

SINOPEC SHANGHAI PETROCHEMICAL CO LTD

Form 6-K

March 30, 2009

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SECURITIES AND EXCHANGE COMMISSION

Washington D.C. 20549

FORM 6-K

**REPORT OF FOREIGN PRIVATE ISSUER
PURSUANT TO RULE 13a-16 OR 15d-16 UNDER
THE SECURITIES EXCHANGE ACT OF 1934**

For the month of March 2009

Commission File Number: 1-12158

Sinopec Shanghai Petrochemical Company Limited

(Translation of registrant's name into English)

Jinshanwei, Shanghai

The People's Republic of China

(Address of principal executive offices)

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Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.

Form 20-F Form 40-F

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):

Indicate by check mark whether by furnishing the information contained in this Form, the registrant is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes No

If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82- Not Applicable

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SINOPEC SHANGHAI PETROCHEMICAL COMPANY LIMITED

Form 6-K

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SINOPEC SHANGHAI PETROCHEMICAL COMPANY LIMITED

Date: 30 March, 2009

By: /s/ Rong Guangdao

Name: Rong Guangdao

Title: Chairman

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(A joint stock limited company incorporated in the People's Republic of China)

(Stock Code: 338)

Overseas Regulatory Announcement

Resolutions of the 4th Meeting of the Sixth Session of the Supervisory

Committee

The Company and all members of the supervisory committee warrant that the information contained in this announcement is truthful, accurate and complete, and jointly accept full responsibility for any false representations or misleading statements contained in, or material omissions from, this announcement.

This announcement is issued pursuant to Rule 13.09(2) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The notice for convening the 4th meeting (the Meeting) of the sixth session of the supervisory committee of Sinopec Shanghai Petrochemical Company Limited (the Company) was sent to all supervisors of the Company (the Supervisors) on 12 March 2009 by facsimile transmission or courier. The Meeting was held at conference room No.6 of Jinshan Hotel in the afternoon of 26 March 2009. Of the seven Supervisors entitled to attend the Meeting, seven Supervisors were in attendance. The Meeting was in compliance with the relevant rules and regulations including the People's Republic of China (PRC) Company Law, the PRC Securities Law and the articles of association of the Company.

The resolutions for the Meeting were carefully considered by the Supervisors and were approved as follows:

1. The Company's 2008 Annual Report was approved

The supervisory committee of the Company has carefully reviewed the Company's 2008 annual report prepared by the board of directors of the Company in accordance with the relevant requirements of Article 68 of the PRC Securities Law and No. 2 Contents and Format of Annual Report of the Standards of Contents and Format on Information Disclosure for Publicly Listed Companies (2007 Revision). The Supervisors who attended the Meeting unanimously agreed that:

- (1) the preparation and review procedures for the 2008 annual report were in compliance with the requirements of all the relevant laws, regulations and the articles of association of the Company;

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- (2) the contents and format of the 2008 annual report were in compliance with the relevant requirements of the China Securities Regulatory Commission and the Shanghai Stock Exchange. The information contained therein gave a truthful view of the Company's 2008 operation management and financial position from various aspects;
- (3) before the supervisory committee of the Company issued its review opinion on the Company's 2008 annual report, no violation of the confidentiality requirements has been found in respect of the individuals who participated in the preparation and review of the 2008 annual report; and
- (4) all the Supervisors warrant that the information contained in the Company's 2008 annual report is truthful, accurate and complete, without any false representations, misleading statements or material omissions, and that all the Supervisors jointly accept full responsibility for the truthfulness, accuracy and completeness of the information contained therein.
(with 7 votes in favor, 0 vote against and 0 abstained vote)

2. The 2008 Work Report of the Supervisory Committee of the Company was approved. All Supervisors in attendance unanimously agreed that: 1) the work report gave an objective analysis on the operating results, not only acknowledging the achievements made but also indicating the gap between leading peer corporations and the Company; 2) the work report acknowledged that the 2008 annual report gave a fair view of the financial position and operating results of the Company. The unqualified opinion on the financial statements in the auditor's report, issued by KPMG Huazhen, was truthful, objective and fair; 3) the work report acknowledged the work efforts made by the supervisory committee of the Company in 2008, and that the proposed work objectives for 2009 were in line with the actual operations of the Company. At the Meeting, the work report was approved to be submitted to the 2008 annual general meeting for consideration.

(with 7 votes in favor, 0 vote against and 0 abstained vote)

3. Comments on the 2008 annual report by the Supervisory Committee was considered and approved.
(with 7 votes in favor, 0 vote against and 0 abstained vote)

4. Major work items in 2009 for the Supervisory Committee was considered and approved.
(with 7 votes in favor, 0 vote against and 0 abstained vote)

Sinopec Shanghai Petrochemical Company Limited

Supervisory Committee

Shanghai, the PRC, 26 March 2009

As at the date of this announcement, the executive directors of the Company are Rong Guangdao, Du Chongjun, Han Zhihao, Li Honggen, Shi Wei and Dai Jinbao; the non-executive directors of the Company are Lei Dianwu and Xiang Hanyin, and the independent non-executive directors of the Company are Chen Xinyuan, Sun Chiping, Jiang Zhiquan and Zhou Yunnong.

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(A joint stock limited company incorporated in the People's Republic of China)

(Stock Code: 338)

Overseas Regulatory Announcement

Resolutions of the 6th Meeting of the Sixth Session of the Board of

Directors

The Company and all members of the board of directors warrant that the information contained in this announcement is truthful, accurate and complete, and jointly accept full responsibility for any false representations or misleading statements contained in, or material omissions from, this announcement.

This announcement is issued pursuant to Rule 13.09(2) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The notice for convening the 6th meeting (the Meeting) of the sixth session of the board of directors (the Board) of Sinopec Shanghai Petrochemical Company Limited (the Company) was sent to all directors of the Company (the Directors) on 13 March 2009 by facsimile transmission and mail. The Meeting was held at conference room No.8 of the Company's main building on 27 March 2009. Of the 12 directors entitled to attend the Meeting, eight directors were in attendance. Directors Mr. Lei Dianwu and Mr. Xiang Hanyin, and Independent Non-executive Directors Mr. Chen Xinyuan and Mr. Sun Chiping were absent due to business engagements. Directors Mr. Lei Dianwu and Mr. Xiang Hanyin had appointed Mr. Rong Guangdao, Chairman, as their irrevocable voting proxies; Independent Non-executive Director Mr. Chen Xinyuan had appointed Independent Non-executive Director Mr. Zhou Yunnong, as his irrevocable voting proxy; and Independent Non-executive Director Mr. Sun Chiping had appointed Independent Non-executive Director Mr. Jiang Zhiquan as his irrevocable voting proxy. Members of the supervisory committee and the senior management of the Company attended the Meeting. The convening of the Meeting complied with the People's Republic of China Company Law and the articles of association of the Company. Mr. Rong Guangdao, Chairman, presided over the Meeting. The Meeting considered and approved the following resolutions:

Resolution 1 The president's work report of 2008 was approved with 12 votes in favor, 0 vote against and 0 abstained vote.

Resolution 2 The Board's work report of 2008 was approved with 12 votes in favor, 0 vote against and 0 abstained vote. The resolution will be submitted to the general meeting for consideration.

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Resolution 3 The 2008 audited financial report was approved with 12 votes in favor, 0 vote against and 0 abstained vote. The resolution will be submitted to the general meeting for consideration.

Resolution 4 The resolution on the adjustments of the relevant items of the balance sheet as at the beginning of 2008 was approved with 12 votes in favor, 0 vote against and 0 abstained vote.

In accordance with the change on the presentation requirement of income tax under Interpretation of China Account Standards for Business Enterprises (2008) issued in December 2008, the Company and its subsidiaries (the Group) had made reclassification adjustments to certain items of the accounting statements as of the end of 2007 to facilitate comparison. The effects of the reclassification adjustments on the Group's balance sheet as at 1 January 2008 are summarized as follows (please refer to the 2008 annual report for details):

| | Before adjustment RMB 000 | The Group Adjustment RMB 000 | After adjustment RMB 000 |
|--------------------------|------------------------------|------------------------------------|-----------------------------|
| Other receivables | 254,420 | 98,222 | 352,642 |
| Deferred tax assets | 129,207 | -129,207 | |
| Taxes payable | 70,533 | 98,222 | 168,755 |
| Deferred tax liabilities | 150,170 | -129,207 | 20,963 |

Resolution 5 The 2008 profit appropriation plan was approved with 12 votes in favor, 0 vote against and 0 abstained vote.

In 2008, net loss attributable to equity shareholders of the Company prepared under China Accounting Standards for Business Enterprises amounted to RMB6,245,412,000 (net loss attributable to equity shareholders of the Company prepared under International Financial Reporting Standards amounted to RMB6,238,444,000). The Board recommended not to pay a final dividend for the year and no capital reserve fund would be transferred to increase share capital. The resolution will be submitted to the general meeting for consideration.

Resolution 6 The 2008 annual report (full report and its summary) was approved with 12 votes in favor, 0 vote against and 0 abstained vote.

Resolution 7 The re-appointments of KPMG Huazhen as the Company's domestic auditors for 2009 and KPMG as the Company's international auditors for 2009 were approved with 12 votes in favor, 0 vote against and 0 abstained vote. The Directors were authorized to determine their remuneration on the basis of their 2008 annual remuneration and with reference to their workload. The resolution will be submitted to the general meeting for consideration.

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Resolution 8 The resolution on the Self-Assessment Report of the Board on the Internal Control of the Company was approved with 12 votes in favor, 0 vote against and 0 abstained vote.

Resolution 9 The resolution on the Report on Fulfilling Social Responsibility for 2008 was approved with 12 votes in favor, 0 vote against and 0 abstained vote.

Resolution 10 The resolution on the Rules of Meeting Procedures of the Audit Committee of the Board (2009 Revision) was approved with 12 votes in favor, 0 vote against and 0 abstained vote.

Resolution 11 The Company's Internal Control Manual (2009 Edition) was approved with 12 votes in favor, 0 vote against and 0 abstained vote.

Sinopec Shanghai Petrochemical Company Limited

Shanghai, the PRC, 27 March 2009

As at the date of this announcement, the executive directors of the Company are Rong Guangdao, Du Chongjun, Han Zhihao, Li Honggen, Shi Wei and Dai Jinbao; the non-executive directors of the Company are Lei Dianwu and Xiang Hanyin, and the independent non-executive directors of the Company are Chen Xinyuan, Sun Chiping, Jiang Zhiquan and Zhou Yunnong.

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(A joint stock limited company incorporated in the People's Republic of China)

(Stock Code: 338)

2008 Annual Report Summary

1 IMPORTANT MESSAGE

1.1 The board of Directors (the Board) and the Supervisory Committee of Sinopec Shanghai Petrochemical Company Limited (the Company or SPC) as well as its Directors, Supervisors and Senior Management warrant that there are no false representations or misleading statements contained in, or material omission from, the 2008 annual report, and severally and jointly accept full responsibility for the truthfulness, accuracy and completeness of the information contained in the 2008 annual report.

This report summary is extracted from the 2008 annual report. The Chinese version of the full report will be posted on the website of the Shanghai Stock Exchange (www.sse.com.cn) simultaneously. Investors should read the full text of the 2008 annual report for details.

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

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

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

2 CORPORATE INFORMATION

2.1 Corporate information

| | |
|--|--|
| Place of listing of A shares: | Shanghai Stock Exchange |
| Stock abbreviation of A shares: | S |
| Stock code of A shares: | 600688 |
| Place of listing of H shares: | The Stock Exchange of Hong Kong Limited |
| Stock abbreviation of H shares: | |
| Stock code of H shares: | 338 |
| Place of listing of American Depositary Receipt (ADR): | New York Stock Exchange |
| Code of American Depositary Receipt (ADR): | SHI |
| Registered address and business address: | 48 Jinyi Road, Jinshan District, Shanghai, PRC |
| Postal Code: | 200540 |
| Website of the Company: | www.spc.com.cn |
| E-mail address: | spc @spc.com.cn |

2.2 Contact persons and contact methods

| | Secretary to the Board | Securities Representative |
|-----------|---|-----------------------------------|
| Name | Zhang Jingming | Tang Weizhong |
| Address | 48 Jinyi Road Jinshan District Shanghai | Suite B, 28/F Huamin Empire Plaza |
| | | 728 West Yan an Road Shanghai |
| Telephone | 86-21-57943143 | 86-21-52377880 |
| Fax | 86-21-57940050 | 86-21-52375091 |
| E-mail | spc @spc.com.cn | tom @spc.com.cn |

Table of Contents**3. HIGHLIGHT OF ACCOUNTING AND BUSINESS DATA**

Prepared under China Accounting Standards for Business Enterprises

3.1 Major Financial Data

| | Unit: RMB 000 | | | | | |
|--|--------------------|-------------------------------------|--------------------------------------|---|---------------------|----------------------|
| | 2008 | 2007 | | Increase/ decrease compared to the previous year (after adjustment) (%) | 2006 | |
| | | After adjustment ^{Note} | Before adjustment ^{Note} | | After adjustment | Before adjustment |
| Operation Income | 60,310,570 | 55,404,687 | 55,404,687 | 8.85 | 51,478,855 | 50,479,436 |
| Total (loss)/profit before taxation | (8,022,281) | 2,121,094 | 2,121,094 | -478.21 | 924,975 | 843,669 |
| Net (loss)/profit attributable to equity shareholders of the Company | (6,245,412) | 1,592,110 | 1,592,110 | -492.27 | 805,705 | 736,851 |
| Net (loss)/profit attributable to equity shareholders of the Company excluding non-recurring items | (6,359,305) | 1,188,685 | 1,105,002 | -634.99 | 834,400 | 577,682 |
| Net cash (outflow)/ inflow from operating activities | (3,407,885) | 1,784,572 | 1,784,572 | -290.96 | 2,040,679 | 2,040,679 |
| | End of 2008 | End of 2007 | | Increase/ decrease compared to the end of previous year (%) | End of 2006 | |
| | | After adjustment ^{Note} | Before adjustment ^{Note} | | After adjustment | Before adjustment |
| Total assets | 28,107,465 | 30,463,349 | 30,494,334 | -7.73 | 28,055,503 | 27,684,200 |
| Total equity attributable to equity shareholders of the Company | 13,841,371 | 20,999,444 | 20,999,444 | -34.09 | 19,369,719 | 19,273,088 |

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

Table of Contents**3.2 Major Financial Indicators**

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

* Net assets used above do not include minority interests.

| | End of 2008 | End of 2007 | | Increase/ decrease compared to the end of previous year (%) | End of 2006 | |
|--|-------------|-------------------------------------|--------------------------------------|--|---------------------|----------------------|
| | | After adjustment ^{Note} | Before adjustment ^{Note} | | After adjustment | Before adjustment |
| Net asset value per share attributable to equity shareholders of the Company (RMB) | 1.922 | 2.917 | 2.917 | -34.11 | 2.690 | 2.677 |

Table of Contents**Non-recurring items**

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

3.3 Financial information prepared under IFRS for the past five years

| Expressed in RMB million | 2008 | 2007 | 2006 | 2005 | 2004 |
|--|-------------|-------------|-------------|-------------|-------------|
| Year ended 31 December: | | | | | |
| Net sales | 59,329.8 | 54,254.7 | 49,918.1 | 45,190.2 | 38,664.1 |
| (Loss)/profit before taxation | (8,014.4) | 2,151.4 | 964.2 | 2,287.6 | 4,696.2 |
| (Loss)/profit after taxation | (6,201.7) | 1,683.1 | 911.0 | 1,921.3 | 4,059.2 |
| (Loss)/profit attributable to equity shareholders of the Company | (6,238.4) | 1,634.1 | 844.4 | 1,850.4 | 3,971.1 |
| (Loss)/earnings per share | RMB (0.87) | RMB 0.23 | RMB 0.12 | RMB 0.26 | RMB 0.55 |
| As at 31 December: | | | | | |
| Total equity attributable to equity shareholders of the Company | 13,496.9 | 20,648.0 | 18,976.3 | 18,830.0 | 18,417.0 |
| Total assets | 27,533.0 | 29,853.1 | 27,406.1 | 26,810.4 | 28,276.6 |
| Total liabilities | 13,771.7 | 8,901.0 | 8,093.7 | 7,632.9 | 9,486.5 |

Table of Contents**3.4 Differences between financial statements prepared under China Accounting Standards for Business Enterprises and IFRS**

RMB 000

| | Net (loss)/profit attributable to equity shareholders of the Company | | Total equity attributable to equity shareholders of the Company | |
|--|--|---|---|--|
| | The Reporting Period | Corresponding period of the previous year | At the end of the Reporting Period | At the beginning of the Reporting Period |
| | Prepared under IFRS | (6,238,444) | 1,634,080 | 13,496,933 |
| Prepared under China Accounting Standards for Business Enterprises | (6,245,412) | 1,592,110 | 13,841,371 | 20,999,444 |
| Explanation of differences | For details, please refer to section 9.7 | | | |

4 CHANGE IN SHARE CAPITAL AND SHAREHOLDERS**4.1 Total Number of Shareholders and their Shareholding as at 31 December 2008**

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

Shareholding of the top ten shareholders

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

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| Name of shareholder | Type of shareholders | Percentage of total shareholding (%) | Number of shares held | Increase/decrease during the Reporting Period | Type of shares | Number of non-circulating shares held | Number of shares pledged or frozen |
|--|----------------------|--------------------------------------|-----------------------|---|-----------------|---------------------------------------|------------------------------------|
| Zhejiang Province Economic Construction and Investment Company | Others | 0.17 | 12,000,000 | 0 | Non-circulating | 12,000,000 | Unknown |
| Bank of China-Harvest Shanghai and Shenzhen 300 Index Securities Investment Fund | Others | 0.09 | 6,258,558 | +970,953 | Circulating | 0 | Unknown |
| Shanghai Textile Development Company | Others | 0.08 | 5,650,000 | 0 | Non-Circulating | 5,650,000 | Unknown |
| Shanghai Xiangshun Shiye Company Limited | Others | 0.08 | 5,500,000 | Unknown | Non-Circulating | 5,500,000 | Unknown |

Top ten shareholders of shares in circulation

| Name of shareholder | Number of circulating shares held | Type of shares |
|---|-----------------------------------|---------------------------------|
| HKSCC (Nominees) Limited | 2,300,260,101 | Overseas listed foreign shares |
| China Minsheng Banking Corp., Ltd. Orient Jing Xuan Hun He Xing Kai Fang Shi Securities Investment Fund | 79,422,371 | RMB-denominated ordinary shares |
| China Construction Bank- CIFM China Advantage Security Investment Fund | 30,890,909 | RMB-denominated ordinary shares |
| Portfolio 106 of the PRC Social Insurance Fund | 12,091,487 | RMB-denominated ordinary shares |
| Bank of China-Harvest Shanghai and Shenzhen 300 Index Securities Investment Fund | 6,258,558 | RMB-denominated ordinary shares |
| YIP CHOK CHIU | 3,150,000 | Overseas listed foreign shares |
| UBS AG | 2,972,009 | RMB-denominated ordinary shares |
| China Construction Bank Boshi Yufu Securities Investment Fund | 2,812,155 | RMB-denominated ordinary shares |
| Chen Jia | 2,541,300 | RMB-denominated ordinary shares |
| Shanghai Junfa Trading Company Limited | 2,320,000 | RMB-denominated ordinary shares |

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| Name of shareholder | Number of circulating shares held | Type of shares |
|--|---|----------------|
| Description of any connected relationship or connected parties relationships among the above shareholders | Of the above-mentioned shareholders, China Petroleum & Chemical Corporation, the State-owned shareholder, does not have any connected relationship with the other shareholders, and is not a concert party of the other shareholders under the Administrative Measures on Acquisition of Listed Companies . Of the above- mentioned shareholders, HKSCC (Nominees) Limited is a nominee shareholder. Apart from the above, the Company is not aware whether there are other connected relationships among the other shareholders, and whether they are concert parties under the Administrative Measures on Acquisition of Listed Companies . | |

4.2 Introduction of the Controlling Shareholder and Controlling Company of the Controlling Shareholder of the Company

4.2.1 Introduction of details of the controlling shareholder and controlling company of the controlling shareholder of the Company

4.2.1.1 Controlling shareholder

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

Table of Contents**4.2.1.2 Controlling company of the controlling shareholder**

| | |
|---|--|
| Name of the controlling company of the controlling shareholder: | China Petrochemical Corporation (Sinopec) |
| Legal representative: | Su Shulin |
| Registered capital: | RMB104.9 billion |
| Date of incorporation: | 24 July 1998 |
| Major businesses: | Provision of well drilling, oil well logging 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. |

4.2.2 Diagram of the ownership and controlling relationship between the Company and the controlling company of the controlling shareholder**4.3 Interests and Short Positions of Substantial Shareholders and Other Persons in Shares and Underlying Shares**

As at 31 December 2008, the interests and short positions of the Company's substantial shareholders and other persons who are required to disclose their interests pursuant to Part XV of the Securities and Futures Ordinance of Hong Kong (Chapter 571 of the Laws of Hong Kong) (the SFO) (including those who are entitled to exercise, or control the exercise of, 5% or more of the voting power at any general meeting of the Company but excluding the Directors, Supervisors and Senior Management of the Company) in the shares and underlying shares of equity derivatives of the Company as recorded in the register required to be kept under Section 336 of the SFO were as set out below:

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

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

Note: (L): Long positions

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(b) Interests in underlying shares of the Company

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

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

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

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

4.4 Audit Committee

The audit committee of the Company together with the management reviewed 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 year ended 31 December 2008.

Table of Contents**5 DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT****5.1 Change of Shareholding and Remuneration of Directors, Supervisors and Senior Management**

Unit: Share

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

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| | | | | | | | | | | | |
|-------------|---------------------|---|----|--------------|---|---|---|-----|-----|-----|--|
| | | | | June 2011 | | | | | | | |
| Wang Yanjun | Supervisor | F | 48 | June 2008 to | 0 | 0 | 0 | Yes | 220 | No | |
| | | | | June 2011 | | | | | | | |
| Zhai Yalin | External Supervisor | M | 44 | June 2008 to | 0 | 0 | 0 | No | 0 | Yes | |
| | | | | June 2011 | | | | | | | |
| Wu Xiaoqi | External Supervisor | M | 52 | June 2008 to | 0 | 0 | 0 | No | 0 | Yes | |
| | | | | June 2011 | | | | | | | |

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| Name | Position | Sex | Age | Date of commencement and end of service term | Number of shares held at the beginning of the year | Number of shares held at the end of the year | Increase/decrease of shares | Whether they received remuneration or allowance from the Company | Total remuneration received from the Company during the Reporting Period (RMB '000) (before taxation) | Whether they received remuneration or allowance from shareholder or other connected party |
|----------------|---|-----|-----|--|--|--|-----------------------------|--|---|---|
| Liu Xiangdong | Independent Supervisor | M | 57 | June 2008 to June 2011 | 0 | 0 | 0 | No | 0 | No |
| Yin Yongli | Independent Supervisor | M | 69 | June 2008 to June 2011 | 0 | 0 | 0 | No | 0 | No |
| Zhang Jianping | Vice President | M | 46 | June 2008 to June 2011 | 0 | 0 | 0 | Yes | 408 | No |
| Tang Chengjian | Vice President | M | 53 | June 2008 to June 2011 | 0 | 0 | 0 | Yes | 408 | No |
| Zhang Jingming | Company Secretary and General Counselor | M | 51 | June 2008 to June 2011 | 0 | 0 | 0 | Yes | 291 | No |
| Total | | | | | | | | | 4,832 | |

During the Reporting Period, the Company has not granted any share option incentive.

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

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

Save for the shares held by the Company's Directors, Supervisors and Senior Management as set out in paragraph 5.1 above, as at 31 December 2008, none of the Directors, Supervisors or Senior Management of the Company had any interests or short positions in any shares, underlying shares of equity derivatives or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the Model Code for Securities Transactions) set out under Appendix 10 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the Hong Kong Listing Rules).

As at 31 December 2008, none of the Directors, Supervisors or Senior Management or their respective spouses and children under 18 years of age had been granted by the Company or had exercised any rights to subscribe for shares or debentures of the Company or any of its associated corporations.

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5.3 Implementation of the Code of Corporate Governance Practices

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

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

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

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

5.4 Model Code for Securities Transactions

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

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6 REPORT OF THE DIRECTORS

6.1 Management Discussion and Analysis

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

A. Operating Results

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

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

1. Maintaining stable production operation

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

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

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

2. Market demand underwent abrupt changes

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

3. Impact of crude oil costs

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

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4. Capital expenditure projects proceeded in an organized manner

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

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

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

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

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water discharges, industrial waste water discharge volume, COD for total discharge and hazardous waste treatment ratio all met the compliance requirements for environmental protection.

6. Technical improvements reaped good results

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

7. Work on system reforms proceeded steadily

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

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

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

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

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

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

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

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

Accounting estimates and judgments

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

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

Impairments for long-lived assets

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

Depreciation

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

Impairment for bad and doubtful debts

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

Table of Contents**Allowance for diminution in value of inventories**

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

Income tax

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

Summary

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

| | For the years ended 31 December | | | | | | | | |
|-----------------------------|-----------------------------------|-----------------------------------|----------------------------|-----------------------------------|-----------------------------------|----------------------------|-----------------------------------|-----------------------------------|----------------------------|
| | 2008 | | | 2007 | | | 2006 | | |
| | Sales Volume (000 tons) | Net Sales (Millions of RMB) | % of Total Net Sales | Sales Volume (000 tons) | Net Sales (Millions of RMB) | % of Total Net Sales | Sales Volume (000 tons) | Net Sales (Millions of RMB) | % of Total Net Sales |
| Synthetic Fibres | 278.4 | 3,662.0 | 6.2 | 296.0 | 4,328.7 | 7.9 | 337.0 | 4,711.7 | 9.4 |
| Resins and Plastics | 1,462.6 | 14,850.3 | 25.0 | 1,549.0 | 15,878.8 | 29.3 | 1,558.9 | 15,753.3 | 31.6 |
| Intermediate Petrochemicals | 1,347.1 | 10,271.8 | 17.3 | 1,232.4 | 9,372.7 | 17.3 | 1,009.3 | 6,775.7 | 13.6 |
| Petroleum Products | 5,747.0 | 27,552.9 | 46.4 | 5,376.2 | 21,036.6 | 38.8 | 5,109.8 | 19,387.6 | 38.8 |
| All others | | 2,992.8 | 5.1 | | 3,637.9 | 6.7 | | 3,289.8 | 6.6 |
| Total | 8,835.1 | 59,329.8 | 100.0 | 8,453.6 | 54,254.7 | 100.0 | 8,015.0 | 49,918.1 | 100.0 |

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

| | For the years ended 31 December | | | | | |
|------------------------------------|---------------------------------|-------------------|-----------------------|-------------------|-----------------------|-------------------|
| | 2008 | | 2007 | | 2006 | |
| | Millions of RMB | % of Net sales | Millions of RMB | % of Net sales | Millions of RMB | % of Net sales |
| Synthetic fibres | | | | | | |
| Net sales | 3,662.0 | 6.2 | 4,328.7 | 7.9 | 4,711.7 | 9.4 |
| Operating expenses | (5,313.5) | (9.0) | (4,410.8) | (8.1) | (4,515.4) | (9.0) |
| Operating (loss) / profit | (1,651.5) | (2.8) | (82.1) | (0.2) | 196.3 | 0.4 |
| Resins and plastics | | | | | | |
| Net sales | 14,850.3 | 25.0 | 15,878.8 | 29.3 | 15,753.3 | 31.6 |
| Operating expenses | (17,027.0) | (28.7) | (15,222.3) | (28.1) | (14,591.2) | (29.3) |
| Operating (loss) / profit | (2,176.7) | (3.7) | 656.5 | 1.2 | 1,162.1 | 2.3 |
| Intermediate petrochemicals | | | | | | |
| Net sales | 10,271.8 | 17.3 | 9,372.7 | 17.3 | 6,775.7 | 13.6 |
| Operating expenses | (10,314.5) | (17.4) | (8,558.9) | (15.8) | (6,095.3) | (12.2) |
| Operating (loss) / profit | (42.7) | (0.1) | 813.8 | 1.5 | 680.4 | 1.4 |
| Petroleum Products | | | | | | |
| Net sales | 27,552.9 | 46.4 | 21,036.6 | 38.8 | 19,387.6 | 38.8 |
| Other income | 2,312.2 | 3.9 | 93.9 | 0.2 | 282.1 | 0.6 |
| Operating expenses | (33,811.0) | (57.0) | (21,774.7) | (40.2) | (21,367.4) | (42.8) |
| Operating (loss) / profit | (3,945.9) | (6.7) | (644.2) | (1.2) | (1,697.7) | (3.4) |
| Others | | | | | | |
| Net sales | 2,992.8 | 5.1 | 3,637.9 | 6.7 | 3,289.8 | 6.6 |
| Operating expenses | (2,993.3) | (5.1) | (3,489.2) | (6.4) | (3,078.0) | (6.2) |

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| | For the years ended 31 December | | | | | |
|---|---------------------------------|-------------------|-----------------------|-------------------|-----------------------|-------------------|
| | 2008 | | 2007 | | 2006 | |
| | Millions of RMB | % of Net sales | Millions of RMB | % of Net sales | Millions of RMB | % of Net sales |
| Operating (loss) / profit | (0.5) | 0.0 | 148.7 | 0.3 | 211.8 | 0.4 |
| Total | | | | | | |
| Net sales | 59,329.8 | 100.0 | 54,254.7 | 100.0 | 49,918.1 | 100.0 |
| Other income | 2,312.2 | 3.9 | 93.9 | 0.2 | 282.1 | 0.6 |
| Operating expenses | (69,459.3) | (117.1) | (53,455.9) | (98.6) | (49,647.3) | (99.5) |
| Operating (loss) / profit | (7,817.3) | (13.2) | 892.7 | 1.6 | 552.9 | 1.1 |
| Net financing costs | (330.4) | (0.6) | (177.9) | (0.3) | (165.4) | (0.3) |
| Investment income | 131.8 | 0.2 | 770.7 | 1.4 | | |
| Share of profit of associates and jointly controlled entities | 1.5 | 0.0 | 665.9 | 1.2 | 576.7 | 1.2 |
| (Loss) / profit before tax | (8,014.4) | (13.5) | 2,151.4 | 4.0 | 964.2 | 1.9 |
| Income tax | 1,812.7 | 3.1 | (468.3) | (0.9) | (53.2) | (0.1) |
| (Loss) / profit after tax | (6,201.7) | (10.4) | 1,683.1 | 3.1 | 911.0 | 1.8 |
| Attributable to: | | | | | | |
| Equity shareholders of the Company | (6,238.4) | (10.5) | 1,634.1 | 3.0 | 844.4 | 1.7 |
| Minority interests | 36.7 | 0.1 | 49.0 | 0.1 | 66.6 | 0.1 |
| (Loss) / profit after tax | (6,201.7) | (10.4) | 1,683.1 | 3.1 | 911.0 | 1.8 |

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RESULTS OF OPERATIONS

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

Net sales

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

1. Synthetic fibres

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

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

2. Resins and plastics

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

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

3. Intermediate petrochemical products

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

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

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4. Petroleum products

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

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

5. Other activities

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

Operating Expenses

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

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

1. Synthetic fibres

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

2. Resins and plastics

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

3. Intermediate petrochemical products

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

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4. Petroleum products

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

5. Other activities

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

Cost of sales

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

1. Crude Oil

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

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

2. Other expenses

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

Selling and administrative expenses

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

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Operating (loss) / profit

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

Other operating income

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

Other operating expenses

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

Net financing costs

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

Investment income

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

(Loss) / profit before tax

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

Income tax

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

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

(Loss) / profit after tax

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

B. Analysis of the Company's principal operations and performance (prepared under the China Accounting Standards for Business Enterprises)

1. Principal operations by segment or product

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

Price-setting principles of connected transactions

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

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Description of the necessity and continuity of connected transactions

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

2. Principal operations by geographical location

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

C. Liquidity and Capital Resources

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

Capital Sources**Net cash inflows from operating activities (prepared under IFRS)**

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

Table of Contents**Cash flow breakdowns of the Group during the Reporting Period**

(prepared under the China Accounting Standards for Business Enterprises)

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

Borrowings

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

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

Liability-to-asset ratio (prepared under IFRS)

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

D. Research and Development, Patents and Licenses

The Group comprises a number of technology development units, including the Petrochemical Research Institute, the Plastics Research Institute, the Polyester 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 for the years ended 2006, 2007 and 2008 were RMB51.6 million, RMB53.5 million and RMB47.3 million, respectively, representing approximately 0.1% of the total sales for those years.

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

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E. Off-Balance Sheet Arrangements

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

Table of Contents**F. Contractual obligations**

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

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

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

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

Unit: RMB '000

| Item | For the years ended | | Increase/ (decrease) amount | Change (%) | Reason for change |
|---|---------------------|-----------|-----------------------------------|---------------|--|
| | 31 December 2008 | 2007 | | | |
| Operating (loss)/profit | (10,364,673) | 2,118,437 | (12,483,110) | -589.26 | In 2008, crude oil costs increased significantly with prices of refined oil products and crude oil seriously inverted; meanwhile, the international financial crisis has an impact on the Company's production and operation |
| (Loss)/ profit before income tax | (8,022,281) | 2,121,094 | (10,143,375) | -478.21 | |
| Net (loss)/ profit for the year | (6,208,695) | 1,641,166 | (7,849,861) | -478.31 | |
| Net (loss)/ profit attributable to equity shareholders of the Company | (6,245,412) | 1,592,110 | (7,837,522) | -492.27 | |

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| Item | For the years ended 31 December | | Increase/ (decrease) amount | Change (%) | Reason for change |
|-------------------------|------------------------------------|------------|-----------------------------------|---------------|---|
| | 2008 | 2007 | | | |
| Asset impairment losses | 1,180,198 | 236,633 | 943,565 | 398.75 | Significant decrease in the prices of the Company's raw materials and market prices of petrochemical products, as well as provision made for impairment of machinery and facilities for the relevant products |
| Operating costs | 65,753,651 | 50,573,669 | 15,179,982 | 30.02 | Significant increase in raw material costs |
| Non-operating income | 2,373,986 | 121,441 | 2,252,545 | 1,854.85 | As the oil refining operation recorded significant loss, financial subsidies from the State increased |
| Income tax | (1,813,586) | 479,928 | (2,293,514) | -477.89 | Deferred income tax asset was recognized for deductible loss incurred in 2008 |

Unit: RMB '000

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

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

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

| Company | Place of registration | Principal activities | Place for principal activities | Class of legal person shares | Percentage of equity held by the Company | Percentage of equity held by subsidiaries (%) | Registered Capital (000) | Net Profit/(loss) for 2008 (RMB 000) |
|---|-----------------------|---|--------------------------------|------------------------------|--|---|---------------------------|--------------------------------------|
| Shanghai Petrochemical Investment Development Company Limited | China | Investment management | China | Limited company | 100 | | RMB 800,000 | (56,080) |
| China Jinshan Associated Trading Corporation | China | Import and export of petrochemical products and equipment | China | Limited company | 67.33 | | RMB 25,000 | 17,074 |
| Shanghai Jinchang Engineering Plastics Company Limited | China | Production of polypropylene compound products | China | Limited company | | 50.38 | US\$ 4,750 | 5,391 |
| Shanghai Golden Phillips Petrochemical Company Limited | China | Production of polypropylene products | China | Limited company | | 60 | US\$ 50,000 | 68,822 |
| Zhejiang Jin Yong Acrylic Fiber Company Limited | China | Production of acrylic fiber products | China | Limited company | 75 | | RMB 250,000 | (586,426) |
| Shanghai Petrochemical Enterprise Development Company Limited | China | Investment management | China | Limited company | 100 | | RMB 455,000 | (68,193) |
| Shanghai Golden Conti Petrochemical Company Limited | China | Production of petrochemical products | China | Limited company | | 100 | RMB 545,776 | (38,448) |

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None of the subsidiaries has issued any debt securities.

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

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

I. Major suppliers and customers

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

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

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

Table of Contents**J. Others****Employees**

As at 31 December 2008, the Group had 17,597 employees, of whom 9,795 were production staff; 6,447 were sales, finance and other staff; and 1,355 were administrative staff. 38.39% of the Group's staff held tertiary or above qualifications. The number of resigning and retiring staff that the Group had to undertake the respective expenses totalled 12,559.

Purchase, Sale and Investment

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

Pledge of Assets

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

K. Items related to fair value measurement

Unit: RMB 000

| Item (1) | Amount at the beginning of the Reporting Period (2) | Gains or losses arising from changes in fair value for the Reporting Period (3) | Cumulative gains or losses previously reported in equity (4) | Impairment made for the Reporting Period (5) | Amount at the end of the Reporting Period (6) |
|--|---|---|--|--|---|
| Financial assets | | | | | |
| Including: | | | | | |
| 1. Financial assets at fair value through profit or loss | | | | | |
| Including: | | | | | |
| Derivative financial assets | | 97,644 | | | 97,644 |
| 2. Available-for-sale financial assets | 478,793 | (133,765) ^{Note} | (221,110) | | 123,918 |
| Subtotal of financial assets | 478,793 | (36,121) | (221,110) | | 221,562 |

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

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

Apart from the financial assets at fair value through profit or loss derivative financial assets listed in the above table of Items related to fair value measurement, as at 31 December 2008, the Group also held foreign currency denominated bank deposits and borrowings, equivalent to RMB13,070,000 and RMB4,102,906,000, respectively.

6.2 Company's Outlook on Future Developments (Business Prospects)

1. Industry trends and the competitive environment that the Company faces

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

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

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2. New business plans for 2009

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

At present, a significant amount of crude oil is being consumed by the Group for the production of petrochemical products. The Group attempted to mitigate the effect of increased costs due to rising crude oil prices by passing on the increased costs to the Group's customers. However, the Group's ability to pass on the increased costs to its customers is subject to market conditions and the State's control. Since there is a time lag between a rise in crude oil prices and a rise in petrochemical products prices, and since the new pricing mechanism for petroleum products is not transparent, the determined prices of these petroleum products may be

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unable to fully and timely offset the impact resulting from fluctuations in crude oil prices such that rising crude oil prices cannot be totally offset by increasing the sales prices of the Group's products. In addition, the State also imposes stringent control over the distribution of many petroleum products within China. For instance, some of the Group's petroleum products are required to be sold to designated customers (such as the subsidiaries of Sinopec Corp.). Hence, when crude oil prices are high, the increases in these prices cannot be totally offset by the increases in the sales prices of the Group's petroleum products. This has created, and will continue to create, a major adverse impact on the Group's financial condition, operating results or cash flow.

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

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

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

the Company's operating results, financial condition and cash flow in future;

China's economic conditions and the market conditions for the Group's products;

financing costs and conditions of the financial market; and

grant of government approval documents and other risks associated with the development of infrastructure projects in China, and so forth. The Group's failure to secure sufficient financing required for its operations or development plans may have an adverse impact on the Group's business, operating results and financial condition.

(d) The Group may be exposed to intensifying competition

From 2009 to 2010, China's petrochemical market will reach a peak of production capacity. The commencement of production by new plants at the same time will create capacity surplus which will result in a structured oversupply in the petrochemical market in general. The Group believes this will have a substantial impact on the production and sale of its major products. Eastern China (including Shanghai, Jiangsu, Zhejiang, Anhui and Jiangxi), a major market of the Group, has been experiencing a stronger economic growth and a higher demand for petrochemical products than other regions. The Group believes that this will prompt rival petrochemical companies to attempt to expand their sales and set up their sales networks in our major markets.

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Chinese private enterprises have gradually overcome technological and funding barriers and extend from the downstream processing sector to the upstream petrochemical field. These enterprises have the strengths in many areas such as system and mechanism operation, costing, preferential policy treatment and regional presence. The Group believes these enterprises will, by adopting a low-cost approach and a flexible mechanism, compete with the Group in the markets relating to our products. Intensifying competition may have a material adverse impact on the Group's financial condition and operating results.

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

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

levy a tax on the emission of wastes;

levy a fine and a charge on acts that have seriously damaged the environment; and

shut down or suspend any facilities which are not in compliance with the law, and request that a rectification be made or that the operation which is damaging the environment be suspended.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Table of Contents**6.3 Principal Operations by Segment and Product**

Please refer to section 6.1.

6.4 Principal Operations by Geographical Location

Please refer to section 6.1.

6.5 Projects from Non-raised Capital

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

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

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

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

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

Table of Contents**7 MAJOR EVENTS****7.1 Guarantees**

Unit: RMB 000

| The Group's External Guarantees | | | | | | | | | | | | |
|--|--|--|------------------|-------------------------------|--------------------------------|--------------------------------|-------------------|-------------------|----------------------------------|-------------------------------------|---------------------------------|-------------------------|
| (excluding guarantees to subsidiaries) | | | | | | | | | | | | |
| Guarantor | Relationship between the guarantor and the Company | Guaranteed entities | Guarantee amount | Date (Agreement signing date) | Commencement date of guarantee | Maturity date of the guarantee | Type of guarantee | Guarantee expired | Whether the guarantee is overdue | Whether counter-guarantee available | Guarantee for a connected party | Connected relationships |
| | | | | | | | | | | | | |
| SPC | | Shanghai Jinpu Plastics Packaging Material Company Limited | 14,500 | 20 July 2008 | 20 July 2008 | 20 July 2009 | Joint guarantee | No | No | No | Yes | Associate |
| Shanghai Petrochemical Enterprise Development Company Limited | Parent company and subsidiary | Shanghai Jinshan Hotel Co. Ltd. | 8,250 | 24 March 2008 | 27 August 2008 | 27 August 2009 | Joint guarantee | No | No | No | Yes | Joint venture |
| Shanghai Petrochemical Enterprise Development Company Limited | Parent company and subsidiary | Shanghai Chemical Industry Park Logistics Co., Ltd. | 2,997 | 21 December 2004 | 21 December 2004 | 21 December 2009 | Joint guarantee | No | No | No | Yes | Joint venture |
| Amount of guarantees signed during the Reporting Period (excluding guarantees to subsidiaries) | | | | | | | | | | | | (5,000) |
| Amount of guarantees at the end of the Reporting Period (excluding guarantees to subsidiaries) | | | | | | | | | | | | 25,747 |
| Group's guarantees to subsidiaries | | | | | | | | | | | | |
| Amount of guarantees to subsidiaries signed by the Company during the Reporting Period | | | | | | | | | | | | (295,000) |
| Amount of guarantees to subsidiaries at the end of the Reporting Period | | | | | | | | | | | | 250,000 |
| Total guarantee amount (including guarantees to subsidiaries) | | | | | | | | | | | | |
| Total guarantee amount | | | | | | | | | | | | 275,747 |
| Total guarantee amount as a percentage of net asset value of the Company (%) of which: | | | | | | | | | | | | 1.99% |
| Amount of guarantee provided for shareholders, the controlling company of the controlling shareholder or the other connected parties | | | | | | | | | | | | |
| Amount of debt guarantee provided for the companies with liabilities to assets ratio of over 70% directly or indirectly | | | | | | | | | | | | 258,250 |
| Total amount of guarantee is over 50% of the net asset | | | | | | | | | | | | |
| Total guarantee amount of the above three items | | | | | | | | | | | | 258,250 |

Table of Contents**7.2 Major Connected Transactions**

7.2.1 Continuing connected transactions

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

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

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

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7.2.2 Connected creditor's rights and liabilities

Unit: RMB 000

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

During the Reporting Period, the funds the Company had provided to the controlling shareholder and its subsidiaries (RMB)

The balance of funds provided by the Company to the controlling shareholder and its subsidiaries (RMB)

* Reasons for the formation of connected creditor's rights and liabilities:

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

Table of Contents**7.3 Other major events and the impact, and analysis of solutions**

7.3.1 The Company holds stakes in other listed companies

Unit:RMB 000

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

7.4 The Board has issued a self-evaluation report on the Company's internal control and the auditors have issued a report on internal control over financial reporting in accordance with Sarbanes Oxley Act. For details, please refer to the full text of the 2008 annual report.

7.5 The Company has disclosed a report of fulfilling corporate social responsibility. For details, please refer to the full text of the 2008 annual report.

7.6 Purchase, sale and redemption of shares

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

8 REPORT OF THE SUPERVISORY COMMITTEE

The Supervisory Committee believed that the Company operated in compliance with the laws and no problem existed in the financial position of the Company, use of funds raised by the Company, acquisitions by the Company, transactions related to disposal of assets and connected transactions.

During the Reporting Period, the Supervisory Committee of the Company continued to refine the check-and-balance system of the Company and promoted and regulated the corporate governance structure in accordance with the relevant State laws and regulations including the PRC Company Law and the Code of Corporate Governance for Listed Companies, and the articles of association of the Company. The Supervisory Committee conscientiously discharged its duties and exercised supervision over the management's compliance with the relevant laws and regulations including the PRC Company Law and the Code of Corporate Governance for Listed Companies. It also supervised the enforcement of resolutions passed at general meetings and Board meetings, the compliance with decision-making procedures by the Board and the implementation of the internal control system. Meanwhile, it conscientiously

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conducted inspection on the financial system and the financial position of the Company. No breach of laws, regulations and the articles of association of the Company or act that damaged the Company's or its shareholders' interests was discovered as the Directors and Senior Management of the Company discharged their duties with the Company.

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

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

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

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

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9 FINANCIAL REPORT

9.1 Audit Opinion

Huazhen

**AUDITORS' REPORT ON FINANCIAL STATEMENTS
PREPARED UNDER CHINA ACCOUNTING STANDARDS
FOR BUSINESS ENTERPRISES**

KPMG-B(2009)AR No. 0387

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 2008, the consolidated income statement and income statement, the consolidated statement of changes in equity and statement of changes in equity, the consolidated cash flow statement and cash flow statement for the year then ended, and notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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Opinion

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

KPMG Huazhen

Beijing, the People's Republic of China

Certified Public Accountants

Registered in the People's Republic of China

Yu Xiaojun

Wang Wenli

27 March 2009

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| | As at 31 December | | | |
|-------------------------------------|-------------------|-------------------|-------------------|-------------------|
| | Group | | Company | |
| | 2008 | 2007 | 2008 | 2007 |
| | RMB 000 | RMB 000 | RMB 000 | RMB 000 |
| Assets | | | | |
| Current assets | | | | |
| Cash at bank and on hand | 627,685 | 893,165 | 294,786 | 634,533 |
| Financial assets held for trading | 97,644 | | 97,644 | |
| Bills receivable | 566,356 | 1,800,856 | 436,056 | 1,669,202 |
| Dividends receivable | 74,000 | | 74,000 | |
| Trade debtors | 226,293 | 563,093 | 197,522 | 420,734 |
| Advance payments | 66,772 | 123,939 | 65,586 | 105,211 |
| Other receivables | 111,578 | 352,642 | 12,465 | 311,703 |
| Inventories | 4,492,215 | 5,197,849 | 4,249,254 | 4,780,473 |
| Other current assets | 248,808 | | 245,420 | |
| Total current assets | 6,511,351 | 8,931,544 | 5,672,733 | 7,921,856 |
| Non-current assets | | | | |
| Available-for-sale financial assets | 123,918 | 478,793 | 111,327 | 434,554 |
| Long-term equity investments | 2,941,717 | 3,543,769 | 4,231,982 | 5,081,193 |
| Investment property | 492,690 | 512,793 | 554,405 | 569,326 |
| Fixed assets | 13,528,185 | 15,259,283 | 12,648,909 | 13,753,579 |
| Construction in progress | 1,854,154 | 965,463 | 1,815,344 | 940,491 |
| Intangible assets | 577,479 | 597,897 | 459,181 | 460,638 |
| Long-term deferred expenses | 145,553 | 173,807 | 141,331 | 167,582 |
| Deferred tax assets | 1,932,418 | | 1,935,851 | |
| Total non-current assets | 21,596,114 | 21,531,805 | 21,898,330 | 21,407,363 |
| Total assets | 28,107,465 | 30,463,349 | 27,571,063 | 29,329,219 |

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| | As at 31 December | | | |
|--|-------------------|-----------|------------|-----------|
| | Group | | Company | |
| | 2008 | 2007 | 2008 | 2007 |
| | RMB 000 | RMB 000 | RMB 000 | RMB 000 |
| Liabilities and shareholders' equity | | | | |
| Current liabilities | | | | |
| Short-term loans | 8,838,204 | 3,672,942 | 8,683,204 | 3,289,642 |
| Bills payable | 265,443 | 300,575 | 265,364 | 285,594 |
| Trade creditors | 2,513,076 | 1,913,118 | 2,399,527 | 1,797,640 |
| Receipt in advance | 443,471 | 429,516 | 369,723 | 397,112 |
| Employee benefits payable | 23,240 | 85,651 | 20,443 | 68,212 |
| Taxes payable | 45,448 | 168,755 | 39,062 | 144,555 |
| Interest payable | 18,333 | 11,796 | 18,333 | 11,796 |
| Other payables | 660,984 | 1,236,529 | 921,185 | 1,585,040 |
| Current portion of non-current liabilities | 534,521 | 419,027 | 450,000 | 259,097 |
| Total current liabilities | 13,342,720 | 8,237,909 | 13,166,841 | 7,838,688 |
| Non-current liabilities | | | | |
| Long-term loans | 429,021 | 639,289 | 300,000 | 450,000 |
| Deferred tax liabilities | | 20,963 | | 10,667 |
| Other non-current liabilities | 230,000 | 261,753 | 230,000 | 261,753 |
| Total non-current liabilities | 659,021 | 922,005 | 530,000 | 722,420 |
| Total liabilities | 14,001,741 | 9,159,914 | 13,696,841 | 8,561,108 |

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| | As at 31 December | | | |
|---|-------------------|------------|-------------|------------|
| | Group | | Company | |
| | 2008 | 2007 | 2008 | 2007 |
| | RMB 000 | RMB 000 | RMB 000 | RMB 000 |
| Shareholders' equity | | | | |
| Share capital | 7,200,000 | 7,200,000 | 7,200,000 | 7,200,000 |
| Capital reserve | 2,939,181 | 3,203,842 | 2,930,412 | 3,171,623 |
| Surplus reserve | 4,766,408 | 4,766,408 | 4,766,408 | 4,766,408 |
| (Accumulated losses)/ retained earnings | (1,064,218) | 5,829,194 | (1,022,598) | 5,630,080 |
| Total equity attributable to equity shareholders of the Company | 13,841,371 | 20,999,444 | | |
| Minority interests | 264,353 | 303,991 | | |
| Total equity | 14,105,724 | 21,303,435 | 13,874,222 | 20,768,111 |
| Total liabilities and shareholders' equity | 28,107,465 | 30,463,349 | 27,571,063 | 29,329,219 |

Approved and authorised for issue by the Board on 27 March 2009.

/s/ Rong Guangdao
Rong Guangdao

Chairman and President

/s/ Du Chongjun
Du Chongjun

Vice Chairman and Vice President

/s/ Han Zhihao
Han Zhihao

Director and Chief Financial Officer

(Company Chop)

Table of Contents**Income statement**

| | For the years ended 31 December | | | |
|--|---------------------------------|------------------|---------------------|------------------|
| | Group | | Company | |
| | 2008 RMB 000 | 2007 RMB 000 | 2008 RMB 000 | 2007 RMB 000 |
| Operating income | 60,310,570 | 55,404,687 | 55,758,461 | 50,074,300 |
| Less: Operating costs | 65,753,651 | 50,573,669 | 61,443,455 | 45,729,716 |
| Business taxes and surcharges | 897,088 | 1,073,695 | 886,716 | 1,060,568 |
| Selling and distribution expenses | 467,987 | 504,712 | 380,700 | 417,220 |
| General and administrative expenses | 2,178,866 | 2,268,946 | 1,885,565 | 1,897,274 |
| Financial expenses | 428,082 | 177,926 | 382,963 | 141,419 |
| Impairment loss | 1,180,198 | 236,633 | 1,175,288 | 233,873 |
| Add: Gain from changes in fair value | 97,644 | | 97,644 | |
| Investment income | 132,985 | 1,549,331 | 97,223 | 1,739,783 |
| Including: (loss)/income from investment in associates and jointly controlled enterprises | (8,508) | 655,897 | (30,759) | 628,075 |
| Operating (loss)/profit | (10,364,673) | 2,118,437 | (10,201,359) | 2,334,013 |
| Add: Non-operating income | 2,373,986 | 121,441 | 2,372,127 | 114,534 |
| Less: Non-operating expenses | 31,594 | 118,784 | 27,255 | 104,039 |
| Including: loss from disposal of non-current assets | 4,452 | 51,790 | 3,871 | 38,825 |
| (Loss)/profit before income tax | (8,022,281) | 2,121,094 | (7,856,487) | 2,344,508 |
| Less: Income tax | (1,813,586) | 479,928 | (1,851,809) | 420,174 |
| Net (loss)/profit: | (6,208,695) | 1,641,166 | (6,004,678) | 1,924,334 |
| Attributable to: | | | | |
| Equity shareholders of the Company | (6,245,412) | 1,592,110 | | |
| Minority shareholders | 36,717 | 49,056 | | |
| Basic and diluted (losses)/earnings per share | RMB (0.867) | RMB 0.221 | | |

Approved and authorised for issue by the Board on 27 March 2009.

/s/ Rong Guangdao
Rong Guangdao

Chairman and President

/s/ Du Chongjun
Du Chongjun

*Vice Chairman and Vice
President*

/s/ Han Zhihao
Han Zhihao

*Director and Chief Financial
Officer*

(Company Chop)

Table of Contents**Cash flow statement**

| | For the years ended 31 December | | | |
|--|---------------------------------|---------------------|---------------------|---------------------|
| | Group | | Company | |
| | 2008 | 2007 | 2008 | 2007 |
| | RMB 000 | RMB 000 | RMB 000 | RMB 000 |
| Cash flows from operating activities: | | | | |
| Cash received from sale of goods and rendering of services | 72,852,016 | 64,955,246 | 66,622,192 | 57,801,225 |
| Refund of taxes | 83,917 | | 83,917 | |
| Other cash received relating to operating activities | 2,437,118 | 9,796 | 2,435,468 | 5,787 |
| Sub-total of cash inflows | 75,373,051 | 64,965,042 | 69,141,577 | 57,807,012 |
| Cash paid for goods and services | (75,037,127) | (59,334,641) | (69,830,027) | (52,865,186) |
| Cash paid to and for employees | (1,949,669) | (2,050,838) | (1,562,006) | (1,423,536) |
| Cash paid for all types of taxes | (1,470,710) | (1,491,320) | (1,372,816) | (1,416,608) |
| Other cash paid relating to operating activities | (323,430) | (303,671) | (296,705) | (267,053) |
| Sub-total of cash outflows | (78,780,936) | (63,180,470) | (73,061,554) | (55,972,383) |
| Net cash (outflow)/inflow from operating activities | (3,407,885) | 1,784,572 | (3,919,977) | 1,834,629 |
| Cash flows from investing activities: | | | | |
| Cash received from disposal of investments | 153,997 | 1,114,701 | 120,001 | 891,863 |
| Cash received from investment income | 546,333 | 393,062 | 531,042 | 685,818 |
| Net cash received from disposal of fixed assets, and intangible assets | 51,829 | 68,708 | 29,351 | 56,808 |
| Other cash received relating to investing activities | 59,472 | 46,421 | 51,088 | 37,884 |
| Sub-total of cash inflows | 811,631 | 1,622,892 | 731,482 | 1,672,373 |
| Cash paid for acquisition of fixed assets, and intangible assets | (1,511,072) | (2,134,123) | (1,491,892) | (1,998,473) |
| Cash paid for acquisition of investments | (8,039) | | | |
| Sub-total of cash outflows | (1,519,111) | (2,134,123) | (1,491,892) | (1,998,473) |
| Net cash outflow from investing activities | (707,480) | (511,231) | (760,410) | (326,100) |
| Cash flows from financing activities: | | | | |
| Cash received from borrowings | 32,528,758 | 17,605,887 | 32,375,758 | 17,062,587 |

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| | For the years ended 31 December | | | |
|--|---------------------------------|--------------|--------------|--------------|
| | Group | | Company | |
| | 2008 | 2007 | 2008 | 2007 |
| | RMB 000 | RMB 000 | RMB 000 | RMB 000 |
| Sub-total of cash inflows | 32,528,758 | 17,605,887 | 32,375,758 | 17,062,587 |
| Repayments of debentures | | (2,000,000) | | (2,000,000) |
| Repayments of borrowings | (27,377,610) | (16,166,938) | (26,865,477) | (15,910,100) |
| Cash paid for dividends, profits distribution and interest | (1,300,511) | (711,652) | (1,169,630) | (578,103) |
| Sub-total of cash outflows | (28,678,121) | (18,878,590) | (28,035,107) | (18,488,203) |
| Net cash inflow/(outflow) from financing activities | 3,850,637 | (1,272,703) | 4,340,651 | (1,425,616) |
| Effect of foreign exchange rate changes on cash and cash equivalents | (752) | (2,123) | (11) | (73) |
| Net (decrease)/increase in cash and cash equivalents | (265,480) | (1,485) | (339,747) | 82,840 |
| Add: cash and cash equivalents at the beginning of the year | 893,165 | 894,650 | 634,533 | 551,693 |
| Cash and cash equivalents at the end of the year | 627,685 | 893,165 | 294,786 | 634,533 |

Approved and authorised for issue by the Board on 27 March 2009.

/s/ Rong Guangdao
Rong Guangdao

Chairman and President

/s/ Du Chongjun
Du Chongjun

Vice Chairman and Vice President

/s/ Han Zhihao
Han Zhihao

Director and Chief Financial Officer

(Company Chop)

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Consolidated statement of changes in shareholder s equity

(Expressed in thousands of renminbi yuan)

| | For the years ended 31 December | | | | | | | | | | | | | |
|------------------------------|--|-----------------|-----------------|-------------------|-------------|-----------|-------------|--|-----------------|-----------------|-------------------|------------|-----------|------------|
| | 2008 | | | | | | | 2007 | | | | | | |
| | Attributable to equity shareholders of the Company | | | | | | Minority | Attributable to equity shareholders of the Company | | | | | | Minority |
| | Share capital | Capital reserve | Surplus reserve | Retained earnings | Subtotal | interests | Total | Share capital | Capital reserve | Surplus reserve | Retained earnings | Subtotal | interests | Total |
| Balance at beginning of year | 7,200,000 | 3,203,842 | 4,766,408 | 5,829,194 | 20,999,444 | 303,991 | 21,303,435 | 7,200,000 | 2,945,607 | 4,610,707 | 4,516,774 | 19,273,088 | 336,013 | 19,609,101 |
| Share-based payment | | | | | | | | | (67,380) | (36,733) | 200,744 | 96,631 | | 96,631 |
| Share-based payment | 7,200,000 | 3,203,842 | 4,766,408 | 5,829,194 | 20,999,444 | 303,991 | 21,303,435 | 7,200,000 | 2,878,227 | 4,573,974 | 4,717,518 | 19,369,719 | 336,013 | 19,705,732 |
| Share-based payment | | | | (6,245,412) | (6,245,412) | 36,717 | (6,208,695) | | | | 1,592,110 | 1,592,110 | 49,056 | 1,641,166 |
| Share-based payment | | | | | | | | | | | | | | |
| Share-based payment | | (221,110) | | | (221,110) | | (221,110) | | 1,208,322 | | | 1,208,322 | | 1,208,322 |
| Share-based payment | | (131,772) | | | (131,772) | | (131,772) | | (770,725) | | | (770,725) | | (770,725) |
| Share-based payment | | 88,221 | | | 88,221 | | 88,221 | | (111,982) | | | (111,982) | | (111,982) |
| Share-based payment | | | | | | | | | | 192,434 | (192,434) | | | |
| Share-based payment | | | | (648,000) | (648,000) | (76,355) | (724,355) | | | | (288,000) | (288,000) | (81,078) | (369,078) |
| Balance at end of year | 7,200,000 | 2,939,181 | 4,766,408 | (1,064,218) | 13,841,371 | 264,353 | 14,105,724 | 7,200,000 | 3,203,842 | 4,766,408 | 5,829,194 | 20,999,444 | 303,991 | 21,303,435 |

Table of Contents**Statement of changes in shareholder's equity***(Expressed in thousands of renminbi yuan)*

| | For the years ended 31 December | | | | | | | | | |
|--|---------------------------------|-----------------|----------------------|-------------------|-------------|---------------|-----------------|----------------------|-------------------|------------|
| | Share capital | Capital reserve | 2008 Surplus reserve | Retained earnings | Total | Share capital | Capital reserve | 2007 Surplus reserve | Retained earnings | Total |
| Balance at 31 December | 7,200,000 | 3,171,623 | 4,766,408 | 5,630,080 | 20,768,111 | 7,200,000 | 2,945,607 | 4,610,707 | 4,516,774 | 19,273,088 |
| Changes in accounting policies | | | | | | | (76,932) | (36,733) | (330,594) | (444,259) |
| Balance at 1 January | 7,200,000 | 3,171,623 | 4,766,408 | 5,630,080 | 20,768,111 | 7,200,000 | 2,868,675 | 4,573,974 | 4,186,180 | 18,828,829 |
| Changes in equity for the year | | | | | | | | | | |
| Net (loss)/profit for the year | | | | (6,004,678) | (6,004,678) | | | | 1,924,334 | 1,924,334 |
| Gain and loss recognised directly in equity | | | | | | | | | | |
| - Unrealised (loss)/gain for change in fair value of available-for-sale securities | | (203,226) | | | (203,226) | | 1,048,731 | | | 1,048,731 |
| - Transfer to profit or loss on disposal of available-for-sale securities | | (118,389) | | | (118,389) | | (642,855) | | | (642,855) |
| - Deferred tax effect of the above items | | 80,404 | | | 80,404 | | (102,928) | | | (102,928) |
| Appropriation of profits | | | | | | | | | | |
| - Appropriation for surplus reserve | | | | | | | | 192,434 | (192,434) | |
| - Distribution to shareholders | | | | (648,000) | (648,000) | | | | (288,000) | (288,000) |
| Balance at 31 December | 7,200,000 | 2,930,412 | 4,766,408 | (1,022,598) | 13,874,222 | 7,200,000 | 3,171,623 | 4,766,408 | 5,630,080 | 20,768,111 |

Approved and authorised for issue by the Board on 27 March 2009.

/s/ Rong Guangdao
Rong Guangdao/s/ Du Chongjun
Du Chongjun/s/ Han Zhihao
Han Zhihao

(Company Chop)

Chairman and President

Vice Chairman and Vice President

Director and Chief Financial Officer

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9.3 Changes in accounting policies

(1) Description of and reasons for changes in accounting policies

In accordance with CAS Bulletin No.2 and the Notice on preparing 2008 annual reports of enterprises adopting China Accounting Standards (Caikuaihan [2008]No.60) , which were newly issued by the Ministry of Finance in 2008, and the Interpretation Guidance of CAS published in December 2008, the Group changed the following significant accounting policies in the current accounting year:

(a) Deferred tax assets are offset against deferred tax liabilities

Deferred tax assets and liabilities were presented separately from each other and were not offset. Now they are presented on a net basis on the balance sheet if specific conditions are met.

The relevant comparative items have been adjusted accordingly for the above change on the presentation of deferred tax assets and liabilities. The effects of this change of accounting policy on the prior and current years have been disclosed in 9.3 (2) and 9.3 (1)(b), respectively.

(b) Effect of changes in accounting policies on the current year

The following tables provide estimates of the extent to which each of the line items in the consolidated income statement and income statement, and the consolidated balance sheet and balance sheet for the year ended 31 December 2008 is higher or lower than it would have been had the previous policies still been applied in the year.

(i) The changes of accounting policies have no effect on the 2008 consolidated income statement and income statement.

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(ii) The effects of the above changes in accounting policies on each of the line items in the consolidated balance sheet and balance sheet for the year ended 31 December 2008 are analysed as follows:

| | Effect of new policy increase/(decrease) in net assets | |
|--------------------------|--|---------------------------|
| | The Group RMB 000 | The Company RMB 000 |
| Deferred tax assets | (82,111) | (78,319) |
| Deferred tax liabilities | 82,111 | 78,319 |

Net assets

(2) The changes of accounting policies have no effect on the 2007 consolidated income statement and income statement.

The effects of the above changes in accounting policies on each of the line items in the consolidated balance sheet and balance sheet for the year ended 31 December 2007 are summarised as follows:

| | Before Adjustment | The Group Adjustment | After Adjustment | Before Adjustment | The Company Adjustment | After Adjustment |
|--------------------------|----------------------|-------------------------|---------------------|----------------------|---------------------------|---------------------|
| Deferred tax assets | 129,207 | (129,207) | | 126,519 | (126,519) | |
| Deferred tax liabilities | (150,170) | 129,207 | (20,963) | (137,186) | 126,519 | (10,667) |
| Total | | | (20,963) | (10,667) | | (10,667) |

9.4 During the Reporting Period, no correction on accounting errors were made.

9.5 During the Reporting Period, there were no substantial changes to the scope of consolidation for the Company's financial statements.

Table of Contents**9.6 Prepared under International Financial Reporting Standards****Consolidated income statement**

| | Note | For the year ended 31 December | |
|--|------|-----------------------------------|-----------------|
| | | 2008 RMB 000 | 2007 RMB 000 |
| Turnover | | 60,226,859 | 55,328,384 |
| Sales taxes and surcharges | | (897,088) | (1,073,695) |
| Net sales | | 59,329,771 | 54,254,689 |
| Other income | 1 | 2,312,227 | 93,900 |
| Cost of sales | | (68,556,447) | (52,646,516) |
| Gross (loss)/profit | | (6,914,449) | 1,702,073 |
| Selling and administrative expenses | | (467,987) | (504,712) |
| Other operating income | | 145,191 | 216,553 |
| Other operating expenses | | | |
| Employee reduction expenses | | (89,844) | (208,013) |
| Others | | (490,175) | (313,245) |
| Total other operating expenses | | (580,019) | (521,258) |
| (Loss)/profit from operations | | (7,817,264) | 892,656 |
| Financial income | | 227,533 | 82,280 |
| Financial expenses | | (557,971) | (260,206) |
| Net financing costs | | (330,438) | (177,926) |
| Investment income | | 131,772 | 770,725 |
| Share of profits of associates and jointly controlled entities | | 1,492 | 665,897 |
| (Loss)/profit before taxation | 2 | (8,014,438) | 2,151,352 |
| Taxation | 3 | 1,812,711 | (468,216) |
| (Loss)/profit after taxation | | (6,201,727) | 1,683,136 |
| Attributable to: | | | |
| Equity shareholders of the Company | | (6,238,444) | 1,634,080 |
| Minority interests | | 36,717 | 49,056 |

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| | Note | For the year ended 31 December | |
|---|------|--------------------------------|-----------|
| | | 2008 | 2007 |
| | | RMB 000 | RMB 000 |
| (Loss)/profit after taxation | | (6,201,727) | 1,683,136 |
| Basic (loss)/earnings per share | 4 | RMB (0.87) | RMB 0.23 |
| Dividends attributable to the year | 5 | | 648,000 |

Table of Contents**Consolidated balance sheet**

| | | As at 31 December | |
|--|------|--------------------|-------------------|
| | | 2008 | 2007 |
| | Note | RMB 000 | RMB 000 |
| Non-current assets | | | |
| Property, plant and equipment | | 13,272,899 | 14,977,237 |
| Investment property | | 492,690 | 512,793 |
| Construction in progress | | 1,854,154 | 962,313 |
| Interest in associates and jointly controlled entities | | 2,545,978 | 3,068,135 |
| Other investments | | 289,657 | 714,427 |
| Lease prepayments and other assets | | 604,163 | 649,337 |
| Goodwill | | | 22,415 |
| Deferred tax assets | | 1,962,135 | 9,629 |
| Total non-current assets | | 21,021,676 | 20,916,286 |
| Current assets | | | |
| Inventories | | 4,492,215 | 5,197,849 |
| Trade debtors | 6 | 89,086 | 212,257 |
| Bills receivable | 6 | 532,580 | 1,757,131 |
| Deposits, other debtors and prepayments | | 484,475 | 262,918 |
| Amounts due from related parties | 6 | 277,777 | 515,222 |
| Income tax recoverable | | 7,533 | 98,222 |
| Cash and cash equivalents | | 627,685 | 893,165 |
| Total current assets | | 6,511,351 | 8,936,764 |
| Current liabilities | | | |
| Loans and borrowings | | 9,372,725 | 4,091,969 |
| Trade creditors | 8 | 1,272,811 | 1,504,454 |
| Bills payable | 8 | 263,443 | 300,575 |
| Other creditors | | 679,415 | 1,442,284 |
| Amounts due to related parties | 8 | 1,752,647 | 904,870 |
| Income tax payable | | 1,679 | 17,580 |
| Total current liabilities | | 13,342,720 | 8,261,732 |
| Net current (liabilities)/ assets | | (6,831,369) | 675,032 |
| Total assets less current liabilities carried forward | | 14,190,307 | 21,591,318 |

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| | | As at 31 December | |
|--|-------------|--------------------------|----------------|
| | Note | 2008 | 2007 |
| | | RMB 000 | RMB 000 |
| Total assets less current liabilities brought forward | | 14,190,307 | 21,591,318 |
| Non-current liabilities | | | |
| Loans and borrowings | 7 | 429,021 | 639,289 |
| Total non-current liabilities | | 429,021 | 639,289 |
| Net assets | | 13,761,286 | 20,952,029 |
| Shareholders' equity | | | |
| Share capital | | 7,200,000 | 7,200,000 |
| Reserves | | 6,296,933 | 13,448,038 |
| Total equity attributable to equity shareholders of the Company | | 13,496,933 | 20,648,038 |
| Minority interests | | 264,353 | 303,991 |
| Total equity | | 13,761,286 | 20,952,029 |

Table of Contents**Notes to the financial statements****1 Other income**

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

2 (Loss)/profit before taxation

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

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

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

The consolidated loss attributable to equity shareholders of the Company includes a loss of RMB5,588,868,000 (2007: a profit of RMB848,356,000) which has been dealt with in the financial statements of the Company.

Table of Contents**3 Taxation****Taxation in the consolidated income statement represents:**

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

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

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

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

Table of Contents**4 Basic (loss)/earnings per share**

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

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

5 Dividends

(a) Dividends attributable to the year

| | 2008 RMB 000 | 2007 RMB 000 |
|--|-----------------|-----------------|
| Final dividend proposed after the balance sheet date of RMB nil (2007: RMB 0.09) per share | | 648,000 |

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

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

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

Table of Contents**6 Trade and other receivable**

| | The Group | |
|--|------------------|----------------|
| | 2008 | 2007 |
| | RMB 000 | RMB 000 |
| Trade debtors | 107,697 | 236,848 |
| Less: Impairment losses for bad and doubtful debts | (18,611) | (24,591) |
| | 89,086 | 212,257 |
| Bills receivable | 532,580 | 1,757,131 |
| Amounts due from related parties | 277,777 | 515,222 |
| | 899,443 | 2,484,610 |
| Derivative financial instruments | | |
| - Forward contracts receivable | 97,644 | |
| Deposits, other debtors and prepayments | 386,831 | 262,918 |
| | 484,475 | 262,918 |
| | 1,383,918 | 2,747,528 |

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

| | The Group | |
|---------------------------|------------------|----------------|
| | 2008 | 2007 |
| | RMB 000 | RMB 000 |
| Invoice date: | | |
| Within one year | 899,309 | 2,483,551 |
| Between one and two years | 134 | 1,059 |
| | 899,443 | 2,484,610 |

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

Table of Contents**7 Loans and borrowings**

Loans and borrowings are repayable as follows:

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

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

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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 | |
|-----------------------|---------------------------|---------------------------|
| | 2008 000 | 2007 000 |
| United States Dollars | USD 600,314 | USD 86,556 |

8 Trade accounts payable

| | The Group | |
|--------------------------------|-------------------------------|-------------------------------|
| | 2008 RMB 000 | 2007 RMB 000 |
| Trade creditors | 1,272,811 | 1,504,454 |
| Bills payable | 263,443 | 300,575 |
| Amounts due to related parties | 1,752,647 | 904,870 |
| | 3,288,901 | 2,709,899 |

The maturity analysis of trade accounts payable is as follows:

| | The Group | |
|---------------------------------------|-------------------------------|-------------------------------|
| | 2008 RMB 000 | 2007 RMB 000 |
| Due within 1 month or on demand | 3,024,511 | 2,439,156 |
| Due after 1 month and within 3 months | 264,390 | 270,743 |
| | 3,288,901 | 2,709,899 |

9 Change in Shareholders' Equity

For the year ended 31 December 2008 the balance of total equity of the Group decreased from RMB 20,952,029,000 at the beginning of the year to RMB 13,761,286,000 at the year end. In particular, the balances of share capital and share premium amounted to RMB 7,200,000,000 and RMB 2,420,841,000, respectively, which remained unchanged as compared to the beginning of the year; the balance of reserves decreased from RMB 4,969,548,000 at the beginning of the year to RMB 4,704,887,000 at the year end which were arisen from the disposal of available-for-sale securities and drop in the fair value of the available-for-sale securities. For the year ended 31 December 2008 the balance of retained profit of the Group decreased from RMB 6,057,649,000 at the beginning of the year to an accumulated loss of RMB 828,795,000 at the year end.

Table of Contents**10 Segment reporting**

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

Turnover and other income

| | 2008 | 2007 |
|---|---------------------|---------------------|
| | RMB 000 | RMB 000 |
| Manufactured products | | |
| Synthetic fibres | | |
| - external sales | 3,670,362 | 4,342,215 |
| - intersegment sales | 73 | 85 |
| Total | 3,670,435 | 4,342,300 |
| Resins and plastics | | |
| - external sales | 14,880,659 | 15,927,089 |
| - intersegment sales | 53,065 | 75,183 |
| Total | 14,933,724 | 16,002,272 |
| Intermediate petrochemicals | | |
| - external sales (note a) | 10,296,256 | 9,406,507 |
| - intersegment sales | 17,801,810 | 16,966,433 |
| Total | 28,098,066 | 26,372,940 |
| Petroleum products | | |
| - external sales (note a) | 28,372,037 | 21,997,362 |
| - intersegment sales | 2,153,355 | 1,336,695 |
| - other income | 2,312,227 | 93,900 |
| Total | 32,837,619 | 23,427,957 |
| All others | | |
| - external sales | 3,007,545 | 3,655,211 |
| - intersegment sales | 2,720,112 | 3,402,717 |
| Total | 5,727,657 | 7,057,928 |
| Eliminations of intersegment sales | (22,728,415) | (21,781,113) |
| Turnover and other income | 62,539,086 | 55,422,284 |

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

| | 2008 RMB 000 | 2007 RMB 000 |
|---|-----------------|-----------------|
| Sales to Sinopec Corp Group companies | | |
| Intermediate petrochemicals | 3,168,697 | 2,968,753 |
| Petroleum products | 24,698,143 | 17,884,389 |
| Total | 27,866,840 | 20,853,142 |
| (Loss)/profit before taxation | | |
| | | |
| | 2008 RMB 000 | 2007 RMB 000 |
| (Loss)/ profit from operations | | |
| Synthetic fibres | (1,651,458) | (82,083) |
| Resins and plastics | (2,176,731) | 656,475 |
| Intermediate petrochemicals | (42,654) | 813,762 |
| Petroleum products | (3,945,873) | (644,234) |
| All others | (548) | 148,736 |
| Consolidated (loss)/profit from operations | (7,817,264) | 892,656 |
| Net financing costs | (330,438) | (177,926) |
| Investment income | 131,772 | 770,725 |
| Share of profits of associates and jointly controlled entities | 1,492 | 665,897 |
| (Loss)/profit before taxation | (8,014,438) | 2,151,352 |

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9.7 Differences between financial statements prepared under the China Accounting Standards for Business Enterprises and International Financial Reporting Standards (IFRS)

The Company also prepares a set of financial statements which complies with the China Accounting Standards for Business Enterprises (CAS (2006)). A reconciliation of the Group's net (loss)/ profit and shareholders' equity prepared under the China Accounting Standards for Business Enterprises and IFRS is presented below.

Other than the differences in the classification of certain financial statements assertions and the accounting treatment of the items described below, there are no material differences between the Group's financial statements prepared in accordance with the China Accounting Standards for Business Enterprises and IFRS. The major differences are:

Notes:

(i) Government grants

Under the China Accounting Standards for Business Enterprises, government subsidies defined as capital contributions according to the relevant government requirements are not considered a government grant, but instead should be recorded as an increase in capital reserves.

Under IFRS, such grants are offset against the cost of asset to which the grants related. Upon transfer to property, plant and equipment, the grant is recognised as income over the useful life of the property, plant and equipment by way of a reduced depreciation charge.

(ii) Revaluation of land use rights

Under IFRS, land use rights are carried at historical cost less accumulated amortisation. Under the China Accounting Standards for Business Enterprises, the cost of land use rights invested by the shareholders at the time of the establishment of the enterprise is determined at revalued amount, then amortised on the basis of revalued amount to determine the net book value.

(iii) Goodwill

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

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

As a result, there are no differences in respect of goodwill amortisation between the China Accounting Standards for Business Enterprises and IFRS effective 1 January 2007. Under IFRS, the impairment loss of goodwill recognised in profit or loss in 2008 represents the difference in two years of amortisation of positive goodwill during the period from 1 January 2005 to 31 December 2006 under the previous China Accounting Rules and Regulations.

Table of Contents**(iv) Change in tax rate on deferred tax**

As the EIT rate applicable to the Company was changed from 33% in 2007 to 25% in 2008, deferred tax recognised as at 31 December 2007 is based on the 25% tax rate that is expected to apply to the period when the asset is realised or the liability is settled. The amount represents the effects of change in tax rate on deferred tax assets.

The effect on the Group's net (loss)/profit of significant differences between the China Accounting Standards for Business Enterprises and IFRS are summarised below:

| | Note | Year ended 31 December | |
|--|-------|------------------------|-----------------|
| | | 2008 RMB 000 | 2007 RMB 000 |
| (Loss)/profit attributable to equity shareholders of the Company under the China Accounting Standards for Business Enterprises | | (6,245,412) | 1,592,110 |
| Adjustments: | | | |
| Reduced depreciation on government grants | (i) | 26,760 | 26,760 |
| Amortisation of revaluation of land use rights | (ii) | 3,498 | 3,498 |
| Impairment loss of goodwill | (iii) | (22,415) | |
| Effects of the above adjustments on taxation | | (875) | (1,154) |
| Effects of change in tax rate on deferred tax | (iv) | | 12,866 |
| (Loss)/profit attributable to equity shareholders of the Company under IFRS | | (6,238,444) | 1,634,080 |

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The effect on the Group's shareholders' equity of significant differences between the China Accounting Standards for Business Enterprises and IFRS are summarised below:

| | Note | As at 31 December | |
|---|-------|-------------------|------------|
| | | 2008 | 2007 |
| | | RMB 000 | RMB 000 |
| Total equity attributable to equity shareholders of the Company under the China Accounting Standards for Business Enterprises | | 13,841,371 | 20,999,444 |
| Adjustments: | | | |
| Government grants | (i) | (210,399) | (237,159) |
| Revaluation of land use rights | (ii) | (163,756) | (167,254) |
| Goodwill | (iii) | | 22,415 |
| Effects of the above adjustments on taxation | | 29,717 | 30,592 |
| Total equity attributable to equity shareholders of the Company under IFRS | | 13,496,933 | 20,648,038 |

By order of the Board

Rong Guangdao

Chairman

Shanghai, the PRC, 27 March 2009

As at the date of this announcement, the executive directors of the Company are Rong Guangdao, Du Chongjun, Han Zhihao, Li Honggen, Shi Wei and Dai Jinbao; the non-executive directors of the Company are Lei Dianwu and Xiang Hanyin, and the independent non-executive directors of the Company are Chen Xinyuan, Sun Chiping, Jiang Zhiquan and Zhou Yunnong.

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(A joint stock limited company incorporated in the People's Republic of China)

(Stock Code: 338)

Overseas Regulatory Announcement

Risk Warning Announcement Regarding the Development of Share Reform of the Company

Sinopec Shanghai Petrochemical Company Limited (the Company) and all members of the board of directors warrant that the information contained in this announcement is truthful, accurate and complete, and that there are no false presentations or misleading statements contained in, or material omissions from, this announcement.

This announcement is published simultaneously in Shanghai and Hong Kong. This announcement is published domestically pursuant to the Rules Governing Listing of Stocks on Shanghai Stock Exchange, and is made pursuant to the disclosure obligations under Rule 13.09 (2) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

Important Notice:

The Company will not be able to disclose the share reform (Share Reform) plan within one month. Investors should be aware of the investment risk.

At present, the number of shares held by the holders of non-circulating shares of the Company who have submitted Share Reform proposals fails to reach two-thirds of the total number of shares as required by the Measures on Administration of Share Reform of Listed Companies.

1. Current Status on Share Reform Proposal by the Holders of Non-Circulating Shares of the Company

At present, the number of shares held by the holders of non-circulating shares of the Company who have submitted Share Reform proposals fails to reach two-thirds of the total number of shares as required by the Measures on Administration of Share Reform of Listed Companies.

2. Status on the Sponsor Institution for the Company's Share Reform

The Company has thus far not entered into any share reform sponsor contract with any sponsor institution.

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3. Confidentiality and Liabilities of the Directors

All directors of the Company have confirmed and expressly informed the concerned parties that they shall observe their confidentiality obligations pursuant to Article 7 of the Measures on Administration of Share Reform of Listed Companies and other regulations.

All directors of the Company warrant that they shall timely disclose relevant matters regarding the Share Reform according to Article 7.3, Article 7.4 and other provisions of the Rules Governing the Listing of Stocks.

All directors of the Company acknowledge that they are aware of the sanction rules regarding information disclosure that fails to comply with relevant regulations and insider trading as set forth in the Criminal Law, the Securities Law and the Measures on Administration of Share Reform of Listed Companies and other regulations.

The Company hereby publishes the aforesaid information.

Sinopec Shanghai Petrochemical Company Limited

Shanghai, the PRC, 30 March, 2009

As at the date of this announcement, the executive directors of the Company are Rong Guangdao, Du Chongjun, Han Zhihao, Li Honggen, Shi Wei and Dai Jinbao; the non-executive directors of the Company are Lei Dianwu and Xiang Hanyin, and the independent non-executive directors of the Company are Chen Xinyuan, Sun Chiping, Jiang Zhiquan and Zhou Yunnong.