2008

SPC

Annual Report

中國石化上海石油化工股份有限公司

SINOPEC SHANGHAI PETROCHEMICAL COMPANY LIMITED

Contents

IMPORTANT:

The board of Directors (the "Board") and the 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, the 2008 annual report, and severally and jointly accept full responsibility for the truthfulness, accuracy and completeness of the information contained in the 2008 annual report.

Directors Mr. Lei Dianwu and Mr. Xiang Hanyin, as well as Independent Non-executive Directors Mr. Chen Xinyuan and Mr. Sun Chiping were absent from the sixth meeting of the sixth session of the Board due to business engagements. Mr. Lei Dianwu and Mr. Xiang Hanyin had appointed and authorized Mr. Rong Guangdao, Chairman, as their irrevocable voting proxies. Mr. Chen Xinyuan had appointed and authorized Independent Non-executive Director Mr. Zhou Yunnong as his irrevocable voting proxy. Mr. Sun Chiping had appointed and authorized Independent Non-executive Director Mr. Jiang Zhiquan as his irrevocable voting proxy. The Board considered and approved the 2008 annual report.

The Company prepared the financial statements for the year ended 31 December 2008 (the "Reporting Period") in accordance with the People's Republic of China ("PRC" or "China") Accounting Standards for Business Enterprises as well as the International Financial Reporting Standards ("IFRS"). They have been audited by KPMG Huazhen and KPMG respectively, and both firms have issued standard unqualified opinions on the financial statements in their auditors' report.

Mr. Rong Guangdao, Chairman and concurrently President of the Company, Mr. Du Chongjun, Vice Chairman and concurrently Vice President and Mr. Han Zhihao, Director and Chief Financial Officer (overseeing the accounting operations) hereby warrant the truthfulness and completeness of the financial report contained in the 2008 annual report.

Company Profile

Sinopec Shanghai Petrochemical Company Limited is one of the largest petrochemical enterprises in the People's Republic of China based on sales in 2008. It is also one of the largest PRC producers of ethylene. Ethylene is one of the most important intermediate petrochemical products used in the production of synthetic fibres, resins and plastics. With the exception of petroleum products, the Company is a major competitor in every product market in which it participates.

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

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

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

Since the listing of its shares, the Company has strived to continuously improve and enhance its operation and management efficiency with an aim to become a world-class petrochemical enterprise.

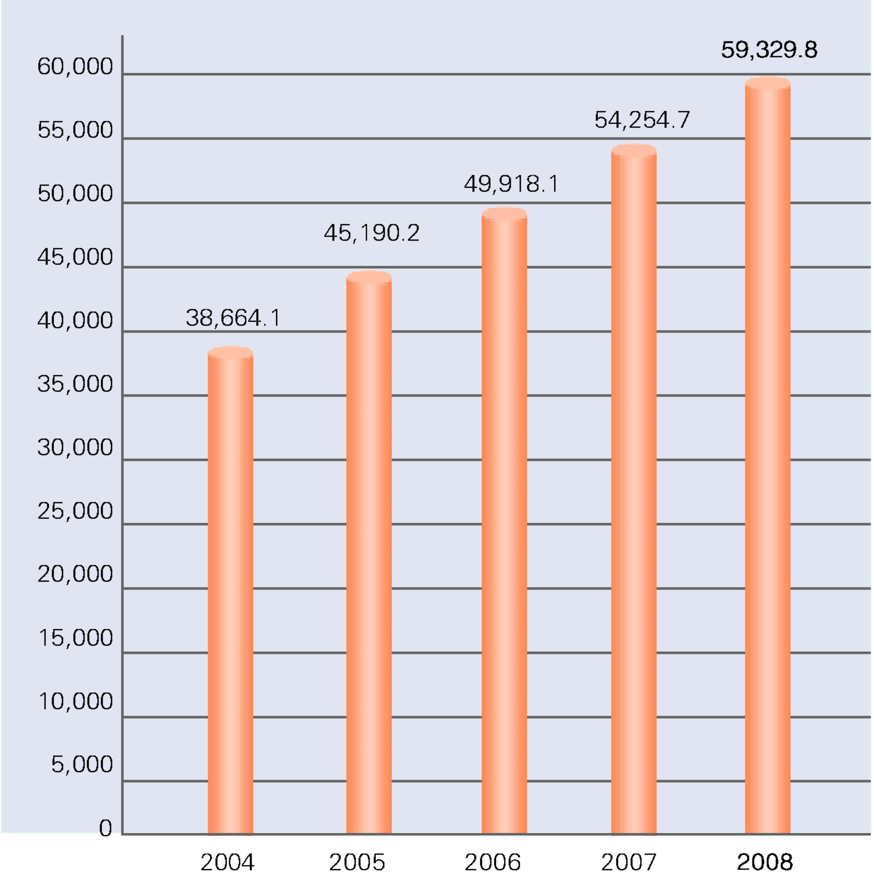
Financial Highlights

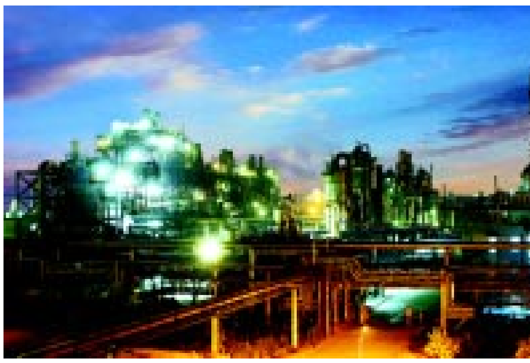
(Prepared under International Financial Reporting Standards)

Expressed in RMB millions	**2008**	2007	2006	2005	2004
Year ended 31 December:					
Net sales	**59,329.8**	54,254.7	49,918.1	45,190.2	38,664.1
(Loss)/profit before taxation	**(8,014.4)**	2,151.4	964.2	2,287.6	4,696.2
(Loss)/profit after taxation	**(6,201.7)**	1,683.1	911.0	1,921.3	4,059.2
(Loss)/profit attributable to equity shareholders of the Company	**(6,238.4)**	1,634.1	844.4	1,850.4	3,971.1
(Loss)/earnings per share	**RMB(0.87)**	RMB0.23	RMB0.12	RMB0.26	RMB0.55
As at 31 December:					
Total equity attributable to equity shareholders of the Company	**13,496.9**	20,648.0	18,976.3	18,830.0	18,417.0
Total assets	**27,533.0**	29,853.1	27,406.1	26,810.4	28,276.6
Total liabilities	**13,771.7**	8,901.0	8,093.7	7,632.9	9,486.5

Net sales

(RMB millions)





1. Major business data

(Prepared under the China Accounting Standards for Business Enterprises)

RMB'000

	For the years ended 31 December					
	2008	2007		Increase / decrease compared to the previous year(After adjustment)	2006	
		(After adjustment)[Note]	(Before adjustment)[Note]	(%)	**(After adjustment)**[Note]	(Before adjustment)[Note]
Operation Income	**60,310,570**	**55,404,687**	55,404,687	8.85	**51,478,855**	50,479,436
Total (loss) / profit before taxation	**(8,022,281)**	**2,121,094**	2,121,094	-478.21	**924,975**	843,669
Net (loss) / profit attributable to equity shareholders of the Company	**(6,245,412)**	**1,592,110**	1,592,110	-492.27	**805,705**	736,851
Net (loss) / profit attributable to equity shareholders of the Company excluding non-recurring items	**(6,359,305)**	**1,188,685**	1,105,002	-634.99	**834,400**	577,682
Net cash (outflow) / inflow from operating activities	**(3,407,885)**	**1,784,572**	1,784,572	-290.96	**2,040,679**	2,040,679

	As at 31 December					
	2008	2007		Increase / decrease compared to the end of previous year(%)	2006	
		(After adjustment)[Note]	(Before adjustment)[Note]		**(After adjustment)**[Note]	(Before adjustment)[Note]
Total assets	**28,107,465**	**30,463,349**	30,494,334	-7.73	**28,055,503**	27,684,200
Shareholders' equity attributable to equity shareholders of the Company	**13,841,371**	**20,999,444**	20,999,444	-34.09	**19,369,719**	19,273,088

Note: Comparative figures for 2006 and 2007 have been restated in accordance with the amendments of the Notice on the Explanation of Information Disclosure of Companies Offering Securities to the Public No.1 -Non-recurring Items (2008). Pursuant to the Explanation on Accounting Standards for Enterprises 2008, deferred tax assets and deferred tax liabilities were presented on a net basis, and income tax recoverable was reclassified to other receivables.

(Prepared under the China Accounting Standards for Business Enterprises)

2. Major financial indicators

	For the years ended 31 December					
	2008	2007		Increase/decrease compared to the previous year(After adjustment)(%)	2006	
		(After adjustment)[Note]	(Before adjustment)[Note]		**(After adjustment)[Note]**	(Before adjustment)[Note]
Basic (loss) / earnings per share (RMB)	**(0.867)**	**0.221**	0.221	-492.31	**0.112**	0.102
Diluted (loss) / earnings per share (RMB)	**(0.867)**	**0.221**	0.221	-492.31	**0.112**	0.102
Basic (loss) / earnings per share excluding non-recurring items (RMB)	**(0.883)**	**0.165**	0.153	-635.15	**0.116**	0.080
Return on net assets (fully diluted) (%)*	**(45.121)**	**7.582**	7.582	decreased by 52.703 percentage points	**4.160**	3.823
Return on net assets (weighted average)(%)*	**(35.851)**	**7.888**	7.888	decreased by 43.739 percentage points	**4.171**	3.834
Return on net assets based on net (loss) / profit excluding non-recurring items (fully diluted)(%)*	**(45.944)**	**5.661**	5.262	decreased by 51.605 percentage points	**4.308**	2.997
Return on net assets based on net (loss) / profit excluding non-recurring items (weighted average)(%)*	**(36.505)**	**5.889**	5.474	decreased by 42.394 percentage points	**4.320**	3.006
Net cash (outflow) / inflow per share from operating activities(RMB)	**(0.473)**	**0.248**	0.248	-290.73	**0.283**	0.283

* Net assets used above do not include minority interests.

	As at 31 December					
	2008	2007		Increase / decrease compared to the previous year(%)	2006	
		(After adjustment)[Note]	(Before adjustment)[Note]		**(After adjustment)[Note]**	(Before adjustment)[Note]
Net asset value per share attributable to equity shareholders of the Company (RMB)	**1.922**	**2.917**	2.917	-34.11	**2.690**	2.677

Note: Comparative figures for 2006 and 2007 have been restated in accordance with the amendments of the Notice on the Explanation of Information Disclosure of Companies Offering Securities to the Public No.1 - Non-recurring Items (2008). Pursuant to the Explanation on Accounting Standards for Enterprises 2008, deferred tax assets and deferred tax liabilities were presented on a net basis, and income tax recoverable was reclassified to other receivables.

3. Non-recurring items for the year ended 31 December 2008

Non-recurring Items	Amount RMB'000
Gain from disposal of non-current assets	144,938
Enterprises restructure expenses, e.g. expenses for employee placement, integration expenses	(89,844)
Gains or losses arising from changes in fair value of forward exchange contracts	97,644
Net expenses of non-operating expenses other than those mentioned above	(898)
Sub-total	151,840
Less: tax effect for the above items	(37,960)
Total	113,880
Include: Non-recurring items attributable to equity shareholders of the Company	113,893
Non-recurring items attributable to minority shareholders	(13)

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

	Return on net assets		Loss per share	
Loss for the Reporting Period	**Fully diluted (%)**	**Weighted average (%)**	**Fully diluted RMB**	**Weighted average RMB**
Net loss attributable to the equity shareholders of the Company	(45.121)	(35.851)	(0.867)	(0.867)
Net loss attributable to the equity shareholders of the Company excluding non-recurring items	(45.944)	(36.505)	(0.883)	(0.883)

5. For differences between financial statements prepared under IFRS and the China Accounting Standards for Business Enterprises

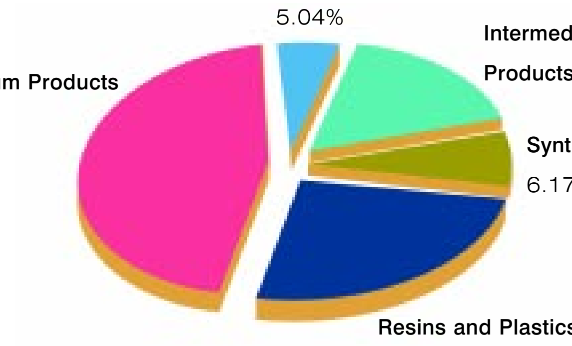
Please refer to Section C of this annual report.

Principal Products

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

The following table sets forth the net sales of the Group's major products in 2008 as a percentage of total net sales and their typical uses.

Major products sold by the Group	% of 2008 net sales	Typical uses
Manufactured Products		
Synthetic Fibres		
Polyester staple	1.02	Textiles and apparel
Acrylic staple	3.98	Cotton type fabrics wool type fabrics delre, and acrylic top
Acrylic top	0.62	High bulk hand knitting yarn, blankets and fabrics
Others	0.55	
Subtotal:	6.17	
Resins and Plastics		
Polyester chips	6.27	Polyester fibres, films and containers
PE pellets	10.06	Films, ground sheeting, wire and cable compound and other injection moulding products such as housewares and toys
PP pellets	7.42	Extruded films or sheets, injection moulding products such as housewares, toys and household electrical appliances and automobile parts
PVA	0.91	PVA fibres, building coating materials and textile starch
Others	0.37	
Subtotal:	25.03	



Major products sold by the Company	% of 2008 net sales	Typical uses
Intermediate Petrochemical Products		
Ethylene	1.18	Feedstock for PE, EG, PVC and other intermediate petrochemicals which can be further processed into resins and plastics and synthetic fibre
Ethylene oxide	2.61	Intermediate for chemical and pharmaceutical industry, dyes, detergents and adjuvant
Benzene	2.70	Intermediate petrochemical products, styrene, plastics, explosives, dyes, detergents, epoxies and polyamide fibre
Butadiene	2.66	Synthetic rubber and plastics
Ethylene glycol	3.01	Fine chemicals
Others	5.16	
Subtotal:	17.32	
Petroleum Products		
Gasoline	6.83	Transportation fuels
Diesel	27.37	Agricultural fuels
Jet oil	6.05	Transportation fuels
Others	6.19	
Subtotal:	46.44	
Others	5.04	
TOTAL:	100.00	

Change in share capital for the year ended 31 December 2008

1. **Change in share capital**

   There was no change to the Company's total number of shares or share capital structure during the Reporting Period.

2. **Issue and listing of shares**

   (1) Issue of shares during the past three years

   As at the end of the Reporting Period, the Company did not issue new shares or place any shares during the past three years.

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

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

   (3) Current employee shares

   The Company had no employee shares during the Reporting Period.

3. Shareholders and controlling company of the controlling shareholder

(1) Total number of shareholders and their shareholding as at 31 December 2008

Total number of shareholders as at the end of the Reporting Period	151,125

Shareholding of the top ten shareholders

Name of Shareholder	Type of shareholder	Percentage of total shareholding (%)	Number of shares held (shares)	Increase/ decrease during the Reporting Period (shares)	Type of shares	Number of non-circulating shares held (shares)	Number of shares pledged or frozen
China Petroleum & Chemical Corporation	State-owned Shareholder	55.56	4,000,000,000	0	Non-circulating	4,000,000,000	Nil
HKSCC (Nominees) Limited	Foreign Shareholder	31.95	2,300,260,101	-3,438,000	Circulating	0	Unknown
China Minsheng Banking Corp., Ltd. - Orient Jing Xuan Hun He Xing Kai Fang Shi Securities Investment Fund	Others	1.10	79,422,371	+20,789,902	Circulating	0	Unknown
China Construction Bank-CIFM China Advantage Security Investment Fund	Others	0.43	30,890,909	Unknown	Circulating	0	Unknown
Shanghai Kangli Gong Mao Company	Others	0.23	16,730,000	0	Non-circulating	16,730,000	Unknown
Portfolio 106 of the PRC Social Insurance Fund	Others	0.17	12,091,487	Unknown	Circulating	0	Unknown
Zhejiang Province Economic Construction and Investment Company	Others	0.17	12,000,000	0	Non-circulating	12,000,000	Unknown
Bank of China-Harvest Shanghai and Shenzhen 300 Index Securities Investment Fund	Others	0.09	6,258,558	+970,953	Circulating	0	Unknown
Shanghai Textile Development Company	Others	0.08	5,650,000	0	Non-Circulating	5,650,000	Unknown
Shanghai Xiangshun Shiye Company Limited	Others	0.08	5,500,000	Unknown	Non-Circulating	5,500,000	Unknown

3. Shareholders and controlling company of the controlling shareholder *(continued)*

(1) Total number of shareholders and their shareholding as at 31 December 2008 *(continued)*

Top ten shareholders of shares in circulation

Name of shareholders	Number of shares in circulation held(shares)	Type of Shares
HKSCC (Nominees) Limited	2,300,260,101	Overseas listed foreign shares
China Minsheng Banking Corp., Ltd. - Orient Jing Xuan Hun He Xing Kai Fang Shi Securities Investment Fund	79,422,371	RMB-denominated ordinary shares
China Construction Bank- CIFM China Advantage Security Investment Fund	30,890,909	RMB-denominated ordinary shares
Portfolio 106 of the PRC Social Insurance Fund	12,091,487	RMB-denominated ordinary shares
Bank of China-Harvest Shanghai and Shenzhen 300 Index Securities Investment Fund	6,258,558	RMB-denominated ordinary shares
YIP CHOK CHIU	3,150,000	Overseas listed foreign shares
UBS AG	2,972,009	RMB-denominated ordinary shares
China Construction Bank - Boshi Yufu Securities Investment Fund	2,812,155	RMB-denominated ordinary shares
Chen Jia	2,541,300	RMB-denominated ordinary shares
Shanghai Junfa Trading Company Limited	2,320,000	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, the State-owned shareholder, does not have any connected relationship with the other shareholders, and is not a concert party of the other shareholders under the Administrative Measures on Acquisition of Listed Companies. Of the above-mentioned shareholders, HKSCC (Nominees) Limited is a nominee shareholder. Apart from the above, the Company is not aware of whether there are other connected relationships among the other shareholders, and whether they are concert parties under the Administrative Measures on Acquisition of Listed Companies.

3. **Shareholders and controlling company of the controlling shareholder** *(continued)*

(2) Introduction of details of the controlling shareholder and controlling company of the controlling shareholder of the Company

(i) Controlling shareholder

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

(ii) Controlling company of the controlling shareholder

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

3. Shareholders and controlling company of the controlling shareholder *(continued)*

(2) Introduction of details of the controlling shareholder and controlling company of the controlling shareholder of the Company *(continued)*

(iii) Change of controlling shareholder and controlling company of the controlling shareholder of the Company

During the Reporting Period, there was no change in the controlling shareholder and controlling company of the controlling shareholder of the Company.

(iv) Diagram of the ownership and controlling relationship between the Company and the controlling company of the controlling shareholder

State-owned Assets Supervision Commission of the State Council

↓ 100%

China Petrochemical Corporation

↓ 75.84%

China Petroleum & Chemical Corporation

↓ 55.56%

Sinopec Shanghai Petrochemical Company Limited

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

As at 31 December 2008, HKSCC (Nominees) Limited held 2,300,260,101 H shares of the Company, representing 31.95% of the total issued share capital of the Company.

(4) Public Float

Based on the public information available to the Board, as at 26 March 2009, the Company had a sufficient public float which complied with the minimum requirement under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Hong Kong Listing Rules").

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

As at 31 December 2008, 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 of Hong Kong (Chapter 571 of the Laws of Hong Kong) (the "SFO") (including those who are entitled to exercise, or control the exercise of, 5% or more of the voting power at any general meeting of the Company but excluding the Directors, Supervisors and Senior Management of the Company) in the shares and underlying shares of equity derivatives of the Company as recorded in the register required to be kept under Section 336 of the SFO were as set out below:

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

Name of shareholders	Capacity	Number of share interests held or regarded as held	% of total issued share capital	% of shareholding in the Company's total issued H shares
China Petroleum & Chemical Corporation	Beneficial owner	4,000,000,000 Promoter legal person shares (L)	55.56	-
Government of Singapore Investment Corporation Pte Ltd	Beneficial owner	163,141,700 (L)	2.27	7.00

Note: (L): Long positions

(b) Interests in underlying shares of the Company

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

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

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

Save as disclosed above, as at 31 December 2008, no interests or short positions of any other person in the shares or underlying shares of equity derivatives of the Company were recorded in the register required to be kept under Section 336 of the SFO.

Directors, Supervisors and Senior Management

Name	Position	Sex	Age	Date of commencement and end of service term	Number of shares held at the beginning of the year (shares)	Number of shares held at the end of the year (shares)	Increase/ decrease of shares	Whether they received remuneration or allowance from the Company	Total remuneration received from the Company during the Reporting Period (RMB'000) (before taxation)	Whether they received remuneration or allowance from shareholder or other connected party
Rong Guangdao	Chairman and President	M	53	June 2008 to June 2011	3,600	3,600	0	Yes	481	No
Du Chongjun	Vice Chairman and Vice President	M	54	June 2008 to June 2011	1,000	1,000	0	Yes	481	No
Han Zhihao	Director and Chief Financial Officer	M	57	June 2008 to June 2011	0	0	0	Yes	408	No
Li Honggen	Director and Vice President	M	52	June 2008 to June 2011	0	0	0	Yes	408	No
Shi Wei	Director and Vice President	M	49	June 2008 to June 2011	0	0	0	Yes	412	No
Dai Jinbao	Director	M	52	June 2008 to June 2011	0	0	0	Yes	215	No
Lei Dianwu	External Director	M	46	June 2008 to June 2011	0	0	0	No	0	Yes
Xiang Hanyin	External Director	M	54	June 2008 to June 2011	0	0	0	No	0	Yes
Chen Xinyuan	Independent Non-executive Director	M	44	June 2008 to June 2011	0	0	0	Yes	115	No
Sun Chiping	Independent Non-executive Director	M	50	June 2008 to June 2011	0	0	0	Yes	115	No
Jiang Zhiquan	Independent Non-executive Director	M	58	June 2008 to June 2011	0	0	0	Yes	115	No
Zhou Yunnong	Independent Non-executive Director	M	66	June 2008 to June 2011	0	0	0	Yes	115	No
Gao Jinping	Chairman of the Supervisory Committee	M	42	June 2008 to June 2011	0	0	0	Yes	407	No
Zhang Chenghua	Supervisor	M	53	June 2008 to June 2011	0	0	0	Yes	233	No
Wang Yanjun	Supervisor	F	48	June 2008 to June 2011	0	0	0	Yes	220	No
Zhai Yalin	External Supervisor	M	44	June 2008 to June 2011	0	0	0	No	0	Yes
Wu Xiaoqi	External Supervisor	M	52	June 2008 to June 2011	0	0	0	No	0	Yes
Liu Xiangdong	Independent Supervisor	M	57	June 2008 to June 2011	0	0	0	No	0	No
Yin Yongli	Independent Supervisor	M	69	June 2008 to June 2011	0	0	0	No	0	No
Zhang Jianping	Vice President	M	46	June 2008 to June 2011	0	0	0	Yes	408	No
Tang Chengjian	Vice President	M	53	June 2008 to June 2011	0	0	0	Yes	408	No
Zhang Jingming	Company Secretary and General Counsellor	M	51	June 2008 to June 2011	0	0	0	Yes	291	No
Total									4,832	

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

Profiles of Directors, Supervisors and Senior Management

Directors

Rong Guangdao, 53, is Chairman, President and Deputy Secretary of the Communist Party Committee of the Company. Mr. Rong joined the Shanghai Petrochemical Complex (the "Complex") in 1973 and held various positions, including Deputy Director of the No.1 Chemical Plant and Deputy Director and Director of the Ethylene Plant. In April 1994 he was appointed Vice President of the Company, and in June 1995 he was elected Director of the Company. In October 2003, Mr. Rong was appointed President of the Company. In May 2004, Mr. Rong was elected Chairman of the China Jinshan Associated Trading Corporation. From June 2004 to June 2005, Mr. Rong was Vice Chairman of the Company. In April 2005, Mr. Rong was elected Deputy Secretary of the Communist Party Committee. In June 2005, Mr. Rong was elected Chairman of the Company. In November 2006, Mr. Rong was appointed Director and Vice Chairman of Shanghai Secco Petrochemical Company Limited. In August 2008, he was appointed Director and Chairman of Shanghai Chemical Industrial Park Development Company Limited. Mr. Rong has rich experience in management of large-scale petrochemical enterprise operations. In 1985 Mr. Rong graduated from the Automated Instrument Department of the Shanghai Petrochemical College for Workers and Staff Members. In 1997 he obtained an MBA from China Europe International Business School. He is a senior engineer by professional title.

Du Chongjun, 54, is Secretary of the Communist Party Committee, Vice Chairman and Vice President of the Company. He joined the Complex in 1974 and held various positions, including General Manager, Deputy Secretary and Secretary of the Communist Party Committee of the Acrylic Fibre Plant of the Complex, General Manager and Secretary of the Communist Party Committee of Shanghai Jinyang Acrylic Fibre Plant and General Manager of the Acrylic Fibre Division of the Company. In May 1999 he was appointed Deputy Secretary of the Communist Party Committee and Secretary of the Communist Party Discipline Supervisory Committee of the Company. From June 1999 to June 2004 he was Chairman of the Supervisory Committee of the Company. In October 2003 he was appointed Secretary of the Communist Party Committee of the Company. In June 2004, Mr. Du was appointed Vice Chairman of the Company. In June 2005, Mr. Du was appointed Vice President of the Company. Mr. Du has extensive experience in large-scale enterprise operation, management and internal supervision. Mr. Du graduated, majoring in enterprise management, from East China Institute of Chemical Technology in 1986. In 1999 Mr. Du graduated, majoring in computer application management, from Shanghai Second Polytechnic University. He is a senior economist by professional title.

Han Zhihao, 57, is Executive Director and Chief Financial Officer of the Company. Mr. Han joined the Complex in 1976 and held various positions including Deputy Director of the Vehicle Transportation Department, Deputy Director and Director of the Finance Department of the Complex, Director of the Finance Department and Deputy Chief Accountant of the Company. In September 1998, he was appointed Chief Accountant of the Company. In October 2003, he was appointed Chief Financial Officer of the Company. In June 2004, he was elected Director of the Company. Mr. Han has rich experience in corporate finance and financial management. He graduated from Shanghai University of Finance and Economics majoring in financing and accounting in 1990. In 2002, he obtained an MBA from East China University of Science and Technology - University of Canberra in Australia. Mr. Han is a senior accountant by professional title.

Li Honggen, 52, is Executive Director and Vice President of the Company. Mr. Li joined the Complex in 1973 and held various positions including Deputy Director of No. 1 Chemical Plant and Deputy Director of the Ethylene Plant of the Complex, Director of the Ethylene Plant of the Company and Deputy Manager and Manager of the Refining and Chemical Division of the Company. From August 2000 to December 2003, he was Vice President of Shanghai Chemical Industrial Park Development Company Limited. From August 2002 to January 2006, he was Vice President of Shanghai Secco Petrochemical Company Limited. In March 2006, he was appointed Vice President of the Company. In June 2006, he was appointed Director of the Company. In August 2008, he was appointed Director of Shanghai Chemical Industrial Park Development Company Limited. Mr. Li graduated from East China Institute of Chemical Technology majoring in engineering management and completed a post-graduate course majoring in engineering management at East China University of Science and Technology in 1998. He is an engineer by professional title.

Shi Wei, 49, is Executive Director and Vice President of the Company. Mr. Shi joined the Complex in 1982 and held various positions including Assistant to the Manager and then Deputy Manager of the Refining and Chemical Division of the Company, Manager of the Environmental Department, Secretary of the Communist Party Committee and then Manager of the Refining and Chemical Division. In October 2003, Mr. Shi was appointed Vice President of the Company. In June 2005, he was appointed Director of the Company. In 1982, Mr. Shi graduated from East China University of Science and Technology majoring in oil refining engineering and obtained a bachelor's degree in engineering. Mr. Shi completed the post-graduate studies in Business Management at East China University of Science and Technology in 1998. Mr. Shi is a senior engineer by professional title.

Dai Jinbao, 52, is Executive Director of the Company, and Secretary of the Communist Party Committee of the Company's Olefin Division and Deputy Manager of the division. Mr. Dai joined the Complex in November 1973 and held various positions including Deputy Director of No. 1 Chemical Plant of the Complex, Director of No.1 ethylene Complex of the Refining and Chemical Division of the Company, Chairman of the Labour Union of the Company's Refining and Chemical Division, Deputy Secretary of the Communist Party Committee and Chairman of the Labour Union of the Company's Refining and Chemical Division. In June 2006, he was appointed Director of the Company. In June 2008, he was appointed Secretary of the Communist Party Committee of the Company's Olefin Division and Deputy Manager of the division. Mr. Dai graduated from the Shanghai Second Polytechnic University majoring in business management. He is an engineer by professional title.

Lei Dianwu, 46, is Director of Development and Planning Division of Sinopec Corp. In June 2005, Mr. Lei was elected External Director of the Company. Mr. Lei held various positions including Deputy Director of Planning Division of Yangzi Petrochemical Company, Director of the Preparation Office of the Joint Venture of Yangzi Petrochemical Company, Vice President and Manager of production division of Yangzi BASF Stylene Company Limited. He acted as Deputy Manager and Deputy Director of the Joint Venture Office at Yangzi Petrochemical Company, Director of Development and Planning Division in China Dong Lian Petrochemical Limited Liabilities Company , Deputy General Manager of Yangzi Petrochemical Limited Liabilities Company and Deputy Director of Development and Planning Division of Sinopec Corp. In March 2001, he assumed the current position of Director of Development and Planning Division of Sinopec Corp. Mr. Lei has rich experience in enterprise planning and investment development management. Mr. Lei graduated from the East China Petroleum Institute with a major in basic organic chemicals and obtained a bachelor's degree in engineering. He is a senior engineer by professional title.

Xiang Hanyin, 54, is Deputy Director of Chemical Division of Sinopec Corp. In June 2005, Mr. Xiang was elected External Director of the Company. Mr. Xiang commenced work in February 1982 and was Deputy Director of the Chemical Plant of Yizheng Chemical Fibre Company and Director of Chemical Plant of Yizheng Chemical Fibre Co., Ltd. In February 2000, he assumed the current position of Deputy Director of Chemical Division of Sinopec Corp. Mr. Xiang has rich experience in management of chemical enterprise operating. Mr. Xiang graduated from Nanjing Chemical College with a major in basic organic chemicals and a bachelor's degree in engineering in 1982. In 2000, he completed post-graduate studies in enterprise management at Nanjing University. He is a senior engineer by professional title.

Chen Xinyuan, 44, is Dean, Professor and Tutor to doctoral students of the College of Accounting, Shanghai University of Finance and Economics. In June 2003, Mr. Chen was elected Independent Director of the Company. Between June 2000 and June 2003 he was an Independent Supervisor of the Company. After graduation from the Accounting Faculty, Hangzhou College of Commerce in July 1985, Mr. Chen undertook post-graduate studies at the Accounting Faculty of Shanghai University of Finance and Economics and continued as a lecturer. He commenced his doctoral studies in accounting while teaching and received his doctorate in June 1994. He has been a tutor to doctoral students since December 1998. Mr. Chen has also studied in West Germany for one year. He is an expert in financial reporting and accounting, given his experience in the academic aspects of accounting and notable achievements in accounting research. He is also experienced in business management.

Sun Chiping, 50, is President and Secretary of the Communist Party Committee of the Industrial and Commercial Bank of China, Shanghai Branch. In June 2005, Mr. Sun was elected Independent Director of the Company. Mr. Sun started to be involved in the finance industry in March 1979 and held various positions including accountant, team leader and Deputy Director of the People's Bank of China, Shanghai Branch, sub-branch in both Huang Pu and Jing An Districts. He joined the ICBC, Shanghai Branch, operating division and was Deputy Secretary of the Communist Party Committee and Secretary of the Communist Party Discipline Supervisory Committee. He also acted as Deputy Director, President and Deputy Secretary of the Communist Party Committee of ICBC, Shanghai Branch, Rep. Office (Sub-branch) in Xu Hui District, General Manager of International Business Division of ICBC, Shanghai Branch, Assistant to the President of the ICBC, Shanghai Branch and concurrently General Manager of International Business Division of ICBC, Shanghai Branch and Deputy President of ICBC, Shanghai Branch. In November 2000, he became Deputy President, President and Secretary of the Communist Party Committee of ICBC, Guangdong Branch. In August 2002, he assumed the current position as President of ICBC, Shanghai Branch and Secretary of the Communist Party Committee. Mr. Sun graduated from Shanghai University of Finance and Economics with a major in Finance. He studied for a master degree at Shanghai University of Finance and Economics and the Shanghai-Hong Kong Management School jointly organized by University of Hong Kong and Fudan University and obtained a Master in Economics and an MBA. Mr. Sun has been engaged in the management of banking business for many years and has extensive experience in finance practice. He is a senior economist by professional title.

Jiang Zhiquan, 58, is Secretary of the Communist Party Committee and Chairman of Shanghai Construction (Group) General Company. In June 2005, Mr. Jiang was elected Independent Director of the Company. Mr. Jiang started work in December 1968, and held various positions including a cadre and Deputy Director of Shanghai Construction and Industry Bureau, Manager of the Fourth Construction Company of Shanghai, Deputy Secretary of the Communist Party Committee (executive) of Shanghai Construction Engineering Administration Bureau, Deputy Secretary of the Communist Party Committee (executive), Vice Chairman and General Manager of Shanghai Construction (Group). In March 2001, he assumed the current positions as Secretary of the Communist Party Committee and Chairman of Shanghai Construction (Group) General Company. Mr. Jiang is experienced in operational decision making and large-scale enterprise management. Mr. Jiang graduated from the Shanghai-Hong Kong Management School jointly run by University of Hong Kong and Fudan University in July 2000 and obtained an MBA. He is a senior economist by professional title.

Zhou Yunnong, 66, has been an Independent Director of the Company since June 2005. He joined the Complex in October 1972 and held various positions including Deputy President of the Complex, Deputy Director of the Human Resource Department of China Petrochemical Corporation, Deputy Secretary of Communist Party Committee of the Complex, Vice President of the Company, Secretary of the Communist Party Committee of Sinopec Jinshan Industrial Company and the Governor of Jinshan District of Shanghai. From November 1999 to April 2002 he was a Senior Advisor to Shanghai Jinshan District. From June 2003 to June 2005, Mr. Zhou was appointed Independent Supervisor of the Company. Mr. Zhou has extensive experience in business management and public administration management. Mr. Zhou graduated from East China Normal University in August 1964, majoring in radio. He is a senior engineer by professional title.

Supervisors

Gao Jinping, 42, is Chairman of the Supervisory Committee, Deputy Secretary of the Communist Party Committee, Secretary of the Communist Party Discipline Supervisory Committee and Chairman of the Labour Union of the Company. Mr. Gao joined the Complex in 1990 and held various positions including Deputy Secretary of the Communist Youth League of the Company, Deputy Secretary of the Communist Party Committee of the Experimental Plant and Chemical Division of the Company, and Director of the Propaganda Department of the Company. In May 2003, Mr. Gao was appointed Deputy Secretary of the Communist Party Committee and Chairman of the Labour Union of the Company. From June 2004 to June 2006, Mr. Gao was elected Director of the Company. In April 2006, Mr. Gao was appointed Secretary of the Communist Party Discipline Supervisory Committee of the Company. In June 2006, Mr. Gao was appointed Supervisor and Chairman of the Supervisory Committee of the Company. Mr. Gao graduated from the Food Processing Faculty of Shanghai Aquatic Products University with a major in cooling and cold storage technology and obtained a bachelor's degree in engineering in July 1990. In 2001, he completed his post-graduate studies in business administration in the aspect of industrial economics at Shanghai Academy of Social Sciences. He has senior professional technical qualifications.

Zhang Chenghua, 53, is a Supervisor, Deputy Secretary of the Communist Party Discipline Supervisory Committee, Director of Supervisory Office, Director of Supervisory Committee Office and Director of the Communist Party Committee Office of the Company. Mr. Zhang joined the Complex in 1974 and worked in the Thermal Power Plant of the Company as Deputy Secretary of the Communist Party Committee, Deputy Secretary of the Communist Party Committee cum Chairman of Labour Union. In March 2002, Mr. Zhang was appointed Deputy Secretary of the Communist Party Discipline Supervisory Committee and Director of Supervisory Division of the Company. In April 2002, Mr. Zhang was appointed Director of Supervisory Committee Office of the Company. In June 2002, Mr. Zhang was appointed Supervisor of the Company. In April 2004, Mr. Zhang was appointed Director of the Communist Party Committee Office. Mr. Zhang graduated, majoring in party administrative management, from Shanghai Party Institute in January 1999. In 2001, he completed his post-graduate studies in business administration in the aspect of industrial economics at Shanghai Academy of Social Sciences. He has senior professional technical qualifications.

Wang Yanjun, 48, is a Supervisor and Vice Chairwoman of the Labour Union of the Company. Ms. Wang joined the Complex in July 1982 and held various positions including Chairwoman of the Labour Union of the Plastics Plant of the Company, Chairwoman of the Labour Union of Plastics Division, Chairwoman of the Labour Union of Chemical Division, Deputy Secretary of the Communist Party Committee, Secretary of Communist Party Discipline Supervisory Committee of the Communist Party Committee and Chairwoman of the Labour Union of Chemical Division of the Company. In January 2005, Ms. Wang was appointed Vice Chairwoman of the Labour Union of the Company. In June 2005, Ms. Wang was appointed Supervisor of the Company. Ms. Wang graduated from East China University of Science and Technology majoring in basic organic chemistry in July 1982. In 2001, she completed her post-graduate studies in business administration in the aspect of industrial economics at Shanghai Academy of Social Sciences. She has senior professional technical qualifications.

Zhai Yalin, 44, is Deputy Director of the Auditing Bureau of China Petrochemical Corporation and Deputy Director of Auditing Department of Sinopec Corp., and has been External Supervisor of the Company since June 2008. Mr. Zhai began his career in 1986 and had been successively Deputy Head of the Head Office and Director of the Auditing Department of Qianguo Refinery, Deputy Director of the General Office of Sinopec Huaxia Auditing Company, Deputy Director of the General Administrative Office of the Auditing Bureau of China Petrochemical Corporation, Director of the General Administrative Office of the Auditing Bureau of China Petrochemical Corporation, and Director of the General Administrative Office of the Auditing Bureau of China Petrochemical Corporation (Auditing Department of Sinopec Corp.). Since December 2001, Mr. Zhai has been holding concurrently the posts of Deputy Director of the Auditing Bureau of China Petrochemical Corporation and Deputy Director of Auditing Department of Sinopec Corp. Mr. Zhai graduated from Jilin Siping Normal College in 1986 and is a senior economist by professional title.

Wu Xiaoqi, 52, is Secretary of the Communist Party Committee of SINOPEC Yunnan Oil Products Company, Deputy General Manager of the Company and has been External Supervisor of the Company since June 2008. Mr. Wu began his career in 1971 and had been successively Deputy Office Head Class Disciplinary Monitor of Inspection Bureau of China Petrochemical Corporation's Disciplinary Division, Deputy Head (Deputy Director) and Head (Director) of the Office of Inspection Bureau of China Petrochemical Corporation's Disciplinary Division, and Director of Section 1 of Inspection Bureau of China Petrochemical Corporation's Disciplinary Division. From June 2004 to April 2005, he was Deputy Bureau Director Class Disciplinary Inspector of Supervisory Bureau of China Petrochemical Corporation and a Deputy Bureau Director Class Supervisory Inspector of Supervisory Department of Sinopec Corp. From April 2005 to December 2008, Mr. Wu was Deputy Director of Supervisory Bureau of China Petrochemical Corporation and Deputy Director of Supervisory Department of Sinopec Corp. He has been Secretary of the Communist Party of SINOPEC Yunnan Oil Products Company and Vice President of the Company since December 2008. Mr. Wu graduated from Shijiazhuang Army Command Academy in 1984 and has senior professional technical qualifications.

Liu Xiangdong, 57, is President of Zhengda International Finance Corporation. He was elected Independent Supervisor of the Company in June 2000. Mr. Liu has held various positions including Planning and Credit Officer and Deputy Head and Head of the Credit Division of banks. He has also been Deputy Director and Director of the Planning Department of the Industrial and Commercial Bank of China, Shanghai Branch, Chief Economist and Director of the Planning Division of the Industrial and Commercial Bank of China, Shanghai Branch. He has been Deputy Director of the Industrial and Commercial Bank of China, Shanghai Branch since October 1997. He was appointed General Manager of Investment Division of the Industrial and Commercial Bank of China in June 2002. Mr. Liu has been working in the banking sector for many years and has abundant experience in business management practices. He holds a master's degree in economics and is a senior economist.

Yin Yongli, 69, is Chairman of Management Committee of Tianhua Certified Public Accountants. In June 2005, he was elected Independent Supervisor of the Company. Mr. Yin held various positions including Deputy Chief and Chief of finance section of Shandong Shengli Refinery, Deputy Chief Accountant of Qilu Petrochemical Company, Chief Accountant of Planning and Financing Department of China Petrochemical Corporation and Chief Accountant and Deputy Director of Financing Department of China Petrochemical Corporation and Director of Shihua Auditing Firm. In September 2001, he was Chairman of China Rightson Certified Public Accountants. In June 2004, Mr. Yin was appointed Chairman of Huazheng Certified Public Accountants. Since June 2005, Mr. Yin has been Chairman of Management Committee of Tianhua Certified Public Accountants. Mr. Yin has engaged in financing and auditing for many years and has rich experience in financing management and enterprise auditing. Mr. Yin graduated from Shandong Institute of Finance and Economics in 1964. Mr. Yin is a professional accountant and is a certified accountant.

Senior Management

Zhang Jianping, 46, is Vice President of the Company. Mr. Zhang joined the Complex in 1987 and held various positions including Deputy Chief Engineer of the Aromatics Plant of the Refining and Chemical Division, Deputy Director of the Plastics Plant, Deputy Manager of Plastic Division of the Company, Director of the Petrochemical Research Institute, Director of the Production Department of the Company, Assistant to President of the Company and concurrently Director of the Production Department. In July 2004, Mr. Zhang was appointed Vice President of the Company. Mr. Zhang graduated in 1984 from East China Institute of Chemical Technology specializing in petroleum refining. He obtained a master's degree in 1987 from East China Institute of Chemical Technology specializing in oil processing. He is a senior engineer.

Tang Chengjian, 53, is Vice President of the Company. Mr. Tang joined the Complex in 1974 and held various positions including Deputy Secretary of the Communist Party Committee, Chairman of the Labour Union and Deputy Director of the Thermal Power Plant of the Complex, Deputy Director of the Thermal Power Plant of the Company, Deputy Director and then Director of the Company's General Thermal Power Plant. In July 2004, Mr. Tang was appointed Vice President of the Company. Mr. Tang graduated from the Shanghai Electric Power College specializing in steam turbine in 1974 and graduated from Shanghai Electric Power Institute with a major in electrical power system in 1986. In 1991, Mr. Tang graduated from the Shanghai Second Polytechnic University majoring in management engineering. In 2001, he obtained an MBA degree from the China Europe International Business School. He is a senior economist by professional title.

Zhang Jingming, 51, is Secretary to the Board of Directors and General Counsel in-house of the Company. Mr. Zhang joined the Complex in 1978. He has held various positions including Project Manager of the International Department, the Company's Securities Affairs Representative in Hong Kong, Deputy Director of the International Department and Deputy Director of the Board Secretariat. In June 1999, Mr. Zhang was appointed Secretary to the Board and Director of the Board Secretariat. In June 2001, Mr. Zhang was appointed Director of Strategy Research Department of the Company. In January 2005, Mr. Zhang was appointed General Counsel in-house of the Company. Mr. Zhang graduated from the Shanghai Foreign Language Institute in 1987. During 1992 and 1993, he enrolled at the fourth Sino-British joint MBA program at Northwestern Polytechnic University. Mr. Zhang subsequently left for the University of Hull in the United Kingdom to pursue his studies in an MBA program, and in July 1995, he was conferred an MBA by the University of Hull. In 2002, Mr. Zhang completed his studies in a master program in international economic law at East China University of Politics and Law. He is a senior economist by professional title.

Management Positions held at the Company's Shareholders

Name	Shareholder's name	Position held	Commencement of service term	End of service term	Whether they received remuneration and allowance from shareholder
Lei Dianwu	Sinopec Corp.	Director of Development and Planning Division	May 2006	May 2009	Yes
Xiang Hanyin	Sinopec Corp.	Deputy Director of Chemical Division	May 2006	May 2009	Yes
Zhai Yalin	Sinopec Corp.	Deputy Director of Audit Department	May 2006	May 2009	Yes
Wu Xiaoqi (Note)	Sinopec Corp.	Deputy Director of Supervisory Department	May 2006	December 2008	Yes

Note: Effective from December 2008, Wu Xiaoqi was transferred to the position of Secretary of the Communist Party and Vice President of Sinopec Yunnan Oil Products Company.

Management positions held at other companies: other than the information as set out in the section "Profiles of Directors, Supervisors and Senior Management", no Director, Supervisor or Senior Management held any position in any other companies as at the end of the Reporting Period.

Remuneration of Directors, Supervisors and Senior Management

(1) Procedures for determining remuneration of Directors, Supervisors and Senior Management

Allowances for Independent Directors are determined by the Board and the resolution of the same are submitted to the general meeting for consideration and approval. Remunerations of other Directors, Supervisors and Senior Management are determined according to the Remuneration System for Directors, Supervisors and Senior Management which has been passed at the 2002 Annual General Meeting.

For details of remuneration of the Directors, Supervisors and Senior Management, please refer to note 10 of notes to the financial statement prepared under IFRS.

(2) Basis for determining remuneration of Directors, Supervisors and Senior Management

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

(3) The five highest paid individuals

Please refer to note 10 of notes to the financial statement prepared under IFRS. All the highest paid individuals are Directors.

(4) Pension scheme

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

(5) Staff remuneration

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

Change of Directors, Supervisors and Senior Management

Name	Position held	Change	Reason
Lv Xiangyang	External Supervisor	Resigned	Retirement by rotation
Geng Limin	External Supervisor	Resigned	Retirement by rotation
Zhai Yalin	External Supervisor	Newly appointed	-
Wu Xiaoqi	External Supervisor	Newly appointed	-

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

Save for the shares held by the Company's Directors, Supervisors and Senior Management as set out in section 1 of this chapter, as at 31 December 2008, none of the Directors, Supervisors or Senior Management of the Company had any interests or short positions in any shares, underlying shares of equity derivatives or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code for Securities Transactions") set out under Appendix 10 of the Hong Kong Listing Rules.

As at 31 December 2008, none of the Directors, Supervisors or Senior Management 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.

Directors' and Supervisors' Interests in Contract

None of the Directors or Supervisors of the Company had any material interests, either directly or indirectly, in any contracts of significance entered into or subsisting during or at the end of the year with the Company or any of its associated corporations.

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

Model Code for Securities Transactions

The Company has adopted and applied the Model Code for Securities Transactions to regulate securities transactions of the Directors and Supervisors. After making specific enquiries with all the Directors and Supervisors and having obtained written confirmations from each Director and Supervisor, the Company has not identified any Director or Supervisor who did not fully comply with the Model Code for Securities Transactions during the Reporting Period.

Employees

As at 31 December 2008, the Company and its subsidiaries (the "Group") had 17,597 employees in total. Among them, there were 9,795 production staff, 6,447 sales representatives, financial personnel and other personnel and 1,355 administrative staff. There were 38.39% of the employees who had tertiary qualifications or above. The Group is responsible for the retirement insurance for 12,559 people.

Current Status of Corporate Governance in the Company

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

In 2008, pursuant to the requirements of CSRC's Notice on the Further Enhancement of the Special Project for Corporate Governance (Notice [2008] Document No.27) (《關於進一步深入推進公司治理專項活動的通知》(公告[2008]27號)), the Company conducted a conscientious review of the status of the implementation of the Rectification Report for the Special Project on Corporate Governance of Sinopec Shanghai Petrochemical Company Limited (《上海石化公司治理專項活動整改報告》) as at 30 June 2008, and conducted specific self-review of fund misappropriation by controlling shareholders and its subsidiaries from 1 January 2007 to 30 June 2008. According to the inspection, no new problem regarding the Company's governance and no act of fund misappropriation by the Company's controlling shareholders and its subsidiaries for a non-operational purpose was found. In relation to the issue of incomplete share reform, the Company was entrusted by the shareholders of the non-circulating shares to initiate the share reform twice in October 2006 and December 2007 respectively. However, as the shareholders of the circulating A shares were not satisfied with the share reform plan, the share reform was not approved. The completion of the share reform requires a basic consensus on the plan thereof between the shareholders of the non-circulating shares and the shareholders of the circulating A shares. Since there were major disagreements between both parties on the understanding of the amount of consideration paid for the share reform, the share reform could not be further proceeded during the Reporting Period. The Description of the Status on the Rectification of the Special Project for Corporate Governance (關於公司治理專項活動整改情況的說明) and the Self-inspection Report on Fund Misappropriation by the Controlling Shareholder and its Subsidiaries of the Company were considered and approved at the second meeting of the sixth session and the third meeting of the sixth session of the Board respectively and were published on the website of the Shanghai Stock Exchange. Besides the aforesaid, the amendments to the articles of association of the Company (the "Articles of Association") were also approved at the 2007 Annual General Meeting during the Reporting Period.

Through continuous implementation of specific corporate governance activities and amendments to documents such as the Articles of Association, the Company has further enhanced its corporate governance standards. The Company's internal system has also become healthier and more regulated. Under the guidance of the regulatory authorities, the Company would operate in strict compliance with the relevant laws and regulations and would further strengthen the establishment of regulated and systematic corporate governance, so as to ensure a lawful, healthy and sustained development of the Company.

Performance of Duties by the Company's Independent Non-executive Directors

In 2008, the Independent Non-executive Directors of the Company fully utilized their own working experience and professional expertise in discharging their duties as Independent Non-executive Directors in a conscientious and responsible manner. At the shareholders' meeting and Board meetings, the Company's Independent Non-executive Directors discussed and considered the resolutions including those relating to the 2007 annual report, the 2008 interim report, quarterly reports, the profit appropriation plan and connected transactions. They also gave independent opinions on major matters such as appointments of Senior Management, connected transactions and external guarantees, as well as constructive opinions and recommendations on corporate governance, reform and development. The Independent Non-executive Directors have fulfilled their duties in an honest and diligent manner, thereby independently and objectively safeguarding the legitimate interests of all shareholders, in particular all minority shareholders, in accordance with the authority conferred on them as stipulated by the relevant laws and regulations and the Articles of Association.

(1) Attendance at meetings of the Board by Independent Non-executive Directors

Name of Independent Non-executive Director	Attendance at meetings of the Board during the year	Attendance in person (no. of times)	Attendance by proxy (no. of times)	Absence (no. of times)	Remarks
Chen Xinyuan	7	7	0	0	-
Sun Chiping	7	7	0	0	-
Jiang Zhiquan	7	7	0	0	-
Zhou Yunnong	7	7	0	0	-

(2) Disagreement from Independent Non-executive Directors on the relevant issues of the Company

During the Reporting Period, none of the Independent Non-executive Directors of the Company had any disagreement on any board resolutions or other issues of the year.

The Independency of the Company's Business, Personnel, Assets, Organizations, Finance vis-a-vis the Controlling Shareholder

(1) Business: The business of the Company is separate from that of its controlling shareholder. The Company is independently engaged in the businesses within the scope of operation authorized under the Enterprise Legal Person Business Licence and its business is independent in its entirety with autonomous operation ability.

(2) Personnel: The personnel of the Company are separate from those of its controlling shareholder. The Company is completely independent from its controlling shareholder in the management of labour, human resources and salary, and the Company's Senior Management does not hold any position in the controlling shareholder.

(3) Assets: The assets of the Company are separate from those of its controlling shareholder. The Company owns full and independent property rights in respect of its properties, facilities, equipment and intangible assets such as trademarks used in the course of production and operation. Such assets can be fully used for the Company's production and operation activities.

(4) Organization: The organization of the Company is separate from its controlling shareholder. No workplace is shared between the Company and its controlling shareholder. The Company has established systems such as the shareholders' meeting, the Board and the Supervisory Committee, as well as an independent internal structure pursuant to the laws, regulations, regulatory documents and the Articles of Association. All departments have clearly defined duties and responsibilities, coordinate with one another and exercise their operation and management authorities independently.

(5) Finance: The finance of the Company is separate from that of its controlling shareholder. The Company established an independent finance and accounting department which possesses independent accounting and auditing systems and financial management system. It conducts audits and implements financial decisions independently pursuant to the law. The Company owns independent bank accounts and tax registration accounts and pays tax independently according to the law.

The Establishment and Situation of the Company's Internal Control System

The Company has established and implemented a full internal control system which covers aspects such as production, operation, finance, investment, human resources and information disclosure. In order to effectively prevent operational risks and financial risks and to ensure the truthfulness of accounting information, the Company compiled the Internal Control Manual which was fully implemented in 2005 after a year of trial in 2004. Amendments are made to the Internal Control Manual annually in accordance with the domestic and overseas regulatory requirements, the needs of the corporate management and the internal control review recommendations made by external auditors. The 2008 edition of the Internal Control Manual comprises 51 operation procedures in 15 categories and sets out 1,092 control points and 238 authorization control indicators. The scope of control covers the major areas of the Company's production, operation and development, such as financial management, accounting and auditing, procurement of raw materials, product sales, capital expenditure, human resources and information management. The scope of control also involves a review on the Company's resources of accounting and financial reporting function, whether the staff's qualifications and experiences are sufficient and whether the training courses attended by the staff and the relevant budget is adequate.

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

In 2008, the Company conscientiously enforced the Internal Control Manual approved by the Board, and conducted self-review, walk-through test on procedures and integrated inspection on internal control in accordance with regulations. The controlling company and external auditors of the Company also carried out review of the status of the Company's internal control. The management of the Company considers that the internal control of the Company was effective during the Reporting Period.

The Company disclosed the Board's self-assessment report on the Company's internal control and the auditors' report on internal control over financial reporting according to "Sarbanes-Oxley Act". For details, please refer to the appendix of this annual report.

Appraisal and Reward Mechanisms for Senior Management Staff Members

The remuneration system for Senior Management of the Company was considered and approved at the 2002 Annual General Meeting on 18 June 2003. In 2008, the Company continued to adopt the remuneration system, and appraised and rewarded the Company's Senior Management staff based on the system.

The Company disclosed the report on fulfillment of its corporate social responsibility. For details, please refer to the appendix of this annual report.

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

The Code of Corporate Governance Practices

In 2008, the Company complied with all the principles and provisions set out in the Code of Corporate Governance Practices (the "Code") contained in Appendix 14 to the Hong Kong Listing Rules, except for the following deviation:

Code provision A.2.1: The roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing.

Deviation: Mr. Rong Guangdao is appointed as the Chairman and President of the Company.

Reason: Mr. Rong Guangdao has extensive experience in the management of large-scale petrochemical production, and has in-depth understanding about the operation of the Company. Mr. Rong is the most suitable candidate to serve the positions of the Chairman and President of the Company. For the time being, the Company is unable to identify another person who possesses better or similar abilities and talent as Mr. Rong to serve any of the above positions. The same deviation is simultaneously published in the "Corporate Governance Report" of the 2008 annual report.

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

A. Directors

A.1 The Board

The Board meets at least once per quarter. In 2008, seven Board meetings were held, all of which were conducted by the fifth session and sixth session of the Board respectively. For details of attendance of the Directors, please refer to the attendance record set out on page 36. Before each Board meeting, the Secretary to the Board would consult each Director for matters to be tabled at the relevant Board meeting. Any matters so raised by the Directors would be included in the agenda of the relevant regular Board meeting. During the year, all notices and draft agenda of all Board meetings were sent to all Directors no later than 14 days before the date of the meeting.

All Directors maintain communication with the Company Secretary, who is responsible for ensuring that the operation of the Board complies with the relevant procedures and advising the Board on matters concerning corporate governance and regulatory compliance. The Company Secretary is responsible for preparing and maintaining minutes of Board meetings and those of Board committees, and for the delivery of the same to the Directors within a reasonable period of time from the conclusion of the respective meetings. Such minutes are also open for inspection by any Director or member of the Board committees. The Directors are entitled to seek independent professional advice at the Company's expense.

If any substantial shareholder or Director has a conflict of interest in a material matter, for which a Board meeting shall be held, the Director(s) concerned shall abstain from voting and shall not be counted towards the quorum present at such Board meeting.

A.2 Chairman and President

Mr. Rong Guangdao serves as the Chairman and President of the Company. The Chairman of the Company was elected by a simple majority vote of the Board. The President is appointed by the Board. The duties and responsibilities of the Chairman and the President are clearly separated and the scope of their respective duties and responsibilities is set forth in the Articles of Association.

The Chairman of the Company is responsible for providing the Directors with all such information concerning the performance of Board duties. The Chairman of the Company is also committed to improving the quality and timeliness of the information provided to the Directors. The Chairman of the Company plays an important role in promoting good corporate governance within the Company. One of the important roles of the Chairman of the Company is to lead the Board, encourage the Directors to carry out their duties in a sincere manner with mutual support and close cooperation, and make active contribution to the production, operation, reform and development of the Company. The Chairman should be primarily responsible for drawing up and approving the agenda for each Board meeting.

A.3 Board composition

The Company discloses the composition of its Board by position (including Chairman, Executive Directors, Independent Non-executive Directors and Non-executive Directors) in all of its correspondence. The Company has four Independent Non-executive Directors, representing one-third of its total number of Directors. To enable the shareholders to have a better understanding of our Directors and the composition of our Board, the profiles of each Board member and their respective roles and responsibilities are made available on the website of the Company.

A.4 Appointments, re-election and removal

All of the Directors (including Non-executive Directors) are appointed for a specific term. According to the Articles of Association, Directors shall be elected by the shareholders at a general meeting for a term of three years, and shall be eligible for re-election upon expiry of their terms of office. However, the term of an Independent Non-executive Director may not exceed a total of six years. All new Directors of the Company shall be subject to approval by the shareholders at the first general meeting after their appointment.

A.5 Responsibilities of Directors

To ensure the Directors adequately understand the operations and businesses of the Company, every newly appointed Director would receive a comprehensive set of introductory materials after his/her appointment, which would include an introduction to the Group's business, duties and responsibilities of a Director as well as other legal requirements. Relevant ongoing professional trainings would also be organized for newly appointed Directors to help them fully understand the duties that a Director should fulfill as stipulated in the relevant requirements of laws and regulations, including the Hong Kong Listing Rules, as well as enabling them to have a timely and comprehensive understanding about the operations of the Company. In addition, all Non-executive Directors would receive updated information provided by the management regularly, including strategic plans, business reports and analyses on economic activities, and so forth. As such, the Non-executive Directors are able to perform their duties effectively. The functions of the Non-executive Directors include the following: participating in Board meetings to provide independent opinions; taking a lead at Board meetings where potential conflicts of interest arise; serving as members of the Board committees when invited; and scrutinising the Company's performance.

The Company Secretary is responsible for ensuring that all Directors receive updates on the requirements of the Hong Kong Listing Rules and other legal requirements.

While the Directors give opinions on matters such as external guarantees, financing and connected transactions, the Company would appoint relevant independent professionals such as auditors, sponsors and lawyers to provide independent opinions so as to facilitate the Directors in discharging their duties.

A.6 Supply of and access to information

To facilitate the Directors in performing their duties more effectively and obtaining the relevant information so as to make informed decisions, the agenda of all meetings of the Board or Board committees together with all relevant documents would be sent to each Board member at least three days before the date of the relevant meetings. The Directors may hold formal or informal meetings with the Senior Management before any Board meeting. The Directors and members of the Board committees are entitled to inspect the papers and minutes of meetings of the Board / the Board committees.

B. Remuneration of Directors and Senior Management

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

The Company established the Remuneration and Appraisal Committee in 2001, with two-thirds of the members being Independent Non-executive Directors. The terms of reference are set out in the Rules of Procedures for the Remuneration and Appraisal Committee of Sinopec Shanghai Petrochemical Company Limited posted on the website of the Shanghai Stock Exchange. In March 2003, the Remuneration and Appraisal Committee submitted to the Board the proposals on remuneration of the Directors, Supervisors and Senior Management of the Company. The proposals were implemented following the approval by the shareholders at the general meeting. The Committee could seek advice from independent professionals if required in accordance with the applicable procedures at the expense of the Company.

C. Accountability and Audit

C.1 Financial reporting

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

C.2 Internal control

The Company has established and continues to enhance its internal control system. The management of the Company conducts self-assessments and reviews on the effectiveness of internal control every year. A self-assessment report would be prepared and submitted to the Board for approval. For details of the internal control of the Company during the Reporting Period, please refer to "The Establishment and Situation of the Company's Internal Control System" set out in "Corporate Governance Structure" of this annual report.

The Board ensures that the internal control system of the Company is sound and proper so as to safeguard shareholders' investments and the Company's assets through two reviews conducted annually by the Audit Committee on the Company's internal control system. The Audit Committee conducted these reviews on the Company's internal control for 2007 and the first half of 2008 in April 2008 and August 2008 respectively. They reported to the Board and adopted the recommendations provided by the Board to further enhance the Company's internal control system, thereby enhancing the effectiveness and efficiency of internal control.

C.3 Audit Committee

The Company established its Audit Committee in June 1999. The establishment of the Audit Committee reflects the commitment of the Company in improving the transparency of its financial reporting system and financial arrangements. The Company places high concern on the preparation of minutes by the Audit Committee. The draft of the minutes is prepared by the Secretary to the Board and dispatched to the members of the Committee within a reasonable period after the meeting. The members may give opinions on the drafts and the finalized minutes would be kept for record. The composition and terms of reference of the Audit Committee are set out in the Rules of Procedures for the Audit Committee of Sinopec Shanghai Petrochemical Company Limited posted on the website of the Shanghai Stock Exchange. The Committee could seek advice from independent professionals in accordance with the applicable procedures at the expense of the Company.

D. Delegation of powers by the Board

D.1 Management functions

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

D.2 Board Committees

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

E. Communication with Shareholders

E.1 Effective Communication

The Board is committed to maintaining smooth communications with the shareholders. All Executive Directors, Independent Non-executive Directors and Chairmen of the Audit Committee and the Remuneration Committee attended the 2007 Annual General Meeting so as to directly communicate with the shareholders.

The notice on convening the 2007 Annual General Meeting was dispatched to the shareholders at least 45 days before the meeting.

E.2 Voting by Poll

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

During the 2007 Annual General Meeting, the Chairman of the meeting explained the detailed procedures of voting by way of a poll at the beginning of the meeting and answered all questions from the shareholders regarding voting by way of a poll.

Directors' securities transactions

For details, please refer to "Model Code for Securities Transactions" under "Directors, Supervisors, Senior Management and Employees" in this report. It is confirmed that all Directors have complied with the Model Code for Securities Transactions throughout the Reporting Period.

Board of Directors

(1) Composition of the Board

The Board consists of 12 Directors, including six Executive Directors, two Non-executive Directors and four Independent Non-executive Directors, among whom there is one Chairman and one Vice Chairman. The personal particulars and terms of office of the Directors are set out in "Directors, Supervisors and Senior Management" and "Profiles of Directors, Supervisors and Senior Management" under the section headed "Directors, Supervisors, Senior Management and Employees" of this annual report.

During the Reporting Period, the Board of the Company held seven meetings. The attendance record of each Director is set out below:

Name of Director	Position	Number of meetings held during the Reporting Period	Number of attendance in person	% of Attendance
Rong Guangdao	Executive Director and Chairman	7	7	100%
Du Chongjun	Executive Director and Vice Chairman	7	7	100%
Han Zhihao	Executive Director	7	7	100%
Li Honggen	Executive Director	7	7	100%
Shi Wei	Executive Director	7	7	100%
Dai Jinbao	Executive Director	7	7	100%
Lei Dianwu	Non-executive Director	7	4	100% (attendance by proxy 43%)
Xiang Hanyin	Non-executive Director	7	5	100% (attendance by proxy 29%)
Chen Xinyuan	Independent Non-executive Director	7	7	100%
Sun Chiping	Independent Non-executive Director	7	7	100%
Jiang Zhiquan	Independent Non-executive Director	7	7	100%
Zhou Yunnong	Independent Non-executive Director	7	7	100%

(2) Functions of the Board

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

Subject to the Articles of Association, the Board shall convene at least four regular meetings every year. The Chairman serves as the convener of the Board meetings and is responsible for determining the topics to be considered. In practice, the Board convenes a minimum of four meetings each year and seven Board meetings were held during 2008.

(3) Qualifications and Independence of the Independent Non-executive Directors

The four Independent Non-executive Directors of the Company possess extensive experience as well as academic and professional qualifications in various areas including management, accounting and finance respectively, thereby ensuring the Board's ability in protecting the interests of the shareholders as a whole. During the Reporting Period, the Independent Non-executive Directors contributed significantly in improving the Company's corporate governance structure and protecting the interest of the minority shareholders. For example, Independent Non-executive Director Mr. Chen Xinyuan currently serves as the Dean, Professor and advisor to doctoral students at the Faculty of Accounting of Shanghai University of Finance & Economics. He is very familiar with financial reporting and accounting, given his years of experience in the academic aspects of accounting and notable achievements in accounting research. He is also experienced in business management.

The Company confirms that it has received from each Independent Non-executive Director a confirmation of his independence pursuant to Rule 3.13 of the Hong Kong Listing Rules, confirming to the Company annually in respect of his independence. The Company considers all Independent Non-executive Directors to be independent.

Board Committees

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

(1) Remuneration and Appraisal Committee

A. Role and Functions of the Remuneration and Appraisal Committee

The principal duty of the Remuneration and Appraisal Committee is to formulate and review the remuneration policies and proposals for the Directors and Senior Management, and to set performance appraisal standards and conduct performance appraisal of the Directors and Senior Management of the Company.

B. Members of the Remuneration and Appraisal Committee

The Committee comprises three Directors, two of whom are Independent Non-executive Directors and one is an executive Director.

The Remuneration and Appraisal Committee of the fifth session of the Board comprises:
Chairman: Zhou Yunnong, Independent Non-executive Director
Members: Chen Xinyuan, Independent Non-executive Director and Dai Jinbao, Executive Director

The Remuneration and Appraisal Committee of the sixth session of the Board comprises:
Chairman: Zhou Yunnong, Independent Non-executive Director
Members: Jiang Zhiquan, Independent Non-executive Director and Dai Jinbao, Executive Director

C. Meetings of the Remuneration and Appraisal Committee

The Remuneration and Appraisal Committee convenes at least one meeting each year. In 2008, the Committee convened one meeting with record of attendance as follows:

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

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

Allowances for Independent Non-executive Directors are determined by the Board and the resolution of the same to be submitted to the general meeting for consideration and approval. Remunerations of other Directors, Supervisors and Senior Management are determined according to the Remuneration System for Directors, Supervisors and Senior Management which has been passed at the 2002 Annual General Meeting.

The Remuneration and Appraisal Committee reviews the implementation of the remuneration evaluation every year. It also appraises the annual performance of the Company's Directors and Senior Management personnel, and determines their remuneration according to the appraisal results.

E. Work Report of the Remuneration and Appraisal Committee during the Reporting Period

The Remuneration and Appraisal Committee reviewed the remuneration policy of the Directors and conducted annual appraisals with the Directors and the Senior Management.

(2) Audit Committee

A. Role and Functions of the Audit Committee

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

B. Members of the Audit Committee

The Committee comprises three Independent Non-executive Directors.
Chairman: Chen Xinyuan (accounting expert)
Members: Sun Chiping and Zhou Yunnong

C. Meetings of the Audit Committee

The Audit Committee convenes at least two meetings each year. In 2008, the Committee convened two meetings with record of attendance as follows:

Members of Audit Committee	Attendance in Person	Attendance by Proxy	% of Attendancy
Chen Xinyuan	2	0	100%
Sun Chiping	1	1	100% (attendance by proxy:50%)
Zhou Yunnong	2	0	100%

D. Work Report of the Audit Committee during the Year

The Audit Committee reviewed with the management the accounting principles and standards adopted by the Company and discussed matters regarding auditing, internal control and financial reporting, including reviews of the audited annual report for the twelve months ended 31 December 2007, the interim report for the period ended 30 June 2008 and so forth.

(3) Nomination of Directors

The Board has not set up a nomination committee. The Board identifies suitable candidates for Directors or Senior Management within the Company or in the human resources market after it has evaluated the requirements for any new Directors or Senior Management personnel. Candidates for independent directorship may be nominated by the Board and by shareholders jointly or severally holding 1% or more of the issued shares of the Company. Candidates for non-independent directorship may be nominated by the Board and by shareholders jointly or severally holding 5% or more of the issued shares of the Company.

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

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

The Board shall vote on the nominations of nominated Directors and candidates for Senior Management and decide on the nominated Directors and appoint the Senior Management personnel. Upon consideration and approval by the Board, the relevant particulars of the nominated Directors and newly appointed Senior Management personnel shall be announced in writing together with the relevant resolutions of the Board.

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

During the Reporting Period, the Company held elections of the new session of the Board in accordance with the aforementioned procedures and the Article of Association of the Company, and all members of the fifth session of the Board were appointed as members of the sixth session of the Board.

Supervisory Committee

The Company's Supervisory Committee comprises seven members, including three Staff Supervisors, two External Supervisors and two Independent Supervisors, one of whom serves as the Chairman. Particulars and term of office of each Supervisor are set out in "Directors, Supervisors and Senior Management" and "Profiles of Directors, Supervisors and Senior Management" under section headed "Directors, Supervisors, Senior Management and Employees" in this annual report.

During 2008, the Supervisory Committee convened five meetings. Record of attendance of each Supervisor is set out below:

Name of Supervisor	Position	Number of meetings held during the Reporting Period	Number of attendance in person	% of attendance
Gao Jinping	Staff Supervisor and Chairman	5	4	100% (attendance by proxy: 20%)
Zhang Chenghua	Staff Supervisor	5	5	100%
Wang Yanjun	Staff Supervisor	5	5	100%
Lv Xiangyang	External Supervisor (the fifth session)	2	1	100% (attendance by proxy: 50%)
Geng Limin	External Supervisor (the fifth session)	2	2	100%
Wu Xiaoqi	External Supervisor (the sixth session)	3	3	100%
Zhai Yalin	External Supervisor (the sixth session)	3	3	100%
Liu Xiangdong	Independent Supervisor	5	4	100% (attendance by proxy: 20%)
Yin Yongli	Independent Supervisor	5	5	100%

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

Directors' Responsibilities in relation to the Financial Statements

The following statement, which should be read in conjunction with the domestic and international auditors' reports on pages 162 to 163 and 91 to 92, respectively, sets out the responsibilities of the Directors in relation to the financial statements.

- Annual reports and accounts

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

- Accounting policies

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

- Accounting records

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

- Going concern

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

Auditors' Remuneration

KPMG and KPMG Huazhen are the Company's international and domestic auditors, respectively.

Item	Amount (RMB)	Auditor
Audit Fees	6,800,000	KPMG
Audit Fees	1,510,000	KPMG Huazhen

Shareholders' Rights

The Company maintains normal communication with shareholders. The Company's major communication channels include shareholders' general meetings, the Company's website, email account and fax and telephone of the Secretary Office of the Board. Through the use of the above communication channels, the shareholders may adequately express their opinions or exercise their rights. For example, a shareholders' question and answer session was arranged at the 2007 Annual General Meeting, allowing direct communication between the shareholders, the Directors and the management.

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

Investor Relations

In principle, The Company convenes results briefings every six months after the release of its annual and interim results. In 2008, the Company held two large-scale results briefings and press conferences in Hong Kong, while over dozens of "one-to-one" meetings were held within and outside China. The Company has also welcomed several hundreds of domestic and foreign investors at the Company's headquarters, as well as conscientiously replying to phone queries and letters from investors, intermediaries and fund managers. In addition, the Company also sent delegates to attend relevant meetings organized by securities research companies, investment banks, etc.

The information of the Company's website is regularly updated to keep the investors and the public informed about the Company's latest development.

Amendments to the Articles of Association

On 12 June 2008, the Company amended its Articles of Association upon approval by the 2007 Annual General Meeting. For details, please refer to the announcement on the resolution of the 2007 Annual General Meeting of the Company published in "China Securities Journal" and "Shanghai Securities News", and on the websites of the Shanghai Stock Exchange and the Hong Kong Stock Exchange on 13 June 2008.

Shareholders' Meetings

1. Information on the annual general meeting

The Company held the 2007 Annual General Meeting on 12 June 2008. The resolution announcement was published in "Shanghai Securities News" and "China Securities Journal", and on the websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company on 13 June 2008.

2. Information on the extraordinary general meeting

The Company did not hold any extraordinary general meeting during the Reporting Period.

Management Discussion and Analysis

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

A. Operating Results

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

The global financial crisis triggered by the subprime mortgage meltdown in the United States became increasingly intense in 2008, resulting in a slowdown in the world economic growth and leading the global petroleum and petrochemical industries into their downtrend cycle. China's economy underwent unexpected and historically unusual major challenges and tests. Although China's economy continued to demonstrate steady and relatively fast growth (GDP growth reached 9%), the momentum of economic growth has slowed down remarkably. China's petroleum and petrochemical industries were also severely hit as a result of the recession in the global economy, a significant fall in real economic growth and other factors. In particular, since the second half of the year, economic growth slowed down remarkably, market demand weakened, product prices fell sharply and corporate profitability decreased substantially. In 2008, despite the difficulties in the operations of the Group as a result of the sharp rise and fall in international crude oil prices, the long time inverted prices of domestic refined oil products with those of crude oil and the sudden decrease in demand for petroleum and petrochemical products, the Group continued to fully implement its cost leadership strategy, improve production operations, optimize resource allocation and push forward the execution of its reforms and adjustments. Consequently, it was able to maintain steady production operations as well as make substantial progress in project construction, scientific research and development, internal management and cultivation of corporate culture. Nevertheless, while the Group broke through the threshold of RMB60,000 million in turnover and achieved a record high of RMB60,226.9 million in 2008, in the end it still experienced a substantial decrease in economic efficiency as compared to 2007 and suffered unprecedented heavy losses - as a result of factors such as too high crude oil costs, severely inverted prices of refined oil products with those of crude oil and a sharp fall in the prices of petrochemical products during the second half of the year.

1. Maintaining stable production operation

   In 2008, the Group strived to cope with the changes in the external environment and maintain stable production operation on an ongoing basis. During the year, the average on-stream availability and the average load of the Group's major production plants were 86.76% and 96.56%, respectively. The operation of major production plants remained steady, with the number of non-scheduled shut-down and the duration of non-scheduled shut-down being generally on par with those during the previous year. No major safety-related accidents or environmental pollution accidents happened during the year.

In 2008, the Group processed 9,238,300 tons of crude oil, up 3.36% over the previous year. Production outputs of gasoline, diesel and jet fuel increased by 13.01% over the previous year. Outputs of gasoline and diesel were 772,900 tons and 3,418,700 tons respectively, up 19.66% and 16.72% respectively over the previous year; and output of jet fuel was 634,700 tons, representing a decrease of 8.77% over the previous year. The Group produced 885,600 tons of ethylene and 487,300 tons of propylene, up 1.86% and 6.89% respectively over the previous year. The Group also produced 998,600 tons of synthetic resins and copolymers, representing a decrease of 2% from the previous year; 461,900 tons of synthetic fibre monomers, 585,500 tons of synthetic fibre polymers and 270,000 tons of synthetic fibres, representing decreases of 13.24%, 7.34% and 12.31% respectively from the previous year. Meanwhile, the quality of the Group's products was consistently maintained at a premium level.

In 2008, the Group's turnover amounted to RMB60,226.9 million, up 8.85% over the previous year, hitting a record high once again. The Group's output-to-sales ratio and receivable recovery ratio were 100.44% and 100.17%, respectively. The Group's annual sum of imports and exports (excluding crude oil imports) was US$2,951 million, up 65.41% over the previous year.

2. Market demand underwent abrupt changes

In 2008, abrupt changes occurred in the domestic demand for petrochemical products. In the first half of the year, the prices of petrochemical products continued to rise and the supply and demand remained basically balanced in general as a result of a substantial rise in international crude oil prices and the cost driven factor. However in the second half of the year, the demand for petrochemical products shrank significantly as a result of a sharp decline in international crude oil prices as well as a reduction in product consumption and a fall in both product sales volumes and prices triggered by the global financial crisis. For the year ended 31 December 2008, the weighted average prices (excluding tax) of the Group's synthetic fibres as well as resins and plastics decreased by 10.15% and 1.05% respectively over the previous year; the weighted average prices (excluding tax) of intermediate petrochemical products and petroleum products increased by 0.14% and 20.65% respectively over the previous year.

3. Impact of crude oil costs

In 2008, international crude oil prices increased significantly from January to August but decreased significantly from September to December. After hitting successive record highs (the highest Brent crude oil closing price on the London Intercontinental Exchange was US$146.08 per barrel while the highest West Texas Intermediate ("WTI") crude oil closing price on the New York Mercantile Exchange was $145.29 per barrel), crude oil prices began to fall rapidly and hit a new, 3-year record low in December (the lowest Brent crude oil closing price was US$36.61 per barrel while the lowest WTI crude oil closing price was US$33.87 per barrel). According to statistics, the 2008 annual average price of Brent crude oil increased by 35.40% over the previous year to US$98.37 per barrel (2007: US$72.65 per barrel). For the year ended 31 December 2008, the Group processed 9,238,300 tons of crude oil (all were processed for the Group's own account), representing an increase of 299,900 tons over the previous year. Of this volume, offshore oil accounted for 499,300 tons and imported oil accounted for 8,739,000 tons. Of the Group's cost of sales, crude oil costs accounted for RMB48,997.0 million or 71.47% of the Group's annual cost of sales. The average cost of crude oil processed was RMB5,303.68 per ton, representing a substantial increase of 37.19% over the previous year. Crude oil costs increased by RMB14,540.7 million as compared to 2007.

4. Capital expenditure projects proceeded in an organized manner

In 2008, the Group continued to commit adequate resources to the construction of projects relating to the structural adjustment program, which proceeded steadily and on schedule. The 620-ton/hour steam-boiler and 100 megawatt power generation project completed the 168-hour test run on 22 March 2008; the renovation project of adding recycling hydrogen desulphurization and system flare gas recovery facilities to the hydrocracker of No. 2 aromatics complex was basically completed on 10 December 2008; simultaneous works commenced on the civil engineering and installation of a new 600,000 ton/year PX aromatics complex, which are scheduled for basic completion by June 2009; simultaneous works commenced on the civil engineering and installation of a new 150,000 ton/year C5 separation unit, which are scheduled for basic completion by May 2009; simultaneous works commenced on the civil engineering and installation of a flue gas desulphurization project for the coal-fired power generating plants No. 3 and No. 4, which are scheduled for operation by April 2009; and the civil engineering works on a renovation project for the 220,000-volt substation are being finalized and scheduled for operation by June 2009. The Company started the formulation of the "Twelfth Five Year" development plan in the second half of 2008.

The Shanghai Secco Petrochemical Company Limited 900,000-ton/year ethylene joint-venture project between the Group, Sinopec Corp. and BP Chemicals East China Investments Ltd. operated normally in 2008, and 934,700 tons of ethylene were produced during the year, representing a decrease of 68,200 tons over the previous year. As a result of the surge in naphtha prices and the overall change in the petrochemical market, the operating results of Shanghai Secco Petrochemical Company Limited witnessed significant fluctuation in 2008, and it incurred cumulative loss for the whole year.

5. Energy conservation and emissions and discharge reduction work was continuously furthered

In 2008, the Group, in accordance with the State's relevant requirements for energy conservation and emissions reduction, further strengthened management and mobilized all staff to commence an energy conservation campaign for aggressively pushing forward energy conservation and emissions reduction. A batch of energy conservation renovation projects were completed smoothly during the year: renovation works on feedstock optimization, energy conservation and consumption reduction for ethylene plant No. 1; and works on recovery of residual heat from heaters and on burners renovation for some of the plants of the No. 2 aromatics complex. The management of a batch of key energy consuming facilities was stepped up. By carrying out a workers' contest to enhance the thermal efficiency of heaters and boilers, and initiatives for lowering the temperatures of flue gas, the actual measured weighted average thermal efficiency of heaters and boilers reached 90.48% during the year, up 0.76 percentage point over the previous year. The operation of the steam system was improved on an ongoing basis; flare gas emissions and controls were strengthened; and water conservation, discharge reduction and electricity conservation initiatives were enforced more thoroughly. In 2008, the Group's overall energy consumption per RMB10,000 of product value was 1.508 tons of standard coal, down 3.52% from the previous year. The overall energy consumption was 7,264,300 tons of standard coal, down 3.09% from the previous year. Various indices for waste water discharges, industrial waste water discharge volume, COD for total discharge and hazardous waste treatment ratio all met the compliance requirements for environmental protection.

6. Technical improvements reaped good results

The Group achieved good results in its technical improvements in 2008. Major progress was made in the development of carbon fibre precursors, with the renovated pilot plant commencing trial operation and producing carbon fibre in November 2008; the development of industrialized production technology for acrylic fibre tow to be pre-oxidized in the process of carbon fibre production was recognised by users; technological development for the 150,000-ton/year C5 separation project served as a foundation for the development of the second-generation technology in C5 separation; the research on the application of domestically made bimodal polyethylene catalyst (25E) to domestic industries reaped satisfactory economic benefits; and special government financial support funding was secured to finance eight projects such as the project on fibre grade PET chip (for use in industrial filaments). As for information system development, the advanced control system and optimization projects for ethylene cracking furnace No. 2, ethylene rectifying tower and propylene rectifying tower have been completed and put into operation; the Company's total budget management system, production plan optimization system, dispatch and command system for petrochemical production and advanced process control for butadiene extraction plant have commenced trial operation or operation. According to statistics, the Group's output of new products amounted to 472,700 tons during the year; the new product output value ratio was 8.60%, while the new product output to sales ratio was 100.30%. A total of 195,900 tons of differentiated synthetic fibres was produced, and the ratio of differentiated synthetic fibres was 72.37%. A total of 771,100 tons of special resin was produced, and the ratio of special resin was 84.01%. Thirty-seven patent applications were submitted during the year, all of which were invention patents.

7. Work on system reforms proceeded steadily

In 2008, the Group continued to proceed with the flat management model by further streamlining the organization and enhancing management efficiency. During the third quarter, system reforms on some business divisions and second-tier entities, as well as work on organizational adjustments, were completed, thereby achieving a smooth, planned transfer of staff and adjustments of the underlying businesses. Work on implementing specialized and centralized management proceeded in an organized manner as witnessed by the completion of centralized management over the waste water treatment as well as integration of some of the recycle water system for the Polyester Fibre Division, the Chemical Division and the Acrylic Fibre Division. Work on system reforms for the auxiliary businesses has all been completed as well, with four non-core business enterprises having completed reforms and relevant business registrations. As at 31 December 2008, the Group reduced its work force by 1,655 employees, which reduction included voluntary resignees and retirees, representing 8.60% of the total work force of 19,252 employees as at the beginning of the year.

8. Brief analysis of the reasons for the heavy operating loss for the year

The major reasons for the heavy operating loss during the Reporting Period are:

(a) A substantial rise in crude oil costs. International crude oil prices rose and dropped sharply during 2008. The substantial surge in the average prices for the year as compared to that for the previous year has resulted in a substantial rise in the Group's production costs as compared to the previous year. Of such costs, the average unit cost of processed crude oil increased substantially by 37.19% from the previous year, while crude oil costs increased by RMB14,540.7 million from the previous year, which mainly attributed to the heavy loss of the Group.

(b) Insufficient subsidies for refined oil products. In 2008, the eventual loss in the Group's oil refining operations amounted to RMB3,945.9 million (the loss was RMB644.2 million in 2007). Although the Group received subsidies totaling RMB2,304.4 million for the year (the subsidies were RMB93.9 million in 2007), these subsidies were far from compensating the heavy loss in the oil refining operations caused by the severely inverted prices of refined oil products with those of crude oil and the fact that the Group had to increase the production of refined oil products to ensure supplies to the market.

(c) A substantial fall in the Group's share of profit from associates and jointly-controlled entities and investment incomes. In 2008, the Group's share of profit and investment incomes from associates and jointly-controlled entities amounted to RMB133 million, representing a substantial decrease of 90.74% from RMB1,437 million for the previous year. Of such amount, the investment loss from Shanghai Secco Petrochemical Company Limited was RMB99 million, as compared with the investment profit of RMB588 million for the previous year; income from disposal of financial assets available for sale was RMB132 million, as compared with RMB771 million for the previous year.

(d) Increase in allowance for diminution in value of inventories and impairment losses of assets. In 2008, the Group's allowance for diminution in value of inventories and impairment losses of assets amounted to RMB1,180 million, representing an increase of 397.89% from RMB237 million for the previous year.

(e) A relatively heavy loss in the petrochemical business as well. In the second half of 2008, as a result of the global financial crisis, a plunge in international crude oil prices, the downtrend cycle of the petrochemical industry, a substantial fall in the prices of petrochemical products (prices of some of the Group's major products fell by more than 60% from their highest prices in 2008) and reduction on the production of ethylene and downstream products, the Group's gross profit from the petrochemical business decreased significantly from the previous year, resulting in a relatively heavy loss in the business as well.

Accounting estimates and judgements

The Group's financial conditions and results of operations are sensitive to the accounting methods, assumptions and estimates that underlie the preparation of the financial statements. Management bases the assumptions and estimates on historical experience and on various other assumptions that management believes to be reasonable and which form the basis for making judgments 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 judgments 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 critical accounting policies are contained in the financial statements. Management believes the following critical accounting policies involve the most significant judgments and estimates used in the preparation of the financial statements.

Impairments for long-lived assets

If circumstances indicate that the net book value of a long-lived asset may not be recoverable, the asset may be considered "impaired", and an impairment loss may be recognized in accordance with International Accounting Standard No.36 "Impairment of Assets" and China Accounting Standards for Business Enterprises No.8 "Impairment of Assets". Long-lived assets are reviewed for impairment at the end of each reporting period or whenever events or changes in circumstance have indicated that their carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount. For goodwill, the recoverable amount is estimated annually. The recoverable amount is the greater of the net selling price and the value in use. It is difficult to precisely estimate selling prices because quoted market prices for the Group's assets and cash-generating units are not readily available. In determining the value in use, expected cash flows generated by the asset or the cash-generating unit are discounted to their present value, which requires significant judgment relating to level of sale volume, selling price and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of sale volume, selling price and amount of operating costs.

Depreciation

Property, plant and equipment, are depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual value. The Group reviews the estimated useful lives of the assets annually in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

Impairment for bad and doubtful debts

Management estimates impairment losses for bad and doubtful debts resulting from the inability of the customers to make the required payments. Management 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 impairment losses, would be higher than estimated.

Allowance for diminution in value of inventories

If the costs of inventories fall below their net realizable values, an allowance for diminution in value of inventories is recognized. Net realizable value represents the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale. Management bases the estimates on all available information, including the current market prices of the finished goods and raw materials, and historical operating costs. If the actual selling prices were to be lower or the costs of completion were to be higher than estimated, the actual allowance for diminution in value of inventories could be higher than estimated.

Income tax

With respect to uncertainties about enterprise income tax differences arising from 2006 and before as originated from a tax circular (Circular No. 664) issued by the State Administrative of Taxation in June 2007, the Company has been informed by the relevant tax authority to settle the enterprise income tax ("EIT") for 2007 at a rate of 33 percent. To date, the Company has not been requested to pay additional EIT in respect of any years prior to 2007. Except for the above, there is no further development of this matter during the year ended 31 December 2008. No provision has been made in the financial statements for this uncertainty for tax years prior to 2007 because management believes it is not possible to reliably estimate the amount of the obligation, if any, that might exist.

Summary

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

For the Years ended 31 December

	2008			2007			2006		
	Sales Volume ('000 tons)	**Net Sales (Millions of RMB)**	**% of Total**	Sales Volume ('000 tons)	Net Sales (Millions of RMB)	% of Total	Sales Volume ('000 tons)	Net Sales (Millions of RMB)	% of Total
Synthetic Fibres	**278.4**	**3,662.0**	**6.2**	296.0	4,328.7	7.9	337.0	4,711.7	9.4
Resins and Plastics	**1,462.6**	**14,850.3**	**25.0**	1,549.0	15,878.8	29.3	1,558.9	15,753.3	31.6
Intermediate Petrochemicals	**1,347.1**	**10,271.8**	**17.3**	1,232.4	9,372.7	17.3	1,009.3	6,775.7	13.6
Petroleum Products	**5,747.0**	**27,552.9**	**46.4**	5,376.2	21,036.6	38.8	5,109.8	19,387.6	38.8
All others	**-**	**2,992.8**	**5.1**	-	3,637.9	6.7	-	3,289.8	6.6
Total	**8,835.1**	**59,329.8**	**100.0**	8,453.6	54,254.7	100.0	8,015.0	49,918.1	100.0

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

	2008 Millions of RMB	2008 % of Net sales	2007 Millions of RMB	2007 % of Net sales	2006 Millions of RMB	2006 % of Net sales
	For the Years ended 31 December					
Synthetic fibres						
Net sales	**3,662.0**	**6.2**	4,328.7	7.9	4,711.7	9.4
Operating expenses	**(5,313.5)**	**(9.0)**	(4,410.8)	(8.1)	(4,515.4)	(9.0)
Operating (loss)/profit	**(1,651.5)**	**(2.8)**	(82.1)	(0.2)	196.3	0.4
Resins and plastics						
Net sales	**14,850.3**	**25.0**	15,878.8	29.3	15,753.3	31.6
Operating expenses	**(17,027.0)**	**(28.7)**	(15,222.3)	(28.1)	(14,591.2)	(29.3)
Operating (loss)/profit	**(2,176.7)**	**(3.7)**	656.5	1.2	1,162.1	2.3
Intermediate petrochemicals						
Net sales	**10,271.8**	**17.3**	9,372.7	17.3	6,775.7	13.6
Operating expenses	**(10,314.5)**	**(17.4)**	(8,558.9)	(15.8)	(6,095.3)	(12.2)
Operating (loss)/profit	**(42.7)**	**(0.1)**	813.8	1.5	680.4	1.4
Petroleum Products						
Net sales	**27,552.9**	**46.4**	21,036.6	38.8	19,387.6	38.8
Other income	**2,312.2**	**3.9**	93.9	0.2	282.1	0.6
Operating expenses	**(33,811.0)**	**(57.0)**	(21,774.7)	(40.2)	(21,367.4)	(42.8)
Operating (loss)/profit	**(3,945.9)**	**(6.7)**	(644.2)	(1.2)	(1,697.7)	(3.4)
Others						
Net sales	**2,992.8**	**5.1**	3,637.9	6.7	3,289.8	6.6
Operating expenses	**(2,993.3)**	**(5.1)**	(3,489.2)	(6.4)	(3,078.0)	(6.2)
Operating (loss)/profit	**(0.5)**	**0.0**	148.7	0.3	211.8	0.4
Total						
Net sales	**59,329.8**	**100.0**	54,254.7	100 .0	49,918.1	100.0
Other income	**2,312.2**	**3.9**	93.9	0.2	282.1	0.6
Operating expenses	**(69,459.3)**	**(117.1)**	(53,455.9)	(98.6)	(49,647.3)	(99.5)
Operating (loss)/profit	**(7,817.3)**	**(13.2)**	892.7	1.6	552.9	1.1
Net financing costs	**(330.4)**	**(0.6)**	(177.9)	(0.3)	(165.4)	(0.3)
Investment income	**131.8**	**0.2**	770.7	1.4	-	-
Share of profit of associates and jointly controlled entities	**1.5**	**0.0**	665.9	1.2	576.7	1.2
(Loss)/profit before tax	**(8,014.4)**	**(13.5)**	2,151.4	4.0	964.2	1.9
Income tax	**1,812.7**	**3.1**	(468.3)	(0.9)	(53.2)	(0.1)
(Loss)/profit after tax	**(6,201.7)**	**(10.4)**	1,683.1	3.1	911.0	1.8
Attributable to:						
Equity shareholders of the Company	**(6,238.4)**	**(10.5)**	1,634.1	3.0	844.4	1.7
Minority interests	**36.7**	**0.1**	49.0	0.1	66.6	0.1
(Loss)/profit after tax	**(6,201.7)**	**(10.4)**	1,683.1	3.1	911.0	1.8

Results of operations

The year ended 31 December 2008 compared to the year ended 31 December 2007.

Net sales

The total net sales of the Group increased by 9.35% to RMB59,329.8 million in 2008 compared to RMB54,254.7 million in 2007. In the first half of 2008, the prices of petrochemical products continued to rise and the supply and demand remained basically balanced in general as a result of a substantial rise in international oil prices and the cost driven factor. However, the demand shrank significantly in the second half of the year as a result of a sharp slide in international crude oil prices as well as a reduction in product consumption and a fall in both product sales volumes and prices triggered by the global financial crisis. For the year ended 31 December 2008, the weighted average prices (excluding tax) of the Group's synthetic fibres as well as resins and plastics decreased by 10.15% and 1.05% respectively over the previous year; the weighted average prices (excluding tax) of intermediate petrochemical products and petroleum products increased by 0.14% and 20.65% respectively over the previous year.

1. Synthetic fibres

   The net sales of synthetic fibre products decreased to RMB3,662.0 million in 2008, representing a 15.40% decrease compared to RMB4,328.7 million in 2007. The weighted average price of synthetic fibres decreased by 10.15% as compared to 2008, and the profit margin of synthetic fibre products was substantially reduced as raw material costs of synthetic fibres remained at high levels. As such, sales volume of the Group's synthetic fibres in 2008 decreased by 5.95% as compared to 2007 because the sales volumes of major synthetic fibre products decreased by varying extent in 2008.

   Net sales of synthetic fibre products accounted for 6.20% of the Group's total net sales in 2008, representing a decrease of 1.70 percentage points as compared to 2007.

2. Resins and plastics

   The net sales of resins and plastics decreased to RMB14,850.3 million in 2008, representing a decrease of 6.48% compared to RMB15,878.8 million in 2007. The weighted average price of resins and plastics in 2008 decreased by 1.05% compared to 2007 and sales volume in 2008 decreased by 5.58% compared to 2007. Among the Group's resins and plastics products, the sales volume of polyester pellet for 2008 decreased by 11.14% and average sales price decreased by 9.21%, the sales volumes of polyethylene and polypropylene for 2008 also decreased as compared to 2007.

   Net sales of resins and plastics accounted for 25.00% of the Group's total net sales in 2008, representing a decrease of 4.30 percentage points as compared to 2007.

3. Intermediate petrochemical products

The net sales of intermediate petrochemical products increased to RMB10,271.8 million in 2008, representing an increase of 9.59% compared to RMB9,372.7 million in 2007, with the weighted average price of intermediate petrochemical products increased by 0.14% compared to 2007 while sales volume increased by 9.31% as compared to 2007. Among the Group's intermediate petrochemical products, weighted average prices of ethylene, butadiene and ethylene oxide increased slightly as compared to 2007.

The net sales of intermediate petrochemical accounted for 17.30% of the Group's total net sales in 2008, basically at par with 2007.

4. Petroleum products

The net sales of petroleum products increased to RMB27,552.9 million in 2008, representing an increase of 30.98% compared to RMB21,036.6 million in 2007, with an increase of 20.65% in the weighted average price as compared to 2007. The weighted average prices of gasoline and diesel oil increased by 20.68% and 19.70%, respectively, as compared to 2007. Due to the price limits set by the State, the petroleum products' segment reported a negative profit margin. Meanwhile, the Group's sales volume of gasoline and diesel increased by 18% as compared to 2007.

The net sales of petroleum products accounted for 46.40% of the Group's total net sales in 2008, representing an increase of 7.6 percentage points as compared to 2007.

5. Other activities

The net sales of other activities decreased to RMB2,992.8 million in 2008, representing a decrease of 17.73% as compared to RMB3,637.9 million in 2007. Such decrease in the net sales was mainly attributed to a decrease in the trading volume of petrochemical products.

Operating Expenses

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

Operating expenses increased substantially by 29.90% to RMB69,459.3 million in 2008 compared to RMB53,455.9 million in 2007. The operating expenses of synthetic fibres, resins and plastics, intermediate petrochemicals and petroleum products amounted to RMB5,313.5 million, RMB17,027.0 million, RMB10,314.5 million and RMB33,811.0 million, respectively, representing increases of 20.47%, 11.86%, 20.51% and 55.28%, respectively, as compared to 2007. The operating expenses of other activities amounted to RMB2,993.3 million, representing a decrease of 14.21% as compared to 2007.

1. Synthetic fibres

   The operating expenses of synthetic fibres increased by RMB902.7 million compared to 2007, primarily due to an increase in the unit price of raw materials for producing synthetic fibres.

2. Resins and plastics

   The operating expenses of resins and plastics increased by RMB1,804.7 million as compared to 2007, primarily due to increased unit costs for raw materials such as ethylene and propylene.

3. Intermediate petrochemical products

   The operating expenses of intermediate petrochemical products increased by RMB1,755.6 million compared to 2007, which was mainly attributable to increase in sales of ethylene glycol; and the corresponding increases in costs and expenses of intermediate petrochemical products resulting from the increase in unit cost of intermediate petrochemical products following the increase in average unit cost of crude oil during the year.

4. Petroleum products

   The operating expenses of petroleum products increased by RMB12,036.3 million compared to 2007, primarily due to the increase in crude oil prices (which was the major production raw material of the Group) which directly led to a significant increase in the operating expenses of petroleum products.

5. Other activities

   The operating expenses of other activities decreased by RMB495.9 million compared to 2007, which was primarily attributable to reduced business volume.

Cost of sales

Cost of sales increased to RMB68,556.4 million in 2008, representing an increase of 30.22% compared to RMB52,646.5 million in 2007. Cost of sales accounted for 115.60% of the net sales for 2008, primarily due to significant increase in crude oil prices in 2008 which was the Group's major raw material and increase in the amount of purchase of other raw materials.

1. Crude Oil

   In 2008, the Group processed 9,238,300 tons of crude oil (no imported crude oil was processed on a sub-contracting basis during the year), representing an increase of 299,900 tons compared to 8,938,400 tons in 2007 (of which 25,400 tons imported crude oil were processed on a sub-contracting basis). The volumes of imported crude oil and offshore crude oil processed by the Group were 8,739,000 tons and 499,300 tons, respectively.

   The total cost of crude oil processed by the Group in 2008 amounted to RMB48,997.0 million, representing an increase of 42.20% compared to RMB34,456.3 million in 2007 and accounting for 71.47% of the total cost of sales. The weighted average cost of crude oil for the Group was RMB5,303.68 per ton, representing a significant increase of 37.19% as compared to 2007. The weighted averaged costs of imported crude oil and offshore crude oil were RMB5,339.95 per ton and RMB4,668.86 per ton, respectively.

2. Other expenses

   The expenses for other ancillary materials were RMB9,978.8 million in 2008, representing a decrease of 0.44% compared to RMB10,022.5 million in 2007. No material change was found hereof.

Selling and administrative expenses

Selling and administrative expenses amounted to RMB468.0 million, representing a decrease of 7.27% compared to RMB504.7 million in 2007, primarily due to a decrease in the Group's sales agency fees in its sales operations during the Reporting Period.

Operating (loss) / profit

Operating loss amounted to RMB7,817.3 million in 2008, representing a significant decrease of 975.66% compared to operating profit of RMB892.7 million in 2007, which was primarily due to a significant decline in the Group's operating efficiency during the Reporting Period.

Other operating income

Other operating income amounted to RMB145.2 million in 2008, a decrease of 32.96% compared to RMB216.6 million in 2007, which was primarily due to a decrease in income from the disposal of other unlisted investments during the Reporting Period.

Other operating expenses

Other operating expenses increased from RMB521.3 million in 2007 to RMB580.0 million in 2008, representing an increase of 11.26%, which was primarily due to an increase of RMB240.7 million in the Group's provision made for impairments of fixed assets in 2008 as compared to 2007. In addition, the Group's employee reduction expenses during the Reporting Period decreased by RMB118.2 million as compared to 2007, and the loss on disposal of non-current assets decreased by RMB47.3 million as compared to 2007.

Net financing costs

The Group's net financing costs were RMB330.4 million in 2008, representing an increase of 85.72% compared to RMB177.9 million in 2007, which consisted primarily an increase of RMB297.8 million in the Group's interest expense due to an increase of RMB5,280.8 million in the Group's short-term borrowings. In addition, there was an increase of RMB145.3 million in the Group's financial income as compared to 2007.

Investment income

The Group's investment income was RMB131.8 million in 2008, mainly due to income from the disposal of available-for-sale securities transferred from equity.

(Loss) / profit before tax

The Group's loss before tax was RMB8,014.4 million in 2008, representing a decrease of 472.52% compared to profit before tax of RMB2,151.4 million in 2007.

Income tax

The Group's income tax credit was RMB1,812.7 million in 2008, representing a decrease of 487.16% compared to the income tax expenses of RMB468.2 million in 2007. The income tax credit in 2008 was primarily due to the fact that deferred income tax asset was recognized for deductible loss before tax by the Group according to accounting policy. Management considered that 2008 was an exceptional year of bad results. Based on the Group's financial data of previous years and forecast of the future operating results, the management believes it is probable that the Group will have sufficient taxable profit available in the foreseeable future to utilize the tax losses.

Following the implementation of the newly revised Enterprise Income Tax Law of The People's Republic of China with effect from 1 January 2008, the income tax rate of the Group was unified at 25% (2007: 33%).

(Loss) / profit after tax

Loss after tax was RMB6,201.7 million in 2008, representing a decrease of 468.47% compared to profit after tax of RMB1,683.1million in 2007.

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

(prepared under the China Accounting Standards for Business Enterprises)

1. Principal operations by segment or product

By segment or product	Operating income (RMB'000)	Operating cost (RMB'000)	Gross profit margin (%)	Increase/ decrease of Operating income compared to last year (%)	Increase/ decrease of operating cost compared to last year (%)	Increase/ decrease of gross profit margin compared to last year
Synthetic fibres	3,670,362	4,423,693	-20.52	-15.47	8.60	Decrease 26.71 percentage points
Resins and plastics	14,880,659	15,999,004	-7.52	-6.57	12.14	Decrease 17.94 percentage points
Intermediate petrochemicals	10,296,256	9,572,296	7.03	9.46	29.80	Decrease 14.57 percentage points
Petroleum products	28,372,037	32,960,162	-16.17	28.98	52.43	Decrease 17.87 percentage points
Others	3,091,256	2,798,496	9.47	-17.16	-13.51	Decrease 3.81 percentage points
Including: connected transactions	29,908,286	34,144,577	-14.16	30.56	57.67	Decrease 19.62 percentage points

Price-setting principles of connected transactions	The Directors (including the Independent Non-executive Directors) are of the view that the connected transactions were conducted on normal commercial terms which were no less favourable than those offered to or by any third party, and were conducted in the ordinary course of business. This was confirmed by the Independent Non-executive Directors of the Company.
Description of the necessity and continuity of connected transactions	Please refer to the section headed "Connected transactions in relation to routine operations" under "Major Events" in this annual report.

2. Principal operations by geographical location

Geographical location	Operating income RMB'000	Increase/decrease of operating income operations compared to the previous year (%)
Eastern China	55,696,523	9.27
Other regions in China	4,407,478	4.11
Exports	206,569	2.77

C. Liquidity and Capital Resources

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

Capital Sources

Net cash inflows from operating activities (prepared under IFRS)

The Group's net cash outflows from operating activities amounted to RMB3,986.5 million in 2008, representing a decrease in cash inflows of RMB5,428.5 million compared to net cash inflows of RMB1,442.0 million in 2007. Due to the significant increase in the costs of the Group's crude oil, net cash outflows from profit before tax (net of depreciation) amounted to RMB6,382.5 million in 2008, representing a decrease of RMB10,236.2 million of cash inflows compared to net cash inflows of RMB3,853.7 million in 2007. Decreased inventories balance at the end of the year 2008 led to a decrease in cash outflows of RMB705.6 million in 2008 (as compared to an increase in cash outflows of RMB1,034.6 million during 2007). Changes in the year-end balances of accounts payable, other payable and bills payable led to an increase in cash outflows of RMB786.9 million in 2008 (as compared to a decrease in cash outflows of RMB643.3 million during 2007). Decreases in the year-end balances of debtors, bills receivable and deposits led to an increase in cash inflows of RMB1,122.0 million in 2008 (as compared with a decrease in cash inflows of RMB387.7 million during 2007 as a result of an increase in such year-end balances). In addition, the Group's income tax payment decreased significantly due to operating loss incurred during the Reporting Period. In 2008, income tax payment led to a cash outflow of RMB60.7 million (as compared to RMB674.5 million of a cash outflow in 2007).

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

	2008 RMB'000	2007 RMB'000
Net cash (outflow) / inflow from operating activities	**(3,407,885)**	1,784,572
Net cash outflow from investing activities	**(707,480)**	(511,231)
Net cash inflow / (outflow) from financing activities	**3,850,637**	(1,272,703)

Borrowings

The Group's total borrowings in 2008 amounted to RMB9,801.7 million, representing an increase of RMB5,070.5 million, of which short-term bank loans increased by RMB5,165.3 million, long-term bank loans (repayable within one year) increased by RMB115.5 million and long-term loans decreased by RMB210.3 million.

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

Liability-to-asset ratio (prepared under IFRS)

The Group's liability-to-asset ratio was 50.02% (2007: 29.82%). The ratio is calculated using this formula: total liabilities/total assets.

D. Research and Development, Patents and Licenses

The Group comprises a number of technology development units, including the Petrochemical Research Institute, the Plastics Research Institute, the Polyester Fibre Research Institute, the Acrylic Fibre Research Institute and the Environmental Protection Research Institute. These units are charged with various research and development tasks with respect to new technology, new products, new production processes and equipment and environmental protection. The Group's research and development expenditures for the years ended 2006, 2007 and 2008 were RMB51.6 million, RMB53.5 million and RMB47.3 million, respectively, representing approximately 0.1% of the total sales for those years.

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

E. Off-Balance Sheet Arrangements

Please refer to the section of Major Events - Guarantees and note 32 to the financial statements under IFRS of the 2008 annual report for details of the Group's external guarantee and capital commitments.

F. Contractual obligations

The following table sets forth the Group's obligations to repay loan principal in future as at 31 December 2008:

	As at 31 December 2008 Payment due by period			
	Total (RMB'000)	Less than 1 year (RMB'000)	1-3 years (RMB'000)	4-5 years (RMB'000)
Contractual obligations				
Short-term loan	8,838,204	8,838,204	-	-
Long-term loan	963,542	534,521	229,021	200,000
Total contractual obligations	9,801,746	9,372,725	229,021	200,000

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

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

Item	For the years ended 31 December 2008 RMB'000	2007 RMB'000	Increase/ (decrease) amount RMB'000	change %	Reason for change
Operating (loss)/profit	**(10,364,673)**	2,118,437	(12,483,110)	-589.26	In 2008, crude oil costs increased significantly with prices of refined oil products and crude oil seriously inverted; meanwhile, the international financial crisis had an impact on the Company's production and operation
(Loss)/ profit before income tax	**(8,022,281)**	2,121,094	(10,143,375)	-478.21	
Net (loss)/ profit for the year	**(6,208,695)**	1,641,166	(7,849,861)	-478.31	
Net (loss)/ profit attributable to equity shareholders of the Company	**(6,245,412)**	1,592,110	(7,837,522)	-492.27	
Asset impairment losses	**1,180,198**	236,633	943,565	398.75	Significant decrease in the prices of the Company's raw materials and market prices of petrochemical products, as well as provision made for impairment of machinery and facilities for the relevant products
Operating costs	**65,753,651**	50,573,669	15,179,982	30.02	Significant increase in raw material costs

Item	For the years ended 31December 2008 RMB'000	2007 RMB'000	Increase/ (decrease) amount RMB'000	change %	Reason for change
Non-operating income	**2,373,986**	121,441	2,252,545	1,854.85	As the oil refining operation recorded significant loss, financial subsidies increased
Income tax	**(1,813,586)**	479,928	(2,293,514)	-477.89	Deferred income tax asset was recognized for deductible loss incurred in 2008

Item	As at 31December 2008 RMB'000	As at 31December 2007 RMB'000	Increase/ (decrease) amount RMB'000	change %	Reason for change
Bills receivable	**566,356**	1,800,856	(1,234,500)	-68.55	Sales in the fourth quarter of 2008 decreased significantly
Short-term loans	**8,838,204**	3,672,942	5,165,262	140.63	The Company borrowed RMB4.9 billion of short-term loans in the second half year of 2008 to compensate the Company's funding needs

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

As at 31 December 2008, the Company had more than 50% equity interests in the following principal subsidiaries:

Company	Place of registration	Principal Activities	Place for principal activities	Class of legal person shares	Percentage of equity held by the company(%)	Percentage of equity held by subsidiaries (%)	Registered Capital ('000)	Net Profit/ (loss) for 2008 (RMB'000)
Shanghai Petrochemical Investment Development Company Limited	China	Investment management	China	Limited company	100	-	RMB800,000	(56,080)
China Jinshan Associated Trading Corporation	China	Import and export of petrochemical products and equipment	China	Limited company	67.33	-	RMB25,000	17,074
Shanghai Jinchang Engineering Plastics Company Limited	China	Production of polypropylene compound products	China	Limited company	-	50.38	US$4,750	5,391
Shanghai Golden Phillips Petrochemical Company Limited	China	Production of polypropylene products	China	Limited company	-	60	US$50,000	68,822
Zhejiang Jin Yong Acrylic Fibre Company Limited	China	Production of acrylic fibre products	China	Limited company	75	-	RMB250,000	(586,426)
Shanghai Petrochemical Enterprise Development Company Limited	China	Investment management	China	Limited company	100	-	RMB455,000	(68,193)
Shanghai Golden Conti Petrochemical Company Limited	China	Production of Petrochemical products	China	Limited company	-	100	RMB545,776	(38,448)

None of the subsidiaries has issued any debt securities.

The Group's equity interests in its associates comprised an equity interest of 38.26%, amounting to RMB730.1 million, in Shanghai Chemical Industry Park Development Co., Ltd., a company set up in the PRC; and an equity interest of 20%, amounting to RMB1,414.9 million, in Shanghai Secco Petrochemical Company Limited, a company set up in the PRC. The principal business of Shanghai Chemical Industry Park Development Co., Ltd. consists of planning, developing and operating the Chemical Industry Park in Shanghai, the PRC, while the principal business of Shanghai Secco Petrochemical Company Limited is the production of petrochemicals.

In 2008, there was no company in which the Group has controlling interests or investment interests and which affected 10% or more of the Group's net loss.

I. Major suppliers and customers

The Group's top five suppliers in 2008 were Sinopec Pipeline Transport & Storage Branch, China International United Petroleum & Chemical Co., Ltd., Sinochem Petroleum Company, Shanghai Secco Petrochemical Company Limited and China National Offshore Oil Corporation. Total costs of purchases from these suppliers accounted for 85% of the total cost of purchases by the Group during the year, amounting to RMB50,518.2 million. The cost of purchases from the largest supplier amounted to RMB28,986.4 million, representing 49% of the total cost of purchases by the Group during the year.

The Group's top five customers during 2008 were Sinopec Huadong Sales Company, Sinopec Shanghai Gaoqiao Branch, Shanghai Secco Petrochemical Company Limited, Shanghai Chlor-Alkali Chemical Company Limited and Tongkun Group Zhejiang Hengsheng Chemical Fibre Company Limited. The total sales derived from these customers represented 46% of the Group's total turnover during the year, amounting to RMB27,441.4 million. The sales derived from the largest customer amounted to RMB24,654.4 million, representing 41% of the turnover during the year.

To the knowledge of the Board, in relation to the above supplies and customers, none of the Directors (or their associates) or shareholders of the Company had any interest in Sinochem International Company, China National Offshore Oil Corporation, Shanghai Chlor-Alkali Chemical Company Limited and Tongkun Group Zhejiang Hengsheng Chemical Fibre Company Limited. Sinopec Transport & Storage Branch, China International United Petroleum & Chemical Company Limited, Sinopec Huadong Sales Company and Sinopec Gaoqiao Branch are subsidiaries of the Company's controlling shareholder, Sinopec Corp. The Company owns an equity interest of 20% in Shanghai Secco Petrochemical Company Limited.

J. Others

Employees

Please refer to the section headed "Employees" under "Directors, Supervisors, Senior Management and Employees" for details.

Purchase, Sale and Investment

Save and except as disclosed in this report, there was no material purchase or sale of our subsidiaries or associates or any other material investments during 2008.

Pledge of Assets

As at 31 December 2008, no fixed asset was pledged by the Group (31 December 2007: RMB nil).

K. Items related to fair value measurement

Item	Amount at the beginning of the Reporting Period RMB'000	Gains or losses arising from changes in fair value for the Reporting Period RMB'000	Cumulative gains or losses previously reported in equity RMB'000	Impairment made for the Reporting Period RMB'000	Amount at the end of the Reporting Period RMB'000
Financial assets					
Including:					
1. Financial assets at fair value through profit or loss					
Including: Derivative financial assets	-	97,644	-	-	97,644
2. Available-for-sale financial assets	478,793	(133,765)[Note]	(221,110)	-	123,918
Subtotal of financial assets	478,793	(36,121)	(221,110)	-	221,562

Note: Gains or losses arising from changes in fair value of available-for-sale financial assets for the Reporting Period is the sum of principal collected from the disposal of available-for-sale financial assets by the Group in 2008 and their changes in fair value.

L. Status of holding foreign currency financial assets and financial liabilities

Apart from the "financial assets at fair value through profit or loss - derivative financial assets" listed in the above table of "Items related to fair value measurement", as at 31 December 2008, the Group also held foreign currency denominated bank deposits and borrowings, equivalent to RMB13,070,000 and RMB4,103,046,000, respectively.

M. Company's Outlook on Future Developments (Business Prospects)

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

In 2009, as a result of the unprecedented global financial turmoil, the negative impact upon the world's real economic growth will continue to intensify. The world economy will grow at a remarkably reduced speed and is faced with a number of instabilities and uncertainties. Although China's economy is confronted with serious difficulties and challenges internationally and domestically, China will continue to maintain steady and relatively fast growth through improving macro economic control initiatives and by implementing a proactive fiscal policy and a moderately relaxed monetary policy, as well as a series of strong measures to "ensure growth and expand domestic demand". However, China's growth will be slower as compared to the past.

The trend of international oil prices will remain relatively uncertain in 2009. However, it is anticipated that the long-lasting, delicate balance in the global supply and demand of petroleum will be eased, leaving much less room for market speculation. The overall level of international oil prices is anticipated to remain lower than those in 2008. The global petrochemical industry is likely to undergo a restructuring given the pressures of both decelerating economic growth and declining industry cycle, compounded by the continuous fall in the on-stream availability of plants due to a gradual release of new production capacities created by investments made during the peak period. The growth rate of China's petrochemical industry will slow down remarkably under the impact of the global financial crisis. On the one hand, there exists a number of adverse effects such as a contracting demand in the domestic petrochemical industry; a switch of the domestic petroleum products market from a seller's market to a buyer's market; capacity surplus due to concurrent commencements of operations of new plants, resulting in a structured oversupply in the petrochemical sector; an influx of a large number of overseas products; growing trade protectionism and conflicts among many nations and regions; and obstructions to export of domestic petrochemical downstream products. On the other hand, the domestic petrochemical industry has also seen a substantial fall in the costs of crude oil and raw materials as a result of the global financial turmoil, leading to a substantial decrease in production, investment and development costs. The Chinese government's implementation of an array of initiatives for "ensuring growth" and the commencement of construction of projects relating to people's livelihood and infrastructure facilities, as well as the creation of an ecological environment and reconstruction projects in disaster-hit areas, will effectively drive end-user consumption of petrochemical products and improve the unfavorable situation in the domestic petrochemical sector. The revitalization program for the ten major pillar industries including the iron and steel, automobile, petrochemical and textile industries, and the introduction of initiatives such as a full implementation of the changes of the value-added tax regime will revitalize the domestic economy. Upon implementation of a reform program for the petroleum product tax regime, the prices of domestic petroleum products will be indirectly aligned with international crude oil prices in a controlled manner. This will generally offset losses on production by oil refining enterprises caused by various unfavorable policy factors.

2. New business plans for 2009

In the first half of 2009, faced with the relatively difficult environment in its production operations, the Group will strive to cope with challenging conditions such as a decreased demand in the petrochemical market and intensifying competition. It will continue to fully implement the cost leadership strategy; earnestly maintain safe and stable production operations; optimize resource allocation; push forward reform and development programs and cultivation of corporate culture; step up internal management and team building; and continuously enhance its competitiveness and risk resistance capability, thereby striving to return to profit in 2009.

To achieve these business objectives in 2009, the Group intends to adopt the following major initiatives:

(a) Further reinforcing management foundation to ensure safe, stable and fine production operations

The Group will integrate, in an organic manner, the "Three Basics" and specialty business lines to further reinforce management foundation relating to safety, production and equipment. It will continue to step up its work in environmental protection; earnestly enforce the HSE (Health, Safety and Environment) management system; improve the emergency response mechanism for environmental protection; strengthen the supervision and management of safety and environmental protection in direct operations on inspection, maintenance and construction sites to prevent the occurrence of serious incidents involving safety, environmental protection or occupational diseases and hazards; step up the routine management of production and equipment; improve methods for production operations; enforce initiatives for anti-corrosion and monitoring of equipment; strengthen routine maintenance of major facilities and equipment; and further raise the operational standards of its major production facilities and the standards for its major technical and economic indices.

(b) Mobilizing all staff to commence an energy conservation campaign to enhance the standards of energy conservation and consumption reductions with every effort

The Group will further the work on energy conservation and consumption reductions in accordance with the relevant requirements of the State and government authorities on energy conservation and emissions reduction. It will continue to improve the balance and optimization of the vapour system, reduce the discharge of low-pressure steam; and continue to improve the flare gas recovery project, thereby enabling the recovery and utilization of flare gas and low added-value fuel to the maximum extent through a full use of the recovery system, with a view to minimizing the discharge of flare gas. It will continue to proceed with water conservation, emissions reduction and sewage recovery in oil refining and petrochemical production by further reducing the volume of water consumed by industries and households, and proceed with a centralized supply of pure water to lower the costs of water making.

(c) Reinforcing internal control and management, and reducing operating risks and operational costs

The Group will further reinforce internal control and management, improve operation flows and enhance management efficiency. It will revise and improve its Internal Control Manual and internal control regime pursuant to the requirements in the Fundamental Standards for Internal Controls of Enterprises 《企業內部控制基本規範》 published by the Ministry of Finance, CSRC, National Audit Office, CBRC and CIRC of China by consistently reinforcing and regulating internal control against operating risks. It will continue to reinforce comprehensive budget controls; cope with challenging conditions proactively; reduce non-production expenses; implement detailed budget controls; commit adequate resources to the procurement and processing of crude oil and intermediate petrochemical materials; optimize inventory mix; and strive to lower procurement costs, processing costs and inventory financing of crude oil and raw and auxiliary materials.

(d) Devoting efforts to the construction of structural adjustment projects, pushing ahead with sound and fast development of the Company

The Group will continue to make dedicated efforts to work on constructing the structural adjustment projects and technological advancement so as to enhance its competitiveness. In light of the situation and development trends of the petrochemical market, the Group will proceed steadily with the construction of structural adjustment projects to ensure that the new 600,000 ton/year PX aromatics complex, the new 150,000 ton/year C5 segregation plant, the adding of flue gas desulphurization facilities to furnaces No. 3 and No. 4 of coal-fired power plants, and the 220,000-volt transformer station alteration project will reach the planned stages on time and in good quality. It will strive to complete various work on the comprehensive natural gas utilization renovation project to try to satisfy the requirements for receiving natural gas by September 2009, and earnestly complete the formulation of the Company's "Twelfth Five Year" development plan. As for technological advancement work, the Company will devote dedicated efforts to the research on the Company's product-chain extended processing, in particular on delicate petrochemicals. It will continue to make dedicated efforts to the development of operative technology, application of new technology as well as research and development of products with high added-value, and increase the development of new plastic and chemical fibre products. It will promote the application of new technology in energy conservation and consumption reductions, and continue to work on a more in-depth application of its information system project.

(e) Advancing system changes and improvements and further reinforcing staff team building

The Group will continue to advance various internal reform programs proactively and steadily, and further reinforce staff team building. It will continue to integrate corporate management resources; develop professional centralized management; improve management systems; integrate auxiliary businesses and external investment businesses and complete changes to their management systems and businesses; and devote dedicated efforts to the management of the tracking of reformed enterprises to promote a steady and sound development of these enterprises. It will further reinforce staff team building by extensively conducting cross-position, cross-department and cross-profession exchanges to increase the vitality of the staff. It will continue to devote dedicated efforts to the training of professional technicians in know-how and skills to enhance their vocational abilities, and to provide on-the-job training for various types of staff by level and category, in particular re-training and training in multiple skill areas for operators in major plants to enhance their technological operation standards.

(f) Actively cultivating a corporate culture of cohesion, harmony and stability

The Group will further advance the cultivation of a corporate culture of cohesion, harmony and stability. Pursuant to the requirements in the Implementation Outlines of Shanghai Petrochemical on the Cultivation of a Corporate Culture, it will continue to thoroughly push forward various tasks on the cultivation of a corporate culture to gradually create a corporate core value that primarily comprises "responsibility, discipline and integrity", and a work attitude of being "rule-abiding, regulated, conscientious, meticulous". The Group will improve on a democratic management system, thereby safeguarding the lawful rights and interests of its staff; extend affection and concern to its employees; and further enhance various fringe benefits such as medical insurance and health inspections as well as supplementary benefits for the livelihood of the staff, so as to reinforce the staff's cohesion and sense of belonging to the Group.

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

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

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

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

At present, a significant amount of crude oil is being consumed by the Group for the production of petrochemical products. The Group attempted to mitigate the effect of increased costs due to rising crude oil prices by passing on the increased costs to the Group's customers. However, the Group's ability to pass on the increased costs to its customers is subject to market conditions and the State's control. Since there is a time lag between a rise in crude oil prices and a rise in petrochemical products prices, and since the new pricing mechanism for petroleum products is not transparent, the determined prices of these petroleum products may be unable to fully and timely offset the impact resulting from fluctuations in crude oil prices such that rising crude oil prices cannot be totally offset by increasing the sales prices of the Group's products. In addition, the State also imposes stringent control over the distribution of many petroleum products within China. For instance, some of the Group's petroleum products are required to be sold to designated customers (such as the subsidiaries of Sinopec Corp.). Hence, when crude oil prices are high, the increases in these prices cannot be totally offset by the increases in the sales prices of the Group's petroleum products. This has created, and will continue to create, a major adverse impact on the Group's financial condition, operating results or cash flow.

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

The petrochemical industry is a capital intensive sector. The Group's capability to maintain and increase income, net income and cash flows has a bearing upon ongoing capital expenditures. The Group's capital expenditures amounted to approximately RMB1,511.1 million in 2008 (2007: RMB2,134.1 million), which were met by financing activities and part of the Group's internal funds. The Group's real capital expenditures may vary significantly due to the Group's capability to generate sufficient cash flow from operations, investments and other factors that are beyond the control of the Group. Besides, there is no assurance as to whether the Group's capital projects will be completed or, if completed, at what costs, or whether success will be made as a result of the completion of such projects.

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

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

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

(d) The Group may be exposed to intensifying competition.

From 2009 to 2010, China's petrochemical market will reach a peak of production capacity. The commencement of production by new plants at the same time will create capacity surplus which will result in a structured oversupply in the petrochemical market in general. The Group believes this will have a substantial impact on the production and sale of its major products. Eastern China (including Shanghai, Jiangsu, Zhejiang, Anhui and Jiangxi), a major market of the Group, has been experiencing a stronger economic growth and a higher demand for petrochemical products than other regions. The Group believes that this will prompt rival petrochemical companies to attempt to expand their sales and set up their sales networks in our major markets. Chinese private enterprises have gradually overcome technological and funding barriers and extend from the downstream processing sector to the upstream petrochemical field. These enterprises have the strengths in many areas such as system and mechanism operation, costing, preferential policy treatment and regional presence. The Group believes these enterprises will, by adopting a low-cost approach and a flexible mechanism, compete with the Group in the markets relating to our products. Intensifying competition may have a material adverse impact on the Group's financial condition and operating results.

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

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

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

Wastes are generated during the Group's production operations. Besides, permits are required for the Group's production, and such permits may be subject to renewal, revision or revocation. Currently the Group's operations are in full compliance with the requirements of all applicable Chinese environmental protection laws and regulations. However, the State has already enforced and may further enforce stricter environmental standards, and the Group cannot assure that the State or local governments will not enact more regulations or enforce certain regulations more strictly which may cause the Group to incur additional expenses on environmental protection measures.

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

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

- participation by foreign companies in investing in China's domestic petrochemical industry has increased, and foreign investors have been permitted to hold 100% equity interest in petrochemical companies in China;

- restrictions on the import of crude oil by non-state-owned companies have been relaxed gradually;

- foreign investment enterprises have been granted the right to import and trade petrochemical products; and

- foreign companies have been permitted to distribute and market petroleum products in China's domestic retail and wholesale markets.

After these measures are implemented, the Group will consistently be affected by intensified competition and imports from overseas. The Group believes that China's accession to the WTO will bring about a substantial amount of investment and business to China and accordingly, more opportunities will be available for the Group's product sales. The Group also truly believes that its products have been and will be able to maintain their competitiveness against products imported into China. However, tariff breaks on imported products may reduce the cost of imported products or may have an adverse impact on the revenues from the sale of some of our products, including a small number of major products. On the other hand, the Chinese government may also lower the tariffs on our production equipment to be imported by us in the future and lift the existing restrictions on the use of imported raw materials (such as crude oil). Although the Group is confident that it is able to capitalize on new sales opportunities, the eventual impact of China's accession to the WTO on our business and operating results remains to be seen. Besides, as a result of the impact of the financial crisis, demand from the global market has contracted considerably and many overseas petrochemical corporations, in particular those neighboring corporations in Japan, South Korea and the Middle East, have switched their focus to China by exporting products to China which, the Group believes, will further intensify the competition in the Chinese domestic petrochemical market.

(g) Changes in the monetary policy and fluctuations in the value of Renminbi may have an adverse impact on the Group's business and operating results.

The exchange rate of the Renminbi against the US dollar and other foreign currencies may fluctuate and is subject to alterations due to changes in the Chinese political and economic situations. On 21 July 2005, the PRC government significantly changed its policy of pegging the value of the Renminbi to the US dollar by permitting the Renminbi to fluctuate within a certain band against a basket of certain foreign currencies. Since the adoption of this new policy, the value of the Renminbi against the US dollar has fluctuated daily within a narrow band. During 2008, the Renminbi further appreciated against the US dollar as the US dollar depreciated in value overall against various currencies. In addition, the PRC government continues to receive significant international pressure to further liberalize its currency policy, and as a result may further change its currency policy. A small portion of our cash and cash equivalents is denominated in foreign currencies, including the US dollar. Any increase in the value of Renminbi against other currencies, including the US dollar, may decrease the Renminbi value of our cash and cash equivalents that are denominated in foreign currencies. On the other hand, most of our revenues are denominated in Renminbi, but a major part of our procurement of crude oil, certain equipment and certain debt repayments are denominated in foreign currencies. Any devaluation of Renminbi in the future will increase our costs and jeopardize our profitability. Any devaluation of Renminbi may also have an adverse impact on the value of dividends payable in foreign currencies by the Group for H shares and American Depository Shares.

(h) Connected transactions may have an adverse impact on the Group's business and business efficiency.

The Group will, from time to time, continue to conduct transactions with Sinopec Corp., the controlling shareholder of the Group; Sinopec, the controlling shareholder of Sinopec Corp.; as well as various subsidiaries or associates thereof, while these connected parties provide the Group with various services which include, inter alia, sales and market development as well as education and community services. The connected transactions and services conducted by the Group with these companies are carried out under normal commercial terms and terms in relevant agreements. However, if Sinopec Corp. refuses to conduct such transactions or revise the agreements between the Group and itself in a manner unfavorable to the Group, the Group's business and business efficiency will be subject to an adverse impact. Besides, Sinopec Corp. has an interest in certain sectors that are directly or indirectly competing with or may be competing with the Group's business. Since Sinopec Corp. is the controlling shareholder of the Group and its own interest may be in conflict with that of the Group, it may take actions beneficial to itself in defiance of the interest of the Group.

(i) Risks associated with the control by the majority shareholder.

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

(j) Risks associated with the failure to complete the share reform.

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

4. Whether the Company will prepare and disclose profit forecast for the new reporting period.

No.

Investment by the Company

1. Application of Capital Raised

During the Reporting Period, the Company did not raise capital or use the capital raised in previous reporting periods.

2. Projects from non-raised capital

In 2008, the capital expenditure of the Group amounted to RMB1,511.1 million, representing a decrease of 29.19% as compared to RMB2,134.1 million in 2007. Major projects include the following:

Project	Total project investment RMB million	Project progress as at 31 December 2008
600,000-ton/year PX aromatics complex	3,013.2	Under construction
Ancillary project for the first tank area along Jinjiahu oil pipeline	71.4	Completed
150,000-ton/year C5 segregation plant	292.1	Under construction
Total	3,376.7	

The Group's capital expenditure for 2009 is estimated at approximately RMB 2,200 million.

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

In accordance with CAS Bulletin No.2 and the Notice on preparing 2008 annual reports of enterprises adopting China Accounting Standards (Caikuaihan [2008]No.60) , which were newly issued by the Ministry of Finance in 2008, and the Interpretation Guidance of CAS published in December 2008, the Group offset deferred tax assets against deferred tax liabilities in the current accounting year. The details are set out in note 4 to the financial statements prepared under China Accounting Standards for Business Enterprise (2006). During the reporting period, the Company did not make any changes to accounting estimates or major accounting errors.

Daily Operation of the Board

(1) The convening and the resolutions of the Board meetings

(a) The twenty-seventh meeting of the fifth session of the Board was held on site on 7 April 2008. Announcement whereof was published in "China Securities Journal" and "Shanghai Securities News" on 8 April 2008.

(b) The twenty-eighth meeting of the fifth session of the Board was held on 25 April 2008 by means of correspondence. Announcement whereof was published in "China Securities Journal" and "Shanghai Securities News" on 28 April 2008.

(c) The first meeting of the sixth session of the Board was held on site on 12 June 2008. Announcement whereof was published in "China Securities Journal" and "Shanghai Securities News" on 13 June 2008.

(d) The second meeting of the sixth session of the Board was held on 17 July 2008 by means of correspondence. Announcement whereof was published in "China Securities Journal" and "Shanghai Securities News" on 18 July 2008.

(e) The third meeting of the sixth session of the Board was held by means of correspondence on 30 July 2008. Announcement whereof was published in "China Securities Journal" and "Shanghai Securities News" on 31 July 2008.

(f) The fourth meeting of the sixth session of the Board was held on site on 27 August 2008. Announcement whereof was published in "China Securities Journal" and "Shanghai Securities News" on 28 August 2008.

(g) The fifth meeting of the sixth session of the Board was held on 29 October 2008 by means of correspondence. Announcement whereof was published in "China Securities Journal" and "Shanghai Securities News" on 30 October 2008.

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

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

The 2007 profit appropriation plan of the Company was implemented in accordance with the resolution made at the 2007 annual general meeting. The announcement on dividend payments for A shares was published in the "China Securities Journal" and "Shanghai Securities News" on 17 June 2008. Dividends for A shares and H shares were paid on 2 July 2008. Other resolutions were executed faithfully.

(3) Performance of duties by the Board's Audit Committee

The Audit Committee of the Board held two meetings in 2008. At the seventh meeting of the Audit Committee of the fifth session of the Board held on 3 April, five resolutions were approved: (i) the 2007 annual report (full text and summary) of the Company was considered and approved; (ii) the resolution on adjusting relevant items in the balance sheet at the beginning of 2007 was considered and approved; (iii) the resolution on renewing the reappointment of the Company's domestic and international auditors for 2008 was considered and approved; (iv) the Company's 2007 internal control self-assessment report was considered and approved; (v) the Company's Internal Control Manual (2008 Edition) was considered and approved. At the first meeting of the Audit Committee of the sixth session of the Board held on 26 August, two resolutions were approved: (i) the 2008 interim report (full text and summary) of the Company was considered and approved; (ii) the Company's internal control mechanism and execution inspection report for the first half of 2008 was considered and approved.

In 2008, pursuant to the relevant requirements of China's regulatory authorities, the Audit Committee of the Board communicated with the external auditors before they began the auditing work of annual report and finalized the Arrangement and Scope of Auditing Work on the Financial Reports for 2007. Before the external auditors began the auditing work, members of the committee reviewed the financial statements (balance sheet, income statement and cash flow statement) prepared by the Company; and after the external auditors had issued the preliminary auditing opinion for the annual auditing, they reviewed the financial statements of the Company again, and they considered and voted on the annual financial reports.

As at 26 March 2009, the Audit Committee has reviewed with the management the accounting principles and standards adopted by the Company and has discussed matters regarding auditing, internal control and financial reporting, including a review of the audited annual report for the twelve months ended 31 December 2008.

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

The Remuneration and Appraisal Committee of the Board held one meeting in 2008. At the fifth meeting of the Remuneration and Appraisal Committee of the fifth session of the Board held on 3 April, three resolutions were approved: (i) agreement on the performance appraisal of the Company's management; (ii) agreement on the continued adoption of the Company's remuneration policies; (iii) the proposal on the amendment to the Rules Governing the Distribution of Independent Directors' Remuneration was considered and approved.

As at 26 March 2009, the Remuneration and Appraisal Committee has reviewed details regarding the remuneration of the Company's Directors, Supervisors and Senior Management in the audited annual report for the twelve months ended 31 December 2008.

Status of the Company's Payment of Dividend over the past three years

Year of paying dividends	Amount of cash dividends (Including tax) RMB'000	Net profit attributable to equity shareholders of the Company prepared under the China Accounting Standards for the Year of paying dividends [Note] RMB'000	Ratio (%)
2005	720,000	1,726,663	41.70
2006	288,000	805,705	35.75
2007	648,000	1,592,110	40.70

Note: Comparative figures for 2005 and 2006 have been restated in accordance with China Accounting Standards for Business Enterprises.

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

The Company incurred significant loss in its 2008 net profit. The Board did not recommend to pay a final dividend for the year, nor did the Board increase share capital by transferring reserve fund.

In 2008, the Supervisory Committee of the Company conscientiously discharged its supervisory duties in accordance with the PRC Company Law and the relevant legislations, the Articles of Association and the Rules of Procedure for Supervisory Committee Meeting of Sinopec Shanghai Petrochemical Company Limited, thus ensuring a standardized operation and safeguarding the Company and shareholders' lawful interests.

1. Meetings of the Supervisory Committee during the Reporting Period

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

(i) The fourteenth meeting of the fifth session of the Supervisory Committee was convened on 6 April 2008, and the following were considered and approved:

(a) resolution on the nominations of candidates for the sixth session of the Supervisory Committee;

(b) the annual report of the Company for the year 2007;

(c) the Supervisory Committee's comments and recommendations on the annual report of the Company for the year 2007;

(d) the work report of the Supervisory Committee for the year 2007;

(e) the major work of the Supervisory Committee for the year 2008.

(ii) The fifteenth meeting of the fifth session of the Supervisory Committee was convened on 24 April 2008 (by correspondence), and the following were considered and approved:

(a) the 2008 first quarterly report of the Company;

(b) the Supervisory Committee's comments and recommendations on the Company's 2008 first quarterly report of the Company.

(iii) The first meeting of the sixth session of the Supervisory Committee was convened on 12 June 2008, and the following were considered and approved:

(a) the election of Mr. Gao Jinping as Chairman of the Supervisory Committee;

(b) the appointment of Mr. Zhang Chenghua as Director of the Supervisory Committee Office and the appointment of Mr. Zhang Yuhua as Deputy Director of the Supervisory Committee Office.

(iv) The second meeting of the sixth session of the Supervisory Committee was convened on 26 August 2008, and the following were considered and approved:

(a) the 2008 interim report of the Company;

(b) the Supervisory Committee's comments and recommendations on the 2008 interim report of the Company.

(v) The third meeting of the sixth session of the Supervisory Committee was convened on 28 October 2008 (by correspondence), and the following were considered and approved:

(a) the 2008 third quarterly report of the Company;

(b) the Supervisory Committee's comments and recommendations on the 2008 third quarterly report of the Company.

2. Work carried out by the Supervisory Committee during the Reporting Period

During the Reporting Period, members of the Supervisory Committee discharged their duties diligently; conducted meetings on a regular basis; focused on improving the quality of meeting deliberation and attended Board meetings; and conducted analysis on the Company's quarterly reports, interim reports and annual reports and gave comments and recommendations thereon.

In discharging their routine monitoring duties, regular meetings of the Supervisory Committee Office were convened. The Committee analysed the Company's reports on a quarterly basis with consistent efforts while research and inspection on special topics were carried out. In 2008, in view of the difficult operating environment, the Supervisory Committee of the Company conducted special research and inspection with regard to production operation and management, on the basis of implementing an overall cost leadership strategy and enhancing operation management standards. Timely comments and recommendations were made to the Company. Major recommendations included: (i) to further optimize its crude oil purchase mix in order to continuously reduce costs of crude oil purchase; (ii) to strengthen efforts in the tracking and management of details of on-route crude oil wastage in order to reduce wastage; (iii) to strengthen adaptability modification for refining facilities to increase the amount of heavier crude oil processed; (iv) to reinforce refined management and on-site management and reduce unplanned suspension, in order to ensure the steady and long-cycled operation of facilities, thereby raising the overall level of technical and economic indicators; (v) to strengthen the price management of self-distributed products in order to increase the market shares of such products; (vi) to enhance controls on inventories in order to reduce the hold-up of capital due to inventories; (vii) to strengthen controls in the process of recovering receivables and repayment of such receivables, thereby increasing cash inflows.

3. The Company's Operation in compliance with the relevant laws during the Reporting Period

During the Reporting Period, the Supervisory Committee of the Company continued to refine the check-and-balance system of the Company and promoted and regulated the corporate governance structure in accordance with the relevant State laws and regulations including the PRC Company Law and the Code of Corporate Governance for Listed Companies, and the Articles of Association. The Supervisory Committee conscientiously discharged its duties and exercised supervision over the management's compliance with the relevant laws and regulations including the PRC Company Law and the Code of Corporate Governance for Listed Companies. It also supervised the enforcement of resolutions passed at general meetings and Board meetings, the compliance with decision-making procedures by the Board and the implementation of the internal control system. Meanwhile, it conscientiously conducted inspection on the financial system and the financial position of the Company. No breach of laws, regulations and the Articles of Association or act that damaged the Company's or its shareholders' interests was discovered as the Directors and Senior Management of the Company discharged their duties with the Company.

The Supervisory Committee was of the view that the financial report of the Company for the year 2008 truthfully reflected the Company's financial position and operating results. The Company and its controlling subsidiaries did not violate the financial and accounting system in their operating activities. The standard unqualified audit report issued by KPMG and KPMG Huazhen is objective and fair.

During the Reporting Period, the Company did not raise any capitals.

During the Reporting Period, no damage on the shareholders' interests or causing of loss of assets of the Company in the process of disposal of assets was discovered.

During the Reporting Period, connected transactions were conducted on normal commercial terms and in accordance with the terms of the relevant agreements. No damage on the interests of the Company and its shareholders was discovered.

The Supervisory Committee was of the view that the profitability of the entire petrochemical industry declined in 2008 and the Company experienced its first significant loss. Faced with tough challenges including fluctuations in international oil prices as well as rapid changes in the oil and petrochemicals industries, the Company insisted on its objective of "reform, adjustment, management, innovation, development" and continued to implement an overall cost leadership strategy. It extensively explored utilization of capacity and enhanced efficiency; increased income and reduced expenses; dedicated efforts to production operation; and optimized resource allocation, thereby orderly pushing ahead various work in respect of production operation and reforms and development.

4. Major work of the Supervisory Committee in 2009

In 2009, the Supervisory Committee of the Company will, in accordance with the PRC Company Law, the Articles of Association and the Rules of Procedures for Supervisory Committee Meeting, continuously discharge its supervisory duties diligently with reference to the Company's actual conditions. With a focus on the Company's economic benefits, the Supervisory Committee will further strengthen its supervision on the acts of Directors and the Senior Management in discharging their Company's duties, and will continuously regulate the Senior Management's work to ensure they act in honesty and with professionalism. It will also further strengthen the supervision, inspection, research and analysis of the Company's production operation management and give opinions and make recommendations on existing problems, in order to effectively prevent and control operating risks, thereby enabling the Company to continue enhancing its operation management standards. Through supervision and inspection, the Supervisory Committee will further advance the establishment of a modern corporate system; and continuously enhance and improve the Company's governance structure, enhance the supervision and control mechanisms, with a view to safeguarding the lawful interests of all shareholders of the Company.

1. **Material litigation or arbitration**

The Company was not involved in any material litigation or arbitration in 2008.

2. **Events regarding bankruptcy and restructuring**

No events regarding bankruptcy and restructuring occurred in the Company in 2008.

3. **Other major events and the impact, and analysis of solutions**

The Company held stakes in other listed companies

Stock code	Abbreviation of securities	Initial investment cost (RMB'000)	Percentage of shareholding in that company at the end of the Reporting Period (%)	Book value at the end of the Reporting Period (RMB'000)	Gain/(loss) in the Reporting Period (RMB'000)	Change in shareholders' equity of the Reporting Period (RMB'000)	Account	Source of shares
600837	HTSEC	11,164	0.12	80,322	-	(143,032)	Available-for-sale financial assets	Investment
600000	SPDB	1,318	0.04	31,005	118,389	(60,194)	Available-for-sale financial assets	Investment
600527	JNGX	898	0.85	12,591	13,383	(17,884)	Available-for-sale financial assets	Investment
Total		13,380	/	123,918	131,772	(221,110)	/	/

4. **Acquisition or disposal of assets or merger by absorption during the Reporting Period**

The Company was not involved in any material acquisition or disposal of assets or merger by absorption in 2008.

5. Major Connected Transactions

(1) Connected transactions in relation to routine operations

During the reporting period, pursuant to the Mutual Product Supply and Sales Services Framework Agreement entered into with Sinopec Corp., the Company purchased raw materials from, and sold petroleum products and petrochemicals as well as leasing properties to, Sinopec Corp. and its associates. Sinopec Corp. and its associates provided agency sales services for petrochemical products. Pursuant to the Comprehensive Services Framework Agreement entered into with Sinopec, the Company obtained construction and installation, project design, petrochemical industry insurance agency and financial services provided by Sinopec and its associates. The relevant connected transactions were conducted in accordance with the terms of the Mutual Product Supply and Sales Services Framework Agreement and the Comprehensive Services Framework Agreement. The transaction amounts of the relevant connected transactions did not exceed the caps in relation to the continuing connected transactions approved at the 2007 extraordinary general meeting.

The purchases by the Company of crude oil and related materials from, and sales of petroleum products by the Company to, Sinopec Corp. and its associates were conducted in accordance with the State's relevant policies and applicable State tariffs or State 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 take place. The Company sold petrochemicals to Sinopec Corp. and its associates, and Sinopec Corp. and its associates acted 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 leased part of the properties to Sinopec Corp. and its associates after taking into account of the solid financial background and reputation of Sinopec Corp. and its associates. The Company obtained construction and installation, project design, petrochemical industry insurance agency and financial services from Sinopec and its associates in order to secure steady and reliable services at reasonable prices.

The prices of the continuing connected transactions conducted by the Company with Sinopec, Sinopec Corp. and their associates were determined, upon negotiations between both parties, on the basis of (i) State tariffs; or (ii) State guidance prices; or (iii) market prices. Such connected transactions were entered into in line with the Company's production and operation needs. Accordingly, the aforesaid connected transactions did not have a significant adverse impact on the Company's independence.

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

Type of transactions	Related parties	Amount RMB'000	Percentage of the total amount of this type of transaction (%)
Income from sale of products and services	Sinopec Huadong Sales Company	24,682,129	40.98
	Other related parties	5,226,157	8.68
Purchases	Sinopec Transport and Storage Company	28,986,447	48.72
	Other related parties	14,356,008	24.13
Installation fees	Sinopec and its subsidiaries	114,878	76.73
Transportation costs	Sinopec Transport and Storage Company	300,948	72.57

This includes: an amount of RMB27,871,756,040 for the connected transactions in respect of the sale of products or the provision of labour services to the controlling shareholder and its subsidiaries by the listed company during the Reporting Period.

(2) Connected creditor's rights and liabilities

Connected party	Connected relationship	Funds provided to connected parties		Funds provided by connected parties to the company	
		Net transaction RMB'000	Balance RMB'000	Net transaction RMB'000	Balance RMB'000
Sinopec Corp.	Controlling shareholder	-	-	-	-
Sinopec and its other subsidiaries	Controlling company of the controlling shareholder and other subsidiaries	(33,007)	11,654	221	66,911
Total		(33,007)	11,654	221	66,911

During the reporting period, the funds the Company had provided to the controlling shareholder and its subsidiaries (RMB)	-
The balance of funds provided by the Company to the controlling shareholder and its subsidiaries (RMB)	-

* Reasons for the formation of connected creditor's rights and liabilities:
The balance of funds provided by the Group to the connected parties at the end of the Reporting Period mainly included: the balance of borrowings of RMB9.5 million provided to the Group's associates and the unsettled receivables arising from sales of products to the Group's associates.

(3) Independent Non-executive Directors of the Company have reviewed the Group's connected transactions and confirmed that:

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

6. Material contracts and the performing of obligations

(1) Trust, Sub-contract and Lease Arrangements

(a) Trust

The Company did not enter into any trust arrangements during 2008.

(b) Sub-contracting

The Company did not enter into any sub-contracting arrangements during 2008.

(c) Leasing

The Company did not enter into any leasing arrangements during 2008.

(2) Guarantees

The Group's External Guarantees (excluding guarantees to subsidiaries)

Guarantor	Relationship between the guarantor and the Company	Guaranteed entities	Guarantee amount RMB'000	Date (Agreement signing date)	Commencement date of guarantee	Maturity date of the guarantee	Type of guarantee	Guarantee expired	Whether the guarantee is overdue	Overdue amount of the guarantee	Whether counter-guarantee available	Guarantee for a connected party	Connected relationships
SPC	-	Shanghai Jinpu Plastics Packaging Material Company Limited	14,500	20 July 2008	20 July 2008	20 July 2009	Joint guarantee	No	No	-	No	Yes	Associate
Shanghai Petrochemical Enterprise Development Company Limited	Parent company and subsidiary	Shanghai Jinshan Hotel Co. Ltd.	8,250	24 March 2008	27 August 2008	27 August 2009	Joint guarantee	No	No	-	No	Yes	Joint venture
Shanghai Petrochemical Enterprise Development Company Limited	Parent company and subsidiary	Shanghai Chemical Industry Park Logistics Co., Ltd.	2,997	21 December 2004	21 December 2004	21 December 2009	Joint guarantee	No	No	-	No	Yes	Joint venture

	RMB'000
Amount of guarantees signed during the Reporting Period (excluding guarantees to subsidiaries)	(5,000)
Amount of guarantees at the end of the Reporting Period (excluding guarantees to subsidiaries)	25,747
Group's guarantees to subsidiaries	
Amount of guarantees to subsidiaries signed by the Company during the Reporting Period	(295,000)
Amount of guarantees to subsidiaries at the end of the Reporting Period	250,000
Total guarantee amount (including guarantees to subsidiaries)	
Total guarantee amount	275,747
Total guarantee amount as a percentage of net asset value of the Company (%)	1.99%
of which:	
Amount of guarantee provided for shareholders, the controlling company of the controlling shareholder or the other connected parties	-
Amount of debt guarantee provided for the companies with liabilities to assets ratio of over 70% directly or indirectly	258,250
Total amount of guarantee is over 50% of the net asset	-
Total guarantee amount of the above three items	258,250

(3) Trust financial management

The Company did not enter into any trust financial management during 2008.

(4) Other material contracts

There was no other material contract during 2008.

7. Performance of undertakings

There was no undertaking by the Company or its shareholders with shareholding of over 5% during 2008 and until the Reporting Period.

8. Appointment and dismissal of accounting firm

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

9. Disciplinary actions upon the Company and its Directors, Supervisors, Senior Management, shareholders and controlling company of the controlling shareholder

During the Reporting Period, the Company and its Directors, Supervisors, Senior Management, shareholders and controlling company of the controlling shareholder had not been investigated, administratively punished or publicly criticized by the China Securities Regulatory Commission or publicly reprimanded by the Stock Exchanges.

10. Tax rate

The charge for PRC income tax is currently calculated at the rate of 25% (2007:33%).

11. Deposits

The Company did not have any entrusted deposits during the Reporting Period. As at 31 December 2008, the Group did not have any time deposits which could not be collected upon maturity.

12. The Execution of the 2007 Profit Appropriation Plan

The profit appropriation plan for 2007 was approved at the Company's 2007 annual general meeting. A dividend of RMB0.90 (tax included) per 10 shares was distributed to shareholders, based on the total share capital of 7,200,000,000 shares as at the end of 2007. The relevant announcement was published on "China Securities Journal" and "Shanghai Securities News" on 13 June 2008. On 17 June 2008, the Company published the profit appropriation plan for A shares. In respect of the distribution of A-share dividend, the share right registration date was 20 June 2008 and the ex-dividend date was 23 June 2008. The dividend payment date for social public shares of A shares and H shares was 2 July 2008. Such profit appropriation plan was implemented as scheduled.

13. Reserve

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

14. Financial summary

A Summary of the results, total assets, liabilities and shareholders' equity of the Group as at 31 December 2008 are set out on page 4 of this annual report.

15. Bank loans and other borrowings

Details of bank loans and other borrowings of the Company and the Group as at 31 December 2008 are set out in note 33 to the financial statements prepared under IFRS.

16. Interest capitalized

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

17. Property, plant and equipment

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

18. Purchase, sale and redemption of shares

During the year, no share of the Company was purchased, sold or redeemed by the Company or its subsidiaries.

19. Pre-emptive rights

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

20. Controlling shareholder

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

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

21. Implementation of share option incentive scheme and the impact

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

22. Other important events

There was no other important event during the Reporting Period.

23. Disclosure of information

Item	Publication	Publishing Date	Websites and hyperlinks
First Notification Announcement on the Shareholders' Meeting of the Holders of A Shares Relating to the Share Reform	"Shanghai Securities News", "China Securities Journal"	2 January 2008	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 Hong Kong Stock Exchange (www.hkex.com.hk), the website of the Company (www.spc.com.cn) under the section headed "Investor Relations"
Announcement on the Approval by the State-owned Assets Supervision and Administration Commission of the State Council on the Share Reform Proposal; Second Notification Announcement on the Shareholders' Meeting of the Holders of A Shares Relating to the Share Reform	Same as above	10 January 2008	Same as above
Announcement on the Voting Results at the Shareholders' Meeting of the Holders of A Shares Relating to the Share Reform	Same as above	16 January 2008	Same as above
Risk Alert Announcement in respect of Abnormal Share Price Fluctuation of A Shares	Same as above	22 January 2008	Same as above
Announcement on Estimated Increase in Results for 2007	Same as above	31 January 2008	Same as above
Risk Notification Announcement in respect of the Company's Share Reform Progress	Same as above	18 February 2008 17 March 2008	Same as above

Item	Publication	Publishing Date	Websites and hyperlinks
Announcement in respect of Abnormal Share Price Fluctuation of A Shares; Announcement on Receipt of a One-off Compensation	Same as above	20 March 2008	Same as above
Risk Alert Announcement in respect of Abnormal Share Price Fluctuation of A Shares	Same as above	1 April 2008 7 April 2008	Same as above
Announcement on Resolutions Passed at the 27th Meeting of the Fifth Session of the Board of Directors; Announcement on Resolutions Passed at the 14th Meeting of the Fifth Session of the Supervisory Committee; Announcement on Expected Loss for the First Quarterly Results of 2008	Same as above	8 April 2008	Same as above
Risk Notification Announcement in respect of the Company's Share Reform Progress	Same as above	14 April 2008	Same as above
Risk Alert Announcement in respect of Abnormal Share Price Fluctuation of A Shares	Same as above	22 April 2008	Same as above
Announcement on Resolutions Passed at the 28th Meeting of the Fifth Session of the Board of Directors; Notice of 2007 Annual General Meeting	Same as above	28 April 2008	Same as above
Risk Notification Announcement in respect of the Company's Share Reform Progress	Same as above	12 May 2008 10 June 2008	Same as above
Announcement on Resolutions Passed at the 2007 Annual General Meeting; Announcement on Resolutions Passed at the First Meeting of the Sixth Session of the Board of Directors; Announcement on Resolutions Passed at the First Meeting of the Sixth Session of the Supervisory Committee	Same as above	13 June 2008	Same as above
Announcement on Distribution of Cash Dividend for A Shares for 2007	Same as above	17 June 2008	On the Shanghai Stock Exchange website, accessible by entering the Company's code (600688) in the section headed "Listed Companies Information Search"

Item	Publication	Publishing Date	Websites and hyperlinks
Risk Alert Announcement in respect of Abnormal Share Price Fluctuation of A Shares	Same as above	18 June 2008 2 July 2008	On the Shanghai Stock Exchange website, accessible by entering the Company's code (600688) in the section headed "Listed Companies Information Search", website of the Hong Kong Stock Exchange, the website of the Company under the section headed "Investor Relations"
Risk Notification Announcement in respect of the Company's Share Reform Progress	Same as above	8 July 2008	Same as above
Announcement on Resolutions Passed at the Second Meeting of the Sixth Session of the Board of Directors; Expected Loss for the Interim Results of 2008	Same as above	18July 2008	Same as above
Announcement on Resolutions Passed at the Third Meeting of the Sixth Session of the Board of Directors	Same as above	31 July 2008	Same as above
Risk Notification Announcement in respect of the Company's Share Reform Progress	Same as above	4 August 2008	Same as above
Risk Alert Announcement in respect of Abnormal Share Price Fluctuation of A Shares	Same as above	13 August 2008	Same as above
Announcement on Resolutions Passed at the Fourth Meeting of the Sixth Session of the Board of Directors	Same as above	28 August 2008	Same as above
Risk Notification Announcement in respect of the Company's Share Reform Progress	Same as above	1 September 2008 6 October 2008	Same as above
Expected Loss for the Annual Results of 2008 ;Risk Notification Announcement in respect of the Company's Share Reform Progress; Announcement on Resolutions Passed at the Fifth Meeting of the Sixth Session of the Board of Directors	Same as above	30 October 2008	Same as above
Risk Notification Announcement in respect of the Company's Share Reform Progress	Same as above	1 December 2008	Same as above
Announcement	Same as above	24 December 2008	Same as above
Risk Notification Announcement in respect of the Company's Share Reform Progress	Same as above	29 December 2008	Same as above

KPMG

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

We have audited the consolidated financial statements of Sinopec Shanghai Petrochemical Company Limited ("the Company") set out on pages 93 to 161, which comprise the consolidated and company balance sheets as at 31 December 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

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

Auditors' responsibility

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

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

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2008 and of the Group's loss and cash flows for the year then ended and have been properly prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance.

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

27 March 2009

Consolidated Income Statement

For the year ended 31 December 2008
(Prepared under International Financial Reporting Standards)
(Expressed in Renminbi)

	Note	2008 RMB'000	2007 RMB'000
Turnover		60,226,859	55,328,384
Sales taxes and surcharges		(897,088)	(1,073,695)
Net sales		59,329,771	54,254,689
Other income	3	2,312,227	93,900
Cost of sales		(68,556,447)	(52,646,516)
Gross (loss) / profit		(6,914,449)	1,702,073
Selling and administrative expenses		(467,987)	(504,712)
Other operating income	4	145,191	216,553
Other operating expenses			
Employee reduction expenses	6	(89,844)	(208,013)
Others		(490,175)	(313,245)
Total other operating expenses	5	(580,019)	(521,258)
(Loss) / profit from operations		(7,817,264)	892,656
Financial income		227,533	82,280
Financial expenses		(557,971)	(260,206)
Net financing costs	7	(330,438)	(177,926)
Investment income	8	131,772	770,725
Share of profits of associates and jointly controlled entities		1,492	665,897
(Loss) / profit before taxation	9	(8,014,438)	2,151,352
Taxation	11(a)	1,812,711	(468,216)
(Loss) / profit after taxation		(6,201,727)	1,683,136
Attributable to:			
Equity shareholders of the Company		(6,238,444)	1,634,080
Minority interests		36,717	49,056
(Loss) / profit after taxation		(6,201,727)	1,683,136
Basic (loss) / earnings per share	12	(RMB 0.87)	RMB 0.23
Dividends attributable to the year	13	-	648,000

The notes on pages 102 to 161 form part of these financial statements.

Consolidated Balance Sheet

As at 31 December 2008
(Prepared under International Financial Reporting Standards)
(Expressed in Renminbi)

	Note	2008 RMB'000	2007 RMB'000
Non-current assets			
Property, plant and equipment	14(a)	13,272,899	14,977,237
Investment property	15	492,690	512,793
Construction in progress	16	1,854,154	962,313
Interest in associates and jointly controlled entities	18	2,545,978	3,068,135
Other investments	19	289,657	714,427
Lease prepayments and other assets		604,163	649,337
Goodwill	20	-	22,415
Deferred tax assets	11(b)	1,962,135	9,629
Total non-current assets		21,021,676	20,916,286
Current assets			
Inventories	21	4,492,215	5,197,849
Trade debtors	22	89,086	212,257
Bills receivable	22	532,580	1,757,131
Deposits, other debtors and prepayments	22	484,475	262,918
Amounts due from related parties	22,26	277,777	515,222
Income tax recoverable		7,533	98,222
Cash and cash equivalents	23	627,685	893,165
Total current assets		6,511,351	8,936,764
Current liabilities			
Loans and borrowings	24	9,372,725	4,091,969
Trade creditors	25	1,272,811	1,504,454
Bills payable	25	263,443	300,575
Other creditors		679,415	1,442,284
Amounts due to related parties	25,26	1,752,647	904,870
Income tax payable		1,679	17,580
Total current liabilities		13,342,720	8,261,732
Net current (liabilities) / assets		(6,831,369)	675,032
Total assets less current liabilities carried forward		14,190,307	21,591,318

The notes on pages 102 to 161 form part of these financial statements.

As at 31 December 2008
(Prepared under International Financial Reporting Standards)
(Expressed in Renminbi)

	Note	2008 RMB'000	2007 RMB'000
Total assets less current liabilities brought forward		**14,190,307**	21,591,318
Non-current liabilities			
Loans and borrowings	24	**429,021**	639,289
Total non-current liabilities		**429,021**	639,289
Net assets		**13,761,286**	20,952,029
Shareholders' equity			
Share capital	27	**7,200,000**	7,200,000
Reserves	28	**6,296,933**	13,448,038
Total equity attributable to equity shareholders of the Company		**13,496,933**	20,648,038
Minority interests		**264,353**	303,991
Total equity		**13,761,286**	20,952,029

Approved and authorised for issue by the board of directors on 27 March 2009.

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

The notes on pages 102 to 161 form part of these financial statements.

Balance Sheet

As at 31 December 2008
(Prepared under International Financial Reporting Standards)
(Expressed in Renminbi)

	Note	2008 RMB'000	2007 RMB'000
Non-current assets			
Property, plant and equipment	14(b)	12,438,510	13,516,420
Investment property	15	554,405	569,326
Construction in progress	16	1,815,344	937,341
Investments in subsidiaries	17	1,698,100	1,921,103
Interest in associates and jointly controlled entities	18	2,274,480	2,274,480
Other investments	19	111,327	434,554
Lease prepayments and other assets		481,643	505,853
Goodwill	20	-	22,415
Deferred tax assets	11(b)	1,954,622	8,103
Total non-current assets		21,328,431	20,189,595
Current assets			
Inventories	21	4,249,254	4,780,473
Trade debtors	22	43,866	62,710
Bills receivable	22	406,286	1,616,858
Deposits, other debtors and prepayments	22	398,107	138,719
Amounts due from related parties	22,26	280,434	457,604
Income tax recoverable		-	98,222
Cash and cash equivalents	23	294,786	634,533
Total current assets		5,672,733	7,789,119
Current liabilities			
Loans and borrowings	24	9,133,204	3,548,739
Trade creditors	25	953,260	1,174,332
Bills payable	25	263,364	285,594
Other creditors		600,696	1,348,442
Amounts due to related parties	25,26	2,216,317	1,367,447
Total current liabilities		13,166,841	7,724,554
Net current (liabilities) / assets		(7,494,108)	64,565
Total assets less current liabilities carried forward		13,834,323	20,254,160

The notes on pages 102 to 161 form part of these financial statements.

Balance Sheet (continued)

As at 31 December 2008
(Prepared under International Financial Reporting Standards)
(Expressed in Renminbi)

	Note	2008 RMB'000	2007 RMB'000
Total assets less current liabilities brought forward		13,834,323	20,254,160
Non-current liabilities			
Loans and borrowings	24	300,000	450,000
Total non-current liabilities		300,000	450,000
Net assets		13,534,323	19,804,160
Shareholders' equity			
Share capital	27	7,200,000	7,200,000
Reserves	28	6,334,323	12,604,160
Total equity		13,534,323	19,804,160

Approved and authorised for issue by the board of directors on 27 March 2009.

Rong Guangdao
Chairman and President

Du Chongjun
Vice Chairman and Vice President

Han Zhihao
Director and Chief Financial Officer

The notes on pages 102 to 161 form part of these financial statements.

Consolidated Statement of Changes in Shareholders' Equity

For the year ended 31 December 2008
(Prepared under International Financial Reporting Standards)
(Expressed in Renminbi)

	Note	Share capital	Share premium	Reserves	Retained earnings	Total equity attributable to equity shareholders of the Company	Minority Interests	Total
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2007		7,200,000	2,420,841	4,488,232	4,867,270	18,976,343	336,013	19,312,356
Net income recognised directly in equity:								
Unrealised gain for changes in fair value of available-for-sale securities, net of deferred tax		-	-	842,002	-	842,002	-	842,002
Net income for the year recognised directly in equity		-	-	842,002	-	842,002	-	842,002
Transfers from equity:								
Transfer to profit or loss on disposal of available-for-sale securities, net of deferred tax		-	-	(516,387)	-	(516,387)	-	(516,387)
		-	-	*(516,387)*	-	*(516,387)*	-	*(516,387)*
Profit attributable to shareholders		-	-	-	*1,634,080*	*1,634,080*	*49,056*	*1,683,136*
Total recognised income and expense		-	-	325,615	1,634,080	1,959,695	49,056	2,008,751
Adjustment to statutory surplus reserve	28	-	-	(36,733)	36,733	-	-	-
Appropriation	28	-	-	192,434	(192,434)	-	-	-
Dividends approved in respect of previous year	13(b)	-	-	-	(288,000)	(288,000)	-	(288,000)
Dividends paid to minority shareholders		-	-	-	-	-	(81,078)	(81,078)
At 31 December 2007		7,200,000	2,420,841	4,969,548	6,057,649	20,648,038	303,991	20,952,029

The notes on pages 102 to 161 form part of these financial statements.

For the year ended 31 December 2008
(Prepared under International Financial Reporting Standards)
(Expressed in Renminbi)

	Note	Share capital RMB'000	Share premium RMB'000	Reserves RMB'000	Retained earnings RMB'000	Total equity attributable to equity shareholders of the Company RMB'000	Minority Interests RMB'000	Total RMB'000
At 1 January 2008		7,200,000	2,420,841	4,969,548	6,057,649	20,648,038	303,991	20,952,029
Net expense recognised directly in equity:								
Unrealised loss for changes in fair value of available-for-sale securities, net of deferred tax		-	-	(165,832)	-	(165,832)	-	(165,832)
Net expense for the year recognised directly in equity		-	-	*(165,832)*	-	*(165,832)*	-	*(165,832)*
Transfers from equity:								
Transfer to profit or loss on disposal of available-for-sale securities, net of deferred tax		-	-	(98,829)	-	(98,829)	-	(98,829)
		-	-	*(98,829)*	-	*(98,829)*	-	*(98,829)*
(Loss) / profit attributable to shareholders		-	-	-	*(6,238,444)*	*(6,238,444)*	*36,717*	*(6,201,727)*
Total recognised income and expense		-	-	(264,661)	(6,238,444)	(6,503,105)	36,717	(6,466,388)
Appropriation	28	-	-	-	-	-	-	-
Dividends approved in respect of previous year	13(b)	-	-	-	(648,000)	(648,000)	-	(648,000)
Dividends paid to minority shareholders		-	-	-	-	-	(76,355)	(76,355)
At 31 December 2008		7,200,000	2,420,841	4,704,887	(828,795)	13,496,933	264,353	13,761,286

The notes on pages 102 to 161 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2008
(Prepared under International Financial Reporting Standards)
(Expressed in Renminbi)

	Note	2008 RMB'000	2007 RMB'000
Cash (use in) / generated from operations	(a)	(3,431,103)	2,459,119
Interest paid		(578,605)	(342,574)
Income tax paid		(60,699)	(674,547)
Income tax refunded		83,917	-
Net cash (used in) / generated from operating activities		(3,986,490)	1,441,998
Investing activities			
Interest income received		59,472	46,421
Investment income received		546,333	393,062
Proceeds from disposal of property, plant and equipment		51,829	68,708
Proceeds from disposal of investments		153,997	1,114,701
Capital expenditure		(1,511,072)	(2,134,123)
Purchase of investments and addition of interests in associates		(8,039)	-
Net cash used in investing activities		(707,480)	(511,231)
Financing activities			
Proceeds from loans		32,528,758	17,605,887
Repayment of loans		(27,377,610)	(16,166,938)
Redemption of corporate bonds		-	(2,000,000)
Dividends paid to equity shareholders of the Company		(645,551)	(288,000)
Dividends paid to minority shareholders		(76,355)	(81,078)
Net cash generated from / (used in) financing activities		4,429,242	(930,129)
(Decrease) / increase in cash and cash equivalents		(264,728)	638
Cash and cash equivalents at 1 January		893,165	894,650
Effect of exchange rate fluctuations on cash held		(752)	(2,123)
Cash and cash equivalents at 31 December		627,685	893,165

The notes on pages 102 to 161 form part of these financial statements.

For the year ended 31 December 2008
(Prepared under International Financial Reporting Standards)
(Expressed in Renminbi)

(a) Reconciliation of (loss) / profit before taxation to cash (used in) / generated from operations:

	2008 **RMB'000**	2007 RMB'000
(Loss) / profit before taxation	**(8,014,438)**	2,151,352
Interest income	**(59,472)**	(46,421)
Income from unlisted investment	**(9,721)**	(122,709)
Share of profits of associates and jointly controlled entities	**(1,492)**	(665,897)
Transfer from equity on disposal of available-for-sale securities	**(131,772)**	(770,725)
Interest expense	**557,971**	260,206
Depreciation for property, plant and equipment	**1,618,478**	1,687,435
Depreciation for investment property	**13,440**	14,879
Impairment losses on property, plant and equipment	**440,946**	200,295
Amortisation of lease prepayments	**16,759**	16,972
Impairment loss of goodwill	**22,415**	-
Unrealised exchange gain	**(70,993)**	(16,535)
(Gain) / loss on disposal of property, plant and equipment	**(13,166)**	44,045
Decrease / (increase) in inventories	**705,634**	(1,034,593)
Decrease / (increase) in debtors, bills receivable and deposits	**1,122,004**	(387,688)
(Decrease) / increase in trade creditors, other creditors and bills payable	**(786,918)**	643,342
Increase in balances with related parties	**1,159,222**	485,161
Cash (used in) / generated from operations	**(3,431,103)**	2,459,119

The notes on pages 102 to 161 form part of these financial statements.

1. Significant accounting policies

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

(a) Statement of compliance

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

(b) Basis of preparation of the financial statements

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

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

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

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

1. Significant accounting policies *(continued)*

(c) Basis of consolidation

(i) Subsidiaries and minority interests

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

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

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

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

(ii) Associates and jointly controlled entities

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

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

1. Significant accounting policies *(continued)*

(c) Basis of consolidation *(continued)*

(ii) Associates and jointly controlled entities (continued)

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

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

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

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

(d) Goodwill

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

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

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

1. Significant accounting policies *(continued)*

(e) Other investments in equity securities

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

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

(f) Property, plant and equipment

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

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

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

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

Building	15 to 40 years
Plant and machinery	10 to 20 years
Vehicles and other equipment	5 to 26 years

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

1. Significant accounting policies *(continued)*

(g) Investment property

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

Investment properties are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see note 1(w)). Depreciation is provided over their estimated useful lives on a straight-line basis, after taking into account their estimated residual values. Estimated useful life of the investment property is 40 years.

(h) Lease prepayments and other assets

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

(i) Construction in progress

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

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

No depreciation is provided in respect of construction in progress.

(j) Inventories

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

1. Significant accounting policies *(continued)*

(j) Inventories *(continued)*

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

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

(k) Trade receivables, bills and other receivables

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

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

(l) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At each balance sheet date the fair value is remeasured. The gain or loss on remeasurement of derivative financial instruments to fair value, except where the derivatives qualify for cash flow hedge accounting or hedge the net investment in a foreign operation, is recognised in profit or loss.

1. Significant accounting policies *(continued)*

(m) Interest-bearing borrowings

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

(n) Trade and other payables

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

(o) Cash and cash equivalents

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

(p) Translation of foreign currencies

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

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

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

1. Significant accounting policies *(continued)*

(q) Revenue recognition

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

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

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

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

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

(r) Government grants

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

(s) Net financing costs

Net financing costs comprise interest payable on borrowings calculated using the effective interest rate method, interest income on bank deposits, gains and losses in fair value change of derivative financial instruments, foreign exchange gains and losses and bank charges.

1. Significant accounting policies *(continued)*

(s) Net financing costs *(continued)*

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

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

(t) Repairs and maintenance expenses

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

(u) Research and development costs

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

(v) Employee benefits

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

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

1. Significant accounting policies *(continued)*

(w) Impairment loss

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

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

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

The carrying amounts of other long-lived assets, including property, plant and equipment, construction in progress, lease prepayment, other assets and investments in subsidiaries, associates and jointly controlled entities, are reviewed at each balance sheet date to identify indications that the asset may be impaired. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to the recoverable amount. For goodwill, the recoverable amount is estimated at each balance sheet date.

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

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

1. Significant accounting policies *(continued)*

(w) Impairment loss *(continued)*

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

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

(x) Dividends payable

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

(y) Income tax

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

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

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

1. Significant accounting policies *(continued)*

(y) Income tax *(continued)*

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

(z) Provisions and contingent liabilities

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

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

(aa) Related parties

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

1. Significant accounting policies *(continued)*

(ab) Segment reporting

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

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

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

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

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

2. Changes in accounting policies

The IASB has issued a number of new Interpretations and an amendment to IFRS that are first effective for the current accounting period of the Group and the Company. However, none of these developments are relevant to the Group's or the Company's operations.

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

3. Other income

During the year ended 31 December 2008, the Group recognised grant income of RMB 2,312,227,000 (2007: RMB 93,900,000). These grants were mainly for compensation of losses incurred due to the distortion of the correlation of domestic refined petroleum product prices and the crude oil prices, and the measures taken by the Group to stabilise the supply in the PRC refined petroleum product market during the respective year. There are no unfilled conditions and other contingencies attached to the receipts of these grants. There is no assurance that the Group will continue to receive such grants in the future.

4. Other operating income

	2008 RMB'000	2007 RMB'000
Income from rendering of services	34,842	36,282
Gain on disposal of property, plant and equipment	17,618	7,745
Rental income from investment property	48,869	40,021
Income from unlisted investments	9,721	122,709
Others	34,141	9,796
	145,191	216,553

5. Other operating expenses

	2008 RMB'000	2007 RMB'000
Employee reduction expenses (Note 6)	89,844	208,013
Loss on disposal of property, plant and equipment	4,452	51,790
Impairment loss on property, plant and equipment (i)	440,946	200,295
Impairment loss on goodwill	22,415	-
Donations	2,000	14,250
Others	20,362	46,910
	580,019	521,258

(i) Impairment loss recognised on property, plant and equipment, primarily relating to certain assets of synthetic fibres segment, was RMB 417,936,000 for the year ended 31 December 2008 (2007: RMB 181,681,000). The impairment loss relates to certain synthetic fibres facilities. The carrying values of these facilities were written down to their recoverable amounts that were primarily determined based on the asset held for use model using the present value of estimated future cash flows of the production facilities. The primary factor resulting in the impairment losses on property, plant and equipment was due to the expected reduction in production volume caused by the adverse changes in the business environment.

6. Employee reduction expenses

In accordance with the Group's voluntary employee reduction plan, the Group recognised employee reduction expenses of RMB 89,844,000 during the year ended 31 December 2008 (2007: RMB 208,013,000) payable in cash in respect of the voluntary resignation of approximately 947 employees (2,622 employees in 2007).

7. Net financing costs

	2008 RMB'000	2007 RMB'000
Interest income	(59,472)	(46,421)
Net foreign exchange gain	(70,417)	(35,859)
Net gain in fair value change of derivative financial instruments	(97,644)	-
Financial income	(227,533)	(82,280)
Interest on loans and borrowings	585,142	329,643
Less: borrowing costs capitalised as construction in progress*	(27,171)	(69,437)
Financial expenses	557,971	260,206
Net financing costs	330,438	177,926

* The borrowing costs during 2008 have been capitalised at a rate of 5.10%-7.47% per annum (2007: 5.27%-7.47%) for construction in progress.

8. Investment income

Investment income represents the gain on disposal of available-for-sale securities transferred from equity of RMB 131,772,000 during the year ended 31 December 2008 (2007: RMB 770,725,000).

9. (Loss) / profit before taxation

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

	2008 RMB'000	2007 RMB'000
Cost of inventories sold#	68,556,447	52,646,516
Depreciation for property, plant and equipment#	1,618,478	1,687,435
Depreciation for investment property#	13,440	14,879
Amortisation of lease prepayments#	16,759	16,972
Repairs and maintenance expenses#	988,393	1,023,794
Research and development costs#	47,303	53,548
Employee's pension costs#		
- Municipal retirement scheme costs	199,135	197,191
- Supplementary retirement scheme costs	54,862	55,048
Staff costs#	1,160,658	1,209,035
Rental income from investment property	(48,869)	(40,021)
Write down of inventories	744,578	32,437
Impairment losses		
- Trade and other receivables	(5,327)	3,901
- Property, plant and equipment	440,946	200,295
- Goodwill	22,415	-
Net gains in fair value change of derivative financial instruments	(97,644)	-
Net profit on sale of available-for-sale securities	(131,772)	(770,725)
Share of losses / (profits) of associates	30,232	(645,178)
Share of profits of jointly controlled entities	(31,724)	(20,719)
Auditors' remuneration - audit services	8,310	8,727

Cost of inventories sold includes RMB 4,088,422,000 (2007: RMB 4,246,822,000) relating to staff costs, depreciation and amortisation, repairs and maintenance expenses, research and development costs and pension costs, which amount is also included in the respective total amounts disclosed separately above for each of these types of expenses.

The consolidated loss attributable to equity shareholders of the Company includes a loss of RMB 5,588,868,000 (2007: a profit of RMB 848,356,000) which has been dealt with in the financial statements of the Company.

10. Directors' and supervisors' emoluments

(i) Directors' and supervisors' emoluments:

	2008			
	Salaries and other benefits RMB'000	Retirement scheme contributions RMB'000	Discretionary bonus RMB'000	Total RMB'000
Rong Guangdao	163	8	310	481
Du Chongjun	163	8	310	481
Han Zhihao	138	8	262	408
Li Honggen	138	8	262	408
Gao Jinping	139	6	262	407
Shi Wei	139	7	266	412
Dai Jinbao	87	7	121	215
Zhang Chenghua	97	7	129	233
Wang Yanjun	84	7	129	220
Chen Xinyuan	115	-	-	115
Sun Chiping	115	-	-	115
Jiang Zhiquan	115	-	-	115
Zhou Yunnong	115	-	-	115
	1,608	66	2,051	3,725

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

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

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

For the years ended 31 December 2008 and 2007, no emolument was paid to the directors or supervisors as an inducement to join or upon joining the Company or as compensation for loss of office.

(ii) Individuals with highest emoluments

Of the five individuals with the highest emoluments, five (2007: four) are directors and supervisors whose emoluments are disclosed in note 10 (i). The emolument in respect of the other one individual in 2007 is as follows:

	2008 RMB'000	2007 RMB'000
Salaries and other benefits	-	138
Retirement scheme contributions	-	6
Discretionary bonus	-	321
	-	465

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

RMB	**2008 Number of individuals**	2007 Number of individuals
400,000 - 500,000	-	1

11. Taxation

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

	2008 RMB'000	2007 RMB'000
Current tax		
-Provision for income tax for the year	34,919	557,078
-Under-provision in respect of prior years	16,655	2,439
Deferred taxation	(1,864,285)	(91,301)
Total income tax (benefit) / expense	(1,812,711)	468,216

A reconciliation of expected income tax (benefit) / expense calculated at the applicable tax rate with the actual income tax (benefit) / expense is as follows:

	2008 RMB'000	2007 RMB'000
(Loss) / profit from ordinary activities before taxation	(8,014,438)	2,151,352
Expected PRC income tax (benefit) / expense at a statutory tax rate of 25% (2007: 33%)	(2,003,610)	709,946
Tax effect of non-deductible expenses	29,348	47,056
Tax effect of non-taxable income	(1,276)	(32,201)
Under-provision in prior years	16,655	2,439
Effect of change in tax rate on deferred tax assets and liabilities	-	(23,083)
Tax effect of share of profits recognised under the equity method	(373)	(219,746)
Tax effect of unused tax losses not recognised	49,488	22,621
Tax effect of unrecognised deferred tax assets	97,057	-
Tax effect of differential tax rate on subsidiaries' income	-	(38,816)
Actual tax (benefit) / expense	(1,812,711)	468,216

The charge for PRC income tax is calculated at the standard rate of 25% (2007:33%) on the estimated assessable income of the year determined in accordance with relevant income tax rules and regulations. The Group did not carry out business overseas and therefore does not incur overseas income taxes.

11. Taxation *(continued)*

(b) Deferred taxation:

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

The Group

	Assets		Liabilities		Net balance	
	2008	2007	**2008**	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Current						
Provisions	**203,974**	40,075	**-**	-	**203,974**	40,075
Forward exchange contracts	**-**	-	**(24,411)**	-	**(24,411)**	-
Non-current						
Provision for impairment losses	**98,156**	77,310	**-**	-	**98,156**	77,310
Land use rights	**29,717**	30,592	**-**	-	**29,717**	30,592
Capitalisation of borrowing costs	**-**	-	**(29,196)**	(32,070)	**(29,196)**	(32,070)
Fair value of available-for-sale securities	**-**	-	**(27,634)**	(115,855)	**(27,634)**	(115,855)
Tax losses carry forward	**1,701,453**	-	**-**	-	**1,701,453**	-
Others	**10,946**	11,822	**(870)**	(2,245)	**10,076**	9,577
Deferred tax assets / (liabilities)	**2,044,246**	159,799	**(82,111)**	(150,170)	**1,962,135**	9,629

The Company

	Assets		Liabilities		Net balance	
	2008	2007	**2008**	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Current						
Provisions	**203,615**	37,387	**-**	-	**203,615**	37,387
Forward exchange contracts	**-**	-	**(24,411)**	-	**(24,411)**	-
Non-current						
Provision for impairment losses	**98,156**	77,310	**-**	-	**98,156**	77,310
Land use rights	**29,717**	30,592	**-**	-	**29,717**	30,592
Capitalisation of borrowing costs	**-**	-	**(29,196)**	(32,070)	**(29,196)**	(32,070)
Fair value of available-for-sale securities	**-**	-	**(24,712)**	(105,116)	**(24,712)**	(105,116)
Tax losses carry forward	**1,701,453**	-	**-**	-	**1,701,453**	-
Deferred tax assets / (liabilities)	**2,032,941**	145,289	**(78,319)**	(137,186)	**1,954,622**	8,103

11. Taxation *(continued)*

(b) Deferred taxation: *(continued)*

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

As at 31 December 2008, a subsidiary of the Company did not recognise the tax value of losses carried forward for PRC income tax purpose, because it was not probable that the related tax benefit will be realised. The total deductible losses available to offset its future PRC taxation income are RMB310,396,000 if any. The deductible losses carried forward of RMB14,539,000, RMB29,357,000, RMB68,548,000 and RMB197,952,000 expire in 2010, 2011, 2012 and 2013 respectively.

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

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

11. Taxation *(continued)*

(b) Deferred taxation: *(continued)*

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

	The Group			
	Balance at 1 January 2008 RMB'000	Recognised in income statement RMB'000	Recognised in reserve RMB'000	Balance at 31 December 2008 RMB'000
Current				
Provisions	40,075	163,899	-	203,974
Forward exchange contracts	-	(24,411)	-	(24,411)
Non-current				
Provision for impairment losses	77,310	20,846	-	98,156
Land use rights	30,592	(875)	-	29,717
Capitalisation of borrowing costs	(32,070)	2,874	-	(29,196)
Fair value of available-for-sale securities	(115,855)	-	88,221	(27,634)
Tax losses carry forward	-	1,701,453	-	1,701,453
Others	9,577	499	-	10,076
Net deferred tax assets	9,629	1,864,285	88,221	1,962,135

11. Taxation *(continued)*

(b) Deferred taxation: *(continued)*

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

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

	The Company			
	Balance at 1 January 2008 RMB'000	Recognised in income statement RMB'000	Recognised in reserve RMB'000	Balance at 31 December 2008 RMB'000
Current				
Provisions	37,387	166,228	–	203,615
Forward exchange contracts	–	(24,411)	–	(24,411)
Non-current				
Provision for impairment losses	77,310	20,846	–	98,156
Land use rights	30,592	(875)	–	29,717
Capitalisation of borrowing costs	(32,070)	2,874	–	(29,196)
Fair value of available-for-sale securities	(105,116)	–	80,404	(24,712)
Tax losses carry forward	–	1,701,453	–	1,701,453
Net deferred tax assets	8,103	1,866,115	80,404	1,954,622

12. Basic (loss) / earnings per share

The calculation of basic (loss) / earnings per share is based on the loss attributable to equity shareholders of the Company of RMB 6,238,444,000 (2007: profit of RMB1,634,080,000) and 7,200,000,000 (2007: 7,200,000,000) shares in outstanding during the year.

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

13. Dividends

(a) Dividends attributable to the year

	The Group and the Company	
	2008	2007
	RMB'000	RMB'000
Final dividend proposed after the balance sheet date of RMB nil (2007: RMB 0.09 per share)	-	648,000

Pursuant to a resolution passed at the directors' meeting on 7 April 2008, a final dividend of RMB 0.09 per share totalling RMB 648,000,000 was approved by shareholders at the Annual General Meeting. No final dividend was proposed after the balance sheet date in respect of the year ended 31 December 2008.

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

	The Group and the Company	
	2008	2007
	RMB'000	RMB'000
Final dividend in respect of the previous financial year, approved and paid during the year, of RMB 0.09 per share (2007: RMB 0.04 per share)	648,000	288,000

14. Property, plant and equipment

(a) The Group

	Buildings	Plant and Machinery	Vehicles and other equipment	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Cost or valuation:				
At 1 January 2007	5,623,540	20,126,275	6,413,715	32,163,530
Additions	27,041	113,096	32,641	172,778
Transferred from construction in progress (Note 16)	113,445	3,067,434	352,398	3,533,277
Disposals	(97,443)	(361,942)	(175,575)	(634,960)
At 31 December 2007	5,666,583	22,944,863	6,623,179	35,234,625
At 1 January 2008	5,666,583	22,944,863	6,623,179	35,234,625
Additions	7,414	66,961	30,150	104,525
Transferred from construction in progress (Note 16)	11,084	180,739	97,241	289,064
Disposals	(19,324)	(67,545)	(42,406)	(129,275)
At 31 December 2008	5,665,757	23,125,018	6,708,164	35,498,939
Accumulated depreciation and impairment losses:				
At 1 January 2007	3,081,867	11,811,818	3,909,983	18,803,668
Charge for the year	184,765	1,144,257	358,413	1,687,435
Impairment loss	48,335	151,838	122	200,295
Written back on disposals	(33,524)	(288,053)	(112,433)	(434,010)
At 31 December 2007	3,281,443	12,819,860	4,156,085	20,257,388
At 1 January 2008	3,281,443	12,819,860	4,156,085	20,257,388
Charge for the year	161,275	1,141,925	315,278	1,618,478
Impairment loss	3,281	403,748	33,917	440,946
Written back on disposals	(6,181)	(47,868)	(36,723)	(90,772)
At 31 December 2008	3,439,818	14,317,665	4,468,557	22,226,040
Net book value:				
At 31 December 2008	2,225,939	8,807,353	2,239,607	13,272,899
At 31 December 2007	2,385,140	10,125,003	2,467,094	14,977,237

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

(b) The Company

	Buildings RMB'000	Plant and Machinery RMB'000	Vehicles and other equipment RMB'000	Total RMB'000
Cost or valuation:				
At 1 January 2007	4,461,929	17,826,710	6,027,860	28,316,499
Additions	65,822	59,066	7,060	131,948
Transferred from construction in progress (Note 16)	113,237	3,055,673	349,321	3,518,231
Disposals	(16,307)	(162,574)	(45,186)	(224,067)
At 31 December 2007	4,624,681	20,778,875	6,339,055	31,742,611
At 1 January 2008	4,624,681	20,778,875	6,339,055	31,742,611
Additions	28,433	145,920	26,216	200,569
Transferred from construction in progress (Note 16)	10,913	177,415	96,824	285,152
Disposals	(13,865)	(40,032)	(28,993)	(82,890)
At 31 December 2008	4,650,162	21,062,178	6,433,102	32,145,442
Accumulated depreciation and impairment losses:				
At 1 January 2007	2,664,104	10,292,365	3,781,433	16,737,902
Charge for the year	157,411	1,060,380	226,101	1,443,892
Impairment loss	48,335	151,838	122	200,295
Written back on disposals	(7,746)	(106,074)	(42,078)	(155,898)
At 31 December 2007	2,862,104	11,398,509	3,965,578	18,226,191
At 1 January 2008	2,862,104	11,398,509	3,965,578	18,226,191
Charge for the year	132,041	1,040,223	289,953	1,462,217
Impairment loss	3,281	72,231	7,874	83,386
Written back on disposals	(3,678)	(34,550)	(26,634)	(64,862)
At 31 December 2008	2,993,748	12,476,413	4,236,771	19,706,932
Net book value:				
At 31 December 2008	1,656,414	8,585,765	2,196,331	12,438,510
At 31 December 2007	1,762,577	9,380,366	2,373,477	13,516,420

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

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

Buildings in Hong Kong with a net book value of RMB 31,759,000 (2007: RMB 32,944,000) were held under medium-term leases.

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

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

15. Investment property

	The Group RMB'000	The Company RMB'000
Cost:		
At 1 January 2007	528,465	615,334
Additions	25,768	-
At 31 December 2007	554,233	615,334
At 1 January 2008	554,233	615,334
Disposals	(7,395)	-
At 31 December 2008	546,838	615,334

15. Investment property *(continued)*

	The Group RMB'000	The Company RMB'000
Accumulated depreciation:		
At 1 January 2007	26,561	31,087
Charge for the year	14,879	14,921
At 31December 2007	41,440	46,008
At 1 January 2008	41,440	46,008
Charge for the year	13,440	14,921
Written back on disposals	(732)	-
At 31December 2008	54,148	60,929
Net book value:		
At 31 December 2008	492,690	554,405
At 31 December 2007	512,793	569,326

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

The fair value of the investment property of the Group and the Company as at 31 December 2008 were estimated by the directors to be approximately RMB 729,739,000 and RMB 822,993,000, respectively, by reference to market values of like properties in the relevant regions (2007: the Group and the Company: RMB 715,779,000 and RMB 796,208,000 respectively). The investment property has not been valued by an external independent valuer.

Rental income of RMB 48,869,000 was received by the Group during the year ended 31 December 2008 (2007: RMB 40,021,000).

16. Construction in progress

	The Group		The Company	
	2008 RMB'000	2007 RMB'000	**2008 RMB'000**	2007 RMB'000
At 1 January	**962,313**	2,008,447	**937,341**	2,004,706
Additions	**1,180,905**	2,487,143	**1,163,155**	2,450,866
Transferred to property, plant and equipment (Note 14)	**(289,064)**	(3,533,277)	**(285,152)**	(3,518,231)
At 31 December	**1,854,154**	962,313	**1,815,344**	937,341

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

17. Investments in subsidiaries (The Company)

	2008 RMB'000	2007 RMB'000
Unlisted shares, at cost	**1,925,600**	2,038,306
Less: impairment losses	**(227,500)**	(117,203)
	1,698,100	1,921,103

These amounts represent the investments by the Company in its consolidated subsidiaries. At 31 December 2008, the following list contains the particulars of subsidiaries, all of which are limited companies established and operated in the PRC, which principally affected the results and assets of the Group.

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

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

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

None of the subsidiaries have issued any debt securities.

18. Interest in associates and jointly controlled entities

	The Group		The Company	
	2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000
Interest in associates				
-Unlisted shares, at cost	-	-	2,146,488	2,146,488
-Share of net assets	2,431,973	2,967,944	-	-
Interest in jointly controlled entities				
-Unlisted shares, at cost	-	-	127,992	127,992
-Share of net assets	114,005	100,191	-	-
	2,545,978	3,068,135	2,274,480	2,274,480

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

The particulars of the significant associates and jointly controlled entities, which are limited companies established and operating in the PRC, which principally affected the results or assets of the Group at 31 December 2008 are as follows:

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

Summary financial information on associates:

	Assets RMB'000	Liabilities RMB'000	Equity RMB'000	Revenues RMB'000	(Loss) / Profit RMB'000
2008					
100 per cent	25,240,902	(14,233,529)	11,007,373	25,015,211	(324,948)
Group's effective interest	6,090,701	(3,658,728)	2,431,973	5,406,041	(30,232)
2007					
100 per cent	28,956,271	(15,016,047)	13,940,224	24,972,018	3,044,526
Group's effective interest	6,752,902	(3,784,958)	2,967,944	5,183,450	645,178

19. Other Investments

	The Group		The Company	
	2008	2007	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Available-for-sale equity securities	123,918	478,793	111,327	434,554
Other unlisted investments	202,939	272,834	-	-
	326,857	751,627	111,327	434,554
Less: Provision for impairment losses	(37,200)	(37,200)	-	-
	289,657	714,427	111,327	434,554

20. Goodwill

	The Group and the Company
	RMB'000
Cost:	
At 31 December 2007 and 2008	22,415
Accumulated impairment losses:	
At 1 January 2007	-
Impairment loss	-
At 31 December 2007	-
At 1 January 2008	-
Impairment loss	(22,415)
At 31 December 2008	(22,415)
Carrying amount:	
At 31 December 2008	-
At 31 December 2007	22,415

The goodwill pertained to the Company's purchase of the entire equity in Shanghai Jinyang Acrylic Fibre Plant in 1996. The recoverable amount of the Jinyang facility is determined based on value in use calculation.

During the year ended 31 December 2008, the carrying amount of the cash-generating unit, Jinyang facility, was determined to be higher than its recoverable amount. The reduction in recoverable amount was a result of the expected reduction in production volume caused by the adverse changes in the business environment. The impairment loss recognised on the goodwill was RMB 22,415,000 for the year ended 31 December 2008.

21. Inventories

(a) Inventories in the balance sheet comprise:

	The Group		The Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Raw materials	**2,018,250**	1,669,945	**1,921,427**	1,489,544
Work in progress	**1,158,924**	1,871,324	**1,153,240**	1,849,203
Finished goods	**590,640**	986,782	**489,902**	849,914
Spare parts and consumables	**724,401**	669,798	**684,685**	591,812
	4,492,215	5,197,849	**4,249,254**	4,780,473

At 31 December 2008, the Group and the Company had inventories carried at net realisable value with carrying amount of RMB 3,728,692,000 and RMB 3,669,104,000, respectively (2007: RMB 626,212,000 and RMB 623,006,000, respectively).

22. Trade and other receivable

	The Group		The Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade debtors	**107,697**	236,848	**57,558**	81,877
Less: Impairment losses for bad and doubtful debts	**(18,611)**	(24,591)	**(13,692)**	(19,167)
	89,086	212,257	**43,866**	62,710
Bills receivable	**532,580**	1,757,131	**406,286**	1,616,858
Amounts due from related parties	**277,777**	515,222	**280,434**	457,604
	899,443	2,484,610	**730,586**	2,137,172
Derivative financial instruments				
- Forward contracts receivable	**97,644**	-	**97,644**	-
Deposits, other debtors and prepayments	**386,831**	262,918	**300,463**	138,719
	484,475	262,918	**398,107**	138,719
	1,383,918	2,747,528	**1,128,693**	2,275,891

22. Trade and other receivable *(continued)*

The aging analysis of trade debtors, bills receivable and amounts due from related parties (net of impairment losses for bad and doubtful debts) is as follows:

	The Group		The Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Invoice date:				
Within one year	**899,309**	2,483,551	**730,486**	2,136,632
Between one and two years	**134**	1,059	**100**	540
	899,443	2,484,610	**730,586**	2,137,172

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

23. Cash and cash equivalents

	The Group		The Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash deposits with a related party	**23,318**	29,736	**22,844**	29,536
Cash at bank and in hand	**604,367**	863,429	**271,942**	604,997
Cash and cash equivalents in the balance sheet	**627,685**	893,165	**294,786**	634,533

24. Loans and borrowings

Loans and borrowings are repayable as follows:

	The Group		The Company	
	2008	2007	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Long term bank loans				
- Between two and five years	304,261	29,360	300,000	-
- Between one and two years	24,760	489,929	-	450,000
	329,021	519,289	300,000	450,000
Long term loans from related parties				
- Between two and five years	-	100,000	-	-
- Between one and two years	100,000	20,000	-	-
	100,000	120,000	-	-
	429,021	639,289	300,000	450,000
Loans due within one year				
- Current portion of long term bank loans	514,521	419,027	450,000	259,097
- Current portion of long term loans from related parties	20,000	-	-	-
- Short term bank loans	8,428,204	2,317,642	8,353,204	2,062,642
- Short term loans from related parties	410,000	1,355,300	330,000	1,227,000
	9,372,725	4,091,969	9,133,204	3,548,739
	9,801,746	4,731,258	9,433,204	3,998,739

At 31 December 2008, no loans and borrowings were secured by the way of pledge of property, plant and equipment (2007: nil).

24. Loans and borrowings *(continued)*

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

	The Group		The Company	
	2008	2007	**2008**	2007
	'000	'000	**'000**	'000
United States Dollars	**USD 600,314**	USD 86,556	**USD 598,874**	USD 85,116

25. Trade accounts payable

	The Group		The Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade creditors	**1,272,811**	1,504,454	**953,260**	1,174,332
Bills payable	**263,443**	300,575	**263,364**	285,594
Amounts due to related parties	**1,752,647**	904,870	**2,216,317**	1,367,447
	3,288,901	2,709,899	**3,432,941**	2,827,373

The maturity analysis of trade accounts payable is as follows:

	The Group		The Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Due within 1 month or on demand	**3,024,511**	2,439,156	**3,168,576**	2,652,495
Due after 1 month and within 3 months	**264,390**	270,743	**264,365**	174,878
	3,288,901	2,709,899	**3,432,941**	2,827,373

26. Amounts due from / to related parties

Amounts due from / to related parties are unsecured and interest free.

27. Share capital

	The Group and the Company	
	2008	2007
	RMB'000	RMB'000
Registered, issued and paid up capital:		
4,870,000,000 A shares of RMB 1.00 each	**4,870,000**	4,870,000
2,330,000,000 H shares of RMB 1.00 each	**2,330,000**	2,330,000
	7,200,000	7,200,000

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

Capital management

Management optimises the structure of its capital, comprising equity and loans. In order to maintain or adjust the capital structure, management may cause the Group to new shares, adjust the capital expenditure plan, sell assets to reduce debt, or adjust the proportion of short-term and long-term loans. Management monitors capital on the basis of debt-to-equity ratio, which is calculated by dividing long-term loans (excluding current portion), including long-term bank loans and loans from the related parties, by the total of equity attributable to equity shareholders of the Company and long-term loans (excluding current portion), and liability-to-asset ratio, which is calculated by dividing total liabilities by total assets. Management's strategy is to make appropriate adjustments according to the operating and investment needs and the changes of market conditions, and to maintain the debt-to-equity ratio and the liability-to-asset ratio at a range considered reasonable by management. As at 31 December 2008, the debt-to-equity ratio and the liability-to-asset ratio of the Group were 3.08% (2007: 3.00%) and 50.02% (2007: 29.82%), respectively.

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

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

28. Reserves

Movements on reserves comprise:

	The Group		The Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Share premium				
At 1 January and 31 December (Note (a))	**2,420,841**	2,420,841	**2,420,841**	2,420,841
Statutory surplus reserve				
At 1 January	**3,485,894**	3,248,104	**3,485,894**	3,248,104
Appropriation (Note (b))	**–**	192,434	**–**	192,434
General surplus reserve transfer to statutory surplus reserve (Note (c))	**–**	82,089	**–**	82,089
Adjustment to statutory surplus reserve (Note (b))	**–**	(36,733)	**–**	(36,733)
At 31 December (Note (b))	**3,485,894**	3,485,894	**3,485,894**	3,485,894
General surplus reserve				
At 1 January	**–**	82,089	**–**	82,089
General surplus reserve transfer to statutory surplus reserve (Note (c))	**–**	(82,089)	**–**	(82,089)
At 31 December (Note (c))	**–**	–	**–**	–
Capital reserve				
At 1 January and 31 December (Note (d))	**4,180**	4,180	**4,180**	4,180
Discretionary surplus reserve				
At 1 January and 31 December (Note (e))	**1,280,514**	1,280,514	**1,280,514**	1,280,514
Excess over share capital				
At 1 January and 31 December (Note (f))	**(148,604)**	(148,604)	**(148,604)**	(148,604)

28. Reserves *(continued)*

Movements on reserves comprise: *(continued)*

	The Group		The Company	
	2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000
Fair value reserve				
At 1 January	347,564	21,949	315,345	12,397
Unrealised (loss) / gain for change in fair value of available-for-sale securities, net of deferred tax	(165,832)	842,002	(152,419)	733,663
Transfer to profit or loss on disposal of available-for-sale securities, net of deferred tax	(98,829)	(516,387)	(88,792)	(430,715)
At 31 December (Note (g))	82,903	347,564	74,134	315,345
Retained (losses) / profits (Note (h))	(828,795)	6,057,649	(782,636)	5,245,990
	6,296,933	13,448,038	6,334,323	12,604,160

Notes:

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

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

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

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

28. Reserves *(continued)*

Notes: (continued)

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

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

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

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

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

(h) According to the Company's Articles of Association, the reserve available for distribution is the lower of the amount determined under China Accounting Standards for Business Enterprises and the amount determined under IFRS. As of 31 December 2008, the Company does not have any retained profit available for distribution to its equity holders as at 31 December 2008 (2007: RMB 5,630,080,000). No final dividend (2007: RMB 648,000,000) in respect of the financial year 2008 was declared after the balance sheet date.

29. Related party transactions

(a) Most of the transactions undertaken by the Group during the year ended 31 December 2008 have been affected on such terms as determined by China Petroleum & Chemical Corporation ("Sinopec Corp"), the immediate parent company, and relevant PRC authorities.

Sinopec Corp negotiates and agrees the terms of crude oil supply with suppliers on a Group basis, which is then allocated among its subsidiaries, including the Group, on a discretionary basis. During the year ended 31 December 2008, the value of crude oil purchased in accordance with Sinopec Corp's allocation was as follows:

	2008 RMB'000	2007 RMB'000
Purchases of crude oil	37,790,324	33,588,285

(b) Other transactions between the Group and related parties during the year ended 31 December 2008 were as follows:

	2008 RMB'000	2007 RMB'000
Sales of goods and service fee income	29,908,286	22,907,085
Purchases other than crude oil	5,853,079	5,400,022
Insurance premiums paid	93,587	106,000
Net withdrawal from deposits in a related party	(6,418)	(50,177)
Interest received and receivable	649	908
Loans borrowed	543,000	1,475,300
Loans repayment	1,488,300	40,000
Interest paid and payable	26,682	9,813
Construction and installation fees	114,878	206,256
Gains from disposal of investments	-	25,822
Sales commissions	146,137	194,645
Net decrease of guarantees	-	(19,003)
Rental income from related parties	19,009	13,216

(c) Cash deposits with related parties

	The Group		The Company	
	2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000
Cash deposits, with maturity within 3 months	23,318	29,736	22,844	29,536

29. Related party transactions *(continued)*

(d) Loans with related parties

	The Group	
	2008	2007
	RMB'000	RMB'000
Short-term loans	**410,000**	1,355,300
Long-term loans	**120,000**	120,000
	530,000	1,475,300

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

	2008	2007
	RMB'000	RMB'000
Short-term employee benefits	**5,008**	5,301
Post-employment benefits	**95**	89
	5,103	5,390

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

(f) Contributions to defined contribution retirement plans

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

	2008	2007
	RMB'000	RMB'000
Municipal retirement scheme costs	**199,135**	197,191
Supplementary retirement scheme costs	**54,862**	55,048

At 31 December 2008 and 2007, there was no material outstanding contribution to post-employment benefit plans.

29. Related party transactions *(continued)*

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

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

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

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

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

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

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

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

During the year ended 31 December 2008, the aggregate amount of crude oil purchased by the Group from the above state-controlled energy and chemical companies are listed as follows:

	2008 RMB'000	2007 RMB'000
Purchase of crude oil	11,460,909	1,126,222

The amounts due from / to the above state-controlled energy and chemical companies are nil as at 31 December 2008 (31 December 2007: Nil).

29. Related party transactions *(continued)*

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

(ii) Transactions with state-controlled banks

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

	2008 RMB'000	2007 RMB'000
Interest income	59,249	45,992
Interest expenses	531,289	231,707

During the year ended 31 December 2008, the Group entered into forward exchange contracts with state-controlled banks with total notional amounts of USD 460,224,000 (2007: nil).

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

	2008 RMB'000	2007 RMB'000
Cash and cash equivalents at state-controlled banks in the PRC	604,367	745,401
Short-term loans and current portion of long-term loans	8,893,204	2,711,739
Long-term loans excluding current portion of long-term loans	300,000	465,000
Total loans from state-controlled banks in the PRC	9,193,204	3,176,739

30. Retirement schemes

As stipulated by the regulations of the PRC, the Group participates in a defined contribution retirement plan organised by the Shanghai Municipal Government for its staff. The Group is required to make contributions to the retirement plan at a rate of 22% of the salaries, bonuses and certain allowances of its staff in 2008 (2007: 22%). A member of the plan is entitled to a pension equal to a fixed proportion of the salary prevailing at his retirement date. The Group has no other material obligation for the payment of pension benefits associated with this plan beyond the annual contributions described above.

Pursuant to a document "Lao Bu Fa (1995) No.464" dated 29 December 1995 issued by the Ministry of Labour of the PRC, the Company has set up a supplementary defined contribution retirement plan for the benefit of employees. Employees who have served the Company for five years or more may participate in this plan. The Company and participating employees make defined contributions to their pension saving accounts according to the plan. The assets of this plan are held separately from those of the Company in an independent fund administered by a committee consisting of representatives from the employees and the Company. In April 2003, the Company revised certain terms of the plan and increased the amounts of contributions. For the year ended 31 December 2008, the Group's contribution to this plan amounted to RMB 54,862,000 (2007: RMB 55,048,000).

31. Capital commitments

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

	The Group and the Company	
	2008	2007
	RMB'000	RMB'000
Property, plant and equipment		
Contracted but not provided for	**90,987**	311,991
Authorised by the Board but not contracted for	**2,450,250**	3,546,960
	2,541,237	3,858,951

32. Contingent liabilities

(a) Financial guarantees issued

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

	The Group		The Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Guarantees issued to banks in favour of:				
- subsidiaries	**-**	-	**250,000**	545,000
- associates	**9,500**	14,500	**14,500**	14,500
- joint ventures	**16,247**	16,247	**-**	-
	25,747	30,747	**264,500**	559,500

Guarantees issued to banks in favour of subsidiaries, associates and joint ventures are given to the extent of the Company's respective interest in these entities. Management monitors the conditions that are subject to the guarantees to identify whether it is probable that a loss has occurred, and recognise any such losses under guarantees when those losses are estimable. At 31 December 2008 and 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 guarantee arrangements.

(b) Income tax differences

With respect to uncertainties about enterprise income tax differences arising from 2006 and before as originated from a tax circular (Circular No.664) issued by the State Administrative of Taxation in June 2007, the Company has been informed by the relevant tax authority to settle the enterprise income tax ("EIT") for 2007 at a rate of 33 percent. To date, the Company has not been requested to pay additional EIT in respect of any years prior to 2007. Except for the above, there is no further development of this matter during the year ended 31 December 2008. No provision has been made in the financial statements for this uncertainty for tax years prior to 2007 because management believes it is not possible to reliably estimate the amount of the obligation, if any, that might exist.

33. Details of loans and borrowings

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

Repayment terms and last payment date	Interest rate at 31 December 2008	Interest type	The Group 2008 RMB'000	The Group 2007 RMB'000	The Company 2008 RMB'000	The Company 2007 RMB'000
Arranged by the Company:						
U.S. Dollars denominated:						
Payable semi-annually through 2008 (Note)	-	-	-	9,097	-	9,097
Renminbi denominated:						
Due in 2008	-	-	-	250,000	-	250,000
Due in 2009	5.10%-5.35%	Fixed	450,000	450,000	450,000	450,000
Due in 2011	5.10%	Fixed	100,000	-	100,000	-
Due in 2013	5.18%-5.35%	Fixed	200,000	-	200,000	-
Arranged by subsidiaries:						
U.S. Dollars denominated:						
Payable annually through 2011	Interest free	-	9,842	10,519	-	-
Renminbi denominated:						
Payable due in 2008	-	-	-	135,000	-	-
Payable due in 2009	5.18%-6.80%	Fixed	35,000	35,000	-	-
Payable due in 2010	6.80%	Fixed	100,000	100,000	-	-
Payable annually through 2010	Interest free	-	61,500	61,500	-	-
Payable annually through 2011	Interest free	-	7,200	7,200	-	-
Total long term loans and borrowings outstanding			963,542	1,058,316	750,000	709,097
Less:Amounts due within one year (Note 24)			(534,521)	(419,027)	(450,000)	(259,097)
Amounts due after one year (Note 24)			429,021	639,289	300,000	450,000

Note: Guaranteed by China Petrochemical Corporation.

The weighted average short term interest rates for the Group and the Company were 5.80% and 5.66% respectively at 31 December 2008 (2007: the Group and the Company 5.34% and 5.27% respectively).

34. Segment reporting

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

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

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

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

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

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

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

34. Segment reporting *(continued)*

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

Turnover and other income

	2008 RMB'000	2007 RMB'000
Manufactured Products		
Synthetic fibres		
- external sales	3,670,362	4,342,215
- intersegment sales	73	85
Total	3,670,435	4,342,300
Resins and plastics		
- external sales	14,880,659	15,927,089
- intersegment sales	53,065	75,183
Total	14,933,724	16,002,272
Intermediate petrochemicals		
- external sales (Note a)	10,296,256	9,406,507
- intersegment sales	17,801,810	16,966,433
Total	28,098,066	26,372,940
Petroleum products		
- external sales (Note a)	28,372,037	21,997,362
- intersegment sales	2,153,355	1,336,695
- other income	2,312,227	93,900
Total	32,837,619	23,427,957

34. Segment reporting *(continued)*

Turnover and other income *(continued)*

	2008 RMB'000	2007 RMB'000
All others		
-external sales	3,007,545	3,655,211
-intersegment sales	2,720,112	3,402,717
Total	5,727,657	7,057,928
Eliminations of intersegment sales	(22,728,415)	(21,781,113)
Turnover and other income	62,539,086	55,422,284

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

	2008 RMB'000	2007 RMB'000
Sales to Sinopec Corp Group companies		
Intermediate petrochemicals	3,168,697	2,968,753
Petroleum products	24,698,143	17,884,389
Total	27,866,840	20,853,142

(Loss) / profit before taxation

	2008 RMB'000	2007 RMB'000
(Loss) / profit from operations		
Synthetic fibres	(1,651,458)	(82,083)
Resins and plastics	(2,176,731)	656,475
Intermediate petrochemicals	(42,654)	813,762
Petroleum products	(3,945,873)	(644,234)
All others	(548)	148,736
Consolidated (loss) / profit from operations	(7,817,264)	892,656
Net financing costs	(330,438)	(177,926)
Investment income	131,772	770,725
Share of profits of associates and jointly controlled entities	1,492	665,897
(Loss) / profit before taxation	(8,014,438)	2,151,352

34. Segment reporting *(continued)*

Assets	2008 RMB'000	2007 RMB'000
Segment assets		
Synthetic fibres	1,714,136	2,756,536
Resins and plastics	1,826,536	2,768,515
Intermediate petrochemicals	6,152,669	7,440,853
Petroleum products	9,391,724	8,929,073
All others	2,350,640	2,639,287
Total segment assets	21,435,705	24,534,264
Interest in associates and jointly controlled entities	2,545,978	3,068,135
Unallocated	3,551,344	2,250,651
Total assets	27,533,027	29,853,050

Liabilities	2008 RMB'000	2007 RMB'000
Segment liabilities		
Synthetic fibres	244,937	325,867
Resins and plastics	993,272	1,195,267
Intermediate petrochemicals	687,040	705,922
Petroleum products	1,842,894	1,650,818
All others	200,173	274,309
Total segment liabilities	3,968,316	4,152,183
Loans and borrowings -current	9,372,725	4,091,969
Loans and borrowings -non-current	429,021	639,289
Unallocated	1,679	17,580
Total liabilities	13,771,741	8,901,021

34. Segment reporting *(continued)*

Depreciation and amortisation

	2008 RMB'000	2007 RMB'000
Synthetic fibres	223,146	227,503
Resins and plastics	350,563	351,273
Intermediate petrochemicals	560,086	603,707
Petroleum products	339,068	352,532
All others	162,374	169,392
Segment depreciation and amortisation	1,635,237	1,704,407
Unallocated	13,440	14,879
Depreciation and amortisation	1,648,677	1,719,286

Impairment losses on long lived assets

	2008 RMB'000	2007 RMB'000
Synthetic fibres	440,351	180,681
Resins and plastics	23,010	-
All others	-	19,614
Impairment losses on long lived assets	463,361	200,295

Total capital expenditures for segment long-lived assets

	2008 RMB'000	2007 RMB'000
Synthetic fibres	73,653	130,392
Resins and plastics	6,484	16,973
Intermediate petrochemicals	1,175,451	773,720
Petroleum products	58,374	1,098,320
All others	197,110	114,718
Capital expenditures for segment long lived assets	1,511,072	2,134,123

35. Accounting estimates and judgements

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

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

Impairments for long lived assets

If circumstances indicate that the net book value of a long-lived asset may not be recoverable, the asset may be considered "impaired", and an impairment loss may be recognised in accordance with IAS 36 "Impairment of Assets". Long-lived assets are reviewed for impairment at the end of each reporting period or whenever events or changes in circumstance have indicated that their carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount. For goodwill, the recoverable amount is estimated annually. The recoverable amount is the greater of the net selling price and the value in use. It is difficult to precisely estimate selling price because quoted market prices for the Group's assets or cash-generating units are not readily available. In determining the value in use, expected cash flows generated by the asset or the cash-generating unit are discounted to their present value, which requires significant judgement relating to level of sale volume, selling price and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of sale volume, selling price and amount of operating costs.

Depreciation

Property, plant and equipment, are depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual value. The Group reviews the estimated useful lives of the assets annually in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

35. Accounting estimates and judgements *(continued)*

Impairment for bad and doubtful debts

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

Allowance for diminution in value of inventories

If the costs of inventories fall below their net realisable values, an allowance for diminution in value of inventories is recognised. Net realisable value represents the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale. Management bases the estimates on all available information, including the current market prices of the finished goods and raw materials, and historical operating costs. If the actual selling prices were to be lower or the costs of completion were to be higher than estimated, the actual allowance for diminution in value of inventories could be higher than estimated.

36. Financial Instruments

Overview

Financial assets of the Group include cash and cash equivalents, other investments, trade debtors, bills receivable, derivative financial instruments, other debtors and amounts due from related parties. Financial liabilities of the Group include loans and borrowings, trade creditors, bills payable, other creditors and amounts due to related parties.

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

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

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

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

36. Financial Instruments *(continued)*

Credit risk

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

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

Liquidity risk

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

At 31 December 2008, the Group's current liabilities exceeded its current assets by RMB 6,831,369,000. In 2009, the liquidity of the Group is primarily dependent on its ability to maintain adequate cash inflow from operations, the renewal of its short-term bank loans and on its ability to obtain adequate external financing, including the issuance of short-term corporate bonds, to support its working capital and meet its debt obligation when they become due. At 31 December 2008, the Group has standby credit facilities with several PRC financial institutions which provide the Group to borrow up to RMB 9,600,000,000 (2007: RMB 2,900,000,000) on an unsecured basis, at a weighted average interest rate of 5.30% (2007: 6.29%). At 31 December 2008, the Group's outstanding borrowings under these facilities were RMB 6,933,385,000 (2007: RMB 1,812,642,000) and were included in short-term bank loans.

36. Financial Instruments *(continued)*

Liquidity risk *(continued)*

Management has carried out a detailed review of the cash flow forecast of the Group for the twelve months ending 31 December 2009. Based on such forecast, management believes that adequate sources of liquidity exist to fund the Group's working capital and capital expenditure requirements, and meet its short term debt obligations as they become due. In preparing the cash flow forecast, management has considered historical cash requirements of the Group as well as other key factors, including the availability of the above-mentioned banking facilities which may impact the operations of the Group during the next twelve-month period. Management is of the opinion that the assumptions used in the cash flow forecast are reasonable.

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

36. Financial Instruments *(continued)*

Liquidity risk *(continued)*

The Group

Non-derivative financial instruments

	2008				
	Carrying amount RMB'000	Total contractual undiscounted cash flow RMB'000	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000
Loans and borrowings (current)	9,372,725	(9,741,390)	(9,741,390)	-	-
Loans and borrowings (non-current)	429,021	(510,928)	(22,437)	(147,368)	(341,123)
Trade creditors	1,272,811	(1,272,811)	(1,272,811)	-	-
Bills payable	263,443	(263,443)	(263,443)	-	-
Other creditors	679,415	(679,415)	(679,415)	-	-
Amounts due to related parties	1,752,647	(1,752,647)	(1,752,647)	-	-
	13,770,062	(14,220,634)	(13,732,143)	(147,368)	(341,123)
Derivative financial instruments					
Derivatives settled gross:					
Forward contracts (Note 22)					
- outflow	(3,024,525)	(3,058,361)	(3,058,361)	-	-
- inflow	3,122,169	3,157,098	3,157,098	-	-

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

36. Financial Instruments *(continued)*

Liquidity risk *(continued)*

The Company

Non-derivative financial instruments

	2008				
	Carrying amount RMB'000	Total contractual undiscounted cash flow RMB'000	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000
Loans and borrowings (current)	9,133,204	(9,495,471)	(9,495,471)	-	-
Loans and borrowings (non-current)	300,000	(367,960)	(15,633)	(15,633)	(336,694)
Trade creditors	953,260	(953,260)	(953,260)	-	-
Bills payable	263,364	(263,364)	(263,364)	-	-
Other creditors	600,696	(600,696)	(600,696)	-	-
Amounts due to related parties	2,192,751	(2,192,751)	(2,192,751)	-	-
	13,443,275	(13,873,502)	(13,521,175)	(15,633)	(336,694)
Derivative financial instruments					
Derivatives settled gross:					
Forward contracts (Note 22)					
- outflow	(3,024,525)	(3,058,361)	(3,058,361)	-	-
- inflow	3,122,169	3,157,098	3,157,098	-	-

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

36. Financial Instruments *(continued)*

Market risk

(a) Currency risk

Currency risk arises on financial instruments that are denominated in a currency other than the functional currency in which they are measured. The Group's currency risk exposure primarily relates to short-term and long-term debts denominated in US dollars. The Group entered into forward exchange contracts to manage such exposure. All of the forward exchange contracts have maturities of less than one year from the balance sheet date.

The changes in the fair value of forward exchange contracts that economically hedge monetary liabilities in foreign currencies are recognised as finance costs in the profit or loss. The net fair value of forward exchange contracts used by the Group and the Company as economic hedges of monetary liabilities in foreign currencies at 31 December 2008 was RMB 97,644,000 (2007: RMB nil).

The following table details the Group's and the Company's exposure at the balance sheet date to currency risk mainly arising from loans and borrowings denominated in a currency other than the functional currency of the entity to which they relate.

	The Group		The Company	
	2008 USD'000	2007 USD'000	**2008 USD'000**	2007 USD'000
Gross exposure arising from loans and borrowings	**(600,314)**	(86,556)	**(598,874)**	(85,116)
Notional amounts of forward exchange contracts	**460,224**	-	**460,224**	-
	(140,090)	(86,556)	**(138,650)**	(85,116)

A 5 percent strengthening of Renminbi against USD at 31 December would have increased net profit for the year and retained earnings of the Group by approximately RMB 35,905,000 (2007: RMB 21,181,000). This analysis has been determined assuming that the change in foreign exchange rates had occurred at the balance sheet date and had been applied to the foreign currency balances to which the Group has significant exposure as stated above, and that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2007.

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

36. Financial Instruments *(continued)*

Market risk *(continued)*

(b) Interest rate risk

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

As at 31 December 2008, it is estimated that a general increase / decrease of 100 basis points in variable interest rates, with all other variables held constant, would decrease / increase the Group's net profit for the year and retained earnings by approximately RMB 42,341,000 (2007: RMB 12,146,000). This sensitivity analysis has been determined assuming that the change in interest rates had occurred at the balance sheet date and the change was applied to the Group's debts outstanding at that date with exposure to cash flow interest rate risk. The analysis is performed on the same basis for 2007.

Fair value

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

The fair value of long term loans is estimated by discounting future cash flows thereon using current market interest rates offered to the Group for debts with substantially the same characteristics and maturities ranging 5.31% to 5.94% (2007: 7.17% to 7.74%). The following table presents the carrying amounts and fair values of the Group's long term loans at 31 December 2008 and 2007.

	2008		2007	
	Carrying amount RMB'000	Fair value RMB'000	Carrying amount RMB'000	Fair value RMB'000
Liabilities				
Long term loans	**963,542**	**958,461**	1,058,316	1,034,682

36. Financial Instruments *(continued)*

Fair value *(continued)*

The fair value of available-for-sale equity securities, which amounted to RMB 123,918,000 as at 31 December 2008 (2007: RMB 478,793,000) was based on quoted market price on a PRC stock exchange. The fair value of forward exchange contracts which amounted to RMB 97,644,000 as at 31 December 2008 (2007: nil) was based by discounting the contractual forward price and deducting the current spot rate. Unquoted equity investments are individually and in the aggregate not material to the Group's financial condition or results of operations. There are no listed market prices for such interests in the PRC and, accordingly, a reasonable estimate of fair value could not be made without incurring excessive costs. The Group intends to hold these unquoted equity investments for long term purpose.

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

37 Possible impact of amendments, new standards and interpretations issued but not yet effective for the annual accounting period ended 31 December 2008

Up to the date of issue of these financial statements, the IASB has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2008 and which have not been adopted in these financial statements.

Management is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application and has so far concluded that the adoption of these amendments, new standards and new interpretations is unlikely to have a significant impact on the Group's results of operations and financial position.

38. Parent companies

The Directors consider the immediate parent company and the ultimate parent company at 31 December 2008 to be China Petroleum & Chemical Corporation and China Petrochemical Corporation, respectively, which are incorporated in the PRC. China Petroleum & Chemical Corporation produces financial statements available for public use.

KPMG Huazhen

All Shareholders of Sinopec Shanghai Petrochemical Company Limited:

We have audited the accompanying financial statements of Sinopec Shanghai Petrochemical Company Limited (the Company), which comprise the consolidated balance sheet and balance sheet as at 31 December 2008, the consolidated income statement and income statement, the consolidated statement of changes in equity and statement of changes in equity, the consolidated cash flow statement and cash flow statement for the year then ended, and notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements comply with the requirements of China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China and present fairly, in all material respects, the consolidated financial position and financial position of the Company as at 31 December 2008, and the consolidated results of operations and results of operations and the consolidated cash flows and cash flows of the Company for the year then ended.

KPMG Huazhen

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

Yu Xiaojun

Beijing, the People's Republic of China

Wang Wenli

27 March 2009

Consolidated Balance Sheet

As at 31 December 2008
(Prepared under China Accounting Standards for Business Enterprises)

	Note	2008 RMB'000	2007 RMB'000
Assets			
Current assets			
Cash at bank and on hand	7	627,685	893,165
Financial assets held for trading	8	97,644	-
Bills receivable	9	566,356	1,800,856
Dividends receivable	10	74,000	-
Trade debtors	11	226,293	563,093
Advance payments	12	66,772	123,939
Other receivables	13	111,578	352,642
Inventories	14	4,492,215	5,197,849
Other current assets	15	248,808	-
Total current assets		6,511,351	8,931,544
Non-current assets			
Available-for-sale financial assets	16	123,918	478,793
Long-term equity investments	17	2,941,717	3,543,769
Investment property	18	492,690	512,793
Fixed assets	19(a)	13,528,185	15,259,283
Construction in progress	20	1,854,154	965,463
Intangible assets	21(a)	577,479	597,897
Long-term deferred expenses		145,553	173,807
Deferred tax assets	22	1,932,418	-
Total non-current assets		21,596,114	21,531,805
Total assets		28,107,465	30,463,349

The notes on pages 176 to 263 form part of these financial statements.

As at 31 December 2008
(Prepared under China Accounting Standards for Business Enterprises)

	Note	2008 RMB'000	2007 RMB'000
Liabilities and shareholders' equity			
Current liabilities			
Short-term loans	24	8,838,204	3,672,942
Bills payable	25	265,443	300,575
Trade creditors	25	2,513,076	1,913,118
Receipt in advance	25	443,471	429,516
Employee benefits payable	26	23,240	85,651
Taxes payable	5(3)	45,448	168,755
Interest payable		18,333	11,796
Other payables	25	660,984	1,236,529
Current portion of non-current liabilities	27	534,521	419,027
Total current liabilities		13,342,720	8,237,909
Non-current liabilities			
Long-term loans	27	429,021	639,289
Deferred tax liabilities	22	-	20,963
Other non-current liabilities		230,000	261,753
Total non-current liabilities		659,021	922,005
Total liabilities		14,001,741	9,159,914
Shareholders' equity			
Share capital	28	7,200,000	7,200,000
Capital reserve	29	2,939,181	3,203,842
Surplus reserve	30	4,766,408	4,766,408
(Accumulated losses)/retained earnings	31	(1,064,218)	5,829,194
Total equity attributable to equity shareholders of the Company		13,841,371	20,999,444
Minority interests	6(2)	264,353	303,991
Total equity		14,105,724	21,303,435
Total liabilities and shareholders' equity		28,107,465	30,463,349

These financial statements have been approved by the Board of Directors of the Company on 27 March 2009.

Rong Guangdao
Chairman and President

Du Chongjun
Vice Chairman and Vice President

Han Zhihao
Director and Chief Financial Officer

The notes on pages 176 to 263 form part of these financial statements.

Balance Sheet

As at 31 December 2008
(Prepared under China Accounting Standards for Business Enterprises)

	Note	2008 RMB'000	2007 RMB'000
Assets			
Current assets			
Cash at bank and on hand	7	294,786	634,533
Financial assets held for trading	8	97,644	-
Bills receivable	9	436,056	1,669,202
Dividends receivable	10	74,000	-
Trade debtors	11	197,522	420,734
Advance payments	12	65,586	105,211
Other receivables	13	12,465	311,703
Inventories	14	4,249,254	4,780,473
Other current assets	15	245,420	-
Total current assets		5,672,733	7,921,856
Non-current assets			
Available-for-sale financial assets	16	111,327	434,554
Long-term equity investments	17	4,231,982	5,081,193
Investment property	18	554,405	569,326
Fixed assets	19(b)	12,648,909	13,753,579
Construction in progress	20	1,815,344	940,491
Intangible assets	21(b)	459,181	460,638
Long-term deferred expenses		141,331	167,582
Deferred tax assets	22	1,935,851	-
Total non-current assets		21,898,330	21,407,363
Total assets		27,571,063	29,329,219

The notes on pages 176 to 263 form part of these financial statements.

As at 31 December 2008
(Prepared under China Accounting Standards for Business Enterprises)

	Note	2008 RMB'000	2007 RMB'000
Liabilities and shareholders' equity			
Current liabilities			
Short-term loans	24	8,683,204	3,289,642
Bills payable	25	265,364	285,594
Trade creditors	25	2,399,527	1,797,640
Receipts in advance	25	369,723	397,112
Employee benefits payable	26	20,443	68,212
Taxes payable	5(3)	39,062	144,555
Interest payable		18,333	11,796
Other payables	25	921,185	1,585,040
Current portion of non-current liabilities	27	450,000	259,097
Total current liabilities		13,166,841	7,838,688
Non-current liabilities			
Long-term loans	27	300,000	450,000
Deferred tax liabilities	22	-	10,667
Other non-current liabilities		230,000	261,753
Total non-current liabilities		530,000	722,420
Total liabilities		13,696,841	8,561,108
Shareholders' equity			
Share capital	28	7,200,000	7,200,000
Capital reserve	29	2,930,412	3,171,623
Surplus reserve	30	4,766,408	4,766,408
(Accumulated losses)/retained earnings	31	(1,022,598)	5,630,080
Total equity		13,874,222	20,768,111
Total liabilities and shareholders' equity		27,571,063	29,329,219

These financial statements have been approved by the Board of Directors of the Company on 27 March 2009.

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

The notes on pages 176 to 263 form part of these financial statements.

Consolidated Income Statement

For the year ended 31 December 2008
(Prepared under China Accounting Standards for Business Enterprises)

	Note	2008 RMB'000	2007 RMB'000
Operating income	32	60,310,570	55,404,687
Less: Operating costs		65,753,651	50,573,669
Business taxes and surcharges	33	897,088	1,073,695
Selling and distribution expenses		467,987	504,712
General and administrative expenses		2,178,866	2,268,946
Financial expenses	34	428,082	177,926
Impairment loss	35	1,180,198	236,633
Add: Gain from changes in fair value	36	97,644	-
Investment income	37	132,985	1,549,331
Including: (Loss)/income from investment in associates and jointly controlled enterprises		(8,508)	655,897
Operating (loss)/profit		(10,364,673)	2,118,437
Add: Non-operating income	38	2,373,986	121,441
Less: Non-operating expenses	39	31,594	118,784
Including: Loss from disposal of non-current assets		4,452	51,790
(Loss)/profit before income tax		(8,022,281)	2,121,094
Less: Income tax	40	(1,813,586)	479,928
Net (loss)/profit			
Attributable to:		(6,208,695)	1,641,166
Equity shareholders of the Company		(6,245,412)	1,592,110
Minority shareholders		36,717	49,056
Basic and diluted (losses)/earnings per share	50	RMB(0.867)	RMB0.221

These financial statements have been approved by the Board of Directors of the Company on 27 March 2009.

Rong Guangdao
Chairman and President

Du Chongjun
Vice Chairman and Vice President

Han Zhihao
Director and Chief Financial Officer

The notes on pages 176 to 263 form part of these financial statements.

Income Statement

For the year ended 31 December 2008
(Prepared under China Accounting Standards for Business Enterprises)

	Note	2008 RMB'000	2007 RMB'000
Operating income	32	55,758,461	50,074,300
Less: Operating costs		61,443,455	45,729,716
Business taxes and surcharges	33	886,716	1,060,568
Selling and distribution expenses		380,700	417,220
General and administrative expenses		1,885,565	1,897,274
Financial expenses	34	382,963	141,419
Impairment loss	35	1,175,288	233,873
Add: Gain from changes in fair value	36	97,644	-
Investment income	37	97,223	1,739,783
Including: (Loss)/income from investment in associates and jointly controlled enterprises		(30,759)	628,075
Operating (loss)/profit		(10,201,359)	2,334,013
Add: Non-operating income	38	2,372,127	114,534
Less: Non-operating expenses	39	27,255	104,039
Including: Loss from disposal of non-current assets		3,871	38,825
(Loss)/profit before income tax		(7,856,487)	2,344,508
Less: Income tax	40	(1,851,809)	420,174
Net (loss)/profit for the year		(6,004,678)	1,924,334

These financial statements have been approved by the Board of Directors of the Company on 27 March 2009.

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

The notes on pages 176 to 263 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2008
(Prepared under China Accounting Standards for Business Enterprises)

	Note	2008 RMB'000	2007 RMB'000
Cash flows from operating activities:			
Cash received from sale of goods and rendering of services		72,852,016	64,955,246
Refund of taxes		83,917	-
Other cash received relating to operating activities		2,437,118	9,796
Sub-total of cash inflows		75,373,051	64,965,042
Cash paid for goods and services		(75,037,127)	(59,334,641)
Cash paid to and for employees		(1,949,669)	(2,050,838)
Cash paid for all types of taxes		(1,470,710)	(1,491,320)
Other cash paid relating to operating activities		(323,430)	(303,671)
Sub-total of cash outflows		(78,780,936)	(63,180,470)
Net cash (outflow)/inflow from operating activities	41(1)	(3,407,885)	1,784,572
Cash flows from investing activities:			
Cash received from disposal of investments		153,997	1,114,701
Cash received from investment income		546,333	393,062
Net cash received from disposal of fixed assets and intangible assets		51,829	68,708
Other cash received relating to investing activities		59,472	46,421
Sub-total of cash inflows		811,631	1,622,892
Cash paid for acquisition of fixed assets and intangible assets		(1,511,072)	(2,134,123)
Cash paid for acquisition of investments		(8,039)	-
Sub-total of cash outflows		(1,519,111)	(2,134,123)
Net cash outflow from investing activities		(707,480)	(511,231)

The notes on pages 176 to 263 form part of these financial statements.

For the year ended 31 December 2008
(Prepared under China Accounting Standards for Business Enterprises)

	Note	2008 RMB'000	2007 RMB'000
Cash flows from financing activities:			
Cash received from borrowings		32,528,758	17,605,887
Sub-total of cash inflows		32,528,758	17,605,887
Repayments of debentures		-	(2,000,000)
Repayments of borrowings		(27,377,610)	(16,166,938)
Cash paid for dividends, profits distribution and interest		(1,300,511)	(711,652)
Sub-total of cash outflows		(28,678,121)	(18,878,590)
Net cash inflow/(outflow) from financing activities		3,850,637	(1,272,703)
Effect of foreign exchange rate changes on cash and cash equivalents		(752)	(2,123)
Net decrease in cash and cash equivalents	41(2)	(265,480)	(1,485)
Add: cash and cash equivalents at the beginning of the year		893,165	894,650
Cash and cash equivalents at the end of the year		627,685	893,165

These financial statements have been approved by the Board of Directors of the Company on 27 March 2009.

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

The notes on pages 176 to 263 form part of these financial statements.

Cash Flow Statement

For the year ended 31 December 2008
(Prepared under China Accounting Standards for Business Enterprises)

	Note	2008 RMB'000	2007 RMB'000
Cash flows from operating activities:			
Cash received from sale of goods and rendering of services		66,622,192	57,801,225
Refund of taxes		83,917	-
Other cash received relating to operating activities		2,435,468	5,787
Sub-total of cash inflows		69,141,577	57,807,012
Cash paid for goods and services		(69,830,027)	(52,865,186)
Cash paid to and for employees		(1,562,006)	(1,423,536)
Cash paid for all types of taxes		(1,372,816)	(1,416,608)
Other cash paid relating to operating activities		(296,705)	(267,053)
Sub-total of cash outflows		(73,061,554)	(55,972,383)
Net cash (outflow)/inflow from operating activities	41(1)	(3,919,977)	1,834,629
Cash flows from investing activities:			
Cash received from disposal of investments		120,001	891,863
Cash received from investment income		531,042	685,818
Net cash received from disposal of fixed assets and intangible assets		29,351	56,808
Other cash received relating to investing activities		51,088	37,884
Sub-total of cash inflows		731,482	1,672,373
Cash paid for acquisition of fixed assets and intangible assets		(1,491,892)	(1,998,473)
Sub-total of cash outflows		(1,491,892)	(1,998,473)
Net cash outflow from investing activities		(760,410)	(326,100)

The notes on pages 176 to 263 form part of these financial statements.

For the year ended 31 December 2008
(Prepared under China Accounting Standards for Business Enterprises)

	Note	2008 RMB'000	2007 RMB'000
Cash flows from financing activities:			
Cash received from borrowings		32,375,758	17,062,587
Sub-total of cash inflows		32,375,758	17,062,587
Repayments of debentures		-	(2,000,000)
Repayments of borrowings		(26,865,477)	(15,910,100)
Cash paid for dividends, profits distribution and interest		(1,169,630)	(578,103)
Sub-total of cash outflows		(28,035,107)	(18,488,203)
Net cash inflow/(outflow) from financing activities		4,340,651	(1,425,616)
Effect of foreign exchange rate changes on cash and cash equivalents		(11)	(73)
Net (decrease) / increase in cash and cash equivalents	41(2)	(339,747)	82,840
Add: cash and cash equivalents at the beginning of the year		634,533	551,693
Cash and cash equivalents at the end of the year		294,786	634,533

These financial statements have been approved by the Board of Directors of the Company on 27 March 2009.

Rong Guangdao
Chairman and President

Du Chongjun
Vice Chairman and Vice President

Han Zhihao
Director and Chief Financial Officer

The notes on pages 176 to 263 form part of these financial statements.

Consolidated statement of changes in shareholders' equity

For the year ended 31 December 2008
(Prepared under China Accounting Standards for Business Enterprises)

	2008							2007						
	Attributable to equity shareholders of the Company							Attributable to equity shareholders of the Company						
	Share capital RMB'000	Capital reserve RMB'000	Surplus reserve RMB'000	Retained earnings RMB'000	Subtotal RMB'000	Minority interests RMB'000	Total RMB'000	Share capital RMB'000	Capital reserve RMB'000	Surplus reserve RMB'000	Retained earnings RMB'000	Subtotal RMB'000	Minority interests RMB'000	Total RMB'000
Balance at 31 December	7,200,000	3,203,842	4,766,408	5,829,194	20,999,444	303,991	21,303,435	7,200,000	2,945,607	4,610,707	4,516,774	19,273,088	336,013	19,609,101
Changes in accounting policies	-	-	-	-	-	-	-	-	(67,380)	(36,733)	200,744	96,631	-	96,631
Balance at 1 January	7,200,000	3,203,842	4,766,408	5,829,194	20,999,444	303,991	21,303,435	7,200,000	2,878,227	4,573,974	4,717,518	19,369,719	336,013	19,705,732
Changes in equity for the year														
1. Net (loss) / profit for the year	-	-	-	(6,245,412)	(6,245,412)	36,717	(6,208,695)	-	-	-	1,592,110	1,592,110	49,056	1,641,166
2. Gain and loss recognised directly in equity														
- Unrealised (loss)/gain for changes in fair value of available-for-sale securities	-	(221,110)	-	-	(221,110)	-	(221,110)	-	1,208,322	-	-	1,208,322	-	1,208,322
- Transfer to profit or loss on disposal of available-for-sale securities	-	(131,772)	-	-	(131,772)	-	(131,772)	-	(770,725)	-	-	(770,725)	-	(770,725)
- Deferred tax effect of the above items	-	88,221	-	-	88,221	-	88,221	-	(111,982)	-	-	(111,982)	-	(111,982)
Sub-total of 1&2	-	(264,661)	-	(6,245,412)	(6,510,073)	36,717	(6,473,356)	-	325,615	-	1,592,110	1,917,725	49,056	1,966,781
3. Appropriation of profits														
- Appropriation for surplus reserve	-	-	-	-	-	-	-	-	-	192,434	(192,434)	-	-	-
- Distribution to shareholders	-	-	-	(648,000)	(648,000)	(76,355)	(724,355)	-	-	-	(288,000)	(288,000)	(81,078)	(369,078)
Sub-total of 3	-	-	-	(648,000)	(648,000)	(76,355)	(724,355)	-	-	192,434	(480,434)	(288,000)	(81,078)	(369,078)
Balance at 31 December	7,200,000	2,939,181	4,766,408	(1,064,218)	13,841,371	264,353	14,105,724	7,200,000	3,203,842	4,766,408	5,829,194	20,999,444	303,991	21,303,435

These financial statements have been approved by the Board of Directors of the Company on 27 March 2009.

Rong Guangdao
Chairman and President

Du Chongjun
Vice Chairman and Vice President

Han Zhihao
Director and Chief Financial Officer

The notes on pages 176 to 263 form part of these financial statements.

	2008					2007				
	Share capital RMB'000	Capital reserve RMB'000	Surplus reserve RMB'000	Retained earnings RMB'000	Total RMB'000	Share capital RMB'000	Capital reserve RMB'000	Surplus reserve RMB'000	Retained earnings RMB'000	Total RMB'000
Balance at 31 December	7,200,000	3,171,623	4,766,408	5,630,080	20,768,111	7,200,000	2,945,607	4,610,707	4,516,774	19,273,088
Changes in accounting policies	-	-	-	-	-	-	(76,932)	(36,733)	(330,594)	(444,259)
Balance at 1 January	7,200,000	3,171,623	4,766,408	5,630,080	20,768,111	7,200,000	2,868,675	4,573,974	4,186,180	18,828,829
Changes in equity for the year										
1. Net (loss) / profit for the year	-	-	-	(6,004,678)	(6,004,678)	-	-	-	1,924,334	1,924,334
2. Gain and loss recognised directly in equity										
- Unrealised (loss)/gain for change in fair value of available-for-sale securities	-	(203,226)	-	-	(203,226)	-	1,048,731	-	-	1,048,731
- Transfer to profit or loss on disposal of available-for-sale securities	-	(118,389)	-	-	(118,389)	-	(642,855)	-	-	(642,855)
- Deferred tax effect of the above items	-	80,404	-	-	80,404	-	(102,928)	-	-	(102,928)
Sub-total of 1&2	-	(241,211)	-	(6,004,678)	(6,245,889)	-	302,948	-	1,924,334	2,227,282
3. Appropriation of profits										
- Appropriation for surplus reserve	-	-	-	-	-	-	-	192,434	(192,434)	-
- Distribution to shareholders	-	-	-	(648,000)	(648,000)	-	-	-	(288,000)	(288,000)
Sub-total of 3	-	-	-	(648,000)	(648,000)	-	-	192,434	(480,434)	(288,000)
Balance at 31 December	7,200,000	2,930,412	4,766,408	(1,022,598)	13,874,222	7,200,000	3,171,623	4,766,408	5,630,080	20,768,111

These financial statements have been approved by the Board of Directors of the Company on 27 March 2009.

Rong Guangdao
Chairman and President

Du Chongjun
Vice Chairman and Vice President

Han Zhihao
Director and Chief Financial Officer

The notes on pages 176 to 263 form part of these financial statements.

1. Company status

Sinopec Shanghai Petrochemical Company Limited ("the Company"), formerly Shanghai Petrochemical Company Limited, was established in the People's Republic of China ("the PRC") on 29 June 1993 as a joint stock limited company to hold the assets and liabilities of the production divisions and certain other units of the Shanghai Petrochemical Complex ("SPC"), a State-owned enterprise. Shanghai Petrochemical Complex was under the direct supervision of China Petrochemical Corporation ("CPC").

China Petrochemical Corporation finished its reorganisation on 25 February 2000. After the reorganisation, China Petroleum & Chemical Corporation ("Sinopec Corp") was established. As a part of the reorganisation, China Petrochemical Corporation transferred its 4,000,000,000 of the Company's state-owned legal shares, which represented 55.56 percent of the issued share capital of the Company, to Sinopec Corp. Sinopec Corp became the largest shareholder of the Company.

The Company changed its name to Sinopec Shanghai Petrochemical Company Limited on 12 October 2000.

The Company and its subsidiaries ("the Group") is a highly integrated entity which processes crude oil into synthetic fibres, resins and plastics, intermediate petrochemicals and petroleum products.

Details of the Company's principal subsidiaries are set out in Note 6 "Business combination and consolidated financial statements".

2. Basis of preparation

(1) Statement of compliance

The financial statements have been prepared in accordance with the requirements of the China Accounting Standards for Business Enterprises (CAS (2006)) issued by the Ministry of Finance (MOF). These financial statements present truly and completely the consolidated financial position and financial position, the consolidated results of operations and results of operations and the consolidated cash flows and cash flows of the Group.

These financial statements also comply with the disclosure requirements of "Regulation on the Preparation of Information Disclosures of Companies Issuing Public Shares, No. 15: General Requirements for Financial Reports" revised by the China Securities Regulatory Commission (CSRC) in 2007.

(2) Accounting year

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

2. Basis of preparation *(continued)*

(3) Measurement basis

The measurement basis used in the preparation of the financial statements is historical cost basis except that the assets and liabilities set out below:

- Available-for-sale financial assets (See Note 3(11))
- Financial assets held for trading (See Note 3(11))

(4) Functional currency and presentation currency

The Group's functional currency is renminbi. These financial statements are presented in renminbi.

3. Significant accounting policies

(1) Business combination and consolidated financial statements

(a) Business combination involving entities under common control

A business combination involving enterprises under common control is a business combination in which all of the combining enterprises are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory. The assets and liabilities obtained are measured at the carrying amounts as recorded by the enterprise being combined at the combination date. The difference between the carrying amount of the net assets obtained and the carrying amount of consideration paid for the combination (or the total face value of shares issued) is adjusted to share premium in the capital reserve. If the balance of share premium is insufficient, any excess is adjusted to retained earnings. The combination date is the date on which one combining enterprise effectively obtains control of the other combining enterprises.

(b) Business combination involving entities not under common control

A business combination involving entities not under common control is a business combination in which all of the combining entities are not ultimately controlled by the same party or parties both before and after the business combination. The cost of a business combination paid by the acquirer is the aggregate of the fair value at the acquisition date of assets given, liabilities incurred or assumed, and equity securities issued by the acquirer, in exchange for control of the acquiree plus any cost directly attributable to the business combination. The difference between the fair value and the carrying amount of the assets given is recognised in profit or loss. The acquisition date is the date on which the acquirer effectively obtains control of the acquiree.

3. Significant accounting policies *(continued)*

(1) Business combination and consolidated financial statements *(continued)*

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

The acquirer, at the acquisition date, allocates the cost of the business combination by recognising the acquiree's identifiable asset, liabilities and contingent liabilities at their fair value at that date.

Any excess of the cost of a business combination over the acquirer's interest in the fair value of the acquiree's identifiable net assets is recognised as goodwill.

Any excess of the acquirer's interest in the fair value of the acquiree's identifiable net assets over the cost of a business combination is recognised in profit or loss.

(c) Consolidated financial statements

The consolidated financial statements comprise the Company and its subsidiaries. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its operating activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Where a subsidiary was acquired during the reporting period through a business combination involving entities under common control, the financial statements of the subsidiary are included in the consolidated financial statements as if the combination had occurred at the date that common control was established. Therefore the opening balances and the comparative figures of the consolidated financial statements are restated. In the preparation of the consolidated financial statements, the subsidiary's assets, liabilities and results of operations are included in the consolidated balance sheet and the consolidated income statement, respectively, based on their carrying amounts, from the date that common control was established.

Where a subsidiary was acquired during the reporting period, through a business combination involving entities not under common control, the identifiable assets, liabilities and results of operations of the subsidiaries are consolidated into consolidated financial statements from the date that control commences, base on the fair value of those identifiable assets and liabilities at the acquisition date.

Where the Company acquired a minority interest from a subsidiary's minority shareholders, the difference between the investment cost for acquiring the minority interest and the corresponding reduction of minority interest in the consolidated financial statements, is adjusted to the capital reserve in the consolidated balance sheet. If the credit balance of capital reserve is insufficient, any excess is adjusted to retained earnings.

3. Significant accounting policies *(continued)*

(1) Business combination and consolidated financial statements *(continued)*

(c) Consolidated financial statements *(continued)*

Minority shareholders' interest is presented separately in the consolidated balance sheet within shareholders' equity. Net profit or loss attributable to minority shareholders is presented separately in the consolidated income statement below the net profit line item.

Where losses attributable to the minority shareholders of a subsidiary exceeds the minority shareholders' interests in the equity of the subsidiary, the excess, and any further losses attributable to the minority shareholders, are allocated against the equity attributable to the Company except to the extent that the minority shareholders have a binding obligation under the articles of association or an agreement and are able to make additional investment to cover the losses. If the subsidiary subsequently reports profits, such profits are allocated to the equity attributable to the Company until the minority shareholders' share of losses previously absorbed by the Company has been recovered.

When the accounting period or accounting policies of a subsidiary are different from those of the Company, the Company makes necessary adjustments to the financial statements of the subsidiary based on the Company's own accounting period or accounting policies. Intra-group balances and transactions, and any unrealised profit or loss arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealized gains but only to the extent that there is no evidence of impairment.

(2) Translation of foreign currencies

When the Group receives capital in foreign currencies from investors, the capital is translated to renminbi at the spot exchange rate at the date of the receipt. Other foreign currency transactions are, on initial recognition, translated to renminbi at the spot exchange rates on the dates of the transactions.

A spot exchange rate is an exchange rate quoted by the People's Bank of China.

Monetary items denominated in foreign currencies are translated to renminbi at the spot exchange rate at the balance sheet date. The resulting exchange differences are recognised in profit or loss, except for those arising from the principals and interests on foreign currency borrowings specifically for the purpose of acquisition, construction of qualifying assets (see Note 3(18)). Non-monetary items denominated in foreign currencies that are measured at historical cost are translated to renminbi using the foreign exchange rate at the transaction date. Non-monetary items denominated in foreign currencies that are measured at fair value are translated using the foreign exchange rate at the date the fair value is determined; the exchange differences are recognised in profit or loss, except for the differences arising from the translation of available-for-sale financial assets, which is recognised in capital reserve.

3. Significant accounting policies *(continued)*

(3) Cash and cash equivalents

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

(4) Inventories

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

Cost of inventories comprises all costs of purchase, costs of conversion and other costs. Inventories are initially measured at their actual cost. Cost of inventories is calculated using the weighted average method. In addition to the purchasing cost of raw materials, work in progress and finished goods include direct labour costs and an appropriate allocation of production overheads.

Any excess of the cost over the net realisable value of each item of inventories is recognised as a provision for diminution in the value of inventories. Net realisable value is the estimated selling price in the normal course of business less the estimated costs to completion and the estimated expenses and related taxes necessary to make the sale.

Reusable materials include low-value consumables, packaging materials and other materials, which can be used repeatedly but do not meet the definition of fixed assets. Reusable materials are amortised in full when received for use. The amounts of the amortisation are included in the cost of the related assets or profit or loss.

The Group maintains a perpetual inventory system.

(5) Long-term equity investments

(a) Investments in subsidiaries

In the Group's consolidated financial statements, investment in subsidiaries are accounted for in accordance with the principles described in Note 3(1)(c).

In the Company's financial statements, investments in subsidiaries are accounted for using the cost method. The investments are stated at cost less impairment losses (see Note 3(12)(c)) in the balance sheet. At initial recognition, such investments are measured as follows:

3. Significant accounting policies *(continued)*

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

(a) Investments in subsidiaries *(continued)*

- The initial investment cost of a long-term equity investment obtained through a business combination involving entities under common control is the Company's share of the subsidiary's equity at the combination date. The difference between the initial investment cost and the carrying amounts of the consideration given is adjusted to share premium in capital reserve. If the balance of the share premium is insufficient, any excess is adjusted to retained earnings.

- The initial investment cost of a long-term equity investment obtained through a business combination involving entities not under common control is the cost of acquisition determined at the acquisition date.

- An investment in a subsidiary acquired other than through a business combination is initially recognised at actual payment cost if the Group acquires the investment by cash, or at the fair value of the equity securities issued if an investment is acquired by issuing equity securities, or at the value stipulated in the investment contract or agreement if an investment is contributed by investors.

(b) Investment in jointly controlled enterprises and associates

A jointly controlled enterprise is an enterprise which operates under joint control in accordance with a contractual agreement between the Group and other parties. Joint control is the contractual agreed sharing of control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing the control.

An associate is an enterprise over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of an investee but is not control or joint control over those policies.

An investment in a jointly controlled enterprise or an associate is accounted for using the equity method, unless the investment is classified as held for sale (see Note 3(10)).

At year-end, the Group makes provision for impairment loss of investments in jointly controlled enterprises and associates (see Note 3(12)(c)).

An investment in a jointly controlled enterprise or an associate is initially recognised at actual payment cost if the Group acquires the investment by cash, at the fair value of the equity securities issued if an investment is acquired by issuing equity securities, or at the value stipulated in the investment contract or agreement if an investment is contributed by an investor.

3. Significant accounting policies *(continued)*

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

(b) Investment in jointly controlled enterprises and associates *(continued)*

The Group makes the following accounting treatments when using the equity method:

- Where the initial investment cost of a long-term equity investment exceeds the Group's interest in the fair value of the investee's identifiable net assets at the date of acquisition, the investment is initially recognised at the initial investment cost. Where the initial investment cost is less than the Group's interest in the fair value of the investee's identifiable net assets at the date of acquisition, the investment is initially recognised at the investor's share of the fair value of the investee's identifiable net assets, and the difference is charged to profit or loss.

- After the acquisition of the investment, the Group recognises its share of the investee's net profits or losses as investment income or losses, and adjusts the carrying amount of the investment accordingly. The carrying amount of investment is reduced by that attributable to the Group once the investee declares any cash dividends or profits distributions.

  The Group recognises its share of the investee's net profits or losses after making appropriate adjustments to align the accounting policies or accounting periods with those of the Group based on the fair values of the investee's identifiable net assets at the date of acquisition. Unrealised profits and losses resulting from transactions between the Group and its associates or jointly controlled enterprises are eliminated to the extent of the Group's interest in the associates or jointly controlled enterprises. Unrealised losses resulting from transactions between the Group and its associates or jointly controlled enterprises are eliminated in the same way as unrealized gains but only to the extent that there is no evidence of impairment.

- The Group discontinues recognising its share of net losses of the investee after the carrying amount of the long-term equity investment and any long-term interest that in substance forms part of the Group's net investment in the associate or the jointly controlled enterprise is reduced to zero, except to the extent that the Group has an obligation to assume additional losses. Where net profits are subsequently made by the associate or jointly controlled enterprise, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

3. Significant accounting policies *(continued)*

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

(c) Other long-term equity investments

Other long-term equity investments refer to investments where the Group does not have control, joint control or significant influence over the investees, and the investments are not quoted in an active market and their fair value cannot be reliably measured.

Such investments are initially recognised at the cost determined in accordance with the same principles as those for jointly controlled enterprises and associates, and then accounted for using the cost method. At year-end the Group makes provision for impairment losses on such investments (see Note 3(12)(b)).

(6) Investment property

Investment property is a property held either to earn rental income or for capital appreciation or for both.

Investment property is accounted for using the cost model and stated in the balance sheet at cost less accumulated depreciation (see Note 3(12)(c)). Investment property is depreciated using the straight-line method over its estimated useful life, unless the investment property is classified as held for sale. (see Note 3(10)).

	Estimated useful life	Estimated residual value	Depreciation rate
Property	40 years	3%	2.43%

(7) Fixed assets and construction in progress

Fixed assets represent the tangible assets held by the Group for use in the production of goods or supply of services or for operation and administrative purposes with useful lives over one year.

Fixed assets are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see Note 3(12)(c)). Construction in progress is stated in the balance sheet at cost less impairment losses (see Note 3(12)(c)).

The cost of a purchased fixed asset comprises the purchase price, related taxes, and any directly attributable expenditure for bringing the asset to working condition for its intended use. The cost of self-constructed assets includes the cost of materials, direct labour, capitalised borrowing costs (see Note 3(18)), and any other costs directly attributable to bringing the asset to working condition for its intended use.

3. Significant accounting policies *(continued)*

(7) Fixed assets and construction in progress *(continued)*

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

Where parts of an item of fixed asset have different useful lives or provide benefits to the Group in different patterns thus necessitating use of different depreciation rates or methods, each part is recognised as a separate fixed asset.

The subsequent costs including the cost of replacing part of an item of fixed assets are recognised in the carrying amount of the item if the recognition criteria are satisfied, and the carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of fixed assets are recognised in profit or loss as incurred.

Gains or losses arising from the retirement or disposal of an item of fixed asset are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Fixed assets are depreciated using the straight-line method over their estimated useful lives, unless the fixed asset is classified as held for sale (see Note 3(10)). The estimated useful lives, residual values and depreciation rates of each class of fixed assets are as follows:

	Estimated Useful life	Estimated Residual value	Depreciation rate
Buildings	15 - 40 years	3%-5%	2.4%-6.5%
Plants and machinery	10 - 20 years	3%-5%	4.8%-9.7%
Vehicles and other equipment	5 - 26 years	3%-5%	3.7%-19.4%

Useful lives, residual values and depreciation methods are reviewed at least each year-end.

(8) Intangible assets

Intangible assets are stated in the balance sheet at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see Note 3(12)(c)). For an intangible asset with finite useful life, its cost less residual value and impairment loss is amortised on a straight-line basis over its estimated useful lives, unless the intangible asset is classified as held for sale (see Note 3(10)). The respective amortisation periods for such intangible assets are as follows:

Land use rights	50 years
Other intangible assets	2-27.75 years

3. Significant accounting policies *(continued)*

(8) Intangible assets *(continued)*

An intangible asset is regarded as having an indefinite useful life and is not amortised when there is no foreseeable limit to the period over which the asset is expected to generate economic benefits for the Group. At the balance sheet date, the Group doesn't have any intangible assets with indefinite useful lives.

Expenditures on an internal research and development project are classified into expenditures on the research phase and expenditures on the development phase. Research is original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding. Development is the application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products or processes before the start of commercial production or use.

Expenditures on research phase are recognised in profit or loss when incurred. Expenditures on development phase are capitalised if development costs can be measured reliably, the product or process is technically and commercially feasible, and the Group intends to and has sufficient resources to complete development. Capitalised development costs are stated at cost less impairment losses (see Note 3(12)(c)). Other development expenditures are recognised as expenses in the period in which they are incurred.

(9) Goodwill

Goodwill represents the excess of cost of acquisition over the acquirer's interest in the fair value of the identifiable net assets of the acquiree under the business combination involving entities not under common control.

Goodwill is not amortised and is stated at cost less accumulated impairment losses (see Note 3(12)(c)). On disposal of an asset group or a set of asset groups, any attributable amount of purchased goodwill is written off and included in the calculation of the profit or loss on disposal.

(10) Non-current assets held for sale

A non-current asset is classified as held for sale when the Group has made a decision and signed a non-cancellable agreement on the transfer of the asset with the transferee, and the transfer is expected to be completed within one year. Such non-current assets may be fixed assets, intangible assets, investment property subsequently measured using the cost model, long-term equity investment etc. but not include deferred tax assets. Non-current assets held for sale are stated at the lower of carrying amount and net realisable value. Any excess of the carrying amount over the net realisable value is recognised as impairment loss. At balance sheet date, non-current assets held for sale are still presented under corresponding asset classification as they were.

3. Significant accounting policies *(continued)*

(11) Financial instruments

Financial instruments of the Group comprise cash at bank and on hand, financial assets held for trading, receivables, payables, available-for-sale financial assets, loans and borrowings, short-term debentures payable and share capital, etc.

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

A financial asset or financial liability is recognised in the balance sheet when the Group becomes a party to contractual provisions of a financial instrument.

The Group classifies financial assets and liabilities into different categories at initial recognition based on the purpose of acquiring assets or assuming liabilities: financial assets and financial liabilities at fair value through profit or loss, loans and receivables, available-for-sale financial assets and other financial liabilities.

Financial assets and financial liabilities are measured initially at fair value. For financial assets and financial liabilities at fair value through profit or loss, any directly attributable transaction costs are charged to profit or loss; for other categories of financial assets and financial liabilities, any attributable transaction costs are included in their initial costs. Subsequent to initial recognition financial assets and liabilities are measured as follows:

- Financial assets and financial liabilities at fair value through profit or loss (including financial assets or financial liabilities held for trading)

  A financial asset or financial liability is classified as at fair value through profit or loss if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is a derivative, unless the derivative is a designated and effective hedging instrument. Subsequent to initial recognition, financial assets and financial liabilities at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

- Receivables

  Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, receivables are subsequently stated at amortised cost using the effective interest method.

3. Significant accounting policies *(continued)*

(11) Financial instruments *(continued)*

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

- Available-for-sale financial assets

Available-for-sale financial assets include non-derivative financial assets that are designated upon initial recognition as available for sales and other financial assets which do not fall into any of the above categories. An investment in equity instrument which does not have a quoted market price in an active market and whose fair value cannot be reliably measured is measured at cost subsequent to initial recognition.

Other than investments in equity instruments whose fair value cannot be measured reliably as described above, subsequent to initial recognition, other available-for-sale financial assets are measured at fair value and changes therein, except for impairment losses and foreign exchange gains and losses from monetary financial assets, which are recognised directly in profit or loss, are recognised directly in equity. When an investment is derecognised, the cumulative gain or loss in equity is removed from equity and recognised in profit or loss. Dividend income from these equity instruments is recognised in profit or loss when the investee declares the dividends. Interest on available-for-sale financial assets calculated using the effective interest method is recognised in profit or loss (see Note 3(16)(c)).

- Other financial liabilities

Financial liabilities other than the financial liabilities at fair value through profit or loss are classified as other financial liabilities.

Other financial liabilities include the liabilities arising from financial guarantee contracts. Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the holder) for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Where the Group issues a financial guarantee, subsequent to initial recognition, the guarantee is measured at the higher of the amount initially recognised less accumulated amortisation and the amount of a provision determined in accordance with the principles of contingent liabilities (see Note 3(15)).

Except for the other financial liabilities described above, subsequent to initial recognition, other financial liabilities are measured at amortised cost using the effective interest method.

3. Significant accounting policies *(continued)*

(11) Financial instruments *(continued)*

(b) Determination of fair values

If there is an active market for a financial asset or financial liability, the quoted price in the active market without adjusting for transaction costs that may be incurred upon future disposal or settlement is used to establish the fair value of the financial asset or financial liability. For a financial asset held or a financial liability to be assumed, the quoted price is the current bid price and, for a financial asset to be acquired or a financial liability assumed, it is the current asking price.

If no active market exists for a financial instrument, a valuation technique is used to establish the fair value. Valuation techniques include reference to the current fair value of another instrument that is substantially the same. The Group calibrates the valuation technique and tests it for validity periodically.

(c) Derecognition of financial assets and financial liabilities

A financial asset is derecognised if the Group's contractual rights to the cash flows from the financial asset expire or if the Group transfers substantially all the risks and rewards of ownership of the financial asset to another party.

Where a transfer of a financial asset in its entirely meets the criteria of the derecognition, the difference between the two amounts below is recognised in profit or loss:

- carrying amount of the financial asset transferred

- the sum of the consideration received from the transfer and any cumulative gain or loss that has been recognised directly in shareholders' equity

The Group derecognises a financial liability (or part of it) only when the underlying present obligation (or part of it) is discharged.

(d) Equity instrument

An equity instrument is a contract that proves the ownership interest of the assets after deducting all liabilities in the Company.

The consideration received from the issuance of equity instruments net of transaction costs is recognised in share capital and capital reserve.

Consideration and transaction costs paid by the Company for repurchasing its own equity instrument are deducted from shareholders' equity.

3. Significant accounting policies *(continued)*

(12) Impairment of financial assets and non-financial long-term assets

(a) Impairment of financial assets

The carrying amounts of financial assets (other than those at fair value through profit or loss) are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, impairment loss is provided.

- Receivables

Receivables are assessed for impairment both on an individual basis and on a collective group basis.

Where impairment is assessed on an individual basis, an impairment loss in respect of a receivable is calculated as the excess of its carrying amount over the present value of the estimated future cash flows (exclusive of future credit losses that have not been incurred) discounted at the original effective interest rate. All impairment losses are recognised in profit or loss.

The assessment is made collectively where receivables share similar credit risk characteristics (including those having not been individually assessed as impaired), based on their historical loss experiences, and adjusted by the observative figures reflecting present economic conditions.

If, after an impairment loss has been recognised on receivables or held-to-maturity investments, there is objective evidence of a recovery in value of the financial asset which can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss. A reversal of an impairment loss will not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

- Available-for-sale financial assets

Available-for-sale financial assets are assessed for impairment on an individual basis.

When an available-for-sale financial asset is impaired, the cumulative loss arising from decline in fair value that has been recognised directly in equity is removed from equity and recognised in profit or loss even though the financial asset has not been derecognised.

3. Significant accounting policies *(continued)*

(12) Impairment of financial assets and non-financial long-term assets *(continued)*

(a) Impairment of financial assets *(continued)*

- Available-for-sale financial assets *(continued)*

  If, after an impairment loss has been recognised on an available-for-sale debt instrument, the fair value of the debt instrument increases in a subsequent period and the increase can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. An impairment loss recognised for an investment in an equity instrument classified as available-for-sale is not reversed through profit or loss.

(b) Impairment of other long-term equity investments

Other long-term equity investments (see note 3(5)(c)) are assessed for impairment on an individual basis.

For other long-term equity investments, the amount of the impairment loss is measured as the difference between the carrying amount of the investment and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss is not reversed.

(c) Impairment of non-financial long-term assets

The carrying amounts of the following assets are reviewed at each balance sheet date based on the internal and external sources of information to determine whether there is any indication of impairment:

- fixed assets
- construction in progress
- intangible assets
- investment property measured using a cost model
- long-term equity investments in subsidiaries, associates and jointly controlled entities.

If any indication exists that an asset may be impaired, the recoverable amount of the asset is estimated. In addition, the Group estimates the recoverable amounts of goodwill at no later than each year-end, irrespective of whether there is any indication of impairment or not. Goodwill is tested for impairment together with its related asset groups or sets of asset groups.

3. Significant accounting policies *(continued)*

(12) Impairment of financial assets and non-financial long-term assets *(continued)*

(c) Impairment of non-financial long-term assets *(continued)*

An asset group is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or asset groups. An asset group is composed of assets directly relating to cash-generation. Identification of an asset group is based on whether major cash inflows generated by the asset group are largely independent of the cash inflows from other assets or asset groups. In identifying an asset group, the Group also considers how management monitors the Group's operations and how management makes decisions about continuing or disposing of the Group's assets.

The recoverable amount of an asset, asset group or set of asset groups is the higher of its fair value less costs to sell and its present value of expected future cash flows.

An asset's fair value less costs to sell is the amount determined by the price of a sale agreement in an arm's length transaction, less the costs that are directly attributable to the disposal of the asset. The present value of expected future cash flows of an asset is determined by discounting the future cash flows, estimated to be derived from continuing use of the asset and from its ultimate disposal, to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the result of the recoverable amount calculating indicates the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is recognised as an impairment loss and charged to profit or loss for the current period. A provision for impairment loss of the asset is recognised accordingly. For impairment losses related to an asset group or a set of asset groups, first reduce the carrying amount of any goodwill allocated to the asset group or set of asset groups, and then reduce the carrying amount of the other assets in the asset group or set of asset groups on a pro rata basis. However, the carrying amount of an impaired asset will not be reduced below the highest of its individual fair value less costs to sell (if determinable), the present value of expected future cash flows (if determinable) and zero.

Once an impairment loss is recognised, it is not reversed in a subsequent period.

3. Significant accounting policies *(continued)*

(13) Employee benefits

Employee benefits are all forms of considerations given and other relevant expenditures incurred in exchange for services rendered by employees. Except for termination benefits, employee benefits are recognised as a liability in the period in which the associated services are rendered by employees, with a corresponding increase in cost of relevant assets or expenses in the current period.

(a) Pension benefits

Pursuant to the relevant laws and regulations of the PRC, the Group has joined a basic pension insurance for the employees arranged by local Labour and Social Security Bureaus. The Group makes contributions to the pension insurance at the applicable rates based on the amounts stipulated by the government organisation. The contributions are charged to profit or loss on an accrual basis. When employees retire, the local Labour and Social Security Bureaus are responsible for the payment of the basic pension benefits to the retired employees.

(b) Housing fund and other social insurances

Besides the pension benefits, pursuant to the relevant laws and regulations of the PRC, the Group has joined defined social security contributions for employees, such as a housing fund, basic medical insurance, unemployment insurance, injury insurance and maternity insurance. The Group makes contributions to the housing fund and other social insurances mentioned above at the applicable rate (s) based on the employees' salaries. The contributions are recognised as cost of assets or charged to profit or loss on an accrual basis.

(c) Termination benefits

When the Group terminates the employment relationship with employees before the employment contracts have expired, or provides compensation as an offer to encourage employees to accept voluntary redundancy, a provision for the termination benefits provided, is recognised in profit or loss when both of the following conditions have been satisfied:

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

- The Group is not allowed to withdraw from termination plan or redundancy offer unilaterally.

3. Significant accounting policies *(continued)*

(14) Income tax

Current tax and deferred tax are recognised in profit or loss except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

Current tax is the expected tax payable calculated at the applicable tax rate on taxable income for the year, and any adjustment to tax payable in respect of previous years.

At the balance sheet date, current tax assets and liabilities are offset if the taxable entity has a legally enforceable right to set off them and the entity intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases, which include the deductible losses and tax credits carry forward to subsequent periods. Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax is not recognised for the temporary differences arising from the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting profit nor taxable profit (or tax loss). Deferred tax is not recognised for taxable temporary differences arising from the initial recognition of goodwill.

At the balance sheet date, the amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates that are expected to be applied in the period when the asset is realised or the liability is settled in accordance with tax laws.

At the balance sheet date, deferred tax assets and liabilities are offset if all the following conditions are met:

- the taxable entity has a legally enforceable right to set off current tax assets against current tax liabilities, and

- they relate to income taxes levied by the same tax authority on either:

  - the same taxable entity; or
  - different taxable entities which either to intend to settle the current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

3. Significant accounting policies *(continued)*

(15) Provisions and contingent liabilities

A provision is recognised for an obligation related to a contingency if the Group has a present obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Where the effect of time value of money is material, provisions are determined by discounting the expected future cash flows.

In terms of a possible obligation resulting from a past transaction or event, whose existence will only be confirmed by the occurrence or non-occurrence of uncertain future events or a present obligation resulting from a past transaction or event, where it is not probable that the settlement of the above obligation will cause an outflow of economic benefits, or the amount of the outflow can not be estimated reliably, the possible or present obligation is disclosed as a contingent liability.

(16) Revenue recognition

Revenue is the gross inflow of economic benefit arising in the course of the Group's ordinary activities when the inflows result in increase in shareholder's equity, other than increase relating to contributions from shareholders. Revenue is recognised in profit or loss when it is probable that the economic benefits will flow to the Group, the revenue and costs can be measured reliably and the following respective conditions are met:

(a) Sale of goods

Revenue from sale of goods is recognised when all of the general conditions stated above and following conditions are satisfied:

- The significant risks and rewards of ownership of goods have been transferred to the buyer

- The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.

Revenue from the sale of goods is measured at the fair value of the considerations received or receivable under the sales contract or agreement.

(b) Rendering of services

At the balance sheet date, where the outcome of a transaction involving the rendering of services can be estimated reliably, revenue from the rendering of services is recognised in the income statement by reference to the stage of completion of the transaction based on the proportion of services performed to date to the total services to be performed.

3. Significant accounting policies *(continued)*

(16) Revenue recognition *(continued)*

(b) Rendering of services *(continued)*

Where the outcome of rendering of services cannot be estimated reliably, if the costs incurred are expected to be recoverable, revenues are recognised to the extent that the costs incurred that are expected to be recoverable, and an equivalent amount is charged to profit or loss as service cost; if the costs incurred are not expected to be recoverable, the costs incurred are recognised in profit or loss and no service revenue is recognised.

(c) Interest income

Interest income is recognised on a time proportion basis with reference to the principal outstanding and the applicable effective interest rate.

(17) Government grants

Government grants are transfers of monetary assets or non-monetary assets from the government to the Group at no consideration except for the capital contribution from the government as an investor in the Group. Special funds such as investment grants allocated by the government, if clearly defined in official documents as part of i°capital reservei± are dealt with as capital contributions, and not regarded as government grants.

A government grant is recognised when there is reasonable assurance that the grant will be received and that the Group will comply with the conditions attaching to the grant.

If a government grant is in the form of a transfer of a monetary asset, it is measured at the amount that is received or receivable. If a government grant is in the form of a transfer of a non-monetary asset, it is measured at its fair value.

A government grant related to an asset is recognised initially as deferred income and amortised to profit or loss on a straight-line basis over the useful life of the asset. A grant that compensates the Group for expenses to be incurred in the subsequent periods is recognised initially as deferred income and recognised in profit or loss in the same periods in which the expenses are recognised. A grant that compensates the Group for expenses incurred is recognised in profit or loss immediately.

3. Significant accounting policies *(continued)*

(18) Borrowing costs

Borrowing costs incurred directly attributable to the acquisition, construction or of a qualifying asset are capitalised as part of the cost of the asset.

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

During the capitalisation period, the amount of interest (including amortisation of any discount or premium on borrowing) to be capitalised in each accounting period is determined as follows:

- Where funds are borrowed specifically for the acquisition, construction of a qualifying asset, the amount of interest to be capitalised is the interest expense calculated using effective interest rates during the period less any interest income earned from depositing the borrowed funds or any investment income on the temporary investment of those funds before being used on the asset.

- Where funds are borrowed generally and used for the acquisition, construction of a qualifying asset, the amount of interest to be capitalised on such borrowings is determined by applying a capitalisation rate to the weighted average of the excess amounts of cumulative expenditures on the asset over the above amounts of specific borrowings. The capitalisation rate is the weighted average of the interest rates applicable to the general-purpose borrowings.

The effective interest rate is determined as the rate that exactly discounts estimated future cash flow through the expected life of the borrowing or, when appropriate, a shorter period to the initially recognised amount of the borrowings.

During the capitalisation period, exchange differences related to the principal and interest on a specific-purpose borrowing denominated in foreign currency are capitalised as part of the cost of the qualifying asset. The exchange differences related to the principal and interest on foreign currency borrowings other than a specific-purpose borrowing are recognised as a financial expense in the period in which they are incurred.

The capitalisation period is the period from the date of commencement of capitalisation of borrowing costs to the date of cessation of capitalisation, excluding any period over which capitalisation is suspended. Capitalisation of borrowing costs commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities of acquisition, construction that are necessary to prepare the asset for its intended use are in progress, and ceases when the assets become ready for their intended use. Capitalisation of borrowing costs is suspended when the acquisition, construction activities are interrupted abnormally and the interruption lasts over three months.

3. Significant accounting policies *(continued)*

(19) Dividends appropriated to investors

Dividends or distributions of profits proposed in the profit appropriation plan which will be authorised and declared after the balance sheet date, are not recognised as a liability at the balance sheet date but disclosed in the notes separately.

(20) Related parties

If a party has the power to control, jointly control or exercise significant influence over another party, or vice versa, or where two or more parties are subject to common control, joint control or significant influence from another party, they are considered to be related parties. Related parties may be individuals or enterprises. Enterprises with which the Company is under common control only from the State and that have no other related party relationships are not regarded as related parties of the Group. Related parties of the Group and the Company include, but are not limited to:

(a) the Company's parent

(b) the Company's subsidiaries

(c) enterprises that are controlled by the Company's parent

(d) investors that have joint control or exercise significant influence over the Group

(e) enterprises or individuals if a party has control, joint control or significant influence over both the enterprises or individuals and the Group

(f) joint ventures of the Group

(g) associates of the Group

(h) principal individual investors and close family members of such individuals

(i) key management personnel of the Group and close family members of such individuals

(j) key management personnel of the Company's parent

(k) close family members of key management personnel of the Company's parent

(l) other enterprises that are controlled, jointly controlled or significantly influenced by principal individual investors, key management personnel of the Group, and close family members of such individuals.

3. Significant accounting policies *(continued)*

(20) Related parties *(continued)*

Besides the related parties stated above determined in accordance with the requirements of CAS (2006), the following enterprises and individuals are considered as (but not restricted to) related parties based on the disclosure requirements of Administrative Procedures on the Information Disclosures of Listed Companies issued by the CSRC:

(m) enterprises or persons that act an concert, that hold 5% or more of the Company's shares

(n) individuals and close family members of such individuals who directly or indirectly hold 5% or more of the Company's shares

(o) enterprises that satisfy any of the aforesaid conditions in (a), (c) and (m) during the past 12 months or will satisfy them within the next 12 months pursuant to a relevant agreement

(p) individuals who satisfy any of the aforesaid conditions in (i), (j) and (n) during the past 12 months or will satisfy them within the next 12 months pursuant to a relevant agreement; and

(q) enterprises, other than the Company and subsidiaries controlled by the Company, which are controlled directly or indirectly by an individual defined in (i), (j), (n) or (p), or in which such individual assumes the position of a director or senior executive.

(21) Segment reporting

Segment information is presented in respect of the Group's business segments. A business segment is a distinguishable component of the Group that is engaged in providing an individual product or service or a group of related products or services and that is subject to risks and returns that are different from those of other component.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group entities within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire or construct segment fixed assets and intangible assets.

Unallocated items mainly comprise interest income and expenses, dividend income, investment income or loss arising from long-term equity investment, non-operating income and expenses, and income tax expenses.

4. Changes in accounting policies

(1) Description of and reasons for changes in accounting policies

In accordance with CAS Bulletin No.2 and the Notice on preparing 2008 annual reports of enterprises adopting China Accounting Standards (Caikuaihan [2008]No.60) , which were newly issued by the Ministry of Finance in 2008, and the Interpretation Guidance of CAS published in December 2008, the Group changed the following significant accounting policies in the current accounting year:

(a) Deferred tax assets are offset against deferred tax liabilities

Deferred tax assets and liabilities were presented separately from each other and were not offset. Now they are presented on a net basis on the balance sheet if specific conditions are met (see Note 3(14)).

The relevant comparative items have been adjusted accordingly for the above change on the presentation of deferred tax assets and liabilities. The effects of this change of accounting policy on the prior and current years have been disclosed in Note 4(2) and Note 4(1)(b), respectively.

(b) Effect of changes in accounting policies on the current year

Influenced items in consolidated income statement and income statement for the year 2008, consolidated balance sheet and balance sheet as at 31 December 2008 due to changes in accounting policies compared with those financial statement items had the previous policies still been applied in the current year are as follows:

(i) The changes of accounting policies have no effect on the 2008 consolidated income statement and income statement.

4. Changes in accounting policies *(continued)*

(1) Description of and reasons for changes in accounting policies *(continued)*

(b) Effect of changes in accounting policies on the current year *(continued)*

(ii) The effects of the above changes in accounting policies on each of the line items in the consolidated balance sheet and balance sheet for the year ended 31 December 2008 are analysed as follows:

	Effect of new policy increase/(decrease) in net assets	
	The Group	The Company
	RMB'000	RMB'000
Deferred tax assets	(82,111)	(78,319)
Deferred tax liabilities	82,111	78,319
Net assets	-	-

(2) The changes of accounting policies have no effect on the 2007 consolidated income statement and income statement.

The effects of the above changes in accounting policies on each of the line items in the consolidated balance sheet and balance sheet for the year ended 31 December 2007 are summarised as follows:

	The Group			The Company		
	Before Adjustment	Adjustment	After Adjustment	Before Adjustment	Adjustment	After Adjustment
Deferred tax assets	129,207	(129,207)	-	126,519	(126,519)	-
Deferred tax liabilities	(150,170)	129,207	(20,963)	(137,186)	126,519	(10,667)
Total	(20,963)	-	(20,963)	(10,667)	-	(10,667)

5. Taxation

(1) The types of taxes applicable to the Group's sale of goods and rendering of services include business tax, value added tax (VAT) and consumption tax.

i) Business tax rate: 5%

VAT rate: 13%, 17%

With effect from 1 January 2009, the Group will have input tax deduction when buying fixed assets, and at the same time, the Group will be subject to VAT when selling used fixed assets.

ii) Consumption tax

In accordance with relevant PRC tax regulations, the Group's sales of gasoline and diesel oil are taxed at a rate of RMB277.6 per ton and RMB117.6 per ton respectively.

The Group's sales of gasoline and diesel oil have been adjusted to a tax rate of RMB 1,388 per ton and RMB 940.8 per ton respectively since 1 January 2009.

(2) Income tax

The income tax rate applicable to the Company and each of its subsidiaries for the year is 25% (2007: 33%). The Company did not carry out business overseas and therefore does not incur overseas income taxes.

(3) Taxes payable

	The Group		The Company	
	2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000
Value-added tax payable	3,453	71,380	-	67,422
Business tax payable	2,909	1,552	2,534	1,178
Income tax payable	1,679	17,580	-	-
Consumption tax payable	29,358	56,036	29,358	56,036
Education surcharge payable	1,023	3,941	970	3,704
Others	7,026	18,266	6,200	16,215
	45,448	168,755	39,062	144,555

6. Business combination and consolidated financial statements

(1) At 31 December 2008, all principal subsidiaries of the Company included in the consolidated financial statements came into existence through establishment, details are as follows:

Names of enterprise	Organisation code	Registered place	Principal activities	Registered capital	Closing amount of the Company's investment	Interests that in substance form part of the Company's net investment	Direct and indirect the percentage of equity held	Direct and indirect percentage of voting power
				'000	RMB'000	RMB'000		
Shanghai Petrochemical Investment Development Company Limited	13470096-9	Shanghai	Investment management	RMB800,000	1,212,340	1,212,340	100%	100%
Shanghai Petrochemical Enterprise Development Company Limited	13228675-X	Shanghai	Investment management	RMB455,000	513,815	513,815	100%	100%
China Jinshan Associated Trading Corporation	13220602-7	Shanghai	Import and export of petrochemical products and equipment	RMB25,000	16,832	16,832	67.33%	67.33%
Shanghai Jinchang Engineering Plastics Company Limited	60725706-4	Shanghai	Production of polypropylene compound products	US$4,750	20,832	20,832	50.38%	50.38%
Shanghai Golden Phillips Petrochemical Company Limited	60734004-4	Shanghai	Production of polypropylene products	US$50,000	249,374	249,374	60%	60%
Zhejiang Jin Yong Acrylic Fibre Company Limited	25603829-9	Ningbo, Zhejiang	Production of acrylic fibre products	RMB250,000	227,500	227,500	75%	75%
Shanghai Golden Conti Petrochemical Company Limited	60732552-2	Shanghai	Production of petrochemical products	RMB545,776	545,776	545,776	100%	100%

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

(2) Minority interests for each significant subsidiary are analysed as follows:

Company	Minority interests at 31 December 2008 RMB'000	Minority interest at 1 January 2008 RMB'000
China Jinshan Associated Trading Corporation	31,546	28,777
Zhejiang Jin Yong Acrylic Fibre Company Limited	-	1,012
Shanghai Golden Phillips Petrochemical Co., Ltd.	198,932	230,052
Shanghai Jinchang Engineering Plastics Co., Ltd.	28,178	28,133
Others	5,697	16,017
Total	264,353	303,991

The losses of the current year allocated to the minority shareholders exceeded the minority's interest in the subsidiary Zhejiang Jin Yong Acrylic Fibre Company Limited's equity as at 1 January 2008 and the excess amounted to RMB 145,595,000 (2007:nil). Since the articles of association or agreement did not state that the minority shareholders have a binding obligation to make an additional investment to cover the losses, the excess amount was allocated to the Group's equity attributable to the shareholders of the Company.

7. Cash at bank and on hand

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

	31 December 2008 Exchange rate	The Group Original currency '000	The Group 2008 RMB'000	The Group 2007 RMB'000	The Company Original currency '000	The Company 2008 RMB'000	The Company 2007 RMB'000
Cash on hand							
Renminbi	1.0000	74	74	79	40	40	37
Cash at bank							
Renminbi	1.0000	591,223	591,223	849,780	258,916	258,916	591,538
Hong Kong Dollars	0.8819	13,507	11,912	12,382	13,507	11,912	12,382
United States Dollars	6.8346	47	318	347	34	234	199
Swiss franc	6.4624	130	840	841	130	840	841
Cash at bank and on hand			604,367	863,429		271,942	604,997
Cash deposits at related party(Note 47)							
Renminbi			23,318	29,736		22,844	29,536
			627,685	893,165		294,786	634,533

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

8. Financial assets held for trading

	The Group 2008 RMB'000	The Group 2007 RMB'000	The Company 2008 RMB'000	The Company 2007 RMB'000
Derivative financial assets				
- Forward exchange contracts	97,644	-	97,644	-

The above derivative financial assets are forward exchange contracts which are used to reduce currency risk exposed by the Group and the Company in relation to foreign currency denominated loans. (see Note 44(a)).

9. Bills receivable

	The Group		The Company	
	2008	2007	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Bank bills	547,916	1,780,493	424,056	1,660,624
Commercial bills	18,440	20,363	12,000	8,578
Total	566,356	1,800,856	436,056	1,669,202

All of the above bills held are due within six months. At 31 December 2008, the Group and the Company's outstanding endorsed or discounted bank bills (with recourse) amounted to RMB 618,191,000 and RMB 498,693,000. (2007: RMB 745,285,000 and RMB 573,108,000).

Except for the balances disclosed in Note 47, no amount due from major shareholders who hold 5% or more of the voting rights of the Company is included in the balance of bills receivable.

10. Dividends receivable

	The Group		The Company	
	2008	2007	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Shanghai Secco Petrochemical Company Limited	74,000	-	74,000	-

No amount due from shareholders who hold 5% or more of the voting rights of the Company is included in the above balance of dividends receivable.

11. Trade debtors

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

	The Group		The Company	
	2008	2007	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Amounts due from subsidiaries	-	-	19,160	21,065
Amounts due from other related parties	137,207	350,836	134,496	336,959
Amounts due from others	107,697	236,848	57,558	81,877
Sub-total	244,904	587,684	211,214	439,901
Less: bad debt provision	18,611	24,591	13,692	19,167
Total	226,293	563,093	197,522	420,734

At 31 December 2008, the total amount of the trade debtors due from related parties of the Group and the Company is RMB 137,207,000 and RMB 153,656,000(2007: RMB 350,836,000 and RMB 358,024,000), represents 56.02% and 72.75% (2007: 59.70%and 81.39%) of the total trade debtors.

Except for the balances disclosed in Note 47, no amount due from shareholders who hold 5% or more of the voting rights of the Company is included in the above balance of trade debtors.

As at 31 December 2008, trade debtors due from the five biggest debtors of the Group and the Company are as follows:

	The Group		
	Amount RMB'000	Years past due	Percentage of total trade debtors %
Sinopec Huadong Sales Company	96,548	within one year	39.42
Shanghai Petrochemical Yali Industry Development Co., Ltd.	29,031	within one year	11.85
BOC-SPC Gases Co., Ltd	16,251	within one year	6.64
Shanghai Jinpu Plastics Packaging Material Company Limited	9,896	within one year	4.04
Shanghai Secco Petrochemical Company Limited	7,401	within one year	3.02

11. Trade debtors *(continued)*

(1) Trade debtors categorised by customers are analysed as follows: *(continued)*

	The Company		
	Amount RMB'000	Years past due	Percentage of total trade debtors %
Sinopec Huadong Sales Company	96,548	within one year	45.71
Shanghai Petrochemical Yali Industry Development Co., Ltd.	25,224	within one year	11.94
BOC-SPC Gases Co., Ltd	14,710	within one year	6.96
Shanghai Petrochemical Enterprise Development Company Limited	10,350	within one year	4.90
Shanghai Petrochemical Investment Development Company Limited	8,810	within one year	4.17

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

	The Group							
	2008				2007			
	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 (inclusive)	226,159	92.35	-	0.00	562,034	95.63	-	0.00
Between one and two years (inclusive)	192	0.08	58	30.21	1,513	0.26	454	30.01
Between two and three years (inclusive)	497	0.20	497	100.00	9,629	1.64	9,629	100.00
Over three years	18,056	7.37	18,056	100.00	14,508	2.47	14,508	100.00
Total	244,904	100.00	18,611		587,684	100.00	24,591	
Trade debtors,net	226,293				563,093			

11. Trade debtors *(continued)*

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

The Company

	2008				2007			
	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 (inclusive)	197,422	93.47	-	0.00	420,194	95.52	-	0.00
Between one and two years (inclusive)	142	0.07	42	29.58	771	0.18	231	29.96
Between two and three years (inclusive)	440	0.21	440	100.00	9,551	2.17	9,551	100.00
Over three years	13,210	6.25	13,210	100.00	9,385	2.13	9,385	100.00
Total	211,214	100.00	13,692		439,901	100.00	19,167	
Trade debtors,net	197,522				420,734			

The ageing is counted starting from the date trade debtors is recognised.

During the year, the Group and the Company had no individually significant trade debtors been fully or substantially provided allowance for doubtful accounts. During the year, the Group and the Company had no individually significant write off or write back of doubtful debts which had been fully or substantially provided for in prior years. At 31 December 2008, the Group and the Company had no individually significant trade debtors that aged over three years.

12. Advance payments

All advance payments are aged within one year.

At 31 December 2008, the total amount of the advance payments to related parties of the Group and the Company is RMB 21,140,000 and RMB 20,418,000 respectively (2007: RMB 75,999,000 and RMB 74,373,000 respectively), represents 31.66% and 31.13% of the total advance payments respectively.(2007: 61.32% and 70.69% respectively).

Except for the balances disclosed in Note 47, no amount due from shareholders who hold 5% or more of the voting rights of the Company is included in the above balance of advance payments.

At 31 December 2008, an analysis of the Group's individually advance payments that are 30% or more of the total amount is as follows:

Entity's name	Reasons for advance payment	Amount RMB'000	Percentage of total advance payments
SINOCHEM-Xing Zhong Oil Staging (Zhou Shan) Co.,Ltd.	Advance payment for purchase	31,000	46.43%

At 31 December 2008, an analysis of the Company's individually advance payments that are 30% or more of the total amount is as follows:

Entity's name	Reasons for advance payment	Amount RMB'000	Percentage of total advance payments
SINOCHEM-Xing Zhong Oil Staging (Zhou Shan) Co.,Ltd.	Advance payment for purchase	31,000	47.27%

13. Other receivables

(1) Other receivables categorised by customers are analysed as follow:

	The Group		The Company	
	2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000
Amounts due from subsidiaries	-	-	283,135	100,939
Amounts due from other related parties	11,654	44,661	2,155	4,661
Amounts due from others	112,654	321,575	15,444	212,555
Sub-total	124,308	366,236	300,734	318,155
Less: bad debt provision	12,730	13,594	288,269	6,452
Total	111,578	352,642	12,465	311,703

At 31 December 2008, total amount of the Group's and the Company's other receivables due from related parties is RMB 11,654,000 and RMB 285,290,000 respectively (2007: RMB 44,661,000 and RMB 105,600,000 respectively), represents 9.38% and 94.86% (2007: 12.19% and 33.19%) of the total other receivables.

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

The Group

	2008				2007			
	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 (inclusive)	104,732	84.25	-	0.00	353,376	96.49	4,615	1.31
Between one and two years (inclusive)	8,641	6.95	2,892	33.47	3,222	0.88	1,129	35.04
Between two and three years (inclusive)	2,225	1.79	1,335	60.00	4,517	1.23	2,846	63.01
Over three years	8,710	7.01	8,503	97.62	5,121	1.40	5,004	97.72
Total	124,308	100.00	12,730		366,236	100.00	13,594	
Other receivables, net	111,578				352,642			

13. Other receivables *(continued)*

(2) The aging of other receivables is analysed as follows: *(continued)*

The Company

	2008				2007			
	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 (inclusive)	189,911	63.15	182,700	96.20	308,791	97.06	-	0.00
Between one and two years (inclusive)	104,709	34.82	100,150	95.65	3,102	0.97	958	30.88
Between two and three years (inclusive)	1,713	0.57	1,022	59.66	1,665	0.52	903	54.23
Over three years	4,401	1.46	4,397	99.91	4,597	1.45	4,591	99.87
Total	300,734	100.00	288,269		318,155	100.00	6,452	
Other receivables, net	12,465				311,703			

The ageing is counted starting from the date other receivables is recognised.

As at 31 December 2008, other receivables due from the five biggest debtors of the Group and the Company are as follows:

The Group

	Amount	Years past due	Percentage of total other receivables
	RMB'000		%
Jia Xing Custom of People's Republic of China	26,646	within one year	25.64
Shanghai Petrochemical Yali Industry Development Co., Ltd.	12,622	within one year	10.92
Shanghai Jin Shan Hotel Co., Ltd.	9,500	within one year	5.52
Shanghai Xiangshun Industry Co., Ltd.	8,913	within two years	3.99
Nikkiso Company	7,613	within two years	2.43

13. Other receivables *(continued)*

(2) The aging of other receivables is analysed as follows: *(continued)*

	The Company		
	Amount RMB'000	Years past due	Percentage of total other receivables %
Zhejiang Jin Yong Acrylic Fibre Co., Ltd.	282,700	within two years	94.00
Shanghai Xin Lian Entertainment Co., Ltd.	2,423	within two years	0.81
BOC-SPC Gases Co., Ltd.	2,001	within one year	0.67
Shanghai Baoling Trading Co.,Ltd. Kangxin Fibre Branch	1,702	within one year	0.57
Purple Jade Villas	860	within one year	0.29

Except for the balances disclosed in Note 47, no amount due from major shareholders who hold 5% or more of the voting rights of the Company is included in the balance of other receivables.

For the year ended 31 December 2008, the Company made a full bad debt provision of RMB 282,700,000 for the other receivables due from its consolidated subsidiary, Zhejiang Jin Yong Acrylic Fibre Co., Ltd. ("Jin Yong") (2007: RMB nil). Due to the poor economic environment and the stagnant chemical fibre market, Jin Yong suffered a loss and temporarily suspended operation, furthermore it reported a negative net assets at 31 December 2008. The Company therefore provided a full bad debt provision based on the estimated possibility on collection.

During the year, the Group and the Company had no individually significant write off or write back of doubtful debts which had been fully or substantially provided for in prior years. At 31 December 2008, the Group and the Company had no individually significant other receivables that aged over three years.

14. Inventories

	The Group				The Company			
	2008		2007		2008		2007	
	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	2,251,317	233,067	1,669,945	-	2,144,486	223,059	1,489,544	-
Work in progress	1,484,467	325,543	1,871,324	-	1,478,783	325,543	1,849,203	-
Finished goods	767,088	176,448	1,019,924	33,142	665,650	175,748	883,056	33,142
Spare parts and consumables	807,713	83,312	710,448	40,650	735,104	50,419	629,400	37,588
Total	5,310,585	818,370	5,271,641	73,792	5,024,023	774,769	4,851,203	70,730
Inventories, net	4,492,215		5,197,849		4,249,254		4,780,473	

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

	The Group							
	2008					2007		
	Raw materials RMB'000	Work in progress RMB'000	Finished goods RMB'000	Spare parts and consumables RMB'000	Total RMB'000	Finished goods RMB'000	Spare parts and consumables RMB'000	Total RMB'000
At 1 January	-	-	33,142	40,650	73,792	-	41,355	41,355
Provision for the year	233,067	325,543	143,306	42,662	744,578	33,142	2,611	35,753
Reversal	-	-	-	-	-	-	(3,316)	(3,316)
At 31 December	233,067	325,543	176,448	83,312	818,370	33,142	40,650	73,792

14. Inventories *(continued)*

	The Company							
	2008					2007		
	Raw materials RMB'000	Work in progress RMB'000	Finished goods RMB'000	Spare parts and consumables RMB'000	Total RMB'000	Finished goods RMB'000	Spare parts and consumables RMB'000	Total RMB'000
At 1 January	-	-	33,142	37,588	70,730	-	40,904	40,904
Provision for the year	223,059	325,543	142,606	12,831	704,039	33,142	-	33,142
Reversal	-	-	-	-	-	-	(3,316)	(3,316)
At 31 December	223,059	325,543	175,748	50,419	774,769	33,142	37,588	70,730

The inventories above are all purchased or self produced.

As at 31 December 2008, the provision for diminution in value of inventories of the Group and the Company was mainly against raw materials, work in progress, finished goods and spare parts and consumables of the refining and chemicals segments whose costs were higher than their net realisable value.

15. Other current assets

Other current assets represent deductible value added tax.

16. Available-for-sale financial assets

	The Group		The Company	
	2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000
Available-for-sale securities	123,918	478,793	111,327	434,554

Available-for-sale financial assets mainly represent available-for-sale securities of listed companies held by the Group and the Company. Available-for-sale financial assets are designated at fair value and the change of fair value is recognised through equity. The fair value of available-for-sale financial assets was based on quoted market prices at the balance sheet date.

17. Long-term equity investments

	The Group					
	Interests in associates (Note (a)) RMB'000	Interest in jointly controlled enterprises (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 2008	3,207,945	100,191	272,833	3,580,969	(37,200)	3,543,769
Additions for the year	86,963	-	-	86,963	-	86,963
Share of profits from investments accounted for under the equity method	(40,232)	31,724	-	(8,508)	-	(8,508)
Dividends receivable/received	(592,702)	(17,910)	-	(610,612)	-	(610,612)
Disposal for the year	-	-	(69,895)	(69,895)	-	(69,895)
Balance at 31 December 2008	2,661,974	114,005	202,938	2,978,917	(37,200)	2,941,717

	The Company					
	Interests in associates (Note (a)) RMB'000	Interest in jointly controlled enterprises (Note (b)) RMB'000	Interest in consolidated subsidiaries (Note 6) RMB'000	Total before provision RMB'000	Provision for impairment losses (Note (d)) RMB'000	Total RMB'000
Balance at 1 January 2008	3,015,012	100,191	2,083,193	5,198,396	(117,203)	5,081,193
Additions for the year	-	-	2,374	2,374	-	2,374
Share of profits from investments accounted for under the equity method	(62,483)	31,724	-	(30,759)	-	(30,759)
Dividends receivable/received	(577,539)	(17,910)	-	(595,449)	-	(595,449)
Disposal for the year	-	-	(115,080)	(115,080)	-	(115,080)
Provision made during the year	-	-	-	-	(110,297)	(110,297)
Balance at 31 December 2008	2,374,990	114,005	1,970,487	4,459,482	(227,500)	4,231,982

17. Long-term equity investments *(continued)*

(a) The particulars of the associates, all of which are limited companies established and operating in the PRC which principally affected the results or assets of the Group, at 31 December 2008 are as follows:

Company	Organisation code	Registered place	Principal activities	Registered capital '000	Percentage equity held by the Group %	Percentage of voting right %	Total assets at 31 December 2008 RMB'000	Total liabilities at 31 December 2008 RMB'000	Operating income for the year RMB'000	Net profit for the year RMB'000
Shanghai Chemical Industry Park Development Company Limited	13227550-8	Shanghai	Planning development and operation of the Chemical Industry Park in Shanghai, PRC	RMB2,372,439	38.26	38.26	7,189,845	3,892,707	111,104	109,112
Shanghai Secco Petrochemical Company Limited	71093847-4	Shanghai	Manufacturing and distribution of chemical products	US$901,441	20	20	16,918,082	9,869,514	22,851,386	(493,661)
Shanghai Jinsen Hydrocarbon Resins Company Limited	60739533-6	Shanghai	Production of resins products	US$23,395	40	40	192,424	64,724	174,007	(10,710)
Shanghai Jinpu Plastics Packaging Material Company Limited	60733617-6	Shanghai	Production of polypropylene film	US$20,204	50	50	236,507	24,729	345,969	14,812
Shanghai Yamatake Automation Company Limited	60733503-4	Shanghai	Serviced and maintenance of building automation systems and products	US$3,000	40	40	155,071	47,303	200,080	32,513

17. Long-term equity investments *(continued)*

(b) **The particulars of the jointly controlled entity, which are limited companies established and operating in the PRC which principally affected the results or assets of the Group, at 31 December 2008 are as follows:**

Company	Organisation code	Registered place	Principal activities	Registered capital '000	Percentage equity held by the Group %	Percentage of voting right %	Total assets at 31 December 2008 RMB'000	Total liabilities at 31 December 2008 RMB'000	Operating income for the year RMB'000	Net profit for the year RMB'000
BOC-SPC Gases Co., Ltd.	71786630-3	Shanghai	Production and sales of industrial gases	US$32,000	50	50	635,915	320,326	382,391	55,585

(c) **Other equity investments mainly represent equity investments in enterprises which are engaged in various activities non-related to the Group's operations.**

(d) **Provision for impairment losses is analysed as follows:**

	The Group	
	2008 RMB'000	2007 RMB'000
Balance at 1 January	37,200	38,838
Written-off on disposal	-	(1,638)
Balance at 31 December	37,200	37,200

	The Company	
	2008 RMB'000	2007 RMB'000
Balance at 1 January	117,203	117,203
Provision made during the year	110,297	-
Balance at 31 December	227,500	117,203

For the year ended 31 December 2008, the Company made an impairment loss provision of RMB 110,297,000 for the long-term equity investment in its subsidiary, Zhejiang Jin Yong Acrylic Fibre Co., Ltd. ("Jin Yong") (2007: RMB nil). The Company provided a full provision for impairment loss based on the reasons disclosed in Note 13.

18. Investment property

	The Group	The Company
	Buildings	Buildings
	RMB'000	RMB'000
Cost:		
At 1 January 2008	554,233	615,334
Disposals	(7,395)	-
At 31 December 2008	546,838	615,334
Less: Accumulated depreciation:		
At 1 January 2008	41,440	46,008
Charge for the year	13,440	14,921
Written back during the year	(732)	-
At 31 December 2008	54,148	60,929
Net book value:		
At 31 December 2008	492,690	554,405
At 31 December 2007	512,793	569,326

19. Fixed assets

(a) The Group

	Buildings RMB'000	Plant and machinery RMB'000	Vehicles and other equipment RMB'000	Total RMB'000
Cost:				
At 1 January 2008	5,711,471	23,331,233	6,623,178	35,665,882
Additions	7,413	66,961	30,150	104,524
Transferred from construction in progress (Note 20)	11,084	180,739	97,241	289,064
Disposals	(19,323)	(67,546)	(42,405)	(129,274)
At 31 December 2008	5,710,645	23,511,387	6,708,164	35,930,196
Less: Accumulated depreciation:				
At 1 January 2008	3,233,107	12,708,289	4,155,963	20,097,359
Charge for the year	161,275	1,168,685	315,278	1,645,238
Written back on disposals	(6,181)	(47,868)	(36,723)	(90,772)
At 31 December 2008	3,388,201	13,829,106	4,434,518	21,651,825
Less: Provision for impairment losses:				
At 1 January 2008	48,335	260,783	122	309,240
Charge for the year	3,281	403,748	33,917	440,946
At 31 December 2008	51,616	664,531	34,039	750,186
Net book value:				
At 31 December 2008	2,270,828	9,017,750	2,239,607	13,528,185
At 31 December 2007	2,430,029	10,362,161	2,467,093	15,259,283

19. Fixed assets *(continued)*

(b) The Company

	Buildings	Plant and machinery	Vehicles and other equipment	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Cost:				
At 1 January 2008	4,712,177	21,279,595	6,339,055	32,330,827
Additions	29,523	155,347	26,530	211,400
Transferred from construction in progress (Note 20)	10,913	177,415	96,824	285,152
Disposals	(13,865)	(40,032)	(28,992)	(82,889)
At 31 December 2008	4,738,748	21,572,325	6,433,417	32,744,490
Less: Accumulated depreciation:				
At 1 January 2008	2,901,265	11,401,288	3,965,455	18,268,008
Charge for the year	131,282	1,066,983	289,898	1,488,163
Additions due to asset transfers	1,849	9,427	371	11,647
Written back on disposals	(3,679)	(34,550)	(26,634)	(64,863)
At 31 December 2008	3,030,717	12,443,148	4,229,090	19,702,955
Less: Provision for impairment losses:				
At 1 January 2008	48,335	260,783	122	309,240
Charge for the year	3,281	72,231	7,874	83,386
At 31 December 2008	51,616	333,014	7,996	392,626
Net book value:				
At 31 December 2008	1,656,415	8,796,163	2,196,331	12,648,909
At 31 December 2007	1,762,577	9,617,524	2,373,478	13,753,579

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

19. Fixed assets *(continued)*

(c) For the year ended 31 December 2008, the provisions for impairment loss of certain fixed assets of synthetic fibres segment made by the Group and the Company are RMB 417,936,000 and RMB 57,357,000 respectively (for the year ended 31 December 2007: RMB 180,681,000 and RMB180,681,000). These provisions are related to the decreased capacity utilisation of some synthetic fibres equipment held for production. Their carrying values have been reduced to their respective recoverable amounts. Recoverable amount is determined at the present value of the future cash flows expected to be derived from the production equipment.

(d) At 31 December 2008 and 2007, the Group and the Company had no pledged fixed assets.

(e) At 31 December 2008, acrylic device at Jin Yong, the subsidiary of the Group, is temporarily idle, and the details is analysed as follows (2007: nil):

	Cost RMB'000	Accumulated depreciation RMB'000	Impairment provision RMB'000	Net book value RMB'000
The Group				
Jin Yong acrylic device	1,201,416	(702,810)	(357,560)	141,046

At 31 December 2008 and 2007, the Company had no individually significant fixed assets which were temporarily idle or pending for disposal.

20. Construction in progress

	The Group		The Company	
	2008 RMB'000	2007 RMB'000	**2008 RMB'000**	2007 RMB'000
Balance at 1 January	**965,463**	2,009,797	**940,491**	2,006,056
Additions for the year	**1,177,755**	2,488,943	**1,160,005**	2,452,666
Transferred to fixed assets (Note 19)	**(289,064)**	(3,533,277)	**(285,152)**	(3,518,231)
Balance at 31 December	**1,854,154**	965,463	**1,815,344**	940,491

20. Construction in progress *(continued)*

At 31 December 2008, major projects of the Group and the Company are as follows:

Project	Budgeted amount	At 1 January 2008	Addition for the year	Transferred to fixed assets	At 31 December 2008	Percentage of completion	Accumulated interest capitalised during the year
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	%	RMB'000
600,000 ton/year aromatics unit	3,013,190	239,522	558,910	-	798,432	26.5%	23,614
150,000 ton/year C5 Separation unit	292,110	-	86,742	-	86,742	29.7%	991

All the above projects were made out of funds borrowed from financial institutions.

The capitalised borrowing costs included in the balances of construction in progress of the Group and the Company were RMB 30,664,000 (2007: RMB 8,084,000). The interest rates per annum at which borrowing costs were capitalised for the year ended 31 December 2008 by the Group and the Company is 5.10%-7.47% (2007: 5.27%-7.47%).

21. Intangible assets

(a) The Group

	Land use rights	Others intangible assets	Total
	RMB'000	RMB'000	RMB'000
Cost			
At 1 January 2008	750,139	95,339	845,478
Disposals	(234)	-	(234)
At 31 December 2008	749,905	95,339	845,244
Less: Accumulated amortisation			
At 1 January 2008	209,103	38,478	247,581
Charge for the year	15,507	4,750	20,257
Written bank on disposals	(73)	-	(73)
At 31 December 2008	224,537	43,228	267,765
Net book value			
At 31 December 2008	525,368	52,111	577,479
At 31 December 2007	541,036	56,861	597,897

21. Intangible assets *(continued)*

(b) The Company

	Land use rights
	RMB'000
Cost	
At 1 January 2008	640,156
Additions	11,758
Disposals	(234)
At 31 December 2008	651,680
Less: Accumulated amortisation	
At 1 January 2008	179,518
Charge for the year	13,054
Written back on disposals	(73)
At 31 December 2008	192,499
Net book value	
At 31 December 2008	459,181
At 31 December 2007	460,638

22. Deferred tax assets and liabilities

The Group

	Deferred tax assets (liabilities)				
	Opening balance RMB'000	Current year increase/ decrease charged to profit or loss RMB'000	Current year increase/ decrease recognised directly in equity RMB'000	Ending balance RMB'000	Ending balances of temporary differences RMB'000
Provision for bad debt and inventories	23,924	174,908	-	198,832	795,327
Impairment losses on fixed assets	77,310	20,846	-	98,156	392,626
Contribution by fixed assets and sales of assets to a jointly controlled entity	11,822	(876)	-	10,946	43,784
Deductible tax losses	-	1,701,453	-	1,701,453	6,805,812
Fair value of available -for-sale securities	(115,855)	-	88,221	(27,634)	(110,536)
Capitalisation of borrowing cost	(32,070)	2,874	-	(29,196)	(116,784)
Fair value of financial assets held for trading	-	(24,411)	-	(24,411)	(97,644)
Other deferred tax assets	16,151	(11,009)	-	5,142	20,568
Other deferred tax liabilities	(2,245)	1,375	-	(870)	(3,480)
Total	(20,963)	1,865,160	88,221	1,932,418	7,729,673

22. Deferred tax assets and liabilities *(continued)*

The Company

	Deferred tax assets (liabilities)				
	Opening balance RMB'000	Current year increase/ decrease charged to profit or loss RMB'000	Current year increase/ decrease recognised directly in equity RMB'000	Ending balance RMB'000	Ending balances of temporary differences RMB'000
Provision for bad debt and inventories	23,684	174,824	-	198,508	794,030
Impairment losses on fixed assets	77,310	20,846	-	98,156	392,626
Contribution by fixed assets and sales of assets to a jointly controlled entity	11,822	(876)	-	10,946	43,784
Deductible tax losses	-	1,701,453	-	1,701,453	6,805,812
Fair value of available -for-sale securities	(105,116)	-	80,404	(24,712)	(98,848)
Capitalisation of borrowing cost	(32,070)	2,874	-	(29,196)	(116,784)
Fair value of financial assets held for trading	-	(24,411)	-	(24,411)	(97,644)
Other deferred tax assets	13,703	(8,596)	-	5,107	20,428
Total	(10,667)	1,866,114	80,404	1,935,851	7,743,404

At 31 December 2008, the deferred tax assets and liabilities on the balance sheet, after offsetting each other, were as follows:

	The Group		The Company	
	2008 RMB'000	2007 RMB'000	**2008 RMB'000**	2007 RMB'000
Deferred tax assets, net	**2,014,529**	129,207	**2,014,170**	126,519
Deferred tax liabilities, net	**(82,111)**	(150,170)	**(78,319)**	(137,186)
Total	**1,932,418**	(20,963)	**1,935,851**	(10,667)

22. Deferred tax assets and liabilities *(continued)*

Deferred tax assets not recognised

In accordance with the accounting policy set out in Note 3(14), the Group has not recognised deferred tax assets in respect of the cumulative tax losses of RMB 310,396,000 (2007: RMB 112,444,000) of a subsidiary, Zhejiang Jin Yong Acrylic Fibre Co., Ltd., as it is not probable that future taxable profits against which the losses can be utilised will be available in the subsidiary. The deductible tax losses will expire from 2010 to 2013 under the current tax law.

23. Impairment losses

At 31 December 2008, impairment losses of the Group are analysed as follows:

Items	Notes	Balance at 1 January 2008 RMB'000	Provision for the year RMB'000	Reversal for the year RMB'000	Written off for the year RMB'000	Balance at 31 December 2008 RMB'000
Receivables	11,13	38,185	52	(5,378)	(1,518)	31,341
Inventories	14	73,792	744,578	-	-	818,370
Long-term equity investments	17	37,200	-	-	-	37,200
Fixed assets	19	309,240	440,946	-	-	750,186
Total		458,417	1,185,576	(5,378)	(1,518)	1,637,097

At 31 December 2008, impairment losses of the Company are analysed as follows:

Items	Notes	Balance at 1 January 2008 RMB'000	Provision for the year RMB'000	Reversal for the year RMB'000	Written off for the year RMB'000	Balance at 31 December 2008 RMB'000
Receivables	11,13	25,619	282,700	(5,134)	(1,224)	301,961
Inventories	14	70,730	704,039	-	-	774,769
Long-term equity investments	17	117,203	110,297	-	-	227,500
Fixed assets	19	309,240	83,386	-	-	392,626
Total		522,792	1,180,422	(5,134)	(1,224)	1,696,856

See the note of each class of assets for the reason for corresponding impairment losses recognised in the year.

24. Short-term loans

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

	The Group		The Company	
	2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000
Bank loans	8,428,204	2,317,642	8,353,204	2,062,642
Loans with related parties (Note 47)	410,000	1,355,300	330,000	1,227,000
Total	8,838,204	3,672,942	8,683,204	3,289,642

At 31 December 2008 and 2007, the Group and the Company had no significant overdue short-term loan.

Except for the balance disclosed in Note 47, there is no amount due to major shareholders who held 5% or more shareholding included in the above balance.

25. Bills payable, trade creditors, receipts in advance and other payables

At 31 December 2008, there are no significant trade creditors, receipts in advance and other payables aged over 1 year.

Bills payable are mainly bank bills issued for the purchase of material, merchandises and products, generally due within 1 to 3 months.

Except for the balances disclosed in Note 47, there is no amount due to shareholders who hold 5% or more shareholding included in the balance of bills payable, trade creditors, receipts in advance and other payables.

26. Employee benefits payable

At 31 December 2008 and 2007, the Group's and the Company's employee benefits payable mainly represented wages and social insurance payable.

As stipulated by the relevant regulations, the Group and the Company participate in a defined contribution retirement plan organised by the Shanghai Municipal Government for its staff. Pursuant to a document "Lao Bu Fa (1995) No.464" issued by Shanghai municipal government, the Group is required to make contributions to the retirement plan at a rate of 22% (2007: 22%) of the salaries, bonuses and certain allowances of its staff since 1 August 2004. A member of the plan is entitled to a pension equal to a fixed proportion of the salary prevailing at his retirement date. In addition, pursuant to a document "Lao Bu Fa (1995) No.464" dated 29 December 1995 issued by the Ministry of Labour of the PRC, The Group and the Company have set up a supplementary defined contribution retirement plan for the benefit of employees. Employees who have served the Group and the Company for five years or more may participate in this plan. The Group and the Company and participating employees make defined contributions to their pension savings account according to the plan. The assets of this plan are held separately from those of the Group and the Company in an independent fund administered by a committee consisting of representatives from the employees and the Group and the Company. In April 2003, the Group and the Company revised certain terms of the plan and increased the amount of contributions. The Group has no other material obligations for the payment of pension benefit beyond the annual contributions described above and supplementary contributions. For the year ended 31 December 2008, the Group's and the Company's contribution to the above plan amounted to RMB 54,862,000 and RMB 42,156,000 (2007: RMB 55,048,000 and RMB 41,367,000).

In accordance with the Group and the Company's voluntary employee reduction plan, the Group and the Company recorded employee reduction expenses of RMB 89,844,000 and RMB 15,242,000 (2007: RMB 208,013,000 and RMB 38,961,000) during the year ended 31 December 2008, in respect of the voluntary resignation of approximately 947 employees and 212 employees (2007: 2,622 employees and 625 employees).

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

The maturity analysis of the long-term loans is set out below:

	The Group		The Company	
	2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000
Bank loans				
Between one and two years	24,760	489,929	-	450,000
Between two and three years	104,261	24,930	100,000	-
Between three and five years	200,000	4,430	200,000	-
	329,021	519,289	300,000	450,000
Loans from related parties				
Between one and two years	100,000	20,000	-	-
Between two and three years	-	100,000	-	-
	100,000	120,000	-	-
Long-term loans	429,021	639,289	300,000	450,000
Bank loans due within one year	514,521	419,027	450,000	259,097
Loans from related parties due within one year	20,000	-	-	-
Current portion of long-term loans	534,521	419,027	450,000	259,097
	963,542	1,058,316	750,000	709,097

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

Long-term loans are analysed as follows:

Repayment terms and final maturity	Interest type	Interest rate at 31 December 2008	Original currency '000	2008 Exchange rate	The Group 2008 RMB'000	The Group 2007 RMB'000	The Company 2008 RMB'000	The Company 2007 RMB'000
Arranged by the Company								
U.S. Dollar denominated:								
Payable semi-annually through 2008 (Note (a))	Fixed	-			-	9,097	-	9,097
Renminbi denominated								
Due in 2008	Fixed	-			-	250,000	-	250,000
Due in 2009	Fixed	5.103%-5.346%			450,000	450,000	450,000	450,000
Due in 2011	Fixed	5.103%			100,000	-	100,000	-
Due in 2013	Fixed	5.184%-5.346%			200,000	-	200,000	-
Arranged by subsidiaries								
U.S. Dollar denominated:								
Payable annually through 2011	Interest free	-	1,440	6.8346	9,842	10,519	-	-
Renminbi denominated								
Due in 2008	Fixed	-			-	135,000	-	-
Due in 2009	Fixed	5.180%-6.804%			35,000	35,000	-	-
Due in 2010	Fixed	6.804%			100,000	100,000	-	-
Payable annually through 2010	Interest free	-			61,500	61,500	-	-
Payable annually through 2011	Interest free	-			7,200	7,200	-	-
Total long-term loans					963,542	1,058,316	750,000	709,097
Less: Amounts due within one year					(534,521)	(419,027)	(450,000)	(259,097)
Amounts due after one year					429,021	639,289	300,000	450,000

Note (a): Guaranteed by Sinopec Corp

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

At 31 December 2008 and 2007, no loans were secured by the way of pledge of property, plant and equipment. Except for loans indicated as guaranteed, other loans are unsecured loans without guarantee.

Except for the balance disclosed in Note 47, there is no amount due to shareholders who held 5% or more shareholding in the above balance.

28. Share capital

	The Group and The Company	
	2008	2007
	RMB'000	RMB'000
Shares not in trade:		
Domestic legal persons shares	4,150,000	4,150,000
Shares in trade:		
RMB ordinary A shares listed in PRC	720,000	720,000
Foreign investment H shared listed overseas	2,330,000	2,330,000
Total share capital	7,200,000	7,200,000

The Company was founded on 29 June, 1993 with registered capital of RMB 4,000,000,000 invested by its upper level holding company- China National Petrochemical Corporation; these shares were converted from assets of former Shanghai Petrochemical Complex.

Approved by Zheng Wei Fa No. [1993]30 issued by the State Council Securities Committee, the Company launched its Initial Public Offer ("IPO") in July 1993 and September 1993 in Hong Kong, New York, Shanghai and Shenzhen to issue 2.23 billion shares, including 1.68 billion H shares, 550 million A shares. The 550 million A shares include 400 million individual shares (including 150 million shares issued to SPC employees) and 150 million legal person shares. H shares were listed on the Hong Kong Exchanges and Clearing Company Limited on 26 July 1993, and listed on the NYSE in the form of ADS at the same time; the A shares were listed on the Shanghai Stock Exchanges on 8 November 1993.

After IPO, the total quantity of shares issued by the Company was 6.23 billion, including 4 billion state-owned shares, 150 million legal person shares, 400 million individual shares, and 1.68 billion H shares.

According to the plan stated in the prospectus issued in July 1993, and approved by the China Securities Regulatory Commission, the Company issued 320 million common A shares with a par value of RMB 1 each at an issuing price of RMB 2.4 each during the period from 5 April to 10 June 1994. These shares were listed on Shanghai Stock Exchange on 4 July 1994. By then, the total quantity of shares issued was expanded from 6.23 billion to 6.55 billion.

28. Share capital (continued)

On 22 August 1996, the Company issued 500 million H shares to overseas investors; on 6 January 1997, 150 million H shares again were issued to overseas investors. By then, the total quantity of shares issued was expanded to 7.2 billion, including 2.33 billion H shares.

China National Petrochemical Corporation was restructured to China Petrochemical Corporation(Sinopec Group) in 1998.

China Petroleum & Chemical Corporation (CPCC) was founded on 28 February 2000 based on the approved assets restructuring of Sinopec Group. As part of the restructuring efforts, the shares of the Company held by Sinopec Group were injected in the CPCC; after the restructuring, the ownership of 4 billion state-owned shares of the Company held by Sinopec Group were transferred to CPCC, and therefore the shares were changed to state-owned legal person shares in nature.

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

Capital verifications of the issued and paid up capital were performed by KPMG Huazhen. Capital verification reports were issued on 27 October 1993, 10 June 1994, 15 September 1996 and 20 March 1997 accordingly.

29. Capital reserve

Balance of capital reserve at 31 December 2008 and 2007 is represented by:

		The Group		The Company	
	Note	**2008**	2007	**2008**	2007
		RMB'000	RMB'000	**RMB'000**	RMB'000
Share premium		**2,420,841**	2,420,841	**2,420,841**	2,420,841
Government grants	(a)	**386,370**	386,370	**386,370**	386,370
Changes in fair value of available-for-sale financial assets, net of deferred tax	(b)	**82,903**	347,564	**74,134**	315,345
Others		**49,067**	49,067	**49,067**	49,067
Total		**2,939,181**	3,203,842	**2,930,412**	3,171,623

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

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

30. Surplus reserve

	The Group and The Company		
	Statutory surplus reserve RMB'000	Discretionary surplus reserve RMB'000	Total RMB'000
Balance at 1 January 2007	3,293,460	1,280,514	4,573,974
Appropriation of net profit	192,434	-	192,434
Balance at 31 December 2007	3,485,894	1,280,514	4,766,408
Appropriation of net profit	-	-	-
Balance at 31 December 2008	3,485,894	1,280,514	4,766,408

31. (Accumulated losses)/retained earnings

During the year ended 31 December 2008, a final dividend of RMB 0.09 per share totally RMB 648,000,000 was paid to shareholders (2007: RMB 0.04 per share totally RMB 288,000,000).

Due to the loss recorded in 2008, there is no distributable profit as at 31 December 2008.(2007: RMB 0.09 per share, totalling RMB 648,000,000).

As at 31 December 2008, the Group's consolidated retained loss attributable to the Company included an appropriation of RMB 59,256,000 to surplus reserve made by the subsidiaries. (2007: RMB 65,437,000).

32. Operating income

Operating income represents the invoice amount from sales of products after the deduction of VAT.

	The Group		The Company	
	2008 RMB'000	2007 RMB'000	**2008 RMB'000**	2007 RMB'000
Income from principal operations	**59,830,981**	54,885,971	**55,242,839**	49,338,521
Income from other operations	**479,589**	518,716	**515,622**	735,779
Total	**60,310,570**	55,404,687	**55,758,461**	50,074,300

For the year ended 31 December 2008, the Group's and the Company's sales to the top five customers amounted to RMB 27,441,446,000 and RMB 24,196,832,000 respectively (2007: RMB 21,291,067,000 and RMB 18,590,652,000 respectively), which accounted for 45.50% and 43.40% of operating income of the Group (2007: 38.43% and 37.13% respectively).

33. Business taxes and surcharges

	The Group		The Company	
	2008	2007	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Consumption tax	759,717	890,384	759,717	890,384
City construction tax	88,752	119,378	85,103	115,930
Business tax	9,590	11,978	5,424	5,412
Education surcharge and others	39,029	51,955	36,472	48,842
	897,088	1,073,695	886,716	1,060,568

The charge for consumption tax is calculated at RMB277.6 per tonne and RMB117.6 per tonne on the sales of gasoline and diesel respectively in accordance with relevant tax rules and regulations. The charges for city construction tax and education surcharge are based on 7% and 3% respectively of the VAT, consumption tax and business tax paid during the year.

34. Financial expenses

	The Group		The Company	
	2008	2007	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Interest expenses	585,142	329,643	530,616	277,172
Less:borrowing cost capitalised	(27,171)	(69,437)	(27,171)	(69,437)
Interest expense, net	557,971	260,206	503,445	207,735
Interest income	(59,472)	(46,421)	(51,088)	(37,884)
Net foreign exchange gain	(80,660)	(43,341)	(75,816)	(30,843)
Others	10,243	7,482	6,422	2,411
Total	428,082	177,926	382,963	141,419

35. Impairment loss

	The Group		The Company	
	2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000
Receivables	(5,326)	3,901	277,566	3,752
Inventories	744,578	32,437	704,039	29,826
Long-term equity investments	-	-	110,297	-
Fixed assets	440,946	200,295	83,386	200,295
Total	1,180,198	236,633	1,175,288	233,873

36. Gain from changes in fair value

	The Group		The Company	
	2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000
Financial assets held for trading				
- Changes in fair value	97,644	-	97,644	-
Total	97,644	-	97,644	-

37. Investment income

	The Group		The Company	
	2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000
Investment income accounted for under the cost method				
- Subsidiaries	-	-	5,790	279,962
- Other investments	9,721	7,506	3,803	20,300
Investment (loss)/income from associates and jointly controlled entities	(8,508)	655,897	(30,759)	628,075
Gain on disposal of other investments	-	115,203	-	168,591
Gain from disposal of available-for-sale financial assets	131,772	770,725	118,389	642,855
Total	132,985	1,549,331	97,223	1,739,783

38. Non-operating income

	The Group		The Company	
	2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000
Net gain on disposal of fixed assets	16,955	4,118	16,746	1,220
Net gain on disposal of intangible assets	663	3,627	663	3,627
Gain on disposal of non-current assets	17,618	7,745	17,409	4,847
Subsidy income (Note)	2,330,124	93,900	2,330,124	93,900
Penalties income	32	99	31	71
Amortisation of deferred income	13,150	10,000	13,150	10,000
Others	13,062	9,697	11,413	5,716
Total	2,373,986	121,441	2,372,127	114,534

Note: During the year ended 31 December 2008, the Group recognised a grant income of RMB 2,312,227,000 (2007: RMB 93,900,000) related to petroleum products. These grants were mainly for compensation of losses incurred due to the distortion of the correlation of domestic refined petroleum product prices and the crude oil prices, and the measures taken by the Group to stabilise the supply in the PRC refined petroleum product market during the respective year. There are no unfilled conditions and other contingencies attached to the receipts of these grants. There is no assurance that the Group will continue to receive such grant in the future.

39. Non-operating expenses

	The Group		The Company	
	2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000
Loss on disposal of fixed assets	4,452	51,790	3,871	38,825
Donations	2,000	14,250	2,000	14,250
Others	25,142	52,744	21,384	50,964
Total	31,594	118,784	27,255	104,039

40. Income tax

(1) Income tax expenses for the year represents

	The Group		The Company	
	2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000
Provision for PRC income tax for the year	34,919	557,078	-	495,268
Deferred taxation	(1,865,160)	(79,589)	(1,866,114)	(79,146)
Adjustment for provision for income tax in respect of prior years	16,655	2,439	14,305	4,052
Total	(1,813,586)	479,928	(1,851,809)	420,174

Deferred tax effect is analysed as follows:

	The Group		The Company	
	2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000
Origination and reversal of temporary differences	1,865,160	69,372	1,866,114	68,929
Tax effect of change in tax rate	-	10,217	-	10,217
Total	1,865,160	79,589	1,866,114	79,146

40. Income tax *(continued)*

(2) **Reconciliation between income tax expenses and accounting (losses)/profits is as follows:**

	The Group		The Company	
	2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000
Loss/(profit) before taxation	(8,022,281)	2,121,094	(7,856,487)	2,344,508
Expected income tax expense at a rate of 25% (2007: 33%)	(2,005,570)	699,961	(1,964,122)	773,688
Tax effect of non-deductible expenses	30,433	55,887	95,491	8,279
Tax effect of non-taxable income	(3,776)	(35,501)	(5,173)	(142,174)
Under provision in prior years	16,655	2,439	14,305	4,052
Tax effect of share of profits recognised under the equity method	2,127	(216,446)	7,690	(213,454)
Effect of change in tax rate on deferred tax	-	(10,217)	-	(10,217)
Tax effect of unused tax losses not recognised for deferred tax	49,488	22,621	-	-
Change in unrecognised deductible temporary differences	97,057	-	-	-
Tax effect of differential tax rate on subsidiaries' income	-	(38,816)	-	-
Income tax expenses	(1,813,586)	479,928	(1,851,809)	420,174

41. Supplemental information to the cash flow statements

(1) Supplemental information to the cash flow statements

Reconciliation of net (loss)/profit attributable to equity shareholders of the Company to cash flows from operating activities:

	The Group		The Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Net (loss)/profit attributable to equity shareholders of the Company	**(6,245,412)**	1,592,110	**(6,004,678)**	1,924,334
Add: Impairment losses on assets	**1,180,198**	236,633	**1,175,288**	233,873
Depreciation on investment property	**13,440**	14,879	**14,921**	14,921
Depreciation on fixed assets	**1,645,238**	1,714,195	**1,488,163**	1,470,652
Amortisation of intangible assets	**20,257**	20,470	**13,054**	12,905
(Gain)/loss on disposal of fixed assets, intangible assets and other long-term assets	**(13,166)**	44,045	**(13,538)**	33,978
Gains on changes in fair value	**(97,644)**	-	**(97,644)**	-
Financial expenses	**417,839**	170,444	**376,541**	139,008
Investment income	**(132,985)**	(1,549,331)	**(97,223)**	(1,739,783)
Increase in deferred tax assets	**(1,932,418)**	(93,105)	**(1,935,851)**	(90,417)
Increase in deferred tax liabilities	**67,258**	13,516	**69,737**	11,271
Increase in inventories	**(38,944)**	(1,067,030)	**(172,820)**	(1,225,868)
Decrease/(increase) in operating receivables	**1,630,342**	(231,262)	**1,298,486**	(505,276)
Increase/(decrease) in operating payables	**41,395**	869,952	**(34,413)**	1,555,031
Minority interests	**36,717**	49,056	**-**	-
Net cash flows from operating activities	**(3,407,885)**	1,784,572	**(3,919,977)**	1,834,629

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

(2) Net change in cash and cash equivalents:

	The Group		The Company	
	2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000
Cash balance at the end of the year	627,685	893,165	294,786	634,533
Less: cash balance at the beginning of the year	893,165	894,650	634,533	551,693
Net (decrease)/increase in cash and cash equivalents	(265,480)	(1,485)	(339,747)	82,840

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

	The Group		The Company	
	2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000
Cash				
- Cash on hand	74	79	40	37
- Bank deposit available on demand	614,811	877,704	281,994	620,242
- Other monetary fund available on demand	12,800	15,382	12,752	14,254
Closing balance of cash and cash equivalents available on demand	627,685	893,165	294,786	634,533

42. Segment reporting

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

The Group evaluates the performance and allocates resources to its operating segments on an operating income basis, without considering the effects of finance costs, or investment income, non-operating income and non-operating expense.

42. Segment reporting *(continued)*

Operating cost includes cost of sales, sales taxes and surcharges, selling and administrative expenses and impairment losses on assets.

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

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

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

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

(iv) The Group's petroleum products segment has crude oil distillation facilities used to produce vacuum and atmospheric gas oils used as feed stocks 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.

42. Segment reporting *(continued)*

Operating income	2008 RMB'000	2007 RMB'000
Synthetic fibres		
External sales	3,670,362	4,342,215
Inter-segment sales	73	85
Sub-total	3,670,435	4,342,300
Resins and plastics		
External sales	14,880,659	15,927,089
Inter-segment sales	53,065	75,183
Sub-total	14,933,724	16,002,272
Intermediate petrochemicals		
External sales	10,296,256	9,406,507
Inter-segment sales	17,801,810	16,966,433
Sub-total	28,098,066	26,372,940
Petroleum products		
External sales	28,372,037	21,997,362
Inter-segment sales	2,153,355	1,336,695
Sub-total	30,525,392	23,334,057
All others		
External sales	3,091,256	3,731,514
Inter-segment sales	2,720,112	3,402,717
Sub-total	5,811,368	7,134,231
Eliminations of inter-segment sales	(22,728,415)	(21,781,113)
Total	60,310,570	55,404,687

42. Segment reporting *(continued)*

Operating cost	2008 RMB'000	2007 RMB'000
Synthetic fibres	5,312,107	4,428,504
Resins and plastics	17,108,887	15,297,159
Intermediate petrochemicals	10,374,541	8,625,650
Petroleum products	34,638,960	22,740,701
All others	3,043,295	3,565,641
Total	70,477,790	54,657,655

Operating (loss)/profit	2008 RMB'000	2007 RMB'000
Synthetic fibres	(1,641,745)	(86,289)
Resins and plastics	(2,228,228)	629,930
Intermediate petrochemicals	(78,285)	780,857
Petroleum products	(6,266,922)	(743,339)
All others	47,960	165,873
Total segment (loss)/profit	(10,167,220)	747,032
Financial expenses	(428,082)	(177,926)
Add: Gain from changes in fair value	97,644	-
Investment income	132,985	1,549,331
Operating (loss)/profit	(10,364,673)	2,118,437

Assets	2008 RMB'000	2007 RMB'000
Segment assets		
Synthetic fibres	1,754,476	2,815,477
Resins and plastics	1,870,117	2,837,072
Intermediate petrochemicals	6,226,442	7,522,940
Petroleum products	9,354,616	9,063,063
All others	2,362,934	2,698,055
Total segment assets	21,568,585	24,936,607
Long-term equity investments	2,941,717	3,543,769
Unallocated	3,597,163	1,982,973
Total assets	28,107,465	30,463,349

42. Segment reporting *(continued)*

Liabilities	2008 RMB'000	2007 RMB'000
Segment Liabilities		
Synthetic fibres	240,764	317,311
Resins and plastics	976,351	1,163,885
Intermediate petrochemicals	675,335	687,388
Petroleum products	1,811,497	1,607,474
All others	202,267	272,683
Total segment liabilities	3,906,214	4,048,741
Short-term loans	8,838,204	3,672,942
Current portion of long-term loans	534,521	419,027
Long-term loans	429,021	639,289
Unallocated	293,781	379,915
Total liabilities	14,001,741	9,159,914

Depreciation and amortisation	2008 RMB'000	2007 RMB'000
Synthetic fibres	225,669	227,503
Resins and plastics	350,742	351,273
Intermediate petrochemicals	552,422	630,467
Petroleum products	375,789	352,532
All others	160,873	172,890
Segment depreciation and amortisation	1,665,495	1,734,665
Unallocated	13,440	14,879
Depreciation and amortisation	1,678,935	1,749,544

Impairment losses on fixed assets	2008 RMB'000	2007 RMB'000
Synthetic fibres	417,936	180,681
Resins and plastics	23,010	-
All others	-	19,614
Impairment losses on fixed assets	440,946	200,295

42. Segment reporting *(continued)*

Total capital expenditures for segment long-lived assets

	2008 RMB'000	2007 RMB'000
Synthetic fibres	73,653	130,392
Resins and plastics	6,484	16,973
Intermediate petrochemicals	1,175,451	773,720
Petroleum products	58,374	1,098,320
All others	197,110	114,718
Total	1,511,072	2,134,123

43. Significant accounting estimates and judgments

The Group's financial condition and results of operations are sensitive to accounting methods, assumptions and estimates that underlie the preparation of the financial statements. Management bases the assumptions and estimates on historical experience and on various other assumptions that management 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. Management believes the following critical accounting policies involve the most significant judgements and estimates used in the preparation of the financial statements.

(1) Impairments for long-lived assets

If circumstances indicate that the net book value of a long-lived asset may not be recoverable, the asset may be considered "impaired", and an impairment loss may be recognised in accordance with "CAS (2006) 8 Impairment of Assets". Long-lived assets are reviewed for impairment at the end of each balance sheet date or whenever events or changes in circumstance have indicated that their carrying amounts may not be recoverable. If any such indication exists, impairment loss is provided.

43. Significant accounting estimates and judgments *(continued)*

(1) Impairments for long-lived assets *(continued)*

The recoverable amount of an asset is the greater of its net selling price and its present value of expected future cash flows. Since a market price of the asset can not be obtained reliably, the fair value of the asset can not be estimated reliably. In assessing value in use, significant judgements are exercised over the asset's production, selling price, related operating expenses and discounting rate to calculate the present value. All relevant materials which can be obtained are used for estimation of the recoverable amount, including the estimation of the production, selling price and related operating expenses based on reasonable and supportable assumption.

(2) Depreciation

Fixed assets are depreciated on a straight-line basis over the useful lives of the assets, after taking into account the estimated residual values. The Group reviews the useful lives of the assets regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

(3) Impairment for bad and doubtful debts

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

(4) Allowance for diminution in value of inventories

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

44. Financial Risk Management

Overview

The Group and the Company have exposure to the following risks from its use of financial instruments:

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

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

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

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers. The carrying amounts of trade debtors, bills receivable and other receivables, represent the Group's maximum exposure to credit risk in relation to financial assets.

The majority of the Group's trade debtors relate to sales of petroleum and chemical products to related parties and third parties operating in the petroleum and chemical industries. Management performs ongoing credit evaluations of its customers' financial condition and generally does not require collateral on trade debtors. The Group maintains an impairment loss for doubtful accounts and actual losses have been within management's expectations.

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

44. Financial Risk Management *(continued)*

Liquidity risk

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

At 31 December 2008, the Group's current liabilities exceeded its current assets by RMB 6,831,369,000. In 2009, the liquidity of the Group is primarily dependent on its ability to maintain adequate cash inflow from operations, the renewal of its short-term bank loans and on its ability to obtain adequate external financing, including the issuance of short-term corporate bonds, to support its working capital and meet its debt obligation when they become due. At 31 December 2008, the Group has standby credit facilities with several PRC financial institutions which provide the Group to borrow up to RMB 9,600,000,000 (2007: RMB 2,900,000,000) on an unsecured basis, at a weighted average interest rate of 5.30% (2007: 6.29%). At 31 December 2008, the Group's outstanding borrowings under these facilities were RMB 6,933,385,000 (2007: RMB 1,812,642,000) and were included in short-term bank loans.

Management has carried out a detailed review of the cash flow forecast of the Group for the twelve months ending 31 December 2009. Based on such forecast, management believes that adequate sources of liquidity exist to fund the Group's working capital and capital expenditure requirements, and meet its short term debt obligations as they become due. In preparing the cash flow forecast, management has considered historical cash requirements of the Group as well as other key factors, including the availability of the above-mentioned banking facilities which may impact the operations of the Group during the next twelve-month period. Management is of the opinion that the assumptions used in the cash flow forecast are reasonable.

44. Financial Risk Management *(continued)*

Liquidity risk *(continued)*

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

The Group

	2008				
	Carrying Amount RMB'000	Total contractual undiscounted cash flow RMB'000	Within one year RMB'000	More than one year but less than two years RMB'000	More than two years but less than five years RMB'000
Non-derivative financial instrument					
Short-term loans	8,838,204	(9,173,456)	(9,173,456)	-	-
Current portion of long-term loans	534,521	(567,934)	(567,934)	-	-
Long-term loans	429,021	(510,928)	(22,437)	(147,368)	(341,123)
Total	9,801,746	(10,252,318)	(9,763,827)	(147,368)	(341,123)
Derivative financial instrument					
Forward exchange contracts(note (8))					
-outflow	(3,024,525)	(3,058,361)	(3,058,361)	-	-
-inflow	3,122,169	3,157,098	3,157,098	-	-

	2007				
	Carrying Amount RMB'000	Total contractual undiscounted cash flow RMB'000	Within one year RMB'000	More than one year but less than two years RMB'000	More than two years but less than five years RMB'000
Non-derivative financial instrument					
Short-term loans	3,672,942	(3,734,332)	(3,734,332)	-	-
Current portion of long-term loans	419,027	(444,822)	(444,822)	-	-
Long-term loans	639,289	(723,741)	(39,271)	(549,201)	(135,269)
Total	4,731,258	(4,902,895)	(4,218,425)	(549,201)	(135,269)

44. Financial Risk Management *(continued)*

Liquidity risk *(continued)*

The Company

	2008				
	Carrying Amount RMB'000	Total contractual undiscounted cash flow RMB'000	Within one year RMB'000	More than one year but less than two years RMB'000	More than two years but less than five years RMB'000
Non-derivative financial instrument					
Short-term loans	8,683,204	(9,014,196)	(9,014,196)	–	–
Current portion of long-term loans	450,000	(481,275)	(481,275)	–	–
Long-term loans	300,000	(367,960)	(15,633)	(15,633)	(336,694)
Total	9,433,204	(9,863,431)	(9,511,104)	(15,633)	(336,694)
Derivative financial instrument					
Forward exchange contracts(note (8))					
-outflow	(3,024,525)	(3,058,361)	(3,058,361)	–	–
-inflow	3,122,169	3,157,098	3,157,098	–	–

	2007				
	Carrying Amount RMB'000	Total contractual undiscounted cash flow RMB'000	Within one year RMB'000	More than one year but less than two years RMB'000	More than two years but less than five years RMB'000
Non-derivative financial instrument					
Short-term loans	3,289,642	(3,341,069)	(3,341,069)	-	-
Current portion of long-term loans	259,097	(276,181)	(276,181)	-	-
Long-term loans	450,000	(512,550)	(31,275)	(481,275)	-
Total	3,998,739	(4,129,800)	(3,648,525)	(481,275)	-

44. Financial Risk Management *(continued)*

Market risk

(a) Currency risk

Currency risk arises on financial instruments that are denominated in a currency other than the functional currency in which they are measured. The Group's currency risk exposure primarily relates to short-term and long-term debts denominated in US dollars. The Group entered into forward exchange contracts to manage such exposure. All of the forward exchange contracts have maturities of less than one year from the balance sheet date.

Other than the amounts as disclosed in Note 7 and the loans disclosed below, the amounts of other financial assets and liabilities of the Group and the Company are substantially denominated in the functional currency of the respective entity of the Group.

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

	The Group		The Company	
	2008	2007	**2008**	2007
	USD'000	USD'000	**USD'000**	USD'000
United States Dollars	**(600,314)**	(86,556)	**(598,874)**	(85,116)
Forward exchange contracts	**460,224**	-	**460,224**	-
Total	**(140,090)**	(86,556)	**(138,650)**	(85,116)

A 5 percent strengthening / weakening of USD against Renminbi at 31 December would have decreased / increased net profit for the year and retained earnings of the Group by approximately RMB 35,905,000 (2007: RMB 21,181,000). This analysis has been determined assuming that the change in foreign exchange rates had occurred at the balance sheet date and had been applied to the foreign currency balances to which the Group has significant exposure as stated above, and that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2007.

44. Financial Risk Management *(continued)*

Market risk *(continued)*

(b) Interest rate risk

The Group's interest rate risk exposure arises primarily from its short-term and long-term debts. Debts carrying interest at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. The interest rates and terms of repayment of loans and borrowings of the Group are disclosed in Note 24 and 27.

As at 31 December 2008, it is estimated that a general increase / decrease of 100 basis points in interest rates, with all other variables held constant, would decrease / increase the Group's net profit for the year and retained earnings by approximately RMB 42,341,000 (2007: RMB 12,146,000). This sensitivity analysis has been determined assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to floating interest rate risk for financial instruments in existence at that date. The analysis is performed on the same basis for 2007.

Capital Management

Management also optimises the structure of its capital, comprising equity and loans. In order to maintain or adjust the capital structure, management may cause the Group to issue new shares, adjust the capital expenditure plan, sell assets to reduce debt, or adjust the proportion of short-term and long-term loans. Management monitors capital on the basis of debt-to-equity ratio, which is calculated by dividing long-term loans, including long-term bank loans and loans from the related parties, by the total of equity attributable to equity shareholders of the Company and long-term loans, and liability-to-asset ratio, which is calculated by dividing total liabilities by total assets. Management's strategy is to make appropriate adjustments according to the operating and investment needs and the changes of market conditions, and has maintained the debt-to-equity ratio and the liability-to-asset ratio at a range considered as reasonable by management. As at 31 December 2008, the debt-to-equity ratio and the liability-to-asset ratio of the Group were 3.01% (2007: 2.95%) and 49.82% (2007: 30.07%) respectively.

The schedule of the contractual maturities of loans and commitments are disclosed in Note 24, Note 27 and Note 46, respectively.

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

44. Financial Risk Management *(continued)*

Fair value

The following table presents the carrying amounts and fair values of the Group's long term bank loans at 31 December 2008 and 2007.

	2008		2007	
	Carrying amount RMB'000	Fair value RMB'000	Carrying amount RMB'000	Fair value RMB'000
Liabilities				
Long-term bank loans	963,542	958,461	1,058,316	1,034,682

The fair value of long term bank loans is estimated by discounting future cash flows thereon using current market interest rates offered to the Group for debts with substantially the same characteristics and maturities ranging from 5.31% to 5.94% (2007: 7.17% to 7.74%).

The fair value of available-for-sale assets was based on quoted market price at the balance sheet date. The fair value of forward exchange contracts is based by discounting the contractual forward price and deducting the current spot rate. Unquoted equity investments are individually and in the aggregate not material to the Group's financial condition or results of operations. There are no listed market prices for such interests in the PRC and, accordingly, a reasonable estimate of fair value could not be made without incurring excessive costs.

The fair values of cash, trade debtors, bills receivable, prepayments, other receivables, trade creditors, receipt in advance and other payables are not materially different from their carrying amounts.

Short term loans and borrowings - the carrying value is estimated to approximate fair value based on the nature or short term maturity of these instruments.

Fair value estimates are made at a specific point in time and based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

45. Capital commitments

Capital commitments of the Group and the Company are as follows:

	The Group and The Company	
	2008	2007
	RMB'000	RMB'000
Contracted but not provided for	90,987	311,991
Authorised by the Board but not contracted for	2,450,250	3,546,960
Total	2,541,237	3,858,951

Capital commitments relate primarily to the construction of building, plant, machinery and purchase of equipment and the Group's other investments and associates.

At 31 December 2008, the Group and the Company did not have material operating lease commitment.

46. Contingent liabilities

(1) The contingent liabilities of the Group and the Company are summarised as follows:

	The Group		The Company	
	2008	2007	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Guarantees issued to banks in favor of:				
- subsidiaries	-	-	250,000	545,000
- associates	14,500	14,500	14,500	14,500
- joint ventures	11,247	16,247	-	-
	25,747	30,747	264,500	559,500

Management monitors the conditions that are subject to the guarantees to identify whether it is probable that a loss has occurred, and recognise any such losses under guarantees when those losses are estimable. At 31 December 2008 it is not probable that the Group and the Company will be required to make payments under the guarantees. Thus no liability has been accrued for a loss related to the Group's and the Company's obligation under the guarantees arrangement.

46. Contingent liabilities *(continued)*

(2) Income tax differences

With respect to uncertainties about enterprise income tax differences arising from 2006 and before as originated from a tax circular (Circular No.664) issued by the State Administrative of Taxation in June 2007, the Company has been informed by the relevant tax authority to settle the enterprise income tax ("EIT") for 2007 at a rate of 33 percent. To date, the Company has not been requested to pay additional EIT in respect of any years prior to 2007. Except for the above, there is no further development of this matter during the year ended 31 December 2008. No provision has been made in the financial statements for this uncertainty for tax years prior to 2007 because management believes it is not possible to reliably estimate the amount of the obligation, if any, that might exist.

47. Related party relationships and transactions

(1) Information on the parent of the Company is listed as follows:

Name of company:	China Petroleum & Chemical Corporation
Organisation code:	71092609-4
Registered address:	No. 6, Hui Xin Dong Jie Jia, Chao Yang Qu, Beijing
Scope of operations:	Exploring for, extracting and selling crude oil and natural gas; oil refining; production, sale and transport of petrol-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 (2007: RMB 86.7 billion)
Shareholding percentage:	55.56%
Proportion of voting rights:	55.56%

The above registered capital does not change during the year ended 31 December 2008.

At 31 December 2008, Sinopec Corp held 4 billion shares of the Company. There are no changes during the year.

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

47. Related party relationships and transactions *(continued)*

(3) Key management personnel emoluments

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

	The Group and The Company	
	2008	2007
	RMB'000	RMB'000
Short-term employee benefits	5,008	5,301
Retirement scheme contributions	95	89
	5,103	5,390

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

(a) Other companies not having the direct ability to exercise significant influence over the Group.

	Relationship with the Company
China Petrochemical Corporation	The ultimate parent company
Sinopec Finance Company Limited	Subsidiary of the ultimate parent company
Sinopec Storage and Transportation Branch	Subsidiary of the ultimate parent company
Sinopec Zhenhai Refining & Chemical Branch	Branch of the immediate parent company
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	An associate of the Company
BOC-SPC Gases Co., Ltd	Jointly controlled company
Shanghai Jinpu Plastics Packaging Material Company Limited	An associate of the Company
Shanghai Jinsen Hydrocarbon Resins Company Limited	An associate of the Company

Details of the Group's jointly controlled entities and associates are set out in Note 17.

47. Related party relationships and transactions *(continued)*

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

(b) Most of the transactions undertaken by the Group during the year ended 31 December 2008 have been affected on such terms as have been determined by Sinopec Corp and other relevant authorities.

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

	The Group and The Company	
	2008 RMB'000	2007 RMB'000
Purchases of crude oil	37,790,324	33,588,285

(c) Other transactions between the Group and the Company with related parties during the year were as follows:

	The Group		The Company	
	2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000
Sales of goods and service fee income	29,908,286	22,907,085	31,121,522	24,610,755
Purchases other than crude oil	5,853,079	5,400,022	8,173,512	7,542,528
Insurance premiums paid	93,587	106,000	93,587	106,000
New withdrawal from deposits in a related party	(6,418)	(50,177)	(6,692)	(49,465)
Interest received and receivable	649	908	426	379
New loans obtained from a related party	543,000	1,475,300	460,000	1,227,000
Loans repaid to a related party	1,488,300	40,000	1,357,000	-
Interest paid and payable	26,682	9,813	12,563	1,658
Construction and installation fees	114,878	206,256	114,878	206,256
Gains from disposal of investments	-	25,822	-	14,585
Sales commissions	146,137	194,645	146,689	194,645
Net (decrease)/increase of guarantees	-	(19,003)	(295,000)	166,000
Rental income	19,009	13,216	24,434	18,806

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

47. Related party relationships and transactions *(continued)*

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

(d) Balances with related parties

At 31 December 2008, the Group's balances with related parties are as follows:

	Immediate Parent Company		Other related parties	
	2008	2007	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Bills receivable	7,977	–	25,799	43,725
Trade debtors	679	16,698	136,528	334,138
Dividends receivable	–	–	74,000	–
Other receivables	–	121	11,654	44,540
Advance payments	1,580	24,570	19,560	51,429
Bills payable	–	–	2,000	–
Trade creditors	1,521,305	679,944	146,023	132,173
Other payables	6,203	19,726	60,708	46,964
Receipts in advance	11,476	10,374	4,932	15,689
Balance of guarantee	–	–	30,747	30,747

At 31 December 2008, the Company's balances with related parties are as follows:

	Immediate Parent Company		Other related parties	
	2008	2007	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Bills receivable	–	–	29,770	52,344
Trade debtors	679	7,579	152,977	350,445
Dividends receivable	–	–	74,000	–
Other receivables	–	121	2,590	105,479
Advance payments	1,490	21,337	18,928	53,036
Bills payable	–	–	2,000	–
Trade creditors	1,521,305	679,944	270,719	280,264
Other payables	6,203	19,726	392,124	460,038
Receipts in advance	11,476	9,074	12,490	51,138
Balance of guarantee	–	–	264,500	559,500

47. Related party relationships and transactions *(continued)*

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

(e) Cash deposits in related parties

	The Group		The Company	
	2008	2007	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Cash at bank and on hand	23,318	29,736	22,844	29,536

(f) Loans with related parties

	The Group		The Company	
	2008	2007	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Short-term loans	410,000	1,355,300	330,000	1,227,000
Long-term loans	120,000	120,000	-	-

48. Comparative figure

The comparative figures of 2007 represent figures for the year from 1 January 2007 to 31 December 2007. Certain items in these comparative figures have been reclassified to conform with the current year's presentation to facilitate comparison.

The relevant comparative figures have been adjusted accordingly for the changes in accounting policies of deferred tax assets and deferred tax liabilities being presented on a net basis, see note 4 for details.

49. 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" (2008), the Group's non-recurring items are set out as below:

	2008 RMB'000	2007 RMB'000 (restated)#
Non-recurring items		
Gain from disposal of non-current assets	144,938	841,883
Tax refunds, exemptions and reductions on an occasional basis	-	10,217
Employee reduction expenses	(89,844)	(208,013)
Changes in fair value of financial assets held for trading	97,644	-
Net expenses of non-operating income/(expenses) other than those mentioned above	(898)	(47,198)
Sub-total	151,840	596,889
Less: tax effect for the above items	(37,960)	(193,602)
Total	113,880	403,287
Include: Non-recurring items attributable to equity shareholders of the Company	113,893	403,425
Non-recurring items attributable to minority shareholders	(13)	(138)

Note: In accordance with "Standard questions and answers on the preparation of information disclosures by companies publicly issuing securities, No 1 - Non recurring items" (2008), the above figures for 2007 have been adjusted.

50. (Loss)/earnings per share and return on net asset

According to "Regulations on the preparation of information disclosures by companies publicly issuing securities No.9 - calculation and disclosure of earnings per share and return on net assets" (2007 Modified) issued by China Security Regulation Committee, earning per share and return on net assets are calculated as follows:

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

	2008		2007	
	Basic earnings per share	Diluted earnings per share	Basic earnings per share (restated)#	Diluted earnings per share (restated)#
(a) (Loss)/ earnings per share based on net (loss)/profit including non-recurring items (RMB)	(0.867)	(0.867)	0.221	0.221
- Net (loss)/ profit attributable to equity shareholders of the Company (RMB'000)	(6,245,412)	(6,245,412)	1,592,110	1,592,110
- Weighted average of issued shares ('000)	7,200,000	7,200,000	7,200,000	7,200,000
(b) (Loss)/ earnings per share based on net (loss)/profit excluding non-recurring items (RMB)	(0.883)	(0.883)	0.165	0.165
- Net (loss)/ profit attributable to equity shareholders of the Company (RMB'000)	(6,359,305)	(6,359,305)	1,188,685	1,188,685
- Weighted average of issued shares ('000)	7,200,000	7,200,000	7,200,000	7,200,000

50. (Loss)/earnings per share and return on net asset (continued)

(2) Return on net assets

	2008		2007	
	Diluted	Weighted average	Diluted (restated)#	Weighted average (restated)#
(a) Return on net assets based on net profit including non-recurring items	–45.121%	–35.851%	7.582%	7.888%
- Net (loss)/ profit attributable to equity shareholders of the Company (RMB'000)	(6,245,412)	(6,245,412)	1,592,110	1,592,110
- Net assets attributable to equity shareholders of the Company (RMB'000)	13,841,371	13,841,371	20,999,444	20,999,444
- Net assets attributable to equity shareholders of the Company, weighted average (RMB'000)	17,420,408	17,420,408	20,184,582	20,184,582
(b) Return on net assets based on net profit excluding non-recurring items	–45.944%	–36.505%	5.661%	5.889%
- Net (loss)/ profit attributable to equity shareholders of the Company excluding non-recurring items (RMB'000)	(6,359,305)	(6,359,305)	1,188,685	1,188,685
- Net assets attributable to equity shareholders of the Company (RMB'000)	13,841,371	13,841,371	20,999,444	20,999,444
- Net assets attributable to equity shareholders of the Company, weighted average (RMB'000)	17,420,408	17,420,408	20,184,582	20,184,582

Note: In accordance with "Standard questions and answers on the preparation of information disclosures by companies publicly issuing securities, No 1 - Non recurring items" (2008), the above figures for 2007 have been adjusted.

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

The Company also prepares a set of financial statements which complies with the China Accounting Standards for Business Enterprises ("CAS (2006)"). A reconciliation of the Group's net (loss)/ profit and shareholders' equity prepared under the China Accounting Standards for Business Enterprises and IFRS is presented below.

Other than the differences in the classification of certain financial statements assertions and the accounting treatment of the items described below, there are no material differences between the Group's financial statements prepared in accordance with the China Accounting Standards for Business Enterprises and IFRS. The major differences are:

(i) Government grants

Under the China Accounting Standards for Business Enterprises, government subsidies defined as capital contributions according to the relevant government requirements are not considered a government grant, but instead should be recorded as an increase in capital reserves.

Under IFRS, such grants are offset against the cost of asset to which the grants related. Upon transfer to property, plant and equipment, the grant is recognised as income over the useful life of the property, plant and equipment by way of a reduced depreciation charge.

(ii) Revaluation of land use rights

Under IFRS, land use rights are carried at historical cost less accumulated amortisation. Under the China Accounting Standards for Business Enterprises, the cost of land use rights invested by the shareholders at the time of the establishment of the enterprise is determined at revalued amount, then amortised on the basis of revalued amount to determine the net book value.

(iii) Goodwill

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

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

As a result, there are no differences in respect of goodwill amortisation between the China Accounting Standards for Business Enterprises and IFRS effective 1 January 2007. Under IFRS, the impairment loss of goodwill recognised in profit or loss in 2008 represents the difference in two years of amortisation of positive goodwill during the period from 1 January 2005 to 31 December 2006 under the previous China Accounting Rules and Regulations.

(iv) Change in tax rate on deferred tax

As the EIT rate applicable to the Company was changed from 33% in 2007 to 25% in 2008, deferred tax recognised as at 31 December 2007 is based on the 25% tax rate that is expected to apply to the period when the asset is realised or the liability is settled. The amount represents the effects of change in tax rate on deferred tax assets.

The effect on the Group’s net (loss)/profit of significant differences between the China Accounting Standards for Business Enterprises and IFRS are summarised below:

		Years ended 31 December	
	Note	**2008**	2007
		RMB'000	RMB'000
(Loss)/profit attributable to equity shareholders of the Company under the China Accounting Standards for Business Enterprises		**(6,245,412)**	1,592,110
Adjustments:			
Reduced depreciation on government grants	(i)	**26,760**	26,760
Amortisation of revaluation of land use rights	(ii)	**3,498**	3,498
Impairment loss of goodwill	(iii)	**(22,415)**	-
Effects of the above adjustments on taxation		**(875)**	(1,154)
Effects of change in tax rate on deferred tax	(iv)	**-**	12,866
(Loss)/profit attributable to equity shareholders of the Company under IFRS		**(6,238,444)**	1,634,080

The effect on the Group's shareholders' equity of significant differences between the China Accounting Standards for Business Enterprises and IFRS are summarised below: (continued)

	Note	As at 31 December 2008 RMB'000	2007 RMB'000
Total equity attributable to equity shareholders of the Company under the China Accounting Standards for Business Enterprises		**13,841,371**	20,999,444
Adjustments:			
Government grants	(i)	**(210,399)**	(237,159)
Revaluation of land use rights	(ii)	**(163,756)**	(167,254)
Goodwill	(iii)	**-**	22,415
Effects of the above adjustments on taxation		**29,717**	30,592
Total equity attributable to equity shareholders of the Company under IFRS		**13,496,933**	20,648,038

Appendix: Self-Assessment Report of the Board of Directors of Sinopec Shanghai Petrochemical Company Limited on the Internal Control of the Company

The board of directors (the "Board") of Sinopec Shanghai Petrochemical Company Limited (the "Company") and all members of the Board warrant that there are no false representations or misleading statements contained in, or material omissions from, this report, and jointly and severally accept responsibility for the truthfulness, accuracy and completeness of the information contained in this report.

It is the responsibility of the Board and the management of the Company to establish sound internal control and implement the same effectively. The Company has established an internal control system since 2004 primarily for the purpose of achieving the following basic objectives:

1. To standardize the Company's business operation conduct and prevent operation management risks; to ensure accounting information is truthful, lawful and reliable; and to enhance the quality of accounting information.

2. To plug loopholes and eliminate potential hazards so as to prevent and timely detect and correct misconduct and fraudulent acts, thereby ensuring the Company's assets are secure and integral.

3. To ensure relevant State laws and regulations, the Articles of Association of Sinopec Shanghai Petrochemical Company Limited (the "Articles of Association") and internal rules and regulations are thoroughly enforced so as to fulfill the regulatory requirements for listed companies in both domestic and overseas capital markets.

Given the fact that internal control has its inherent limitations, it can only provide a reasonable assurance for achieving the aforesaid objectives. Also, whether internal control is effective or not may also vary with changes in the Company's internal and external environment as well as the Company's operating conditions. An inspection and supervision mechanism has been established for the Company's internal control, under which remedial measures will be taken immediately once a defect in the internal control is identified.

In establishing and implementing the internal control system, the Company has considered five basic elements, namely the internal environment, risk assessments, control activities, information and communication, and internal supervision.

(1) Internal environment: it refers to the general term for various internal factors that affect and constrain the establishment and implementation of internal control. It serves as a basis for the implementation of internal control. The Company's internal environment primarily covers corporate culture, governance structure, design of the organizational structure and division of authorities and responsibilities, human resources policies, anti-fraud mechanism and internal audit mechanism.

(2) Risk assessment: it refers to a process of timely identifying and systematically analyzing various uncertainties in the course of business activities in connection with the achievement of internal control objectives, and of formulating strategies to cope with such uncertainties. An appropriate internal risk assessment mechanism has been established, under which various functional departments and second-tier entities conduct periodic analysis of, and record changes in, potential risks in respect of internal control operation flow. Based on the findings of the risk analysis and upon completion of appropriate supervision and authorization, internal control procedures will be revised in advance or timely and the parties affected thereby will be notified promptly of how to properly manage new risks or risks not subject to control previously.

(3) Control activities: it refers to the adoption of relative control measures, based on the findings of a risk assessment, to control risks within the extent of tolerance. According to the internal control objectives and in light of the findings of risk assessments, the Company exercises effective control over various businesses and matters by comprehensively adopting relevant control measures that comprise both manual and automatic controls as well as preventive and detective controls.

(4) Information and communication: it refers to the timely and accurate collection and transmission of information in connection with internal control to ensure such information is effectively communicated among internal parties, external parties and the Company. A system governing information disclosures has been established to regulate information disclosures by the Company so as to protect the lawful rights and interests of investors and to ensure information disclosures are made in a truthful, accurate, complete, timely and impartial manner.

(5) Internal supervision: it refers to the conduct of supervision and check-up of details regarding the establishment and implementation of the internal control to evaluate whether such internal control is effective or not. The Company's internal supervision primarily comprises an ongoing check-up and evaluation of the overall status of the establishment and enforcement of internal control, a specific check-up and evaluation of a certain aspect or certain aspects of internal control as well as the submission of check-up reports thereon and the proposal of specific improvements thereto, and so forth.

The Board of the Company has conducted a self-assessment of all the aforesaid aspects of internal control in 2008. The findings of the assessment are: no material defects were detected in the design or enforcement of the internal control of the Company from 1 January 2008 to 31 December 2008.

It is the view of the Board that through continuous enhancement and improvement, the Company's internal control system was found to be complete, reasonable and effective from 1 January 2008 to 31 December 2008. After conducting various internal control check-up on an ongoing basis and making remedies and enhancements thereto accordingly during 2008, various systems have been adequately and effectively implemented and were able to meet the Company's existing management requirements and development needs, thereby ensuring the Company's business operations were carried out in an orderly manner. The systems have also satisfactorily ensured that the Company's accounting information were truthful, lawful and complete, and that the Company's assets were secure and integral. In addition, the systems have ensured information disclosures were made in a truthful, accurate, timely and complete manner, thereby ensuring all investors were treated in an open, fair and impartial manner.

It is also the view of the Board that the Company's internal control system should be upgraded and improved accordingly in line with changes in regulatory requirements, the control environment, internal organizational structure, management functions and so forth.

This report was considered and approved at the sixth meeting of the sixth session of the Board of the Company on 27 March 2009. The Company's Board and all members of the Board jointly and severally accept responsibility for the truthfulness, accuracy and completeness of the information contained in this report.

As a Chinese company listed on the New York Stock Exchange in the USA, the Company continues to engage KPMG to conduct audit on the internal control related over financial reporting of the Company as at 31 December 2008 pursuant to the requirements of the Sarbanes-Oxley Act. In the audit report on internal control over financial reporting issued by KPMG on 27 March 2009, KPMG is of the view that the Company has maintained effectiveness of internal control over financial reporting in all material aspects in accordance with the standards set out in the Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

The Board of Sinopec Shanghai Petrochemical Company Limited
27 March 2009

KPMG

The Board of Directors and Shareholders of Sinopec Shanghai Petrochemical Company Limited:

We have audited Sinopec Shanghai Petrochemical Company Limited and subsidiaries (the "Group")'s internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Group's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Group's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Group maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of the Group as of December 31, 2007 and 2008, and the related consolidated statements of operations, cash flows and equity for each of the years in the three-year period ended December 31, 2008, and our report dated March 27, 2009 expressed an unqualified opinion on those consolidated financial statements.

KPMG
Hong Kong, China
March 27, 2009

Appendix: Sinopec Shanghai Petrochemical Company Limited Report on Fulfillment of Corporate Social Responsibility 2008

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

Located at Jinshanwei, Jinshan District of Shanghai Municipality and occupying an area of 9.4 sq. km, Sinopec Shanghai Petrochemical Company Limited, a refining-chemical integrated petrochemical enterprise, is an important base for the development of modern petrochemical industry in the People's Republic of China ("PRC"). The Company produces more than 60 products categorised into four main groups, namely petroleum products, intermediate petrochemicals, synthetic resins and plastics, synthetic fibre monomer and polymer as well as synthetic fibres.

The corporate goal of SPC is to "contribute to the society with its best", based on which it strives to develop the enterprise, improve economic efficiency and consolidate its overall strengths to contribute to the economic development and prosperity of the country, which in turn provides fundamental protection for the interests of the investors at large, employees, suppliers and customers. As one of the first batch pilot enterprises carried out standardised SOE restructuring in 1993, SPC has its shares listed in Shanghai, Hong Kong and New York. While its production operations have been expanding with the continuous supply of quality products to the society, the Company has abided by its corporate goal and earnestly assumed its social responsibilities. It emphasizes the importance of production safety, resources conservation, environment protection and employees' well-being. The Company also supports public welfare and charities, as well as assists and promotes regional economic development and strives for the harmony and sustainable development of the enterprise, its employees, the society and the environment.

The Report on Fulfillment of Corporate Social Responsibility 2008 of Sinopec Shanghai Petrochemical Company Limited (the "Report") reflects the thorough application of its Scientific Outlook on its Development and the proactive fulfillment of its social responsibilities towards its stakeholders including shareholders, creditors, employees, suppliers and customers as well as the society in the course of conducting its business operation in 2008. Having considered the prevailing circumstances of the Company, the Report was prepared in accordance with the relevant laws and regulations such as the PRC Company Law (《中華人民共和國公司法》) and the Preparation Guidelines of Report on Companies' Fulfillment of Social Responsibilities (《公司履行社會責任的報告》編制指引) of the Shanghai Stock Exchange.

I. Protecting the interests of shareholders and creditors

Sound corporate governance provides the cornerstone for the sustainable development of SPC. The Company has strictly complied with the securities regulatory laws and regulations of the territories in which its shares are listed and the Articles of Association of Sinopec Shanghai Petrochemical Company Limited (the "Articles of Association") to continuously cultivate its corporate governance structure. The Company has established and is continuously improving its corporate governance structure which comprises the shareholders' general meeting as the organ with ultimate authority, the Board as the decision-making level, the general management team as the execution level and the supervisory committee as the supervision level. The Company has established and strengthened its internal control system in compliance with the domestic and international laws and requirements; strengthened and enhanced the systems of the Communist Party committee, labour union, and workers and staff representatives conference, thereby enabling their integration with the corporate governance structure; established an effective and balanced decision-making supervision system which comprised the clear delineation of the functions of the "Three New Committees" and the "Three Existing Committees" with the characteristics of SPC and joint stock enterprises, and which ensured effective division of labour and appropriate discharge of duties in a coordinated manner; built a complementary operation structure through the dual-appointment of Senior Management members by the shareholders' general meetings and the Party Committee so as to pool the wisdom of all parties concerned. All these measures enable the enterprise to operate in a democratic, legal, regularized and transparent manner. For information about the corporate governance of the Company in 2008, please refer to the sections headed "Corporate Governance Structure" and "Corporate Governance Report" in the annual report this year.

In order to be responsible to the investors at large and its debtors, the Company takes the initiative in complying with the stringent laws of the territories in which its shares are listed and strictly adopts the financial auditing and information disclosure systems. All annual operating results and financial indicators are audited by overseas and domestic independent accounting firms in accordance with the relevant international and domestic standards each year. All material operation activities and operating results are completely and accurately announced to the capital markets and investors at large in a timely manner. The Company adopts a number of ways to enhance its communication and exchange with its shareholders (particularly its public shareholders), including answering questions and enquiries of investors through its telephone hotline, email correspondence and letter correspondence as well as meetings. Investors may access the Company's information through the investor relations column contained in and information disclosures made on the Company's website. The disclosure of information in a truthful, timely, accurate and complete manner and the regularized operations of SPC are acknowledged by the investors at large, securities regulatory authorities and the media. The Company was awarded the Best Disclosure Award（最佳資料披露獎）from the Hong Kong Stock Exchange and the Certificate of Excellence in Investor Relations（投資者關系優異證書）from IR Magazine. According to the result of a survey (the Extel Surveys) conducted by Thomson Reuters across Asia (excluding Japan) on the securities investment sector, the Company was ranked first regrading investor relations in China.

The Company takes shareholders' return seriously and maintains a stable profit distribution policy. The Company distributes approximately 40% of its net profit as cash dividends each year in principle. Since its listing in 1993 to 2007, with the exception of 2001, the Company distributed dividends to all shareholders every year with an aggregate distribution of RMB8.512 billion, among which RMB3.572 billion was distributed to public shareholders. SPC was one of the companies that made the largest aggregate dividends distribution among those companies listed in Shanghai and Shenzhen. As a result of government policies and external market factors, the Company recorded a substantial loss in 2008. As such, the Board did not recommend the payment of dividends for 2008.

Creditors of the Company are principally major commercial banks. The Company has taken into full consideration of the legal rights and interests of the creditors when making material operation decisions. The current AA credit rating of the Company indicates the recognition from its creditors for its credibility, stability, practicality and responsible performance as no delay or default in the repayment of bank borrowings or interests has ever occurred. In 2008, the Company was named as a 2006-2007 Shanghai Contract-abiding and Trustworthy Enterprise（2006-2007年度上海市守合同重信用企業）and a 2006-2007 AAA-rated Contract Credit Enterprise（2006-2007年度合同信用AAA級企業）respectively by the Shanghai Municipal Industrial and Commercial Administration Bureau and the Shanghai Contract Credit Promotion Association.

II. Protecting the interests of employees

Employees are the most valuable assets of SPC. The Company upholds its employee-oriented corporate value and places all-round development of its employees as one of the major objectives in its corporate development. The Company relies on the collaboration of its employees to achieve the unification of corporate values with employee values.

1. Safeguard employees' interests.

SPC has established and improved on an open and democratic management system in accordance with the relevant laws, rules and regulations of the PRC and Shanghai Municipality and in light of the prevailing circumstances, and further enhanced democratic management based on the workers and staff representatives conference. The Company values the establishment of labour unions at all levels and strengthens the unions organizationally. A fair negotiation system for collective contracts has been set up between representatives from labour unions and representatives from administration departments for the discussion of policies involving close interests of the employees. Through entering into collective contracts and collective contracts specifically for protecting female employees' interests, the Company has ensured harmony and stability within the workplace by setting out in the contracts the terms of labour employment, remuneration, working hours, rest, holidays, labour safety and hygiene, insurance and fringe benefits, staff trainings and protections under the collective contracts as well as protection of the interests of female labour in the collective contracts. In 2003, the Company was named as a National Advanced Unit with Transparent Factory Management（全國廠務公開工作先進單位）.

In recent years, the Company has reformed its internal remuneration system through adopting coordinated planning, overall design and stage-by-stage implementation as its working target. Based on the consolidated assessments of key criteria including work duties, responsibilities, labour intensity and environment, and having taken into account the benchmarks set by the labour market, the Company has established rankings and wage level indicators for its "three teams", namely business and operation managerial staff, specialized technical professionals and skilled operators, thereby establishing and cultivating a remuneration allocation system which is primarily based on a position-grade determined basic wage system but which at the same time links individual income with professional skills required for an individual job position and work performance. In 2008, the Company has improved the remuneration system by introducing a market pricing system and highlighting the responsibilities, professional skills required and work performance of individual job positions. On the premises of narrowing income gap, the Company has increased the salary level of outstanding employees and frontline production employees as well as taking into consideration of the income of the interested parties.

Pursuant to the relevant laws, rules and regulations, the Company has joined the basic social insurance package for employees, including Shanghai Municipality's pension insurance, medical, unemployment, maternity and injury insurances, and has made full contributions on time. The Company also makes contributions to the housing fund for all the employees. Meanwhile, pursuant to the State's policy and the relevant requirements of its controlling shareholder, China Petroleum & Chemical Corporation ("Sinopec Corp."), and in view of the Company's economic efficiency conditions, the Company maintains a corporate annuity system and obtains additional medical insurance coverage to reduce sickness expenses of the employees. The Company fully implements the paid leave system and periodical recuperation program for employees. Under its regular health check system, the Company has maintained health check profiles for all employees. The Company also constantly improves the living standards and work environments of its employees by improving public welfare facilities every year.

2. Ensure employees' safety.

The productional operation of the petrochemical industry is characterized by high temperature and high pressure, as well as flammable and explosive. To prevent occupational diseases, the Company has adopted various measures to ensure safety and the health of its employees by complying with the Law on Prevention of Occupational Diseases (《職業病防治法》). The Company has worked out the standards of articles and apparatus for labour protection, management measures for such articles and apparatus and employees' on-the-job safety training systems for various duties and positions, as well as an on-the-job safety certification system for employees at specific positions, with a view to truly ensuring employees' work safety.

The Company attaches great importance to the supervision of employees' health and to the identification and detection of any possible hazardous elements potentially existing at the job sites. It publishes its monitoring results on particular hazardous elements of known occupational diseases at monitor stations on the bulletin boards, and informs operational staff of those hazardous elements of occupational diseases, national codes and monitoring results. As to job sites with existence of hazardous elements, the Company places warning boards and notice cards of highly toxic substances and posted four-sign-one-diagram notice boards specifying "safe operation procedures, possible consequences, emergency rescue measures and floor plans" at obvious spots. As to employees with exposures to detriments of occupational diseases, the Company explicitly sets out such exposure and the harmfulness of the occupational diseases in the employment contracts and provides adequate protective articles and apparatus during actual production processes. In addition, the Company strengthens publicity and education as well as prudently imparts preventative knowledge to ensure that employees understand the severity of occupational hazards and the importance of prevention and treatment and to raise their self-protection awareness. The Company was named as a National Model Enterprise of Occupational Hygiene（國家職業衛生示範企業） in 2006.

In 2008, in collaboration with Jinshan Hospital of Fudan University and Shanghai Municipal Centre for Disease Control and Prevention, 5586 employees of the Company with possible exposure to hazardous elements of occupational diseases took health check, achieving an examination rate of 100%. No diagnose of occupational diseases was found, but 24 employees were diagnosed as being occupationally contraindicated. The Company had timely redeployed these employees from their original positions and arranged medical visits and clinic treatment for them.

3. Career development of employees.

Based on the goals of corporate reforms and development, SPC provides education and training for employees throughout their entire careers. The Company actively supports education and training in various ways, such as the provision of systems, expenditures, training bases, resources and learning materials. The Company continuously enhances employees' moral and political quality, occupational ethics, professional expertises and integrated quality by providing training at various categories and levels respectively for the members of the "three teams", namely operations and management, technical know-how and skilled operations. These measures facilitate human resource development and employee redeployment, which set a solid foundation for realising the goals of the Company's operations and reforms as well as social stability.

In 2008, the Company provided training for 41,500 staff members, reaching 108% of the planned rate for the year. The percentage of technical staff to the total number of existing staff of the Company increased to 29.9% from 28.8% in the previous year, whereas the percentage of senior skilled operators or above to the total number of skilled operators increased to 38.1% from 34.8% in the previous year.

III. Protecting the interests of suppliers and customers

SPC has always recognized the importance of maintaining good relationships with suppliers and customers as a key to achieving long term, mutual beneficial and win-win cooperation relationships.

The Company has established and improved its management systems of material and equipment procurement and supply. Currently, its procurement management focus is shifting from securing supply to a combination of managing procurement risk and reducing purchase costs, and is converting from pursuing lowest purchase prices to the highest performance/price ratio and the lowest total supply cost. In addition to quotations and price comparing and tendering, procurement methods have been extended to include entering of framework agreements and dynamic bidding purchases. In principle, purchases of material and equipment procurement cost amounted to over RMB500 thousand are subject to tender process. Tender purchases are conducted in an open, fair, just and honest manner and in strict compliance with relevant regulations and operation procedures. Under the supervision of relevant departments, systematic and orderly management of suppliers is accomplished and the legal rights of suppliers are safeguarded. Meanwhile, the Company fully utilizes the e-commerce website platform provided by Sinopec Corp. to expand its scope and size of online procurement; to promote online tenders as well as bulk and general material and equipment online dynamic bidding purchases; and to increase transparency of the procurement process. Leveraging on the overall strengths of Sinopec Corp., the Company has improved its supplier structure and established long-term strategic partnership with reputable suppliers offering quality products and services. In 2008, the Company conducted online purchases aggregating RMB6. 873 billion, thereby saving transaction costs for both suppliers and the Company.

While expanding its production scale, the Company continuously intensifies its quality assurance management. Each production division has set up the ISO 9001:2000 certified quality assurance management system in conformity with the international standards of ISO 9001:2000. Its quality systems operate appropriately and effectively and are continuously being upgraded. In the ordinary course of business, the Company provides its users with “reliable” products and strives to improve their satisfaction. With its technological and management advantages, the Company provides downstream users with quality and prompt technological consultancy services and guidelines for proper selection and use of the Company’s products. Through proactively conducting market research and product upgrading projects, the Company has secured trust and loyalty from customers by developing and launching products with high content of technology and high quality in response to market demand from time to time. Apart from collecting customers’ opinions during products exhibitions and new products promotion fairs, in order to obtain more feedback on products quality and service quality, so as to further enhance its products and service quality, the Company has also engaged the Customer Evaluation Centre of Shanghai Municipal Quality Management Association to evaluate satisfaction of third-party users on its major products. In 2008, the Company was once named as a National Enterprise to the Satisfaction of Users by the China Quality Management Association, while three of its products, including Sanren fibre-grade polyester chips, were accredited as National User Satisfaction Products. In the same year, 26 of its products, including the Sanren-branded ethylene for industrial use, lead-free gasoline for vehicle and light diesel fuel, as well as the Jinyang-branded acrylic staple fibre, were named as Shanghai Brand Name Products.

To avoid competition with industry peers, enhance overall bargaining power and consolidate and expand market shares, the Company has entered into transactions with its controlling shareholders, Sinopec Corp., the controlling shareholders of Sinopec Corp., China Petrochemical Corporation ("Sinopec"), as well as the subsidiaries of Sinopec, pursuant to which these related parties would provide the Company with various services, such as raw material procurement, product sales agent, design, construction and installation. The transactions and services between the Company and these companies are necessary for the ordinary production and operation activities of SPC and are conducted on normal commercial terms and relevant agreed terms. The ordinary connected transactions between the Company and Sinopec Corp. those between the Company and Sinopec are conducted in strict compliance with the relevant laws and regulations of the jurisdictions where the Company is listed and the relevant requirements set out in the Articles of Association. All parties to the transactions have carried out necessary decision-making procedures and obtained approvals from their respective non-connected independent shareholders. The Company has also disclosed information in accordance with the requirements stipulated by the securities regulatory authorities in the jurisdictions where the Company is listed.

IV. Emphasis on safe production and environmental protection

The responsibility on safety is of crucial importance. SPC always pays high regard to this and conscientiously implements safety and environmental protection initiatives, regarding them as the prerequisites for implementing scientific development and building a harmonious society.

1. Safe production.

As an enterprise engaging in a highly dangerous industry, the Company places safe production as its priority and adhere to the policy of "putting safety and prevention first, all staff be mobilized and involved, problems concerning safety be tackled in a comprehensive way". The Company implements a safe grid management by persisting on the principle that emphasizes safety supervision be involved by all-staff, checked in all-orientation and done in all-weather, taking the HSE (Health, Safety and Environment) management system as guidelines and practising regional grid safety management. The Company has a complete safety management organization, as well as a set of comprehensively safe production management rules and regulations and effective safe management approaches. The Company implements HSE supervision and inspection and various specific inspections during its daily operation. One-vote rejection and safety accountability applies to any accident arises. In accordance with the four "not let-off" (namely not letting off (i) accidents of which reasons not being verified thoroughly, (ii) persons accountable for accidents not being punished, (iii) rectification measures not being made and taken as well as (iv) lessons not being learned by those relevant people involved in the accidents), the Company would investigate and find out the reasons of an accident, draw lessons therefrom and eliminate potential and hidden peril or danger, so as to enhance production safety. The Company has also reinforced the safety supervision management over certain highly hazardous sources existing in some key plants and vital production position or section. The Company has enacted major accident prevention measures and emergency rescue plans at all levels, and has organized emergency response drills, so as to enhance the capability for handling emergencies. The Company has strictly complied with the State's safety pre-assessment system, and implemented a "three concurrent" policy in newly-built, revamping and expansion projects: to ensure that safety facilities, fire fighting facilities, environmental protection and occupational hygiene facilities are designed, constructed and put into operation concurrently with the core project development. In 2008, the Company strictly implemented the safety and environmental protection accountability system and intensified the enforcement of the Ten Prohibitions for safe operation of the plants, standardized on-site operations and realized stable and smooth operation of production facilities. As a result, no major accident occurred during the overhaul of 19 main production plants and no significant safety accident happened during the year.

2. Remove hidden perils.

The Company pays special attention to finding out and removing hidden perils. In this connection, the Company adheres to four principles, namely the fixing of rectification solutions, the fixing of capital sources, the fixing of person in charge and the fixing of date of removal, to ensure that items with hidden perils can be eliminated in time. In 2008, the Company identified 2,539 potential items with hidden perils of all kinds in a series of massive perils screening campaign, with 2,423 of them or 95.43% being removed. For those which were not readily rectified temporarily, safe preventive measures were implemented to avoid accidents. In the same year, the Company invested a total amount of RMB104 million in the removal of 54 items of hidden perils, thus improving the safety level of the Company's plants.

3. Clean production.

The Company actively carries out the campaign of being a clean production enterprise. By measures such as implementing clean production corporate standards, imposing an internal sewage discharge fee system and utilizing clean production techniques, the Company has improved its clean production order and clean production standards and minimized the volume of discharged pollutants. The Company passed the clean production corporate examination and inspection organized by Sinopec in 2007. In 2008, the total amount of pollutants discharged decreased by 14% as compared to last year; whereas the emission of sulphur dioxide decreased by 15% and total COD discharge decreased by 15%. The discharge of sewage fully complied with the relevant requirements; the combustion rate of exhaust gas and the disposal rate of solid wastes reached 100%; water consumption and drainage volume per ton of crude oil decreased by 0.13 tons and 0.02 tons respectively as compared to the previous year; the rate of recycling of industrial water reached 96%; and the amount of producing fresh water for self-consumption and water-loss in pipelines was 8.42%. In addition, through the implementation of various clean production solutions, the Company recorded economic benefits of more than RMB23 million, while the amount of water saved was approximately 7.4 million tons/year and average daily reduction of sewage was 20 thousand tons.

4. Disposal of the "three wastes".

The "three wastes" that the Company needs to dispose of are categorized as exhaust gas, waste water and solid wastes.

Exhaust gas: The Company has cooperated with the Shanghai Environmental Protection Bureau for the commencement of identification of sources of air pollution, and has implemented focal inspection of common and specific pollutants such as sulphur dioxide, nitrogen oxides and smog in the operations of the Company, thereby providing technical bases for rectification works in the future. Currently, after the cessation of the operation of the oil power plant of the Company, 300,000 tons/year of residual oil used for power generation is further processed, and the volume of sulphur dioxide emitted is also reduced by approximately 8,000 tons. The construction of flue-gas desulfurization projects for No.1 & 2 furnaces of the coal power plant has been completed and put into operation, while the installation of the main facilities of flue-gas desulfurization projects for No. 3 and 4 furnaces has been completed. The removal of foul gas from the deaeration pool of the No. 1 waste water treatment plant at the Environmental Protection Center No. 1 was inspected and accepted by the Environmental Department of Shanghai Municipality. The construction of stage two foul gas removal project has commenced. The installation of Regenerative Thermal Oxidizer (RTO) in the Polyester Business Division has been completed. By reason of the above mentioned measures, the quality of the environment in the region where the Company is located would be substantially improved.

Waste water: The Company has 28 sets of waste water treatment facilities, 24 of which are pre-treatment facilities, three are in-depth-treatment facilities (with designed capacity of 188 thousand cubic meters/day) and one is a waste water recycling facility (with designed capacity of 250 cubic meters/hour). The Company discharges waste water treated by two-stage biochemical treatment into deep sea such that its waste water discharge meets the relevant requirements in all years.

Solid wastes: The hazardous and general industrial solid wastes produced during production processes of the Company are handled by its Environmental Protection Center and then treated by qualified subcontractors in the region. The Company has strengthened its control over its production processes and properly handled the disposal of its wastes, achieving a treatment rate of 100%.

In 2008, the Company realized its objective of having zero occurrence of staff injury and fatal incidents, significant fire or explosion accidents, major environmental pollution accidents, severe occupational diseases or serious traffic accidents. The Company has been accredited by Sinopec as an advanced unit in operational safety and environmental protection for several consecutive years.

V. Contributing to the society

Enterprises generate wealth from the society and thus it is their responsibilities for paying back to the society. SPC has sincerely devoted itself to fulfilling its social responsibilities since its establishment. It has zealously undertaken its responsibilities and obligations and established a sound corporate image. It was accredited as the National Model Civilized Unit by the Central Guidance Committee on Spiritual Civilization Cultivation in 2005 and 2008 respectively.

As one of major producers and suppliers of refined oil products in the Yangtze River Delta region, the Company has complied with the requirements of the National Development and Reform Commission and the local governments throughout the years. It has carried out various measures to fully ensure supplies of refined oil products to the region, contributing to the steady and relatively fast growth of the regional economy and the society. Particularly in 2008, the international crude oil prices surged continuously and there was a long time inverted prices of domestic refined oil products with those of crude oil as a result of the strictly regulated pricing of domestic refined oil products by the government, which resulted in significant losses in the industry. Under such challenging circumstances, the Company strived to increase its production in refined oil products, and its production volumes of gasoline, diesel and jet oil for the year increased by 13% as compared to the previous year. As a result, its mission of ensuring supplies of refined oil products to the Yangtze River Delta region was successfully achieved.

In addition to accelerating its own development, the Company proactively participated in social public welfare activities. Since its listing, the Company has offered donations to China Welfare Institute, Shanghai Education Development Foundation, Shanghai Children and Teenager's Fund, Shanghai Foundation For Justice And Courage, Shanghai Agedness Foundation, Shanghai Women's Federation as well as schools and hospitals. It has also provided substantial financial support to Jingshan District, Shanghai, where the Company is located, on its economic development and various public welfare affairs regarding cultural, education and community development. In the past 16 years since its listing, the total social donations of the Company amounted to several hundred millions of Renminbi, which has enabled a harmonious development of the enterprise and the society. At the beginning of 2008, southern China suffered from unusual snowstorms. On 12 May 2008, an earthquake of Richter Scale 8.0 occurred in Wenchuan, Sichuan. After those disasters, the Company and its staff proactively offered donations and resources. The Company donated RMB2 million to the Red Cross of China, Shanghai Branch, while the employees of the Company donated RMB2.4462 million in total and members of the Communist Party of the Company paid special party membership fees of RMB1.4312 million as earthquake tragedy relief, all aimed to lend a helping hand to support sufferers and recovery tasks in the disaster areas. The employees of the Company also strived to achieve the Company's corporate mission. In 2006 and 2007, three of its employees voluntarily donated hematopoietic stem cells to save the lives of others.

The above Report demonstrated that SPC has implemented various measures and achieved positive results in respect of protecting the interests of major stakeholders, ensuring safe production and environmental protection and facilitating sustainable economic and social development in 2008. In 2009, the Company will continue its work to duly fulfil its social responsibilities, thereby further facilitating sustainable economic, social and environmental development.

The Report has been considered and approved at the sixth meeting of the sixth session of the Board on 27 March 2009. The Company has not engaged any third party to verify the fulfilment of its social responsibilities.

The Board of Directors
Sinopec Shanghai Petrochemical Company Limited
27 March 2009

Written Confirmation Issued by Directors, Supervisors and Senior Management

Pursuant to the requirements of No. 68 of the Securities Law and Regulation on the Preparation of Information Disclosure Contents and Format of Companies Issuing Public Shares, No. 2 revised by the China Securities Regulatory Commission (CSRC) in 2007, we, being Directors, Supervisors and the Senior Management of the Company, having carefully studied and reviewed the Company's 2008 annual report, are in the opinion that: the Company was in strict compliance with the financial system operation of listed companies and the 2008 annual report gave a true and fair view of the financial position and operating results of the Company. The unqualified auditors reports of the Company issued by KPMG Huazhen and KPMG, respectively, were true and fair. We warrant that the information contained in the 2008 annual report is true, accurate and complete, and that there are no false or misleading statements contained in or material omissions from this report. We jointly and severally accept full responsibility for the authenticity, accuracy and completeness of the information contained in this report.

Signature:

Directors:

Rong Guangdao   Du Chongjun   Han Zhihao   Li Honggen

Shi Wei   Dai JinBao   Lei Dianwu   Xiang Hanyin

Chen Xinyuan   Sun Chiping   Jiang Zhiquan   Zhou Yunnong

Supervisors:

Gao Jinping   Zhang Chenghua   Wang Yanjun   Zhai Yalin

Wu Xiaoqi   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
   Abbreviated name of the Company in Chinese: 上海石化
   Name of the Company in English: Sinopec Shanghai Petrochemical Company Limited
   Abbreviated name of the Company in English: SPC

2. Legal representative of the Company: Rong Guangdao

3. Secretary to the Board: Zhang Jingming
   Tel: 86-21-57943143 / 52377880
   Fax: 86-21-57940050 / 52375091
   E-mail address: spc@spc.com.cn
   Correspondence address: 48 Jinyi Road, Jinshan District, Shanghai, the People's Republic of China, Postal Code: 200540
   Securities representative of the Company: Tang Weizhong
   Tel: 86-21-52377880
   Fax: 86-21-52375091
   E-mail address: tom@spc.com.cn
   Correspondence address: Suite B, 28/F, Huamin Empire Plaza, 728 West Yan'an Road, Shanghai, the People's Republic of China, Postal Code: 200050

4. Registered address: 48 Jinyi Road, Jinshan District, Shanghai, the People's Republic of China
   Business address: 48 Jinyi Road, Jinshan District, Shanghai, the People's Republic of China
   Postal Code: 200540
   Website of the Company: www.spc.com.cn
   E-mail address of the Company: spc@spc.com.cn

5. Newspapers for publication of announcements of the Company:
   "Shanghai Securities News" and "China Securities Journal"
   Websites for the publication of the Company's annual reports:
   www.sse.com.cn, www.hkex.com.hk and www.spc.com.cn
   Place for access to the Company's annual reports:
   Secretariat Office to the Board, 48 Jinyi Road, Jinshan District, Shanghai, the People's Republic of China

6. Place of listing of the Company's A shares: Shanghai Stock Exchange
   Stock abbreviation of the Company's A shares: S上石化
   Stock code of the Company's A shares: 600688
   Place of listing of the Company's H shares: Hong Kong Stock Exchange
   Stock abbreviation of the Company's H shares: 上海石化
   Stock code of the Company's H shares: 338
   Place of listing of the Company's other securities: New York Stock Exchange
   Stock abbreviation of the Company's other securities: SHI

7. Other information
   Date of the Company's initial registration: 29 June 1993
   Initial registration address of the Company: Jinshan Wei, Shanghai, the People's Republic of China
   Date of change of the Company's registration for the first time: 12 October 2000
   Change of the registration address of the Company for the first time:
   48 Jinyi Road, Jinshan District, Shanghai, the People's Republic of China
   SAIC registration number of the Company: 310000000021453
   Tax registration number of the Company: 310043132212291

Company and Organization Code: 13221229-1
Name of domestic auditors engaged by the Company: KPMG Huazhen
Address of the domestic auditors engaged by the Company: 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 engaged by the Company: KPMG
Address of the international auditors engaged by the Company: 8th floor, Prince's Building, Central, Hong Kong

Legal advisors:

PRC law: Haiwen & Partners
21st Floor, Beijing Silver Tower
No.2 Dong San Huan Road
Chaoyang District
Beijing, People's Republic of China
Postal Code: 100027

Hong Kong law: Freshfields Bruckhaus Deringer
11th Floor, Two Exchange Square, Central, Hong Kong

United States law: Morrison & Foerster
425 Market Street, San Francisco, California 94105-2482, USA

Principal Bankers:

China Construction Bank, Shanghai Branch
79 Dianchi Road
Shanghai, People's Republic of China
Postal Code: 200002

Industrial & Commercial Bank of China, Shanghai Branch
No.9 Pudong Avenue
Pudong New Area
Shanghai, People's Republic of China
Postal Code: 200120

Registrars:

HKSCC Registrars Limited
2nd Floor, Vicwood Plaza
199 Des Voeux Road, Central
Hong Kong

Depositary:

The Bank of New York Mellon
Investors Services
P.O. Box 11258
Church Street Station
New York, NY 10286-1258
Toll Free Telephone number for domestic calls: 1-888-BNY-ADRS
Number for International Calls: 1-201-680-6825
E-mail: shareowners@bankofny.com
Website: www.stockbny.com

Documents for inspection

1. The financial statements signed and sealed by the Company's Chairman and President, Vice Chairman and Vice President and Chief Financial Officer;

2. The original auditor's report signed by the auditors;

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

4. The written confirmation issued by the Directors, Supervisors and Senior Management.

Chairman: **Rong Guangdao**
Sinopec Shanghai Petrochemical Company Limited
27 March 2009

This annual report is published in both Chinese and English. Should any conflict regarding meaning arises, the Chinese version shall prevail.