

1. Background of the Company

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. SPC was under the direct supervision of China Petrochemical Corporation (“CPC”).

CPC finished its reorganisation on 25 February 2000. After the reorganisation, China Petroleum & Chemical Corporation (“Sinopec Corp”) was established. As a part of the reorganisation, CPC 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 9(d) “Long-term equity investments”.

2. Significant accounting policies

The significant accounting policies adopted in the preparation of the financial statements are in conformity with the Accounting Standards for Business Enterprises and “Accounting Regulations for Business Enterprises” and other relevant regulations issued by the MOF of the PRC.

(a) Accounting year

The accounting year of the Group is from 1 January to 31 December.

(b) Basis of consolidation

The Group prepared the consolidated financial statements according to “Accounting Regulations for Business Enterprises” and Cai Kuai Zi [1995] No.11 “Provisional regulations on consolidated financial statements” issued by the MOF.

The consolidated financial statements include the financial statements of the Company and all of its principal subsidiaries. Subsidiaries are those entities held by the Company, directly or indirectly, over 50% of the equity interests (not including 50%), or less than 50% but the Company has the power to effectively control the entities. The consolidated income statement of the Company only includes the results of subsidiaries during the period when the Company holds, directly or indirectly, over 50% of the equity interests or the Company has effective control over the subsidiaries. The effect of minority interests on equity and profit/loss attributable to minority interests are separately shown in the consolidated financial statements. For those subsidiaries whose assets and results of operation are not significant and have no significant effect on the Group’s consolidated financial statements, the Company does not consolidate these subsidiaries, but includes in the long-term equity investments.

Where the accounting policies adopted by the subsidiaries are different from the policies adopted by the Company, the financial statements of the subsidiaries have been adjusted in accordance with the accounting policies adopted by the Company on consolidation. All significant inter-company balances and transactions, and any unrealised gains arising from inter-company transactions, have been eliminated on consolidation.

(c) Basis of accounting and principle of valuation

The Group’s financial statements are prepared on an accrual basis under the historical cost convention, unless otherwise stated.

(d) Reporting currency and translation of foreign currencies

The Group’s financial statements are prepared in Renminbi. Foreign currency transactions during the year are translated into Renminbi at exchange rates quoted by the People’s Bank of China (“PBOC rates”) prevailing at the transaction dates. Foreign currency monetary assets and liabilities are translated into Renminbi at the PBOC rates at the balance sheet date. Exchange differences, other than those arising from foreign currency loans used to finance the construction of fixed assets (see note 2 (i)) before they are ready for their intended use are capitalised, are recognised as income or expenses in the income statement.

2. Significant accounting policies (continued)

(e) Cash equivalents

Cash equivalents are short-term and highly liquid investments which are readily convertible into known amounts of cash and are subject to an insignificant risk of change in value.

(f) Provision for bad debts

Trade accounts receivable showing signs of uncollectibility are identified individually and allowance is then made based on the probability of being uncollectible and the ageing analysis. Allowances for other receivables are determined based on the nature and corresponding collectibility.

(g) Inventories

Inventories, other than spare parts and consumables, are stated at the lower of cost and net realisable value. Difference between the cost and net realisable value of each category of inventories is recognised as provision for diminution in value of Inventories. Cost of inventories includes the cost of purchase of raw materials, processing and other costs. Inventories are measured at their actual cost upon acquisition. The cost of inventories is calculated using the weighted average method. In addition to the purchase cost of raw material, work in progress and finished goods include direct labour and an appropriate proportion of production overheads. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs and related taxes necessary to make the sales.

Spare parts and consumables are expensed when being consumed.

Inventories are recorded by perpetual method.

(h) Long-term equity investments

The Group's investments in the associates and the Company's investments in subsidiaries and associates are accounted for in the long-term equity investment using the equity method. Equity method is to recognise the initial investment costs, subsequently adjusted in accordance with the share of shareholders' equity in respective investee companies. Equity investments difference, which is the difference between investment cost and the share of shareholders' funds of the investee companies is accounted for as follow:

Any excess of the initial investment cost over the share of shareholders' equity of the investee is amortised on a straight-line basis. The amortisation period is determined according to the investment period as stipulated in the relevant agreement, or 10 years if the investment period is not specified in the agreement. The unamortised balance is included in long-term equity investment at period end.

2. Significant accounting policies (continued)

(h) Long-term equity investments (continued)

Any shortfall of the initial investment cost over the share of shareholders' funds of the investee is recognised in capital reserve – reserve for equity investment acquired after the issuance of Cai Kuai [2003] No.10 “Questions and answers on implementing Accounting Regulations for Business Enterprises and related accounting standards (II)”. If the investment was acquired before the issuance of Cai Kuai [2003] No.10 “Questions and answers on implementing Accounting Regulations for Business Enterprises and related accounting standards (II)”, such shortfall is amortised on a straight-line basis over the investment period as stipulated in the relevant agreement, or 10 years if the investment period is not specified in the agreement. The unamortised balance is included in long-term equity investments at the period end.

An associate is a company in which the Group holds, for long-term purposes, not less than 20% but not more than 50% of its equity interests and exercises significant influence in its management.

Long-term investments in entities in which the Group does not have control, joint control or does not exercise significant influence in their management are stated at cost. Investment income is recognised when an investee company declares cash dividend or distributes profit.

Disposals or transfers of long-term equity investments are recognised in the investment income / losses based on the difference between the disposal proceeds and the carrying amount of the investments.

The Group makes provision for impairment losses on long-term equity investments (see note 2(k)).

(i) Fixed assets and construction in progress

Fixed assets represent the assets held by the Group for production of products, providing service and administrative purpose with useful life over 1 year and comparatively high unit value.

Fixed assets are stated in the balance sheet at cost or revalued amount less accumulated depreciation and impairment losses (see note 2(k)). Construction in progress is stated in the balance sheet at cost less impairment losses (see note 2(k)). Valuation is carried out in accordance with the relevant rules and regulations in the PRC and fixed assets and construction in progress are adjusted to the revalued amounts accordingly.

All direct and indirect costs related to the purchase or construction of fixed assets, incurred before the assets are ready for its intended use, are capitalised as construction in progress. Those costs included borrowing costs, which include foreign exchange gains or losses on specific borrowings for the construction of the fixed assets during the construction period.

Construction in progress is transferred to fixed assets when the asset is ready for its intended use. No depreciation is provided in respect of construction in progress.

2. Significant accounting policies (continued)

(i) Fixed assets and construction in progress (continued)

Depreciation is provided to write off the cost of fixed assets over their estimated useful lives on a straight-line basis, after taking into account their estimated residual values.

The respective estimated useful lives, residual values and annual depreciation rates on fixed assets are as follows:

	Useful life	Residual value	Depreciation rate
Land and buildings	15 to 40 years	3%-5%	2.4%-6.5%
Plant, machinery, equipment and others	5 to 26 years	3%-5%	3.7%-19.4%

(j) Intangible assets

Intangible assets are carried in the balance sheet at cost or valuation less accumulated amortisation and provision for impairment losses (see note 2(k)). Amortisation is provided on a straight-line basis. Amortisation period is the shorter of the beneficial period as specified in the related agreement and the legal life of the intangible assets. Amortisation is provided over 10 years if it is not specified in agreements or stipulated by law.

(k) Provision for impairment

The carrying amounts of assets (including long-term equity investments, fixed assets, construction in progress, intangible assets and other assets) are reviewed regularly to determine whether their recoverable amounts have declined below their carrying amounts. 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. The amount by which the carrying amount is reduced is the impairment loss.

The recoverable amount is the greater of the net selling price and the present value of the estimated future cash flows arising from the continuous use of the asset and from the disposal of the asset at the end of its useful life.

Provision for impairment loss is calculated on an item by item basis and recognised as an expense in the income statement. However, when a deficit between the initial investment cost and the Group's share of the shareholders' funds of the investee enterprise has been credited to the capital reserve, any impairment losses for long-term equity investment are firstly set off against the difference initially recognised in the capital reserve relating to the investment and any excess impairment losses are then recognised in the income statement.

2. Significant accounting policies (continued)

(k) Provision for impairment (continued)

If there is an indication that there has been a change in the estimates used to determine the recoverable amount and as a result the estimated recoverable amount is greater than the carrying amount of the asset, the impairment loss recognised in prior years is reversed. Reversals of impairment losses are recognised in the income statement. Impairment losses are reversed to the extent of the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. In respect of the reversal of an impairment loss for a long-term equity investment, the reversal starts with the impairment losses that had previously been recognised in the income statement and then the impairment losses that had been charged to capital reserve.

(l) Taxation

The principal taxes and the related rates are as follows:

(i) Income tax

Income tax is the provision for income tax recognised in the income statement for the period using the tax-effect accounting method. It comprises current and deferred tax.

Current tax

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.

Pursuant to the relevant PRC tax regulations, the income tax rate applicable to the Company is 15% in 2005. Except for the subsidiaries granted with tax concessions as set out in the below table, the subsidiaries are subject to 33% income tax pursuant to the relevant PRC tax regulations.

2. Significant accounting policies (continued)

(I) Taxation (continued)

The subsidiaries granted with tax concession are set out below:

Name of subsidiaries	Applicable tax rate	Reasons for granting concession
Shanghai Jindong Petrochemical Industrial Company Limited	15%	Preferential tax rate at Pudong new district
Shanghai Golden Phillips Petrochemical Company Limited	27%	A Sino-foreign Joint-equity manufacturing enterprise in old urban district
Shanghai Jinhua Industrial Company Limited	15%	Preferential tax rate at Pudong new district
Shanghai Golden Way 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
SPC Marketing Development Corporation	15%	Preferential tax rate at Pudong new district

Deferred tax

Deferred tax is provided using the liability method, for timing differences between accounting profit before tax and the taxable income arising from the differences in the tax and accounting treatment of income and expenses or loss. When the tax rate changes or a new type of tax is levied, no adjustment is made to the amounts originally recognised for the timing differences under the deferral method. The original tax rates are used in arriving at the reversal amounts when the timing differences are reversed.

The tax value of losses expected to be available for utilisation against future taxable income is set off against the deferred tax liability within the same legal tax unit and jurisdiction. A valuation allowance is provided for the tax value of losses to reduce the deferred tax asset to the amount that is more likely than not to be realised through future taxable income.

(ii) Value-added tax ("VAT")

The VAT rate applicable to the Group is 17%.

(iii) Consumption tax

Pursuant to the relevant PRC tax regulations, the Group's sales of gasoline and diesel oil are subject to the consumption tax at a rate of RMB277.6 per tonne and RMB117.6 per tonne respectively.

2. Significant accounting policies (continued)

(m) Provisions and contingent liabilities

Provisions are recognised when the Group has a present obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligations and a reliable estimate can be made.

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 cannot be estimated reliably, the obligation is disclosed as a contingent liability.

(n) Deferred income

Deferred income is amortised to the income statement on a straight-line basis over 10 years.

(o) Revenue recognition

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyer. 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 the rendering of services is recognised upon performance of the services.

Interest income is recognised on a time apportioned basis by reference to the principal outstanding and the rate applicable.

(p) Repairs and maintenance expenses

Repairs and maintenance expenses are recognised as expenses in the period in which they are incurred.

(q) Research and development costs

Research and development costs are recognised as expenses in the period in which they are incurred.

2. Significant accounting policies (continued)

(r) Borrowing cost

Borrowing costs incurred on specific borrowings for the construction of fixed assets are capitalised into the cost of the fixed assets during the construction period which brings the assets to their intended uses.

Except for the above, other borrowing costs are recognised as financial expenses in the income statement when incurred.

(s) Retirement benefits

Pursuant to the relevant laws and regulations in the PRC, the Group has joined a defined contribution retirement plan for the employees arranged by a governmental organisation. The Group makes contributions to the retirement scheme at the applicable rate(s) based on the employees' salaries. The required contributions under the retirement plans are charged to the income statement on an accrual basis. After contribution made to the retirement scheme, the company has no other payment obligation. Further information is set out in note 32.

(t) Profit distribution and dividends

Profit distribution is made in accordance with the relevant rules and regulations set out in the Company Law of the PRC and the Articles of Association of the Company and its subsidiaries.

Dividends appropriated to shareholders are recognised in the profit appropriation statement when approved. Dividends proposed or approved after the balance sheet date but before the date on which the financial statements are authorised for issue are separately disclosed under shareholders' equity on the balance sheet.

(u) Related parties

Parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to 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 or entities.

Notes to the Financial Statements (continued)

(Prepared under PRC Accounting Rules and Regulations)

3. Cash at bank and in hand

The Group's and the Company's cash at bank and in hand as at 31 December are analysed as follows:

	31 December 2005	The Group			The Company		
		Exchange rate	Original currency '000	2005 RMB'000	2004 RMB'000	Original currency '000	2005 RMB'000
Cash in hand							
Renminbi			185	327		107	174
Cash at bank							
Renminbi			1,062,457	1,281,744		603,235	863,500
Hong Kong Dollars	1.0403	44,309	46,095	39,656	35,530	36,962	36,729
United States Dollars	8.0702	6,856	55,329	118,173	53	428	11,927
Swiss Francs	6.1375	129	792	944	129	792	944
Euro	9.5797	116	1,111	1,181	-	-	-
Japan	0.0687	24	2	37	-	-	-
Cash at bank and in hand			1,165,971	1,442,062		641,524	913,274
Deposits at related party (note 31(f))							
Renminbi			181,266	252,438		180,040	250,125
			1,347,237	1,694,500		821,564	1,163,399

Deposits at related party represent bank deposits placed at Sinopec Finance Company Limited. Deposits interest is calculated at market rate.

Notes to the Financial Statements (continued)

(Prepared under PRC Accounting Rules and Regulations)

4. Bills receivable

	The Group		The Company	
	2005 RMB'000	2004 RMB'000	2005 RMB'000	2004 RMB'000
Bank bills	709,027	1,695,577	497,954	1,556,250
Commercial bills	30,767	13,215	20,000	-
Total	739,794	1,708,792	517,954	1,556,250

Bills receivable are due in six months. As at 31 December 2005, there are no significant bills receivable at discount or pledged.

Except for the balances disclosed in note 31(e), there is no amount due from major shareholders who held 5% or more shareholding included in the above balance.

5. Trade debtors

	The Group							
	2005				2004			
	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	513,350	90.08	504	0.10	587,441	90.67	1,762	0.30
Between one and two years	31,252	5.48	43	0.14	17,404	2.69	486	2.79
Between two and three years	3,918	0.69	3,918	100.00	9,142	1.41	9,142	100.00
Over three years	21,380	3.75	21,380	100.00	33,892	5.23	33,892	100.00
Total	569,900	100.00	25,845		647,879	100.00	45,282	
Trade debtors, net	544,055				602,597			

	The Company							
	2005				2004			
	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	369,390	89.85	-	0.00	440,173	93.77	1,243	0.28
Between one and two years	21,050	5.12	-	0.00	11,031	2.35	151	1.37
Between two and three years	3,774	0.92	3,774	100.00	2,784	0.59	2,784	100.00
Over three years	16,917	4.11	16,917	100.00	15,432	3.29	15,432	100.00
Total	411,131	100.00	20,691		469,420	100.00	19,610	
Trade debtors, net	390,440				449,810			

Notes to the Financial Statements (continued)

(Prepared under PRC Accounting Rules and Regulations)

5. Trade debtors (continued)

	The Group		The Company	
	2005 RMB'000	2004 RMB'000	2005 RMB'000	2004 RMB'000
Bad debt provision				
Balance at the beginning of the year	45,282	39,811	19,610	33,091
Additions for the year	13,683	22,814	13,683	3,862
Provision written off	(33,120)	(17,343)	(12,602)	(17,343)
Balance at the end of the year	25,845	45,282	20,691	19,610

The aggregate amount and proportion of the five largest trade debtors at 31 December 2005 are shown below:

	2005 RMB'000	2004 RMB'000
Amount	302,461	207,923
Percentage of total trade debtors	53.07%	32.09%

Except for balances disclosed in Note 31 (e), there is no amount due from major shareholders who held 5% or more shareholding included in the above balance.

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 2005, the Group and the Company did not have individually significant trade debtors that aged over three years.

6. Other debtors

	The Group							
	2005				2004			
	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	486,398	84.54	5,000	1.03	584,442	92.92	1,217	0.21
Between one and two years	64,532	11.22	9	0.01	9,090	1.44	223	2.45
Between two and three years	7,335	1.27	-	-	7,983	1.27	502	6.29
Over three years	17,091	2.97	3,116	18.23	27,458	4.37	7,750	28.22
Total	575,356	100.00	8,125		628,973	100.00	9,692	
Other debtors, net	567,231				619,281			

Notes to the Financial Statements (continued)

(Prepared under PRC Accounting Rules and Regulations)

6. Other debtors (continued)

	The Company							
	2005				2004			
	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	617,691	91.40	-	-	710,330	96.76	956	0.13
Between one and two years	46,486	6.88	-	-	4,268	0.58	153	3.58
Between two and three years	675	0.10	-	-	283	0.04	6	2.12
Over three years	10,924	1.62	2,422	22.17	19,224	2.62	3,240	16.85
Total	675,776	100.00	2,422		734,105	100.00	4,355	
Other debtors, net	673,354				729,750			

Bad debt provision

	The Group		The Company	
	2005 RMB'000	2004 RMB'000	2005 RMB'000	2004 RMB'000
Balance at the beginning of the year	9,692	6,676	4,355	4,355
Additions for the year	366	3,016	-	-
Provision writren off	(1,933)	-	(1,933)	-
Balance at the end of the year	8,125	9,692	2,422	4,355

The aggregate amount and proportion of the five largest other debtors at 31 December 2005 are shown below:

	2005 RMB'000	2004 RMB'000
Amount	361,129	106,142
Percentage of total other debtors	62.77%	16.88%

Except for balances disclosed in Note 31(e), there is no amount due from major shareholders who held 5% or more shareholding included in the above balance.

During the year, the Group and the Company had no individually significant write off or write back of doubtful debts which have been fully or substantially provided for in prior years. At 31 December 2005, the Group and the Company did not have individually significant other debtors that aged over three years.

7. Advance payments

All advance payments are within one year.

Except for the balances disclosed in Note 31(e), there is no amount due from major shareholders who held 5% or more shareholding included in the balance of advance payments.

Notes to the Financial Statements (continued)

(Prepared under PRC Accounting Rules and Regulations)

8. Inventories

	The Group				The Company			
	2005		2004		2005		2004	
	Provision for diminution in		Provision for diminution in		Provision for diminution in		Provision for diminution in	
	Amount	value	Amount	value	Amount	value	Amount	value
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
Raw materials	1,050,904	-	1,163,508	-	829,000	-	934,855	-
Work in progress	1,592,298	-	1,340,643	-	1,505,739	-	1,268,444	-
Finished goods	895,951	-	761,861	3,780	719,040	-	606,423	-
Spare parts and consumables	625,895	50,070	518,407	52,890	533,078	49,186	454,443	47,550
Total	4,165,048	50,070	3,784,419	56,670	3,586,857	49,186	3,264,165	47,550
Inventories, net	4,114,978		3,727,749		3,537,671		3,216,615	

Provision for diminution in value of inventories is analysed as follows:

	The Group				The Company			
	2005		2004		2005		2004	
	Spare parts		Spare parts		Spare parts		Spare parts	
	Finished goods	and consumables	Finished goods	and consumables	Finished goods	and consumables	Finished goods	and consumables
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
At 1 January	3,780	52,890	3,897	64,614	-	47,550	1,415	62,385
Additions	-	1,636	3,780	670	-	1,636	-	-
Transfer out due to sales	(3,780)	(4,456)	(3,897)	(12,394)	-	-	(1,415)	(14,835)
At 31 December	-	50,070	3,780	52,890	-	49,186	-	47,550

All inventories were acquired through purchase or production.

	The Group		The Company	
	2005	2004	2005	2004
	RMB'000	RMB'000	RMB'000	RMB'000
Cost of inventories recognised as cost and expense:	41,605,113	32,009,082	38,598,193	28,251,458

Notes to the Financial Statements (continued)

(Prepared under PRC Accounting Rules and Regulations)

9. Long-term equity investments

	The Group						
	Interests in	Equity	Interests in	Other	Total before	Provision	Total
	associates	investment	non-consolidated	unlisted	provision	for impairment	
	(Note(a))	differences	subsidiaries	investments		losses	(Note(f))
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	Balance at 1 January 2005	2,258,863	(272,549)	274,623	416,163	2,677,100	(61,750)
Additions for the year	294,668	-	60,498	70,704	425,870	-	425,870
Share of profits less losses from investments accounted for under the equity method	(151,574)	-	-	-	(151,574)	-	(151,574)
Dividend receivable / received	(2,401)	-	-	-	(2,401)	-	(2,401)
Disposals for the year	(8,753)	-	(8,606)	(91,791)	(109,150)	-	(109,150)
Amortisation for the year	-	10,849	-	-	10,849	-	10,849
Movement of provision for impairment losses	-	-	-	-	-	5,522	5,522
Balance at 31 December 2005	2,390,803	(261,700)	326,515	395,076	2,850,694	(56,228)	2,794,466

	The Company				
	Interests in	Equity	Interests in	Other	Total
	associates	investment	consolidated	unlisted	
	(Note(a))	differences	subsidiaries	investments	(Note(e))
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	Balance at 1 January 2005	2,121,384	(272,549)	2,090,849	164,772
Additions for the year	288,213	-	345,541	3,964	637,718
Share of profits less losses from investments accounted for under the equity method	(152,144)	-	204,178	-	52,034
Dividend receivable / received	(2,401)	-	(150,137)	-	(152,538)
Disposals for the year	-	-	(27,534)	(61,079)	(88,613)
Amortisation for the year	-	10,849	-	-	10,849
Balance at 31 December 2005	2,255,052	(261,700)	2,462,897	107,657	4,563,906

9. Long-term equity investments (continued)

- (a) The particulars of the associates, which are limited companies established and operating in the PRC, which principally affected the results or assets of the Group at 31 December 2005 are as follows:

Company	Registered capital '000	Percentage of equity		Principal activities
		held by the Company %	held by subsidiaries %	
Shanghai Jinsen Hydrocarbon Resins Company Limited	US\$23,395	-	40	Production of resins products
Shanghai Jinpu Plastics Packaging Material Company Limited	US\$20,204	-	50	Production of polypropylene film
Shanghai Secco Petrochemical Company Limited	US\$901,441	20	-	Manufacturing and distribution of chemical products
Shanghai Chemical Industry Park Development Company Limited	RMB2,372,439	38.26	-	Planning, development and operation of the Chemical Industry Park in Shanghai, PRC

- (b) Equity investment difference

Investments	Initial investment RMB'000	Amortisation period	1 January 2005 RMB'000	Disposal during the year RMB'000	31 December 2005 RMB'000	Reason
Shanghai Chemical Industry Park Development Co., Ltd	(300,000)	30 years	(270,000)	10,000	(260,000)	Investment in associate
Shanghai Jindong Petrochemical Industrial Company Limited	(8,492)	10 years	(2,549)	849	(1,700)	Investment in subsidiary
Total	(308,492)		(272,549)	10,849	(261,700)	

The "equity investment difference" is amortised on a straight-line basis over 10 and 30 years. The remaining period of amortisation is 2 to 26 years.

- (c) Interests in non-consolidated subsidiaries represent the Company's interests in these subsidiaries which do not principally affect the results or assets of the Group and, therefore, are not consolidated. These interests are accounted for under cost method.

9. Long-term equity investments (continued)

- (d) The particulars of subsidiaries which principally affected the results or assets of the Group, at 31 December 2005 are as follows:

Company	Place of incorporation	Registered capital '000	Percentage of equity		Principal activities
			held by the Company %	held by subsidiaries %	
Shanghai Petrochemical Investment Development Company Limited	PRC	RMB 800,000	100	-	Investment management
China Jinshan Associated Trading Corporation (Note 1)	PRC	RMB 25,000	67.33	-	Import and export of petrochemical products and equipment
SPC Marketing Development Corporation (Note 2)	PRC	RMB 25,000	100	-	Trading in petrochemical products
Shanghai Jinhua Industrial Company Limited	PRC	RMB 25,500	-	81.79	Trading in petrochemical products
Shanghai Jindong Petrochemical Industrial Company Limited	PRC	RMB 20,000	-	60	Trading in petrochemical products
Shanghai Golden Way Petrochemical Company Limited	PRC	US\$ 3,460	-	75	Production of vinyl acetate products
Shanghai Jinchang Engineering Plastics Company Limited	PRC	US\$ 4,750	-	50.38	Production of polypropylene products
Shanghai Golden Phillips Petrochemical Company Limited	PRC	US\$ 50,000	-	60	Production of polyethylene products
Zhejiang Jin Yong Acrylic Fibre Company Limited	PRC	RMB 250,000	75	-	Production of acrylic fibre products
Shanghai Petrochemical Enterprise Development Company Limited	PRC	RMB 455,000	100	-	Investment management
Shanghai Golden Conti Petrochemical Company Limited	PRC	RMB 545,776	-	100	Production of Petrochemical products

None of these subsidiaries have issued any debt securities.

Note 1 : On 24 October 2005, the Company transferred 12.67% shareholdings in China Jinshan Associated Trading Corporation to China Petrochemical International Company Limited. The Company held 67.33% shareholdings in Jinshen Associated Trading Corporation as at 31 December 2005.

Note 2: As at 31 December 2005, SPC marketing Development Corporation ("SPMD") has completed liquidation. Its liquidation loss has been recognised in the Group's consolidated income statement for the year ended 31 December 2005 and included in the Group's consolidated balance sheet as at 31 December 2005. The assets and liabilities of SPC Marketing Development Corporation have no material effect on the financial position of the Group.

9. Long-term equity investments (continued)

- (e) The Group's other unlisted investments include non-controlling equity investments in various enterprises which are mainly engaged in manufacturing or trading activities related to the Group's operations. The Group's share of results attributable to these interests during the year ended 31 December 2005 is not material in relation to the profit of the Group for the said period and therefore is not equity accounted for.
- (f) Provision for impairment losses is analysed as follows:

	The Group	
	2005 RMB'000	2004 RMB'000
Balance at 1 January	61,750	31,788
Provision for the year	-	36,276
Transfer out due to sales	(5,522)	(1,000)
Written back for the year	-	(5,314)
Balance at 31 December	56,228	61,750

- (g) Major investment changes

At 31 December 2005, details of principal equity investment changes of the Group are as follows:

Name of investee	Investment terms	Percentage of equity interest held by the Group	Balance at 1 January 2005	Addition for the year	Share of profits/ (losses) accounted for under the equity method	Amortisation of equity investment differences	Dividends received	Balance at
								31 December 2005
			RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Shanghai Chemical Industry Park Development Company Limited	30 years	38%	650,878	-	-	10,000	(2,401)	658,477
Shanghai Secco Petrochemical Company Limited	50 years	20%	1,200,505	288,213	(152,144)	-	-	1,336,574
Shanghai Jinpu Plastics Packaging Material Company Limited	30 years	50%	93,405	-	(4,273)	-	-	89,132
Shanghai Jinsen Petrochemical Company Limited	40 years	40%	37,144	6,455	3,021	-	-	46,620

9. Long-term equity investments (continued)

(g) Major investment changes (continued)

No provision for impairment losses was made for the long-term equity investments as set out above.

(h) At 31 December 2005, the Company's proportion of the total investments to the net assets was 23.81% (2004: 21.71%).

At 31 December 2005, the Group's proportion of the total investments to the net assets was 14.87% (2004: 14.15%).

10. Fixed assets

(a) The Group

	Land and buildings RMB'000	Plant, machinery, equipment and other fixed assets RMB'000	Total RMB'000
Cost or valuation:			
At 1 January 2005	6,723,530	26,180,679	32,904,209
Additions	-	164,821	164,821
Transferred from construction in progress (Note 12)	231,316	784,432	1,015,748
Disposals	(72,754)	(134,449)	(207,203)
At 31 December 2005	6,882,092	26,995,483	33,877,575
Accumulated depreciation:			
At 1 January 2005	2,987,597	13,177,116	16,164,713
Charge for the year	204,693	1,537,807	1,742,500
Written back on disposals	(55,363)	(95,094)	(150,457)
At 31 December 2005	3,136,927	14,619,829	17,756,756
Less : Provision for impairment losses:			
At 1 January 2005	-	58,945	58,945
Charge for the year	-	-	-
At 31 December 2005	-	58,945	58,945
Net book value:			
At 31 December 2005	3,745,165	12,316,709	16,061,874
At 31 December 2004	3,735,933	12,944,618	16,680,551

10. Fixed assets (continued)

(b) The Company

	Land and buildings	Plant, machinery, equipment and other fixed assets	Total
	RMB'000	RMB'000	RMB'000
Cost or valuation:			
At 1 January 2005	5,541,168	23,442,352	28,983,520
Additions	-	146,789	146,789
Transferred from construction in progress (Note 12)	203,720	760,382	964,102
Disposals	(84,934)	(43,788)	(128,722)
At 31 December 2005	5,659,954	24,305,735	29,965,689
Accumulated depreciation:			
At 1 January 2005	2,621,322	11,727,293	14,348,615
Charge for the year	167,232	1,361,706	1,528,938
Written back on disposals	(75,809)	(25,982)	(101,791)
At 31 December 2005	2,712,745	13,063,017	15,775,762
Less : Provision for impairment losses:			
At 1 January 2005	-	58,945	58,945
Charge for the year	-	-	-
At 31 December 2005	-	58,945	58,945
Net book value:			
At 31 December 2005	2,947,209	11,183,773	14,130,982
At 31 December 2004	2,919,846	11,656,114	14,575,960

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

- (c) Due to change in market demand, the product specifications and economic efficiency of the production facility of Dupont cannot meet the market development. On 31 December 2004, the Company has made a provision for impairment losses of RMB 58,945,000 for this production facility. The management of the Group reviewed the fixed assets as at 31 December 2005 and no significant impairment loss needed to be made.
- (d) At 31 December 2005, the cost of the Group's fully depreciated fixed assets was RMB 6,586,187,754 (2004: RMB 6,133,235,399).
- (e) At 31 December 2005 and 2004, no property, plant and equipment were pledged by the Group.

Notes to the Financial Statements (continued)

(Prepared under PRC Accounting Rules and Regulations)

11. Construction materials

	The Group		The Company	
	2005	2004	2005	2004
	RMB'000	RMB'000	RMB'000	RMB'000
Equipment & accessories	-	20,226	-	20,226

12. Construction in progress

	The Group		The Company	
	2005	2004	2005	2004
	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January	763,450	374,780	708,089	351,480
Additions	1,006,490	1,885,181	966,281	1,786,574
Transferred to fixed assets (Note 10)	(1,015,748)	(1,496,511)	(964,102)	(1,429,965)
Balance at 31 December	754,192	763,450	710,268	708,089

At 31 December 2005, major projects of the Group are as follows:

Project	Budgeted amounts	At 1 January		Transfer to fixed assets	At 31 December		Interest capitalised during the year
		2005	Addition		2005	Stage of completion	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
380,000-tonnes Ethylene glycol project	1,249,000	63	181,102	-	181,165	15%	-
Enhanced project on diesel productions facilities	528,000	-	107,552	-	107,552	20%	-
Chemical storage safety restructuring project	28,000	180	25,015	-	25,195	90%	-
PSA Hydrogen purification project	21,000	-	20,746	-	20,746	99%	-
Catalyzer testing project	50,000	20,060	3,343	-	23,403	47%	-

All the above projects were made out of funds other than proceeds from subscription.

13. Intangible assets

	The Group and the Company	
	2005 RMB'000	2004 RMB'000
Cost:		
At 1 January	134,482	134,482
Less:		
Accumulated amortisation		
At 1 January	112,067	98,619
Addition	13,448	13,448
At 31 December	125,515	112,067
Net book value:		
At 31 December	8,967	22,415

On 16 August 1996, the Company acquired the equity interest in Shanghai Jinyang Acrylic Fibre Plant ("Jinyang") for consideration of RMB 38,800,000 satisfied in cash. Equity investment difference of RMB 134,482,000 on acquisition has been recognised in the accounts. Such equity investment difference is amortised over 10 years which was the then remaining economic useful life of the related plants of the subsidiary.

In 2002, Jinyang was deregistered and all its operations, assets and liabilities were transferred to the Company of carrying value. Accordingly, Jinyang has changed from a wholly owned subsidiary to a division of the Company. Since there is no investment in subsidiary after the deregistration of Jinyang, the unamortised amount of the equity investment difference was transferred to intangible assets and will be amortised over its remaining useful life.

14. Taxation

(a) Taxation in the income statement represents:

	The Group		The Company	
	2005	2004	2005	2004
	RMB'000	RMB'000	RMB'000	RMB'000
Provision for PRC income tax for the year	340,532	725,897	291,210	656,313
Deferred taxation	21,204	(16,589)	19,916	(15,301)
	361,736	709,308	311,126	641,012
Tax refund	–	(75,579)	–	(75,579)
	361,736	633,729	311,126	565,433

The charge for PRC income tax is calculated at the rate of 15% (2004: 15%) on the estimated assessable profits of the year determined in accordance with relevant income tax rules and regulations.

The Company has not received notice from Ministry of Finance that the 15% tax rate will be revoked in 2005. It is possible that the Company's tax rate will increase in the future. However, the Company continues to use the 15% tax rate in 2005.

Pursuant to the document "Cai Shui Zi (1999) No.290" issued by the MOF and the State Administration of Taxation of the PRC on 8 December 1999, the Company received an income tax refund of RMB 75,579,000 during the year of 2004 relating to the purchase of equipment manufactured in the PRC for technological improvements. In 2005, the Company didn't receive such income tax refund.

(b) Taxes payable in the balance sheet represents:

	The Group		The Company	
	2005	2004	2005	2004
	RMB'000	RMB'000	RMB'000	RMB'000
Income tax	(18,786)	71,675	(45,374)	50,276
VAT	125,720	121,101	111,595	114,622
Consumption tax	52,188	40,048	52,188	40,048
Business tax	2,525	3,346	645	1,173
Other taxes	21,673	23,941	19,122	21,940
	183,320	260,111	138,176	228,059

Notes to the Financial Statements (continued)

(Prepared under PRC Accounting Rules and Regulations)

14. Taxation (continued)

(c) Deferred tax assets

	The Group		The Company	
	2005	2004	2005	2004
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January	41,442	24,853	40,154	24,853
Provision for inventories and bad debts	(21,204)	11,437	(19,916)	10,149
Provision for impairment losses of fixed assets	-	5,152	-	5,152
At 31 December	20,238	41,442	20,238	40,154

There is no significant deferred tax liability not provided for in the financial statements.

15. Short-term loans

Short-term loans of the Group and the Company include:

	The Group		The Company	
	2005	2004	2005	2004
	RMB'000	RMB'000	RMB'000	RMB'000
Short-term bank loans	2,523,537	3,612,727	2,295,195	3,034,556
Short-term loans with related party (Note 31(g))	30,000	130,000	-	-
	2,553,537	3,742,727	2,295,195	3,034,556

No bank loans were secured at 31 December 2005 and 31 December 2004.

All short-term loans are unsecured loans without guarantee and payable in full when due. The weighted average interest rate of short-term loans of the Group was 4.53% (2004: 3.56%) at 31 December 2005.

As at 31 December 2005 and 31 December 2004, the Group and the Company had no significant overdue short-term loan.

Except for the balances disclosed in note 31(g), there is no amount due from major shareholders who held 5% or more shareholding included in the above balance.

16. Trade creditors, bills payable, receipts in advance and other payables

There are no significant trade creditors and other payables aged over 3 years.

There is 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 3 to 6 months.

Except for the balances disclosed in Note 31(e), there is no amount due to shareholders who held 5% or more shareholding included in the balance of trade creditors, bills payable, receipts in advance and other payables.

Ageing analysis of trade creditors is as follows:

	The Group			
	2005		2004	
	Amount RMB'000	Proportion %	Amount RMB'000	Proportion %
Within three months	905,469	91.63	832,874	91.33
Between three and six months	47,726	4.83	52,682	5.78
Over six months	35,001	3.54	26,384	2.89
	988,196	100.00	911,940	100.00

	The Company			
	2005		2004	
	Amount RMB'000	Proportion %	Amount RMB'000	Proportion %
Within three months	550,655	92.27	697,520	98.50
Between three and six months	14,519	2.43	908	0.13
Over six months	31,608	5.30	9,723	1.37
	596,782	100.00	708,151	100.00

17. Dividend payable

Pursuant to the shareholders' approval at the Annual General Meeting on 28 June 2005, a final dividend of RMB 0.20 per share totalling RMB 1,440,000,000 (2003: RMB 0.08 per share totalling RMB 576,000,000) in respect of the year ended 31 December 2004 was approved. During the year ended 31 December 2005, dividend of RMB 1,440,000,000 was paid to shareholders.

18. Accrued expenses

At 31 December 2005, the Group's and the Company's accrued expenses primarily represented accrued interest expenses.

19. Long-term loans and current portion of long-term loans

	The Group		The Company	
	2005 RMB'000	2004 RMB'000	2005 RMB'000	2004 RMB'000
Between one and two years	630,817	1,430,178	397,112	1,404,899
Between two and three years	776,328	456,580	741,123	431,300
Between three and five years	50,410	62,297	-	7,738
After five years	19,706	65,559	15,000	15,000
	1,477,261	2,014,614	1,153,235	1,858,937
Current portion of long-term loans	1,373,205	1,257,578	1,340,000	1,114,899
	2,850,466	3,272,192	2,493,235	2,973,836