# Contents


2 Important Message
3 Report of the Directors
12 Change of Share Capital and Shareholders
15 Directors, Supervisors and Senior Management
18 Major Events
26 Documents for Inspection
27 Financial Highlights
30 Independent Review Report of the International Auditors

31 **(A) Interim Financial Report prepared under International Accounting Standard 34 "Interim Financial Reporting"**
31 Consolidated Income Statement
32 Consolidated Balance Sheet
33 Consolidated Statement of Changes in Shareholders' Equity
33 Condensed Consolidated Cash Flow Statement
34 Notes to the Unaudited Interim Financial Report

48 **(B) Interim Financial Statements prepared under PRC Accounting Rules and Regulations**
48 Balance Sheets
50 Income Statements and Profit Appropriation Statements
51 Cash Flow Statements
53 Consolidated Statement of Changes in Shareholders' Equity
54 Statement of Changes in Shareholders' Equity
55 Notes to the Unaudited Interim Financial Statements

123 **(C) Differences between Financial Statements prepared under PRC Accounting Rules and Regulations and Financial Report prepared under IFRSs**

126 **(D) Supplementary Information for North American Shareholders**

130 **Written confirmation to the 2007 Interim Report Issued by Directors, Supervisors and Senior Management of Sinopec Shanghai Petrochemical Company Limited**

131 Corporate Information


中國石化上海石油化工股份有限公司
SINOPEC SHANGHAI PETROCHEMICAL COMPANY LIMITED

2007 Interim Report

## Important Message

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 omission 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. Shi Wei, Mr. Lei Dianwu and Independent Director Mr. Sun Chiping were absent from the 22nd meeting of the Fifth Session of the Board due to business engagement. Mr. Shi Wei and Mr. Lei Dianwu appointed and authorized Mr. Rong Guangdao, Chairman, as their irrevocable voting proxies. Mr. Sun Chiping appointed and authorized Independent Director Mr. Chen Xinyuan as his irrevocable voting proxy. The Board considered and approved the 2007 Interim Report.

The interim financial statements of the Company for the six-month period were unaudited.

Mr. Rong Guangdao, Chairman and President of the Company, Mr. Han Zhihao, Director and Chief Financial Officer overseeing the accounting operations and Mr. Hua Xin, Finance Manager (Accounting Chief) hereby warrant the truthfulness and completeness of the financial report contained in this report.

# Report of the Directors

## 1. Discussion and analysis of the overall operation during the reporting period

*The following discussion and analysis should be read in conjunction with the unaudited financial statements of the Group and notes in the interim report. The financial data involved hereinafter are extracted from the unaudited financial statements prepared in accordance with IFRS.*

**Business review and discussion on the operating results**

In the first half of 2007, the global economy continued to grow steadily while China's economy maintained its relatively fast growth, achieving a GDP growth rate of 11.5% according to the National Bureau of Statistics of China. Accordingly, demand was booming in both the international and domestic petrochemical markets and prices of petrochemical products were rising. Driven by these factors, the petrochemical industry of China maintained its solid momentum of development. Production and sales of major products were both thriving, with strong demand in the downstream segment.

The Group aggressively capitalized on the trends of the continued and relatively rapid growth of the domestic economy and the steady and relatively rapid development of the PRC petrochemical industry in the first half of 2007. In light of the unfavorable conditions resulting from sustained high volatility of international crude oil prices, surging prices of raw materials and intensifying market competition, the Group implemented a low-cost strategy as its main course of action while focusing on improving economic efficiency. In particular, the Group further improved its production operation, adjusted the sector and product composition, enhanced internal management, pushed forward reforms and strove for cost and expense reductions. In the first half, the Group maintained stable operations and production, without encountering any major incidents in production, safety or environmental protection. The number of unscheduled suspensions for major production facilities decreased by 7.14% over the corresponding period of the previous year, whereas the output-to-sales ratio and the receivable recovery ratio remained at satisfactory levels. For the six-month period ended 30 June 2007, the Group's turnover was RMB26,820.2 million (equivalent to HK$27,524.8 million), up RMB3,379.9 million (equivalent to HK$3,468.7 million) or 14.42% on a year-on-year basis. Profit before taxation of RMB2,469.1 million (equivalent to HK$2,534.0 million) was realized, representing an increase of RMB2,416.4 million (equivalent to HK$2,479.9 million) over the same period of the previous year. The 45.85-fold increase was the best ever for the same period in the Company's history. Meanwhile, profit after taxation and minority interests rose RMB1,779.9 million to RMB1,785.6 million (equivalent to HK$1,832.5 million).

In the first half of 2007, the Group processed 4,512,700 tons of crude oil, an increase of 1.48% or 65,600 tons on a year-on-year basis. Of the total processed amount, imported oil and offshore oil amounted to 4,266,100 tons and 246,600 tons, respectively. The output of gasoline decreased by 27.41% to 290,800 tons, while the output of diesel reported a 2.34% hike to 1,360,200 tons. Production of jet fuel reached 351,500 tons, up 39.15%. The output of ethylene and propylene amounted to 476,500 tons and 248,000 tons, respectively, representing respective decreases of 0.79% and 5.95%. On the other hand, the output of synthetic resins and plastics, synthetic fibre monomers and synthetic fibre polymers amounted to 558,400 tons, 430,700 tons and 302,400 tons, respectively, recording respective increases of 0.43%, 12.72% and 0.80%. However, the output of synthetic fibres dropped 4.98% to 162,300 tons. The Group's output-to-sales ratio and receivable recovery ratio in the first half were 99.15% and 99.24%, respectively.

The following table sets forth the Group's sales volumes and net sales, net of sales taxes and surcharges, for the reporting period:

| | For the six-month period ended 30 June | | | | | |
|---|---|---|---|---|---|---|
| | **2007** | | | 2006 | | |
| Self-produced products | **Sales Volume '000 tons** | **Net Sales Millions of RMB** | **% of Total** | Sales volume '000 tons | Net Sales Millions of RMB | % of Total |
| Synthetic Fibres | **157.8** | **2,296.4** | **8.68** | 174.7 | 2,306.0 | 9.97 |
| Resins and Plastics | **802.4** | **8,088.4** | **30.56** | 791.8 | 7,588.2 | 32.82 |
| Intermediate Petrochemicals | **593.1** | **4,184.5** | **15.80** | 485.3 | 3,039.1 | 13.14 |
| Petroleum Products | **2,547.3** | **9,782.5** | **36.96** | 2,370.8 | 8,795.5 | 38.04 |
| Others | **-** | **2,116.4** | **8.00** | - | 1,395.5 | 6.03 |
| Total | **4,100.6** | **26,468.2** | **100.00** | 3,822.6 | 23,124.3 | 100.00 |

In the first half of 2007, the Group realized net sales of RMB26,468.2 million, up 14.46% from a year ago, among which net sales derived from petroleum products, intermediate petrochemicals and resins and plastics increased by 11.22%, 37.69% and 6.59%, respectively, while net sales of synthetic fibres reported a 0.42% dip. The increases were mainly due to continued increases in the prices of energy and raw materials and the increased sales volume of petroleum products, intermediate petrochemicals and resins and plastics, while the decrease in net sales of synthetic fibres was attributable to a drop in sales volume. Compared to the first half of 2006, the average prices (excluding tax) of the Group's petroleum products, intermediate petrochemicals, resins and plastics, and synthetic fibres increased by 3.52%, 12.67%, 5.19% and 10.25%, respectively, during the reporting period. However, when compared to the second half year of 2006, the average prices (excluding tax) of the above four products dropped by 0.69%, 1.04%, 5.30% and 1.80%, respectively.

A majority of the Group's products were sold in eastern China.

During the first six months of 2007, the Group's cost of sales increased by 6.46% on a year-on-year basis to RMB24,413.1 million, accounting for 92.24% of the net sales.

Crude oil is the Group's major raw material. Affected by various factors such as continued growth in global demand, limited capabilities to increase output by major oil producing countries, geo-political factors, the depreciation of the US dollar and trading activities of speculative funds, prices of international crude oil continued to hover around the high level of US$50-US$70/barrel. During the first half, the average price of Brent crude oil was approximately US$64/barrel, down approximately 4.5% from the average price of US$67/barrel a year ago. The decrease in crude oil price, together with the appreciation of RMB, resulted in a year-on-year drop of RMB159.02/ton to RMB3,547.75/ton for our weighted average cost of crude oil in the first half of 2007, representing a 4.29% decrease. With the average prices of crude oil having dropped slightly, the Group's total cost of crude oil processed during the reporting period fell 1.23% on a year-on-year basis to RMB16,001.0 million. The crude oil costs accounted for 65.54% of the Group's cost of sales in the first half.

Expenses for other ancillary materials amounted to RMB5,160.5 million in the first half of 2007, up 39.77% as compared to the same period last year, mainly due to increases in both the prices of raw materials and the volume of intermediate petrochemicals purchased to meet production needs. Depreciation and maintenance costs during the reporting period amounted to RMB825.5 million and RMB338.1 million, respectively, both of which decreased slightly from a year ago. Energy and power costs increased by RMB32.6 million to RMB541.9 million, as a result of year-on-year increases to various degrees in both purchase volumes and purchase prices of thermal coal and external electricity. The Group made no provision for the price drop of finished goods during the reporting period.

The Group's selling and administrative expenses in the first half of 2007 amounted to RMB243.1 million, down 13.49% from last year's RMB281.0 million. The decrease was caused by the drop in sales and transportation expenses as a result of cost reduction during the reporting period.

The Group's other operating expenses in the reporting period rose RMB53.4 million year-on-year to RMB115.5 million, mainly as a result of an increase in employee reduction expenses during the reporting period.

The 2007 first half financial costs of the Group decreased by 17.24% on a year-on-year basis to RMB88.8 million, as a result of foreign exchange gains generated from the US dollar-denominated loans following the appreciation of Renminbi.

The Group's profit after taxation and minority interests soared by 312.26 times from RMB5.7 million in the first half of 2006 to RMB1,785.6 million in the first half of 2007.

#### Liquidity and capital resources

Net cash inflow generated from operating activities amounted to RMB1,243.4 million for the first half of 2007, up RMB866.4 million from a year ago. Owing to a substantial increase in profit before taxation, profit before taxation (net of depreciation) brought an operating cash inflow of RMB3,286.2 million, an increase of RMB2,323.5 million on a year-on-year basis. Meanwhile, increased inventory balance at the end of the reporting period led to a RMB928.0 million increase in operating cash outflow over the beginning of the year (as compared with a RMB714.5 million increase in operating cash outflow for the same period last year due to a rise in inventory balance at the end of that period). Changes in trade payables, other payables and bills payable at the end of the period gave rise to a RMB80.9 million decrease in operating cash inflow (as compared with a RMB810.4 million rise in operating cash inflow a year ago), while increases in debtors, bills receivable and deposits led to a decrease in operating cash inflow of RMB2.3 million (as compared with a RMB304.2 million decrease for the same period of the previous year due to increase in such balances at the end of the period). In addition, as a result of the changes in the accounts balances at the end of the period with the parent company, the subsidiaries and the associates of the Group, the Group's cash inflow increased by RMB42.3 million (as compared with a RMB39.9 million drop last year). Furthermore, the Group's income tax payment increased significantly due to a significant increase in profit during the reporting period. In the first half of 2007, income tax payment resulted in a cash outflow of RMB301.9 million (as compared with the RMB33.6 million cash outflow arising from income tax payment for the same period last year).

#### Borrowings and debts

The Group's long-term borrowings are mainly applied to its capital expansion projects. In general, the Group arranges long-term borrowings according to its capital expenditure plans, and in overall terms there are no seasonal borrowings. Short-term debts are used to meet the Group's needs for working capital during the normal course of production operation. The Group's borrowings at the end of the first half of 2007 amounted to RMB3,859.2 million, down RMB1,474.8 million on a year-on-year basis. Among these, short-term debts and long-term borrowings decreased by RMB1,401.1 million and RMB73.7 million, respectively.

The Group issued 365-day short-term commercial papers with a face value of RMB2 billion to corporate investors in the PRC interbank debenture market on 11 December 2006. The commercial papers were issued at a par value of RMB100 with an effective interest rate of 3.83% per annum, and will mature on 12 December 2007.

As at 30 June 2007, guarantees provided by the Group to the Company's joint ventures and associates in favor of various banks, together with the contingent liabilities to be undertaken on the guarantees provided by the joint ventures to various third parties, amounted to RMB21 million.

#### Foreign exchange risks

Since the Group purchases its major raw materials, particularly crude oil, from overseas sources through Sinopec Corp. and exports a portion of the Company's petrochemical products directly through Sinopec Corp. as well, exchange rate changes will indirectly affect the prices of the Group's raw materials and petrochemical products. This may, in turn, have a discernible impact on the Group's profitability. In addition, as discussed above, a change in the relevant exchange rates will affect the level of the Group's financial expenses since a small part of the Group's debts is denominated in foreign currencies. Accordingly, the Group's profitability will be affected as well.

### Capital Expenditure

Construction on the Group's major projects continued to move forward during the Period. The 380,000-ton/year ethylene glycol project and the 3,300,000-ton/year diesel hydrogenation project commenced operation on 3 March and 18 June, respectively, with both facilities now operating smoothly. Other major projects of the Group aimed at further adjusting and optimizing sector and products composition, proceeded smoothly. For example, the flue-gas desulphurization project, the 620-ton/hour steam boiler and the 100-megawatt power generation project, the 1,200,000-ton/year delayed coking facility and the 600,000-ton/year PX aromatics complex were all proceeding steadily as scheduled. Some of these projects are expected to commence operation within the year.

In the first half, the Group's capital expenditure amounted to RMB669.0 million, comprising capital injections into the projects under construction, including the 620-ton/hour steam boiler, the 100-megawatt power generation project and the 1,200,000-ton/year delayed coking facility, as well as other technological renovation projects. In the second half of the year, the Group also plans to proceed with capital injections into other major technological renovation projects, such as the energy conservation and consumption reduction renovation of ethylene cracking furnaces, while continuing the efforts to advance the construction of the above-mentioned projects. The Group plans to fund the capital expenditure from operating cash and credit facilities from banks.

### Debt-equity ratio

As at 30 June 2007, the Group's debt-equity ratio was 4.55%, compared to 8.37% as at 30 June 2006. The ratio is equal to our total long-term loans divided by our total long-term loans and total equity attributable to equity shareholders of the Company.

### Employees

As at 30 June 2007, the Group's employees totaled 21,775. Our staff costs for the period ended 30 June 2007 totaled RMB561.7 million.

### Income tax

Since 1993, the Company has been enjoying a concessionary income tax rate of 15% upon the approval of the State taxation authorities. In August 2007, the Shanghai Municipal office of the State Administration of Taxation notified the Company that the 2007 income tax rate for the Company will be raised from 15% to 33%. In addition, in March 2007 the National People's Congress of the PRC approved the legislation which adopted a uniform taxation system for both domestic enterprises and foreign enterprises in the PRC. The new system will take effect from 1 January 2008 and the uniform income tax rate for enterprises will drop to 25% from 1 January 2008. The impact of the income tax rate change on the Company will depend on the finalized implementation guidelines to be announced.

**Disclosure required by the Listing Rules**

Save as disclosed herein, pursuant to paragraph 40 in Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), the Company confirmed that there have been no material changes in the existing information of the Company relating to the matters as set out in paragraph 32 in Appendix 16 and the information disclosed in the Company's 2006 annual report.

**Market outlook and work plans for the second half of the year**

For the second half of 2007, both the global economy and China's economy are expected to maintain steady growth. However, global supply and demand of crude oil will remain relatively unbalanced. It is anticipated that crude oil prices will hover at higher levels or even set new highs (the July Brent crude oil price had already surpassed last year's high, with the monthly average price reaching US$76/barrel; the WTI crude oil price on the New York Stock Exchange also reached a new high on 31 July 2007) as a result of OPEC's cap on production which has increased the demand for refinery products. Geo-political risks such as the nuclear issue in Iran and the oil security issue in Nigeria, as well as other factors such as hurricane expectation, and trading activities by speculative funds, will also play a role. Affected by the above factors, while the domestic petrochemical industry is expected to continue to prosper, the industry will face mounting pressure nonetheless. As for petrochemical enterprises, despite a favorable trend in market demand and supply which is likely to happen in the second half, pressure will arise from high oil prices, peer competition in both the international and domestic markets, lower import tariffs for petrochemicals, reduction in export tax rebates for downstream products, as well as the absence of a pricing mechanism for domestic petroleum products and the State's tightening of relevant policies, in particular for those related to environmental protection. For the second half of 2007, the average cost of crude oil for our Group processing may increase significantly as compared with the first half of 2007, while the major production facilities will undergo large-scale inspection and maintenance. Accordingly, the outlook of production operation is not optimistic. Given the above, in the second half of 2007, the Group will continue to follow the work objectives and targets established at the beginning of the year, proceeding with the following tasks in a solid and effective manner:

(i) Emphasizing safety and environmental protection efforts to ensure a stable and effective production operation.

(ii) Accelerating the development of the structural adjustment program and pushing forward technological renovation programs, thereby striving for the enhancement of the enterprise's competitiveness.

(iii) Continuously enhancing internal management and reducing costs and to further improve the Company's operating efficiency.

(iv) Advancing further the reform programs, such as organizational streamlining and reforms for the separation of auxiliary businesses, in a pro-active and orderly manner.

(v) Further strengthening team-building and corporate culture-building efforts to promote corporate harmony and development.

## 2. Scope and performance of the Company's principle business

### (1) Summary of segmental results (Prepared under PRC Accounting Standards for Business Enterprises)

| By segment or by product | Operating income (RMB'000) | Cost of sales (RMB'000) | Gross profit margin (%) | Increase/ decrease of operating income compared to the corresponding period last year (%) | Increase/ decrease of cost of sales compared to the corresponding period last year (%) | Increase/ decrease of gross profit margin compared to the corresponding period last year (%) |
|---|---|---|---|---|---|---|
| Synthetic fibres | 2,304,678 | 2,112,757 | 8.33 | -0.35 | -1.86 | Increase 1.41 percentage points |
| Resins and plastics | 8,117,734 | 7,065,426 | 12.96 | 6.72 | 5.69 | Increase 0.84 percentage points |
| Intermediate petrochemicals | 4,202,885 | 3,260,533 | 22.42 | 37.87 | 28.03 | Increase 5.96 percentage points |
| Petroleum products | 10,069,800 | 9,257,313 | 8.07 | 10.97 | -4.25 | Increase 14.61 percentage points |
| Others | 2,188,334 | 1,982,669 | 9.40 | 21.01 | 48.99 | Decrease 17.01 percentage points |
| Including: connected transactions | 10,442,978 | 9,227,391 | 11.64 | 14.19 | -2.77 | Increase 15.40 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 were no less favorable than those offered to or by any third party and were conducted in an ordinary course of business. This was confirmed by the independent non-executive directors of the Company. |
| 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 the 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 pricing thereof, such connected transactions will continue to happen. The Company sells petrochemical products to Sinopec Corp. and its associates, and Sinopec Corp. and its associates act as agents for the sale of petrochemicals in order to reduce the Company's inventories, to expand its trading, distribution and sales networks and to improve the Company's bargaining power with its 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) Analysis of geographical segments for principal operations

| Geographical segments | Operating income (RMB'000) | Increase of operating income compared to the corresponding period of the previous year (%) |
|---|---|---|
| Eastern China | 24,641,885 | 10.10 |
| Other regions in the PRC | 2,155,568 | 52.85 |
| Exports | 85,978 | 44.29 |

### (3) Reasons for substantial changes in the profitability (gross profit margin) of the principal operations as compared to the corresponding period of the previous year

| Items | For the six-month period ended 30 June 2007 (RMB'000) | 2006 (RMB'000) | Increase amount (RMB'000) | Change (%) | Reason for the change |
|---|---|---|---|---|---|
| Operating profit | **2,493,081** | 53,086 | 2,439,995 | 4,596.31 | Cost of crude oil decreased as compared to the same period of 2006; increased investment income |
| Profit before taxation | **2,452,243** | 30,846 | 2,421,397 | 7,849.95 | |
| Net profit / (loss) attributable to equity shareholders of the Company | **1,751,897** | (15,898) | 1,767,795 | - | |

### (4) Performance of the associate of the Group

(Prepared under PRC Accounting Standards for Business Enterprises)

(Apply to situation under which investment income represents 10% or more of the net profit)

| Name of the company | Principal activities | Net profit (RMB'000) | Investment income contributed by the associate of the Group (RMB'000) | Percentage of net profit shared by the Group (%) |
|---|---|---|---|---|
| Shanghai Secco Petrochemical Company Limited | Manufacturing and distribution of Chemical products | 1,806,540 | 361,308 | 20.62 |

## 3. Investment of the Company

1. Application of fund raised

   The Company did not raise fund or the previous fund raised has been used during the reporting period.

2. Projects of non-raised fund

| Project | Budget amounts RMB million | Project progress as at 30 June 2007 |
|---|---|---|
| 380,000-ton/year ethylene glycol facility | 1,249.0 | Completed |
| 3,300,000-ton/year diesel hydrogenation plant | 528.0 | Completed |
| 1.2 million tons of delayed coking unit | 874.0 | Under construction |
| 620-ton/hour steam boiler and 100MW power generation unit project | 672.7 | Under construction |

## 4. Warning on and description of any possibility of the accumulated net profit forecast for the period from the beginning of the year to the end of the next reporting period turning into a loss or any material change in relation to such forecast as compared to the same period last year and the reasons thereof.

During the first half of 2007, the Group's crude oil processing cost reported a year-on-year drop while investment income increased. Accordingly, the results for the 2007 first half grew significantly as compared to the same period of last year. Though the Company's average crude oil processing cost for the second half of 2007 will rise significantly as compared to the first half of 2007 it is estimated that the Group's overall results for the nine-month period ending 30 September 2007 will turn from a loss to a profit, as compared to the same period of the previous year.

## Change of Share Capital and Shareholders

### 1. Change of Share Capital

There were no changes in the share capital of the Company as at the end of the reporting period.

### 2. Shareholding of shareholders

(i) Number of Shareholders and their Shareholdings — Unit: Share

Total number of shareholders as at the end of the reporting period: 132,072

| Name of shareholders | Type of shareholders | Percentage of total shareholding (%) | Number of shares held at end of the period | Increase / decrease during the period | Type 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 | - | Non-circulating | 4,000,000,000 | Nil |
| HKSCC (Nominees) Ltd. | Foreign Shareholder | 26.80 | 1,929,595,401 | 4,470,000 | Circulating | - | Unknown |
| Hong Kong and Shanghai Banking Corporation (Nominees) Limited | Foreign Shareholder | 4.96 | 356,774,000 | 198,000 | Circulating | - | Unknown |
| China Minsheng Banking Corp., Ltd. - Orient Jing Xuan Hun He Xing Kai Fang Shi Securities Investment Fund | Others | 0.52 | 37,420,714 | 31,840,714 | Circulating | - | Unknown |
| Shanghai Kangli Gong Mao Company | Others | 0.23 | 16,730,000 | - | Non-circulating | 16,730,000 | Unknown |
| Zhejiang Province Economic Construction and Investment Company | Others | 0.17 | 12,000,000 | - | Non-circulating | 12,000,000 | Unknown |
| ICBC - Bosera Select Equity Securities Investment | Others | 0.15 | 10,999,912 | Unknown | Circulating | - | Unknown |
| Hong Kong and Shanghai Banking Corporation (Nominees) Limited | Foreign Shareholder | 0.14 | 10,402,000 | - | Circulating | - | Unknown |
| Goldman Sachs Asset Management L.P. - Goldman Sachs China Fund | Others | 0.11 | 8,219,300 | Unknown | Circulating | - | Unknown |
| China Merchants Bank Co., Ltd. - Shang Zheng Hong Li Jiao Yi Xing Kai Fang Shi Securities Investment Fund | Others | 0.09 | 6,503,586 | -5,620,178 | Circulating | - | Unknown |

Shareholdings of the top ten holders of circulating shares

| Name of shareholders | Number of shares in circulation held | Type of shares |
|---|---|---|
| HKSCC (Nominees) Ltd. | 1,929,595,401 | Overseas listed foreign shares |
| Hong Kong and Shanghai Banking Corporation (Nominees) Limited | 356,774,000 | Overseas listed foreign shares |
| China Minsheng Banking Corp., Ltd. - Orient Jing Xuan Hun He Xing Kai Fang Shi Securities Investment Fund | 37,420,714 | RMB-denominated ordinary shares |
| ICBC - Bosera Select Equity Securities Investment | 10,999,912 | RMB-denominated ordinary shares |
| Hong Kong and Shanghai Banking Corporation (Nominees) Limited | 10,402,000 | Overseas listed foreign shares |
| Goldman Sachs Asset Management L.P. - Goldman Sachs China Fund | 8,219,300 | RMB-denominated ordinary shares |
| China Merchants Bank Co., Ltd. - Shang Zheng Hong Li JiaoYi Xing Kai Fang Shi Securities Investment Fund | 6,503,586 | RMB-denominated ordinary shares |
| Shanghai Junfa Trading Company Limited | 4,155,250 | RMB-denominated ordinary shares |
| National Social Security Fund 102 | 4,000,000 | RMB-denominated ordinary shares |
| China Construction Bank - Bosera Yufu Securities Investment Fund | 3,521,405 | RMB-denominated ordinary shares |

| | |
|---|---|
| Description of any connected relationship or connected parties relationships among 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 connected party of other shareholders under the "Administration Measures for Disclosure of Shareholdings in Listed Companies". Of the above-mentioned shareholders, HKSCC (Nominees) Limited and Hong Kong and Shanghai Banking Corporation (Nominees) Limited are nominee shareholders. Apart from the above, the Company is not aware of whether or not there are connected relationships among the other shareholders, and whether or not they are connected parties under the "Administration Measures for Disclosure of Shareholdings in Listed Companies". |

(ii) Change in Controlling Shareholder and De Facto Controller of the Company.

There was no change to the controlling shareholder and the de facto controller of the Company during the reporting period.

(iii) Interest and Short Positions of Substantial Shareholders and Other Persons in Shares and Underlying Shares

As at 30 June 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 (Chapter 571 of the Laws of Hong Kong) ("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 the equity derivatives of the Company as recorded in the register which is required to be kept under Section 336 of the SFO of Hong Kong were as follows:

(a) Interests in ordinary shares of the Company

| Name of shareholders | Number and type of shares held | % of total issued share capital | % of shareholding in the Company's total issued H share | Capacity |
|---|---|---|---|---|
| Sinopec Corp. | 4,000,000,000 promoter legal person shares (L) | 55.56% | - | Beneficial owner |
| Halbis Capital Management (Hong Kong) Limited | 149,038,000 (L) | 2.07% | 6.40%(L) | Beneficial owner: Investment managers: Others (Lending Pool) |
| Government of Singapore Investment Corporation Pte. Ltd | 146,743,700 (L) | 2.04% | 6.30%(L) | Beneficial owner: Investment managers: Others (Lending Pool) |

* *Such H-shares were held through a nominee.*

(L) Long position (S) Short position

Save as disclosed above, no interests of substantial shareholders or other persons who are required to disclose their interests pursuant to Part XV of the SFO in the underlying shares of the equity derivatives of the Company were recorded in the register which is required to be kept under Section 336 of the SFO.

(b) Short positions in the ordinary shares and the underlying shares of the Company

As at 30 June 2007, no short positions of substantial shareholders or other persons who are required to disclose their interests pursuant to Part XV of the SFO in the shares or underlying shares of the equity derivatives of the Company were recorded in the register which is required to be kept under Section 336 of the SFO.

# Directors, Supervisors and Senior Management

**1. Change of shareholdings of directors, supervisors and senior management**

During the reporting period, there was no change in the number of shares of the Company held by the Directors, Supervisors and senior management of the Company. The actual number of shares in the issued share capital of the Company held by the Directors, Supervisors and senior management as at the end of the reporting period was as follows:

Unit: share

| Name | Position | Number of shares held at the beginning of the reporting period | Number of shares held at the end of the reporting period | Change |
|---|---|---|---|---|
| Rong Guangdao | Chairman and President | 3,600 | 3,600 | No change |
| Du Chongjun | Vice Chairman and Vice President | 1,000 | 1,000 | No change |
| Han Zhihao | Director and Chief Financial Officer | Nil | Nil | No change |
| Shi Wei | Director and Vice President | Nil | Nil | No change |
| Li Honggen | Director and Vice President | Nil | Nil | No change |
| Dai Jinbao | Director | Nil | Nil | No change |
| Lei Dianwu | External Director | Nil | Nil | No change |
| Xiang Hanyin | External Director | Nil | Nil | No change |
| Chen Xinyuan | Independent Director | Nil | Nil | No change |
| Sun Chiping | Independent Director | Nil | Nil | No change |
| Jiang Zhiquan | Independent Director | Nil | Nil | No change |
| Zhou Yunnong | Independent Director | Nil | Nil | No change |
| Gao Jinping | Chairman of Supervisory Committee | Nil | Nil | No change |
| Zhang Chenghua | Supervisor | Nil | Nil | No change |
| Wang Yanjun | Supervisor | Nil | Nil | No change |
| Lu Xiangyang | External Supervisor | Nil | Nil | No change |
| Geng Limin | External Supervisor | Nil | Nil | No change |
| Liu Xiangdong | Independent Supervisor | Nil | Nil | No change |
| Yin Yongli | Independent Supervisor | Nil | Nil | No change |
| Zhang Jianping | Vice President | Nil | Nil | No change |
| Tang Chengjian | Vice President | Nil | Nil | No change |
| Zhang Jingming | Company Secretary | Nil | Nil | No change |

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

**Interests and short positions of directors and supervisors in the ordinary shares, underlying shares and debentures of the Company**

Save as disclosed above, as at 30 June 2007, none of the directors or supervisors of the Company had any interests or short positions in any shares, underlying shares of the equity derivatives or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register which is 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 (the "Model Code").

As at 30 June 2007, none of the directors or supervisors of the Company or 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.

**2. Appointments or reliefs of the Company's directors, supervisors and senior management**

There were no new appointments or reliefs of the Company's directors, supervisors and senior management in the reporting period.

## Audit Committee

The audit committee has reviewed jointly with the management of the Company and the Company's auditors (KPMG) the accounting principles and accounting standards adopted by the Company and its subsidiaries (the "Group") and discussed matters relating to auditing, internal control and financial reporting (including reviewing the unaudited interim financial report prepared under IFRS for the six-month period ended 30 June 2007).

## Purchase, Sale or Redemption of Securities

During the reporting period, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's securities.

## Compliance with Code of Corporate Governance Practices

The Group has 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: The 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 both the chairman and president of the Company.

Reason: Mr. Rong Guangdao has extensive experience in large-scale petrochemical production enterprise and management. Mr. Rong is the most suitable candidate to serve in the positions of chairman and president of the Company. For the time being, the Company is unable to identify another suitable person who possesses abilities and talent better than or equivalent to Mr. Rong to serve in either of the positions. The same deviation was also reported in the Company's Corporate Governance Report contained in the annual report for 2006.

## The Model Code

The directors of the Company confirm that the Company has adopted the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") set out in Appendix 10 to the Listing Rules. After making specific enquiries with the directors and supervisors of the Company, the Company is not aware of any information that would reasonably indicate that the directors and supervisors of the Company were not in compliance with the requirements of the Model Code during the reporting period.

## Major Events

### (1) Current Status of the Company's Corporate Governance

The Company has strictly complied with the relevant requirements of the Company Law, Securities Law, Corporate Governance Principles for Listed Companies, Guidelines for Formulating Independent Directors for Listed Companies, the Shanghai Stock Exchange, the Stock Exchange of Hong Kong Limited and the New York Stock Exchange to put forward the advancement of the Company's system and management, improve the corporate governance structure, and strengthen the formulation of the Company's system in order to enhance the overall image of the Company. During the reporting period, the Company formulated the "Administrative System for Information Disclosure" in accordance with the relevant documents stipulated by the China Securities Regulatory Commission and the Shanghai Stock Exchange. Besides, pursuant to China Securities Regulatory Commission's Notice on the Enhancement of Specific Corporate Governance Matters of Listed Companies, the Company conducted self-evaluation activities in respect of corporate governance with a self-evaluation report completed and adjustment plans formulated. The detailed report was published in the China Securities Journal and Shanghai Securities News, as well as the websites of the Shanghai Stock Exchange, the Stock Exchange of Hong Kong Limited and the Company on 13 July 2007.

The proposed amendments to the articles of association of the Company were passed at the 2006 annual general meeting.

### (2) Implementation of the Profit Appropriation Plan during the Reporting Period

The profit appropriation plan for 2006 was approved at the Company's 2006 annual general meeting. A dividend of RMB0.40 (tax included) per 10 shares will be distributed to shareholders, based on the total share capital of 7,200,000,000 shares at the end of 2006. The relevant announcement was published in the Shanghai Securities News, China Securities Journal, South China Morning Post (Hong Kong) and Hong Kong Commercial Daily on 20 June 2007. On 2 July 2007, the Company published the profit appropriation plan for its A shares. In respect of the distribution of A-share dividends, the share right registration date was 6 July 2007 and ex-dividend date was 9 July 2007. The dividend payment date for its H shares and social public shares of A shares was 12 July 2007. Such profit appropriation plan has been implemented as scheduled.

### (3) Material Litigation and Arbitration

The Company was not involved in any material litigation or arbitration during the reporting period.

## (4) Transfer of assets

(i) The Company and its subsidiary had respectively entered into equity transfer agreements with Sinopec Finance Company Limited on 7 December 2006 to transfer their respective equity interests in China Everbright Bank or Bank of Shanghai to Sinopec Finance Company Limited. The relevant announcement was published in "China Securities Journal", "Shanghai Securities News", "South China Morning Post" and "Hong Kong Commercial Daily" on 8 December 2006. During the reporting period, the transfer procedures for the China Everbright Bank equity interests were completed and the resulting gains were recognised, while the transfer of the Bank of Shanghai equity interests had not been completed yet. But it was completed on 10 August 2007.

(ii) During the reporting period, the Group disposed of its interests in certain listed companies through the secondary market. The details are as follows:

| Stock Code | Abbreviation | Number of Shares hold (shares) | Proceeds from sales (RMB'000) | Initial investment costs (RMB'000) | Gains (RMB'000) |
|---|---|---|---|---|---|
| 600000 | SPDB | 10,182,502 | 320,000 | 7,456 | 312,544 |
| 600517 | ZXDQ | 3,036,250 | 90,752 | 4,762 | 85,990 |

## (5) Major Connected Transactions of the Company during the Reporting Period

1. 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 affiliates. 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 affiliates. 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 appointed 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 by-products related to the above five products.

The purchases by the Company of crude oil-related materials from and sales of petroleum products by the Company to Sinopec Corp. and its affiliates were conducted in accordance with the State's relevant policy and applicable State's tariffs or State's guidance prices. 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 sells petrochemicals products to Sinopec Corp, and its affiliates and Sinopec Corp. and its affiliates act as an agency for the sale of petrochemicals products in order to reduce the Company's inventories, expand its trade, distribution and sales networks and improve its bargaining power with its customers. The Company accepts transportation, design, construction and installation, insurance agency and financial services from Sinopec and its affiliates in order to secure steady and reliable services at reasonable prices.

The prices of on-going connected transactions conducted by the Company with Sinopec, Sinopec Corp. or their affiliates were determined, upon negotiations between both parties, on the basis of (1) State's tariffs; or (2) State's guidance prices; or (3) market prices. Such connected transactions were entered into in line with the Company's production and operation needs. Hence, the aforesaid on-going connected transactions did not have a major impact on the independence of the Company.

The following table was prepared in accordance with PRC Accounting Rules:

| Type of transactions | Related parties | Amount RMB'000 | Percentage of total amount of the type of transaction % |
|---|---|---|---|
| Income from sale of products and services | Sinopec Huadong Sales Company | 8,132,162 | 30.25 |
| | Other fellow subsidiaries | 2,310,816 | 8.60 |
| Purchases | Sinopec Transport and Storage Company | 11,978,419 | 53.67 |
| | China International United Petroleum and Chemicals Co., Ltd. | 3,079,091 | 13.80 |
| | Other fellow subsidiaries | 1,923,125 | 8.62 |
| Installation fees | Sinopec and its subsidiaries | 64,737 | 21.67 |
| Transportation costs | Sinopec Transport and Storage Company | 125,233 | 66.00 |

This includes: an amount of RMB10,443 million 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.

The Company believes that the purchase of goods from the above connected parties will ensure a steady and secure supply of raw materials, and that the sales to the above connected parties will ensure that the Group's important sales channels and sales volume can be maintained such that they are beneficial to the Group. The aforesaid connected transactions were priced at market prices. The installation fees were paid to Sinopec in strictly compliance with the respective contracts. The aforesaid connected transactions did not have an adverse impact on the profit of the Company.

2. Non-operating funds provided between connected parties

| Connected party | Connected relationship | Funds provided by the listed company to the connected parties: Net transaction RMB'000 | Funds provided by the listed company to the connected parties: Balance RMB'000 | Funds provided by the connected parties to the listed company: Net transaction RMB'000 | Funds provided by the connected parties to the listed company: Balance RMB'000 |
|---|---|---|---|---|---|
| Holding company and other subsidiaries of Sinopec Corp. | Under the same controlling shareholder | -33,981 | 51,748 | -688 | 34,655 |
| Total | - | -33,981 | 51,748 | -688 | 34,655 |

During the reporting period, the listed company had provided RMB 0 of funds to the controlling shareholder and its subsidiaries and the balance of funds provided by the listed company to the controlling shareholder and its subsidiaries amounted to RMB 120,788.

Reasons of the increase 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.

**(6) Trust**

The Company did not enter into any trust arrangements during the reporting period.

**(7) Sub-contracting**

The Company did not enter into any sub-contracting arrangements during the reporting period.

**(8) Leasing**

The Company did not enter into any sub-contracting arrangements during the reporting period.

## (9) Guarantees

**Company's external guarantees (excluding guarantees to subsidiaries):**

| Guaranteed entities | Date (Agreement signing date) | Guarantee amount (RMB'000) | Type of guarantee | Guarantee period | Guarantee expired | Guarantee for a connected party |
|---|---|---|---|---|---|---|
| Shanghai Bo Kai Chemicals Company Limited | 5 March 2007 | 5,000 | Bank Loan | 5 March 2007 to 28 February 2008 | No | Yes |
| Others | 21 December 2004 to 20 July 2006 | 16,000 | Bank Loan | 21 December 2004 to 21 December 2009 | No | Yes |

| | |
|---|---|
| Amount of guarantees signed during the reporting period | (28,750) |
| Amount of guarantees at the end of the reporting period (A) | 21,000 |
| **Guarantees to subsidiaries** | |
| Amount of guarantees to subsidiaries signed by the Company during the reporting period | 171,500 |
| Amount of guarantees to subsidiaries at the end of the reporting period (B) | 525,000 |
| **Total guarantee amount (including guarantees to subsidiaries)** | |
| Total guarantee amount (A+B) | 546,000 |
| Total guarantee amount as a percentage of net asset value of the Company (%) | 2.58 |
| **of which:** | |
| Amount of guarantee provided for shareholders, the de facto controller or the other connected parties (C) | - |
| Amount of debt guarantee provided for the companies with liabilities to assets ratio of over 70% directly or indirectly (D) | 525,000 |
| Total amount of guarantee in excess of 50% of the net asset (E) | - |
| Total guarantee amount of the above three items (C+D+E) | 525,000 |

## (10) Trust Financial Management

During the reporting period, the Company did not arrange trust financial management.

## (11) Performance of undertakings

1. Neither the Company nor any shareholder holding more than 5% of the total shares has made any undertakings during the reporting period.

2. The Company's share segregation reform proposal which was commenced in October 2006 has not been approved by its circulating A shares shareholders as a result of the disapproval of its circulating A shares shareholders toward the reform proposal. At present, holders of non-circulating shares of the Company are studying the relevant issues regarding the share reform of the Company. No specific proposals have been presented for the time being.

### (12) Appointment and dismissal of accounting firm

During the reporting period, the Company did not appoint new accounting firms. The Company currently appoints KPMG Huazhen as the Company's domestic auditors. The Company currently appoints KPMG as the Company's international auditors who issued the interim review report prepared under IFRS for the Company.

### (13) 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.

### (14) Other major events and factors, and analysis of solutions

1. The Company holds stakes in other listed companies and investments in securities

| No. | Stock code | Abbreviation | Number of shares held (shares) | Percentage of shareholding in that company (%) | Initial investment cost (RMB) | Account category |
|---|---|---|---|---|---|---|
| 1 | 600837 | HTSEC | 4,952,049 | 0.15 | 11,164,000.00 | Long-term equity investment |
| 2 | 600000 | SPDB | 10,302,598 | 0.24 | 7,543,978.00 | Available-for-sale financial assets |
| 3 | 600527 | JNGX | 2,809,271 | 1.20 | 1,903,300.00 | Available-for-sale financial assets |
| 4 | 600638 | NHPRECL | 289,980 | 0.06 | 673,300.00 | Available-for-sale financial assets |
| 5 | 600517 | ZXDQ | 145,513 | 0.07 | 239,626.18 | Available-for-sale financial assets |
| 6 | 600640 | CSGM | 124,114 | 0.03 | 225,680.00 | Available-for-sale financial assets |
| 7 | 600322 | TJRP. | 60,000 | 0.01 | 97,362.88 | Available-for-sale financial assets |
| Other securities investment held at the end of the period | | | - | - | - | - |
| Total | | | - | - | 21,847,247.06 | - |

### (14) Other major events and factors, and analysis of solutions *(continued)*

2. The Company holds stakes in unlisted financial enterprises and companies that plan to go listing

| Entities | Initial investment cost (RMB) | Number of shares held (shares) | Percentage of shareholding in that company (%) | Book value at the end of the period (RMB) |
|---|---|---|---|---|
| Guotai Junan Securities Co. Ltd | 7,084,300.00 | 7,604,140 | 0.16 | 7,084,300.00 |
| Guotai Junan Asset Management Co. | 575,700.00 | 617,917 | 0.16 | 575,700.00 |
| Bank of Shanghai* | 2,887,554.00 | 3,575,900 | 0.14 | 2,887,554.00 |
| Sub-total | 10,547,554.00 | 11,797,957 | - | 10,547,554.00 |

* An equity transfer agreement was entered into with Sinopec Finance Company Limited on 7 December 2006 regarding the shares in Bank of Shanghai, details of which were published in "China Securities Journal", "Shanghai Securities News", "South China Morning Post", "Hong Kong Commercial Daily", the website of the Shanghai Stock Exchange and the Company's website on 8 December 2006. The transfer of the equity interests in Bank of Shanghai had not been completed during the reporting period, but it was completed on 10 August 2007.

### (15) Disclosure of Information

| Item | Publication | Publishing Date | Websites and hyperlinks |
|---|---|---|---|
| Notification announcement | "Shanghai Securities News" and China Securities Journal; "South China Morning Post" and "Hong Kong Commercial Daily" of Hong Kong | 23 March 2007 | On the Shanghai Stock Exchange website www.sse.com.cn, accessible by entering the Company's code (600688) in the section headed "Listed Companies Information Search", website of The Stock Exchange of Hong Kong Limited, the website of the Company (www.spc.com.cn) under the section headed "Investor Relations" |
| Risk notification announcement in respect of the Company's share reform progress | "Shanghai Securities News" and China Securities Journal; "South China Morning Post" and "Hong Kong Commercial Daily" of Hong Kong | 26 March 2007 | Same as above |
| Announcement of the Resolutions Passed at the 18th Meeting of the 5th Session of the Board of Directors | "Shanghai Securities News" and China Securities Journal; "South China Morning Post" and "Hong Kong Commercial Daily" of Hong Kong | 30 March 2007 | Same as above |
| Announcement of the 9th Meeting of the 5th Session of the Supervisory Committee | "Shanghai Securities News" and China Securities Journal; "South China Morning Post" and "Hong Kong Commercial Daily" of Hong Kong | 30 March 2007 | Same as above |
| Risk notification announcement in respect of the Company's share reform progress | "Shanghai Securities News" and China Securities Journal; "South China Morning Post" and "Hong Kong Commercial Daily" of Hong Kong | 2 April 2007 | Same as above |

**(15) Disclosure of Information** *(continued)*

| Item | Publication | Publishing Date | Websites and hyperlinks |
|---|---|---|---|
| Risk notification announcement in respect of the Company's share reform progress | "Shanghai Securities News" and China Securities Journal | 9 April 2007 | Same as above |
| Notification Announcement of the 2007 First Quarterly Results Turning Loss into Profits | "Shanghai Securities News" and China Securities Journal; "South China Morning Post" and "Hong Kong Commercial Daily" of Hong Kong | 10 April 2007 | Same as above |
| Risk notification announcement in respect of the Company's share reform progress | "Shanghai Securities News" and China Securities Journal | 16 April 2007 | Same as above |
| Risk notification announcement in respect of the Company's share reform progress | "Shanghai Securities News" and China Securities Journal | 23 April 2007 | Same as above |
| Announcement of Resolutions Passed at the 19th Meeting of the 5th Session of the Board of Directors | "Shanghai Securities News" and China Securities Journal; "South China Morning Post" and "Hong Kong Commercial Daily" of Hong Kong | 27 April 2007 | Same as above |
| Notice of 2006 Annual General Meeting | "Shanghai Securities News" and China Securities Journal; "South China Morning Post" and "Hong Kong Commercial Daily" of Hong Kong | 30 April 2007 | Same as above |
| Risk notification announcement in respect of the Company's share reform progress | "Shanghai Securities News" and China Securities Journal | 30 April 2007 | Same as above |
| Risk notification announcement in respect of the Company's share reform progress | "Shanghai Securities News" and China Securities Journal | 14 May 2007 | Same as above |
| Risk notification announcement in respect of the Company's share reform progress | "Shanghai Securities News" and China Securities Journal | 21 May 2007 | Same as above |
| Risk notification announcement in respect of the Company's share reform progress | "Shanghai Securities News" and China Securities Journal | 28 May 2007 | Same as above |
| Risk notification announcement in respect of the Company's share reform progress | "Shanghai Securities News" and China Securities Journal | 4 June 2007 | Same as above |
| Risk notification announcement in respect of the Company's share reform progress | "Shanghai Securities News" and China Securities Journal | 11 June 2007 | Same as above |
| Risk notification announcement in respect of the Company's share reform progress | "Shanghai Securities News" and China Securities Journal | 18 June 2007 | Same as above |
| Announcement of Resolutions Passed at the 2006 Annual General Meeting | "Shanghai Securities News" and China Securities Journal; "South China Morning Post" and "Hong Kong Commercial Daily" of Hong Kong | 20 June 2007 | Same as above |
| Risk notification announcement in respect of the Company's share reform progress | "Shanghai Securities News" and China Securities Journal | 25 June 2007 | Same as above |
| Announcement of Resolutions Passed at the 20th Meeting the 5th Session of the Board of Directors | "Shanghai Securities News" and China Securities Journal | 29 June 2007 | Same as above |

## Documents for Inspection

(1) The Company's documents available for inspection are complete and comprise the following:

1. 2007 interim report signed by the Chairman of the Company;

2. Financial statements signed and sealed by the Company's legal representative, chief financial officer and head of Accounting Department;

3. Original copies of all documents and announcements of the Company disclosed in newspapers designated by China Securities Regulatory Commission during the reporting period;

4. The Company's Articles of Association.

(2) The Company has kept all the above documents in the Company's Secretariat Department

(3) All information as required by the Listing Rules Appendix 16 paragraph 46(1) to paragraph 46(6) will be disclosed on the websites of the Hong Kong Stock Exchange and that of the Company.

**Address:**

The Secretariat Department, No. 48 Jinyi Road, Jinshan District, Shanghai, PRC

Telephone: (8621) 5794-3143
Fax: (8621) 5794-0050
Web Site: http://www.spc.com.cn
E-mail: spc@spc.com.cn

# Financial Highlights

Prepared under PRC Accounting Standards for Business Enterprises (unaudited)

1. Major Accounting Data and Financial Indicators

| | As at 30 June 2007 | As at 31 December 2006 (After adjustment)Note | As at 31 December 2006 (Before adjustment)Note | Increase as compared to the end of the previous year (%) |
|---|---|---|---|---|
| Total assets (RMB'000) | **29,213,884** | 28,098,679 | 27,684,200 | 3.97 |
| Shareholders' equity (excluding minority interests)(RMB'000) | **21,146,596** | 19,412,895 | 19,273,088 | 8.93 |
| Net asset value per share (RMB) | **2.937** | 2.696 | 2.677 | 8.94 |

| | For the Six-month period ended 30 June 2007 | 2006 (After adjustment)Note | 2006 (Before adjustment)Note | Increase of this reporting period as compared to the corresponding period of the previous year (%) |
|---|---|---|---|---|
| Operating profit (RMB'000) | **2,493,081** | 53,086 | (179,725) | 4,596.31 |
| Profit before taxation (RMB'000) | **2,452,243** | 30,846 | 17,051 | 7,849.95 |
| Net profit/(loss) attributable to equity shareholders of the Company (RMB'000) | **1,751,897** | (15,898) | (27,560) | - |
| Net profit / (loss) excluding non-recurring items (RMB'000) | **1,510,975** | (17,295) | 12,432 | - |
| Basic earnings/(losses) per share (RMB) | **0.243** | (0.002) | (0.004) | - |
| Diluted earnings/(losses) per share (RMB) | **0.243** | (0.002) | (0.004) | - |
| Return on net assets(%) | **8.285** | (0.086) | (0.150) | 8.371 percentage points increase |
| Net cash flow from operating activities (RMB'000) | **1,355,255** | 538,439 | 538,439 | 151.70 |
| Net cash flow per share from operating activities (RMB) | **0.188** | 0.075 | 0.075 | 151.70 |

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

2. Non-recurring items

| Non-recurring items | Amount RMB'000 |
|---|---|
| Gains from disposal of non-current assets | 387,617 |
| Net income of non-operating income/(expenses) other than those mentioned above | (28,032) |
| Less: Tax effect for the above items | (118,663) |
| Total | 240,922 |

3. Differences between financial statements prepared under PRC Accounting Standards for Business Enterprises and IFRS

| Items | Net Profit | Net Assets (excluding minority interests) |
|---|---|---|
| Under PRC Accounting Standards for Business Enterprises | 1,751,897 | 21,146,596 |
| Under IFRS | 1,785,569 | 20,743,716 |

Please refer to the part C of interim report for details of the description of differences.

4. Supplementary information for the financial statements prepared under PRC Accounting Standards for Business Enterprises

1) Return on net assets and earnings per share calculated in accordance with Rule 9 of "Regulations on the preparation of information disclosures by companies publicly issuing securities" issued by CSRC

| Profit for the reporting period | Return on net assets(%) | | Earnings per share(RMB) | |
|---|---|---|---|---|
| | Diluted | Weighted average | Basic earnings per share | Diluted earnings per share |
| Net profit attributable to the equity shareholders of the Company | 8.285 | 8.639 | 0.243 | 0.243 |
| Net profit attributable to the equity shareholders of the Company excluding non-recurring items | 7.145 | 7.451 | 0.210 | 0.210 |

4. Supplementary information for the financial statements prepared under PRC Accounting Standards for Business Enterprises *(continued)*

2) Reconciliation statement of differences in the Group's net profit for the six-month period ended 30 June 2006 between the new and old PRC accounting standards

| Item | Amount RMB'000 |
|---|---|
| Net loss for the six-month period ended 30 June 2006 | |
| (under old PRC Accounting Rules and Regulations) | (27,560) |
| Total retrospective adjustments | 47,278 |
| Including: | |
| Long-term equity investment differences | (425) |
| Income tax | (2,133) |
| Minority interests | 35,616 |
| Capitalisation of general borrowing costs | 14,220 |
| Net profit for the six-month period ended 30 June 2006 | |
| (under PRC Accounting Standards for Business Enterprises ) | 19,718 |
| **Supplementary information** | |
| Total other adjustments | 6,724 |
| Including: Amortisation of goodwill | 6,724 |
| Proforma net profit for the six-month period ended 30 June 2006 | 26,442 |

KPMG

## Review report to the board of directors of Sinopec Shanghai Petrochemical Company Limited For the six-month period ended 30 June 2007

### Introduction

We have reviewed the interim financial report set out on pages 31 to 47, which comprises the consolidated balance sheet of Sinopec Shanghai Petrochemical Company Limited as of 30 June 2007 and the related consolidated income statement, consolidated statement of changes in equity and condensed consolidated cash flow statement for the six-month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting" issued by the International Accounting Standards Board. The directors are responsible for the preparation and presentation of the interim financial report in accordance with International Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial report consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2007 is not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim financial reporting".

**KPMG**
**Certified Public Accountants**
**8th Floor, Prince's Building**
**10 Chater Road**
**Central, Hong Kong**
**24 August 2007**

# A. Interim Financial Report prepared under International Accounting Standard 34 "Interim Financial Reporting" *(see note 1)*

## Consolidated Income Statement For the six-month period ended 30 June 2007 *(unaudited)*

| | | Six-month period ended 30 June | |
|---|---|---|---|
| | | **2007** | 2006 |
| | Note | **RMB'000** | RMB'000 |
| **Turnover** | 2 | **26,820,241** | 23,440,275 |
| **Less : Sales taxes and surcharges** | | **(352,076)** | (316,004) |
| **Net sales** | | **26,468,165** | 23,124,271 |
| **Cost of sales** | | **(24,413,090)** | (22,931,817) |
| **Gross profit** | | **2,055,075** | 192,454 |
| Selling and administrative expenses | | **(243,101)** | (281,013) |
| Other operating income | | **476,533** | 130,536 |
| Other operating expenses | | | |
| Employee reduction expenses | | **(50,733)** | (19,810) |
| Others | | **(64,805)** | (42,289) |
| Total other operating expenses | | **(115,538)** | (62,099) |
| **Profit /(loss) from operations** | | **2,172,969** | (20,122) |
| Share of profits of associates and jointly controlled entities | | **384,912** | 180,156 |
| Net financing costs | | **(88,757)** | (107,335) |
| **Profit before taxation** | 2,3 | **2,469,124** | 52,699 |
| Taxation | 4 | **(653,094)** | (11,390) |
| **Profit after taxation** | | **1,816,030** | 41,309 |
| **Attributable to:** | | | |
| Equity shareholders of the Company | | **1,785,569** | 5,693 |
| Minority interests | | **30,461** | 35,616 |
| **Profit after taxation** | | **1,816,030** | 41,309 |
| **Basic earnings per share** | 5 | **RMB0.248** | RMB 0.001 |

The notes on pages 34 to 47 form part of this unaudited interim financial report.

## Consolidated Balance Sheet As at 30 June 2007 *(unaudited)*

| | Note | **At 30 June 2007 RMB'000** | At 31 December 2006 RMB'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 7 | **14,102,728** | 13,359,862 |
| Investment property | 8 | **496,600** | 501,904 |
| Construction in progress | | **1,052,683** | 2,008,447 |
| Interests in associates and jointly controlled entities | | **2,910,307** | 2,787,795 |
| Investments | | **766,651** | 528,931 |
| Lease prepayments and other assets | | **644,574** | 603,290 |
| Goodwill | | **22,415** | 22,415 |
| Deferred tax assets | | **-** | 30,310 |
| **Total non-current assets** | | **19,995,958** | 19,842,954 |
| **Current assets** | | | |
| Inventories | | **5,091,209** | 4,163,256 |
| Trade debtors | 9 | **268,858** | 358,690 |
| Bills receivable | 9 | **1,373,676** | 1,212,110 |
| Deposits, other debtors and prepayments | | **207,445** | 239,114 |
| Amounts due from related parties | 9 | **735,247** | 695,286 |
| Cash and cash equivalents | | **801,499** | 894,650 |
| **Total current assets** | | **8,477,934** | 7,563,106 |
| **Current liabilities** | | | |
| Loans and borrowings | 10 | **2,869,266** | 4,270,337 |
| Trade creditors | 11 | **1,355,690** | 1,385,577 |
| Bills payable | 11 | **36,690** | 7,026 |
| Other creditors | | **984,717** | 732,951 |
| Amounts due to related parties | 11 | **682,053** | 599,773 |
| Income tax payable | | **408,747** | 34,386 |
| **Total current liabilities** | | **6,337,163** | 7,030,050 |
| **Net current assets** | | **2,140,771** | 533,056 |
| **Total assets less current liabilities** | | **22,136,729** | 20,376,010 |
| **Non-current liabilities** | | | |
| Loans and borrowings | 10 | **989,945** | 1,063,654 |
| Deferred tax liabilities | | **42,280** | - |
| **Total non-current liabilities** | | **1,032,225** | 1,063,654 |
| **Net assets** | | **21,104,504** | 19,312,356 |
| **Shareholders' equity** | | | |
| Share capital | 12 | **7,200,000** | 7,200,000 |
| Reserves | 12 | **13,543,716** | 11,776,343 |
| **Total equity attributable to equity shareholders of the Company** | | **20,743,716** | 18,976,343 |
| **Minority interests** | | **360,788** | 336,013 |
| **Total equity** | | **21,104,504** | 19,312,356 |

Approved and authorised for issue by the Board of Directors on 24 August 2007.

| | |
|---|---|
| **Rong Guangdao** | **Han Zhihao** |
| *Chairman and President* | *Director and Chief Financial Officer* |

The notes on pages 34 to 47 form part of this unaudited interim financial report.

## Consolidated Statement of Changes in Shareholders' Equity For the six-month period ended 30 June 2007 *(unaudited)*

| | Note | Share capital RMB'000 | Share premium RMB'000 | Reserves RMB'000 | Retained earnings RMB'000 | Minority interests RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|
| As at 1 January 2006 | | 7, 200,000 | 2,420,841 | 4,392,598 | 4,816,548 | 347,453 | 19,177,440 |
| Profit attributable to shareholders | | - | - | - | 5,693 | 35,616 | 41,309 |
| Dividend approved in respect of previous year | 6 | - | - | - | (720,000) | - | (720,000) |
| Dividends paid to minority shareholders | | - | - | - | - | (77,271) | (77,271) |
| As at 30 June 2006 | | 7, 200,000 | 2,420,841 | 4,392,598 | 4,102,241 | 305,798 | 18,421,478 |
| As at 1 January 2007 | | 7, 200,000 | 2,420,841 | 4,488,232 | 4,867,270 | 336,013 | 19,312,356 |
| Appropriation | 12(a) | - | - | 11,786 | (11,786) | - | - |
| Profit attributable to shareholders | | - | - | - | 1,785,569 | 30,461 | 1,816,030 |
| Changes in fair value of available-for-sale securities | 12(b) | - | - | 546,594 | - | - | 546,594 |
| Transfer to profit or loss on disposal of available-for-sale securities | 12(b) | - | - | (276,790) | - | - | (276,790) |
| Dividend approved in respect of previous year | 6 | - | - | - | (288,000) | - | (288,000) |
| Dividends paid to minority shareholders | | - | - | - | - | (5,686) | (5,686) |
| As at 30 June 2007 | | 7, 200,000 | 2,420,841 | 4,769,822 | 6,353,053 | 360,788 | 21,104,504 |

## Condensed Consolidated Cash Flow Statement For the six-month period ended 30 June 2007 *(unaudited)*

| | Six-month period ended 30 June | |
|---|---|---|
| | **2007** | 2006 |
| | **RMB'000** | RMB'000 |
| Net cash generated from operating activities | **1,243,445** | 376,988 |
| Net cash generated from / (used in) investing activities | **142,962** | (850,775) |
| Net cash used in financing activities | **(1,478,550)** | (79,373) |
| Net decrease in cash and cash equivalents | **(92,143)** | (553,160) |
| Cash and cash equivalents at the beginning of the period | **894,650** | 1,347,237 |
| Effect of exchange rate fluctuations on cash held | **(1,008)** | (825) |
| Cash and cash equivalents at the end of the period | **801,499** | 793,252 |

The notes on pages 34 to 47 form part of this unaudited interim financial report.

## Notes to the unaudited interim financial report

### 1. Principal activities and basis of preparation

Sinopec Shanghai Petrochemical Company Limited ("the Company") and its subsidiaries (collectively "the Group") is a highly integrated entity which processes crude oil into synthetic fibres, resins and plastics, intermediate petrochemicals and petroleum products. The Company is a subsidiary of China Petroleum & Chemical Corporation ("Sinopec Corp").

This interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity", issued by the Hong Kong Institute of Certified Public Accountants. KPMG's independent review report to the Board of Directors is included on page 30.

The interim financial report has been prepared in accordance with the requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard 34 "Interim Financial Reporting" adopted by the International Accounting Standards Board ("IASB").

The preparation of interim financial report in conformity with International Financial Reporting Standards 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 those estimates.

The financial information relating to the financial year ended 31 December 2006 included in the interim financial report do not constitute the Company's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2006 are available from the Company's registered office. The Company's independent auditors have expressed an unqualified opinion on those financial statements in their audit report dated 29 March 2007.

The accounting policies have been consistently applied by the Group and are consistent with those adopted in the 2006 annual financial statements. The 2006 annual financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") promulgated by the IASB. IFRSs include International Accounting Standards ("IAS") and related interpretations.

## 2. Segment reporting

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

| | Six-month period ended 30 June | |
|---|---|---|
| | **2007** | 2006 |
| **Turnover** | **RMB'000** | RMB'000 |
| **Manufactured products** | | |
| *Synthetic fibres* | | |
| -External sales | **2,304,678** | 2,312,743 |
| -Intersegment sales | **46** | 38 |
| Total | **2,304,724** | 2,312,781 |
| *Resins and plastics* | | |
| -External sales | **8,117,734** | 7,606,847 |
| -Intersegment sales | **35,115** | 29,577 |
| Total | **8,152,849** | 7,636,424 |
| *Intermediate petrochemicals* | | |
| -External sales | **4,202,885** | 3,048,549 |
| -Intersegment sales | **8,440,840** | 6,340,998 |
| Total | **12,643,725** | 9,389,547 |
| *Petroleum products* | | |
| -External sales | **10,069,800** | 9,074,588 |
| -Intersegment sales | **782,449** | 663,223 |
| Total | **10,852,249** | 9,737,811 |
| *All others* | | |
| -External sales | **2,125,144** | 1,397,548 |
| -Intersegment sales | **1,535,505** | 1,890,620 |
| **Total** | **3,660,649** | 3,288,168 |
| **Elimination of intersegment sales** | **(10,793,955)** | (8,924,456) |
| **Consolidated turnover** | **26,820,241** | 23,440,275 |

External sales include sales to other Sinopec Corp group companies.

## 2. Segment reporting *(continued)*

| Profit before taxation | Six-month period ended 30 June 2007 RMB'000 | 2006 RMB'000 |
|---|---|---|
| **Segment result** | | |
| Synthetic fibres | **103,440** | 84,956 |
| Resins and plastics | **576,169** | 500,963 |
| Intermediate petrochemicals | **520,432** | 272,977 |
| Petroleum products | **477,217** | (941,320) |
| All others | **82,592** | 62,302 |
| **Segment result** | **1,759,850** | (20,122) |
| **Unallocated other operating income** | **413,119** | - |
| **Consolidated profit/(loss) from operations** | **2,172,969** | (20,122) |
| **Share of profits of associates and jointly controlled entities** | **384,912** | 180,156 |
| **Net financing costs** | **(88,757)** | (107,335) |
| **Consolidated profit before taxation** | **2,469,124** | 52,699 |

## 3. Profit before taxation

Profit before taxation is arrived at after charging/(crediting):

| | Six-month period ended 30 June 2007 RMB'000 | 2006 RMB'000 |
|---|---|---|
| Interest on bank loans and advances | **160,830** | 183,908 |
| Less: Amount capitalised as construction in progress | **(35,307)** | (26,859) |
| Interest expense, net | **125,523** | 157,049 |
| Cost of inventories sold | **24,413,090** | 22,931,817 |
| Depreciation | **817,110** | 909,990 |
| Amortisation of lease prepayment and other assets | **8,372** | 6,244 |
| Net loss on disposal of property, plant and equipment | **12,806** | 73 |
| Amortisation of deferred income | **-** | (5,759) |

## 4. Taxation

Taxation in the consolidated income statement represents:

| | Six-month period ended 30 June | |
|---|---|---|
| | **2007** | 2006 |
| | **RMB'000** | RMB'000 |
| Provision for PRC income tax for the period | **676,220** | 15,679 |
| Deferred taxation | **(23,126)** | (4,289) |
| | **653,094** | 11,390 |

It has come to the Company's attention that the State Administration of Taxation issued a notice 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 is 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 has applied the preferential EIT rate of 15% in prior years. At present, the Company is actively communicating with the relevant tax authority to assess the specific situation, and up to now, has been informed that the EIT rate for the Company would be adjusted from the original 15% to 33% from 2007. At this stage, the directors of the Company consider that it is uncertain whether the relevant tax authorities will retrospectively claim additional EIT from the Company in respect of any prior years, and it is not possible to reliably estimate the eventual outcome of this matter. Accordingly, no provision in respect of the EIT differences has been made in the financial statements.

The charge for PRC income tax for the period is therefore 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 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 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 30 June 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.

## 5. Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to shareholders of the Company for the period of RMB 1,785,569,000 (period ended 30 June 2006: RMB 5,693,000) and 7,200,000,000 (period ended 30 June 2006: 7,200,000,000) shares in issue during the period.

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

## 6. Dividends

| | Six-month period ended 30 June | |
|---|---|---|
| | **2007** | 2006 |
| | **RMB'000** | RMB'000 |
| Final dividend in respect of the previous financial year,approved during the period, of RMB 0.04 per share (2006: RMB 0.10 per share) | **288,000** | 720,000 |

Pursuant to a resolution passed at the Annual General Meeting held on 19 June 2007, a final dividend of RMB 288,000,000 (2006: RMB 720,000,000) was declared and approved for the year ended 31 December 2006. The Directors do not recommend the payment of an interim dividend for the period (2006: RMB Nil).

## 7. Property, plant and equipment

| | **30 June 2007** | 31 December 2006 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| **Cost or valuation:** | | |
| At 1 January | **32,163,530** | 32,204,419 |
| Additions | **19,748** | 189,047 |
| Transferred from construction in progress | **1,626,614** | 630,904 |
| Disposals | **(201,323)** | (860,840) |
| At 30 June / 31 December | **33,608,569** | 32,163,530 |
| **Accumulated depreciation and impairment losses:** | | |
| At 1 January | **18,803,668** | 17,553,252 |
| Charge for the period/year | **810,482** | 1,810,990 |
| Impairment loss | **-** | 50,000 |
| Written back on disposals | **(108,309)** | (610,574) |
| At 30 June / 31 December | **19,505,841** | 18,803,668 |
| **Net book value:** | | |
| Balance at 30 June / 31 December | **14,102,728** | 13,359,862 |

## 8. Investment Property

| | **30 June 2007** | 31 December 2006 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| **Cost:** | | |
| At 1 January | **528,465** | 512,343 |
| Additions | **1,324** | 16,122 |
| At 30 June / 31 December | **529,789** | 528,465 |
| **Accumulated depreciation:** | | |
| At 1 January | **26,561** | 13,883 |
| Charge for the period / year | **6,628** | 12,678 |
| At 30 June / 31 December | **33,189** | 26,561 |
| **Net book value:** | | |
| At 30 June / 31 December | **496,600** | 501,904 |

8. **Investment Property** *(continued)*

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 as at 30 June 2007 is estimated by the directors to be approximately RMB 635,008,000, by reference to market conditions (31 December 2006: RMB 622,098,000). The investment property has not been valued by an external independent valuer.

Rental income of RMB 21,005,000 was received during the period ended 30 June 2007 (period ended 30 June 2006: RMB 26,228,000).

9. **Trade accounts receivable**

| | **At 30 June 2007 RMB'000** | At 31 December 2006 RMB'000 |
|---|---|---|
| Trade debtors | **294,629** | 389,601 |
| Less: Impairment losses for bad and doubtful debts | **(25,771)** | (30,911) |
| | **268,858** | 358,690 |
| Bills receivable | **1,373,676** | 1,212,110 |
| Amounts due from related parties | **735,247** | 695,286 |
| | **2,377,781** | 2,266,086 |

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

| | **At 30 June 2007 RMB'000** | At 31 December 2006 RMB'000 |
|---|---|---|
| Invoice date: | | |
| Within one year | **2,371,479** | 2,255,783 |
| Between one and two years | **6,302** | 10,303 |
| | **2,377,781** | 2,266,086 |

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

## 10. Loans and borrowings

| | At 30 June 2007 RMB'000 | At 31 December 2006 RMB'000 |
|---|---|---|
| Short-term loans | **847,808** | 1,853,692 |
| Corporate bonds (Note a) | **2,000,000** | 2,000,000 |
| Current portion of long-term bank loans | **21,458** | 416,645 |
| Loans and borrowings-current | **2,869,266** | 4,270,337 |
| Loans and borrowings-non-current | **989,945** | 1,063,654 |
| | **3,859,211** | 5,333,991 |

Note a:

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 will mature on 12 December 2007.

## 11. Trade accounts payable

| | At 30 June 2007 RMB'000 | At 31 December 2006 RMB'000 |
|---|---|---|
| Trade creditors | **1,355,690** | 1,385,577 |
| Bills payable | **36,690** | 7,026 |
| Amounts due to related parties | **682,053** | 599,773 |
| | **2,074,433** | 1,992,376 |

The maturity analysis of trade accounts payable is as follows:

| | At 30 June 2007 RMB'000 | At 31 December 2006 RMB'000 |
|---|---|---|
| Due within 1 month or on demand | **1,773,414** | 1,677,458 |
| Due after 1 month and within 3 months | **301,019** | 314,918 |
| | **2,074,433** | 1,992,376 |

## 12. Capital and reserves

| | Note | Share capital RMB'000 | Share premium RMB'000 | Statutory surplus reserve RMB'000 | General surplus reserve RMB'000 | Capital reserve RMB'000 | Discretionary surplus reserves RMB'000 | Excess over share capital RMB'000 | Fair value reserve RMB'000 | Retained profits RMB'000 | Total RMB'000 | Minority interests RMB'000 | Total equity RMB'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Attributable to equity shareholders of the Company | | | | | | | | | | | |
| At 1 January 2006: | | 7,200,000 | 2,420,841 | 3,174,419 | 82,089 | 4,180 | 1,280,514 | (148,604) | - | 4,816,548 | 18,829,987 | 347,453 | 19,177,440 |
| Dividends approved in respect of the previous year | 6 | - | - | - | - | - | - | - | - | (720,000) | (720,000) | - | (720,000) |
| Dividends paid to minority shareholders | | - | - | - | - | - | - | - | - | - | - | (77,271) | (77,271) |
| Profit for the period | | - | - | - | - | - | - | - | - | 5,693 | 5,693 | 35,616 | 41,309 |
| At 30 June 2006 | | 7,200,000 | 2,420,841 | 3,174,419 | 82,089 | 4,180 | 1,280,514 | (148,604) | - | 4,102,241 | 18,115,680 | 305,798 | 18,421,478 |
| At 1 July 2006 | | 7,200,000 | 2,420,841 | 3,174,419 | 82,089 | 4,180 | 1,280,514 | (148,604) | - | 4,102,241 | 18,115,680 | 305,798 | 18,421,478 |
| Appropriation | | - | - | 73,685 | - | - | - | - | - | (73,685) | - | - | - |
| Change in fair value of available-for-sale equity securities | (b) | - | - | - | - | - | - | - | 21,949 | - | 21,949 | - | 21,949 |
| Profit for the period | | - | - | - | - | - | - | - | - | 838,714 | 838,714 | 30,939 | 869,653 |
| Dividends paid to minority shareholders | | - | - | - | - | - | - | - | - | - | - | (724) | (724) |
| At 31 December 2006 | | 7,200,000 | 2,420,841 | 3,248,104 | 82,089 | 4,180 | 1,280,514 | (148,604) | 21,949 | 4,867,270 | 18,976,343 | 336,013 | 19,312,356 |

## 12. Capital and reserves *(continued)*

| | Note | Share capital RMB'000 | Share premium RMB'000 | Statutory surplus reserve RMB'000 | General surplus reserve RMB'000 | Capital reserve RMB'000 | Discretionary surplus reserves RMB'000 | Excess over share capital RMB'000 | Fair value reserve RMB'000 | Retained profits RMB'000 | Total RMB'000 | Minority interests RMB'000 | Total equity RMB'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Attributable to equity shareholders of the Company | | | | | | | | | | | |
| At 1 January 2007: | | 7,200,000 | 2,420,841 | 3,248,104 | 82,089 | 4,180 | 1,280,514 | (148,604) | 21,949 | 4,867,270 | 18,976,343 | 336,013 | 19,312,356 |
| Appropriation | (a) | - | - | 11,786 | - | - | - | - | - | (11,786) | - | - | - |
| Dividends approved in respect of the previous year | 6 | - | - | - | - | - | - | - | - | (288,000) | (288,000) | - | (288,000) |
| Dividends paid to minority shareholders | | - | - | - | - | - | - | - | - | - | - | (5,686) | (5,686) |
| Changes in fair value of available-for-sale securities | (b) | - | - | - | - | - | - | - | 546,594 | - | 546,594 | - | 546,594 |
| Transfer to profit or loss on disposal of available-for-sale securities | (b) | - | - | - | - | - | - | - | (276,790) | - | (276,790) | - | (276,790) |
| Profit for the period | | - | - | - | - | - | - | - | - | 1,785,569 | 1,785,569 | 30,461 | 1,816,030 |
| At 30 June 2007 | | 7,200,000 | 2,420,841 | 3,259,890 | 82,089 | 4,180 | 1,280,514 | (148,604) | 291,753 | 6,353,053 | 20,743,716 | 360,788 | 21,104,504 |

Notes:

(a) Commencing from 1 January 2007, the Group has adopted the PRC 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 PRC Accounting Rules and Regulations 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 period.

(b) 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 period end.

## 13. Related party transactions

*(a)* Most of the transactions undertaken by the Group during the six-month period ended 30 June 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 other 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 six-month period ended 30 June 2007, the value of crude oil purchased in accordance with Sinopec Corp's allocation was as follows:

| | Six-month period ended 30 June | |
|---|---|---|
| | **2007** | 2006 |
| | **RMB'000** | RMB'000 |
| Purchases of crude oil | **15,057,510** | 15,173,359 |

*(b)* Other transactions between the Group and other related parties during the six-month period ended 30 June 2007 were as follows:

| | Six-month period ended 30 June | |
|---|---|---|
| | **2007** | 2006 |
| | **RMB'000** | RMB'000 |
| Sales of goods and service fee income | **10,442,978** | 9,153,900 |
| Purchases other than crude oil | **1,923,125** | 1,151,915 |
| Insurance premiums paid | **49,833** | 47,544 |
| Net withdrawal from deposits in a related party | **53,696** | 28,321 |
| Interest received and receivable | **273** | 182 |
| Loans borrowed | **180,000** | 448,000 |
| Loans repayment | **-** | 448,000 |
| Interest paid and payable | **903** | 4,085 |
| Transportation fees | **125,233** | 177,120 |
| Construction and installation fees | **64,737** | 117,349 |
| Gains from disposal of investments | **14,585** | 24,308 |
| Sales commissions | **93,891** | 93,234 |
| Net decrease of guarantees | **28,750** | 3,553 |

## 13. Related party transactions *(continued)*

*(c)* Deposits with related parties

| | At 30 June 2007 RMB'000 | At 31 December 2006 RMB'000 |
|---|---|---|
| Deposits, with maturity within 3 months | **26,217** | 79,913 |

*(d)* Loans with related parties

| | At 30 June 2007 RMB'000 | At 31 December 2006 RMB'000 |
|---|---|---|
| Short-term loans | **80,000** | - |
| Long-term loans | **100,000** | - |
| | **180,000** | - |

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

| | Six-month period ended 30 June | |
|---|---|---|
| | **2007** | 2006 |
| | **RMB'000** | RMB'000 |
| Short-term employee benefits | **2,638** | 3,616 |
| Post-employment benefits | **16** | 18 |
| | **2,654** | 3,634 |

Post-employment benefits are included in "contributions to defined contribution retirement plans" as disclosed in Note 13(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:

| | Six-month period ended 30 June | |
|---|---|---|
| | **2007** | 2006 |
| | **RMB'000** | RMB'000 |
| Municipal retirement scheme costs | **96,181** | 99,703 |
| Supplementary retirement scheme costs | **22,242** | 30,744 |

At 30 June 2007 and 31 December 2006, there was no material outstanding contribution to post-employment benefit plans.

13. **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 potential for transactions to be impacted 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 six-month period ended 30 June 2007, the aggregate amount of crude oil purchased by the Group from CNOOC Group was RMB 1,336,182,000 (period ended 30 June 2006: RMB 862,530,000).

The amounts due from / to CNOOC Group are nil as at 30 June 2007 (31 December 2006: Nil).

## 13. 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:

| | Six-month period ended 30 June | |
|---|---|---|
| | **2007** | 2006 |
| | **RMB'000** | RMB'000 |
| Interest income | **21,371** | 17,431 |
| Interest expenses | **113,232** | 141,085 |

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

| | **At 30 June** | At 31 December |
|---|---|---|
| | **2007** | 2006 |
| | **RMB'000** | RMB'000 |
| Cash and cash equivalents at state-controlled banks in the PRC | **716,045** | 731,971 |
| Short-term loans and current portion of long-term loans | **778,766** | 2,245,225 |
| Long-term loans excluding current portion of long-term loans | **810,000** | 983,710 |
| Total loans from state-controlled banks in the PRC | **1,588,766** | 3,228,935 |

## 14. Capital commitments

The Group had capital commitments outstanding as at 30 June 2007 and 31 December 2006 not provided for in the financial statements as follows:

| | **At 30 June 2007 RMB'000** | At 31 December 2006 RMB'000 |
|---|---|---|
| Property, plant and equipment | | |
| Contracted but not provided for | **495,705** | 398,335 |
| Authorised by the Board but not contracted for | **1,406,029** | 2,061,660 |
| | **1,901,734** | 2,459,995 |

## 15. Contingent liabilities

(a) Financial guarantees issued

| | **At 30 June 2007 RMB'000** | At 31 December 2006 RMB'000 |
|---|---|---|
| Guarantees issued to banks in favour of: | | |
| - associates | **14,500** | 40,000 |
| - joint ventures | **6,500** | 9,750 |
| | **21,000** | 49,750 |

Guarantees issued to banks in favour of 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 30 June 2007, 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 guarantees arrangement.

(b) Income tax differences

As discussed in Note 4, the Group has certain income tax exposures with regard to prior years. At this stage, the Company is still in the process of communicating with the relevant tax authorities over this matter and is not in a position to reliably estimate the eventual outcome.

# B. Interim Financial Statements prepared under PRC Accounting Standards for Business Enterprises (ASBE 2006)

## Balance Sheet *(Unaudited)*

| | | The Group | | The Company | |
|---|---|---|---|---|---|
| | | **At 30 June 2007** | At 31 December 2006 | **At 30 June 2007** | At 31 December 2006 |
| | Note | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| **Assets** | | | | | |
| **Current assets** | | | | | |
| Cash at bank and in hand | 7 | **801,499** | 894,650 | **406,022** | 551,693 |
| Bills receivable | 8 | **1,432,661** | 1,273,233 | **1,134,563** | 980,026 |
| Trade debtors | 9 | **771,368** | 624,890 | **565,434** | 347,630 |
| Advance payments | 10 | **171,346** | 350,895 | **153,013** | 328,882 |
| Other debtors | 11 | **209,851** | 236,227 | **133,662** | 241,935 |
| Inventories | 12 | **5,091,209** | 4,163,256 | **4,613,904** | 3,584,431 |
| **Total current assets** | | **8,477,934** | 7,543,151 | **7,006,598** | 6,034,597 |
| **Non-current assets** | | | | | |
| Available-for-sale financial assets | 13 | **402,077** | 81,119 | **376,972** | 66,994 |
| Long-term equity investments | 14 | **3,568,924** | 3,536,402 | **5,234,955** | 5,524,040 |
| Investment property | 15 | **496,600** | 501,904 | **576,787** | 584,247 |
| Fixed assets | 16 | **14,398,154** | 13,606,924 | **12,847,156** | 11,842,516 |
| Construction in progress | 17 | **1,054,033** | 2,009,797 | **1,050,892** | 2,006,056 |
| Intangible assets | 18 | **572,530** | 605,719 | **467,241** | 496,160 |
| Long-term deferred expenses | | **196,160** | 185,180 | **188,905** | 176,213 |
| Deferred tax assets | 19 | **47,472** | 28,483 | **47,472** | 28,483 |
| **Total non-current assets** | | **20,735,950** | 20,555,528 | **20,790,380** | 20,724,709 |
| **Total assets** | | **29,213,884** | 28,098,679 | **27,796,978** | 26,759,306 |

The notes on pages 55 to 122 form part of these unaudited financial statements.

## Balance Sheet *(Unaudited) (continued)*

| | | The Group | | The Company | |
|---|---|---|---|---|---|
| | | **At 30 June 2007** | At 31 December 2006 | **At 30 June 2007** | At 31 December 2006 |
| | Note | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| **Liabilities and shareholders' equity** | | | | | |
| **Current liabilities** | | | | | |
| Short-term loans | 21 | **847,808** | 1,853,692 | **527,808** | 1,618,692 |
| Bills payable | 22 | **45,490** | 42,726 | **35,953** | 1,141 |
| Trade creditors | 22 | **1,627,347** | 1,510,688 | **1,286,739** | 879,972 |
| Receipts in advance | 22 | **366,941** | 403,620 | **317,175** | 373,774 |
| Staff costs payable | 24 | **52,914** | 89,458 | **36,753** | 39,800 |
| Taxes payable | 5(3) | **470,934** | 269,498 | **445,686** | 271,382 |
| Interests payable | | **58,440** | 26,386 | **54,175** | 26,386 |
| Dividend payable | 25 | **307,232** | - | **299,921** | - |
| Other payables | 22 | **521,099** | 397,382 | **651,352** | 604,183 |
| Short-term debentures payable | 23 | **2,000,000** | 2,000,000 | **2,000,000** | 2,000,000 |
| Current portion of non-current liabilities | 26 | **21,458** | 416,645 | **10,958** | 383,034 |
| **Total current liabilities** | | **6,319,663** | 7,010,095 | **5,666,520** | 6,198,364 |
| **Non-current liabilities** | | | | | |
| Long-term loans | 26 | **989,945** | 1,063,654 | **700,000** | 873,710 |
| Deferred tax liabilities | 19 | **133,042** | 24,672 | **125,810** | 22,987 |
| Other non-current liabilities | 27 | **263,850** | 251,350 | **263,850** | 251,350 |
| **Total non-current liabilities** | | **1,386,837** | 1,339,676 | **1,089,660** | 1,148,047 |
| **Total liabilities** | | **7,706,500** | 8,349,771 | **6,756,180** | 7,346,411 |
| **Shareholders' equity** | | | | | |
| Share capital | 28 | **7,200,000** | 7,200,000 | **7,200,000** | 7,200,000 |
| Capital reserves | 29 | **3,237,360** | 2,967,556 | **3,222,677** | 2,967,556 |
| Surplus reserves | 30 | **4,622,493** | 4,622,493 | **4,622,493** | 4,622,493 |
| Undistributed profits | | **6,086,743** | 4,622,846 | **5,995,628** | 4,622,846 |
| Total equity attributable to equity shareholders of the Company | | **21,146,596** | 19,412,895 | **21,040,798** | 19,412,895 |
| Minority interests | 6(1) | **360,788** | 336,013 | **-** | - |
| **Total equity** | | **21,507,384** | 19,748,908 | **21,040,798** | 19,412,895 |
| **Total liabilities and shareholders' equity** | | **29,213,884** | 28,098,679 | **27,796,978** | 26,759,306 |

The notes on pages 55 to 122 form part of these unaudited financial statements.

# Income Statement *(Unaudited)*

| | | Six-month period ended 30 June | | | |
|---|---|---|---|---|---|
| | | The Group | | The Company | |
| | | **2007** | 2006 | **2007** | 2006 |
| | Note | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| **Operating income** | 31 | **26,883,431** | 23,851,045 | **23,917,553** | 21,425,511 |
| Less: Cost of sales | 32 | **23,678,698** | 22,382,703 | **20,974,168** | 20,285,955 |
| Sales taxes and surcharges | 33 | **352,076** | 316,004 | **345,312** | 311,853 |
| Selling expenses | | **243,101** | 281,013 | **197,250** | 221,177 |
| Administrative expenses | | **813,358** | 912,811 | **694,282** | 785,608 |
| Financial expenses | 34 | **88,757** | 107,335 | **70,934** | 86,579 |
| Impairment losses on assets | 35 | **(106)** | 36,494 | **143** | 33,272 |
| Add: Investment income | 36 | **785,534** | 238,401 | **702,066** | 294,381 |
| Including: Investment income from associates and jointly controlled entities | | **383,160** | 175,156 | **371,124** | 171,244 |
| **Operating profit / (loss)** | | **2,493,081** | 53,086 | **2,337,530** | (4,552) |
| Add: Non-operating income | 37 | **10,969** | 20,049 | **8,819** | 6,032 |
| Less: Non-operating expenses | 38 | **51,807** | 42,289 | **39,849** | 28,840 |
| Including: Losses on disposal of non-current assets | | **16,140** | 2,167 | **5,859** | 958 |
| **Profit / (loss) before taxation** | | **2,452,243** | 30,846 | **2,306,500** | (27,360) |
| Less: Income tax | 39 | **669,885** | 11,128 | **645,718** | (11,462) |
| **Net profit / (loss)** | | **1,782,358** | 19,718 | **1,660,782** | (15,898) |
| Attributable to equity shareholders of the Company | | **1,751,897** | (15,898) | **1,660,782** | (15,898) |
| Minority interests | | **30,461** | 35,616 | **-** | - |
| Basic and diluted earnings/(losses) per share | 49 | **0.243** | (0.002) | **0.231** | (0.002) |

The notes on pages 55 to 122 form part of these unaudited financial statements.

# Cash flow statement *(Unaudited)*

| | | Six-month period ended 30 June | | | |
|---|---|---|---|---|---|
| | | The Group | | The Company | |
| | | **2007** | 2006 | **2007** | 2006 |
| | Note | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| **Cash flows from operating activities:** | | | | | |
| Cash received from sale of goods and rendering of services | | **31,315,528** | 27,709,198 | **27,534,488** | 24,661,380 |
| Refund of taxes and levies | | **9,679** | 58,584 | **-** | 52,285 |
| Other cash received relating to operating activities | | **2,635** | 7,196 | **545** | 887 |
| **Sub-total of cash inflows** | | **31,327,842** | 27,774,978 | **27,535,033** | 24,714,552 |
| Cash paid for goods and services | | **(28,213,551)** | (25,873,987) | **(24,828,352)** | (23,092,032) |
| Cash paid to and on behalf of employees | | **(889,202)** | (840,955) | **(629,052)** | (584,373) |
| Taxes paid | | **(725,437)** | (432,761) | **(693,424)** | (389,352) |
| Other cash paid relating to operating activities | | **(164,397)** | (88,836) | **(167,276)** | (6,989) |
| **Sub-total of cash outflows** | | **(29,992,587)** | (27,236,539) | **(26,318,104)** | (24,072,746) |
| **Net cash flows from operating activities** | 40(1) | **1,335,255** | 538,439 | **1,216,929** | 641,806 |
| **Cash flows from investing activities:** | | | | | |
| Cash received from disposal of investments | | **477,873** | 162,761 | **392,781** | 82,800 |
| Cash received from investment income | | **269,351** | 39,362 | **549,575** | 149,966 |
| Cash received from disposal of fixed assets and intangible assets | | **47,133** | 73,426 | **31,702** | 325 |
| Other cash received relating to investing activities | | **21,644** | 20,605 | **18,068** | 16,746 |
| **Sub-total of cash inflows** | | **816,001** | 296,154 | **992,126** | 249,837 |

The notes on pages 55 to 122 form part of these unaudited financial statements.

## Cash flow statement *(Unaudited) (continued)*

| | | Six-month period ended 30 June | | | |
|---|---|---|---|---|---|
| | | The Group | | The Company | |
| | | **2007** | 2006 | **2007** | 2006 |
| | Note | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Cash paid for acquisition of fixed assets and intangible assets | | **(673,039)** | (1,126,970) | **(656,148)** | (1,019,220) |
| Cash paid for purchase of investments | | **-** | (19,959) | **-** | - |
| **Sub-total of cash outflows** | | **(673,039)** | (1,146,929) | **(656,148)** | (1,019,220) |
| **Net cash flows from investing activities** | | **142,962** | (850,775) | **335,978** | (769,383) |
| **Cash flows from financing activities:** | | | | | |
| Proceeds from issuance of corporate bonds | | **-** | 977,800 | **-** | 977,800 |
| Proceeds from borrowings | | **7,315,948** | 7,759,585 | **6,960,948** | 7,498,156 |
| **Sub-total of cash inflows** | | **7,315,948** | 8,737,385 | **6,960,948** | 8,475,956 |
| Repayment of borrowings | | **(8,773,440)** | (8,737,967) | **(8,586,613)** | (8,498,971) |
| Cash paid for dividends, profit distribution and interest | | **(112,868)** | (240,242) | **(72,877)** | (145,655) |
| **Sub-total of cash outflows** | | **(8,886,308)** | (8,978,209) | **(8,659,490)** | (8,644,626) |
| **Net cash flows from financing activities** | | **(1,570,360)** | (240,824) | **(1,698,542)** | (168,670) |
| **Effect of foreign exchange rate changes** | | **(1,008)** | (825) | **(36)** | (350) |
| **Net decrease in cash and cash equivalents** | 40(2) | **(93,151)** | (553,985) | **(145,671)** | (296,597) |
| Add: Cash and cash equivalents at the beginning of the period | | **894,650** | 1,347,237 | **551,693** | 821,564 |
| **Cash and cash equivalents at the end of the period** | | **801,499** | 793,252 | **406,022** | 524,967 |

The notes on pages 55 to 122 form part of these unaudited financial statements.

# Consolidated Statement of Changes in Shareholders' Equity *(Unaudited)*

| | Six-month period ended 30 June | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2007 | | | | | | | 2006 | | | | | | |
| | Equity attributable to equity shareholders of the Company | | | | | | | Equity attributable to equity shareholders of the Company | | | | | | |
| | Share Capital | Capital reserves | Surplus reserves | Undistributed profits | Sub-total | Minority interests | Total equity | Share Capital | Capital reserves | Surplus reserves | Undistributed profits | Sub-total | Minority interests | Total equity |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Balance at 1 January | 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 |
| Change in accounting policies | - | 21,949 | 11,786 | 106,072 | 139,807 | - | 139,807 | - | - | 9,516 | 85,641 | 95,157 | - | 95,157 |
| Balance at 1 January | 7,200,000 | 2,967,556 | 4,622,493 | 4,622,846 | 19,412,895 | 336,013 | 19,748,908 | 7,200,000 | 2,856,278 | 4,546,538 | 4,659,249 | 19,262,065 | 347,453 | 19,609,518 |
| Movements in the current period | | | | | | | | | | | | | | |
| Profit attributable to shareholders | - | - | - | 1,751,897 | 1,751,897 | 30,461 | 1,782,358 | - | - | - | (15,898) | (15,898) | 35,616 | 19,718 |
| Net gain recognised directly in equity | | | | | | | | | | | | | | |
| - Change in fair value of available-for-sale financial assets, net of deferred tax | - | 269,804 | - | - | 269,804 | - | 269,804 | - | - | - | - | - | - | - |
| Distributions to shareholders | - | - | - | (288,000) | (288,000) | (5,686) | (293,686) | - | - | - | (720,000) | (720,000) | (77,271) | (797,271) |
| Balance at 30 June | 7,200,000 | 3,237,360 | 4,622,493 | 6,086,743 | 21,146,596 | 360,788 | 21,507,384 | 7,200,000 | 2,856,278 | 4,546,538 | 3,923,351 | 18,526,167 | 305,798 | 18,831,965 |

The notes on pages 55 to 122 form part of these unaudited financial statements.

# Statement of Changes in Shareholders' Equity *(Unaudited)*

| | Six-month period ended 30 June | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2007** | | | | | 2006 | | | | |
| | **Share Capital RMB'000** | **Capital reserves RMB'000** | **Surplus reserves RMB'000** | **Undistributed profits RMB'000** | **Total equity RMB'000** | Share Capital RMB'000 | Capital reserves RMB'000 | Surplus reserves RMB'000 | Undistributed profits RMB'000 | Total equity RMB'000 |
| Balance at 1 January | **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 |
| Change in accounting policies | **-** | **21,949** | **11,786** | **106,072** | **139,807** | - | - | 9,516 | 85,641 | 95,157 |
| Balance at 1 January | **7,200,000** | **2,967,556** | **4,622,493** | **4,622,846** | **19,412,895** | 7,200,000 | 2,856,278 | 4,546,538 | 4,659,249 | 19,262,065 |
| Movements in the current period | | | | | | | | | | |
| Profit attributable to shareholders | **-** | **-** | **-** | **1,660,782** | **1,660,782** | - | - | - | (15,898) | (15,898) |
| Net gain recognised directly in equity | | | | | | | | | | |
| - Change in fair value of available-for-sale financial assets, net of deferred tax | **-** | **255,121** | **-** | **-** | **255,121** | - | - | - | - | - |
| Distributions to shareholders | **-** | **-** | **-** | **(288,000)** | **(288,000)** | - | - | - | (720,000) | (720,000) |
| Balance at 30 June | **7,200,000** | **3,222,677** | **4,622,493** | **5,995,628** | **21,040,798** | 7,200,000 | 2,856,278 | 4,546,538 | 3,923,351 | 18,526,167 |

The notes on pages 55 to 122 form part of these unaudited financial statements.

## Notes to the Unaudited Interim Financial Statements

*(Prepared under PRC Accounting Standards for Business Enterprises (ASBE 2006))*

### 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 6 "Business combination and consolidated financial statements".

### 2. Basis of preparation

Commencing from 1 January 2007, the financial statements of the Company have been prepared in accordance with the accounting policies in Note 3 making reference to the actual circumstances to the Group.

#### (1) Statement of compliance with the Accounting Standards for Business Enterprises("ASBE")

These financial statements have been prepared in accordance with the requirements of ASBE (2006) issued by the Ministry of Finance of the People's Republic of China ("MOF"), and present truly and wholly the consolidated financial position and financial position , the consolidated results of operations, results of operations, consolidated cash flows and cash flows of the Group

In the preparation of the financial statements, the Group, in compliance with the requirements of ASBE (2006) issued by the MOF on 25 February 2006, with analysis of related requirements on first-time adoption of ASBE for enterprises preparing financial reports under the applicable PRC Accounting Rules and Regulations and the International Financial Reporting Standards in prior years in "ASBE 38 - First Time Adoption of Accounting Standards for Business Enterprises", and "Expert's Opinion on Implementation of ASBE" issued by the ASBE Implementation Experts Panel under the Accounting Standard Committee of MOF on 1 February 2007, based on the opening balance of the balance sheet on 1 January 2007, adopting the principle of retrospective adjustments with considerations given to the actual situation of the Group, applied the accounting policies as stated in Note 3 to the financial statements presented above.

## 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 financial statements of the Group have been prepared using the historical cost basis, except for the assets and liabilities as set out below:

- available-for-sale financial assets (see Note 3(11))

### (4) Reporting currency

The Group's reporting currency is Renminbi. The Company's financial statements are prepared in Renminbi.

## 3. Significant accounting policies

### (1) Business combination and consolidated financial statements

(a) Business combination of entities under common control

A business combination of entities or businesses under common control is a business combination in which all of the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination, and that control is not temporary. The assets and liabilities that the acquirer receives in the acquisition are accounted for at the acquiree's carrying amount on the acquisition date. The difference between the carrying amount of the acquired net assets and the consideration paid for the acquisition (or the total nominal value of shares issued) is recognised in the capital reserve, or the retained profits in case of any shortfall in the capital reserve. The acquisition date is the date on which the acquirer effectively obtains control of the acquiree.

(b) Business combination of entities not under common control

A business combination of entities or businesses not under common control is a business combination in which all of the combining entities or businesses are not ultimately controlled by the same party or parties both before and after the business combination. The consideration of the acquisition, including assets paid and liabilities incurred or assumed on the purchase date, is measured at fair value. The difference between the fair value and the carrying amount of the consideration is recognised in the income statement. The purchase date is the date on which the Group effectively obtains control of the acquiree.

The Group allocates the cost of a business combination and recognises the fair value of the acquiree's each identifiable asset, liability or contingent liability on the purchase date.

## 3. Significant accounting policies *(continued)*

(b) Business combination of entities not under common control *(continued)*

The excess of the cost of acquisition over the fair value of identifiable net assets acquired is recognised as goodwill.

When the cost of acquisition is less than the fair value of identifiable net assets acquired, the Group will reassess the measurement of the fair value of each identifiable asset, liability or contingent liability acquired as well as the cost of acquisition. When the cost of acquisition is still less than the fair value of identifiable net assets acquired after the reassessment, the difference is charged to the income statement.

(c) Consolidated financial statements

The scope of consolidation is governed by the controlling interest and includes investees in which the Company, directly or indirectly through its subsidiaries, holds over 50% of the voting rights (except where evidence indicates that the Company cannot exercise control); or the Company holds 50% or less of the voting rights but can exercise control over the investees.

Subsidiaries acquired by the Company through a business combination of entities under common control are accounted for in the consolidated financial statements as if the Company obtains control over the subsidiaries at the same time as the ultimate controlling party of the Group does. The results of operation of subsidiaries acquired through a business combination under common control are included in the consolidated income statement in the period when the ultimate controlling party of the Group obtains control over the subsidiaries. Prior periods financial statements are restated accordingly.

The results of operation of subsidiaries acquired by the Company through a business combination of entities not under common control are included in the consolidated income statement from the purchase date. The results of operation of the acquired subsidiaries to be included in the consolidated financial statement consider the fair values of each identifiable asset, liability, and contingent liability on the purchase date.

Minority interests are presented separately in the consolidated financial statements.

Where the accounting policies or accounting period adopted by the subsidiaries are different from those adopted by the Company, adjustments are made to the subsidiaries' financial statements according to the Company's accounting policies or accounting period. All significant inter-company balances and transactions, and any unrealised gains arising from inter-company transactions are eliminated on consolidation.

### (2) Translation of foreign currencies

Foreign currency transactions during the period are translated into Renminbi at the applicable rate of exchange quoted by the People's Bank of China ("PBOC rates") prevailing on the transaction dates.

The applicable rate of exchange is the Renminbi rate of exchange issued by the People's Bank of China.

3. **Significant accounting policies** *(continued)*

(2) **Translation of foreign currencies** *(continued)*

Foreign currency monetary items are translated at the PBOC rates at the balance sheet date. Exchange differences, except for those directly related to the acquisition, construction or production of qualified assets (see Note 3(7)), are recognised as income or expenses in the income statement. Non-monetary items denominated in foreign currency carried at historical cost are not translated. Non-monetary items denominated in foreign currency that are carried at fair value are translated using the exchange rates at the date when the fair value is determined. The difference between the translated amount and the original currency amount is change to the income statement, otherwise is recognised in capital reserve, if the items are classified as available-for-sale financial assets.

(3) **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.

(4) **Inventories**

Inventories are stated at the lower of cost and net realisable value.

Cost includes the cost of purchase and processing, and other cost. Inventories are measured at their actual cost upon acquisition. The actual cost of inventories is calculated using the weighted average method. In addition to the cost of purchase of raw material, work in progress and finished goods include direct labour and an appropriate allocation of manufacturing 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 selling expenses and related taxes to make the sale.

Consumables, packaging and other ancillary materials are expensed or recognised as the costs of related assets when being consumed.

The Group's inventories are recorded by perpetual method.

(5) **Long-term equity investments**

(a) Investment in subsidiaries

The initial investment cost of a long-term equity investment resulting from a business combination of entities under common control represents the amount of the Group's share of the subsidiary's shareholders' equity on the acquisition date. The difference between the initial investment cost, and the cash paid, non-monetary assets transferred and liabilities assumed by the Group, is recognised as share premium in capital reserve, or in the retained profits in case of any shortfall in share premium.

## 3. Significant accounting policies *(continued)*

(a) Investment in subsidiaries *(continued)*

The initial investment cost of long-term equity investment resulting from a business combination of entities not under common control is the cost of acquisition on the purchase date.

The Company adopts cost method to account for investment in subsidiaries.

Impairment losses on investment in subsidiaries are provided according to Note 3(10).

(b) Investment in jointly controlled entities and associates

A jointly controlled entity is an entity of which the Group can exercise joint control with other venturers. Joint control represents the contractual agreement of sharing of control over the entity's economic activities, limited to economic activities related to significant financial and operating policies that require agreement of all venturers.

An associate is an entity of which the Group has significant influence. Significant influence represents the right to participate in the financial and operating policy decisions of the investee but not the right to control or joint control the establishment of these policies.

The initial cost of investment in jointly controlled entities and associates is stated at the consideration paid if the investment is made in cash, or at the fair value of the non-monetary asset exchange for the investment . The difference between the fair value of the non-monetary asset being exchanged and its carrying amount is charged in the income statement.

Investments in entities under joint control with other venturers or which the Group can exercise significant influence are accounted for using the equity method.

The cost of investment is recorded at the higher of the initial investment cost or the fair value of the Group's share of identifiable net assets of the investee. The difference between the cost of investment and the initial investment cost is charged in the income statement.

The Group shares the results of operation and profit or cash dividend declared by the jointly controlled entities and associates in the income statement and adjusts the carrying amount of long-term equity investments accordingly.

The fair value of the investee identifiable net asset upon the purchase of the investment is considered. Where the accounting policies or the accounting periods of the investee differ from those of the Group, adjustments are made to the investee financial statements in accordance with the Group's accounting policies or accounting period when being equity account for.

Impairment losses on investment in jointly controlled entities and associates are measured according to Note 3(10).

## 3. Significant accounting policies *(continued)*

(c) Long-term equity investment in investee which the Group does not control, joint control, or has no significant influence and without quoted prices in active markets and reliably measured fair values.

The initial investment cost in these entities is recognised in the same way as for investment in jointly controlled entities and associates, and subsequently accounted for using the cost method.

Impairment losses on long-term equity investment accounted for under the cost method, without quoted prices in active markets and reliably measured fair values are provided according to Note 3(11)(b).

### (6) Investment property

Investment properties are stated in the balance sheet at cost less accumulated depreciation and impairment (see Note 3 (10)). Depreciation is provided over their estimated useful lives on a straight-line basis, after taking into account their estimated residual values.

| | Estimated useful lives | Estimated rate of residual value | Depreciation rate |
|---|---|---|---|
| Investment property | 40 years | 3% | 2.43% |

The fair value of the investment property of the Group is estimated by the active market value or other relative information.

### (7) Fixed assets and construction in progress

Fixed assets represent the tangible assets held by the Group using in the production of goods, rendering of services and for operation and administrative purposes with useful life over 1 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)).

All direct and indirect costs related to the purchase or construction of fixed assets, incurred before the assets are ready for their intended uses, are capitalised as construction in progress. Those costs include borrowing costs for the acquisition, construction, and production of qualified fixed assets.

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

## 3. Significant accounting policies *(continued)*

Fixed assets are depreciated using the straight-line method over their estimated useful lives. The estimated useful lives and the estimated rate of residual values for respective classes of fixed assets are as follows:

| | Estimated useful lives | Estimated rate of residual value | Depreciation rate |
|---|---|---|---|
| Plant and buildings | 15-40 years | 3%-5% | 2.4%-6.5% |
| Machinery, equipment, vehicles and others | 5-26 years | 3%-5% | 3.7%-19.4% |

### (8) Leased assets

Leases are divided into finance leases and operating leases. Assets that are held by group under leases which transfer to the group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the group are classified as operating leases.

Assets rented out under operating leases

Where the Company leases out assets under operating leases, the assets are depreciated in accordance with the Company's depreciation policies, as set out in Note 3(7). Impairment losses are provided for in accordance with the accounting policy set out in Note 3(10). Revenue derived from operating leases is recognised in the income statement using the straight-line method over the lease term.

### (9) Intangible Assets

Intangible assets are stated in the balance sheet at cost less accumulated amortisation and provision for impairment losses (see Note 3(10)). The cost of intangible assets less residual value and impairment losses is amortised on a straight-line basis over the period of expected useful lives.

The amortisation period for respective classes of intangible assets are as follows:

| | |
|---|---|
| Land | 40 years |
| Industrial proprietary technology | 10-27.75 years |
| Software | 2 years |

An intangible asset shall be regarded as having an indefinite useful life when there is no foreseeable limit to the period over which the asset is expected to generate economic benefits for the Group. The Group has no such intangible assets as at the balance sheet date.

## 3. Significant accounting policies *(continued)*

### (10) Impairment of assets

Internal and external sources of information are reviewed at each balance sheet date for indications that the following assets, including:

- fixed assets
- construction in progress
- intangible assets
- investment property under cost method and
- long-term equity investments (except for long-term equity investments which do not have quoted prices in active markets or reliably measured fair values, and are accounted for using the cost method) may be impaired, etc.

Assets are tested for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable.

An asset unit is the smallest identifiable group of assets that generates cash inflows largely independent from other assets or groups of assets. An asset unit comprises the related assets that generate associated cash inflows. In identifying an asset unit, the Group primarily considers whether the asset unit is able to generate cash inflows independently as well as the management style of production and operational activities, and the decision for the use or disposal of assets.

The recoverable amount is the greater of the fair value less costs to sell and the present value of expected future cash flows generated by the asset (or asset unit).

Fair value less costs to sell of an asset (or asset unit) is based on its selling price in an arm's length transaction less any direct costs attributable to the disposal. Present value of expected future cash flows is an estimation of future cash flows to be generated from the use of and upon disposal of the asset (or asset unit), discounted at an appropriate discount rate over the asset's remaining useful life.

If the recoverable amount of an asset (or asset unit) is less than the carrying amount, the carrying amount is reduced to the recoverable amount. The amount by which the carrying amount is reduced is recognised as an impairment loss in the income statement.

Impairment losses for assets are not reversed.

3. **Significant accounting policies** *(continued)*

**(11) Financial instruments**

Financial instruments of the Group include cash and cash equivalents, trade accounts receivable, trade accounts payable, loans and share capital, etc.

(a) Recognition and measurement of financial assets and financial liabilities

The Group recognises a financial asset or a financial liability on its balance sheet when the Group enters into and becomes a party to the underlining contract of the financial instrument.

Financial assets and financial liabilities are initially recognised at fair value. For financial asset or financial liability of which the change in its fair value is recognised in income statement, the relevant transaction cost is recognised in the income statement. The transaction costs for other financial assets or financial liabilities are included in the initially recognised amount.

- Trade accounts receivable

  Trade accounts receivable is non-derivative financial assets with fixed or determinable recoverable amount and with no quoted price in active market.

  After the initial recognition, trade accounts receivable is stated at amortised cost using the effective interest rate method.

- Available-for-sale financial assets

  Available-for-sale financial assets include non-derivative financial assets that are designated as available for sales and other financial assets which do not fall into any of the above categories.

  Investments in equity instruments that do not have quoted market prices in active markets and whose fair value cannot be reliably measured are measured at cost.

  Other than the above equity instrument investments whose fair values cannot be measured reliably, other available-for-sale financial assets are initially stated at fair values. The gains or losses arising from changes in the fair values are directly recognised in equity, except for the impairment losses and exchange differences from monetary financial assets denominated in foreign currencies, which are recognised in the income statement. The cumulative gains and losses previously recognised in equity are transferred to the income statement when the available-for-sale financial assets are derecognised.

## 3. Significant accounting policies *(continued)*

(b) Impairment of financial assets

The carrying amounts of financial assets (except those financial assets stated at fair value with changes in the fair values charged to 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.

- Trade accounts receivable

  If there is any indication that a trade accounts receivable carried at amortised cost may be impaired (excluding unrealised future credit loss), the carrying amount of receivables is reduced to the present value. The amount being reduced is recognised as impairment loss and is charge to the income statement.

  Impairment loss on trade accounts receivable is reversed in the income statement if evidence suggests that the financial assets' carrying amounts have increased and the reason for the increase is objectively as a result of an event occurred after the recognition of the impairment loss. The reversed carrying amount, shall not exceed the amortised cost of the financial assets had no impairment been recognised.

- Available-for-sale financial assets

  When available-for-sale financial assets are impaired, despite not derecognised, the cumulative losses resulted from the decrease in fair value which had previously been recognised directly in shareholders' funds, are reversed and charged to income statement.

  Impairment loss of available-for-sale debt instrument is reversed if, the reason for the subsequent increase in fair value is objectively as a result of an event occurred after the recognition of the impairment loss. Impairment loss for available-for-sale equity instrument is not reversed through income statement.

- Long-term equity investments with no quoted prices in active markets and reliably estimated fair values

  Impairment loss on long-term equity investments with no quoted prices in active markets and reliably estimated fair values is recognised if the carrying amount of the investment or the derivative financial asset is lower than the present value of the future cash flows which are discounted at a current rate of return of a similar kind of financial asset. This impairment loss is recognised in income statement and cannot be reversed.

## 3. Significant accounting policies *(continued)*

(c) Determination of fair value

Fair value of financial asset or financial liability is determined with reference to quoted market price in active market, or is estimated by valuation if there is no active market for the financial instrument.

Valuation includes making reference to recent market price based on arm's length transactions, reference to the fair value of another financial instrument that is substantially the same in circumstances, discounted cash flow analysis and option pricing models. The Group regularly assesses its valuation methods and test their effectiveness.

(d) Derecognition of financial assets and financial abilities

The Group derecognises a financial asset when the contractual right to receive cash flows from the financial asset expires, or where the Group transfers substantially all risks and rewards of ownership.

On derecognition of a financial asset , the difference between the following amounts is recognised in income statement:

- the carrying amount; and
- the sum of the consideration received and any cumulative gain or loss that had been recognised directly in equity

If a part of the financial asset qualifies for derecognition, the carrying amount of financial asset is allocated between the part that continues to be recognised and the part that qualifies for derecognisation, based on the fair values of the respective parts. The differences between the following amounts is recognised in income statement:

- the carrying amount of the part that qualifies for derecognisation; and
- the sum of the consideration received and any cumulative gain or loss that had been recognised in equity in relation to the part that qualifies for derecognition.

Where the obligations for financial liabilities are completely or partially discharged, the financial liabilities or part of financial liabilities are derecognised.

## 3. Significant accounting policies *(continued)*

### (12) Employee benefits

Employee benefits include various payments and other related expenses paid in exchange for services rendered by employees. When an employee has rendered service to the Group during an accounting period, the Group shall recognise the employee benefits payable (other than termination benefits) as a liability and charged to the cost of an asset or as an expense in the same time.

(a) Retirement benefits

Pursuant to the relevant laws and regulations in the PRC, the Group participates in various defined contribution retirement plans organised by the respective divisions in municipal and provincial governments for its staff. The Group is required to make contributions to the retirement plans in accordance with the contribution rates and basis as defined by the municipal and provincial governments. The contributions are charged to the income statement on an accrual basis. When employees retire, the respective divisions are responsible for paying their basic retirement benefits.

(b) Housing fund and other social insurance

In addition to retirement benefits, the Group makes contribution to housing fund and other social insurance such as basic medical insurance, unemployment insurance, work injury insurance and maternity insurance, etc. for its employees in accordance with the relevant rules and regulations. The Group makes monthly contributions to the housing fund and the above insurance based on the applicable rates of employees' salaries. The contributions are charged to the income statement on an accrual basis.

(c) Termination benefits

The Group recognises termination benefits if it decides to terminate an employee's employment before the employment contract has expired, or makes an offer for an employee for voluntary redundancy. The termination benefits, which are the liabilities payable on termination, are recognised in the income statement when both the following conditions have been satisfied:

- the Group has a detailed formal plan for the termination of employment or has made an offer for employees for voluntary redundancy, which will be implemented shortly; and

- the Group is not allowed to withdraw from the termination of employment or voluntary redundancy being offered unilaterally.

## 3. Significant accounting policies *(continued)*

### (13) Short-term debentures payable

Short-term debentures payable are recorded in the balance sheet based on the proceeds received upon issuance.

The discount on debentures is amortised on a straight-line basis, over the period from the issue date to the maturity date.

### (14) Income tax

Current tax and deferred tax are recognised in the income statement except to the extent that they relates to items recognised directly in equity, in which case, they are recognised in equity.

Deferred tax assets and liabilities are recognised based on deductible temporary differences and taxable temporary differences respectively. Temporary difference is the difference between the carrying amounts of assets and liabilities and their tax bases including unused tax losses and unused tax credits able to be utilised in subsequent years. Deferred tax assets are recognised to the extent that it is probable that future taxable income will be available to offset deductible temporary differences.

Temporary differences arise in a transaction, which is not a business combination, and at the time of transaction, does not affect accounting profit or taxable profit (or unused tax losses), will not result in deferred tax. Temporary differences arising from the initial recognition of goodwill will not result in deferred tax.

Current tax liabilities (assets) for current and prior periods are recognised based on the expected tax payable (tax recoverable) as calculated under the relevant tax laws and tax rates that have been enacted at the balance sheet date.

The amounts of deferred tax assets and liabilities are recognised based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities using tax rates enacted and relevant tax laws at the balance sheet date.

### (15) Provisions and contingent liabilities

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

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

## 3. Significant accounting policies *(continued)*

### (16) Revenue recognition

Revenue is the total inflow of economic benefits generated from the Group's normal activities, which causes shareholders' fund to increase but is unrelated to shareholder's injection of capital. Revenue is recognised only when it is probable that economic benefits will flow to the enterprise and cause assets to increase or liabilities to decrease, and that the amount of the economic benefits' inflow can be measured reliably. Revenue is recognised according to the following:

(a) Revenues from sales of goods

Revenue from the sales of goods is recognised when all of the following conditions are fulfilled:

- the significant risks and rewards of ownership and title have been transferred to buyers
- the Group does not retain the management right, which is normally associated with owner, on goods sold and has no control over the goods sold
- the amount of revenue and costs incurred or to be incurred in respect of the transaction can be measured reliably
- it is probable that economic benefits associated with the transaction will flow to the Group

(b) Revenues from rendering services

Revenue from the rendering of services is recognised in the income statement upon completion. If the rendering of services lasts more than one accounting year, when the outcome of the rendering of services can be estimated reliably, revenue from the rendering of services is recognised in the income statement in proportion to the stage of completion of the transaction based on the progress of work performed; or when the outcome of the rendering of services cannot be estimated reliably, revenues are recognised only to the extent that the costs incurred are expected to be recoverable. If the costs of the rendering of services are not expected to be recoverable, the costs are charged to the income statement when incurred, and revenues are not recognised.

(c) Interest income

Interest income is recognised on a time proportion basis based on the principal amount and the applicable interest rate.

### 3. Significant accounting policies *(continued)*

#### (17) Government grants

Government grants are gratuitous monetary assets or non-monetary assets that the Group receives from the government, excluding capital injection by the government as an investor. Subsidy for technology improvement defined as capital contribution according to the relevant government documents is not considered as a government grant and should be recorded as capital reserve.

Government grants are recognised when there is reasonable assurance that the grants will be received and the Group is able to comply with the conditions attaching to them. Government grants in the form of monetary assets are recorded based on the amount received or receivable, whereas non-monetary assets are recorded at fair value.

Government grants received in relation to assets are recorded as deferred income, and recognised evenly in the income statement over the assets' useful lives. Government grants received in relation to revenue are recorded as deferred income, and recognised as income in future periods as compensation when the associated future expenses or losses arise; or directly recognised as income in the current period as compensation for past expenses or losses.

#### (18) Borrowing costs

Borrowing costs incurred on borrowings for the acquisition, construction or production of qualified assets are capitalised into the cost of the related assets.

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

#### (19) Repairs and maintenance expenses

Repairs and maintenance (including overhauling expenses) expenses are recognised in the income statement when incurred.

#### (20) Research and development costs

Research and development costs are recognised in the income statement when incurred.

## 3. Significant accounting policies *(continued)*

### (21) Dividends

Dividends are recognised in the period in which they are declared. Dividends proposed or approved after the balance sheet date but before the date on which the financial statements are authorised for issue are not recognised as a liability at the balance sheet date and are separately disclosed in the notes to the financial statements.

### (22) Related parties

Parties are considered to be related to the Group if the Group controls, jointly controls or exercises significant influence over another party, or vice versa, or where the Group and the party are subject to common control, joint control or significant influence from another party. Related parties may be individuals or enterprises. Where enterprises are subject to state control but are otherwise unrelated, they are not related parties.

### (23) Segment reporting

The Group discloses segment information by business segment.  A business 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.

## 4. Explanation on changes in significant accounting policies

### (1) Changes in significant accounting policies

The Group began to adopt ASBE (2006) on 1 January 2007, with the significant accounting policies summarised in Note 3.

The Group has issued H-shares. In previous years, the financial statements were reported using the applicable Accounting Standards for Business Enterprises (ASBE) and the International Financial Reporting Standards (IFRS). Pursuant to the requirements of the Opinions of Expert Working Group on Problems in the Implementation of Accounting Standards for Business Enterprises ("the Opinions") issued on 1 February 2007 by the Expert Working Group on Problems in the Implementation of Accounting Standards for Business Enterprises set up by the China Accounting Standards Committee, the Group, on the first day of adopting ASBE (2006), made retrospective adjustments on the following principles to items affected by the change in accounting policies according to the following principles.

## 4. Explanation on changes in significant accounting policies *(continued)*

Where the principles stipulated in ASBE (2006) differ from those of the accounting standards adopted in prior years, and if the Group had adopted the principles stipulated in ASBE (2006) while preparing the financial statements in accordance with the IFRS in prior years, the Group, based on the information used in preparing the financial statements in accordance with IFRS, made retrospective adjustments to those items affected by the change in accounting policies. In addition, retrospective adjustments were made to other items in accordance with the related requirements of ASBE No. 38 - First time adoption of Accounting Standards for Business Enterprises.

Aside from the retrospective adjustments made to the following items((d),(e)) in accordance with the requirements of the Opinions and ASBE No. 38, the Group has made no other retrospective adjustments to items affected by the change in accounting policies.

Due to adopting ASBE(2006), the changes in significant accounting policies are summarised below:

(a) Investments in subsidiaries jointly controlled entities and associates

Investments in subsidiaries previously accounted for in the Company's financial statements by using the equity method, are now accounted for in the Company's financial statements by using the cost method.

Where the equity method is used to account for investments in jointly controlled entities and associates, an excess of the initial investment cost over the share of shareholders' funds of the investee enterprise is amortised on a straight-line basis to the income statement. Now, where there is an excess of the long term equity investment's initial investment cost over the fair value of the investee's identifiable net assets, the equity investment differences are neither recognised nor amortised.

(b) Investment property

A property held to earn rentals or for capital appreciation or both used to be recognised as fixed asset, now it is recognised as investment property and shall be measured using cost model.

(c) Government grants

Asset-related government grants (excluding government capital injections for investment purposes) were previously recognised in capital reserve once they met the grants' conditions. Now, they are recognised as deferred income, and charged evenly to the income statements over the related assets' useful lives.

As at 1 January 2007, no retrospective adjustments have been made to asset-related government grants received in prior years which had been recognised in the capital reserve in prior years.

## 4. Explanation on changes in significant accounting policies *(continued)*

(d) Change in fair value of available-for-sale financial assets

Open quoted prices in an active market were used to measure its fair value on 1 January 2007. Hence, the difference between the fair value and the carrying amount of the asset was retrospectively adjusted, which resulted in a corresponding increase in equity.

(e) Capitalisation of general borrowing costs

Borrowing costs on general borrowings for the acquisition and construction of fixed assets, previously recognised in the income statement as incurred, are capitalised as part of the cost of the related assets, if the assets meet certain conditions for qualified assets. Retrospective adjustments were made to the carrying amounts of the fixed assets and construction in progress as at 1 January 2007, resulting in an increase in retained earnings.

(f) Income tax

Due to retrospective adjustments made to above items (d) to (e), the Group adjusted the deferred tax effect as at 1 January 2007.

(g) Pre-operating expenditures

Aside from the acquisition and construction of fixed assets, all expenses incurred during the start-up period were previously aggregated in the long-term deferred expenses and then fully charged to the income statement in the month in which operations commenced. Now, the expenses are recognised in the income statement as they are incurred.

(h) Presentation of minority interests

In order to comply with ASBE (2006), the Group has changed its accounting policy relating to presentation of minority interests. Minority interests at the balance sheet date are presented in the consolidated balance sheet within equity, separately from the equity attributable to the equity shareholders of the Company, and minority interests in the results of the Group for the period are presented in the consolidated income statement as an allocation of the total net profit or loss for the period between the minority interests and the equity shareholders of the Company.

4. **Explanation on changes in significant accounting policies** *(continued)*

(2) **The effects of the above changes in significant accounting policies on the Group's net loss for the six-month period ended 30 June 2006 and the shareholders' fund in prior years are summarised as follows:**

| | | The Group | | |
|---|---|---|---|---|
| | | Six-month period ended 30 June 2006 | 2006 | 2006 |
| | Note | Net profit /(loss) | Closing balance of shareholders' fund | Opening balance of shareholders' fund |
| Net loss and shareholders' fund before adjustment | | (27,560) | 19,273,088 | 19,166,908 |
| Change in fair value of available-for-sale financial assets | 4(1)(d) | - | 25,822 | - |
| Long-term equity investment differences | 4(1)(a) | (425) | - | 1,700 |
| Income tax | 4(1)(f) | (2,133) | (24,672) | (16,492) |
| Minority interests | 4(1)(h) | 35,616 | 336,013 | 347,453 |
| Capitalisation of general borrowing costs | 4(1)(e) | 14,220 | 138,657 | 109,949 |
| Total | | 47,278 | 475,820 | 442,610 |
| Net profit and shareholders' fund after adjustment | | 19,718 | 19,748,908 | 19,609,518 |

| | | The Company | | |
|---|---|---|---|---|
| | | Six-month period ended 30 June 2006 | 2006 | 2006 |
| | Note | Net profit | Closing balance of shareholders' fund | Opening balance of shareholders' fund |
| Net loss and shareholders' fund before adjustment | | (27,560) | 19,273,088 | 19,166,908 |
| Change in fair value of available-for-sale financial assets | 4(1)(d) | - | 24,137 | - |
| Long-term equity investment differences | 4(1)(a) | (425) | - | 1,700 |
| Income tax | 4(1)(f) | (2,133) | (22,987) | (16,492) |
| Capitalisation of general borrowing costs | 4(1)(e) | 14,220 | 138,657 | 109,949 |
| Total | | 11,662 | 139,807 | 95,157 |
| Net loss and shareholders' fund after adjustment | | (15,898) | 19,412,895 | 19,262,065 |

## 4. Explanation on changes in significant accounting policies *(continued)*

Assets and Liabilities affected at 31 December 2006

| | | The Group | | |
|---|---|---|---|---|
| | Note | Before Adjustment | Adjustment | After Adjustment |
| Available-for-sale financial assets | | - | 81,119 | 81,119 |
| Investment property | | - | 501,904 | 501,904 |
| Long-term equity investments | | 3,341,699 | 194,703 | 3,536,402 |
| 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 |
| Wage payable | * | (11,056) | 11,056 | - |
| Welfare payable | * | (73,801) | 73,801 | - |
| Staff costs payable | * | - | (89,458) | (89,458) |
| Other payables | | (399,495) | 2,113 | (397,382) |
| Other compulsory payable | | (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 | | 19,169,698 | 139,807 | 19,309,505 |

| | | The Company | | |
|---|---|---|---|---|
| | Note | Before Adjustment | Adjustment | After Adjustment |
| Available-for-sale financial assets | | - | 66,994 | 66,994 |
| Investment property | | - | 584,247 | 584,247 |
| Long-term equity investments | | 5,316,897 | 207,143 | 5,524,040 |
| Fixed assets, net | | 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 |
| Wage payable | * | (5,113) | 5,113 | - |
| Welfare payable | * | (34,687) | 34,687 | - |
| Staff costs payable | * | - | (39,800) | (39,800) |
| Other compulsory payable | | (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 | | 19,794,687 | 139,807 | 19,934,494 |

* Aside from the retrospective adjustments made to the balance sheet items as at 31 December 2006, according to Note 4(1), the Group has also made reclassification adjustments to these items in accordance with the requirements of "ASBE 38 - First Time Adoption of Accounting Standards for Business Enterprises".

## 5. Taxation

### (1) Major types of tax applicable to the Group are business tax, value added tax (VAT) , consumption tax. and education surcharge.

| | | |
|---|---|---|
| i) | Business tax rate | 5% |
| | Value-added tax rate | 17% |
| | Education surcharge rate | 3% |

ii) 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) Income tax

It has come to the Company's attention that the State Administration of Taxation issued a notice 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 is 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 has applied the preferential EIT rate of 15% in prior years. At present, the Company is actively communicating with the relevant tax authority to assess the specific situation, and up to now, has been informed that the EIT rate for the Company would be adjusted from the original 15% to 33% from 2007. At this stage, the directors of the Company consider that it is uncertain whether the relevant tax authorities will retrospectively claim additional EIT from the Company in respect of any prior years, and it is not possible to reliably estimate the eventual outcome of this matter. Accordingly, no provision in respect of the EIT differences has been made in the financial statements.

The charge for PRC income tax for the period is therefore 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 Company did not carry out business overseas and therefore does not incur overseas income taxes.

5. **Taxation** *(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 30 June 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** | |
|---|---|---|---|---|
| | **At 30 June 2007 RMB'000** | At 31 December 2006 RMB'000 | **At 30 June 2007 RMB'000** | At 31 December 2006 RMB'000 |
| Value-added tax | **34,265** | 160,315 | **28,288** | 180,270 |
| Business tax | **1,477** | 3,350 | **614** | 1,814 |
| Income tax | **408,748** | 34,386 | **391,810** | 19,754 |
| Consumption tax | **4,283** | 41,658 | **4,283** | 41,658 |
| Education surcharge | **1,321** | 6,834 | **983** | 6,709 |
| Other taxes | **20,840** | 22,955 | **19,708** | 21,177 |
| | **470,934** | 269,498 | **445,686** | 271,382 |

## 6. Business combination and consolidated financial statements

(1) At 30 June 2007,dateils of principal subsidiaries of the Company are as follows:

(a) Principal subsidiaries acquired via business combination under common control:

| Name of enterprise | Registered place | Principal activities | Registered capital '000 | De facto shareholder under the same controller | Investment at 30 June 2007 RMB'000 | Balance of net investment in substance RMB'000 | Direct and indirect percentage of equity held | Direct and indirect percentage of voting power |
|---|---|---|---|---|---|---|---|---|
| Shanghai Petrochemical Investment Development Company Limited | Shanghai | Investment management | RMB800,000 | SPC | 1,355,007 | 1,355,007 | 100% | 100% |
| Shanghai Petrochemical Enterprise Development Company Limited | Shanghai | Investment management | RMB455,000 | SPC | 702,900 | 702,900 | 100% | 100% |

(b) Principal subsidiaries acquired via business combination not under common control:

| Name of enterprise | Registered place | Principal activities | Registered capital '000 | Investment at 30 June 2007 RMB'000 | Balance of net investment in substance RMB'000 | Direct and indirect percentage of equity held | Direct and indirect percentage of voting power |
|---|---|---|---|---|---|---|---|
| China Jinshan Associated Trading Corporation | Shanghai | Import and export petrochemical products and equipment | RMB25,000 | 49,676 | 49,676 | 67.33% | 67.33% |
| Shanghai Jinchang Engineering Plastics Company Limited | Shanghai | Production of polypropylene compound products | US$ 4,750 | 25,611 | 25,611 | 50.38% | 50.38% |
| Shanghai Golden Philips Petrochemical Production of Company Limited | Shanghai | Production of polypropylene products | US$50,000 | 367,566 | 367,566 | 60% | 60% |
| Zhejiang Jin Yong Acrylic Fibre Production of Company Limited | Ningbo | Production of acrylic fibre products | RMB250,000 | 73,390 | 73,390 | 75% | 75% |
| Shanghai Golden Conti Petrochemical Company Limited | Shanghai | Production of petrochemical products | RMB545,776 | 431,009 | 431,009 | 100% | 100% |

## 6. Business combination and consolidated financial statements *(continued)*

(b) Principal subsidiaries acquired via business combination not under common control: *(continued)*

Minority interests for each significant subsidiary are analysed as follows:

| Company | Minority interests At 1 January 2007 RMB'000 | Minority interests At 30 June 2007 RMB'000 |
|---|---|---|
| China Jinshan Associated Trading Corporation | 26,554 | 26,615 |
| Zhejiang Jin Yong Acrylic Fibre Company Limited | 24,463 | 16,558 |
| Shanghai Golden Philips Petrochemical Company Limited | 245,044 | 276,002 |
| Shanghai Jinchang Engineering Plastics Company Limited | 25,221 | 26,306 |
| Others | 14,731 | 15,307 |
| Total | 336,013 | 360,788 |

Loss attributable to the minority shareholders of Zhejiang Jinyong Acrylic Fibre Company Limited for the six-month period ended 30 June 2007 is RMB 7,905,000.

(2) Subsidiaries not included in the scope of consolidation for the current period

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 30 June 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 in hand

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

| | 30 June 2007 Exchange rate | The Group | | | The Company | | |
|---|---|---|---|---|---|---|---|
| | | Original currency '000 | **At 30 June 2007 RMB'000** | At 31 December 2006 RMB'000 | Original currency '000 | **At 30 June 2007 RMB'000** | At 31 December 2006 RMB'000 |
| **Cash in hand** | | | | | | | |
| Renminbi | | | **76** | 114 | | **36** | 57 |
| **Cash at bank** | | | | | | | |
| Renminbi | | | **693,135** | 761,463 | | **330,891** | 470,436 |
| Hong Kong Dollars | 0.9744 | 57,244 | **55,779** | 11,834 | 55,946 | **54,514** | - |
| United States Dollars | 7.6155 | 3,452 | **26,288** | 40,121 | 114 | **868** | 2,199 |
| Euro | 10.234 | - | **-** | 1,201 | - | **-** | - |
| Japanese Yen | 0.0618 | 65 | **4** | 4 | - | **-** | - |
| **Cash at bank and in hand** | | | **775,282** | 814,737 | | **386,309** | 472,692 |
| **Deposits at related party(Note 44 (f))** | | | | | | | |
| Renminbi | | | **26,217** | 79,913 | | **19,713** | 79,001 |
| | | | **801,499** | 894,650 | | **406,022** | 551,693 |

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

## 8. Bills receivable

| | The Group | | The Company | |
|---|---|---|---|---|
| | **At 30 June 2007 RMB'000** | At 31 December 2006 RMB'000 | **At 30 June 2007 RMB'000** | At 31 December 2006 RMB'000 |
| **Bank bills** | **1,412,661** | 1,246,611 | **1,114,563** | 964,326 |
| **Commercial bills** | **20,000** | 26,622 | **20,000** | 15,700 |
| **Total** | **1,432,661** | 1,273,233 | **1,134,563** | 980,026 |

Bills receivable are due in one year. As at 30 June 2007, there are no significant bills receivable at discount or pledged.

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 | |
|---|---|---|---|---|
| | **At 30 June 2007 RMB'000** | At 31 December 2006 RMB'000 | **At 30 June 2007 RMB'000** | At 31 December 2006 RMB'000 |
| Amounts due from subsidiaries | **-** | - | **35,112** | 45,007 |
| Amounts due from other related parties | **502,510** | 266,200 | **469,403** | 263,331 |
| Amounts due from others | **294,629** | 389,601 | **80,357** | 58,558 |
| Sub-total | **797,139** | 655,801 | **584,872** | 366,896 |
| Less : Bad debt provision | **25,771** | 30,911 | **19,438** | 19,266 |
| Total | **771,368** | 624,890 | **565,434** | 347,630 |

The total amount of the trade debtors due from related parties is RMB 502,510,000 ( 31 December 2006: RMB 266,200,000), 65.15% (31 December 2006: 42.60%) of the total trade debtors. The total amount of the trade debtors due from subsidiaries and other related parties is RMB 504,515,000 (31 December 2006: RMB308,338,000), 89.23% ( 31 December 2006: 88.70%) of the total trade debtors.

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 trade debtors.

The aggregate amount and proportion of the five largest trade debtors at 30 June 2007 and 31 December 2006 are shown below:

| | The Group | | The Company | |
|---|---|---|---|---|
| | **At 30 June 2007 RMB'000** | At 31 December 2006 RMB'000 | **At 30 June 2007 RMB'000** | At 31 December 2006 RMB'000 |
| Amount (RMB'000) | **500,935** | 382,329 | **479,220** | 280,664 |
| Aging | **Within one year** | Within one year | **Within one year** | Within one year |
| Percentage of total trade debtors | **62.84%** | 58.30% | **81.94%** | 76.50% |

## 9. Trade debtors *(continued)*

(2) The aging of trade debtors is analysed as follows:

**The Group**

| | At 30 June 2007 | | | | At 31 December 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 | 765,066 | 95.98 | - | 0.00 | 615,087 | 93.79 | - | 0.00 |
| Between one and two years | 9,571 | 1.20 | 3,269 | 34.16 | 14,212 | 2.17 | 4,409 | 31.02 |
| Between two and three years | 6,877 | 0.86 | 6,877 | 100.00 | 6,793 | 1.04 | 6,793 | 100.00 |
| Over three years | 15,625 | 1.96 | 15,625 | 100.00 | 19,709 | 3.00 | 19,709 | 100.00 |
| Total | 797,139 | 100.00 | 25,771 | | 655,801 | 100.00 | 30,911 | |
| Trade debtors, net | 771,368 | | | | 624,890 | | | |

**The Company**

| | At 30 June 2007 | | | | At 31 December 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 | 560,042 | 95.75 | - | 0.00 | 338,854 | 92.36 | - | 0.00 |
| Between one and two years | 8,272 | 1.42 | 2,880 | 34.82 | 12,806 | 3.49 | 4,030 | 31.47 |
| Between two and three years | 6,552 | 1.12 | 6,552 | 100.00 | 5,793 | 1.58 | 5,793 | 100.00 |
| Over three years | 10,006 | 1.71 | 10,006 | 100.00 | 9,443 | 2.57 | 9,443 | 100.00 |
| Total | 584,872 | 100.00 | 19,438 | | 366,896 | 100.00 | 19,266 | |
| Trade debtors, net | 565,434 | | | | 347,630 | | | |

During the six-month period ended 30 June 2007 and 2006, the Group and the Company had no individually significant trade debtors been fully or substantially provided allowance for doubtful accounts.

During the six-month period ended 30 June 2007 and 2006, 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 30 June 2007 and 31 December 2006, 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.

The total amount of the advance payments due to related parties is RMB 122,003,000 ( 31 December 2006: RMB 282,235,000 ), 71.20% (31 December 2006: 80.43%)of the total advance payments. The total amount of advance payments to subsidiaries and other related parties is RMB 126,259,000 (31 December 2006: RMB 314,273,000), 82.52% (31 December 2006: 95.56%)of the total advance payments.

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 30 June 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 at 30 June 2007 |
|---|---|---|---|
| China International United Petroleum & Chemical Co, Ltd., Ningbo Branch (UNIPEC, Ningbo) | Prepayment for purchase | 67,876 | 39.61% |

## 11. Other debtors

(1) Other debtors categorised by customers are analysed as follows:

| | The Group | | The Company | |
|---|---|---|---|---|
| | **At 30 June 2007 RMB'000** | At 31 December 2006 RMB'000 | **At 30 June 2007 RMB'000** | At 31 December 2006 RMB'000 |
| Amounts due from other related parties | **51,749** | 85,729 | **11,748** | 5,728 |
| Amounts due form others | **171,473** | 165,075 | **128,203** | 242,525 |
| Sub total | **223,222** | 250,804 | **139,951** | 248,253 |
| Less : Bad debt provision | **13,371** | 14,577 | **6,289** | 6,318 |
| Total | **209,851** | 236,227 | **133,662** | 241,935 |

The total amount of the Group's other debtors due from related parties is RMB 51,749,000 (31 December 2006: RMB85,729,000 ), 24.66% (31 December 2006: 36.29%)of the total other debtors. The total amount of the Company's other debtors due from related parties is RMB 11,748,000 (31 December 2006: RMB 5,728,000 ), 8.79% (31 December 2006:2.37%) of the total other debtors.

## 11. Other debtors *(continued)*

(2) The aging of other debtors is analysed as follows:

**The Group**

| | **At 30 June 2007** | | | | At 31 December 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 | **201,971** | **90.48** | **5,000** | **2.48** | 232,545 | 92.72 | 5,201 | 2.24 |
| Between one and two years | **4,903** | **2.20** | **15** | **0.31** | 4,590 | 1.83 | 921 | 20.07 |
| Between two and three years | **8,686** | **3.89** | **915** | **10.53** | 5,134 | 2.05 | 32 | 0.62 |
| Over three years | **7,662** | **3.43** | **7,441** | **97.12** | 8,535 | 3.40 | 8,423 | 98.69 |
| Total | **223,222** | **100.00** | **13,371** | | 250,804 | 100.00 | 14,577 | |
| Other debtors, net | **209,851** | | | | 236,227 | | | |

**The Company**

| | **At 30 June 2007** | | | | At 31 December 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 | **121,273** | **86.65** | **-** | **0.00** | 233,624 | 94.11 | - | 0.00 |
| Between one and two years | **4,710** | **3.37** | **1** | **0.02** | 4,520 | 1.82 | 903 | 19.98 |
| Between two and three years | **8,486** | **6.06** | **902** | **10.63** | 4,662 | 1.88 | 20 | 0.43 |
| Over three years | **5,482** | **3.92** | **5,386** | **98.25** | 5,447 | 2.19 | 5,395 | 99.05 |
| Total | **139,951** | **100.00** | **6,289** | | 248,253 | 100.00 | 6,318 | |
| Other debtors, net | **133,662** | | | | 241,935 | | | |

**11. Other debtors** *(continued)*

The aggregate amount and proportion of the five largest other debtors at 30 June 2007 and 31 December 2006 are shown below:

| | The Group | | The Company | |
|---|---|---|---|---|
| | **At 30 June 2007 RMB'000** | At 31 December 2006 RMB'000 | **At 30 June 2007 RMB'000** | At 31 December 2006 RMB'000 |
| Amount (RMB'000) | **131,915** | 157,256 | **118,506** | 229,227 |
| Aging | **Within one year** | Within one year | **Within one year** | Within one year |
| Percentage of total other debtors | **59.10%** | 62.70% | **84.68%** | 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 debtors.

During the six-month period ended 30 June 2007 and 2006, the Group and the Company had no individually significant other debtors been fully or substantially provided allowance of doubtful accounts.

During the six-month periods ended 30 June 2007 and 2006, 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 30 June 2007 and 31 December 2006, the Group and the Company had no individually significant other debtors that aged over three years.

**12. Inventories**

| | The Group | | | | The Company | | | |
|---|---|---|---|---|---|---|---|---|
| | **At 30 June 2007** | | At 31 December 2006 | | **At 30 June 2007** | | At 31 December 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 | **1,425,012** | **-** | 873,130 | - | **1,293,520** | **-** | 703,528 | - |
| Work in progress | **1,929,008** | **-** | 1,661,487 | - | **1,853,315** | **-** | 1,571,581 | - |
| Finished goods | **1,075,133** | **-** | 1,014,225 | - | **883,033** | **-** | 794,466 | - |
| Spare parts and consumables | **703,411** | **41,355** | 655,769 | 41,355 | **624,940** | **40,904** | 555,760 | 40,904 |
| Total | **5,132,564** | **41,355** | 4,204,611 | 41,355 | **4,654,808** | **40,904** | 3,625,335 | 40,904 |
| Inventories, net | **5,091,209** | | 4,163,256 | | **4,613,904** | | 3,584,431 | |

## 12. Inventories *(continued)*

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

| | The Group | | | | The Company | | | |
|---|---|---|---|---|---|---|---|---|
| | **2007** | | 2006 | | **2007** | | 2006 | |
| | **Finished goods** | **Spare parts and consumables** | Finished goods | Spare parts and consumables | **Finished goods** | **Spare parts and consumables** | Finished goods | Spare parts and consumables |
| | **RMB'000** | **RMB'000** | RMB'000 | RMB'000 | **RMB'000** | **RMB'000** | RMB'000 | RMB'000 |
| At 1 January | **-** | **41,355** | - | 50,070 | **-** | **40,904** | - | 49,186 |
| Additions for the period / year | **-** | **-** | 33,407 | - | **-** | **-** | 33,407 | - |
| Transfer out due to sales | **-** | **-** | (33,407) | (8,715) | **-** | **-** | (33,407) | (8,282) |
| At 30 June / 31 December | **-** | **41,355** | - | 41,355 | **-** | **40,904** | - | 40,904 |

The cost of inventories recognised as costs and expenses by the Group and the Company amounted to RMB 23,678,698,000 (six-month period ended 30 June 2006: RMB 22,382,703,000) and RMB 20,974,168,000 (six-month period ended 30 June 2006: RMB 20,285,955,000) for the six-month period ended 30 June 2007, respectively.

## 13. Available-for-sale financial assets

| | The Group | | The Company | |
|---|---|---|---|---|
| | **At 30 June 2007** | At 31 December 2006 | **At 30 June 2007** | At 31 December 2006 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Available-for-sale securities | **402,077** | 81,119 | **376,972** | 66,994 |

## 14. Long-term equity investments

**The Group**

| | Interests in associates (Note (a)) RMB'000 | Interests in Jointly controlled entities (Note (b)) RMB'000 | Other equity investment (Note(c)) RMB'000 | Total before provision RMB'000 | Provision for impairment losses (Note(d)) RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| Balance at 1 January 2007 | 2,958,323 | 130,267 | 486,650 | 3,575,240 | (38,838) | 3,536,402 |
| Share of profits / (losses) from investments accounted for under the equity method | 374,300 | 8,860 | - | 383,160 | - | 383,160 |
| Dividend received | (267,400) | - | - | (267,400) | - | (267,400) |
| Disposals for the period | - | - | (62,240) | (62,240) | - | (62,240) |
| Reclassified to available-for-sale financial assets | - | - | (20,998) | (20,998) | - | (20,998) |
| Balance at 30 June 2007 | 3,065,223 | 139,127 | 403,412 | 3,607,762 | (38,838) | 3,568,924 |

**The Company**

| | Interests in associates (Note (a)) RMB'000 | Interests in Jointly controlled entities (Note (b)) RMB'000 | Interests in consolidated subsidiaries (Note (6)) RMB'000 | Other equity investment (Note(c)) RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| Balance at 1 January 2007 | 2,793,212 | 130,267 | 2,553,460 | 47,101 | 5,524,040 |
| Share of profits / (losses) from investments accounted for under the equity method | 362,264 | 8,860 | - | - | 371,124 |
| Dividend received | (267,400) | - | (279,962) | - | (547,362) |
| Disposals for the period | - | - | (92,112) | (5,735) | (97,847) |
| Reclassified to available-for-sale financial assets | - | - | - | (15,000) | (15,000) |
| Balance at 30 June 2007 | 2,888,076 | 139,127 | 2,181,386 | 26,366 | 5,234,955 |

### 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 30 June 2007 are as follows:

| Company | Registered place | Principal activities | Registered capital RMB'000 | Percentage of equity held by the Group % | Percentage of voting right % | Total assets at 30 June 2007 RMB'000 | Total liabilities at 30 June 2007 RMB'000 | Operating income for the period RMB'000 | Net Profit for the period RMB'000 |
|---|---|---|---|---|---|---|---|---|---|
| Shanghai Secco Petrochemical Company Limited | Shanghai | Manufacturing and distribution of chemical products | US$901,441 | 20 | 20 | 21,762,271 | 11,899,694 | 11,917,226 | 1,806,540 |
| Shanghai Chemical Industry Park Development Company Limited | Shanghai | Planning, development and operation of the Chemical Industry Park in Shanghai, PRC | RMB2,372,439 | 38.26 | 38.26 | 7,122,423 | 4,070,371 | - | 5,408 |
| Shanghai Jinsen Hydrocarbon Resins Company Limited | Shanghai | Production of resins products | US$23,395 | 40 | 40 | 220,324 | 22,700 | 76,862 | 7,119 |
| Shanghai Jinpu Plastics Packaging Material Company Limited | Shanghai | Production of polypropylene film | US$20,204 | 50 | 50 | 288,972 | 97,106 | 185,070 | 11,078 |
| Shanghai Yamatake Automation Company Limited | Shanghai | Service and maintenance of building automation systems and products | US$3,000 | 40 | 40 | 106,660 | 40,322 | 83,594 | 10,691 |

(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 30 June 2007 are as follows:

| Company | Registered place | Principal activities | Registered capital RMB'000 | Percentage of equity held by the Group | Percentage of voting right | Total assets at 30 June 2007 RMB'000 | Total liabilities at 30 June 2007 RMB'000 | Operating income for the period RMB'000 | Net Profit for the period RMB'000 |
|---|---|---|---|---|---|---|---|---|---|
| BOC-SPC Gases Co., Ltd. | Shanghai | Production and sales of industrial gases | US$32,000 | 50 | 50 | 694,388 | 416,133 | 146,839 | 17,720 |

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** | 2006 |
| | **RMB'000** | RMB'000 |
| Balance at 1 January | **38,838** | 56,228 |
| Transfer out due to sales for the period / year | **-** | (17,390) |
| Balance at 30 June/31 December | **38,838** | 38,838 |

(e) Major investment changes

At 30 June 2007, 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 2007 RMB'000 | Addition for the period RMB'000 | Share of profits accounted for under the equity method RMB'000 | Balance at 30 June 2007 RMB'000 |
|---|---|---|---|---|---|---|
| Shanghai Chemical Industry Park Development Company Limited | Unspecified expiration | 38% | 911,444 | - | 957 | 912,401 |
| Shanghai Secco Petrochemical Company Limited | 50 years | 20% | 1,881,768 | - | 93,907 | 1,975,675 |
| Shanghai Jinpu Plastics Packaging Material Company Limited | 30 years | 50% | 90,394 | - | 5,539 | 95,933 |
| Shanghai Jinsen Hydrocarbon Resins Company Limited | 40 years | 40% | 51,677 | - | 3,181 | 54,858 |
| BOC-SPC Gases Company Limited | 30 years | 50% | 130,267 | - | 8,860 | 139,127 |
| Shanghai Yamatake Automation Company Limited | 30 years | 40% | 23,040 | - | 3,316 | 26,356 |

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

## 15. Investment property

| | The Group | The Company |
|---|---|---|
| | Buildings | Buildings |
| | RMB'000 | RMB'000 |
| **Cost:** | | |
| At 1 January 2007 | 528,465 | 615,334 |
| Additions | 1,324 | - |
| At 30 June 2007 | 529,789 | 615,334 |
| **Accumulated depreciation:** | | |
| At 1 January 2007 | (26,561) | (31,087) |
| Charge for the period | (6,628) | (7,460) |
| At 30 June 2007 | (33,189) | (38,547) |
| **Net book value:** | | |
| At 30 June 2007 | 496,600 | 576,787 |
| At 31 December 2006 | 501,904 | 584,247 |

## 16. Fixed assets

(a) The Group

| | Land and buildings RMB'000 | Plant, machinery, equipment and others RMB'000 | Total RMB'000 |
|---|---|---|---|
| **Cost:** | | | |
| At 1 January 2007 | 5,668,427 | 26,831,226 | 32,499,653 |
| Additions | - | 19,748 | 19,748 |
| Transferred from construction in progress (Note 17) | 69,383 | 1,557,231 | 1,626,614 |
| Disposals | (10,451) | (95,738) | (106,189) |
| At 30 June 2007 | 5,727,359 | 28,312,467 | 34,039,826 |
| **Accumulated depreciation:** | | | |
| At 1 January 2007 | 3,081,866 | 15,701,918 | 18,783,784 |
| Charge for the period | 79,226 | 744,636 | 823,862 |
| Written back on disposals | (4,536) | (70,383) | (74,919) |
| At 30 June 2007 | 3,156,556 | 16,376,171 | 19,532,727 |
| **Less: Provision for impairment losses:** | | | |
| At 1 January 2007 | - | 108,945 | 108,945 |
| Charge for the period | - | - | - |
| At 30 June 2007 | - | 108,945 | 108,945 |
| **Net book value:** | | | |
| At 30 June 2007 | 2,570,803 | 11,827,351 | 14,398,154 |
| At 31 December 2006 | 2,586,561 | 11,020,363 | 13,606,924 |

## 16. Fixed assets *(continued)*

(b) The Company

| | Land and buildings RMB'000 | Plant, machinery, equipment and others RMB'000 | Total RMB'000 |
|---|---|---|---|
| **Cost:** | | | |
| At 1 January 2007 | 4,461,929 | 24,240,940 | 28,702,869 |
| Additions | 134,951 | 171,886 | 306,837 |
| Transferred from construction in progress (Note 17) | 69,383 | 1,552,211 | 1,621,594 |
| Disposals | (15,541) | (9,039) | (24,580) |
| At 30 June 2007 | 4,650,722 | 25,955,998 | 30,606,720 |
| **Accumulated depreciation:** | | | |
| At 1 January 2007 | 2,664,104 | 14,087,304 | 16,751,408 |
| Transferred from fixed assets addition | 87,277 | 114,304 | 201,581 |
| Charge for the period | 67,160 | 643,189 | 710,349 |
| Written back on disposals | (6,098) | (6,621) | (12,719) |
| At 30 June 2007 | 2,812,443 | 14,838,176 | 17,650,619 |
| **Less: Provision for impairment losses:** | | | |
| At 1 January 2007 | - | 108,945 | 108,945 |
| Charge for the period | - | - | - |
| At 30 June 2007 | - | 108,945 | 108,945 |
| **Net book value:** | | | |
| At 30 June 2007 | 1,838,279 | 11,008,877 | 12,847,156 |
| 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 Hong Kong).

16. **Fixed assets** *(continued)*

(c) At 30 June 2007, the cost of the Group's fully depreciated fixed assets was RMB7,702,900,707 (31 December 2006: RMB 7,475,195,900).

(d) At 30 June 2007, no fixed assets were pledged by the Group (31 December 2006: Nil).

(e) Depreciation for idle fixed assets is provided over their estimated useful lives on a straight line basis. At 30 June 2007, the carrying amount of temporarily idle fixed assets was RMB397, 190,000, accumulated depreciation was RMB265,319,000, provision of impairment was RMB58,945,000 and net book value was RMB72,926,000 (31 December 2006: the carrying amount of temporarily idle fixed assets: RMB348,394,000; accumulated depreciation: RMB237,670,000; provision of impairment: RMB58,945,000; net book value: RMB51,779,000)

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** | 754,192 | **2,006,056** | 710,268 |
| Additions for the period | **670,850** | 1,853,326 | **666,430** | 1,830,469 |
| Transferred to fixed assets (Note 16) | **(1,626,614)** | (597,721) | **(1,621,594)** | (534,681) |
| Balance at 30 June / 31 December | **1,054,033** | 2,009,797 | **1,050,892** | 2,006,056 |

At 30 June 2007, major projects of the Group are as follows:

| Project | **Budgeted amounts** | **At 1 January 2007** | **Addition** | **At 30 June 2007** | **Stage of completion** |
|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | |
| 1.2 million tons of delayed coking unit | 873,956 | 44 | 134,821 | 134,865 | 15% |
| 6# power plant expansion project | 672,692 | 60,304 | 76,787 | 137,091 | 20% |
| SRT-III ethylene cracking furnace | 238,970 | - | 86,963 | 86,963 | 36% |
| Smoke deviation sulphur project | 110,184 | 49,474 | 25,520 | 74,994 | 68% |

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 RMB35,303,000 (31 December 2006: RMB64,330,000). The interest rates per annum at which borrowing costs were capitalised for the six-month period end 30 June 2007 by the Group ranged from 5.43% to 5.91% (2006: 5.81 to 5.58%).

## 18. Intangible assets

(a) The Group

| | Land use right | Other intangible assets | Total |
|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 |
| **Cost** | | | |
| At 1 January 2007 | 742,120 | 95,134 | 837,254 |
| Additions | 5,401 | 200 | 5,601 |
| Disposals | (32,932) | - | (32,932) |
| At 30 June 2007 | 714,589 | 95,334 | 809,923 |
| **Less: Accumulated amortisation** | | | |
| At 1 January 2007 | 198,145 | 33,390 | 231,535 |
| Charge for the period | 7,586 | 2,535 | 10,121 |
| Written back on disposals | (4,263) | - | (4,263) |
| At 30 June 2007 | 201,468 | 35,925 | 237,393 |
| **Net book value** | | | |
| At 30 June 2007 | 513,121 | 59,409 | 572,530 |
| At 31 December 2006 | 543,975 | 61,744 | 605,719 |

## 18. Intangible assets *(continued)*

(b) The Company

| | Land use right<br>RMB'000 |
|---|---|
| **Cost** | |
| At 1 January 2007 | 667,029 |
| Additions | - |
| Disposals | (26,623) |
| At 30 June 2007 | 640,406 |
| **Less: Accumulated depreciation** | |
| At 1 January 2007 | 170,869 |
| Charge for the period | 6,493 |
| Written back on disposals | (4,197) |
| At 30 June 2007 | 173,165 |
| **Net book value** | |
| At 30 June 2007 | 467,241 |
| At 31 December 2006 | 496,160 |

## 19. Deferred tax assets and liabilities

(a) The Group

Deferred tax assets are analysed as follows:

| | At 30 June 2007 | | At 31 December 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 | **80,942** | **20,236** | 80,942 | 12,141 |
| Impairment losses on fixed assets | **108,945** | **27,236** | 108,945 | 16,342 |
| Total | **189,887** | **47,472** | 189,887 | 28,483 |

Deferred tax liabilities are analysed as follows:

| | At 30 June 2007 | | At 31 December 2006 | |
|---|---|---|---|---|
| | **Taxable temporary differences RMB'000** | **Deferred tax liabilities RMB'000** | Taxable temporary differences RMB'000 | Deferred tax liabilities RMB'000 |
| Fair value of available-for-sale securities | **391,342** | **99,589** | 25,822 | 3,873 |
| Capitalisation of borrowing costs | **133,812** | **33,453** | 138,660 | 20,799 |
| Total | **525,154** | **133,042** | 164,482 | 24,672 |

## 19. Deferred tax assets and liabilities *(continued)*

(b) The Company

Deferred tax assets are analysed as follows:

| | At 30 June 2007 | | At 31 December 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 | **80,942** | **20,236** | 80,942 | 12,141 |
| Impairment losses on fixed assets | **108,945** | **27,236** | 108,945 | 16,342 |
| Total | **189,887** | **47,472** | 189,887 | 28,483 |

Deferred tax liabilities are analysed as follows:

| | At 30 June 2007 | | At 31 December 2006 | |
|---|---|---|---|---|
| | **Taxable temporary differences RMB'000** | **Deferred tax liabilities RMB'000** | Taxable temporary differences RMB'000 | Deferred tax liabilities RMB'000 |
| Fair value of available-for-sale securities | **396,428** | **92,357** | 14,585 | 2,188 |
| Capitalisation of borrowing costs | **133,812** | **33,453** | 138,660 | 20,799 |
| Total | **530,240** | **125,810** | 153,245 | 22,987 |

## 20. Impairment losses

At 30 June 2007, impairment losses of the Group are analysed as follows:

| Items | Note | Balance at 1 January 2007 RMB'000 | Provision for the period RMB'000 | Written back for the period RMB'000 | Written off for the period RMB'000 | Balance at 30 June 2007 RMB'000 |
|---|---|---|---|---|---|---|
| Bad debt provision | 9,11 | 45,488 | 172 | (278) | (6,240) | 39,142 |
| Provision for diminution in value of inventories | 12 | 41,355 | - | - | - | 41,355 |
| Long-term equity investments | 14 | 38,838 | - | - | - | 38,838 |
| Fixed assets | 16 | 108,945 | - | - | - | 108,945 |
| Total | | 234,626 | 172 | (278) | (6,240) | 228,280 |

See the note on each class of assets for the reason for corresponding impairment losses recognised in the current period.

At 30 June 2007, impairment losses of the Company are analysed as follows:

| Items | Note | Balance at 1 January 2007 RMB'000 | Provision for the period RMB'000 | Written back for the period RMB'000 | Written off for the period RMB'000 | Balance at 30 June 2007 RMB'000 |
|---|---|---|---|---|---|---|
| Bad debt provision | 9,11 | 25,584 | 172 | (29) | - | 25,727 |
| Provision for diminution in value of inventories | 12 | 40,904 | - | - | - | 40,904 |
| Fixed assets | 16 | 108,945 | - | - | - | 108,945 |
| Total | | 175,433 | 172 | (29) | - | 175,576 |

See the note on each class on assets for the reason for corresponding impairment losses recognised in the current period.

## 21. Short-term loans

The Group's and Company's short-term loans include:

| | The Group | | The Company | |
|---|---|---|---|---|
| | **At 30 June 2007** | At 31 December 2006 | **At 30 June 2007** | At 31 December 2006 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Short-term bank loans | **767,808** | 1,853,692 | **527,808** | 1,618,692 |
| Short-term loans with related party (Note 45) | **80,000** | - | **-** | - |
| | **847,808** | 1,853,692 | **527,808** | 1,618,692 |

At 30 June 2007, there were no secured loans (31 December 2006:Nil).

The unsecured loans of the Group's short-term bank loans were RMB767,808,000 and the secured loan was RMB80,000,000 guaranteed by China Petrochemical Corporation. The weighted average interest rate of short-term loans of the Group at 30 June 2007 was 5.85% (31 December 2006: 5.87%) .

At 30 June 2007 and 31 December 2006, the Group and the Company had no significant overdue short-term loan.

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

There are no significant trade creditors and other payables aged over 1 year. 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 45, 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.

## 23. Short-term debentures payable

| | The Group and the Company | |
|---|---|---|
| | **At 30 June 2007** | At 31 December 2006 |
| | **RMB'000** | RMB'000 |
| Short-term debentures payable | **2,000,000** | 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 will mature on 12 December 2007.

## 24. Staff costs payable

As stipulated by the relevant regulations, the Group participates in a defined contribution retirement plan organised by the Shanghai Municipal Government for its staff. Pursuant to a document "Hu Fu Ban Fa (2004) No.45", 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. 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 Labor 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 six-month period ended 30 June 2007, the Group's contribution to this plan amounted to RMB 19,576,000 (For the six-month period ended 30 June 2006: RMB 20,264,000).

In accordance with the Group's voluntary employee reduction plan, the Group recorded employee reduction expenses of RMB 50,733,168 (six-month period ended 30 June 2006: RMB 19,810,000) during the six-month period ended 30 June 2007, in respect of the voluntary resignation of approximately 662 employees (six-month period ended 30 June 2006: 265 employees).

## 25. Dividend Payable

| | The Group | | The Company | |
|---|---|---|---|---|
| | **At 30 June 2007 RMB'000** | At 31 December 2006 RMB'000 | **At 30 June 2007 RMB'000** | At 31 December 2006 RMB'000 |
| China Petroleum & Chemical Corporation | **160,013** | - | **160,013** | - |
| Others | **147,219** | - | **139,908** | - |
| Total | **307,232** | - | **299,921** | - |

Pursuant to the shareholders' approval at the Annual General Meeting on 19 June 2007, a dividend of RMB 0.04 per share totaling RMB 288,000,000 (2006: RMB 0.10 per share totaling RMB 720,000,000) in respect of the year ended 31 December 2006 was approved. During the period ended 30 June 2007, no dividend was paid to shareholder.

Except for balances disclosed in Note 45, there is no amount due to major shareholders who held 5% or more shareholding included in the balance of dividend payable.

## 26. Long-term loans and current portion of long-term loans

| | The Group | | The Company | |
|---|---|---|---|---|
| | **At 30 June 2007 RMB'000** | At 31 December 2006 RMB'000 | **At 30 June 2007 RMB'000** | At 31 December 2006 RMB'000 |
| Between 1 and 2 years | **586,648** | 558,820 | **450,000** | 423,710 |
| Between 2 and 3 years | **276,648** | 475,111 | **250,000** | 450,000 |
| Between 3 and 5 years | **26,649** | 29,723 | **-** | - |
| | **889,945** | 1,063,654 | **700,000** | 873,710 |
| Loans from a fellow subsidiary | **100,000** | - | **-** | - |
| | **989,945** | 1,063,654 | **700,000** | 873,710 |
| Current portion of long-term loans | **21,458** | 416,645 | **10,958** | 383,034 |
| | **1,011,403** | 1,480,299 | **710,958** | 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 last payment date | Interest type | Interest rate at 30 June 2007 | Original currency '000 | Exchange rate at 30 June 2007 | The Group At 30 June 2007 RMB'000 | The Group At 31 December 2006 RMB'000 | The Company At 30 June 2007 RMB'000 | The Company At 31 December 2006 RMB'000 |
|---|---|---|---|---|---|---|---|---|
| **Arranged by Central Treasury of the Company:** | | | | | | | | |
| U.S. Dollar denominated: | | | | | | | | |
| Due in 2007 | Floating | 5.70% | 50,000 | 7.6155 | **-** | 383,034 | **-** | 383,034 |
| Payable semi-annually through 2008(Note(a)) | Fixed | 1.80% | 1,439 | 7.6155 | **10,958** | 23,710 | **10,958** | 23,710 |
| Renminbi denominated: | | | | | | | | |
| Due in 2008 | Fixed | 5.43%-5.91% | | | **250,000** | 400,000 | **250,000** | 400,000 |
| Due in 2009 | Fixed | 5.67%-5.91% | | | **450,000** | 450,000 | **450,000** | 450,000 |
| **Arranged by subsidiaries:** | | | | | | | | |
| U.S. Dollar denominated: | | | | | | | | |
| Payable annually through 2011: | - | Interest free | 1,477 | 7.6155 | **11,245** | 14,055 | **-** | - |
| Renminbi denominated: | | | | | | | | |
| Due in 2007 | Fixed | 5.85% | | | **-** | 8,500 | **-** | - |
| Due in 2008 | Fixed | 5.67% | | | **110,000** | 110,000 | **-** | - |
| Payable annually through 2010 | - | Interest free | | | **72,000** | 82,000 | **-** | - |
| Due in 2010 | Fixed | 5.91% | | | **100,000** | - | **-** | - |
| Payable annually through 2011 | - | Interest free | | | **7,200** | 9,000 | **-** | - |
| Total long-term loans outstanding | | | | | **1,011,403** | 1,480,299 | **710,958** | 1,256,744 |
| Less: Amounts due within one year | | | | | **(21,458)** | (416,645) | **(10,958)** | (383,034) |
| Amounts due after one year | | | | | **989,945** | 1,063,654 | **700,000** | 873,710 |

Note(a): Guaranteed by China Petrochemical Corporation.

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

## 27. Other non-current liability

The analysis of the Group's and the Company's other non-current liabilities are listed as follows:

| | | The Group | | The Company | |
|---|---|---|---|---|---|
| | Note | **At 30 June 2007 RMB'000** | At 31 December 2006 RMB'000 | **At 30 June 2007 RMB'000** | At 31 December 2006 RMB'000 |
| Production safety expense | (a) | **17,500** | - | **17,500** | - |
| Deferred income | (b) | **245,000** | 250,000 | **245,000** | 250,000 |
| Others | | **1,350** | 1,350 | **1,350** | 1,350 |
| Total | | **263,850** | 251,350 | **263,850** | 251,350 |

(a) Production safety expense represents the fund in order to enhance production safety according to "Provisional Financial Management Method on Expenses for Safety Production in High-Risk Industries and Enterprises" (Caiqi [2006] No.478) jointly issued by the Ministry of Finance and State Production Safety Supervision and Management Office.

(b) In accordance with the requirements of "ASBE 16 - Government Grants"(ASBE 16), government grants received in relation to assets are recorded as deferred income, and recognised evenly in the income statement over the assets' useful lives.

Shanghai Chemical Industry Park Development Company Limited ("SCIP"), the associate of the Group, received land use right amounting to RMB900,000,000 without monetary consideration from the Shanghai Municipal Government in 1999. The government grants shared by the Group amounted to RMB300,000,000 based on the percentage of equity held by the Group. In compliance with the requirements of ASBE 16, the unamortised balance amounting to RMB250 ,000,000 was reclassified to deferred income. The amortisation of the land use right was RMB5,000,000 for the current period and the remaining period of amortisation is 24.5 years.

## 28. Share capital

| | The Group and the Company | |
|---|---|---|
| | **At 30 June 2007 RMB'000** | At 31 December 2006 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 the PRC | **720,000** | 720,000 |
| Foreign investment H shares listed overseas | **2,330,000** | 2,330,000 |
| **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.

## 29. Capital reserves

Balance of capital reserves at 30 June 2007 and 31 December 2006 is represented by:

| | | The Group | | The Company | |
|---|---|---|---|---|---|
| | Note | **At 30 June 2007 RMB'000** | At 31 December 2006 RMB'000 | **At 30 June 2007 RMB'000** | At 31 December 2006 RMB'000 |
| Share premium | | **2,420,841** | 2,420,841 | **2,420,841** | 2,420,841 |
| Safety fund | (a) | **4,180** | 4,180 | **4,180** | 4,180 |
| Government grants | (b) | **386,370** | 386,370 | **386,370** | 386,370 |
| Change in fair value of available-for-sale financial assets, net of deferred tax | (c) | **291,753** | 21,949 | **277,070** | 21,949 |
| Other capital reserves | (d) | **134,216** | 134,216 | **134,216** | 134,216 |
| Total | | **3,237,360** | 2,967,556 | **3,222,677** | 2,967,556 |

## 29. Capital reserves *(continued)*

Balance of capital reserves at 30 June 2007 and 31 December 2006 is represented by: *(continued)*

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

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

(c) The available-for-sale financial assets held by the Group are carried at fair value with any change in fair value, net of deferred tax, recognised directly in capital reserve.

(d) Other capital reserves represent reserves for equity investment and surplus of related party transactions. Reserve for equity investment represents shortfall of the initial investment cost over the share of shareholders' funds of the investees. Surplus of related party transactions represents the excess of the net disposal proceeds over the carrying amount of the fixed assets when the Group sells fixed assets to its related parties. In accordance with ASBE(2006), reserve for equity investment and surplus of related party transactions are recorded in "capital reserves-other capital reserves".

## 30. Surplus reserves

| | | The Group and the Company | | | |
|---|---|---|---|---|---|
| | Note | Statutory surplus reserve RMB'000 | General surplus reserve RMB'000 | Discretionary surplus reserve RMB'000 | Total RMB'000 |
| Balance at 1 January 2006 | | 3,183,935 | 82,089 | 1,280,514 | 4,546,538 |
| Appropriation of net profit | (a) | 75,955 | - | - | 75,955 |
| Balance at 31 December 2006 and 30 June 2007 | | 3,259,890 | 82,089 | 1,280,514 | 4,622,493 |

(a) Pursuant to resolution of the Board, the Company transferred 10% of net profit to the statutory surplus reserve for the year ended 31 December 2006.

## 31. Operating income

| | Six-month period ended 30 June | | | |
|---|---|---|---|---|
| | The Group | | The Company | |
| | **2007** | 2006 | **2007** | 2006 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Income from principal operations | **26,620,046** | 23,423,280 | **23,570,576** | 21,236,369 |
| Income from other operations | **263,385** | 427,765 | **346,977** | 189,142 |
| Total | **26,883,431** | 23,851,045 | **23,917,553** | 21,425,511 |

For the six-month period ended 30 June 2007, revenue from sales to top five customers amounted to RMB9,852,269,000 which accounted for 36.65% of operating income of the Group.

## 32. Cost of sales

| | Six-month period ended 30 June | | | |
|---|---|---|---|---|
| | The Group | | The Company | |
| | **2007** | 2006 | **2007** | 2006 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Cost of sales | **23,492,282** | 22,024,175 | **20,714,569** | 20,148,579 |
| Cost of other operations | **186,416** | 358,528 | **259,599** | 137,376 |
| Total | **23,678,698** | 22,382,703 | **20,974,168** | 20,285,955 |

## 33. Sales taxes and surcharges

| | Six-month period ended 30 June | | | |
|---|---|---|---|---|
| | The Group | | The Company | |
| | **2007** | 2006 | **2007** | 2006 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Consumption tax | **248,117** | 254,323 | **248,117** | 254,323 |
| City construction tax | **68,610** | 43,022 | **66,503** | 40,271 |
| Education surcharge and Others | **35,349** | 18,659 | **30,692** | 17,259 |
| Total | **352,076** | 316,004 | **345,312** | 311,853 |

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 period.

## 34. Financial expenses

| | Six-month period ended 30 June | | | |
|---|---|---|---|---|
| | The Group | | The Company | |
| | **2007** | 2006 | **2007** | 2006 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Interest expenses | **160,830** | 183,907 | **136,117** | 159,926 |
| Less: borrowing costs capitalised as construction in progress | **(35,307)** | (26,859) | **(35,307)** | (26,859) |
| Interest expense, net | **125,523** | 157,048 | **100,810** | 133,067 |
| Interest income | **(21,644)** | (20,605) | **(18,068)** | (16,746) |
| Net foreign exchange gain | **(18,947)** | (36,094) | **(12,664)** | (34,413) |
| Others | **3,825** | 6,986 | **856** | 4,671 |
| Total | **88,757** | 107,335 | **70,934** | 86,579 |

## 35. Impairment losses

| | Six-month period ended 30 June | | | |
|---|---|---|---|---|
| | The Group | | The Company | |
| | **2007** | 2006 | **2007** | 2006 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Allowance for doubtful accounts | **(106)** | 3,087 | **143** | (135) |
| Provision for inventories | **-** | 33,407 | **-** | 33,407 |
| Total | **(106)** | 36,494 | **143** | 33,272 |

## 36. Investment income

| | Six-month period ended 30 June | | | |
|---|---|---|---|---|
| | The Group | | The Company | |
| | **2007** | 2006 | **2007** | 2006 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Investment income accounted for under the cost method | **1,951** | 39,362 | **224** | 4,770 |
| Investment income from subsidiaries | **-** | - | **1,989** | 118,792 |
| Investment income from associates and jointly controlled entities | **383,160** | 175,156 | **371,124** | 171,244 |
| Loss / (gain) on disposal of investments | **(12,696)** | 23,883 | **1,600** | (425) |
| Gain from disposal of available-for-sale financial assets | **413,119** | - | **327,129** | - |
| Total | **785,534** | 238,401 | **702,066** | 294,381 |

## 37. Non-operating income

| | Six-month period ended 30 June | | | |
|---|---|---|---|---|
| | The Group | | The Company | |
| | **2007** | 2006 | **2007** | 2006 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Net gain on disposal of fixed assets | **202** | 2,094 | **142** | 280 |
| Net gain on disposal of Intangible assets | **3,132** | - | **3,132** | - |
| Gain on disposal of non-current assets | **3,334** | 2,094 | **3,274** | 280 |
| Penalties income | **44** | 74 | **20** | 44 |
| Amortisation of deferred income | **5,000** | 10,759 | **5,000** | 5,000 |
| Others | **2,591** | 7,122 | **525** | 708 |
| Total | **10,969** | 20,049 | **8,819** | 6,032 |

## 38. Non-operating expenses

| | Six-month period ended 30 June | | | |
|---|---|---|---|---|
| | The Group | | The Company | |
| | **2007** | 2006 | **2007** | 2006 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Loss on disposal of fixed assets | **16,140** | 2,167 | **5,859** | 958 |
| Service fee | **16,000** | 13,910 | **16,000** | 13,910 |
| Donations | **8,250** | 380 | **8,250** | 380 |
| Others | **11,417** | 25,832 | **9,740** | 13,592 |
| Total | **51,807** | 42,289 | **39,849** | 28,840 |

## 39. Income tax

| | Six-month period ended 30 June | | | |
|---|---|---|---|---|
| | The Group | | The Company | |
| | **2007** | 2006 | **2007** | 2006 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Provision for PRC income tax for the period | **673,992** | 24,723 | **648,001** | 2,133 |
| Deferred taxation | **(6,335)** | (6,684) | **(6,335)** | (6,684) |
| Adjustment for provision for income tax in respect of prior years | **2,228** | (6,911) | **4,052** | (6,911) |
| Total | **669,885** | 11,128 | **645,718** | (11,462) |

## 40. Supplemental information to the cash flow statements

### (1) Reconciliation of net profit / (loss) to cash flows from operating activities:

| | Six-month period ended 30 June | | | |
|---|---|---|---|---|
| | The Group | | The Company | |
| | **2007** | 2006 | **2007** | 2006 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Net profit / (loss) | **1,751,897** | (15,898) | **1,660,782** | (15,898) |
| Impairment losses on assets | **(106)** | 36,494 | **143** | 33,272 |
| Depreciation on investment property | **6,628** | 6,339 | **7,460** | 7,460 |
| Depreciation on fixed assets | **823,862** | 925,022 | **710,349** | 795,174 |
| Amortisation of intangible assets | **10,121** | 6,724 | **6,493** | 6,724 |
| Disposal of fixed assets, intangible assets and other long-term assets | **12,806** | 73 | **2,585** | 678 |
| Financial expenses | **84,932** | 100,349 | **70,078** | 81,908 |
| Investment income | **(785,534)** | (238,401) | **(702,066)** | (294,381) |
| Increase in deferred tax assets | **(18,989)** | (6,684) | **(18,989)** | (6,684) |
| Increase in deferred tax liabilities | **12,654** | 2,133 | **12,654** | 2,133 |
| Increase in inventories | **(927,953)** | (747,920) | **(1,029,473)** | (701,530) |
| Increase in operating receivables | **(62,067)** | (409,088) | **(102,542)** | (186,549) |
| Increase in operating payables | **396,543** | 843,680 | **599,455** | 919,499 |
| Minority interests | **30,461** | 35,616 | **-** | - |
| Net cash flows from operating activities | **1,335,255** | 538,439 | **1,216,929** | 641,806 |

### (2) Non-cash payment of material investing and financing activities

| | Six-month period ended 30 June | | | |
|---|---|---|---|---|
| | The Group | | The Company | |
| | **2007** | 2006 | **2007** | 2006 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Change in fair value of available-for-sale financial assets | **365,520** | - | **354,843** | - |

## 40. Supplemental information to the cash flow statements *(continued)*

### (3) Net change in cash and cash equivalents:

| | Six-month period ended 30 June | | | |
|---|---|---|---|---|
| | The Group | | The Company | |
| | **2007** | 2006 | **2007** | 2006 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Cash balance at the end of the period | **801,499** | 793,252 | **406,022** | 524,967 |
| Less: cash balance at the beginning of the period | **894,650** | 1,347,237 | **551,693** | 821,564 |
| Net decrease in cash and cash equivalents | **(93,151)** | (553,985) | **(145,671)** | (296,597) |

### (4) The analysis of cash and cash equivalents is as follows:

| | Six-month period ended 30 June | | | |
|---|---|---|---|---|
| | The Group | | The Company | |
| | **2007** | 2006 | **2007** | 2006 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Cash and cash equivalents | | | | |
| - Cash in hand | **76** | 303 | **36** | 201 |
| - Demand deposits | **742,490** | 753,089 | **349,914** | 486,638 |
| - Others | **58,933** | 39,860 | **56,072** | 38,128 |
| Cash and cash equivalents at the end of the period | **801,499** | 793,252 | **406,022** | 524,967 |

## 41. 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 the operating profit before income tax, investment income, non-operating income and non-operating expense. Certain administrative expenses are allocated based on the percentage of sales.

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.

41. **Segment reporting** *(continued)*

**Operating income**

| | Six-month period ended 30 June | |
|---|---|---|
| | **2007** | 2006 |
| | **RMB'000** | RMB'000 |
| Synthetic fibres | | |
| External sales | **2,304,678** | 2,312,743 |
| Intersegment sales | **46** | 38 |
| Sub-total | **2,304,724** | 2,312,781 |
| Resins and plastics | | |
| External sales | **8,117,734** | 7,606,847 |
| Intersegment sales | **35,115** | 29,577 |
| Sub-total | **8,152,849** | 7,636,424 |
| Intermediate petrochemicals | | |
| External sales | **4,202,885** | 3,048,549 |
| Intersegment sales | **8,440,840** | 6,340,998 |
| Sub-total | **12,643,725** | 9,389,547 |
| Petroleum products | | |
| External sales | **10,069,800** | 9,074,588 |
| Intersegment sales | **782,449** | 663,223 |
| Sub-total | **10,852,249** | 9,737,811 |
| All others | | |
| External sales | **2,188,334** | 1,808,318 |
| Intersegment sales | **1,535,505** | 1,890,620 |
| Sub-total | **3,723,839** | 3,698,938 |
| Eliminations of intersegment sales | **(10,793,955)** | (8,924,456) |
| Total | **26,883,431** | 23,851,045 |

## 41. Segment reporting *(continued)*

### Cost of sales

| | Six-month period ended 30 June | |
|---|---|---|
| | **2007** | 2006 |
| | **RMB'000** | RMB'000 |
| Synthetic fibres | **2,200,550** | 2,245,716 |
| Resins and plastics | **7,537,734** | 7,211,607 |
| Intermediate petrochemicals | **3,678,993** | 2,833,181 |
| Petroleum products | **9,593,220** | 10,035,132 |
| All others | **2,076,630** | 1,603,389 |
| Total | **25,087,127** | 23,929,025 |

### Operating profit

| | Six-month period ended 30 June | |
|---|---|---|
| | **2007** | 2006 |
| | **RMB'000** | RMB'000 |
| Synthetic fibres | **104,128** | 67,027 |
| Resins and plastics | **580,000** | 395,240 |
| Intermediate petrochemicals | **523,892** | 215,368 |
| Petroleum products | **476,580** | (960,544) |
| All others | **111,704** | 204,929 |
| Total segment result | **1,796,304** | (77,980) |
| Financial expenses | **(88,757)** | (107,335) |
| Add: Investment income | **785,534** | 238,401 |
| Operating profit | **2,493,081** | 53,086 |

## 42. Financial risk management

### (1) Credit risk

The Group's credit risk mainly arise from trade debtors and other debtors. Management has designed appropriate credit policies to monitor the credit risks continuously.

As for trade debtors and other debtors, the group performs on going credit evaluations of its customers' financial condition to determine credit limits.

As at 30 June 2007, since 62.84% of the total trade debtors and 59.10% of the total other debtors are due from the Group's top 5 customers, the Group is exposed to credit concentration risk to some extent.

### (2) Interest rate risk

The interest rate analysis of short-term and long-term loans is disclosed in Note 21 and Note 26 respectively.

### (3) Currency risk

Other than the foreign currency deposits and foreign currency loans disclosed in notes, most of the Group's other financial assets and liabilities are settled with RMB.

### (4) Fair values

The financial assets and liabilities of the Group and the Company are carried at amounts not materially different from their fair values as at 31 December 2006 and 30 June 2007.

### (5) Fair value estimate

The following summarises main methods and assumptions to estimate fair value.

(a) Securities

Fair value is based on the market price on the balance sheet date without deduction of transaction costs.

(b) With interest loans and borrowings

Fair value is estimated according to the estimated present value of future cash flow. Discounted rate is the market interest rate of similar financial instruments.

### 43. Capital commitments

Capital commitments outstanding at 30 June 2007 are as follows:

| | The Group and the Company | |
|---|---|---|
| | **At 30 June 2007 RMB'000** | At 31 December 2006 RMB'000 |
| Contracted but not provided for | **495,705** | 398,335 |
| Authorised by the Board but not contracted for | **1,406,029** | 2,061,660 |
| | **1,901,734** | 2,459,995 |

These capital commitments relate to the acquisition of property, plant, equipment and capital contributions to the Group's investments.

At 30 June 2007, the Group and the Company did not have material operating lease commitment.

### 44. Contingent liabilities

(1) The financial guarantees provided by the Group and the Company are as follows:

| | The Group | | The Company | |
|---|---|---|---|---|
| | **At 30 June 2007 RMB'000** | At 31 December 2006 RMB'000 | **At 30 June 2007 RMB'000** | At 31 December 2006 RMB'000 |
| Guarantees issued to banks in favor of: | | | | |
| - subsidiaries | **-** | - | **525,000** | 353,500 |
| - associates | **14,500** | 40,000 | **14,500** | 40,000 |
| - other unlisted investment companies | **6,500** | 9,750 | **-** | - |
| | **21,000** | 49,750 | **539,500** | 393,500 |

The Group monitors the conditions that are subject to the guarantees to identify whether it is probable that a loss has occurred, and recognised any such losses under guarantees when those losses are estimable. At 30 June 2007 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 arrangements.

## 44. Contingent liabilities *(continued)*

(2) Income tax differences

As discussed in Note 5, the Group has certain income tax exposures with regard to prior years. At this stage, the Company is still in the process of communicating with the relevant tax authorities over this matter and is not in a position to reliably estimate the eventual outcome.

## 45. Related parties and related party transactions

(1) Information concerning the parent company is as follows:

| | | |
|---|---|---|
| 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 | : | Su Shulin |
| Registered capital | : | RMB 86.7 billion(2006: RMB 86.7 billion) |
| On the company's stake | : | 55.56% |
| Proportion of voting rights | : | 55.56% |

The above registered capital has not changed during the six-month period ended 30 June 2007.

At 30 June 2007, Sinopec Corp held 4 billion shares of the Company. There are no changes during the report period.

(2) Details of the Company's subsidiaries are set out in Note 6.

## 45. Related parties and related party transactions *(continued)*

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

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including directors and supervisors of the Group. The key management compensations are as follows:

| | The Group and the Company | |
|---|---|---|
| | **At 30 June 2007 RMB'000** | At 31 December 2006 RMB'000 |
| Short-term employee benefits | **2,638** | 3,616 |
| Post-employment benefits | **16** | 18 |
| | **2,654** | 3,634 |

(4) Transactions between the Group and the other related parties

(a) 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 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 |
| 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.

## 45. Related parties and related party transactions *(continued)*

(4) Transactions between the Group and the other related parties (continued)

(b) Most of the transactions undertaken by the Group during the period ended 30 June 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 reporting period, the value of crude oil purchased in accordance with Sinopec Corp's allocation was as follow:

| | Six-month period ended 30 June | |
|---|---|---|
| | **2007** | 2006 |
| | **RMB'000** | RMB'000 |
| Purchases of crude oil | **15,057,510** | 15,173,359 |

(c) Other transactions between the Group and the other related parties during the period were as follows:

| | Six-month period ended 30 June | |
|---|---|---|
| | **2007** | 2006 |
| | **RMB'000** | RMB'000 |
| Sales of goods and service | **10,442,978** | 9,153,900 |
| Purchases other than crude oil | **1,923,125** | 1,151,915 |
| Insurance premiums paid | **49,833** | 47,544 |
| New withdrawal from deposits in related party | **53,696** | 28,321 |
| Interest received and receivable | **273** | 182 |
| New loans obtained from a related party | **180,000** | 448,000 |
| Loans repaid to a related party | **-** | 448,000 |
| Interest paid and payable | **903** | 4,085 |
| Transportation fees | **125,233** | 177,120 |
| Construction and installation fees | **64,737** | 117,349 |
| Gains from disposal of investments | **14,585** | 24,308 |
| Sales commissions | **93,891** | 93,234 |
| Net decrease of guarantees | **28,750** | 3,553 |

The sales and purchases transactions between the Group 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 or in accordance with the agreements governing such transactions. The above has been confirmed by the independent non-executive directors.

## 45. Related parties and related party transactions *(continued)*

(d) Balances with related parties

At 30 June, the Group's balances with related parties are as follows:

| | Immediate Parent Company | | Other related parties | |
|---|---|---|---|---|
| | **At 30 June 2007 RMB'000** | At 31 December 2006 RMB'000 | **At 30 June 2007 RMB'000** | At 31 December 2006 RMB'000 |
| Bills receivable | **-** | 280 | **58,985** | 60,843 |
| Trade debtors | **37,630** | - | **464,880** | 266,200 |
| Other receivables | **121** | 121 | **51,628** | 85,608 |
| Advance payments | **32,785** | 36,620 | **89,218** | 245,615 |
| Bills payable | **8,800** | 35,700 | **-** | - |
| Trade creditors | **443,850** | 273,012 | **160,111** | 225,330 |
| Other payables | **16,649** | 2,212 | **18,006** | 33,131 |
| Receipts in advance | **9,382** | 16,152 | **25,255** | 14,237 |
| Dividend payable | **160,013** | - | **-** | - |
| Balance of guarantee | **-** | - | **21,000** | 49,750 |

(e) Deposits in related parties

| | The Group | | The Company | |
|---|---|---|---|---|
| | **At 30 June 2007 RMB'000** | At 31 December 2006 RMB'000 | **At 30 June 2007 RMB'000** | At 31 December 2006 RMB'000 |
| Cash at bank and in hand | **26,217** | 79,913 | **19,713** | 79,001 |

(f) Loans with related parties

| | The Group | | The Company | |
|---|---|---|---|---|
| | **At 30 June 2007 RMB'000** | At 31 December 2006 RMB'000 | **At 30 June 2007 RMB'000** | At 31 December 2006 RMB'000 |
| Short-term loans | **80,000** | - | **-** | - |
| Long-term loans | **100,000** | - | **-** | - |

## 46. Comparative figures

Effective from 1 January 2007, the Group's financial statements have been prepared in accordance with the requirements of ASBE (2006), see Note 4 for details.

## 47. Principal 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

As stated in Note 3(10), long lived assets are tested periodically for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. If circumstances indicate that the net book value of a long-lived asset may not be fully recoverable, the asset in question may be considered "impaired", and an impairment loss may be recognised.

The recoverable amount is the greater of the fair value less disposal expenses of an asset (or set of assets) and the present value of the expected future cash flows of an asset (or set of assets). It is difficult to precisely estimate fair value because quoted market prices for the Group's assets (or sets of assets) are not readily available. In determining the present value of expected future cash flows, significant judgement should be made relating to level of sale, volume, selling price, relative amount of operating costs and discounted rate used in calculation. 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.

(2) Depreciation

As stated in Note 3(6), 3(7) and 3(9), investment property, fixed assets and intangible 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.

**47. Accounting estimates and judgments** *(continued)*

(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.

## 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:

| | Six-month period ended 30 June | |
|---|---|---|
| | **2007** | 2006 |
| | **RMB'000** | RMB'000 |
| **Non-recurring items** | | |
| Gain from disposal of non-current assets | **387,617** | 23,810 |
| Net income of non-operating income / (expenses) other than those mentioned above | **(28,032)** | (22,167) |
| Less: tax effect for the above items | **(118,663)** | (246) |
| Total | **240,922** | 1,397 |

Note: The above figure of 2006 have been adjusted. Certain compare figures have been adjusted as a result of the first implementation of ASBE(2006), details of which are disclosed in Note 4.

## 49. Earnings/(Losses) per share and return on net assets

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 Revised) issued by China Security Regulation Committee, earnings per share and return on net assets are calculated as follows:

## 49. Earnings/(Losses) per share and return on net assets *(continued)*

(1) The Group's earnings / (losses) per share

| | Six-month period ended 30 June | | | |
|---|---|---|---|---|
| | **2007** | | 2006 | |
| | **Basic earnings per share** | **Diluted earnings per share** | Basic earnings per share | Diluted earnings per share |
| (a) Earnings / (Losses) per share based on net profit / (loss) including non-recurring items (RMB) | **0.243** | **0.243** | (0.002) | (0.002) |
| - Net profit/(loss) attributable to equity shareholders of the Company (RMB'000) | **1,751,897** | **1,751,897** | (15,898) | (15,898) |
| - Weighted average of issued shares ('000) | **7,200,000** | **7,200,000** | 7,200,000 | 7,200,000 |
| (b) Earnings / (Losses) per share based on net profit/(loss) excluding non-recurring items (RMB) | **0.210** | **0.210** | (0.002) | (0.002) |
| - Net profit/(loss) attributable to equity shareholders of the Company ( RMB'000) | **1,510,975** | **1,510,975** | (17,295) | (17,295) |
| - Weighted average of issued shares ('000) | **7,200,000** | **7,200,000** | 7,200,000 | 7,200,000 |

(2) Return on net assets

| | **At 30 June 2007** | | At 30 June 2006 | |
|---|---|---|---|---|
| | **Diluted** | **Weighted average** | Diluted | Weighted average |
| (a) Return on net assets based on net profit / (loss) including non-recurring items | **8.285%** | **8.639%** | (0.086%) | (0.084%) |
| - Net profit / (loss) attributable to equity shareholders of the Company (RMB'000) | **1,751,897** | **1,751,897** | (15,898) | (15,898) |
| - Net assets attributable to equity shareholders of the Company (RMB'000) | **21,146,596** | **21,146,596** | 18,526,167 | 18,526,167 |
| - Net assets attributable to equity shareholders of the Company, weighted average (RMB'000) | **20,279,746** | **20,279,746** | 18,894,116 | 18,894,116 |
| (b) Return on net assets based on net profit / (loss) excluding non-recurring items | **7.145%** | **7.451%** | (0.093%) | (0.092%) |
| - Net profit / (loss) attributable to equity shareholders of the Company (RMB'000) | **1,510,975** | **1,510,975** | (17,295) | (17,295) |
| - Net assets attributable to equity shareholders of the Company (RMB'000) | **21,146,596** | **21,146,596** | 18,526,167 | 18,526,167 |
| - Net assets attributable to equity shareholders of the Company, weighted average (RMB'000) | **20,279,746** | **20,279,746** | 18,894,116 | 18,894,116 |

# C. Differences between financial statements prepared under the PRC Accounting Standards for Business Enterprises and IFRSs

The below figures are extracted from the interim financial statements prepared in accordance with the PRC Accounting Standards for Business Enterprises and IFRSs, both of which have not been audited.

The Company also prepares a set of financial statements which complies with the PRC Accounting Standards for Business Enterprises. A reconciliation of the Group's net profit and shareholders' equity prepared under the PRC Accounting Standards for Business Enterprises and IFRSs 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 PRC Accounting Standards for Business Enterprises and IFRSs. The major differences are:

Notes:

(i) Valuation surplus

Under the PRC Accounting Standards for Business Enterprises, the excess of fair value over the carrying value of assets given up in part exchange for investments should be credited to capital reserve fund.

Under IFRSs, it is inappropriate to recognise such excess as a gain as its realisation is uncertain.

(ii) Government grants

Under the PRC Accounting Standards for Business Enterprises, government subsidy for technology improvement defined as capital contribution according to the relevant government documents is not considered as a government grant and should be recorded as capital reserve.

Under IFRSs, such grants for the purchase of equipment used for technology improvements 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.

(iii) Revaluation of land use rights

Under IFRSs, land use rights are carried at historical cost less accumulated amortisation. Under the PRC Accounting Standards for Business Enterprises, land use rights are carried at revalued amount less accumulated amortisation.

# C. Differences between financial statements prepared under the PRC Accounting Standards for Business Enterprises and IFRSs *(continued)*

(iv) Goodwill

Under the PRC Accounting Standards for Business Enterprises, the Group no longer amortises positive goodwill effective 1 January 2007. Such goodwill is tested annually for impairment.

Under IFRSs, with reference to IFRS 3, "Business combinations", the Group no longer amortises goodwill effective 1 January 2005. Such goodwill is tested annually for impairment.

As a result, there are no differences in respect of goodwill amortisation between the PRC Accounting Standards for Business Enterprises and IFRSs 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 PRC Accounting Rules and Regulations.

(v) Sale of assets to a jointly controlled entity

Under the PRC Accounting Standards for Business Enterprises, a listed company that sells fixed assets to its related party, any excess of the net disposal proceeds over the carrying amount of the fixed assets is fully recognised.

Under IFRSs, a venturer that contributes non-monetary assets or sells assets to a joint venture, while the assets are retained in the joint venture, the venturer shall recognise a gain or loss to the extent the assets have been sold to the other venturers.

## C. Differences between financial statements prepared under the PRC Accounting Standards for Business Enterprises and IFRSs *(continued)*

Effects on the Group's net profit and shareholders' equity of significant differences between the PRC Accounting Standards for Business Enterprises and IFRSs are summarised below:

| | Note | Six-month period ended 30 June<br>**2007**<br>**RMB'000** | <br>2006<br>RMB'000<br>(restated) |
|---|---|---|---|
| Profit/(loss) attributable to equity shareholders of the Company under the PRC Accounting Standards for Business Enterprises | | **1,751,897** | (15,898) |
| Adjustments: | | | |
| Reduced depreciation on government grants | (ii) | **13,380** | 13,380 |
| Amortisation of revaluation of land use rights | (iii) | **1,749** | 1,749 |
| Goodwill | (iv) | **-** | 6,724 |
| Sale of assets to a jointly controlled entity, reversal of depreciation | (v) | **1,752** | - |
| Effects of the above adjustments on taxation | | **(1,155)** | (262) |
| Effects of change in tax rate on deferred tax | | **17,946** | - |
| Profit attributable to equity shareholders of the Company under IFRSs | | **1,785,569** | 5,693 |

| | Note | **As at 30 June**<br>**2007**<br>**RMB'000** | As at 31 December<br>2006<br>RMB'000<br>(restated) |
|---|---|---|---|
| Total equity attributable to equity shareholders under the PRC Accounting Standards for Business Enterprises | | **21,146,596** | 19,412,895 |
| Adjustments: | | | |
| Valuation surplus | (i) | **(44,887)** | (44,887) |
| Government grants | (ii) | **(250,539)** | (263,919) |
| Revaluation of land use rights | (iii) | **(124,116)** | (125,865) |
| Goodwill | (iv) | **22,415** | 22,415 |
| Sale of assets to a jointly controlled entity, net of depreciation effect | (v) | **(49,043)** | (50,795) |
| Effects of the above adjustments on taxation | | **43,290** | 26,499 |
| Total equity attributable to equity shareholders of the Company under IFRSs | | **20,743,716** | 18,976,343 |

# D. Supplementary Information for North American Shareholders

The Group's accounting policies conform with IFRSs which differ in certain significant respects from accounting principles generally accepted in the United States of America ("U.S. GAAP"). Information relating to the nature and effect of such differences is presented below. The U.S. GAAP reconciliation presented below is included as supplemental information and is not required as part of the basic interim financial reports. Such information has not been subjected to independent audit or review.

Notes:

(a) Foreign exchange gains and losses

Under IFRSs, foreign exchange differences on funds borrowed for construction are capitalised as property, plant and equipment to the extent that they are regarded as an adjustment to interest costs during the construction period. In the periods ended 30 June 2007 and 2006, no foreign exchange differences were capitalised to property, plant and equipment. Under U.S. GAAP, all foreign exchange gains and losses on foreign currency debt are included in current earnings. Due to the effect of foreign exchange differences capitalised and fully amortised under IFRSs, the balances of cost and accumulated depreciation of property, plant and equipment as at 30 June 2007 under IFRSs were higher than the balances under U.S. GAAP by RMB 365,258,000 and RMB 365,258,000 respectively (31 December 2006: RMB 365,258,000 and RMB 365,258,000 respectively).

(b) Revaluation of property, plant and equipment

In the periods prior to those presented herein, the property, plant and equipment of the Company were revalued to reflect the current fair value resulting in a revaluation surplus recorded in the Company's financial statements. Additional depreciation charges have been taken in the periods ended 30 June 2007 and 2006 on the revaluation surplus of RMB 1,576,330,000.

Under U.S. GAAP, property, plant and equipment are stated at historical cost less accumulated depreciation. However, as a result of the tax deductibility of the revaluation, a deferred tax asset related to the reversal of the revaluation surplus is created under U.S. GAAP with a corresponding increase in shareholders' equity.

(c) Capitalised interest on investment in associates

Under IFRSs, an investment accounted for by the equity method is not considered a qualifying asset for which interest is capitalised. Under U.S. GAAP, an investment accounted for by the equity method while the investee has activities in progress necessary to commence its planned principal operations, provided that the investee's activities include the use of funds to acquire qualifying assets for its operations, is a qualifying asset for which interest is initially capitalised and subsequently amortised when the operation of the qualifying assets begin.

# D. Supplementary Information for North American Shareholders *(continued)*

Notes *(continued)*:

(d) Goodwill

With effect from 1 January 2005, in accordance with IFRS 3 and IAS 36, the Group no longer amortises positive goodwill. Such goodwill is tested annually for impairment, including in the year of its initial recognition, as well as when there are indications of impairment. Impairment losses are recognised when the carrying amount of the cash generating unit to which the goodwill has been allocated exceeds its recoverable amount.

Under U.S. GAAP, with reference to Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS No. 142"), goodwill was no longer amortised beginning 1 January 2002, the date that SFAS No. 142 was adopted. Instead, goodwill has been reviewed for impairment upon adoption of SFAS No. 142 and annually thereafter. In addition, under U.S. GAAP, the unallocated negative goodwill that existed at the date of adoption of SFAS No. 142 was written off effective 1 January 2002 as a cumulative effect of a change in accounting principle.

As a result, there are no differences in respect of goodwill amortisation between IFRSs and U.S. GAAP effective 1 January 2005. The difference in the shareholders' equity represents the three years of amortisation of positive goodwill during the period from 1 January 2002 to 31 December 2004 under IFRSs.

(e) Presentation of minority interests

Under IFRSs, minority interests at the balance sheet date are presented in the consolidated balance sheet within equity, separately from the equity attributable to the equity shareholders of the Company, and minority interests in the results of the Group for the period are presented in the consolidated statement of income as an allocation of the total net income for the period between the minority interests and the equity shareholders of the Company. Under U.S. GAAP, minority interests at the balance sheet date are presented in the consolidated balance sheet either as liabilities or separately from liabilities and equity. Minority interests in the results of the Group for the year are also separately presented in the consolidated statement of income as a deduction before arriving at net income.

(f) Condensed consolidated statements of cash flows

The Group applies IAS 7 "Cash Flow Statements". Its objectives and principles are similar to those set out in SFAS No. 95, "Statement of Cash Flows" ("SFAS 95"). The principal differences between the standards relate to classification. Interest income received and investment income received classified as investing activities under IFRS would be classified as operating activities under U.S. GAAP.

# D. Supplementary Information for North American Shareholders *(continued)*

Notes *(continued)*:

(g) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company under U.S. GAAP of RMB 1,782,590,000 (period ended 30 June 2006: RMB 8,500,000) and the number of shares in issue during the period of 7,200,000,000 (period ended 30 June 2006: 7,200,000,000). Basic earnings per ADS is calculated on the basis that one ADS is equivalent to 100 shares.

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

(h) United States dollar equivalents

For the convenience of the reader, amounts in Renminbi ("RMB") have been translated into United States dollars at the rate of US$1.000 = RMB 7.6155 being the average of the buying and selling rates quoted by the People's Bank of China on 29 June 2007. No representation is made that the RMB amounts could have been, or could be, converted into United States dollars at that rate.

# D. Supplementary Information for North American Shareholders *(continued)*

The effect on the profit attributable to equity shareholders of the Company of significant differences between IFRSs and U.S. GAAP is as follows:

| | Note | Six-month period ended 30 June 2007 US$'000 | 2007 RMB'000 | 2006 RMB'000 |
|---|---|---|---|---|
| Profit attributable to equity shareholders of the Company under IFRSs | | **234,465** | **1,785,569** | 5,693 |
| U.S. GAAP adjustments: | | | | |
| Depreciation charge on revalued property, plant and equipment | (b) | **1,043** | **7,940** | 7,940 |
| Capitalised interest on investment in associates, net of amortisation effect | (c) | **(609)** | **(4,637)** | (4,637) |
| Effects of the above adjustments on taxation | | **(143)** | **(1,090)** | (496) |
| Effects of change in tax rate on deferred tax | | **(682)** | **(5,192)** | - |
| Profit attributable to equity shareholders of the Company under U.S. GAAP | | **234,074** | **1,782,590** | 8,500 |
| Basic earnings per share under U.S. GAAP | (f) | **US$ 0.033** | **RMB0.248** | RMB 0.001 |
| Basic earnings per ADS under U.S. GAAP | (f) | **US$ 3.251** | **RMB 24.758** | RMB 0.12 |

The effect on total equity attributable to equity shareholders of the Company of significant differences between IFRSs and U.S. GAAP is as follows:

| | Note | As at 30 June 2007 US$'000 | 2007 RMB'000 | As at 31 December 2006 RMB'000 |
|---|---|---|---|---|
| Total equity attributable to equity shareholders of the Company under IFRSs | | **2,723,881** | **20,743,716** | 18,976,343 |
| U.S. GAAP adjustments: | | | | |
| Revaluation of property, plant and equipment | (b) | **(3,128)** | **(23,819)** | (31,759) |
| Capitalised interest on investment in associates, net of amortisation effect | (c) | **10,726** | **81,686** | 86,323 |
| Goodwill | (d) | **5,297** | **40,344** | 40,344 |
| Effect of U.S. GAAP adjustments on deferred tax assets | | **782** | **5,955** | 4,764 |
| Effect of U.S. GAAP adjustments on deferred tax liabilities | | **(2,682)** | **(20,421)** | (12,948) |
| Total equity attributable to equity shareholders of the Company under U.S. GAAP | | **2,734,876** | **20,827,461** | 19,063,067 |

## Written confirmation to the 2007 Interim Report Issued by Directors, Supervisors and Senior Management of Sinopec Shanghai Petrochemical Company Limited

Pursuant to the requirements of No. 68 of the Securities Law, we, being directors, supervisors and the senior management of the Company, having carefully studied and reviewed the Company's 2007 interim report, are in the opinion that: the Company was in strict compliance with the financial system operation of listed companies and the 2007 interim report gave a true and fair view of the financial position and operating results of the Company. We warrant the information contained in the 2007 interim 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 |

## CORPORATE INFORMATION

1. Name of the Company in Chinese: 中國石化上海石油化工股份有限公司
   Short Name in Chinese: 上海石化
   Name of the Company in English: Sinopec Shanghai Petrochemical Company Limited
   Short Name in English: SPC

2. Stock Exchange Listings, Stock Name and Stock Code

| Types of Shares | Place of Listing | Stock Abbreviation | Stock Code |
|---|---|---|---|
| A Shares | Shanghai | S 上石化 | 600688 |
| H Shares | Hong Kong | 上海石化 | 338 |
| ADR | New York | SHI | |

3. Registered Office: 48 Jinyi Road, Jinshan District, Shanghai, People's Republic of China
   General Office: 48 Jinyi Road, Jinshan District, Shanghai, People's Republic of China
   Postal Code: 200540
   Company Website: http://www.spc.com.cn
   Email Address: spc@spc.com.cn

4. Authorised Representative: Rong Guangdao

5. Company Secretary: Zhang Jingming
   Telephone: (8621) 5794 3143 / 5237 7880
   Fax: (8621) 5794 0050 / 5237 5091
   Email Address: spc@spc.com.cn
   Address: 48 Jinyi Road, Jinshan District, Shanghai, People's Republic of China
   Securities representative to the Board of Directors: Tang Weizhong
   Telephone: (8621) 5237 7880
   Fax: (8621) 5237 5091
   E-mail: tom@spc.com.cn
   Address: Suite B, 28/F, Huamin Empire Plaza, 728 West Yan'an Road, Shanghai 200050, P.R.China

6. Newspapers for announcements:
   Shanghai Securities News, China Securities Journal ( In case of any discrepancy between the Chinese and the English versions, the Chinese version should prevail.)
   Website for the Company's periodical report: www.sse.com.cn, www.hkex.com.hk, www.spc.com.cn
   Place for Access to the Company's periodical report: 48 Jinyi Road, Jinshan District, Shanghai, People's Republic of China

7. Other information

| | |
|---|---|
| Date of the Company's initial registration: | 29 June 1993 |
| Initial registered office of the Company: | Jinshan Wei, Shanghai, People's Republic of China |
| Date of change of the Company's registration for the first time: | 12 October 2000 |
| Change of the Company's registration address for the first time: | 48 Jinyi Road, Jinshan District, Shanghai, Peoples Republic of China |
| SAIC registration number of the Company: | 3100001002263 |
| Tax registration number of the Company: | 310043132212291 |
| Domestic auditors of the Company: | KPMG Huazhen |
| General office of the domestic auditors: | 8th floor, Office Tower E2, Oriental Plaza, No. 1, East Chang An Avenue, Beijing, People's Republic of China, Postal Code: 100738 |
| Name of international auditors of the Company: | KPMG |
| General office of the international auditors: | 8th floor, Prince's Building, Central, Hong Kong |

Other information:

Legal advisors as to:

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21st floor, Beijing Silver Tower
No.2 Dong San Huan North Road
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Postal Code: 100027

Hong Kong law: Freshfields Bruckhaus Deringer
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United States law: Morrison & Foerster
425 Market Street, San Francisco, California 94105-2482, USA

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Industrial & Commercial Bank of China
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Postal Code: 200120

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