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IMPORTANT:

The Board of Directors (the “Board”) and Supervisory Committee of Sinopec Shanghai Petrochemical Company Limited (the “Company” or “SPC”) as well as its directors, supervisors, senior management warrant that there are no material omissions from, or misrepresentation or misleading statement contained in this report, and severally and jointly accept full responsibility for the truthfulness, accuracy and completeness of the information contained in this report.

Mr. Lei Dianwu, director, was unable to attend the 18th meeting of the fifth session of the Board and appointed Mr. Rong Guangdao, chairman of the Company, as his irrevocable voting proxy. The 2006 annual report has been considered and approved by the Board.

The Company prepared the financial statements for the year ended 31 December 2006 (the “Reporting Period”) in accordance with the People's Republic of China (“PRC”) Accounting Rules and Regulations as well as the International Financial Reporting Standards (“IFRS”). They have been audited by KPMG Huazhen and KPMG respectively, and both firms have issued unqualified opinions on the financial statements in its auditors' report.

Mr. Rong Guandao, chairman and president of the Company, Mr. Du Chongjun, vice Chairman and vice president and Mr. Han Zhihao, director and chief financial officer overseeing the accounting operations hereby warrant the truthfulness and completeness of the financial report contained in this report.



Sinopec Shanghai Petrochemical Company Limited is one of the largest petrochemical enterprises in the People's Republic of China (the "PRC") based on sales in 2006. It is also one of the largest PRC producers of ethylene. Ethylene is one of the most important intermediate petrochemical products used in the production of synthetic fibres, resins and plastics. With the exception of petroleum products, the Company is a major competitor in every product market in which it participates.

Located at Jinshanwei in the southwest of Shanghai, the Company is a highly integrated petrochemical complex which processes crude oil into a broad range of synthetic fibres, resins and plastics, intermediate petrochemical products and petroleum products. The Company sells most of its products in 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 made continuing efforts to improve and enhance its operation and management efficiency with an aim to become a world-class petrochemical corporation.



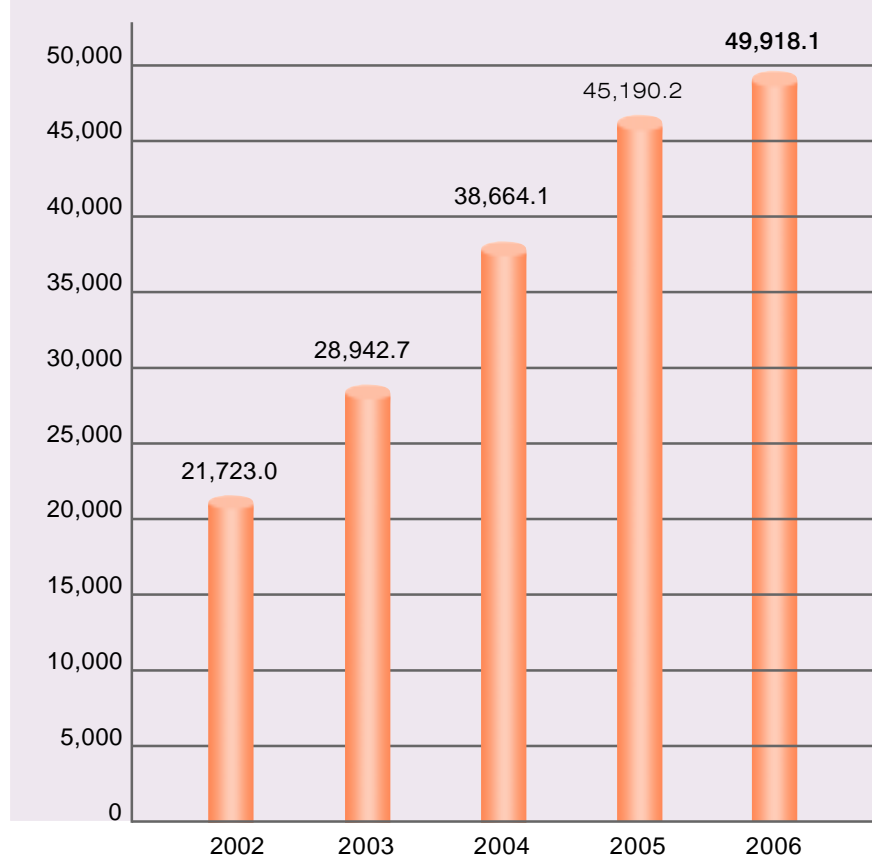
Financial Highlights

(Prepared under International Financial Reporting Standards)

Expressed in RMB millions	2006	2005	2004	2003	2002
Year ended 31 December:					
Net sales	49,918.1	45,190.2	38,664.1	28,942.7	21,723.0
Profit before taxation	964.2	2,287.6	4,696.2	1,590.4	1,045.0
Profit after taxation	911.0	1,921.3	4,059.2	1,445.3	960.5
Profit attributable to equity shareholders of the Company	844.4	1,850.4	3,971.1	1,401.7	916.4
Earnings per share	RMB0.12	RMB0.26	RMB0.55	RMB0.20	RMB0.13
At 31 December:					
Total equity attributable to equity shareholders of the Company	18,976.3	18,830.0	18,417.0	15,021.9	13,980.2
Total assets	27,406.1	26,810.4	28,276.6	27,101.5	26,085.9
Total liabilities	8,093.7	7,632.9	9,486.5	11,738.4	11,739.0

Net sales

(RMB millions)



1. Major business data

(Prepared under PRC Accounting Rules and Regulations)

RMB'000

Item	2006	2005	For the years ended 31 December	
			Increase/decrease compared to the previous year(%)	2004
Income from principal operations	50,479,436	45,897,807	9.98	39,402,533
Total profit	843,669	2,137,208	-60.52	4,693,059
Net profit	736,851	1,704,627	-56.77	3,971,265
Net profit excluding non-recurring items	577,682	1,298,766	-55.52	4,078,483
Net cash flow from operating activities	2,040,679	4,245,115	-51.93	4,908,020

Item	2006	2005	As at 31 December	
			Increase/ decrease compared to last year (%)	2004
Current assets	7,543,151	7,462,181	1.09	8,613,655
Current liabilities	7,010,095	6,087,263	15.16	7,432,559
Total assets	27,684,200	27,101,918	2.15	28,757,089
Shareholders' equity (excluding minority interest)	19,273,088	19,166,908	0.55	18,902,281

Non-recurring Items 2006
RMB'000

Non-operating expenses (excluding provision for impairment losses on fixed assets)	(221,036)
Gain on disposal of long-term equity investments	56,194
Non-operating income	69,958
Subsidy income	282,142
Less: tax effect for the above items	(28,089)
Total	159,169



Financial Highlights (continued)

(Prepared under PRC Accounting Rules and Regulations)

2. Financial indicators

Item	<u>For the years ended 31 December</u>			
	2006	2005	Increase/decrease compared to last year (%)	2004
Earnings per share - diluted (RMB)	0.102	0.237	-56.96 Decrease	0.552
Return on net assets - diluted(%)	3.82	8.89	5.07 percentage points Decrease	21.01
Return on net assets based on net profit excluding non-recurring items - diluted(%)	3.00	6.78	3.78 percentage points Decrease	21.58
Net cash flow per share from operating activities (RMB)	0.283	0.590	-52.03	0.682
Earnings per share - weighted average (RMB)	0.102	0.237	-56.96	0.552
Earnings per share based on net profit excluding non-recurring items - diluted (RMB)	0.080	0.180	-55.56	0.566
Earnings per share based on net profit excluding non-recurring items - weighted average (RMB)	0.080	0.180	-55.56 Decrease	0.566
Return on net assets - weighted average (%)	3.83	8.96	5.13 percentage points	23.08
Return on net assets based on net profit excluding non-recurring items - weighted average(%)	3.01	6.82	3.81 percentage points Decrease	23.71

Item	<u>As at 31 December</u>			
	2006	2005	Increase/ decrease compared to last year (%)	2004
Net asset value per share (RMB)	2.677	2.662	0.56	2.625
Adjusted net asset value per share (RMB)	2.651	2.662	-0.34	2.623

Notes:

The above indicators were derived from the data included in the audited financial statements for 2004, 2005 and 2006. The total number of shares in issue as at 31 December 2004, 2005 and 2006 was 7,200,000,000.



3. Changes in Shareholders' Equity

Description	Share	Capital	Surplus	Retained	Total
	Capital	Reserve	Reserve	Earnings	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Beginning of the year	7,200,000	2,856,278	4,537,022	4,573,608	19,166,908
Increase during the year	-	89,329	73,685	663,166	826,180
Decrease during the year	-	-	-	720,000	720,000
End of the year	7,200,000	2,945,607	4,610,707	4,516,774	19,273,088

Reasons for movement in shareholders' equity:

For the year ended 31 December 2006, the balance of total shareholders' equity of the Company increased from RMB19,166,908,000 at the beginning of the year to RMB19,273,088,000 at the year end. The increase in the capital reserve increased from RMB2,856,278,000 at the beginning of the year to RMB2,945,607,000 at the year end was due to the increase in the reserve for equity investment amounted to RMB57,776,000 and the increase in the surplus of related party transactions amounted to RMB31,553,000. The increase in the statutory surplus reserve from RMB3,174,419,000(restated) at the beginning of the year to RMB3,248,104,000 at the year end was due to the transfer of RMB73,685,000 from profit attributable to shareholders in 2006. The decrease in the statutory public welfare fund from RMB1,546,165,000 at the beginning of the year to RMB nil at the year end was due to the fact that the Company ceased to contribute to the statutory public welfare fund from 1 January 2006, in accordance with the Ministry of Finance notice "Cai Qi (2006) No.67", on 31 December 2005, the statutory public welfare fund balance was transferred to the statutory surplus reserve. The change in the retained earnings was due to the dividend distribution in 2005 and profit appropriation in 2006.

4. 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:

Profit for the reporting period	Return on net assets		Earnings per share	
	Fully diluted (%)	Weighted average (%)	Fully diluted RMB	Weighted average RMB
Profit from principal operations	9.73	9.76	0.261	0.261
Operating profit	0.46	0.46	0.012	0.012
Net profit	3.82	3.83	0.102	0.102
Net profit excluding non-recurring items	3.00	3.01	0.080	0.080

Fully diluted return on net assets=profit for the reporting period/net assets at the end of the period × 100%

Weighted average return on net assets= profit for the reporting period/((net assets at the beginning of the period+ net assets at the end of the period)/2)× 100%

Fully diluted earnings per share= profit for the reporting period/number of shares issued at the end of period

Weighted average earnings per share= profit for the reporting period/((number of shares issued at the beginning of period+ number of shares issued at the end of period)/2)

Financial Highlights (continued)

(Prepared under PRC Accounting Rules and Regulations)

5. Statements of assets provisions

Year ended 31 December 2006

Description	Group			
	As at	Increase	Write-off	As at
	1 January 2006	for the year	for the year	31 December 2006
	RMB'000	RMB'000	RMB'000	RMB'000
Total provision for bad debts	33,970	18,215	6,697	45,488
Of which: Trade debtors	25,845	8,513	3,447	30,911
Other debtors	8,125	9,702	3,250	14,577
Total provision for diminution in short-term investment	-	-	-	-
Of which: Stock investment	-	-	-	-
Bond investment	-	-	-	-
Total provision for diminution in inventories	50,070	33,407	42,122	41,355
Of which: Finished goods	-	33,407	33,407	-
Raw materials	-	-	-	-
Spare parts and consumables	50,070	-	8,715	41,355
Total provision for impairment losses of long-term investments	56,228	-	17,390	38,838
Of which: Long-term equity investments	56,228	-	17,390	38,838
Long-term bond investments	-	-	-	-
Total provision for impairment losses of fixed assets	58,945	50,000	-	108,945
Of which: Property and buildings	-	-	-	-
Equipment	58,945	50,000	-	108,945
Total provision for impairment losses of intangible assets	-	-	-	-
Of which: Patent rights	-	-	-	-
Trade mark rights	-	-	-	-
Provision for impairment losses of construction in progress	-	-	-	-
Provision for diminution in designated loan	-	-	-	-
Total provisions	199,213	101,622	66,209	234,626

Description	Company			
	As at	Increase	Write-off	As at
	1 January 2006	for the year	for the year	31 December 2006
	RMB'000	RMB'000	RMB'000	RMB'000
Total provision for bad debts	23,113	4,669	2,198	25,584
Of which: Trade debtors	20,691	773	2,198	19,266
Other debtors	2,422	3,896	-	6,318
Total provision for diminution in short-term investment	-	-	-	-
Of which: Stock investment	-	-	-	-
Bond investment	-	-	-	-
Total provision for diminution in inventories	49,186	33,407	41,689	40,904
Of which: Finished goods	-	33,407	33,407	-
Raw materials	-	-	-	-
Spare parts and consumables	49,186	-	8,282	40,904
Total provision for impairment losses of long-term investments	-	-	-	-
Of which: Long-term equity investments	-	-	-	-
Long-term bond investments	-	-	-	-
Total provision for impairment losses of fixed assets	58,945	50,000	-	108,945
Of which: Property and buildings	-	-	-	-
Equipment	58,945	50,000	-	108,945
Total provision for impairment losses of intangible assets	-	-	-	-
Of which: Patent rights	-	-	-	-
Trade mark rights	-	-	-	-
Provision for impairment losses of construction in progress	-	-	-	-
Provision for diminution in designated loan	-	-	-	-
Total provisions	131,244	88,076	43,887	175,433

6. Changes of financial statements items

(Details of reporting items with annual changes of 30% or more, and occupying 5% or more of total assets for the reporting periods or 10% or more of net profits reported of the Group, together with reasons for the change)

Item	As at 31December 2006	As at 31December 2005	Change		Reason for change
	RMB'000	RMB'000	RMB'000	%	
Construction in progress	1,972,893	754,192	1,218,701	161.59	Increase in investment in the 3.3 million tons/year diesel hydrogenation project and the 380,000 tons/year ethylene glycol project

Item	Year ended 31December 2006	Year ended 31December 2005	Change		Reason for change
	RMB'000	RMB'000	RMB'000	%	
Profit from principal operations	1,875,643	3,527,005	-1,651,362	-46.82	Crude oil costs increased substantially; prices of major products remained sluggish; and profit margins of the oil refining business decreased substantially.
Profit from operations	88,796	1,723,162	-1,634,366	-94.85	
Net profit	736,851	1,704,627	-967,776	-56.77	
Subsidy income	282,142	632,820	-350,678	-55.42	The Company received a cash government grant of RMB282.1 million from the Ministry of Finance in December 2006, which was less than last year.
Investment income/(loss)	673,809	(39,375)	713,184	-	Investment gain from Shanghai Secco Petrochemical Company Limited increased substantially.

7. For differences between financial statements prepared under International Financial Reporting Standards (“IFRS”) and PRC Accounting Rules and Regulations, please refer to Section C of this annual report.



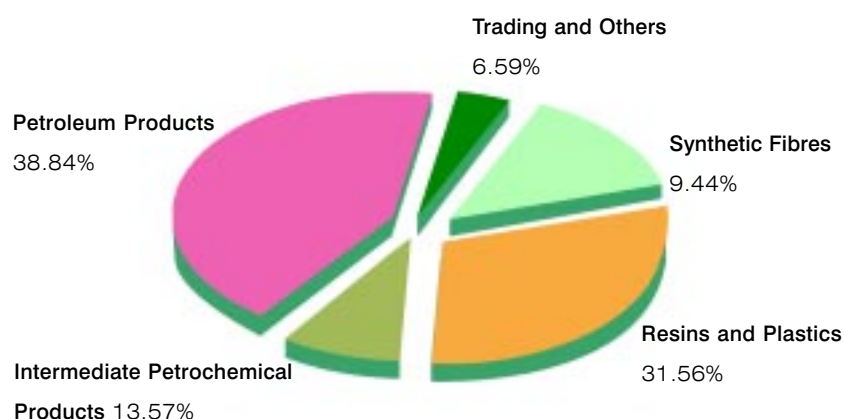
Principal Products

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 2006 net sales of the Group's major products as a percentage of total net sales and their typical uses.

Major products sold by the Company	% of 2006 net sales	Typical uses
Manufactured Products		
Synthetic Fibres		
Polyester staple	1.59	Textiles and apparel
Acrylic staple	4.74	Cotton type fabrics wool type fabrics delre, and acrylic top
Acrylic top	2.13	High bulk hand knitting yarn,blankets and fabrics
PP fibre	0.01	Industrial unwoven fabrics, textiles and apparel
Others	0.97	
Subtotal:	9.44	
Resins and Plastics		
Polyester chips	8.45	Polyester fibres, films and containers
PE pellets	12.47	Films, ground sheeting, wire and cable compound and other injection moulding products such as housewares and toys
PP pellets	9.56	Extruded films or sheets, injection moulding products such as housewares, toys and household electrical appliances and automobile parts
PVA	1.02	PVA fibres, building coating materials and textile starch
Others	0.06	
Subtotal:	31.56	





Major products sold by the Company	% of 2006 net sales	Typical uses
Intermediate Petrochemical Products		
Ethylene	1.77	Feedstock for PE, EG, PVC and other intermediate petrochemicals which can be further processed into resins and plastics and synthetic fibre
Ethylene oxide	1.01	Intermediate for chemical and pharmaceutical industry, dyes, detergents and adjuvant
Benzene	3.42	Intermediate petrochemical products, styrene, plastics, explosives, dyes, detergents, epoxies and polyamide fibre
Butadiene	2.59	Synthetic rubber and plastics
Ethylene glycol	0.14	Fine chemicals
Others	4.64	
Subtotal:	13.57	
Petroleum Products		
Gasoline	5.93	Transportation fuels
Diesel	20.36	Agricultural fuels
Jet oil	4.30	Transportation fuels
Others	8.25	
Subtotal:	38.84	
Trading and Others	6.59	
TOTAL:	100.00	

Change in share capital for the year ended 31 December 2006

1. Changes in share capital for the year ended 31 December 2006

	Before change		Change					After change	
	Ratio shares	Ratio (%)	Rationed shares	Bonus shares	Shares transferred		Sub-total	Ratio Shares	Ratio (%)
					from reserve funds	Others			
I. Shares not in circulation									
1. Promoter's shares comprising,	4,000,000,000	55.56	-	-	-	-	-	4,000,000,000	55.56
State-owned shares	4,000,000,000	55.56	-	-	-	-	-	4,000,000,000	55.56
Domestic legal person shares	-	-	-	-	-	-	-	-	-
Overseas legal person shares	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-
2. Legal person shares	150,000,000	2.08	-	-	-	-	-	150,000,000	2.08
3. Internal staff shares	-	-	-	-	-	-	-	-	-
4. Priority shares or others	-	-	-	-	-	-	-	-	-
Sub-total of Promoter shares	4,150,000,000	57.64	-	-	-	-	-	4,150,000,000	57.64
II. Shares in circulation									
1. RMB ordinary shares	720,000,000	10.00	-	-	-	-	-	720,000,000	10.00
2. Domestic listed foreign shares	-	-	-	-	-	-	-	-	-
3. Overseas listed foreign shares	2,330,000,000	32.36	-	-	-	-	-	2,330,000,000	32.36
4. Others	-	-	-	-	-	-	-	-	-
Sub-total of Shares in circulation	3,050,000,000	42.36	-	-	-	-	-	3,050,000,000	42.36
III. Shares in total	7,200,000,000	100.00	-	-	-	-	-	7,200,000,000	100.00

2. Issue and listing of shares as at 31 December 2006

- (i) Issue of shares during the past three years
As at 31 December 2006, the Company did not issue new shares nor place any shares during the past three years.
- (ii) Change of the Company's total number of shares and share structure
There was no change to the Company's total number of shares or share structure as a result of bonus issue or share placement during the Reporting Period.
- (iii) Current employee shares
The Company had no employee shares as at 31 December 2006.



Shareholders

1. Total Number of shareholders and their shareholding as at 31 December 2006

Total number of shareholders at end of the Reporting Period 115,433

Shareholding of the Top 10 Shareholders

Rank	Name	Type of shareholders	Percentage of total shareholding (%)	Number of shares held	Increase / decrease during the year	Types of shares	Number of non-circulating shares held	Number of shares pledged or frozen
	China Petroleum & Chemical Corporation	State-owned Shareholder	55.56	4,000,000,000	0	Non-circulating	4,000,000,000	Nil
	HKSCC (Nominees) Limited	Foreign Shareholder	26.74	1,925,125,401	10,738,544	Circulating	0	Unknown
	Hong Kong & Shanghai Banking Corporation (Nominees) Limited	Foreign Shareholder	4.95	356,576,000	632,000	Circulating	0	Unknown
	Shanghai Kangli Gong Mao Company	Others	0.23	16,730,000	0	Non-circulating	16,730,000	Unknown
	China Construction Bank - Bosera Thematic Sector Equity Securities Investment Fund	Others	0.21	15,022,429	Unknown	Circulating	0	Unknown
	China Merchants Bank Co., Ltd. - Shang Zheng Hong Li Jiao Yi Xing Kai Fang Shi Securities Investment Fund	Others	0.17	12,123,764	12,123,764	Circulating	0	Unknown
	Zhejiang Province Economic Construction and Investment Company	Others	0.17	12,000,000	0	Non-circulating	12,000,000	Unknown
	Ximeng Assets Holding Company Limited	Others	0.17	11,900,000	Unknown	Circulating	0	Unknown
	Hong Kong & Shanghai Banking Corporation (Nominees) Limited	Foreign Shareholder	0.14	10,402,000	10,000	Circulating	0	Unknown
	CICC-Standard Chartered -Citigroup Global Markets Limited	Others	0.10	7,065,498	2,495,836	Circulating	0	Unknown

Top 10 holders of shares in circulation

Name of shareholders	Number of shares in circulation held	Type of Shares
HKSCC (Nominees) Limited	1,925,125,401	Overseas listed foreign shares
Hong Kong & Shanghai Banking Corporation (Nominees) Limited	356,576,000	Overseas listed foreign shares
China Construction Bank - Bosera Thematic Sector Equity Securities Investment Fund	15,022,429	RMB ordinary shares
China Merchants Bank Co., Ltd. - Shang Zheng Hong Li Jiao Yi Xing Kai Fang Shi Securities Investment Fund	12,123,764	RMB ordinary shares
Ximeng Assets Holding Company Limited	11,900,000	RMB ordinary shares
Hong Kong & Shanghai Banking Corporation (Nominees) Limited	10,402,000	Overseas listed foreign shares
CICC -Standard Chartered - Citigroup Global Markets Limited	7,065,498	RMB ordinary shares
Industrial and Commercial Bank of China - Shang Zheng 50 Jiao Yi Xing Kao Fang Shi Index Securities Investment Fund	6,972,315	RMB ordinary shares
Wangxiang Finance Co., Ltd.	6,410,039	RMB ordinary shares
China Minsheng Banking Corp., Ltd. - Orient Jing Xuan Hun He Xing Kai Fang Shi Securities Investment Fund	5,580,000	RMB ordinary shares

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

2. Information on the controlling shareholder and de facto controller of the Company

(1) Controlling shareholder

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

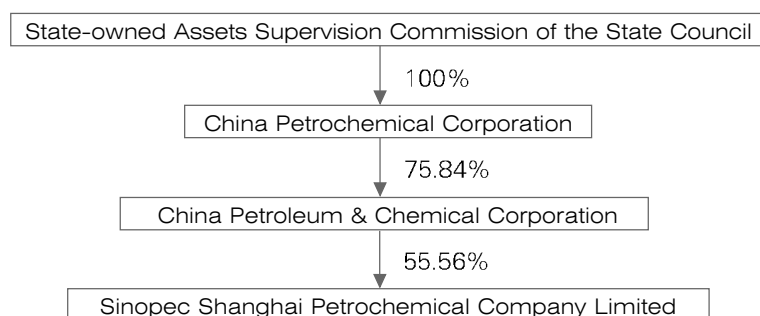
(2) De facto controller

Name of the de facto controller:	China Petrochemical Corporation ("Sinopec")
Authorised representative:	Chen Tonghai
Registered capital:	RMB104.9 billion
Date of incorporation:	July 1998
Major business :	provide well drilling services, oil well logging services and mine shaft work services; manufacturing of production equipment and maintenance services; project construction services and public works and social services such as water and electricity.

(3) Change of controlling shareholder and de facto controller of the Company

During the Reporting Period, there was no change to the controlling shareholder and the de facto controller of the Company.

(4) Diagram of the ownership and controlling relationship between the Company and the de facto controller



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

As at 31 December 2006, HKSCC (Nominees) Limited held 1,925,125,401 H shares of the Company, representing 26.74% of the total issued share capital of the Company.

4. Public Float

Based on information that is publicly available to the Company and within the knowledge of its directors as at 29 March 2007, the Company has a sufficient public float which complies with the requirement under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Hong Kong Listing Rules").

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

As at 31 December 2006, 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 the Securities and Futures Ordinance (Chapter 571 of the Laws of HongKong) ("SFO") of Hong Kong (including those who are entitled to exercise, or control the exercise of, 5% or more of the voting power at any general meeting of the Company but excluding the directors, supervisors and senior management of the Company) in the shares and underlying shares of equity derivatives of the Company as recorded in the register required to be kept under Section 336 of the SFO of Hong Kong 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	-
Credit Suisse Group	Beneficial owner	208,225,909 (L) 93,688,711 (S) 5,852,010 (P)	2.89 (L) 1.30 (S) 0.08 (P)	8.94(L) 4.02(S) 0.25(P)
JPMorgan Chane & Co.	Beneficial owner	186,544,424 (L) 138,833,084 (S)	2.59 (L) 1.93 (S)	8.01 (L) 5.96 (P)

Note: (L): Long positions; (S): Short positions; (P): Lending pool

(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 of Hong Kong in the underlying shares of equity derivatives were recorded in the register required to be kept under Section 336 of the SFO of Hong Kong.

(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 of Hong Kong 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 of Hong Kong.

Save as disclosed above, as at 31 December 2006, 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 of Hong Kong.

Directors, Supervisors and Senior Management

Name	Position	Sex	Age	Commencement of service term	End of service term	Number	Number	Increase/ decrease of Shares	The remuneration during the Reporting Period (RMB'000)
						of shares held at the beginning of the year (share)	of shares held at the end of the year (share)		
Rong Guangdao	Chairman and President	M	51	2005/6/28	2008/6/28	3,600	3,600	-	460
Du Chongjun	Vice Chairman and Vice President	M	52	2005/6/28	2008/6/28	1,000	1,000	-	460
Han Zihao	Director and Chief Financial Officer	M	55	2005/6/28	2008/6/28	0	0	-	400
Shi Wei	Director and Vice President	M	47	2005/6/28	2008/6/28	0	0	-	390
Li Honggen	Director and Vice President	M	50	2006/6/15	2008/6/28	0	0	-	360
Dai Jinbao	Director	M	50	2006/6/15	2008/6/28	0	0	-	180
Lei Dianwu	External Director	M	44	2005/6/28	2008/6/28	0	0	-	0
Xiang Hanyin	External Director	M	52	2005/6/28	2008/6/28	0	0	-	0
Chen Xinyuan	Independent Director	M	42	2005/6/28	2008/6/28	0	0	-	80
Sun Chiping	Independent Director	M	48	2005/6/28	2008/6/28	0	0	-	80
Jiang Zhiquan	Independent Director	M	56	2005/6/28	2008/6/28	0	0	-	80
Zhou Yunnong	Independent Director	M	64	2005/6/28	2008/6/28	0	0	-	80
Gao Jinping	Chairman of the Supervisory Committee	M	40	2006/6/15	2008/6/28	0	0	-	390
Zhang Chenghua	Supervisor	M	51	2005/6/28	2008/6/28	0	0	-	210
Wang Yanjun	Supervisor	F	46	2005/6/28	2008/6/28	0	0	-	200
Lu Xiangyang	External Supervisor	M	55	2005/6/28	2008/6/28	0	0	-	0
Gen Limin	External Supervisor	M	52	2005/6/28	2008/6/28	0	0	-	0
Liu Xiangdong	Independent Supervisor	M	55	2005/6/28	2008/6/28	0	0	-	0
Yin Yongli	Independent Supervisor	M	67	2005/6/28	2008/6/28	0	0	-	0
Zhang Jianping	Vice President	M	44	2005/6/28	2008/6/28	0	0	-	370
Tang Chengjian	Vice President	M	51	2005/6/28	2008/6/28	0	0	-	380
Zhang Jingming	Company Secretary	M	49	2005/6/28	2008/6/28	0	0	-	240
Total									4,360

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



Major work experiences of Directors, Supervisors and Senior Management :

Directors

Rong Guangdao, 51, 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 has 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 as Chairman of the China Jinshan Associated Trading Corporation. In June 2004, Mr. Rong was elected Vice Chairman of the Company. In April 2005, Mr. Rong was elected as Deputy Secretary of the Communist Party Committee. In June 2005, Mr. Rong was elected as Chairman of the Company. In November 2006, Mr. Rong was appointed Director and Vice Chairman of Shanghai Secco Petrochemical Company Limited ("Shanghai Secco"). Mr. Rong has rich experience in management of large-scale petrochemical enterprise operations, human resource management and corporate strategic management. 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, 52, is Secretary of the Communist Party Committee, Vice Chairman and Vice President of the Company. He joined the Complex in 1974 and has 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. From June 1999 to June 2004 he was Chairman of the Supervisory Committee of the Company. In October 2003 he was appointed Secretary of the Communist Party Committee of the Company. In June 2004, Mr. Du was appointed Vice Chairman of the Company. In June 2005, Mr. Du was appointed Vice President of the Company. Mr. Du has extensive experience in large-scale enterprise operation, management and internal supervision. Mr. Du graduated, majoring in enterprise management, from East China Institute of Chemical Technology in 1986. In 1999 Mr. Du graduated, majoring in computer application management, from Shanghai Second Polytechnic University. He is a senior economist by professional title.

Han Zhihao, 55, is Executive Director and Chief Financial Officer of the Company. Mr. Han joined the Complex in 1976 and has held various positions including Deputy Director of the Vehicle Transportation Department, Deputy Director and Director of the Finance Department of the Complex, Director of the Finance Department and Deputy Chief Accountant of the Company. In 1998, he was appointed Chief Accountant of the Company. In October 2003, he was appointed Chief Financial Officer of the Company. In June 2004, he was elected Director of the Company. Mr. Han has rich experience in corporate finance and financial management. He graduated from Shanghai University of Finance and Economics majoring in finance and accounting in 1990. In 2002, he obtained an MBA from East China University of Science and Technology - University of Canberra in Australia. Mr. Han is a senior accountant by professional title.

Shi Wei, 47, is Executive Director and Vice President of the Company. Mr. Shi joined the Complex in 1982 and has held various positions including Assistant to the Manager and then Deputy Manager of the Refining and Chemical Division of the Company, and Manager of the Environmental Protection Department. In April 2001, he was appointed Secretary of the Communist Party Committee and then Manager of the Refining and Chemical Division in July 2002. In October 2003, Mr. Shi was appointed Vice President of the Company. In June 2005, he was appointed Director of the Company. In 1982, Mr. Shi graduated from East China University of Science and Technology majoring in oil refining engineering and obtained a bachelor's degree in engineering. Mr. Shi completed the post-graduate studies in Business Management at East China University of Science and Technology in 1998. Mr. Shi is a senior engineer by professional title.

Li Honggen, 50, is Executive Director and Vice President of the Company. Mr. Li joined the Company in 1973 and has held various positions including Deputy Director of No. 1 Chemical Plant of the Company, Deputy Director and Director of the Ethylene Plant of the Company and Deputy Manager and Manager of the Refining and Chemical Division of the Company. In August 2000, he was appointed Vice President of Shanghai Chemical Industrial Park Development Company Limited. In August 2002, he was appointed Vice President of Shanghai Secco Petrochemical Co., Ltd. In March 2006, he was appointed Vice President of the Company. In June 2006, he was appointed Director of the Company. 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.

Dai Jinbao, 50, is Executive Director of the Company, Deputy Secretary of the Communist Party Committee of the Company's Refining and Chemical Division and Chairman of the Labor Union. Mr. Dai joined the Company in November 1973 and was Deputy Director of No. 1 Chemical Plant of the Company. In December 1997, he was appointed Director of No. 1 ethylene Complex of the Refining and Chemical Division of the Company. In May 2003, he was appointed Chairman of the Labor Union of the Company's Refining and Chemical Division. In August 2005, he was appointed Deputy Secretary of the Communist Party Committee of the Company's Refining and Chemical Division. In June 2006, he was appointed Director of the Company. Mr. Dai graduated from the Shanghai Second Polytechnic University majoring in business management. Mr. Dai is a engineer by professional title.

Lei Dianwu, 44, is Director of Development and Planning Division of Sinopec Corp. In June 2005, Mr. Lei was elected External Director of the Company. Mr. Lei has 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 Styrene Company Limited. He acted as Deputy Manager and Deputy Director of the Joint Venture Office at Yangzi Petrochemical Company, Director of Project Development Department in China Dong Lian Petrochemical Limited Liabilities Company (中國東聯石化有限責任公司), Deputy General Manager of Yangzi Petrochemical Limited Liabilities Company and Deputy Director of Development and Planning Division of Sinopec Corp. In March 2001, he assumed the current position of Director of Development and Planning Division of Sinopec Corp. Mr. Lei has rich experience in enterprise planning and investment development management. Mr. Lei graduated from the East China Petroleum Institute with a major in basic organic chemicals and obtained a bachelor's degree in engineering. He is a senior engineer by professional title.

Xiang Hanyin, 52, is Deputy Director of Chemical Division of Sinopec Corp. In June 2005, Mr. Xiang was elected External Director of the Company. Mr. Xiang commenced work in February 1982 and was Deputy Director of the Chemical Plant of Yizheng Chemical Fibre Company and Director of Chemical Plant of Yizheng Chemical Fibre Co., Ltd. In February 2000, he assumed the current position of Deputy Director of Chemical Division of Sinopec Corp. Mr. Xiang has rich experience in management of chemical enterprise operating. Mr. Xiang graduated from Nanjing Chemical College with a major in basic organic chemicals and a bachelor's degree in engineering in 1982. In 2000, he completed post-graduate studies in enterprise management at Nanjing University. He is a senior engineer by professional title.

Chen Xinyuan, 42, currently the Dean, Professor and Tutor to doctoral students of the College of Accounting, Shanghai University of Finance and Economics, and was elected as an Independent Director of the Company in June 2003. 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, 48, is President and Secretary of the Communist Party Committee of the Industrial and Commercial Bank of China ("ICBC"), Shanghai Branch. In June 2005, Mr. Sun was elected as an Independent Director of the Company. Mr. Sun started to be involved in the finance industry in March 1979 and has held various positions including accountant, team leader and Deputy Director of the People's Bank of China, Shanghai Branch, sub-branch in both Huang Pu and Jing'an Districts. He joined the ICBC, Shanghai Branch, operating division and was Deputy Secretary of the Communist Party Committee and Secretary of the Communist Party Discipline Supervisory Committee. He also acted as Deputy Director, President and Deputy Secretary of the Communist Party Committee of ICBC, Shanghai Branch, Rep. Office (Sub-branch) in Xu Hui District, General Manager of International Business Division of ICBC, Shanghai Branch, Assistant to the President of the ICBC, Shanghai Branch and concurrently General Manager of International Business Division of ICBC, Shanghai Branch and Deputy President of ICBC, Shanghai Branch. In November 2000, he became Deputy President, President and Secretary of the Communist Party Committee of ICBC, Guangdong Branch. In August 2002, he assumed the current position as President of ICBC, Shanghai Branch and Secretary of the Communist Party Committee. Mr. Sun graduated from Shanghai University of Finance and Economics with a major in Finance. He studied for a master's 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, 56, is Secretary of the Communist Party Committee and Chairman of Shanghai Construction (Group) General Company. In June 2005, Mr. Jiang was elected as an Independent Director of the Company. Mr. Jiang started work in December 1968, and has held various positions including a cadre and Deputy Director of Shanghai Construction 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 HongKong and Fudan University in July 2000 and obtained an MBA. He is a senior economist.

Zhou Yunnong, 64, has been an Independent Director of the Company since June 2005. He joined the The Complex in October 1972 and has 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.

Supervisors:

Gao Jinping, 40, is Chairman of the Supervisory Committee, Deputy Secretary of the Communist Party Committee, Secretary of the Communist Party Discipline Supervisory Committee of the Company and Chairman of the Labor Union of the Company. Mr. Gao joined the Complex in 1990 and has held various positions including Deputy Secretary of the Communist Youth League of The Complex, Deputy Secretary of the Communist Party Committee of the Experimental Plant and Chemical Division of the Company. In October 2001, Mr. Gao was elected as Director of the Propaganda Division of the Company. In May 2003, Mr. Gao was appointed Deputy Secretary of the Communist Party Committee of the Company and Chairman of the Labor Union of the Company. In June 2004, 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 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 title.

Zhang Chenghua, 51, is a Supervisor, Deputy Secretary of the Communist Party Discipline Supervisory Committee, Director of Supervisory Office, Director of Supervisory Committee Office and Director of the Communist Party Committee Office of the Company. Mr. Zhang joined the Complex in 1974 and worked in the Thermal Power Plant of the Complex as Deputy Secretary of the Communist Party Committee, Deputy Secretary of the Communist Party Committee cum Chairman of Labor Union of the Thermal Power Plant of the Complex. In December 1999, Mr. Zhang was appointed Deputy Secretary of the Communist Party Committee, Secretary of the Communist Party Discipline Supervisory Committee and Chairman of Labor Union of the Thermal Power Plant of the Complex. In March 2002, Mr. Zhang was appointed Deputy Secretary of the Communist Party Discipline Supervisory Committee and Director of Supervisory Division of the Company. In April 2002, Mr. Zhang was appointed Director of Supervisory Committee Office of the Company. In June 2002, Mr. Zhang was appointed as a Supervisor of the Company. In April 2004, Mr. Zhang was appointed Director of the Communist Party Committee Office. Mr. Zhang graduated, majoring in party administrative management from Shanghai Party Institute in January 1999. In 2001, he completed his post-graduate studies in business administration in the aspect of industrial economics at Shanghai Academy of Social Sciences. He has senior professional title.

Wang Yanjun, 46, is a Supervisor and Vice Chairwoman of the Labor Union of the Company. Ms. Wang joined the Complex in July 1982 and was Chairwoman of the Labor Union of the Plastics Plant of the Company. In January 1999, Ms. Wang was appointed Chairwoman of the Labor Union of Plastics Division of the Company. In June 2002, Ms. Wang was Chairwoman of the Labor Union of Chemical Division of the Company. In July 2004, Ms. Wang was appointed Deputy Secretary of the Communist Party Committee, Secretary of Communist Party Discipline Supervisory Committee of the Communist Party Committee and Chairwoman of the Labor Union of Chemical Division of the Company. In January 2005, Ms. Wang was appointed Vice Chairwoman of the Labor Union of the Company. In June 2005, Ms. Wang was appointed as a 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.

Lu Xiangyang, 55, is Deputy Director of the Auditing Bureau of China Petrochemical Corporation and Deputy Director of Auditing Department of Sinopec Corp.. He was appointed as an External Supervisor of the Company in June 2002. Mr. Lu commenced work in 1970 and has held various positions including Deputy Director, Director of the Financial Department of Qianguo Refinery, Deputy Director of the Production Auditing Division of the Auditing Department of China Petrochemical Corporation, Director of the Production Auditing Division of the Auditing Department of the Sinopec Huaxia Auditing Company and Deputy Manager of the Sinopec Huaxia Auditing Company. He was appointed Deputy Director of the Auditing Bureau of China Petrochemical Corporation and Deputy Director of the Auditing Department of Sinopec Corp. in June 1997. Since March 2006, Mr. Lu holds concurrently the post of the director of auditing department of Sinopec Group's Asset Management Company. Mr. Lu graduated from Xi'an College of Petroleum Industry in 1985, with a major in industrial enterprise accounting. He is an accountant with many years of management experience in finance and auditing.

Geng Limin, 52, is Deputy Director of the Supervisory Bureau of China Petrochemical Corporation and Deputy Director of the Supervisory Division of Sinopec Corp. In June 2002, Mr. Geng was appointed as an External Supervisor of the Company. Mr. Geng commenced work in 1971 and has held various positions including Deputy Director of Enterprise Carders Division of Human Resources and Education Department of China Petrochemical Corporation and Director of Business Carders Division of Human Resources and Education Department of China Petrochemical Corporation. In February 2000, he assumed the posts of Deputy Director of the Supervisory Bureau of China Petrochemical Corporation and Deputy Director of the Supervisory Division of Sinopec Corp. Mr. Geng has been for a long time, involved in human resource management, discipline supervision and check-up work with rich experience in efficiency check-up and supervision. Mr. Geng graduated from Daqing College for workers and staff members with a major in English in 1981. He graduated from the law faculty of Beijing Ren Wen Correspondence University in 1987 and is an interpreter.

Liu Xiangdong, 55, is President of Zhengda International Finance Corporation. He was elected as an Independent Supervisor of the Company in June 2000. Mr. Liu has held various positions including Planning and Credit Officer and Deputy Head and Head of the Credit Division of banks. He has also been Deputy Director and Director of the Planning Department of the Industrial and Commercial Bank of China, Shanghai Branch, Chief Economist and Director of the Planning Division of the Industrial and Commercial Bank of China, Shanghai Branch. He has been Deputy Director of the Industrial and Commercial Bank of China, Shanghai Branch since October 1997. He was appointed General Manager of Investment Division of the Industrial and Commercial Bank of China in June 2002. Mr. Liu has been working in the banking sector for many years and has abundant experience in business management practices. He holds a master's degree in economics and is a senior economist.

Yin Yongli, 67, is Chairman of Management Committee of Tianhua Certified Public Accountant. In June 2005, he was appointed as an Independent Supervisor of the Company. Mr. Yin has held various positions including Deputy Chief and Chief of finance section of Shangdong Shengli Refinery, Deputy Chief Accountant of Qiliu 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. Since June 2004, Mr. Yin has been appointed Chairman of Huazheng Certified Public Accountant. Since June 2005, Mr. Yin has been Chairman of Management Committee of Tianhua Certified Public Accountant. 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, 44, is Vice President of the Company. Mr. Zhang joined the Complex in 1987 and has 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 and Director of the Petrochemical Research Institute. In April 2001, he was appointed Director of the Production Department of the Company. In February 2002, Mr. Zhang became Assistant to President of the Company and 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 refinery. 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, 51, is Vice President of the Company. Mr. Tang joined the Complex in 1974 and has held various positions including Deputy Secretary of the Communist Party Committee, Chairman of the Labor Union and Deputy Director of the Thermal Power Plant of the Complex, Deputy Director of the Thermal Power Plant of the Company, Director of the Thermal Power Plant of the Company's General Thermal Power Plant and Deputy Director of the Company's General Thermal Power Plant. In January 1998, Mr. Tang was appointed 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 power plant and 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 an engineer.

Zhang Jingming, 49, is Secretary to the Board of directors and General Counsel in-house of the Company. Mr. Zhang joined the Complex in 1978. He has held various positions including Project Manager of the International Department, the Company's Securities Affairs Representative in Hong Kong, Deputy Director of the International Department and Deputy Director of the Board Secretariat. In June 1999, Mr. Zhang was appointed Secretary to the Board of directors 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 research master program in international economic law at East China University of Politics and Law. He is a senior economist by professional title.

Information on holding positions in corporate shareholders

Name	Shareholder's name	Position held	Service term	Salary and allowance received (yes or no)
Lei Dianwu	Sinopec Corp.	Director of Development and Planning Division	December 2001 until now	yes
Xiang Hanyin	Sinopec Corp.	Deputy Director of Chemical Division	February 2002 until now	yes
Gen Limin	Sinopec Corp.	Deputy Director of Supervisory Department	February 2000 until now	yes
Lu Xiangyang	Sinopec Corp.	Deputy Director of Audit Department	June 1997 until now	yes

Remuneration of Directors, Supervisors and Senior Management

1. Directors and supervisors not receiving salary and allowance from the Company

Names of directors and supervisors not receiving salary and allowance from the Company	Salary and allowance received from shareholders or other connected entities (yes or no)
Lie Dianwu	yes
Xiang Hanyin	yes
Lu Xiangyang	yes
Gen Limin	yes
Liu Xiangdong	no
Yin Yongli	no

2. Procedures of determining remuneration of directors, supervisors and senior management:

Relevant proposals on remuneration of the directors are put forward by the Remuneration and Appraisal Committee to the Board taking into account the performance of the directors and with reference to the general standards of other listed companies in the sector. The proposals are confirmed upon consideration and approval by the Board and general meeting.

Relevant proposals on remuneration of the supervisors are put forward by the Supervisory Committee to the Board taking into account the performance of the supervisors and with reference to the general standards of other listed companies in the sector. The proposals are confirmed upon consideration and approval by the Board and general meeting. The Remuneration and Appraisal Committee appraises the performance of senior management personnel of the Company each year. It determines appraisal yardsticks in accordance with the job responsibilities of senior management personnel, and determines their remuneration according to the appraisal results.

The implementation plan on remuneration of the directors, supervisors and senior management will be put forward by the Company to the Board for approval and be proposed to the shareholders general meeting for approval.

For details of remuneration of directors, supervisors and senior management, please refer to note 9 of notes to the financial statement prepared under IFRS.

3. Remuneration of directors, supervisors and senior management is determined by the principles of “efficiency, motivation and fairness” and approved in accordance with “Remuneration System for Directors, Supervisors and Senior Management”.
4. The five highest paid individuals
Please refer to note 9 of notes to the financial statement prepared under IFRS.
5. Retirement Scheme
Please refer to notes 9, 28(e) and 29 of notes to the financial statement prepared under IFRS.
6. Staff remuneration
Remuneration packages of the Group’s employees 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 the staff.

Change of Directors, Supervisors and Senior Management

Name	Position held	Reasons for resignation
Wu Haijun	Director and Vice President	Job change
Gao Jinping	Director	Appointed as Chairman of the Supervisory Committee
Dai Shuming	Chairman of the Supervisory Committee	Job change
Li Honggen	Director and Vice President	-
Dai Jinbao	Director	-
Yin Jihai	Vice President	Job change
Zhang Zhiliang	Vice President	Job change

Resignations of directors

Resignations of Mr. Wu Haijun (executive director) and Mr. Gao Jinping (executive director) were approved at the 2005 annual general meeting held on 15 June 2006. The resignations took effect on 15 June 2006.

Resignation of supervisor

In accordance with the articles of association of the Company, the staff of the Company have the right to nominate a supervisor representing the staff to participate in the supervisory committee of the Company. The appointment and resignation of such supervisor must be approved by the staff of the Company at the joint meeting of the staff representatives association.

At the fifth joint meeting of the fourth session of the staff representatives association held on 25 May 2006, the staff of the Company approved the resignation of Mr. Dai Shuming from the position as the supervisor representing the staff. The resignation of Mr. Dai was effective from 15 June 2006.

Appointments of directors

Mr. Li Honggen and Mr. Dai Jinbao were elected as directors of the Company at the 2005 annual general meeting held on 15 June 2006. They were also elected as executive directors of the Company at the twelfth meeting of the fifth session of the Board held on 15 June 2006.

Appointment of supervisor

The appointment of Mr. Gao Jinping as supervisor representing the staff of the Company was approved by the staff of the Company at the fifth joint meeting of the fourth session of the staff representatives association held on 25 May 2006. The appointment of Mr. Gao was effective from 15 June 2006.

Movement in senior management

A resolution in respect of relieving Mr. Zhang Zhiliang and Mr. Wu Haijun from the positions of vice presidents was passed at the tenth meeting of the fifth session of the Board of the Company held on 24 March 2006. Mr. Li Honggen was appointed as vice president of the Company with effect from the same day.

The resolution in respect of relieving Mr. Yin Jihai from the position of vice president was passed at the thirteenth meeting of the fifth session of the Board of the Company held on 29 August 2006 with effect from the same day.

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

Other than the shares held by the Directors, Supervisors and Senior Management as set out in section (1) "Directors, Supervisors and Senior Management", as at 31 December 2006, 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 of Hong Kong) as recorded in the register required to be kept under Section 352 of the SFO of Hong Kong or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code for Securities Transactions").

As at 31 December 2006, none of the directors, supervisors or senior management of the Company and 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 direct or indirect beneficial interests in any contracts of significance entered into or subsisting during the year to which the Company or any of its subsidiaries was a party.

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 its directors and supervisors. After making specific queries with all directors and supervisors and obtaining 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.

Current Status of Corporate Governance in the Company

The Company has strictly complied with the relevant requirements of the Company Law, Securities Law, Corporate Governance Principles for Listed Companies, Guidelines for Formulating Independent Directors for Listed Companies, the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the New York Stock Exchange to put forward the advancement of the Company's system and management, improve the corporate governance structure, strengthen the formulation of the Company's system in order to enhance the overall image of the Company.

In 2006, the Company has passed the resolution in respect of the amendments to the Articles of Associations and its appendices of the Company.

Performance of duties by the Company's independent directors

The independent directors of the Company attended the 2006 general meetings and the 2006 meetings of the Board, and have fully fulfilled the functions of independent directors. They participated in considering and approving the resolutions in respect of the 2005 annual report, the 2006 interim report, quarterly reports, the profit appropriation plan and connected transactions. They expressed their opinions on the basis of their work experience and expertise and conscientiously performed their duties as independent directors. In addition, they gave independent opinions on major matters such as appointments of senior management and connected transactions. The independent directors have fulfilled their duties in an independent, trustworthy and diligent manner to safeguard the interests of shareholders, in particular minority shareholders, in accordance with the authority conferred on them as stipulated by the relevant laws and regulations and the Articles of Association.

1. Attendance at meetings of the Board by independent directors:

Name of independent director	Attendance at meetings of the Board during the year	Attendance in person (no. of times)	Attendance by proxy (no. of times)	Absence (no. of times)
Chen Xinyuan	9	9	0	0
Sun Chiping	9	7	2	0
Jiang Zhiquan	9	7	2	0
Zhou Yunnong	9	9	0	0

2. Disagreement from independent directors on the relevant issues of the Company

During the Reporting Period, none of the independent directors of the Company had disagreement on any board resolutions or other issues of the year.

The independency of the Company's business, staff members, assets, organizations, finance as vis-a-vis the controlling shareholder

1. Business: The listed company and the controlling shareholder are separate in respect of business. The listed company's business is independent in its entirety with autonomous operation ability.
2. Staff members: The listed company and the controlling shareholder are separate in respect of staff members. Both the Company and the controlling shareholder are completely independent in the management of labor, human resources and salary.
3. Assets: The listed company and the controlling shareholder are separate in respect of assets. The Company owns independent property rights in their entirety in respect of its intangible assets, such as the trademarks derived from the Company's production and operation.
4. Organization: The listed company and the controlling shareholder are separate in respect of organization. No workplace is shared between the listed company and the controlling shareholder.
5. Finance: The listed company and the controlling shareholder are separate in respect of finance. The listed company owns independent bank accounts and tax registration accounts and pays tax independently.

Appraisal and reward mechanisms for senior management staff members

The remuneration system for senior management of the Company was considered and approved at the fourth meeting of the fourth session of the Board on 26 March 2003 and at the 2002 annual general meeting on 18 June 2003. The remuneration system has since been used for appraising and rewarding senior management staff and continued to be adopted in 2006.

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.

Code of Corporate Governance

For 2006, the Group complied with all the principles and provisions set out in the Code of Corporate Governance Practices (the "Code") contained in Appendix 14 to the Hong Kong Listing Rules, except for the following deviation:

Code provision A.2.1: Roles of chairman and chief executive officer should be separate.

Deviation: Mr. Rong Guangdao is the chairman and president of the Company.

Reason: Mr. Rong Guangdao has extensive experience in large-scale petrochemical production and management. Mr. Rong is the most suitable candidate to serve the positions of the chairman and the president for 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 each of the positions.

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

A. Directors

i. The Board of Directors

The Board of the Company shall meet at least once per quarter. In 2006, nine Board meetings were held, all of which were conducted by the 5th Board. For details of attendance of the directors, please refer to the attendance record set out in page 34. Before each Board meeting, the secretary to the Board will consult each director for matters to be tabled to the relevant meeting. Any matters so raised by the directors will be included in the agenda of the relevant regular Board meeting. During the year, all notices and draft agenda of all regular and other 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 compliance of Board procedures and advising the Board on matters concerning corporate governance and regulatory compliance. The Company Secretary has been responsible for preparing and maintaining minutes of Board meetings and meetings of Board committees, and for the delivery of the same to the directors within a reasonable period from the conclusion of the respective meetings. Such minutes have been open for inspection by any director / member of Board committees. Directors have been entitled to seek independent professional advice at the Company's expense.

If a substantial shareholder or a director has a conflict of interest in a material matter, for which a Board meeting should be held, the directors concerned shall abstain from voting and shall not be counted in the quorum present at such Board meeting.

ii. Chairman and Chief Executive Officer

The Chairman of the Company is responsible for providing the directors with all such information concerning the performance of the duties of the Board. The Chairman of the Company is committed to improving the quality and timeliness of the information provided to the director. 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. Another major responsibility of the Chairman is to develop effective measures to facilitate the development of the Company. Major governance initiatives in 2007 include: implement the low-cost strategy and push forward safety and environmental protection work to ensure smooth and effective production operations; accelerate the development of the structural adjustment program and advance technological innovations, thus striving for enhancement of corporate competitiveness; continuously strengthen internal management to further elevate the Company's operational efficiency; continue to carry out reform such as clean-up and shake-up investment at subsidiary level, restructuring and segregation in a pro-active and steady manner; and further strengthen the establishment of team structure and the promulgation of corporate culture, thereby promoting the development of corporate harmony.

iii. Board composition

The Company discloses the composition of its Board by positions (including chairman, executive directors, independent non-executive directors and non-executive directors) in all its publications. The Company has four independent non-executive directors, representing one-third of the total number of directors. To allow the shareholders a more thorough understanding about our directors and 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.

iv. Appointments, re-election and removal

All of the directors of the Company (including non-executive directors) should be appointed for a specific term. According to the Articles of Association of the Company, directors shall be elected by shareholders at a general meeting for a term of three years, and shall be eligible for reelection upon expiry of their terms of office. However, the term of an independent director may not exceed a total of six years. All new directors of the Company shall be subject to approval by shareholders at the first general meeting after their appointment.

v. Responsibilities of Directors

To ensure his/her understanding of the operations and businesses of the Company, every newly appointed director would receive a comprehensive set of orientation materials after his/her appointment, which would include a briefing on the Group's business, duties and responsibilities of a director, as well as other legal requirements. In addition, all non-executive directors would receive 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 non-executive directors include the following: participating in board meetings to bring an independent judgement; taking a lead at the Company's Board meeting where potential conflicts of interests arise; serving on the Board committees if invited; and scrutinising the Company's performance.

The Company Secretary is responsible for ensuring that all directors have received the latest updates required by the Hong Kong Listing Rules and other legal requirements.

vi. Supply of and access to information

To facilitate the directors to perform their duties more effectively and to make informed decisions, the agenda of all meetings of the Board or Board committees together with all relevant documents will be sent to each Board member three days before the date of the relevant meeting. The directors may have formal or informal meetings with the senior management before any Board meeting. The directors and member of Board committees were entitled to access to papers and minutes of Board/Board committee meetings.

B. Remuneration of Directors and Senior Management

i. 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 exact terms of reference were set out in "Rules of Procedures for the Remuneration and Appraisal Committee of Sinopec Shanghai Petrochemical Company Limited" posted on the website of the Shanghai Stock Exchange (www.sse.com.cn). In March 2003, the Remuneration and Appraisal Committee submitted to the Board proposals on remuneration to the directors, supervisors and senior management of the Company. The proposals were implemented following the approval by shareholders at the general meeting. The Committee could seek advice from independent professionals if required in accordance with the applicable procedures at the expense of the Company.

C. Accountability and Audit

i. 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 annual and interim reports, other price-sensitive announcements and other financial disclosures required under the Hong Kong Listing Rules.

ii. 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 composition and terms of reference of the audit committee were set out in “Rules of Procedures for the Audit Committee of Sinopec Shanghai Petrochemical Company Limited” posted on the website of the Shanghai Stock Exchange (www.sse.com.cn). The committee could seek advice from independent professionals in accordance with the applicable procedures at the expense of the Company.

D. Delegation by the Board

i. 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 of the Company.

ii. Board Committees

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

E. Communication with Shareholders

i. 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 remuneration committee attended the 2005 annual general meeting so as to directly communicate with the shareholders.

ii. Voting by Poll

The Company regularly informs its shareholders on the procedures of voting by way of a poll. The procedure for demanding voting by way of a poll is 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 scrutineer at each general meeting.

Directors' securities transactions

For the directors' securities transactions, the Company has adopted a code of conduct not less exacting than the required standards specified by the Model Code for Securities Transactions regarding the transaction of shares of the Company by the directors. Having made specific enquiries with all directors of the Company, it is confirmed that all directors have complied with the Model Code for Securities Transactions throughout the whole year of 2006.

Board of Directors

(1) Composition of the Board

The Board consists of 12 directors, including six executive directors, two non-executive directors and four independent non-executive directors, among whom there is one Chairman and one Vice Chairman. The personal particulars and terms of offices of the Directors are set out under the section headed “Directors, supervisors and senior management” from page 16 to 23 of this annual report.

In 2006, the Board of the Company held nine meetings. Attendance of each director is set out below:

Name of director	Position	Number of meetings held in the term of office	Number of attendance in person	% of Attendance
Rong Guangdao	Executive Director and Chairman	9	9	100%
Du Chongjun	Executive Director and Vice Chairman	9	8	100% (attendance by proxy: 11%)
Han Zhihao	Executive Director	9	9	100%
Wu Haijun	Executive Director (resigned in June 2006)	4	3	100% (attendance by proxy: 25%)
Gao Jinping	Executive Director (resigned in June 2006)	4	3	100% (attendance by proxy: 25%)
Shi Wei	Executive Director	9	8	100% (attendance by proxy: 11%)
Li Honggen	Executive Director (appointed in June 2006)	5	5	100%
Dai Jinbao	Executive Director (appointed in June 2006)	5	5	100%
Lei Dianwu	Non-executive Director	9	5	100% (attendance by proxy: 44%)
Xiang Hanyin	Non-executive Director	9	7	100% (attendance by proxy: 22%)
Chen Xinyuan	Independent Non-executive Director	9	9	100%
Sun Chiping	Independent Non-executive Director	9	7	100% (attendance by proxy: 22%)
Jiang Zhiquan	Independent Non-executive Director	9	7	100% (attendance by proxy: 22%)
Zhou Yunlong	Independent Non-executive Director	9	9	100%

The Company strictly complies with the requirement of Rule A.1.3 of Appendix 14 to the Hong Kong Listing Rules that notices of regular Board meetings of the Company are issued at least 14 days prior to the meetings.

The Company Secretary is responsible for delivering detailed information (including information on each Board committee) in respect of the Board meeting no later than five days before the meeting, so as to ensure that all directors have thoroughly understood the matters to be discussed at the meeting.

For extraordinary Board meetings held by way of correspondence according to the needs of the Company's management, the relevant information is sent to all directors through email and fax, allowing sufficient time for the directors to consider the relevant matters. The Company Secretary gives prompt reply to enquiries raised by the directors and take appropriate actions in order to assist the directors and ensure their compliance with the applicable requirements of the Company Law, the Articles of Association and the Hong Kong Listing Rules.

The minutes of each Board meeting is signed by the attending directors and the recorder and kept for a long period for inspection by the directors when required.

The Company adopts the policy that when there are matters involving material conflict of interests, such as a connected transaction, to be considered at a Board meeting, the connected directors abstain from voting.

(2) Appointment and Dismissal of Directors

The term of office of a director of the Company is three years, renewable upon re-election after expiry. The term of office of an independent non-executive director may not exceed six years. The Company enters into Director's Service Agreement with the director for a term of three years (the term of an appointment to fill a casual vacancy will be less than three years). The appointment and dismissal of directors shall be approved by shareholders at the general meeting. The appointment and dismissal of directors in 2006 are set out from page 25 to page 26 in section headed "Change of Directors, Supervisors and Senior Management" of this annual report.

(3) 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 convener of the Board meetings shall be responsible for determining the topics to be considered. In practice, the Board convenes a minimum of four meetings each year.

(4) Qualifications and Independence of Independent Directors

The four independent non-executive directors of the Company possess extensive experience as well as academic and professional qualifications in management, accounting and finance respectively, ensuring the Board's ability in protecting the interests of shareholders as a whole. During the Reporting Period, independent directors contributed significantly to improving the Company's corporate governance structure and protecting the interest of 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 director a confirmation of his independence pursuant to Rule 3.13 of the Hong Kong Listing Rules, confirming to the Company annually in respect of his independence. The Company considers all independent directors to be independent.

(5) Measures for Ensuring the Directors' Performance of Duties

All directors of the Company receive a comprehensive set of orientation materials upon appointment. Updates on new laws and regulations and internal publications of the Company are also provided to the directors from time to time. The Company also arranges relevant continuing professional training for the directors, so that they will fully acknowledge their responsibilities under the relevant laws and requirements such as the Hong Kong Listing Rules, as well as the current operations of the Company.

When the directors of the Company were required to express their opinions on the matters of external guarantee, financing and connected transactions of the Company, the Company would appoint a professional in the relevant field, such as an auditor, sponsor or legal adviser to provide independent professional advice, in order to assist the directors in carrying out their duties.

Chairman and Chief Executive Officer

Mr. Rong Guangdao is both the Chairman and President of the Company.

Rong Guangdao, 51, is Chairman, President and Deputy Secretary of the Communist Party Committee of the Company. Mr. Rong joined the Complex in 1973 and has 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 as Chairman of the China Jinshan Associated Trading Corporation. In June 2004, Mr. Rong was elected as Vice Chairman of the Company. In April 2005, Mr. Rong was elected as Deputy Secretary of the Communist Party Committee. In June 2005, Mr. Rong was elected as Chairman of the Company. In November 2006, Mr. Rong was appointed Director and Vice Chairman of Shanghai Secco Petrochemical Company Limited ("Shanghai Secco"). Mr. Rong has rich experience in management of large-scale petrochemical enterprise operations, human resource management and corporate strategic management. 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.

Mr. Rong Guangdao has extensive experience in large-scale petrochemical production and management, and is very familiar with Shanghai's petrochemical industry as well as the operation of the Company. Given his abundant experience, Mr. Rong is the best person to serve as both the Chairman and the President of the Company. For the time being, the Company is unable to identify another person who possesses similar abilities and talent as Mr. Rong to serve one of the two positions.

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 authorities have been laid down. The meetings of these committees are conducted by reference to the procedures of the Board meetings (including requirements on the issue of meeting notice, minutes and records).

1. Remuneration and Appraisal Committee

(1) 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 stipulate performance appraisal standards of and conduct performance appraisal of the directors and senior management of the Company.

“Rules of Procedures for the Remuneration and Appraisal Committee” have been published on the designated websites for information disclosure of the Company.

(2) Members of the Remuneration and Appraisal Committee

The Committee comprises three directors, among whom two are independent non-executive directors and one is executive director.

Chairman: Zhou Yunnong, Independent Non-executive Director

Members: Chen Xinyuan, Independent Non-executive Director and Dai Jinbao, Executive Director

(3) Meetings of the Remuneration and Appraisal Committee

The Remuneration and Appraisal Committee convenes at least one meeting each year. In 2006, the Committee convened two meetings with attendance as follows:

Members of Remuneration and Appraisal Committee	Position	Attendance in Person	Attendance by Proxy	% of Attendance
Gao Jinping	Executive Director (resigned in June 2006)	1	0	100%
Chen Xinyuan	Independent Non-executive Director	2	0	100%
Zhou Yunnong	Independent Non-executive Director	2	0	100%
Dai Jinbao	Executive Director (appointed in June 2006)	1	0	100%

(4) Procedures and Basis for the Determination of Remuneration of Directors and Senior Management

Relevant proposals on remuneration will be put forward by the Remuneration and Appraisal Committee to the Board taking into account the performance of the directors and with reference to the general standards of other listed companies in the sector. The allowance of the directors will be determined upon approval of the relevant proposal by the Board and the general meeting.

The Remuneration and Appraisal Committee reviews the implementation of the remuneration evaluation and formulate annual remuneration budget every year. It also appraises the performance of senior management personnel each year, and determines their remuneration according to the appraisal results.

(5) Work Report of the Remuneration and Appraisal Committee during the Year

The Remuneration and Appraisal Committee reviewed the remuneration policy on directors and conducted annual appraisal with directors and the senior management.

2. Audit Committee

(1) Role and Functions of the Audit Committee

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

"Rules of Procedures for the Audit Committee" have been published on the designated websites for information disclosure of the Company.

(2) Members of the Audit Committee

The Committee comprises three independent non-executive directors.

Chairman: Chen Xinyuan (accounting expert)

Members: Sun Chiping and Zhou Yunnong

(3) Meetings of the Audit Committee

The Audit Committee convenes at least two meetings each year. In 2006, the Committee convened three meetings with attendance as follows:

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

(4) 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 2005, the interim report for the period ended 30 June 2006, and so forth.

3. Nomination of Directors

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 or 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 or by shareholders jointly or severally holding 5% or more of the issued shares of the Company. Candidate for presidency shall be nominated by the Board, Company Secretary by the Chairman, and other senior management personnel by the President.

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, qualifications, office, detailed work history 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. A candidate for directorship and senior management shall be subject to the approval by, or directly nominated or recommended by, Sinopec Corp., the controlling shareholder.

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 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, determining the nominated directors and appointing senior management. Upon consideration and approval by the Board, the relevant particulars of the nominated directors and newly appointed senior management personnel shall be announced together with the relevant resolutions of the Board.

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

For the number of Board meetings and attendance records during the year, please refer to page 34 of this annual report.

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 under section headed "Directors, Supervisors and Senior Management" from pages 16 to 23 in this annual report.

During 2006, the Supervisory Committee convened five meetings. Attendance of each supervisor is set out below:

Name of Supervisor	Position	Number of meetings held during the respective term of office	Number of attendance in Person	% of Attendance
Dai Shuming	Staff Supervisor and Chairman (resigned in June 2006)	2	2	100%
Gao Jinping	Staff Supervisor and Chairman (appointed in June 2006)	3	3	100%
Zhang Chenghua	Staff Supervisor	5	5	100%
Wang Yanjun	Staff Supervisor	5	5	100%
Lu Xiangyang	External Supervisor	5	3	100% (attendance by proxy: 40%)
Geng Limin	External Supervisor	5	4	100% (attendance by proxy: 20%)
Liu Xiangdong	Independent Supervisor	5	4	100% (attendance by proxy: 20%)
Yin Yongli	Independent Supervisor	3	5	100%

During 2006, 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 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 Company Law and the Code of Corporate Governance for Listed Companies. It also supervised the enforcement of resolutions passed at general meetings and Board meetings, the compliance with decision-making procedures and the implementation of the internal control system, thereby facilitating the preservation and appreciation of the Company's asset value, ensuring the regulated operation of the Company and safeguarding the legitimate interests of the shareholders.

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 145 and 87, 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 financial statements which give a true and fair view of the state of affairs of the Group for each financial year.
- **Accounting policies**
During the preparation of the financial statements of the Group, the directors should adopt appropriate accounting policies, viz. the Accounting Standards for Business Enterprises and the "Accounting Regulations for Business Enterprises" issued by the Ministry of Finance of the People's Republic of China, and 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 Group keeps accounting records which reflect with reasonable accuracy the financial positions of the Group and which enable the preparation of financial statements in accordance with the Hong Kong Companies Ordinance and the applicable accounting standards.
- **Going concern**
The directors, having made appropriate enquiries, consider that the Group 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. KPMG has been the Company's auditors for 14 years (1993-2006) in succession.

Item	Amount (RMB)	Auditor
Audit Fees	6,366,000	KPMG
Audit Fees	1,355,000	KPMG Huazhen

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 2006 edition of "Internal Control Manual" comprises 52 operation procedures in 14 categories and sets out 1,206 control points and 194 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, product sales, capital expenditure, human resources and information management.

The Board reviews the Company's internal control system twice a year through the auditing division of the Auditing Committee, with the aim of ensuring the integrity of the Company's internal control system and safeguarding shareholders' interests and the Company's assets. The Auditing Committee reviewed the Company's internal control status for the 2005 and the first half of 2006 in March and August 2006. The Committee reported its work to the Board and adopted the Board's recommendations to further improve the Company's internal control system with enhanced effectiveness and efficiency.

Shareholders' Rights

The Company maintains good communication with shareholders. The Company's major communication channels include shareholders' general meetings, Company's website, email account, and fax and telephone of the Secretary Office of the Board, through which shareholders may express their opinions or exercise their rights. For example, a shareholders' Q & A session was arranged at the 2005 general meeting and the A share market general meeting regarding the share reform, allowing direct communication between shareholders, 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 the Company published on the website of the Shanghai Stock Exchange.

Investor Relations

The Company converse results briefings once every six months after the release of its annual and interim results. In 2006, the Company held two large-scale results briefings and press conferences in Hong Kong, while over 60 "one-to-one" meetings were held within and outside China. The Company has also received several hundred domestic and foreign investors at the Company headquarters, as well as conscientiously replying phone queries and letters from investors, intermediaries and und managers. In addition, the Company also dispatched delegates to attend relevant meetings organized by securities research.

The Group's website is regularly revised to update the investors and the public about the Group's latest development.

Amendments to the Articles of Association

On 15 June 2006, the Company amended its Articles of Association and its appendices upon approval by the 2005 Annual General Meeting. For details, please refer to the notice of the annual general meeting published in China Securities Journal, Shanghai Securities News, South China Morning Post and Hong Kong Commercial Daily on 27 April 2006.

(1) Information on annual general meeting

The Company held the 2005 annual general meeting on 15 June 2006. The resolution announcement was published in Shanghai Securities News, China Securities Journal, South China Morning Post and Hong Kong Commercial Daily on 16 June 2006.

(2) Information on extraordinary general meeting

1. Information on the first extraordinary general meeting

The Company held the 2006 first extraordinary general meeting on 24 January 2006. The resolution announcement was published in Shanghai Securities News, China Securities Journal, South China Morning Post and Hong Kong Commercial Daily on 25 January 2006.

2. Information on the second extraordinary general meeting

The Company held the relevant shareholders' meeting in respect of the share segregation of A shares on 8 November 2006. The resolution announcement was published in Shanghai Securities News, China Securities Journal, South China Morning Post and Hong Kong Commercial Daily on 9 November 2006.

Management Discussion and Analysis

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

A. Operating Results

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

In 2006, the world's economy maintained relatively fast growth while the overall development of the global petrochemical industry was solid, and was still remaining at a prosperous stage of its growth cycle. Through strengthening and enhancing macro-economic control measures, the economy of China was in a state of relatively fast growth, and has achieved better economic efficiency and lower price levels. Driven by a good macro environment and the prosperous cycle, the petrochemical industry in China was able to maintain a relatively rapid pace of growth as a whole, whilst attaining satisfactory results with gradual and solid increase in the output of major products and sustaining strong growth in economic efficiency. However, there was a relatively severe polarization of operating results across the whole industry. Growth mainly came from the crude oil and natural gas exploration segment, while certain segments such as crude oil processing demonstrated a decline in earnings or even suffered a loss. In 2006, the Group faced adverse operating conditions such as the successive increases in international crude oil prices, which climbed to record highs one time after another and kept hovering at high levels. The Group also suffered severe losses in relation to its oil refining operation as a result of the price controls imposed on petroleum product by the State. In order to tackle these difficult operating conditions, the Group actively carried out cost leadership strategy, lengthened the production cycle, and strengthened the safety and stability of the operation of its production facilities. It also gradually pushed for a more professional and centralized management, reformed its auxiliary businesses and clean-up and shake-up investment at subsidiary level, as well as specifically enhancing internal management. As a result, the Company has been able to maintain a stable production operation in general. Positive progress was reported regarding the reform of auxiliary businesses, clean-up and shake-up investment at subsidiary level, internal management, project construction, technology research and development, staff training and corporate culture cultivation, etc. Nevertheless, the Group's economic efficiency saw a substantial fall over 2005 as a result of the high cost for crude oil, despite the fact that its turnover in 2006 broke the RMB50,000 million threshold and reached a record high of RMB50,599.5 million.

(1) Making new progress in resource optimization and maintaining a stable production in general

In 2006, the Company aggressively strived for the optimization of the utilization of raw materials such as crude oil and ethylene, as well as the optimization of the usage of energy and power. It ensured a safe and stable operation of its production facilities with a long production cycle, and timely adjusted its product structure in accordance with market conditions. In addition, the Company actively increased its products output with a higher cost efficiency, and reduced or even ceased producing certain unprofitable products. During the year, the on-stream availability and the average load factor of the Company's major production facilities were 95.33% and 96.62%, respectively. Operation of major production facilities remained steady, with the number of non-scheduled suspensions decreased by 23.53% as compared to the previous year while the duration of non-scheduled suspensions decreased by 32.40% as compared to the previous year. No major safety-related incidents or environmental pollution incidents took place during the year.

In 2006, the Company processed 8,920,300 tons of crude oil, representing a decrease of 6.03% as compared to the previous year. Production outputs of gasoline, diesel and jet fuel also decreased, in which the Company produced 761,500 tons, 2,742,100 tons and 533,800 tons, respectively. The Company produced 960,300 tons of ethylene and 517,700 tons of propylene, similar to the respective figures for the previous year; 1,087,800 tons of synthetic resins and polymers, representing an increase of 1.94% over the previous year; 549,500 tons of synthetic fibre monomers, representing an increase of 11.29% over the previous year; 604,600 tons of synthetic fibre polymers, representing an increase of 1.47% over the previous year; and 330,000 tons of synthetic fibres, representing a decrease of 7.46% over the previous year. Meanwhile, the quality of the Company's products was consistently maintained at a premium level, and the Company continued to top the nation in production outputs of ethylene and acrylic fibre.

- (2) Market demand for petrochemical products remained robust, but product prices witnessed frequent volatility

In 2006, international crude oil prices witnessed fluctuations at high levels. Prices climbed initially but declined later. Domestic demand for petrochemical product remained relatively strong. Prices for a majority of products increased as compared to the previous year, but price fluctuations were frequent. For the year ended 31 December 2006, the weighted average prices (exclusive of tax) of the Company's synthetic fibres, resins and plastics, intermediate petrochemicals and petroleum products increased by 4.26%, 9.02%, 3.47% and 14.11%, respectively, over the previous year.

- (3) Impact of crude oil costs

International oil prices continued to surge and become volatile at high levels in 2006 for the third consecutive year, soaring to historic highs in July 2006 (Brent crude oil price recorded a highest closing price of US\$78.30 per barrel, while the WTI ("West Texas Intermediate") crude oil price on the New York Stock Exchange recorded a highest closing price of US\$77.03 per barrel). The prices started to decline rapidly since August, thereby resulting in an overall trend of price decline after fluctuations at high levels. According to statistics, in 2006 the annual average price of Brent crude oil increased by approximately 20% over the previous year to reach US\$65 per barrel. For the year ended 31 December 2006, the Group processed 8,920,300 tons of crude oil (inclusive of oil processed on a sub-contracting basis), representing a decrease of 572,700 tons over the previous year. Of this volume, offshore oil accounted for 348,300 tons and imported oil accounted for 8,572,000 tons. Crude oil processed by the Group on its own totaled 8,810,200 tons, down 4.43% over the previous year. Of the Group's cost of sales, crude oil costs accounted for RMB33,307.6 million or 67.72% of the Group's annual cost of sales. The average cost of crude oil processed was RMB3,780.56 per ton, representing an increase of 17.84% over the previous year. The crude oil costs increased by RMB3,731.2 million as compared to 2005.

- (4) Further strengthening operation management, facilitating continued optimization and enhancing production operation approaches

In 2006, the Company further strengthened operation management, elevating the integration of production versus operation and planning versus market needs, thus facilitating continued optimization and enhancement of its production operation approaches. As a result, the output to sales ratio reached 100.33%. Turnover amounted to RMB50,599.5 million, representing an increase of 10.10% over the previous year. Management of sales contracts and receivables were stepped up as well, with a receivable recovery ratio of 100.08% during 2006. Procurement of resources was effectively managed, with procurement costs for general resources below average market prices.

- (5) Project construction proceeded smoothly, with full commencement of structural adjustment projects

In 2006, the Company put a lot of effort on the construction of key projects. The 3,300,000 tons per year diesel hydrogenation project was mechanically completed on 6 December, while the 380,000 tons per year ethylene glycol plant was mechanically completed on 24 December. The Group's structural adjustment project, which aimed at further adjusting and optimizing businesses and products, has fully commenced since the end of 2006. Construction work has begun for the project of adding flue gas desulphurization facilities to the furnaces of coal-fired power plants, the 620 tons of steam / hour boiler and the 100MW power generation unit project, the 1,200,000 tons / year delayed coking plant project, and so forth.

The Shanghai Secco 900,000 tons / year ethylene joint venture project between the Company, Sinopec Corp. and BP Chemicals East China Investments Ltd. operated in a normal manner in 2006, whereby 978,000 tons of ethylene were produced during the year, representing an increase of 52.33% over the previous year. The project was top in the nation in terms of ethylene output.

- (6) Making progress in development of new technologies and products with reference to the actual corporate production operation needs

In 2006, the Company continued to make progress in the development of new technologies and products with reference to the actual needs of corporate development and production operation. Key development projects such as the development and application of gasoline blending technology, the studies on industrial application of domestically-made bimodal polyethylene catalyst, the industrial studies and application of NaSCN solvent's super-purification for the Jinyang unit, the 150,000 tons/year C5 segregation technique software package, and so forth, reported development breakthroughs. New progress was also seen in the development of new products such as extra-soft acrylic fibres, special high-gloss and heat-resistant polypropylene, special powder coatings, and so forth. According to statistics, the Company's output of new products was 817,000 tons during the year, up 34.48% over the previous year; output value ratio was 19.81%, while output to sales ratio was 96.85%. 243,100 tons of differentiated synthetic fibres were produced, and the ratio of differentiated synthetic fibres was 73.75%, up 18.28 percentage points over the previous year. 831,600 tons of special plastic were produced, and the ratio of special plastic was 83.13%, up 1.95 percentage points over the previous year. Thirty-one patent applications were submitted during the year, all of which were invention patents applied in the PRC in relation to the development of the above-mentioned new technologies and new products.

- (7) Further enhancement of corporate management and internal reform, with gradual progress on auxiliary business reform, clean-up and shake-up investment at subsidiary level work and professional centralized management

In 2006, the Company further enhanced its internal control, information management and staff training. The Internal Control Manual of Shanghai Petrochemical (2006 Edition) was adopted on 1 May 2006 upon consideration and approval by the Board. During the year, self-checking and professional checks were conducted over the implementation of all procedures and the effectiveness of control with reference to The Guideline for Internal Control Checking and Assessment, with investigations, analyses and rectifications made for problems identified in business procedure implementation. The Company also engaged KPMG Internal Audit team to perform COSO (“the Committee of Sponsoring Organisation of the Treadway Commission”) entity level gap analysis to assist management evaluation of the Company’s internal control environment. Through adjustments of the information management system, further application of the ERP (“Enterprise Resource Plan”) system and RPMS (“Refining and Processing Integration Plan - Optimized Model System”) was facilitated, effectively enhancing the production operation management quality of the Company. By way of integrating training resources, the Company proactively adopted the training approach of centralized management and grade-by-grade implementation, thereby strengthening the effort on educational training and further enhancing the quality of its staff.

In 2006, the Company actively pushed for the implementation of an auxiliary business reform, clean-up and shake-up investment at subsidiary level work and professional centralization of core operations. Among the original livelihood-related logistics services, a large number have basically completed the divestiture reforms and have been separated from the core operations. At the same time, thorough checks have been conducted on external investments and the conditions of various operations, with withdrawals from certain ventures completed after the clean-ups. According to the requirements of flatten management, the Company has effected centralized management of quality assurance analysis, environmental protection analysis (including occupational hygiene checks) and power substation consumption reduction efforts. To effectuate the above noted reforms and centralization of management, by 31 December 2006, the Company reduced its work force by 2,559 employees, which reduction included voluntary resignees and retirees representing 10.04% of the total employees as at the beginning of 2006.

- (8) Analysis of the reasons for the significant fall in operating results for the year

The significant fall in the operating results during the Reporting Period was mainly attributable to the following reasons:

- a. The Group’s production costs rose significantly over the previous year as a result of the continued high international crude oil prices. Given that crude oil costs accounted for up to 67.72% of the Group’s annual costs of sales and that the average costs of crude oil processed had increased by 17.84% over the previous year, the increases of average costs of crude oil processed were far more than the corresponding price increases for the Group’s four major products. Therefore, the Group’s profitability was reduced substantially.

- b. In 2006, despite the fact that the State had raised the prices of petroleum products, there was no change in the situation that prices of domestic petroleum products were significantly below international prices, with domestic oil refineries continuing to suffer severe losses. With petroleum products accounting for almost half of the volume of crude oil processed by the Group, despite a subsidy of RMB282.1 million granted to the Group by the Ministry of Finance the Group was still unable to fully make up the gross loss of RMB1,937 million (inclusive of sales tax) arising from the sale of petroleum products, such that total profits of the Group fell remarkably in 2006 over the previous year.

Critical Accounting Policies

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

The selection of critical accounting policies, the judgements and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing the financial statements. The Group 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". The carrying amounts of long-lived assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. 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 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 are not readily available. In determining the value in use, expected cash flows generated by the assets 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 values. The Group reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

Impairment for bad and doubtful debts

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

Summary

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

	For the Years ended 31 December								
	2006			2005			2004		
	Sales		Sales	Sales		Sales	Sales		
	Volume	Net Sales		Volume	Net Sales		Volume	Net Sales	
('000 tons)	(Millions of RMB)	% of Total	('000 tons)	(Millions of RMB)	% of Total	('000 tons)	(Millions of RMB)	% of Total	
Synthetic Fibres	337.0	4,711.7	9.4	355.2	4,764.0	10.6	384.4	4,751.8	12.3
Resins and Plastics	1,558.9	15,753.3	31.6	1,505.8	13,958.3	30.9	1,409.7	12,086.0	31.3
Intermediate Petrochemicals	1,009.3	6,775.7	13.6	1,010.5	6,556.0	14.5	1,075.8	5,896.6	15.3
Petroleum Products	5,109.8	19,387.6	38.8	5,400.0	17,955.0	39.7	4,828.9	13,101.9	33.9
All others	-	3,289.8	6.6	-	1,957.0	4.3	-	2,827.8	7.2
Total	8,015.0	49,918.1	100.0	8,271.5	45,190.3	100.0	7,698.8	38,664.1	100.0

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

	For the Years ended 31 December					
	2006		2005		2004	
	(Millions of RMB)	% of Operating revenues	(Millions of RMB)	% of Operating revenues	(Millions of RMB)	% of Operating revenues
Synthetic fibres						
Operating revenues	4,727.3	9.3	4,781.8	10.4	4,778.0	12.1
Operating expenses	(4,531.0)	(9.0)	(4,518.4)	(9.8)	(4,527.6)	(11.5)
Operating profit	196.3	0.4	263.4	0.6	250.4	0.6
Resins and plastics						
Operating revenues	15,800.0	31.2	14,010.3	30.5	12,154.4	30.8
Operating expenses	(14,637.9)	(28.9)	(12,519.6)	(27.3)	(10,267.8)	(26.0)
Operating profit	1,162.1	2.3	1,490.7	3.2	1,886.6	4.8
Intermediate petrochemicals						
Operating revenues	6,800.6	13.5	6,586.5	14.3	5,941.6	15.1
Operating expenses	(6,120.2)	(12.1)	(5,605.5)	(12.2)	(4,390.8)	(11.1)
Operating profit	680.4	1.4	981.0	2.1	1,550.8	3.9
Petroleum Products						
Operating revenues	19,977.8	39.5	18,616.5	40.5	13,692.4	34.8
Other income	282.1	0.6	632.8	1.4	-	-
Operating expenses	(21,957.6)	(43.4)	(19,696.2)	(42.9)	(12,705.8)	(32.3)
Operating profit	(1,697.7)	(3.4)	(446.9)	(1.0)	986.6	2.5
Others						
Operating revenues	3,293.8	6.5	1,960.8	4.3	2,836.2	7.2
Operating expenses	(3,082.0)	(6.1)	(1,721.0)	(3.7)	(2,485.4)	(6.3)
Operating profit	211.8	0.4	239.8	0.6	350.8	0.9
Total						
Operating revenues	50,599.5	100.0	45,955.9	100.0	39,402.5	100.0
Other income	282.1	0.6	632.8	1.4	-	-
Operating expenses	(50,328.7)	(99.5)	(44,060.7)	(95.9)	(34,377.4)	(87.2)
Operating profit	552.9	1.1	2,528.0	5.5	5,025.2	12.8
Share of profits/(losses) of associates and jointly controlled entities	576.7	1.1	(61.0)	(0.1)	(36.9)	(0.1)
Net financing costs	(165.4)	(0.3)	(179.4)	(0.4)	(292.0)	(0.7)
Income before tax	964.2	1.9	2,287.6	5.0	4,696.3	11.9
Income tax	(53.2)	(0.1)	(366.3)	(0.8)	(637.1)	(1.6)
Income after tax	911.0	1.8	1,921.3	4.2	4,059.2	10.3
Attributable to:						
Equity shareholders of the Company	844.4	1.7	1,850.5	4.0	3,971.1	10.1
Minority shareholders	66.6	0.1	70.8	0.2	88.1	0.2
Income after tax	911.0	1.8	1,921.3	4.2	4,059.2	10.3

Results of operations

Year ended 31 December 2006 compared with year ended 31 December 2005.

Net sales

Total net sales increased by 10.46% to RMB49,918.1 million in 2006 as compared with RMB45,190.3 million in 2005. In 2006, demand for petrochemical products remained strong, driving product prices to rise. However, the rise has since then slowed down remarkably. The weighted average prices of synthetic fibres, resins and plastics, intermediate petrochemicals and petroleum products for 2006 increased to varying degrees as compared to 2005.

(i) Synthetic fibres

Net sales of synthetic fibre products decreased by 1.10% to RMB4,711.7 million in 2006 as compared with RMB4,764.0 million in 2005. Although the weighted average price of synthetic fibres increased by 4.26%, the profit margin of synthetic fibre products was substantially reduced as the raw material costs of synthetic fibres remained at high levels. As such, sales volume of synthetic fibres decreased by 5.14% as compared to 2005 because the sales volume of certain major synthetic fibre products, except industrial fibre and acrylic top, decreased by varying degrees.

Net sales of synthetic fibre products accounted for 9.44% of the Group's total net sales in 2006, a decrease of 1.10 percentage points as compared to 2005.

(ii) Resins and plastics

Net sales of resins and plastics increased by 12.86% to RMB15,753.3 million in 2006 as compared with RMB13,958.3 million in 2005. Weighted average price of resins and plastics increased by 9.02% as compared to 2005 and sales volume increased by 3.52% as compared to 2005. Among the Group's resins and plastics products for 2006, sales volume of polyester pellet, polyethylene and polypropylene increased by 7.10%, 5.04% and 1.66%, respectively, while the Group's average sales prices had increased by 4.12%, 11.49% and 9.85%, respectively.

Net sales of resins and plastics accounted for 31.56% of the Group's total net sales in 2006, an increase of 0.67 percentage point as compared to 2005.

(iii) Intermediate petrochemicals

Net sales of intermediate petrochemicals increased by 3.35% to RMB6,775.7 million in 2006 as compared with RMB6,556.0 million in 2005, with weighted average price of intermediate petrochemicals increasing by 3.47% and sales volume decreasing by 0.11% as compared to 2005. Among the Group's intermediate petrochemical products, the weighted average prices of the Group's major products such as ethylene and butadiene increased by 15.09% and 7.40%, respectively, while the weighted average prices of pure benzene, ethylene glycol and ethylene oxide decreased by 6.87%, 7.62% and 11.86% respectively. The sales volumes of ethylene, butadiene, ethylene glycol and ethylene oxide decreased by 4.55%, 1.40%, 81.71% and 12.65%, respectively, except for pure benzene of which the sales volume increased.

Net sales of intermediate petrochemicals accounted for 13.57% of the Group's total net sales in 2006, a decrease of 0.93 percentage point as compared to 2005.

(iv) Petroleum products

Net sales of petroleum products increased by 7.98% to RMB19,387.6 million in 2006 as compared with RMB17,955.0 million in 2005, with an increase of 14.11% in the weighted average price as compared to 2005. The weighted average prices of gasoline, diesel oil and jet fuel increased by 18.01%, 10.98% and 22.13%, respectively, but sales volumes decreased by 7.95%, 12.60% and 15.68%, respectively. Petroleum products are subject to price control by the State.

Net sales of petroleum products accounted for 38.84% of the Group's total net sales in 2006, a decrease of 0.89 percentage point as compared to 2005.

The Group received a cash government grant of RMB282,141,800 from the Ministry of Finance of the PRC as a compensation for loss incurred due to the distortion of the correlation of domestic refined petroleum product prices and crude oil prices in 2006. There are no unfilled conditions or other contingencies attached to the receipt or usage of this government grant. However, there is no assurance that the Group will continue to receive such grant in the future.

(v) Trading and other activities

Revenues for trading and other activities increased by 68.10% to RMB3,289.8 million in 2006 as compared with RMB1,957.0 million in 2005. Such increases in revenue were mainly attributed to increases in trading volume of our petrochemical products.

Operating expenses

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

Such operating expenses increased by 14.23% to RMB50,328.7 million in 2006 as compared with RMB44,060.7 million in 2005. The operating expenses of synthetic fibres, resins and plastics, intermediate petrochemicals, petroleum products, and trading and other activities amounted to RMB4,531.0 million, RMB14,637.9 million, RMB6,120.2 million, RMB21,957.6 million and RMB3,082.0 million, respectively, representing increases of 0.28%, 16.92%, 9.18%, 11.48% and 79.08%, respectively as compared to 2005.

(i) Synthetic fibers

Operating expenses of synthetic fibres increased by RMB12.6 million as compared to 2005, mainly due to an increase in raw material prices for synthetic fibres.

(ii) Resins and plastics

Operating expenses of resins and plastics increased by RMB2,118.3 million as compared to 2005, mainly due to increased costs for raw materials such as ethylene and propylene. Moreover, sales volume of polyester chips increased by more than 30,000 tons or 7.10% as compared to 2005, which also contributed to the increase in cost of sales and selling expenses of resins and plastics.

(iii) Intermediate petrochemicals

Operating expenses of intermediate petrochemicals increased by RMB514.7 million as compared to 2005, due to increased costs for raw materials such as naphtha.

(iv) Petroleum products

Operating expenses of petroleum products increased by RMB2,261.4 million as compared to 2005, mainly due to the continuous increase in crude oil price (which is a major production raw material of the Group), which has directly led to a significant increase in cost of sales and selling expenses of petroleum products.

(v) Trading and other activities

Operating expenses of trading and other activities increased by RMB1,361.0 million as compared to 2005, which was attributable to increased purchasing costs as a result of increased business volume.

Cost of sales

Cost of sales increased by 14.68% to RMB49,182.2 million in 2006, as compared with RMB42,887.7 million in 2005. Cost of sales accounted for 98.53% of the net sales for 2006, primarily due to a significant increase in 2006 in crude oil price which is the Group's major raw material.

(i) Crude Oil

In 2006, the Group processed 8,920,300 tons of crude oil (of which 110,000 tons were processed on a sub-contracting basis), a decrease of 572,700 tons as compared with 9,493,000 tons in 2005 (274,000 tons of sub-contracting processing in 2005). The volumes of imported oil and offshore oil processed by the Group were 8,572,000 tons and 348,300 tons, respectively.

Total cost of crude oil processed by the Group in 2006 amounted to RMB33,307.6 million, an increase of 12.62% as compared with RMB29,576.4 million in 2005 and accounting for 67.72% of the cost of sales. The weighted average cost of crude oil for the Group was RMB3,780.56 per ton, representing an increase of 17.84% as compared to 2005. The weighted averaged costs of imported oil and offshore oil were RMB3,787 per ton and RMB3,636 per ton, respectively.

(ii) Other expenses

Expenses for other ancillary materials were RMB7,901.8 million in 2006, an increase of 13.63% as compared with RMB6,954.0 million in 2005, primarily due to a significant increase in the purchasing costs of intermediate petrochemicals such as liquified petroleum gas and propylene during the Reporting Period. Depreciation expenses increased from RMB1,714.4 million in 2005 to RMB1,848.5 million in 2006. Energy and power costs increased to RMB974.8 million due to increases in coal prices and electricity tariffs in 2006. Compared to the same period of 2005, labor costs increased to RMB1,210.3 million during 2006, while maintenance costs decreased to RMB874.5 million.

Selling and administrative expenses

Selling and administrative expenses amounted to RMB522.0 million, representing an increase of 17.46% as compared with RMB444.4 million in the same period of the previous year due to a significant increase in the Group's income from principal operations during the Reporting Period.

Operating profit

Operating profit was RMB552.9 million, representing a significant decrease of 78.13% as compared with RMB2,528.0 million in 2005 primarily due to a significant increase in the Group's production cost as a result of the rising crude oil price during the Reporting Period. As domestic petroleum product prices were subject to the State's control and were significantly below international prices, the Group witnessed a substantial decrease in operating efficiency in 2006.

Other operating income

Other operating income was RMB297.4 million in 2006, an increase of 24.64% as compared with RMB238.6 million in 2005, mainly due to the increase in income from fixed asset disposals and rental income from investment properties during the Reporting Period.

Other operating expenses

Other operating expenses increased by 19.35% from RMB201.5 million in 2005 to RMB240.5 million in 2006, primarily due to the increase in expenses on net losses from fixed asset disposals and the provision made for impairments of fixed assets during the Reporting Period.

Net financing costs

The Group's net financing costs were RMB165.4 million in 2006, a decrease of 7.80% as compared with RMB179.4 million in 2005, which was primarily due to the appreciation of RMB. A foreign exchange gain of RMB81.2 million was recorded during the Reporting Period, thereby lowering the Group's financing costs.

Profit before tax

The Group's profit before tax was RMB964.2 million in 2006, a decrease of 57.85% as compared with RMB2,287.6 million in 2005.

Income tax

The Group's income tax decreased by 85.48% to RMB53.2 million in 2006 as compared with RMB366.3 million in 2005. Such decrease was primarily due to a substantial decrease in total profit.

The Group continued to pay income tax at a preferential rate of 15% in 2006. This preferential rate was first applied to us under the approval of the State's tax authorities which became effective from 1 January 1993. According to the relevant taxation regulations issued by the Ministry of Finance and the State Administration of Taxation, the first nine H-Share listed companies (including the Company) were permitted to pay income tax at a 15% tax rate for the years of 1996 and 1997. From 1998 to 2006, this tax privilege has not been revoked by the relevant government authorities. However, the Group is unable to confirm whether the Ministry of Finance will maintain the 15% tax rate in 2007. In addition, in March 2007, the National People's Congress passed legislation under which the same taxation system will be applied to both domestic enterprises and foreign enterprises. The enterprise income tax rate is unified at 25% and will be effective from 1 January 2008. The impact of such change of enterprise income tax rate on the Group will depend on implementation details which will be subsequently issued.

Profit after tax

Profit after tax was RMB911.0 million in 2006, a significant decrease of 52.59% as compared with RMB1,921.3 million in 2005.

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

(prepared under PRC Accounting Rules and Regulations)

(a) Principal operations by segment or product

By segment or product	Income from principal operations (RMB'000)	Gross Cost of sales (RMB'000)	profit margin (%)	Increase/ decrease of income from principal operations compared to last year (%)	Increase/ decrease of cost of sales compared to last year (%)	Increase/ decrease of gross profit margin compared to last year
Synthetic fibres	4,727,261	4,371,918	7.52	-1.14	0.44	Decrease 1.45 percentage points
Resins and plastics	15,800,015	13,741,514	13.03	12.77	18.14	Decrease 3.95 percentage points
Intermediate petrochemicals	6,800,577	5,597,796	17.69	3.25	11.40	Decrease 6.02 percentage points
Petroleum products	19,977,755	21,288,191	-6.56	7.31	12.31	Decrease 4.74 percentage points
Trading and others	3,173,828	2,923,012	7.90	66.81	78.19	Decrease 5.88 percentage points
Including: connected transactions	20,154,473	21,264,070	-5.51	1.43	11.78	Decrease 9.78 percentage points

Price-setting principles of connected transactions

The directors of the Company (including independent non-executive directors) believe that the connected transactions were conducted on normal commercial terms which are no less favourable than those offered to or by any third party and were conducted in ordinary course of business. This was confirmed by the independent non-executive directors of the Group.

Description on the necessity and continuity of connected transactions

The purchases by the Company from Sinopec Corp. and its associates of crude oil-related materials and sales of petroleum products by the Company to them were conducted in accordance with the State's relevant policy and applicable State tariffs or State guidance prices. As long as the State does not revoke its control over purchases of crude oil, sales of petroleum products and pricing thereof, such connected transactions will continue to happen. The Company sells petrochemicals to Sinopec Corp. and its associates and Sinopec Corp. and its associates act as an agency for the sale of petrochemicals in order to reduce the Company's inventories, expand its trade, distribution and sales networks and improve the Company's bargaining power with our customers. The Company accepts transportation, design, construction and installation, insurance agency and financial services from Sinopec and its associates in order to secure steady and reliable services at reasonable prices.

(b) Principal operations by geographical location

Geographical location	Income from principal operations RMB'000	Increase/decrease of income from principal operations compared to the previous year (%)
Eastern China	46,795,318	8.01
Other regions in China	3,449,778	35.59
Exports	234,340	172.13

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 Resources

Net cash inflows from operating activities (prepared under IFRS)

The Group's net cash inflows provided from operating activities amounted to RMB1,696.6 million in 2006, a decrease of RMB2,247.0 million as compared with RMB3,943.6 million in 2005. Due to the increase in the costs of the Group's crude oil which was higher than the increase in the sales prices of various major products during the Reporting Period, net cash inflows from profit before tax (net of depreciation) amounted to RMB2,787.9 million in 2006, representing a decrease of RMB1,204.8 million of net cash inflows as compared with RMB3,992.7 million in 2005. Increased inventories balance at the end of the year led to an increase in cash outflows of RMB48.3 million in 2006 (as compared with an increase in cash outflows of RMB387.2 million during the same period of the previous year). Changes in the year-end amounts of operating payables, other payables and bills payable led to a decrease in cash outflows of RMB345.6 million in 2006 (as compared with an increase in cash outflows of RMB33.9 million during the same period of the previous year). Increases in the year-end balances of debtors, bills receivables and deposits led to a decrease in operating cash inflows of RMB585.3 million in 2006 (as compared with an increase in cash inflows of RMB1,170.9 million during the same period of the previous year as a result of a decrease in such year-end balances). In addition, the Group's income tax payment decreased significantly due to a significant decrease in profit during the Reporting Period. In 2006, income tax payment led to a cash outflow of RMB63.4 million (as compared with RMB431.0 million cash outflow in 2005).

Cash flow breakdowns of the Group during the Reporting Period (prepared under PRC Accounting Rules and Regulations)

	2006 RMB'000	2005 RMB'000
Net cash inflow from operating activities	2,040,679	4,245,115
Net cash outflow from investing activities	(1,352,541)	(1,189,242)
Net cash outflow from financing activities	(1,138,260)	(3,395,755)

Borrowings

The Group's total borrowings in 2006 amounted to RMB5,334.0 million, representing a decrease of RMB70.0 million, of which short-term bank loans decreased by RMB669.8 million and long-term bank loans expired within one year decreased by RMB956.6 million. In addition, the Company has issued RMB2 billion short-term commercial papers to institution investors within the PRC inter-bank debenture market. The short-term commercial papers will mature on 12 December 2007. Short-term borrowings and loans were primarily used to meet the Group's needs of working capital during its production operation processes, among which, short-term bank loans carried floating interest rates denominated in Renminbi and short-term commercial papers carried a par interest rate of 3.83%. During 2006, the Group's long-term bank loans stood at RMB1,063.7 million in 2006, a decrease of RMB413.6 million. Most of the Group's long-term bank loans were used for capital expansion projects for the past years.

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. Rather, due to the nature of the capital expenditures plan, long-term bank loans can be arranged in advance of expenditures while short-term borrowings are used to meet operational needs. The terms of our existing borrowings do not restrict the Group's ability to pay dividends on its shares.

Debt-equity ratio

The Group's debt-equity ratio was 5.3% in 2006 compared to 7.3% in 2005. The ratio is calculated using this formula: $(\text{total long-term loans})/(\text{total long-term loans} + \text{shareholder's equity})$.

D. Research and Development, Patents and Licenses, etc.

The Group generates a number of technology development units, including the Petrochemical Research Institute, the Polyester Fiber 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 in 2004, 2005 and 2006 were RMB74.7 million, RMB79.5 million and RMB51.6 million, respectively, representing approximately 0.2%, 0.2% and 0.1% of the total sales, respectively, in those years.

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

E. Off-Balance Sheet Arrangements

Please refer to "Major events" headed "7. Guarantees" and note 31 to the financial statements under IFRS for details of the Group's external guarantee and capital undertakings.

F. Contractual obligations

The following table sets forth the Group's obligations to future payments under contracts as of 31 December 2006.

	As of 31 December 2006				
	Payment due by period				
	Total (RMB'000)	Less than 1 year (RMB'000)	1-3 years (RMB'000)	4-5 years (RMB'000)	After 5 years (RMB'000)
Contractual obligations					
Short-term loan	1,853,692	1,853,692	-	-	-
Long-term loan	1,480,299	416,645	1,059,043	4,611	-
Corporate bonds	2,000,000	2,000,000	-	-	-
Total contractual obligations	5,333,991	4,270,337	1,059,043	4,611	-

G. Description of substantial changes in the Company's major financial data during the Reporting Period as compared to the previous year (prepared under PRC Accounting Rules and Regulations)

(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	Year ended	Year ended	Change		Reason for change
	31 December 2006 RMB'000	31 December 2005 RMB'000	RMB'000	%	
Profit from principal operations	1,875,643	3,527,005	-1,651,362	-46.82	Crude oil costs increased substantially; prices of major products remained sluggish; and profit margins of the oil refining business decreased substantially.
Profit from operations	88,796	1,723,162	-1,634,366	-94.85	
Net profit	736,851	1,704,627	-967,776	-56.77	
Subsidy income	282,142	632,820	-350,678	-55.42	The Company received a cash government grant of RMB282.1 million from the Ministry of Finance in December 2006, which was less than last year.
Investment income/(loss)	673,809	(39,375)	713,184	-	Investment gain from Shanghai Secco Petrochemical Company Limited increased substantially.

Item	As at 31 December	As at 31 December		Change		Reason for change
	2006	2005				
	RMB'000	RMB'000	RMB'000	%		
Construction in progress	1,972,893	754,192	1,218,701	161.59		Increase in investment in the 3.3 million tons/year diesel hydrogenation project and the 380,000 tons/year ethylene glycol project

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 2006, the Company had equity interests of more than 50% in the following principal subsidiaries:

Company	Place of registration	Principal Activities	Place for principal activities	Class of legal person shares	Percentage of the equity held by the company	Percentage of the equity held by subsidiaries (%)	Registered Capital ('000)	Net Profit/ (loss) for 2006 ('000)
Shanghai Petrochemical Investment Development Company Limited	China	Investment management	China	Limited company	100	-	RMB800,000	233,516
China Jinshan Associated Trading Corporation	China	Import and export of petrochemical products and equipment	China	Limited company	67.33	-	RMB25,000	18,273
Shanghai Golden Way Petrochemical Company Limited	China	Production of vinyl acetate products	China	Limited company	-	75	US\$3,460	(1,337)
Shanghai Jinchang Engineering Plastics Company Limited	China	Production of polypropylene compound products	China	Limited company	-	50.38	US\$4,750	3,248
Shanghai Golden Phillips Petrochemical Company Limited	China	Production of polypropylene products	China	Limited company	-	60	US\$50,000	185,591
Zhejiang Jin Yong Acrylic Fiber Company Limited	China	Production of acrylic fiber products	China	Limited company	75	-	RMB250,000	(47,532)
Shanghai Petrochemical Enterprise Development Company Limited	China	Investment management	China	Limited company	100	-	RMB455,000	(66,139)
Shanghai Golden Conti Petrochemical Company Limited	China	Production of Petrochemical products	China	Limited company	-	100	RMB545,776	43,335

None of the subsidiaries have issued any debt securities.

The Company's equity interests in its associates comprised of an equity interest of 38.26%, amounting to RMB661.4 million, in Shanghai Chemical Industry Park Development Co., Ltd. set up in the PRC; and an equity interest of 20%, amounting to RMB1,881.8 million, in Shanghai Secco Petrochemical Company Limited set up in the PRC. The principal business of Shanghai Chemical Industry Park Development Co., Ltd. is the planning, developing and operating the Chemical Industry Park in Shanghai, PRC, while the principal business of Shanghai Secco Petrochemical Company Limited is production of petrochemicals such as ethylene.

Results analysis of the companies in which the Group has controlling interests or investment interests and which affected 10% or more of the Group's net profit:

1. Shanghai Golden Phillips Petrochemical Company Limited, which mainly engaged in the production of polyethylene filament products and specialized materials, recorded income from principal operations of RMB1,532.0 million and a profit from principal operations of RMB249.8 million in 2006; and
2. Shanghai Secco Petrochemical Company Limited, which primarily engaged in the production and distribution of petrochemicals, recorded income from principal operations of RMB21,777.4 million and a profit from principal operations of RMB3,751.7 million in 2006.

I. Major suppliers and customers

The Group's top five suppliers in 2006 were Sinopec Transport & Storage Branch, China International United Petroleum & Chemical Company Limited, Sinochem International Oil Corporation, Shanghai Secco Petrochemical Company Limited and China National Offshore Oil Corporation. Total costs of purchases from these suppliers accounted for 77% of the total cost of purchases by the Group during the year, amounting to RMB37,861.2 million. The cost of purchases from the largest supplier amounted to RMB25,240.7 million, representing 51% of the total costs of purchases by the Group during the year.

The Group's top five customers during 2006 were Sinopec Huadong Area Sales Company, Sinopec Gaoqiao Branch, Shanghai Chlor-Alkali Chemical Company Limited, Shanghai Xinshan Chemical Industry Company Limited and Shanghai Secco Petrochemical Company Limited. The total sales derived from these customers represented 38% of the Group's total turnover during the year, amounting to RMB19,368.4 million. The sales derived from the largest customer amounted to RMB15,846.7 million, representing 31% of the turnover during the year.

To the knowledge of the Board, none of the directors (or their associates) or shareholders of the Company held any interest in the above suppliers and customers, namely Sinochem International Oil Corporation, China National Offshore Oil Corporation, Shanghai Chlor-Alkali Chemical Company Limited or Shanghai Xinshan Chemical Industry Company Limited. Sinopec Transport & Storage Branch, China International United Petroleum & Chemical Company Limited, Sinopec International Co. Ltd., Sinopec Huadong Area Sales Company and Sinopec Gaoqiao Branch are subsidiaries of the Company's controlling shareholder, Sinopec Corp. The Company owns an equity interest of 20% in Shanghai Secco Petrochemical Company Limited.

J. Others

Employees

As at 31 December 2006, the Company had 22,922 employees, among whom 14,180 were production staff; 7,162 were sales, finance and other staff; and 1,580 were administrative staff. 27.56% of the Group's staff were graduates of colleges or universities. The Group was responsible for pension for retirees amounting to 11,164 people.

Purchase, Sale and Investment

Save and except as disclosed in the annual report, there was no material purchase or sale of our subsidiaries or associated or any other material investments during 2006.

Pledge of Assets

As at 31 December 2006, no fixed asset was pledged by the Group (31 December 2005: RMB nil).

Accounting principles generally accepted in the United States of America ("U.S. GAAP") Reconciliation

The financial statements prepared in accordance with IFRS differ in certain significant respects from U.S. GAAP. Please see section D for supplementary information for North American shareholders. As a result of these differences and the effect upon taxation, profit attributable to equity shareholders of the Company reported under U.S. GAAP was higher than profit attributable to equity shareholders of the Company reported under IFRS by RMB5.6 million in 2006, RMB18.9 million in 2005 and RMB175.0 million in 2004. Shareholders' equity reported under U.S. GAAP was higher than the one reported under IFRS by RMB86.7 million as of 31 December 2006 and higher by RMB81.1 million as of 31 December 2005.

Company's Outlook on Future Developments (Business Prospects)

1. The industry's trend and competition posed to the Company

In 2007, the global situation is generally in a state of moderation and stability. After consecutive years of fast economic growth, the growth of the world economy is expected to slow down in 2007. Through continuous strengthening and enhancement of macro-economic measures, the economy of China is likely to maintain a steady and relatively fast growth. The steady and robust economic growth in both the international and domestic economies will bring about good development potentials to the petroleum and petrochemical industry. The domestic petrochemicals market is expected to remain prosperous due to gradually increasing demand for petroleum, natural gas, petroleum products and major petrochemicals, as driven by strong economic growth. However, petrochemical companies will still be exposed to a number of challenges as follows: the fact that international crude oil prices are expected to continue to fluctuate at high levels; the State's refusal to loosen the control over prices of domestic petroleum products; intensifying market competition caused by rapid expansion of the petrochemicals production capacity, both domestically and overseas; further reduction of tariffs for imported petrochemicals amid further opening of the petroleum distribution market; intensification of international trade barriers and trade conflicts; and increasing pressure from environmental protection requirements. All the above factors will have certain impact on the production operation of the petrochemical industry in China, adding risks to the operation of petrochemical companies.

In response to the changes in the foreign and domestic macro-economic environment, the Group will strive to intensify reform programs, carry out restructuring, capitalize on business opportunities and accelerate development. It will also enhance management and regulate operation, striving to continue to achieve satisfactory operating results in 2007.

2. The Company's opportunities, challenges and strategies ahead

2007 will be a crucial period for the implementation of China's Eleventh Five-year Plan, during which economic globalization will increase. Between 2005 and 2010, the world's economy is expected to grow at an annual average rate of between 3% and 4%, whereas demand for petroleum will grow at an annual average rate of 1% to 2% and demand for ethylene will maintain an annual average growth rate of 4% to 5%. China's economy will be able to maintain its steady and strong growth, with GDP per capita doubling by 2010 over 2000.

For China's petroleum and petrochemical industry, the Eleventh Five-year Plan on one hand presents room for massive development and a rare opportunity for strategic development: further development and enhancement on the reforms of the socialist market economy; acceleration of the four "-izations" (industrialization, urbanization, marketization, internationalization); gradual development toward a fully open market; diversification of the investment systems; gradual formation of a dominant market economy and so forth. On the other hand, the industry also faces challenges such as more severe constraints over resources, increasing pressure on sustainable development, lack of self-developed intellectual property, intensifying market competition, and so forth.

During the period of the Eleventh Five-year Plan, the Group will base on a scientific development vision to persist with the development objective of "becoming a first-class China enterprise and an advanced corporation internationally and building a modernized petrochemical enterprises with world-class competitiveness". The Group will be committed to matching external expansion with internal development and focusing on internal development as its mission, fully implementing the cost-reduction strategy. Through development of the structural adjustment program, the Group will effectively correct deficiencies such as inferior ancillary capacity in oil refining and the lack of rationality in petrochemical product structure and energy and power structure. Through integrated efforts on technological advancement and structural adjustments, quality enhancement and effective cost reduction, the Group will achieve transformation and renewal of its obsolete facilities and optimization and upgrade of its business structure, thereby further capitalizing on the Group's core operations and enhancing its overall competitiveness and economic efficiency.

3. New business initiatives for 2007

In 2007, in the face of continued volatility of international crude oil prices at higher levels and a possible decline in prices of petrochemicals and intensifying competition, the Company will aim for a full implementation of its cost-reduction strategy and strive for the building of a harmonious enterprise. It will accelerate the development of the structural adjustment program; optimize various resources; enhance fundamental management, infrastructure and basic training; ensure safety and environmental protection; emphasize energy savings and consumption reduction; push forward various reforms; and further enhance the development of team structure and corporate culture, with a view to achieving fundamental improvement of economic benefits.

i. Push forward safety and environmental protection work to ensure smooth and effective production operations

The Group will focus on resolving complicated issues such as frequent repairs and maintenance of production facilities throughout the year; shortage of intermediate materials and electricity; further decline in quality of crude oil for processing; multiplicity of development projects, and so forth, with a view to putting more regard to the work on safety, environmental protection and stable production. The Group will further enhance its safety and environmental protection management level, so as to prevent harmful incidents involving safety, environmental protection and occupational hazards; further strengthen professional management of various aspects, raising the operating factor and load factor of major production facilities to achieve safe, stable and long-cycle operation of production facilities; further elevate its efforts on optimization of resource allocation, operating approaches, energy structure and product structure so as to strive to reduce procurement costs of crude oil, large amount of petrochemical raw materials and fuel, thus lowering the operating costs for production facilities and costs for various production operations.

ii. Accelerate the development of the structural adjustment program and advance technological innovations, thus striving for enhancement of corporate competitiveness

The Group will further adjust and optimize the business structure, product structure and energy and power structure through the development of its structural adjustment program, so as to maintain the integral competitive edge of its integrated oil refining and petrochemical operations. It will further strengthen its innovation efforts to accelerate development and application of new technologies and new products through a push for technological advancement. The Group will, whilst working on its production operation and corporate development, also push forward technological development and innovations on energy saving, consumption reduction and emission reduction. It will continuously enhance its information technology work, with a focus on the optimization of the ERP and production management, so as to strive for the enhancement of the Company's competitiveness in various aspects including operating scale, cost, technological quality and production quality.

- iii. Strengthening internal management continuously to further elevate the Company's operational efficiency

The Group will further enhance its business procedures, increase working efficiency, strengthen internal control and prevent operating risks through the development and application of scientific and effective management systems and methods. The Group will maintain thorough budget management and earnestly implement the new accounting rules, ensuring the timeliness, completeness and accuracy of financial and production operation figures. It will continue to enhance the management system based on internal control system, pushing forward a full implementation of the internal control system to all aspects, all staff and all procedures within the Company. It will continue to improve fundamental management, infrastructure and basic training to consistently systematize, standardize and regularize the measures on frontline staff's self-improvement efforts.

- iv. Continue to carry out reforms such as clean-up and shake-up investment at subsidiary level, restructuring and segregation in a pro-active and consistent manner

The Group will continue with its drive on clean-up and shake-up investment at subsidiary level effort, accelerating the process of bankruptcies, mergers, restructuring and withdrawals, in order to effectively resolve the issues inherited from the past regarding auxiliary businesses and external investments. It will continue to carry out the divestiture of auxiliary businesses from the core businesses, as well as other system reform and segregation work, in a gradual manner, focusing on resolving the reform and segregation of the maintenance and repair operation and striving for basic completion of the transformation of auxiliary businesses. At the same time, the Group will gradually push forward the structural reform of the core businesses, with an aim to complete the management consolidation on the operation aspect and the centralized management of certain functions (businesses).

- v. Further strengthening the establishment of team structure and the promulgation of corporate culture, thereby promoting the development of corporate harmony

The Group will reinforce the cultivation of management leaders by stepping up their learning, execution ability and control ability. It will strengthen the establishment of team structure according to the practical needs of business structure adjustment, with a focus on further raising the quality of the three core teams (management, professionals and skilled operators). The Group will further push forward the promulgation of corporate culture and enhance the development of corporate harmony, based on the requirements of the "Implementation Guidelines on Corporate Culture Cultivation for Shanghai Petrochemical".

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

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

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

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

The petrochemical industry is a capital intensive sector. The Group's capability to maintain and increase income, net income and cash flows has a bearing upon ongoing capital expenditures. The Group's capital expenditures amounted to approximately RMB2,008.8 million (US\$257 million) for 2006, which were met by financing activities and part of the Group's internal funds. As at 31 December 2006, Sinopec Corp. (as the Group's controlling shareholder) provided guarantee to the Group's US\$2.7 million long-term borrowings.

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

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

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

- (iii) The Group may be exposed to intensifying competition.

Eastern China, a major market of the Group, has been experiencing a stronger economic growth and a higher demand for petrochemicals than other regions, which the Company believes, will prompt rival petrochemical companies to attempt to expand their sales and set up their sales networks in our major markets. This tendency is believed to continue and may intensify. Intensifying competition may have a material adverse impact on the Group's financial condition and operating results.

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

At present, a significant amount of crude oil is being consumed by the Group for the production of petrochemical products. The Group attempted to mitigate the effect of increased costs due to rising crude oil prices by passing on the increased costs to the Group's customers. However, whether the Group's ability to pass on the increased costs to its customers is subject to the market conditions and the State's control. Because there was a time lag between rising crude oil prices and increasing petrochemical products prices, rising crude oil prices cannot be totally offset by increasing the sales prices of the Group's products. This may have a major adverse impact on the Group's financial condition, operating results or cash flow.

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

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

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

Wastes are produced during the Group's production operation. Besides, operating permits are required for the Group's production equipment, and such permits may be subject to renewal, revision or revocation. The Group's operations are in full compliance with all applicable Chinese environment protection laws and regulations already promulgated and being enforced. However, the State has already enforced strict laws and environmental standards and may enforce stricter laws and stricter environmental standards. The Group cannot assure that the State or local governments will not enact more regulations or more strictly enforce certain (existing) regulations which may cause additional expenses on environmental protection measures.

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

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

- participation by foreign companies in investing in China's domestic petrochemical industry has been permitted to increase;
- restrictions on import of crude oil by non-state-owned companies will be relaxed gradually;
- foreign investment enterprises will be granted with the right to import and trade in petrochemical products; and
- foreign companies will be permitted to distribute and market petroleum products in China's domestic retail and wholesale markets.

If these measures are implemented, the Group will consistently be affected by intensified competition and import from overseas. The Group believes that China's accession to the WTO will bring about a substantial amount of investments and businesses to China and accordingly, more opportunities will be available for the Group's product sales. The Group also truly believes that its products have been and will be able to maintain their competitiveness against products imported into China. However, tariff breaks on imported products may reduce the cost of imported products or may have an adverse impact on the revenues from the sale of some of our products, including a small number of major products. On the other hand, the PRC government may also lower the tariffs on our production equipment to be imported by us in future and lift the existing restrictions on the use of imported raw materials. Although the Group is confident that it is able to capitalize on new sales opportunities, the eventual impact of China's accession to the WTO on our business and operating results remains to be seen.

- (vii) The Group's profits, dividends and cash and cash equivalents may be reduced due to fluctuations in the value of the Renminbi.

While the official exchange rate of the Renminbi against the US dollar has been relatively stable and the Renminbi has considerably appreciated against the US dollar in recent years, the value of the Renminbi against the US dollar and other currencies may fluctuate in the future. Historically, the People's Bank of China has set the conversion of Renminbi into foreign currencies, including US dollars. On July 21, 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 narrow band against a basket of certain foreign currencies. Since the adoption of this new policy, the value of the Renminbi against the US dollar has fluctuated daily within a narrow band, but overall has appreciated against the US Dollar. In addition, the PRC government continues to receive significant international pressure to further liberalize its currency policy and as a result may further change its currency policy. A small portion of our cash and cash equivalents is denominated in foreign currencies, including the US dollar. Any increase in value of the 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 is 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 the Renminbi in the future will increase our costs and jeopardize our profitability. Any devaluation of the Renminbi may also have an adverse impact on the value of dividends payable in foreign currencies by the Company for H shares and American Depository Receipts.

- (viii) Risks of the possibility of a higher tax rate.

The charge for PRC income tax is currently calculated at the rate of 15%, and the Company has not received any notification by the Ministry of Finance in respect of any change to the tax rate. However, the risk of a possible increase in the tax rate of the Company in 2007 may not be ruled out. Additionally, the "Enterprise Income Tax Law of The People's Republic of China", which aims at unifying the tax rates for domestic and foreign enterprises, was passed by polling on 16 March 2007 at the fifth meeting of the tenth session of The National People's Congress and will take effect from 1 January 2008. The unified enterprise income tax rate will be 25%. The impact of such change of enterprise income tax rate on the Group will depend on detailed pronouncements that are subsequently issued. Since implementation and transitional guidance applicable to the Group has not yet been announced, the Group cannot reasonably estimate the financial impact of the new law to the Group at this stage.

- (ix) Risks regarding the control by the majority shareholder.

Sinopec Corp., the controlling shareholder of the Group, owns 4,000,000,000 shares of the Group, representing 55.56% of the total share capital of 7,200,000,000 shares and assumes an absolute controlling position. Sinopec Corp. may, by taking advantage of its controlling position, exercise influences over the Group's production operation, funds allocations, appointments or removals of senior staff, etc, thereby producing an adverse impact on the Group's production operation as well as shareholders' interests.

- (x) Risks regarding the failure to complete the share reform.

According to the China Securities Regulatory Commission's ("CSRC") requirement, the Company should have implemented certain share reforms and have begun execution of such reforms by October 2006. However, the Company's share reform proposal failed to obtain approvals by shareholders of the circulating A shares because such shareholders were not satisfied with the share reform proposal. According to relevant regulations, starting from 8 January 2007, Shanghai Stock Exchange began to adopt a special arrangement of differentiated systems for listed companies that were unable to complete share reform. The first step of the arrangement is that the range of share price movement for such stocks were unitarily adjusted up or down by 5%, with a trading information disclosure system equivalent to that of ST and ST* stocks applied for such stocks. In the future, depending on market conditions, there may be further arrangements of differentiated systems in a gradual manner for companies which have not yet completed the share reform. In addition, CSRC will keep paying special attention to the implementation of share reform by the listed companies which have not yet implemented share reform when reviewing any securities-related applications by such listed companies, their substantial shareholders or ultimate controllers. Such regulations may have an adverse impact on the operating environment, market image and market financing activities of the Group.

Possible changes to accounting policies and accounting estimates after the adoption of the New Accounting Standards and resulting impact on the Company's financial position and operating results:

On 1 January 2007, the Group has adopted the Accounting Standards for Business Enterprises (the "New Accounting Standards") announced by the Ministry of Finance ("MOF") of the People's Republic of China (the "PRC") on 15 February 2006 and ceased to apply the current Accounting Standards for Business Enterprises and "Accounting Regulations for Business Enterprises" (the "Current Accounting Standards"). The adoption of the New Accounting Standards by the Group may result in changes to accounting policies and accounting estimates determined under the Current Accounting Standards, and there may be impact on the Group's financial position and operating results.

- i. Analysis on the differences of consolidated shareholders' equity under the Current Accounting Standards and the New Accounting Standards as at 1 January 2007, being the date of implementation of the New Accounting Standards:

According to the regulations as stated in Cai Kuai [2006] No.3 "Notice on the Publication of 38 Detailed Standards Starting from 'Accounting Standards for Business Enterprises No.1 - Inventories'" released by MOF on 15 February 2006, the Company should adopt the New Accounting Standards from 1 January 2007. According to the MOF's regulations on the New Accounting Standards, the Company has currently identified the differences between the Current Accounting Standards and the New Accounting Standards as at 1 January 2007, being the date of implementation of the New Accounting Standards, as follows:

- a. Financial assets available for sale to be stated at fair value

According to the Group's announcement on 8 December 2006, the Group agreed to transfer its entire equity interests in China Everbright Bank and Bank of Shanghai to Sinopec Finance Company Limited. Accordingly, the two investments should be re-classified as financial assets available for sale and stated at fair value basis. The positive difference of RMB25,822,113 between the fair value of RMB81,118,000 and the book value of RMB55,296,587 increases shareholders' equity as at 1 January 2007.

- b. Income tax

Due to the financial assets available for sale as aforementioned (a) and capitalisation of general borrowing costs mentioned in (d) the deferred tax liabilities of RMB24,671,867 were generated and reduced shareholders' equity as at 1 January 2007.

- c. Minority interests

Minority interests amounted to RMB336,013,000 as at 31 December 2006, according to the consolidated balance sheet prepared under the Current Accounting Standards. Under the New Accounting Standards such amount shall be accounted for as shareholders' equity and accordingly shareholders' equity shall increase by such amount as at 1 January 2007.

d. Capitalisation of general borrowing costs

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the borrowing costs should be capitalised as part of the cost of that asset. The Company shall increase fixed assets and construction in progress by RMB138,657,000 and increases shareholders' equity on 1 January 2007.

ii. In addition to the above-mentioned differences, possible changes to accounting policies and accounting estimates after the adoption of the New Accounting Standards and resulting impact on the Company's financial position and operating results are set out below:

a. Long-term equity investments

According to the regulations of "Accounting Standards for Business Enterprises No.6 - Long-term Equity Investments", the Company's subsidiaries are accounted for using the cost method instead of the equity method under the Current Accounting Standards, and revisions will be made on the basis of equity method during the preparation of consolidated financial statements. This policy change will reduce the impact of the subsidiaries' operating profits and losses on the Company's current investment gains, but there will be no impact on the Group's consolidated financial statements.

b. Capitalisation of borrowing costs

According to the regulations of "Accounting Standards for Business Enterprises No.17 - Borrowing Costs", the scope of the Company's assets eligible for capitalisation are changed from fixed assets and development products of property development enterprises, as classified in the Current Accounting Standards, to all fixed assets, investment properties and inventories, and so forth, which require a considerably long period of construction or production to achieve the expected usable or saleable state. This policy change will expand the scope of capitalisation of the Group and enhance the profit and shareholders' equity of the current term.

c. Investment properties

According to the regulations of "Accounting Standards for Business Enterprises No.3 - Investment Properties", investment properties accounted for as fixed assets under the Current Accounting Standards will be accounted for as investment properties. The Group uses the cost method to account for investment properties, and this item has no impact on the Group's profit and shareholders' equity.

iii. The aforementioned differences and impacts may be further revised in accordance with MOF's further elaboration of the New Accounting Standards.

Investments by the Company

1. Application of Capital Raised

The Company did not raise capital or use the previous capital raised during the Reporting Period.

2. Projects from non-raised capital

In 2006, the capital expenditure of the Group amounted to RMB2,008.8 million, representing an increase of 75.76% or RMB865.9 million as compared to RMB1,142.9 million in 2005. Major projects include the following:

Project	Total project investment RMB million	Project progress as at 31 December 2006
380,000 tons/year ethylene glycol project	1,249.0	Under construction
3,300,000 tons/year diesel hydrogenation project	528.0	Under construction
Total	1,777.0	-

The Group's capital expenditure for 2007 is estimated at approximately RMB2,500 million.

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

During the Reporting Period, The Company did not make any changes to accounting policies, accounting estimates or major accounting errors.

Daily Operation of the Board

1. The convening and the resolutions of the Board meetings

- (i) The eighth meeting of the fifth session of the Board was convened on 24 January 2006 by means of correspondence. Announcement whereof was published in "China Securities Journal", "Shanghai Securities News", "South China Morning Post" and "Hong Kong Commercial Daily" on 25 January 2006.
- (ii) The ninth meeting of the fifth session of the Board was convened on 23 February 2006 by means of correspondence. At the meeting, the Board considered and approved the proposed signing of a joint venture agreement between the Company and BOC (China) Investment Co., Ltd. to jointly invest in and establish Shanghai Petrochemical BOC Gas Co., Ltd. (the "JV"), with 12 voted in favor, 0 voted against and 0 abstained. The investment cost of the JV was US\$80 million, with a registered capital of US\$32 million. Each party to the JV will contribute 50% of the capital, and the Company's contribution will be made in Renminbi in an amount equivalent to US\$16 million, in the form of the relevant assets of the Company's existing air separation facilities. According to the appraisal report (Zhong Zheng Ping Bao Zi [2005] No.59) issued by Beijing Zhong Zheng Appraisal Co., Ltd. on 4 November 2005, the appraised value of the relevant assets was RMB255.4 million as at 30 September 2005, and the amount in excess of the Company's obligatory contribution will be purchased by the JV.

- (iii) The tenth meeting of the fifth session of the Board was convened on site on 24 March 2006. Announcement whereof was published in “China Securities Journal”, “Shanghai Securities News”, “South China Morning Post” and “Hong Kong Commercial Daily” on 27 March 2006.
- (iv) The eleventh meeting of the fifth session of the Board was convened on 26 April 2006 by means of correspondence. Announcement whereof was published in “China Securities Journal”, “Shanghai Securities News”, “South China Morning Post” and “Hong Kong Commercial Daily” on 27 April 2006.
- (v) The twelfth meeting of the fifth session of the Board was convened on site on 15 June 2006. Announcement whereof was published in “China Securities Journal”, “Shanghai Securities News”, “South China Morning Post” and “Hong Kong Commercial Daily” on 16 June 2006.
- (vi) The thirteenth meeting of the fifth session of the Board was convened on site on 29 August 2006. Announcement whereof was published in “China Securities Journal”, “Shanghai Securities News”, “South China Morning Post” and “Hong Kong Commercial Daily” on 30 August 2006.
- (vii) The fourteenth meeting of the fifth session of the Board was convened on site on 12 October 2006. Announcement whereof was published in “China Securities Journal”, “Shanghai Securities News”, “South China Morning Post” and “Hong Kong Commercial Daily” on 16 October 2006.
- (viii) The fifteenth meeting of the fifth session of the Board was convened on site on 26 October 2006. Announcement whereof was published in “China Securities Journal”, “Shanghai Securities News”, “South China Morning Post” and “Hong Kong Commercial Daily” on 27 October 2006.
- (ix) The sixteenth meeting of the fifth session of the Board was convened on 3 November 2006 by means of correspondence. At the meeting, the Board considered and approved the proposed disposal of the Company’s entire holding of 41,100,506 China Everbright Bank shares at China Beijing Equity Exchange for an upset price of RMB66,993,800 as indicated by the appraisal report Yue Ping Bao Zi (2006) B093-053 issued by Yue Hua CPAs, with 12 voted in favor, 0 voted against and 0 abstained. The Board also considered and approved the disposal of the equity interest in Bank of Shanghai held by the Company’s subsidiaries at China Beijing Equity Exchange in accordance with the appraised values indicated by the appraisal report issued by Yue Hua CPAs, with 12 voted in favor, 0 voted against and 0 abstained. Details of the equity interests are as follow:
 - (a) the 3,074,900 shares bearing an appraised value of RMB12,145,900 (Yue Ping Bao Zi [2006] B093-056) held by the Company’s wholly-owned subsidiary Shanghai Petrochemical Enterprise Development Company Limited (“Shanghai Petrochemical Enterprise”);
 - (b) the 501,000 shares bearing an appraised value of RMB1,979,000 (Yue Ping Bao Zi [2006] B093-057) held by the Company’s wholly-owned subsidiary Shanghai Petrochemical Investment Development Company Limited;

- (c) the 153,100 shares bearing an appraised value of RMB604,700 (Yue Ping Bao Zi [2006] B093-055) held by Shanghai Petrochemical Haisheng Assembly Company Limited, a subsidiary of the Company's wholly-owned subsidiary Shanghai Petrochemical Enterprise.

2. Board's execution of resolutions made at shareholders' meetings

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

- (i) The 2005 Profit Appropriation Plan of the Company was implemented in accordance with the resolution made at the 2005 annual general meeting. The announcement on dividend payment for A shares was published in the China Securities Journal and Shanghai Securities News on 10 July 2006. Dividends for A shares and H shares were paid on 20 July 2006. Other resolutions were executed faithfully.
- (ii) Pursuant to the first extraordinary general meeting in 2006, the Company issued the first tranche of RMB1 billion short-term commercial papers on 23 February 2009, for a term of nine months with maturity on 21 November 2006; the second tranche of RMB 2 billion was issued on 11 December 2006, for a term of one year with maturity on 12 December 2007.

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

Net profit of the Company for the year 2006 amounted to RMB736,851,000 under PRC Accounting Rules and Regulations (profit attributable to equity shareholders of the Company amounted to RMB844,407,000 under IFRS). After RMB73,685,000 was made to the statutory surplus reserve, profit available for distribution to shareholders amounted to RMB663,166,000 (RMB770,722,000 under IFRS). The Board proposed to declare a final dividend of RMB0.40 (inclusive of tax) per 10 shares. With reference to the total number of shares of 7,200,000,000 for the year ended 31 December 2006, the total dividend amount will be RMB288 million.

Audit Committee

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 a review of the audited annual report for the twelve months ended 31 December 2006.

In 2006, 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 of Sinopec Shanghai Petrochemical Company Limited" and the "Rules of Procedure for Supervisory Committee Meeting of Sinopec Shanghai Petrochemical Company Limited", thus helping preserve and increase the asset value of the Company, ensuring a standardized operation and safeguarding the shareholders' lawful interests.

Five meetings of the Supervisory Committee were convened during the Reporting Period

- (i) The fourth meeting of the fifth session of the Supervisory Committee was convened on 23 March 2006 at the Company's office, and the following was considered and approved:
 - (a) the work report of the Supervisory Committee for the year 2005;
 - (b) the annual report of the Company for the year 2005;
 - (c) the Supervisory Committee's comments and recommendations on the Company's operating results for the year 2005;
- (ii) The fifth meeting of the fifth session of the Supervisory Committee was convened on 25 April 2006 at the Company's office, and the following was considered and approved:
 - (a) the 2006 first quarterly report of the Company;
 - (b) the proposal on the membership changes of the fifth session of the Supervisory Committee.
- (iii) The sixth meeting of the fifth session of the Supervisory Committee was convened on 15 June 2006 at Jinshan Hotel, and the following was considered and approved:
 - (a) to elect Mr. Gao Jinping as chairman of the Supervisory Committee;
- (iv) The seventh meeting of the fifth session of the Supervisory Committee was convened on 28 August 2006 at the Company's office, and the following was considered and approved:
 - (a) the 2006 interim report of the Company;
 - (b) the Supervisory Committee's analysis and recommendations on the Company's 2006 interim report;
- (v) The eighth meeting of the fifth session of the Supervisory Committee was convened on 25 October 2006 at the Company's office, and the following was considered and approved:
 - the 2006 third quarterly report of the Company.

Work carried out by the Supervisory Committee during the Reporting Period

During the Reporting Period, members of the Supervisory Committee discharged their duties diligently; conducted meetings on a regular basis; focused on improving the quality of meeting deliberation, attended Board meetings; and promptly furnished comments or suggestions on the operation management of the Company. Major recommendations made to the Company in 2006 were: (i) further strengthen its management to raise the receivable recovery ratio and reduce receivables; (ii) pay more attention to new issues and new problems about product sales as a result of the change in the sales system, so as to enhance and improve the weaknesses in the connection between centralized product sales and specialized companies; (iii) further strengthen the management to lower the Company's on-trip crude oil loss rate in maritime shipment and crude oil loss rate in processing; (iv) further enhance measures to effectively reduce receivables for auxiliary businesses, particularly clearing up receivables of three years or above, while striving for the reduction of receivables for the core businesses; (v) further strengthen the management and application of inventories, reducing inventories' hold on capital; and (vi) further strengthen its management to emphasize economic and technical indicators, in order to control resource and energy consumption, enhance site management quality, and raise the planned target of overall refining yield of petroleum products.

In discharging their routine monitoring duties, regular meetings of the Supervisory Committee Office were convened and the Company's quarterly reports were analyzed quarterly. The main aspects of the Supervisory Committee's work were as follows: First, relevant units (departments/offices) were requested to provide explanations on any specific unusual financial data for clarifying, analyzing and resolving the problem. Secondly, recommendations were made on improving the weaknesses existing in production, operation and management. Thirdly, the Supervisory Committee carried out research into the basic level and enhanced supervision and made recommendations on the enhancement of management and supervision with specific respect to changes in the sales system and the implementation of financial audit at the primary level. The Supervisory Committee, in conjunction with the Company's supervisory departments, monitored performance and inspected specific items. In accordance with the rules of the China Securities Regulatory Commission in respect of annual report disclosures, during 2006 the Supervisory Committee carried out verification of the bad debts written-off, provisions for bad debts and impairment of inventories, disposal of materials which have stayed inactive for three years, guarantee for and trusting of capital and acquisitions and disposals of assets in auxiliary businesses, and so forth.

During 2007, the Supervisory Committee will, in accordance with the newly published Company Law, discharge their supervisory duties diligently and promote a more regulated corporate governance structure. In accordance with the Company's need of implementing the low-cost strategy, the Supervisory Committee will further strengthen inspection and research on problems regarding financial, operation and construction management in line with production operation targets and the full commencement of the structural adjustment program. It will further strengthen the reform and transformation program of the Company's auxiliary businesses, and the supervision and checking of the execution of governance structure and operating system of enterprises remaining after the clean-up and shake-up investment at subsidiary level. The Supervisory Committee will also further strengthen the supervision and checking of the execution of the Company's internal control system. Through supervision and checking, the preservation and value enhancement of the Company's assets can be ensured and the lawful interests of all shareholders of the Company can be safeguarded.

Company's operation in compliance with legislation

During the Reporting Period, a check-and-balance mechanism was set up and enhanced by the Supervisory Committee in accordance with the Company Law, Corporate Governance Standards for Listed Companies and other legislations, and the corporate governance structure was promoted and regulated. The Supervisory Committee discharged their duties and authorities diligently by monitoring the management's enforcement of the Company Law, Corporate Governance Standards for Listed Companies and other legislations as well as the execution of resolutions made at the shareholders' meetings and board meetings. The Supervisory Committee also monitored the board of directors' decision-making procedures and the execution of the internal control system. No acts of the Board, general management team or its senior management staff in discharging their duties were found to have been in breach of the laws and regulations of China or the Company's Articles of Association or in prejudice to the Company's or shareholders' interests. The Supervisory Committee believes that in 2006, in light of the volatile rise of international crude oil prices to high levels and reaching record highs, the Company was able to: follow the working plans of Sinopec and Sinopec Corp.; establish the low-cost strategy; effectively ensure long-cycle, safe and stable operation of production facilities; gradually carry out professional centralized management, reforms of auxiliary businesses and clean-up and shake-up investment at subsidiary level; and effectively strengthen internal management of the enterprise. Production operations remained steady in general, with positive progress reported for work in various aspects.

1. Material litigation or arbitration

The Company was not involved in any material litigation or arbitration in 2006.

2. Company's purchase or disposal of assets, or merger or acquisition during the Reporting Period

(a) Disposal of assets

- (i) The Company transferred to its controlling shareholder Sinopec Corp. the 81.97% equity interests in Shanghai Jin Hua Industrial Company Limited, which is owned by the Company's subsidiary Shanghai Petrochemical Investment Development Company Limited. The relevant announcement was published in "China Securities Journal", "Shanghai Securities News", "South China Morning Post" and "Hong Kong Commercial Daily" on 25 January 2006.
- (ii) The Company and its subsidiary have entered into equity transfer agreements with Sinopec Finance Company Limited, respectively to transfer their respective equity interests in China Everbright Bank or Bank of Shanghai to Sinopec Finance Company Limited. The relevant announcement was published in "China Securities Journal", "Shanghai Securities News", "South China Morning Post" and "Hong Kong Commercial Daily" on 8 December 2006. For details, please refer to the section of "Company's major connected transactions during the Reporting Period".

(b) After the publication of the asset restructuring report or the announcement relating to the asset acquisition and disposal, the progress of the relevant matter and its impact on the operation and financial status during the Reporting Period

- (i) After the publication of the announcement relating to the asset disposal, the consideration amount of RMB61,600,400 in respect of the transfer of Shanghai Jin Hua Industrial Company Limited has been credited to the Company and booked as an investment gain of RMB24,307,945 for the year. To date, a number of actions in respect of the transfer of asset rights have not been completed pending approval from the State-owned Assets Supervision Commission of the State Council.
- (ii) After the publication of the announcement relating to the asset disposal, the equity transaction in respect of the transfer of China Everbright Bank and Bank of Shanghai were completed. The equity transfer consideration amount was RMB81,723,400 which will be transferred upon the approval of the relevant information by China Banking Regulatory Commission.

3. Company's major connected transactions during the Reporting Period

(a) Connected transactions in relation to routine operations

The purchases by the Company of crude oil-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 policy 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 happen. The Company sells petrochemicals to Sinopec Corp. and its associates and Sinopec and its associates act as an agency for the sale of petrochemicals in order to reduce the Company's inventories, expand its trading, distribution and sales networks and improve our bargaining power with our customers. The Company accepts transportation, design, construction and installation, insurance agency and financial services from Sinopec and its associates in order to secure steady and reliable services at reasonable prices.

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

During the Reporting Period, pursuant to the Sales and Purchases Framework Agreement entered into with Sinopec Corp., the Company purchased raw materials from, and sold petroleum products and petrochemicals to, Sinopec Corp. and its associates. Pursuant to the Comprehensive Services Framework Agreement entered into with Sinopec, the Company accepted transportation, design, construction and installation, insurance agency and financial services provided by Sinopec and its associates. The relevant connected transactions were conducted in accordance with the terms of the Sales and Purchases Framework Agreement and the Comprehensive Services Framework Agreement. The transaction amount of the relevant connected transactions did not exceed the caps of the on-going connected transactions approved at the 2005 extraordinary general meeting and the 2005 second extraordinary general meeting.

During the Reporting Period, pursuant to the "Petrochemical Products Agency Sales Contract Agreement" entered into with Sinopec Corp. on 25 August 2005, the Company appointed Sinopec Corp. as a non-exclusive sales agent for the sales of synthetic resins, synthetic fibres, synthetic fibre monomers and polymers, organic petrochemical products and by-products from ethylene cracking and aromatic plants and other substandard products related to the above five products.

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

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 for this type of transaction (%)
Income from sale of products and services	Sinopec Huadong Sales Company	15,842,808	31.38
	Other fellow subsidiaries	4,330,298	8.58
Purchases	Sinopec Transport and Storage Comopany	24,992,620	50.80
	China International United Petroleum & Chemicals Co., Ltd.	6,230,910	12.66
Installation fees	Sinopec and its subsidiaries	194,958	49.37
Transportation costs	Sinopec Transport and Storage Company	316,326	69.75
	Others	28,602	6.31

This includes: an amount of RMB20,173,106,000 for the connected transactions in respect of the sale of products or the provision of labor services to the controlling shareholder and its subsidiaries by the listed company during the Reporting Period.

(b) Major connected transactions relating to transfer of assets and equity interests

The Company has transferred to Sinopec Corp. a 81.97% equity interest owned by the Company's wholly owned subsidiary Shanghai Petrochemical Investment Development Company Limited in Shanghai Jin Hua Industrial Company Limited for a consideration of RMB61,600,400. The relevant transfer agreement was entered on 8 February 2006. The transaction generated a gain of RMB24,307,946. The pricing principle was determined on the basis of a valuation report prepared by a qualified asset valuer independent of the Company and Sinopec Corp. and upon arm's length negotiations between the parties. On the asset disposal date, the book value of the assets was RMB37,292,454, while the appraised value of the assets was RMB53,600,422 as at 31 March 2005. Details of the transaction were published in China Securities Journal, Shanghai Securities News, South China Morning Post and Hong Kong Commercial Daily on 25 January 2006.

The Company and its subsidiaries have respectively entered into equity transfer agreements with Sinopec Finance Co., Ltd to transfer their respective equity interests in China Everbright Bank or Bank of Shanghai to Sinopec Finance Co., Ltd. The considerations for the China Everbright Bank transfer and Bank of Shanghai transfer were RMB66,993,800 and RMB14,729,600, respectively. The relevant transfer agreements were entered into on 7 December 2006. As at the asset appraisal date, the book value of the equity interests held by the repective parties in China Everbright Bank and Bank of Shanghai totaled RMB55,449,641. The transaction generated a gain of RMB26,228,500. The transaction was completed by way of a bidding process on the China Beijing Equity Exchange. The relevant announcement relating to the connected transaction was published in China Securities Journal, Shanghai Securities News, South China Morning Post and Hong Kong Commercial Daily on 8 December 2006.

(c) Connected creditor's rights and liabilities

Connected party	Connected relationship	Funds provided to connected parties		Funds provided by connected parties to listed company	
		Net transaction RMB'000	Balance RMB'000	Net transaction RMB'000	Balance RMB'000
Sinopec Corp.	Controlling shareholder	82,000	-	5,276	-
Holdings company and other subsidiaries of Sinopec Corp.	Under the same controlling shareholder	79,034	85,729*	5,921	35,343
Total		161,034	85,729	11,197	35,343

* Cause of connected creditor's rights and liabilities: As at the end of the period, the balance of funds provided by the Group to connected parties mainly consisted of: the RMB80,000,000 trust loan provided to the Group's associate Shanghai Jinpu Plastics Packaging Material Company Limited, as well as the outstanding receivables arising from the Group's product sales to associates.

(d) 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 and were fair and reasonable and to the benefits of the shareholders of the Company as a whole.

4. Trust

The Group did not enter into any trust arrangements during 2006.

5. Sub-contracting

The Group did not enter into any sub-contracting arrangements during 2006.

6. Leasing

The Group did not enter into any leasing arrangements during 2006.

7. Guarantees

The Company's External guarantees(excluding guarantees to subsidiaries with controlling interests)

Guaranteed entities	Date (Agreement signing date)	Guarantee amount (RMB '000)	Type of guarantee	Guarantee period	Guarantee expired	Guarantee for a connected party
Shanghai Jinsen Hydrocarbon Resins Company Limited	23 March 2004	40,000	Bank loan	23 March 2004 - 23 March 2007	No	Yes
Others	11 June 2004 to 21 December 2004	9,750	Bank loan	11 June 2004 - 21 December 2009	No	Yes
						RMB'000
Changes in the amount of guarantees during the Reporting Period (not including those provided for subsidiaries)						(18,550)
Amount of guarantees at the end of the Reporting Period (not including those provided for subsidiaries)						49,750
Guarantees to subsidiaries						
Changes in the amount of guarantees to subsidiaries provided by the Company during the Reporting Period						(130,342)
Amount of guarantees to subsidiaries at the end of the Reporting Period						353,500
Total guarantee amount (including guarantees to subsidiaries)						
Total guarantee amount						403,250
Total guarantee amount as a percentage of net asset value of the Company						2%
of which:						
Amount of guarantee provided for shareholders, the de facto controller or the other connected parties						-
Amount of debt guarantee provided for the companies with liabilities to assets ratio of over 70% directly or indirectly						361,750
Total amount of guarantee is over 50% of the net asset						-
Total guarantee amount of the above three items						361,750

8. Trust financial management

The Company did not enter into any trust financial management during 2006.

9. Other material contracts

There were no other material contracts during 2006.

10. Performance of undertakings

- (a) Neither the Company nor any shareholder holding more than 5% of the total shares has made any undertakings during the Reporting Period.
- (b) Schedules of share reform for companies which have not performed share reform

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

11. Appointment and dismissal of accounting firm

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

12. Disciplinary actions upon the Company and its directors, supervisors, senior management, shareholders and de facto controller

During the Reporting Period, the Company and its directors, supervisors, senior management, shareholders and de facto controller had not been investigated, administratively punished or publicly criticized by the China Securities Regulatory Commission or publicly reprimanded by the stock exchanges.

13. Tax rate

The charge for PRC income tax is currently calculated at the rate of 15% (2005:15%). The Company has not received any notice from the Ministry of Finance to the effect that the 15% tax rate will be changed in 2007.

14. Deposits

The Company did not have any entrusted deposits during the Reporting Period. As at 31 December 2006, the Group did not have any time deposits which could not be collected upon maturity.

15. The Execution of the 2005 Profit Appropriation Plan

The Profit Appropriation Plan for 2005 was approved at the Company's 2005 annual general meeting. A dividend of RMB1.00 (tax included) per 10 shares was distributed to shareholders, based on the total share capital of 7,200,000,000 shares as at the end of 2005. The relevant announcement was published on China Securities Journal, Shanghai Securities News, South China Morning Post and Hong Kong Commercial Daily on 16 June 2006. On 10 July 2006, the Company published the profit appropriation plan for A shares. In respect of the distribution of A-share dividend, the share right registration date was 13 July 2006 and the ex-dividend date was 14 July 2006. The dividend payment date for social public shares of A shares and H shares was 20 July 2006. Such profit appropriation plan was implemented as scheduled.

16. Reserve

Details of changes in reserves are set out in note 27 to the financial statements prepared under IFRS.

17. Financial summary

A summary of the results, total assets, liabilities and shareholders' equity of the Group as at 31 December 2006 are set out on page 4 of this annual report.

18. Bank loans and other borrowings

Details of bank loans and other borrowings of the Company and the Group as at 31 December 2006 are set out in note 32 to the financial statements prepared under IFRS.

19. Interest capitalized

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

20. Property, plant and equipment

Changes in property, plant and equipment during the year are set out in note 13 to the financial statements prepared under IFRS.

21. Purchase, sale and redemption of shares

During the year, no shares of the Company were purchased, sold or redeemed by the Company or its subsidiaries.

22. Pre-emptive rights

According to the Articles of Associations of the Company 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 shareholdings.

23. Controlling shareholder

Sinopec Corp. is the controlling shareholder of the Company, holding a 55.56% equity interest or 4,000 million shares.

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

24. Other important events

There were no other important events during the Reporting Period.

25. 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 consideration and approval.

The 2006 edition of the "Internal Control Manual" was adopted on 1 May upon consideration and approval by the Board. During the year, self-checking and professional checks were conducted over the implementation of all procedures and the effectiveness of control with reference to the "Guideline for Internal Control Checking and Assessment", with investigations, analyses and fixations conducted for problems identified in business procedure implementation. The Company also engaged KPMG to assess the Company's internal control environment.

26. Implementation and impact of the Company's equity incentive scheme

Nil



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 89 to 144, which comprise the consolidated and company balance sheets as at 31 December 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with International Financial Reporting Standards promulgated 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 the report.

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

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2006 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG

Certified Public Accountants

8th Floor, Prince's Building

10 Chater Road

Central, Hong Kong

29 March 2007

A. Financial Statements Prepared Under International Financial Reporting Standards

Consolidated Income Statement

For the year ended 31 December 2006
(Prepared under International Financial Reporting Standards)
(Expressed in Renminbi)

	Note	2006 RMB'000	2005 RMB'000
Turnover	2	50,599,485	45,955,903
Sales taxes and surcharges		(681,362)	(765,689)
Net sales		49,918,123	45,190,214
Other income	3	282,142	632,820
Cost of sales		(49,182,232)	(42,887,742)
Gross profit		1,018,033	2,935,292
Selling and administrative expenses		(521,990)	(444,449)
Other operating income	4	297,394	238,611
Other operating expenses			
Employee reduction expenses	6	(83,603)	(109,410)
Others		(156,927)	(92,084)
Total other operating expenses	5	(240,530)	(201,494)
Profit from operations		552,907	2,527,960
Share of profits/(losses) of associates and jointly controlled entities		576,682	(60,968)
Net financing costs	7	(165,389)	(179,398)
Profit before taxation	8	964,200	2,287,594
Taxation	10(a)	(53,238)	(366,300)
Profit after taxation		910,962	1,921,294
Attributable to:			
Equity shareholders of the Company		844,407	1,850,449
Minority interests		66,555	70,845
Profit after taxation		910,962	1,921,294
Basic earnings per share	11	RMB 0.12	RMB 0.26
Dividends attributable to the year	12	288,000	720,000

The notes on pages 97 to 144 form part of these financial statements.

Consolidated Balance Sheet

As at 31 December 2006
(Prepared under International Financial Reporting Standards)
(Expressed in Renminbi)

	Note	2006 RMB'000	2005 RMB'000
Non-current assets			
Property, plant and equipment	13(a)	13,359,862	14,651,167
Investment property	14	501,904	514,582
Construction in progress	15	2,008,447	787,376
Interest in associates and jointly controlled entities	17	2,787,795	2,130,803
Investments	18	528,931	665,363
Lease prepayments and other assets		603,290	507,962
Goodwill	19	22,415	22,415
Deferred tax assets	10(b)	30,310	23,149
Total non-current assets		19,842,954	19,302,817
Current assets			
Inventories	20	4,163,256	4,114,978
Trade debtors	21	358,690	252,166
Bills receivable	21	1,212,110	731,204
Deposits, other debtors and prepayments		239,114	455,043
Amounts due from related parties	21,25	695,286	561,552
Income tax recoverable		-	45,374
Cash and cash equivalents	22	894,650	1,347,237
Total current assets		7,563,106	7,507,554
Current liabilities			
Loans and borrowings	23	4,270,337	3,926,742
Trade creditors	24	1,385,577	963,230
Bills payable	24	7,026	68,302
Other creditors		732,951	679,866
Amounts due to related parties	24,25	599,773	467,909
Income tax payable		34,386	26,588
Total current liabilities		7,030,050	6,132,637
Net current assets		533,056	1,374,917
Total assets less current liabilities carried forward		20,376,010	20,677,734

The notes on pages 97 to 144 form part of these financial statements.

Consolidated Balance Sheet (continued)

As at 31 December 2006
(Prepared under International Financial Reporting Standards)
(Expressed in Renminbi)

	Note	2006 RMB'000	2005 RMB'000
Total assets less current liabilities brought forward		20,376,010	20,677,734
Non-current liabilities			
Deferred income		-	23,033
Loans and borrowings	23	1,063,654	1,477,261
Total non-current liabilities		1,063,654	1,500,294
Net assets		19,312,356	19,177,440
Shareholders' equity			
Share capital	26	7,200,000	7,200,000
Reserves	27	11,776,343	11,629,987
Total equity attributable to equity shareholders of the Company		18,976,343	18,829,987
Minority interests		336,013	347,453
Total equity		19,312,356	19,177,440

Approved and authorised for issue by the board of directors on 29 March 2007.

Rong Guangdao
Chairman and President

Du Chongjun
Vice Chairman and Vice President

Han Zhihao
Director and Chief Financial Officer

The notes on pages 97 to 144 form part of these financial statements.

Balance Sheet

As at 31 December 2006
(Prepared under International Financial Reporting Standards)
(Expressed in Renminbi)

	Note	2006 RMB'000	2005 RMB'000
Non-current assets			
Property, plant and equipment	13(b)	11,578,597	12,755,181
Investment property	14	584,247	599,168
Construction in progress	15	2,004,706	743,452
Investments in subsidiaries	16	2,134,113	2,309,186
Interest in associates and jointly controlled entities	17	2,274,480	2,136,488
Investments	18	114,095	107,658
Lease prepayments and other assets		546,508	433,357
Goodwill	19	22,415	22,415
Deferred tax assets	10(b)	24,376	23,149
Total non-current assets		19,283,537	19,130,054
Current assets			
Inventories	20	3,584,431	3,537,671
Trade debtors	21	39,292	76,159
Bills receivable	21	920,733	466,183
Deposits, other debtors and prepayments		32,433	290,622
Amounts due from related parties	21,25	608,475	549,111
Income tax recoverable		-	45,374
Cash and cash equivalents	22	551,693	821,564
Total current assets		5,737,057	5,786,684
Current liabilities			
Loans and borrowings	23	4,001,726	3,635,195
Trade creditors	24	735,602	535,739
Bills payable	24	1,141	12,428
Other creditors		641,559	512,443
Amounts due to related parties	24,25	471,765	401,104
Income tax payable		19,754	-
Total current liabilities		5,871,547	5,096,909
Net current (liabilities)/assets		(134,490)	689,775
Total assets less current liabilities carried forward		19,149,047	19,819,829

The notes on pages 97 to 144 form part of these financial statements.

Balance Sheet (continued)

As at 31 December 2006
(Prepared under International Financial Reporting Standards)
(Expressed in Renminbi)

	Note	2006 RMB '000	2005 RMB '000
Total assets less current liabilities brought forward		19,149,047	19,819,829
Non-current liabilities			
Loans and borrowings	23	873,710	1,153,235
Net assets		18,275,337	18,666,594
Shareholders' equity			
Share capital	26	7,200,000	7,200,000
Reserves	27	11,075,337	11,466,594
Total equity		18,275,337	18,666,594

Approved and authorised for issue by the board of directors on 29 March 2007.

Rong Guangdao

Chairman and President

Du Chongjun

Vice Chairman and Vice President

Han Zhihao

Director and Chief Financial Officer

The notes on pages 97 to 144 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2006
(Prepared under International Financial Reporting Standards)
(Expressed in Renminbi)

	Note	2006 RMB'000	2005 RMB'000
Cash generated from operations	(a)	2,051,780	4,676,107
Interest paid		(344,064)	(301,537)
Income tax paid		(63,386)	(430,992)
Income tax refunded		52,285	-
Net cash from operating activities		1,696,615	3,943,578
Investing activities			
Interest income received		56,827	39,631
Investment income received		47,596	79,688
Proceeds from disposal of property, plant and equipment		254,843	131,845
Proceeds from disposal of investments		351,178	45,691
Maturity of time deposits		-	4,000
Capital expenditure		(2,008,779)	(1,142,927)
Purchase of investments and addition of interest in associates		(54,206)	(347,170)
Net cash used in investing activities		(1,352,541)	(1,189,242)
Financing activities			
Net proceeds from issue of corporate bonds		2,977,800	-
Proceeds from loans		13,936,126	9,836,199
Repayment of loans		(15,910,127)	(11,393,941)
Redemption of corporate bonds		(1,000,000)	-
Dividends paid to equity shareholders of the Company		(720,000)	(1,440,000)
Dividends paid to minority shareholders		(77,995)	(96,476)
Net cash used in financing activities		(794,196)	(3,094,218)
Decrease in cash and cash equivalents		(450,122)	(339,882)
Cash and cash equivalents at 1 January		1,347,237	1,690,500
Effect of exchange rate fluctuations on cash held		(2,465)	(3,381)
Cash and cash equivalents at 31 December		894,650	1,347,237

The notes on pages 97 to 144 form part of these financial statements.

Notes to the Consolidated Cash Flow Statement

For the year ended 31 December 2006
 (Prepared under International Financial Reporting Standards)
 (Expressed in Renminbi)

(a) Reconciliation of profit before taxation to cash generated from operations:

	2006 RMB'000	2005 RMB'000
Profit before taxation	964,200	2,287,594
Interest income	(56,827)	(39,631)
Income from other unlisted investments	(97,179)	(101,350)
Share of (profits)/losses of associates and jointly controlled entities	(576,682)	60,968
Interest expense	303,386	276,174
Depreciation for property, plant and equipment	1,810,990	1,692,213
Depreciation for investment property	12,678	12,847
Impairment losses for property, plant and equipment	50,000	-
Amortisation of lease prepayments	29,400	13,441
Unrealised exchange gain	(78,841)	(53,174)
Gain on disposal of property, plant and equipment	(19,569)	(15,298)
Increase in inventories	(48,278)	(387,229)
(Increase)/decrease in debtors, bills receivable and deposits	(585,256)	1,170,872
Increase/(decrease) in trade creditors, other creditors and bills payable	345,628	(33,850)
Decrease in balances with related parties	(1,870)	(207,470)
Cash generated from operations	2,051,780	4,676,107

The notes on pages 97 to 144 form part of these financial statements.

Consolidated Statement of Changes in Shareholders' Equity

For the year ended 31 December 2006
(Prepared under International Financial Reporting Standards)
(Expressed in Renminbi)

	Note	Share capital RMB'000	Share premium RMB'000	Reserves RMB'000	Retained earnings RMB'000	Minority Interests RMB'000	Total RMB'000
At 1 January 2005		7,200,000	2,420,841	4,051,672	4,744,476	373,084	18,790,073
Derecognition of negative goodwill		-	-	-	2,549	-	2,549
As at 1 January 2005 (adjusted)		7,200,000	2,420,841	4,051,672	4,747,025	373,084	18,792,622
Profit attributable to shareholders		-	-	-	1,850,449	70,845	1,921,294
Appropriation	27	-	-	340,926	(340,926)	-	-
Dividends approved in respect of previous year	12(b)	-	-	-	(1,440,000)	-	(1,440,000)
Dividends paid to minority shareholders		-	-	-	-	(96,476)	(96,476)
At 31 December 2005		7,200,000	2,420,841	4,392,598	4,816,548	347,453	19,177,440
At 1 January 2006		7,200,000	2,420,841	4,392,598	4,816,548	347,453	19,177,440
Profit attributable to shareholders		-	-	-	844,407	66,555	910,962
Appropriation	27	-	-	73,685	(73,685)	-	-
Changes in fair value of available-for-sale equity securities	27	-	-	21,949	-	-	21,949
Dividends approved in respect of previous year	12(b)	-	-	-	(720,000)	-	(720,000)
Dividends paid to minority shareholders		-	-	-	-	(77,995)	(77,995)
At 31 December 2006		7,200,000	2,420,841	4,488,232	4,867,270	336,013	19,312,356

The notes on pages 97 to 144 form part of these financial statements.

1 Significant accounting policies

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

(a) Statement of compliance

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

(b) Basis of preparation of the financial statements

The consolidated financial statements are prepared on the historical cost basis except for certain property, plant and equipment which are modified by the revaluation as stated in note 1(f). The accounting policies have been consistently applied by the Group.

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

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

Key assumptions and estimation made by management in the application of IFRSs that have significant effect on the financial statements and have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities in the next financial year are disclosed in Note 34.

1 Significant accounting policies (continued)

(c) Basis of consolidation

(i) *Subsidiaries and minority interests*

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

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

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

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

(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 the 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 and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the associate's or the jointly controlled entity's net assets.

1 Significant accounting policies (continued)

(c) Basis of consolidation (continued)

(ii) Associates and jointly controlled entities (continued)

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

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

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

(d) Goodwill

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

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

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

1 Significant accounting policies (continued)

(e) Investments

Investments in available-for-sale equity securities are carried at fair value with any change in fair value, other than impairment losses (see note 1(u)), recognised directly in equity. When these investments are derecognised or impaired, the cumulative gain or loss previously recognised directly in equity is recognised in the income statement. 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(u)).

(f) Property, plant and equipment

Property, plant and equipment are stated in the balance sheet at cost or valuation (see note 13(d)) less accumulated depreciation and impairment losses (see note 1(u)). Revaluations are performed with sufficient regularity to ensure that the carrying amount of these assets does not differ materially from that which would be determined using fair value at balance sheet date.

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

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

Buildings	15 to 40 years
Plant, machinery, equipment and others	5 to 26 years

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

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 the income statement on the date of retirement or disposal.

1 Significant accounting policies (continued)

(g) Investment property

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

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

(h) Lease prepayments and other assets

Lease prepayments and other assets represent land use rights paid to the PRC's Land Bureau and catalysts used in production. They are carried at cost less accumulated amortisation and impairment losses (see note 1(u)). Amortisation is provided to write off the cost of lease prepayment and other assets 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(u)). 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. In the case of work in progress and finished goods, cost includes direct labour and an appropriate proportion of production overheads. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs 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, arising from an increase in net realisable value, 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 and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts (see note 1(u)), 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 impairment losses for bad and doubtful debts (see note 1(u)).

(l) 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.

(m) Cash and cash equivalents

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

(n) Translation of foreign currencies

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

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

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

1 Significant accounting policies (continued)

(o) Revenue recognition

Revenue from the sale of goods is recognised in the income statement 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 the income statement upon performance of the services.

Dividend income is recognised in the income statement on the date the entity's right to receive payments is established.

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

(p) Government grants

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

(q) Net financing costs

Net financing costs comprise interest payable on borrowings calculated using the effective interest rate method, interest income on bank deposits, foreign exchange gains and losses and bank charges.

Interest income from bank deposits is recognised in the income statement 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.

1 Significant accounting policies (continued)

(r) Repairs and maintenance expenses

Repairs and maintenance expenses are charged to the income statement as and when they are incurred.

(s) 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.

(t) Retirement benefits

The contributions payable under the Group's retirement plans are charged to the income statement on an accrual basis according to the contribution determined by the plans. Further information is set out in note 29.

(u) Impairment loss

(i) *Impairment of trade accounts receivable, other receivables and investments in equity securities other than investments in associates and jointly controlled entities are accounted as follows:*

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

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

The carrying amounts of other long-lived assets, including property, plant and equipment, construction in progress, lease prepayment, other assets and investments in associates and jointly controlled entities, are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. 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.

1 Significant accounting policies (continued)

(u) Impairment loss (continued)

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

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

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

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

(v) Dividends

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

1 Significant accounting policies (continued)

(w) Income tax

Income tax on the income statement for the year comprises current and deferred tax.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, 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 to the income statement.

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

(x) 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 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)

(y) 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.

(z) Segment reporting

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

2 Turnover

The Group's principal activity is the processing of crude oil into petrochemical products for sale and substantially all of its products are sold in the PRC domestic markets.

Turnover represents the sales value of goods sold to customers, net of value added tax and is after deduction of any sales discounts and returns.

3 Other income

The Group received a cash government grant from the Ministry of Finance of the PRC of RMB 282,141,800 (2005: RMB 632,820,000) as a compensation of loss incurred due to the distortion of the correlation of domestic refined petroleum product prices and the crude oil prices during the year ended 31 December 2006. There are no unfulfilled conditions and other contingencies attached to the receipt or usage of this government grant. There is no assurance that the Group will continue to receive such grant in the future.

4 Other operating income

	2006	2005
	RMB'000	RMB'000
Income from rendering of services	35,068	57,421
Gain on disposal of property, plant and equipment	83,386	42,233
Rental income from investment property	42,643	18,681
Income from other unlisted investments	97,179	101,350
Amortisation of deferred income	23,033	11,518
Others	16,085	7,408
	297,394	238,611

5 Other operating expenses

	2006	2005
	RMB'000	RMB'000
Employee reduction expenses (Note 6)	83,603	109,410
Loss on disposal of property, plant and equipment	63,817	26,935
Impairment loss of property, plant and equipment (i)	50,000	-
Service fee	20,174	47,320
Donations	380	8,079
Others	22,556	9,750
	240,530	201,494

(i) Impairment loss recognised on property, plant and equipment of synthetic fibres segment was RMB 50 million (2005: nil) for the year ended 31 December 2006. The impairment loss relates to certain polypropylene fibre and compound fibre facilities that have ceased production during the year. In measuring the amounts of impairment charges, the carrying amounts of these assets were compared to the present value of the expected future cash flows of the assets, as well as information about their fair values less costs to sell.

6 Employee reduction expenses

In accordance with the Group's voluntary employee reduction plan, the Group recorded employee reduction expenses of RMB 83,603,000 during the year ended 31 December 2006 (2005: RMB 109,410,000) in respect of the voluntary resignation of approximately 1,280 employees (1,645 employees in 2005).

Notes to the Financial Statements (continued)

(Prepared under International Financial Reporting Standards)

7. Net financing costs

	2006 RMB'000	2005 RMB'000
Interest on loans and borrowings	367,716	309,357
Less: borrowing costs capitalised as construction in progress*	(64,330)	(33,183)
Interest expenses, net	303,386	276,174
Interest income	(56,827)	(39,631)
Foreign exchange gain, net	(81,170)	(57,145)
	165,389	179,398

* The borrowing costs during 2006 have been capitalised at a rate of 5.18% - 5.85% per annum (2005: 2.98% - 5.56%) for construction in progress.

8. Profit before taxation

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

	2006 RMB'000	2005 RMB'000
Cost of inventories sold#	49,182,232	42,887,742
Depreciation for property, plant and equipment#	1,810,990	1,692,213
Depreciation for investment property	12,678	12,847
Amortisation of lease prepayments#	29,400	13,441
Repairs and maintenance expenses#	874,461	896,022
Research and development costs#	51,610	54,451
Employee's pension costs#		
- Municipal retirement scheme costs	207,071	165,046
- Supplementary retirement scheme costs	61,692	65,685
Staff costs#	1,210,266	1,168,461
Rental income from investment property	42,643	18,681
Impairment losses		
- Trade and other receivables	18,215	14,049
- Property, plant and equipment	50,000	-
Share of profits / (losses) of associates	572,655	(60,968)
Share of profits of jointly controlled entities	4,027	-
Auditors' remuneration - audit services	7,721	6,150

Cost of inventories sold includes RMB 4,248,968,000 (2005: RMB 4,059,398,000) 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 148,083,000 (2005: RMB 1,814,374,000) which has been dealt with in the financial statements of the Company.

9 Directors' and supervisors' emoluments

(i) Directors' and supervisors' emoluments:

	2006			
	Salaries and other benefits RMB'000	Retirement scheme contributions RMB'000	Discretionary bonus RMB'000	Total RMB'000
Rong Guangdao	161	7	288	456
Du Chongjun	161	7	288	456
Han Zhihao	137	7	252	396
Li Honggen	189	7	159	355
Gao Jinping	137	6	243	386
Shi Wei	137	7	243	387
Dai Jinbao	71	7	105	183
Zhang Chenghua	83	7	124	214
Wang Yanjun	70	6	120	196
Chen Xinyuan	80	-	-	80
Sun Chiping	80	-	-	80
Jiang Zhiquan	80	-	-	80
Zhou Yunnong	80	-	-	80
	1,466	61	1,822	3,349

	2005			
	Salaries and other benefits RMB'000	Retirement scheme contributions RMB'000	Discretionary bonus RMB'000	Total RMB'000
Rong Guangdao	74	7	196	277
Du Chongjun	74	7	193	274
Han Zhihao	60	6	158	224
Wu Haijun	60	6	159	225
Gao Jinping	60	6	165	231
Shi Wei	60	6	165	231
Dai Shuming	60	7	164	231
Zhang Chenghua	72	6	98	176
Wang Yanjun	61	6	91	158
Lu Yiping	74	7	197	278
Zhu Weiyan	67	6	104	177
Chen Xinyuan	40	-	-	40
Sun Chiping	40	-	-	40
Jiang Zhiquan	40	-	-	40
Zhou Yunnong	40	-	-	40
Gu Chuanxun	40	-	-	40
Wang Yongshou	40	-	-	40
Wang Xingyu	40	-	-	40
	1,002	70	1,690	2,762

9 Directors' and supervisors' emoluments (continued)

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

For the years ended 31 December 2006 and 2005, no emolument was paid to the directors or supervisors as an inducement to join or upon joining the Company or as compensation for loss of office.

(ii) Individuals with highest emoluments

Of the five individuals with the highest emoluments, five (2005: five) are directors and supervisors whose emoluments are disclosed in Note 9 (i).

10. Taxation

(a) Taxation in the consolidated income statement represents:

	2006 RMB'000	2005 RMB'000
Provision for income tax for the year	71,183	340,532
Over-provision in respect of prior years	(6,911)	-
Deferred taxation	(11,034)	25,768
	53,238	366,300

A reconciliation of income tax calculated at the applicable tax rate with income tax expense is as follows:

	2006 RMB'000	2005 RMB'000
Profit from ordinary activities before taxation	964,200	2,287,594
Expected tax at applicable tax rate of 15%	144,630	343,139
Non-deductible expenses	7,361	7,679
Non-taxable earnings	(5,414)	(4,438)
Over-provision in respect of prior years	(6,911)	-
Tax effect of share of (profits) / losses recognised under the equity method	(86,503)	9,145
Tax effect of unused tax losses not recognised for deferred tax	9,688	7,090
Differential tax rate on subsidiaries' income	(9,613)	3,685
Income tax expense	53,238	366,300

The charge for income tax is calculated at the rate of 15% (2005: 15%) on the estimated assessable income of the year determined in accordance with relevant income tax rules and regulations. The Group did not carry out business overseas and therefore does not incur overseas income tax. Up to the date of approval of these financial statements, the Company has not received notice from the Ministry of Finance that the 15% tax rate will be revoked in 2006 or in the future. It is possible that the Company's tax rate will increase in the future. A non-adjusting post balance sheet event in respect of the potential change in the Company's applicable tax rate is disclosed in Note 37.

Notes to the Financial Statements (continued)

(Prepared under International Financial Reporting Standards)

10. Taxation (continued)

(b) Deferred taxation:

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

	The Group					
	Assets		Liabilities		Net balance	
	2006	2005	2006	2005	2006	2005
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<i>Current</i>						
Provisions	12,141	11,396	-	-	12,141	11,396
<i>Non-current</i>						
Provision for impairment losses	16,342	8,842	-	-	16,342	8,842
Land use rights	18,880	19,403	-	-	18,880	19,403
Capitalisation of borrowing costs	-	-	(20,799)	(16,492)	(20,799)	(16,492)
Others	7,619	-	(3,873)	-	3,746	-
Deferred tax assets/(liabilities)	54,982	39,641	(24,672)	(16,492)	30,310	23,149

	The Company					
	Assets		Liabilities		Net balance	
	2006	2005	2006	2005	2006	2005
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<i>Current</i>						
Provisions	12,141	11,396	-	-	12,141	11,396
<i>Non-current</i>						
Provision for impairment losses	16,342	8,842	-	-	16,342	8,842
Land use rights	18,880	19,403	-	-	18,880	19,403
Capitalisation of borrowing costs	-	-	(20,799)	(16,492)	(20,799)	(16,492)
Others	-	-	(2,188)	-	(2,188)	-
Deferred tax assets/(liabilities)	47,363	39,641	(22,987)	(16,492)	24,376	23,149

There is no other significant deferred tax asset or liability that has not been provided for in the financial statements.

Notes to the Financial Statements (continued)

(Prepared under International Financial Reporting Standards)

10. Taxation (continued)

(b) Deferred taxation: (continued)

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

	The Group			
	Balance at 1 January 2006 RMB'000	Recognised in income statement RMB'000	Recognised in reserve RMB'000	Balance at 31 December 2006 RMB'000
<i>Current</i>				
Provisions	11,396	745	-	12,141
<i>Non-current</i>				
Provision for impairment losses	8,842	7,500	-	16,342
Land use rights	19,403	(523)	-	18,880
Capitalisation of borrowing costs	(16,492)	(4,307)	-	(20,799)
Others	-	7,619	(3,873)	3,746
Net deferred tax assets	23,149	11,034	(3,873)	30,310

	The Company			
	Balance at 1 January 2006 RMB'000	Recognised in income statement RMB'000	Recognised in reserve RMB'000	Balance at 31 December 2006 RMB'000
<i>Current</i>				
Provisions	11,396	745	-	12,141
<i>Non-current</i>				
Provision for impairment losses	8,842	7,500	-	16,342
Land use rights	19,403	(523)	-	18,880
Capitalisation of borrowing costs	(16,492)	(4,307)	-	(20,799)
Others	-	-	(2,188)	(2,188)
Net deferred tax assets	23,149	3,415	(2,188)	24,376

11. Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of RMB 844,407,000 (2005: RMB 1,850,449,000) and 7,200,000,000 (2005: 7,200,000,000) shares in issue during the year.

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

12. Dividends

(a) Dividends attributable to the year

	The Group and the Company	
	2006	2005
	RMB'000	RMB'000
Final dividend proposed after the balance sheet date of RMB 0.04 per share (2005: RMB 0.10 per share)	288,000	720,000

Pursuant to a resolution passed at the directors' meeting on 29 March 2007, a final dividend of RMB 0.04 per share totalling RMB 288,000,000 (2005: RMB 0.10 per share totalling RMB 720,000,000) 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.

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

	The Group and the Company	
	2006	2005
	RMB'000	RMB'000
Final dividend in respect of the previous financial year, approved and paid during the year, of RMB 0.10 per share (2005: RMB 0.20 per share)	720,000	1,440,000

13. Property, plant and equipment

(a) The Group

	Buildings	Plant and other fixed assets	Total
	RMB'000	RMB'000	RMB'000
Cost or valuation:			
At 1 January 2005	5,324,173	25,863,939	31,188,112
Additions	-	164,816	164,816
Transferred from construction in progress (Note 15)	215,194	808,233	1,023,427
Disposals	(37,480)	(134,456)	(171,936)
At 31 December 2005	5,501,887	26,702,532	32,204,419
At 1 January 2006	5,501,887	26,702,532	32,204,419
Additions	41,376	147,671	189,047
Transferred from construction in progress (Note 15)	128,200	502,704	630,904
Disposals	(47,923)	(812,917)	(860,840)
At 31 December 2006	5,623,540	26,539,990	32,163,530
Accumulated depreciation and impairment losses:			
At 1 January 2005	2,804,251	13,177,536	15,981,787
Charge for the year	174,911	1,517,302	1,692,213
Written back on disposals	(25,653)	(95,095)	(120,748)
At 31 December 2005	2,953,509	14,599,743	17,553,252
At 1 January 2006	2,953,509	14,599,743	17,553,252
Charge for the year	164,172	1,646,818	1,810,990
Impairment loss	-	50,000	50,000
Written back on disposals	(35,814)	(574,760)	(610,574)
At 31 December 2006	3,081,867	15,721,801	18,803,668
Net book value:			
At 31 December 2006	2,541,673	10,818,189	13,359,862
At 31 December 2005	2,548,378	12,102,789	14,651,167

13. Property, plant and equipment (continued)

(b) The Company

	Buildings	Plant and other fixed assets	Total
	RMB'000	RMB'000	RMB'000
Cost or valuation:			
At 1 January 2005	4,204,623	23,125,610	27,330,233
Additions	-	146,789	146,789
Transferred from construction in progress (Note 15)	191,524	784,183	975,707
Disposals	(15,174)	(87,084)	(102,258)
At 31 December 2005	4,380,973	23,969,498	28,350,471
At 1 January 2006	4,380,973	23,969,498	28,350,471
Additions	23,338	16,738	40,076
Transferred from construction in progress (Note 15)	125,445	442,419	567,864
Disposals	(67,827)	(574,085)	(641,912)
At 31 December 2006	4,461,929	23,854,570	28,316,499
Accumulated depreciation and impairment losses:			
At 1 January 2005	2,466,544	11,727,711	14,194,255
Charge for the year	137,953	1,341,205	1,479,158
Written back on disposals	(13,415)	(64,708)	(78,123)
At 31 December 2005	2,591,082	13,004,208	15,595,290
At 1 January 2006	2,591,082	13,004,208	15,595,290
Charge for the year	124,404	1,374,520	1,498,924
Impairment loss	-	50,000	50,000
Written back on disposals	(51,382)	(354,930)	(406,312)
At 31 December 2006	2,664,104	14,073,798	16,737,902
Net book value:			
At 31 December 2006	1,797,825	9,780,772	11,578,597
At 31 December 2005	1,789,891	10,965,290	12,755,181

13. 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 34,129,000 (2005: RMB 35,314,000) were held under medium-term leases.

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

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

14. Investment property

	The Group RMB'000	The Company RMB'000
Cost:		
At 1 January 2005	512,343	603,138
Additions	16,122	12,196
At 31 December 2005 and 31 December 2006	528,465	615,334
Accumulated depreciation:		
At 1 January 2005	1,036	1,219
Charge for the year	12,847	14,947
At 31 December 2005	13,883	16,166
At 1 January 2006	13,883	16,166
Charge for the year	12,678	14,921
At 31 December 2006	26,561	31,087
Net book value:		
At 31 December 2006	501,904	584,247
At 31 December 2005	514,582	599,168

14. Investment property (continued)

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

The fair value of the investment property of the Group and the Company as at 31 December 2006 were estimated by the directors to be approximately RMB 622,098,000 and RMB 728,806,000, respectively, by reference to market conditions (2005: the Group and the Company: RMB 596,598,000 and RMB 695,900,000 respectively). The investment property has not been valued by an external independent valuer.

Rental income of RMB 42,643,000 was received by the Group during the year ended 31 December 2006 (2005: RMB 18,681,000).

15. Construction in progress

	The Group		The Company	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
At 1 January	787,376	807,477	743,452	752,116
Additions	1,851,975	1,003,326	1,829,118	967,043
Transferred to property, plant and equipment (Note 13)	(630,904)	(1,023,427)	(567,864)	(975,707)
At 31 December	2,008,447	787,376	2004,706	743,452

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

16. Investments in subsidiaries (The Company)

	2006 RMB'000	2005 RMB'000
Unlisted shares, at cost	2,163,390	2,113,180
Amounts due (to)/from subsidiaries	(29,277)	196,006
	2,134,113	2,309,186

These amounts represent the investments by the Company in its consolidated subsidiaries. At 31 December 2006, the following list contains the particulars of subsidiaries, all of which are limited companies established and operated in the PRC, which principally affected the results and assets of the Group.

Company	Registered capital '000	Percentage of equity		Principal activities
		held by the Company %	held by subsidiaries %	
Shanghai Petrochemical Investment Development Company Limited	RMB 800,000	100	-	Investment management
China Jinshan Associated Trading Corporation	RMB 25,000	67.33	-	Import and export of petrochemical products and equipment
Shanghai Golden Way Petrochemical Company Limited	US\$ 3,460	-	75	Production of vinyl acetate products
Shanghai Jinchang Engineering Plastics Company Limited	US\$ 4,750	-	50.38	Production of polypropylene compound products

Notes to the Financial Statements (continued)

(Prepared under International Financial Reporting Standards)

16. Investments in subsidiaries (The Company) (continued)

Company	Registered capital '000	Percentage of equity		Principal activities
		held by the Company %	held by subsidiaries %	
Shanghai Golden Phillips Petrochemical Company Limited	US\$ 50,000	-	60	Production of polypropylene products
Zhejiang Jin Yong Acrylic Fibre Company Limited	RMB 250,000	75	-	Production of acrylic fibre products
Shanghai Petrochemical Enterprise Development Company Limited	RMB 455,000	100	-	Investment management
Shanghai Golden Conti Petrochemical Company Limited	RMB 545,776	-	100	Production of petrochemical products

None of the subsidiaries have issued any debt securities.

17. Interest in associates and jointly controlled entities

	The Group		The Company	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Interest in associates				
- Unlisted shares, at cost	-	-	2,146,488	2,136,488
- Share of net assets	2,708,323	2,130,803	-	-
Interest in jointly controlled entities				
- Unlisted shares, at cost	-	-	127,992	-
- Share of net assets	79,472	-	-	-
	2,787,795	2,130,803	2,274,480	2,136,488

17. Interest in associates and jointly controlled entities (continued)

The particulars of these associates and jointly controlled entities, which are limited companies established and operating in the PRC, which principally affected the results or assets of the Group at 31 December 2006 are as follows:

Company	Registered capital '000	Percentage of equity		Principal activities
		held by the Company %	held by subsidiaries %	
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, not adjusted for the percentage ownership held by the Group:

	2006 RMB'000	2005 RMB'000
Total assets	29,206,140	25,919,334
Total liabilities	(16,392,029)	(16,304,925)
Revenues	22,477,236	13,189,878
Profits /(losses) for the year	2,747,085	(293,741)

Notes to the Financial Statements (continued)

(Prepared under International Financial Reporting Standards)

18. Investments

	The Group		The Company	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Investments in non-consolidated investees (unlisted)	274,864	326,515	-	-
Other unlisted investments	292,905	395,076	114,095	107,658
	567,769	721,591	114,095	107,658
Less: Provision for impairment losses	(38,838)	(56,228)	-	-
	528,931	665,363	114,095	107,658

Investments in non-consolidated investees represent the Company's interests in these investees which do not principally affect the results, assets or liabilities of the Group and, therefore, are not consolidated.

19. Goodwill

	The Group and the Company
	RMB'000
Cost:	
At 1 January 2005, 31 December 2005 and December 2006	22,415
Accumulated impairment losses:	
At 1 January 2005, 31 December 2005 and 31 December 2006	-
At 31 December 2006 and 31 December 2005	22,415

19. Goodwill (continued)

On 16 August 1996, the Company acquired the entire equity interest in Shanghai Jinyang Acrylic Fibre Plant ("Jinyang") for a consideration of RMB38,800,000 satisfied in cash. Goodwill of RMB134,482,000 on acquisition has been recognised in the financial statements and was included in interests in subsidiaries.

Prior to 1 January 2005, positive goodwill not already recognised directly in reserves was amortised on a straight-line basis over ten years. With effect from 1 January 2005, the Company no longer amortises goodwill. In accordance with transitional provisions set out in IFRS 3, the accumulated amortisation of goodwill as at 1 January 2005 has been eliminated against the cost of goodwill as at that date. Such goodwill is tested annually for impairment.

20. Inventories

(a) Inventories in the balance sheet comprise:

	The Group		The Company	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Raw materials	873,130	1,050,904	703,528	829,000
Work in progress	1,661,487	1,592,298	1,571,581	1,505,739
Finished goods	1,014,225	895,951	794,466	719,040
Spare parts and consumables	614,414	575,825	514,856	483,892
	4,163,256	4,114,978	3,584,431	3,537,671

At 31 December 2006, the Group and the Company had inventories carried at net realisable value with carrying amount of RMB 208,157,000 and RMB 208,129,000, respectively (2005: RMB 187,129,000 and RMB 187,040,000, respectively).

(b) The analysis of the amount of inventories recognised as an expense is as follows:

The cost of inventories recognised as an expense in the consolidated income statement amounted to RMB 49,182,232,000 for the year ended 31 December 2006 (2005: RMB 42,887,742,000).

Notes to the Financial Statements (continued)

(Prepared under International Financial Reporting Standards)

21. Trade accounts receivable

	The Group		The Company	
	2006	2005	2006	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Trade debtors	389,601	278,011	58,558	96,850
Less: Impairment losses for bad and doubtful debts	(30,911)	(25,845)	(19,266)	(20,691)
	358,690	252,166	39,292	76,159
Bills receivable	1,212,110	731,204	920,733	466,183
Amounts due from related parties	695,286	561,552	608,475	549,111
	2,266,086	1,544,922	1,568,500	1,091,453

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

	The Group		The Company	
	2006	2005	2006	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Invoice date:				
Within one year	2,255,783	1,517,158	1,559,724	1,074,565
Between one and two years	10,303	27,764	8,776	16,888
	2,266,086	1,544,922	1,568,500	1,091,453

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

22. Cash and cash equivalents

	The Group		The Company	
	2006	2005	2006	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Deposits at a related party	79,913	181,266	79,001	180,040
Cash at bank and in hand	814,737	1,165,971	472,692	641,524
Cash and cash equivalents in the balance sheet	894,650	1,347,237	551,693	821,564

Notes to the Financial Statements (continued)

(Prepared under International Financial Reporting Standards)

23. Loans and borrowings

Loans and borrowings are repayable as follows:

	The Group		The Company	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Long term bank loans				
- After five years	-	19,706	-	15,000
- Between two and five years	504,834	826,738	450,000	741,123
- Between one and two years	558,820	530,817	423,710	397,112
	1,063,654	1,377,261	873,710	1,153,235
Loans from a fellow subsidiary	-	100,000	-	-
	1,063,654	1,477,261	873,710	1,153,235
Loans due within one year				
- Current portion of long term bank loans	416,645	1,373,205	383,034	1,340,000
- Short term bank loans	1,853,692	2,523,537	1,618,692	2,295,195
- Corporate bonds	2,000,000	-	2,000,000	-
	4,270,337	3,896,742	4,001,726	3,635,195
Loans from a fellow subsidiary	-	30,000	-	-
	4,270,337	3,926,742	4,001,726	3,635,195
	5,333,991	5,404,003	4,875,436	4,788,430

Notes to the Financial Statements (continued)

(Prepared under International Financial Reporting Standards)

23. Loans and borrowings (continued)

At 31 December 2006 and 2005, no loans and borrowings were secured by the way of pledge of property, plant and equipment.

The Company issued 365-day unsecured corporate bonds of face value at RMB 2 billion to corporate investors in the PRC inter-bank debenture market on 11 December 2006. The bonds were issued at 100% of face value, with an effective yield 3.83% per annum, and will mature on 12 December 2007.

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	
	2006	2005	2006	2005
	'000	'000	'000	'000
United States Dollars	USD 261,901	USD 340,154	USD 260,101	USD 337,394

24. Trade accounts payable

	The Group		The Company	
	2006	2005	2006	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Trade creditors	1,385,577	963,230	735,602	535,739
Bills payable	7,026	68,302	1,141	12,428
Amounts due to related parties	599,773	467,909	471,765	401,104
	1,992,376	1,499,441	1,208,508	949,271

The maturity analysis of trade accounts payable is as follows:

	The Group		The Company	
	2006	2005	2006	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Due within 1 month or on demand	1,677,458	1,269,809	1,025,303	806,230
Due after 1 month and within 3 months	314,918	229,632	183,205	143,041
	1,992,376	1,499,441	1,208,508	949,271

25. Amounts due from/ to related parties

Amounts due from/ to related parties are unsecured, interest free and have no fixed repayment terms.

26. Share capital

	The Group and the Company	
	2006	2005
	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.

Notes to the Financial Statements (continued)

(Prepared under International Financial Reporting Standards)

27. Reserves

Movements on reserves comprise:

	The Group		The Company	
	2006 RMB'000	2005 RMB'000 (restated) note(c)	2006 RMB'000	2005 RMB'000 (restated) note(c)
Share premium				
At 1 January and 31 December(note(a))	2,420,841	2,420,841	2,420,841	2,420,841
Statutory surplus reserve				
At 1 January	3,174,419	1,457,791	3,174,419	1,457,791
Appropriation	73,685	170,463	73,685	170,463
Statutory public welfare fund transfer to statutory surplus reserve (note (c))	-	1,546,165	-	1,546,165
At 31 December(note(b))	3,248,104	3,174,419	3,248,104	3,174,419
Statutory public welfare fund				
At 1 January	-	1,375,702	-	1,375,702
Appropriation	-	170,463	-	170,463
Statutory public welfare fund transfer to statutory surplus reserve (note (c))	-	(1,546,165)	-	(1,546,165)
At 31 December(note(c))	-	-	-	-
General surplus reserve				
At 1 January and 31 December(note(d))	82,089	82,089	82,089	82,089
Capital reserve				
At 1 January and 31 December(note(e))	4,180	4,180	4,180	4,180
Discretionary surplus reserve				
At 1 January and 31 December(note(f))	1,280,514	1,280,514	1,280,514	1,280,514
Excess over share capital				
At 1 January and 31 December(note(g))	(148,604)	(148,604)	(148,604)	(148,604)
Fair value reserve				
At 31 December (note(h))	21,949	-	12,397	-
Retained profits				
At 31 December (note(i))	4,867,270	4,816,548	4,175,816	4,653,155
	11,776,343	11,629,987	11,075,337	11,466,594

27. 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 its profit after taxation, as determined under PRC Accounting Rules and Regulations, 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 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) Pursuant to the notice "Cai Qi [2006] No. 67" issued by the Ministry of the Finance of the PRC and a resolution of the Shareholders' meeting on 15 June 2006, the Company is no longer required to make profit appropriation to the statutory public welfare fund commencing from 1 January 2006. The balance of this fund as at 31 December 2005 was transferred to the statutory surplus reserve.
- (d) When the statutory public welfare fund is utilised, an amount equal to the lower of cost of the assets and the balance of the statutory public welfare fund is transferred from the statutory public welfare fund to the general surplus reserve. This reserve is non-distributable other than in liquidation. When the relevant assets are disposed of or written off, the original transfers from the statutory public welfare fund are reversed. In 2006, the Company did not utilise the statutory public welfare fund (2005: RMB Nil). As at 31 December 2006, the net book value of assets acquired utilising the statutory public welfare fund was RMB 30,568,000 (2005: RMB 33,925,000).
- (e) 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.
- (f) 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.
- (g) Effective 1 January 2002, land use rights which are included in lease prepayments are carried at historical cost base. Accordingly, the surplus on the revaluation of land use rights net of deferred tax asset are reversed to shareholders' equity. Under PRC Accounting Rules and Regulations, land use rights are carried at revalued amounts.
- (h) The fair value reserve comprises the change in the fair value of available-for-sale securities, net of deferred tax, at the balance sheet date, which is based on reliably measured fair values at year end, whereas no such information was available in prior years.
- (i) According to the Company's Articles of Association, the reserve available for distribution is the lower of the amount determined under PRC Accounting Rules and Regulations and the amount determined under IFRSs. As of 31 December 2006, the reserve available for distribution was RMB 4,516,774,000 (2005: RMB 4,573,608,000). Final dividend of RMB 288,000,000 (2005: RMB 720,000,000) in respect of the financial year 2006 was declared after the balance sheet date.

28. Related party transactions

- (a) Most of the transactions undertaken by the Group during the year ended 31 December 2006 have been affected with such counterparties and on such terms as have been determined by China Petroleum & Chemical Corporation ("Sinopec Corp"), the immediate parent company, and 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 2006, the value of crude oil purchased in accordance with Sinopec Corp's allocation was as follows:

	2006 RMB'000	2005 RMB'000
Purchases of crude oil	31,223,530	27,180,740

- (b) Other transactions between the Group and other related parties during the year ended 31 December 2006 were as follows:

	2006 RMB'000	2005 RMB'000
Sales of goods and service fee income	20,173,106	20,068,746
Purchases other than crude oil	2,579,394	2,318,351
Insurance premiums paid	98,643	95,521
Net withdrawal from deposits in a related party	(101,353)	(70,389)
Interest received and receivable	229	1,035
Loans borrowed	576,000	130,000
Loans repayment	626,000	130,000
Interest paid and payable	7,529	6,649
Transportation fees	344,928	415,497
Construction and installation fees	194,958	183,191
Proceeds from sales of property, plant & equipment	52,547	62,742
Gains from disposal of investments	24,308	24,063
Sales commissions	182,840	70,752
Net decrease of guarantees	(18,550)	(33,586)

- (c) Deposits with related parties

	The Group		The Company	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Deposits, with maturity within 3 months	79,913	181,266	79,001	180,040

28. Related party transactions (continued)

(d) Loans with related parties

	The Group	
	2006 RMB'000	2005 RMB'000
Short-term loans	-	30,000
Long-term loans	-	100,000
	-	130,000

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

	2006 RMB'000	2005 RMB'000
Short-term employee benefits	4,582	3,493
Post-employment benefits	31	31
	4,613	3,524

Post-employment benefits are included in "contributions to defined contribution retirement plans" as disclosed in Note 28(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:

	2006 RMB'000	2005 RMB'000
Municipal retirement scheme costs	207,071	165,046
Supplementary retirement scheme costs	61,692	65,685

At 31 December 2006 and 31 December 2005, there was no material outstanding contribution to post-employment benefit plans.

28. Related party transactions (continued)

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

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

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

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

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

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

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

The Group’s major domestic suppliers of crude oil are China National Offshore Oil Corporation and its subsidiaries (“CNOOC Group”), which are state-controlled entities.

During the year ended 31 December 2006, the aggregate amount of crude oil purchased by the Group’s refining segment from CNOOC Group was RMB 1,682,519,000 (2005: RMB 2,095,315,000).

The amounts due from/to CNOOC Group are nil as at 31 December 2006 (31 December 2005: Nil).

28. Related party transactions (continued)

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

(ii) Transactions with state-controlled banks

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

	2006 RMB'000	2005 RMB'000
Interest income	56,597	39,315
Interest expenses	324,267	285,647

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

	2006 RMB'000	2005 RMB'000
Cash and cash equivalents at state-controlled banks in the PRC	731,971	924,887
Short-term loans and current portion of long-term loans	2,245,225	3,528,295
Long-term loans excluding current portion of long-term loans	983,710	1,256,735
Total loans from state-controlled banks in the PRC	3,228,935	4,785,030

29. 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 2006 (2005: 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. In addition, pursuant to a document "Lao Bu Fa (1995) No.464" dated 29 December 1995 issued by the Ministry of Labour of the PRC, the Company has set up a supplementary defined contribution retirement plan for the benefit of employees. Employees who have served the Company for five years or more may participate in this plan. The Company and participating employees make defined contributions to their pension saving accounts according to the plan. The assets of this plan are held separately from those of the Company in an independent fund administered by a committee consisting of representatives from the employees and the Company. In April 2003, the Company revised certain terms of the plan and increased the amounts of contributions. For the year ended 31 December 2006, the Group's contribution to this plan amounted to RMB 61,692,000 (2005: RMB 65,685,000).

30. 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	
	2006	2005
	RMB'000	RMB'000
Property, plant and equipment		
Contracted but not provided for	398,335	222,711
Authorised by the Board but not contracted for	2,061,660	1,501,490
	2,459,995	1,724,201

31. Contingent liabilities

At 31 December, the Group and the Company had the following contingent liabilities:

	The Group		The Company	
	2006	2005	2006	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Guarantees issued to banks in favour of:				
- subsidiaries	-	-	353,500	483,842
- associates	40,000	40,000	40,000	40,000
- joint ventures	9,750	28,300	-	-
	49,750	68,300	393,500	523,842

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. The Group monitors the conditions that are subject to the guarantees to identify whether it is probable that a loss has occurred, and recognises any such losses under guarantees when those losses are estimable. At 31 December 2006 and 2005, it is not probable that the Group will be required to make payments under the guarantees. Thus no liability has been accrued for a loss related to the Group's and the Company's obligation under the guarantees arrangement.

Notes to the Financial Statements (continued)

(Prepared under International Financial Reporting Standards)

32. Details of bank loans

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

Repayment terms and last payment date	Interest rate at 31 December 2006	Interest type	The Group		The Company	
			2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Arranged by Central Treasury of the Company:						
U.S. Dollars denominated:						
Due in 2007	5.70%	Floating	383,034	397,112	383,034	397,112
Payable semi-annually through 2008(Note)	1.80%	Fixed	23,710	41,123	23,710	41,123
Renminbi denominated:						
Due in 2006	5.18%-5.56%	Fixed	-	1,340,000	-	1,340,000
Due in 2008	5.18%-5.67%	Fixed	400,000	700,000	400,000	700,000
Due in 2009	5.18%-5.67%	Fixed	450,000	-	450,000	-
Other loans due in 2015	Interest free	-	-	15,000	-	15,000
Arranged by subsidiaries:						
U.S. Dollars denominated:						
Payable annually through 2011	Interest free	-	14,055	17,431	-	-
Renminbi denominated:						
Payable due in 2007	5.85%	Fixed	8,500	116,500	-	-
Payable due in 2008	5.67%	Fixed	110,000	110,000	-	-
Payable annually through 2010	Interest free	-	82,000	102,500	-	-
Payable annually through 2011 and after	Interest free	-	9,000	10,800	-	-
Total long-term bank loans outstanding			1,480,299	2,850,466	1,256,744	2,493,235
Less: Amounts due within one year (Note 23)			(416,645)	(1,373,205)	(383,034)	(1,340,000)
Amounts due after one year (Note 23)			1,063,654	1,477,261	873,710	1,153,235

Note: Guaranteed by China Petrochemical Corporation

The weighted average short-term interest rates for the Group and the Company were 5.87% and 5.95% respectively at 31 December 2006 (2005: the Group and the Company 4.53% and 4.45% respectively).

33. Segment reporting

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

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

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

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

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

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.

33. Segment reporting (continued)

- (iv) The Group's petroleum products segment has crude oil distillation facilities used to produce vacuum and atmospheric gas oils used as feedstocks of the Group's downstream processing facilities. Residual oil and low octane gasoline fuels are produced primarily as a co-product of the crude oil distillation process. A proportion of the residual oil is further processed into qualified refined gasoline and diesel oil. In addition, the Group produces a variety of other transportation, industrial and household heating fuels, such as diesel oils, jet fuels, heavy oils and liquefied petroleum gases.
- (v) All other operating segments represent the operating segments which do not meet the quantitative threshold for determining reportable segments. These include sales of consumer products and services and a variety of other commercial activities, which are not allocated to the above four operating segments.

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

Turnover and other income

	2006 RMB'000	2005 RMB'000
Manufactured Products		
Synthetic Fibres		
-external sales	4,727,261	4,781,787
-intersegment sales	71	79
Total	4,727,332	4,781,866
Resins and Plastics		
-external sales	15,800,015	14,010,287
-intersegment sales	63,767	53,020
Total	15,863,782	14,063,307
Intermediate Petrochemicals		
-external sales	6,800,577	6,586,556
-intersegment sales	14,536,675	13,848,105
Total	21,337,252	20,434,661
Petroleum Products		
-external sales	19,977,755	18,616,544
-intersegment sales	1,187,744	1,064,616
-other income	282,142	632,820
Total	21,447,641	20,313,980

Notes to the Financial Statements (continued)

(Prepared under International Financial Reporting Standards)

33. Segment reporting (continued)

Turnover and other income (continued)

	2006 RMB'000	2005 RMB'000
All others		
-external sales	3,293,877	1,960,729
-intersegment sales	3,582,206	3,687,428
Total	6,876,083	5,648,157
Eliminations of intersegment sales	(19,370,463)	(18,653,248)
Turnover and other income	50,881,627	46,588,723

External sales include sales to Sinopec Corp group companies.

Profit before taxation

	2006 RMB'000	2005 RMB'000
Profit from operations		
Synthetic Fibres	196,255	263,359
Resins and Plastics	1,162,103	1,490,740
Intermediate Petrochemicals	680,425	981,025
Petroleum Products	(1,697,730)	(446,867)
All others	211,854	239,703
Profit from operations	552,907	2,527,960
Share of profits/(losses) of associates and jointly controlled entities	576,682	(60,968)
Net financing costs	(165,389)	(179,398)
Profit before taxation	964,200	2,287,594

Notes to the Financial Statements (continued)

(Prepared under International Financial Reporting Standards)

33. Segment reporting (continued)

Assets	2006 RMB'000	2005 RMB'000
Segment assets		
Synthetic Fibres	2,877,473	3,052,522
Resins and Plastics	3,115,456	3,326,289
Intermediate Petrochemicals	5,876,117	5,450,842
Petroleum Products	8,507,134	8,055,388
All others	2,263,875	2,173,132
Total segment assets	22,640,055	22,058,173
Interest in associates and jointly controlled entities	2,787,795	2,130,803
Unallocated	1,978,210	2,621,395
Total assets	27,406,060	26,810,371
Liabilities	2006 RMB'000	2005 RMB'000
Segment liabilities		
Synthetic Fibres	254,614	226,760
Resins and Plastics	851,001	664,392
Intermediate Petrochemicals	366,284	312,346
Petroleum Products	1,076,017	882,828
All others	177,411	92,981
Total segment liabilities	2,725,327	2,179,307
Unallocated	5,368,377	5,453,624
Total liabilities	8,093,704	7,632,931

Notes to the Financial Statements (continued)

(Prepared under International Financial Reporting Standards)

33. Segment reporting (continued)

Depreciation and amortisation	2006 RMB'000	2005 RMB'000
Synthetic Fibres	236,559	222,910
Resins and Plastics	353,321	350,625
Intermediate Petrochemicals	664,667	596,717
Petroleum Products	407,835	368,210
All others	178,008	167,192
Segment depreciation and amortisation	1,840,390	1,705,654
Unallocated	12,678	12,847
Depreciation and amortisation	1,853,068	1,718,501
Impairment losses	2006 RMB'000	2005 RMB'000
Synthetic fibres	50,000	-
Impairment losses	50,000	-
Total capital expenditures for segment long-lived assets	2006 RMB'000	2005 RMB'000
Synthetic Fibres	145,513	172,106
Resins and Plastics	45,418	17,323
Intermediate Petrochemicals	1,083,542	497,787
Petroleum Products	586,570	335,586
All others	147,736	104,003
Total segment capital expenditures	2,008,779	1,126,805
Unallocated	-	16,122
Capital expenditures for segment long-lived assets	2,008,779	1,142,927

34. Accounting estimates and judgements

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

The selection of critical accounting policies, the judgements and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing the financial statements. The principal accounting policies are set forth in Note 1. The Group 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". The carrying amounts of long-lived assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. 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 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 are not readily available. In determining the value in use, expected cash flows generated by the assets 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 values. The Group reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

Impairment for bad and doubtful debts

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

35. Financial instruments

Financial assets of the Company and the Group include cash and cash equivalents, deposits with banks, investments, trade debtors, bills receivable, deposits, other debtors and amounts due from related parties. Financial liabilities of the Company and the Group include loans and borrowings, trade creditors, other creditors and amounts due to related parties. The Group does not hold or issue financial instruments for trading purposes. The Group had no positions in derivative contracts that are designated and qualified as hedging instruments at 31 December 2006 and 2005.

(a) Interest rate risk

The interest rates and terms of repayment of loans of the Company and the Group are disclosed in note 32.

(b) Credit risk

The Group's financial instruments do not represent a concentration of credit risk because the Group deals with a variety of major financial institutions with good credit ratings, and its trade debtors are spread among a number of major industries and customers.

(c) Foreign currency risk

The Group has foreign currency risk as certain loans and cash and cash equivalents are denominated in foreign currencies, principally U.S. dollars and Hong Kong dollars. Depreciation or appreciation of Renminbi against foreign currencies will affect the Group's financial position and results of operations.

Other than the amounts as disclosed in Note 23, the amounts of other financial assets and liabilities of the Group are substantially denominated in the functional currency of respective entity of the Group.

(d) Fair value

The following table presents the carrying amounts and fair values of the Group's long term bank loans 31 December 2006 and 2005.

	2006		2005	
	Carrying amount RMB'000	Fair value RMB'000	Carrying amount RMB'000	Fair value RMB'000
Liabilities:				
Long-term bank loans	1,480,299	1,445,950	2,850,466	2,804,295

35. Financial instruments (continued)

(d) Fair value (continued)

Long-term bank loans - the fair values are estimated based on applying a discounted cash flow using current market interest rates for similar financial instruments.

Unquoted equity securities are individually and in the aggregate not material to the Group's financial condition or results of operations. There are no listed market prices for such interests in the PRC and, accordingly, a reasonable estimate of fair value could not be made without incurring excessive costs.

The fair values of cash, trade debtors, bills receivable, deposits, other debtors, trade creditors, other creditors and amounts due from/to related parties are not materially different from their carrying amounts.

Time deposits and short-term loans and borrowings - the carrying value is estimated to approximate fair value based on the nature or short term maturity of these instruments.

Fair value estimates are made at a specific point in time and based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

36. Possible impact of amendments, new standards and interpretations issued but not yet effective for the annual accounting period ended 31 December 2006

Up to the date of issue of these financial statements, the IASB has issued the following amendments, new standards and interpretations which are not yet effective for the annual accounting period ended 31 December 2006 and which have not been adopted in these financial statements:

	Effective for accounting period beginning on or after
IFRS 7, Financial instruments: disclosures	1 January 2007
IFRS 8, Operating Segments	1 January 2009
IFRIC 7, Applying the restatement approach under IAS 29, Financial reporting in hyperinflationary economies	1 March 2006
IFRIC 8, Scope of IFRS 2	1 May 2006

36. Possible impact of amendments, new standards and interpretations issued but not yet effective for the annual accounting period ended 31 December 2006 (continued)

	Effective for accounting period beginning on or after
IFRIC 9, Reassessment of Embedded Derivatives	1 June 2006
Amendment to IAS 1, Presentation of financial statements: capital disclosures	1 January 2007
IFRIC 10, Interim financial reporting and impairment	1 November 2006
IFRIC 11, IFRS2 - Group and treasury share transaction	1 March 2007
IFRIC 12, Service concession arrangements	1 January 2008

The Group 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. Up to the date of issuance of these financial statements, the Group believes that the adoption of IFRIC 7, IFRIC 8, IFRIC 9, the amendment to IAS 1, IFRIC 10, IFRIC 11 and IFRIC 12 are not applicable to any of the Group's operations and that the adoption of the remainder of the above new standards and new interpretations is unlikely to have a significant impact on the Group's results of operations and financial position.

37. Non-adjusting post balance sheet events

Pursuant to the PRC enterprise income tax passed by the Tenth National People's Congress on 16 March 2007, the new enterprise income tax rates for domestic and foreign enterprises are unified at 25% and will be effective from 1 January 2008. The impact of such change of enterprise income tax rate on the Group's consolidated financial statements will depend on detailed pronouncements that are subsequently issued. Since implementation and transitional guidance applicable to the Group has not been announced, the Group cannot reasonably estimate the financial impact of the new law to the Group at this stage.

38. Parent companies

The Directors consider the immediate parent company and the ultimate parent company at 31 December 2006 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.



Huazhen

To the 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 2006, and the consolidated income statement and profit appropriation statement, income statement and profit appropriation statement, 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 the Accounting Standards for Business Enterprises and the Accounting Regulations 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's Auditing Standards for the Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements comply with the requirements of the Accounting Standards for Business Enterprises and the Accounting Regulations 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 2006, the consolidated results of operations, results of operations, consolidated cash flows and cash flows of the Company for the year then ended.

KPMG Huazhen

Beijing, the People's Republic of China

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

Hu Qiong

Wang Wenli

29 March 2007

B. Financial Statements Prepared under PRC Accounting Rules and Regulations

Consolidated Balance Sheet

As at 31 December 2006
(Prepared under PRC Accounting Rules and Regulations)

	Note	2006 RMB'000	2005 RMB'000
Assets			
Current assets			
Cash at bank and in hand	3	894,650	1,347,237
Bills receivable	4	1,273,233	739,794
Trade debtors	5	624,890	544,055
Other debtors	6	236,227	567,231
Advance payments	7	350,895	148,886
Inventories	8	4,163,256	4,114,978
Total current assets		7,543,151	7,462,181
Long-term investments			
Long-term equity investments	9	3,341,699	2,794,466
Fixed assets			
Fixed assets, at cost	10(a)	33,738,759	33,877,575
Less: Accumulated depreciation	10(a)	19,017,020	17,756,756
Net book value before provision for impairment	10(a)	14,721,739	16,120,819
Less: Provision for impairment loss on fixed assets	10(a)	108,945	58,945
Carrying amount	11	14,612,794	16,061,874
Construction in progress		1,972,893	754,192
Total fixed assets		16,585,687	16,816,066
Intangible assets			
	12	-	8,967
Long-term deferred expenses			
	13	185,180	-
Deferred tax assets			
	14(c)	28,483	20,238
Total assets		27,684,200	27,101,918

The notes on pages 158 to 199 form part of these financial statements.

Consolidated Balance Sheet (continued)

As at 31 December 2006
(Prepared under PRC Accounting Rules and Regulations)

	Note	2006 RMB'000	2005 RMB'000
Liabilities and shareholders' equity			
Current liabilities			
Short-term loans	15	1,853,692	2,553,537
Bills payable	16	42,726	68,302
Trade creditors	16	1,510,688	988,196
Receipts in advance	16	403,620	408,245
Wages payable		11,056	11,077
Staff welfare payable		73,801	87,755
Taxes payable	14(b)	260,389	183,320
Other creditors		11,597	25,234
Other payables	16	399,495	359,173
Accrued expenses	18	26,386	29,219
Short-term debentures payable	19	2,000,000	-
Current portion of long-term loans	20	416,645	1,373,205
Total current liabilities		7,010,095	6,087,263
Long-term liabilities			
Long-term loans	20	1,063,654	1,477,261
Other long-term liabilities	21	1,350	23,033
Total long-term liabilities		1,065,004	1,500,294
Total liabilities		8,075,099	7,587,557
Minority interests		336,013	347,453
Shareholders' equity			
Share capital	22	7,200,000	7,200,000
Capital reserves	23	2,945,607	2,856,278
Surplus reserves	24	4,610,707	4,537,022
Undistributed profits (Including dividend declared after the balance sheet date of RMB 288,000,000 (2005: approved final dividend of RMB 720,000,000))	32	4,516,774	4,573,608
Total shareholders' equity		19,273,088	19,166,908
Total liabilities and shareholders' equity		27,684,200	27,101,918

Approved by the Board of Directors on 29 March 2007.

Rong Guangdao

Chairman and President

Du Chongjun

Vice chairman and Vice President

Han Zhihao

Director and Chief Financial Officer

The notes on pages 158 to 199 form part of these financial statements.

Balance Sheet

As at 31 December 2006
(Prepared under PRC Accounting Rules and Regulations)

	Note	2006 RMB'000	2005 RMB'000
Assets			
Current assets			
Cash at bank and in hand	3	551,693	821,564
Bills receivable	4	980,026	517,954
Trade debtors	5	347,630	390,440
Other debtors	6	241,935	673,354
Advance payments	7	328,882	111,903
Inventories	8	3,584,431	3,537,671
Total current assets		6,034,597	6,052,886
Long-term investments			
Long-term equity investments	9	5,316,897	4,563,906
Fixed assets			
Fixed assets, at cost	10(b)	29,858,620	29,965,689
Less: Accumulated depreciation	10(b)	16,928,505	15,775,762
Net book value before provision for impairment		12,930,115	14,189,927
Less: Provision for impairment loss on fixed assets	10(b)	108,945	58,945
Carrying amount	10(b)	12,821,170	14,130,982
Construction in progress	11	1,969,152	710,268
Total fixed assets		14,790,322	14,841,250
Intangible assets	12	-	8,967
Long-term deferred expenses	13	176,213	-
Deferred tax assets	14(c)	28,483	20,238
Total assets		26,346,512	25,487,247

The notes on pages 158 to 199 form part of these financial statements.

Balance Sheet (continued)

As at 31 December 2006
(Prepared under PRC Accounting Rules and Regulations)

	Note	2006 RMB'000	2005 RMB'000
Liabilities and shareholders' equity			
Current liabilities			
Short-term loans	15	1,618,692	2,295,195
Bills payable	16	1,141	12,428
Trade creditors	16	879,972	596,782
Receipts in advance	16	373,774	336,105
Wages payable		5,113	5,113
Staff welfare payable		34,687	44,670
Taxes payable	14(b)	262,437	138,176
Other creditors		8,945	18,344
Other payables	16	604,183	351,072
Accrued expenses	18	26,386	29,219
Short-term debentures payable	19	2,000,000	-
Current portion of long-term loans	20	383,034	1,340,000
Total current liabilities		6,198,364	5,167,104
Long-term liabilities			
Long-term loans	20	873,710	1,153,235
Other long-term liabilities	21	1,350	-
Total long-term liabilities		875,060	1,153,235
Total liabilities		7,073,424	6,320,339
Shareholders' equity			
Share capital	22	7,200,000	7,200,000
Capital reserves	23	2,945,607	2,856,278
Surplus reserves	24	4,610,707	4,537,022
Undistributed profits (Including dividend declared after the balance sheet date of RMB 288,000,000 (2005: approved final dividend of RMB 720,000,000))	31	4,516,774	4,573,608
Total shareholders' equity		19,273,088	19,166,908
Total liabilities and shareholders' equity		26,346,512	25,487,247

Approved by the Board of Directors on 29 March 2007.

Rong Guangdao

Chairman and President

Du Chongjun

Vice chairman and Vice President

Han Zhihao

Director and Chief Financial Officer

The notes on pages 158 to 199 form part of these financial statements.

Consolidated Income Statement and Profit Appropriation Statement

For the year ended 31 December 2006
(Prepared under PRC Accounting Rules and Regulations)

	Note	2006 RMB'000	2005 RMB'000
Income from principal operations	25	50,479,436	45,897,807
Less: Cost of sales	25	47,922,431	41,605,113
Sales taxes and surcharges	26	681,362	765,689
Profit from principal operations		1,875,643	3,527,005
Add: Profit from other operations		197,760	134,198
Less: Selling expenses		521,990	444,449
Administrative expenses		1,260,324	1,281,011
Financial expenses	27	202,293	212,581
Profit from operations		88,796	1,723,162
Add: Investment income / (loss)	28	673,809	(39,375)
Subsidy income	29	282,142	632,820
Non-operating income	30	69,958	61,159
Less: Non-operating expenses	31	271,036	240,558
Total profit		843,669	2,137,208
Less: Income tax	14(a)	40,263	361,736
Minority interests		66,555	70,845
Net profit		736,851	1,704,627
Add: Undistributed profits at the beginning of the year		4,573,608	4,649,907
Distributable profits		5,310,459	6,354,534
Less: Transfer to statutory surplus reserve	24	73,685	170,463
Transfer to statutory public welfare fund	24	-	170,463
Distributable profits to shareholders		5,236,774	6,013,608
Less: Ordinary shares' final dividend	32	720,000	1,440,000
Undistributed profits at the end of the year (including dividend declared after the balance sheet date of RMB 288,000,000 (2005:RMB 720,000,000))		4,516,774	4,573,608
Supplementary information:		2006	2005
Item		RMB'000	RMB'000
1. Gain on sale and disposal of a business segment or an investee enterprise		56,194	24,063

Approved by the Board of Directors on 29 March 2007.

Rong Guangdao
Chairman and President

Du Chongjun
Vice chairman and Vice President

Han Zhihao
Director and Chief Financial Officer

The notes on pages 158 to 199 form part of these financial statements.

Income Statement and Profit Appropriation Statement

For the year ended 31 December 2006
(Prepared under PRC Accounting Rules and Regulations)

	Note	2006 RMB'000	2005 RMB'000
Income from principal operations	25	44,771,107	42,261,838
Less: Cost of sales	25	42,796,172	38,598,193
Sales taxes and surcharges	26	673,002	759,393
Profit from principal operations		1,301,933	2,904,252
Add: Profit from other operations		155,173	94,300
Less: Selling expenses		416,050	338,613
Administrative expenses		1,033,236	1,074,146
Financial expenses	27	165,387	181,939
Operating (loss) / profit		(157,567)	1,403,854
Add: Investment income	28	795,339	105,853
Subsidy income	29	282,142	632,820
Non-operating income	30	8,323	40,808
Less: Non-operating expenses	31	202,045	167,582
Total profit		726,192	2,015,753
Less: Income tax	14(a)	(10,659)	311,126
Net profit		736,851	1,704,627
Add: Undistributed profits at the beginning of the year		4,573,608	4,649,907
Distributable profits		5,310,459	6,354,534
Less: Transfer to statutory surplus reserve	24	73,685	170,463
Transfer to statutory public welfare fund	24	-	170,463
Distributable profits to shareholders		5,236,774	6,013,608
Less: Ordinary shares' final dividend	32	720,000	1,440,000
Undistributed profits at the end of the year (including dividend declared after the balance sheet date of RMB 288,000,000 (2005:RMB 720,000,000))		4,516,774	4,573,608
Supplementary information:		2006	2005
Item		RMB'000	RMB'000
1. Gain on sale and disposal of a business segment or an investee enterprise		40,720	24,063

Approved by the Board of Directors on 29 March 2007.

Rong Guangdao

Chairman and President

Du Chongjun

Vice chairman and Vice President

Han Zhihao

Director and Chief Financial Officer

The notes on pages 158 to 199 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2006
(Prepared under PRC Accounting Rules and Regulations)

	Note	2006 RMB'000
Cash flows from operating activities:		
Cash received from sale of goods and rendering of services		60,084,837
Refund of taxes and levies		65,135
Other cash received relating to operating activities		298,227
Sub-total of cash inflows		60,448,199
<hr style="border-top: 1px dashed black;"/>		
Cash paid for goods and services		(55,530,913)
Cash paid to and on behalf of employees		(1,812,453)
Taxes paid		(826,167)
Other cash paid relating to operating activities		(237,987)
Sub-total of cash outflows		(58,407,520)
<hr style="border-top: 1px dashed black;"/>		
Net cash flows from operating activities	i	2,040,679
<hr style="border-top: 1px dashed black;"/>		
Cash flows from investing activities:		
Cash received from disposal of investments		351,178
Cash received from investment income		47,596
Cash received from disposal of fixed assets		254,843
Other cash received relating to investing activities		56,827
Sub-total of cash inflows		710,444
<hr style="border-top: 1px dashed black;"/>		
Cash paid for acquisition of fixed assets and other long-term assets		(2,008,779)
Cash paid for purchase of investments		(54,206)
Sub-total of cash outflows		(2,062,985)
<hr style="border-top: 1px dashed black;"/>		
Net cash flows from investing activities		(1,352,541)
<hr style="border-top: 1px dashed black;"/>		

The notes on pages 158 to 199 form part of these financial statements.

Consolidated Cash Flow Statement (continued)

For the year ended 31 December 2006
(Prepared under PRC Accounting Rules and Regulations)

	Note	2006 RMB'000
Cash flows from financing activities:		
Proceeds from issuance of corporate bonds		2,977,800
Proceeds from borrowings		13,936,126
Sub-total of cash inflows		16,913,926
Redemption of corporate bonds		(1,000,000)
Repayment of borrowings		(15,910,127)
Cash paid for dividends, profit distribution and interest		(1,142,059)
Sub-total of cash outflows		(18,052,186)
Net cash flows from financing activities		(1,138,260)
Effect of foreign exchange rate changes		(2,465)
Net decrease in cash and cash equivalents	ii	(452,587)

The notes on pages 158 to 199 form part of these financial statements.

Notes to the Consolidated Cash Flow Statement

For the year ended 31 December 2006
(Prepared under PRC Accounting Rules and Regulations)

(i) Reconciliation of net profit to cash flows from operating activities

	2006 RMB'000
Net profit	736,851
Add: Depreciation	1,875,130
Impairment loss for fixed assets	50,000
Provision for bad debts	18,215
Provision for inventories	(8,715)
Amortisation of goodwill	8,967
Loss on disposal of fixed assets	32,977
Financial expenses	183,167
Investment income	(673,809)
Deferred tax assets	(8,245)
Increase in inventories	(39,563)
Increase in operating receivables	(717,249)
Increase in operating payables	516,398
Minority interests	66,555
Net cash flows from operating activities	2,040,679

(ii) Net decrease in cash and cash equivalents

	2006 RMB'000
Cash at the end of the year	894,650
Less: Cash at the beginning of the year	(1,347,237)
Net decrease in cash and cash equivalents	(452,587)

Approved by the Board of Directors on 29 March 2007.

Rong Guangdao
Chairman and President

Du Chongjun
Vice chairman and Vice President

Han Zhihao
Director and Chief Financial Officer

The notes on pages 158 to 199 form part of these financial statements.

Cash Flow Statement

For the year ended 31 December 2006
(Prepared under PRC Accounting Rules and Regulations)

	Note	2006 RMB'000
Cash flows from operating activities:		
Cash received from sale of goods and rendering of services		52,519,391
Refund of taxes and levies		52,285
Other cash received relating to operating activities		287,499
Sub-total of cash inflows		52,859,175
<hr/>		
Cash paid for goods and services		(48,796,554)
Cash paid to and on behalf of employees		(1,223,096)
Taxes paid		(743,124)
Other cash paid relating to operating activities		(220,505)
Sub-total of cash outflows		(50,983,279)
<hr/>		
Net cash flows from operating activities	i	1,875,896
<hr/>		
Cash flows from investing activities:		
Cash received from disposal of investment		129,167
Cash received from investment income		173,383
Cash received from disposal of fixed assets		143,712
Other cash received relating to investing activities		49,153
Sub-total of cash inflows		495,415
<hr/>		
Cash paid for acquisition of fixed assets		(1,777,989)
Sub-total of cash outflows		(1,777,989)
<hr/>		
Net cash flows from investing activities		(1,282,574)
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The notes on pages 158 to 199 form part of these financial statements.

Cash Flow Statement (continued)

For the year ended 31 December 2006
(Prepared under PRC Accounting Rules and Regulations)

	Note	2006 RMB'000
Cash flows from financing activities:		
Proceeds from issuance of corporate bonds		2,977,800
Proceeds from borrowings		13,478,955
Sub-total of cash inflows		16,456,755
<hr/>		
Redemption of corporate bonds		(1,000,000)
Repayment of borrowings		(15,301,290)
Cash paid for dividends, profit distribution and interest		(1,018,615)
Sub-total of cash outflows		(17,319,905)
<hr/>		
Net cash flows from financing activities		(863,150)
<hr/>		
Effect of foreign exchange rate changes		(43)
<hr/>		
Net decrease in cash and cash equivalents	ii	(269,871)

The notes on pages 158 to 199 form part of these financial statements.

Notes to the Cash Flow Statement

For the year ended 31 December 2006
(Prepared under PRC Accounting Rules and Regulations)

(i) Reconciliation of net profit to cash flows from operating activities

	2006 RMB'000
Net profit	736,851
Add: Depreciation	1,562,859
Impairment loss for fixed assets	50,000
Provision for bad debts	4,669
Provision for inventories	(8,282)
Amortisation of goodwill	8,967
Loss on disposal of fixed assets	54,889
Financial expenses	150,744
Investment income	(795,339)
Deferred tax assets	(8,245)
Increase in inventories	(38,478)
Increase in operating receivables	(466,470)
Increase in operating payables	623,731
Net cash flows from operating activities	1,875,896

(ii) Net decrease in cash and cash equivalents

	2006 RMB'000
Cash at the end of the year	551,693
Less: Cash at the beginning of the year	(821,564)
Net decrease in cash and cash equivalents	(269,871)

Approved by the Board of Directors on 29 March 2007.

Rong Guangdao

Chairman and President

Du Chongjun

Vice chairman and Vice President

Han Zhihao

Director and Chief Financial Officer

The notes on pages 158 to 199 form part of these financial statements.

1. Background of the Company

Sinopec Shanghai Petrochemical Company Limited (“the Company”), formerly Shanghai Petrochemical Company Limited, was established in the People’s Republic of China (“the PRC”) on 29 June 1993 as a joint stock limited company to hold the assets and liabilities of the production divisions and certain other units of the Shanghai Petrochemical Complex (“SPC”), a State-owned enterprise. SPC was under the direct supervision of China Petrochemical Corporation (“CPC”).

CPC finished its reorganisation on 25 February 2000. After the reorganisation, China Petroleum & Chemical Corporation (“Sinopec Corp”) was established. As a part of the reorganisation, CPC transferred its 4,000,000,000 of the Company’s state-owned legal shares, which represented 55.56 percent of the issued share capital of the Company, to Sinopec Corp. Sinopec Corp became the largest shareholder of the Company.

The Company changed its name to Sinopec Shanghai Petrochemical Company Limited on 12 October 2000.

The Company and its subsidiaries (“the Group”) is a highly integrated entity which processes crude oil into synthetic fibres, resins and plastics, intermediate petrochemicals and petroleum products.

Details of the Company’s principal subsidiaries are set out in note 9(d) “Long-term equity investments”.

2. Significant accounting policies

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

(a) Accounting year

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

(b) Basis of consolidation

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

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

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

(c) Basis of accounting and principle of valuation

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

(d) Reporting currency

The Group’s financial statements are prepared in Renminbi.

2. Significant accounting policies (continued)

(e) Translation of foreign currencies

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

(f) Cash equivalents

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

(g) Provision for bad debts

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

(h) Inventories

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

Spare parts and consumables are expensed when being consumed.

Inventories are recorded by perpetual method.

(i) Long-term equity investments

The Group's investments in entities in which the Group has control, joint control or exercise significant influence are accounted for in the long-term equity investment using the equity method. Equity method is to recognise the initial investment costs, subsequently adjusted in accordance with the share of shareholders' equity in respective investee companies.

2. Significant accounting policies (continued)

(i) Long-term equity investments (continued)

Equity investments difference, which is the difference between investment cost and the share of shareholders' funds of the investee companies is accounted for as follow:

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

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

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

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

Disposals of long-term equity investments are recognised as profit or loss based on the difference between the disposal proceeds and the carrying amount of the investments.

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

(j) Fixed assets and construction in progress

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

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

2. Significant accounting policies (continued)

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

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

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

Depreciation is provided to write off the cost of fixed assets over their estimated useful lives on a straight-line basis, the respective estimated useful lives, residual values and annual depreciation rates on fixed assets are as follows:

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

(k) Intangible assets

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

(l) Long-term deferred expenses

Long-term deferred expenses are amortised on a straight-line basis over their beneficial periods.

(m) Provision for impairment

The carrying amounts of assets (including long-term equity investments, fixed assets, construction in progress, intangible assets and other assets) are reviewed regularly to determine whether their recoverable amounts have declined below their carrying amounts. Assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to the recoverable amount. The amount by which the carrying amount is reduced is the impairment loss.

2. Significant accounting policies (continued)

(m) Provision for impairment (continued)

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

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

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

(n) Short-term debentures payable

Short-term debentures payable are recorded in the balance sheet based on the proceeds received upon issuance. The interest expenses are accrued based on effective interest rate.

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

(o) Taxation

The principal taxes and the related rates are as follows:

(i) *Income tax*

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

Current tax

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date.

2. Significant accounting policies (continued)

(o) Taxation (continued)

(i) Income tax (continued)

Pursuant to the relevant PRC tax regulations, the income tax rate applicable to the Company is 15% in 2006. Except for the subsidiaries granted with tax concessions as set out in the below table, the subsidiaries are subject to 33% income tax pursuant to the relevant PRC tax regulations.

The subsidiaries granted with tax concession are set out below:

Name of subsidiaries	Applicable tax rate	Reasons for granting concession
Shanghai Golden Phillips Petrochemical Company Limited	27%	A Sino-foreign Joint-equity manufacturing enterprise in old urban district
Shanghai Golden Way Petrochemical Company Limited	27%	A Sino-foreign Joint-equity manufacturing enterprise in old urban district
Shanghai Jinchang Engineering Plastics Company Limited	27%	A Sino-foreign Joint-equity manufacturing enterprise in old urban district

Deferred tax

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

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

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

The VAT rate applicable to the Group is 17%.

(iii) Consumption tax

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

2. Significant accounting policies (continued)

(p) Provisions and contingent liabilities

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

Where it is not probable that the settlement of the above obligation will cause an outflow of economic benefits, or the amount of the outflow cannot be estimated reliably, the obligation is disclosed as a contingent liability.

(q) Deferred income

Deferred income is amortised on a straight-line basis over its beneficial periods.

(r) Revenue recognition

When it is probable that the economic benefits will flow to the Company and the revenue and costs can be measured reliably, revenue is recognised in the income statement according to the following methods:

i) Sale of goods

Sales revenue is recognised when the significant risks and rewards of the ownership of goods have been transferred to the buyers. No revenue is recognised if there are significant uncertainties regarding the receipt of the consideration and the return of goods, or when the revenue and the costs incurred or to be incurred in respect of the transaction cannot be measured reliably.

ii) Rendering of services

Revenue from the rendering services which begins and finishes in the same accounting period is recognised upon performance of the services.

iii) Interest income

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

(s) Research and development costs

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

2. Significant accounting policies (continued)

(t) Borrowing cost

Borrowing costs incurred on specific borrowings for the construction of fixed assets are capitalised into the cost of the fixed assets during the construction period which brings the assets to their intended uses. Except for the above, other borrowing costs are recognised as financial expenses in the income statement when incurred.

(u) Repairs and maintenance expenses

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

(v) Retirement benefits

Pursuant to the relevant laws and regulations in the PRC, the Group has joined a defined contribution retirement plan for the employees arranged by a governmental organisation. The Group makes contributions to the retirement scheme at the applicable rate(s) based on the employees' salaries. The required contributions under the retirement plans are charged to the income statement on an accrual basis. After contribution made to the retirement scheme, the company has no other payment obligation. Further information is set out in note 34.

(w) Profit distribution and dividends

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

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

(x) Related parties

Parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or entities.

Notes to the Financial Statements (continued)

(Prepared under PRC Accounting Rules and Regulations)

3. Cash at bank and in hand

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

	31 December 2006	The Group			The Company		
		Exchange rate	Original currency '000	2006 RMB'000	2005 RMB'000	Original currency '000	2006 RMB'000
Cash in hand							
Renminbi			114	185		57	107
Cash at bank							
Renminbi		761,463	761,463	1,062,457	470,436	470,436	603,235
Hong Kong Dollars	1.0047	11,779	11,834	46,095	-	-	36,962
United States Dollars	7.8087	5,138	40,121	55,329	281	2,199	428
Swiss Francs	-	-	-	792	-	-	792
Euro	10.2665	117	1,201	1,111	-	-	-
Japan	0.0656	67	4	2	-	-	-
Cash at bank and in hand			814,737	1,165,971		472,692	641,524
Deposits at related party (note 33(f))							
Renminbi			79,913	181,266		79,001	180,040
			894,650	1,347,237		551,693	821,564

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

Notes to the Financial Statements (continued)

(Prepared under PRC Accounting Rules and Regulations)

4. Bills receivable

	The Group		The Company	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Bank bills	1,246,611	709,027	964,326	497,954
Commercial bills	26,622	30,767	15,700	20,000
Total	1,273,233	739,794	980,026	517,954

Bills receivable are due in six months. As at 31 December 2006, there are no significant bills receivable at discount or pledged.

Except for the balances disclosed in note 33(e), there is no amount due from major shareholders who held 5% or more shareholding included in the above balance.

5. Trade debtors

	The Group							
	2006				2005			
	Amount RMB'000	Proportion %	Bad debt provision RMB'000	Provision proportion %	Amount RMB'000	Proportion %	Bad debt provision RMB'000	Provision proportion %
Within one year	615,087	93.79	-	0.00	513,350	90.08	504	0.10
Between one and two years	14,212	2.17	4,409	31.02	31,252	5.48	43	0.14
Between two and three years	6,793	1.04	6,793	100.00	3,918	0.69	3,918	100.00
Over three years	19,709	3.00	19,709	100.00	21,380	3.75	21,380	100.00
Total	655,801	100.00	30,911		569,900	100.00	25,845	
Trade debtors, net	624,890				544,055			

	The Company							
	2006				2005			
	Amount RMB'000	Proportion %	Bad debt provision RMB'000	Provision proportion %	Amount RMB'000	Proportion %	Bad debt provision RMB'000	Provision proportion %
Within one year	338,854	92.36	-	0.00	369,390	89.85	-	0.00
Between one and two years	12,806	3.49	4,030	31.47	21,050	5.12	-	0.00
Between two and three years	5,793	1.58	5,793	100.00	3,774	0.92	3,774	100.00
Over three years	9,443	2.57	9,443	100.00	16,917	4.11	16,917	100.00
Total	366,896	100.00	19,266		411,131	100.00	20,691	
Trade debtors, net	347,630				390,440			

Notes to the Financial Statements (continued)

(Prepared under PRC Accounting Rules and Regulations)

5. Trade debtors (continued)

	The Group		The Company	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Balance at the beginning of the year	25,845	45,282	20,691	19,610
Add: Additions for the year	8,513	13,683	773	13,683
less: Provision written back	-	(33,120)	-	(12,602)
Provision written off	(3,447)	-	(2,198)	-
Balance at the end of the year	30,911	25,845	19,266	20,691

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

	2006 RMB'000	2005 RMB'000
Amount	382,329	302,461
Percentage of total trade debtors	58.30%	53.07%

Except for balances disclosed in Note 33 (e), there is no amount due from major shareholders who held 5% or more shareholding included in the above balance.

During the year, the Group and the Company had no individually significant write off or write back of doubtful debts which had been fully or substantially provided for in prior years. At 31 December 2006, the Group and the Company did not have individually significant trade debtors that aged over three years.

6. Other debtors

	The Group							
	2006				2005			
	Amount RMB'000	Proportion %	Bad debt provision RMB'000	Provision proportion %	Amount RMB'000	Proportion %	Bad debt provision RMB'000	Provision proportion %
Within one year	232,545	92.72	5,201	2.24	486,398	84.54	5,000	1.03
Between one and two years	4,590	1.83	921	20.07	64,532	11.22	9	0.01
Between two and three years	5,134	2.05	32	0.62	7,335	1.27	-	0.00
Over three years	8,535	3.40	8,423	98.69	17,091	2.97	3,116	18.23
Total	250,804	100.00	14,577		575,356	100.00	8,125	
Other debtors, net	236,227				567,231			

Notes to the Financial Statements (continued)

(Prepared under PRC Accounting Rules and Regulations)

6. Other debtors (continued)

	The Company							
	2006				2005			
	Amount RMB'000	Proportion %	Bad debt provision RMB'000	Provision proportion %	Amount RMB'000	Proportion %	Bad debt provision RMB'000	Provision proportion %
Within one year	233,624	94.11	-	0.00	617,691	91.40	-	0.00
Between one and two years	4,520	1.82	903	19.98	46,486	6.88	-	0.00
Between two and three years	4,662	1.88	20	0.43	675	0.10	-	0.00
Over three years	5,447	2.19	5,395	99.05	10,924	1.62	2,422	22.17
Total	248,253	100.00	6,318		675,776	100.00	2,422	
Other debtors, net	241,935				673,354			

Bad debt provision

	The Group		The Company	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Balance at the beginning of the year	8,125	9,692	2,422	4,355
Add: Additions for the year	9,702	366	3,896	-
less: Provision written back	-	(1,933)	-	(1,933)
Provision written off	(3,250)	-	-	-
Balance at the end of the year	14,577	8,125	6,318	2,422

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

	2006 RMB'000	2005 RMB'000
Amount	157,256	361,129
Percentage of total other debtors	62.70%	62.77%

Except for balances disclosed in Note 33(e), there is no amount due from major shareholders who held 5% or more shareholding included in the above balance.

During the year, the Group and the Company had no individually significant write off or write back of doubtful debts which have been fully or substantially provided for in prior years. At 31 December 2006, the Group and the Company did not have individually significant other debtors that aged over three years.

7. Advance payments

All advance payments are within one year.

Except for the balances disclosed in Note 33(e), there is no amount due from major shareholders who held 5% or more shareholding included in the balance of advance payments.

Notes to the Financial Statements (continued)

(Prepared under PRC Accounting Rules and Regulations)

8. Inventories

	The Group				The Company			
	2006		2005		2006		2005	
	Provision for diminution in		Provision for diminution in		Provision for diminution in		Provision for diminution in	
	Amount	value	Amount	value	Amount	value	Amount	value
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Raw materials	873,130	-	1,050,904	-	703,528	-	829,000	-
Work in progress	1,661,487	-	1,592,298	-	1,571,581	-	1,505,739	-
Finished goods	1,014,225	-	895,951	-	794,466	-	719,040	-
Spare parts and consumables	655,769	41,355	625,895	50,070	555,760	40,904	533,078	49,186
Total	4,204,611	41,355	4,165,048	50,070	3,625,335	40,904	3,586,857	49,186
Inventories, net	4,163,256		4,114,978		3,584,431		3,537,671	

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

	The Group				The Company			
	2006		2005		2006		2005	
	Spare parts		Spare parts		Spare parts		Spare parts	
	Finished goods	and consumables	Finished goods	and consumables	Finished goods	and consumables	Finished goods	and consumables
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January	-	50,070	3,780	52,890	-	49,186	-	47,550
Additions	33,407	-	-	1,636	33,407	-	-	1,636
Transfer out due to sales	(33,407)	(8,715)	(3,780)	(4,456)	(33,407)	(8,282)	-	-
At 31 December	-	41,355	-	50,070	-	40,904	-	49,186

All inventories were acquired through purchase or production.

The cost of inventories of the Group and the Company recognised as an expense in the consolidated income statement amounted to RMB 47,922,431,000 and RMB 42,796,172,000 for the year ended 31 December 2006 respectively (2005: RMB 41,605,113,000 and RMB 38,598,193,000 respectively).

Notes to the Financial Statements (continued)

(Prepared under PRC Accounting Rules and Regulations)

9. Long-term equity investments

	The Group						
	Interests in	Equity	Interests in	Other	Total before	Provision	Total
	associates	investment	non-consolidated	unlisted	provision	for impairment	
	(Note(a))	differences	subsidiaries	investments		losses	(Note(f))
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	Balance at 1 January 2006	2,390,803	(261,700)	326,515	395,076	2,850,694	(56,228)
Additions for the year	137,768	-	52,045	385	190,198	-	190,198
Share of profits less losses from investments accounted for under the equity method	564,930	-	-	-	564,930	-	564,930
Dividend receivable / received	(4,911)	-	-	-	(4,911)	-	(4,911)
Disposals for the year	-	1,700	(103,696)	(128,378)	(230,374)	17,390	(212,984)
Amortisation for the year	-	10,000	-	-	10,000	-	10,000
Balance at 31 December 2006	3,088,590	(250,000)	274,864	267,083	3,380,537	(38,838)	3,341,699

	The Company				
	Interests in	Equity	Interests in	Other	Total
	associates	investment	consolidated	unlisted	
	(Note(a))	differences	subsidiaries	investments	(Note(e))
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	Balance at 1 January 2006	2,255,052	(261,700)	2,462,897	107,657
Additions for the year	127,991	-	50,211	-	178,202
Share of profits less losses from investments accounted for under the equity method	542,847	-	196,653	-	739,500
Dividend receivable / received	(2,411)	-	(165,853)	-	(168,264)
Disposals for the year	-	1,700	-	(8,147)	(6,447)
Amortisation for the year	-	10,000	-	-	10,000
Balance at 31 December 2006	2,923,479	(250,000)	2,543,908	99,510	5,316,897

9. Long-term equity investments (continued)

- (a) The particulars of the associates, which are limited companies established and operating in the PRC, which principally affected the results or assets of the Group at 31 December 2006 are as follows:

Company	Registered capital '000	Percentage of equity		Principal activities
		held by the Company %	held by subsidiaries %	
Shanghai Jinsen Hydrocarbon Resins Company Limited	US\$23,395	-	40	Production of resins products
Shanghai Jinpu Plastics Packaging Material Company Limited	US\$20,204	-	50	Production of polypropylene film
Shanghai Secco Petrochemical Company Limited	US\$901,441	20	-	Manufacturing and distribution of chemical products
Shanghai Chemical Industry Park Development Company Limited	RMB2,372,439	38.26	-	Planning, development and operation of the Chemical Industry Park in Shanghai, PRC
BOC-SPC Gases Co., Ltd.	US\$32,000	50	-	Production and sales of industrial gases
Shanghai Yamatake Automation Company Limited	US\$3,000	-	40	Service and maintenance of building automation systems and products

- (b) Equity investment difference

Investments	Initial investment RMB'000	Amortisation period	1 January 2006 RMB'000	Disposal during the year RMB'000	31 December 2006 RMB'000	Reason
Shanghai Chemical Industry Park Development Co., Ltd	(300,000)	30 years	(260,000)	10,000	(250,000)	Investment in associate
Shanghai Jindong Petrochemical Industrial Company Limited	(8,492)	10 years	(1,700)	1,700	-	Investment in subsidiary
Total	(308,492)		(261,700)	11,700	(250,000)	

The "equity investment difference" is amortised on a straight-line basis over 10 and 30 years. The remaining period of amortisation of Shanghai Chemical Industry Park Development Co., Ltd. is 25 years.

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

9. Long-term equity investments (continued)

- (d) The particulars of subsidiaries which principally affected the results or assets of the Group, at 31 December 2006 are as follows:

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

None of the above subsidiaries have issued any debt securities.

Note 1 : On 23 January 2006, the Group transferred 81.79% shareholdings in Shanghai Jinhua Industrial Company Limited to Sinopec. The assets and liabilities of Shanghai Jinhua Industrial Company Limited have no material effect on the financial position of the Group.

Note 2: On 31 December 2006, Shanghai Jindong Petrochemical Industrial Company Limited ("Jindong Company") has completed liquidation. Its liquidation loss has been recognised in the Group's consolidated income statement for the year ended 31 December 2006 and included in the Group's consolidated balance sheet as at 31 December 2006. The assets and liabilities of Jindong Company have no material effect on the financial position of the Group.

Notes to the Financial Statements (continued)

(Prepared under PRC Accounting Rules and Regulations)

9. Long-term equity investments (continued)

(e) The Group's other unlisted investments include non-controlling equity investments in various enterprises which are mainly engaged in manufacturing or trading activities related to the Group's operations. The Group's share of results attributable to these interests during the year ended 31 December 2006 is not material in relation to the profit of the Group for the said period and therefore is not equity accounted for.

(f) Provision for impairment losses is analysed as follows:

	The Group	
	2006 RMB'000	2005 RMB'000
Balance at 1 January	56,228	61,750
Transfer out due to sales	(17,390)	(5,522)
Balance at 31 December	38,838	56,228

(g) Major investment changes

At 31 December 2006, details of principal equity investment changes of the Group are as follows:

Name of investee	Investment terms	Percentage of equity interest held by the Group	Balance at 1 January 2006	Addition for the year	Share of profits/(losses) accounted for under the equity method	Amortisation of equity investment differences	Dividends received/receivable	Balance at 31 December 2006	
								RMB'000	RMB'000
Shanghai Chemical Industry Park Development Company Limited	Unspecified expiration date	38%	658,477	-	(4,622)	10,000	(2,411)	661,444	
Shanghai Secco Petrochemical Company Limited	50 years	20%	1,336,574	-	545,194	-	-	1,881,768	
Shanghai Jinpu Plastics Packaging Material Company Limited	30 years	50%	89,132	-	3,762	-	(2,500)	90,394	
Shanghai Jinsen Petrochemical Company Limited	40 years	40%	46,620	-	5,057	-	-	51,677	
BOC-SPC Gases Co., Ltd.	30 years	50%	-	127,992	2,275	-	-	130,267	

9. Long-term equity investments (continued)

(g) Major investment changes (continued)

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

(h) At 31 December 2006, the Company's proportion of the total investments to the net assets was 27.59% (2005: 23.81%).

At 31 December 2006, the Group's proportion of the total investments to the net assets was 17.34% (2005: 14.58%).

10. Fixed assets

(a) The Group

	Land and buildings RMB'000	Plant, machinery, equipment and other fixed assets RMB'000	Total RMB'000
Cost or valuation:			
At 1 January 2006	6,882,092	26,995,483	33,877,575
Additions	41,376	147,671	189,047
Transferred from construction in progress (Note 11)	128,200	469,521	597,721
Disposals	(112,656)	(812,928)	(925,584)
At 31 December 2006	6,939,012	26,799,747	33,738,759
Accumulated depreciation:			
At 1 January 2006	3,136,927	14,619,829	17,756,756
Charge for the year	209,748	1,665,382	1,875,130
Written back on disposals	(40,104)	(574,762)	(614,866)
At 31 December 2006	3,306,571	15,710,449	19,017,020
Less : Provision for impairment losses:			
At 1 January 2006	-	58,945	58,945
Charge for the year	-	50,000	50,000
At 31 December 2006	-	108,945	108,945
Net book value:			
At 31 December 2006	3,632,441	10,980,353	14,612,794
At 31 December 2005	3,745,165	12,316,709	16,061,874

10. Fixed assets (continued)

(b) The Company

	Land and buildings RMB'000	Plant, machinery, equipment and other fixed assets RMB'000	Total RMB'000
Cost or valuation:			
At 1 January 2006	5,659,954	24,305,735	29,965,689
Additions	23,338	16,738	40,076
Transferred from construction in progress (Note 11)	125,445	409,236	534,681
Disposals	(64,445)	(617,381)	(681,826)
At 31 December 2006	5,744,292	24,114,328	29,858,620
Accumulated depreciation:			
At 1 January 2006	2,712,745	13,063,017	15,775,762
Charge for the year	169,775	1,393,084	1,562,859
Written back on disposals	(16,460)	(393,656)	(410,116)
At 31 December 2006	2,866,060	14,062,445	16,928,505
Less : Provision for impairment losses:			
At 1 January 2006	-	58,945	58,945
Charge for the year	-	50,000	50,000
At 31 December 2006	-	108,945	108,945
Net book value:			
At 31 December 2006	2,878,232	9,942,938	12,821,170
At 31 December 2005	2,947,209	11,183,773	14,130,982

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

- (c) Due to change in market demand, the product specifications and economic efficiency of the production facilities of 1&2# polypropylene fibre and compound fibre cannot meet the market needs. On 31 December 2006, the Company has made a provision for impairment losses of RMB 50,000,000 for this production facility. In addition, the Company made a provision for impairment losses of RMB58,945,000 for HMLS filaments facility and dupont for the year ended 2004. The management of the Group reviewed the fixed assets as at 31 December 2006 and no significant impairment loss needed to be made.
- (d) At 31 December 2006, the cost of the Group's fully depreciated fixed assets was RMB 7,475,195,900 (2005: RMB 6,586,187,754).
- (e) At 31 December 2006 and 2005, no property, plant and equipment were pledged by the Group.

Notes to the Financial Statements (continued)

(Prepared under PRC Accounting Rules and Regulations)

11. Construction in progress

	The Group		The Company	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Balance at 1 January	754,192	763,450	710,268	708,089
Additions	1,816,422	1,006,490	1,793,565	966,281
Capitalised interest	27,426	-	27,426	-
Transferred to fixed assets (Note 10)	(597,721)	(1,015,748)	(534,681)	(964,102)
Balance at 31 December	1,972,893	754,192	1,969,152	710,268

At 31 December 2006, major projects of the Group are as follows:

Project	Budgeted amounts RMB'000	At 1 January		Transfer to fixed assets RMB'000	At 31 December 2006 RMB'000	Stage of completion	Interest capitalised during the year RMB'000
		2006 RMB'000	Addition RMB'000				
380,000-tonnes Ethylene glycol project	1,249,000	181,166	754,993	-	936,159	75%	18,196
Enhanced project on diesel productions facilities	528,000	107,552	333,183	-	440,735	83%	9,230
6# power plant expansion project	672,692	-	60,304	-	60,304	9%	-
Smoke deviation sulphur project	119,970	-	49,474	-	49,474	41%	-

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

The borrowing costs during 2006 have been capitalised at a rate of 5.47% per annum (2005: Nil) by the Group.

12. Intangible assets

	The Group and the Company	
	2006 RMB'000	2005 RMB'000
Cost:		
At 1 January	134,482	134,482
Less:		
Accumulated amortisation		
At 1 January	125,515	112,067
Addition	8,967	13,448
At 31 December	134,482	125,515
Net book value:		
At 31 December	-	8,967

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

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

13. Long-term deferred expenses

Long-term deferred expenses mainly represent the catalysts expenditure with beneficial periods of over 1 year.

Notes to the Financial Statements (continued)

(Prepared under PRC Accounting Rules and Regulations)

14. Taxation

(a) Taxation in the income statement represents:

	The Group		The Company	
	2006	2005	2006	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Provision for PRC income tax for the year	55,419	340,532	4,497	291,210
Deferred taxation	(8,245)	21,204	(8,245)	19,916
Over accrual income tax from prior year	(6,911)	-	(6,911)	-
	40,263	361,736	(10,659)	311,126

Pursuant to the document "Cai Shui Zi (1994) No.17" issued by the MOF and the State Administration of Taxation of the PRC on 18 April 1994, the income tax rate of the Company is 15%. Up to the date of approval of these financial statements, the Company has not received notice from Ministry of Finance that the 15% tax rate will be revoked in 2006. Therefore, the Company continues to use the 15% tax rate in 2006. It is possible that the Company's tax rate will increase in the future. Other details are disclosed in Note 37.

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

(b) Taxes payable in the balance sheet represents:

	The Group		The Company	
	2006	2005	2006	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Income tax	34,386	(18,786)	19,754	(45,374)
VAT	160,315	125,720	180,270	111,595
Consumption tax	41,658	52,188	41,658	52,188
Business tax	3,350	2,525	1,814	645
Other taxes	20,680	21,673	18,941	19,122
	260,389	183,320	262,437	138,176

Notes to the Financial Statements (continued)

(Prepared under PRC Accounting Rules and Regulations)

14. Taxation (continued)

(c) Deferred tax assets

	The Group		The Company	
	2006	2005	2006	2005
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January	20,238	41,442	20,238	40,154
Provision/(reversal) of inventory provisions and bad debts	745	(21,204)	745	(19,916)
Provision for impairment losses of fixed assets	7,500	-	7,500	-
At 31 December	28,483	20,238	28,483	20,238

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

15. Short-term loans

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

	The Group		The Company	
	2006	2005	2006	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Short-term bank loans	1,853,692	2,523,537	1,618,692	2,295,195
Short-term loans with related party (Note 33(g))	-	30,000	-	-
	1,853,692	2,553,537	1,618,692	2,295,195

All short-term loans are unsecured loans without guarantee and payable in full when due. The weighted average interest rate of short-term loans of the Group was 5.87% (2005: 4.53%) at 31 December 2006.

As at 31 December 2006 and 31 December 2005, the Group and the Company had no significant overdue short-term loan.

Except for the balances disclosed in note 33(g), there is no amount due from major shareholders who held 5% or more shareholding included in the above balance.

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

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

There is no significant receipts in advance aged over 1 year.

Bills payable are mainly bank bills issued for the purchase of material, merchandises and products, generally due in 3 to 6 months.

Except for the balances disclosed in Note 33(e), there is no amount due to shareholders who held 5% or more shareholding included in the balance of trade creditors, bills payable, receipts in advance and other payables.

Aging analysis of trade creditors is as follows:

	The Group			
	2006		2005	
	Amount RMB'000	Proportion %	Amount RMB'000	Proportion %
Within three months	1,354,878	89.69	905,469	91.63
Between three and six months	115,649	7.65	47,726	4.83
Over six months	40,161	2.66	35,001	3.54
	1,510,688	100.00	988,196	100.00

	The Company			
	2006		2005	
	Amount RMB'000	Proportion %	Amount RMB'000	Proportion %
Within three months	828,871	94.19	550,655	92.27
Between three and six months	16,359	1.86	14,519	2.43
Over six months	34,742	3.95	31,608	5.30
	879,972	100.00	596,782	100.00

17. Dividend payable

Pursuant to the shareholders' approval at the Annual General Meeting on 15 June 2006, a final dividend of RMB 0.10 per share totalling RMB 720,000,000 (2004: RMB 0.20 per share totalling RMB 1,440,000,000) in respect of the year ended 31 December 2005 was approved. During the year ended 31 December 2006, dividend of RMB 720,000,000 was paid to shareholders in respect of the year ended 31 December 2005.

18. Accrued expenses

At 31 December 2006, the Group's and the Company's accrued expenses primarily represented accrued interest expenses of bank loans and short-term debentures payable.

19. Short-term debentures payable

	The Group and the Company	
	2006 RMB'000	2005 RMB'000
Short-term debentures payable		
At 31 December	2,000,000	-

The Company issued 365-day unsecured corporate bonds of face value at RMB 2 billion to corporate investors in the PRC inter-bank debenture market on 11 December 2006. The bonds were issued at 100% of face value, with an effective yield 3.83% per annum, and will mature on 12 December 2007.

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

	The Group		The Company	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Between one and two years	558,820	630,817	423,710	397,112
Between two and three years	475,111	776,328	450,000	741,123
Between three and five years	29,723	50,410	-	-
After five years	-	19,706	-	15,000
	1,063,654	1,477,261	873,710	1,153,235
Current portion of long-term loans	416,645	1,373,205	383,034	1,340,000
	1,480,299	2,850,466	1,256,744	2,493,235

Notes to the Financial Statements (continued)

(Prepared under PRC Accounting Rules and Regulations)

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

Long-term loans are analysed as follows:

Repayment terms and final maturity	Interest type	Interest rate at 31 December 2006	Original currency '000	2006 Exchange rate	The Group		The Company	
					2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Arranged by Central Treasury of the Company								
U.S. Dollar denominated:								
Due in 2007	Floating	5.70%	49,052	7.8087	383,034	397,112	383,034	397,112
Payable semi-annually through 2008(Note(a))	Fixed	1.80%	3,036	7.8087	23,710	41,123	23,710	41,123
Renminbi denominated:								
Due in 2006	Fixed	5.18%-5.56%			-	1,340,000	-	1,340,000
Due in 2008	Fixed	5.18%-5.67%			400,000	700,000	400,000	700,000
Due in 2009	Fixed	5.18%-5.67%			450,000	-	450,000	-
Other loans due in 2015	-	Interest free			-	15,000	-	15,000
Arranged by subsidiaries								
U.S. Dollar denominated:								
Payable annually through 2011	-	Interest free	1,800	7.8087	14,055	17,431	-	-

Notes to the Financial Statements (continued)

(Prepared under PRC Accounting Rules and Regulations)

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

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

Repayment terms and last payment date	Interest type	Interest rate at 31 December 2006	Original currency '000	2006 Exchange rate	The Group		The Company	
					2006	2005	2006	2005
					RMB'000	RMB'000	RMB'000	RMB'000
Renminbi denominated:								
Due in 2007	Fixed	5.85%			8,500	116,500	-	-
Due in 2008	Fixed	5.67%			110,000	110,000	-	-
Payable annually through 2010	-	Interest free			82,000	102,500	-	-
Payable annually through 2011	-	Interest free			9,000	10,800	-	-
Total long-term loans outstanding					1,480,299	2,850,466	1,256,744	2,493,235
Less: Amounts due within one year					(416,645)	(1,373,205)	(383,034)	(1,340,000)
Amounts due after one year					1,063,654	1,477,261	873,710	1,153,235

Note(a): Guaranteed by China Petrochemical Corporation

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

Except for the balances disclosed in Note 33(g), there is no amount due to shareholders who held 5% or more shareholding included in the above balance.

21. Other long-term liabilities

The balance of other long-term liabilities mainly represents the long-term payable for specific projects contributed from government grants and deferred income.

22. Share capital

	The Group and the Company	
	2006 RMB'000	2005 RMB'000
Registered capital:		
4,870,000,000 A shares of RMB 1 each	4,870,000	4,870,000
2,330,000,000 H shares of RMB 1 each	2,330,000	2,330,000
	7,200,000	7,200,000
Issued and paid up capital		
Shares not in trade:		
4,150,000,000 A shares of RMB 1 each		
of which:		
Domestic legal persons shares	4,150,000	4,150,000
Total shares not in trade	4,150,000	4,150,000
Shares in trade:		
720,000,000 A shares of RMB 1 each		
2,330,000,000 H shares of RMB 1 each		
of which:		
RMB ordinary A shares listed in the PRC	720,000	720,000
Foreign investment H shares listed overseas	2,330,000	2,330,000
Total shares in trade	3,050,000	3,050,000
Total share capital	7,200,000	7,200,000

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

Capital verifications of the issued and paid up capital were performed by KPMG Huazhen. Capital verification reports were issued on 27 October 1993, 10 June 1994, 15 September 1996 and 20 March 1997 respectively.

23. Capital reserves

	The Group and the Company	
	2006 RMB'000	2005 RMB'000
Balance at 1 January and 31 December	2,945,607	2,856,278

	Note	The Group and the Company	
		2006 RMB'000	2005 RMB'000
Share premium		2,420,841	2,420,841
Safety fund	(a)	4,180	4,180
Government grants	(b)	386,370	386,370
Reserve for equity investment	(c)	102,663	44,887
Surplus of related party transactions	(d)	31,553	-
Total		2,945,607	2,856,278

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

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

(c) Reserve for equity investment represents shortfall of the initial investment cost over the share of shareholders' funds of the investees.

(d) Surplus of related party transactions represents the excess of the net disposal proceeds over the carrying amount of the fixed assets when the Group sells fixed assets to its related parties.

24. Surplus reserves

	The Group and the Company					Total
	Note	Statutory	Statutory	General	Discretionary	
		surplus reserve	public welfare fund	surplus reserve	surplus reserve	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
Balance at 1 January 2005		1,457,791	1,375,702	82,089	1,280,514	4,196,096
Transferred from the income statement		170,463	170,463	-	-	340,926
Balance at 31 December 2005		1,628,254	1,546,165	82,089	1,280,514	4,537,022
Statutory public welfare fund transfer to statutory surplus reserve	(a)	1,546,165	(1,546,165)	-	-	-
Balance at 31 December 2005(restated)		3,174,419	-	82,089	1,280,514	4,537,022
Transferred from the income statement	(b)	73,685	-	-	-	73,685
Balance at 31 December 2006		3,248,104	-	82,089	1,280,514	4,610,707

(a) Pursuant to the resolution of the Shareholders' meeting on 15 June 2006, the Company's Articles of Association was revised that the Company is no longer to set aside statutory public welfare fund from the net profit available for appropriation. Pursuant to the notice "Cai Qi [2006] No. 67" issued by the Ministry of Finance, the balance of the statutory public welfare fund of RMB1,546,165,000 as at 31 December 2005 was transferred to the statutory surplus reserve.

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

25. Income from principal operations/cost of sales

The Group's principal activity is the processing of crude oil into petrochemical products for sale. The Group's income from principal activity and cost of sales represent income received and cost incurred in relation to above activity. The Group's segment information is set out in Note 38. The Group's most products are sold in domestic market.

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

For the year 2006, total sales and proportion to top five customers are as follows:

	2006	2005
Amount (RMB'000)	19,368,397	19,267,661
Percentage of total sales	38.37%	41.98%

Notes to the Financial Statements (continued)

(Prepared under PRC Accounting Rules and Regulations)

26. Sales taxes and surcharges

	The Group		The Company	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Consumption tax	526,428	585,916	526,428	585,916
City construction tax	107,601	128,689	102,602	122,903
Education surcharge and others	47,333	51,084	43,972	50,574
	681,362	765,689	673,002	759,393

The charge for consumption tax is calculated at RMB277.6 per tonne and RMB117.6 per tonne on the sales of gasoline and diesel respectively in accordance with relevant tax rules and regulations. The charges for city construction tax and education surcharge are based on 7% and 3% respectively of the VAT, consumption tax and business tax paid during the year.

27. Financial expenses

	The Group		The Company	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Interest expenses	367,716	309,357	322,267	265,599
Less: borrowing costs	(27,426)	-	(27,426)	-
Interest capitalised as construction in progress expenses, net	340,290	309,357	294,841	265,599
Less: interest income	(56,827)	(39,631)	(49,153)	(32,209)
foreign exchange gain, net	(100,296)	(59,826)	(94,944)	(52,509)
Other financial expenses	19,126	2,681	14,643	1,058
Total	202,293	212,581	165,387	181,939

Notes to the Financial Statements (continued)

(Prepared under PRC Accounting Rules and Regulations)

28. Investment income / (losses)

	The Group		The Company	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Cost method	42,685	77,287	5,119	18,907
Share of profit of subsidiaries	-	-	196,653	204,178
Share of profits / (losses) of associates	564,930	(151,574)	542,847	(152,144)
Investment differences	10,000	10,849	10,000	10,849
Net gain on transfer of investment	56,194	24,063	40,720	24,063
Total	673,809	(39,375)	795,339	105,853

29. Subsidy income

The Group received a cash government grant from the Ministry of Finance of the PRC of RMB 282,141,800 (2005: RMB 632,820,000) as a compensation of loss incurred in petroleum product segment during the year ended 31 December 2006. The Group has received the subsidy income on 30 December 2006.

30. Non-operating income

	The Group		The Company	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Net gain on disposal of fixed assets	30,840	42,233	2,966	38,851
Penalties income	190	410	104	338
Amortisation of deferred income	23,033	11,518	-	-
Others	15,895	6,998	5,253	1,619
Total	69,958	61,159	8,323	40,808

31. Non-operating expenses

	The Group		The Company	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Employee reduction expenses	83,603	109,410	33,383	45,790
Net loss on disposal of fixed assets	63,817	26,935	57,855	21,842
Service fee	20,174	47,320	20,174	47,320
Donations	380	8,079	380	8,079
Impairment loss of fixed assets	50,000	-	50,000	-
Other expenses	53,062	48,814	40,253	44,551
Total	271,036	240,558	202,045	167,582

In accordance with the Group's voluntary employee reduction plan, the Group recorded employee reduction expenses of RMB 83,603,000 (2005:RMB 109,410,000) during the year ended 31 December 2006, in respect of the voluntary resignation of approximately 1,280 employees (2005: 1,645 employees).

32. Dividends

- (a) Dividends of ordinary shares declared during the year
- Pursuant the shareholders' approval at the Annual General Meeting on 15 June 2006, a final dividend of RMB 0.10 per share totalling RMB 720,000,000 in respect of the year ended 31 December 2005 was declared and paid.(2005: RMB 0.20 per share totalling RMB 1,440,000,000).
- (b) Dividends of ordinary shares proposed after the balance sheet date
- Pursuant to a resolution passed at the Board of Directors' meeting on 29 March 2007, a final dividend in respect of the year ended 31 December 2006 of RMB 0.04 per share totalling RMB 288,000,000 was proposed for shareholders' approval at the Annual General Meeting. (2005: RMB 0.10 per share totalling 720,000,000). Dividends declared after the balance sheet date was not recognised as liabilities on that day.

33. Related parties and related party transactions

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

Name of Company	:	China Petroleum & Chemical Corporation (“Sinopec Corp”)
Registered Address	:	No. 6, Hui Xin Dong Jie Jia, Chao Yang Qu, Beijing
Scope of operations	:	Exploring for, extracting and selling crude oil and natural gas; oil refining; production, sale and transport of petro-chemical, chemical fibres and other chemical products; pipe transport of crude oil and natural gas; research and development and application of new technologies and information.
Relationship with the Company	:	The immediate parent company
Economic nature	:	Joint stock limited company
Authorised representative	:	Chen Tonghai
Registered capital	:	RMB 86.7 billion(2005: RMB 86.7 billion)

As at 31 December 2006, Sinopec Corp held 4 billion shares of the Company.

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

	<u>Relationship with the Company</u>
China Petrochemical Corporation	The ultimate parent company
Sinopec Finance Company Limited	Subsidiary of the ultimate parent company
Sinopec Storage and Transportation Branch	Subsidiary of the ultimate parent company
Sinopec Zhenhai Refining & Chemical Company Limited	Subsidiary of the immediate parent company
Sinopec Huadong Sales Company	Branch of the immediate parent company
Sinopec Pipeline storage & Transport Company	Branch of the immediate parent company
China International United Petroleum and Chemical Company Limited	Subsidiary of the immediate parent company
China Petrochemical International Company Limited	Subsidiary of the immediate parent company
Sinopec Chemical Sales Company Limited	Subsidiary of the immediate parent company
Shanghai Secco Petrochemical Company Limited	Associated Company
BOC-SPC Gases Co., Ltd.	Associated Company
Shanghai Jinpu Plastics Packaging Material Company Limited	Associated Company
Shanghai Jinsen Hydrocarbon Resins Company Limited	Associated Company

33. Related parties and related party transactions (continued)

- (c) Most of the transactions undertaken by the Group during the year ended 31 December 2006 have been effected with such counterparties and on such terms as have been determined by Sinopec Corp and other relevant authorities.

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

	2006 RMB'000	2005 RMB'000
Purchases of crude oil	31,223,530	27,180,740

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

	2006 RMB'000	2005 RMB'000
Sales of goods and service fee income	20,173,106	20,068,746
Purchases other than crude oil	2,579,394	2,318,351
Insurance premiums paid	98,643	95,521
New withdrawal from deposits in a related party	(101,353)	(70,389)
Interest received and receivable	229	1,035
New loans obtained from a related party	478,000	130,000
Loans repaid to a related party	608,000	130,000
Interest paid and payable	7,529	6,649
Transportation fees	344,928	415,497
Construction and installation fees	194,958	183,191
Proceeds from contribution and sale of property, plant & equipment	105,093	62,742
Gains from disposal of investments	24,308	24,063
Sales commissions	182,840	70,752
Net decrease of guarantees	(18,550)	(33,586)
Amounts provided to related parties	98,000	-
Amounts received from related parties	18,000	-

The Directors of the Company are of the opinion that the above transactions were carried out in the normal course of business and on normal commercial term.

Notes to the Financial Statements (continued)

(Prepared under PRC Accounting Rules and Regulations)

33. Related parties and related party transactions (continued)

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

	Immediate Parent Company		Other related parties	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Bills receivable	280	-	60,843	8,590
Trade debtors	-	37,168	266,200	254,721
Other receivables	121	96,412	85,608	150,351
Advance payments	36,620	203	245,615	14,107
Bills payable	35,700	-	-	-
Trade creditors	273,012	125,631	225,330	276,329
Other payables	2,212	12,388	33,131	22,310
Receipts in advance	16,152	735	14,237	30,516
Balance of guarantee	-	-	49,750	68,300

(f) Deposits in related parties

	The Group		The Company	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Cash at bank and in hand	79,913	181,266	79,001	180,040

(g) Loans with related parties

	The Group		The Company	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Short-term loans	-	30,000	-	-
Long-term loans	-	100,000	-	-

34. Retirement schemes

As stipulated by the relevant regulations, the Group participates in a defined contribution retirement plan organised by the Shanghai Municipal Government for its staff. The Group is required to make contributions to the retirement plan at a rate of 22% of the salaries, bonuses and certain allowances of its staff since 1 August 2004. A member of the plan is entitled to a pension equal to a fixed proportion of the salary prevailing at his retirement date. The Group has no other material obligation for the payment of pension benefits associated with this plan beyond the annual contributions described above. In addition, pursuant to a document "Lao Bu Fa (1995) No.464" dated 29 December 1995 issued by the Ministry of Labour of the PRC, the Company has set up a supplementary defined contribution retirement plan for the benefit of employees. Employees who have served the Company for five years or more may participate in this plan. The Company and participating employees make defined contributions to their pension savings account according to the plan. The assets of this plan are held separately from those of the Company in an independent fund administered by a committee consisting of representatives from the employees and the Company. In April 2003, the Company revised certain terms of the plan and increased the amount of contributions. For the year ended 31 December 2006, the Group's contribution to this plan amounted to RMB 61,692,000 (2005: RMB 65,685,000).

35. Capital commitments

Capital commitments outstanding at 31 December are as follows:

	The Group and the Company	
	2006	2005
	RMB'000	RMB'000
Contracted but not provided for	398,335	222,711
Authorised by the Board but not contracted for	2,061,660	1,501,490
Total	2,459,995	1,724,201

Capital commitments relate primarily to construction of building, plant, machinery and purchase of equipment.

At 31 December 2006, the Group and the Company did not have material operating lease commitment.

36. Contingent liabilities

At 31 December, contingent liabilities are as follows:

	The Group		The Company	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Guarantees issued to banks in favour of:				
- subsidiaries	-	-	353,500	483,842
- associates	40,000	40,000	40,000	40,000
- other unlisted investment companies	9,750	28,300	-	-
	49,750	68,300	393,500	523,842

The Group monitors the conditions that are subject to the guarantees to identify whether it is probable that a loss has occurred, and recognise any such losses under guarantees when those losses are estimable. At 31 December 2006 it is not probable that the Group will be required to make payments under the guarantees. Thus no liability has been accrued for a loss related to the Group's and the Company's obligation under the guarantees arrangement.

37. Post balance sheet events

With effect from 1 January 2007, the Group adopted the Accounting Standards for Business Enterprises issued by the MOF on 15 February 2006 ("New accounting Standards"). The existing Accounting Standards for Business Enterprises and the Accounting Regulations for Business Enterprises ("Existing Accounting Standards") will no longer be applied. Under the New Accounting Standards, current accounting policies and accounting estimates determined base on the Existing Accounting Standards may need to be revised. As a result, there may have an impact on the Group's financial position and the results of operations.

Pursuant to the PRC enterprise income tax passed by the Fifth Plenary Session of Tenth National People's Congress on 16 March 2007, the new enterprise income tax rates for domestic and foreign enterprises are unified at 25% and will be effective from 1 January 2008. The impact of such change of enterprise income tax rate on the Group's consolidated financial statements will depend on detailed pronouncements that are subsequently issued. Since implementation and transitional guidance applicable to the Group has not yet been announced, the Group cannot reasonably estimate the financial impact of the new law to the Group at this stage.

38. Segment reporting

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

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

- (i) The synthetic fibres segment produces primarily polyester and acrylic fibres primarily used in the textile and apparel industries.
- (ii) The resins and plastics segment produces primarily polyester chips, low density polyethylene resins and films, polypropylene resins and PVA granules. The polyester chips are used in the processing of polyester fibres and construction coating materials and containers. Low density polyethylene resins and plastics are used in cable jacketing, sheeting, the manufacture of moulded products, such as housewares and toys and for agricultural and packaging uses. Polypropylene resins are used in the manufacturing of extruded films or sheets and injection moulded products such as housewares, toys and household electric appliance and automobile parts.
- (iii) The intermediate petrochemicals segment primarily produces ethylene and benzene. Most of the intermediate petrochemicals produced by the Group are used by the Group as raw materials in the production of other petrochemicals, resins, plastics and synthetic fibres. A portion of the intermediate petrochemicals as well as certain by-products of the production process are sold to outside customers.
- (iv) The Group's petroleum products segment has crude oil distillation facilities used to produce vacuum and atmospheric gas oils used as feedstocks of the Group's downstream processing facilities. Residual oil and low octane gasoline fuels are produced primarily as a co-product of the crude oil distillation process. A proportion of the residual oil is further processed into qualified refined gasoline and diesel oil. In addition, the Group produces a variety of other transportation, industrial and household heating fuels, such as diesel oils, jet fuels, heavy oils and liquefied petroleum gases.
- (v) All other operating segments represent the operating segments which do not meet the quantitative threshold for determining reportable segments. These include trading, consumer products and services and a variety of other commercial activities, which are not allocated to the above four operating segments.

Notes to the Financial Statements (continued)

(Prepared under PRC Accounting Rules and Regulations)

38. Segment reporting (continued)

Income from principal operations

	2006 RMB'000	2005 RMB'000
Manufactured Products		
Synthetic Fibres		
External sales	4,727,261	4,781,787
Intersegment sales	71	79
Sub-total	4,727,332	4,781,866
Resins and Plastics		
External sales	15,800,015	14,010,287
Intersegment sales	63,767	53,020
Sub-total	15,863,782	14,063,307
Intermediate Petrochemicals		
External sales	6,800,577	6,586,556
Intersegment sales	14,536,675	13,848,105
Sub-total	21,337,252	20,434,661
Petroleum Products		
External sales	19,977,755	18,616,544
Intersegment sales	1,187,744	1,064,616
Sub-total	21,165,499	19,681,160
All others		
External sales	3,173,828	1,902,633
Intersegment sales	3,582,206	3,687,428
Sub-total	6,756,034	5,590,061
Eliminations of intersegment sales	(19,370,463)	(18,653,248)
Total	50,479,436	45,897,807

38. Segment reporting (continued)

Cost of sales

	2006 RMB'000	2005 RMB'000
Synthetic Fibres	4,371,918	4,352,965
Resins and Plastics	13,741,514	11,631,710
Intermediate Petrochemicals	5,597,796	5,024,854
Petroleum Products	21,288,191	18,955,210
All others	2,923,012	1,640,374
Total	47,922,431	41,605,113

Profit of principal operations

	2006 RMB'000	2005 RMB'000
Synthetic Fibres	339,749	411,028
Resins and Plastics	2,011,789	2,326,618
Intermediate Petrochemicals	1,177,926	1,531,098
Petroleum Products	(1,900,525)	(1,000,255)
All others	246,704	258,516
Total	1,875,643	3,527,005

39. Non-recurring items

In accordance with "Standard questions and answers on the preparation of information disclosures by companies publicly issuing securities, No.1 – Non-recurring items" (2004 Revised), the Group's non-recurring items is set out as below:

	2006 RMB'000	2005 RMB'000
Items under non-recurring items		
Non-operating expenses (excluding provision for impairment loss on fixed assets)	221,036	240,558
Gain on disposal of long-term equity investments	(56,194)	(24,063)
Non-operating income	(69,958)	(61,159)
Subsidy income	(282,142)	(632,820)
Less: Tax effect for the above items	28,089	71,623
Total	(159,169)	(405,861)

Reconciliation Statement of Differences in Consolidated Shareholders' Equity between the New and Old Accounting Standards and the Review Report

REVIEW REPORT

To the shareholders of Sinopec Shanghai Petrochemical Company Limited:

We have reviewed the attached reconciliation statement of differences in consolidated shareholders' equity between the new and old accounting standards of Sinopec Shanghai Petrochemical Company Limited ("the Company") as at 31 December 2006 and 1 January 2007 ("the reconciliation statement of differences"). It is the responsibility of the Company's management to prepare the reconciliation statement of differences in accordance with the basis of preparation set out in Note 2 to the reconciliation statement of differences and the "Notice on the Proper Disclosure of Financial and Accounting Information In Relation to the New Accounting Standards" (Zheng Jian Fa[2006] No.136) ("the Notice"), our responsibility is to issue a review report on the reconciliation statement of differences based on our review.

As required by the Notice, we conducted our review by reference to the Standard on Review Engagements for Certified Public Accountants Registered in the PRC 2101—Engagements to Review Financial Statements. The standard requires that we plan and perform the review to obtain limited assurance about whether the reconciliation statement of differences is free from material misstatement. A review is limited largely to making enquiries of relevant personnel of the Company about the accounting policies and all the important assumptions underlying the reconciliation statement of differences, obtaining an understanding of the calculation of the reconciled amounts in the reconciliation statement of differences, reading the reconciliation statement of differences to determine whether the basis of preparation has been properly followed and performing analytical procedures as and when necessary. A review provides a lower level of assurance than an audit. We have not conducted an audit and accordingly, we do not express an audit opinion.

On the basis of our review, we are not aware of any issues which cause us to believe that the above reconciliation statement of differences has not been prepared, in all material respects, in accordance with the basis of preparation set out in Note 2 to the reconciliation statement of differences.

KPMG Huazhen

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

Hu Qiong

Beijing, the People's Republic of China

Wang Wenli

29 March 2007

Sinopec Shanghai Petrochemical Company Limited

31 December 2006 and 1 January 2007

Reconciliation statement of differences in the consolidated shareholders' equity between the new and old accounting standards

	Note	Amount RMB'000
Consolidated shareholders' equity as at 31 December 2006 (old accounting standards)	3(1)	19,273,088
Adjustment:		
1 Financial assets available for sale measured at fair value	3(2)	25,822
2 Income tax	3(3)	(24,672)
3 Minority interests	3(4)	336,013
4 Interest capitalisation of general borrowings	3(5)	138,657
Consolidated shareholders' equity as at 1 January 2007 (new accounting standards)		19,748,908

Approved by the Board of the Directors on 29 March 2007.

Rong Guangdao

Chairman and President

Du Chongjun

Vice chairman and Vice President

Han Zhihao

Director and Chief Financial Officer

The notes on pages 202 to pages 203 form part of this reconciliation statement of differences.

Sinopec Shanghai Petrochemical Company Limited

31 December 2006 and 1 January 2007

Notes to the reconciliation statement of differences in consolidated shareholders' equity between the new and old accounting standards

1 Purpose of preparation

Commencing from 1 January 2007, the Company has adopted the Accounting Standards for Business Enterprises ("New Accounting Standards") promulgated by the MOF in 2006. To analyse and disclose the impact of adopting the New Accounting Standards on the Company's financial position, the China Securities Regulatory Commission issued the "Notice on the Proper Disclosure of Financial and Accounting Information In Relation to the New Accounting Standards" (Zheng Jian Fa [2006] No. 136) ("the Notice") in November 2006 under which the Company is required to disclose the reconciliation of major differences in the "Supplementary Information" section of the annual financial report for 2006 in the form of reconciliation statement of differences in consolidated shareholders' equity between the new and old accounting standards ("reconciliation statement of differences") in accordance with relevant requirements of the Accounting Standard for Business Enterprises No. 38 — First time adoption of Accounting Standards for Business Enterprises ("ASBE 38") and the Notice.

2 Basis of preparation

The Company issued H shares and prepared financial reports for external use under the PRC Accounting Rules and Regulations and the International Financial Reporting Standards ("IFRSs") for the previous years. As required by the "Opinion of the Expert Team on the Implementation of the Accounting Standards for Business Enterprises" ("the Opinion"), on the date of first adoption, the following retrospective adjustments have been made to items relevant to the changes in accounting policies arising from the implementation of New Accounting Standards.

For the principles of the New Accounting Standards which are different from the old accounting standards, if the Company had already adopted the principles of the New Accounting Standards in the preparation of financial statements under IFRSs for the previous years, retrospective adjustments will be made to the changes in accounting policies arising from the implementation of New Accounting Standards based on the information relied upon by the Company in preparing the financial statements under IFRSs for the previous years.

This reconciliation statement of differences has been prepared in accordance with the principle of retrospective adjustment as stated above, the characteristics and actual situation of the Group and the principle of materiality on the basis of the consolidated financial statements of 2006. References have been made to the Notice in respect of the presentation and disclosure of information in the reconciliation statement of differences.

In respect of the areas that are not specified in Art. 5 to Art.19 of ASBE 38 and the Opinion, this reconciliation statement of differences is prepared under the following principles:

- (1) Upon the adoption of the New Accounting Standards, the Company has accounted for minority interests in the consolidated shareholders' equity in accordance with the Accounting Standards for Business Enterprises No.33 Consolidated Financial Statements, and the adjustment is reflected in separately-presented items in the reconciliation statement of differences.

Sinopec Shanghai Petrochemical Company Limited

31 December 2006 and 1 January 2007

Notes to the reconciliation statement of differences in consolidated shareholders' equity between the new and old accounting standards (continued)

3 Significant items explanation

- (1) The figures of consolidated shareholders' equity as at 31 December 2006 (under the Old Accounting Standards) are extracted from the Company's consolidated financial statements for the year ended 31 December 2006 prepared under the Old Accounting Standards. These financial statements were audited by KPMG Huazhen, which issued an auditors' report with unqualified opinion on 29 March 2007. The basis of presentation and the significant accounting policies of these financial statements are set out in the Company's 2006 consolidated financial statements.

This reconciliation statement of differences and its notes should be read in conjunction with the 2006 financial statements.

- (2) Financial assets available for sale measured at fair value
According to the requirements to measure financial assets available for sale at fair value under the "Accounting Standards for Business Enterprises No.22 Recognition and Measurement of Financial Instruments", the Company determined the fair value of the financial assets available for sale as at 1 January 2007 based on the bidding prices in an open market amounted to RMB81,118,700. The Company made the adjustment to increase the consolidated shareholders' equity amounting to RMB25,822,000 based on the differences between the book value and the fair value.
- (3) Income tax
In accordance with "Accounting Standards for Business Enterprises No.18 Income Tax", the Company increased the deferred tax liabilities amounted to RMB24,672,000 on implementation of the new accounting standards as at 1 January 2007 at the first time, the net decrease of retained earnings amounted to RMB 24,672,000.
- (4) Minority interests
The Company adjusted the minority interests amounting to RMB336,013,000 in accordance with the new accounting standards.
- (5) Interest capitalisation of general borrowings
In accordance with "Accounting Standards for Business Enterprises No.17 Borrowing Cost", the interest expenses of general borrowing for the construction or production of the qualifying asset should be capitalized as part of the cost of that asset. The Company increased fixed assets and construction in progress by the capitalisation interest of general borrowings amounting to RMB138,657,000 on implementation of the new accounting standards as at 1 January 2007 at the first time, the net increase of retained earnings amounted to RMB 138,657,000.

4 Important notes

The Company commenced adoption of the New Accounting Standards on 1 January 2007, and is in the process of making an assessment of its impact on the Company's financial position, operating results and cash flow. After giving careful consideration to this and the further briefing on the New Accounting Standards by the Ministry of Finance, the Company may adjust related accounting policies or significant perception applied in the preparation of the reconciliation statement of differences, while preparing the 2007 financial statements. This will, in turn, cause a difference between the consolidated shareholders' equity (under the New Accounting Standards) as at 1 January 2007 as stated in the reconciliation statement of differences and the respective figures as presented in the 2007 financial statements.

C. Differences between financial statements prepared under PRC Accounting Rules and Regulations and IFRSs

The Company also prepares a set of financial statements which complies with PRC Accounting Rules and Regulations. A reconciliation of the Group's net profit and shareholders' equity prepared under PRC Accounting Rules and Regulations and IFRSs is presented below.

Other than the differences in classification of certain financial statements assertions and the accounting treatment of the items described below, there are no material differences between the Group's financial statements prepared in accordance with PRC Accounting Rules and Regulations and IFRSs. The major differences are:

Notes:

(i) Capitalisation of general borrowing costs

Under IFRSs, to the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the borrowing costs should be capitalised as part of the cost of that asset. Under PRC Accounting Rules and Regulations, only borrowing costs on funds that are specially borrowed for construction are eligible for capitalisation as fixed assets.

(ii) Valuation surplus

Under PRC Accounting Rules and Regulations, the excess of fair value over the carrying value of assets given up in part exchange for investments should be credited to capital reserve fund. Under IFRSs, it is inappropriate to recognise such excess as a gain as its realisation is uncertain.

(iii) Government grants

Under PRC Accounting Rules and Regulations, government grants should be credited to capital reserve. Under IFRSs, such grants for the purchase of equipment used for technology improvements are offset against the cost of asset to which the grants related. Upon transfer to property, plant and equipment, the grant is recognised as income over the useful life of the property, plant and equipment by way of a reduced depreciation charge.

(iv) Revaluation of land use rights

Under IFRSs, land use rights are carried at historical cost less accumulated amortisation. Under PRC Accounting Rules and Regulations, land use rights are carried at revalued amount less accumulated amortisation.

(v) Pre-operating expenditure

Under IFRSs, expenditure on start-up activities should be recognised as expenses when it is incurred. Under PRC Accounting Rules and Regulations, all expenses incurred during the start-up period are aggregated in long-term deferred expenses and then fully charged to the income statement in the month of commencement of operations.

C. Differences between financial statements prepared under PRC Accounting Rules and Regulations and IFRSs (continued)

(vi) Goodwill and negative goodwill amortisation

Under PRC Accounting Rules and Regulations, negative goodwill, acquired before 17 March 2003, and positive goodwill are amortised on a straight line basis over their useful lives.

Under IFRSs, with reference to IFRS 3, “Business combinations”, the Group no longer amortises goodwill effective 1 January 2005. Such goodwill is tested annually for impairment. Also in accordance with the transitional arrangements under IFRS 3, previously recognised negative goodwill was derecognised at the beginning of that period, with a corresponding adjustment to the opening balance of retained earnings.

(vii) Sale of assets to a jointly controlled entity

Under PRC Accounting Rules and Regulations, a listed company that sells fixed assets to its related party, any excess of the net disposal proceeds over the carrying amount of the fixed assets, net of income tax, is recognised in capital reserve.

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

(viii) Changes in fair value of available-for-sale securities

Under PRC Accounting Rules and Regulations, long-term investments in entities in which the Group does not have control, joint control or does not exercise significant influence in their management are stated at cost.

Under IFRSs, investments in available-for-sale equity securities are carried at fair value with any change in fair value, other than impairment losses, recognised directly in equity. When these investments are derecognised or impaired, the cumulative gain or loss previously recognised directly in equity is recognised in the income statement.

C. Differences between financial statements prepared under PRC Accounting Rules and Regulations and IFRSs (continued)

Effects on the Group's net profit and shareholders' equity of significant differences between PRC Accounting Rules and Regulations and IFRSs are summarised below:

	Note	Years ended 31 December	
		2006 RMB'000	2005 RMB'000
Net profit under PRC Accounting Rules and Regulations		736,851	1,704,627
Adjustments:			
Capitalisation of borrowing costs, net of depreciation effect	(i)	28,708	26,924
Reduced depreciation on government grants	(iii)	26,760	26,760
Amortisation of revaluation of land use rights	(iv)	3,498	3,498
Reversal of pre-operating expenditure previously written-off	(v)	-	80,605
Goodwill and negative goodwill amortisation	(vi)	7,267	12,599
Sale of assets to a jointly controlled entity	(vii)		
- reclassification of the gain, net of income tax, from capital reserve to income statement		89,329	-
- reversal of the unrealised gain, net of depreciation effect		(50,795)	-
Deferred tax effect of the above adjustments		2,789	(4,564)
Profit attributable to equity shareholders of the Company under IFRSs		844,407	1,850,449

	Note	As at 31 December	
		2006 RMB'000	2005 RMB'000
Shareholders' equity under PRC Accounting Rules and Regulations		19,273,088	19,166,908
Adjustments:			
Capitalisation of borrowing costs	(i)	138,657	109,949
Valuation surplus	(ii)	(44,887)	(44,887)
Government grants	(iii)	(263,919)	(290,679)
Revaluation of land use rights	(iv)	(125,865)	(129,363)
Goodwill and negative goodwill	(vi)	22,415	15,148
Sale of assets to a jointly controlled entity, net of depreciation effect	(vii)	(50,795)	-
Changes in fair value of available-for-sale securities	(viii)	25,822	-
Deferred tax effect of the above adjustments		1,827	2,911
Total equity attributable to equity shareholders of the Company under IFRSs		18,976,343	18,829,987

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

Notes:

(a) Foreign exchange gains and losses

Under IFRSs, foreign exchange differences on funds borrowed for construction are capitalised as property, plant and equipment to the extent that they are regarded as an adjustment to interest costs during the construction period. In the years ended 31 December 2006 and 2005, no foreign exchange differences were capitalised to property, plant and equipment. Under U.S. GAAP, all foreign exchange gains and losses on foreign currency debt are included in current earnings. Due to the effect of foreign exchange differences capitalised and fully amortised under IFRSs, the balances of cost and accumulated depreciation of property, plant and equipment as at 31 December 2006 under IFRSs were higher than the balances under U.S. GAAP by RMB 365,258,000 and RMB 365,258,000 respectively (31 December 2005: RMB 365,258,000 and RMB 365,258,000 respectively).

(b) Revaluation of property, plant and equipment

In the years prior to those presented herein, the property, plant and equipment of the Company were revalued to reflect the current fair value resulting in a revaluation surplus recorded in the Company's financial statements. Additional depreciation charges have been taken in the years ended 31 December 2006 and 2005 on the revaluation surplus of RMB 1,576,330,000.

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

(c) Capitalised interest on investment in associates

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

(d) Goodwill

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

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

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

(e) Presentation of minority interests

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

(f) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company under U.S. GAAP of RMB 850,024,000 (2005: RMB 1,869,384,000) and the number of shares in issue during the year of 7,200,000,000 (2005: 7,200,000,000). Basic earnings per ADS is calculated on the basis that one ADS is equivalent to 100 shares.

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

(g) United States dollar equivalents

For the convenience of the reader, amounts in Renminbi ("RMB") have been translated into United States dollars at the rate of US\$1.000 = RMB 7.8087 being the average of the buying and selling rates quoted by the People's Bank of China on 29 December 2006. No representation is made that the RMB amounts could have been, or could be, converted into United States dollars at that rate.

D. Supplementary Information for North American Shareholders (continued)

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

	Note	Years ended 31 December		
		2006	2006	2005
		US\$'000	RMB'000	RMB'000
Profit attributable to equity shareholders of the Company under IFRSs		108,137	844,407	1,850,449
U.S. GAAP adjustments:				
Depreciation charge on revalued property, plant and equipment	(b)	2,034	15,881	15,881
Capitalised interest on investment in associates, net of amortisation effect	(c)	(1,188)	(9,273)	6,396
Deferred tax effect of the above adjustments		(127)	(991)	(3,342)
Profit attributable to equity shareholders of the Company under U.S. GAAP		108,856	850,024	1,869,384
Basic earnings per share under U.S. GAAP	(f)	US\$ 0.02	RMB 0.12	RMB 0.26
Basic earnings per ADS under U.S. GAAP	(f)	US\$ 1.51	RMB 11.81	RMB 25.96

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

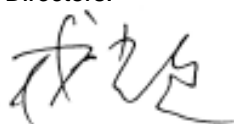
	Note	As at 31 December		
		2006	2006	2005
		US\$'000	RMB'000	RMB'000
Total equity attributable to equity shareholders of the Company under IFRSs		2,430,154	18,976,343	18,829,987
U.S. GAAP adjustments:				
Revaluation of property, plant and equipment	(b)	(4,067)	(31,759)	(47,640)
Capitalised interest on investment in associates, net of amortisation effect	(c)	11,055	86,323	95,596
Goodwill	(d)	5,166	40,344	40,344
Effect of U.S. GAAP adjustments on deferred tax assets		610	4,764	7,146
Effect of U.S. GAAP adjustments on deferred tax liabilities		(1,658)	(12,948)	(14,339)
Total equity attributable to equity shareholders of the Company under U.S. GAAP		2,441,260	19,063,067	18,911,094

Written Confirmation to the 2006 Annual Report Issued by Directors, Supervisors and Senior management of Sinopec Shanghai Petrochemical Company Limited

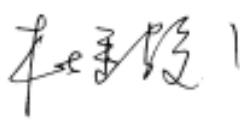
Pursuant to the requirements of No. 68 of the Securities Law and "No. 2 Content And Format of Annual Report" of "Standard of Content and Format on Information Disclosure for Publicly Listed Companies" (2005 Revision)《公開發行證券的公司信息披露內容與格式準則第2號<年度報告的內容與格式>》(2005年修訂), we, being directors, supervisors and the senior management of the Company, having carefully studied and reviewed the Company's 2006 annual report, are in the opinion that: the Company was is strict compliance with the financial system operation of listed companies and the 2006 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 2006 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



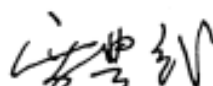
Shi Wei



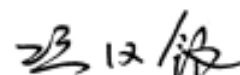
Li Honggen



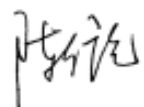
Dai JinBao



Lei Dianwu



Xiang Hanyin



Chen Xinyuan



Sun Chiping



Jiang Zhiquan



Zhou Yunnong

Supervisors:



Gao Jinping



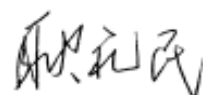
Zhang Chenghua



Wang Yanjun



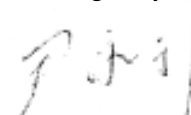
Lu Xiangyang



Geng Limin



Liu Xiangdong



Yin Yongli

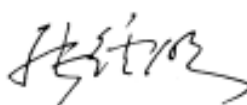
Senior Management:



Zhang Jianping



Tang Chengjian



Zhang Jingming

Registered Office

Sinopec Shanghai Petrochemical Company Limited
48 Jinyi Road, Jinshan District, Shanghai, PRC
Postal Code: 200640 Tel: (8621)5794 3143
Fax: (8621)5794 0050 Telex: 33484 SPC CN
Website: www.spc.com.cn
E-mail: spc@spc.com.cn

Initial Registered Office

The Company established on 29 June 1993, the legal address of the Company was Jinshanwei, Jinshan District, Shanghai, the People's Republic of China.

Change of the Company's Name and Legal Address

After obtaining shareholders' approval at the 1999 annual general meeting of the Company and the relevant government approval in PRC, the Company changed its name to "Sinopec Shanghai Petrochemical Company Limited" and the legal address to "48 Jinyi Road, Jinshan District, Shanghai, the People's Republic of China" on 12 October 2000.

The Company did not change its name and legal address in 2003.

The registration number of industrial and commercial enterprises

3100001002263

The tax registration number

310045132212291

Stock Exchange Listings

A Shares: Shanghai Securities Exchange
Stock code: 600688
H Shares: The Stock Exchange of
Hong Kong Limited
Stock code: 338
ADRs: New York Stock Exchange
Stock code: SHI
Ratio: 1 ADS=100 H Shares

Company Secretary

Zhang Jingming

Authorised Representatives

Rong Guangdao

Han Zhihao

Auditors

Domestic Auditors:

KPMG Huazhen

Certified Public Accountants

8th Floor, Office Tower E2

Oriental Plaza

No. 1, East Chang An Avenue, Beijing, PRC

Postal Code: 100738

International Auditors:

KPMG

Certified Public Accountants

8th Floor, Prince's Building, Central, Hong Kong

Solicitors

People's Republic of China:

Haiwen & Partners

Silver Tower

Suite 101b

2, Dong San Huan North Road

Chaoyang District, Beijing 100027, PRC

Hong Kong:

Freshfields Bruckhaus Deringer

11th Floor, Two Exchange Square

Central, Hong Kong

United States:

MORRISON & FOERSTER LLP

425 Market Street

San Francisco, California 94105-2482

U.S.A.

Principal Bankers

People's Construction Bank of China
Shanghai Branch, 79 Dianchi Road
Shanghai 200002, PRC

Industrial & Commercial Bank of China
Shanghai Branch, 23 Zhongshan Dongyi Road
Shanghai 200002, PRC

Registrars

HKSCC Registrars Limited
2nd Floor, Vicwood Plaza
199 Des Voeux Road Central, Hong Kong

Depository

The Bank of New York
Investor Services
P.O.Box 11258
Church Street Station
New York, NY 10286-1258

Toll Free Telephone number for domestic callers:
1-888-BNY-ADRs

International Calls can call:
212-815-3700
E-mail: shareowners@bankofny.com
Websites: <http://www.stockbny.com>

Publications

The Company's interim and annual reports are published in September and April respectively. As required by the United States securities laws, the Company will file an annual report in Form 20-F with the Securities and Exchange Commission before 30 June.

Copies of the interim and annual reports as well as the Form 20-F, once filed, will be available at:

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Fax: (8621)5794 0050

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Tel: (852)2520 2201
Fax: (852)2520 2241