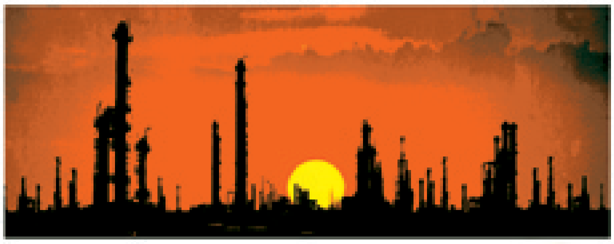
2009 Annual Report



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

Contents

IMPORTANT:

(1) 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 2009 annual report of the Company, and severally and jointly accept full responsibility for the truthfulness, accuracy and completeness of the information contained in this annual report.

(2) If any Director fails to attend the Board meeting for considering and approving the 2009 annual report of the Company, his name shall be set out separately:

Name of Director not Attending	Role of Director not Attending	Explanation of Director not Attending	Name of Proxy
Lei Dianwu	Director	Business engagement	Rong Guangdao

(3) The Company prepared the financial statements for the year ended 31 December 2009 (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’ reports.

(4) Mr. Rong Guangdao, Chairman and President of the Company, Mr. Du Chongjun, Vice Chairman and Vice President, and Mr. Ye Guohua, Chief Financial Officer (overseeing the accounting operations) hereby warrant the truthfulness and completeness of the financial report contained in the 2009 annual report of the Company.

(5) Is there any misappropriation of funds by the controlling shareholders and their connected parties for non-operation purpose?
No

(6) Is there any external guarantee made in violation of the required decision-making procedures?
No

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 2009. 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.

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.

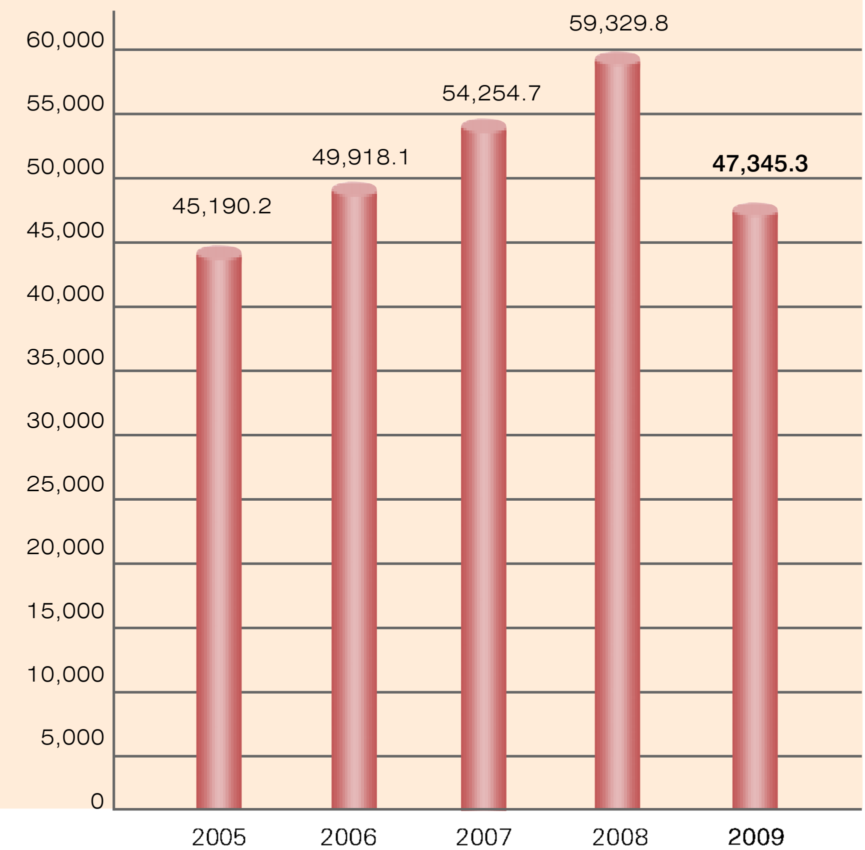
Financial Highlights

(Prepared under International Financial Reporting Standards)

Expressed in RMB millions	**2009**	2008	2007	2006	2005
Year ended 31 December:					
Net sales	**47,345.3**	59,329.8	54,254.7	49,918.1	45,190.2
Profit / (loss) before taxation	**2,166.5**	(8,014.4)	2,151.4	964.2	2,287.6
Profit / (loss) for the year	**1,655.5**	(6,201.7)	1,683.1	911.0	1,921.3
Profit / (loss) attributable to equity shareholders of the Company	**1,591.0**	(6,238.4)	1,634.1	844.4	1,850.4
Earnings / (loss) per share	**RMB0.22**	RMB(0.87)	RMB0.23	RMB0.12	RMB0.26
As at 31 December:					
Total equity attributable to equity shareholders of the Company	**15,005.0**	13,496.9	20,648.0	18,976.3	18,830.0
Total assets	**29,908.5**	27,533.0	29,853.1	27,406.1	26,810.4
Total liabilities	**14,609.2**	13,771.7	8,901.0	8,093.7	7,632.9

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				
			Increase / decrease compared to the previous year (%)	2007	
	2009	2008		**(After adjustment)** Note	(Before adjustment) Note
Operation Income	**51,722,727**	60,310,570	-14.24	**55,404,687**	55,404,687
Total profit / (loss)	**2,136,251**	(8,022,281)	-	**2,121,094**	2,121,094
Net profit / (loss) attributable to equity shareholders of the Company	**1,561,605**	(6,245,412)	-	**1,592,110**	1,592,110
Net profit / (loss) attributable to equity shareholders of the Company excluding non-recurring items	**1,298,826**	(6,359,305)	-	**1,188,685**	1,105,002
Net cash inflow / (outflow) from operating activities	**3,703,542**	(3,407,885)	-	**1,784,572**	1,784,572

	As at 31 December				
			Increase / decrease compared to the end of previous year(%)	2007	
	2009	2008		**(After adjustment)** Note	(Before adjustment) Note
Total assets	**30,458,322**	28,107,465	8.36	**30,463,349**	30,494,334
Total equity attributable to equity shareholders of the Company	**15,346,073**	13,841,371	10.87	**20,999,444**	20,999,444

Note: Comparative figures for 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.

2. Major financial indicators

	For the years ended 31 December				
				2007	
	2009	2008	Increase/decrease compared to the previous year(%)	**(After adjustment)**Note	(Before adjustment)Note
Basic earnings/(loss) per share (RMB)	**0.217**	(0.867)	-	**0.221**	0.221
Diluted earnings/(loss) per share (RMB)	**0.217**	(0.867)	-	**0.221**	0.221
Basic earnings/(loss) per share excluding non-recurring items (RMB)	**0.180**	(0.883)	-	**0.165**	0.153
Return on net assets (weighted average)(%)*	**10.701**	(35.851)	increased by 46.552 percentage points	**7.888**	7.888
Return on net assets based on net profit/(loss) excluding non-recurring items (weighted average)(%)*	**8.900**	(36.505)	increased by 45.405 percentage points	**5.889**	5.474
Net cash inflow/(outflow) per share from operating activities (RMB)	**0.514**	(0.473)	-	**0.248**	0.248

	As at 31 December				
				2007	
	2009	2008	Increase/ decrease compared to the previous year(%)	**(After adjustment)**Note	(Before adjustment)Note
Net asset value per share attributable to equity shareholders of the Company (RMB) *	**2.131**	1.922	10.87	**2.917**	2.917

Note: Comparative figures for 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.

* Net assets used above do not include minority interests.

3. Items stated at fair value

Item	Balance at the beginning of the period RMB'000	Balance at the end of the period RMB'000	Change for the current period RMB'000	Amount affected the profit in the current period RMB'000
Other current assets-Bank Financial Products	-	700,000	700,000	-
Available-for-sale financial assets	123,918	-	(123,918)	222,810
Financial assets held for trading	97,644	-	(97,644)	(10,423)

4. Non-recurring items for the year ended 31 December 2009

Non-recurring items	Amount RMB'000
Net gains from disposal of non-current assets	180,203
Employee reduction expenses	(12,518)
Government grants accounted in profit and loss (except for government grants under the State's unified standards on quota and amount entitlements and closely related to corporate business)	25,310
Losses arising from changes in fair value of financial assets held for trading	(10,423)
Investment income from disposal of available-for-sale financial assets	222,810
Other non-operating income and expenses other than those mentioned above	(54,941)
Income tax effect	(87,610)
Effect due to minority shareholders equity (after tax)	(52)
Total	262,779

5. Return on net assets and earnings per share prepared in compliance with the Regulation on the Preparation of Information Disclosures by Companies Publicly Issuing Securities, No.9, issued by the China Securities Regulatory Commission

		Earning per share	
Profit for the Reporting Period	**Return on net assets based on net profit(weighted average) %**	**Basic Earnings per Share RMB**	**Diluted Earnings per Share RMB**
Net profit attributable to the equity shareholders of the Company	10.701	0.217	0.217
Net profit attributable to the equity shareholders of the Company excluding non-recurring items	8.900	0.180	0.180

6. Differences between financial statements prepared under China Accounting Standards for Business Enterprises and IFRS

	Net profit/(loss) attributable to equity shareholders of the Company		Total equity attributable to equity shareholders of the Company	
	The Reporting Period RMB'000	Corresponding period of the previous year RMB'000	At the end of the Reporting Period RMB'000	At the beginning of the Reporting Period RMB'000
Prepared under China Accounting Standards for Business Enterprises	1,561,605	(6,245,412)	15,346,073	13,841,371
Prepared under IFRS	1,590,988	(6,238,444)	15,005,018	13,496,933

Please refer to Section C of this annual report for details.

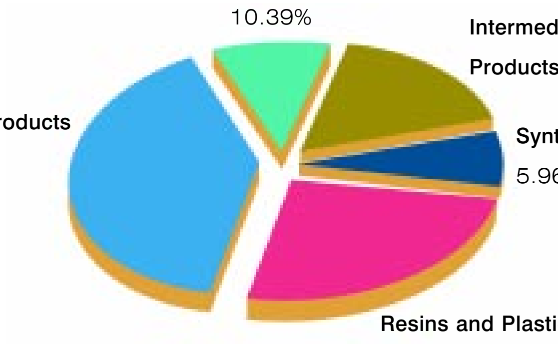
Principal Products

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 2009 as a percentage of total net sales and their typical uses.

Major products sold by the Group	% of 2009 net sales	Typical use
Manufactured Products		
Synthetic Fibres		
Polyester staple	1.09	Textiles and apparel
Acrylic staple	4.59	Cotton type fabrics wool type fabrics delre, and acrylic top
Others	0.28	
Subtotal:	**5.96**	
Resins and Plastics		
Polyester chips	6.79	Polyester fibres, films and containers
PE pellets	10.62	Films, ground sheeting, wire and cable compound and other injection moulding products such as housewares and toys
PP pellets	7.52	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	0.06	
Subtotal:	**25.90**	



Major products sold by the Group	% of 2009 net sales	Typical use
Intermediate Petrochemical Products		
Ethylene	1.06	Feedstock for PE, EG, PVC and other intermediate petrochemicals which can be further processed into resins and plastics and synthetic fibre
Ethylene oxide	2.28	Intermediate for chemical and pharmaceutical industry, dyes, detergents and adjuvant
Benzene	2.60	Intermediate petrochemical products, styrene, plastics, explosives, dyes, detergents, epoxies and polyamide fibre
Butadiene	1.97	Synthetic rubber and plastics
Ethylene glycol	2.04	Fine chemicals
Others	7.84	
Subtotal:	17.79	
Petroleum Products		
Gasoline	6.98	Transportation fuels
Diesel	22.21	Agricultural fuels
Jet oil	5.26	Transportation fuels
Others	5.51	
Subtotal:	39.96	
Others	10.39	
TOTAL:	100.00	

Change in share capital and shareholders for the year ended 31 December 2009

1. Change in share capital

There was no change in 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 in the Company's total number of shares and share structure

There was no change in 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 2009

Total number of shareholders as at the end of the Reporting Period 118,413

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 (shares)
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	31.94	2,299,646,101	-614,000	Circulating	0	Unknown
China Minsheng Banking Corp., Ltd. -Orient Jing Xuan Hun He Xing Kai Fang Shi Securities Investment Fund	Others	0.76	54,800,000	-24,622,371	Circulating	0	Unknown
China Construction Bank-CIFM China Advantage Security Investment Fund	Others	0.48	34,873,854	+3,982,945	Circulating	0	Unknown
The Bank of China-Harvest Stable Open Securities Investment Fund	Others	0.27	19,268,012	Unknown	Circulating	0	Unknown
Shanghai Kangli Gong Mao Company	Others	0.23	16,730,000	0	Non-circulating	16,730,000	Unknown
China Life Insurance Company Limited- Bonus -Individual Bonus-005L-FH002 Shanghai	Others	0.19	13,844,819	Unknown	Circulating	0	Unknown
The Bank of China-Harvest Growth and Gain Securities Investment Fund	Others	0.19	13,759,794	Unknown	Circulating	0	Unknown
China Life Insurance Company Limited -Tradition-Ordinary Insurance Product-005L -CT001 Shanghai	Others	0.19	13,648,194	Unknown	Circulating	0	Unknown
Zhejiang Economic Construction Investment Co., Ltd.	Others	0.17	12,000,000	0	Non-circulating	12,000,000	Unknown



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

(1) Total number of shareholders and their shareholding as at 31 December 2009 *(continued)*

Top ten shareholders of shares in circulation

Name of shareholders	Number of circulating shares held (shares)	Type of Shares
HKSCC (Nominees) Limited	2,299,646,101	Overseas listed foreign shares
China Minsheng Banking Corp., Ltd. -Orient Jing Xuan Hun He Xing Kai Fang Shi Securities Investment Fund	54,800,000	RMB-denominated ordinary shares
China Construction Bank-CIFM China Advantage Security Investment Fund	34,873,854	RMB-denominated ordinary shares
The Bank of China-Harvest Stable Open Securities Investment Fund	19,268,012	RMB-denominated ordinary shares
China Life Insurance Company Limited-Bonus-Individual Bonus -005L-FH002 Shanghai	13,844,819	RMB-denominated ordinary shares
The Bank of China-Harvest Growth and Gain Securities Investment Fund	13,759,794	RMB-denominated ordinary shares
China Life Insurance Company Limited-Tradition-Ordinary Insurance Product- 005L-CT001 Shanghai	13,648,194	RMB-denominated ordinary shares
China Life Insurance Company Limited-Life Insurance-Guoshou Ruian	10,249,344	RMB-denominated ordinary shares
Bank of China-Harvest Shanghai and Shenzhen 300 Index Securities Investment Fund	6,338,342	RMB-denominated ordinary shares
The Bank of China-Harvest Research and Selective Securities Investment Fund	6,000,000	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) Details of the controlling shareholder and controlling company of the controlling shareholder of the Company

(i) Details of the controlling shareholder

Name of controlling shareholder:	China Petroleum & Chemical Corporation ("Sinopec Corp.")
Legal 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")
Legal representative:	Su Shulin
Registered capital:	RMB130.6 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) Details of the controlling shareholder and controlling company of the controlling shareholder of the Company *(continued)*

(iii) Change in 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 of the Company

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 issued share capital

As at 31 December 2009, HKSCC (Nominees) Limited held 2,299,646,101 H shares of the Company, representing 31.94% 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 2010, 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 the substantial shareholders of the Company and other persons in shares and underlying Shares

As at 31 December 2009, 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	-
JPMorgan Chase & Co.	Beneficial owner	137,886,070(L) 1,542,729(S) 33,584,000(P)	1.92(L) 0.02(S) 0.47(P)	5.92(L) 0.07(S) 1.44(P)

Note:(L):Long positions; (S):Short position; (P):Available-for-lending shares

(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 2009, 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)	Reason of change	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	54	June 2008 to June 2011	3,600	3,600	-	560	No
Du Chongjun	Vice Chairman and Vice President	M	55	June 2008 to June 2011	1,000	1,000	-	560	No
Han Zhihao	Director	M	58	June 2008 to June 2011	0	0	-	465	No
Li Honggen	Director and Vice President	M	53	June 2008 to June 2011	0	0	-	468	No
Shi Wei	Director and Vice President	M	50	June 2008 to June 2011	0	0	-	467	No
Dai Jinbao	Director	M	53	June 2008 to June 2011	0	0	-	301	No
Lei Dianwu	External Director	M	47	June 2008 to June 2011	0	0	-	-	Yes
Xiang Hanyin	External Director	M	55	June 2008 to June 2011	0	0	-	-	Yes
Chen Xinyuan	Independent Non-executive Director	M	45	June 2008 to June 2011	0	0	-	150	No
Sun Chiping	Independent Non-executive Director	M	51	June 2008 to June 2011	0	0	-	150	No
Jiang Zhiquan	Independent Non-executive Director	M	59	June 2008 to June 2011	0	0	-	150	No
Zhou Yunnong	Independent Non-executive Director	M	67	June 2008 to June 2011	0	0	-	150	No
Gao Jinping	Chairman of the Supervisory Committee	M	43	June 2008 to June 2011	0	0	-	467	No
Zhang Chenghua	Supervisor	M	54	June 2008 to June 2011	0	0	-	297	No
Wang Yanjun	Supervisor	F	49	June 2008 to June 2011	0	0	-	277	No
Zhai Yalin	External Supervisor	M	45	June 2008 to June 2011	0	0	-	-	Yes
Wu Xiaoqi	External Supervisor	M	53	June 2008 to June 2011	0	0	-	-	Yes
Liu Xiangdong	Independent Supervisor	M	58	June 2008 to June 2011	0	0	-	-	No
Yin Yongli	Independent Supervisor	M	70	June 2008 to June 2011	0	0	-	-	No
Zhang Jianping	Vice President	M	47	June 2008 to June 2011	0	0	-	464	No
Tang Chengjian	Vice President	M	54	June 2008 to June 2011	0	0	-	461	No
Ye Guohua	Chief Financial Officer	M	41	October 2009 to June 2011	0	0	-	59	No
Zhang Jingming	Company Secretary and General Counsellor	M	52	June 2008 to June 2011	0	0	-	353	No
Total								5,799	

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, 54, 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, 55, 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 elected 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 has professional qualifications of a professorate rank.

Han Zhihao, 58, is Executive Director and consultant 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. From September 1998 to October 2003, he was appointed Chief Accountant of the Company. From October 2003 to October 2009, he was appointed Chief Financial Officer of the Company. In June 2004, he was elected Director of the Company. In October 2009, he was appointed consultant of the Company. Mr. Han graduated from Shanghai University of Finance and Economics majoring in financing and accounting in 1990 (self-study examination). 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, 53, 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 elected 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, 50, 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 of the Company. In October 2003, Mr. Shi was appointed Vice President of the Company. In June 2005, he was elected 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, 53, 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, 47, is Assistant to General Manager of Sinopec, Vice President and 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. In March 2009, he was appointed Assistant to General Manager of Sinopec. In May 2009, he was appointed Vice President 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, 55, 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 bachelori¯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, 45, 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, 51, is President and Secretary of the Communist Party Committee of the Industrial and Commercial Bank of China (the "ICBC"), Jiangsu 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 operating division of ICBC, Shanghai Branch, 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 cum General Manager of International Business Division of ICBC, Shanghai Branch; Deputy President of ICBC, Shanghai Branch; and Deputy President, President and Secretary of the Communist Party Committee of the ICBC, Guangdong Branch and President and Secretary of the Communist Party Committee of ICBC, Shanghai Branch. In June 2009, he assumed the current position of President and Secretary of the Communist Party Committee of the ICBC, Jiangsu Branch. 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, 59, 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, 67, 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, 43, 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, 54, is a Supervisor, Deputy Chief Political Advisor and Director of the Communist Party Committee Office of the Company. Mr. Zhang joined the Complex in 1974 and held various positions including Deputy Secretary of the Communist Party Committee of the Thermal Power Plant of the Company, Deputy Secretary of the Communist Party Committee cum Chairman of Labour Union of the Thermal Power Plant of the Company, 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. In July 2009, Mr. Zhang was appointed Deputy Chief Political Advisor of the Company. 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, 49, 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, 45, is Deputy Director of the Auditing Bureau of Sinopec 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 Sinopec, and Director of the General Administrative Office of the Auditing Bureau of Sinopec (Auditing Department of Sinopec Corp.). Since December 2001, Mr. Zhai has been holding concurrently the posts of Deputy Director of the Auditing Bureau of Sinopec 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, 53, is Secretary of the Communist Party Committee and Deputy General Manager of Sinopec Corp. Yunnan Oil Products 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 Sinopec's Disciplinary Division. From June 2004 to April 2005, he was Deputy Bureau Director Class Disciplinary Inspector of Supervisory Bureau of Sinopec 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 Sinopec 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, 58, is Executive Director and President of Zhengxin Bank Company Limited and Independent Director of Bright Dairy and Food Co. Ltd. He was elected Independent Supervisor of the Company in June 2000. Mr. Liu has held various positions including Vice President of the Industrial and Commercial Bank of China, Shanghai Branch and Head of Bills Operation Department of the Industrial and Commercial Bank of China, General Manager of Investment Division of the Industrial and Commercial Bank of China, Executive Director and President of Zhengda International Finance Corporation and Independent Director of Shanghai No.1 Pharmacy Co., Ltd. and SGSB Group Co., Ltd. Since January 2010, Mr. Liu has been Executive Director and President of Zhengxin Bank Company Limited. Mr. Liu has been working in the banking sector for many years and has abundant experience in business management practices. He obtained a master's degree in economics from Shanghai Univeristy of Finance and Economics and an EMBA from Arizona State University and Shanghai National Accounting Institute. Mr. Liu is a senior economist.

Yin Yongli, 70, has been Independent Supervisor of the Company since June 2005. 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. From June 2005 to June 2008, Mr. Yin was 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, 47, 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, 54, 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, 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.

Ye Guohua, 41, is Chief Financial Officer of the Company. Mr. Ye joined Shanghai Gaoqiao Petrochemical Corporation in 1991 and held various positions, including Deputy Chief and Chief of the Cost Accounting Section of the Finance Office, Director of the Finance Office of the Refinery Plant of Shanghai Gaoqiao Petrochemical Corporation and Deputy Chief Accountant and Director of the Finance Department of Sinopec Corp. Shanghai Gaoqiao Branch. In October 2009, Mr. Ye was appointed Chief Financial officer of the Company. Mr. Ye graduated with a major in accounting from the Shanghai University of Finance and Economics in July 1991. He is a senior accountant by professional title.

Zhang Jingming, 52, is Secretary to the Board, General Counsel in-house, Director of the Board Secretariat and Director of Strategy Research Department 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	Company	Position held	Commencement of service term	End of service term	Whether they received remuneration and allowance from shareholder
Lei Dianwu	Sinopec Corp.	Vice President cum Director of the Development and Planning Division	May 2009	May 2012	Yes
Xiang Hanyin	Sinopec Corp.	Deputy Director of Chemical Division	May 2009	May 2012	Yes
Zhai Yalin	Sinopec Corp.	Deputy Director of Audit Department	May 2009	May 2012	Yes

Management Positions held in Other Companies

Name	Company	Position held	Commencement of service term	End of service term	Whether they received remuneration and allowance
Wu Xiaoqi	Sinopec Corp. Yunnan Oil Products Company	Secretary of the Communist Party Committee and Deputy General Manager	May 2009	May 2012	Yes

Other than the information as set out in the above tables and section "Profiles of Directors, Supervisors, Senior Management", no Director, Supervisor or Senior Management held any position in any other companies.

Remuneration of Directors, Supervisors, Senior Management and Employees

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 and Supervisors, please refer to note 10 to the financial statements 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 to the financial statements prepared under IFRS. All the five highest paid individuals are Directors and Supervisors of the Company.

4. Pension scheme

Please refer to notes 10, 29(f) and 30 to the financial statements 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
Han Zhihao	Chief Financial Officer	Resigned	Age
Ye Guohua	Chief Financial Officer	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 2009, 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 2009, 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 2009, the Group had 17,131 employees in total. Among them, there were 9,396 production staff, 6,381 sales representatives, financial personnel and other personnel and 1,354 administrative staff. There were 34.96% of the employees who had tertiary qualifications or above. The Group is responsible for the retirement insurance for 13,054 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 2007 and 2008, the Company conscientiously carried out specific corporate governance activities for listed companies in accordance with the relevant requirements of the China Securities Regulatory Commission and the Shanghai Securities Regulatory Bureau to further improve the relevant systems and enhance its standards for business operations through self-inspection and rectification. In 2009, the Company conscientiously implemented the relevant rules of the regulators regarding corporate governance and continued to consolidate the achievements in the specific corporate governance activities and strengthen the establishment of internal controls to safeguard the interests of all shareholders. During the Reporting Period, the revised "Rules of Meeting Procedures of the Audit Committee of the Board" and the "Internal Control Manual" (2009 Edition) were considered and approved at the sixth meeting of the Sixth Session of the Board of the Company; and the amendments to the articles of association of the Company (the "Articles of Association") were also considered and approved at the 2008 Annual General Meeting.

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.

Not-Yet-Rectified Problem During the Year

Description	Reason	Current Progress
The Company was entrusted by the shareholders (Sinopec Corp.) of the non-circulating shares to initiate Company's 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 circulating A shares. Since there were major disagreements between both parties on the understanding of the amount of consideration for the share reform, the share reform could not be further proceeded during the Reporting Period.	The Company will continue to actively communicate with the shareholders of the non-circulating shares and the circulating A shares to seek early completion of the share reform.

Performance of Duties by the Directors

(1) Attendance at meetings of the Board by Directors

Name of Director	Whether as Independent Director	Attendance at meetings of the Board during the year	Attendance in person (no. of times)	Attendance by correspondence (no. of times)	Attendance by proxy (no. of times)	Absence (no. of times)	whether not attending in person for two consecutive times
Rong Guangdao	No	5	5	3	0	0	No
Du Chongjun	No	5	5	3	0	0	No
Han Zhihao	No	5	5	3	0	0	No
Li Honggen	No	5	5	3	0	0	No
Shi Wei	No	5	5	3	0	0	No
Dai Jinbao	No	5	5	3	0	0	No
Lei Dianwu	No	5	3	3	2	0	No
Xiang Hanyin	No	5	3	3	2	0	No
Chen Xinyuan	Yes	5	4	3	1	0	No
Sun Chiping	Yes	5	4	3	1	0	No
Jiang Zhiquan	Yes	5	4	3	1	0	No
Zhou Yunnong	Yes	5	5	3	0	0	No

the Board meetings held during the year(no. of times)		5
including:	The meetings held on site (no. of times)	2
	The meetings held by correspondence(no. of times)	3
	The meetings held by correspondence on site and by correspondence(no. of times)	0

(2) Disagreement from the Independent 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.

(3) Establishment of a Sound Work System for Independent Directors, Details of Such System and Performance of Duties by Independent Directors

The "Work System for Independent Directors" and the "Work System for Independent Directors on Annual Report" were prepared by the Company and considered and approved at the Board meeting on 26 October 2007 and 7 April 2008 respectively, and have been published on the website of the Shanghai Stock Exchange. In the "Work System for Independent Directors", the requirements for the appointment, nomination, election and replacement of independent directors as well as special powers, expression of independent opinions and working conditions of independent directors are clearly defined.

In 2009, the Company's independent directors fully utilized their own work experience and expertise and discharged the duties of independent directors in a conscientious and responsible manner. At shareholders' general meetings and Board meetings, they participated in the discussion and consideration of proposals such as the 2008 Annual Report, 2009 Interim Report, quarterly reports, profit distribution plan and connected transactions; expressed their independent opinions on major matters such as the appointment of senior management staff of the Company, connected transactions and provision of security for foreign parties; and proposed constructive comments and suggestions on the Company's corporate governance, reform and development. They discharged their duties truthfully and diligently and safeguarded the legitimate rights and interests of all shareholders, in particular small and medium-sized shareholders at large, in an independent and objective manner according to their rights conferred by the relevant laws and regulations as well as the Articles of Association.

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

	Whether Independent and Completed	Description
Business	Yes	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 License and its business is independent in its entirety with autonomous operation ability.
Personnel	Yes	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 labor, human resources and salary, and the Company's Senior Management does not hold any position in the controlling shareholder.
Assets	Yes	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.
Organisation	Yes	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.
Finance	Yes	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 Improvement of the Company's Internal Control System

Overall plan of internal control establishment

Since 2004, 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, and amendments are made to the Internal Control Manual annually in accordance with domestic and overseas regulatory requirements, the needs of risk prevention and the internal control review recommendations made by external auditors.

The Company's internal control system has been established primarily for achieving the following basic objectives: (a) to standardize the enterprise's business operation, prevent operation management risks, ensure financial reports and relevant information are truthful and integral, improve operational efficiency and effectiveness, and facilitate the achievement of the Company's development strategy; (b) to plug loopholes and eliminate potential hasards so as to prevent, timely detect and correct mistakes, fraud and illegal acts, thereby ensuring the Company's assets are secure and integral; and (c) to ensure relevant State laws and regulations, 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.

Work plan and implementation on establishing and improving the internal control system

The 2009 edition of the Internal Control Manual comprises 52 operation procedures in 18 categories and sets out 1146 control points and 237 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 staffi¯s qualifications and experiences are sufficient and whether the training courses attended by the staff and the relevant budget is adequate.

In 2009, 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 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.

Establishment of a department inspecting and supervising internal control

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. Meanwhile, the Company has set up an internal control supervisor working network consisting of 41 members. The internal control supervisors are representatives of the respective departments where they work or administrative heads of second-tier units who will conduct internal control work and activities within their respective supervisory scope and functionally report to the internal control office of the Company.

The Board's work arrangements for internal control

Through the Audit Committee set up under the Board, the Board listens to the reports on the establishment of internal controls of the Company and conduct of inspection on a regular basis, and considers and publishes annually a self-assessment report on the internal controls of the Company. The Company's external auditors, KPMG, also presents an internal control audit report on financial reporting in accordance with the requirements of the Sarbanes-Oxley Act; and the Board considers and approves annually the Company's revised "Internal Control Manual".

Improvements to the internal control system in relation to financial audit

Based on the Accounting Law, Enterprise Accounting Standards and other laws and regulations, the Company has formulated an array of financial and accounting management policies such as the "Financial Management Policy", the "Budget Management Policy" and the "Fund Management Measures". In accordance with the regulatory requirements in both domestic and overseas capital markets, the Company has developed 17 sets of internal control operating procedures in relation to financial management as well as accounting and auditing such as the "Business Processes for Overall Budget Management", the "Business Processes for Cost Management", the "Business Processes for Fund Management" and the "Business Processes for Capital Expenditures". The "Matrix Table on Locus of Control in Relation to Financial Reporting" was also published and applied on the basis of the Company's "Internal Control Manual".

Defects present in internal control and correction of such defects

Following constant improvements to the internal control system, the Company's internal control system has become more comprehensive, rational and effective during the period from 1 January 2009 to the end of the Reporting Period. By carrying out various ongoing internal control checks as well as making corrections and improvements accordingly during 2009, the Company has fully and effectively executed various policies to meet its existing management requirements and development needs, ensuring its business activities are conducted in an orderly fashion. The Company has better ensured that its accounting information is truthful, lawful and integral, and that its assets are secure and integral. The work on internal control is generally under control with no major defects.

Appraisal and Reward Mechanisms for Senior Management Staff Members

The remuneration system for the senior management staff of the Company was considered and approved at the 2002 Annual General Meeting on 18 June 2003. In 2009, the Company continued to adopt the remuneration system, and appraised and rewarded the Company's senior management staff based on the system.

The Company has disclosed the self-assessment report on the internal control and the report on the fulfillment of its corporate social responsibility

1. The Company has disclosed a self-assessment report of the Board of the Company on internal control. For details, please refer to the appendixes of this annual report.

2. The Company has disclosed auditor's report on internal control over financial reporting according to "Sarbanes-Oxley Act". For details, please refer to the appendixes of this annual report.

3. The Company has disclosed a report on the fulfillment of corporate social responsibility in 2009. For details, please refer to the appendixes of this annual report.

The Company's establishment of an accountability system for major errors in the disclosure of information in annual report

The Company has set up a comprehensive "System Governing the Disclosure of Information". According to the relevant rules of the System, if a major event happens to a department or a unit and such event is not reported, resulting in a major error or omission due to the Company's failure to disclose information in a timely manner so that losses are caused to the Company or the Company's shareholders, the Company will pursue the administrative and financial liabilities of relevant responsible persons. If any person breaches the System by unauthorized disclosure of information, the Company will pursue the administrative and financial liabilities of that person, and has the right to pursue his legal obligations as the case may be. If losses are caused to the Company or the Company's shareholders due to the disclosure of inaccurate information, the Company will pursue the administrative and financial liabilities of relevant responsible person. If relevant responsible persons are penalized under the System, the Board of the Company should report the results of the penalty to the Shanghai Stock Exchange for the record within five working days.

During the Reporting Period, there were no major errors in or omissions from the disclosure of information in the Company's 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 2009, the Company complied with all the principles and provisions set out in the Code an Corporate Governance Practices (the "Code") contained in Appendix 14 to the Hong Kong Listing Rules, except for the following two deviations:

(a) 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.

(b) Code Provision A.4.1: Non-executive directors should be appointed for a specific term, subject to re-election.

Deviation: Mr. Chen Xinyuan, the independent non-executive Director, has served as an independent non-executive Director for more than the six-year period as stipulated in the Articles of Association of the Company.

Reason: Mr. Chen Xinyuan currently serves as the Dean, Professor and Tutor to doctoral students of the College of Accounting, Shanghai University of Finance and Economics. He is very familiar with financial reporting and accounting and has extensive experience in management. Mr. Chen also serves as the Director of the Audit Committee of the Board of the Company. For the time being, as the Company is unable to identify another accounting professional like Mr. Chen, who will be changed at the election of a new session of the Board to be held in June 2011.

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 2009, five Board meetings were held, all of which were conducted by the sixth session of the Board. For details of attendance of the Directors, please refer to the attendance record set out on page 28. 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 and the Listing Rules of the Shanghai Stock Exchange, 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 scrutinizing 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, the Listing Rules of the Shanghai Stock Exchange 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 / or 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 2002 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 Improvement 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 2008 and the first half of 2009 in March and August 2009 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 2008 Annual General Meeting so as to directly communicate with the shareholders.

The notice on convening the 2008 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 2008 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 twelve 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.

(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 five Board meetings were held during 2009.

(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 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 these 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.

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 2009, 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%
Jiang Zhiquan	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 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 and interim reports of the Company; reviewing the major opinions stated in the financial reports of the Company's statements and reports; reviewing the financial control, internal control and risk management systems of the Company; and examining the material connected transactions of the Company.

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 2009, 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	2	0	100%
Zhou Yunnong	2	0	100%

D. Work Report of the Audit Committee during the Year

The Audit Committee reviewed with the management the accounting principles and standards adopted by the Company and discussed matters regarding auditing, internal control and financial reporting, including reviews of the audited annual report for the twelve months ended 31 December 2008, the interim report for the period ended 30 June 2009 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, in accordance with the aforesaid procedures and the Articles of Association, the Company completed the personnel change in relation to senior management. Mr. Han Zhihao ceased to act as the chief financial officer of the Company since 12 October 2009 due to age reason. Meanwhile, the Board appointed Mr. Ye Guohua as the chief financial officer of the Company with the same term of office as other senior management of the current session.

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 2009, 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	5	100%
Zhang Chenghua	Staff Supervisor	5	5	100%
Wang Yanjun	Staff Supervisor	5	5	100%
Zhai Yalin	External Supervisor	5	5	100%
Wu Xiaoqi	External Supervisor	5	4	100% (attendance by proxy: 20%)
Liu Xiangdong	Independent Supervisor	5	5	100%
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 164 to 165 and pages 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	Auditor
Audit Fees	RMB7,227,000	KPMG
Audit Fees	RMB1,560,000	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 communication 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 2008 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 2009, the Company held two large-scale results briefings and press conferences in Hong Kong, while over 100 "one-to-one" meetings were held within and outside China. The Company has also 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 18 June 2009, the Company amended its Articles of Association upon approval by the 2008 Annual General Meeting. For details, please refer to the announcement on the resolution of the 2008 Annual General Meeting of the Company published in "China Securities Journal" and "Shanghai Securities News", and on the websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company on 19 June 2009.

Information on the annual general meeting

The Company held the 2008 Annual General Meeting on 18 June 2009. The resolution announcement was published in "Shanghai Securities News" and "China Securities Journal" on 19 June 2009, and on the websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company.

Management Discussion and Analysis

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

A. Operating Results

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

In 2009, the world underwent the most serious financial crisis since the Great Depression in the 1930s, leading the global economy into a deep recession. The global petroleum and petrochemical industry developed in a difficult situation under the pressure from both the global financial crisis and a downtrend business cycle. The Chinese economy has been subjected to severe external impact which was unprecedented ever since we entered the new century, and encountered exceptional hardships in its development. As the central government had regulated the macro-economy in a timely manner, the Chinese economy, under the action of a package of economic stimulus policies, managed to weather the severe impact of the global financial crisis, and took the lead in improving the overall economic situation. As a result, China's economic operation performed better than expected and its gross domestic product (GDP) grew by 8.7%. The development of China's petroleum and petrochemical industry was also facing severe difficulties and challenges. However, as a result of the macro policies initiated by the State and the painstaking efforts made by the entire industry, the industrial economy, though declining substantially at the beginning of the year, stabilized and picked up in the middle of the year and grew at a higher rate at the end of the year. In the second half, the rate of operation of enterprises improved significantly, output value and output volume increased considerably and profitability recovered gradually.

In 2009, the Group took an aggressive approach to cope with the profound impact brought by the global financial crisis by striving to capitalize on the favorable conditions such as the substantial fall in international crude oil prices compared to last year, improved macroeconomic policies and recovery of the petrochemical market. The Group took "learning from the advanced, strengthening management, putting an end to the loss plight, expediting the development and boosting staff cohesiveness" as the main theme, pushing ahead various work in full scale on production operations as well as reform and development. As a result, production operations remained sound and stable. All the projects relating to the structural adjustment project (Phase 5) were completed. Corporate management was strengthened. The system reform of auxiliary businesses was completed smoothly. The major objectives identified at the beginning of the year fully achieved and profitability substantially improved over the previous year.

1. Production operations continued to remain stable

When the Group's production operations were in a difficult situation at the beginning of 2009, the Group actively capitalized on the changes in the external environment and the changing trend from a declining petrochemical market to a recovering one, and adjusted the pace of production and the operating load of plants on a timely basis: switching the arrangement of limited production and scheduling of overhauls for a large number of plants at the beginning of the year to that of an overall full-load operation in the second quarter, thereby achieving stable development of the overall production operations. During the year, the average on-stream availability and the average load of the Group's major production plants were 90.27% and 94.67%, respectively. The operation of major production plants remained sound, with the number of non-scheduled shut-down and the duration of non-scheduled shut-down falling by 25.81% and 11.54%, respectively, against those during the previous year. All important technical and economic indicators improved, reaching the highest levels in recent years. No major production or safety-related accidents or environmental pollution accidents happened during the year.

In 2009, the Group processed 8,757,800 tons of crude oil, down 5.20% from the previous year. Total production output of gasoline, diesel and jet fuel fell by 11.16% over the previous year. Output of gasoline was 806,000 tons, up 4.28% over the previous year; output of diesel was 2,802,600 tons, down 18.02% from the previous year; output of jet fuel was 679,000 tons, up 6.98% over the previous year. The Group produced 927,700 tons of ethylene and 487,600 tons of propylene, up 4.75% and 0.06%, respectively, over the previous year. The Group also produced 1,089,800 tons of synthetic resins and copolymers, up 9.13% over the previous year; 508,700 tons of synthetic fibre monomers and 599,700 tons of synthetic fibre polymers, up 10.13% and 2.42%, respectively, over the previous year; and 241,300 tons of synthetic fibre, down 10.63% from the previous year. Meanwhile, the quality of the Group's products was consistently maintained at a premium level.

In 2009, the Group's turnover amounted to RMB51,657.9 million, down 14.23% from the previous year. The Group's output-to-sales ratio and receivable recovery ratio were 99.62% and 99.52%, respectively. The Group's annual sum of imports and exports (excluding crude oil imports) was US$3,477 million, up 17.82% over the previous year.

2. Market demand continued to pick up after a rally

In early 2009, the impact of the global financial crisis on the real economy became more apparent and the domestic petrochemical market continued the trend from the end of 2008, with demand falling sharp and prices staying low. Under the action of a package of stimulus policies launched persistently by the State for "boosting domestic demand and sustaining growth", market demand picked up gradually from the bottom since March and tended to recover in general. The demand for some of the bulk products expanded gradually. The apparent consumption of products continued to rise. The market prices of major petrochemical products increased on a quarter-on-quarter basis, especially the prices of chemical products increased significantly from the beginning of the year. However, overall speaking, the average prices of various kinds of petrochemical products still dropped to a certain extent over the previous year. For the year ended 31 December 2009, the weighted average prices (excluding tax) of the Group's synthetic fibres, resins and plastics, intermediate petrochemical products and petroleum products decreased by 12.66%, 21.74%, 27.32% and 25.14%, respectively, over the previous year.

3. International crude oil prices fluctuated within a broad range and gradually moved up

2009 was the second year after 2008 that witnessed the international crude oil prices fluctuated heavily. Overall speaking, prices fluctuated within a broad range and moved up in general. In the first half of the year, prices rallying with the West Texas Intermediate ("WTI") crude oil closing price on the New York Mercantile Exchange rebounded strongly after hitting a new all-year low of US$33.98/barrel on 12 February 2009. In the second half, prices remained volatile at a high level, rallying between US$70～US$80/barrel and rising to an all-year high closing price of US$81.18/barrel on 22 October 2009. The annual average price was US$62.20/barrel, with a volatility up to 139%. The annual average Brent crude oil price on the London Intercontinental Exchange was US$62.56/barrel in 2009 (2008: US$98.37/barrel), down 36.40% over the previous year. For the year ended 31 December 2009, the Group processed 8,757,800 tons of crude oil in total (all were processed for the Group's own account), representing a decrease of 480,500 tons over the previous year. Of this volume, offshore oil accounted for 680,900 tons and imported oil accounted for 8,076,900 tons. Of the Group's cost of sales, crude oil costs accounted for RMB26,450 million or 58.76% of the Group's annual cost of sales. The average unit cost of crude oil processed was RMB3,020.15 per ton, representing a substantial decrease of 43.06% over the previous year. Crude oil costs decreased by RMB22,547.0 million as compared to 2008.

4. All projects relating to the structural adjustment program were completed and put into operation

In 2009, all the projects under the Group's structural adjustment project (Phase 5) involving a total investment of approximately RMB8,000 million and spanning a period of six years were completed and put into operation. Of these projects, the new 600,000 ton/year PX aromatics complex and the new 150,000 ton/year C5 segregation plant commenced operation successfully after having commissioned the first test run on 14 September and 25 October 2009, respectively; the flue gas desulphurization project for furnaces No. 3 and No. 4 of coal-tired power generating plants commenced operation on 3 July after having completed a 168-hour test run; and the entire renovation project for the 220,000-volt substation commenced operation on 22 June. The completion and operation of all the projects under the structural adjustment program has improved the Group's comprehensive processing and overall production capacity for crude oil; further optimized the product mix, the fuel structure and the dynamic structure; and enhanced the standards for energy conservation and emissions reduction, thereby laying a solid foundation for growth in the Group's profitability in the future. In addition, the Group had other major technology renovation projects in 2009, such as the 500,000 ton/year hydro-desulphurisation of catalytic gasoline renovation project which was completed in September (from October 2009, the Group has been supplying refined oil products of the Shanghai IV standard to the Shanghai market), and partial completion on the renovation and system pipe network construction works on the natural gas integrated utilization project. During the year, the Group has basically completed the formulation of its development plans for the "Twelfth Five-Year Plan".

The Shanghai Secco Petrochemical Company Limited's 900,000 ton/year ethylene joint-venture plant between the Group, Sinopec Corp. and BP Chemicals East China Investments Ltd. has been operating safely and steadily under high load since its commencement of operation, setting a record in China for a large-scale ethylene plant to operate continuously for four years after commencement of operation. In 2009, after the capacity expansion and technology renovation together with an overhaul were conducted to the plant for nearly 60 days, the designed capacity of the renovated plant was expanded from its original 900,000 ton/year to 1,190,000 ton/year, thus making the plant once again a plant with the largest single-line capacity in China, as well as further reducing the plant's energy and materials consumption. In 2009, the plant produced 875,300 tons of ethylene, representing a decrease of 59,400 tons over the previous year; annual operating revenue amounted to RMB16,438 million; and net profit was RMB695 million.

5. Energy conservation and emissions reduction work achieved desired effects

In 2009, the Group continued to carry out various energy-saving and emissions reduction measures in accordance with the State's relevant energy-saving and emissions reduction requirements. The Group had improved various technical and economic indicators by fully launching a "benchmarking" campaign to identify gaps, formulate measures and strengthen management, and achieved the desired results by carrying out energy-saving and consumption reduction technical renovation on an ongoing basis, improving the utilization rate of energy and reducing energy consumption. In 2009, the Group's overall energy consumption per RMB10,000 product value was 1.597 tons of standard coal (1.508 tons of standard coal in 2008). Although a number of new plants commenced operation during the year, the consumption was 2.62% less than the energy-saving compliance indicator of 1.64 tons of standard coal per RMB10,000; industrial water consumption was down 5.57% compared to the previous year; and industrial water recycling rate remained at above 95%. Various indices for waste water discharges, industrial waste water discharge volume, total COD discharge and hazardous waste treatment ratio all met the compliance requirements for environmental protection and were better than those of the previous year. The weighted average thermal efficiency of heaters increased by 0.53 percentage points during the year over the previous year; and flare gas recovery grew by 125.34% over the previous year with the commencement of the desulfurization system for the recovery of flare gas.

6. New technology and new product development continued to proceed

The Group continued to make aggressive efforts to proceed with various technological improvements in 2009. New progress was made in major research projects such as the development of technology in carbon fibre precursor, the development of a process package for a 10,000-ton isopentenyl/pentane joint production plant and the development of a production system for multi-functional, new flexible acrylics. The Group won the First Prize of "Scientific and Technological Progress of Sinopec Group" with two achievements from the industrial application of bimodal polyethylene catalyst and the development of a set of technologies in the industrialization of the 130,000 ton/year acrylonitrile plant; and the First Prize of "Scientific and Technological Progress in Shanghai" for the research and industrial application of vinyl acetate catalysts for four products namely dope-dyed acrylic fiber, fibre-grade polyester slice (specially used in industrial silk), polyester staple fibre used in bright sewing threads and isopentene were certified as "Independent and Innovative Products of Shanghai". As for information system development, the Laboratory Information Management System (LIMS) passed the tests by Sinopec; the Manufacturing Execution System (MES) project stepped into a stage of plant model design; the oil refining and petrochemical operations were integrated into a PIMS; the information system using ERP as a mainline was combined closely with the Group's production operation. According to statistics, the Group's output of new products amounted to 539,400 tons in 2009; the new product output value ratio was 10.63%, while the new product output-to-sales ratio was 97.26%. A total of 214,200 tons of differentiated synthetic fibres was produced, and the ratio of differentiated synthetic fibres was 88.78%. A total of 970,900 tons of special resins was produced, and the ratio of special resins was 91.92%. Fourteen patent applications (thirteen were invention patents) were submitted and thirty licences (twenty nine were invention patents) were received during the year.

7. Corporate internal reform and management work was further intensified

In 2009, the Group pushed forward innovations in systems and mechanisms actively and steadily, striving to boost its internal motivation and vitality. A corporate management office was set up for effectively integrating functions and resources related to corporate management. The operations management system was improved for adjusting and optimizing the organizations, management responsibilities and business processes of product sales and materials supply. Upon a basic completion of the system reform and rectification of the auxiliary businesses, the work in relation to the merger between Shanghai Petrochemical Investment Development Co., Ltd. and Shanghai Petrochemical Enterprise Development Co., Ltd. was completed, and Shanghai Petrochemical Enterprise Development Co., Ltd. was deregistered in October 2009. Meanwhile, the Group further improved the mechanism for the division of responsibilities, the operational mechanism and the monitoring and appraisal mechanism, stepping up supervision and appraisal and driving forward the implementation of various tasks. As at 31 December 2009, the Group reduced its work force by 466 employees, which reduction included voluntary resignees and retirees, accounting for 2.65% of the total work force of 17,597 employees as at the beginning of the year.

8. Brief analysis of the reasons for the substantial growth in operating results for the year

The major reasons for the substantial growth in the operating results of the Group during the Reporting Period are:

(a) A substantial fall in the costs of crude oil. The annual average international crude oil prices declined substantially during 2009 over the previous year, resulting in a substantial fall in the Group's production costs as compared to the previous year. Of such costs, the average unit cost of processed crude oil fell substantially by 43.06% over the previous year, while crude oil costs decreased by RMB22,547 million over the previous year. This is the main reason for the substantial growth in the operating results of the Group.

(b) The initial establishment of the pricing mechanism for refined oil products. In 2009, the prices of domestic refined oil products were indirectly brought in line with the prices of crude oil in the international market in a controlled manner to eliminate the situation regarding the long-term inverted prices of refined oil products and crude oil prices, resulting in a significant improvement in the profit level of the Group's oil refining business.

(c) Improved profit of the petrochemical business. The domestic petroleum and petrochemical industry stabilized, picked up and improved gradually as a whole in 2009. The petrochemical industry performed particularly well, posting a growth of 15.9% in its added value over the previous year. The gross profit margin of the Group's petrochemical business was 6.28% (it was -10.38% in the previous year), which was in line with industry trend.

(d) An increase in the Group's share of profit from associates and jointly-controlled entities and an increase in investment income. In 2009, the Group's share of profit and investment income from associates and jointly-controlled entities amounted to RMB464 million, representing an increase of 248.87% from RMB133 million for the previous year. Of such amount, the investment income from Shanghai Secco Petrochemical Company Limited was RMB134 million, as compared to the investment loss of RMB99 million for the previous year. Income from the disposal of financial assets available for sale was RMB223 million, as compared to RMB132 million for the previous year.

(e) The Group further strengthened its internal management and reaped good results from unleashing potential, increasing efficiency, reducing costs and expenses, conserving energy and reducing consumption so that the overall quality and level of operation improved to a certain extent.

Accounting judgment and estimates

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. The management bases the assumptions and estimates on historical experience and on various other assumptions that the 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, the management evaluates its estimates. Actual results may differ from those estimates as facts, circumstances and conditions change.

The selection of critical accounting policies, the judgment and other uncertainties affecting application of those policies and the sensitivity of the reported results to changes in conditions and assumptions are factors to be considered when reviewing the financial statements. The principal accounting policies are contained in the financial statements. The 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 the years prior to 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. There is no further development of this matter during the year ended 31 December 2009. No provision has been made in the financial statements for this uncertainty for tax years prior to 2007 because management believes it can not reliably estimate the amount of the obligation, if any, that might exist.

Recognition of deferred tax assets

Deferred tax assets are recognised in respect of temporary deductible differences. Since deferred tax assets are only recognized to the extent that it is probable that future taxable profit will be available against the assets which can be realized or utilized, management's judgement is required to assess the probability of future taxable profits. Management's assessment is periodically reviewed and deferred tax assets are adjusted according to the probability of future taxable profits.

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								
	2009			2008			2007		
	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	**245.8**	**2,823.7**	**6.0**	278.4	3,662.0	6.2	296.0	4,328.7	7.9
Resins and Plastics	**1,543.3**	**12,263.6**	**25.9**	1,462.6	14,850.3	25.0	1,549.0	15,878.8	29.3
Intermediate Petrochemicals Products	**1,519.4**	**8,421.0**	**17.8**	1,347.1	10,271.8	17.3	1,232.4	9,372.7	17.3
Petroleum Products	**5,271.4**	**18,917.9**	**39.9**	5,747.0	27,552.9	46.4	5,376.2	21,036.6	38.8
All others	**-**	**4,919.1**	**10.4**	-	2,992.8	5.1	-	3,637.9	6.7
Total	**8,579.9**	**47,345.3**	**100.0**	8,835.1	59,329.8	100.0	8,453.6	54,254.7	100.0

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

	For the Years ended 31 December					
	2009		2008		2007	
	Millions of RMB	**% of Net sales**	Millions of RMB	% of Net sales	Millions of RMB	% of Net sales
Synthetic fibres						
Net sales	**2,823.7**	**6.0**	3,662.0	6.2	4,328.7	7.9
Operating expenses	**(2,812.3)**	**(5.9)**	(5,313.5)	(9.0)	(4,410.8)	(8.1)
Segment profit/(loss) from operations	**11.4**	**0.1**	(1,651.5)	(2.8)	(82.1)	(0.2)
Resins and plastics						
Net sales	**12,263.6**	**25.9**	14,850.3	25.0	15,878.8	29.3
Operating expenses	**(11,419.3)**	**(24.1)**	(17,027.0)	(28.7)	(15,222.3)	(28.1)
Segment profit/(loss) from operations	**844.3**	**1.8**	(2,176.7)	(3.7)	656.5	1.2
Intermediate petrochemicals products						
Net sales	**8,421.0**	**17.8**	10,271.8	17.3	9,372.7	17.3
Operating expenses	**(8,230.2)**	**(17.4)**	(10,314.5)	(17.4)	(8,558.9)	(15.8)
Segment profit/(loss) from operations	**190.8**	**0.4**	(42.7)	(0.1)	813.8	1.5
Petroleum Products						
Net sales	**18,917.9**	**39.9**	27,552.9	46.4	21,036.6	38.8
Other income	**-**	**-**	2,312.2	3.9	93.9	0.2
Operating expenses	**(18,113.0)**	**(38.3)**	(33,811.0)	(57.0)	(21,774.7)	(40.2)
Segment profit/(loss) from operations	**804.9**	**1.6**	(3,945.9)	(6.7)	(644.2)	(1.2)
Others						
Net sales	**4,919.1**	**10.4**	2,992.8	5.1	3,637.9	6.7
Operating expenses	**(4,747.0)**	**(10.0)**	(2,993.3)	(5.1)	(3,489.2)	(6.4)
Segment profit/(loss) from operations	**172.1**	**0.4**	(0.5)	0.0	148.7	0.3
Total						
Net sales	**47,345.3**	**100.0**	59,329.8	100.0	54,254.7	100 .0
Other income	**-**	**-**	2,312.2	3.9	93.9	0.2
Operating expenses	**(45,321.8)**	**(95.7)**	(69,459.3)	(117.1)	(53,455.9)	(98.6)
Profit/(loss) from operations	**2,023.5**	**4.3**	(7,817.3)	(13.2)	892.7	1.6
Net financing costs	**(321.1)**	**(0.7)**	(330.4)	(0.6)	(177.9)	(0.3)
Investment income	**222.8**	**0.5**	131.8	0.2	770.7	1.4
Share of profit of associates and jointly controlled entities	**241.3**	**0.5**	1.5	0.0	665.9	1.2
Profit/(loss) before taxation	**2,166.5**	**4.6**	(8,014.4)	(13.5)	2,151.4	4.0
Income tax	**(511.0)**	**(1.1)**	1,812.7	3.1	(468.3)	(0.9)
Profit/(loss) for the year	**1,655.5**	**3.5**	(6,201.7)	(10.4)	1,683.1	3.1
Attributable to:						
Equity shareholders of the Company	**1,591.0**	**3.4**	(6,238.4)	(10.5)	1,634.1	3.0
Minority interests	**64.5**	**0.1**	36.7	0.1	49.0	0.1
Profit/(loss) for the year	**1,655.5**	**3.5**	(6,201.7)	(10.4)	1,683.1	3.1

Results of operations

The year ended 31 December 2009 compared to the year ended 31 December 2008.

Net sales

In 2009, net sales of the Group amounted to RMB47,345.3 million, representing a decrease of 20.20% from RMB59,329.8 million of the previous year. In early 2009, the impact of the global financial crisis on the real economy became more apparent and the domestic petrochemical market continued the trend from the end of 2008, with demand falling sharp and prices staying low. Under the action of a package of stimulus policies launched persistently by the State for "boosting domestic demand and sustaining growth", market demand picked up gradually from the bottom since March and tended to recover in general. The demand for some of the bulk products expanded gradually; the apparent consumption of products continued to rise; the market prices of major petrochemical products increased on a quarter-on-quarter basis. However, overall speaking, the average prices of various kinds of petrochemical products still dropped to a certain extent over the previous year. For the year ended 31 December 2009, the average weighted price (excluding tax) of synthetic fibres, resins and plastics, intermediate petrochemicals and petroleum products decreased by 12.66%, 21.74%, 27.32% and 25.14%, respectively, over the previous year.

1. Synthetic fibres

   Net sales of synthetic fibre products amounted to RMB2,823.7 million in 2009, representing a 22.89% decrease compared to RMB3,662.0 million in the previous year. The weighted average price of synthetic fibres decreased by 12.66% as compared to the previous year, and the total sales volume of synthetic fibres in 2009 decreased by 11.71% as compared to the corresponding period of the previous year because the sales volumes of major synthetic fibre products decreased by varying extent in 2009 as a result of the global financial crisis. With the recovery of the textile market in the second half of 2009, market demand for synthetic fibre has picked up. The market price of acrylic fibre, the principal product of synthetic fibre, was close to a historic high in the fourth quarter of 2009.

   Net sales of synthetic fibre products accounted for 6.00% of the Group's total net sales in 2009, representing a decrease of 0.20 percentage points as compared to the corresponding period of the previous year.

2. Resins and plastics

Net sales of resins and plastics amounted to RMB12,263.6 million in 2009, representing a decrease of 17.42% compared to RMB14,850.3 million in 2008. The weighted average price of resins and plastics in 2009 decreased by 21.74% compared to the previous year and sales volume in 2009 increased by 5.52% as compared to the previous year. Among the Group's resins and plastics products, the average sales price of polyester pellet for 2009 decreased by 16.60% and sales volume increased by 4.76% as compared to 2008; the average sales price of polypropylene decreased by 21.89% and sales volume increased by 4.66% as compared to the previous year. The sales of polyester pellet and polypropylene accounted for 26.25% and 29.09% of the total sales of resins and plastics respectively. With the implementation of the State's RMB4 trillion investment plan, market demand for resins and plastics has maintained stable growth as compared to the previous year.

Net sales of resins and plastics accounted for 25.90% of the Group's total net sales in 2009, representing an increase of 0.90 percentage points as compared to the previous year.

3. Intermediate petrochemical products

Net sales of intermediate petrochemical products amounted to RMB8,421.0 million in 2009, representing a decrease of 18.02% as compared to RMB10,271.8 million in 2008, with the weighted average price of intermediate petrochemical products decreased by 27.32% as compared to the previous year while sales volume increased by 12.79% as compared to the previous year. Among the intermediate petrochemical products, weighted average prices of purified petroleum benzine and ethylene oxide decreased by 34.28% and 37.71% as compared to the previous year, respectively. The sales of purified petroleum benzine and ethylene oxide accounted for 14.65% and 12.87% of the total sales of intermediate petrochemical products, respectively.

Net sales of intermediate petrochemical accounted for 17.80% of the Group's total net sales in 2009, representing an increase of 0.50 percentage points as compared to the previous year.

4. Petroleum products

Net sales of petroleum products amounted to RMB18,917.9 million in 2009, representing a decrease of 31.34% as compared to RMB27,552.9 million in the previous year, with the weighted average product prices decreased by 25.14% as compared to 2008 while sales volume decreased by 8.28% as compared to the previous year. Due to the impact of the global financial crisis, the market demand for diesel decreased as compared to the previous year which led to a decrease of 19.06% in the Group's sales volume of diesel. Diesel is mainly used for the transportation industry. According to statistics, the business volume of the transportation industry in 2009 declined by approximately 20% over the previous year.

Net sales of petroleum products accounted for 39.90% of the Group's total net sales in 2009, representing a decrease of 6.50 percentage points as compared to the previous year.

5. Other activities

The net sales of other activities amounted to RMB4,919.1 million in 2009, representing an increase of 64.36% as compared to RMB2,992.8 million in the previous year. Such increase in the net sales was mainly attributed to a significant increase in the Group's trading volume of petrochemical products as compared to the previous year.

Operating expenses

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

Operating expenses of the Group decreased substantially by 34.75% to RMB45,321.8 million in 2009 as compared to RMB69,459.3 million in 2008. The operating expenses of synthetic fibres, resins and plastics, intermediate petrochemicals and petroleum products amounted to RMB2,812.3 million, RMB11,419.3 million, RMB8,230.2 million and RMB18,113.0 million, respectively, representing decreases of 47.07%, 32.93%, 20.21% and 46.43%, respectively, as compared to 2008. The operating expenses of other activities amounted to RMB4,747.0 million, representing an increase of 58.59% as compared to the previous year.

1. Synthetic fibres

The operating expenses of synthetic fibres decreased by RMB2,501.2 million as compared to the previous year, primarily due to a decrease in the unit price of raw materials for producing synthetic fibres.

2. Resins and plastics

The operating expenses of resins and plastics decreased by RMB5,607.7 million as compared to the previous year, primarily due to decreased unit costs for raw materials such as ethylene and propylene.

3. Intermediate petrochemical products

The operating expenses of intermediate petrochemical products decreased by RMB2,084.3 million as compared to the previous year, which was mainly attributable to the corresponding decreases in costs and expenses of intermediate petrochemical products resulting from the decrease in unit cost of intermediate petrochemical products following the decrease in average unit cost of crude oil during the year.

4. Petroleum products

The operating expenses of petroleum products decreased by RMB15,698.0 million as compared to the previous year, primarily due to the decrease in crude oil prices (which was the major production raw material of the Group) which directly led to a decrease in the operating expenses of petroleum products.

5. Other activities

The operating expenses of other activities increased by RMB1,753.7 million as compared to 2008, which was primarily attributable to increased cost of petrochemical products resulting from a significant increase in external sales volume of petrochemical products.

- Cost of sales

Cost of sales of the Group amounted to RMB45,010.2 million in 2009, representing a significant decrease of 34.35% compared to RMB68,556.4 million in 2008. Cost of sales accounted for 95.07% of the net sales for 2009, primarily due to significant decrease in crude oil prices in 2009 which was the Group's major raw material.

1. Crude Oil

   In 2009, the Group processed 8,757,800 tons of crude oil (no imported crude oil was processed on a sub-contracting basis during the year), representing a decrease of 480,500 tons as compared to 9,238,300 tons in the previous year. The volumes of imported crude oil and domestic offshore crude oil processed by the Group were 8,076,900 tons and 680,900 tons, respectively.

   The total cost of crude oil processed by the Group in 2009 amounted to RMB26,450.0 million, representing a significant decrease of 46.02% as compared to RMB48,997.0 million in the previous year and accounting for 58.76% of the total cost of sales. The weighted average cost of crude oil for the Group was RMB3,020.15 per ton, representing a significant decrease of 43.06% as compared to the previous year. The average processed costs of imported crude oil and offshore crude oil were RMB3,053.40 per ton and RMB2,625.79 per ton, respectively. As the domestic offshore crude oil was primarily purchased in the first half of the year, the average processed costs were relatively low.

2. Other expenses

   The Group's expenses for other ancillary materials were RMB7,725.0 million in 2009, representing a decrease of 22.59% as compared to RMB9,978.8 million in the previous year, due to the fall in the cost of ancillary materials as a result of the decrease in the crude oil price.

- Selling and administrative expenses

In 2009, selling and administrative expenses of the Group amounted to RMB450.4 million, representing a decrease of 3.76% as compared to RMB468.0 million in the previous year, mainly due to the decrease in the sales volume of the Group during the Reporting Period which led to the reduction in sale freight and decline in sales agency fees in the daily (continuing) connected transactions.

- Other operating income

The Group's other operating income amounted to RMB277.2 million in 2009, an increase of 90.91% compared to RMB145.2 million in the previous year, which was primarily due to an income of RMB92.0 million generated from a disposal of intangible assets and an increase in income from other investments during the Reporting Period.

- Other operating expenses

The Group's other operating expenses decreased from RMB580.0 million in the previous year to RMB138.3 million in 2009, representing a decrease of 76.16%, which was primarily due to a decrease of RMB342.5 million in the Group's provision made for impairments of fixed assets during the Reporting Period as compared to the previous year. In addition, the Group's employee reduction expenses during the Reporting Period decreased by RMB77.3 million as compared to the previous year.

Profit /(loss) from operations

The Group's operating profit amounted to RMB2,023.5 million in 2009, representing a significant increase of RMB9,840.8 million as compared to an operating loss of RMB7,817.3 million in the previous year, which was primarily due to a significant increase in the Group's operating efficiency during the Reporting Period.

Net financing costs

The Group's net financing costs were RMB321.1 million in 2009, representing a decrease of 2.81% as compared to RMB330.4 million in pervious year. No material fluctuation was noted.

Investment income

The Group's investment income was RMB222.8 million in 2009, mainly due to income from the disposal of available-for-sale securities transferred from equity.

Profit / (loss) before taxation

The Group's profit before tax was RMB2,166.5 million in 2009, representing a substantial increase of RMB10,180.9 million as compared to loss before tax of RMB8,014.4 million in the previous year.

Income tax

The Group's income tax expense was RMB511.0 million in 2009, while income tax benefit of RMB1,812.7 million was booked in 2008 mainly arisen from the deferred tax assets recognised in respect of tax losses carry forward. The main reason for the change was that the Group achieved profits during the Reporting Period and realized the corresponding deferred tax assets in respect of tax losses carried forward and provision for inventories.

In accordance with the PRC Income Tax Law (as amended) which took effect from 1 January 2008, the income tax rate of the Group in 2009 was 25% (2008: 25%).

Profit / (loss) for the year

The Group's profit for the year was RMB1,655.5 million in 2009, representing an increase of RMB7,857.2 million as compared to loss of RMB6,201.7 million in 2008.

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	2,860,851	2,512,658	12.17	-22.06	-43.20	Increase 32.69 percentage points
Resins and plastics	12,407,738	10,398,491	16.19	-16.62	-35.01	Increase 23.71 percentage points
Intermediate petrochemicals	8,511,347	7,786,706	8.51	-17.34	-18.65	Increase 1.48 percentage points
Petroleum products	22,936,392	17,465,295	23.85	-19.16	-47.01	Increase 40.02 percentage points
Others	5,006,399	4,502,180	10.07	61.95	60.88	Decrease 0.60 percentage points
Including: connected transactions*	27,165,623	22,714,874	16.38	-9.17	-33.47	Increase 30.54 percentage points

* For details of necessity, continuity and price-setting principles 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	Decrease of operating income compared to the previous year (%)
Eastern China	47,996,807	-13.82
Other regions in China	3,578,392	-18.81
Exports	147,528	-28.58

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 inflows from operating activities amounted to RMB3,346.9 million in 2009, representing an increase in cash inflows of RMB7,333.4 million as compared to net cash outflows of RMB3,986.5 million in the previous year. Due to the significant decrease in the Group's crude oil costs during the Reporting Period, net cash inflows from profit before tax (net of depreciation) amounted to RMB3,815.3 million in 2009, representing an increase of RMB10,197.8 million of cash inflows compared to net cash outflows of RMB6,382.5 million in the previous year. Increased inventories balance at the end of the year 2009 led to an increase in cash outflows of RMB2,391.6 million in 2009 (as compared to a decrease in cash outflows of RMB705.6 million during the previous year). Changes in the year-end balances of accounts payable, other payable and bills payable led to a decrease in cash outflows of RMB994.0 million in 2009 (as compared to an increase in cash outflows of RMB786.9 million during the previous year). Decreases in the year-end balances of debtors, bills receivable and deposits led to an increase in cash inflows of RMB202.9 million in 2009 (as compared to an increase in cash inflows of RMB1,122.0 million during the previous year as a result of a decrease in such year-end balances).

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

	2009 **RMB'000**	2008 RMB'000
Net cash inflow / (outflow) from operating activities	**3,703,542**	(3,407,885)
Net cash outflow from investing activities	**(2,175,372)**	(707,480)
Net cash (outflow) / inflow from financing activities	**(2,029,936)**	3,850,637

Borrowings

The total borrowing of the Group at the end of 2009 amounted to RMB8,078.9 million, representing a decrease of RMB1,722.8 million from the end of the previous year, of which short-term debts decreased by RMB1,598.0 million, and long-term debts decreased by RMB124.8 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 the Group's existing borrowings do not restrict its ability to pay dividends on its shares.

Liability-to-asset ratio (prepared under IFRS)

As at the 31 December 2009, the Group's liability-to-asset ratio was 48.85% (2008: 50.02%). 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 2007, 2008 and 2009 were RMB53.5 million, RMB47.3 million and RMB40.3 million, respectively, representing approximately 0.1% of the total sales for those years.

The Group was not, in any material aspect, dependent 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 this 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 2009:

		As at 31 December 2009 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	7,700,398	7,700,398	-	-
Long-term loan	378,533	74,275	104,258	200,000
Total contractual obligations	8,078,931	7,774,673	104,258	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 31December **2009** **RMB'000**	2008 RMB'000	Increase/ (decrease) amount RMB'000	change %	Reason for change
Operating profit /(loss)	**2,057,894**	(10,364,673)	12,422,567	-	Crude oil purchase prices decreased significantly in 2009.
Profit /(loss) before income tax	**2,136,251**	(8,022,281)	10,158,532	-	
Net profit /(loss) for the year	**1,626,076**	(6,208,695)	7,834,771	-	
Net profit /(loss) attributable to equity shareholders of the Company	**1,561,605**	(6,245,412)	7,807,017	-	
Operating costs	**42,665,330**	65,753,651	(23,088,321)	(35.11)	
Business taxes and surcharges	**4,312,665**	897,088	3,415,577	380.74	In 2009, the State implemented a tax reform for petroleum products, raising the consumption tax of petroleum products.
Impairment loss	**154,836**	1,180,198	(1,025,362)	(86.88)	In 2009, the provision of impairment loss for crude oil and products was relatively lower.
Investment income	**526,397**	132,985	393,412	295.83	Investment income from associates based on equity accounting increased.
Non-operating income	**150,156**	2,373,986	(2,223,830)	(93.67)	No relevant subsidy income from petroleum products was received in 2009.
Income tax	**510,175**	(1,813,586)	2,323,761	-	Operating results grew substantially.

Item	**As at 31December 2009 RMB'000**	As at 31December 2008 RMB'000	Increase/ (decrease) Amount RMB'000	Change %	Reason for change
Inventory	**6,883,834**	4,492,215	2,391,619	53.24	The volume of crude oil purchased in the fourth quarter of 2009 increased; change in the accounting method for crude oil was in transit; and international oil prices rose year-on-year at the end of the period.

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 2009, 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 2009 (RMB'000)
Shanghai Petrochemical Investment Development Company Limited	China	Investment management	China	Limited company	100	-	RMB800,000	159,363
China Jinshan Associated Trading Corporation	China	Import and export of petrochemical products and equipment	China	Limited company	67.33	-	RMB25,000	24,125
Shanghai Jinchang Engineering Plastics Company Limited	China	Production of polypropylene compound products	China	Limited company	-	50.38	US$4,750	5,818
Shanghai Golden Phillips Petrochemical Company Limited	China	Production of polypropylene products	China	Limited company	-	60	US$50,000	138,262
Zhejiang Jin Yong Acrylic Fibre Company Limited	China	Production of acrylic fibre products	China	Limited company	75	-	RMB250,000	(197,738)
Shanghai Golden Conti Petrochemical Company Limited	China	Production of Petrochemical products	China	Limited company	-	100	RMB545,776	5,024

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 RMB802.4 million, in Shanghai Chemical Industry Park Development Co., Ltd., a company set up in the PRC; and an equity interest of 20%, amounting to RMB1,548.7 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, while the principal business of Shanghai Secco Petrochemical Company Limited is the production and distribution of petrochemicals.

In 2009, the controlling subsidiaries which have more than 10% effect on the net profit/(loss) of the Group were Shanghai Petrochemical Investment Development Company Limited and Zhejiang Jin Yong Acrylic Fiber Company Limited.

I. Major suppliers and customers

The Group's top five suppliers in 2009 were China International United Petroleum & Chemical Co., Ltd., Sinopec Corp, Sinochem Petroleum Company, China National Offshore Oil Corporation and Shanghai Secco Petrochemical Company Limited. Total costs of purchases from these suppliers accounted for 80% of the total cost of purchases by the Group during the year, amounting to RMB31,396.0 million. The cost of purchases from the largest supplier amounted to RMB17,379.2 million, representing 44% of the total cost of purchases by the Group during the year.

The Group's top five customers during 2009 were Sinopec Huadong Sales Company, Sinopec Corp, Shanghai Secco Petrochemical Company Limited, Shanghai Yali Industry Development Co. Ltd. and Beijing Xinshan Petrochemical Co. Ltd.. The total sales derived from these customers amounted to RMB26,912.4 million, representing 52% of the Group's total turnover during the year. The sales derived from the largest customer amounted to RMB20,313.0 million, representing 39% 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 Yali Industry Development Co. Ltd. and Beijing Xinshan Petrochemical Co. Ltd.. Sinopec Corp is the controlling shareholder of the Company. China International United Petroleum & Chemical Co. Ltd and Huadong Branch of Sinopec Sales Company Limited are subsidiaries of Sinopec Corp, the controlling shareholder of the Company. 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 2009.

Pledge of Assets

As at 31 December 2009, no fixed asset was pledged by the Group (31 December 2008: 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					
- forward exchange contracts	97,644[Note]	(10,423)	-	-	-
2. Available-for-sale financial assets					
- shares	123,918	-	(82,903)	-	-
3. Available-for-sale financial assets					
- other current assets	-	-	-	-	700,000
Subtotal of financial assets	221,562	(10,423)	(82,903)	-	700,000

Note: Such derivative financial asset is the foreign currency forward contract, and was payable and settled upon the maturity of the contract within 2009.

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 2009, the Group also held foreign currency denominated bank deposits and borrowings, equivalent to RMB13,130,000 and RMB6,049,833,000, respectively.

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

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

In 2010, the global economy will be in the stage of a moderate, slow-growth recovery, but the foundation of such recovery is not strong and there may be instabilities. Under some favorable conditions such as an improved global economic environment, the continuity and stability of the State's macro-economic policies, and the ongoing implementation of the State's proactive fiscal policies and the moderately relaxed monetary policies, the Chinese economy will continue to maintain stable and relatively fast growth at a rate expected to be slightly higher than that in 2009, although it is also faced with various hardships and challenges.

In 2010, the demand for petroleum will resume growth as the world economy begins to recover. The general level of international crude oil prices is anticipated to be higher than that in 2009, considering altogether some factors such as capacity surplus, U.S. dollar trends, OPEC's output policies, geopolitical risks, speculations, inflationary pressures and climate changes. The global petrochemical industry will continue to encounter sluggish growth. As newly added production capacity is being gradually released, it is fundamentally difficult to change the situation where the global capacity is excessive and the rate of operation is low. However, the overall situation could be better than that in 2009. Against the backdrop of having a steady and relatively rapid economic development in China, the domestic petroleum and petrochemical industry will maintain a recovery trend under a severe development environment. With respect to the favorable aspects, the policies for boosting domestic demand and stabilizing overseas demand are gradually becoming more effective as the overall macroeconomic situation remains positive. This will stimulate continued growth in market demand for domestic petroleum and petrochemical products. With respect to the unfavorable aspects, the upward trend of international crude oil prices has remained unchanged; newly added production capacity for global oil refining and ethylene may be released at the same time, in which case overcapacity will become more acute and competition will escalate as a whole; the China market will become a competition arena for major multinationals, coupled with the influx of a huge amount of imported products; international trade protectionism will intensify, complicated by increasing foreign trade conflicts; and there will be increasingly more constraints against growth due to long-standing contradictions such as those on resources, environmental protection and carbon emissions reduction.

2. New business plans for 2010

In 2010, the Group will, in line with the changes in the external economic environment, continue to actively capitalize on market opportunities and take "learning from the advanced, strengthening management, expediting the development and boosting staff cohesiveness" as the main theme to further improve its work on HSE (Health, Safety and Environment) and increase the total physical volume of products. It will strengthen internal management and optimize resources allocation; devote dedicated efforts to project construction to maintain sustainable development; push forward team-building to improve human resources development; and strive to bring production operations, reform and development as well as harmony and stability to a new level again.

To achieve these business objectives in 2010, the Group intends to adopt the following major initiatives:

(a) Strengthening HSE, energy conservation and emissions reduction work on an ongoing basis and improving the identification of the source as well as control and prevention of potential risks.

The Group will devote efforts to production safety, environmental protection, occupational health energy conservation and emissions reduction just as it did in the past, striving to comply with the requirements for the development of a low-carbon economy, green economy and recycling economy. It will continue to implement the HSE accountability system for all staff to ensure the responsibilities for safety and environmental protection will cover all aspects; strengthen safety monitoring in key areas, segments and parts by stepping up the desulfurization of flue gas and the treatment of foul odor and wastewater and by conducting ongoing investigation as well as control and prevention of potential risks; and further push forward energy conservation and emissions reduction work by implementing various initiatives in full scale such as emissions reduction in production operations, engineering, structural and management projects.

(b) Maintaining the operation of production plants for a long cycle and at full capacity with all efforts, and striving to increase the total physical volume of products

The Group will endeavor to improve the operation level of main production plants, striving to set record highs in terms of crude oil processing volume and total physical volume of products. It will continue to reinforce the management and optimization of production operations by reducing non-scheduled shut-downs and improving the overall efficiency of system operation; commit more efforts to resolve the "bottleneck" issue that constrains the long-term operation of production plants by further improving the operating rates, load rates as well as technical and economic indicators of the plants; and fully launch the workers' contest of "Achieving Record High Output" which is aimed at encouraging staff to move towards an advanced production level.

(c) Implementing sophisticated management in all aspects to further enhance corporate management

The Group will step up a sophisticated management and use it as a basic tool to cope with challenges, and increase profitability by system optimization, unleashing of potential, enhancement of efficiency and reduction of costs and expenses. It will continue to commit dedicated efforts to the procurement and processing of crude oil and major intermediate petrochemical materials, and to the improvement of production methods, product mix and operation of public utility systems to effectively control production costs. It will further improve budget management and strengthen the formulation, implementation, monitoring, analysis and attainment assessment of budget; and incorporate various management tasks into the management system which is based on the internal control system as the core, so as to fully implement the internal control system among all staff within the Company.

(d) Continuing to devote efforts to corporate development by persistently pushing forward technological improvements and computerization work

The Group will conscientiously accomplish the preliminary work on the Phase 6 Project which mainly focuses on the refinery renovation project, adhering to the development direction of placing equal emphasis on low cost and differentiation as well as scale and streamlining, and to the development idea of putting emphasis on low cost and scale in upstream operations as well as high added value and differentiation in downstream operations. It will push forward environmentally-friendly and resource-saving projects as soon as possible to further improve the overall utilization of resources and the rate of return on assets. With respect to technological improvement and computerization, the Group will continue to devote efforts to the development of practical technologies, application of new technologies and research and development of high value-added products, and play an active role in developing sophisticated petrochemical technologies and products in the extended downstream sector, so as to provide technical assurance for speeding up the adjustment of product mix, increasing the standards of energy conservation and consumption reduction and promoting subsequent development of the Company. It will continue to further the application of the computerization project and steadily push forward a computerized management system.

(e) Further enhancing management system and mechanism, continuing to improve organisational performance

The Group will continue to actively and steadily push forward various internal reform programs to adjust and improve the management system and mechanism. It will basically achieve professional centralized management at the corporate level, and will rationalize the professional operating mechanism under the centralized management system. It will further strengthen and improve performance evaluation; improve the performance evaluation system that is primarily based on an evaluation of annual objectives and supplemented by a process evaluation, and improve the "three tier" evaluation and assessment method as well as the incentive and check-and-balance mechanism. It will further strengthen the management and assessment of foreign investment operations, and vigorously push forward the establishment and development of foreign-invested enterprises. It will continue to carry out good tracking management of reformed enterprises to facilitate their steady and sound development.

(f) Continuing to devote efforts to staff team building and proactively maintaining a harmonious and stable corporate atmosphere

The Group will continue to reinforce the building of the operation management team, the professional technical team and the skills operation team; improve the mechanism for the selection, nurturing, utilization and retention of talents and fully mobilize the enthusiasm and creativity of staff of all levels; continue to further push forward various tasks for the cultivation of corporate culture, striving to create a united, aggressive, positive and harmonious atmosphere. It will continue to satisfy, safeguard and extend the fundamental interests of staff and strengthen the staff's cohesiveness and sense of belonging; and make every effort to complete the Group's public security work during the Shanghai World Expo 2010 to ensure the security and stability of 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 in the prices of crude oil and refinery products may have an adverse impact on the Group's operation.

A large part of the Group's revenue is derived from the sale of refined oil and petrochemical products. Historically, such products have been cyclical in nature and relatively sensitive towards changes in the macro economy as well as regional and global economic conditions, changes in productivity and output, changes in the prices and supply of raw materials, changes in consumer demand and changes in the prices and supply of substitutes. These factors have a major impact, from time to time, on the prices of the Group's products available in the regional and global markets. 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 be exposed to risks associated with the procurement of imported crude oil and 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. More than 90% of the crude oil required has to be imported. In recent years, crude oil prices have been fluctuating significantly due to a number of factors, and the Group cannot rule out the possibility that a number of major unexpected events may cause a suspension in crude oil supply. Although 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, 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 the rise in crude oil prices and the rise in petrochemical products prices, increased costs 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 industry. The Group's capability to maintain and increase income, net income and cash flows has a bearing upon ongoing capital expenditures. The Group's capital expenditures amounted to approximately RMB2,120.3 million in 2009 (2008: RMB1,511.1 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, 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.

In 2010, China's petrochemical market will remain at the peak of production capacity. The commencement of production of new plants at the same time will create surplus capacity which will result in a structured oversupply of refined oil and some petrochemical products. The Group believes this will have a substantial impact on the production and sale of its major products. Besides, Chinese private enterprises have gradually overcome technological and funding barriers and extended from the downstream processing sector to the upstream petrochemical field. 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. Wastes (waste water, waste gas and waste residue) are generated during the Group's production operations. Currently the Group's operations are in full compliance with the requirements of all applicable Chinese environmental protection laws and regulations. However, the Chinese Government 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 subjected to the impact of competition and imported products from foreign players over a long period.

As a member state of the Word Trade Organisation, China has undertaken to lift or reduce certain 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 enforced some initiatives such as allowing greater participation by foreign companies in investing in China's domestic petrochemical industry; allowing foreign investors to hold 100% equity interest in petrochemical companies in China; and a gradual relaxation of restrictions on the import of crude oil by non-state-owned companies. As a result, the Group will face competition and foreign imports for a long period of time. In 2010, the impact of the global financial crisis will continue and the demand from the global market has yet to recover. Many overseas petrochemical corporations, in particular from neighboring countries such as Japan and South Korea and from the Middle East, have switched their target markets to China by exporting a huge amount of 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 scenes. 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. In addition, the Chinese Government will further push forward the reform on the Renminbi exchange rate mechanism, 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 of 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 act for its own benefit regardless 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 and so forth, 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 system for listed companies that were unable to complete the 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 does not rule out the possibility that the CSRC and the Shanghai Stock Exchange may, depending on market conditions, further arrange 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 controlling company of the controlling shareholder. 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 2009, the capital expenditure of the Group amounted to RMB2,120.3 million, representing an increase of 40.32% as compared to RMB1,511.1 million in 2008. Major projects include the following:

Project	Total project investment RMB million	Project progress as at 31 December 2009
600,000-ton/year PX aromatics complex	2,425.0	Completed
150,000-ton/year C5 segregation plant	262.0	Completed
Natural gas integrated utilization project	195.0	Under construction
Total	2,882.0	-

The Group's capital expenditure for 2010 is estimated at approximately RMB2,000.0 million.

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

Pursuant to the requirements of Interpretation of the Accounting Standards for Business Enterprises (No. 3) (the "Interpretation No.3") newly issued by the Ministry of Finance in 2009 and Notice on the Completion of Work relating to 2009 Annual Report by Listed and Non-Listed Companies that Adopt Accounting Standards (Caikui [2009] No.16), the Group made major changes to the following accounting policies during the Reporting Period:

1. Changes in accounting measures for invested entities under the cost method in the event that such invested entities declare cash dividends or profits.

2. Changes to the presentation of income statement and statement on changes to owners' equity.

3. Changes to the disclosure of segment report.

The above-mentioned changes in accounting policies do not have material impact on the Group's financial statement in 2009. For description of specific changes in accounting policies, please refer to item 30, Note 2 of the financial report prepared under the China Accounting Standards for Business Enterprises. During the Reporting Period, the Group did not make any changes to accounting estimates or major accounting errors.

Daily Operation of the Board

(1) The convening and the resolutions of Board meetings

Session of the meeting	Convening Date	Content of Resolutions	Newspaper and Websites for Publication of Resolutions	Date of Publication of Resolutions
The Sixth Meeting of the Sixth Session	27 March 2009	Refer to the announcement for details.	"Shanghai Securities News" and "China Securities Journal"; the websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company	30 March 2009
The Seventh Meeting of the Sixth Session	17 April 2009	Refer to the announcement for details.	"Shanghai Securities News" and "China Securities Journal"; the websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company	20 April 2009
The Eighth Meeting of the Sixth Session	27 August 2009	1. Approval of the 2009 Interim Report of the Company. 2. The resolution on no payment of interim dividends was considered and approved.	–	-
The Ninth Meeting of the Sixth Session	10 October 2009	Refer to the announcement for details.	"Shanghai Securities News" and "China Securities Journal"; the websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company	13 October 2009
The Tenth Meeting of the Sixth Session	28 October 2009	The 2009 Third Quarterly Report was considered and approved.	–	–

(2) The 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.

(3) A summary report on the establishment and improvement of the work system of the Board's audit committee, as well as its major elements and details on its performance of duties

Pursuant to the relevant requirements of the Corporate Governance Principles for Listed Companies of the CSRC and the Code on corporate governance of the Hong Kong Stock Exchange, the Board of the Company has set up a audit committee. The Audit Committee is mainly responsible for proposing to the Board the engagement or replacement of external auditing institutions; supervising the internal control system and its implementation; auditing the financial information and disclosure of the Company, including reviewing the integrity of the financial statements, annul reports, interim reports and quarterly reports of the Company, and reviewing material opinions on financial declaration as set out in the statements and reports; reviewing the systems of financial control, internal control and risk management, and auditing material connected transactions. The Rules of Procedure for Audit Committee Meeting was published on the designated websites for information disclosure of the Company.

The Audit Committee of the Sixth Session of the Board of the Company was composed of three directors who were independent non-executive directors. Chen Xinyuan (accounting expert) was the chairman; Sun Chiping and Zhou Yunnong were the members.

Pursuant to the Rules of Procedure for the meeting, the Audit Committee holds at least two meetings every year. In 2009, the Audit Committee held two meetings in total where all members attended the meetings in person.

At the second meeting of the Audit Committee of the sixth session of the Board held on 26 March 2009, six resolutions were approved: (i) the resolution on Amendments to the Rules of Procedure for the Board's Audit Committee Meeting was considered and approved; (ii) the 2008 annual report of the Company was considered and approved; (iii) the resolution on adjusting relevant items in the balance sheet at the beginning of 2008 was considered and approved; (iv) the resolution on renewing the reappointment of the Company's domestic and international auditors for 2009 was considered and approved; (v) the Board's Self-Assessment Report on the Internal Control of the Company was considered and approved; (vi) the Company's Internal Control Manual (2009 Edition) was considered and approved. In respect of the resolution on Amendments to the Rules of Procedure for the Board's Audit Committee Meeting, Chapter 5 regarding regulations on annual report work and relevant clauses were added into the original rules of procedure for the meeting.

At the third meeting of the Audit Committee of the sixth session of the Board held on 26 August 2009, two resolutions were approved: (i) the 2009 interim report of the Company was considered and approved; (ii) the Company's internal control mechanism and execution inspection report for the first half of 2009 was considered and approved.

In 2009, 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 2008. 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 25 March 2010, the Audit Committee and the management have reviewed the accounting principles and standards adopted by the Company, and discussed the matters relating to the audit, internal control and financial reporting, including this year's audited financial report for the 12 months ended 31 December 2009.

(4) Summary report on performance of duties by the Board's Remuneration and Appraisal Committee

Pursuant to the relevant requirements of the Corporate Governance Principles for Listed Companies of the CSRC and the Code on Corporate Governance of the Hong Kong Stock Exchange, the Board of the Company has set up the Remuneration and Appraisal Committee. The Remuneration and Appraisal Committee is mainly responsible for formulating and reviewing the remuneration policies and plans for the directors, supervisors and senior management; formulating the appraisal criteria for directors, supervisors and senior management and conducting appraisals. The Rules of Procedure for Remuneration and Appraisal Committee Meeting was published on the designated websites for information disclosure of the Company.

The Remuneration and Appraisal Committee of the Sixth Session of the Board of the Company was composed of three directors, of whom two were independent non-executive directors and one was executive director. Zhou Yunnong, independent non-executive director, is the chairman; Jiang Zhiquan, independent non-executive director and Dai Jinbao, executive director were the members.

Pursuant to the rules of procedure for the meeting, the Remuneration and Appraisal Committee holds at least one meeting every year. In 2009, the Remuneration and Appraisal Committee held one meeting where all members attended in person.

At the first meeting of the Remuneration and Appraisal Committee of the sixth session of the Board held on 26 March 2009, two 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 in 2009.

As at 25 March 2010, 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 2009.

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

In 2009, the net profit of the Company amounted to RMB1,376,180,000 in accordance with the China Accounting Standards for Business Enterprises. The Company appropriated a statutory surplus reserve of RMB35,358,000 from 10% of the net profit after offsetting against the accumulated losses brought forward from prior year. At 31 December 2009, undistributed profits of the Company amounted to RMB318,224,000 in accordance with the China Accounting Standards for Business Enterprises (RMB387,356,000 in accordance with IFRS). The Board of the Company proposed to distribute a dividend of RMB0.30 per 10 shares (including tax), totalling RMB216,000,000 based on the total share capital of RMB7,200 million as at 31 December 2009.

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 (%)
2006	288,000	805,705	35.75
2007	648,000	1,592,110	40.70
2008	0	-6,245,412	-

Note: Net profit attributable to equity shareholders of the Company for 2006 has been restated in accordance with China Accounting Standards for Business Enterprises.

Establishment and Improvement of the Company's Management System for External Information Users

In accordance with the requirements of the Administrative Measures on Information Disclosure of Listed Companies of the CSRC; the Guidance for Management System of Information Disclosure Affairs of Listed Companies of the Shanghai Stock Exchange; laws and regulations including the PRC Company Law (the "Company Law", the PRC Securities Law, the Corporate Governance Principles for Listed Companies, the Listing Rules of the Shanghai Stock Exchange and the Hong Kong Listing Rules; and the regulations of Articles of Association, the Company formulated the Information Disclosure Management System in order to regulate the behavior of information disclosure by the Company, 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. Such system makes specific provisions to the content of information disclosure, basic principles, workflow, approval procedures, and management and liabilities of information disclosure affairs. This will fully regulate internal information management, safeguard the principles of fairness in information disclosure, and prevent industry insiders from abusing the right of information, divulging inside information or conducting inside trading.

During the Report Period, the Company conscientiously implemented the Information Disclosure Management System, and ensured the truthfulness, accuracy, completeness, timeliness and fairness of the Company's information disclosure.

Other Disclosure Matters

During the Reporting Period, there are no other discloseable matters of the Company.

In 2009, the Supervisory Committee of the Company conscientiously discharged its supervisory duties in accordance with the Company Law and the relevant legislations, the Articles of Association 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. Operation of the Supervisory Committee

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 considered the Company's quarterly reports, interim reports and annual reports and gave comments and recommendations thereon. In discharging their routine monitoring duties, the Supervisory Committee Office regularly convened meetings and carried out research and inspection on special topics.

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

(1) The fourth meeting of the sixth session of the Supervisory Committee was convened on 26 March 2009. Major meeting topics were as follows:

(a) the annual report of the Company for the year 2008 was considered;

(b) the Supervisory Committee's comments and recommendations on the annual report of the Company for the year 2008 were discussed;

(c) the work report of the Supervisory Committee for the year 2008 was considered;

(d) major work of the Supervisory Committee for the year 2009 was considered.

The above matters contained in the meeting resolutions were approved with full votes.

(2) The fifth meeting of the sixth session of the Supervisory Committee was convened on 16 April 2009 (by correspondence). Major meeting topics are as follows:

(a) the 2009 first quarterly report of the Company were considered;

(b) the Supervisory Committee's comments and recommendations on the Company's 2009 first quarterly report of the Company were discussed.

The above matters contained in the meeting resolutions were approved with full votes.

(3) The sixth meeting of the sixth session of the Supervisory Committee was convened on 26 August 2009. Major meeting topics were as follows:

(a) the 2009 interim report of the Company was considered;

(b) the Supervisory Committee's comments and recommendations on the Company's 2009 interim report of the Company were discussed;

(c) Recommendations on change in candidate for Director of the Supervisory Committee Office of the Company were considered.

The above matters contained in the meeting resolutions were approved with full votes.

(4) The seventh meeting of the sixth session of the Supervisory Committee was convened on 27 October 2009 (by correspondence). Major meeting topics were as follows:

(a) the 2009 third quarterly report of the Company was considered;

(b) the Supervisory Committee's comments and recommendations on the 2009 third quarterly report of the Company were discussed.

The above matters contained in the meeting resolutions were approved with full votes.

(5) The eighth meeting of the sixth session of the Supervisory Committee was convened on 18 December 2009 (by correspondence). Major meeting topics were as follows:

Recommendations on change in candidate for Deputy Director of the Supervisory Committee Office of the Company were considered.

The above matter contained in the meeting resolutions was approved with full votes.

2. 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 balance system of the Company and promoted and regulated the corporate governance structure in accordance with the relevant laws and regulations including the Company Law and the Corporate Governance Principles 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 Company Law and the Code. 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 by the Supervisory Committee 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 2009 truthfully reflected the Company's financial position and operating results. No breach of the financial and accounting system in the Company and its controlling subsidiaries' operating activities was discovered. 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, the Company's 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 Company complied with the principles of internal control system in accordance with the relevant provisions of the CSRC and the Shanghai Stock Exchange; established and effectively implemented a relatively complete and reasonable internal control system according to the enterprise's actual situation, which ensured normal operation of the Company's business and the safety and integrity of the Company's assets. In 2009, no material defects were found in the design or implementation of the Company's internal control.

The Supervisory Committee was of the view that in 2009 the Company took "learning from the advanced, strengthening management, putting an end to the loss plight, expediting the development and boosting staff cohesiveness" as the main theme and continuously implemented the low-cost strategy. The Company pushed forward production operations and reforms simultaneously by capturing opportunities including downward adjustments to the crude oil prices, the initial establishment of the market pricing mechanism for refined oil products, and the rebound in the petrochemical products market, thereby significantly enhancing core competitiveness and risk-resistant capabilities, greatly raising economic profitability and better discharging the duties of the listed company.

1. Material litigation or arbitration

The Company was not involved in any material litigation and arbitration.

2. Events regarding bankruptcy and restructuring

No events regarding bankruptcy and restructuring occurred in the Company.

3. Shareholdings by the Company in other listed companies and in financial enterprises

The Company holds 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	-	-	167,076	(51,869)	Available-for-sale financial assets	Investment
600000	SPDB	1,318	-	-	39,723	(22,265)	Available-for-sale financial assets	Investment
600527	JNGX	898	-	-	16,011	(8,769)	Available-for-sale financial assets	Investment
Total		13,380	/	-	222,810	(82,903)	/	/

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

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

5. Major connected transactions of the Company during the Reporting Period

(1) Connected transactions in relation to routine operations

During the reporting period, pursuant to the 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	20,313,011	39.32
	Other related parties	6,852,612	13.27
Purchases	China International United Petroleum & Chemical Co., Ltd.	17,379,243	44.22
	Sinopec Transport and Storage Company	2,812,701	7.16
	Other related parties	4,574,415	11.64
Installation fees	Sinopec and its subsidiaries	165,204	71.10
Transportation costs	Sinopec Transport and Storage Company	29,661	12.12

This includes an amount of RMB25,591,745,130 for the connected transactions in respect of the sale of products or the provision of 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: Net transaction RMB'000	Funds provided to connected parties: Balance RMB'000	Funds provided by connected parties to the Company: Net transaction RMB'000	Funds provided by connected parties to the Company: Balance RMB'000
Sinopec Corp.	Controlling shareholder	-	-	175,218	175,218
Sinopec and its other related parties	Controlling company of the controlling shareholder and other related parties	(5,047)	6,607*	(37,442)	29,469
Total		(5,047)	6,607	137,776	204,687

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)	-

* The balance of funds provided by the Group to connected parties at the end of the Reporting Period mainly included unsettled receivables arising from provision of service to the Group's associates and jointly controlled entities.

(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 that produced 10% or more (including 10%) of the profit of the Company for the current period.

(a) Trust

The Company did not enter into any trust arrangements during 2009.

(b) Sub-contracting

The Company did not enter into any sub-contracting arrangements during 2009.

(c) Leasing

The Company did not enter into any leasing arrangements during 2009.

(2) Guarantees

Unit: RMB'000

The Group's External Guarantees (excluding guarantees to subsidiaries)	
Amount of guarantees signed during the Reporting Period (excluding guarantees to subsidiaries)	(25,747)
Amount of guarantees at the end of the Reporting Period (A) (excluding guarantees to subsidiaries)	-
Group's guarantees to subsidiaries	
Amount of guarantees to subsidiaries signed by the Company during the Reporting Period	(50,000)
Amount of guarantees to subsidiaries at the end of the Reporting Period(B)	200,000
Total guarantee amount (including guarantees to subsidiaries)	
Total guarantee amount (A+B)	200,000
Total guarantee amount as a percentage of net asset value of the Company (%)	1.30
of which:	
Amount of guarantee provided for shareholders, the controlling company of the controlling shareholder or the other connected parties(C)	-
Amount of debt guarantee provided for the companies with liabilities to assets ratio of over 70% directly or indirectly(D)	200,000
Total amount of guarantee is over 50% of the net asset(E)	-
Total guarantee amount of the above three items(C+D+E)	200,000

(3) Trust financial management

The Company purchased bank financial products bearing floating return rates from PRC domestic banks on 30 December 2009, with an aggregate amount of RMB700,000,000. Such financial products mainly invest in debt and equity securities. On 8 January 2010, the Company redeemed such financial products.

(4) Other material contracts

There was no other material contract.

7. Performance of undertakings

There was no undertaking by the Company or its shareholders with shareholding of over 5% during 2009 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 CSRC or publicly reprimanded by the Stock Exchanges.

10. Tax rate

The charge for PRC income tax is currently calculated at the rate of 25% (2008:25%).

11. Deposits

The Company did not have any entrusted deposits during the Reporting Period. As at 31 December 2009, the Group did not have any time deposits which could not be collected upon maturity.

12. The Execution of the 2008 Profit Appropriation Plan

The 2008 profit appropriation plan that no appropriation would be made and no statutory reserve funds would be transferred to increase capitals were considered and approved at the Company's 2008 annual general meeting.

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 2009 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 2009 are set out in note 33 to the financial statements prepared under IFRS.

16. Interest capitalised

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 15 to the financial statements prepared under IFRS.

18. Purcahse, sale and redemption of securities

During the Reporting Period, no purchase, sale or redemption was made by the Company or any of its subsidiaries of its listed securities.

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. Implementation of share option incentive scheme and the impact

No.

21. Other important events

There was no other important event during the year.

22. Disclosure of information

Item	Publication	Publishing Date	Websites and hyperlinks
Risk Notification Announcement in respect of the Company's Share Reform Progress	"Shanghai Securities News", "China Securities Journal"	2 February 2 March 30 March 23 April 25 May 22 June 22 July 24 August 22 September 22 October 23 November 22 December 2009	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 Resolutions Passed at the Sixth Meeting of the Sixth Session of the Board of Directors; Announcement on Resolutions Passed at the Fourth Meeting of the Sixth Session of the Supervisory Committee, the 2008 Annual Report	"Shanghai Securities News", "China Securities Journal"	30 March 2009	Same as above
Announcement on Expected Profit for the First Quarterly Results	"Shanghai Securities News", "China Securities Journal"	8 April 2009	Same as above
Announcement on Resolutions Passed at the Seventh Meeting of the Sixth Session of the Board of Directors; 2009 First Quarterly Report	"Shanghai Securities News", "China Securities Journal"	20 April 2009	Same as above
Risk Alert Announcement in respect of Abnormal Share Price Fluctuation of A Shares	"Shanghai Securities News", "China Securities Journal"	23 April 2009	Same as above
Notice of 2008 Annual General Meeting	"Shanghai Securities News", "China Securities Journal"	30 April 2009	Same as above
Announcement on Expected Profit for the Interim Results of 2009	"Shanghai Securities News", "China Securities Journal"	11 June 2009	Same as above
Announcement on Resolutions Passed at the 2008 Annual General Meeting	"Shanghai Securities News", "China Securities Journal"	19 June 2009	Same as above
Risk Alert Announcement in respect of Abnormal Share Price Fluctuation of A Shares	"Shanghai Securities News", "China Securities Journal"	5 August 2009	Same as above
2009 Interim Report	"Shanghai Securities News", "China Securities Journal"	28 August 2009	Same as above
Announcement on Resolutions Passed at the Ninth Meeting of the Sixth Session of the Board of Directors	"Shanghai Securities News", "China Securities Journal"	13 October 2009	Same as above
2009 Third Quarterly Report	"Shanghai Securities News", "China Securities Journal"	29 October 2009	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 163, which comprise the consolidated and company balance sheets as at 31 December 2009, and the consolidated income statement, the consolidated statement of comprehensive income, 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 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 consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2009 and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

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

26 March 2010

Consolidated Income Statement

For the year ended 31 December 2009
(Prepared under International Financial Reporting Standards)
(Expressed in Renminbi)

	Note	2009 RMB'000	2008 RMB'000
Turnover		51,657,929	60,226,859
Sales taxes and surcharges		(4,312,665)	(897,088)
Net sales		47,345,264	59,329,771
Other income	3	-	2,312,227
Cost of sales		(45,010,196)	(68,556,447)
Gross profit/(loss)		2,335,068	(6,914,449)
Selling and administrative expenses		(450,432)	(467,987)
Other operating income	4	277,169	145,191
Other operating expenses			
Employee reduction expenses	6	(12,518)	(89,844)
Others		(125,811)	(490,175)
Total other operating expenses	5	(138,329)	(580,019)
Profit/(loss) from operations		2,023,476	(7,817,264)
Financial income		19,405	227,533
Financial expenses		(340,554)	(557,971)
Net financing costs	7	(321,149)	(330,438)
Investment income	8	222,810	131,772
Share of profit of associates and jointly controlled entities		241,372	1,492
Profit/(loss) before taxation	9	2,166,509	(8,014,438)
Income tax	11(a)	(511,050)	1,812,711
Profit/(loss) for the year		1,655,459	(6,201,727)
Attributable to:			
Equity shareholders of the Company		1,590,988	(6,238,444)
Minority interests		64,471	36,717
Profit/(loss) for the year		1,655,459	(6,201,727)
Earnings/(loss) per share	12		
Basic		RMB 0.221	(RMB 0.866)
Diluted		RMB 0.221	(RMB 0.866)

The notes on pages 102 to 163 form part of these financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2009
(Prepared under International Financial Reporting Standards)
(Expressed in Renminbi)

	Note	2009 RMB'000	2008 RMB'000
Profit / (loss) for the year		1,655,459	(6,201,727)
Other comprehensive loss for the year (after tax and reclassification adjustments)			
Available-for-sale securities: net movement in the fair value reserve	14	(82,903)	(264,661)
Total comprehensive income / (loss) for the year		1,572,556	(6,466,388)
Attributable to:			
Equity shareholders of the Company		1,508,085	(6,503,105)
Minority interests		64,471	36,717
Total comprehensive income / (loss) for the year		1,572,556	(6,466,388)

The notes on pages 102 to 163 form part of these financial statements.

Consolidated Balance Sheet

As at 31 December 2009
(Prepared under International Financial Reporting Standards)
(Expressed in Renminbi)

	Note	2009 RMB'000	2008 RMB'000
Non-current assets			
Property, plant and equipment	15(a)	14,977,205	13,272,899
Investment property	16	479,247	492,690
Construction in progress	17	348,865	1,854,154
Interest in associates and jointly controlled entities	19	2,749,646	2,545,978
Other investments	20	-	289,657
Lease prepayments and other assets		754,126	604,163
Deferred tax assets	11(b)	1,537,972	1,962,135
Total non-current assets		20,847,061	21,021,676
Current assets			
Inventories	21	6,883,834	4,492,215
Other investments	20	700,000	-
Trade debtors	22	120,145	89,086
Bills receivable	22	573,283	532,580
Deposits, other debtors and prepayments	22	81,847	484,475
Amounts due from related parties	22,26	576,399	277,777
Income tax recoverable		-	7,533
Cash and cash equivalents	23	125,917	627,685
Total current assets		9,061,425	6,511,351
Current liabilities			
Loans and borrowings	24	7,774,673	9,372,725
Trade creditors	25	1,521,319	1,272,811
Bills payable	25	112,271	263,443
Other creditors		1,399,719	679,415
Amounts due to related parties	25,26	3,487,645	1,752,647
Income tax payable		9,298	1,679
Total current liabilities		14,304,925	13,342,720
Net current liabilities		(5,243,500)	(6,831,369)
Total assets less current liabilities carried forward		15,603,561	14,190,307

The notes on pages 102 to 163 form part of these financial statements.

Consolidated Balance Sheet (continued)

As at 31 December 2009
(Prepared under International Financial Reporting Standards)
(Expressed in Renminbi)

	Note	2009 RMB'000	2008 RMB'000
Total assets less current liabilities brought forward		**15,603,561**	14,190,307
Non-current liabilities			
Loans and borrowings	24	**304,258**	429,021
Total non-current liabilities		**304,258**	429,021
Net assets		**15,299,303**	13,761,286
Shareholders' equity			
Share capital	27	**7,200,000**	7,200,000
Reserves	28	**7,805,018**	6,296,933
Total equity attributable to equity shareholders of the Company		**15,005,018**	13,496,933
Minority interests		**294,285**	264,353
Total equity		**15,299,303**	13,761,286

Approved and authorised for issue by the board of directors on 26 March 2010.

Rong Guangdao
Chairman and President

Du Chongjun
Vice Chairman and Vice President

Ye Guohua
Chief Financial Officer

The notes on pages 102 to 163 form part of these financial statements.

Balance Sheet

As at 31 December 2009
(Prepared under International Financial Reporting Standards)
(Expressed in Renminbi)

	Note	2009 RMB'000	2008 RMB'000
Non-current assets			
Property, plant and equipment	15(b)	14,357,480	12,438,510
Investment property	16	539,482	554,405
Construction in progress	17	338,856	1,815,344
Investments in subsidiaries	18	1,310,401	1,698,100
Interest in associates and jointly controlled entities	19	2,274,480	2,274,480
Other investments	20	-	111,327
Lease prepayments and other assets		540,654	481,643
Deferred tax assets	11(b)	1,527,541	1,954,622
Total non-current assets		20,888,894	21,328,431
Current assets			
Inventories	21	6,658,450	4,249,254
Other investments	20	700,000	-
Trade debtors	22	47,487	43,866
Bills receivable	22	496,487	406,286
Deposits, other debtors and prepayments	22	45,020	398,107
Amounts due from related parties	22,26	561,120	280,434
Cash and cash equivalents	23	101,076	294,786
Total current assets		8,609,640	5,672,733
Current liabilities			
Loans and borrowings	24	7,424,998	9,133,204
Trade creditors	25	1,140,008	953,260
Bills payable	25	26,048	263,364
Other creditors		1,361,906	600,696
Amounts due to related parties	25,26	4,430,035	2,216,317
Total current liabilities		14,382,995	13,166,841
Net current liabilities		(5,773,355)	(7,494,108)
Total assets less current liabilities carried forward		15,115,539	13,834,323

The notes on pages 102 to 163 form part of these financial statements.

Balance Sheet (continued)

As at 31 December 2009
(Prepared under International Financial Reporting Standards)
(Expressed in Renminbi)

	Note	2009 RMB'000	2008 RMB'000
Total assets less current liabilities brought forward		**15,115,539**	13,834,323
Non-current liabilities			
Loans and borrowings	24	**450,000**	300,000
Total non-current liabilities		**450,000**	300,000
Net assets		**14,665,539**	13,534,323
Shareholders' equity			
Share capital	27	**7,200,000**	7,200,000
Reserves	28	**7,465,539**	6,334,323
Total equity		**14,665,539**	13,534,323

Approved and authorised for issue by the board of directors on 26 March 2010.

Rong Guangdao
Chairman and President

Du Chongjun
Vice Chairman and Vice President

Ye Guohua
Chief Financial Officer

The notes on pages 102 to 163 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2009
(Prepared under International Financial Reporting Standards)
(Expressed in Renminbi)

		Attributable to equity shareholders of the Company						
	Note	Share capital	Share premium	Reserves	Retained earnings	Total	Minority Interests	Total Equity
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2008		7,200,000	2,420,841	4,969,548	6,057,649	20,648,038	303,991	20,952,029
Changes in equity for 2008:								
Dividends approved in respect of previous year	13	-	-	-	(648,000)	(648,000)	-	(648,000)
Dividends paid by subsidiaries to minority shareholders		-	-	-	-	-	(76,355)	(76,355)
Total comprehensive income for the year		-	-	(264,661)	(6,238,444)	(6,503,105)	36,717	(6,466,388)
Balance at 31 December 2008		7,200,000	2,420,841	4,704,887	(828,795)	13,496,933	264,353	13,761,286
Balance at 1 January 2009		7,200,000	2,420,841	4,704,887	(828,795)	13,496,933	264,353	13,761,286
Changes in equity for 2009:								
Appropriation	28	-	-	35,358	(35,358)	-	-	-
Dividends paid by subsidiaries to minority shareholders		-	-	-	-	-	(34,539)	(34,539)
Total comprehensive income for the year		-	-	(82,903)	1,590,988	1,508,085	64,471	1,572,556
Balance at 31 December 2009		7,200,000	2,420,841	4,657,342	726,835	15,005,018	294,285	15,299,303

The notes on pages 102 to 163 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2009
(Prepared under International Financial Reporting Standards)
(Expressed in Renminbi)

	Note	2009 RMB'000	2008 RMB'000
Cash generated from /(used in) operations	(a)	3,747,646	(3,431,103)
Interest paid		(356,652)	(578,605)
Income tax paid		(52,539)	(60,699)
Income tax refunded		8,435	83,917
Net cash generated from /(used in) operating activities		3,346,890	(3,986,490)
Investing activities			
Interest income received		19,405	59,472
Dividend income received		116,713	546,333
Proceeds from disposal of property, plant and equipment and other long-term assets		139,666	51,829
Proceeds from disposal of investments		506,144	153,997
Capital expenditure		(2,120,292)	(1,511,072)
Purchase of investments and interests in associates		(837,008)	(8,039)
Net cash used in investing activities		(2,175,372)	(707,480)
Financing activities			
Proceeds from loans and borrowings		29,211,434	32,528,758
Repayment of loans and borrowings		(31,849,620)	(27,377,610)
Proceeds from issuance of corporate bonds		1,000,000	-
Dividends paid to equity shareholders of the Company		(559)	(645,551)
Dividends paid by subsidiaries to minority shareholders		(34,539)	(76,355)
Net cash (used in)/generated from financing activities		(1,673,284)	4,429,242
Net decrease in cash and cash equivalents		(501,766)	(264,728)
Cash and cash equivalents at 1 January		627,685	893,165
Effect of exchange rate fluctuations on cash held		(2)	(752)
Cash and cash equivalents at 31 December		125,917	627,685

The notes on pages 102 to 163 form part of these financial statements.

For the year ended 31 December 2009
(Prepared under International Financial Reporting Standards)
(Expressed in Renminbi)

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

	2009 RMB'000	2008 RMB'000
Profit/(loss) before taxation	2,166,509	(8,014,438)
Interest income	(19,405)	(59,472)
Income from unlisted investment	(72,215)	(9,721)
Share of profit of associates and jointly controlled entities	(241,372)	(1,492)
Gain on disposal of available-for-sale securities	(222,810)	(131,772)
Interest expenses	313,989	557,971
Depreciation for property, plant and equipment	1,635,518	1,618,478
Depreciation for investment property	13,261	13,440
Impairment losses on property, plant and equipment	98,486	440,946
Amortisation of lease prepayments	16,111	16,759
Impairment loss of goodwill	-	22,415
Unrealised exchange gain	(47)	(70,993)
Gain on disposal of property, plant and equipment and other long-term assets, net	(107,988)	(13,166)
(Increase)/decrease in inventories	(2,391,619)	705,634
Decrease in debtors, bills receivable and deposits	202,876	1,122,004
Increase/(decrease) in trade creditors, other creditors and bills payable	993,976	(786,918)
Increase in balances with related parties	1,362,376	1,159,222
Cash generated from/(used in) operations	3,747,646	(3,431,103)

The notes on pages 102 to 163 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 consolidated 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 includes International Accounting Standards ("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 available-for-sale equity securities (see note 1(e)) and derivative financial instruments (see note 1(l)) which are stated at fair value.

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 the 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.

Judgements made by management in the application of IFRS that have significant effect on the financial statements and major sources of estimation uncertainty 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 and the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between minority interests and the equity shareholders of the Company.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

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

1. Significant accounting policies *(continued)*

(c) Basis of consolidation *(continued)*

(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.

An investment in an associate or a jointly controlled entity is accounted for in the consolidated financial statements under the equity method. Under the equity method, the investment is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see notes 1(d) and (w)). The Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated income statement, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of comprehensive income.

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 investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in 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 investee, 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, investments in associates and jointly controlled entities are stated at cost less impairment losses (see note 1(w)).

1. Significant accounting policies *(continued)*

(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 arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination 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 and the investment as a whole is tested for impairment whenever there is objective evidence of impairment (see note 1(w)).

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.

(e) Other investments

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

Investments in available-for-sale financial assets are carried at fair value with any change in fair value recognised in other comprehensive income and accumulated separately in equity in the fair value reserve. When these investments are derecognised or impaired, the cumulative gain or loss is reclassified from equity to 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)).

1. Significant accounting policies *(continued)*

(f) Property, plant and equipment

Property, plant and equipment are stated in the balance sheet at cost (see note 14(d)) less accumulated depreciation and impairment losses (see note 1(w)).

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 amount of property, plant and equipment over their estimated useful lives on a straight-line basis, after taking into account their estimated residual values, as follows:

Buildings	15 to 40 years
Plant 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 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.

(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.

1. Significant accounting policies *(continued)*

(h) Lease prepayments and other assets

Lease prepayments and other assets mainly represent prepayments for land use rights and catalysts used in production. The assets 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.

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.

1. Significant accounting policies *(continued)*

(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 is recognised in profit or loss.

(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.

1. Significant accounting policies *(continued)*

(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 closing foreign exchange rate 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.

(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.

1. Significant accounting policies *(continued)*

(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 from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

(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.

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.

1. Significant accounting policies *(continued)*

(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.

(w) Impairment loss

(i) 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 financial asset where the effect of discounting is material, and is recognised as an expense in the profit or loss. Impairment losses for trade accounts receivable, bills and other receivables are reversed through the profit or loss if in a subsequent period the amount of the impairment loss decreases. Impairment losses for investments in equity securities carried at cost are not reversed.

For investments in associates and jointly controlled entities recognised using the equity method (note 1(c)(ii)), the impairment loss is measured by comparing the recoverable amount of the investment as a whole with its carrying amount in accordance with note 1(w)(ii). The impairment loss is reversed if there has been a favorable change in the estimates used to determine the recoverable amount in accordance with note 1(w)(ii).

1. Significant accounting policies *(continued)*

(w) Impairment loss *(continued)*

(ii) Impairment of other long-lived assets is accounted for 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 the 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 the profit or loss. 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.

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 favorable 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 in profit or loss. 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.

1. Significant accounting policies *(continued)*

(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 in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

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

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

A deferred tax asset is recognised only to the extent that it is probable that future taxable income will be available against the assets which can be realised or 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.

1. Significant accounting policies *(continued)*

(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.

(ab) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's chief operating decision maker for the purposes of allocating resources to, and assessing the performance of the Group's various lines of business.

2. Changes in accounting policies

The IASB has issued one new IFRS, a number of amendments to IFRSs and new Interpretations that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group's financial statements:

- IFRS 8, Operating segments
- IAS 1 (revised 2007), Presentation of financial statements
- Improvements to IFRSs (2008)
- Amendments to IAS 27, Consolidated and separate financial statements - cost of an investment in a subsidiary, jointly controlled entity or associate
- Amendments to IFRS 7, Financial instruments: Disclosures - improving disclosures about financial instruments
- IAS 23 (revised 2007), Borrowing costs

The "Improvements to IFRSs (2008)" comprise a number of minor and non-urgent amendments to several IFRSs which the IASB has issued as an omnibus batch of amendments. The amendments had no material impact on the Group's financial statements.

2. Changes in accounting policies *(continued)*

IAS 23 (revised 2007) has had no material impact on the Group's financial statements as the amendments were consistent with policies already adopted by the Group. In addition, the amendments to IFRS 7 do not contain any additional disclosure requirements specifically applicable to the Group's financial statements. The impact of the remainder of these developments on the financial statements is as follows:

- IFRS 8 requires segment disclosure to be based on the way that the Group's chief operating decision maker manages the Group, with the amounts reported for each reportable segment being the measures reported to the Group's chief operating decision maker for the purposes of assessing segment performance and making decisions about operating matters. The adoption of IFRS 8 has not resulted in any significant changes to the presentation of segment information since the identification and presentation of reportable segments in prior periods were consistent with IFRS 8.

- As a result of the adoption of IAS 1 (revised 2007), details of changes in equity during the period arising from transactions with equity shareholders in their capacity as such have been presented separately from all other income and expenses in a revised consolidated statement of changes in equity. All other items of income and expense are presented in the consolidated income statement, if they are recognised as part of profit or loss for the period, or otherwise in a new primary statement, the consolidated statement of comprehensive income. Corresponding amounts have been restated to conform to the new presentation.

- The amendments to IAS 27 have removed the requirement that dividends arising from pre-acquisition profits should be recognised as a deduction in the carrying amount of the investment in the investee, rather than as income. As a result, as from 1 January 2009 all dividends receivable from subsidiaries, associates and jointly controlled entities, whether arising from pre- or post-acquisition profits, will be recognised in the Company's profit or loss and the carrying amount of the investment in the investee will not be reduced unless that carrying amount is assessed to be impaired as a result of the investee declaring the dividend. In such cases, in addition to recognising dividend income in profit or loss, the Company would recognise an impairment loss. In accordance with the transitional provisions in the amendment, this new policy will be applied prospectively to any dividends receivable in the current or future periods and previous periods have not been restated.

In prior years, property, plant and equipment were carried at revalued amount, being the fair value at the date of the revaluation less any subsequent accumulated depreciation and impairment losses. Revaluation was performed periodically to ensure that the carrying amount did not differ materially from that which would be determined using fair value at the previous balance sheet dates. Based on the revaluations performed in prior years, the carrying amount of property, plant and equipment did not differ materially from their fair value.

In 2009, property, plant and equipment are accounted for using the cost model, being the cost less any accumulated depreciation and impairment losses. This change is to align the Group's accounting policy with industry peers to provide more relevant financial information to the users of the Group's financial statements. This change has been applied retrospectively. This change in accounting policy has no effect on the financial condition as at 31 December 2007, 2008 and 2009, and the results of operation for the years then ended, therefore, no comparative balance sheet as at 1 January 2008 was presented.

3. Other income

The Group recognised grant income of RMB 2,312,227,000 during the year ended 31 December 2008. 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 year ended 31 December 2008. There were no unfilled conditions and other contingencies attached to the receipts of these grants. During the year ended 31 December 2009, the Group did not receive such government grants.

4. Other operating income

	2009 RMB'000	2008 RMB'000
Income from rendering of services	33,565	34,842
Gain on disposal of property, plant and equipment and other long-term assets	116,476	17,618
Rental income from investment property	31,233	48,869
Gain from disposal of unlisted investments	72,215	9,721
Others	23,680	34,141
	277,169	145,191

5. Other operating expenses

	2009 RMB'000	2008 RMB'000
Employee reduction expenses (note 6)	12,518	89,844
Loss on disposal of property, plant and equipment	8,488	4,452
Impairment loss on property, plant and equipment (i)	98,486	440,946
Impairment loss on goodwill	-	22,415
Others	18,837	22,362
	138,329	580,019

(i) Impairment loss recognised on property, plant and equipment, were primarily related to impairment of certain synthetic fibres facilities of the synthetic fibres segment in the amount of RMB 75,140,000 for the year ended 31 December 2009 (2008: RMB 417,936,000). The carrying values of these facilities were written down to their recoverable amounts that were primarily based on the facilities' fair values less costs to sell, determined by reference to the recent observable market prices for similar assets within the same industry. The primary factor resulting in the impairment losses on property, plant and equipment was due to the shut down of these facilities during the year 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 12,518,000 in respect of the voluntary resignation of approximately 238 employees (947 employees in 2008) during the year ended 31 December 2009 (2008: RMB 89,844,000).

7. Net financing costs

	2009 RMB'000	2008 RMB'000
Interest income	(19,405)	(59,472)
Net foreign exchange gain	-	(70,417)
Net gain in fair value change of derivative financial instruments	-	(97,644)
Financial income	(19,405)	(227,533)
Net foreign exchange loss	16,142	-
Net loss in fair value change of derivative financial instruments	10,423	-
Interest on loans and borrowings	358,474	585,142
Less:borrowing costs capitalised as construction in progress*	(44,485)	(27,171)
Financial expenses	340,554	557,971
Net financing costs	321,149	330,438

* The borrowing costs during 2009 have been capitalised at a rate of 2.12%-5.04% per annum (2008: 5.10%-7.47%) for construction in progress.

8. Investment income

Investment income represents the gain on disposal of available-for-sale securities of RMB 222,810,000 during the year ended 31 December 2009 (2008: RMB 131,772,000).

9. Profit / (loss) before taxation

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

	2009 RMB'000	2008 RMB'000
Cost of inventories sold#	45,010,196	68,556,447
Depreciation for property, plant and equipment#	1,635,518	1,618,478
Depreciation for investment property#	13,261	13,440
Amortisation of lease prepayments#	16,111	16,759
Repairs and maintenance expenses#	1,044,863	988,393
Research and development costs#	40,293	47,303
Employee's pension costs#		
- Municipal retirement scheme costs	192,791	199,135
- Supplementary retirement scheme costs	49,513	54,862
Staff costs#	1,233,729	1,160,658
Rental income from investment property	(31,233)	(48,869)
Write down of inventories	58,040	744,578
Impairment losses		
- Trade and other receivables	(1,690)	(5,327)
- Property, plant and equipment	98,486	440,946
- Goodwill	-	22,415
Net loss/(gain) in fair value change of derivative financial instruments	10,423	(97,644)
Net profit on sale of available-for-sale securities	(222,810)	(131,772)
Share of (profits)/losses of associates	(218,862)	30,232
Share of profits of jointly controlled entities	(22,510)	(31,724)
Auditors' remuneration - audit services	8,787	8,310

Cost of inventories sold includes RMB 4,217,577,000 (2008: RMB 4,088,422,000) relating to staff costs, depreciation and amortisation, repairs and maintenance expenses, research and development costs and pension costs, which amount is also included in the respective total amounts disclosed separately above for each of these types of expenses.

The consolidated profit attributable to equity shareholders of the Company includes a profit of RMB 1,376,235,000 (2008: a loss of RMB 5,588,868,000) which has been dealt with in the financial statements of the Company.

10. Directors' and supervisors' emoluments

(i) Directors' and supervisors' emoluments:

	2009			
	Salaries and other benefits RMB'000	Retirement scheme contributions RMB'000	Discretionary bonus RMB'000	Total RMB'000
Rong Guangdao	164	8	388	560
Du Chongjun	164	8	388	560
Han Zhihao	140	8	317	465
Shi Wei	139	8	320	467
Li Honggen	140	8	320	468
Dai Jinbao	88	8	205	301
Gao Jinping	140	7	320	467
Zhang Chenghua	96	7	194	297
Wang Yanjun	81	7	189	277
Chen Xinyuan	150	-	-	150
Sun Chiping	150	-	-	150
Jiang Zhiquan	150	-	-	150
Zhou Yunnong	150	-	-	150
	1,752	69	2,641	4,462

	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

For the years ended 31 December 2009 and 2008, 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.

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

(ii) Individuals with the highest emoluments

Of the five individuals with the highest emoluments, five (2008: five) are directors and supervisors whose emoluments are disclosed in note 10 (i).

11. Income tax

(a) Taxation in the consolidated income statement represents:

	2009 RMB'000	2008 RMB'000
Current tax		
-Provision for income tax for the year	58,410	34,919
-Under-provision in respect of prior years	843	16,655
Deferred taxation	451,797	(1,864,285)
Total income tax expense/(benefit)	511,050	(1,812,711)

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

	2009 RMB'000	2008 RMB'000
Profit/(loss) before taxation	2,166,509	(8,014,438)
Expected PRC income tax expense/(benefit) at the statutory tax rate of 25%	541,627	(2,003,610)
Tax effect of non-deductible expenses	5,932	29,348
Tax effect of non-taxable income	(472)	(1,276)
Under-provision in prior years	843	16,655
Tax effect of share of profits recognised under the equity method	(60,343)	(373)
Tax effect of unused tax losses not recognised	26,823	49,488
Tax effect of unrecognised deferred tax assets	18,755	97,057
Utilisation of unrecognised deferred tax assets	(17,176)	-
Others	(4,939)	-
Actual income tax expense/(benefit)	511,050	(1,812,711)

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

11. Income tax *(continued)*

(b) Deferred taxation:

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

	The Group					
	Assets		Liabilities		Net balance	
	2009 RMB'000	2008 RMB'000	2009 RMB'000	2008 RMB'000	2009 RMB'000	2008 RMB'000
Current						
Provisions	36,778	203,974	-	-	36,778	203,974
Forward exchange contracts	-	-	-	(24,411)	-	(24,411)
Non-current						
Provision for impairment losses	85,112	98,156	-	-	85,112	98,156
Land use rights	28,842	29,717	-	-	28,842	29,717
Capitalisation of borrowing costs	-	-	(26,322)	(29,196)	(26,322)	(29,196)
Available-for-sale securities	-	-	-	(27,634)	-	(27,634)
Tax losses carry forward	1,401,978	1,701,453	-	-	1,401,978	1,701,453
Others	11,584	10,946	-	(870)	11,584	10,076
Deferred tax assets / (liabilities)	1,564,294	2,044,246	(26,322)	(82,111)	1,537,972	1,962,135

	The Company					
	Assets		Liabilities		Net balance	
	2009 RMB'000	2008 RMB'000	2009 RMB'000	2008 RMB'000	2009 RMB'000	2008 RMB'000
Current						
Provisions	36,417	203,615	-	-	36,417	203,615
Forward exchange contracts	-	-	-	(24,411)	-	(24,411)
Non-current						
Provision for impairment losses	85,112	98,156	-	-	85,112	98,156
Land use rights	28,842	29,717	-	-	28,842	29,717
Capitalisation of borrowing costs	-	-	(26,322)	(29,196)	(26,322)	(29,196)
Available-for-sale securities	-	-	-	(24,712)	-	(24,712)
Tax losses carry forward	1,401,978	1,701,453	-	-	1,401,978	1,701,453
Others	1,514	-	-	-	1,514	-
Deferred tax assets / (liabilities)	1,553,863	2,032,941	(26,322)	(78,319)	1,527,541	1,954,622

11. Income tax *(continued)*

(b) Deferred taxation: *(continued)*

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

	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)
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

	The Group			
	Balance at 1 January 2009 RMB'000	Recognised in income statement RMB'000	Recognised in reserve RMB'000	Balance at 31 December 2009 RMB'000
Current				
Provisions	203,974	(167,196)	-	36,778
Forward exchange contracts	(24,411)	24,411	-	-
Non-current				
Provision for impairment losses	98,156	(13,044)	-	85,112
Land use rights	29,717	(875)	-	28,842
Capitalisation of borrowing costs	(29,196)	2,874	-	(26,322)
Available-for-sale securities	(27,634)	-	27,634	-
Tax losses carry forward	1,701,453	(299,475)	-	1,401,978
Others	10,076	1,508	-	11,584
Net deferred tax assets	1,962,135	(451,797)	27,634	1,537,972

The Group recognises deferred tax assets only to the extent that it is probable that future taxable income will be available against which the assets can be utilised. Based on the level of historical taxable income and projections for future taxable income over the periods which the deferred tax assets will be utilised, management believes that it is probable the Group will realise the benefits of these temporary differences.

11. Income tax *(continued)*

(b) Deferred taxation: *(continued)*

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

	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)
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

	The Company			
	Balance at 1 January 2009 RMB'000	Recognised in income statement RMB'000	Recognised in reserve RMB'000	Balance at 31 December 2009 RMB'000
Current				
Provisions	203,615	(167,198)	-	36,417
Forward exchange contracts	(24,411)	24,411	-	-
Non-current				
Provision for impairment losses	98,156	(13,044)	-	85,112
Land use rights	29,717	(875)	-	28,842
Capitalisation of borrowing costs	(29,196)	2,874	-	(26,322)
Available-for-sale securities	(24,712)	-	24,712	-
Tax losses carry forward	1,701,453	(299,475)	-	1,401,978
Others	-	1,514	-	1,514
Net deferred tax assets	1,954,622	(451,793)	24,712	1,527,541

11. Income tax *(continued)*

(b) Deferred taxation: *(continued)*

(iii) Deferred tax assets not recognised:

As at 31 December 2009, a subsidiary of the Company did not recognise the deferred tax assets in respect of the impairment losses on property, plant and equipment amounting to RMB 432,579,000 (2008: RMB 357,560,000) and the tax value of losses carried forward for PRC income tax purpose amounting to RMB 417,688,000 (2008: RMB 310,396,000), because it was not probable that the related tax benefit will be realised. The deductible tax losses carried forward of RMB14,539,000, RMB29,357,000, RMB68,548,000, RMB197,952,000 and RMB 107,292,000 will expire in 2010, 2011, 2012, 2013 and 2014 respectively.

12. Earnings / (loss) per share

The calculation of basic earnings/(loss) per share is based on the profit attributable to equity shareholders of the Company of RMB 1,590,988,000 (2008: loss of RMB 6,238,444,000) and 7,200,000,000 (2008: 7,200,000,000) shares in issue during the year.

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

13. Dividends

(a) Dividends attributable to the year

	The Group and the Company	
	2009 RMB'000	2008 RMB'000
Final dividend proposed after the balance sheet date of RMB 0.03 per share (2008: RMB nil per share)	216,000	-

Pursuant to a resolution passed at the directors' meeting on 26 March 2010, a final dividend of RMB 0.03 per share totalling RMB 216,000,000 (2008: RMB nil) was proposed for shareholders' approval at the Annual General Meeting. The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

13. Dividends *(continued)*

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

	The Group and the Company	
	2009	2008
	RMB'000	RMB'000
Final dividend in respect of the previous financial year, approved and paid during the year, of RMB nil per share (2008: RMB 0.09 per share)	-	648,000

14. Other comprehensive income / (loss)

(a) Tax effects relating to each component of other comprehensive income

	2009			2008		
	Before-tax amount	Tax benefit	Net-of-tax amount	Before-tax amount	Tax benefit	Net-of-tax amount
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Available-for-sale securities:						
Net movement in fair value reserve	(110,537)	27,634	(82,903)	(352,882)	88,221	(264,661)

(b) Reclassification adjustments relating to components of other comprehensive income

	2009	2008
	RMB'000	RMB'000
Available-for-sale securities:		
Changes in fair value recognised during the year	112,273	(221,110)
Reclassification adjustments for amounts transferred to profit or loss		
- gains on disposal	(222,810)	(131,772)
Income tax on other comprehensive income	27,634	88,221
Net movement in fair value reserve during the year recognised in other comprehensive income	(82,903)	(264,661)

15. Property, plant and equipment

(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	5,666,583	22,944,863	6,623,179	35,234,625
Additions	7,414	66,961	30,150	104,525
Transferred from construction in progress (Note 17)	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
At 1 January 2009	5,665,757	23,125,018	6,708,164	35,498,939
Additions	69,270	61,973	74,446	205,689
Transferred from construction in progress (Note 17)	55,347	3,003,956	204,116	3,263,419
Disposals	(34,518)	(479,524)	(76,359)	(590,401)
At 31 December 2009	5,755,856	25,711,423	6,910,367	38,377,646
Accumulated depreciation and impairment losses:				
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
At 1 January 2009	3,439,818	14,317,665	4,468,557	22,226,040
Charge for the year	175,598	1,154,494	305,426	1,635,518
Impairment loss	51,480	25,269	21,737	98,486
Written back on disposals	(26,751)	(461,994)	(70,858)	(559,603)
At 31 December 2009	3,640,145	15,035,434	4,724,862	23,400,441
Net book value:				
At 31 December 2009	2,115,711	10,675,989	2,185,505	14,977,205
At 31 December 2008	2,225,939	8,807,353	2,239,607	13,272,899

15. 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:				
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 17)	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
At 1 January 2009	4,650,162	21,062,178	6,433,102	32,145,442
Additions	35,506	163,517	46,233	245,256
Transferred from construction in progress (Note 17)	47,707	2,982,062	200,292	3,230,061
Disposals	(20,106)	(472,162)	(71,011)	(563,279)
At 31 December 2009	4,713,269	23,735,595	6,608,616	35,057,480
Accumulated depreciation and impairment losses:				
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
At 1 January 2009	2,993,748	12,476,413	4,236,771	19,706,932
Charge for the year	139,294	1,080,412	287,740	1,507,446
Impairment loss	290	22,099	957	23,346
Written back on disposals	(13,621)	(457,984)	(66,119)	(537,724)
At 31 December 2009	3,119,711	13,120,940	4,459,349	20,700,000
Net book value:				
At 31 December 2009	1,593,558	10,614,655	2,149,267	14,357,480
At 31 December 2008	1,656,414	8,585,765	2,196,331	12,438,510

15. 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 30,573,000 (2008: RMB 31,759,000) 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.

16. Investment property

	The Group RMB'000	The Company RMB'000
Cost:		
At 1 January 2008	554,233	615,334
Disposals	(7,395)	-
At 31 December 2008	546,838	615,334
At 1 January 2009	546,838	615,334
Disposals	(208)	-
At 31 December 2009	546,630	615,334

16. Investment property *(continued)*

	The Group RMB'000	The Company RMB'000
Accumulated depreciation:		
At 1 January 2008	41,440	46,008
Charge for the year	13,440	14,921
Written back on disposals	(732)	-
At 31 December 2008	54,148	60,929
At 1 January 2009	54,148	60,929
Charge for the year	13,261	14,923
Written back on disposals	(26)	-
At 31 December 2009	67,383	75,852
Net book value:		
At 31 December 2009	479,247	539,482
At 31 December 2008	492,690	554,405

Investment property represents certain floors of an office building leased under operating leases.

The fair value of the investment property of the Group and the Company as at 31 December 2009 were estimated by the directors to be approximately RMB 808,751,000 and RMB 912,277,000, respectively, by reference to market values of like properties in the relevant region (2008: the Group and the Company: RMB 729,739,000 and RMB 822,993,000 respectively). The investment property has not been valued by an external independent valuer.

Rental income of RMB 31,233,000 was received by the Group during the year ended 31 December 2009 (2008: RMB 48,869,000).

17. Construction in progress

	The Group		The Company	
	2009 RMB'000	2008 RMB'000	**2009 RMB'000**	2008 RMB'000
At 1 January	**1,854,154**	962,313	**1,815,344**	937,341
Additions	**1,758,130**	1,180,905	**1,753,573**	1,163,155
Transferred to property, plant and equipment (Note 15)	**(3,263,419)**	(289,064)	**(3,230,061)**	(285,152)
At 31 December	**348,865**	1,854,154	**338,856**	1,815,344

18. Investments in subsidiaries (The Company)

	2009 RMB'000	2008 RMB'000
Unlisted shares, at cost	1,537,901	1,925,600
Less: impairment losses	(227,500)	(227,500)
	1,310,401	1,698,100

These amounts represent the investments made by the Company in its consolidated subsidiaries. At 31 December 2009, the following list contains the particulars of the 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 (note)	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

18. 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 Golden Conti Petrochemical Company Limited	RMB 545,776	-	100	Production of petrochemical products

None of the subsidiaries have issued any debt securities.

Note: Effective from 31 August 2009, Shanghai Petrochemical Enterprise Development Company Limited, a wholly owned subsidiary, merged into Shanghai Petrochemical Investment Development Company Limited. This merge has no financial impact on the Group's consolidated financial statements.

19. Interest in associates and jointly controlled entities

	The Group		The Company	
	2009 RMB'000	2008 RMB'000	2009 RMB'000	2008 RMB'000
Interest in associates				
-Unlisted shares, at cost	-	-	2,146,488	2,146,488
-Share of net assets	2,640,631	2,431,973	-	-
Interest in jointly controlled entities				
-Unlisted shares, at cost	-	-	127,992	127,992
-Share of net assets	109,015	114,005	-	-
	2,749,646	2,545,978	2,274,480	2,274,480

19. 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 and assets of the Group at 31 December 2009 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	Profit / (Loss) RMB'000
2009					
100 per cent	**25,558,995**	**(13,671,420)**	**11,887,575**	**17,881,950**	**922,218**
Group's effective interest	**6,162,818**	**(3,522,197)**	**2,640,631**	**3,850,409**	**218,862**
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)

20. Other Investments

	The Group		The Company	
	2009	2008	2009	2008
	RMB'000	RMB'000	RMB'000	RMB'000
Non-current investments				
Available-for-sale equity securities	-	123,918	-	111,327
Other unlisted investments	-	202,939	-	-
	-	326,857	-	111,327
Less:Provision for impairment losses	-	(37,200)	-	-
	-	289,657	-	111,327
Current investments				
Available-for-sale financial assets	700,000	-	700,000	-

Available-for-sale financial assets, with a carrying amount of RMB 700,000,000 at 31 December 2009 (2008: nil), which approximates the cost, represents an investment fund purchased from a PRC state-owned bank. The fund mainly invests in debt and equity securities in the PRC.

The Group's exposure to credit and interest rate risks related to other investments is disclosed in note 36.

21. Inventories

(a) Inventories in the balance sheet comprise:

	The Group		The Company	
	2009	2008	2009	2008
	RMB'000	RMB'000	RMB'000	RMB'000
Raw materials	4,188,941	2,018,250	4,084,148	1,921,427
Work in progress	1,352,767	1,158,924	1,325,669	1,153,240
Finished goods	717,337	590,640	651,400	489,902
Spare parts and consumables	624,789	724,401	597,233	684,685
	6,883,834	4,492,215	6,658,450	4,249,254

At 31 December 2009, the Group and the Company had inventories carried at net realisable value with carrying amount of RMB 1,603,140,000 and RMB 1,527,702,000, respectively (2008: RMB 3,728,692,000 and RMB 3,669,104,000, respectively).

22. Trade and other receivable

	The Group		The Company	
	2009	2008	2009	2008
	RMB'000	RMB'000	RMB'000	RMB'000
Trade debtors	132,779	107,697	57,017	57,558
Less: Impairment losses for bad and doubtful debts	(12,634)	(18,611)	(9,530)	(13,692)
	120,145	89,086	47,487	43,866
Bills receivable	573,283	532,580	496,487	406,286
Amounts due from related parties	576,399	277,777	561,120	280,434
	1,269,827	899,443	1,105,094	730,586
Derivative financial instruments				
- Forward contracts receivable	-	97,644	-	97,644
Deposits, other debtors and prepayments	81,847	386,831	45,020	300,463
	81,847	484,475	45,020	398,107
	1,351,674	1,383,918	1,150,114	1,128,693

Amounts due from related parties mainly represent trade-related balances.

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	
	2009	2008	2009	2008
	RMB'000	RMB'000	RMB'000	RMB'000
Invoice date:				
Within one year	1,269,793	899,309	1,105,060	730,486
Between one and two years	34	134	34	100
	1,269,827	899,443	1,105,094	730,586

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	
	2009	2008	2009	2008
	RMB'000	RMB'000	RMB'000	RMB'000
Cash deposits with a related party	957	23,318	559	22,844
Cash at bank and in hand	124,960	604,367	100,517	271,942
Cash and cash equivalents in the balance sheet	125,917	627,685	101,076	294,786

24. Loans and borrowings

Loans and borrowings are repayable as follows:

	The Group		The Company	
	2009	2008	2009	2008
	RMB'000	RMB'000	RMB'000	RMB'000
Long term bank loans				
- Between two and five years	200,000	304,261	350,000	300,000
- Between one and two years	104,258	24,760	100,000	-
	304,258	329,021	450,000	300,000
Long term loans from a related party				
- Between one and two years	-	100,000	-	-
	-	100,000	-	-
	304,258	429,021	450,000	300,000
Loans due within one year				
- Current portion of long term bank loans	74,275	514,521	-	450,000
- Current portion of long term loans from related parties	-	20,000	-	-
- Corporate bonds (note a)	1,000,000	-	1,000,000	-
- Short term bank loans	6,460,398	8,428,204	6,384,998	8,353,204
- Short term loans from a related party	240,000	410,000	40,000	330,000
	7,774,673	9,372,725	7,424,998	9,133,204
	8,078,931	9,801,746	7,874,998	9,433,204

Note a:

The Company issued RMB 1 billion 330-day unsecured corporate bonds to corporate investors in the PRC inter-bank debenture market on 3 April 2009. The bonds were issued at 100% of face value, with an effective yield of 2.05% per annum, and mature on 3 March 2010.

At 31 December 2009, no loans and borrowings were secured by property, plant and equipment (2008: 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	
	2009	2008	2009	2008
	'000	'000	'000	'000
United States Dollars	USD 886,007	USD 600,314	USD 884,567	USD 598,874

25. Trade accounts payable

	The Group		The Company	
	2009	2008	2009	2008
	RMB'000	RMB'000	RMB'000	RMB'000
Trade creditors	1,521,319	1,272,811	1,140,008	953,260
Bills payable	112,271	263,443	26,048	263,364
Amounts due to related parties	3,487,645	1,752,647	4,430,035	2,216,317
	5,121,235	3,288,901	5,596,091	3,432,941

The maturity analysis of trade accounts payable is as follows:

	The Group		The Company	
	2009	2008	2009	2008
	RMB'000	RMB'000	RMB'000	RMB'000
Due within 1 month or on demand	4,891,657	3,024,511	5,378,762	3,168,576
Due after 1 month and within 3 months	229,578	264,390	217,329	264,365
	5,121,235	3,288,901	5,596,091	3,432,941

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	
	2009	2008
	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 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 loans and borrowings by the total equity attributable to equity shareholders of the Company, 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 2009, the debt-to-equity ratio and the liability-to-asset ratio of the Group were 53.84% (2008: 72.62%) and 48.85% (2008: 50.02%), respectively.

The schedule of the contractual maturities of loans and commitments are disclosed in notes 33 and 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 external imposed capital requirements.

28. Reserves

Movements on reserves comprise:

	The Group		The Company	
	2009	2008	2009	2008
	RMB'000	RMB'000	RMB'000	RMB'000
Share premium				
At 1 January and 31December (note (a))	2,420,841	2,420,841	2,420,841	2,420,841
Statutory surplus reserve				
At 1 January	3,485,894	3,485,894	3,485,894	3,485,894
Appropriation (note (b))	35,358	-	35,358	-
At 31 December (note (b))	3,521,252	3,485,894	3,521,252	3,485,894
Capital reserve				
At 1 January and 31 December (note (c))	4,180	4,180	4,180	4,180
Discretionary surplus reserve				
At 1 January and 31 December (note (d))	1,280,514	1,280,514	1,280,514	1,280,514
Excess over share capital				
At 1 January and 31 December (note (e))	(148,604)	(148,604)	(148,604)	(148,604)
Fair value reserve				
At 1 January	82,903	347,564	74,134	315,345
Other comprehensive income for the year	(82,903)	(264,661)	(74,134)	(241,211)
At 31 December (note (f))	-	82,903	-	74,134
Retained profits/ (accumulated losses)				
At 1 January	(828,795)	6,057,649	(782,636)	5,245,990
Profit/ (loss) for the year attributable to the equity shareholders of the Company	1,590,988	(6,238,444)	1,205,350	(5,380,626)
Dividend approved in respect of previous year	-	(648,000)	-	(648,000)
Appropriation	(35,358)	-	(35,358)	-
At 31 December (note (g))	726,835	(828,795)	387,356	(782,636)
	7,805,018	6,296,933	7,465,539	6,334,323

28. Reserves *(continued)*

Notes:

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

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

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

(c) 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.

(d) 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.

(e) 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 is reversed to shareholders' equity. Under China Accounting Standards for Business Enterprises, land use rights are carried at revalued amounts.

(f) The fair value reserve comprises the unrealised gain or loss of available-for-sale securities, net of deferred tax, held at the balance sheet date.

(g) 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. Final dividend of RMB 216,000,000 (2008: nil) in respect of the financial year 2009 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 2009 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 2009, the value of crude oil purchased in accordance with Sinopec Corp's allocation is as follows:

	2009 RMB'000	2008 RMB'000
Purchases of crude oil	20,332,851	37,790,324

(b) Other transactions between the Group and China Petrochemical Corporation, the ultimate parent company and its fellow subsidiaries, Sinopec Corp and its fellow subsidiaries, associates and jointly controlled entities during the year ended 31 December 2009 were as follows:

	2009 RMB'000	2008 RMB'000
Sales of goods and service fee income	27,165,623	29,908,286
Purchases other than crude oil	4,463,169	5,853,079
Insurance premiums paid	88,408	93,587
Interest received and receivable	532	649
Loans borrowed	2,353,000	543,000
Loans repayment	2,643,000	1,488,300
Interest paid and payable	26,423	26,682
Construction and installation fees	165,204	114,878
Sales commissions	116,441	146,137
Financial guarantees issued (note 32(a))	-	25,747
Rental income	20,213	19,009

(c) Cash deposits with a related party - a subsidiary of the ultimate parent company

	The Group		The Company	
	2009 RMB'000	2008 RMB'000	2009 RMB'000	2008 RMB'000
Cash deposits, maturing within 3 months	957	23,318	559	22,844

29. Related party transactions *(continued)*

(d) Loans with a related party - a subsidiary of the ultimate parent company

	The Group	
	2009	2008
	RMB'000	RMB'000
Short-term loans	240,000	410,000
Long-term loans	-	120,000
	240,000	530,000

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

	2009	2008
	RMB'000	RMB'000
Short-term employee benefits	6,019	5,008
Post-employment benefits	102	95
	6,121	5,103

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:

	2009	2008
	RMB'000	RMB'000
Municipal retirement scheme costs	192,791	199,135
Supplementary retirement scheme costs(note 30)	49,513	54,862

At 31 December 2009 and 2008, there was no material outstanding contribution to the above defined contributions retirement plans.

29. Related party transactions *(continued)*

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

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

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

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

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

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

(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 2009, the aggregate amount of crude oil purchased by the Group from the above state-controlled energy and chemical companies are as follows:

	2009 RMB'000	2008 RMB'000
Purchase of crude oil	7,643,780	11,460,909

The amounts due to the above state-controlled energy and chemical companies are RMB nil as at 31 December 2009 (31 December 2008: 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 expense to these state-controlled banks in the PRC are as follows:

	2009 RMB'000	2008 RMB'000
Interest income	18,873	59,249
Interest expense	272,248	531,289

During the year ended 31 December 2009, the Group did not enter into any forward exchange contracts with state-controlled banks (2008: USD 460,224,000).

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

	2009 RMB'000	2008 RMB'000
Cash and cash equivalents at state-controlled banks in the PRC	124,960	604,367
Short-term loans and current portion of long-term loans	6,460,398	8,893,204
Long-term loans excluding current portion of long-term loans	300,000	300,000
Total loans from state-controlled banks in the PRC	6,760,398	9,193,204

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 2009 (2008: 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 Group has set up a supplementary defined contribution retirement plan for the benefit of employees. Employees who have served the Group for five years or more may participate in this plan. The Group 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 Group in an independent fund administered by a committee consisting of representatives from the employees and the Group. For the year ended 31 December 2009, the Group's contribution to this plan amounted to RMB 49,513,000 (2008: RMB 54,862,000).

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	
	2009	2008
	RMB'000	RMB'000
Property, plant and equipment		
Contracted but not provided for	35,745	90,987
Authorised by the Board but not contracted for	7,754,320	2,450,250
	7,790,065	2,541,237

32. Contingent liabilities

(a) Financial guarantees issued

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

	The Group		The Company	
	2009	2008	2009	2008
	RMB'000	RMB'000	RMB'000	RMB'000
Guarantees issued to banks and a related party in favour of:				
- subsidiaries	-	-	200,000	250,000
- associates	-	14,500	-	14,500
- joint ventures	-	11,247	-	-
	-	25,747	200,000	264,500

As at 31 December 2009, the Company has issued guarantees to a related party in relation to loans drawn down by a subsidiary. The guarantees mature on 25 May 2010.

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 2009 and 2008, 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 the years prior to 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. There is no further development of this matter during the year ended 31 December 2009. No provision has been made in the financial statements for this uncertainty for tax years prior to 2007 because management believes it cannot 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 2009	Interest type	The Group 2009 RMB'000	The Group 2008 RMB'000	The Company 2009 RMB'000	The Company 2008 RMB'000
Arranged by the Company:						
Renminbi denominated:						
Due in 2009	-	-	-	450,000	-	450,000
Due in 2011	5.10%	Fixed	100,000	100,000	100,000	100,000
Due in 2012	2.25%	Fixed	-	-	150,000	-
Due in 2013	5.18%	Fixed	200,000	200,000	200,000	200,000
Arranged by subsidiaries:						
U.S. Dollars denominated:						
Payable annually through 2011	Interest free	-	9,833	9,842	-	-
Renminbi denominated:						
Payable due in 2009	-	-	-	35,000	-	-
Payable due in 2010	-	-	-	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			378,533	963,542	450,000	750,000
Less: Amounts due within one year (Note 24)			(74,275)	(534,521)	-	(450,000)
Amounts due after one year (Note 24)			304,258	429,021	450,000	300,000

The weighted average short term interest rates for the Group and the Company were 3.32% and 3.16% respectively at 31 December 2009 (2008: the Group and the Company 5.80% and 5.66% 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.

In a manner consistent with the way in which information is reported internally to the Group's chief operating decision maker for the purposes of resource allocation and performance assessment, the Group has identified the following four reportable segments. No operating segments have been aggregated to form the following reportable segments.

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.

34. Segment reporting *(continued)*

(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.

(a) Segment results, assets and liabilities

In accordance with IFRS 8, segment information disclosed in the annual financial statements has been prepared in a manner consistent with the information used by the Group's chief operating decision maker for the purposes of assessing segment performance and allocating resources of the segments. In this regard, the Group's chief operating decision maker monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

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 year.

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

Turnover and other income

	2009 RMB'000	2008 RMB'000
Manufactured Products		
Synthetic fibres		
- external sales	2,860,851	3,670,362
- intersegment sales	57	73
Total	2,860,908	3,670,435
Resins and plastics		
- external sales	12,407,738	14,880,659
- intersegment sales	44,245	53,065
Total	12,451,983	14,933,724

34. Segment reporting *(continued)*

(b) **Reportable information on the Group's operating segments is as follows:** *(continued)*

Turnover and other income *(continued)*

	2009 RMB'000	2008 RMB'000
Intermediate petrochemicals		
- external sales (Note a)	8,511,347	10,296,256
- intersegment sales	12,165,836	17,801,810
Total	20,677,183	28,098,066
Petroleum products		
- external sales (Note a)	22,936,392	28,372,037
- intersegment sales	1,762,391	2,153,355
- other income	-	2,312,227
Total	24,698,783	32,837,619
All others		
-external sales (Note a)	4,941,601	3,007,545
-intersegment sales	2,589,206	2,720,112
Total	7,530,807	5,727,657
Elimination of intersegment sales	(16,561,735)	(22,728,415)
Turnover and other income	51,657,929	62,539,086

34. Segment reporting *(continued)*

Profit / (loss) profit before taxation

	2009 RMB'000	2008 RMB'000
Profit / (loss) from operations		
Synthetic fibres	11,423	(1,651,458)
Resins and plastics	844,325	(2,176,731)
Intermediate petrochemicals	190,761	(42,654)
Petroleum products	804,871	(3,945,873)
All others	172,096	(548)
Consolidated profit / (loss) from operations	2,023,476	(7,817,264)
Net financing costs	(321,149)	(330,438)
Investment income	222,810	131,772
Share of profits of associates and jointly controlled entities	241,372	1,492
Profit / (loss) before taxation	2,166,509	(8,014,438)

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

	2009 RMB'000	2008 RMB'000
Sales to Sinopec Corp Group companies		
Intermediate petrochemicals	2,058,491	3,168,697
Petroleum products	20,299,415	24,698,143
All others	3,233,839	-
Total	25,591,745	27,866,840

34. Segment reporting *(continued)*

Assets	2009 RMB'000	2008 RMB'000
Segment assets		
Synthetic fibres	1,497,295	1,714,136
Resins and plastics	1,628,238	1,826,536
Intermediate petrochemicals	6,973,974	6,152,669
Petroleum products	12,034,731	9,391,724
All others	2,081,466	2,350,640
Total segment assets	24,215,704	21,435,705
Interest in associates and jointly controlled entities	2,749,646	2,545,978
Unallocated	2,943,136	3,551,344
Total assets	29,908,486	27,533,027

Liabilities	2009 RMB'000	2008 RMB'000
Segment liabilities		
Synthetic fibres	238,911	244,937
Resins and plastics	1,035,855	993,272
Intermediate petrochemicals	710,695	687,040
Petroleum products	4,123,220	1,842,894
All others	412,273	200,173
Total segment liabilities	6,520,954	3,968,316
Loans and borrowings -current	7,774,673	9,372,725
Loans and borrowings -non-current	304,258	429,021
Unallocated	9,298	1,679
Total liabilities	14,609,183	13,771,741

34. Segment reporting *(continued)*

Depreciation and amortisation

	2009 RMB'000	2008 RMB'000
Synthetic fibres	223,924	223,146
Resins and plastics	350,669	350,563
Intermediate petrochemicals	571,369	560,086
Petroleum products	341,126	339,068
All others	164,541	162,374
Segment depreciation and amortisation	1,651,629	1,635,237
Unallocated	13,261	13,440
Depreciation and amortisation	1,664,890	1,648,677

Impairment losses on long lived assets

	2009 RMB'000	2008 RMB'000
Synthetic fibres	75,140	440,351
Resins and plastics	-	23,010
All others	23,346	-
Impairment losses on long lived assets	98,486	463,361

Total capital expenditures for segment long-lived assets

	2009 RMB'000	2008 RMB'000
Synthetic fibres	98,668	73,653
Resins and plastics	16,913	6,484
Intermediate petrochemicals	1,324,081	1,175,451
Petroleum products	397,482	58,374
All others	283,148	197,110
Capital expenditures for segment long-lived assets	2,120,292	1,511,072

35. Accounting judgements and estimates

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 judgements and estimates *(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.

Recognition of deferred tax assets

Deferred tax assets are recognised in respect of temporary deductible differences. Since deferred tax assets are only recognised to the extent that it is probable that future taxable profit will be available against the assets which can be realised or utilised, management's judgement is required to assess the probability of future taxable profits. Management's assessment is periodically reviewed and deferred tax assets are adjusted according to the probability of future taxable profits.

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.

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 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 other investments, 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.

36. Financial Instruments *(continued)*

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. 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 a standby credit facilities to reduce the liquidity risk.

At 31 December 2009, the Group's current liabilities exceeded its current assets by RMB 5,243,500,000 (2008: RMB 6,831,369,000). In 2010, 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 2009, the Group has standby credit facilities with several PRC financial institutions which provide the Group to borrow up to RMB 9,100,000,000 (2008: RMB 9,600,000,000) on an unsecured basis. At 31 December 2009, the Group's outstanding borrowings under these facilities were RMB 4,458,044,000 (2008: RMB 6,933,385,000) 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 2010. 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 exchange rates prevailing 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

	2009				
	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)	7,774,673	(7,884,195)	(7,884,195)	-	-
Loans and borrowings (non-current)	304,258	(355,936)	(15,471)	(119,729)	(220,736)
Trade creditors	1,521,319	(1,521,319)	(1,521,319)	-	-
Bills payable	112,271	(112,271)	(112,271)	-	-
Other creditors	1,399,719	(1,399,719)	(1,399,719)	-	-
Amounts due to related parties	3,487,645	(3,487,645)	(3,487,645)	-	-
	14,599,885	(14,761,085)	(14,420,620)	(119,729)	(220,736)

	2008				
	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)	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)

36. Financial Instruments *(continued)*

Liquidity risk *(continued)*

The Company

	2009				
	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)	7,424,998	(7,520,573)	(7,520,573)	-	-
Loans and borrowings (non-current)	450,000	(511,803)	(18,846)	(118,846)	(374,111)
Trade creditors	1,140,008	(1,140,008)	(1,140,008)	-	-
Bills payable	26,048	(26,048)	(26,048)	-	-
Other creditors	1,361,906	(1,361,906)	(1,361,906)	-	-
Amounts due to related parties	4,430,035	(4,430,035)	(4,430,035)	-	-
	14,832,995	(14,990,373)	(14,497,416)	(118,846)	(374,111)

	2008				
	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)	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	2,216,317	(2,216,317)	(2,216,317)	-	-
	13,466,841	(13,897,068)	(13,544,741)	(15,633)	(336,694)

36. Financial Instruments *(continued)*

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on 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 during the year ended 31 December 2008. All of these forward exchange contracts have maturities of less than one year as at 31 December 2008. All of these contracts matured and settled in 2009.

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 consolidated income statement. 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 2009 was RMB nil (31 December 2008: RMB 97,644,000).

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	
	2009	2008	**2009**	2008
	USD'000	USD'000	**USD'000**	USD'000
Gross exposure arising from loans and borrowings	**(886,007)**	(600,314)	**(884,567)**	(598,874)
Notional amounts of forward exchange contracts	**-**	460,224	**-**	460,224
	(886,007)	(140,090)	**(884,567)**	(138,650)

A 5 percent strengthening of Renminbi against USD at 31 December 2009 would have increased net profit for the year and retained earnings of the Group by approximately RMB 226,869,000 (2008: RMB 35,905, 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 2008.

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 loans. Loans 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 2009, 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 43,444,000 (2008: RMB 42,341,000). 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 2008.

Fair value

(i) Financial instruments carried at fair value

The following table presents the carrying value of financial instruments measured at fair value at the balance sheet date across the three levels of the fair value hierarchy defined in IFRS 7, Financial Instruments: Disclosures, with the fair value of each financial instrument categorised in its entirety based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

- Level 1 (highest level): fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments

- Level 2: fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data

- Level 3 (lowest level): fair values measured using valuation techniques in which any significant input is not based on observable market data

2009	**The Group and the Company**			
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets				
Available-for-sale financial assets	-	700,000	-	700,000
	-	700,000	-	700,000

During the year there were no significant transfers between instruments in Level 1 and Level 2.

36. Financial Instruments *(continued)*

Fair value *(continued)*

(ii) Fair values of financial instruments carried at other than 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 loans with substantially the same characteristics and maturities ranging 5.31% to 5.94% (2008: 5.31% to 5.94%). The following table presents the carrying amounts and fair values of the Group's long term loans at 31 December 2009 and 2008.

	2009		2008	
	Carrying amount RMB'000	Fair value RMB'000	Carrying amount RMB'000	Fair value RMB'000
Liabilities				
Long term loans	378,533	375,233	963,542	958,461

The fair value of available-for-sale equity securities, which amounted to RMB nil as at 31 December 2009 (2008: RMB 123,918,000) was based on quoted market price on a PRC stock exchange. The fair value of forward exchange contracts which amounted to RMB nil as at 31 December 2009 (2008: RMB 97,644,000) 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 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 2009

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 2009 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 2009 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.

39. Comparative figures

As a result of the application of IAS 1 (revised 2007), Presentation of financial statements, certain comparative figures have been adjusted to conform to current year's presentation and to provide comparative amounts in respect of items disclosed for the first time in 2009. Further details of these developments are disclosed in note 2.

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 2009, 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 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.

Auditors' 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 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' 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 auditors consider 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 entity'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 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 2009, 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

26 March 2010

Consolidated Balance Sheet

As at 31 December 2009
(Prepared under China Accounting Standards for Business Enterprises)

Expressed in thousands of renminbi yuan

Assets	Note	2009	2008
Current assets:			
Cash at bank and on hand	5(1)	125,917	627,685
Financial assets held for trading	5(2)	-	97,644
Bills receivable	5(3)	603,701	566,356
Accounts receivable	5(4)	534,948	226,293
Prepayments	5(5)	127,568	66,772
Dividends receivable	5(6)	-	74,000
Other receivables	5(7)	85,457	111,578
Inventories	5(8)	6,883,834	4,492,215
Other current assets	5(9)	700,000	248,808
Total current assets		9,061,425	6,511,351
Non-current assets:			
Available-for-sale financial assets	5(10)	-	123,918
Long-term receivables	5(11)	100,000	-
Long-term equity investments	5(12)	2,969,646	2,941,717
Investment property	5(13)	479,247	492,690
Fixed assets	5(14(1))	15,205,731	13,528,185
Construction in progress	5(15)	363,646	1,854,154
Intangible assets	5(16(1))	557,172	577,479
Long-term deferred expenses	5(17)	212,325	145,553
Deferred tax assets	5(18)	1,509,130	1,932,418
Total non-current assets		21,396,897	21,596,114
Total assets		30,458,322	28,107,465

The notes on pages 178 to 282 form part of these financial statements.

As at 31 December 2009
(Prepared under China Accounting Standards for Business Enterprises)

Expressed in thousands of renminbi yuan

Liabilities and shareholders' equity	Note	2009	2008
Current liabilities:			
Short-term loans	5(20)	6,700,398	8,838,204
Bills payable	5(21)	722,271	265,443
Accounts payable	5(22)	3,664,996	2,513,076
Advances from customers	5(23)	529,282	443,471
Employee benefits payable	5(24)	27,674	23,240
Taxes payable	5(25)	635,930	45,448
Interest payable	5(26)	20,155	18,333
Other payables	5(27)	903,944	660,984
Short-term debentures payable	5(28)	1,000,000	-
Non-current liabilities due within one year	5(29)	74,275	534,521
Total current liabilities		14,278,925	13,342,720
Non-current liabilities			
Long-term loans	5(30)	304,258	429,021
Other non-current liabilities	5(31)	234,781	230,000
Total non-current liabilities		539,039	659,021
Total liabilities		14,817,964	14,001,741
Shareholders' equity:			
Share capital	5(32)	7,200,000	7,200,000
Capital reserve	5(33)	2,882,278	2,939,181
Surplus reserve	5(34)	4,801,766	4,766,408
Retained earnings/(accumulated losses)	5(35)	462,029	-1,064,218
Total equity attributable to equity shareholders of the Company		15,346,073	13,841,371
Minority interests		294,285	264,353
Total equity		15,640,358	14,105,724
Total liabilities and shareholders' equity		30,458,322	28,107,465

These financial statements have been approved by the Board of Directors of the Company on 26 March 2010.

Rong Guangdao
Chairman and President

Du Chongjun
Vice Chairman and Vice President

Ye Guohua
Chief Financial Officer

The notes on pages 178 to 282 form part of these financial statements.

Balance Sheet

As at 31 December 2009
(Prepared under China Accounting Standards for Business Enterprises)

Expressed in thousands of renminbi yuan

Assets	Note	2009	2008
Current assets:			
Cash at bank and on hand	11(1)	101,076	294,786
Financial assets held for trading	5(2)	-	97,644
Bills receivable	11(2)	542,739	436,056
Accounts receivable	11(3)	432,686	197,522
Prepayments		125,419	65,586
Dividends receivable	5(6)	-	74,000
Other receivables	11(4)	49,270	12,465
Inventories	11(5)	6,658,450	4,249,254
Other current assets	11(6)	700,000	245,420
Total current assets		8,609,640	5,672,733
Non-current assets:			
Available-for-sale financial assets	11(7)	-	111,327
Long-term equity investments	11(8)	4,035,372	4,231,982
Investment property	11(9)	539,482	554,405
Fixed assets	11(10)	14,541,119	12,648,909
Construction in progress	11(11)	353,637	1,815,344
Intangible assets	11(12)	445,450	459,181
Long-term deferred expenses	11(13)	210,575	141,331
Deferred tax assets	11(14)	1,508,769	1,935,851
Total non-current assets		21,634,404	21,898,330
Total assets		30,244,044	27,571,063

The notes on pages 178 to 282 form part of these financial statements.

As at 31 December 2009
(Prepared under China Accounting Standards for Business Enterprises)

Expressed in thousands of renminbi yuan

Liabilities and shareholders' equity	Note	2009	2008
Current liabilities:			
Short-term loans	11(16)	6,424,998	8,683,204
Bills payable	11(17)	878,105	265,364
Accounts payable		3,350,364	2,399,527
Advances from customers		513,071	369,723
Employee benefits payable		24,118	20,443
Taxes payable	11(18)	627,964	39,062
Interest payable		20,155	18,333
Other payables		1,518,220	921,185
Short-term debentures payable	5(28)	1,000,000	-
Non-current liabilities due within one year	11(19)	-	450,000
Total current liabilities		14,356,995	13,166,841
Non-current liabilities:			
Long-term loans	11(20)	450,000	300,000
Other non-current liabilities	5(31)	234,781	230,000
Total non-current liabilities		684,781	530,000
Total liabilities		15,041,776	13,696,841
Shareholders' equity:			
Share capital	5(32)	7,200,000	7,200,000
Capital reserve	11(21)	2,882,278	2,930,412
Surplus reserve	5(34)	4,801,766	4,766,408
Retained earnings/(accumulated losses)		318,224	-1,022,598
Total equity		15,202,268	13,874,222
Total liabilities and shareholders' equity		30,244,044	27,571,063

These financial statements have been approved by the Board of Directors of the Company on 26 March 2010.

Rong Guangdao
Chairman and President

Du Chongjun
Vice Chairman and Vice President

Ye Guohua
Chief Financial Officer

The notes on pages 178 to 282 form part of these financial statements.

Consolidated Income Statement

For the year ended 31 December 2009
(Prepared under China Accounting Standards for Business Enterprises)

Expressed in thousands of renminbi yuan

	Note	2009	2008
Operating income	5(36)	51,722,727	60,310,570
Less:Operating costs	5(36)	42,665,330	65,753,651
Business taxes and surcharges	5(37)	4,312,665	897,088
Selling and distribution expenses		410,432	467,987
General and administrative expenses		2,326,818	2,178,866
Financial expenses	5(38)	310,726	428,082
Impairment loss	5(39)	154,836	1,180,198
Add: (Losses) /gains from changes in fair value	5(40)	-10,423	97,644
Investment income	5(41)	526,397	132,985
Including: Income/(losses) from investment in associates and jointly controlled enterprises		231,372	-8,508
Operating profit/(loss)		2,057,894	-10,364,673
Add: Non-operating income	5(42)	150,156	2,373,986
Less: Non-operating expenses	5(43)	71,799	31,594
Including: Losses from disposal of non-current assets		8,488	4,452
Profit /(loss) before income tax		2,136,251	-8,022,281
Less: Income tax	5(44)	510,175	-1,813,586
Net profit/(loss) for the year		1,626,076	-6,208,695
Attributable to: Equity shareholders of the Company		1,561,605	-6,245,412
Minority shareholders		64,471	36,717
Earnings per share:			
Basic and diluted earnings /(loss) per share	5(45)	RMB0.217	RMB-0.867
Other comprehensive loss for the year	5(46)	-82,903	-264,661
Total comprehensive income/(loss) for the year		1,543,173	-6,473,356
Attributable to equity shareholders of the Company		1,478,702	-6,510,073
Attributable to minority shareholders		64,471	36,717

These financial statements have been approved by the Board of Directors of the Company on 26 March 2010.

Rong Guangdao
Chairman and President

Du Chongjun
Vice Chairman and Vice President

Ye Guohua
Chief Financial Officer

The notes on pages 178 to 282 form part of these financial statements.

Income Statement

For the year ended 31 December 2009
(Prepared under China Accounting Standards for Business Enterprises)

Expressed in thousands of renminbi yuan

	Note	2009	2008
Operating income	11(22)	44,102,664	55,758,461
Less: Operating costs	11(22)	35,454,622	61,443,455
Business taxes and surcharges	11(23)	4,306,089	886,716
Selling and distribution expenses		333,805	380,700
General and administrative expenses		2,114,608	1,885,565
Financial expenses	11(24)	288,508	382,963
Impairment loss	11(25)	170,780	1,175,288
Add: (Losses) /gains from changes in fair value	5(40)	-10,423	97,644
Investment income	11(26)	327,609	97,223
Including: Income/(losses) from investment in associates and jointly controlled enterprises		224,328	-30,759
Operating profit/(loss)		1,751,438	-10,201,359
Add: Non-operating income	11(27)	147,923	2,372,127
Less: Non-operating expenses	11(28)	70,744	27,255
Including: Losses from disposal of non-current assets		7,833	3,871
Profit /(loss) before income tax		1,828,617	-7,856,487
Less: Income tax	11(29)	452,437	-1,851,809
Net profit/(loss) for the year		1,376,180	-6,004,678
Other comprehensive loss for the year	11(30)	-74,134	-241,211
Total comprehensive income/(loss) for the year		1,302,046	-6,245,889

These financial statements have been approved by the Board of Directors of the Company on 26 March 2010.

Rong Guangdao
Chairman and President

Du Chongjun
Vice Chairman and Vice President

Ye Guohua
Chief Financial Officer

The notes on pages 178 to 282 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2009
(Prepared under China Accounting Standards for Business Enterprises)

Expressed in thousands of renminbi yuan

	Note	2009	2008
Cash flows from operating activities:			
Cash received from sale of goods and rendering of services		60,581,191	72,852,016
Refund of taxes		8,435	83,917
Other cash received relating to operating activities	5(47(1))	23,680	2,437,118
Sub-total of cash inflows		60,613,306	75,373,051
Cash paid for goods and services		-50,698,203	-75,037,127
Cash paid to and for employees		-1,827,448	-1,949,669
Cash paid for all types of taxes		-4,080,188	-1,470,710
Other cash paid relating to operating activities	5(47(2))	-303,925	-323,430
Sub-total of cash outflows		-56,909,764	-78,780,936
Net cash inflow/(outflow) from operating activities	5(48(1)1)	3,703,542	-3,407,885
Cash flows from investing activities:			
Cash received from disposal of investments		506,144	153,997
Cash received from investment income		116,713	546,333
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		139,666	51,829
Other cash received relating to investing activities	5(47(3))	19,405	59,472
Sub-total of cash inflows		781,928	811,631
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets		-2,120,292	-1,511,072
Cash paid for acquisition of investments		-837,008	-8,039
Sub-total of cash outflows		-2,957,300	-1,519,111
Net cash outflow from investing activities		-2,175,372	-707,480

The notes on pages 178 to 282 form part of these financial statements.

For the year ended 31 December 2009
(Prepared under China Accounting Standards for Business Enterprises)

Expressed in thousands of renminbi yuan

	Note	2009	2008
Cash flows from financing activities:			
Cash received from issuance of corporate bonds		1,000,000	-
Cash received from borrowings		29,211,434	32,528,758
Sub-total of cash inflows		30,211,434	32,528,758
Cash repayments of borrowings		-31,849,620	-27,377,610
Cash paid for dividends, profits distribution and interest		-391,750	-1,300,511
Sub-total of cash outflows		-32,241,370	-28,678,121
Net cash (outflow)/inflow from financing activities		-2,029,936	3,850,637
Effect of foreign exchange rate changes on cash and cash equivalents		-2	-752
Net decrease in cash and cash equivalents	5(48(1)2)	-501,768	-265,480
Add: cash and cash equivalents at the beginning of the year		627,685	893,165
Cash and cash equivalents at the end of the year		125,917	627,685

These financial statements have been approved by the Board of Directors of the Company on 26 March 2010.

Rong Guangdao
Chairman and President

Du Chongjun
Vice Chairman and Vice President

Ye Guohua
Chief Financial Officer

The notes on pages 178 to 282 form part of these financial statements.

Cash Flow Statement

For the year ended 31 December 2009
(Prepared under China Accounting Standards for Business Enterprises)

Expressed in thousands of renminbi yuan

	Note	2009	2008
Cash flows from operating activities:			
Cash received from sale of goods and rendering of services		51,363,653	66,622,192
Refund of taxes		-	83,917
Other cash received relating to operating activities		21,591	2,435,468
Sub-total of cash inflows		51,385,244	69,141,577
Cash paid for goods and services		-41,785,107	-69,830,027
Cash paid to and for employees		-1,660,564	-1,562,006
Cash paid for all types of taxes		-3,968,696	-1,372,816
Other cash paid relating to operating activities		-278,725	-296,705
Sub-total of cash outflows		-47,693,092	-73,061,554
Net cash inflow/(outflow) from operating activities	11(31(1)1)	3,692,152	-3,919,977
Cash flows from investing activities:			
Cash received from disposal of investments		375,103	120,001
Cash received from investment income		118,690	531,042
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		134,752	29,351
Other cash received relating to investing activities		14,809	51,088
Sub-total of cash inflows		643,354	731,482
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets		-2,019,017	-1,491,892
Cash paid for acquisition of investments		-700,000	-
Sub-total of cash outflows		-2,719,017	-1,491,892
Net cash outflow from investing activities		-2,075,663	-760,410

The notes on pages 178 to 282 form part of these financial statements.

For the year ended 31 December 2009
(Prepared under China Accounting Standards for Business Enterprises)

Expressed in thousands of renminbi yuan

	Note	2009	2008
Cash flows from financing activities:			
Cash received from issuance of corporate bonds		1,000,000	-
Cash received from borrowings		29,062,964	32,375,758
Sub-total of cash inflows		30,062,964	32,375,758
Cash repayments of borrowings		-31,535,502	-26,865,477
Cash paid for dividends, profits distribution and interest		-337,659	-1,169,630
Sub-total of cash outflows		-31,873,161	-28,035,107
Net cash (outflow)/inflow from financing activities		-1,810,197	4,340,651
Effect of foreign exchange rate changes on cash and cash equivalents		-2	-11
Net decrease in cash and cash equivalents	11(31(1)2)	-193,710	-339,747
Add: cash and cash equivalents at the beginning of the year		294,786	634,533
Cash and cash equivalents at the end of the year		101,076	294,786

These financial statements have been approved by the Board of Directors of the Company on 26 March 2010.

Rong Guangdao
Chairman and President

Du Chongjun
Vice Chairman and Vice President

Ye Guohua
Chief Financial Officer

The notes on pages 178 to 282 form part of these financial statements.

For the year ended 31 December 2009
(Prepared under China Accounting Standards for Business Enterprises)

Expressed in thousands of renminbi yuan

	Note	2009						2008					
		Attributable to equity shareholders of the Company				Minority interests	Total	Attributable to equity shareholders of the Company				Minority interests	Total
		Share capital	Capital reserve	Surplus reserve	Retained earnings			Share capital	Capital reserve	Surplus reserve	Retained earnings		
Balance at 1 January		7,200,000	2,939,181	4,766,408	-1,064,218	264,353	14,105,724	7,200,000	3,203,842	4,766,408	5,829,194	303,991	21,303,435
Changes in equity for the year													
1. Net profit/(loss) for the year		-	-	-	1,561,605	64,471	1,626,076	-	-	-	-6,245,412	36,717	-6,208,695
2. Other comprehensive loss for the year	5(46)	-	-82,903	-	-	-	-82,903	-	-264,661	-	-	-	-264,661
Sub-total of 1&2		-	-82,903	-	1,561,605	64,471	1,543,173	-	-264,661	-	-6,245,412	36,717	-6,473,356
3. Shareholders' contributions and decrease of capital													
-Government grants	5(33)	-	26,000	-	-	-	26,000	-	-	-	-	-	-
4. Appropriation of profits													
-Appropriation to surplus reserve	5(34)	-	-	35,358	-35,358	-	-	-	-	-	-	-	-
-Distributions to shareholders	5(35)	-	-	-	-	-34,539	-34,539	-	-	-	-648,000	-76,355	-724,355
Balance at 31 December		7,200,000	2,882,278	4,801,766	462,029	294,285	15,640,358	7,200,000	2,939,181	4,766,408	-1,064,218	264,353	14,105,724

These financial statements have been approved by the Board of Directors of the Company on 26 March 2010.

Rong Guangdao
Chairman and President

Du Chongjun
Vice Chairman and Vice President

Ye Guohua
Chief Financial Officer

The notes on pages 178 to 282 form part of these financial statements.

Expressed in thousands of renminbi yuan

	Note	2009					2008				
		Share capital	Capital reserve	Surplus reserve	Retained earnings	Total	Share capital	Capital reserve	Surplus reserve	Retained earnings	Total
Balance at 1 January		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
Changes in equity for the year											
1. Net profit/(loss) for the year		-	-	-	1,376,180	1,376,180	-	-	-	-6,004,678	-6,004,678
2. Other comprehensive loss for the year	11(30)	-	-74,134	-	-	-74,134	-	-241,211	-	-	-241,211
Sub-total of 1&2		-	-74,134	-	1,376,180	1,302,046	-	-241,211	-	-6,004,678	-6,245,889
3. Shareholders' contributions and decrease of capital											
-Government grants	11(21)	-	26,000	-	-	26,000	-	-	-	-	-
4. Appropriation of profits											
-Appropriation to surplus reserve	5(34)	-	-	35,358	-35,358	-	-	-	-	-	-
-Distributions to shareholders	5(35)	-	-	-	-	-	-	-	-	-648,000	-648,000
Balance at 31 December		7,200,000	2,882,278	4,801,766	318,224	15,202,268	7,200,000	2,930,412	4,766,408	-1,022,598	13,874,222

These financial statements have been approved by the Board of Directors of the Company on 26 March 2010.

Rong Guangdao
Chairman and President

Du Chongjun
Vice Chairman and Vice President

Ye Guohua
Chief Financial Officer

The notes on pages 178 to 282 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 4(1) "Business combination and consolidated financial statements".

2. Significant accounting policies and accounting estimates

(1) Basis of preparation of the financial statements

The financial statements have been prepared on the basis that the Company will continue to operate as a going concern.

(2) Statement of compliance with the Accounting Standards for Business Enterprises

The financial statements have been prepared in accordance with the requirements of "Accounting Standards for Business Enterprises-Basic Standard" and 38 Specific Standards issued by the Ministry of Finance ("MOF") on 15 February 2006, and application guidance, bulletins and other relevant accounting regulations issued subsequently (collectively referred to as "Accounting Standards for Business Enterprises" or "CAS"). 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 Company.

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" as revised by the China Securities Regulatory Commission ("CSRC") in 2010.

2. Significant accounting policies and accounting estimates *(continued)*

(3) Accounting year

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

(4) Functional currency

The Group's functional currency is renminbi. These financial statements are presented in renminbi.

(5) Accounting treatment of business combination involving entities under and not under common control

(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 combing 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.

The acquirer, at the acquisition date, allocates the cost of the business combination by recognising the acquiree's identifiable assets, 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.

2. Significant accounting policies and accounting estimates *(continued)*

(6) Preparation of 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 acquires a minority interest from a subsidiary's minority shareholders or disposes a portion of an interest in a subsidiary without a change in control, the difference between the amount by which the minority interests are adjusted and the amount of the consideration paid or received 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.

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' interest 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.

2. Significant accounting policies and accounting estimates *(continued)*

(6) Preparation of consolidated financial statements *(continued)*

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 unrealised gains but only to the extent that there is no evidence of impairment.

(7) 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.

(8) 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 those arising from the principals and interest on foreign currency borrowings specifically for the purpose of acquisition, construction of qualifying assets (see Note 2(16)). 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.

(9) Financial instruments

Financial instruments 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.

2. Significant accounting policies and accounting estimates *(continued)*

(9) Financial instruments *(continued)*

(a) Classification, 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.

2. Significant accounting policies and accounting estimates *(continued)*

(9) Financial instruments *(continued)*

(a) Classification, 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 2(21)(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 2(20)).

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.

2. Significant accounting policies and accounting estimates *(continued)*

(9) 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.

2. Significant accounting policies and accounting estimates *(continued)*

(9) Financial instruments *(continued)*

(d) 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. See note2(10) for impairment testing method of receivables. The impairment for other financial assets is measured as follows:

- 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.

  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.

(e) Equity instrument

An equity instrument is a contract that proves the ownership interest of the assets after deducting all liabilities in the Company.

The consideration received from the issuance of equity instruments net of transaction costs is recognised in share capital and capital reserve.

2. Significant accounting policies and accounting estimates *(continued)*

(10) Impairment of 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 receivables 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 observable figures reflecting present economic conditions.

If, after an impairment loss has been recognised on receivables, there is objective evidence of recovery in value of the financial asset which can be related objectively to an event occurring after the impairment was 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 of which would have been determined had there been no impairment loss recognised in prior years.

(a) Recognition criteria and method of provision for bad and doubtful debts of individually significant receivables:

Individually significant receivables are assessed for impairment both on an individual basis and on a collective group basis.

Recognition criteria of provision for bad and doubtful debts for individually significant receivables	An impairment loss is provided if its carrying amount exceeds 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.
Method of provision for bad and doubtful debts for individually significant receivables	Where impairment is assessed on an individual basis, receivables with no impairment losses provided on an individual basis, are provided with other receivables on a collective group basis according to the credit risk characteristics.

(b) Recognition criteria and method of provision for bad and doubtful debts of individually insignificant receivables:

For individually insignificant receivables, impairment of uncollectible receivables due over 1 year and special receivables is assessed first on an individual basis. Receivables with no impairment losses provided on an individual basis are provided with other receivables (inclusive of those receivables assessed on a collective group basis as described in (a) above) with reference to their ageing.

2. Significant accounting policies and accounting estimates *(continued)*

(11) Inventories

(a) Categories of inventories

Inventories comprise raw materials, work in progress, semi-finished goods, finished goods and reusable materials. Reusable materials include low-value consumables, packaging materials and other materials which can be used repeatedly but do not meet the definitions of fixed assets.

(b) Measurement of cost of inventories

Cost of inventories is calculated using the weighted average method.

(c) Determination of net realisable value and method of provision for diminution in the value of 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. 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.

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. Materials held for use in the production of inventories are measured at the net realisable value of the finished products, and the net realisable value of the quantity of inventory held to satisfy sales or service contracts is based on the contract price. If the quantities of inventories specified in sales contracts are less than the quantities held by an enterprise, the net realisable value of the excess portion of inventories shall be based on general selling prices.

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.

(d) Inventory counting system

The Group maintains a perpetual inventory system.

(e) Amortisation of reusable materials (including low-value consumables and packaging materials, etc.)

Reusable materials (including low-value consumables, packaging materials, etc.) 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.

2. Significant accounting policies and accounting estimates *(continued)*

(12) Long-term equity investments

(a) Determination of initial investment cost

- Long-term equity investments acquired through a business combination

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 (capital premium) in capital reserve. If the balance of the share premium (capital 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.

- Long-term equity investments acquired otherwise than through a business combination

An investment in a subsidiary acquired otherwise than through a business combination is initially recognised at actual payment cost if the Group acquires the investment by cash, or at the fair value of the equity securities issued if an investment is acquired by issuing equity securities, or at the value stipulated in the investment contract or agreement if an investment is contributed by shareholders.

(b) Subsequent measurement

- Investments in subsidiaries

In the Company's financial statements, investments in subsidiaries are accounted for using the cost method. Except for declared but not yet distributed cash dividends or profits distribution that have been included in the price or consideration paid in obtaining the investments, the Group recognises its share of the cash dividends or profit distribution declared by the investee as investment income. The investments in subsidiaries are stated at cost less impairment losses in the balance sheet.

In the Group's consolidated financial statements, investments in subsidiaries are accounted for in accordance with the principles described in Note 2(6).

2. Significant accounting policies and accounting estimates *(continued)*

(12) Long-term equity investments *(continued)*

(b) Subsequent measurement *(continued)*

- 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 (see Note 2(12) (c)).

An associate is an enterprise over which the Group has significant influence (see Note 2(12) (c)).

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 2(25)).

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 in a jointly controlled enterprise or an associate, 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. Once the investee declares any cash dividends or profits distributions, the carrying amount of the investment is reduced by that attributable to the Group.

  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 unrealised gains but only to the extent that there is no evidence of impairment.

2. Significant accounting policies and accounting estimates *(continued)*

(12) Long-term equity investments *(continued)*

(b) Subsequent measurement *(continued)*

- Investment in jointly controlled enterprises and associates *(continued)*

  - The Group discontinues recognising its share of net losses of the investee after the carrying amount of the long-term equity investment and any long-term interest that in substance forms part of the Group's net investment in the associate or the jointly controlled enterprise is reduced to zero, except for 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 which equals to the share of losses is not recognised.

  - 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.

    The subsequent measurement to the initial costs is accounted for using the cost method. Except for declared but not yet distributed cash dividends or profits distribution that have been included in the price or consideration paid in obtaining the investments, the Group recognises its share of the cash dividends or profit distribution declared by the investee as investment income.

(c) Basis for determination of joint control or significant influence over the investee

Joint control is the contractual agreed sharing of control over an investee, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing the control. The following factors will be considered when the Group determines whether joint control exists over an investee:

- Any investor alone cannot control the production and operating activities of the investee;
- A decision related to basic operating activities of the investee needs the consent of all the investors;
- When all investors authorise one investor to exert management over the daily operation of the investee by contract or agreement, the right of management needs to be performed within the scope stipulated in the financial and operating policies agreed by all the investors.

2. Significant accounting policies and accounting estimates *(continued)*

(12) Long-term equity investments *(continued)*

(c) Basis for determination of joint control or significant influence over the investee *(continued)*

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. The following factors will be considered when the Group determines whether joint control exists over an investee:

- The Group has representative in the board of directors or similar authority of the investee;
- The Group participates in the policy-making process of the investee;
- The Group has significant transactions with the investee;
- The Group has sent management personnel to the investee;
- The Group provides key technical materials to the investee.

(d) Impairment of long-term equity investments

For testing and provision for impairment loss of investments in subsidiaries, jointly controlled enterprises and associates, see Note 2(19).

The carrying amount of other long-term equity investments are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, other long-term equity investments are assessed for impairment on an individual basis. The amount of the impairment losses 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. Other long-term equity investments are stated at cost less impairment losses in the balance sheet.

(13) Investment property

Investment property is a property held either to earn rental income or for capital appreciation or for both. Investment property is accounted for using the cost model and stated in the balance sheet at cost less accumulated depreciation and impairment losses (see Note 2(19)). 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 2(25)). For method of impairment assessment and the basis on which the impairment, see Note 2(19).

2. Significant accounting policies and accounting estimates *(continued)*

(13) Investment property *(continued)*

Estimated useful life and residual value of investment property are as follows:

	Estimated useful life (year)	Estimated residual value (%)	Depreciation rate (%)
Property	40	3	2.43

(14) Fixed assets

(a) Recognition of fixed assets

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.

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 determination of initial cost of self-constructed assets is described in Note 2(15).

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.

Fixed assets are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see Note 2(19)).

(b) Depreciation of fixed assets

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 2(25)). The estimated useful lives and residual values of each class of fixed assets are as follows:

	Estimated useful life(year)	Estimated residual value(%)	Depreciation rate(%)
Buildings	15-40	3-5	2.4-6.5
Plants and machinery	10-20	3-5	4.8-9.7
Vehicles and other equipment	5-26	3-5	3.7-19.4

Useful lives, residual values and depreciation methods are reviewed at least each year-end.

2. Significant accounting policies and accounting estimates *(continued)*

(14) Fixed assets *(continued)*

(c) Method of impairment assessment and the basis on which the impairment is provided are described in Note 2(19).

(d) Disposal of fixed assets

The carrying amount of a fixed asset shall be derecognised either:

- on disposal; or
- when no future economic benefits are expected to be generated from its use or disposal.

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.

(15) Construction in progress

The cost of self-constructed assets includes the cost of materials, direct labour, capitalised borrowing costs (see Note 2(16)), and any other costs directly attributable to bringing the asset to working condition for its intended use.

Self-constructed asset is transferred to fixed assets when it is ready for its intended use. Otherwise, it is stated in construction in progress and no depreciation is accrued. Construction in progress is stated in the balance sheet at cost less impairment losses (see Note 2(19)).

(16) 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.

2. Significant accounting policies and accounting estimates *(continued)*

(16) Borrowing costs *(continued)*

- 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.

(17) 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 2(19)). 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 2(25)). The respective amortisation periods for each intangible assets are as follows:

	Amortisation period (years)
Land use right	50
Other intangible assets (including industrial proprietary technology and software, etc.)	2-27.75

2. Significant accounting policies and accounting estimates *(continued)*

(18) Long-term deferred expenses

Long-term deferred expenses are amortised on a straight-line basis over the estimated useful lives. The respective amortisation periods for each expenses are as follows:

	Amortisation period (years)
Catalyst	1-3

(19) Impairment of assets other than inventories, financial assets and other long-term equity investments

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 enterprises

If any indication exists that an asset may be impaired, the recoverable amount of the asset is estimated.

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 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.

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.

2. Significant accounting policies and accounting estimates *(continued)*

(19) Impairment of assets other than inventories, financial assets and other long-term equity investments *(continued)*

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.

(20) Provisions

A provision is 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.

(21) 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 the 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.

2. Significant accounting policies and accounting estimates *(continued)*

(21) Revenue recognition *(continued)*

(b) Rendering of services

Revenue from rendering of services is measured at the fair value of the considerations received or receivable under the contract or agreement.

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.

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.

(22) 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 capital cost or 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.

2. Significant accounting policies and accounting estimates *(continued)*

(22) Employee benefits *(continued)*

(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.

(23) 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 "capital reserve" are dealt with as capital contributions, and not regarded as government grants.

A government grant is recognised when there is reasonable assurance that the grant will be received and that the Group will comply with the conditions 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.

2. Significant accounting policies and accounting estimates *(continued)*

(24) Deferred tax assets and liabilities

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 recovery 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 recovered or the liability is settled in accordance with tax laws.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date. The carrying amount of a deferred tax asset is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the benefit of the deferred tax asset to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

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 offset current tax liabilities and assets, 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 realise 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.

2. Significant accounting policies and accounting estimates *(continued)*

(25) 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 do 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.

(26) 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.

(27) 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 Group 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 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; and
(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.

2. Significant accounting policies and accounting estimates *(continued)*

(27) Related parties *(continued)*

Besides the related parties stated above, determined in accordance with the requirements of CAS, 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 an individual assumes the position of a director or senior executive.

(28) Segment reporting

Reportable segments are identified based on operating segments which are determined based on the structure of the Group's internal organisation, management requirements and internal reporting system. An operating segment is a component of the Group that meets the following respective conditions:

- Engage in business activities from which it may earn revenues and incur expenses;

- Whose operating results are regularly reviewed by the Group's management to make decisions about resource to be allocated to the segment and assess its performance; and

- For which financial information regarding financial position, results of operations and cash flows is available.

(29) 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.

2. Significant accounting policies and accounting estimates *(continued)*

(29) Significant accounting estimates and judgments *(continued)*

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 2. Management believes the following critical accounting policies involve the most significant judgements and estimates used in the preparation of the financial statements.

(a) 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.

The recoverable amount of an asset is the greater of its net selling price and its present value of expected future cash flows. Since the market price of certain assets cannot be obtained reliably, the fair value of the assets cannot 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.

(b) 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.

(c) 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.

2. Significant accounting policies and accounting estimates *(continued)*

(29) Significant accounting estimates and judgments *(continued)*

(d) 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.

(e) Recognition of deferred tax assets

Deferred tax assets are recognised in respect of temporary deductible differences. Since deferred tax assets are only recognised to the extent that it is probable that future taxable profit will be available against the assets which can be realised or utilised, management's judgement is required to assess the probability of future taxable profits. Management's assessment is periodically re-viewed and deferred tax assets are adjusted according to the probability of future taxable profits.

(30) Changes in accounting policies and accounting estimates

In accordance with "China Accounting Standards for Business Enterprises Bulletin No. 3" ("Bulletin No.3"), and the "Notice on Preparing 2009 Annual Reports of Listed Companies and Non-listed Enterprises Adopting CAS" (Caikuai [2009] No.16), newly issued by the MOF in 2009, the Group changed the following significant accounting policies in the current accounting year:

Details and reasons for the changes in accounting policies	Note	Procedures for approval	The affected items in the financial statements	The amounts of adjustments
Change of accounting treatment to cash dividends or profit distribution declared from a long-term equity investment that is accounted for using the cost method	(a)	In accordance with the guidance newly issued by the MOF, there is no need to have internal approval	Long-term equity investments and investment income	This change in accounting policy does not have a significant impact on the Group's financial statements for the year ended 31 December 2009.
Changes in presentation of the income statement and statement of changes in shareholders' equity	(b)	In accordance with the guidance newly issued by the MOF, there is no need to have internal approval	Other comprehensive income and total comprehensive income	Not applicable
Changes in segment reporting	(c)	In accordance with the guidance newly issued by the MOF, there is no need to have internal approval	Not applicable	Not applicable

2. Significant accounting policies and accounting estimates *(continued)*

(30) Changes in accounting policies and accounting estimates *(continued)*

Notes:

(a) Change of accounting treatment to cash dividends or profit distribution declared from a long-term equity investment that is accounted for using the cost method.

Prior to 1 January 2009, for cash dividends or profit distribution declared from a long-term equity investment that is accounted for using the cost method, only the post-acquisition portion of the cash dividends or profit distribution was recognised as investment income. Starting from 1 January 2009, except for declared but not yet distributed cash dividends or profits distribution that have been included in the price or consideration paid in obtaining the investments, the Group recognises its share of the cash dividends or profit distribution declared by the investee as investment income irrespective whether these represent the net profit realised by the investee before or after the investment as investment income according to Bulletin No.3. After investment income is recognised according to the above policy, the carrying amount of the investment is reviewed by the Group to identify whether it exceeds the Group's interest in the carrying amount of the investee's net assets (including associated goodwill). If such surplus exists, an impairment test for the long-term equity investment is performed in accordance with the accounting policy described in note 2(19). If the recoverable amount of the long-term equity investment is less than its carrying amount, an impairment loss is recognised.

In accordance with Bulletin No.3, no retrospective adjustment is made by the Group for the above change of accounting policy.

(b) Changes in presentation of the income statement and statement of changes in shareholders' equity

"Other comprehensive income for the year" and "Total comprehensive income for the year" are added under "Earnings per share" in the income statement. "Other comprehensive income for the year" comprises items of gains or losses net of related tax effects that are not recognised in profit or loss under CAS. "Total comprehensive income for the year" represents the total amount of net profit and other comprehensive income. The consolidated income statement is adjusted accordingly, and the total comprehensive income for the year attributable to equity shareholders of the Company and minority shareholders are presented separately below the total comprehensive income for the year.

"Gain and loss recognised directly in equity" and its details are deleted under "Changes in equity for the year" in the statement of changes in shareholders' equity; and "Other comprehensive income" is added to show the changes of other comprehensive income occurred in the year.

The Group adjusted items correlated to the changes aforesaid in the income statement and the statement of changes in shareholders' equity in comparative statements.

2. Significant accounting policies and accounting estimates *(continued)*

(30) Changes in accounting policies and accounting estimates *(continued)*

(c) Changes in segment reporting

In accordance with Bulletin No. 3, segment disclosure is based on the way that the Group's chief operating decision maker manages the Group, with the amounts reported for each reportable segment being the measures reported to the Group's chief operating decision maker for the purposes of assessing segment performance and making decisions about operating matters. Operating segments were determined based on the relevant products sold in the previous years. However, since there is no significant difference between the determination of segment in the previous years and the requirements of Bulletin No.3, the adoption of Bulletin No. 3 did not result in any significant changes to the presentation of segment reporting.

3. Taxation

(1) The types of taxes and tax rate:

The type of taxes	Tax base	Tax rate
Value added tax ("VAT")	Taxable VAT income (VAT payable is calculated at the applicable tax rate on taxable income deducted by input VAT)	13%,17% note(i)
Consumption tax	Income entitled to consumption tax	note(ii)
Business tax	Income entitled to business tax	5%
City maintenance and construction tax	Actual payments of VAT and business tax during the year	7%
Income tax	Taxable income	25%

The applicable income tax rate for the Company and its subsidiaries is 25% (2008:25%).

Notes:

(i) With effect from 1 January 2009, input VAT from purchase of fixed assets is deductible while VAT is payable when selling used fixed assets.

(ii) With effect from 1 January 2009, consumption tax rates of gasoline and diesel oil have been adjusted to RMB 1,388 per ton and RMB 940.8 per ton respectively (2008: RMB 277.6 per ton and RMB117.6 per ton for gasoline and diesel oil respectively).

4. Business combination and consolidated financial statements

(1) Principal subsidiaries

At 31 December 2009, all principal subsidiaries of the Company included in the consolidated financial statements came into existence through establishment, details are as follows:

Expressed in thousands of RMB/USD

Names of enterprise	Company type	Registered place	Business nature	Registered capital	Principal activities	Closing amount of the Company's investment	Interest that in substance form part of the Company's net investment	Shareholding percentage direct/ indirect (%)	Voting rights direct/ indirect (%)	Within consolidation scope	Minority interest at the year end	Losses attributable to minority shareholders during the year	The excess amount of the losses attributable to the minority shareholders of a subsidiary compared with the minority shareholders' interest in the equity of the subsidiary
Shanghai Petrochemical Investment Development Company Ltd.	Limited company	Shanghai	Investment	RMB800,000	Investment management	1,338,456	-	100	100	Yes	-	-	-
China Jinshan Associated Trading Corporation	Limited company	Shanghai	Trading	RMB25,000	Import and export of petrochemical products and equipment	16,832	-	67.33	67.33	Yes	36,160	-	-
Shanghai Jinchang Engineering Plastics Company Ltd.	Limited company	Shanghai	Manufacturing	USD4,750	Production of polypropylene compound products	20,832	-	50.38	50.38	Yes	27,046	-	-
Shanghai Golden Phillips Petrochemical Company Ltd.	Limited company	Shanghai	Manufacturing	USD50,000	Production of polypropylene products	249,374	-	60	60	Yes	226,984	-	-
Zhejiang Jin Yong Acrylic Fibre Company Ltd.	Limited company	Ningbo, Zhejiang	Manufacturing	RMB250,000	Production of acrylic fibre products	227,500	-	75	75	Yes	-	-	195,030(note)
Shanghai Golden Conti Petrochemical Company Ltd.	Limited company	Shanghai	Manufacturing	RMB545,776	Production of petrochemical products	545,776	-	100	100	Yes	-	-	-

4. Business combination and consolidated financial statements *(continued)*

(1) Principal subsidiaries *(continued)*

Note: The losses of the current year allocated to the minority shareholders exceeded their interests in the subsidiary Zhejiang Jin Yong Acrylic Fibre Company Limited's equity as at 1 January 2009 and the excess amounted to RMB195,030,000 (31 December 2008: RMB145,595,000). 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 equity shareholders of the Company.

(2) Change in consolidation scope

Effective from 31 August 2009, Shanghai Petrochemical Enterprise Development Company Limited merged into Shanghai Petrochemical Investment Development Company Limited. This merger has no financial impact on the Group's consolidated financial statements.

5. Notes to the consolidated financial statements

(1) Cash at bank and on hand

Expressed in thousands of RMB/USD/HKD/CHF

Items	2009			2008		
	Original currency	Exchange rate	RMB/ RMB equivalents	Original currency	Exchange rate	RMB/ RMB equivalents
Cash on hand:						
Renminbi	—	—	93	—	—	74
Deposits with banks:						
Renminbi	—	—	112,655	—	—	614,493
USD	37	6.8282	250	47	6.8346	318
Other monetary funds:(Note)						
Renminbi	—	—	39	—	—	48
HKD	13,674	0.8805	12,040	13,507	0.8819	11,912
CHF	127	6.5938	840	130	6.4624	840
Total	—	—	125,917	—	—	627,685

Note: Other monetary funds represent deposits for credit card.

5. Notes to the consolidated financial statements *(continued)*

(2) Financial assets held for trading

Expressed in thousands of renminbi yuan

Item	2009	2008
Derivative financial assets - Forward exchange contracts	-	97,644

The above derivative financial assets are forward exchange contracts which are used to hedge currency risk exposure by the Group in relation to foreign currency loans (Note10,2(3)(a)). All the above forward exchange contracts have matured in June and July of 2009.

(3) Bills receivable

(a) Bills receivable by category

Expressed in thousands of renminbi yuan

Items	2009	2008
Bank acceptance bills	583,478	547,916
Commercial acceptance bills	20,223	18,440
Total	603,701	566,356

All of the above bills held are due within six months. No bills receivables, included in the above, were pledged or transferred to accounts receivable due to non-performance of the issuers in 2009.

Except for the balances disclosed in Note 6, 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.

5. Notes to the consolidated financial statements *(continued)*

(3) Bills receivable *(continued)*

(b) The five largest discounted bills receivable are as follows:

Expressed in thousands of renminbi yuan

Issuer	Date of issuance	Due date	Amount	Remarks
1.Shanghai Jinpu Plastics Packaging Material Company Limited	2009.12.10	2010.02.10	10,000	Bank acceptance bills
2.Zhejiang Shaoxing Sanyuan Petrochemical Company Limited	2008.10.09	2009.01.09	8,100	Bank acceptance bills
3.Zhejiang Xinfengming Chemical Fibre Company Limited	2009.10.26	2010.01.26	8,000	Bank acceptance bills
4.Shanghai Chlor-Alkali Chemical Co.,Ltd.	2009.10.26	2010.01.26	7,227	Bank acceptance bills
5.Tongxiang Zhongxin Chemical Fibre Company Limited	2009.10.26	2010.02.09	7,100	Bank acceptance bills
Total			40,427	

At 31 December 2009, the Group's discounted bank acceptance bills (with recourse) amounted to RMB 554,388,000.(2008: RMB 562,844,000).

At 31 December 2009, the Group's discounted commercial acceptance bills amounted to RMB nil. (2008: RMB nil).

(3) Bills receivable that have been endorsed but still undue are as follows:

Expressed in thousands of renminbi yuan

Issuer	Date of issuance	Due date	Amount	Remarks
1.Wuhai Hongxing Auto Sale Co., Ltd.	2009.11.10	2010.05.10	1,000	Bank acceptance bills
2.Ningbo Jingshang Huaxiang Auto Parts Co., Ltd.	2009.12.18	2010.03.18	300	Bank acceptance bills
3.Ningbo Antonglin Huaxiang Auto Parts Co., Ltd.	2009.12.30	2010.04.30	350	Bank acceptance bills
4.Zhengzhou Nissan Automobile Co., Ltd.	2009.11.19	2010.05.18	80	Bank acceptance bills
Total			1,730	

5. Notes to the consolidated financial statements *(continued)*

(4) Accounts receivable

(a) Accounts receivable by categories:

Expressed in thousands of renminbi yuan

Items	Note	2009				2008			
		Carrying amount		Bad debt provision		Carrying amount		Bad debt provision	
		Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)
Individually significant		427,395	78.05	-	-	159,127	64.98	-	-
Individually insignificant but with a material portfolio credit risk	(c)	12,668	2.31	12,634	99.73	18,745	7.65	18,611	99.29
Other immaterial item		107,519	19.64	-	-	67,032	27.37	-	-
Total		547,582	100.00	12,634	—	244,904	100.00	18,611	—

(b) The ageing of accounts receivable is analysed as follows:

Expressed in thousands of renminbi yuan

Ageing	2009			2008		
	Carrying amount		Bad debt provision	Carrying amount		Bad debt provision
	Amount	Percentage(%)		Amount	Percentage(%)	
Within one year	534,914	97.69	-	226,159	92.35	-
Between one and two years	37	0.01	4	192	0.08	58
Between two and three years	5	0.00	4	497	0.20	497
Over three years	12,626	2.30	12,626	18,056	7.37	18,056
Total	547,582	100.00	12,634	244,904	100.00	18,611

The ageing is counted starting from the date accounts receivable are recognised.

(c) Individually insignificant but with a material portfolio credit risk:

Expressed in thousands of renminbi yuan

Ageing	2009			2008		
	Carrying amount		Bad debt provision	Carrying amount		Bad debt provision
	Amount	Percentage(%)		Amount	Percentage(%)	
Within one year	-	-	-	-	-	-
Between one and two years	37	0.29	4	192	1.02	58
Between two and three years	5	0.04	4	497	2.65	497
Over three years	12,626	99.67	12,626	18,056	96.33	18,056
Total	12,668	100.00	12,634	18,745	100.00	18,611

The ageing is counted starting from the date accounts receivable are recognised.

5. Notes to the consolidated financial statements *(continued)*

(4) Accounts receivable *(continued)*

(d) During the year, the Group had no individually significant accounts receivable fully or substantially provided for; the Group had no individually significant write off or write back of bad debts which had been fully or substantially provided for in prior years. At 31 December 2009, the Group had no individually significant accounts receivable that aged over three years.

(e) Accounts receivable due from the five largest debtors of the Group are as follows:

Expressed in thousands of renminbi yuan

Company's name	Relationship with the Company	Amount	Ageing	Percentage of total accounts receivable(%)
1. Sinopec Huadong Sales Company	Subsidiary of the parent company	220,079	Within one year	40.19
2. Sinopec Yizheng Chemical Fibre Company Limited	Subsidiary of the parent company	110,052	Within one year	20.10
3. China Petroleum & Chemical Corporation	Parent company	63,904	Within one year	11.67
4. Shanghai Yali Industry Development Co., Ltd	Third party customer	24,803	Within one year	4.53
5. Shanghai Jinpu Plastics Packaging Material Company Limited	Associate company	8,557	Within one year	1.56
Total		427,395		78.05

(f) Except for the balances disclosed in Note 6, no amount due from shareholders who hold 5% or more of the voting rights of the Company is included in the above balance of accounts receivable.

(g) At 31 December 2009, total amount of accounts receivable due from related parties of the Group is RMB 414,803,000 (2008:RMB137,207,000), which represents 75.75% (2008:56.02%) of the total accounts receivable. Details of accounts receivable from related parties are set forth in Note 6(6).

5. Notes to the consolidated financial statements *(continued)*

(5) Prepayments

(a) Prepayments by category:

Expressed in thousands of renminbi yuan

Items	2009	2008
Prepayments to related parties	124,571	21,140
Prepayments to third parties	2,997	45,632
Total	127,568	66,772

(b) All prepayments are aged within one year.

(c) Prepayments to the five largest suppliers are as follows:

Expressed in thousands of renminbi yuan

Company's name	Relation with the Company	Amount RMB	Percentage of total prepayment(%)	Ageing	Reason for unsettled account
1. China Petroleum & Chemical Corporation	Parent company	118,297	92.73	Within one year	Prepayment for goods
2. China International United Petroleum & Chemical Company Ltd.	Subsidiary of the parent company	3,418	2.68	Within one year	Prepayment for goods
3. Sinopec Asset and Management Corporation	Subsidiary of the ultimate parent company	1,308	1.03	Within one year	Prepayment for goods
4. BASF-YPC Company Limited	Jointly controlled enterprise of the parent company	1,131	0.89	Within one year	Prepayment for goods
5. Jiangchuan Hardware & Electrical Operation Department	Third party	834	0.65	Within one year	Prepayment for goods
Total		124,988	97.98		

(d) Except for the balances disclosed in Note 6, no amount due from shareholders who hold 5% or more of the voting rights of the Company is included in the above balance of prepayments.

5. Notes to the consolidated financial statements *(continued)*

(6) Dividends receivable

Expressed in thousands of renminbi yuan

Items	At 1 January	Increases	Decreases	At 31 December	Reason for uncollectibility	Impairment incurred
Dividends receivable due within one year						
- Shanghai Secco Petrochemical Company Limited	74,000	-	74,000	-	—	No

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.

(7) Other receivables

(a) Other receivables by category:

Expressed in thousands of renminbi yuan

Items	Note	2009				2008			
		Carrying amount		Bad debt provision		Carrying amount		Bad debt provision	
		Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)
Individually significant		40,317	44.46	-	-	65,294	52.53	-	-
Individually insignificant but with a material portfolio credit risk	(c)	6,917	7.63	5,225	75.54	19,576	15.74	12,730	65.03
Other immaterial item		43,448	47.91	-	-	39,438	31.73	-	-
Total		90,682	100.00	5,225	—	124,308	100.00	12,730	—

(b) The ageing of other receivables is analysed as follows:

Expressed in thousands of renminbi yuan

Ageing	2009			2008		
	Carrying amount		Bad debt provision	Carrying amount		Bad debt provision
	Amount	Percentage(%)		Amount	Percentage(%)	
Within one year	83,765	92.37	-	104,732	84.25	-
Between one and two years	755	0.83	223	8,641	6.95	2,892
Between two and three years	124	0.14	-	2,225	1.79	1,335
Over three years	6,038	6.66	5,002	8,710	7.01	8,503
Total	90,682	100.00	5,225	124,308	100.00	12,730

The ageing is counted starting from the date other receivables are recognised.

5. Notes to the consolidated financial statements *(continued)*

(7) Other receivables *(continued)*

(c) Individually insignificant but with a material portfolio credit risk:

Expressed in thousands of renminbi yuan

Ageing	2009			2008		
	Carrying amount		Bad debt provision	Carrying amount		Bad debt provision
	Amount	Percentage(%)		Amount	Percentage(%)	
Within one year	-	-	-	-	-	-
Between one and two years	755	10.92	223	8,641	44.14	2,892
Between two and three years	124	1.79	-	2,225	11.37	1,335
Over three years	6,038	87.29	5,002	8,710	44.49	8,503
Total	6,917	100.00	5,225	19,576	100.00	12,730

The ageing is counted starting from the date other receivables are recognised.

(d) During the year, the Group had no individually significant other receivables fully or substantially provided for; the Group had no individually significant write off or write back of bad debts which had been fully or substantially provided for in prior years. At 31 December 2009, the Group had no individually significant other receivables that aged over three years.

(e) Other receivables due from the five largest debtors are as follows:

Expressed in thousands of renminbi yuan

Company's name	Relation with the Company	Amount	Ageing	Percentage of total accounts receivable(%)
1. Government authorities	Third party	26,000	Within one year	28.67
2. Shanghai Jinshan Petrochemical Logistics Company Limited	Third party	6,800	Within one year	7.50
3. Sinopec Huadong Sales Company	Subsidiary of the parent company	3,038	Within one year	3.35
4. BOC-SPC Gases Company Limited	Jointly controlled enterprise	2,841	Within one year	3.13
5. Shanghai Bozhan Industry Company Limited	Third party	1,638	Within one year	1.81
Total		40,317		44.46

5. Notes to the consolidated financial statements *(continued)*

(7) Other receivables *(continued)*

(f) Except for the balances disclosed in Note 6, no amount due from shareholders who hold 5% or more of the voting rights of the Company is included in the above balance of other receivables.

(g) At 31 December 2009, total other receivables due from related parties of the Group is RMB6,607,000 (2008:RMB11,654,000), which represents 7.29% (2008:9.38%) of the total other receivables. Details of other receivables from related parties are set forth in Note 6(6).

(8) Inventories

(a) Inventories by category

Expressed in thousands of renminbi yuan

Items	2009			2008		
	Cost	Provision for diminution in value	Carrying amount	Cost	Provision for diminution in value	Carrying amount
Raw materials	4,206,343	17,402	4,188,941	2,251,317	233,067	2,018,250
Work in progress	1,352,767	-	1,352,767	1,484,467	325,543	1,158,924
Finished goods	750,320	32,983	717,337	767,088	176,448	590,640
Spare parts and consumables	734,212	109,423	624,789	807,713	83,312	724,401
Total	7,043,642	159,808	6,883,834	5,310,585	818,370	4,492,215

All the above inventories are purchased or self-manufactured.

(b) Provision for diminution in value of inventories

Expressed in thousands of renminbi yuan

Items	At 1 January	Provision for the year	Decrease during the year	At 31 December
			Write-off	
Raw materials	233,067	11,457	-227,122	17,402
Work in progress	325,543	-	-325,543	-
Finished goods	176,448	16,545	-160,010	32,983
Spare parts and consumables	83,312	30,038	-3,927	109,423
Total	818,370	58,040	-716,602	159,808

5. Notes to the consolidated financial statements *(continued)*

(9) Other current assets

Expressed in thousands of renminbi yuan

Items	Note	2009	2008
Deductible value added tax		-	248,808
Available-for-sale financial assets	(a)	700,000	-
Total		700,000	248,808

(a) The Group purchased an investment fund from a PRC state-owned bank with a carrying amount of RMB 700,000,000 (2008: nil). The fund mainly invests in debt and equity securities.

(10) Available-for-sale financial assets

Expressed in thousands of renminbi yuan

Items	2009	2008
Available-for-sale equity instruments	-	123,918

Available-for-sale financial assets mainly represent available-for-sale securities of listed companies held by the Group. 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.

(11) Long-term receivable

Expressed in thousands of renminbi yuan

Items	2009	2008
Entrusted loans	100,000	-

The entrusted loans will be due in April 2012.

(12) Long-term equity investments

(a) Long-term equity investments by category

Expressed in thousands of renminbi yuan

	Interests in associates	Interests in jointly controlled enterprises	Other equity investment	Total before provision	Provision for impairment losses	Total
Balance at 1 January 2009	2,661,974	114,005	202,938	2,978,917	-37,200	2,941,717
Additions for the year	5,008	-	-	5,008	-	5,008
Share of profits from investments accounted for under equity method	208,862	22,510	-	231,372	-	231,372
Dividends receivable/received	-15,213	-27,500	-	-42,713	-	-42,713
Disposals during the year	-	-	-202,938	-202,938	37,200	-165,738
Balance at 31 December 2009	2,860,631	109,015	-	2,969,646	-	2,969,646

5. Notes to the consolidated financial statements *(continued)*

(12) Long-term equity investments *(continued)*

(b) Information about major associates and jointly controlled enterprises

Expressed in thousands of renminbi yuan/USD

Name of investee	Company type	Registered place	Legal representative	Business Scope	Registered capital	Effective shareholding percentage (%)	Effective voting right (%)	Total assets at year end	Total liabilities at year end	Net assets at year end	Total revenue during the year	Net profit during the year
1. Jointly controlled enterprises												
BOC-SPC Gases Company Limited	Limited company	Shanghai	Xu Zhongwei	Production and sales of industrial gases	USD32,000	50	50	584,372	284,505	299,867	384,672	40,395
2. Associates												
Shanghai Chemical Industry Park Development Company Limited*	Limited company	Shanghai	Rong Guangdao	Planning, development and operation of the Chemical Industry Park in Shanghai	RMB2,372,439	38.26	38.26	7,083,854	3,622,590	3,461,264	11,326	179,762
Shanghai Secco Petrochemical Company Limited*	Limited company	Shanghai	Jeanne Marie Johns	Manufacturing and distribution of chemical products	USD901,441	20	20	17,657,272	9,913,798	7,743,474	16,438,094	694,906
Shanghai Jinsen Hydrocarbon Resins Company Limited	Limited company	Shanghai	Tan Biqing	Production of resin products	USD23,395	40	40	180,916	60,597	120,319	172,962	-7,381
Shanghai Jinpu Plastic Packaging Material Company Limited	Limited company	Shanghai	Xu Zhongwei	Production of polypropylene film	USD20,204	50	50	248,222	60,475	187,747	271,638	-5,891
Shanghai Yamatake Automation Company Limited	Limited company	Shanghai	Shen Tuxun	Service and maintenance of building automation systems and products	USD3,000	40	40	171,936	41,353	130,583	192,093	31,140

* Represents associates/jointly controlled enterprises of the Company

(3) Other equity investments mainly represent equity investments in enterprises which are engaged in various activities not related to the Group's operations.

5. Notes to the consolidated financial statements *(continued)*

(13) Investment property

Expressed in thousands of renminbi yuan

Items	At 1 January	Additions	Disposals	At 31 December
1, Original cost	546,838	-	208	546,630
2, Accumulated depreciation	54,148	13,261	26	67,383
3, Net book value	492,690			479,247
4, Provision for impairment	-	-	-	-
5, Carrying amount	492,690			479,247

The investment property of the Group comprises buildings.

Depreciation charged for the year for investment property amounted to RMB13,261,000 (2008: RMB 13,440,000).

5. Notes to the consolidated financial statements *(continued)*

(14) Fixed assets

(a) Fixed assets

Expressed in thousands of renminbi yuan

Items	Balance at 1 January	Additions	Disposals	Balance at 31 December
1, Original cost:	35,930,196	3,469,108	-590,401	38,808,903
-Buildings	5,710,645	124,617	-34,518	5,800,744
-Plant and machinery	23,511,387	3,065,929	-479,524	26,097,792
-Vehicles and other equipment	6,708,164	278,562	-76,359	6,910,367
2, Accumulated depreciation:	21,651,825	1,662,278	-483,956	22,830,147
-Buildings	3,388,201	175,598	-26,307	3,537,492
-Plant and machinery	13,829,106	1,181,254	-386,838	14,623,522
-Vehicles and other equipment	4,434,518	305,426	-70,811	4,669,133
3, Net book value:	14,278,371			15,978,756
-Buildings	2,322,444			2,263,252
-Plant and machinery	9,682,281			11,474,270
-Vehicles and other equipment	2,273,646			2,241,234
4, Provision for impairment losses:	750,186	98,486	-75,647	773,025
-Buildings	51,616	51,480	-444	102,652
-Plant and machinery	664,531	25,269	-75,156	614,644
-Vehicles and other equipment	34,039	21,737	-47	55,729
5, Carrying amount:	13,528,185			15,205,731
-Buildings	2,270,828			2,160,600
-Plant and machinery	9,017,750			10,859,626
-Vehicles and other equipment	2,239,607			2,185,505

Depreciation charged for the year amounted to RMB1,662,278,000 (2008: RMB 1,645,238,000).

Construction in progress amounted to RMB 3,263,419,000 (2008: RMB 289,064,000) was transferred to fixed assets during the year.

(b) At 31 December 2009 and 2008, the Group had no pledged fixed assets.

5. Notes to the consolidated financial statements *(continued)*

(14) Fixed assets *(continued)*

(c) At 31 December 2009, the provision for impairment losses of certain assets of synthetic fibre segment made by the Group is RMB 75,140,000 (2008: RMB 417,936,000). These impairment provisions were related to the decreased capacity utilisation of some synthetic fibres equipment held for production. Recoverable amounts are determined based on the fair value less costs to sell with reference to the market price of similar assets in the same industry while the present value of expected future cash flows cannot be reliably measured. The fixed asset impairment occurred during the year is mainly due to the shut-down of certain equipment arising from the unfavorable economic environment.

(d) At 31 December 2009, the operations of Zhejiang Jin Yong Acrylic Fibre Co., Ltd. ("Jin Yong"), a subsidiary of the Group, were suspended and its acrylic equipment was temporarily idle because its main product, acrylic, was affected by the severe market environment and stagnant chemical fibre market, which caused Jin Yong made operating losses. Details are as follows:

Expressed in thousands of renminbi yuan

Items	Original Cost	Accumulated Depreciation	Provision for impairment losses	Carrying amount
-Buildings	422,066	358,211	52,200	11,655
-Plant and machinery	653,956	299,766	333,602	20,588
-Vehicles and other equipment	147,519	96,280	46,777	4,462
Total	1,223,541	754,257	432,579	36,705

(15) Construction in progress

(a) Construction in progress

Expressed in thousands of renminbi yuan

Project	2009		
	Original Cost	Provision for impairment	Carrying amount
Natural Gas Utilisation Project	63,048	-	63,048
Energy Saving and Upgrade Reconstruction on 2# Oxidation Unit	14,417	-	14,417
Construction of PAN-based Carbon Fiber Performance Evaluation Laboratory	11,327	-	11,327
Numerous small projects of Synthetic Fibres segment	54,406	-	54,406
Numerous small projects of Resins and Plastics segment	22,345	-	22,345
Numerous small projects of Intermediate Petrochemicals segment	65,466	-	65,466
Numerous small projects of Petroleum Products segment	38,536	-	38,536
Numerous small projects of all others	94,101	-	94,101
Total	363,646	-	363,646

5. Notes to the consolidated financial statements *(continued)*

(15) Construction in progress *(continued)*

(a) Construction in progress *(continued)*

Expressed in thousands of renminbi yuan

Project	2008		
	Original Cost	Provision for impairment	Carrying amount
600,000 ton/year Aromatics Unit	798,432	-	798,432
150,000 tons/year C5 Segregation Project	86,742	-	86,742
Desulphurisation Reinforcement of Recycle Hydrogen on 2# Aromatics Hydrogen Cracking Device	56,757	-	56,757
Energy Saving Reconstruction on 1# Ethylene Device	51,910	-	51,910
Security Reconstruction on 220KV Transformer System of 1# Power Plant	40,914	-	40,914
Smoke Desulphurisation Project of 3#, 4# Boiler	37,433	-	37,433
Numerous small projects of Synthetic Fibres segment	94,168	-	94,168
Numerous small projects of Resins and Plastics segment	33,002	-	33,002
Numerous small projects of Intermediate Petrochemicals segment	286,905	-	286,905
Numerous small projects of Petroleum Products segment	137,450	-	137,450
Numerous small projects of all others	230,441	-	230,441
Total	1,854,154	-	1,854,154

5. Notes to the consolidated financial statements *(continued)*

(15) Construction in progress *(continued)*

(b) The movement of the Group's major construction in progress projects is listed as follows:

Expressed in thousands of renminbi yuan

Projects	Budget	Balance at 1 January	Additions	Transferred to fixed assets	Percentage of input to budget (%)	Project progress (%)	Accumulated capitalised interests	Including: capitalised interests for the year	Interest capitalisation rate(%)	Source of capital	Balance at 31 December
600,000 ton/year Aromatics Unit	2,425,226	798,432	1,361,653	2,160,085	89.07	100.00	66,540	38,845	2.97-5.04	loans	-
150,000 tons/year C5 Segregation Project	261,952	86,742	133,252	219,994	83.98	100.00	5,998	4,607	2.87-5.04	own fund and loans	-
Desulphurisation Reinforcement of Recycle Hydrogen on 2# Aromatics Hydrogen Cracking Device	64,748	56,757	3,001	59,758	92.29	100.00	-	-	-	own fund	-
Energy Saving Reconstruction on 1# Ethylene Device	60,438	51,910	1,974	53,885	89.16	100.00	-	-	-	own fund	-
Security Reconstruction on 220KV Transformer System of 1# Power Plant	55,073	40,914	11,455	52,369	95.09	100.00	1,654	844	2.97-5.04	own fund and loans	-
Smoke Desulphurisation Project of 3#, 4# Boiler	70,025	37,433	28,360	65,793	93.96	100.00	-	-	-	own fund	-
Natural Gas Utilisation Project	195,090	-	63,048	-	32.32	32.32	189	189	2.12-2.92	own fund and loans	63,048
Construction of PAN-based Carbon Fiber Performance Evaluation Laboratory	12,137	-	11,327	-	93.33	93.33	-	-	-	own fund	11,327
Energy Saving and Upgrade Reconstruction on 2# Oxidation Unit	25,000	-	14,417	-	57.67	57.67	-	-	-	own fund	14,417
Numerous small projects of Synthetic Fibres segment	431,600	94,168	30,684	70,446	28.93	28.93	-	-	-	own fund	54,406
Numerous small projects of Resins and Plastics segment	78,196	33,002	6,927	17,584	51.06	51.06	-	-	-	own fund	22,345
Numerous small projects of Intermediate Petrochemicals segment	1,344,398	202,478	9,643	146,655	15.78	15.78	107	-	-	own fund and loans	65,466
Numerous small projects of Petroleum Products segment	3,193,539	240,706	2,512	204,682	7.62	7.62	374	-	-	own fund and loans	38,536
Numerous small projects of all others	1,714,418	211,611	94,658	212,168	17.86	7.86	7	-	-	own fund and loans	94,101
Total	9,931,840	1,854,154	1,772,911	3,263,419	-	-	74,869	44,485	-		363,646

All the above projects were made out of own funds and funds borrowed from financial institutions.

The capitalised borrowing costs included in the balances of construction in progress were RMB 677,000 (2008: RMB 30,664,000). The interest rates per annum at which borrowing costs were capitalised for the year ended 31 December 2009 by the Group is 2.12%-5.04% (2008: 5.10%-7.47%).

5. Notes to the consolidated financial statements *(continued)*

(16) Intangible assets

Expressed in thousands of renminbi yuan

Items	Balance at 1 January	Additions	Disposals	Balance at 31 December
1, Cost	845,244	-	1,038	844,206
-Land use right	749,905	-	1,038	748,867
-Other intangible assets	95,339	-	-	95,339
2, Accumulated amortisation	267,765	19,609	340	287,034
-Land use right	224,537	15,486	340	239,683
-Other intangible assets	43,228	4,123	-	47,351
3, Net book value	577,479			557,172
-Land use right	525,368			509,184
-Other intangible assets	52,111			47,988

Amortisation charged for the year amounted to RMB19,609,000 (2008: RMB 20,257,000).

(17) Long-term deferred expenses

Expressed in thousands of renminbi yuan

Item	Balance at 1 January	Additions	Disposals	Balance at 31 December
Catalyst	145,553	193,252	126,480	212,325

5. Notes to the consolidated financial statements *(continued)*

(18) Deferred tax assets

(a) Deferred tax assets and liabilities after offsetting each other are as follows:

Expressed in thousands of renminbi yuan

Items	2009		2008	
	Deductible/ (taxable) temporary differences	Deferred tax assets/ (liabilities)	Deductible/ (taxable) temporary differences	Deferred tax assets/ (liabilities)
Deferred tax assets:				
Provision for bad debt and inventories	124,700	31,175	795,327	198,832
Impairment losses for fixed assets	340,446	85,112	392,626	98,156
Contribution by fixed assets and sale of assets to a jointly controlled enterprise	40,280	10,070	43,784	10,946
Deductible tax losses	5,607,912	1,401,978	6,805,812	1,701,453
Other deferred tax assets	28,469	7,117	17,088	4,272
Fair value of available-for-sale financial assets	-	-	-110,536	-27,634
Capitalisation of borrowing cost	-105,288	-26,322	-116,784	-29,196
Fair value of financial assets held for trading	-	-	-97,644	-24,411
Total	6,036,519	1,509,130	7,729,673	1,932,418

(b) Movements of deferred tax assets are as follows:

Expressed in thousands of renminbi yuan

Items	Balance at 1 January	Current year increase/ decrease charged to profit or loss	Current year increase/ decrease recognised directly in equity	Balance at 31 December
Deferred tax assets:				
Provision for bad debt and inventories	198,832	-167,657	-	31,175
Impairment losses for fixed assets	98,156	-13,044	-	85,112
Contribution by fixed assets and sale of assets to a jointly controlled enterprise	10,946	-876	-	10,070
Deductible tax losses	1,701,453	-299,475	-	1,401,978
Other deferred tax assets	4,272	2,845	-	7,117
Fair value of available-for-sale financial assets	-27,634	-	27,634	-
Capitalisation of borrowing cost	-29,196	2,874	-	-26,322
Fair value of financial assets held for trading	-24,411	24,411	-	-
Total	1,932,418	-450,922	27,634	1,509,130

5. Notes to the consolidated financial statements *(continued)*

(18) Deferred tax assets *(continued)*

(c) Particulars about the offset of deferred tax assets and liabilities

Expressed in thousands of renminbi yuan

Item	Offsetting amount
Deferred tax assets	-26,322
Deferred tax liabilities	26,322

(d) Deferred tax assets not recognised

Expressed in thousands of renminbi yuan

Items	Note	2009	2008
Impairment losses on fixed assets	(i)	432,579	357,560
Deductible tax losses	(ii)	417,688	310,396
Total		850,267	667,956

(i) In accordance with the accounting policy set out in Note 2(24), the Group has not recognised deferred tax assets in respect of impairment losses on fixed assets of RMB 432,579,000 (2008: RMB 357,560,000) as it is not probable that future taxable income against which the losses can be utilised will be available at Zhejiang Jin Yong Acrylic Fibre Co., Ltd.

(ii) In accordance with the accounting policy set out in Note 2(24), the Group has not recognised deferred tax assets in respect of cumulative tax losses of RMB 417,688,000 (2008: RMB 310,396,000) as it is not probable that future taxable profits against which the losses can be utilised will be available at Zhejiang Jin Yong Acrylic Fibre Co., Ltd. The deductible tax losses will expire from 2010 to 2014 under current tax law.

(5) The expiration date of deductible tax losses not recognised

Expressed in thousands of renminbi yuan

Year	2009	2008
2010	14,539	14,539
2011	29,357	29,357
2012	68,548	68,548
2013	197,952	197,952
2014	107,292	-
Total	417,688	310,396

5. Notes to the consolidated financial statements *(continued)*

(19) Movement of provision for impairment

Expressed in thousands of renminbi yuan

Items	Note	At 1 January 2009	Additions	Disposals		At 31 December 2009
				Reversal	Write-off	
1, Receivables	5(4),(7)	31,341	766	-2,456	-11,792	17,859
2, Inventories	5(8)	818,370	58,040	-	-716,602	159,808
3, Long-term equity investments	5(12)	37,200	-	-	-37,200	-
4, Fixed assets	5(14)	750,186	98,486	-	-75,647	773,025
Total		1,637,097	157,292	-2,456	-841,241	950,692

See the note of each class of assets for the reason for corresponding impairment losses recognised during the year.

(20) Short-term loans

(a) Short-term loans by category

Expressed in thousands of renminbi yuan

Items	2009	2008
Credit loans		
-bank loans	**6,460,398**	8,428,204
-loans from related party	**240,000**	410,000
Total	**6,700,398**	8,838,204

At 31 December, 2009, the weighted average interest rate of the Group's short-term loans is 3.32% (2008: 5.50%).

(b) At 31 December 2009 and 2008, the Group had no overdue short-term loans.

(21) Bills payable

Expressed in thousands of renminbi yuan

Items	2009	2008
Commercial acceptance bills	**6,048**	18,979
Bank acceptance bills	**716,223**	246,464
Total	**722,271**	265,443

The above bills are due within one year.

5. Notes to the consolidated financial statements *(continued)*

(22) Accounts payable

(a) Accounts payable by category:

Expressed in thousands of renminbi yuan

Items	2009	2008
Related parties	2,656,857	1,667,328
Third parties	1,008,139	845,748
Total	3,664,996	2,513,076

At 31 December 2009, there were no significant accounts payable aged over 1 year.

(b) Except for the balances disclosed in Note 6, no amount due to shareholders who hold 5% or more of the voting rights of the Company is included in the above balance of accounts payable.

(23) Advances from customers

(a) Advances from customers by category:

Expressed in thousands of renminbi yuan

Items	2009	2008
Related parties	16,102	16,408
Third parties	513,180	427,063
Total	529,282	443,471

At 31 December 2009, there were no significant advances from customers aged over 1 year.

(b) Except for the balances disclosed in Note 6, no amount due to shareholders who hold 5% or more of the voting rights of the Company is included in the above balance of advances from customers.

5. Notes to the consolidated financial statements *(continued)*

(24) Employee benefits payable

Expressed in thousands of renminbi yuan

Items	At 1 January 2009	Additions	Disposals	At 31 December 2009
1, Salaries, bonuses and allowances	5,060	1,074,470	1,074,470	5,060
2, Staff welfare fees	-	54,954	54,954	-
3, Social insurances	14,234	375,001	372,200	17,035
Including: 1) Medical insurance premium	107	105,176	104,997	286
2) Basic pension insurance premium	12,939	192,791	190,399	15,331
3) Unemployment insurance premium	1,176	17,696	17,478	1,394
4) Work injury insurance premium	6	4,403	4,397	12
5) Maternity insurance premium	6	4,421	4,415	12
6) Supplementary medical insurance premium	-	52	52	-
7) Supplementary pension insurance premium	-	49,513	49,513	-
8) Other insurance premium	-	949	949	-
4, Housing fund	-	61,272	61,272	-
5, Termination benefits (including early retirement cost)	-	12,518	12,518	-
6, others	3,946	253,667	252,034	5,579
Total	23,240	1,831,882	1,827,448	27,674

At 31 December 2009, no amount in arrears is included in the balance of the employee benefits payable.

At 31 December 2009, labour union fee and staff and workers' education fee amounted to RMB 3,080,000 and non-monetary welfare amounted to RMB nil are included in the above "others" balance.

The balance of employee benefits payable as at 31 December 2009 is expected to be fully distributed or utilised in the first quarter of 2010.

5. Notes to the consolidated financial statements *(continued)*

(24) Employee benefits payable *(continued)*

As stipulated by the relevant regulations, the Group participates in a defined contribution retirement plan organised by the Shanghai Municipal Government for its staff. Pursuant to a document "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% (2008: 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 have set up a supplementary defined contribution retirement plan for the benefit of employees. Employees who have served the Group for five years or more may participate in this plan. The Group 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 in an independent fund administered by a committee consisting of representatives from the employees and the Group. In April 2003, the Group 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 2009, the Group's contribution to the above plan amounted to RMB 49,513,000 (2008: RMB 54,862,000).

In accordance with the Group voluntary employee reduction plan, the Group recorded employee reduction expenses of RMB 12,518,000 (2008: RMB 89,844,000) during the year ended 31 December 2009, in respect of the voluntary resignation of approximately 238 employees (2008: 947 employees).

(25) Taxes payable

Expressed in thousands of renminbi yuan

Item	2009	2008
Value added tax(note(a))	114,234	3,453
Business tax	2,822	2,909
Income tax	9,298	1,679
Consumption tax(note(b))	439,973	29,358
Education surcharge	16,761	1,023
City maintenance and construction tax	39,126	2,366
Others	13,716	4,660
Total	635,930	45,448

(a) The increase in value-added tax payable compared to 2008 was mainly resulted from the decrease in input value-added tax due to the decrease in crude oil purchase price.

(b) The increase in consumption tax payable compared to 2008 was mainly due to the increase of consumption tax rate in 2009.

5. Notes to the consolidated financial statements *(continued)*

(26) Interest payable

Expressed in thousands of renminbi yuan

Items	2009	2008
Interest payable of interest due installments of long-term loans	576	1,807
Interest payable of corporate bonds	15,318	-
Interest payable of short-term loans	4,261	16,526
Total	20,155	18,333

(27) Other payables

(a) Other payables by category:

Expressed in thousands of renminbi yuan

Items	2009	2008
Related parties	204,687	66,911
Third parties	699,257	594,073
Total	903,944	660,984

Other payables mainly represent construction fee payable.

(b) Except for the balances disclosed in Note 6, no amount due to shareholders who hold 5% or more of the voting rights of the Company is included in the above balance of other payables.

(28) Short-term debentures payable

Expressed in thousands of renminbi yuan

Item	2009	2008
Short-term debentures payable	1,000,000	-

The Company issued RMB 1 billion 330-day unsecured corporate bonds to corporate investors in the PRC inter-bank debenture market on 3 April 2009. The bonds were issued at 100% of par value, with an effective yield of 2.05% per annum, and mature on 3 March 2010. The interest accrued during this year amounted to RMB 15,318,000.

5. Notes to the consolidated financial statements *(continued)*

(29) Non-current liabilities due within one year

(a) Non-current liabilities due within one year is as follows :

Expressed in thousands of renminbi yuan

Item	2009	2008
Long-term loans due within one year	74,275	534,521

(b) Long-term loans due within one year is as follows:

Expressed in thousands of renminbi yuan

Item	2009	2008
Credit loans	74,275	534,521

(i) The details of long-term loans due within one year is as follows:

Expressed in thousands of renminbi yuan/USD

Creditors	Starting date	Maturity date	Currency	Annual interest rate (%)	2009		2008	
					Original Currency	RMB	Original Currency	RMB
1. Zhejiang Provincial Developing Assets Operation Co , Ltd.	1997.12.21	2010.09.30	RMB	Interest free	-	61,500	-	41,000
2. Ningbo Development & Investment Group Co., Ltd.	1997.12.21	2010.03.20	USD	Interest free	1,080	7,375	720	4,921
3. Ningbo Development & Investment Group Co., Ltd.	1997.12.21	2010.03.20	RMB	Interest free	-	5,400	-	3,600
Total						74,275		49,521

(30) Long-term loans

(a) Long-term loans by category

Expressed in thousands of renminbi yuan

Item	2009	2008
Credit loans	304,258	429,021

5. Notes to the consolidated financial statements *(continued)*

(30) Long-term loans *(continued)*

(b) At 31 December 2009, long-term loans with the five largest balance are as follows:

Expressed in thousands of renminbi yuan/USD

Creditors	Starting date	Maturity date	Currency	Annual Interest rate (%)	2009		2008	
					Original Currency	RMB	Original Currency	RMB
Industrial and Commercial Bank of China, Jinshan Branch	2008.11.27	2013.11.25	RMB	5.184	-	100,000	-	100,000
Industrial and Commercial Bank of China, Jinshan Branch	2008.12.25	2013.11.25	RMB	5.184	-	100,000	-	100,000
China Construction Bank, Jinshan Branch	2008.11.27	2011.11.25	RMB	5.103	-	50,000	-	50,000
China Construction Bank, Jinshan Branch	2008.12.25	2011.11.25	RMB	5.103	-	50,000	-	50,000
Ningbo Development & Investment Group Co., Ltd	1997.12.21	2011.03.20	USD	Interest free	360	2,458	1,440	9,842
Total						302,458		309,842

(31) Other non-current liabilities

Expressed in thousands of renminbi yuan

Item	2009	2008
Deferred income	234,781	230,000

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. In 2009, the Group received government grants related to an asset amounting to RMB14,781,000 (2008: nil), which mainly comprised of grants for research and development and environmental protection.

(32) Share capital

Expressed in thousands of renminbi yuan

Items	At 1 January 2009	At 31 December 2009
(1) Non-circulating Shares:		
- Domestic legal persons shares	4,150,000	4,150,000
(2) Circulating Shares:		
- RMB ordinary A shares listed in PRC	720,000	720,000
- Foreign investment H shares listed overseas	2,330,000	2,330,000
Total	7,200,000	7,200,000

5. Notes to the consolidated financial statements *(continued)*

(32) Share capital *(continued)*

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.

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.

During China National Petrochemical Corporation's restructuring in 1998, its name was changed to China Petrochemical Corporation (Sinopec Group).

China Petroleum & Chemical Corporation (CPCC) was established on 28 February 2000 based on the approved assets restructuring of the Sinopec Group. As part of the restructuring, the shares of the Company held by the Sinopec Group were injected in CPCC; after the restructuring, the ownership of 4 billion state-owned shares of the Company held by the 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.

5. Notes to the consolidated financial statements *(continued)*

(33) Capital reserve

The capital reserve of the Group is analysed as follows:

Expressed in thousands of renminbi yuan

Items	Note	At 1 January 2009	Additions	Disposals	At 31 December 2009
Share premium		2,420,841	-	-	2,420,841
Government grants	(a)	386,370	26,000	-	412,370
Changes in fair value of available-for-sale financial assets, net of deferred tax	(b)	82,903	-	-82,903	-
Others		49,067	-	-	49,067
Total		2,939,181	26,000	-82,903	2,882,278

(a) Government grants represent grants received for the purchase of equipment used for technology improvements. The Group received government grants for key industry revitalisation and technical improvement project in 2009, which amounted to RMB 26,000,000 (2008: nil).

(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 reserve.

(34) Surplus reserve

Expressed in thousands of renminbi yuan

Items	At 1 January 2009	Addition	At 31 December 2009
Statutory surplus reserve (Note)	3,485,894	35,358	3,521,252
Discretionary surplus reserve	1,280,514	-	1,280,514
Total	4,766,408	35,358	4,801,766

Note: Pursuant to the resolution of the Board, the Company transferred 10% of net profit after making up the accumulated losses to the statutory surplus reserve for the year ended 31 December 2009.

5. Notes to the consolidated financial statements *(continued)*

(35) Retained earnings

Expressed in thousands of renminbi yuan

Items	Note	2009	2008
Retained earnings at 1 January 2009		-1,064,218	5,829,194
Add: Net profit/(loss) attributable to equity shareholders of the Company		1,561,605	-6,245,412
Less: Appropriation to statutory surplus reserve		-35,358	-
Dividends payable to ordinary shares	(a)	-	-648,000
Retained earnings at 31 December 2009	(b)	462,029	-1,064,218

(a) Dividends of ordinary shares attributed during the year

The Group made a loss in 2008. Therefore no final dividend for the year ended 31 December 2008 was declared in 2009 (2008: RMB 0.09 per share, totally RMB 648,000,000).

(b) Notes on the ending balance of retained earnings

As at 31 December 2009, the consolidated retained earnings/accumulated losses attributable to the Company included an appropriation of RMB 97,748,000 to surplus reserve made by the subsidiaries. (2008:RMB 92,347,000).

(36) Operating income, operating costs

(a) Operating income, operating costs

Expressed in thousands of renminbi yuan

Items	2009	2008
Income from principal operations	51,333,161	59,830,981
Income from other operations	389,566	479,589
Operating costs	42,665,330	65,753,651

Operating income represents sales of products after deduction of VAT.

(b) The Group mainly operates in petrochemical industry.

(c) For operating income and operating costs by product, see note10(1).

5. Notes to the consolidated financial statements *(continued)*

(36) Operating income, operating costs *(continued)*

(d) Revenue from sales to the five largest customers for 2009 is set out as follows:

Expressed in thousands of renminbi yuan

Customer	Operating income	Percentage of total operating income(%)
1. Sinopec Huadong Sales Company	20,313,011	39.27
2. China Petroleum & Chemical Corporation	5,014,747	9.70
3. Shanghai Secco Petrochemical Company Limited	788,417	1.53
4. Shanghai Yali Industry Development Co., Ltd.	436,629	0.84
5. Bejing Xinshan Chemical Products Co., Ltd.	359,628	0.69
Total	26,912,432	52.03

(37) Business taxes and surcharges

Expressed in thousands of renminbi yuan

Items	2009	2008	Tax base
Consumption tax	3,819,859	759,717	In accordance with the relevant tax regulation, with effect from 1 January 2009, consumption tax rate for sale of gasoline and diesel oil have been adjusted to RMB 1,388 per ton and RMB 940.8 per ton respectively (2008: RMB277.6 per ton and RMB117.6 per ton for gasoline and diesel oil respectively)
Business tax	10,605	9,590	5% of income entitled to business tax
City maintenance and construction tax	337,262	88,752	7% of VAT and business tax paid
Education surcharge and others	144,939	39,029	3% of VAT and business tax paid
Total	4,312,665	897,088	

(38) Financial expenses

Expressed in thousands of renminbi yuan

Items	2009	2008
Interest expenses from loans and payables	358,474	585,142
Less: Borrowing costs capitalised	-44,485	-27,171
Interest income from deposits and receivables	-19,405	-59,472
Net foreign exchange loss/(gain)	2,592	-80,660
Others	13,550	10,243
Total	310,726	428,082

5. Notes to the consolidated financial statements *(continued)*

(39) Impairment losses

Expressed in thousands of renminbi yuan

Items	2009	2008
Receivables	-1,690	-5,326
Inventories	58,040	744,578
Fixed assets	98,486	440,946
Total	154,836	1,180,198

(40) Gains/(losses) from changes in fair value

Expressed in thousands of renminbi yuan

Items resulting in changes in fair value	2009	2008
Financial assets held for trading		
- Changes in fair value	-10,423	97,644

(41) Investment income/(losses)

(a) Investment income by category

Expressed in thousands of renminbi yuan

Items	Note	2009	2008
Long-term equity investments income accounted for under the cost method		-	9,721
Long-term equity investments income accounted for under the equity method	(b)	231,372	-8,508
Gains on disposal of long-term equity investments		72,215	-
Gains on disposal of available-for-sale financial assets		222,810	131,772
Total		526,397	132,985

5. Notes to the consolidated financial statements *(continued)*

(41) Investment income/(losses) *(continued)*

(b) Among long-term equity investment income accounted for under the equity method, the investment income accounted for more than 5% of operating profit, or less than 5% but top 5 investment income is as follows:

Expressed in thousands of renminbi yuan

Items	2009	2008
Shanghai Secco Petrochemical Company Limited (Note)	133,842	-98,732
Shanghai Chemical Industrial Park Development Company Limited	67,976	36,249
BOC-SPC Gases Co., Ltd.	22,510	31,724
Shanghai Yamatake Automation Company Limited	12,082	13,493
Shanghai Petrochemical Yangu Gas Development Co., Ltd.	3,940	3,521
Total	240,350	-13,745

There are no severe restrictions on the investees' ability to transfer investment income to the Group.

Note: Shanghai Secco Petrochemical Company Limited ("Secco") incurred a loss in 2008 due to the global financial crisis and the periodic downturn of the petrochemical industry. In 2009, Secco's operations have improved with a profit, resulting in a significant increase in the Group's investment income in 2009 compared with 2008.

5. Notes to the consolidated financial statements *(continued)*

(42) Non-operating income

(a) Non-operating income by category

Expressed in thousands of renminbi yuan

Items	Note	2009	2008
Gains on disposal of non-current assets		116,476	17,618
Include: Net gains on disposal of fixed assets		24,674	16,955
Net gains on disposal of intangible assets		91,802	663
Government grants	(b)	25,310	2,343,274
Penalty income		35	32
Others		8,335	13,062
Total		150,156	2,373,986

(b) Government grants by category

Expressed in thousands of renminbi yuan

Items	2009	2008
Amortisation of deferred income	10,000	10,000
Grant income from MOF related to petroleum products (Note)	-	2,312,227
Others	15,310	21,047
Total	25,310	2,343,274

Note: During the year ended 31 December 2008, the Group recognised a grant income of RMB 2,312,227,000 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. The Group didn't receive such grants in 2009.

(43) Non-operating expenses

Expressed in thousands of renminbi yuan

Items	2009	2008
Losses on disposal of fixed assets	8,488	4,452
Donations	-	2,000
Others	63,311	25,142
Total	71,799	31,594

5. Notes to the consolidated financial statements *(continued)*

(44) Income tax expenses

Expressed in thousands of renminbi yuan

Items	Note	2009	2008
Income tax expenses for the year, calculated in accordance with tax laws and related regulations		58,410	34,919
Deferred taxation	(a)	450,922	-1,865,160
Under provision for income tax expenses in prior years		843	16,655
Total		510,175	-1,813,586

(a) Reconciliation between income tax expenses and accounting profits/(losses) is as follows:

Expressed in thousands of renminbi yuan

Items	2009	2008
Profits/(losses) before taxation	2,136,251	-8,022,281
Expected income tax expenses at a rate of 25% (2008: 25%)	534,063	-2,005,570
Add: Tax effect of non-deductible expenses	5,932	30,433
Tax effect of non-taxable income	-473	-3,776
Under provision for income tax expenses in prior years	843	16,655
Tax effect of share of profits recognised under the equity method	-57,843	2,127
Tax effect of unused tax losses not recognised for deferred tax	26,823	49,488
Change in unrecognised deductible temporary differences	5,769	97,057
Others	-4,939	-
Income tax expenses	510,175	-1,813,586

(45) Calculation of basic and diluted earnings/(losses) per share

(1) Basic earnings/(losses) per share:

Basic earnings/(losses) per share is the calculated by dividing the consolidated net profit/(loss) attributable to ordinary shareholders of the Company to the weighted average number of ordinary shares outstanding:

Expressed in thousands of renminbi yuan

Items	2009	2008
Net profit/(loss) attributable to ordinary equity shareholders of the Company	1,561,605	-6,245,412
Weighted average number of the Company's ordinary shares issued ('000)	7,200,000	7,200,000
Basic earnings/(losses) per share (RMB/Share)	0.217	-0.867

5. Notes to the consolidated financial statements *(continued)*

(45) Calculation of basic and diluted earnings/(losses) per share *(continued)*

(2) Diluted earnings/(losses) per share:

As there are no diluted ordinary shares outstanding, the diluted earnings per share equals the basic earnings per share.

(46) Other comprehensive income/(loss)

Expressed in thousands of renminbi yuan

Items	2009	2008
Unrealised income/(loss) of available-for-sale financial assets	112,273	-221,110
Reclassification adjustment for gains on disposal of available-for-sale financial assets transferred to profit or loss	-222,810	-131,772
Tax effect of other comprehensive income	27,634	88,221
Total	-82,903	-264,661

(47) Notes to the cash flow statement

(a) Other cash received relating to operating activities:

Expressed in thousands of renminbi yuan

Items	Amount
Government grants	15,310
Others	8,370
Total	23,680

(b) Other cash paid relating to operating activities

Expressed in thousands of renminbi yuan

Items	Amount
Agency fee	116,441
Administrative fees	55,927
Research and development expenses	40,293
Rental expenses	43,661
Others	47,603
Total	303,925

(c) Other cash received relating to investing activities:

Expressed in thousands of renminbi yuan

Item	Amount
Interest income	19,405

5. Notes to the consolidated financial statements *(continued)*

(48) Supplemental information to the cash flow statement

(a) Supplemental information to the cash flow statement

Expressed in thousands of renminbi yuan

Supplemental information	2009	2008
1. Reconciliation of net profit to cash flows from operating activities:		
Net profit/(loss)	1,626,076	-6,208,695
Add: Impairment losses	154,836	1,180,198
Depreciation of investment property	13,261	13,440
Depreciation of fixed assets	1,662,278	1,645,238
Amortisation of intangible assets	19,609	20,257
Gains on disposal of fixed assets, intangible assets and other long-term assets	-107,988	-13,166
Losses/(gains) on changes in fair value	10,423	-97,644
Financial expenses	297,176	417,839
Investment income	-526,397	-132,985
Decrease/(increase) in deferred tax assets	450,922	-1,865,160
Increase in inventories	-2,449,659	-38,944
Decrease/(increase) in operating receivables	-427,290	1,630,342
Increase in operating payables	2,980,295	41,395
Net cash inflows/(outflows) from operating activities	3,703,542	-3,407,885
2.Net change in cash and cash equivalents:		
Cash balance at the end of the year	125,917	627,685
Less: cash balance at the beginning of the year	627,685	893,165
Net decrease in cash and cash equivalents	-501,768	-265,480

(b) Cash and cash equivalents held by the Group are as follows

Expressed in thousands of renminbi yuan

Items	2009	2008
1, Cash		
-Cash on hand	93	74
- Bank deposits available on demand	112,905	614,811
- Other monetary fund available on demand	12,919	12,800
2, Closing balance of cash and cash equivalents available on demand	125,917	627,685

6. Related party relationships and transactions

(1) Information on the parent of the Company is listed as follows:

Name of company	Relationship with the Company	Economic nature	Registered address	Authorised representative	Scope of operations	Registered capital	Shareholding percentage (%)	Proportion of voting rights (%)	The ultimate parent company	Organisation code
China Petroleum & Chemical Corporation	The immediate parent company	Joint stock limited company	No.22 Chao yang men North Street, Chaoyang District, Beijing	Su Shulin	Exploring for, extracting and selling crude oil and natural gas; oil refining; production, sale and transport of petrochemical, chemical fibres and other chemical products; pipe transport of crude oil and natural gas; research and development and application of new technologies and information.	RMB 86.7 billion	55.56	55.56	China Petrochemical Corporation	71092609-4

The above registered capital did not change during the year ended 31 December 2009.

At 31 December 2009, Sinopec Corp held 4 billion shares of the Company. There are no change during the year.

(2) Information on the Company's subsidiaries

See Note4(1) for details of the Company's subsidiaries .

(3) Information on the Company's jointly controlled enterprises and associates

See Note5(12) for details of the Company's jointly controlled enterprises and associates.

6. Related party relationships and transactions *(continued)*

(4) Information of other related parties

Names of other related parties	Relationship with the Company	Organisation code
China Petrochemical Corporation (Sinopec Group)	The ultimate parent company	10169286-X
Sinopec Finance Company Limited	Subsidiary of the ultimate parent company	10169290-7
Sinopec Storage and Transportation Branch	Subsidiary of the ultimate parent company	70356548-9
Sinopec Zhenhai Refining & Chemical Branch	Branch of the immediate parent company	79301742-6
Sinopec Huadong Sales Company	Subsidiary of the immediate parent company	74491218-4
Sinopec Pipeline Storage & Transport Company	Branch of the immediate parent company	71853333-2
China International United Petroleum and Chemical Company Limited	Subsidiary of the immediate parent company	10001343-1
China Petrochemical International Company Limited	Subsidiary of the immediate parent company	10169063-7
Sinopec Chemical Products Sales Company	Branch of the immediate parent company	77405580-6
Sinopec Yizheng Chemical Fibre Company Limited	Subsidiary of the immediate parent company	62590829-7

6. Related party relationships and transactions *(continued)*

(5) Related party transactions

(a) Sales and purchase of goods, rendering and receiving of services

The Group

Expressed in thousands of renminbi yuan

Related Parties	Transaction type	Category	2009		2008	
			Amount	Percentage on deals of the same category(%)	Amount	Percentage on deals of the same category(%)
Sinopec Corp and its subsidiaries	Trade	Sales/service	26,471,248	51.18	28,808,770	47.77
Sinopec Corp and its subsidiaries	Trade	Purchase	24,262,836	60.86	42,702,525	68.92
Sinopec Group and its subsidiaries	Trade	Sales/service	131,117	0.25	480,686	0.80
Sinopec Group and its subsidiaries	Trade	Purchase	-	-	31,005	0.05
Associates of the Company	Trade	Sales	290,395	0.56	376,828	0.62
Associates of the Company	Trade	Purchase	113,386	0.28	561,358	0.91
Jointly controlled enterprises of the Company	Trade	Sales	272,863	0.53	242,002	0.40
Jointly controlled enterprises of the Company	Trade	Purchase	419,798	1.05	348,514	0.56
Key management personnel	Compensation for services	Short-term employee benefits	6,019	0.41	5,008	0.34
Key management personnel	Compensation for services	Retirement scheme contributions	102	0.03	95	0.02

6. Related party relationships and transactions *(continued)*

(5) Related party transactions *(continued)*

(a) Sales and purchase of goods, rendering and receiving of services *(continued)*

The Company

Expressed in thousands of renminbi yuan

Related Parties	Type	Category	2009 Amount	2009 Percentage on deals of the same category(%)	2008 Amount	2008 Percentage on deals of the same category(%)
Sinopec Corp and its subsidiaries	Trade	Sales/service	22,787,760	51.67	28,101,823	50.40
Sinopec Corp and its subsidiaries	Trade	Purchase	23,473,666	71.11	41,757,390	71.70
Sinopec Group and its subsidiaries	Trade	Sales/service	131,117	0.30	480,641	0.86
Sinopec Group and its subsidiaries	Trade	Purchase	-	-	31,005	0.05
Subsidiaries of the Company	Trade	Sales	835,355	1.89	1,922,196	3.45
Subsidiaries of the Company	Trade	Purchase	2,171,650	6.58	3,265,568	5.61
Associates of the Company	Trade	Sales	290,395	0.66	376,828	0.68
Associates of the Company	Trade	Purchase	113,386	0.34	561,358	0.96
Jointly controlled enterprises of the Company	Trade	Sales	272,738	0.62	240,034	0.43
Jointly controlled enterprises of the Company	Trade	Purchase	419,798	1.27	348,514	0.60
Key management personnel	compensation for services	Short-term employee benefits	6,019	0.45	5,008	0.42
Key management personnel	compensation for services	Retirement scheme contributions	102	0.03	95	0.03

Most of the transactions undertaken by the Group with those counterparties and their terms during the year ended 31 December 2009 have been determined by Sinopec Corp and the relevant government authorities.

The above transactions with related parties were entered into the normal course of business and on normal commercial terms in accordance with the agreements governing such transactions.

6. Related party relationships and transactions *(continued)*

(5) Related party transactions *(continued)*

(b) Related party guarantees

The Company

Expressed in thousands of renminbi yuan

Guarantor	Guarantee	Amount	Starting from	Ending on	Guarantees ended or not
The Company	Zhejiang Jin Yong Acrylic Fibre Company Limited	200,000	2009.05.26	2010.05.25	No

(c) Related party borrowing and lending

The Group

Expressed in thousands of renminbi yuan

Related Parties	Amount	Start date	Maturity date	Note
Borrowing				
Sinopec Finance Company Limited	200,000	2009.05.26	2010.05.26	Credit loans
Sinopec Finance Company Limited	30,000	2009.09.21	2010.09.20	Credit loans
Sinopec Finance Company Limited	10,000	2009.09.10	2010.09.10	Credit loans

The Company

Expressed in thousands of renminbi yuan

Related Parties	Amount	Start date	Maturity date	Note
Borrowing				
Sinopec Finance Company Limited	30,000	2009.09.21	2010.09.20	Credit loans
Sinopec Finance Company Limited	10,000	2009.09.10	2010.09.10	Credit loans

6. Related party relationships and transactions *(continued)*

(5) Related party transactions *(continued)*

(d) Other related party transactions

The Group

Expressed in thousands of renminbi yuan

Transaction	Related Parties	2009	2008
Insurance premiums paid	Sinopec Corp	88,408	93,587
Interest received and receivable	Sinopec Finance Company Limited	532	649
Interest paid and payable	Sinopec Finance Company Limited	26,423	26,682
Construction and installation fees	Sinopec Corp	165,204	114,878
Agency fee	Sinopec Huadong Sales Company	116,441	146,137
Rental income	Sinopec Corp	14,995	13,959
Rental income	Associates of the Company	5,218	5,050

The Company

Expressed in thousands of renminbi yuan

Transaction	Related Parties	2009	2008
Insurance premiums paid	Sinopec Corp	88,408	93,587
Interest received and receivable	Sinopec Finance Company Limited	531	426
Interest paid and payable	Sinopec Finance Company Limited	15,919	12,563
Construction and installation fees	Sinopec Corp	165,204	114,878
Rental income	Sinopec Corp	14,995	13,959
Rental income	Subsidiaries of the Company	5,826	5,426
Rental income	Associates of the Company	5,218	5,050
Agency fee	Sinopec Huadong Sales Company	116,441	146,689

6. Related party relationships and transactions *(continued)*

(6) Balances of receivables and payables with related parties

The Group

Expressed in thousands of renminbi yuan

Items	Related Parties	2009	2008
Bills receivable	Sinopec Corp and its subsidiaries	2,000	7,977
Bills receivable	Associates of the Company	28,418	25,799
Accounts receivable	Sinopec Corp and its subsidiaries	395,253	97,228
Accounts receivable	Sinopec Group and its subsidiaries	134	193
Accounts receivable	Associates of the Company	16,685	23,535
Accounts receivable	Jointly controlled enterprises of the Company	2,731	16,251
Dividends receivable	Associates of the Company	-	74,000
Other receivables	Sinopec Corp and its subsidiaries	3,138	-
Other receivables	Sinopec Group and its subsidiaries	422	-
Other receivables	Associates of the Company	206	9,653
Other receivables	Jointly controlled enterprises of the Company	2,841	2,001
Prepayments	Sinopec Corp and its subsidiaries	122,845	9,496
Prepayments	Sinopec Group and its subsidiaries	1,618	11,543
Prepayments	Associates of the Company	108	101
Bills payable	Sinopec Corp and its subsidiaries	610,000	-
Bills payable	Sinopec Group and its subsidiaries	-	2,000
Accounts payable	Sinopec Corp and its subsidiaries	2,435,094	1,541,307
Accounts payable	Sinopec Group and its subsidiaries	24,485	61,013
Accounts payable	Associates of the Company	197,278	38,216
Accounts payable	Jointly controlled enterprises of the Company	-	26,792
Other payables	Sinopec Corp and its subsidiaries	190,092	8,695
Other payables	Sinopec Group and its subsidiaries	14,587	26,216
Other payables	Associates of the Company	8	32,000
Advances from customers	Sinopec Corp and its subsidiaries	10,961	13,209
Advances from customers	Sinopec Group and its subsidiaries	2,138	3,195
Advances from customers	Associates of the Company	3,003	4

6. Related party relationships and transactions *(continued)*

(6) Balance of receivables and payables with related parties *(continued)*

The Company

Expressed in thousands of renminbi yuan

Items	Related Parties	2009	2008
Bills receivable	Sinopec Corp and its subsidiaries	2,000	-
Bills receivable	Subsidiaries of the Company	15,834	3,971
Bills receivable	Associates of the Company	28,418	25,799
Accounts receivable	Sinopec Corp and its subsidiaries	354,937	97,227
Accounts receivable	Sinopec Group and its subsidiaries	134	193
Accounts receivable	Subsidiaries of the Company	10,815	19,160
Accounts receivable	Associates of the Company	16,582	22,366
Accounts receivable	Jointly controlled enterprises of the Company	2,731	14,710
Dividends receivable	Associates of the Company	-	74,000
Other receivables	Sinopec Corp and its subsidiaries	3,138	-
Other receivables	Sinopec Group and its subsidiaries	422	-
Other receivables	Subsidiaries of the Company (Note(a))	-	435
Other receivables	Associates of the Company	206	154
Other receivables	Jointly controlled enterprises of the Company	2,841	2,001
Prepayments	Sinopec Corp and its subsidiaries	121,444	8,875
Prepayments	Sinopec Group and its subsidiaries	1,618	11,543
Bills payable	Sinopec Corp and its subsidiaries	610,000	-
Bills payable	Sinopec Group and its subsidiaries	-	2,000
Bills payable	Subsidiaries of the Company	242,057	-
Accounts payable	Sinopec Corp and its subsidiaries	2,435,090	1,541,306
Accounts payable	Sinopec Group and its subsidiaries	24,485	61,013
Accounts payable	Subsidiaries of the Company	112,923	160,778
Accounts payable	Associates of the Company	129,635	2,135
Accounts payable	Jointly controlled enterprises of the Company	-	26,792
Other payables	Sinopec Corp and its subsidiaries	190,091	8,695
Other payables	Sinopec Group and its subsidiaries	14,587	26,216
Other payables	Subsidiaries of the Company	649,865	363,416
Other payables	Associates of the Company	8	-

6. Related party relationships and transactions *(continued)*

(6) Balance of receivables and payables with related parties *(continued)*

The Company *(continued)*

Expressed in thousands of renminbi yuan

Items	Related Parties	2009	2008
Advances from customers	Sinopec Corp and its subsidiaries	10,963	13,208
Advances from customers	Sinopec Group and its subsidiaries	2,138	3,195
Advances from customers	Subsidiaries of the Company	5,215	7,563
Advances from customers	Associates of the Company	2,978	-

(a) For the year ended 31 December 2009, an accumulated bad debt provision for other receivables due from the Company's subsidiary Jin Yong, which amounted to RMB 383,550,000, was included in the above other receivables from subsidiaries (2008: RMB 282,700,000). The Company provided a full bad debt provision based on the reasons stated in Note 11(4)(d).

7. Contingencies

(1) Contingent liabilities resulted from guarantees provided to others and their financial impact

The Group

Expressed in thousands of renminbi yuan

Items	2009	2008
Guarantees issued to banks in favour of:		
- Associates	-	14,500
- Joint ventures	-	11,247
Total	-	25,747

The Company

Expressed in thousands of renminbi yuan

Items	2009	2008
Guarantees issued to banks in favour of:		
- Subsidiaries	200,000	250,000
- Associates	-	14,500
Total	200,000	264,500

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 can be reliably estimated. At 31 December 2009, it is not probable that the Group will be required to make payments under the guarantees. Thus no liability has been accrued for a loss related to the Group's obligation under the guarantees arrangement.

7. Contingencies *(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 the years prior to 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. There is no further development of this matter during the year ended 31 December 2009. No provision has been made in the financial statements for this uncertainty for tax years prior to 2007 because management believes it cannot reliably estimate the amount of the obligation, if any, that might exist.

8. Commitments

(1) Significant commitments

(a) Capital commitments:

Expressed in thousands of renminbi yuan

Item	2009	2008
Contracted but not provided for	35,745	90,987
Authorised by the Board but not contracted for	7,754,320	2,450,250
Total	7,790,065	2,541,237

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 2009, the Group did not have material operating lease commitment.

9. Post balance sheet events

(1) Appropriation of profit after the balance sheet date

Expressed in thousands of renminbi yuan

Profit or dividend to be appropriated	Note(a)	216,000

(a) Dividends of ordinary shares proposed after the balance sheet date

The Board of Directors proposed on 26 March 2010 the appropriation of a cash dividend of RMB 0.03 per share (2008: RMB nil per share) to the Company's ordinary shareholders, totalling RMB 216,000,000 (2008: RMB nil). The proposal is subject to the approval by the Shareholders' Meeting. Such cash dividend has not been recognised as a liability at the balance sheet date.

10. Other important matters

(1) 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.

In a manner consistent with the way in which information is reported internally to the Group's chief operating decision maker for the purposes of resource allocation and performance assessment, the Group identified the following four reportable segments. No operating segments have been aggregated to form the following reportable segments.

The Group evaluates the performance and allocates resources to its operating segments on an operating income basis, without considering the effects of finance costs, investment income, non-operating income and non-operating expense.

Operating cost includes cost of sales, sales taxes and surcharges, selling expenses, general 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 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 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.

10. Other important matters *(continued)*

(1) Segment reporting *(continued)*

(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.

(a) Segment results, assets and liabilities

Expressed in thousands of renminbi yuan

	2009	2008
Operating income		
Synthetic fibres		
External sales	2,860,851	3,670,362
Inter-segment sales	57	73
Sub-total	2,860,908	3,670,435
Resins and plastics		
External sales	12,407,738	14,880,659
Inter-segment sales	44,245	53,065
Sub-total	12,451,983	14,933,724
Intermediate petrochemicals		
External sales*	8,511,347	10,296,256
Inter-segment sales	12,165,836	17,801,810
Sub-total	20,677,183	28,098,066
Petroleum products		
External sales*	22,936,392	28,372,037
Inter-segment sales	1,762,391	2,153,355
Sub-total	24,698,783	30,525,392
All others		
External sales*	5,006,399	3,091,256
Inter-segment sales	2,589,206	2,720,112
Sub-total	7,595,605	5,811,368
Eliminations of inter-segment sales	-16,561,735	-22,728,415
Total	51,722,727	60,310,570

* Among the revenue from the segments of intermediate petrochemicals, petroleum products and all others, one customer contributed 49% of the Group's operating income (2008:46%)

10. Other important matters *(continued)*

(1) Segment reporting *(continued)*

(a) Segment results, assets and liabilities *(continued)*

Expressed in thousands of renminbi yuan

	2009	2008
Operating cost		
Synthetic fibres	2,847,894	5,312,107
Resins and plastics	11,556,762	17,108,887
Intermediate petrochemicals	8,316,023	10,374,541
Petroleum products	22,151,679	34,638,960
All others	4,997,723	3,043,295
Total	49,870,081	70,477,790
Operating profit/(loss)		
Synthetic fibres	12,957	-1,641,745
Resins and plastics	850,976	-2,228,228
Intermediate petrochemicals	195,324	-78,285
Petroleum products	784,713	-6,266,922
All others	8,676	47,960
Total segment profit/(loss)	1,852,646	-10,167,220
Financial expenses	-310,726	-428,082
Add: (Losses)/gains from changes in fair value	-10,423	97,644
Investment income	526,397	132,985
Operating profit/(loss)	2,057,894	-10,364,673
Assets		
Synthetic fibres	1,548,519	1,754,476
Resins and plastics	1,729,735	1,870,117
Intermediate petrochemicals	7,091,910	6,226,442
Petroleum products	12,107,543	9,354,616
All others	2,096,675	2,362,934
Total segment assets	24,574,382	21,568,585
Long-term equity investments	2,969,646	2,941,717
Unallocated	2,914,294	3,597,163
Total assets	30,458,322	28,107,465

10. Other important matters *(continued)*

(1) Segment reporting *(continued)*

(a) Segment results, assets and liabilities *(continued)*

Expressed in thousands of renminbi yuan

	2009	2008
Liabilities		
Segment Liabilities		
Synthetic fibres	262,766	283,858
Resins and plastics	1,139,638	1,151,106
Intermediate petrochemicals	781,758	796,212
Petroleum products	3,644,145	1,436,567
All others	459,833	238,471
Total segment liabilities	6,288,140	3,906,214
Short-term loans	6,700,398	8,838,204
Short-term debentures payable	1,000,000	-
Long-term loans due within one year	74,275	534,521
Long-term loans	304,258	429,021
Unallocated	450,893	293,781
Total liabilities	14,817,964	14,001,741
Depreciation and amortisation of intangible assets		
Synthetic fibres	226,295	225,669
Resins and plastics	351,587	350,742
Intermediate petrochemicals	582,781	552,422
Petroleum products	354,928	375,789
All others	166,296	160,873
Total segment depreciation and amortisation of intangible assets	1,681,887	1,665,495
Unallocated	13,261	13,440
Total depreciation and amortisation of intangible assets	1,695,148	1,678,935
Impairment losses on fixed assets		
Synthetic fibres	75,140	417,936
Resins and plastics	-	23,010
All others	23,346	-
Total	98,486	440,946

10. Other important matters *(continued)*

(1) Segment reporting *(continued)*

(a) Segment results, assets and liabilities *(continued)*

Expressed in thousands of renminbi yuan

	2009	2008
Total capital expenditures for segment long-lived assets		
Synthetic fibres	98,668	73,653
Resins and plastics	16,913	6,484
Intermediate petrochemicals	1,324,081	1,175,451
Petroleum products	397,482	58,374
All others	283,148	197,110
Total	2,120,292	1,511,072

(b) Geographic information

In view of the fact that the Company and its subsidiaries operate mainly in the PRC, no geographical segment information is presented.

(2) Financial Risk Management

Overview

The Group 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.

10. Other important matters *(continued)*

(2) Financial Risk Management *(continued)*

(a) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers.

The majority of the Group's accounts receivable 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 accounts receivable. The Group maintains an impairment loss for doubtful accounts and actual losses have been within management's expectations.

The carrying amount of accounts receivable, bills receivable, other receivables and other current assets represent the Group's maximum exposure to credit risk in relation to financial assets.

(b) 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 2009, the Group's current liabilities exceeded its current assets by RMB 5,217,500,000. In 2010, 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 2009, the Group has standby credit facilities with several PRC financial institutions which provide the Group to borrow up to RMB 9,100,000,000 (2008: RMB 9,600,000,000) on an unsecured basis. At 31 December 2009, the Group's outstanding borrowings under these facilities were RMB 4,458,044,000 (2008: RMB 6,933,385,000) and were included in short-term loans.

Management has carried out a detailed review of the cash flow forecast of the Group for the twelve months ending 31 December 2010. 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.

10. Other important matters *(continued)*

(2) Financial Risk Management *(continued)*

(b) Liquidity risk *(continued)*

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

Expressed in thousands of renminbi yuan

Item	2009 Total contractual undiscounted cash flow				Carrying amount
	Within one year or real-time repayment	More than one year but less than two years	More than two years but less than five years	Total	
Short-term loans	-6,789,420	-	-	-6,789,420	6,700,398
Short-tem debentures payable	-1,020,500	-	-	-1,020,500	1,000,000
Long-term loans due within one year	-74,275	-	-	-74,275	74,275
Long-term loans	-15,471	-119,729	-220,736	355,936	304,258
Total	-7,899,666	-119,729	-220,736	-8,240,131	8,078,931

Expressed in thousands of renminbi yuan

Item	2008 Total contractual undiscounted cash flow				Carrying amount
	Within one year or real-time repayment	More than one year but less than two years	More than two years but less than five years	Total	
Short-term loans	-9,173,456	-	-	-9,173,456	8,838,204
Long-term loans due within one year	-567,934	-	-	-567,934	534,521
Long-term loans	-22,437	-147,368	-341,123	-510,928	429,021
Total	-9,763,827	-147,368	-341,123	-10,252,318	9,801,746

10. Other important matters *(continued)*

(2) Financial Risk Management *(continued)*

(c) Market risk

(i) 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 5(1), the amounts of other financial assets and liabilities of the Group are substantially denominated in the functional currency of 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:

Expressed in thousands of USD

Items	2009	2008
United States Dollars	-886,007	-600,314
Forward exchange contracts	-	460,224
Total	-886,007	-140,090

The analysis on the major applicable foreign exchange rates is as follows:

Item	Weighted average exchange rate		Middle exchange rate at the balance sheet date	
	2009	2008	2009	2008
USD	6.8314	7.0696	6.8282	6.8346

A 5 percent strengthening / decreasing 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 226,869,000 (2008: RMB 35,905,000). 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 2008.

10. Other important matters *(continued)*

(2) Financial Risk Management *(continued)*

(c) Market risk *(continued)*

(ii) 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 5(20), (29) and (30).

As at 31 December 2009, 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 43,444,000 (2008: RMB 42,341,000). 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 2008.

(d) 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 loans and debentures payable, including short-term loans, short-term debentures payable, non-current liabilities due within one year and long-term loans by the total of equity attributable to equity shareholders of the Company, and liability-to-asset ratio, which is calculated by dividing total liabilities by total assets. 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 2009, the debt-to-equity ratio and the liability-to-asset ratio of the Group were 52.64% (2008: 70.81%) and 48.65% (2008: 49.82%) respectively.

The schedule of the contractual maturities of loans and commitments are disclosed in Note 5(20), (29), (30) and 8, 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.

10. Other important matters *(continued)*

(2) Financial Risk Management *(continued)*

(e) Fair value

The following table presents the carrying amounts and fair values of the Group's long term bank loans at 31 December 2009 and 2008.

Expressed in thousands of renminbi yuan

Item	2009		2008	
	Carrying amount	Fair Value	Carrying amount	Fair Value
Liabilities				
Long term bank loans	378,533	375,233	963,542	958,461

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 5.31% to 5.94% (2008: 5.31% to 5.94%).

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 at bank and on hand, accounts receivable, bills receivable, prepayments, other receivables, accounts payable, advances from customers and other payables are not materially different from their carrying amounts.

Short term loans and short-term debentures payable - 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.

10. Other important matters *(continued)*

(3) Assets calculated at fair value

Expressed in thousands of renminbi yuan

Items	Balance at 1 January	Current year changes in fair value charged to profit or loss	Accumulated changes in fair value recognised in equity	Impairment accrued during the year	Balance at 31 December
Financial assets					
1. Derivative financial assets -forward exchange contracts	97,644	-10,423	-	-	-
2. Available-for-sale financial assets -stock	123,918	-	-82,903	-	-
3. Available-for-sale financial assets -other current assets	-	-	-	-	700,000
Total	221,562	-10,423	-82,903	-	700,000

11. Notes to major items of the Company's financial statements

(1) Cash at bank and on hand

Expressed in thousands of RMB/USD/HKD/CHF

Items	2009			2008		
	Original currency	Exchange rate	RMB/ RMB equivalents	Original currency	Exchange rate	RMB/ RMB equivalents
Cash on hand:						
Renminbi	—	—	57	—	—	40
Deposits with banks:						
Renminbi	—	—	87,910	—	—	281,760
USD	34	6.8282	229	34	6.8346	234
Other monetary funds:(Note)						
HKD	13,674	0.8805	12,040	13,507	0.8819	11,912
CHF	127	6.5938	840	130	6.4624	840
Total	—	—	101,076	—	—	294,786

Note: other monetary funds represent deposit for credit cards.

11. Notes to major items of the Company's financial statements *(continued)*

(2) Bills receivable

(a) Bills receivable by category

Expressed in thousands of renminbi yuan

Items	2009	2008
Bank acceptance bills	528,739	424,056
Commercial acceptance bills	14,000	12,000
Total	542,739	436,056

All of the above bills held are due within six months. No bills receivables, included in the above, were pledged or transferred to accounts receivable due to non-performance of the issuers in 2009.

Except for the balances disclosed in Note 6, 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.

At 31 December 2009, the Company's discounted bank acceptance bills (with recourse) amounted to RMB 503,748,000.(2008: RMB 498,693,000).

At 31 December 2009, the Company's discounted commercial acceptance bills amounted to RMB nil. (2008: RMB nil).

(3) Accounts receivable

(a) Accounts receivable by categories:

Expressed in thousands of renminbi yuan

Items	Note	2009				2008			
		Carrying amount		Bad debt provision		Carrying amount		Bad debt provision	
		Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)
Individually significant		387,079	87.53	-	-	155,642	73.69	-	-
Individually insignificant but with a material portfolio credit risk	(b)	9,565	2.16	9,530	99.63	13,792	6.53	13,692	99.27
Other immaterial item		45,572	10.31	-	-	41,780	19.78	-	-
Total		442,216	100.00	9,530	—	211,214	100.00	13,692	—

11. Notes to major items of the Company's financial statements *(continued)*

(3) Accounts receivable *(continued)*

(b) The ageing of accounts receivable is analysed as follows:

Expressed in thousands of renminbi yuan

Ageing	2009			2008		
	Carrying amount		Bad debt provision	Carrying amount		Bad debt provision
	Amount	Percentage(%)		Amount	Percentage(%)	
Within one year	432,651	97.84	-	197,422	93.47	-
Between one and two years	37	0.01	4	142	0.07	42
Between two and three years	5	0.00	3	440	0.21	440
Over three years	9,523	2.15	9,523	13,210	6.25	13,210
Total	442,216	100.00	9,530	211,214	100.00	13,692

The ageing is counted starting from the date accounts receivable are recognised.

(c) Individually insignificant but with a material portfolio credit risk:

Expressed in thousands of renminbi yuan

Ageing	2009			2008		
	Carrying amount		Bad debt provision	Carrying amount		Bad debt provision
	Amount	Percentage(%)		Amount	Percentage(%)	
Within one year	-	-	-	-	-	-
Between one and two years	37	0.39	4	142	1.03	42
Between two and three years	5	0.05	3	440	3.19	440
Over three years	9,523	99.56	9,523	13,210	95.78	13,210
Total	9,565	100.00	9,530	13,792	100.00	13,692

The ageing is counted starting from the date accounts receivable are recognised.

(d) During the year, the Company had no individually significant accounts receivable fully or substantially provided for; the Company had no individually significant write off or write back of bad debts which had been fully or substantially provided for in prior years. At 31 December 2009, the Company had no individually significant accounts receivable that aged over three years.

11. Notes to major items of the Company's financial statements *(continued)*

(3) Accounts receivable *(continued)*

(e) Accounts receivable due from the five largest debtors of the Company are as follows:

Expressed in thousands of renminbi yuan

Company's name	Relation with the Company	Amount	Ageing	Percentage of total accounts receivable
1. Sinopec Huadong Sales Company	Subsidiary of the parent company	220,079	Within one year	49.77
2. Sinopec Yizheng Chemical Fibre Company Limited	Subsidiary of the parent company	110,052	Within one year	24.89
3. Shanghai Yali Industry Development Co., Ltd.	Third Party customer	24,803	Within one year	5.61
4. China Petroleum & Chemical Corporation	Parent company	23,588	Within one year	5.33
5. Shanghai Jinpu Plastics Packaging Material Company Limited	Associate company	8,557	Within one year	1.93
Total		387,079		87.53

(f) Except for the balances disclosed in Note 6, no amount due from shareholders who hold 5% or more of the voting rights of the Company is included in the above balance of accounts receivable.

(g) At 31 December 2009, the total amount of accounts receivable due from related parties of the Company is RMB 385,199,000 (2008:RMB153,656,000), represents 87.11% (2008:72.75%) of the total accounts receivable. Details of accounts receivable from related parties are set forth in Note 6(6).

(4) Other receivables

(a) Other receivables by category

Expressed in thousands of renminbi yuan

Items	Note	2009				2008			
		Carrying amount		Bad debt provision		Carrying amount		Bad debt provision	
		Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)
Individually significant	(d)	422,341	96.82	383,550	90.82	289,686	96.33	282,700	97.59
Individually insignificant but with a material portfolio credit risk	(c)	4,852	1.11	3,385	69.77	8,400	2.79	5,569	66.30
Other immaterial item		9,012	2.07	-	-	2,648	0.88	-	-
Total		436,205	100.00	386,935	—	300,734	100.00	288,269	—

11. Notes to major items of the Company's financial statements *(continued)*

(4) Other receivables *(continued)*

(b) The ageing of other receivables is analysed as follows:

Expressed in thousands of renminbi yuan

Ageing	2009			2008		
	Carrying amount		Bad debt provision	Carrying amount		Bad debt provision
	Amount	Percentage(%)		Amount	Percentage(%)	
Within one year	148,653	34.08	100,850	189,911	63.15	182,700
Between one and two years	263,365	60.38	262,896	104,709	34.82	100,150
Between two and three years	20,022	4.59	20,000	1,713	0.57	1,022
Over three years	4,165	0.95	3,189	4,401	1.46	4,397
Total	436,205	100.00	386,935	300,734	100.00	288,269

The ageing is counted starting from the date other receivables are recognised.

(c) Individually insignificant but with a material portfolio credit risk:

Expressed in thousands of renminbi yuan

Ageing	2009			2008		
	Carrying amount		Bad debt provision	Carrying amount		Bad debt provision
	Amount	Percentage(%)		Amount	Percentage(%)	
Within one year	-	-	-	-	-	-
Between one and two years	665	13.71	196	2,286	27.21	150
Between two and three years	22	0.45	-	1,713	20.39	1,022
Over three years	4,165	85.84	3,189	4,401	52.40	4,397
Total	4,852	100.00	3,385	8,400	100.00	5,569

The ageing is counted starting from the date other receivables are recognised.

(d) For the year ended 31 December 2009, the Company made a full bad debt provision of RMB 383,550,000 for the other receivables due from its subsidiary, Jin Yong (2008: RMB 282,700,000). Jin Yong has made operating losses and has also suspended it operations due to its major product, acrylic, affected by the severe market environment and stagnant chemical fibre market. Jin Yong's total liabilities exceeded its total assets as at 31 December 2008. The Company has made an estimate on the recoverability of the other receivables due from Jin Yong and has made a full provision.

The Company had no individually significant write off or write back of bad debts which had been fully or substantially provided for in prior years. At 31 December 2009, the Company had no individually significant other receivables that aged over three years.

11. Notes to major items of the Company's financial statements *(continued)*

(4) Other receivables *(continued)*

(e) Other receivables due from the five largest debtors of the Company are as follows:

Expressed in thousands of renminbi yuan

Company's name	Relation with the Company	Amount	Ageing	Percentage of total accounts receivable
1. Zhejiang Jin Yong Acrylic Fibre Co., Ltd.	Subsidiary	383,550	Within three years	87.92
2. Government authorities	Third Party	26,000	Within one year	5.96
3. Shanghai Jinshan Petrochemical Logistics Co., Ltd.	Third Party	6,800	Within one year	1.56
4. Sinopec Huadong Sales Company	Subsidiary of the immediate parent company	3,038	Within one year	0.70
5. BOC-SPC Gases Co., Ltd.	Jointly controlled enterprise	2,953	Within one year	0.68
Total		422,341		96.82

(f) Except for the balances disclosed in Note 6, no amount due from shareholders who hold 5% or more of the voting rights of the Company is included in the above balance of other receivables.

(g) At 31 December 2009, the total other receivables due from related parties of the Company is RMB 390,157,000 (2008: RMB 285,290,000), represents 89.44% (2008: 94.86%) of total other receivables. Details of other receivables of related parties are set forth in Note 6(6).

(5) Inventories

(a) Inventories by category

Expressed in thousands of renminbi yuan

Items	2009			2008		
	Cost	Provision for diminution in value	Carrying amount	Cost	Provision for diminution in value	Carrying amount
Raw materials	4,100,888	16,739	4,084,149	2,144,486	223,059	1,921,427
Work in progress	1,325,669	-	1,325,669	1,478,783	325,543	1,153,240
Finished goods	684,383	32,983	651,400	665,650	175,748	489,902
Spare parts and consumables	658,883	61,651	597,232	735,104	50,419	684,685
Total	6,769,823	111,373	6,658,450	5,024,023	774,769	4,249,254

All the above inventories are purchased or self-manufactured.

11. Notes to major items of the Company's financial statements *(continued)*

(5) Inventories *(continued)*

(b) Provision for diminution in value of inventories

Expressed in thousands of renminbi yuan

Items	At 1 January	Provision for the year	Decrease during the year	At 31 December
			Write-off	
Raw materials	223,059	16,739	-223,059	16,739
Work in progress	325,543	-	-325,543	-
Finished goods	175,748	16,545	-159,310	32,983
Spare parts and consumables	50,419	15,159	-3,927	61,651
Total	774,769	48,443	-711,839	111,373

(6) Other current assets

Expressed in thousands of renminbi yuan

Items	Note	2009	2008
Deductible value added tax		-	245,420
Available-for-sale financial assets	(a)	700,000	-
Total		700,000	245,420

(a) The Company purchased an investment fund from a PRC state-owned bank with a carrying amount of RMB 700,000,000 (2008: nil). The fund mainly invests in debt and equity securities.

(7) Available-for-sale financial assets

Expressed in thousands of renminbi yuan

Items	2009	2008
Available-for-sale equity instruments	-	111,327

Available-for-sale financial assets mainly represent available-for-sale securities of listed companies held by 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.

11. Notes to major items of the Company's financial statements *(continued)*

(8) Long-term equity investments

(a) Long-term equity investments by category

Expressed in thousands of renminbi yuan

	Interests in associates	Interests in jointly controlled enterprises	Interests in subsidiaries	Total before provision	Provision for impairment losses	Total
					note(i)	
Balance at 1 January 2009	2,374,990	114,005	1,970,487	4,459,482	-227,500	4,231,982
Share of profits from investments accounted for under equity method	201,818	22,510	-	224,328	-	224,328
Cash dividends received	-5,739	-27,500	-	-33,239	-	-33,239
Disposals during the year	-	-	-387,699	-387,699	-	-387,699
Balance at 31 December 2009	2,571,069	109,015	1,582,788	4,262,872	-227,500	4,035,372

(i) For the year ended 31 December 2009, the Company made an impairment loss provision of RMB 227,500,000 for the long-term equity investment in its subsidiary, Jin Yong (2008: RMB 227,500,000). The Company provided a full provision for impairment loss based on the reasons disclosed in Note 11(4(d)).

(b) The Company's major jointly controlled enterprises and associates

For the information of the Company's major jointly controlled enterprises and associates, see note 5(12(b)).

(9) Investment property

Expressed in thousands of renminbi yuan

Items	At 1 January	Additions	Disposals	At 31 December
1, Cost	615,334	-	-	615,334
2, Accumulated depreciation	60,929	14,923	-	75,852
3, Net book value	554,405			539,482
4, Provision for impairment	-	-	-	-
5, Carrying amount	554,405			539,482

The investment property of the Company are all buildings.

Depreciation charged for the year for investment property amounted to RMB14,923,000 (2008: RMB 14,921,000).

11. Notes to major items of the Company's financial statements *(continued)*

(10) Fixed assets

(a) Fixed assets

Expressed in thousands of renminbi yuan

Items	Balance at 1 January	Additions	Disposals	Balance at 31 December
1, Original cost:	32,744,490	3,710,956	-563,281	35,892,165
-Buildings	4,738,748	103,701	-20,106	4,822,343
-Plant and machinery	21,572,325	3,343,535	-472,162	24,443,698
-Vehicles and other equipment	6,433,417	263,720	-71,013	6,626,124
2, Accumulated depreciation:	19,702,955	1,769,845	-462,200	21,010,600
-Buildings	3,030,717	159,782	-13,177	3,177,322
-Plant and machinery	12,443,148	1,305,128	-382,902	13,365,374
-Vehicles and other equipment	4,229,090	304,935	-66,121	4,467,904
3, Net book value:	13,041,535			14,881,565
-Buildings	1,708,031			1,645,021
-Plant and machinery	9,129,177			11,078,324
-Vehicles and other equipment	2,204,327			2,158,220
4, Provision for impairment losses:	392,626	23,346	-75,526	340,446
-Buildings	51,616	290	-444	51,462
-Plant and machinery	333,014	22,099	-75,082	280,031
-Vehicles and other equipment	7,996	957	-	8,953
5, Carrying amount:	12,648,909			14,541,119
-Buildings	1,656,415			1,593,559
-Plant and machinery	8,796,163			10,798,293
-Vehicles and other equipment	2,196,331			2,149,267

Depreciation charged for the year amounted to RMB1,514,828,000 (2008: RMB 1,488,163,000).

Construction in progress amounted to RMB 3,230,061,000 (2008: RMB 285,152,000) were transferred to fixed assets during the year.

(b) At 31 December 2009 and 2008, the Company had no pledged fixed assets.

11. Notes to major items of the Company's financial statements *(continued)*

(11) Construction in progress

Expressed in thousands of renminbi yuan

Project	2009		
	Original Cost	Provision for impairment	Carrying amount
Natural Gas Utilisation Project	63,048	-	63,048
Energy Saving and Upgrade Reconstruction on 2# Oxidation Unit	14,417	-	14,417
Construction of PAN-based Carbon Fiber Performance Evaluation Laboratory	11,327	-	11,327
Numerous small projects of Synthetic Fibres segment	54,406	-	54,406
Numerous small projects of Resins and Plastics segment	22,345	-	22,345
Numerous small projects of Intermediate Petrochemicals segment	65,466	-	65,466
Numerous small projects of Petroleum Products segment	38,536	-	38,536
Numerous small projects of all others	84,092	-	84,092
Total	353,637	-	353,637

Expressed in thousands of renminbi yuan

Project	2008		
	Original Cost	Provision for impairment	Carrying amount
600,000 ton/year Aromatics Unit	798,432	-	798,432
150,000 tons/year C5 Segregation Project	86,742	-	86,742
Desulphurisation Reinforcement of Recycle Hydrogen on 2# Aromatics Hydrogen Cracking Device	56,757	-	56,757
Energy Saving Reconstruction on 1# Ethylene Device	51,910	-	51,910
Security Reconstruction on 220KV Transformer System of 1# Power Plant	40,914	-	40,914
Smoke Desulphurisation Project of 3#, 4# Boiler	37,433	-	37,433
Numerous small projects of Synthetic Fibres segment	94,168	-	94,168
Numerous small projects of Resins and Plastics segment	33,002	-	33,002
Numerous small projects of Intermediate Petrochemicals segment	286,905	-	286,905
Numerous small projects of Petroleum Products segment	137,450	-	137,450
Numerous small projects of all others	191,631	-	191,631
Total	1,815,344	-	1,815,344

11. Notes to major items of the Company's financial statements *(continued)*

(12) Intangible assets

Expressed in thousands of renminbi yuan

Items	Balance at 1 January	Additions	Disposals	Balance at 31 December
1, Cost	651,680	-	1,038	650,642
2, Accumulated amortisation	192,499	13,033	340	205,192
3, Net book value	459,181			445,450

The intangible assets of the Company are all land use rights.

Amortisation charged for the year amounted to RMB13,033,000 (2008: RMB 13,054,000).

(13) Long-term deferred expenses

Expressed in thousands of renminbi yuan

Item	Balance at 1 January	Additions	Disposals	Balance at 31 December
Catalyst	141,331	194,480	125,236	210,575

(14) Deferred tax assets

(a) Deferred tax assets and liabilities after offsetting each other are as follows:

Expressed in thousands of renminbi yuan

Items	2009		2008	
	Deductible/ (taxable) temporary differences	Deferred tax assets/ (liabilities)	Deductible/ (taxable) temporary differences	Deferred tax assets/ (liabilities)
Deferred tax assets:				
Provision for bad debt and inventories	124,288	31,072	794,030	198,508
Impairment losses for fixed assets	340,448	85,112	392,626	98,156
Contribution by fixed assets and sale of assets to a jointly controlled enterprise	40,280	10,070	43,784	10,946
Deductible tax losses	5,607,912	1,401,978	6,805,812	1,701,453
Other deferred tax assets	27,437	6,859	20,428	5,107
Fair value of available-for-sale financial assets	-	-	-98,848	-24,712
Capitalisation of borrowing cost	-105,288	-26,322	-116,784	-29,196
Fair value of financial assets held for trading	-	-	-97,644	-24,411
Total	6,035,077	1,508,769	7,743,404	1,935,851

11. Notes to major items of the Company's financial statements *(continued)*

(14) Deferred tax assets *(continued)*

(b) Movements of deferred tax assets are as follows:

Expressed in thousands of renminbi yuan

Items	Balance at 1 January	Current year increase/ decrease charged to profit or loss	Current year increase/ decrease recognised directly in equity	Balance at 31 December
Deferred tax assets:				
Provision for bad debt and inventories	198,508	-167,436	-	31,072
Impairment losses for fixed assets	98,156	-13,044	-	85,112
Contribution by fixed assets and sale of assets to a jointly controlled enterprise	10,946	-876	-	10,070
Deductible tax losses	1,701,453	-299,475	-	1,401,978
Other deferred tax assets	5,107	1,752	-	6,859
Fair value of available-for-sale financial assets	-24,712	-	24,712	-
Capitalisation of borrowing cost	-29,196	2,874	-	-26,322
Fair value of financial assets held for trading	-24,411	24,411	-	-
Total	1,935,851	-451,794	24,712	1,508,769

(c) Particulars about the offset of deferred tax assets and liabilities

Expressed in thousands of renminbi yuan

Item	Offsetting amount
Deferred tax assets	-26,322
Deferred tax liabilities	26,322

(d) Deferred tax assets not recognised

Expressed in thousands of renminbi yuan

Items	Note	2009	2008
Impairment losses for long-term equity investment	(i)	227,500	227,500

(i) As stated Note 11(8)(a)(i), the Company has made full provision for the long-term equity investment in Zhejiang Jin Yong Acrylic Fibre Co., Ltd. As it is not probable that future taxable income against which the losses can be utilised, the Company has not recognised deferred tax assets in respect of impairment losses on long-term equity investment of RMB 227,500,000 (2008: RMB 227,500,000).

11. Notes to major items of the Company's financial statements *(continued)*

(15) Movement of provision for impairment

Expressed in thousands of renminbi yuan

Items	Note	At 1 January	Additions	Disposals		At 31 December
				Reversal	Write-off	
1, Receivables	11(3),(4)	301,961	101,290	-2,299	-4,487	396,465
2, Inventories	11(5)	774,769	48,443	-	-711,839	111,373
3, Long-term equity investments	11(8)	227,500	-	-	-	227,500
4, Fixed assets	11(10)	392,626	23,346	-	-75,526	340,446
Total		1,696,856	173,079	-2,299	-791,852	1,075,784

See the note of each class of assets for the reason for corresponding impairment losses recognised during the year.

(16) Short-term loans

(a) Short-term loans by category

Expressed in thousands of renminbi yuan

Items	2009	2008
Credit loans		
- Bank loans	6,384,998	8,353,204
- Loans from related party	40,000	330,000
Total	6,424,998	8,683,204

At 31 December 2009, the weighted average interest rate of the Company's short-term loans is 3.16% (2008: 5.72%).

(b) At 31 December 2009 and 2008, the Company had no overdue short-term loans.

(17) Bills payable

Expressed in thousands of renminbi yuan

Items	2009	2008
Commercial acceptance bills	146,048	18,900
Bank acceptance bills	732,057	246,464
Total	878,105	265,364

The above bills are due within one year.

11. Notes to major items of the Company's financial statements *(continued)*

(18) Taxes payable

Expressed in thousands of renminbi yuan

Items	2009	2008
Value added tax (note(a))	117,443	-
Business tax	2,328	2,534
Consumption tax (note(b))	439,973	29,358
Education surcharge	16,755	970
City maintenance and construction tax	39,096	2,263
Others	12,369	3,937
Total	627,964	39,062

(a) The increase in value-added tax payable compared with 2008 was mainly resulted from the decrease in input value-added tax due to the decrease in crude oil purchase price.

(b) The increase in consumption tax payable compared with 2008 was mainly due to the increase of consumption tax rate in 2009.

(19) Non-current liabilities due within one year

(a) Non-current liabilities due within one year is as follows:

Expressed in thousands of renminbi yuan

Item	2009	2008
Long-term loans due within one year	-	450,000

(b) Long-term loans due within one year

Expressed in thousands of renminbi yuan

Item	2009	2008
Credit loans	-	450,000

(20) Long-term loans

(a) Long-term loans by category

Expressed in thousands of renminbi yuan

Item	2009	2008
Credit loans	450,000	300,000

11. Notes to major items of the Company's financial statements *(continued)*

(21) Capital reserve

The capital reserve of the Company is analysed as follows:

Expressed in thousands of renminbi yuan

Items	Note	At 1 January	Additions	Disposals	At 31 December
Share premium		2,420,841	-	-	2,420,841
Government grants	(a)	386,370	26,000	-	412,370
Changes in fair value of available-for-sale financial assets, net of deferred tax	(b)	74,134	-	-74,134	-
Others		49,067	-	-	49,067
Total		2,930,412	26,000	-74,134	2,882,278

(a) Government grants represent grants received for the purchase of equipment used for technology improvements. The Company received government grants for key industry revitalization and technical improvement project in 2009 amounted to RMB 26,000,000 (2008: nil).

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

(22) Operating income, operating costs

(a) Operating income, operating costs

Expressed in thousands of renminbi yuan

Items	2009	2008
Income from principal operations	43,657,463	55,242,839
Income from other operations	445,201	515,622
Operating costs	35,454,622	61,443,455

Operating income represents the amount from sales of products after the deduction of VAT.

(b) The Company mainly operates in the petrochemical industry.

11. Notes to major items of the Company's financial statements *(continued)*

(22) Operating income, operating costs

(c) Revenue from sales to the five largest customers for 2009 is set out as follows:

Expressed in thousands of renminbi yuan

Customer	Operating income	Percentage of total operating income(%)
1. Sinopec Huadong Sales Company	20,300,313	46.03
2. China Petroleum & Chemical Corporation	1,690,506	3.83
3. Shanghai Secco Petrochemical Company Limited	537,347	1.21
4. China Jinshan Associated Trading Corporation	483,217	1.10
5. Shanghai Yali Industry Development Co., Ltd.	436,629	0.99
Total	23,448,012	53.17

(23) Business taxes and surcharges

Expressed in thousands of renminbi yuan

Items	2009	2008	Tax base
Consumption tax	3,819,859	759,717	In accordance with relevant tax regulation with effect from 1 January 2009, consumption tax rate for sale of gasoline and diesel oil have been adjusted to RMB 1,388 per ton and RMB 940.8 per ton respectively (2008: RMB277.6 per ton and RMB117.6 per ton for gasoline and diesel oil respectively).
Business tax	8,040	5,424	5% of income entitled to business tax
City maintenance and construction tax	334,733	85,103	7% of VAT and business tax paid
Education surcharge and others	143,457	36,472	3% of VAT and business tax paid
Total	4,306,089	886,716	

(24) Financial expenses

Expressed in thousands of renminbi yuan

Items	2009	2008
Interest expenses from loans and payables	338,922	530,616
Less: Borrowing costs capitalised	-44,485	-27,171
Interest income from deposits and receivables	-14,809	-51,088
Net foreign exchange loss/(gain)	1,553	-75,816
Others	7,327	6,422
Total	288,508	382,963

11. Notes to major items of the Company's financial statements *(continued)*

(25) Impairment losses

Expressed in thousands of renminbi yuan

Items	2009	2008
Receivables	98,991	277,566
Inventories	48,443	704,039
Long-term equity investment	-	110,297
Fixed assets	23,346	83,386
Total	170,780	1,175,288

(26) Investment income

(a) Investment income by category

Expressed in thousands of renminbi yuan

Items	Note	2009	2008
Long-term equity investments income accounted for under the cost method		11,451	9,593
Long-term equity investments income accounted for under the equity method	(b)	224,328	-30,759
Loss on disposal of long-term equity investments		-114,969	-
Gain on disposal of available-for-sale financial assets		206,799	118,389
Total		327,609	97,223

(b) Among long-term equity investment income accounted for under equity method for more than 5% of operating profit or less than 5% but top five investment income is as follows:

Expressed in thousands of renminbi yuan

Investee	2009	2008
Shanghai Secco Petrochemical Company Limited (Note)	133,842	-98,732
Shanghai Chemical Industrial Park Development Company Limited	67,976	36,249
BOC-SPC Gases Co., Ltd.	22,510	31,724
Shanghai Yamatake Automation Company Limited	12,082	13,493
Shanghai Petrochemical Iwatani Industrial Gas Development Co., Ltd.	3,940	3,521
Total	240,350	-13,745

Note: Shanghai Secco Petrochemical Company Limited ("Secco") suffered a loss in 2008 due to the global financial crisis and the periodic downturn of the petrochemical industry. In 2009, Secco's operation turned out better with a profit, resulting in a significant increase of the Company's investment income in 2009 compared with 2008.

11. Notes to major items of the Company's financial statements *(continued)*

(27) Non-operating income

(a) Non-operating income by category

Expressed in thousands of renminbi yuan

Items	Note	2009	2008
Gains on disposal of non-current assets		116,332	17,409
Include: Net gains on disposal of fixed assets		24,530	16,746
Net gains on disposal of intangible assets		91,802	663
Government grants	(5)42(b)	25,310	2,343,274
Penalties income		35	31
Others		6,246	11,413
Total		147,923	2,372,127

(28) Non-operating expense

Expressed in thousands of renminbi yuan

Items	2009	2008
Losses on disposal of fixed assets	7,833	3,871
Donations	-	2,000
Others	62,911	21,384
Total	70,744	27,255

(29) Income tax expenses

Expressed in thousands of renminbi yuan

Items	Note	2009	2008
Income tax expenses for the year, calculated in accordance with tax laws and related regulations		-	-
Deferred taxation	(a)	451,794	-1,866,114
Under provision for income tax expenses in prior years		643	14,305
Total		452,437	-1,851,809

11. Notes to major items of the Company's financial statements *(continued)*

(29) Income tax expenses *(continued)*

(a) Reconciliation between income tax expenses and accounting profits/(losses) is as follows:

Expressed in thousands of renminbi yuan

Items	2009	2008
Profits/(losses) before taxation	1,828,617	-7,856,487
Expected income tax expenses at a rate of 25% (2008: 25%)	457,154	-1,964,122
Add: Tax effect of non-deductible expenses	58,996	95,491
Tax effect of non-taxable income	-3,335	-5,173
Under provision for income tax expenses in prior years	643	14,305
Tax effect of share of profits recognised under the equity method	-56,082	7,690
Others	-4,939	-
Income tax expenses	452,437	-1,851,809

(30) Other comprehensive income/(loss)

Expressed in thousands of renminbi yuan

Items	2009	2008
Unrealised income/(loss) of available-for-sale financial assets	107,953	-203,226
Reclassification adjustment for gains on disposal of available-for-sale financial assets transferred to profit or loss	-206,799	-118,389
Tax effect of other comprehensive income	24,712	80,404
Total	-74,134	-241,211

11. Notes to major items of the Company's financial statements *(continued)*

(31) Supplemental information to cash flow statement

(1) Supplemental information to cash flow statement

Expressed in thousands of renminbi yuan

Supplemental information	2009	2008
1. Reconciliation of net profit to cash flows from operating activities:		
Net profit/(loss)	1,376,180	-6,004,678
Add: Impairment losses	170,780	1,175,288
Depreciation of investment property	14,923	14,921
Depreciation of fixed assets	1,514,828	1,488,163
Amortisation of intangible assets	13,033	13,054
Gains on disposal of fixed assets, intangible assets and other long-term assets	-108,499	-13,538
Losses/(gains) on changes in fair value	10,423	-97,644
Financial expenses	281,181	376,541
Investment income	-327,609	-97,223
Decrease/(increase) in deferred tax assets	451,794	-1,866,114
Increase in inventories	-2,457,639	-172,820
Decrease/(increase) in operating receivables	-580,720	1,298,486
Increase/(decrease) in operating payables	3,333,477	-34,413
Net cash inflows/(outflows) from operating activities	3,692,152	-3,919,977
2.Net change in cash and cash equivalents:		
Cash balance at the end of the year	101,076	294,786
Less: cash balance at the beginning of the year	294,786	634,533
Net decrease in cash and cash equivalents	-193,710	-339,747

(2) Cash and cash equivalents held by the Company are as follows

Expressed in thousands of renminbi yuan

Items	2009	2008
1. Cash		
-Cash on hand	57	40
- Bank deposits available on demand	88,139	281,994
- Other monetary fund available on demand	12,880	12,752
2. Closing balance of cash and cash equivalents available on demand	101,076	294,786

(1) Non-recurring items in 2009 is as follows:

Expressed in thousands of renminbi yuan

Non-recurring items	Amount	Note
Net gains on the disposal of non-current assets	180,203	Net gain on disposal of fixed assets, intangible assets and long-term equity investment
Employee reduction expenses	-12,518	Employee reduction expenses incurred according to the reduction plan, varied greatly from year to year.
Government grants charged in profit or less (excluding those closely related to business operation, received on a quantified scale specified by state standards)	25,310	Government grants on energy-saving projects, etc.
Changes in fair value of financial assets held for trading	-10,423	Changes in fair value of forward exchange contracts
Investment income on the disposal of available-for-sale financial assets	222,810	Gains on disposal of listed company stocks
Net expenses of non-operating income/(expenses) other than those mentioned above	-54,941	Environmental protection fees, etc.
Tax effect for the above items	-87,610	
Effect of minority interests after tax	-52	
Total	262,779	

Note:The non-recurring items are presented in the amount before tax.

(2) Differences between financial statements prepared under the China Accounting Standards for Business Enterprises ("CAS") and International Financial Reporting Standards ("IFRS")

(1) The differences in the net profit/(loss) and net assets of the consolidated financial statements prepared under the CAS and the IFRS:

Expressed in thousands of renminbi yuan

		Net profit/(loss) attributable to equity shareholders of the Company		Net assets attributable to equity shareholders of the Company	
	Note	2009	2008	2009	2008
Under the CAS		1,561,605	-6,245,412	15,346,073	13,841,371
Adjustment for the IFRS:					
Government grants	(i)	26,760	26,760	-209,639	-210,399
Revaluation of land use rights	(ii)	3,498	3,498	-160,258	-163,756
Impairment on the goodwill	(iii)	-	-22,415	-	-
Effects of the above adjustments on the deferred tax		-875	-875	28,842	29,717
Under the IFRS		1,590,988	-6,238,444	15,005,018	13,496,933

(2) Differences between financial statements prepared under the China Accounting Standards for Business Enterprises ("CAS") and International Financial Reporting Standards ("IFRS") *(continued)*

(1) The differences in the net profit/(loss) and net assets of the consolidated financial statements prepared under the CAS and the IFRS *(continued)*

(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 are 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.

The Group's financial statements prepared under IFRS are audited by KPMG.

(3) Return on net asset and earnings per share

Complied to "Regulations on the Preparation of Information Disclosures by Companies Publicly Issuing Securities No.9 - Calculation and Disclosure of Earnings Per Share and Return on Net Assets" (2010 Revised) issued by China Security Regulation Committee, earning per share and return on net assets are calculated as follows:

Expressed in thousands of renminbi yuan

Net profit during this period	Weighted average return on net assets (%)	Earnings per share	
		Basic (RMB)	Diluted (RMB)
Net profit attributable to equity shareholders of the Company	10.701	0.217	0.217
Net profit attributable to equity shareholders of the Company excluding non-recurring items	8.900	0.180	0.180

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 severally and jointly 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. Since 2004, the Company has established and implemented a comprehensive internal control system covering the aspects of decision-making, execution, supervision and assessment. (For the establishment and improvement of the Company's internal control system, please refer to page 30 and page 31 of 2009 annual report of the Company).

The internal control of the Company primarily achieves the following basic objectives:

1. To standardize the Company's business operation conduct and prevent operation management risks; to ensure financial reports and relevant information are truthful and integral; to improve operational efficiency and effectiveness, and to facilitate the achievement of the Company's development strategy.

2. To plug loopholes and eliminate potential hazards so as to prevent and timely detect and correct mistakes, fraud and illegal 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 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 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. The Company collects relevant information in a comprehensive, systematic and continuing manner according to the pre-set control objectives, so as to identify and exercise control upon internal and external risks relevant to the control objectives. The Company identifies the corresponding tolerance level of risks in light of the actual situation, and timely conducts risk assessment. 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 on 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 level 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 compiling operation flow and comprehensively adopting relevant control measures that comprise both manual and automatic controls as well as preventive and detective controls. The Company's Internal Control Manual (2009 edition) contains 18 categories and 1146 control points with 52 operation procedures covering procurement, budget, cost and expenses, sales, capital, capital expenditures, assets, connected transactions, accounting statements, material events, information management, production operations, safety and environmental protection, tax management, contract management, human resources, internal audit and information disclosure.

(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 and communication has been established to allocate and manage information resources based on different departments; A system governing information disclosures has been formulated to regulate information disclosure by the Company so as to protect the lawful rights and interests of investors and to ensure information disclosure is made in a truthful, accurate, complete, timely and impartial manner. A system governing investor relations has been set up to maintain communication with shareholders, potential investors and regulators.

(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. In light of supervision situation of internal control, the Internal Control Office of the Company conducts a self-assessment on the effectiveness of internal control and issues a report on the establishment, implementation and inspection of internal control every half year.

The Board of the Company has conducted a self-assessment of all the aforesaid aspects of internal control in 2009. 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 2009 to 31 December 2009.

It is the view of the Board that through continuous improvement of internal control system, the Company's internal control system was found to be complete, reasonable and effective from 1 January this year to the date of this reporting period. After conducting various internal control check-up on an ongoing basis and making remedies and enhancements thereto accordingly during 2009, 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 eleventh meeting of the sixth session of the Board of the Company on 26 March 2010. 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 over financial reporting of the Company for the year ended at 31 December 2009 pursuant to the requirements of the Sarbanes-Oxley Act. In a report (please refer to the audit report on internal control over financial reporting issued pursuant to the requirements of the Sarbanes-Oxley Act) issued by KPMG on 26 March 2010, 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
26 March 2010

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, 2009, 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 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, 2009, 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, 2008 and 2009, and the related consolidated statements of income, comprehensive income, cash flows and equity for each of the years in the three-year period ended December 31, 2009, and our report dated March 26, 2010 expressed an unqualified opinion on those consolidated financial statements.

KPMG
Hong Kong, China
March 26, 2010

Appendix: Sinopec Shanghai Petrochemical Company Limited Report on Fulfillment of Corporate Social Responsibility 2009

The board of directors (the "Board") and all directors of Sinopec Shanghai Petrochemical Company Limited 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 ("SPC" or the "Company"), 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.

SPC takes "developing enterprises, contributing to the country, rewarding the shareholders, serving the society and benefiting the staff" as the corporate goal. It takes "dutiful, disciplined and trustworthy" as the corporate core value, and "building into a modern petrochemical enterprise with international competitiveness" as its mission. As one of the first batch pilot enterprises carried out standardised SOE restructuring in 1993, the Company 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 2009 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 2009. 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, the PRC Securities Law and the Guidance for Environment Information Disclosure of Listed Companies 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 2009, please refer to the sections headed "Corporate Governance Structure" and "Corporate Governance Report" in the 2009 annual report.

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 from investors through its telephone hotline, email correspondence and letter correspondence as well as meetings. Investors may access the Company's information through the "Company News" and "Investor Relations" columns made on the Company's website to carry out timely disclosure on the Company's information. 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 from the Hong Kong Stock Exchange. The Company was also ranked first regarding investor relations in China by Thomson Reuter. In 2009, the Company once again received the Certificate of Excellence in Investor Relations from the international authoritative IR Magazine.

The Company takes shareholders' returns seriously and maintains a stable profit distribution policy. Since its listing in 1993 to 2009, with the exception of 2001, the Company distributed dividends to all shareholders every year with an aggregate distribution of RMB8.728 billion, of which dividends of RMB 216 million to be distributed for year 2009 need to be approved by the general meeting.

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. The Company was named as a 2006-2007 Shanghai Contract-abiding and Trustworthy Enterprise 7 and a 2006-2007 AAA-rated Contract Credit Enterprise 2007 respectively by the Shanghai Municipal Industrial and Commercial Administration Bureau and the Shanghai Contract Credit Promotion Association (2008-2009 Shanghai evaluation on relevant matters has not commenced yet).

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, improved and perfected mechanism on expression of employees' petition and interest coordination. 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. The Company was named as a National Advanced Unit with Transparent Factory Management.

   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 2009, the Company has also formulated the Guiding Opinion on Bonus Distribution for the Company's Employees which better reflected the fairness and reasonableness of internal income distribution, motivated all staff and established harmonious labor relations.

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. 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, and organizes off-duty recuperation for employees at specific positions by batch every year, 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 in Occupational Hygiene".

In 2009, the Company reinforced control against an excessive level of hazardous elements of occupational diseases, effectively managed poisoning and harmful gas and improved the on-site operation environment. At the request of the Company, Jinshan Hospital of Fudan University and the Shanghai Municipal Centre for Disease Prevention performed health check on 6300 employees of the Company with possible exposures to hazardous elements of occupational diseases, achieving an examination rate of 100%. No diagnose of occupational diseases was found, but 4 employees were diagnosed as being occupationally contraindicated, and 19 employees were put under medical observation. The Company had timely redeployed such 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 expertise 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 2009, the Company provided training for 54354 staff members, representing an increase of 30.8% over the previous year, The percentage of technical staff to the total number of existing staff of the Company increased to 30.9% from 29.9% in the previous year, whereas the percentage of senior skilled operators or above to the total number of skilled operators increased to 40.0% from 38.1% 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 continuously improved its management systems of material and equipment supply. In 2009, in line with the adjustment of the management systems of material and equipment supply and the requirements of ERP operation workflow, the Company has modified its management systems of material and equipment supply and detailed operation rules, the procurement management focuses more on controlling procurement risks, reducing purchase costs, pursuing lowest purchase prices to the highest performance/price ratio and the lowest total supply cost. Procurement methods have been extended to include entering of framework agreements and dynamic bidding purchases. As required by the Company, purchases of material and equipment procurement cost amounted to over RMB 500,000 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 utilises the e-commerce website platform provided by Sinopec Corp. to continuously 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 2009, online purchase rate (excluding raw materials such as crude oil) of the Company reached 98.8%, 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 GB/T19001 certified quality assurance management system in conformity with the GB/T19001 standards. 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 2009, the Sanren acrylic fiber products of the Company were once named as a Product with National Users' Satisfaction. Low density polyethylene resin was named as Products with Shanghai Users' Satisfaction. In the same year, 22 of Sanren's products, including the Sanren-branded petroleum for vehicle, pure benzene, ethylene oxide, polyethylene, polypropylene, industrial polyester filament and acrylic staple fibre, were named as Products with Shanghai Users' Satisfaction.

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 and environmental protection 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 2009, the Company strictly implemented the safe production accountability system and carried out the themed activity called "We want Safety", in which we further specified prohibitions for safe production, improved the safety supervision of production and construction site and intensified third-party safety supervision of the direct production link, so as to realize stable and smooth operation of production facilities and safe operation of construction site. Furthermore, we completed the construction of a 600,000 ton/year PX aromatics and a 150,000 ton/year C5 separation unit, and suspended operation of production facilities for overhaul and dismantled the obsolete equipment. We achieved zero accident target at the construction sites. As a result, 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 2009, the Company identified 2960 potential items with hidden perils of all kinds in a series of massive perils screening campaign, with 2879 of them or 97.3% 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 RMB66.83 million in the removal of 27 items of hidden perils, thus improving the safety level of the Company's plants.

3. Clean production.

Through 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 standards and minimized the volume of discharged pollutants. The Company passed the clean production corporate examination and inspection organized by Sinopec in 2007. In 2009, the total amount of pollutants discharged decreased by 9.3% as compared to last year; whereas the emission of sulphur dioxide decreased by 50% and total COD discharge decreased by 3.8%. 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 remained at the same levels as last year; the rate of recycling of industrial water reached 96%. In addition, through the implementation of various clean production solutions, the Company recorded economic benefits of more than RMB178 million, while the amount of water saved was approximately 2 million tons and average daily reduction of sewage was 5.5 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, put forward rectification suggestions, 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 to No. 4 furnaces of the coal power plant has been completed and put into operation; Stage 2 of the removal of foul gas from the deaeration pool of the No. 1 waste water treatment plant at the Environmental Protection Center No. 1, the Regenerative Thermal Oxidizer (RTO) in the Polyester Business Division and the flare gas recovery system have been completed and put into operation and also built two mobile monitoring stations for atmospheric pollution Leveraging such measures, the quality of the atmospheric environment in the region where the Company is located was 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 2009, 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 and was accredited by Sinopec as an advanced unit in operational safety and environmental protection for seven 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. The Company 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 the 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 of 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 2009, in line with the 2010 Shanghai World Expo and to meet the demands for upgraded refined oil in Shanghai, the Company has swiftly built a 500 thousand/year selective hydro-desulphurisation of catalytic gasoline, and ensured the one-time successful commencement of its operation to supply Hu IV refined oil for the market region in Shanghai.

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 17 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.

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 2009. In 2010, 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 eleventh meeting of the sixth session of the Board on 26 March 2010. The Company has not engaged any third party to verify the fulfillment of its social responsibilities.

The Board of Directors
Sinopec Shanghai Petrochemical Company Limited
26 March 2010

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 2009 annual report, are in the opinion that: the Company was in strict compliance with the financial system operation of listed companies and the 2009 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 2009 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
Ye Guohua
Zhang Jingming

Corporate Information

(1) Company Information

Legal Chinese Name of the Company:	中國石化上海石油化工股份有限公司
Abbreviation for Legal Chinese Name of the Company:	上海石化
Legal English Name of the Company :	Sinopec Shanghai Petrochemical Company Limited
Abbreviation for Legal English Name of the Company:	SPC
Legal Representative of the Company:	Rong Guangdao

(2) Contact Persons and Contact Methods

	Secretary to the Board	Securities Representative
Name:	Zhang Jingming	Tang Weizhong
Address:	48 Jinyi Road, Jinshan District, Shanghai, PRC, Postal Code: 200540	Suite B, 28/F, Huamin Empire Plaza, 728 West Yan'an Road, Shanghai, PRC, Postal Code: 200050
Tel:	8621-57943143/52377880	8621-52377880
Fax:	8621-57940050/52375091	8621-52375091
E-mail:	spc@spc.com.cn	tom@spc.com.cn

(3) Basic Information

Registered address:	48 Jinyi Road, Jinshan District, Shanghai, PRC
Post Code:	200540
Business address:	48 Jinyi Road, Jinshan District, Shanghai, PRC
Post Code:	200540
Website of the Company:	www.spc.com.cn
E-mail address:	spc@spc.com.cn

(4) Information Disclosure and Place for Access to Information

Newspapers designated 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 PRC

(5) Shares Profile of the Company

Share Type	Place of listing of the shares	Stock abbreviation	Stock Code	Stock abbreviation before change
A Shares	Shanghai Stock Exchange	S 上石化	600688	-
H Shares	Hong Kong Stock Exchange	Shanghai Pechem	00338	-
ADR	New York Stock Exchange	SHI	-	-

(6) 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

First time:	Date of change of the Company's registration:	12 October 2000
	Change of the registration address of the Company:	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 2, 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
Post 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
U.S.A

Principal Bankers:

China Construction Bank, Shanghai Branch
900 Lujiazui Ring Road, Pudong New Area, Shanghai, People's Republic of China
Postal Code: 200120

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, Centra, Hong Kong

Depositary:

The Bank of New York Mellon
Investor Services
P.O. Box 11258
Church Street Station
New York, NY 10286-1258
Toll Free 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

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 reports 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
26 March 2010

This annual report is published in both Chinese and English. Should any conflict regarding meaning arises, the Chinese version shall prevail (unless otherwise provided).