inflows		1,622,892	710,444
Cash paid for acquisition of fixed assets and intangible assets		(2,134,123)	(2,008,779)
Cash paid for acquisition of investments		-	(54,206)
Sub-total of cash outflows		(2,134,123)	(2,062,985)
Net cash outflow from investing activities		(511,231)	(1,352,541)

The notes on pages 166 to 253 form part of these financial statements.

For the year ended 31 December 2007
(Prepared under China Accounting Standards for Business Enterprises)

	Note	2007 RMB'000	2006 RMB'000
Cash flows from financing activities:			
Proceeds from issuance of debentures		-	2,977,800
Proceeds from borrowings		17,605,887	13,936,126
Sub-total of cash inflows		17,605,887	16,913,926
Repayment of debentures		(2,000,000)	(1,000,000)
Repayment of borrowings		(16,166,938)	(15,910,127)
Cash paid for dividends, profits distribution and interest		(711,652)	(1,142,059)
Sub-total of cash outflows		(18,878,590)	(18,052,186)
Net cash outflow from financing activities		(1,272,703)	(1,138,260)
Effect of foreign exchange rate changes on cash and cash equivalents		(2,123)	(2,465)
Net decrease in cash and cash equivalents	39(2)	(1,485)	(452,587)
Add: cash and cash equivalents at the beginning of the year		894,650	1,347,237
Cash and cash equivalents at the end of the year		893,165	894,650

These financial statements have been approved by the Board of Directors of the Company on 7 April 2008.

Rong Guangdao
Chairman and President

Du Chongjun
Vice chairman and Vice President

Han Zhihao
Director and Chief Financial Officer

The notes on pages 166 to 253 form part of these financial statements.

Cash Flow Statement

For the year ended 31 December 2007
(Prepared under China Accounting Standards for Business Enterprises)

	Note	2007 RMB'000	2006 RMB'000
Cash flows from operating activities:			
Proceeds from sale of goods and rendering of services		57,801,225	52,519,391
Proceeds of taxes		-	52,285
Other cash received relating to operating activities		5,787	287,499
Sub-total of cash inflows		57,807,012	52,859,175
Cash paid for goods and services		(52,865,186)	(48,796,554)
Cash paid to and for employees		(1,423,536)	(1,223,096)
Cash paid for all types of taxes		(1,416,608)	(743,124)
Other cash paid relating to operating activities		(267,053)	(220,505)
Sub-total of cash outflows		(55,972,383)	(50,983,279)
Net cash inflow from operating activities	39(1)	1,834,629	1,875,896
Cash flows from investing activities:			
Cash received from disposal of investments		891,863	129,167
Cash received from investment income		685,818	173,383
Net cash received from disposal of fixed assets and intangible assets		56,808	143,712
Other cash received relating to investing activities		37,884	49,153
Sub-total of cash inflows		1,672,373	495,415
Cash paid for acquisition of fixed assets and intangible assets		(1,998,473)	(1,777,989)
Sub-total of cash outflows		(1,998,473)	(1,777,989)
Net cash outflow from investing activities		(326,100)	(1,282,574)

The notes on pages 166 to 253 form part of these financial statements.

Cash Flow Statement (continued)

For the year ended 31 December 2007
(Prepared under China Accounting Standards for Business Enterprises)

	Note	2007 RMB'000	2006 RMB'000
Cash flows from financing activities:			
Proceeds from issuance of debentures		-	2,977,800
Proceeds from borrowings		17,062,587	13,478,955
Sub-total of cash inflows		17,062,587	16,456,755
Repayment of debentures		(2,000,000)	(1,000,000)
Repayment of borrowings		(15,910,100)	(15,301,290)
Cash paid for dividends, profits distribution and interest		(578,103)	(1,018,615)
Sub-total of cash outflows		(18,488,203)	(17,319,905)
Net cash outflow from financing activities		(1,425,616)	(863,150)
Effect of foreign exchange rate changes on cash and cash equivalents		(73)	(43)
Net increase/(decrease) in cash and cash equivalents	39(2)	82,840	(269,871)
Add: cash and cash equivalents at the beginning of the year		551,693	821,564
Cash and cash equivalents at the end of the year		634,533	551,693

These financial statements have been approved by the Board of Directors of the Company on 7 April 2008.

Rong Guangdao
Chairman and President

Du Chongjun
Vice chairman and Vice President

Han Zhihao
Director and Chief Financial Officer

The notes on pages 166 to 253 form part of these financial statements.

Consolidated statement of changes in shareholders' equity

For the year ended 31 December 2007
(Prepared under China Accounting Standards for Business Enterprises)

	2007							2006						
	Attributable to equity shareholders of the Company							Attributable to equity shareholders of the Company						
	Share capital RMB'000	Capital reserve RMB'000	Surplus reserve RMB'000	Retained earnings RMB'000	Subtotal RMB'000	Minority interests RMB'000	Total RMB'000	Share capital RMB'000	Capital reserve RMB'000	Surplus reserve RMB'000	Retained earnings RMB'000	Subtotal RMB'000	Minority interests RMB'000	Total RMB'000
Balance at 31 December	7,200,000	2,945,607	4,610,707	4,516,774	19,273,088	336,013	19,609,101	7,200,000	2,856,278	4,537,022	4,573,608	19,166,908	347,453	19,514,361
Changes in accounting policies	-	(67,380)	(36,733)	200,744	96,631	-	96,631	-	-	(40,539)	135,696	95,157	-	95,157
Balance at 1 January	7,200,000	2,878,227	4,573,974	4,717,518	19,369,719	336,013	19,705,732	7,200,000	2,856,278	4,496,483	4,709,304	19,262,065	347,453	19,609,518
Changes in equity for the year														
1. Net profit for the year	-	-	-	1,592,110	1,592,110	49,056	1,641,166	-	-	-	805,705	805,705	66,555	872,260
2. Gain and loss recognised directly in equity														
- Net changes in fair value of available-for-sale financial assets	-	325,615	-	-	325,615	-	325,615	-	21,949	-	-	21,949	-	21,949
Sub-total of 1&2	-	325,615	-	1,592,110	1,917,725	49,056	1,966,781	-	21,949	-	805,705	827,654	66,555	894,209
3. Appropriation of profits														
-Appropriation for surplus reserve	-	-	192,434	(192,434)	-	-	-	-	-	77,491	(77,491)	-	-	-
-Distribution to shareholders	-	-	-	(288,000)	(288,000)	(81,078)	(369,078)	-	-	-	(720,000)	(720,000)	(77,995)	(797,995)
Sub-total of 3	-	-	192,434	(480,434)	(288,000)	(81,078)	(369,078)	-	-	77,491	(797,491)	(720,000)	(77,995)	(797,995)
Balance at 31 December	7,200,000	3,203,842	4,766,408	5,829,194	20,999,444	303,991	21,303,435	7,200,000	2,878,227	4,573,974	4,717,518	19,369,719	336,013	19,705,732

These financial statements have been approved by the Board of Directors of the Company on 7 April 2008.

Rong Guangdao
Chairman and President

Du Chongjun
Vice chairman and Vice President

Han Zhihao
Director and Chief Financial Officer

The notes on pages 166 to 253 form part of these financial statements.

	2007					2006				
	Share capital RMB'000	Capital reserve RMB'000	Surplus reserve RMB'000	Retained earnings RMB'000	Total RMB'000	Share capital RMB'000	Capital reserve RMB'000	Surplus reserve RMB'000	Retained earnings RMB'000	Total RMB'000
Balance at 31 December	7,200,000	2,945,607	4,610,707	4,516,774	19,273,088	7,200,000	2,856,278	4,537,022	4,573,608	19,166,908
Changes in accounting policies	-	(76,932)	(36,733)	(330,594)	(444,259)	-	-	(40,539)	(364,842)	(405,381)
Balance at 1 January	7,200,000	2,868,675	4,573,974	4,186,180	18,828,829	7,200,000	2,856,278	4,496,483	4,208,766	18,761,527
Changes in equity for the year										
1.Net profit for the year	-	-	-	1,924,334	1,924,334	-	-	-	774,905	774,905
2.Gain and loss recognised directly in equity										
- Net changes in fair value of available-for-sale financial assets	-	302,948	-	-	302,948	-	12,397	-	-	12,397
Sub-total of 1&2	-	302,948	-	1,924,334	2,227,282	-	12,397	-	774,905	787,302
3.Appropriation of profits										
-Appropriation for surplus reserve	-	-	192,434	(192,434)	-	-	-	77,491	(77,491)	-
-Distribution to shareholders	-	-	-	(288,000)	(288,000)	-	-	-	(720,000)	(720,000)
Sub-total of 3	-	-	192,434	(480,434)	(288,000)	-	-	77,491	(797,491)	(720,000)
Balance at 31 December	7,200,000	3,171,623	4,766,408	5,630,080	20,768,111	7,200,000	2,868,675	4,573,974	4,186,180	18,828,829

These financial statements have been approved by the Board of Directors of the Company on 7 April 2008.

Rong Guangdao	**Du Chongjun**	**Han Zhihao**
Chairman and President	Vice chairman and Vice President	Director and Chief Financial Officer

The notes on pages 166 to 253 form part of these financial statements.

1. Company status

Sinopec Shanghai Petrochemical Company Limited ("the Company"), formerly Shanghai Petrochemical Company Limited, was established in the People's Republic of China ("the PRC") on 29 June 1993 as a joint stock limited company to hold the assets and liabilities of the production divisions and certain other units of the Shanghai Petrochemical Complex ("SPC"), a State-owned enterprise. Shanghai Petrochemical Complex was under the direct supervision of China Petrochemical Corporation ("CPC").

China Petrochemical Corporation finished its reorganisation on 25 February 2000. After the reorganisation, China Petroleum & Chemical Corporation ("Sinopec Corp") was established. As a part of the reorganisation, China Petrochemical Corporation transferred its 4,000,000,000 of the Company's state-owned legal shares, which represented 55.56 percent of the issued share capital of the Company, to Sinopec Corp. Sinopec Corp became the largest shareholder of the Company.

The Company changed its name to Sinopec Shanghai Petrochemical Company Limited on 12 October 2000.

The Company and its subsidiaries ("the Group") is a highly integrated entity which processes crude oil into synthetic fibres, resins and plastics, intermediate petrochemicals and petroleum products.

Details of the Company's principal subsidiaries are set out in Note 6 "Business combination and consolidated financial statements".

2. Basis of preparation

(1) Statement of compliance

The financial statements have been prepared in accordance with the requirements of the China Accounting Standards for Business Enterprises (CAS (2006)) issued by the Ministry of Finance (MOF). These financial statements present truly and completely the consolidated financial position and financial position, the consolidated results of operations and results of operations and the consolidated cash flows and cash flows of the Group.

These financial statements also comply with the disclosure requirements of "Regulation on the Preparation of Information Disclosures of Companies Issuing Public Shares, No. 15: General Requirements for Financial Reports" revised by the China Securities Regulatory Commission (CSRC) in 2007.

2. Basis of preparation *(continued)*

(2) Accounting year

The accounting year of the Group is from 1 January to 31 December.

(3) Measurement basis

The measurement basis used in the preparation of the financial statements is historical cost basis except that the assets and liabilities set out below:

- Available-for-sale financial assets (See Notes 3(11))

(4) Functional currency and presentation currency

The Group's functional currency is renminbi. These financial statements are presented in renminbi.

3. Significant accounting policies

(1) Business combination and consolidated financial statements

(a) Business combination involving entities under common control

A business combination involving enterprises under common control is a business combination in which all of the combining enterprises are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory. The assets and liabilities obtained are measured at the carrying amounts as recorded by the enterprise being absorbed at the combination date. The difference between the carrying amount of the net assets obtained and the carrying amount of consideration paid for the combination (or the total face value of shares issued) is adjusted to share premium in the capital reserve. If the balance of share premium is insufficient, any excess is adjusted to retained earnings. The combination date is the date on which the Company effectively obtains control of the enterprise being absorbed.

(b) Business combination involving entities not under common control

A business combination involving entities not under common control is a business combination in which all of the combining entities are not ultimately controlled by the same party or parties both before and after the business combination. The cost of a business combination paid by the Group is the aggregate of the fair value at the acquisition date of assets given, liabilities incurred or assumed, and equity securities issued by the Group, in exchange for control of the acquiree plus any cost directly attributable to the business combination. The difference between the fair value and the carrying amount of the assets given is recognised in profit or loss. The acquisition date is the date on which the Group effectively obtains control of the acquiree.

3. Significant accounting policies *(continued)*

(1) Business combination and consolidated financial statements *(continued)*

(b) Business combination involving entities not under common control *(continued)*

The Group, at the acquisition date, allocates the cost of the business combination by recognising the acquiree's identifiable asset, liabilities and contingent liabilities at their fair value at that date.

Any excess of the cost of a business combination over the Group's interest in the fair value of the acquiree's identifiable net assets is recognised as goodwill.

Any excess of the Group's interest in the fair value of the acquiree's identifiable net assets over the cost of a business combination is recognised in profit or loss.

(c) Consolidated financial statements

The consolidated financial statements comprise the Company and its subsidiaries. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Where the Company combines a subsidiary during the reporting period through a business combination involving entities under common control, the financial statements of the subsidiary are included in the consolidated financial statements as if the combination had occurred at the beginning of the earliest comparative period presented or, if later, at the date that common control was established. Therefore the opening balances and the comparative figures of the consolidated financial statements are restated. In the preparation of the consolidated financial statements, the subsidiary's assets, liabilities and results of operations are included in the consolidated balance sheet and the consolidated income statement, respectively, based on their carrying amounts in the subsidiary's financial statements, from the date that common control was established.

Where the Company acquires a subsidiary during the reporting period through a business combination involving entities not under common control, the identifiable assets, liabilities and results of operations of the subsidiaries are consolidated into consolidated financial statements from the date that control commences, base on the fair value of those identifiable assets and liabilities at the acquisition date.

Minority interest is presented separately in the consolidated balance sheet within equity. Net profit or loss attributable to minority shareholders is presented separately in the consolidated income statement below the net profit line item.

3. Significant accounting policies *(continued)*

(1) Business combination and consolidated financial statements *(continued)*

(c) Consolidated financial statements *(continued)*

Where the amount of losses attributable to the minority shareholders of a subsidiary exceeds the minority shareholders' portion of the equity of the subsidiary, the excess, and any further losses attributable to the minority shareholders, are allocated against the equity attributable to the Company except to the extent that the minority shareholders have a binding obligation under the articles of association or an agreement and are able to make additional investment to cover the losses. If the subsidiary subsequently reports profits, such profits are allocated to the equity attributable to the Company until the minority shareholders' share of losses previously absorbed by the Company has been recovered.

When the accounting period or accounting policies of a subsidiary are different from those of the Company, the Company makes necessary adjustments to the financial statements of the subsidiary based on the Company's own accounting period or accounting policies. Intra-group balances and transactions, and any unrealised profit or loss arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealized gains but only to the extent that there is no evidence of impairment.

(2) Translation of Foreign Currencies

When the Group receives capital in foreign currencies from investors, the capital is translated to renminbi at the spot exchange rate on the date of the receipt. Other foreign currency transactions are, on initial recognition, translated to renminbi at the spot exchange rates on the dates of the transactions.

A spot exchange rate is an exchange rate quoted by the People's Bank of China.

Monetary items denominated in foreign currencies are translated to renminbi at the spot exchange rate at the balance sheet date. The resulting exchange differences are recognised in profit or loss, except those arising from the principals and interests on foreign currency borrowings specifically for the purpose of acquisition, construction of qualifying assets (see Note 3(17)). Non-monetary items denominated in foreign currencies that are measured at historical cost are translated to renminbi using the foreign exchange rate at the transaction date. Non-monetary items denominated in foreign currencies that are measured at available-for-sale financial assets, the exchange differences are recognised in capital reserve.

3. Significant accounting policies *(continued)*

(3) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits, and short-term, highly liquid investments, which are readily convertible into known amounts of cash and are subject to an insignificant risk of change in value.

(4) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost of inventories comprises all costs of purchase, costs of conversion and other costs. Inventories are initially measured at their actual cost. Cost of inventories is calculated using the weighted average method. In addition to the purchasing cost of raw materials, work in progress and finished goods include direct labour costs and an appropriate allocation of production overheads.

Any excess of the cost over the net realisable value of each item of inventories is recognised as a provision for diminution in the value of inventories. Net realisable value is the estimated selling price in the normal course of business less the estimated costs to completion and the estimated expenses and related taxes necessary to make the sale.

Reusable materials, such as low-value consumables, packaging materials and other materials, are amortised in full when received for use. The amounts of the amortisation are included in the cost of the related assets or profit or loss.

The Group maintains a perpetual inventory system.

(5) Long-term equity investments

(a) Investments in subsidiaries

In the Group's consolidated financial statements, investment in subsidiaries are accounted for in accordance with the principles described in Note 3(1)(c).

In the Company's financial statements, investments in subsidiaries are accounted for using the cost method. The investments are stated at cost less impairment losses (see Note 3(10)) in the balance sheet. At initial recognition, such investments are measured as follows:

3. Significant accounting policies *(continued)*

(5) Long-term equity investments *(continued)*

(a) Investments in subsidiaries *(continued)*

- The initial investment cost of a long-term equity investment obtained through a business combination involving entities under common control is the absorbing enterprise's share of the subsidiary's equity at the combination date. The difference between the initial investment cost and the carrying amounts of the consideration given is adjusted to share premium in capital reserve. If the balance of the share premium is insufficient, any excess is adjusted to retained earnings.

- The initial investment cost of a long-term equity investment obtained through a business combination involving entities not under common control is the cost of acquisition determined at the acquisition date.

- An investment in a subsidiary acquired otherwise than through a business combination is initially recognised at actual payment cost if the Group acquires the investment by cash, or at the fair value of the equity securities issued if an investment is acquired by issuing equity securities, or at the value stipulated in the investment contract or agreement if an investment is contributed by investors.

(b) Investment in jointly controlled enterprises and associates

A jointly controlled enterprise is an enterprise which operates under joint control in accordance with a contractual agreement between the Group and other parties. Joint control is the contractual agreed sharing of control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing the control.

An associate is an enterprise over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of an investee but is not control or joint control over those policies.

An investment in a jointly controlled enterprise or an associate is accounted for using the equity method, unless the investment is classified as held for sale. The investment is classified as held for sale when the Group has made a decision and signed a non-cancellable agreement on the transfer of the investment with the transferee, and the transfer is expected to be completed within one year. The investment held for sale is measured at the lower of its carrying amount and fair value less costs to sell. Any excess of its carrying amount over fair value less costs to sell is recognised as a provision for impairment loss of the investment.

3. Significant accounting policies *(continued)*

(5) Long-term equity investments *(continued)*

(b) Investment in jointly controlled enterprises and associates *(continued)*

At year-end, the Group makes provision for impairment loss of investments in jointly controlled enterprises and associates (see Note 3(10)).

An investment in a jointly controlled enterprise or an associate is initially recognised at actual payment cost if the Group acquires the investment by cash, at the fair value of the equity securities issued if an investment is acquired by issuing equity securities, or at the value stipulated in the investment contract or agreement if an investment is contributed by an investor.

The Group makes the following accounting treatments when using the equity method:

- Where the initial investment cost of a long-term equity investment exceeds the Group's interest in the fair value of the investee's identifiable net assets at the time of acquisition, the investment is initially recognised at the initial investment cost. Where the initial investment cost is less than the Group's interest in the fair value of the investee's identifiable net assets at the time of acquisition, the investment is initially recognised at the investor's share of the fair value of the investee's identifiable net assets, and the difference is charged to profit or loss.

- After the acquisition of the investment, the Group recognises its share of the investee's net profits or losses as investment income or losses, and adjusts the carrying amount of the investment accordingly. The carrying amount of investment is reduced by that attributable to the Group once the investee declares any cash dividends or profits distributions.

  The Group recognises its share of the investee's net profits or losses after making appropriate adjustments to align the accounting policies or accounting periods with those of the Group based on the fair values of the investee's individual separately identifiable assets at the time of acquisition. Unrealised profits and losses resulting from transactions between the Group and its associates or jointly controlled enterprises are eliminated for the part attributable to the Group calculated based on its share of the associates or jointly controlled enterprises. Unrealised losses resulting from transactions between the Group and its associates or jointly controlled enterprises are eliminated in the same way as unrealized gains but only to the extent that there is no evidence of impairment.

3. Significant accounting policies *(continued)*

(5) Long-term equity investments *(continued)*

(b) Investment in jointly controlled enterprises and associates *(continued)*

- The Group discontinues recognising its share of net losses of the investee after the carrying amount of the long-term equity investment and any long-term interest that in substance forms part of the Group's net investment in the associate or the jointly controlled enterprise is reduced to zero, except to the extent that the Group has an obligation to assume additional losses. Where net profits are subsequently made by the associate or jointly controlled enterprise, the Group resumes recognising its share of those profits only after its share of the profits exceeds the share of losses not recognised.

(c) Other long-term equity investments

Other long-term equity investments refer to investments for which the Group does not have the right to control, have joint control or exercise significant influence over the investees, and for which the investments are not quoted in an active market and their fair value cannot be reliably measured.

Such investments are initially recognised at the cost determined in accordance with the same principles as those for jointly controlled enterprises and associates, and then accounted for using the cost method. At year-end the Group makes provision for impairment losses on such investments (see Note 3(11)).

(6) Investment property

Investment property is a property held either to earn rental income or for capital appreciation or for both.

Investment property is accounted for using the cost model and stated in the balance sheet at cost less accumulated depreciation and impairment loss (see Note 3(10)). Investment property is depreciated using the straight-line method over its estimated useful life.

	Estimated useful life	Estimated residual value	Depreciation rate
Property	40 years	3%	2.43%

3. Significant accounting policies *(continued)*

(7) Fixed assets and construction in progress

Fixed assets represent the tangible assets held by the Group for use in the production of goods or supply of services or for operation and administrative purposes with useful lives over one year.

Fixed assets are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see Note 3(10)). Construction in progress is stated in the balance sheet at cost less impairment losses (see Note 3(10)).

The cost of a purchased fixed asset comprises the purchase price, related taxes, and any directly attributable expenditure for bringing the asset to working condition for its intended use. The cost of self-constructed assets includes the cost of materials, direct labour, capitalised borrowing costs (see Note 3(17)), and any other costs directly attributable to bringing the asset to working condition for its intended use.

Construction in progress is transferred to fixed assets when it is ready for its intended use. No depreciation is provided against construction in progress.

Where the individual component parts of an item of fixed asset have different useful lives or provide benefits to the Group in different patterns thus necessitating use of different depreciation rates or methods, they are recognised as a separate fixed asset.

The subsequent costs including the cost of replacing part of an item of fixed assets are recognised in the carrying amount of the item if the recognition criteria are satisfied, and the carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of fixed assets are recognised in profit or loss as incurred.

Gains or losses arising from the retirement or disposal of an item of fixed asset are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Fixed assets are depreciated using the straight-line method over their estimated useful lives. The estimated useful lives, residual values and depreciation rates of each class of fixed assets are as follows:

	Estimated Useful life	Estimated Residual value	Depreciation rate
Buildings	15 - 40 years	3%-5%	2.4%-6.5%
Plants, machinery and other equipment	5 - 26 years	3%-5%	3.7%-19.4%

Useful lives, residual values and depreciation methods are reviewed at at least each year-end.

3. Significant accounting policies *(continued)*

(8) Intangible assets

Intangible assets are stated in the balance sheet at cost less accumulated amortisation (where the estimated useful life is finite) and provision for impairment losses (see Note 3(10)). For an intangible asset with finite useful life, its cost less residual value and impairment loss is amortised on a straight-line basis over the period of expected useful lives. The respective amortisation periods for such intangible assets are as follows:

Land use rights	50 years
Other intangible assets	2-27.75 years

An intangible asset is regarded as having an indefinite useful life and is not amortised when there is no foreseeable limit to the period over which the asset is expected to generate economic benefits for the Group. At the balance sheet date, the Group doesn't have any intangible assets with indefinite useful lives.

Expenditures on an internal research and development project are classified into expenditures on the research phase and expenditures on the development phase. Research is original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding. Development is the application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products or processes before the start of commercial production or use.

Expenditures on research phase are recognised in profit or loss when incurred. Expenditures on development phase are capitalised if development costs can be measured reliably, the product or process is technically and commercially feasible, and the Group intends to and has sufficient resources to complete development. Capitalised development costs are stated at cost less impairment losses (see Note 3(10)). Other development expenditures are recognised as expenses in the period in which they are incurred.

(9) Goodwill

Goodwill represents the excess of cost of acquisition over the Group's interest in the fair value of the identifiable net assets of the acquiree under the business combination involving entities not under common control.

Goodwill arising on the acquisition of a minority interest in a subsidiary represents the excess of the cost of the additional investment over the carrying amount of the net asset acquired at the date of exchange.

Goodwill is not amortised and is stated at cost less accumulated impairment losses (see Note 3(10)). On disposal of an asset group or a set of asset groups, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

3. Significant accounting policies *(continued)*

(10) Impairment of non-financial long-term assets

The carrying amounts of the following assets are reviewed at each balance sheet date based on the internal and external sources of information to determine whether there is any indication of impairment:

- fixed assets
- construction in progress
- intangible assets
- investment property measured using a cost model
- investments in subsidiaries, associates and jointly controlled entities.

If any indication exists that an asset may be impaired, recoverable amount of the asset is estimated. In addition, the Group estimates the recoverable amount of goodwill at at least each year-end, irrespective of whether there is any indication of impairment or not. Goodwill is tested for impairment together with its related asset groups or sets of asset groups.

An asset group is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or asset groups. An asset group is composed of assets directly relating to cash-generation. Identification of an asset group is based on whether major cash inflows generated by the asset group are largely independent of the cash inflows from other assets or asset groups. In identifying an asset group, the Group also considers how management monitors the Group's operations and how management makes decisions about continuing or disposing of the Group's assets.

The recoverable amount of an asset, asset group or set of asset groups is the higher of its fair value less costs to sell and its present value of expected future cash flows.

An asset's fair value less costs to sell is the amount determined by the price of a sale agreement in an arm's length transaction, less the costs that are directly attributable to the disposal of the asset. The present value of expected future cash flows of an asset is determined by discounting the future cash flows, estimated to be derived from continuing use of the asset and from its ultimate disposal, to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in profit or loss. A provision for impairment loss of the asset is recognised accordingly. Impairment losses related to an asset group or a set of asset groups first reduce the carrying amount of any goodwill allocated to the asset group or set of asset groups, and then reduce the carrying amount of the other assets in the asset group or set of asset groups on a pro rata basis. However, that the carrying amount of an impaired asset will not be reduced below the highest of its individual fair value less costs to sell (if determinable), the present value of expected future cash flows (if determinable) and zero.

An impairment loss is not reversed in subsequent periods.

3. Significant accounting policies *(continued)*

(11) Financial instruments

Financial instruments of the Group comprise cash at bank and on hand, receivables, payables, available-for-sale financial asstes, loans and borrowings, short-term debentures payable and share capital, etc.

(a) Recognition and measurement of financial assets and financial liabilities

A financial asset or financial liability is recognised in the balance sheet when the Group becomes a party to contractual provisions of a financial instruments.

The Group classifies financial assets and liabilities into different categories at initial recognition based on the purpose of acquiring assets or assuming liabilities: financial assets and financial liabilities at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets and other financial liabilities.

Financial assets and financial liabilities are measured initially at fair value. For financial assets and financial liabilities at fair value through profit or loss, any directly attributable transaction costs are charged to profit or loss; for other categories of financial assets and financial liabilities, any attributable transaction costs are included in their initial costs. Subsequent to initial recognition financial assets and liabilities are measured as follows:

- Financial assets and financial liabilities at fair value through profit or loss (including financial assets or financial liabilities held for trading)

  A financial asset or financial liability is classified as at fair value through profit or loss if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is a derivative. Subsequent to initial recognition, financial assets and financial liabilities at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

- Receivables

  Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, receivables are subsequently stated at amortised cost using the effective interest method.

3. Significant accounting policies *(continued)*

(11) Financial instruments *(continued)*

(a) Recognition and measurement of financial assets and financial liabilities *(continued)*

- Available-for-sale financial assets

Available-for-sale financial assets include non-derivative financial assets that are designated upon initial recognition as available for sales and other financial assets which do not fall into any of the above categories. An investment in equity instrument which does not have a quoted market price in an active market and whose fair value cannot be reliably measured is measured at cost subsequent to initial recognition.

Besides investments in equity instruments whose fair value cannot be measured reliably as described above, subsequent to initial recognition, other available-for-sale financial assets are measured at fair value and changes therein, except for impairment losses and foreign exchange gains and losses from monetary financial assets, which are recognised directly in equity. When an investment is derecognised, the cumulative gain or loss in equity is removed from equity and recognised in profit or loss.

- Other financial liabilities

Financial liabilities other than the financial liabilities at fair value through profit or loss are classified as other financial liabilities.

Except for the other financial liabilities described above, subsequent to initial recognition, other financial liabilities are measured at amortised cost using the effective interest method.

(b) Impairment of financial assets

The carrying amounts of financial assets (other than those at fair value through profit or loss) are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, impairment loss is provided.

3. Significant accounting policies *(continued)*

(11) Financial instruments *(continued)*

(b) Impairment of financial assets *(continued)*

- Receivables

Receivables are assessed for impairment both on an individual basis and on a collective group basis.

Where impairment is assessed on an individual basis, an impairment loss in respect of a receivable is calculated as the excess of its carrying amount over the present value of the estimated future cash flows (exclusive of future credit losses that have not been incurred) discounted at the original effective interest rate. All impairment losses are recognised in profit or loss.

The assessment is made collectively where receivables share similar credit risk characteristics (including those having not been individually assessed as impaired), based on their historical loss experiences, and adjusted by the observative figures reflecting present economic conditions.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss will not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

- Available-for-sale financial assets and other long-term equity investments

Available-for-sale financial assets and other long-term equity investments are assessed for impairment on an individual basis.

When an available-for-sale financial asset is impaired, the cumulative loss arising from decline in fair value that has been recognised directly in equity is removed from equity and recognised in profit or loss even though the financial asset has not been derecognised.

If, after an impairment loss has been recognised on an available-for-sale debt instrument, the fair value of the debt instrument increases in a subsequent period and the increase can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. An impairment loss recognised for an investment in an equity instrument classified as available-for-sale is not reversed through profit or loss.

3. Significant accounting policies *(continued)*

(11) Financial instruments *(continued)*

(b) Impairment of financial assets *(continued)*

- Available-for-sale financial assets and other long-term equity investments *(continued)*

  For other long-term equity investments (see Note 3(5)(c)), the amount of the impairment loss is measured as the difference between the carrying amount of the investment and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss is not reversed.

(c) Determination of fair values

If there is an active market for a financial asset or financial liability, the quoted price in the active market without adjusting for transaction costs that may be incurred upon future disposal or settlement is used to establish the fair value of the financial asset or financial liability. For a financial asset held or a financial liability to be assumed, the quoted price is the current bid price and, for a financial asset to be acquired or a financial liability assumed, it is the current asking price.

If no active market exists for a financial instrument, a valuation technique is used to establish the fair value. Valuation techniques include reference to the current fair value of another instrument that is substantially the same. The Group calibrates the valuation technique and tests it for validity periodically.

(d) Derecognition of financial assets and financial liabilities

A financial asset is derecognised if the Group's contractual rights to the cash flows from the financial asset expire or if the Group transfers substantially all the risks and rewards of ownership of the financial asset to another party.

Where a transfer of a financial asset in its entirely meets the criteria of the derecognition, the difference between the two amounts below is recognised in profit or loss:

- carrying amount of the financial asset transferred

- the sum of the consideration received from the transfer and any cumulative gain or loss that has been recognised directly in shareholders' equity

3. Significant accounting policies *(continued)*

(11) Financial instruments *(continued)*

(d) Derecognition of financial assets and financial liabilities *(continued)*

The Group derecognises a financial liability (or part of it) only when the underlying present obligation (or part of it) is discharged.

(e) Equity instrument

An equity instrument is a contract that proves the ownership interest of the assets after deducting all liabilities in the Company.

The consideration received from the issuance of equity instruments net of transaction costs is recognised in share capital and capital reserve.

(12) Employee benefits

Employee benefits are all forms of considerations given and other related expenditures incurred in exchange for services rendered by employees. Except for termination benefits, employee benefits are recognised as a liability in the period in which the associated services are rendered by employees, with a corresponding increase in cost of relevant assets or expenses in the current period.

(a) Retirement benefits

Pursuant to the relevant laws and regulations of the PRC, the Group has joined a defined contribution basic retirement scheme for the employees arranged by local Labour and Social Security Bureaus. The Group makes contributions to the retirement scheme at the applicable rates based on the amounts stipulated by the government organisation. The contributions are charged to profit or loss on an accrual basis. When employees retire, the local Labour and Social Security Bureaus are responsible for the payment of the basic retirement benefits to the retired employees.

3. Significant accounting policies *(continued)*

(12) Employee benefits *(continued)*

(b) Housing fund and other social insurances

Besides the retirement benefits, pursuant to the relevant laws and regulations of the PRC, the Group has joined defined social security contributions for employees, such as a housing fund, basic medical insurance, unemployment insurance, injury insurance and maternity insurance. The Group makes contributions to the housing fund and other social insurances mentioned above at the applicable rate (s) based on the employees' salaries. The contributions are recognised as cost of assets or charged to profit or loss on an accrual basis.

(c) Termination benefits

When the Group terminates the employment relationship with employees before the employment contracts have expired, or provides compensation as an offer to encourage employees to accept voluntary redundancy, a provision for the termination benefits provided, is recognised in profit or loss when both of the following conditions have been satisfied:

- The Group has a formal plan for the termination of employment or has made an offer to employees for voluntary redundancy, which will be implemented shortly

- The Group is not allowed to withdraw from termination plan or redundancy offer unilaterally.

(13) Income tax

Current tax and deferred tax are recognised in profit or loss except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

Current tax is the expected tax payable calculated at the applicable tax rate on taxable income for the year, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases, which include the deductible losses and tax credits carry forward to subsequent periods. Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax is not recognised for the temporary differences arising from the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting profit nor taxable profit (or tax loss). Deferred tax is not recognised for taxable temporary differences arising from the initial recognition of goodwill.

3. Significant accounting policies *(continued)*

(13) Income tax *(continued)*

At the balance sheet date, the amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates that are expected to be applied in the period when the asset is realised or the liability is settled in accordance with tax laws.

(14) Provisions and contingent liabilities

A provision is recognised if, as a result of a past event, the Group has a present obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Where the effect of time value of money is material, provisions are determined by discounting the expected future cash flows.

In terms of a possible obligation resulting from a past transaction or event, whose existence will only be confirmed by the occurrence or non-occurrence of uncertain future events or a present obligation resulting from a past transaction or event, where it is not probable that the settlement of the above obligation will cause an outflow of economic benefits, or the amount of the outflow can not be estimated reliably, the possible or present obligation is disclosed as a contingent liability.

(15) Revenue recognition

Revenue is the gross inflow of economic benefit in the periods arising in the course of the Group's ordinary activities when the inflows result in increase in shareholder's equity, other than increase relating to contributions from shareholders. Revenue is recognised in profit or loss when it is probable that the economic benefits will flow to the Group, the revenue and costs can be measured reliably and the following respective conditions are met:

(a) Sale of goods

Revenue from sale of goods is recognised when all of the general conditions stated above and following conditions are satisfied:

- The significant risks and rewards of ownership of goods have been transferred to the buyer

- The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.

Revenue from the sale of goods is measured at the fair value of the considerations received or receivable under the sales contract or agreement.

3. Significant accounting policies *(continued)*

(15) Revenue recognition *(continued)*

(b) Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue from the rendering of services is recognised in the income statement by reference to the stage of completion of the transaction based on the proportion of services performed to date to the total services to be performed.

Where the outcome of rendering of services cannot be estimated reliably, if the costs incurred are expected to be recoverable, revenues are recognised to the extent that the costs incurred that are expected to be recoverable, and an equivalent amount is charged to profit or loss as service cost; if the costs incurred are not expected to be recoverable, the costs incurred are recognised in profit or loss and no service revenue is recognised.

(c) Interest income

Interest income is recognised on a time proportion basis with reference to the principal outstanding and the applicable effective interest rate.

(16) Government grants

Government grants are transfers of monetary assets or non-monetary assets from the government to the Group at no consideration except for the capital contribution from the government as a shareholder of the Group. Special funds such as investment grants allocated by the government, if clearly defined in official documents as part of "capital reserve" are dealt with as capital contributions, and not regarded as government grants.

A government grant is recognised when there is reasonable assurance that the grant will be received and that the Group will comply with the conditions associated with the grant.

If a government grant is in the form of a transfer of a monetary asset, it is measured at the amount that is received or receivable. If a government grant is in the form of a transfer of a non-monetary asset, it is measured at its fair value.

A government grant related to an asset is recognised initially as deferred income and amortised to profit or loss on a straight-line basis over the useful life of the asset. A grant that compensates the Group for expenses to be incurred in the subsequent periods is recognised initially as deferred income and recognised in profit or loss in the same periods in which the expenses are recognised. A grant that compensates the Group for expenses incurred is recognised in profit or loss immediately.

3. Significant accounting policies *(continued)*

(17) Borrowing costs

Borrowing costs incurred directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of the asset.

Except for the above, other borrowing costs are recognised as financial expenses in the income statement when incurred.

In the capitalisation period, the amount of interest (including amortisation of any discount or premium on borrowing) to be capitalised in each accounting period is determined as follows:

- Where funds are borrowed specifically for the acquisition, construction of a qualifying asset, the amount of interest to be capitalised is the interest expense calculated using effective interest rates during the period less any interest income earned from depositing the borrowed funds or any investment income on the temporary investment of those funds before being used on the asset.

- Where funds are borrowed generally and used for the acquisition, construction or production of a qualifying asset, the amount of interest to be capitalised on such borrowings is determined by applying a capitalisation rate to the weighted average of the excess amounts of cumulative expenditures on the asset over the above amounts of specific borrowings. The capitalisation rate is the weighted average of the interest rates applicable to the general-purpose borrowings.

The effective interest rate is determined as the rate that exactly discounts estimated future cash flow through the expected life of the borrowing or, when appropriate, a shorter period to the carrying amount of the borrowings.

The capitalisation period is the period from the date of commencement of capitalisation of borrowing costs to the date of cessation of capitalisation, excluding any period over which capitalisation is suspended. Capitalisation of borrowing costs commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities of acquisition, construction or production that are necessary to prepare the asset for its intended use or sale are in progress, and ceases when the assets become ready for their intended use or sale. Capitalisation of borrowing costs is suspended when the acquisition, construction or production activities are interrupted abnormally and the interruption lasts over three months.

(18) Dividends appropriated to investors

Dividends or distributions of profits proposed in the profit appropriation plan which will be authorised and declared after the balance sheet date, are not recognised as a liability at the balance sheet date but disclosed in the notes separately.

3. Significant accounting policies *(continued)*

(19) Related parties

If the Group has the power to control, jointly control or exercise significant influence over another party, or vice versa, or where the Group and one or more parties are subject to common control, jointly control, or significant influence from another party, they are considered to be related parties. Related parties may be individuals or enterprises. Enterprises with which the Company is under common control only from the State and that have no other related party relationships are not regarded as related parties of the Group. The Company's and its subsidiaries' related parties include, but are not limited to:

(a) the Company's parent

(b) the Company's subsidiaries

(c) enterprises that are controlled by the Company's parent

(d) investors that have joint control over the Group

(e) investors that exercise significant influence over the Group

(f) joint ventures of the Group

(g) associates of the Group

(h) principal individual investors and close family members of such individuals

(i) key management personnel of the Group and close family members of such individuals

(j) key management personnel of the Company's parent

(k) close family members of key management personnel of the Company's parent

(l) other enterprises that are controlled, jointly controlled or significantly influenced by principal individual investors, key management personnel of the Group, and close family members of such individuals.

3. Significant accounting policies *(continued)*

(19) Related parties *(continued)*

Besides the related parties stated above determined in accordance with the requirements of CAS (2006), the following enterprises and individuals are considered as (but not restricted to) related parties based on the disclosure requirements of Administrative Procedures on the Information Disclosures of Listed Companies issued by the CSRC:

(m) enterprises that hold 5% or more of the Company's shares or persons that act in concert

(n) individuals who directly or indirectly hold 5% or more of the Company's shares and close family members of such individuals

(o) enterprises that satisfy any of the aforesaid conditions in (a), (c) and (m) during the past 12 months or will satisfy them within the next 12 months pursuant to a relevant agreement

(p) individuals who satisfy any of the aforesaid conditions in (i), (j) and (n) during the past 12 months or will satisfy them within the next 12 months pursuant to a relevant agreement; and

(q) enterprises, other than the Company and subsidiaries controlled by the Company, which are controlled directly or indirectly by an individual defined in (i), (j), (n) or (p), or in which such individual assumes the position of a director or senior executive.

(20) Segment reporting

Segment information is presented in respect of the Group's business segments. A business segment is a distinguishable component of the Group that is engaged in providing an individual product or service or a group of related products or services and that is subject to risks and returns that are different from those of other component.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group entities within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire or construct segment fixed assets and intangible assets.

Unallocated items mainly comprise interest income and expenses, dividend income, investment income or loss arising from long-term equity investment, non-operating income and expenses, and income tax expenses.

4. Changes in accounting policies

(1) Changes in accounting policies and their effects

The Group and the Company adopted CAS (2006) on 1 January 2007. The significant accounting policies applicable to the Group under CAS (2006) are summarised in Note 3.

The Group has issued H shares, and the financial statements in prior years were reported by using the applicable PRC accounting regulations and the International Financial Reporting Standards (IFRS). Pursuant to the requirements of the Q&A No.1 in China Accounting Standards Bulletin No.1 (CAS Bulletin 1) issued by the MOF in November 2007, the Group, at the date of first-time adoption, made retrospective adjustments based on the following principles.

Where the principles stipulated in CAS (2006) differ from those of the applicable PRC accounting regulations, and these principles in CAS (2006) are same as those adopted by the Group in preparing the financial statements in accordance with IFRS in prior years, the Group made retrospective adjustments to those items affected by the changes in accounting policies due to the first-time adoption of CAS (2006), based on the information used in preparing the financial statements in accordance with IFRS. In addition, the Group made retrospective adjustments to other items in accordance with the requirements of “CAS 38 - First-time Adoption of CAS” (CAS 38) and CAS Bulletin 1.

Pursuant to the transitional provisions of CAS (2006), the Group made retrospective adjustments to the items of the following (a),(b),(c),(e),(f) and (h). Other items were not adjusted retrospectively.

Upon the adoption of CAS (2006), the Group’s significant accounting policies changed as follows:

(a) Business combinations

For one disposed enterprise obtained from business combinations involving enterprises not under common control, the shortfall of the cost of acquisition over the Company’s interest in the shareholder’s equity of the acquiree was recognised as negative goodwill, which was amortised to profit and loss on a straight line basis. As of 1 January 2007, the credit balance of the long-term equity investment difference recognised in the business combinations (if any) was derecognised and adjusted to retained earnings.

(b) Investments in subsidiaries

In the Company’s separate financial statements, investments in subsidiaries were accounted for using the equity method before 1 January 2007. Such investments are now accounted for using the cost method.

On 1 January 2007, the Company made retrospective adjustments on such investments obtained before 1 January 2007 in accordance with the policies described in Note 3(5)(a) in its separate financial statements. The change in accounting policy did not cause any effect on the consolidated financial statement.

4. Changes in accounting policies *(continued)*

(1) Changes in accounting policies and their effects *(continued)*

(c) Contribution by fixed assets and sales of assets to a jointly controlled entity

Before 1 January 2007, the shortfall of the acquisition cost of the Group's and the Company's contribution of fixed assets to joint ventures over the Group's and the Company's interest in the shareholder's equity of the acquiree was recognised in capital reserve; the excess of the transaction price of the Group's and the Company's sales of fixed assets to joint ventures over the carrying amount of the fixed assets was recognised in capital reserve.

As of 1 January 2007, the above profits and losses resulting from transactions between the Group and its jointly controlled enterprises are recognised in investment income after being eliminated for the part attributable to the Group calculated based on its share of the jointly controlled enterprises. This policy was changed retrospectively on 1 January 2007. The relevant 2006 comparative items have been adjusted accordingly.

(d) Investment property

Properties held either to earn rental income or for capital appreciation, or for both were recognised as fixed assets before 1 January 2007. These properties are now accounted for as investment properties using the cost model. There is no effect on the opening retained earnings and prior years' retained earnings of the Group and the Company.

(e) Financial instruments

Before 1 January 2007, the measurement basis used in the preparation of the financial assets and liabilities is historical cost basis. Now according to Note 3(11), categories of financial instruments are recorded with the basis of fair value, amortised cost or cost respectively.

On 1 January 2007, the Company and the Group made retrospective adjustments to accounting policies related to available-for-sale financial assets, for which are not quoted in an active market and their fair value cannot be reliably measured on, they are reached at cost on 1 January 2006.

For other financial assets and financial liabilities, the difference of carrying amount stated at the amortised cost and the original cost is not material, so retrospective adjustments are not made.

4. Changes in accounting policies *(continued)*

(1) Changes in accounting policies and their effects *(continued)*

(f) Capitalisation of general borrowing costs

Before 1 January 2007, borrowing costs on funds borrowed for general purposes and used for the acquisition or construction of fixed assets, and unutilised borrowing costs on parts of the funds borrowed specifically for the acquisition or construction of fixed assets which have not been put into use (less any interest income earned from depositing the unutilised borrowed funds or any investment income on the temporary investment of those funds before being used on the asset), were recognised in profit or loss when incurred. As of 1 January 2007, such borrowing costs are now capitalised as part of the cost of assets, when certain conditions are satisfied. The Group and the Company have made retrospective adjustments based on this accounting policy.

(g) Minority interests and minority shareholders

Before 1 January 2007, the minority interests are presented in the liabilities and equity separately. While in the consolidated income statement, minority shareholders are presented as an allocation of net profit.

In order to comply with ASBE (2006), the Group has changed its accounting treatment relating to the presentation of the minority interests and minority shareholders. Minority interests are presented in the consolidated balance sheet within equity separately, which cause the increase of equity, and minority shareholders are as a part of the net profit in the consolidated income statement.

(h) Income tax

Due to retrospective adjustments made to above items (c),(e) to (f), the Group adjusted the deferred tax effect as at 1 January 2007.

4. Changes in accounting policies *(continued)*

(2) Effects of the above changes in accounting policies on the Group and the Company's net profits and shareholders' equity for 2006 and prior years are summarised as follows:

	Notes	The Group 2006 Net profit RMB'000	The Group 2006 Closing balance of shareholders' equity RMB'000	The Group 2006 Opening balance of shareholders' equity RMB'000
Net profit and shareholders' equity before adjustments		736,851	19,273,088	19,166,908
Long-term equity investment differences	4(1)(a)	(1,700)	-	1,700
Available for sale financial assets at fair value with changes recorded in shareholders' equity	4(1)(e)	-	25,822	-
Income tax	4(1)(h)	(12,452)	(17,053)	(16,492)
Minority interests	4(1)(g)	66,555	336,013	347,453
Capitalisation of general borrowing costs	4(1)(f)	28,708	138,657	109,949
Contribution and sales of fixed assets to a jointly controlled entity	4(1)(c)	54,298	(50,795)	-
Total		135,409	432,644	442,610
Net profit and shareholders' equity after adjustments		872,260	19,705,732	19,609,518

	Notes	The Company 2006 Net profit RMB'000	The Company 2006 Closing balance of shareholders' equity RMB'000	The Company 2006 Opening balance of shareholders' equity RMB'000
Net profit and shareholders' equity before adjustments		736,851	19,273,088	19,166,908
Investments in subsidiaries	4(1)(b)	(30,800)	(531,338)	(500,538)
Long-term equity investment differences	4(1)(a)	(1,700)	-	1,700
Available for sale financial assets at fair value with changes recorded in shareholders' equity	4(1)(e)	-	14,585	-
Income tax	4(1)(h)	(12,452)	(15,368)	(16,492)
Capitalisation of general borrowing costs	4(1)(f)	28,708	138,657	109,949
Contribution and sales of fixed assets to a jointly controlled entity	4(1)(c)	54,298	(50,795)	-
Total		38,054	(444,259)	(405,381)
Net profit and shareholders' equity after adjustments		774,905	18,828,829	18,761,527

4. Changes in accounting policies *(continued)*

(2) Effects of the above changes in accounting policies on the Group and the Company's net profits and shareholders' equity for 2006 and prior years are summarised as follows: *(continued)*

Apart from the retrospective adjustments made on relevant items in the income statement for the year ended 31 December 2006 described in Note 4(1), the Group and the Company made retrospective adjustments and reclassifications to the items in balance sheet and income statement to conform with the requirements of CAS 38.

Assets and liabilities items affected by retrospective adjustments and reclassifications above in the balance sheet as at 31 December 2006.

	The Group		
	Before adjustment	Adjustment	After adjustment
Other receivables	236,227	(1,903)	234,324
Available-for-sale financial assets	-	105,185	105,185
Investment property	-	501,904	501,904
Long-term equity investments	3,341,699	121,745	3,463,444
Fixed assets	14,612,794	(1,005,870)	13,606,924
Construction in progress	1,972,893	36,904	2,009,797
Intangible assets	-	605,719	605,719
Deferred tax assets	28,483	7,619	36,102
Accrued payroll	(11,056)	11,056	-
Staff welfare payable	(73,801)	73,801	-
Employee benefits payable	-	(89,458)	(89,458)
Other payables	(399,495)	2,113	(397,382)
Other creditors	(11,597)	11,597	-
Other non-current liabilities	(1,350)	(250,000)	(251,350)
Taxes payable	(260,389)	(9,109)	(269,498)
Deferred tax liabilities	-	(24,672)	(24,672)
Total	19,434,408	96,631	19,531,039

4. Changes in accounting policies *(continued)*

(2) Effects of the above changes in accounting policies on the Group and the Company's net profits and shareholders' equity for 2006 and prior years are summarised as follows: *(continued)*

Assets and liabilities items affected by retrospective adjustments and reclassification above in the balance sheet as at 31 December 2006.

	The Company		
	Before adjustment	Adjustment	After adjustment
Available-for-sale financial assets	-	81,994	81,994
Investment property	-	584,247	584,247
Long-term equity investments	5,316,897	(399,542)	4,917,355
Fixed assets	12,821,170	(978,654)	11,842,516
Construction in progress	1,969,152	36,904	2,006,056
Intangible assets	-	496,160	496,160
Deferred tax assets	28,483	7,619	36,102
Accrued payroll	(5,113)	5,113	-
Staff welfare payable	(34,687)	34,687	-
Employee benefits payable	-	(39,800)	(39,800)
Other creditors	(8,945)	8,945	-
Other non-current liabilities	(1,350)	(250,000)	(251,350)
Taxes payable	(262,437)	(8,945)	(271,382)
Deferred tax liabilities	-	(22,987)	(22,987)
Total	19,823,170	(444,259)	19,378,911

4. Changes in accounting policies *(continued)*

(2) Effects of the above changes in accounting policies on the Group and the Company's net profits and shareholders' equity for 2006 and prior years are summarised as follows: *(continued)*

Income and expenses items affected by above retrospective adjustments and reclassifications in the income statement for the year ended 31 December 2006.

	The Group			The Company		
	Before adjustment	Adjustment	After adjustment	Before adjustment	Adjustment	After adjustment
Sales from principal activities	(50,479,436)	50,479,436	-	(44,771,107)	44,771,107	-
Other operating income	(999,419)	999,419	-	(487,356)	487,356	-
Cost of sales	47,922,431	(47,922,431)	-	42,796,172	(42,796,172)	-
Other operating expense	801,659	(801,659)	-	332,183	(332,183)	-
Operating income	-	(51,478,855)	(51,478,855)	-	(45,258,463)	(45,258,463)
Operating costs	-	47,940,228	47,940,228	-	42,378,529	42,378,529
Administrative expense	1,260,324	866,161	2,126,485	1,033,236	795,018	1,828,254
Financial expenses	202,293	(36,904)	165,389	165,387	(36,904)	128,483
Subsidy income	(282,142)	282,142	-	(282,142)	282,142	-
Impairment loss	-	59,500	59,500	-	46,387	46,387
Investment income	(673,809)	9,948	(663,861)	(795,339)	40,748	(754,591)
Non-operating income	(69,958)	(344,688)	(414,646)	(8,323)	(344,688)	(353,011)
Non-operating expense	271,036	(133,603)	137,433	202,045	(83,383)	118,662
Income tax	40,263	12,452	52,715	(10,659)	12,452	1,793
Total	(2,006,758)	(68,854)	(2,075,612)	(1,825,903)	(38,054)	(1,863,957)

5. Taxation

(1) The types of taxes applicable to the Group's sale of goods and rendering of services include business tax, value added tax (VAT) and consumption tax.

i)	Business tax rate:	5%
	VAT rate:	13%, 17%

ii) Consumption tax

In accordance with relevant PRC tax regulations, the Group's sales of gasoline and diesel oil are taxed at a rate of RMB277.6 per ton and RMB117.6 per ton respectively.

(2) Income tax

The State Administration of Taxation ("SAT") issued a tax circular "Enterprise Income Tax Issues relating to Nine Companies Listed Overseas" ("Circular No. 664") in June 2007 which requested the relevant local tax authorities to rectify, immediately, the expired concessionary tax policy for the nine listed companies authorised by the State Council to issue shares in Hong Kong in 1993 which, at the time of writing, was still being applied. The notice stated that the difference in enterprise income tax ("EIT") arising from the expired preferential rate and the applicable rate should be settled according to the provisions of "Law on the Administration of Tax Collection".

The Company is one of the nine listed companies mentioned above and applied the preferential EIT rate of 15% in prior years. The Company communicated with the relevant tax authority to assess the situation and was informed that the EIT rate for the Company would be adjusted from the original 15% to 33% from 2007. The Company has not been requested to pay additional EIT in respect of any prior year.

In response to the SAT notice and communication with the relevant tax authority, the charge for PRC income tax for the year is calculated at the rate of 33% (2006: 15%) on the estimated assessable income of the period determined in accordance with relevant income tax rules and regulations. The directors of the Company consider that it is uncertain whether the relevant tax authorities will retrospectively claim additional EIT from the Company and that it is not possible to reliably estimate the eventual outcome of this matter. Consequently, no provision has been made in these financial statements in respect of the EIT differences arising from prior years.

The Company did not carry out business overseas and therefore does not incur overseas income taxes.

5. Taxation *(continued)*

(2) Income tax *(continued)*

The subsidiaries granted with tax concession are set out below:

Name of subsidiaries	Applicable tax rate	Reasons for granting concession
Shanghai Golden Phillips Petrochemical Company Limited	27%	A Sino-foreign Joint-equity manufacturing enterprise in old urban district
Shanghai Jinchang Engineering Plastics Company Limited	27%	A Sino-foreign Joint-equity manufacturing enterprise in old urban district

Pursuant to the PRC enterprise income tax law passed by the Tenth National People's Congress on 16 March 2007, the new enterprise income tax rates for domestic and foreign enterprises are unified at 25 per cent and will be effective from 1 January 2008.

As the EIT rate applicable to the Company will be changed from 33% in 2007 to 25% in 2008, deferred tax recognised as at 31 December 2007 is based on the corresponding tax rate that are expected to apply to the period when the asset is realised or the liability is settled.

(3) Taxes payable

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Value-added tax payable	**71,460**	160,315	**67,422**	180,270
Business tax payable	**1,552**	3,350	**1,178**	1,814
Income tax (recoverable)/payable	**(80,643)**	34,386	**(98,222)**	19,754
Consumption tax payable	**56,036**	41,658	**56,036**	41,658
Education surcharge payable	**3,491**	6,834	**3,704**	6,709
Others	**18,637**	22,955	**16,215**	21,177
	70,533	269,498	**46,333**	271,382

6. Business combination and consolidated financial statements

(1) At 31 December 2007, all principal subsidiaries of the Company included in the consolidated financial statements came into existence through establishment, details are as follows:

Names of enterprise	Organisation code	Registered place	Principal activities	Registered capital	Closing amount of the Company's investment	Interests that in substance form part of the Company's net investment	Direct and indirect the percentage of equity held	Direct and indirect percentage of voting power
				'000	RMB'000	RMB'000		
Shanghai Petrochemical Investment Development Company Limited	13470096-9	Shanghai	Investment management	RMB800,000	1,224,070	1,224,070	100%	100%
Shanghai Petrochemical Enterprise Development Company Limited	13228675-X	Shanghai	Investment management	RMB455,000	614,791	614,791	100%	100%
China Jinshan Associated Trading Corporation	13220602-7	Shanghai	Import and export of petrochemical products and equipment	RMB25,000	16,832	16,832	67.33%	67.33%
Shanghai Jinchang Engineering Plastics Company Limited	60725706-4	Shanghai	Production of polypropylene compound products	US$4,750	20,832	20,832	50.38%	50.38%
Shanghai Golden Phillips Petrochemical Company Limited	60734004-4	Shanghai	Production of polypropylene products	US$50,000	249,374	249,374	60%	60%
Zhejiang Jin Yong Acrylic Fibre Company Limited	25603829-9	Ningbo, Zhejiang	Production of acrylic fibre products	RMB250,000	110,297	110,297	75%	75%
Shanghai Golden Conti Petrochemical Company Limited	60732552-2	Shanghai	Production of petrochemical products	RMB545,776	545,776	545,776	100%	100%

6. Business combination and consolidated financial statements *(continued)*

(1) At 31 December 2007, all principal subsidiaries of the Company included in the consolidated financial statements came into existence through establishment, details are as follows: *(continued)*

Minority interests for each significant subsidiary are analysed as follows: *(continued)*

Company	Minority interests at 31 December 2007 RMB'000	Minority interest at 1 January 2007 RMB'000
China Jinshan Associated Trading Corporation	28,777	26,554
Zhejiang Jin Yong Acrylic Fibre Company Limited	1,012	24,463
Shanghai Golden Phillips Petrochemical Co., Ltd.	230,052	245,044
Shanghai Jinchang Engineering Plastics Co., Ltd.	28,133	25,221
Others	16,017	14,731
Total	303,991	336,013

(2) Subsidiaries not included in the scope of consolidation for the current year

Pursuant to the joint venturers' agreement, the contract period of Shanghai Golden Way Petrochemical Company Limited ("Golden Way") would not be extended when it matured in November 2006, and the liquidation process of Golden Way started thereafter according to related requirements in Joint Venture Contract and Articles of Association. At 31 December 2007, Golden Way has completed liquidation. The assets and liabilities of Golden Way have no material effect on the financial position of the Group.

7. Cash at bank and on hand

The Group' and the Company's cash at bank and on hand are analysed as follows:

	31 December 2007 Exchange rate	The Group Original currency '000	The Group 2007 RMB'000	The Group 2006 RMB'000	The Company Original currency '000	The Company 2007 RMB'000	The Company 2006 RMB'000
Cash on hand							
Renminbi	1.0000	79	79	114	37	37	57
Cash at bank							
Renminbi	1.0000	849,780	849,780	761,463	591,538	591,538	470,436
Hong Kong Dollars	0.9364	13,223	12,382	11,834	13,223	12,382	-
United States Dollars	7.3046	48	347	40,121	27	199	2,199
Swiss franc	6.4855	130	841	-	130	841	-
Euro	10.6669	-	-	1,201	-	-	-
Japanese Yen	0.0641	-	-	4	-	-	-
Cash at bank and on hand			863,429	814,737		604,997	472,692
Deposits at related party(Note 45)							
Renminbi			29,736	79,913		29,536	79,001
			893,165	894,650		634,533	551,693

Deposits at related party represent band deposits placed at Sinopec Finance Company Limited. Deposits interest is calculated at market rate.

8. Bills receivable

	The Group		The Company	
	2007	2006	2007	2006
	RMB'000	RMB'000	RMB'000	RMB'000
Bank bills	1,780,493	1,246,611	1,660,624	964,326
Commercial bills	20,363	26,622	8,578	15,700
Total	1,800,856	1,273,233	1,669,202	980,026

All of the above bills held by the Group and the Company are due within six months. At 31 December 2007, the Group and the Company's outstanding endorsed Bank bills (with recourse) amounted to RMB 192,640,000 and RMB 27,000,000 (2006: RMB 161,900,000 and RMB nil).

Except for the balances disclosed in Note 45, there is no amount due from major shareholders who held 5% or more shareholding included in the balance of bills receivable.

9. Trade debtors

(1) Trade debtors categorised by customers are analysed as follows:

	The Group		The Company	
	2007	2006	2007	2006
	RMB'000	RMB'000	RMB'000	RMB'000
Amounts due from subsidiaries	-	-	21,065	45,007
Amounts due from other related parties	350,836	266,200	336,959	263,331
Amounts due from others	236,848	389,601	81,877	58,558
Sub-total	587,684	655,801	439,901	366,896
Less:Bad debt provision	24,591	30,911	19,167	19,266
Total	563,093	624,890	420,734	347,630

At 31 December 2007, the total amount of the trade debtors due from related parties of the Group and the Company is RMB 350,836,000 and RMB 358,024,000 (2006: RMB 266,200,000 and RMB 303,338,000), represents 59.70% and 81.39% (2006: 40.59% and 84.04%) of the total trade debtors.

Except for the balances disclosed in Note 45, no amount due from shareholders who hold 5% or more of the voting rights of the Company is included in the above balance of trade debtors.

9. Trade debtors *(continued)*

(1) Trade debtors categorised by customers are analysed as follows: *(continued)*

The aggregate amount and proportion of the five largest trade debtors are shown below:

	The Group		The Company	
	2007	2006	2007	2006
Amount (RMB'000)	357,712	382,329	355,401	280,664
Aging	within one year	within one year	within one year	within one year
Percentage of total trade debtors	60.87%	58.30%	80.79%	76.50%

(2) The aging of trade debtors is analysed as follows:

The Group

	2007				2006			
	Amount RMB'000	Proportion %	Bad debt provision RMB'000	Provision proportion %	Amount RMB'000	Proportion %	Bad debt provision RMB'000	Provision proportion %
Within one year	562,034	95.63	-	0.00	615,087	93.79	-	0.00
Between one and two years	1,513	0.26	454	30.01	14,212	2.17	4,409	31.02
Between two and three years	9,629	1.64	9,629	100.00	6,793	1.04	6,793	100.00
Over three years	14,508	2.47	14,508	100.00	19,709	3.00	19,709	100.00
Total	587,684	100.00	24,591		655,801	100.00	30,911	
Trade debtors,net	563,093				624,890			

The Company

	2007				2006			
	Amount RMB'000	Proportion %	Bad debt provision RMB'000	Provision proportion %	Amount RMB'000	Proportion %	Bad debt provision RMB'000	Provision proportion %
Within one year	420,194	95.52	-	0.00	338,854	92.36	-	0.00
Between one and two years	771	0.18	231	29.96	12,806	3.49	4,030	31.47
Between two and three years	9,551	2.17	9,551	100.00	5,793	1.58	5,793	100.00
Over three years	9,385	2.13	9,385	100.00	9,443	2.57	9,443	100.00
Total	439,901	100.00	19,167		366,896	100.00	19,266	
Trade debtors,net	420,734				347,630			

9. Trade debtors *(continued)*

(2) The aging of trade debtors is analysed as follows: *(continued)*

The aging is counted starting from the date trade debtors is recognised.

During the year, the Group and the Company had no individually significant trade debtors been fully or substantially provided allowance for doubtful accounts. During the year, the Group and the Company had no individually significant write off or write back of doubtful debts which had been fully or substantially provided for in prior years. At 31 December 2007, the Group and the Company had no individually significant trade debtors that aged over three years.

10. Advance payments

All advance payments are aged within one year.

At 31 December 2007, the total amount of the advance payments due to related parties of the Group and the Company is RMB 75,999,000 and RMB 74,373,000 respectively (2006: RMB 282,235,000 and RMB 314,273,000 respectively), represents 61.32% and 70.69% of the total advance payments respectively. (2006: 80.43% and 95.56% respectively).

Except for the balances disclosed in Note 45, there is no amount due from major shareholders who held 5% or more shareholding included in the balance of advance payments.

At 31 December 2007, advance payments that individually accounted for 30% or more of the total balance of advance payment are analysed as follows:

The name of the company	Activity	Amount RMB'000	Percentage of total advance payments
China International United Petroleum & Chemical Co., Ltd. Ningbo Branch	Prepayment for purchase	38,114	30.75%

11. Other receivables

(1) Other receivables categorised by customers are analysed as follows:

	The Group		The Company	
	2007	2006	2007	2006
	RMB'000	RMB'000	RMB'000	RMB'000
Amounts due from subsidiaries	-	-	100,939	218,382
Amounts due from related parties	44,661	85,729	4,661	5,728
Amounts due from others	223,353	163,172	114,333	24,143
Sub-total	268,014	248,901	219,933	248,253
Less:Bad debt provision	13,594	14,577	6,452	6,318
Total	254,420	234,324	213,481	241,935

Total amount of the Group's and the Company's other receivables due from related parties is RMB 44,661,000 and RMB105,600,000 respectively (2006: RMB85,729,000 and RMB 224,110,000 respectively), represents 16.66% and 48.01% (2006: 34.44% and 90.27%) of the total other receivables.

(2) The aging of other receivables is analysed as follows:

	The Group							
	2007				2006			
	Amount	Proportion	Bad debt provision	Provision proportion	Amount	Proportion	Bad debt provision	Provision proportion
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Within one year	255,154	95.20	4,615	1.81	230,642	92.67	5,201	2.26
Between one and two years	3,222	1.20	1,129	35.04	4,590	1.84	921	20.07
Between two and three years	4,517	1.69	2,846	63.01	5,134	2.06	32	0.62
Over three years	5,121	1.91	5,004	97.72	8,535	3.43	8,423	98.69
Total	268,014	100.00	13,594		248,901	100.00	14,577	
Other receivables, net	254,420				234,324			

11. Other receivables *(continued)*

(2) The aging of other receivables is analysed as follows: *(continued)*

The Company

	2007				2006			
	Amount	Proportion	Bad debt provision	Provision proportion	Amount	Proportion	Bad debt provision	Provision proportion
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Within one year	210,569	95.74	-	0.00	233,624	94.11	-	0.00
Between one and two years	3,102	1.41	958	30.88	4,520	1.82	903	19.98
Between two and three years	1,665	0.76	903	54.23	4,662	1.88	20	0.43
Over three years	4,597	2.09	4,591	99.87	5,447	2.19	5,395	99.05
Total	219,933	100.00	6,452		248,253	100.00	6,318	
Other receivables, net	213,481				241,935			

The aging is counted starting from the date of recognition of other receivables.

The aggregate amount and proportion of the five largest other receivables are shown below:

	The Group		The Company	
	2007	2006	2007	2006
Amount (RMB'000)	177,666	157,256	201,615	229,227
Aging	within one year	within one year	within one year	within one year
Percentage of total other receivables	66.29%	63.18%	91.67%	92.34%

Except for the balances disclosed in Note 45, there is no amount due from major shareholders who held 5% or more shareholding included in the balance of other receivables.

During the year, the Group and the Company had no individually significant other receivables been fully or substantially provided allowance of doubtful account. During the year, the Group and the Company had no individually significant write off or write back of doubtful debts which had been fully of substantially provided for in prior years. At 31 December 2007 and 2006, the Group and the Company had no individually significant other receivables that aged over three years.

12. Inventories

	The Group				The Company			
	2007		2006		2007		2006	
	Amount RMB'000	Provision for diminution in value RMB'000	Amount RMB'000	Provision for diminution in value RMB'000	Amount RMB'000	Provision for diminution in value RMB'000	Amount RMB'000	Provision for diminution in value RMB'000
Raw materials	1,669,945	-	873,130	-	1,489,544	-	703,528	-
Work in progress	1,871,324	-	1,661,487	-	1,849,203	-	1,571,581	-
Finished goods	1,019,924	33,142	1,014,225	-	883,056	33,142	794,466	-
Spare parts and consumables	710,448	40,650	655,769	41,355	629,400	37,588	555,760	40,904
Total	5,271,641	73,792	4,204,611	41,355	4,851,203	70,730	3,625,335	40,904
Inventories, net	5,197,849		4,163,256		4,780,473		3,584,431	

Provision for diminution in value of inventories is analysed as follows:

	The Group				The Company			
	2007		2006		2007		2006	
	Finished goods RMB'000	Spare parts and consumables RMB'000	Finished goods RMB'000	Spare parts and consumables RMB'000	Finished goods RMB'000	Spare parts and consumables RMB'000	Finished goods RMB'000	Spare parts and consumables RMB'000
At 1 January	-	41,355	-	50,070	-	40,904	-	49,186
Provision for the year	33,142	2,611	33,407	-	33,142	-	33,407	-
Reversal	-	(3,316)	-	(8,715)	-	(3,316)	-	(8,282)
Write-off	-	-	(33,407)	-	-	-	(33,407)	-
At 31 December	33,142	40,650	-	41,355	33,142	37,588	-	40,904

The inventories above are all purchased or self produced.

13. Available-for-sale financial assets

	The Group		The Company	
	2007	2006	2007	2006
	RMB'000	RMB'000	RMB'000	RMB'000
Available-for-sale securities	478,793	105,185	434,554	81,994

Available-for-sale financial assets mainly represents available-for-sale securities of listed companies held by the Group and the Company. Available-for-sale financial assets are designated at fair value and the change of fair value is recognise through equity. The fair value of available-for-sale financial assets was based on quoted market prices on a PRC stock exchange at the balance sheet date.

14. Long-term equity investments

	The Group					
	Interests in associates	Interest in jointly controlled enterprises	Other equity investment	Total before provision	Provision for impairment losses	Total
	(Note (a))	(Note (b))	(Note (c))		(Note (d))	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2007	2,958,323	79,472	464,487	3,502,282	(38,838)	3,463,444
Share of profits from investments accounted for under the equity method	635,178	20,719	-	655,897	-	655,897
Dividend received	(385,556)	-	-	(385,556)	-	(385,556)
Disposals for the year	-	-	(180,490)	(180,490)	1,638	(178,852)
Reclassified to available-for-sale financial assets	-	-	(11,164)	(11,164)	-	(11,164)
Balance at 31 December 2007	3,207,945	100,191	272,833	3,580,969	(37,200)	3,543,769

14. Long-term equity investments *(continued)*

	The Company						
	Interests in associates	Interest in jointly controlled enterprises	Interest in subsidiaries	Other equity investment	Total before provision	Provision for impairment losses	Total
	(Note (a))	(Note (b))	(Note 6)	(Note (c))		(Note (d))	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2007	2,793,212	79,472	2,129,773	32,101	5,034,558	(117,203)	4,917,355
Share of profits from investment accounted for under the equity method	607,356	20,719	-	-	628,075	-	628,075
Dividend received	(385,556)	-	-	-	(385,556)	-	(385,556)
Disposals for the year	-	-	(46,580)	(20,937)	(67,517)	-	(67,517)
Reclassified to available-for-sale financial assets	-	-	-	(11,164)	(11,164)	-	(11,164)
Balance at 31 December 2007	3,015,012	100,191	2,083,193	-	5,198,396	(117,203)	5,081,193

(a) **The particulars of the associates, all of which are limited companies established and operating in the PRC which principally affected the results or assets of the Group, at 31 December 2007 are as follows:**

Company	Organisation code	Registered place	Principal activities	Registered capital '000	Percentage equity held by the Group %	Percentage of voting right %	Total assets at 31 December 2007 RMB'000	Total liabilities at 31 December 2007 RMB'000	Operating income for the year RMB'000	Net profit for the year RMB'000
Shanghai Chemical Industry Park Development Company Limited	13227550-8	Shanghai	Planning development and operation of the Chemical Industry Park in Shanghai, PRC	RMB2,372,439	38.26	38.26	7,089,449	4,021,422	24,268	21,383
Shanghai Secco Petrochemical Company Limited	71093847-4	Shanghai	Manufacturing and distribution of chemical products	US$901,441	20	20	21,236,568	10,794,745	24,218,596	2,959,354

14. Long-term equity investments *(continued)*

(a) The particulars of the associates, all of which are limited companies established and operating in the PRC which principally affected the results or assets of the Group, at 31 December 2007 are as follows: *(continued)*

Company	Organisation code	Registered place	Principal activities	Registered capital '000	Percentage equity held by the Group %	Percentage of voting right %	Total assets at 31 December 2007 RMB'000	Total liabilities at 31 December 2007 RMB'000	Operating income for the year RMB'000	Net profit for the year RMB'000
Shanghai Jinsen Hydrocarbon Resins Company Limited	60739533-6	Shanghai	Production of resins products	US$23,395	40	40	217,382	78,972	161,524	8,260
Shanghai Jinpu Plastics Packaging Material Company Limited	60733617-6	Shanghai	Production of polypropylene film	US$20,204	50	50	285,056	74,606	387,840	29,662
Shanghai Yamatake Automation Company Limited	60733503-4	Shanghai	Serviced and maintenance of building automation systems and products	US$3,000	40	40	127,816	46,302	179,790	25,867

(b) The particulars of the jointly controlled entity, which are limited companies established and operating in the PRC which principally affected the results or assets of the Group, at 31 December 2007 are as follows:

Company	Organisation code	Registered place	Principal activities	Registered capital '000	Percentage equity held by the Group %	Percentage of voting right %	Total assets at 31 December 2007 RMB'000	Total liabilities at 31 December 2007 RMB'000	Operating income for the year RMB'000	Net profit for the year RMB'000
BOC-SPC Gases Co., Ltd.	71786630-3	Shanghai	Production and sales of industrial gases	US$32,000	50	50	695,190	400,224	341,753	34,432

14. Long-term equity investments *(continued)*

(c) Other equity investments include non-controlling equity investments in various enterprises which are mainly engaged in manufacturing or trading activities related to the Group's operations.

(d) Provision for impairment losses is analysed as follows:

	The Group	
	2007 RMB'000	2006 RMB'000
Balance at 1 January	38,838	56,228
Written-off on disposal	(1,638)	(17,390)
Balance at 31 December	37,200	38,838

	The Company	
	2007 RMB'000	2006 RMB'000
Balance at 1 January/31 December	117,203	117,203

15. Investment property

	The Group Buildings RMB'000	The Company Buildings RMB'000
Cost:		
At 1 January 2007	528,465	615,334
Additions	25,768	-
At 31 December 2007	554,233	615,334
Accumulated depreciation:		
At 1 January 2007	(26,561)	(31,087)
Charge for the year	(14,879)	(14,921)
At 31 December 2007	(41,440)	(46,008)
Net book value:		
At 31 December 2007	512,793	569,326
At 31 December2006	501,904	584,247

16. Fixed assets

(a) The Group

	Buildings RMB'000	Plant, machinery, equipment and others RMB'000	Total RMB'000
Cost or valuation:			
At 1 January 2007	5,668,427	26,831,226	32,499,653
Additions	27,041	145,737	172,778
Transferred from construction in progress (Note 17)	113,445	3,419,832	3,533,277
Disposals	(97,442)	(442,384)	(539,826)
At 31 December 2007	5,711,471	29,954,411	35,665,882
Accumulated depreciation:			
At 1 January 2007	3,081,866	15,701,918	18,783,784
Charge for the year	184,765	1,529,430	1,714,195
Written back on disposals	(33,524)	(367,096)	(400,620)
At 31 December 2007	3,233,107	16,864,252	20,097,359
Less: Provision for impairment losses:			
At 1 January 2007	-	108,945	108,945
Charge for the year	48,335	151,960	200,295
At 31 December 2007	48,335	260,905	309,240
Net book value:			
At 31 December 2007	2,430,029	12,829,254	15,259,283
At 31 December 2006	2,586,561	11,020,363	13,606,924

16. Fixed assets *(continued)*

(a) The Company

	Buildings	Plant, machinery, equipment and others	Total
	RMB'000	RMB'000	RMB'000
Cost or valuation:			
At 1 January 2007	4,461,929	24,240,940	28,702,869
Additions	153,318	180,476	333,794
Transferred from construction in progress (Note 17)	113,237	3,404,994	3,518,231
Disposals	(16,307)	(207,760)	(224,067)
At 31 December 2007	4,712,177	27,618,650	32,330,827
Accumulated depreciation:			
At 1 January 2007	2,664,104	14,087,304	16,751,408
Charge for the year	157,411	1,313,241	1,470,652
Transferred from fixed assets addition	87,496	114,350	201,846
Written back on disposals	(7,746)	(148,152)	(155,898)
At 31 December 2007	2,901,265	15,366,743	18,268,008
Less: Provision for impairment losses:			
At 1 January 2007	-	108,945	108,945
Charge for the year	48,335	151,960	200,295
At 31 December 2007	48,335	260,905	309,240
Net book value:			
At 31 December 2007	1,762,577	11,991,002	13,753,579
At 31 December 2006	1,797,825	10,044,691	11,842,516

All of the Group's buildings are located in the PRC (including HongKong).

16. Fixed assets *(continued)*

(c) At 31 December 2007, a number of machines in the synthetic fibres division and other divisions were respectively accrued impairment provision with RMB 180,681,000(2006: RMB 50,000,000) and RMB 19,614,000 (2006: nil).The impairment provision was related to the fact a number of synthetic fibres equipments held for use and other production equipments reduced production quantity as the increase of the price of raw material and operating cost which cannot be recovered by increase of the selling price. The carry amount reduced to the recoverable amount. The recoverable amounts are determined based on the present value of the expected future cash flows of these assets if they are held for use.

(d) At 31 December 2007, the cost of the Group and the Company's fully depreciated fixed assets was RMB 8,316,446,000 and RMB 8,208,450,000 (2006: RMB 7,475,196,000 and RMB 7,349,116,000).

(e) At 31 December 2007 and 2006, the Group and the Company had no pledged fixed assets.

(f) At 31 December 2007 and 2006, the Group and the Company had no individually significant fixed assets which were temporarily idle or pending for disposal.

17. Construction in progress

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Balance at 1 January	**2,009,797**	787,375	**2,006,056**	743,451
Additions for the year	**2,488,943**	1,853,326	**2,452,666**	1,830,469
Transferred to fixed assets (Note 16)	**(3,533,277)**	(630,904)	**(3,518,231)**	(567,864)
Balance at 31 December	**965,463**	2,009,797	**940,491**	2,006,056

At 31 December 2007, major projects of the Group and the Company are as follows:

Project	Budgeted amount	At 1 January 2007	Addition for the year	Transferred to fixed assets	At 31 December 2007	Percentage of completion	Accumulated interest capitalised during the year
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	%	RMB'000
600,000 ton/year aromatics unit	1,001,480	-	239,522	-	239,522	24%	1,476
Jin Jia Hu pipe station	71,438	3,319	61,077	-	64,396	90%	1,646

17. Construction in progress *(continued)*

All the above projects were made out of funds other than proceeds from subscription.

The capitalised borrowing costs included in the balances of construction in progress were RMB 8,084,000 (2006: RMB 64,330,000).The interest rates per annum at which borrowing costs were capitalised for the year ended 31 December 2007 by the Group and the Company is 5.27%-7.47% (2006: 5.18%-5.85%).

18. Intangible assets

(a) The Group

	Land use rights	Others intangible assets	Total
	RMB'000	RMB'000	RMB'000
Cost			
At 1 January 2007	742,120	95,134	837,254
Additions	36,089	205	36,294
Disposals	(28,070)	-	(28,070)
At 31 December 2007	750,139	95,339	845,478
Less: Accumulated depreciation			
At 1 January 2007	198,145	33,390	231,535
Charge for the year	15,382	5,088	20,470
Written bank on disposals	(4,424)	-	(4,424)
At 31 December 2007	209,103	38,478	247,581
Net book value			
At 31 December 2007	541,036	56,861	597,897
At 31 December 2006	543,975	61,744	605,719

18. Intangible assets *(continued)*

(b) The Company

	Land use rights RMB'000
Cost	
At 1 January 2007	667,029
Additions	–
Disposals	(26,873)
At 31 December 2007	640,156
Less: Accumulated depreciation	
At 1 January 2007	170,869
Charge for the year	12,905
Written back on disposals	(4,256)
At 31 December 2007	179,518
Net book value	
At 31 December 2007	460,638
At 31 December 2006	496,160

19. Deferred tax assets and liabilities

(a) The Group

Deferred tax assets are analysed as follows:

	2007		2006	
	Deductible temporary differences RMB'000	Deferred tax assets RMB'000	Deductible temporary differences RMB'000	Deferred tax assets RMB'000
Provision for bad debts and inventories	95,696	23,924	65,881	9,882
Impairment losses on fixed assets	309,240	77,310	108,945	16,342
Contribution by fixed assets and sales of assets to a jointly controlled enterprise	47,292	11,822	50,793	7,619
Others	64,604	16,151	15,061	2,259
Total	516,832	129,207	240,680	36,102

Deferred tax liabilities are analysed as follows:

	2007		2006	
	Temporary differences RMB'000	Deferred tax liabilities RMB'000	Temporary differences RMB'000	Deferred tax liabilities RMB'000
Fair value of available-for-sale securities	463,420	115,855	25,822	3,873
Capitalisation of borrowing costs	128,280	32,070	138,660	20,799
Others	8,980	2,245	-	-
Total	600,680	150,170	164,482	24,672

19. Deferred tax assets and liabilities *(continued)*

(b) The Company

Deferred tax assets are analysed as follows:

	2007		2006	
	Deductible temporary differences RMB'000	Deferred tax assets RMB'000	Deductible temporary differences RMB'000	Deferred tax assets RMB'000
Provision for bad debts and inventories	94,736	23,684	65,881	9,882
Impairment losses on fixed assets	309,240	77,310	108,945	16,342
Contribution by fixed assets and sales of assets to a jointly controlled enterprise	47,292	11,822	50,793	7,619
Others	54,812	13,703	15,061	2,259
Total	506,080	126,519	240,680	36,102

Deferred tax liabilities are analysed as follows:

	2007		2006	
	Temporary differences RMB'000	Deferred tax liabilities RMB'000	Temporary differences RMB'000	Deferred tax liabilities RMB'000
Fair value of available-for-sale securities	420,464	105,116	14,585	2,188
Capitalisation of borrowing costs	128,280	32,070	138,660	20,799
Total	548,744	137,186	153,245	22,987

Deferred tax liabilities not recognised

In accordance with the accounting policy set out in Note 3(13), the Group has not recognised deferred tax assets in respect of cumulative tax losses of RMB 112,444,000 (2006: RMB 65,425,000) as it is not probable that future taxable profits against which the losses can be utilised will be available in the Zhejiang Jinyong Acryle Fibre Co., Ltd. The deductible tax losses will expire from 2010 to 2012 under current tax law.

20. Impairment losses

At 31 December 2007, impairment losses of the Group are analysed as follows:

Items	Notes	Balance at 1 January 2007 RMB'000	Provision for the year RMB'000	Reversal for the year RMB'000	Written off for the year RMB'000	Balance at 31 December 2007 RMB'000
Receivables	9,11	45,488	4,179	(278)	(11,204)	38,185
Inventories	12	41,355	35,753	(3,316)	-	73,792
Long-term equity investments	14	38,838	-	-	(1,638)	37,200
Fixed assets	16	108,945	200,295	-	-	309,240
Total		234,626	240,227	(3,594)	(12,842)	458,417

At 31 December 2007, impairment losses of the Company are analysed as follows:

Items	Notes	Balance at 1 January 2007 RMB'000	Provision for the year RMB'000	Reversal for the year RMB'000	Written off for the year RMB'000	Balance at 31 December 2007 RMB'000
Receivables	9,11	25,584	3,781	(29)	(3,717)	25,619
Inventories	12	40,904	33,142	(3,316)	-	70,730
Long-term equity investments	14	117,203	-	-	-	117,203
Fixed assets	16	108,945	200,295	-	-	309,240
Total		292,636	237,218	(3,345)	(3,717)	522,792

See the note of each class of assets for the reason for corresponding impairment losses recognised in the current year.

21. Short-term loans

The Group's and Company's short-term loans include:

	The Group		The Company	
	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
Bank loans	2,317,642	1,853,692	2,062,642	1,618,692
Loans with related parties (Note 45)	1,355,300	-	1,227,000	-
Total	3,672,942	1,853,692	3,289,642	1,618,692

At 31 December 2007 and 2006, the Group and the Company had no significant overdue short-term loan. All the short-term loans are by credit.

Except for the balance disclosed in Note 45, there is no amount due to major shareholders who held 5% or more shareholding included in the above balance.

22. Bills payable, trade creditors, receipts in advance and other payables

At 31 December 2007, there are no significant trade creditors and other payables aged over 1 year.

There are no significant receipts in advance aged over 1 year.

Bills payable are mainly bank bills issued for the purchase of material, merchandises and products, generally due in 1 to 3 months.

Except for the balances disclosed in Note 45, there is no amount due to shareholders who held 5% or more shareholding included in the balance of bills payable, trade creditors, receipts in advance and other payables.

23. Short-term debentures payable

	The Group and The Company	
	2007	2006
	RMB'000	RMB'000
Short-term debentures payable	-	2,000,000

The Company issued 365-day unsecured corporate bonds of face value at RMB 2 billion to corporate investors in the PRC inter-bank debenture market on 11 December 2006. The bonds were issued at 100% of face value, with an effective yield 3.83% per annum, and matured on 11 December 2007.

24. Employee benefits payable

At 31 December 2007 and 2006, the Group's and the Company's employee benefits payable mainly represented wages and social insurance payable.

As stipulated by the relevant regulations, the Group and the Company participates in a defined contribution retirement plan organised by the Shanghai Municipal Government for its staff. Pursuant to a document "Lao Bu Fa (1995) No.464" issued by Shanghai municipal government, the Group is required to make contributions to the retirement plan at a rate of 22% of the salaries, bonuses and certain allowances of its staff since 1 August 2004. A member of the plan is entitled to a pension equal to a fixed proportion of the salary prevailing at his retirement date. In addition, pursuant to a document "Lao Bu Fa (1995) No.464" dated 29 December 1995 issued by the Ministry of Labour of the PRC, The Group and the Company have set up a supplementary defined contribution retirement plan for the benefit of employees. Employees who have served the Group and the Company for five years or more may participate in this plan. The Group and the Company and participating employees make defined contributions to their pension savings account according to the plan. The assets of this plan are held separately from those of the Group and the Company in an independent fund administered by a committee consisting of representatives from the employees and the Group and the Company. In April 2003, the Group and the Company revised certain terms of the plan and increased the amount of contributions. The Group has no other material obligations for the payment of pension benefit beyond the annual contributions described above and supplementary contributions. For the year ended 31 December 2007, the Group's and the Company's contribution to the above plan amounted to RMB 55,048,000 and RMB 41,367,000 (2006: RMB 61,692,000 and RMB 41,834,000).

In accordance with the Group and the Company's voluntary employee reduction plan, the Group and the Company recorded employee reduction expenses of RMB 208,013,000 and RMB 38,961,000 (2006: RMB 83,603,000 and RMB 33,383,000) during the year ended 31 December 2007, in respect of the voluntary resignation of approximately 2,622 employees and 625 employees (2006: 1,280 employees and 712 employees).

25. Dividend payable

During the year ended 31 December 2007, a final dividend of RMB 0.04 per share totalling RMB 288,000,000 was paid to shareholders.(2006: RMB 0.10 per share totalling RMB 720,000,000)

The Board of Directors proposed on 7 April 2008 the appropriation of a cash dividend of RMB 0.09 per share (2006: RMB 0.04 per share) to the Company's ordinary shareholders, totalling RMB 648,000,000 (2006: RMB 288,000,000). The proposal is subject to the approval by the Shareholders' Meeting. Such cash dividend has not been recognised as a liability at the balance sheet date.

26. Long-term loans and current portion of long-term loans

The maturity analysis of the long-term loans is set out below:

	The Group		The Company	
	2007	2006	2007	2006
	RMB'000	RMB'000	RMB'000	RMB'000
Between one and two years	489,929	558,820	450,000	423,710
Between two and three years	24,930	475,111	-	450,000
Between three and five years	4,430	29,723	-	-
	519,289	1,063,654	450,000	873,710
Loans from related parties				
Between one and two years	20,000	-	-	-
Between two and three years	100,000	-	-	-
	120,000	-	-	-
Current portion of long-term loans	419,027	416,645	259,097	383,034
	1,058,316	1,480,299	709,097	1,256,744

26. Long-term loans and current portion of long-term loans *(continued)*

Long-term loans are analysed as follows:

Repayment terms and final maturity	Interest type	Interest rate at 31 December 2007	Original currency '000	2007 Exchange rate	The Group 2007 RMB'000	The Group 2006 RMB'000	The Company 2007 RMB'000	The Company 2006 RMB'000
Arranged by Central Treasury of the Company								
U.S.Dollor denominated:								
Due in 2007	Floating	5.70%			-	383,034	-	383,034
Payable semi-annually through 2008 (Note (a))	Fixed	1.80%	1,245	7.3046	9,097	23,710	9,097	23,710
Renminbi denominated:								
Due in 2008	Fixed	6.30%-7.47%			250,000	400,000	250,000	400,000
Due in 2009	Fixed	6.30%-7.47%			450,000	450,000	450,000	450,000
Arranged by subsidiaries								
U.S. Dollar denominated:								
Payable annually through 2011	Interest free	-	1,440	7.3046	10,519	14,055	-	-
Renminbi denominated:								
Due in 2007	Fixed	5.85%			-	8,500	-	-
Due in 2008	Fixed	5.27%-6.72%			135,000	110,000	-	-
Due in 2009	Fixed	5.27%-6.48%			35,000	-	-	-
Due in 2010	Fixed	5.91%			100,000	-	-	-
Payable annually through 2010	Interest free	-			61,500	82,000	-	-
Payable annually through 2011	Interest free	-			7,200	9,000	-	-
Total long-term loans outstanding					1,058,316	1,480,299	709,097	1,256,744
Less: Amounts due within one year					(419,027)	(416,645)	(259,097)	(383,034)
Amounts due after one year					639,289	1,063,654	450,000	873,710

Note (a): Guaranteed by China Petrochemical Corporation

26. Long-term loans and current portion of long-term loans *(continued)*

Except for loans indicated as guaranteed, other loans are unsecured loans without guarantee.

Except for the balance disclosed in Note 45, there is no amount due to shareholders who held 5% or more shareholding included in the above balance.

27. Share capital

	The Group and The Company	
	2007	2006
	RMB'000	RMB'000
Shares not in trade:		
Domestic legal persons shares	4,150,000	4,150,000
Shares in trade:		
RMB ordinary A shares listed in PRC	720,000	720,000
Foreign investment H shared listed overseas	2,330,000	2,330,000
Total share capital	7,200,000	7,200,000

The Company was founded on 29 June, 1993 with registered capital of RMB 4,000,000,000 invested by its upper level holding company- China National Petrochemical Corporation; these shares were converted from assets of former Shanghai Petrochemical Complex.

Approved by Zheng Wei Fa No. [1993]30 issued by the State Council Securities Committee, the Company launched its Initial Public Offer ("IPO") in July 1993 and September 1993 in Hong Kong, New York, Shanghai and Shenzhen to issue 2.23 billion shares, including 1.68 billion H shares, 550 million A shares. The 550 million A shares include 400 million individual shares (including 150 million shares issued to SPC employees) and 150 million legal person shares. H shares were listed on the Hong Kong Exchanges and Clearing Company Limited on 26 July 1993, and listed on the NYSE in the form of ADS at the same time; the A shares were listed on the Shanghai Stock Exchanges on 8 November 1993.

After IPO, the total quantity of shares issued by the Company was 6.23 billion, including 4 billion state-owned shares, 150 million legal person shares, 400 million individual shares, and 1.68 billion H shares.

According to the plan stated in the prospectus issued in July 1993, and approved by the China Securities Regulatory Commission, the Company issued 320 million common A shares with a par value of RMB 1 each at an issuing price of RMB 2.4 each during the period from 5 April to 10 June 1994. These shares were listed on Shanghai Stock Exchange on 4 July 1994. By then, the total quantity of shares issued was expanded from 6.23 billion to 6.55 billion.

27. Share capital *(continued)*

On 22 August 1996, the Company issued 500 million H shares to overseas investors; on 6 January 1997, 150 million H shares again were issued to overseas investors. By then, the total quantity of shares issued was expanded to 7.2 billion, including 2.33 billion H shares.

China National Petrochemical Corporation was restructured to China Petrochemical Corporation(Sinopec Group) in 1998.

China Petroleum & Chemical Corporation (CPCC) was founded on 28 February 2000 based on the approved assets restructuring of Sinopec Group. As part of the restructuring efforts, the shares of the Company held by Sinopec Group were invested in the CPCC; after the restructuring, the ownership of 4 billion state-owned shares of the Company held by Sinopec Group were transferred to CPCC, and therefore the shares were changed to state-owned legal person shares in nature.

All the A and H shares rank pari passu in all respects.

Capital verifications of the issued and paid up capital were performed by KPMG Huazhen. Capital verification reports were issued on 27 October 1993, 10 June 1994, 15 September 1996 and 20 March 1997 accordingly.

28. Capital reserve

Balance of capital reserve at 31 December 2007 and 2006 is represented by:

		The Group		The Company	
	Note	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
Share premium		2,420,841	2,420,841	2,420,841	2,420,841
Government grants	(a)	386,370	386,370	386,370	386,370
Changes in fair value of available-for-sale financial assets, net of deferred tax		347,564	21,949	315,345	12,397
Others	(b)	49,067	49,067	49,067	49,067
Total		3,203,842	2,878,227	3,171,623	2,868,675

(a) Government grants represent grants received for the purchase of equipment used for technology improvements.

(b) The available-for-sale financial assets held by the Group are carried at fair value with any charge in fair value, net of deferred tax, recognised directly in capital reserves.

29. Surplus reserve

		The Group and The Company		
	Note	Statutory surplus reserve RMB'000	Discretionary surplus reserve RMB'000	Total RMB'000
Balance at 1 January 2006		3,215,969	1,280,514	4,496,483
Appropriation of net profit		77,491	-	77,491
Balance at 31 December 2006		3,293,460	1,280,514	4,573,974
Appropriation of net profit	(a)	192,434	-	192,434
Balance at 31 December 2007		3,485,894	1,280,514	4,766,408

(a) Pursuant to resolution of the Board, the Company transfer 10% of net profit to the statutory surplus reserve for the year ended 31 December 2007.

30. Operating income

Operating income represents the invoice amount from sales of products after the deduction of VAT.

	The Group		The Company	
	2007 RMB'000	2006 RMB'000	**2007 RMB'000**	2006 RMB'000
Income from principal operations	**54,885,971**	50,479,436	**49,338,521**	44,771,107
Income from other operations	**518,716**	999,419	**735,779**	487,356
Total	**55,404,687**	51,478,855	**50,074,300**	45,258,463

For the year ended at 31 December 2007, revenue from sales to top five customers amounted to RMB 21,291,067,000 which accounted for 38.43% of operating income of the Group.

31. Operating costs

	The Group		The Company	
	2007	2006	2007	2006
	RMB'000	RMB'000	RMB'000	RMB'000
Operating cost from principal activities	50,172,115	47,138,569	45,161,079	42,046,346
Other operating costs	401,554	801,659	568,637	332,183
Total	50,573,669	47,940,228	45,729,716	42,378,529

32. Sales taxes and surcharges

	The Group		The Company	
	2007	2006	2007	2006
	RMB'000	RMB'000	RMB'000	RMB'000
Consumption tax	890,384	526,428	890,384	526,428
City construction tax	119,378	107,601	115,930	102,602
Business tax	11,978	19,215	5,412	6,295
Education surcharge and others	51,955	28,118	48,842	37,677
	1,073,695	681,362	1,060,568	673,002

The charge for consumption tax is calculated at RMB277.6 per tonne and RMB117.6 per tonne on the sales of gasoline and diesel respectively in accordance with relevant tax rules and regulations. The charges for city construction tax and education surcharge are based on 7% and 3% respectively of the VAT, consumption tax and business tax paid during the year.

33. Financial expenses

	The Group		The Company	
	2007	2006	2007	2006
	RMB'000	RMB'000	RMB'000	RMB'000
Interest expenses	329,643	367,716	277,172	322,267
Less:borrowing cost capitalised				
as construction in progress	(69,437)	(64,330)	(69,437)	(64,330)
Interest expense, net	260,206	303,386	207,735	257,937
Interest income	(46,421)	(56,827)	(37,884)	(49,153)
Net foreign exchange gain	(43,341)	(100,296)	(30,843)	(94,944)
Others	7,482	19,126	2,411	14,643
Total	177,926	165,389	141,419	128,483

34. Impairment loss

	The Group		The Company	
	2007	2006	2007	2006
	RMB'000	RMB'000	RMB'000	RMB'000
Receivables	3,901	18,215	3,752	4,669
Inventories	32,437	(8,715)	29,826	(8,282)
Fixed assets	200,295	50,000	200,295	50,000
Total	236,633	59,500	233,873	46,387

35. Investment income

	The Group		The Company	
	2007	2006	2007	2006
	RMB'000	RMB'000	RMB'000	RMB'000
Investment income accounted for				
under the cost method				
- Subsidiaries	-	-	279,962	165,853
- Other investments	7,506	42,685	20,300	5,119
Investment income from associates				
and jointly controlled entities	655,897	566,682	628,075	544,599
Gain on disposal of other investments	115,203	54,494	168,591	39,020
Gain from disposal of available-for-sale				
financial assets	770,725	-	642,855	-
Total	1,549,331	663,861	1,739,783	754,591

36. Non-operating income

	The Group		The Company	
	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
Net gain on disposal of fixed assets	4,118	83,386	1,220	55,512
Net gain on disposal of intangible assets	3,627	-	3,627	-
Gain on disposal of non-current assets	7,745	83,386	4,847	55,512
Subsidy income (Note)	93,900	282,142	93,900	282,142
Penalties income	99	190	71	104
Amortisation of deferred income	10,000	33,033	10,000	10,000
Others	9,697	15,895	5,716	5,253
Total	121,441	414,646	114,534	353,011

Note: During the year ended 31 December 2007, the Group recognised a grant income of RMB 93,900,000 (2006: RMB 282,141,800). These grants were for compensation of losses incurred due to the distortion of the correlation of domestic refined petroleum product prices and the crude oil prices, and the measures taken by the Group to stabilize the supply in the PRC refined petroleum product market during the respective year. There are no unfilled conditions and other contingencies attached to the receipts of these grants. There is no assurance that the Group will continue to receive such grant in the future.

37. Non-operating expenses

	The Group		The Company	
	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
Loss on disposal of fixed assets	51,790	63,817	38,825	57,855
Service fee	30,000	20,174	30,000	20,174
Donations	14,250	380	14,250	380
Others	22,744	53,062	20,964	40,253
Total	118,784	137,433	104,039	118,662

38. Income tax

(1) Income tax expenses for the year represents

	The Group		The Company	
	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
Provision for PRC income tax for the year	557,078	71,183	495,268	20,261
Deferred taxation	(79,589)	(11,557)	(79,146)	(11,557)
Adjustment for provision for income tax in respect of prior years	2,439	(6,911)	4,052	(6,911)
Total	479,928	52,715	420,174	1,793

Deferred tax effect is analysed as follows:

	The Group		The Company	
	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
Origination and reversal of temporary differences	69,372	11,557	68,929	11,557
Tax effect of change in tax rate	10,217	-	10,217	-
Total	79,589	11,557	79,146	11,557

38. Income tax *(continued)*

(2) **Reconciliation between income tax expenses and accounting profits is as follows:**

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Profits before taxation	**2,121,094**	924,975	**2,344,508**	776,698
Expected income tax expense at a statutory tax rate of 33% (2006: 15%)	**699,961**	138,746	**773,688**	116,505
Tax effect of non-deductible expenses	**55,887**	12,721	**8,279**	267
Tax effect of non-taxable income	**(35,501)**	(6,914)	**(142,174)**	(26,378)
Under / (over)-provision in prior years	**2,439**	(6,911)	**4,052**	(6,911)
Effect of change in tax rate on deferred tax	**(216,446)**	(85,002)	**(213,454)**	(81,690)
Tax effect of share of profits recognised under the equity method	**(10,217)**	-	**(10,217)**	-
Tax effect of unused tax losses not recognised for deferred tax	**22,621**	9,688	**-**	-
Tax effect of differential tax rate on subsidiaries' income	**(38,816)**	(9,613)	**-**	-
Income tax expenses	**479,928**	52,715	**420,174**	1,793

39. Supplemental information to the cash flow statements

(1) Supplemental information to the cash flow statements

Reconciliation of net profit to cash flows from operating activities:

	The Group		The Company	
	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
Net profit	1,592,110	805,705	1,924,334	774,905
Add: Impairment losses on assets	236,633	59,500	233,873	46,387
Depreciation on investment property	14,879	12,678	14,921	14,921
Depreciation on fixed assets	1,714,195	1,832,662	1,470,652	1,525,684
Amortisation of intangible assets	20,470	37,986	12,905	30,450
Amortisation of goodwill	-	8,967	-	8,967
Loss/(gain) on disposal of fixed assets, intangible assets and other long-term assets	44,045	(19,569)	33,978	2,343
Financial expenses	170,444	146,263	139,008	113,840
Investment income	(1,549,331)	(663,861)	(1,739,783)	(754,591)
Increase in deferred tax assets	(93,105)	(15,864)	(90,417)	(15,864)
Increase in deferred tax liabilities	13,516	4,307	11,271	4,307
Increase in inventories	(1,067,030)	(39,563)	(1,225,868)	(38,478)
Increase in operating receivables	(231,262)	(717,249)	(505,276)	(466,470)
Increase in operating payables	869,952	522,162	1,555,031	629,495
Minority interests	49,056	66,555	-	-
Net cash flows from operating activities	1,784,572	2,040,679	1,834,629	1,875,896

(2) Net change in cash and cash equivalents:

	The Group		The Company	
	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
Cash balance at the end of the year	893,165	894,650	634,533	551,693
Less: cash balance at the beginning of the year	894,650	1,347,237	551,693	821,564
Net (decrease)/increase in cash and cash equivalents	(1,485)	(452,587)	82,840	(269,871)

39. Supplemental information to the cash flow statements *(continued)*

(3) The analysis of cash and cash equivalents is as follows:

	The Group		The Company	
	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
(a) Cash and cash equivalents				
- Cash on hand	79	114	37	57
- Bank deposit available on demand	877,704	852,301	620,242	510,968
- Other monetary fund available on demand	15,382	42,235	14,254	40,668
(b) Closing balance of cash and cash equivalents available on demand	893,165	894,650	634,533	551,693

40. Segment reporting

Segment information is presented in respect of the Group's business segments, the format of which is based on the Group's management and internal reporting structure. In view of the fact that the Company and its subsidiaries operate mainly in the PRC, no geographical segment information is presented.

The Group evaluates the performance and allocates resources to its operating segments on an operating income basis, without considering the effects of finance costs, or investment income, non-operating income and non-operating expense.

Operating cost includes cost of sales, sales taxes and surcharges, selling and administrative expenses and impairment losses on assets.

The Group principally operates in four operating segments: synthetic fibres, resins and plastics, intermediate petrochemicals and petroleum products. All of the Group's products are produced through intermediate steps from the principal raw material of crude oil. The specific products of each segment are as follows:

(i) The synthetic fibres segment produces primarily polyester and acrylic fibres primarily used in the textile and apparel industries.

40. Segment reporting *(continued)*

(ii) The resins and plastics segment produces primarily polyester chips, low density polyethylene resins and films, polypropylene resins and PVA granules. The polyester chips are used in the processing of polyester fibres and construction coating materials and containers. Low density polyethylene resins and plastics are used in cable jacketing, sheeting, the manufacture of moulded products, such as house wares and toys and for agricultural and packaging uses. Polypropylene resins are used in the manufacturing of extruded films or sheets and injection moulded products such as house wares, toys and household electric appliance and automobile parts.

(iii) The intermediate petrochemicals segment primarily produces ethylene and benzene. Most of the intermediate petrochemicals produced by the Group are used by the Group as raw materials in the production of other petrochemicals, resins, plastics and synthetic fibres. A portion of the intermediate petrochemicals as well as certain by-products of the production process are sold to outside customers.

(iv) The Group's petroleum products segment has crude oil distillation facilities used to produce vacuum and atmospheric gas oils used as feedstocks of the Group's downstream processing facilities. Residual oil and low octane gasoline fuels are produced primarily as a co-product of the crude oil distillation process. A proportion of the residual oil is further processed into qualified refined gasoline and diesel oil. In addition, the Group produces a variety of other transportation, industrial and household heating fuels, such as diesel oils, jet fuels, heavy oils and liquefied petroleum gases.

(v) All other operating segments represent the operating segments which do not meet the quantitative threshold for determining reportable segments. These include trading, consumer products and services and a variety of other commercial activities, which are not allocated to the above four operating segments.

40. Segment reporting *(continued)*

Income from principal operations	2007 RMB'000	2006 RMB'000
Synthetic fibres		
External sales	4,342,215	4,727,261
Inter-segment sales	85	71
Sub-total	4,342,300	4,727,332
Resins and plastics		
External sales	15,927,089	15,800,015
Inter-segment sales	75,183	63,767
Sub-total	16,002,272	15,863,782
Intermediate petrochemicals		
External sales	9,406,507	6,800,577
Inter-segment sales	16,966,433	14,536,675
Sub-total	26,372,940	21,337,252
Petroleum products		
External sales	21,997,362	19,977,755
Inter-segment sales	1,336,695	1,187,744
Sub-total	23,334,057	21,165,499
All others		
External sales	3,731,514	4,173,247
Inter-segment sales	3,402,717	3,582,206
Sub-total	7,134,231	7,755,453
Eliminations of inter-segment sales	(21,781,113)	(19,370,463)
Total	55,404,687	51,478,855

40. Segment reporting *(continued)*

Operating cost	2007 RMB'000	2006 RMB'000
Synthetic fibres	4,428,504	4,588,820
Resins and plastics	15,297,159	14,684,176
Intermediate petrochemicals	8,625,650	6,147,241
Petroleum products	22,740,701	21,963,233
All others	3,565,641	3,946,095
Total	54,657,655	51,329,565

Operating profit	2007 RMB'000	2006 RMB'000
Synthetic fibres	(86,289)	138,441
Resins and plastics	629,930	1,115,839
Intermediate petrochemicals	780,857	653,336
Petroleum products	(743,339)	(1,985,478)
All others	165,873	227,152
Total segment result	747,032	149,290
Financial expenses	(177,926)	(165,389)
Add: Investment income	1,549,331	663,861
Operating profit	2,118,437	647,762

Assets	2007 RMB'000	2006 RMB'000
Segment assets		
Synthetic fibres	2,815,477	2,938,136
Resins and plastics	2,837,072	3,180,957
Intermediate petrochemicals	7,522,940	5,972,038
Petroleum products	9,063,063	8,645,572
All others	2,698,055	2,317,515
Total segment assets	24,936,607	23,054,218
Long-term equity investments	3,543,769	3,463,444
Unallocated	2,013,958	1,537,841
Total assets	30,494,334	28,055,503

40. Segment reporting *(continued)*

Liabilities	2007 RMB'000	2006 RMB'000
Segment Liabilities		
Synthetic fibres	317,311	252,750
Resins and plastics	1,163,885	844,770
Intermediate petrochemicals	687,388	363,602
Petroleum products	1,607,474	1,068,138
All others	272,683	176,112
Total segment liabilities	4,048,741	2,705,372
Unallocated	5,142,158	5,644,399
Total liabilities	9,190,899	8,349,771

Depreciation and amortisation	2007 RMB'000	2006 RMB'000
Synthetic fibres	227,503	236,559
Resins and plastics	351,273	353,321
Intermediate petrochemicals	630,467	691,427
Petroleum products	352,532	407,835
All others	172,890	181,506
Segment depreciation and amortisation	1,734,665	1,870,648
Unallocated	14,879	12,678
Depreciation and amortisation	1,749,544	1,883,326

Impairment losses on fixed assets	2007 RMB'000	2006 RMB'000
Synthetic fibres	180,681	50,000
All others	19,614	-
Impairment losses on fixed assets	200,295	50,000

40. Segment reporting *(continued)*

Total capital expenditures for segment long-lived assets

	2007 RMB'000	2006 RMB'000
Synthetic fibres	130,392	145,513
Resins and plastics	16,973	45,418
Intermediate petrochemicals	773,720	1,083,542
Petroleum products	1,098,320	586,570
All others	114,718	147,736
Total	2,134,123	2,008,779

41. Significant accounting estimates and judgments

The Group's financial condition and results of operations are sensitive to accounting methods, assumptions and estimates that underlie the preparation of the financial statements. The Group bases the assumptions and estimates on historical experience and on various other assumptions that the Group believes to be reasonable and which form the basis for making judgements about matters that are not readily apparent from other sources. On an on-going basis, management evaluates its estimates. Actual results may differ from those estimates as facts, circumstances and conditions change.

The selection of critical accounting policies, the judgements and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing the financial statements. The principal accounting policies are set forth in Note 3. The Group believes the following critical accounting policies involve the most significant judgements and estimates used in the preparation of the financial statements.

(1) Impairments for long-lived assets

If circumstances indicate that the net book value of a long-lived asset may not be recoverable, the asset may be considered "impaired", and an impairment loss may be recognised in accordance with "CAS (2006) 8"Impairment of Assets". Long-term assets are reviewed at each balance sheet date to determine whether the carrying amount exceeds the recoverable amount of the assets. If any such indication exists, impairment loss is provided.

The recoverable amount of an asset is the greater of its net selling price and its present value of expected future cash flows. Since a market price of the asset can not be obtained reliably, the fair value of the asset can not be estimated reliably. In assessing value in use, significant judgements are exercised over the asset's production, selling price, related operating expenses and discounting rate to calculate the present value. All relevant materials which can be obtained are used for estimation of the recoverable amount, including the estimation of the production, selling price and related operating expenses based on reasonable and supportable assumption.

41. Significant accounting estimates and judgments *(continued)*

(2) Depreciation

Fixed assets are depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual values. The Group reviews 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 the Group's 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

(3) Impairment for bad and doubtful debts

The Group estimates impairment losses for bad and doubtful debts resulting from the inability of the customers to make the required payments. The Group bases the estimates on the aging of the accounts receivable balance, customer credit-worthiness, and historical write-off experience. If the financial condition of the customers were to deteriorate, actual write-offs would be higher than estimated.

(4) Allowance for diminution in value of inventories

Any excess of the cost over the net realisable value of each item of inventories is recognised as a provision for diminution in the value of inventories. Net realisable value represents the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale. The Group bases the estimates on all available information, including the current market prices of the finished goods and raw materials, and historical operating costs. If the actual selling prices were to be lower or the costs of completion were to be higher than estimated, the actual allowance for diminution in value of inventories could be higher than estimated.

42. Financial Risk Management

Overview

The Group has exposure to the following risks from its use of financial instruments:

- credit risk;
- liquidity risk; and
- market risk

The Board of Directors has overall responsibility for the establishment, oversight of the Group's risk management framework, and developing and monitoring the Group's risk management policies.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations. Internal audit department undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Group's audit committee.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers. The carrying amounts of trade debtors, bills receivables and other receivables, represent the Group's maximum exposure to credit risk in relation to financial assets.

The majority of the Group's trade debtors relate to sales of petroleum and chemical products to related parties and third parties operating in the petroleum and chemical industries. The Group performs ongoing credit evaluations of its customers' financial condition and generally does not require collateral on trade debtors. The Group maintains an impairment loss for doubtful accounts and actual losses have been within management's expectations.

No other financial assets of the Group carry a significant exposure to credit risk.

42. Financial Risk Management *(continued)*

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach in managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. The Group prepares monthly cash flow budget to ensure that they will always have sufficient liquidity to meet its financial obligation as they fall due. The Group arranges and negotiates financing with financial institutions and maintains a certain level of standby credit facilities to reduce the liquidity risk.

At 31 December 2007, the Group had standby credit facilities with several PRC financial institutions which allowed the Group to borrow up to RMB 2,900,000,000 (2006: RMB 2,900,000,000) on an unsecured basis, at a weighted average interest rate of 6.29% (2006: 5.95%). At 31 December 2007, the Group's outstanding borrowings under these facilities were RMB 1,812,642,000 (2006: RMB 1,618,692,000) and were included in short-term bank loans.

The following table sets out the remaining contractual maturities at the balance sheet date of the Group's and the Company's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on prevailing rates current at the balance sheet date) and the earliest date the Group and the Company would be required to repay:

The Group

	2007				
	Carrying Amount RMB'000	Total contractual undiscounted cash flow RMB'000	Within one year or on demand RMB'000	More than one year but less than two years RMB'000	More than two years but less than five years RMB'000
Short-term loans	3,672,942	3,734,332	3,734,332	-	-
Current portion of long-term loans	419,027	444,822	444,822	-	-
Long-term loans	639,289	723,741	39,271	549,201	135,269
Total	4,731,258	4,902,895	4,218,425	549,201	135,269

42. Financial Risk Management *(continued)*

Liquidity risk *(continued)*

The Group *(continued)*

	2006				
	Carrying Amount RMB'000	Total contractual undiscounted cash flow RMB'000	Within one year or on demand RMB'000	More than one year but less than two years RMB'000	More than two years but less than five years RMB'000
Short-term loans	1,853,692	1,893,865	1,893,865	-	-
Current portion of long-term loans	416,645	438,975	438,975	-	-
Short-term debentures payable	2,000,000	2,072,770	2,072,770	-	-
Long-term loans	1,063,654	1,193,902	52,731	611,552	529,619
Total	5,333,991	5,599,512	4,458,341	611,552	529,619

The Company

	2007				
	Carrying Amount RMB'000	Total contractual undiscounted cash flow RMB'000	Within one year or on demand RMB'000	More than one year but less than two years RMB'000	More than two years but less than five years RMB'000
Short-term loans	3,289,642	3,341,069	3,341,069	-	-
Current portion of long-term loans	259,097	276,181	276,181	-	-
Long-term loans	450,000	512,550	31,275	481,275	-
Total	3,998,739	4,129,800	3,648,525	481,275	-

42. Financial Risk Management *(continued)*

Liquidity risk *(continued)*

The Company *(continued)*

	2006				
	Carrying Amount RMB'000	Total contractual undiscounted cash flow RMB'000	Within one year or on demand RMB'000	More than one year but less than two years RMB'000	More than two years but less than five years RMB'000
Short-term loans	1,618,692	1,652,677	1,652,677	-	-
Current portion of long-term loans	383,034	404,867	404,867	-	-
Short-term debentures payable	2,000,000	2,072,770	2,072,770	-	-
Long-term loans	873,710	991,484	46,494	470,204	474,786
Total	4,875,436	5,121,798	4,176,808	470,204	474,786

Market risk

(a) Currency risk

The revenue-generating operations and financing of the Group and the Company are mainly transacted in Renminbi, which is not fully convertible into foreign currencies. All foreign exchange transactions continue to take place either through the PBOC or other banks authorised to buy and sell foreign currencies at the exchange rates quoted by the PBOC. Approval of foreign currency payments by the PBOC or other institutions requires submitting a payment application form together with suppliers' invoices, shipping documents and signed contracts.

The Group and the Company has no hedging policy on foreign currency balances, and principally reduces the currency risk by monitoring the level of foreign currency. Other than the amounts as disclosed in Note 7, the amounts of other financial assets and liabilities of the Group and the Company are substantially denominated in the functional currency of respective entity of the Group.

42. Financial Risk Management *(continued)*

Market risk *(continued)*

(a) Currency risk *(continued)*

Included in loans and borrowings are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	The Group		The Company	
	2007	2006	**2007**	2006
	'000	'000	**'000**	'000
United States Dollars	**USD86,556**	USD261,901	**USD85,116**	USD260,101

A 5 percent strengthening / decreasing of Renminbi against USD at 31 December would have increased / decreased net profit for the year and retained earnings of the Group by approximately RMB 21,181,000 (2006: RMB 86,917,000). This analysis has been determined assuming that the change in foreign exchange rates had occurred at the balance sheet date and had been applied to the foreign currency balances to which the Group has significant exposure as stated above, and that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2006.

(b) Interest rate risk

The interest rates and terms of repayment of loans and borrowings of the Group are disclosed in Note 21and 26.

As at 31 December 2007, it is estimated that a general increase / decrease of 100 basis points in interest rates, with all other variables held constant, would decrease / increase the Group's net profit for the year and retained earnings by approximately RMB 12,146,000 (2006: RMB 17,642,000). This sensitivity analysis has been determined assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to floating interest rate risk for financial instruments in existence at that date. The analysis is performed on the same basis for 2006.

42. Financial Risk Management *(continued)*

Capital Management

The Group also optimises the structure of its capital, comprising equity and loans. In order to maintain or adjust the capital structure, the Group may issue new shares, adjust the capital expenditure plan, sell assets to reduce debt, or adjust the proportion of short-term and long-term loans. The Group monitors capital on the basis of debt-to-equity ratio, which is calculated by dividing long-term loans, including long-term bank loans and loans from the related parties, by the total of equity attributable to equity shareholders of the Company and long-term loans, and liability-to-asset ratio, which is calculated by dividing total liabilities by total assets. The Group's strategy is to make appropriate adjustments according to the operating and investment needs and the changes of market conditions, and has maintained the debt-to-equity ratio and the liability-to-asset ratio at a range considered as reasonable by management.

The schedule of the contractual maturities of loans and commitments are disclosed in Note 21, Note 26 and Note 43, respectively.

There were no changes in the Group's approach to capital management during the year. Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

Fair value

The disclosures of the fair value estimates, methods and assumptions, set forth below for the Group's financial instruments, are made to comply with the requirements of CAS 37 and 22 and should be read in conjunction with the Group's consolidated financial statements and related notes.

The following table presents the carrying amounts and fair values of the Group's long term bank loans at 31 December 2007 and 2006.

	2007		2006	
	Carrying amount RMB'000	Fair value RMB'000	Carrying amount RMB'000	Fair value RMB'000
Liabilities				
Long-term bank loans	1,058,316	1,034,682	1,480,299	1,445,950

42. Financial Risk Management *(continued)*

Fair value *(continued)*

The fair value of long term bank loans is estimated by discounting future cash flows thereon using current market interest rates offered to the Group for debts with substantially the same characteristics and maturities ranging 7.17% to 7.74% (2006: 6.00% to 6.48%).

The fair value of available-for-sale assets was based on quoted market price on a PRC Stock Exchange. Unquoted equity investments are individually and in the aggregate not material to the Group's financial condition or results of operations. There are no listed market prices for such interests in the PRC and, accordingly, a reasonable estimate of fair value could not be made without incurring excessive costs.

The fair values of cash, trade debtors, bills receivable, prepayments, other receivables, trade creditors, receipt in advance and other payables are not materially different from their carrying amounts.

Short term loans and borrowings - the carrying value is estimated to approximate fair value based on the nature or short term maturity of these instruments.

Fair value estimates are made at a specific point in time and based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

43. Capital commitments

Capital commitments of the Group and the Company are as follows:

	The Group and The Company	
	2007	2006
	RMB'000	RMB'000
Contracted but not provided for	311,991	398,335
Authorised by the Board but not contracted for	3,546,960	2,061,660
Total	3,858,951	2,459,995

Capital commitments relate primarily to the construction of building, plant, machinery and purchase of equipment.

At 31 December 2007, the Group and the Company did not have material operating lease commitment.

44. Contingent liabilities

(1) The contingent liabilities of the Group and the Company are summarised as follows:

	The Group		The Company	
	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
Guarantees issued to banks in favor of:				
- subsidiaries	-	-	545,000	353,500
- associates	14,500	40,000	14,500	40,000
- other unlisted investment companies	16,247	9,750	-	-
	30,747	49,750	559,500	393,500

The Group and the Company monitors the conditions that are subject to the guarantees to identify whether it is probable that a loss has occurred, and recognise any such losses under guarantees when those losses are estimable. At 31 December 2007 it is not probable that the Group and the Company will 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.

(2) Income tax differences

As discussed in Note 5, the Group and the Company has certain income tax exposures with regard to prior years. At present, the directors of the Company consider that it is not possible to reliably estimate the eventual outcome of this matter and therefore no provision has been made in the financial statements for additional taxes, penalties and interest, if any.

45. Related party relationships and transactions

(1) Information on the parent of the Company is listed as follows:

Name of company:	China Petroleum & Chemical Corporation
Organisation code:	71092609-4
Registered address:	No. 6, Hui Xin Dong Jie Jia, Chao Yang Qu, Beijing
Scope of operations:	Exploring for, extracting and selling crude oil and natural gas; oil refining; production, sale and transport of petro-chemical, chemical fibres and other chemical products; pipe transport of crude oil and natural gas; research and development and application of new technologies and information.
Relationship with the Company:	The immediate parent company
Economic nature:	Joint stock limited company
Authorised representative:	Su Shulin
Registered capital:	RMB 86.7 billion (2006: RMB 86.7 billion)
Shareholding percentage:	55.56%
Proportion of voting rights:	55.56%

45. Related party relationships and transactions *(continued)*

(1) Information on the parent of the Company is listed as follows: *(continued)*

The above registered capital has not changed during the year ended 31 December 2007.

At 31 December 2007, Sinopec Corp held 4 billion shares of the Company. There are no changes during the year.

(2) Details of the Company's subsidiaries are set out in Note 6.

(3) Key management personnel emoluments

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly and indirectly, including directors and supervisors of the Group. The key management compensations are as follows:

	The Group and The Company	
	2007	2006
	RMB'000	RMB'000
Short-term employee benefits	5,301	4,529
Retirement scheme contributions	89	84
	5,390	4,613

(4) Transactions between the Group and the other related parties

(a) Other companies not having the direct ability to exercise significant influence over the Group.

	Relationship with the Company
China Petrochemical Corporation	The ultimate parent company
Sinopec Finance Company Limited	Subsidiary of the ultimate parent company
Sinopec Storage and Transportation Branch	Subsidiary of the ultimate parent company
Sinopec Zhenhai Refining & Chemical Branch	Branch of the immediate parent company

45. Related party relationships and transactions *(continued)*

(4) Transactions between the Group and the Company with other related parties *(continued)*

(a) Companies not having the direct ability to exercise significant influence over the Group *(continued)*

	Relationship with the Company
Sinopec Huadong Sales Company	Branch of the immediate parent company
Sinopec Pipeline storage & Transport Company	Branch of the immediate parent company
China International United Petroleum and Chemical Company Limited	Subsidiary of the immediate parent company
China Petrochemical International Company Limited	Subsidiary of the immediate parent company
Sinopec Chemical Sales Company Limited	Subsidiary of the immediate parent company
Shanghai Secco Petrochemical Company Limited	Associated Company
BOC-SPC Gases Co., Ltd	Jointly Controlled Company
Shanghai Jinpu Plastics Packaging Material Company Limited	Associated Company
Shanghai Jinsen Hydrocarbon Resins Company Limited	Associated Company

Details of the Group's jointly controlled entities and associates are set out in Note 14.

(b) Most of the transactions undertaken by the Group during the year ended 31 December 2007 have been affected with such counterparties and on such terms as have been determined by Sinopec Corp and other relevant authorities.

Sinopec Corp negotiates and agrees the terms of crude oil supply with suppliers on a group basis, which is then allocated among its subsidiaries, including the Group, on a discretionary basis. During the year, the value of crude oil purchased in accordance with Sinopec Corp's allocation was as follows:

	The Group and The Company	
	2007 RMB'000	2006 RMB'000
Purchases of crude oil	33,334,157	31,223,530

45. Related party relationships and transactions *(continued)*

(4) Transactions between the Group and the Company with other related parties *(continued)*

(c) Other transactions between the Group and the Company with other related parties during the year were as follows:

	The Group		The Company	
	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
Sales of goods and service fee income	22,907,085	20,173,106	24,610,755	22,779,044
Purchases other than crude oil	5,400,022	2,579,394	7,542,528	4,542,977
Insurance premiums paid	106,000	98,643	106,000	98,643
New withdrawal from deposits in a related party	(50,177)	(101,353)	(49,465)	(101,039)
Interest received and receivable	908	229	379	159
New loans obtained from a related party	1,475,300	576,000	1,227,000	478,000
Loans repaid to a related party	40,000	626,000	-	478,000
Interest paid and payable	9,813	7,529	1,658	702
Transportation fees	254,128	344,928	254,128	344,928
Construction and installation fees	206,256	194,958	206,256	194,958
Rental income	-	-	5,590	5,981
Proceeds from contribution and sales of fixed assets	-	52,547	-	105,094
Gains from disposal of investments	25,822	24,308	14,585	-
Sales commissions	194,645	182,840	194,645	182,840
Net (decrease)/increase of guarantees	(19,003)	(18,550)	166,000	(130,342)

The sales and purchases transactions between the Group and the Company and other related parties as disclosed in Note 45(4)(a) accounted for approximately 90% of the transactions of the similar nature.

The Directors of the Company are of the opinion that the above transactions were entered into the normal course of business and on normal commercial terms in accordance with the agreements governing such transactions. The above has been confirmed by independent non-executive directors.

45. Related party relationships and transactions *(continued)*

(4) Transactions between the Group and the Company with other related parties *(continued)*

(d) Balances with related parties

At 31 December 2007, the Group's balances with related parties are as follows:

	Immediate Parent Company		Other related parties	
	2007	2006	2007	2006
	RMB'000	RMB'000	RMB'000	RMB'000
Bills receivable	-	280	43,725	60,843
Trade debtors	16,698	-	334,138	266,200
Other receivables	121	121	44,540	85,608
Advance payments	24,570	36,620	51,429	245,615
Bills payable	-	35,700	-	-
Trade creditors	679,944	273,012	132,173	225,330
Other payables	19,726	2,212	46,964	33,131
Receipts in advance	10,374	16,152	15,689	14,237
Balance of guarantee	-	-	30,747	49,750

At 31 December 2007, the Company's balances with related parties are as follows:

	Immediate Parent Company		Other related parties	
	2007	2006	2007	2006
	RMB'000	RMB'000	RMB'000	RMB'000
Bills receivable	-	-	52,344	59,293
Trade debtors	7,579	-	350,445	308,338
Other receivables	121	121	105,479	223,989
Advance payments	21,337	36,620	53,036	277,654
Trade creditors	679,944	273,012	280,264	179,276
Other payables	19,726	2,212	460,038	278,227
Receipts in advance	9,074	14,849	51,138	51,007
Balance of guarantee	-	-	559,500	393,500

45. Related party relationships and transactions *(continued)*

(4) Transactions between the Group and the Company with other related parties *(continued)*

(e) Deposits in related parties

	The Group		The Company	
	2007	2006	2007	2006
	RMB'000	RMB'000	RMB'000	RMB'000
Cash at bank and on hand	29,736	79,913	29,536	79,001

(f) Loans with related parties

	The Group		The Company	
	2007	2006	2007	2006
	RMB'000	RMB'000	RMB'000	RMB'000
Short-term loans	1,355,300	-	1,227,000	-
Long-term loans	120,000	-	-	-

46. Non-adjusting post balance sheet events

In March 2008, the Group received a grant income of RMB 247,280,000 as a compensation of losses incurred due to the distortion of the correlation of domestic refined petroleum product prices and the crude oil prices, and the measures taken by the Group to stabilize the supply in the PRC refined petroleum product market during the first quarter of 2008.

47. Comparative figure

Effective from 1 January 2007, the Group and the Company's financial statements have been prepared in accordance with requirements of ASBE (2006), see Note 4 for details.

48. Non-recurring Items

In accordance with "Standard questions and answers on the preparation of information disclosures by companies publicly issuing securities, No 1 - Non recurring items" (2007 Revised), the Group's non-recurring items are set out as below:

	2007 RMB'000	2006 RMB'000
Non-recurring items		
Gain from disposal of non-current assets	841,883	74,063
Subsidy income	93,900	282,142
Employee reduction expenses	(208,013)	(83,603)
Net expenses of non-operating income/(expenses) other than those mentioned above	(47,198)	(24,498)
Sub-total	680,572	248,104
Less: tax effect for the above items	(193,602)	(37,216)
Total	486,970	210,888
Include: Non-recurring items attributable to equity shareholders of the Company	487,108	211,125
Non-recurring items attributable to minority shareholders	(138)	(237)

Note: The above figures for 2006 have been adjusted. These retrospective adjustments were made as a result of first-time adoption of CAS (2006) in this year (detailed in Note 4).

49. Earnings per share and return on net asset

Complied to "Regulations on the preparation of information disclosures by companies publicly issuing securities No.9 - calculation and disclosure of earnings per share and return on net assets" (2007 Modified) issued by China Security Regulation Committee, earning per share and return on net assets are calculated as follows:

(1) The Group's earnings per share

	2007		2006	
	Basic earnings per share	Diluted earnings per share	Basic earnings per share	Diluted earnings per share
(a) Earnings per share based on net profit including non-recurring items (RMB)	0.221	0.221	0.112	0.112
- Net profit attributable to equity shareholders of Company (RMB'000)	1,592,110	1,592,110	805,705	805,705
- Weighted average of issued shares ('000)	7,200,000	7,200,000	7,200,000	7,200,000
(b) Earning per share based on net profit excluding non-recurring items (RMB)	0.153	0.153	0.083	0.083
- Net profit attributable to equity shareholders excluding non-recurring items (RMB'000)	1,105,002	1,105,002	594,580	594,580
- Weighted average of issued shares ('000)	7,200,000	7,200,000	7,200,000	7,200,000

49. Earnings per share and return on net asset *(continued)*

(2) Return on net assets

	2007		2006	
	Diluted	Weighted average	Diluted	Weighted average
(a) Return on net assets based on net profit including non-recurring items	7.582%	7.888%	4.160%	4.171%
- Net profit attributable to equity shareholders of the Company (RMB'000)	1,592,110	1,592,110	805,705	805,705
- Net assets attributable to equity shareholders of the Company (RMB'000)	20,999,444	20,999,444	19,369,719	19,369,719
- Net assets attributable to equity shareholders of the Company, weighted average (RMB'000)	20,184,582	20,184,582	19,315,892	19,315,892
(b) Return on net assets based on net profit excluding non-recurring items	5.262%	5.474%	3.070%	3.078%
- Net profit attributable to equity shareholders of the Company excluding non-recurring items (RMB'000)	1,105,002	1,105,002	594,580	594,580
- Net assets attributable to equity shareholders of the Company (RMB'000)	20,999,444	20,999,444	19,369,719	19,369,719
- Net assets attributable to equity shareholders of the Company, weighted average (RMB'000)	20,184,582	20,184,582	19,315,892	19,315,892

1. Reconciliation statement of net profit in the pro forma income statement for 2006

In accordance with the requirements of "Questions and Answers on the Preparation of Information Disclosures of Companies Issuing Public Shares No.7 - the Preparation and Disclosure of Comparative Figures in the Transitional Period of the Adoption of CAS (2006)" (Q&A No. 7), the Group is assumed to have fully adopted CAS (2006) as of 1 January 2006, and on the basis of the assumption prepared pro forma consolidated income statement for 2006, the difference between net profit in the pro forma consolidated income statement and net profit in the consolidated income statement is set out as follows:

	2006 RMB'000
Net profit in income statements	872,260
Amortisation of goodwill	8,967
Net profit in pro forma income statement	881,227

The previous accounting policy for business combination of the Group required that the excess of the cost of acquisition over the Group's interest in the shareholder's equity of the acquiree be recognised as equity investment differences or goodwill, which was amortised to profit and loss on a straight line basis. As of 1 January 2007, the Group no longer amortises goodwill, but performs impairment test on goodwill each year.

Assume the Group has fully adopted CAS (2006) as of 1 January 2006, the amortisation of goodwill in 2006 will be reduced by RMB 8,967,000.

2 Comparison of differences in consolidated shareholders' equity between the new and old PRC GAAP in reconciliation statements

According to the requirements of "Notice on the Preparation of Information Disclosures related to the Adoption of CAS (2006) by Listed Companies and Companies Applying for Listing", the Group prepared the reconciliation statement of differences in consolidated shareholders' equity between the new and old PRC GAAP as at 31 December 2006 and 1 January 2007 ("the reconciliation statement") on March 29, 2007. The reconciliation statement has been reviewed by KPMG Huazhen and disclosed in the 2006 annual report.

2. Comparison of differences in consolidated shareholders' equity between the new and old PRC GAAP in reconciliation statements *(continued)*

After the publication of 2006 annual report, further interpretations on CAS (2006), (including CAS Bulletin 1 and Opinions on the Implementation of CAS (2006) from the Professional Working Group of the China Accounting Standards Committee) were issued in succession. The Group reviewed the shareholders' equity as at 1 January 2007 in accordance with these further interpretations during the preparation of the 2007 annual financial statements. The differences and the reasons for the differences between the shareholders' equity after review and those disclosed in the previous reconciliation statement are analysed as follows:

	2007 annual report Disclosed amounts RMB'000	2006 annual report Previously disclosed amounts RMB'000	Difference RMB'000
Shareholders' equity as at 31 December 2006 (Under old PRC GAAP)	19,273,088	19,273,088	-
1 Available-for-sale financial assets at fair value through equity	25,822	25,822	-
2 Income tax	(17,053)	(24,672)	7,619
3 Minority Interests	336,013	336,013	-
4 General loan capitalisation	138,657	138,657	-
5 Contribution by fixed assets and sales of assets to a jointly controlled entity	(50,795)	-	(50,795)
Shareholders' equity as at 31 December 2006 (Under new PRC GAAP)	19,705,732	19,748,908	(43,176)

Note:The details of above retrospective adjustments are set out in Note 4.

3. Differences between financial statements prepared under the China Accounting Standards for Business Enterprises and IFRS

(1) The effect of the difference between the China Accounting Standards for Business Enterprises and IFRS on profit attributable to equity shareholders of the Company is analysed as follows:

	Note	2007 RMB'000	2006 RMB'000 (restated) #
Profit attributable to equity shareholders of the Company under the China Accounting Standards for Business Enterprises		1,592,110	805,705
Adjustments:			
- Reduced depreciation on government grants	(i)	26,760	26,760
- Amortisation of revaluation of land use rights	(ii)	3,498	3,498
- Goodwill	(iii)	-	8,967
- Effects of the above adjustments on taxation		(1,154)	(523)
- Effects of change in tax rate on deferred tax	(iv)	12,866	-
Total		41,970	38,702
Profit attributable to equity shareholders of the Company under IFRS		1,634,080	844,407

3. Differences between financial statements prepared under the China Accounting Standards for Business Enterprises and IFRS *(continued)*

(2) The effect of the difference between the China Accounting Standards for Business Enterprises and IFRS on equity attributable to equity shareholders of the Company is analysed as follows:

	Note	2007 RMB'000	2006 RMB'000 (restated) #
Total equity attributable to equity shareholders of the Company under the China Accounting Standards for Business Enterprises		20,999,444	19,369,719
Adjustments:			
- Government grants	(i)	(237,159)	(263,919)
- Revaluation of land use rights	(ii)	(167,254)	(170,752)
- Goodwill	(iii)	22,415	22,415
- Effects of the above adjustments on taxation		30,592	18,880
Total		(351,406)	(393,376)
Total equity attributable to equity shareholders of the Company under IFRS		20,648,038	18,976,343

(i) Government grants

Under the China Accounting Standards for Business Enterprises, government subsidies defined as capital contributions according to the relevant government requirements are not considered a government grant, but instead should be recorded as an increase in capital reserves.

Under IFRS, such grants are offset against the cost of asset to which the grants related. Upon transfer to property, plant and equipment, the grant is recognised as income over the useful life of the property, plant and equipment by way of a reduced depreciation charge.

3. Differences between financial statements prepared under the China Accounting Standards for Business Enterprises and IFRS *(continued)*

(2) The effect of the difference between the China Accounting Standards for Business Enterprises and IFRS on equity attributable to equity shareholders of the Company is analysed as follows: *(continued)*

(ii) Revaluation of land use rights

Under IFRS, land use rights are carried at historical cost less accumulated amortisation. Under the China Accounting Standards for Business Enterprises, land use rights are carried at revalued amount less accumulated amortisation.

(iii) Goodwill

Under the China Accounting Standards for Business Enterprises, the Group no longer amortises positive goodwill effective 1 January 2007. From 1 January 2007, goodwill is tested annually for impairment.

Under IFRS, with reference to IFRS 3, "Business combinations", the Group no longer amortises goodwill effective 1 January 2005. From 1 January 2005, goodwill is tested annually for impairment.

As a result, there are no differences in respect of goodwill amortisation between the China Accounting Standards for Business Enterprises and IFRS effective 1 January 2007. The difference in the shareholders' equity represents the two years of amortisation of positive goodwill during the period from 1 January 2005 to 31 December 2006 under previous China Accounting Rules and Regulations.

(iv) Change in tax rate on deferred tax

As the EIT rate applicable to the Company will be changed from 33% in 2007 to 25% in 2008, deferred tax recognised as at 31 December 2007 is based on the 25% tax rate that is expected to apply to the period when the asset is realised or the liability is settled (2006: 15%). The amount represents the effects of change in tax rate on deferred tax assets.

Commencing from 1 January 2007, the Group has adopted the China Accounting Standards for Business Enterprises issued by the Ministry of Finance of the China (the "MOF") on 15 February 2006, certain China accounting policies have been changed and applied retrospectively. The net profits and equity as determined in accordance with the China Accounting Rules and Regulations for prior periods have been restated. As a result, the comparative figures have been adjusted accordingly.

C. Differences between financial statements prepared under the China Accounting Standards for Business Enterprises and International Financial Reporting Standards ("IFRS")

The Company also prepares a set of financial statements which complies with the China Accounting Standards for Business Enterprises. A reconciliation of the Group's net profit and shareholders' equity prepared under the China Accounting Standards for Business Enterprises and IFRS is presented below.

Other than the differences in the classification of certain financial statements assertions and the accounting treatment of the items described below, there are no material differences between the Group's financial statements prepared in accordance with the China Accounting Standards for Business Enterprises and IFRS. The major differences are:

Notes:

(i) Government grants

Under the China Accounting Standards for Business Enterprises, government subsidies defined as capital contributions according to the relevant government requirements are not considered a government grant, but instead should be recorded as an increase in capital reserves.

Under IFRS, such grants are offset against the cost of asset to which the grants related. Upon transfer to property, plant and equipment, the grant is recognised as income over the useful life of the property, plant and equipment by way of a reduced depreciation charge.

(ii) Revaluation of land use rights

Under IFRS, land use rights are carried at historical cost less accumulated amortisation. Under the China Accounting Standards for Business Enterprises, land use rights contributed by investors are carried at revalued amount less accumulated amortisation.

(iii) Goodwill

Under the China Accounting Standards for Business Enterprises, the Group no longer amortises positive goodwill effective 1 January 2007. From 1 January 2007, goodwill is tested annually for impairment.

Under IFRS, with reference to IFRS 3, "Business combinations", the Group no longer amortises goodwill effective 1 January 2005. From 1 January 2005, goodwill is tested annually for impairment.

As a result, there are no differences in respect of goodwill amortisation between the China Accounting Standards for Business Enterprises and IFRS effective 1 January 2007. The difference in the shareholders' equity represents the two years of amortisation of positive goodwill during the period from 1 January 2005 to 31 December 2006 under previous China Accounting Rules and Regulations.

(iv) Change in tax rate on deferred tax

As the EIT rate applicable to the Company will be changed from 33% in 2007 to 25% in 2008, deferred tax recognised as at 31 December 2007 is based on the 25% tax rate that is expected to apply to the period when the asset is realised or the liability is settled (2006: 15%). The amount represents the effects of change in tax rate on deferred tax assets.

The effect on the Group's net profit of significant differences between the China Accounting Standards for Business Enterprises and IFRS are summarised below:

		Years ended 31 December	
	Note	2007 RMB'000	2006 RMB'000 (restated) #
Profit attributable to equity shareholders of the Company under the China Accounting Standards for Business Enterprises		1,592,110	805,705
Adjustments:			
Reduced depreciation on government grants	(i)	26,760	26,760
Amortisation of revaluation of land use rights	(ii)	3,498	3,498
Goodwill	(iii)	-	8,967
Effects of the above adjustments on taxation		(1,154)	(523)
Effects of change in tax rate on deferred tax	(iv)	12,866	-
Profit attributable to equity shareholders of the Company under IFRS		1,634,080	844,407

C. Differences between financial statements prepared under the China Accounting Standards for Business Enterprises and International Financial Reporting Standards (“IFRS”) (continued)

The effect on the Group’s shareholders’ equity of significant differences between the China Accounting Standards for Business Enterprises and IFRS are summarised below: (continued)

	Note	As at 31 December 2007 RMB'000	2006 RMB'000 (restated) #
Total equity attributable to equity shareholders of the Company under the China Accounting Standards for Business Enterprises		20,999,444	19,369,719
Adjustments:			
Government grants	(i)	(237,159)	(263,919)
Revaluation of land use rights	(ii)	(167,254)	(170,752)
Goodwill	(iii)	22,415	22,415
Effects of the above adjustments on taxation		30,592	18,880
Total equity attributable to equity shareholders of the Company under IFRS		20,648,038	18,976,343

Commencing from 1 January 2007, the Group has adopted the China Accounting Standards for Business Enterprises issued by the Ministry of Finance of the China (the “MOF”) on 15 February 2006, certain China accounting policies have been changed and applied retrospectively. The net profits and equity as determined in accordance with the China Accounting Rules and Regulations for prior periods have been restated. As a result, the comparative figures have been adjusted accordingly.

Appendix:Self-Assessment Report on the Internal Control of Sinopec Shanghai Petrochemical Company Limited for 2007

I. Basic objectives of the Company's establishment of internal control

(1) To regulate the Company's operation and prevent operation management risks; to ensure the truthfulness, lawfulness and reliability of accounting information and to enhance the quality of accounting information.

(2) To plug loopholes and eliminate potential hazards so as to prevent and timely discover and correct fraudulent acts, thereby ensuring the safety and completeness of the Company's assets.

(3) To ensure thorough enforcement of the relevant State laws and regulations, the Articles of Association and internal rules and systems, so as to fulfill the regulatory requirements for listed companies in both domestic and overseas markets.

II. Principles upon which the Company establishes internal control

(1) The principle of compliance: compliance means that the corporate internal control system should comply with the State laws, regulations and policies, as well as the laws, regulations and other relevant requirements on listed companies stipulated by the securities regulatory authorities in the Company's listing locations (Shanghai, Hong Kong, New York).

(2) The principle of comprehensiveness and systematization: The internal control system covers all major aspects of the Company's operations, and internal supervision and control are exercised on the entire process of operation management and the entire staff. The internal control system will form a unified body of the Company's various departments and positions, which is systematic, cross-restricting and closely linked. This will ensure that all departments and positions can function in a coordinated manner with reference to their respective objectives, thereby ultimately achieving the Company's overall objectives of internal control.

(3) The principle of internal checking and mutual exclusively: Internal checking refers to the cross examining and cross restricting relationship established between departments, between staff and between positions. It is an important component of the corporate internal control system. Its major characteristic is to allocate the relevant responsibilities such that no single individual or department may have complete authority to handle one ore more economic and business activities, and that such activities will be subject to the examination, auditing and restriction by other mutually exclusive departments or staff.

(4) The principle of clearly defined authorities and responsibilities and integrated rewards and punishment: Based on the functions and nature of various departments and positions, the scopes of responsibilities endowed upon various departments and staff are clarified with corresponding authorities given; operating guidelines and issue handling procedures are devised; and measures to investigate and lay responsibilities as well as reward and punishment methods, will be determined. Accordingly, responsibilities, authorities and rewards will be clearly defined and assigned, while avoiding acts without jurisdiction or shifting of responsibility to others.

(5) The principle of cost efficiency: The practice of internal control should heed the principle of cost efficiency, which is attaining the maximum economic benefits at the minimum control and management costs. Effective control should be practiced and costs should be lowered and controlled with every effort, while structure and staff should be optimized and control methods and measures should be enhanced, so as to improve efficiency.

(6) The principle of operational feasibility: The internal control system should meet the Company's actual needs. Either the setting of operation procedure control points or the determination of mandate under authorized projects should take into account the feasibility in actual management to ensure such measures are operational.

(7) The principle of accommodating: The internal control system is a series of operation procedure control mechanisms formed to control risks. Its content covers various aspects ranging from production, operation, investment, finance to supervision and inspection, and it is a unified organic body of the Company's various existing management systems. The internal control system should avoid contradictions with other systems if possible, and should accommodate the enterprise's existing administrative systems. For discrepancies between the management systems and the control manual, amendments and enhancements should be made to the administrative systems promptly.

(8) The principle of information feedback: Determining the tasks and responsibilities of control-related staff in information delivery, regulating aspects such as the delivery procedures, collection methods and time requirements of information, and building a sophisticated information feedback system for records and reports.

III. Control Environment

(1) Corporate Governance Structure

In accordance with the 'Company Law of the People's Republic of China" (hereinafter, the "Company Law"), "Securities Law of the People's Republic of China" (hereinafter, the "Securities Law") as well as the requirements of relevant regulatory authorities and the Articles of Association, the Company has set up a board of directors, an audit committee under the board of directors and a supervisory committee. An organizational structure has been established within the Company corresponding to the nature and scale of the Company's business. Each of the departments has well-defined administrative duties and functions, with a system of check and balance being in place among departments.

1. Shareholders' Meetings

In accordance with the Articles of Association, the powers of a shareholders' meeting are in compliance with the Company Law and Securities Law. A shareholders' meeting is convened once every year and must be held within six months following the end of a previous accounting year. An extraordinary general meeting may be convened under the circumstances prescribed in the Company Law and Securities Law.

2. Board of Directors

The Company's Board of Directors comprises twelve members, of whom two are external directors and four are independent directors. The Board of Directors are authorized by shareholders' meetings to take charge of the overall operation and management of the Company, and devise the Company's business plans, investment proposals, financial budget and annual financial programs, basic management systems, etc. It is a business decision-making centre of the Company and is accountable to the shareholders. The "Rules of Procedures for the Board of Directors" have been formulated.

3. Supervisory Committee

The Company's Supervisory Committee comprises seven members, of whom three are employee supervisors, two are external supervisors and two are independent supervisors. The Supervisory Committee is authorized by shareholders' meetings to ensure that shareholders' rights and interests, Company's interests and employees' lawful rights and interests are not infringed upon. The Supervisory Committee is accountable to shareholders' meetings and submits its work reports thereto, and is set up and exercises its duties and functions in accordance with the Articles of Association. The "Rules of Procedures for Supervisory Committee" have been formulated.

4. Audit Committee under Board of Directors

The Company's Audit Committee under the Board of Directors comprises three members, all of whom are the non-executive directors of the Company. The Audit Committee is principally responsible for supervising the Company's internal audit system and its implementation, and reviewing the financial controls, internal control and risk management systems of the Company. The Audit Committee is accountable to the Board of Directors and submits its work reports thereto, provides advice and expresses independent professional opinions in accordance with established procedures. The "Rules of Procedures for the Audit Committee under the Board of Directors" have been formulated.

5. Management and Organizational Structure

To cope with the Company's operation model, to coordinate the relationships between production, marketing and financial management, and to access business and financial information in a timely manner, the Company has specified the duties of each of the senior management staff members, set up offices corresponding to the operation model and defined the duties and limits of authority of each of these offices in a scientific manner for setting up a check and balance mechanism. The president oversees the Company's overall day-to-day production operations and management. A financial controller and five vice presidents are assigned under the president. Set up within the Company are offices which include production department, finance department, equipment dynamics department, investment planning department, business planning department, human resources department, safety and environmental protection monitoring department, international operations department, audit department, engineering departments and other departments. All of the senior management staff employed possess tertiary qualifications and management experience to ensure the effective execution of control measures.

(2) Internal control system of the Company

The Company has established and implemented a full internal control system which covers aspects such as production, operation, financial, investment, human resources and information disclosure. In order to effectively prevent operation management risks and financial management risks and to ensure the truthfulness of accounting information, the Company compiled the "Internal Control Manual" which was fully implemented in 2005 after a year of trial beginning from March 2004.

In early 2007, the Company amended "Internal Control Manual" on the basis of the experience in the previous three years. The 2007 edition of "Internal Control Manual" comprises 53 operation procedures in 15 categories and sets out 1,194 control points and 178 authorization control indicators. In November 2007, at the request of the external auditors, 9 control points were added to 4 operation procedures and 4 control content items were added to 2 operation procedures. Accordingly, the number of operation control points increased to 1,203.

(3) Accounting system

The Company has devised 14 internal control operating procedures regarding financial management and accounting and auditing, such as "Administrative Operation Procedures for Fundraising", "Administrative Operation Procedures for Cash Funding", "Administrative Operation Procedures for Bills of Exchange" and "Operation Procedures for Financial Budgets". According to the 2007 edition of the "Internal Control Manual", the Company published and implemented the "Chart of Control Points in Relation to Financial Reporting" on 22 May 2007. The "Chart of Control Points in Relation to Financial Reporting" involves 410 control points of 33 operation procedures in the "Internal Control Manual", and its major content includes: control objectives, existing risks, ERP-related control, frequencies of events, types, positions and persons-in-charge of control, whether the item is of the anti-fraudulent category or asset-protection category, accounting items involved, recognition of the relevant accounting statements, relevant information required, and so forth. Furthermore, with reference to laws and regulations such as the Accounting Law and Accounting Standards for Business Enterprises, the Company devised an administrative system for finances and accounting on the basis of the Company's "Internal Accounting System" and "Administrative System for Finances", so as to achieve the following objectives:

1. To reasonably ensure that business operations are conducted under due authorization;
2. To reasonably ensure that transactions and events are timely recorded in the appropriate accounts at the correct amounts and under the proper accounting period, such that the preparation of accounting statements comply with the requirements of the Accounting Standards for Business Enterprises;
3. To reasonably ensure that asset access, recording and treatment are duly authorized;
4. To reasonably ensure that assets on the book are regularly checked against and match the actual assets.

The Company adopts the positional accountability system for its accounting staff and has engaged sufficient accounting staff with adequate resources provided to complete the assigned tasks according to the established procedures.

(4) Control Procedures

To properly ensure each of the objectives are achieved, the Company has established relevant control procedures which include, among others, transaction authorization control, division of labour control, voucher and record control, asset access and record usage control, IT information control and internal audit control.

1. Transaction authorization control: define relevant particulars such as the scope of authorization/approval, limits of authority, procedures, responsibilities; each level of the management of the Company must exercise their corresponding duties and powers within their scope of authorization; staff in-charge must also carry out economic work within their scope of authorization and deadlines.

2. Division of labour control: carry out division of labour properly; precisely define duties and limits of authority; and implement the principle to separate from incompatible duties for setting up a check and balance mechanism. Incompatible duties mainly include authorization/approval and business handling, business handling and accounts recording, accounts recording and property safekeeping, business handling and business auditing, authorization/approval and supervision and inspection.

3. Voucher and record control: have formulated the voucher flow procedures properly, under which operation personnel can prepare relevant vouchers promptly during the execution of transactions. The prepared vouchers are delivered to the accounting department for recording at the earliest possible time, and the recorded vouchers must be filed in order. Relevant records must be made on all transactions and be compared with the corresponding entries independently.

4. Asset access and record usage control: stringently restrict unauthorized personnel from direct access to property; adopt various measures such as a regular inventory of stocks, property record, accounts verification and property insurance to assure all the property is safe and complete.

5. IT information control: establish a sound information-based management system as well as systems and standards for an overall information-based level, information-based project management, information resources management, information system application and operation maintenance, programming and data access, programming change and development, information security management and infrastructure management; define division of duties and workflow to ensure the ongoing and stable operation as well as normative application of the Company's information system.

6. Internal audit control: The auditors of the auditing department of the company are responsible for internal audit; they are accountable to the general manager of the Company. Internal audit mainly covers the auditing and evaluation of the status of the execution of the Company's internal control, final accounts of various projects upon their completion as well as whether the assets, liabilities, equities and profits and losses of the wholly-owned and holding subsidiaries are true and accurate.

(5) Supervision and Inspection

To ensure the effective execution of internal control, the Company has carried out the following tasks in respect of the internal control office setup and orderly conduct of inspection:

1. Office setup

In March 2006, the Company established a working network composed of 32 internal control supervisors with well-defined work duties. The internal control supervisors, on behalf of the principal administrative personnel in-charge of their departments and secondary units, carry out internal control and activities within their respective management scope, and their operations are supervised by the Company's internal control office.

2. Auxiliary System Setup

The Company revised the "Internal Control Review and Evaluation Procedures" pairing with the "Internal Control Manual" in October 2007. The Procedures, in four chapters and twenty-one articles in total, contain specific provisions governing various items such as a quarterly walk-through test of responsible departments, quarterly self-inspection of each of the units and some administrative departments as well as working requirements, form of inspection and reporting particulars of an independent inspection by the auditing department. Detailed provisions are set out for the principle, particulars, workflow and defect identification, etc. in respect of a general inspection and evaluation of the Company.

3. Inspection of Flow Execution

(1) Quarterly Walk-through Test (Self-inspection)

In the first and second quarters of 2007, the internal control office organized a quarterly self-inspection of internal control in accordance with the "Internal Control Manual", involving 36 units and departments which include all secondary units, all administrative departments of offices and six investment and development firms under the Company.

(2) Semi-annual General Inspection

Led by the internal control office, an inspection of internal control execution was carried out in the first half and second half of the year respectively in accordance with the "Internal Control Manual". Details of the inspection are as follows:

In the first half of 2007, an overall and general inspection of 53 business flows and 1194 control points (including 410 control points in relation with the financial reports in 33 business flows) was carried. The inspection was evaluated that 908 control points were executed and 240 control points generated no business during the inspection; the inspection team believed that 12 control points were inapplicable and that 34 control points were not executed. The actual execution ratio was 96.39%.

The inspection in the second half of 2007 was evaluated that 990 control points were executed; 175 control points generated no business during the inspection; the inspection team believed that 13 control points were inapplicable and 16 control points were not executed. The actual execution ratio was 98.41%.

(3) Inspection of Internal Control of Major Subsidiaries

The auditing department of the Company has organized three internal control general inspection teams to conduct the internal control inspection of six subsidiaries in the first half and second half of the year. No major defect was detected and the subsidiaries were under control as a whole.

IV. Major information on the implementation of internal control

(1) Management of the financial and accounting systems

1. Management of production operation and finances

The Company emphasizes safety and environmental protection to ensure stable and effective production operation. Various professional management tasks of the production system are strengthened to ensure a safe and stable operation of its production facilities with a long production cycle. Construction of structural adjustment projects are accelerated, with an emphasis on enhancing corporate competitiveness. Financial activities are effectively organized to continuously raise the Company's operating ability, profitability and debt repayment ability, so as to achieve the Company's operating objectives.

2. Auditing and management of costs and expenses

The Company audits and controls its costs and expenses in strict compliance with the costs and expenses scope stipulated by the State's requirements and the Company's relevant systems. Costs and expenses are timely and thoroughly recorded and reflected. Product costs and expenses for the relevant period are accurately calculated, with strengthened work on advance estimates, in-process control and after-the-fact analysis and auditing for costs and expenses, so as to summarize the operating results to provide reliable data and information for operation decision-making. The low-costs strategy is fully implemented to exploit internal potential, reduce expenses and lower costs, so as to enhance economic benefits.

3. Control and management of assets

Pursuant to the Company's "Management System for Fixed Assets" and "Management System for Equipment", control is exercised over the key aspects of receipt and storage, usage and delivery, possession and treatment of tangible assets. Measures such as division of responsibility, regular stock-taking of tangible items, asset recording and book-tangible item cross-checking are adopted, such that regular estimates are made on potential losses among receivables, inventory and fixed assets. Accordingly, asset impairment provisions are made reasonably as stipulated by the State's Accounting Standards for Business Enterprises. The basis of estimated losses and impairment provisions and the items to be settled are to be reported according to the stipulated procedures and approval limits to seek approval.

(2) Management of external investments

The Company has devised the "Management Rules for Subsidiaries" and all subsidiaries have established and enhanced their respective internal control systems after taking into account the characteristics of their operations. In case of substantial matters such as external investments, substantial asset disposals and profit distribution, subsidiaries are required to report to the Company to seek approval, with reference to the 'Reporting System for Substantial Matters of Subsidiaries". The Company's audit department conducts regular or irregular internal auditing supervision with the subsidiaries.

(3) Management of external guarantees

The Company has devised the "Regulations on External Loans and Guarantees". After receiving applications from the guaranteed units and completing the credit fiduciary investigation, the Company provides guarantees for its wholly-owned subsidiaries, controlling subsidiaries or invested companies which have genuine needs of loans. The Company will follow the state of the relevant guarantee and exercise stringent control over guarantee risks.

(4) Management of connected transactions

The Company conducts connected transactions on fair and just pricing principles and transaction methods to ensure regulated conduct of transactions with no profit diversion, as well as ensuring the safety and entirety of the Company's assets and ensuring the truthfulness and accuracy of the amounts under the connected transactions.

(5) Management of information disclosure

The Company has devised the "Management System for Information Disclosure" which clearly stipulates the basic principles and approval procedures for information disclosure, disclosure of regular reports, disclosure of provisional reports and announcements, and management and responsibilities of information disclosure. The Company's Chairman or President is the primary persons-in-charge of information disclosure. The secretariat of the Board is the department in charge of information disclosure matters and is headed by the Secretary to the Board. The Company discloses information in the designated newspapers or websites in strict compliance with the relevant laws and regulations, the relevant requirements of CSRC and the securities exchanges of the listing locations of the Company's shares, and the scope and matters of information disclosure stipulated by the Company's system. Information disclosed by the Company shall be truthful, accurate, timely and complete.

V. Self-evaluation of the Company's internal control system

The Board is of the view that: through continued enhancement and improvement, the Company's existing internal control system is comprehensive, reasonable and effective. After the continued practice of various internal control inspection and relevant adjustments and enhancements during 2007, various systems have been adequately and effectively implemented and are able to meet the Company's existing management requirements and development needs, thereby ensuring the orderly conduct of the Company's business operations and the full implementation and thorough achievement of the Company's development strategies and operation objectives. The systems also satisfactorily ensure the truthfulness, lawfulness and comprehensiveness of the Company's accounting information and ensure the safety and entirety of the Company's assets. In addition, the systems manage to truthfully, accurately, timely and comprehensively disclose information to ensure a fair and just treatment of all investors, as well as safeguarding the interests of the Company and investors.

Sinopec Shanghai Petrochemical Company Limited
7 April 2008

Pursuant to the requirements of No. 68 of the Securities Law and Regulation on the Preparation of Information Disclosure Contents and Format of Companies Issuing Public Shares, No. 2 revised by the China Securities Regulatory Commission (CSRC) in 2007, we, being directors, supervisors and the senior management of the Company, having carefully studied and reviewed the Company's 2007 annual report, are in the opinion that: the Company was in strict compliance with the financial system operation of listed companies and the 2007 annual report gave a true and fair view of the financial position and operating results of the Company. The unqualified auditors reports of the Company issued by KPMG Huazhen and KPMG, respectively, were true and fair. We warrant that the information contained in the 2007 annual report is true, accurate and complete, and that there are no false or misleading statements contained in or material omissions from this report. We jointly and severally accept full responsibility for the authenticity, accuracy and completeness of the information contained in this report.

Signature:

Directors:

Rong Guangdao	Du Chongjun	Han Zhihao	Shi Wei
Li Honggen	Dai JinBao	Lei Dianwu	Xiang Hanyin
Chen Xinyuan	Sun Chiping	Jiang Zhiquan	Zhou Yunnong

Supervisors:

Gao Jinping	Zhang Chenghua	Wang Yanjun	Lu Xiangyang
Geng Limin	Liu Xiangdong	Yin Yongli	

Senior Management:

Zhang Jianping	Tang Chengjian	Zhang Jingming

Registered Office

Sinopec Shanghai Petrochemical Company Limited
48 Jinyi Road, Jinshan District, Shanghai, PRC
Postal Code: 200540 Tel: (8621)5794 3143
Fax: (8621)5794 0050 Telex: 33484 SPC CN
Website: www.spc.com.cn
E-mail: spc@spc.com.cn

Initial Registered Office

The Company established on 29 June 1993, the legal address of the Company was Jinshanwei, Jinshan District, Shanghai, the People's Republic of China.

Change of the Company's Name and Legal Address

After obtaining shareholders' approval at the 1999 annual general meeting of the Company and the relevant government approval in PRC, the Company changed its name to "Sinopec Shanghai Petrochemical Company Limited" and the legal address to "48 Jinyi Road, Jinshan District, Shanghai, the People's Republic of China" on 12 October 2000.

The registration number of industrial and commercial enterprises

310000000021453

The tax registration number

310043132212291

Organisation registered code

13221229-1

Stock Exchange Listings

A Shares:	Shanghai Securities Exchange
	Stock code: 600688
H Shares:	Hong Kong Stock Exchange
	Stock code: 338
ADRs:	New York Stock Exchange
	Stock code: SHI
	Ratio: 1 ADS=100 H Shares

Company Secretary

Zhang Jingming

Authorised Representatives

Rong Guangdao
Han Zhihao

Auditors

Domestic Auditors:
KPMG Huazhen
Certified Public Accountants
8th Floor, Office Tower 2
Oriental Plaza
No. 1, East Chang An Avenue, Beijing, PRC
Postal Code: 100738

International Auditors:
KPMG
Certified Public Accountants
8th Floor, Prince's Building, Central, Hong Kong

Solicitors

People's Republic of China:
Haiwen & Partners
Silver Tower
21/F
2, Dong San Huan Road
Chaoyang District, Beijing 100027, PRC

Hong Kong:
Freshfields Bruckhaus Deringer
11th Floor, Two Exchange Square
Central, Hong Kong

United States:
MORRISON & FOERSTER LLP
425 Market Street
San Francisco, California 94105-2482
U.S.A.

Principal Banks

China Construction Bank
Shanghai Branch, 79 Dianchi Road
Shanghai 200002, PRC

Industrial & Commercial Bank of China
Shanghai Branch, 9 Pudong Avenue, Pudong District
Shanghai 200002, PRC

Registrars

HKSCC Registrars Limited
2nd Floor, Vicwood Plaza
199 Des Voeux Road Central, Hong Kong

Depositary

The Bank of New York Mellon
Investor Services
P.O.Box 11258
Church Street Station
New York, NY 10286-1258

Toll Free Telephone Number for Domestic Callers:
1-888-BNY-ADRs

Number for International Calls:
1-201-680-6825
E-mail:shareowners@bankofny.com
Website:http://www.stockbny.com

Publications

The Company's interim and annual reports are published in September and April respectively. As required by the United States securities laws, the Company will file an annual report in Form 20-F with the Securities and Exchange Commission before 30 June.

Copies of the interim and annual reports as well as the Form 20-F, once filed, will be available at:

People's Republic of China:
Sinopec Shanghai Petrochemical Company Limited
Secretary Office of the Board of Directors
48 Jinyi Road, Jinshan District, Shanghai, PRC
Postal Code: 200540
Tel: (8621)5794 3143
Fax: (8621)5794 0050

Outside of PRC:
Rikes Communications Limited
Rm 1312, Wing On Centre 111 Connaught Road
Central Hong Kong
Tel: (852)2520 2201
Fax: (852)2520 2241

Documents for inspection

1. The financial statements signed and seal by the Company's Chairman and President, Vice Chairman and Vice President and Chief Financial Officer;

2. The original auditor's report signed by the auditors;

3. Original copies of all documents and announcements of the Company disclosed in newspapers designated by China Securities Regulatory Commission during the reporting period; and

4. The written confirmation issued by directors, supervisors and senior management.

Chairman: **Rong Guangdao**
Sinopec Shanghai Petrochemical Company Limited
7 April 2008

This annual report is published in both Chinese and English. Should any conflict regarding meaning arises, the Chinese version shall prevail.