

Notes to the Financial Statements (continued)

(Prepared under PRC Accounting Rules and Regulations)

19. 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 2005	Original currency '000	2005 Exchange rate	The Group		The Company	
					2005 RMB'000	2004 RMB'000	2005 RMB'000	2004 RMB'000
Arranged by Central Treasury of the Company:								
U.S. Dollar denominated:								
Due in 2007	Floating	4.42%	49,207	8.0702	397,112	416,402	397,112	416,402
Payable semi-annually through 2008(Note(a))	Fixed	1.80%	5,096	8.0702	41,123	52,434	41,123	52,434
Renminbi denominated:								
Due in 2005	Fixed	4.94%-5.58%			-	1,100,000	-	1,100,000
Due in 2006	Fixed	5.18%-5.56%			1,220,000	1,220,000	1,220,000	1,220,000
Due in 2006	Fixed	5.18%			120,000	170,000	120,000	170,000
Due in 2008	Fixed	5.18%			700,000	-	700,000	-
Other loans due in 2015	-	Interest free			15,000	15,000	15,000	15,000
Arranged by subsidiaries:								
U.S. Dollar denominated:								
Payable annually through 2011	-	Interest free	2,160	8.0702	17,431	20,856	-	-

Notes to the Financial Statements (continued)

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19. Long-term loans and current portion of long-term loans (continued)

Long-term loans are analysed as follows: (continued)

Repayment terms and last payment date	Interest type	Interest rate at 31 December 2005	Original currency '000	2005 Exchange rate	The Group		The Company	
					2005	2004	2005	2004
					RMB'000	RMB'000	RMB'000	RMB'000
Renminbi denominated:								
Payable annually from 2001 through 2005	-	Interest free	-	-	7,400	-	-	-
Due in 2008	Fixed	5.184%	110,000	-	-	-	-	-
Payable annually through 2010	-	Interest free	102,500	-	123,000	-	-	-
Due in 2006 and after	Fixed	5.184%-5.58%	116,500	-	134,500	-	-	-
Payable annually through 2011 and after	-	Interest free	10,800	-	12,600	-	-	-
Total long-term loans outstanding					2,850,466	3,272,192	2,493,235	2,973,836
Less: Amounts due within one year					(1,373,205)	(1,257,578)	(1,340,000)	(1,114,899)
Amounts due after one year					1,477,261	2,014,614	1,153,235	1,858,937

Note(a): Guaranteed by China Petrochemical Corporation

Except for loans indicated as guaranteed, all loans are unsecured loans without guarantee.

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

20. Other long-term liabilities

Deferred income

	The Group	
	2005 RMB'000	2004 RMB'000
Cost:		
At 1 January and at 31 December	115,177	115,177
Accumulated amortisation:		
At 1 January	80,626	69,108
Amortisation for the year	11,518	11,518
At 31 December	92,144	80,626
Net book value:		
At 31 December	23,033	34,551

In 1998, the Group obtained the assets, liabilities and employees of certain businesses and various other net assets from the community of Jinshanwei without monetary consideration. The value of net assets obtained amounted to RMB 115,177,000 and was recorded as deferred income in the consolidated financial statements.

21. Share capital

	The Group and the Company	
	2005 RMB'000	2004 RMB'000
Registered capital:		
4,870,000,000 A shares of RMB 1 each	4,870,000	4,870,000
2,330,000,000 H shares of RMB 1 each	2,330,000	2,330,000
	7,200,000	7,200,000
Issued and paid up capital		
Shares not in trade:		
4,150,000,000 A shares of RMB 1 each		
of which:		
Domestic legal persons shares	4,150,000	4,150,000
Total shares not in trade	4,150,000	4,150,000
Shares in trade:		
720,000,000 A shares of RMB 1 each		
2,330,000,000 H shares of RMB 1 each		
of which:		
RMB ordinary A shares listed in the PRC	720,000	720,000
Foreign investment H shares listed overseas	2,330,000	2,330,000
Total shares in trade	3,050,000	3,050,000
Total share capital	7,200,000	7,200,000

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.

Notes to the Financial Statements (continued)

(Prepared under PRC Accounting Rules and Regulations)

22. Capital reserves

	The Group and the Company	
	2005 RMB'000	2004 RMB'000
Balance at 1 January and 31 December	2,856,278	2,856,278

	Note	The Group and the Company	
		2005 RMB'000	2004 RMB'000
Share premium		2,420,841	2,420,841
Safety fund	(a)	4,180	4,180
Valuation surplus	(b)	44,887	44,887
Government grants	(c)	386,370	386,370
Total		2,856,278	2,856,278

(a) The safety fund represents gifts or grants received from China Petrochemical Corporation for enhancement of production safety.

(b) Valuation surplus represents the excess of fair value over the carrying value of assets given up in exchange for investments.

(c) Government grants represent grants received for the purchase of equipment used for technology improvements.

23. Surplus reserves

	Note	The Group and the Company				Total RMB'000
		Statutory surplus reserve RMB'000	Statutory public welfare fund RMB'000	General surplus reserve RMB'000	Discretionary surplus reserve RMB'000	
Balance at 1 January 2004		1,060,664	978,575	82,089	1,280,514	3,401,842
Transferred from the income statement		397,127	397,127	-	-	794,254
Balance at 1 January 2005		1,457,791	1,375,702	82,089	1,280,514	4,196,096
Transferred from the income statement	(a)	170,463	170,463	-	-	340,926
Balance at 31 December 2005		1,628,254	1,546,165	82,089	1,280,514	4,537,022

23. Surplus reserves (continued)

- (a) Pursuant to resolution of the Board, the Company transfer the following proportion of net profit to the surplus reserve for the year ended 31 December 2005:
- | | |
|------------------------------------|-----|
| (i) Statutory surplus reserve | 10% |
| (ii) Statutory public welfare fund | 10% |

24. Income from principal operations/cost of sales

The Group's principal activity is the processing of crude oil into petrochemical products for sale. The Group's income from principal activity and cost of sales represent income received and cost incurred in relation to above activity. The Group's segment information is set out in Note 36. The Group's most products are sold in domestic market.

Income from principal operations represents the invoiced value of goods sold to customers, net of VAT.

For the year 2005, total sales and proportion to top five customers are as follow:

	2005 RMB'000	2004 RMB'000
Amount	19,267,661	15,673,440
Percentage of total sales	41.98%	39.78%

25. Sales taxes and surcharges

	The Group		The Company	
	2005 RMB'000	2004 RMB'000	2005 RMB'000	2004 RMB'000
Consumption tax	585,916	508,648	585,916	508,648
City construction tax	128,689	157,759	122,903	152,904
Education surcharge and others	51,084	72,067	50,574	65,530
	765,689	738,474	759,393	727,082

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.

Notes to the Financial Statements (continued)

(Prepared under PRC Accounting Rules and Regulations)

26. Financial expenses

	The Group		The Company	
	2005	2004	2005	2004
	RMB'000	RMB'000	RMB'000	RMB'000
interest expenses	309,357	348,834	265,599	292,309
Interest income	(39,631)	(42,830)	(32,209)	(32,637)
Net exchange (gain) / loss	(57,145)	9,805	(51,451)	7,076
Total	212,581	315,809	181,939	266,748

27. Investment income

	The Group		The Company	
	2005	2004	2005	2004
	RMB'000	RMB'000	RMB'000	RMB'000
Cost method	77,287	45,599	18,907	27,689
Share of profit of subsidiaries	-	-	204,178	218,294
Share of loss of associates	(151,574)	(5,769)	(152,144)	-
Investment differences	10,849	10,849	10,849	10,849
Net gain on transfer of investment	24,063	21,860	24,063	-
Total	(39,375)	72,539	105,853	256,832

28. Subsidy income

The Group received a cash government grant from the Ministry of Finance of the PRC of RMB 632,820,000 in respect of the distortion of the correlation of domestic refined petroleum product prices and the crude oil prices during the year ended 31 December 2005. The Group has received the subsidy income on 27 December 2005.

29. Non-operating expenses

	The Group		The Company	
	2005	2004	2005	2004
	RMB'000	RMB'000	RMB'000	RMB'000
Employee reduction expenses	109,410	112,526	45,790	103,269
Net loss on disposal of fixed assets	26,935	68,457	21,842	62,963
Service fee	47,320	37,715	47,320	37,715
Donations	8,079	9,992	8,079	9,969
Other expenses	48,814	42,026	44,551	37,565
Total	240,558	270,716	167,582	251,481

In accordance with the Group's voluntary employee reduction plan, the Group recorded employee reduction expenses of RMB 109,410,000 (2004:RMB 112,526,000) during the year ended 31 December 2005, in respect of the voluntary resignation of approximately 1,645 employees.

30. Dividends

- (a) Dividends of ordinary shares declared during the year
Pursuant 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 in respect of the year ended 31 December 2004 was declared and paid.(2004: RMB 0.08 per share totalling 576,000,000).
- (b) Dividends of ordinary shares proposed after the balance sheet date
Pursuant to a resolution passed at the Board of Directors' meeting on 24 March 2006, a final dividend in respect of the year ended 31 December 2005 of RMB 0.10 per share totalling RMB 720,000,000 was proposed for shareholders' approval at the Annual General Meeting. (2004: RMB 0.20 per share totalling 1,440,000,000). Dividends declared after the balance sheet date was not recognised as liabilities on that day.

31. Related parties and related party transactions

- (a) Company having the ability to exercise significant influence over the Group

Name of Company	:	China Petroleum & Chemical Corporation ("Sinopec Corp")
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	:	Chen Tonghai
Registered capital	:	RMB 86.7 billion(2004: RMB 86.7 billion)

The above registered capital has not been changed during the year ended 31 December 2005 .
As at 31December 2005, Sinopec Corp held 4 billion shares of the Company.

- (b) Company not having the direct ability to exercise significant influence over the Group.

	<u>Relationship with the Company</u>
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 Company Limited	Subsidiary of the immediate parent 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
Shanghai Secco Petrochemical Company Limited	Associated

31. Related parties and related party transactions (continued)

- (c) Most of the transactions undertaken by the Group during the year ended 31 December 2005 have been effected 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 follow:

	2005 RMB'000	2004 RMB'000
Purchases of crude oil	27,180,740	19,563,608

- (d) Other transactions between the Group and the other related parties during the year were as follows:

	2005 RMB'000	2004 RMB'000
Sales of goods and service	20,068,746	15,334,038
Purchases other than crude oil	2,318,351	961,919
Insurance premiums paid	95,521	97,332
New withdrawal from deposits in related party	(70,389)	(11,416)
Interest received and receivable	1,035	4,894
New loans obtained from a related party	130,000	130,000
Loans repaid to a related party	130,000	130,000
Interest paid and payable	6,649	6,643
Transportation fees	415,497	151,163
Construction and installation fees	183,191	199,676
Proceeds from sale of property, plant & equipment	62,742	99,696
Gains from disposal of investments	24,063	-
Sales commissions	70,752	-
Net decrease of guarantees	(33,586)	(27,212)

The sales and purchases transactions between the Group and the other related parties as disclosed in note (b) accounted for approximately 90% of transactions of the similar nature.

The Directors of the Company are of the opinion that the above transactions were entered into in the normal course of business and on normal commercial terms or in accordance with the agreements governing such transactions, and this has been confirmed by the non-executive Directors.

Notes to the Financial Statements (continued)

(Prepared under PRC Accounting Rules and Regulations)

31. Related parties and related party transactions (continued)

(e) At 31 December, the Group's balances with related parties are as follow:

	Immediate Parent Company		Other related parties	
	2005	2004	2005	2004
	RMB'000	RMB'000	RMB'000	RMB'000
Bills receivable	-	17,675	8,590	15,705
Trade debtors	37,168	-	254,721	207,244
Other receivables	96,412	67,343	150,351	183,440
Advance payments	203	49,760	14,107	44,251
Bills payable	-	14,254	-	-
Trade creditors	125,631	98,105	276,329	287,538
Other payables	12,388	179,551	22,310	9,584
Receipts in advance	735	15,275	30,516	35,138
Balance of guarantee	-	-	68,300	101,886

(f) Deposits in related party

	The Group		The Company	
	2005	2004	2005	2004
	RMB'000	RMB'000	RMB'000	RMB'000
Cash at bank and in hand	181,266	252,438	180,040	250,125

(g) Loans with related party

	The Group		The Company	
	2005	2004	2005	2004
	RMB'000	RMB'000	RMB'000	RMB'000
Short-term loans	30,000	130,000	-	-
Long-term loans	100,000	-	-	-

32. Retirement schemes

As stipulated by the relevant regulations, 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 22.5% of the salaries, bonuses and certain allowances of its staff. The contribution rate has been changed to 22% since 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. The Group has no other material obligation for the payment of pension benefits associated with this plan beyond the annual contributions described above. 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 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 savings account 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 amount of contributions. For the year ended 31 December 2005, the Company's contribution to this plan amounted to RMB 47,852,000 (2004: RMB 42,379,000).

33. Capital commitments

Capital commitments outstanding at 31 December are as follows:

	The Group and the Company	
	2005 RMB'000	2004 RMB'000
<u>Property, plant and equipment</u>		
Contracted but not provided for	222,711	322,797
Authorised by the Board but not contracted for	1,501,490	1,824,985
	1,724,201	2,147,782
<u>Investment</u>		
Contracted but not provided for	-	295,886
	1,724,201	2,443,668

At 31 December 2005, the Group and the Company did not have material operating lease commitment.

34. Contingent liabilities

At 31 December, contingent liabilities are as follows:

	The Group		The Company	
	2005 RMB'000	2004 RMB'000	2005 RMB'000	2004 RMB'000
Guarantees issued to banks in favour of:				
- subsidiaries	-	-	483,842	778,859
- associates	40,000	40,000	40,000	40,000
- other unlisted investment companies	28,300	61,886	-	29,200
	68,300	101,886	523,842	848,059

Guarantees issued to banks in favour of subsidiaries are given to the extent of the Company's respective interest in these entities.

Guarantees issued to banks in favour of associates and joint ventures are given to the extent of the Group's and 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 2005 and 2004, 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 and the Company's obligation under the guarantees arrangement.

35. Events after the balance sheet date

The Group has been approved by the People's Bank of China to issue short-term commercial papers with an amount of RMB 2 billion in multiple tranches by the end of February 2007, pursuant to a notice Fa [2006] No. 35 ("Notice of People's Bank of China in respect of the short-term commercial papers issued by Sinopec Shanghai Petrochemical Company Limited") dated 15 February 2006. The short-term commercial paper obligations will be issued to investors in the PRC inter-bank debenture market. The Company issued the first tranche of the short-term commercial papers on 27 February 2006 with a total amount of RMB 1 billion for a term of 270 days. The proceeds will form part of the Group's working capital.

36. 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 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 the Group policy.

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.
- (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 trading, consumer products and services and a variety of other commercial activities, which are not allocated to the above four operating segments.

Notes to the Financial Statements (continued)

(Prepared under PRC Accounting Rules and Regulations)

36. Segment reporting (continued)

Income from principal operations

	2005 RMB'000	2004 RMB'000
Manufactured Products		
Synthetic Fibres		
External sales	4,781,787	4,777,981
Intersegment sales	79	63
Sub-total	4,781,866	4,778,044
Resins and Plastics		
External sales	14,010,287	12,154,361
Intersegment sales	53,020	19,952
Sub-total	14,063,307	12,174,313
Intermediate Petrochemicals		
External sales	6,586,556	5,941,589
Intersegment sales	13,848,105	9,753,690
Sub-total	20,434,661	15,695,279
Petroleum Products		
External sales	18,616,544	13,692,352
Intersegment sales	1,064,616	846,488
Sub-total	19,681,160	14,538,840
All others		
External sales	1,902,633	2,836,250
Intersegment sales	3,687,428	3,452,657
Sub-total	5,590,061	6,288,907
Eliminations of intersegment sales	(18,653,248)	(14,072,850)
Total	45,897,807	39,402,533

36. Segment reporting (continued)

Cost of principal operations

	2005 RMB'000	2004 RMB'000
Synthetic Fibres	4,352,965	4,378,130
Resins and Plastics	11,631,710	9,610,613
Intermediate Petrochemicals	5,024,854	3,861,757
Petroleum Products	18,955,210	11,807,416
All others	1,640,374	2,351,166
Total	41,605,113	32,009,082

Gross profit of principal operations

	2005 RMB'000	2004 RMB'000
Synthetic Fibres	411,028	373,643
Resins and Plastics	2,326,618	2,475,354
Intermediate Petrochemicals	1,531,098	2,034,823
Petroleum Products	(1,000,255)	1,294,503
All others	258,516	476,654
Total	3,527,005	6,654,977

37. Net profit before 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" (2004 Revised), the Group's net profit excluding non-recurring items is set out as below:

	2005 RMB'000	2004 RMB'000
Items under non-recurring items		
Non-operating expenses (excluding provision for impairment loss on fixed assets)	240,558	236,371
Gain on disposal of long-term equity investments	(24,063)	(21,860)
Non-operating income	(61,159)	(83,058)
Reversal of provision for long-term equity investments in prior years	-	(5,314)
Subsidy income	(632,820)	-
Tax effect for the above items	71,623	(18,921)
Total	(405,861)	107,218