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

2010 Annual Report

Contents

IMPORTANT:

(1) The board of Directors (the "Board") and the Supervisory Committee of Sinopec Shanghai Petrochemical Company Limited (the "Company" or "SPC") as well as its Directors, Supervisors and Senior Management warrant that there are no false representations or misleading statements contained in, or material omissions from, the 2010 annual report of the Company, and severally and jointly accept full responsibility for the truthfulness, accuracy and completeness of the information contained in this annual report.

(2) If any Director fails to attend the Board meeting for considering and approving the 2010 annual report of the Company, his/her name shall be set out separately:

Name of Director not Attending	Role of Director not Attending	Explanation of Director not Attending	Name of Proxy
Shi Wei	Director	Business engagement	Wang Zhiqing
Lei Dianwu	Director	Business engagement	Rong Guangdao
Xiang Hanyin	Director	Business engagement	Rong Guangdao
Jiang Zhiquan	Independent Director	Business engagement	Zhou Yunnong

(3) The Company prepared the financial statements for the year ended 31 December 2010 (the "Reporting Period") in accordance with the People's Republic of China ("PRC" or "China") Accounting Standards for Business Enterprises ("CAS") as well as the International Financial Reporting Standards ("IFRS"). They have been audited by KPMG Huazhen and KPMG respectively, and both firms have issued standard unqualified opinions on the financial statements in their auditors' reports.

(4) There is no appropriation of funds by controlling shareholders and their connected parties for non-operation purpose.

(5) The Company did not provide external guarantees made in violation of required decision-making procedures.

(6) Mr. Rong Guangdao, Chairman and the responsible person of the Company, Mr. Wang Zhiqing, Vice Chairman and President, and Mr. Ye Guohua, Chief Financial Officer (overseeing the accounting operations) hereby warrant the truthfulness and completeness of the financial reports contained in the 2010 annual report.

Company Profile

Sinopec Shanghai Petrochemical Company Limited is one of the largest petrochemical enterprises in the People's Republic of China based on sales in 2010. It is also one of the largest PRC producers of ethylene. Ethylene is one of the most important intermediate petrochemical products used in the production of synthetic fibres, resins and plastics.

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

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

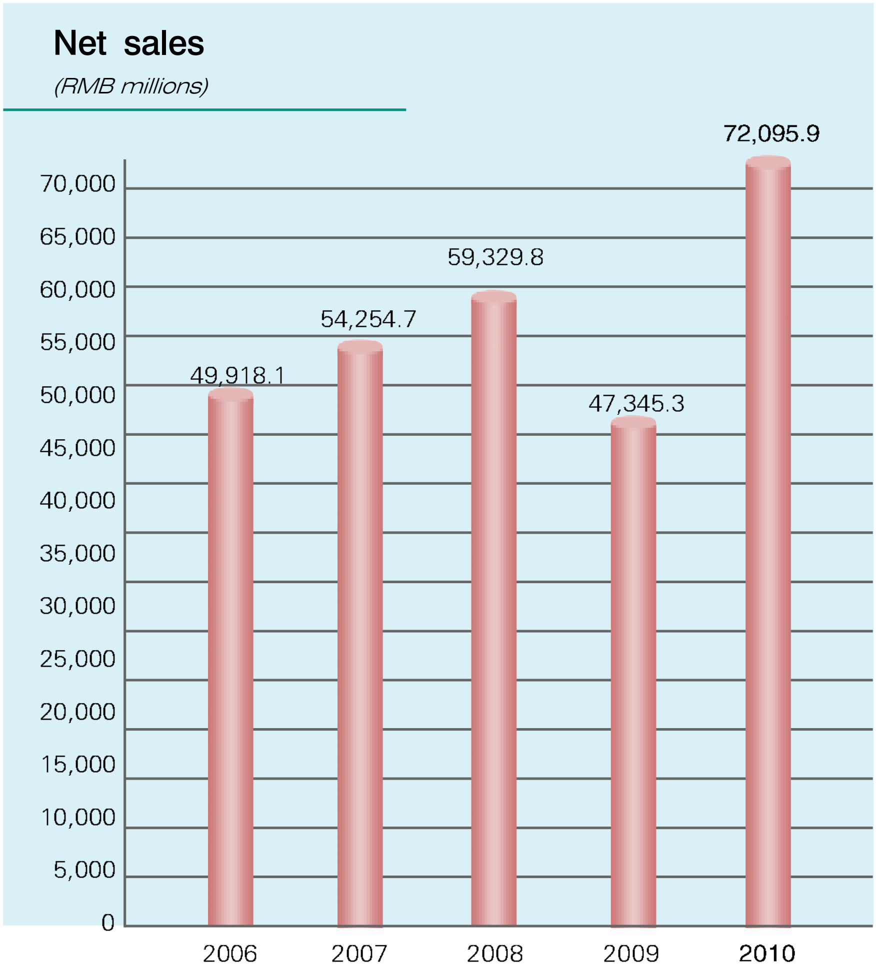
In July 1993, the Company became the first company incorporated under the laws of the PRC to make a global equity offering, and its shares were listed on the Shanghai Stock Exchange, the Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") and the New York Stock Exchange.

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

Financial Highlights

(Prepared under International Financial Reporting Standards)

Expressed in RMB millions	**2010**	2009	2008	2007	2006
Year ended 31 December:					
Net sales	**72,095.9**	47,345.3	59,329.8	54,254.7	49,918.1
Profit / (loss) before taxation	**3,533.4**	2,166.5	(8,014.4)	2,151.4	964.2
Profit / (loss) after taxation	**2,797.0**	1,655.5	(6,201.7)	1,683.1	911.0
Profit / (loss) attributable to equity shareholders of the Company	**2,771.6**	1,591.0	(6,238.4)	1,634.1	844.4
Earnings / (loss) per share	**RMB0.39**	RMB0.22	RMB(0.87)	RMB0.23	RMB0.12
As at 31 December:					
Total equity attributable to equity shareholders of the Company	**17,560.7**	15,005.0	13,496.9	20,648.0	18,976.3
Total assets	**28,568.7**	29,908.5	27,533.0	29,853.1	27,406.1
Total liabilities	**10,748.2**	14,609.2	13,771.7	8,901.0	8,093.7



1. Major accounting data

(Prepared under the China Accounting Standards for Business Enterprises)

	For the years ended 31 December			
	2010 **RMB'000**	2009 RMB'000	Increase / decrease compared to the previous year (%)	2008 RMB'000
Operating Income	**77,591,187**	51,722,727	50.01	60,310,570
Profit/(loss) before income tax	**3,453,744**	2,136,251	61.67	(8,022,281)
Net profit/(loss) attributable to equity shareholders of the Company	**2,703,734**	1,561,605	73.14	(6,245,412)
Net profit/(loss) attributable to equity shareholders of the Company excluding non-recurring items	**2,771,632**	1,298,826	113.40	(6,359,305)
Net cash inflow/(outflow) from operating activities	**4,243,832**	3,703,542	14.59	(3,407,885)

	As at 31 December			
	2010 **RMB'000**	2009 RMB'000	Increase / decrease compared to the previous year (%)	2008 RMB'000
Total assets	**29,158,104**	30,458,322	-4.27	28,107,465
Total equity attributable to equity shareholders of the Company	**17,913,040**	15,346,073	16.73	13,841,371

(Prepared under the China Accounting Standards for Business Enterprises)

2. Major financial indicators

	For the years ended 31 December			
	2010	2009	Increase/decrease compared to the previous year(%)	2008
Basic earnings / (loss) per share (RMB)	**0.376**	0.217	73.14	(0.867)
Diluted earnings / (loss) per share (RMB)	**0.376**	0.217	73.14	(0.867)
Basic earnings / (loss) per share excluding non-recurring items (RMB)	**0.385**	0.180	113.40	(0.883)
Return on net assets (weighted average)(%)*	**16.259**	10.701	increased by 5.558 percentage points	(35.851)
Return on net assets based on net profit/ (loss) excluding non-recurring items (weighted average)(%)*	**16.667**	8.900	increased by 7.767 percentage points	(36.505)
Net cash inflow/(outflow) per share from operating activities(RMB)	**0.589**	0.514	14.59	(0.473)

	As at 31 December			
	2010	2009	Increase/ decrease compared to the previous year(%)	2008
Net asset value per share attributable to equity shareholders of the Company (RMB) *	**2.488**	2.131	16.73	1.922

* The above-mentioned net assets do not include minority shareholders' interests.

3. Non-recurring items

Non-recurring items	Amount RMB'000
Net loss from disposal of non-current assets	(34,635)
Employee reduction expenses	(3,646)
Government grants recorded in profit and loss (except for government grants under the State's unified standards on quota and amount entitlements and closely related to corporate business)	37,211
Investment income from disposal of available-for-sale financial assets	215
Income from external entrust loans	1,581
Other non-operating income and expenses other than those mentioned above	(89,720)
Income tax effect	21,427
Effect attributable to minority interests (after tax)	(331)
Total	(67,898)

4. Differences between financial statements prepared under CAS and IFRS

	Net profit attributable to equity shareholders of the Company		Total equity attributable to equity shareholders of the Company	
	The Reporting Period RMB'000	Corresponding period of the previous year RMB'000	At the end of the Reporting Period RMB'000	At the beginning of the Reporting Period RMB'000
Prepared under CAS	2,703,734	1,561,605	17,913,040	15,346,073
Prepared under IFRS	2,771,646	1,590,988	17,560,664	15,005,018

For detailed differences between the financial statements prepared under CAS and IFRS, please refer to Section C of this annual report.

5. Items stated at fair value

Item	Balance at the beginning of the period RMB'000	Balance at the end of the period RMB'000	Change for the current period RMB'000	Amount recorded in profit or loss in the current period RMB'000
Other current assets-bank financial products	700,000	-	(700,000)	215

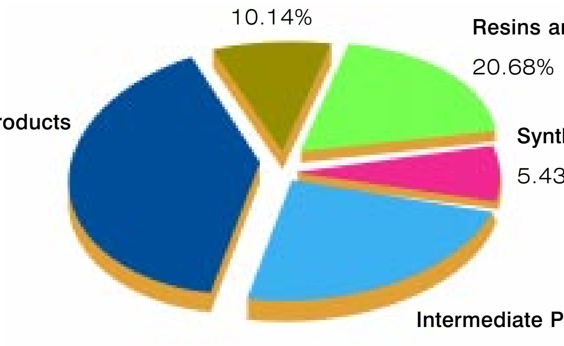
Principal Products

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

The following table sets forth the net sales of the Group's major products in 2010 as a percentage of total net sales and their typical uses.

Major products sold by the Group	% of 2010 net sales	Typical use
Manufactured Products		
Synthetic Fibres		
Polyester staple	**0.93**	Textiles and apparel
Acrylic staple	**4.21**	Cotton type fabrics wool type fabrics delre, and acrylic top
Others	**0.29**	
Subtotal:	**5.43**	
Resins and Plastics		
Polyester chips	**5.85**	Polyester fibres, films and containers
PE pellets	**7.88**	Films, ground sheeting, wire and cable compound and other injection moulding products such as housewares and toys
PP pellets	**5.95**	Extruded films or sheets, injection moulding products such as housewares, toys and household electrical appliances and automobile parts
PVA	**0.59**	PVA fibres, building coating materials and textile starch
Others	**0.41**	
Subtotal:	**20.68**	



Major products sold by the Group	% of 2010 net sales	Typical use
Intermediate Petrochemical Products		
Ethylene	2.42	Feedstock for PE, EG, PVC and other intermediate petrochemicals which can be further processed into resins and plastics and synthetic fibre
Ethylene oxide	2.02	Intermediate for chemical and pharmaceutical industry, dyes, detergents and adjuvant
Benzene	3.55	Intermediate petrochemical products, styrene, plastics, explosives, dyes, detergents, epoxies and polyamide fibre
PX	5.64	Intermediate petrochemical, polyester
Butadiene	2.45	Synthetic rubber and plastics
Ethylene glycol	1.83	Fine chemicals
Others	5.97	
Subtotal:	23.88	
Petroleum Products		
Gasoline	7.06	Transportation fuels
Diesel	22.43	Transportation and agricultural machinery fuels
Jet oil	3.87	Transportation fuels
Others	6.51	
Subtotal:	39.87	
Others	10.14	
TOTAL:	100	

Change in share capital and shareholders for the year ended 31 December 2010

1. Change in share capital

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

2. Issue and listing of shares

(1) Issue of shares during the past three years

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

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

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

(3) Current employee shares

The Company had no employee shares during the Reporting Period.

3. Shareholders and controlling company of the controlling shareholder

(1) Total number of shareholders and their shareholdings as at 31 December 2010

Total number of shareholders as at the end of the Reporting Period	121,432

Shareholding of the top ten shareholders

Name of shareholders	Type of shareholders	Percentage of total shareholding (%)	Number of shares held (shares)	Increase/ decrease during the Reporting Period (shares)	Type of shares	Number of non-circulating shares held (shares)	Number of shares pledged or frozen (shares)
China Petroleum & Chemical Corporation	State-owned Shareholder	55.56	4,000,000,000	0	Non-circulating	4,000,000,000	Nil
HKSCC (Nominees) Limited	Foreign Shareholder	31.85	2,293,464,101	-6,182,000	Circulating	0	Unknown
China Construction Bank-CIFM China Advantage Security Investment Fund	Others	1.00	72,000,000	+37,126,146	Circulating	0	Unknown
Shanghai Kangli Gong Mao Company	Others	0.23	16,730,000	0	Non-circulating	16,730,000	Unknown
China Life Insurance Company Limited-Tradition-Ordinary Insurance Product - 005L-CT001 Shanghai	Others	0.20	14,408,194	+760,000	Circulating	0	Unknown
Zhejiang Economic Construction Investment Co., Ltd.	Others	0.17	12,000,000	0	Non-circulating	12,000,000	Unknown
China Life Insurance Company Limited - Bonus-Individual Bonus-005L - FH002 Shanghai	Others	0.13	9,715,804	-4,129,015	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	0	Non-circulating	5,500,000	Unknown
IP KOW	Foreign Shareholder	0.08	5,432,000	Unknown	Circulating	0	Unknown

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

(1) Total number of shareholders and their shareholdings as at 31 December 2010 *(continued)*

Top ten shareholders of shares in circulation

Name of shareholders	Number of circulating shares held (shares)	Type of Shares
HKSCC (Nominees) Limited	2,293,464,101	Overseas listed foreign shares
China Construction Bank - CIFM China Advantage Security Investment Fund	72,000,000	RMB-denominated ordinary shares
China Life Insurance Company Limited - Tradition - Ordinary Insurance Product - 005L - CT001 Shanghai	14,408,194	RMB-denominated ordinary shares
China Life Insurance Company Limited - Bonus - Individual Bonus - 005L - FH002 Shanghai	9,715,804	RMB-denominated ordinary shares
IP KOW	5,432,000	Overseas listed foreign shares
Taiping Life Insurance Limited - Dividend - Group Insurance Dividend	4,000,000	RMB-denominated ordinary shares
Shanghai Pengrui Industrial and Trading Company Limited	3,320,000	RMB-denominated ordinary shares
YIP CHOK CHIU	3,150,000	Overseas listed foreign shares
Bank of China - Harvest theme selected hybird securities investment funds	3,000,000	RMB-denominated ordinary shares
Changjiangwan Investments Group Limited	2,900,085	RMB-denominated ordinary shares

Description of any connected relationship or concert parties relationships among the above shareholders	Of the above-mentioned shareholders, China Petroleum & Chemical Corporation, the State-controlled 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 company. Apart from the above, the Company is not aware of whether there are other connected relationships among the other shareholders, and whether they are concert parties under the Administrative Measures on Acquisition of Listed Companies.

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

(2) Details of the controlling shareholder and controlling company of the controlling shareholder of the Company

(i) Details of the controlling shareholder

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

(ii) Controlling company of the controlling shareholder

Name of the controlling company of the controlling shareholder:	China Petrochemical Corporation ("Sinopec")
Legal representative:	Su Shulin
Registered capital:	RMB130.6 billion
Date of incorporation:	24 July 1998
Major business operation or management activities:	Provision of drilling, logging and downhole operation services, production and maintenance of manufacturing equipment; project construction service, and water, electricity and other public utility and social services.

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

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

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

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

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

State-owned Assets Supervision and Administration Commission of the State Council

↓ 100%

China Petrochemical Corporation

↓ 75.84%

China Petroleum & Chemical Corporation

↓ 55.56%

Sinopec Shanghai Petrochemical Company Limited

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

As at 31 December 2010, HKSCC (Nominees) Limited held 2,293,464,101 H shares of the Company, representing 31.85% of the total issued share capital of the Company.

(4) Public Float

Based on the public information available to the Board, as at 25 March 2011, the Company had a sufficient public float which complied with the minimum requirement under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Hong Kong Listing Rules").

Interests and short positions of the substantial shareholders of the Company and other persons in shares and underlying shares of the Company

As at 31 December 2010, 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	-
JPMorgan Chase & Co.	Beneficial owner	151,339,952(L) 0(S) 31,064,100(P)	2.10(L) 0.00(S) 0.43(P)	6.50(L) 0.00(S) 1.33(P)
Halbis Capital Management (Hong Kong) Limited	Beneficial owner	125,966,000(L)	1.75(L)	5.41(L)

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

(b) Interests in underlying shares of the Company

No interests of substantial shareholders or other persons who are required to disclose their interests pursuant to Part XV of the SFO in the underlying shares of equity derivatives of the Company 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 2010, no interests or short positions of any other person in the shares or underlying shares of equity derivatives of the Company were recorded in the register required to be kept under Section 336 of the SFO.

Directors, Supervisors and Senior Management

Name	Position	Sex	Age	Date of commencement and end of service term	Number of shares held at the beginning of the year (shares)	Number of shares held at the end of the year (shares)	Reason of change	Total remuneration received from the Company during the Reporting Period (RMB'000) (before taxation)	Whether they received remuneration or allowance from shareholder or other connected party
Rong Guangdao	Chairman	M	55	June 2008 to June 2011	3,600	3,600	-	616	No
Wang Zhiqing	Vice Chairman and President	M	48	December 2010 to June 2011 (service term of President: July 2010 to June 2011)	0	0	-	155	No
Wu Haijun	Vice Chairman	M	48	June 2010 to June 2011	0	0	-	-	Yes
Li Honggen	Director and Vice President	M	54	June 2008 to June 2011	0	0	-	530	No
Shi Wei	Director and Vice President	M	51	June 2008 to June 2011	0	0	-	536	No
Dai Jinbao	Director	M	54	June 2008 to June 2011	0	0	-	354	No
Lei Dianwu	External Director	M	48	June 2008 to June 2011	0	0	-	-	Yes
Xiang Hanyin	External Director	M	56	June 2008 to June 2011	0	0	-	-	Yes
Chen Xinyuan	Independent Non-executive Director	M	46	June 2008 to June 2011	0	0	-	150	No
Sun Chiping	Independent Non-executive Director	M	52	June 2008 to June 2011	0	0	-	150	No
Jiang Zhiquan	Independent Non-executive Director	M	60	June 2008 to June 2011	0	0	-	150	No
Zhou Yunnong	Independent Non-executive Director	M	68	June 2008 to June 2011	0	0	-	150	No
Gao Jinping	Chairman of the Supervisory Committee	M	44	June 2008 to June 2011	0	0	-	519	No
Zhang Chenghua	Supervisor	M	55	June 2008 to June 2011	0	0	-	337	No
Wang Yanjun	Supervisor	F	50	June 2008 to June 2011	0	0	-	305	No
Zhai Yalin	External Supervisor	M	46	June 2008 to June 2011	0	0	-	-	Yes
Wu Xiaoqi	External Supervisor	M	54	June 2008 to June 2011	0	0	-	-	Yes
Liu Xiangdong	Independent Supervisor	M	59	June 2008 to June 2011	0	0	-	-	No
Yin Yongli	Independent Supervisor	M	71	June 2008 to June 2011	0	0	-	-	No
Zhang Zhiliang	Vice President	M	57	April 2010 to June 2011	0	0	-	226	No
Zhang Jianping	Vice President	M	48	June 2008 to June 2011	0	0	-	519	No
Tang Chengjian	Vice President	M	55	June 2008 to June 2011	0	0	-	519	No
Ye Guohua	Chief Financial Officer	M	42	October 2009 to June 2011	0	0	-	362	No
Zhang Jingming	Company Secretary and General Counsellor	M	53	June 2008 to June 2011	0	0	-	379	No
Du Chongjun	Former Vice Chairman and Vice President	M	56	June 2008 to November 2010 (end of service term of Vice President: July 2010)	1,000	1,000	-	462	No
Han Zhihao	Former Director	M	59	June 2008 to April 2010	0	0		89	No
Total								6,508	

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

Profiles of Directors, Supervisors and Senior Management

Directors

Rong Guangdao, 55, is Chairman, Secretary of the Communist Party Committee of the Company. Mr. Rong joined the Shanghai Petrochemical Complex (the "Complex") in 1973 and held various positions, including Deputy Director of the No.1 Chemical Plant and Deputy Director and Director of the Ethylene Plant. In April 1994 he was appointed Vice President of the Company, and in June 1995 he was elected Director of the Company. From October 2003 to July 2010, Mr. Rong was President of the Company. In May 2004, Mr. Rong was elected Chairman of the China Jinshan Associated Trading Corporation. From June 2004 to June 2005, Mr. Rong was Vice Chairman of the Company. From April 2005 to July 2010, Mr. Rong was appointed Deputy Secretary of the Communist Party Committee. In June 2005, Mr. Rong was elected Chairman of the Company. In November 2006, Mr. Rong was appointed Director and Vice Chairman of Shanghai Secco Petrochemical Company Limited. In August 2008, he was appointed Director and Chairman of Shanghai Chemical Industrial Park Development Company Limited. In July 2010, he was appointed Secretary of the Communist Party Committee of the Company. Mr. Rong has rich experience in management of large-scale petrochemical enterprise operations. In 1985, Mr. Rong graduated from the Automated Instrument Department of the Shanghai Petrochemical College for Workers and Staff Members. In 1997, he obtained an MBA from China Europe International Business School. He is a senior engineer by professional title.

Wang Zhiqing, 48, currently Vice Chairman, President and Deputy Secretary of the Communist Party Committee of the Company. Mr. Wang commenced work in 1983 and held various positions including Deputy Leader of preparatory team for the chemical fiber plant of Luoyang Petrochemical Complex, Deputy Chief Engineer of Luoyang Petrochemical Complex cum Officer-in-Charge of the preparatory team for the complex's chemical fiber plant, and then Deputy Chief Engineer of the complex cum Director of the chemical fiber plant. From June 1999 to December 2001, Mr. Wang was Chief Engineer of Luoyang Petrochemical Complex. From February 2000 to December 2001, Mr. Wang was Vice President cum Chief Engineer of Sinopec Luoyang Company. From December 2001 to October 2006, Mr. Wang was President of Sinopec Luoyang Company. From July 2005 to May 2007, Mr. Wang was the Leader of the preparatory team for a Sinopec refinery project in Guangxi. From October 2006 to December 2008, Mr. Wang was President of Sinopec Jiujiang Company. From October 2006 to July 2010, Mr. Wang was President of Jiujiang Petrochemical Complex. From December 2008 to July 2010, Mr. Wang was General Manager of Sinopec Jiujiang Company. Mr. Wang was appointed President and Deputy Secretary of the Communist Party Committee of the Company in July 2010. Mr. Wang was appointed Director and Vice Chairman of the Company in December 2010. Mr. Wang graduated from the East China Petroleum Institute with a Bachelor of Engineering in 1983, majoring in refinery engineering, and graduated from China University of Petroleum (East China) with a Doctorate in Engineering in 2006, majoring in chemical engineering and technology. He is a senior engineer by professional title.

Wu Haojun, 48, currently Vice Chairman of the Company, Director and President of Shanghai Secco Petrochemical Company Limited. Mr. Wu joined the Complex in 1984 and held various positions including Deputy Director and Director of the Company's No.2 Chemical Plant as well as manager of the Chemical Division. He was Vice President of the Company from May 1999 to March 2006 and Director of the Company from June 2004 to June 2006. He was manager and Secretary of the Communist Party Committee of the Chemical Sales Branch Office of Sinopec Corp. from December 2005 to March 2008. From December 2005 to April 2010, he was Director of the Chemical Business Department of Sinopec Corp. In April 2010, he was appointed as Director and President of Shanghai Secco Petrochemical Company Limited. In June 2010, he was appointed Director and Vice Chairman of the Company. Mr. Wu graduated from the East China Institute of Chemical Technology in 1984, majoring in chemical engineering, and obtained a Bachelor of Engineering degree. In 1997, he obtained an MBA from the China Europe International Business School. He is a senior engineer by professional title.

Li Honggen, 54, is Executive Director and Vice President of the Company. Mr. Li joined the Complex in 1973 and held various positions including Deputy Director of No. 1 Chemical Plant and Deputy Director of the Ethylene Plant of the Complex, Director of the Ethylene Plant of the Company and Deputy Manager and Manager of the Refining and Chemical Division of the Company. From August 2000 to December 2003, he was Vice President of Shanghai Chemical Industrial Park Development Company Limited. From August 2002 to January 2006, he was Vice President of Shanghai Secco Petrochemical Company Limited. In March 2006, he was appointed Vice President of the Company. In June 2006, he was appointed Director of the Company. In August 2008, he was appointed Director of Shanghai Chemical Industrial Park Development Company Limited. In 1988, Mr. Li graduated from East China Institute of Chemical Technology majoring in engineering management and completed a post-graduate course majoring in engineering management at East China University of Science and Technology in 1998. He is an engineer by professional title.

Shi Wei, 51, is Executive Director and Vice President of the Company. Mr. Shi joined the Complex in 1982 and held various positions including Assistant to the Manager and then Deputy Manager of the Refining and Chemical Division of the Company, Manager of the Environmental Department, Secretary of the Communist Party Committee and then Manager of the Refining and Chemical Division of the Company. In October 2003, Mr. Shi was appointed Vice President of the Company. In June 2005, he was appointed Director of the Company. In 1982, Mr. Shi graduated from East China University of Science and Technology majoring in oil refining engineering and obtained a bachelor's degree in engineering. Mr. Shi completed the post-graduate studies in Business Management at East China University of Science and Technology in 1998. Mr. Shi is a senior engineer by professional title.

Dai Jinbao, 54, is Executive Director of the Company, and Secretary of the Communist Party Committee of the Company's Olefin Division and Deputy Manager of the division. Mr. Dai joined the Complex in November 1973 and held various positions including Deputy Director of No. 1 Chemical Plant of the Complex, Director of No.1 ethylene complex of the Refining and Chemical Division of the Company, Chairman of the Labour Union of the Company's Refining and Chemical Division, Deputy Secretary of the Communist Party Committee and Chairman of the Labour Union of the Company's Refining and Chemical Division. In June 2006, he was appointed Director of the Company. In June 2008, he was appointed Secretary of the Communist Party Committee of the Company's Olefin Division and Deputy Manager of the division. In 2001, Mr. Dai graduated from the Shanghai Second Polytechnic University majoring in business management. He is an engineer by professional title.

Lei Dianwu, 48, is Assistant to General Manager of Sinopec and Vice President and Director of Development and Planning Division of Sinopec Corp. In June 2005, Mr. Lei was elected External Director of the Company. Mr. Lei held various positions including Deputy Director of Planning Division of Yangzi Petrochemical Company, Director of the Preparation Office of the Joint Venture of Yangzi Petrochemical Company, Vice President and Manager of production division of Yangzi BASF Stylene Company Limited. He acted as Deputy Manager and Deputy Director of the Joint Venture Office at Yangzi Petrochemical Company, Director of Development and Planning Division in China Dong Lian Petrochemical Limited Liabilities Company, Deputy General Manager of Yangzi Petrochemical Limited Liabilities Company and Deputy Director of Development and Planning Division of Sinopec Corp. In March 2001, he was appointed Director of Development and Planning Division of Sinopec Corp. In March 2009, he was appointed Assistant to General Manager of Sinopec. In May 2009, he was appointed Vice President of Sinopec Corp. Mr. Lei has rich experience in enterprise planning and investment development management. In 1984, Mr. Lei graduated from the East China Petroleum Institute with a major in basic organic chemicals and obtained a bachelor's degree in engineering. He is a senior engineer by professional title.

Xiang Hanyin, 56, is Deputy Director of Chemical Division of Sinopec Corp. In June 2005, Mr. Xiang was elected External Director of the Company. Mr. Xiang commenced work in February 1982 and was Deputy Director of the Chemical Plant of Yizheng Chemical Fibre Company and Director of Chemical Plant of Yizheng Chemical Fibre Co., Ltd. In February 2000, he assumed the current position of Deputy Director of Chemical Division of Sinopec Corp. Mr. Xiang has rich experience in management of chemical enterprise operation. Mr. Xiang graduated from Nanjing Chemical College with a major in basic organic chemicals and a bachelor's degree in engineering in 1982. In 2000, he completed post-graduate studies in enterprise management at Nanjing University. He is a senior engineer by professional title.

Chen Xinyuan, 46, is Dean, Professor and Tutor to doctoral students of the College of Accounting, Shanghai University of Finance and Economics. In June 2003, Mr. Chen was elected Independent Director of the Company. Between June 2000 and June 2003 he was an Independent Supervisor of the Company. After graduation from the Accounting Faculty, Hangzhou College of Commerce in July 1985, Mr. Chen undertook post-graduate studies at the Accounting Faculty of Shanghai University of Finance and Economics and continued as a lecturer. He commenced his doctoral studies in accounting while teaching and received his doctorate in June 1994. He has been a tutor to doctoral students since December 1998. Mr. Chen has also studied in West Germany for one year. He is an expert in financial reporting and accounting, given his experience in the academic aspects of accounting and notable achievements in accounting research. He is also experienced in business management.

Sun Chiping, 52, is President and Secretary of the Communist Party Committee of the Industrial and Commercial Bank of China (the "ICBC"), Jiangsu Branch. In June 2005, Mr. Sun was elected Independent Director of the Company. Mr. Sun started to be involved in the finance industry in March 1979 and held various positions including accountant, team leader and Deputy Director of the People's Bank of China, Shanghai Branch, sub-branch in both Huang Pu and Jing An Districts. He joined the operating division of ICBC, Shanghai Branch, and was Deputy Secretary of the Communist Party Committee and Secretary of the Communist Party Discipline Supervisory Committee. He also acted as Deputy Director, President and Deputy Secretary of the Communist Party Committee of ICBC, Shanghai Branch, Rep. Office (Sub-branch) in Xu Hui District; General Manager of International Business Division of ICBC, Shanghai Branch; Assistant to the President cum General Manager of International Business Division of ICBC, Shanghai Branch; Deputy President of ICBC, Shanghai Branch; and Deputy President, President and Secretary of the Communist Party Committee of the ICBC, Guangdong Branch and President and Secretary of the Communist Party Committee of ICBC, Shanghai Branch. In June 2009, he assumed the current position of President and Secretary of the Communist Party Committee of the ICBC, Jiangsu Branch. Mr. Sun graduated from Shanghai University of Finance and Economics with a major in Finance. He studied for a master degree at Shanghai University of Finance and Economics and the Shanghai-Hong Kong Management School jointly organized by University of Hong Kong and Fudan University and obtained a Master in Economics and an MBA. Mr. Sun has been engaged in the management of banking business for many years and has extensive experience in finance practice. He is a senior economist by professional title.

Jiang Zhiquan, 60, is Secretary of the Communist Party Committee and Chairman of Shanghai Construction (Group) General Company("SCG"). In June 2005, Mr. Jiang was elected Independent Director of the Company. Mr. Jiang started work in December 1968, and held various positions including a cadre and Deputy Director of Shanghai Construction and Industry Bureau, Manager of the Fourth Construction Company of Shanghai, Deputy Secretary of the Communist Party Committee (executive) of Shanghai Construction Engineering Administration Bureau, Deputy Secretary of the Communist Party Committee (executive), Vice Chairman and General Manager of SCG. In March 2001, he assumed the current positions as Secretary of the Communist Party Committee and Chairman of SCG. Mr. Jiang is experienced in operational decision making and large-scale enterprise management. Mr. Jiang graduated from the Shanghai-Hong Kong Management School jointly run by University of Hong Kong and Fudan University in July 2000 and obtained an MBA. He is a senior economist by professional title.

Zhou Yunnong, 68, has been an Independent Director of the Company since June 2005. He joined the Complex in October 1972 and held various positions including Deputy President of the Complex, Deputy Director of the Human Resource Department of China Petrochemical Corporation, Deputy Secretary of Communist Party Committee of the Complex, Vice President of the Company, Secretary of the Communist Party Committee of Sinopec Jinshan Industrial Company and the Governor of Jinshan District of Shanghai. From November 1999 to April 2002 he was a Senior Advisor to Shanghai Jinshan District. From June 2003 to June 2005, Mr. Zhou was appointed Independent Supervisor of the Company. Mr. Zhou has extensive experience in business management and public administration management. Mr. Zhou graduated from East China Normal University in August 1964, majoring in radio. He is a senior engineer by professional title.

Supervisors

Gao Jinping, 44, is Chairman of the Supervisory Committee, Deputy Secretary of the Communist Party Committee, Secretary of the Communist Party Discipline Supervisory Committee and Chairman of the Labour Union of the Company. Mr. Gao joined the Complex in 1990 and held various positions including Deputy Secretary of the Communist Youth League of the Company, Deputy Secretary of the Communist Party Committee of the Experimental Plant and Chemical Division of the Company, and Director of the Propaganda Department of the Company. In May 2003, Mr. Gao was appointed Deputy Secretary of the Communist Party Committee and Chairman of the Labour Union of the Company. From June 2004 to June 2006, Mr. Gao was elected Director of the Company. In April 2006, Mr. Gao was appointed Secretary of the Communist Party Discipline Supervisory Committee of the Company. In June 2006, Mr. Gao was appointed Supervisor and Chairman of the Supervisory Committee of the Company. Mr. Gao graduated from the Food Processing Faculty of Shanghai Aquatic Products University with a major in cooling and cold storage technology and obtained a bachelor's degree in engineering in July 1990. In 2001, he completed his post-graduate studies in business administration in the aspect of industrial economics at Shanghai Academy of Social Sciences. He has senior professional technical qualifications.

Zhang Chenghua, 55, is a Supervisor, Deputy Chief Political Advisor and Director of the Communist Party Committee Office of the Company. Mr. Zhang joined the Complex in 1974 and held various positions including Deputy Secretary of the Communist Party Committee of the Thermal Power Plant of the Company, Deputy Secretary of the Communist Party Committee cum Chairman of Labour Union of the Thermal Power Plant of the Company, Deputy Secretary of the Communist Party Discipline Supervisory Committee and Director of Supervisory Division of the Company. In April 2002, Mr. Zhang was appointed Director of Supervisory Committee Office of the Company. In June 2002, Mr. Zhang was appointed Supervisor of the Company. In April 2004, Mr. Zhang was appointed Director of the Communist Party Committee Office. In July 2009, Mr. Zhang was appointed Deputy Chief Political Advisor of the Company. Mr. Zhang graduated, majoring in party administrative management, from Shanghai Party Institute in January 1999. In 2001, he completed his post-graduate studies in business administration in the aspect of industrial economics at Shanghai Academy of Social Sciences. He has senior professional technical qualifications.

Wang Yanjun, 50, is a Supervisor and Vice Chairwoman of the Labour Union of the Company. Ms. Wang joined the Complex in July 1982 and held various positions including Chairwoman of the Labour Union of the Plastics Plant of the Company, Chairwoman of the Labour Union of Plastics Division, Chairwoman of the Labour Union of Chemical Division, Deputy Secretary of the Communist Party Committee, Secretary of Communist Party Discipline Supervisory Committee of the Communist Party Committee and Chairwoman of the Labour Union of Chemical Division of the Company. In January 2005, Ms. Wang was appointed Vice Chairwoman of the Labour Union of the Company. In June 2005, Ms. Wang was appointed Supervisor of the Company. Ms. Wang graduated from East China University of Science and Technology majoring in basic organic chemistry in July 1982. In 2001, she completed her post-graduate studies in business administration in the aspect of industrial economics at Shanghai Academy of Social Sciences. She has senior professional technical qualifications.

Zhai Yalin, 46, is Deputy Director of the Auditing Bureau of Sinopec and Deputy Director of Auditing Department of Sinopec Corp., and has been External Supervisor of the Company since June 2008. Mr. Zhai began his career in 1986 and had been successively Deputy Head of the Head Office and Director of the Auditing Department of Qianguo Refinery, Deputy Director of the General Office of Sinopec Huaxia Auditing Company, Deputy Director of the General Administrative Office of the Auditing Bureau of China Petrochemical Corporation, Director of the General Administrative Office of the Auditing Bureau of Sinopec, and Director of the General Administrative Office of the Auditing Bureau of Sinopec (Auditing Department of Sinopec Corp.). Since December 2001, Mr. Zhai has been holding concurrently the posts of Deputy Director of the Auditing Bureau of Sinopec and Deputy Director of Auditing Department of Sinopec Corp. Mr. Zhai graduated from Jilin Siping Normal College in 1986 and is a senior economist by professional title.

Wu Xiaoqi, 54, is Secretary of the Communist Party Committee of Sinopec Corp. Yunnan Oil Products Company, Deputy General Manager of the Company and has been External Supervisor of the Company since June 2008. Mr. Wu began his career in 1971 and had been successively Deputy Office Head Class Disciplinary Monitor of Inspection Bureau of China Petrochemical Corporation's Disciplinary Division, Deputy Head (Deputy Director) and Head (Director) of the Office of Inspection Bureau of China Petrochemical Corporation's Disciplinary Division, and Director of Section 1 of Inspection Bureau of Sinopec's Disciplinary Division. From June 2004 to April 2005, he was Deputy Bureau Director Class Disciplinary Inspector of Supervisory Bureau of Sinopec and a Deputy Bureau Director Class Supervisory Inspector of Supervisory Department of Sinopec Corp. From April 2005 to December 2008, Mr. Wu was Deputy Director of Supervisory Bureau of Sinopec and Deputy Director of Supervisory Department of Sinopec Corp. He has been Secretary of the Communist Party of Sinopec Yunnan Oil Products Company and Vice President of the Company since December 2008. Mr. Wu graduated from Shijiazhuang Army Command Academy in 1984 and has senior professional technical qualifications.

Liu Xiangdong, 59, is Executive Director and President of Zhengxin Bank Company Limited and Independent Director of Bright Dairy and Food Co. Ltd. He was elected Independent Supervisor of the Company in June 2000. Mr. Liu has held various positions including Vice President of the Industrial and Commercial Bank of China("ICBC"), Shanghai Branch and Head of Bills Operation Department of the ICBC, General Manager of Investment Division of the ICBC, Executive Director and President of Zhengda International Finance Corporation and Independent Director of Shanghai No.1 Pharmacy Co., Ltd. and SGSB Group Co., Ltd. Since January 2010, Mr. Liu has been Executive Director and President of Zhengxin Bank Company Limited. Mr. Liu has been working in the banking sector for many years and has abundant experience in business management practices. He obtained a master's degree in economics from Shanghai University of Finance and Economics and an EMBA from Arizona State University and Shanghai National Accounting Institute. Mr. Liu is a senior economist.

Yin Yongli, 71, has been Independent Supervisor of the Company since June 2005. Mr. Yin held various positions including Deputy Chief and Chief of finance section of Shandong Shengli Refinery, Deputy Chief Accountant of Qilu Petrochemical Company, Chief Accountant of Planning and Financing Department of China Petrochemical Corporation and Chief Accountant and Deputy Director of Financing Department of China Petrochemical Corporation and Director of Shihua Auditing Firm. In September 2001, he was Chairman of China Rightson Certified Public Accountants. In June 2004, Mr. Yin was appointed Chairman of Huazheng Certified Public Accountants. From June 2005 to June 2008, Mr. Yin was Chairman of Management Committee of Tianhua Certified Public Accountants. Mr. Yin has engaged in financing and auditing for many years and has rich experience in financing management and enterprise auditing. Mr. Yin graduated from Shandong Institute of Finance and Economics in 1964. Mr. Yin is a professional accountant and is a certified accountant.

Senior Management

Zhang Zhiliang, 57, currently Vice President of the Company. Mr Zhang joined the Complex in 1977 and held various positions including Deputy Director and Director of the No.1 Chemical Plant of the Complex, as well as deputy manager and manager of the Company's Refining and Chemical Division. He was Vice President of the Company from April 1997 to March 2006. He was Director of the Company from June 1997 to June 2003. He was Director of Shanghai Secco Petrochemical Company Limited from November 2002 to April 2010, and Vice President of Shanghai Secco Petrochemical Company Limited from January 2006 to November 2006. He was President of Shanghai Secco Petrochemical Company Limited from November 2006 to April 2010. In April 2010, he was appointed Vice President of the Company. Mr. Zhang graduated from Fudan University in 1977, majoring in high molecular chemistry. He graduated from Shanghai No.2 Industrial University in 1999, majoring in Applied Computer Management. He is a senior cadre of professoriate rank.

Zhang Jianping, 48, is Vice President of the Company. Mr. Zhang joined the Complex in 1987 and held various positions including Deputy Chief Engineer of the Aromatics Plant of the Refining and Chemical Division, Deputy Director of the Plastics Plant, Deputy Manager of Plastic Division of the Company, Director of the Petrochemical Research Institute, Director of the Production Department of the Company, Assistant to President of the Company and concurrently Director of the Production Department. In July 2004, Mr. Zhang was appointed Vice President of the Company. Mr. Zhang graduated in 1984 from East China Institute of Chemical Technology specializing in petroleum refining. He obtained a master's degree in 1987 from East China Institute of Chemical Technology specializing in oil processing. He is a senior engineer.

Tang Chengjian, 55, is Vice President of the Company. Mr. Tang joined the Complex in 1974 and held various positions including Deputy Secretary of the Communist Party Committee, Chairman of the Labour Union and Deputy Director of the Thermal Power Plant of the Complex, Deputy Director of the Thermal Power Plant of the Company, Deputy Director and then Director of the Company's General Thermal Power Plant. In July 2004, Mr. Tang was appointed Vice President of the Company. Mr. Tang graduated from the Shanghai Electric Power College specializing in steam turbine in 1974 and graduated from Shanghai Electric Power Institute with a major in electrical power system in 1986. In 1991, Mr. Tang graduated from the Shanghai Second Polytechnic University majoring in management engineering. In 2001, he obtained an MBA degree from the China Europe International Business School. He is a senior economist by professional title.

Ye Guohua, 42, is Chief Financial Officer of the Company. Mr. Ye joined Shanghai Gaoqiao Petrochemical Corporation in 1991 and held various positions, including Deputy Chief and Chief of the Cost Accounting Section of the Finance Office, Director of the Finance Office of the Refinery Plant of Shanghai Gaoqiao Petrochemical Corporation and Deputy Chief Accountant and Director of the Finance Department of Sinopec Shanghai Gaoqiao Branch. In October 2009, Mr. Ye was appointed Chief Financial Officer of the Company. Mr. Ye graduated with a major in accounting from the Shanghai University of Finance and Economics in July 1991. He is a senior accountant by professional title.

Zhang Jingming, 53, is Secretary to the Board, General Counsel in-house, Director of the Board Secretariat and Director of Strategy Research Office of the Company. Mr. Zhang joined the Complex in 1978. He has held various positions including Project Manager of the International Department, the Company's Securities Affairs Representative in Hong Kong, Deputy Director of the International Department and Deputy Director of the Board Secretariat. In June 1999, Mr. Zhang was appointed Secretary to the Board and Director of the Board Secretariat. In June 2001, Mr. Zhang was appointed Director of Strategy Research Office of the Company. In January 2005, Mr. Zhang was appointed General Counsel in-house of the Company. Mr. Zhang graduated from the Shanghai International Studies University majoring in English in 1987. During 1992 and 1993, he enrolled at the fourth Sino-British joint MBA program at Northwestern Polytechnic University. Mr. Zhang subsequently left for the University of Hull in the United Kingdom to pursue his studies in an MBA program, and in July 1995, he was conferred an MBA by the University of Hull. In 2002, Mr. Zhang completed his studies in a master program in international economic law at East China University of Politics and Law. He is a senior economist by professional title.

Management Positions held at the Company's Shareholders

Name	Company	Position held	Commencement of service term	End of service term	Whether they received remuneration and allowance from shareholder
Lei Dianwu	Sinopec Corp.	Vice President cum Director of the Development and Planning Division	May 2009	May 2012	Yes
Xiang Hanyin	Sinopec Corp.	Deputy Director of Chemical Division	May 2009	May 2012	Yes
Zhai Yalin	Sinopec Corp.	Deputy Director of Audit Department	May 2009	May 2012	Yes

Management Positions held in Other Companies

Name	Company	Position held	Commencement of service term	End of service term	Whether they received remuneration and allowance
Wu Haijun	Shanghai Secco Petrochemical Company Limited	Director and President	April 2010	February 2011	Yes
Wu Xiaoqi	Sinopec Corp. Yunnan Oil Products Company	Secretary of the Communist Party Committee and Vice President	May 2009	May 2012	Yes
Du Chongjun	Sinopec Corp. Shanghai Oil Products Company	Secretary of the Communist Party Committee, Secretary of the Communist Party Discipline Supervisory Committee and Vice President	July 2010	May 2012	Yes

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

Remuneration of Directors, Supervisors, Senior Management and Employees

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

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

   For details of remuneration of the Directors and Supervisors, please refer to note 8 to the financial statements prepared under IFRS.

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

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

3. The five highest paid individuals

Please refer to note 8 to the financial statements prepared under IFRS. All the five highest paid individuals are Directors, Supervisors and Senior Management of the Company.

4. Pension scheme

Please refer to notes 8, 27(e) and 28 to the financial statements prepared under IFRS.

5. Staff remuneration

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

Change of Directors, Supervisors and Senior Management

Name	Position held	Change	Reason
Rong Guangdao	President	Relieved	To perfect corporate governance structure, Mr. Rong Guangdao resigned from his concurrent post as President.
Du Chongjun	Vice Chairman and Vice President	Resigned	Change in job unit
Han Zhihao	Director	Resigned	Age
Wang Zhiqing	Vice Chairman and President	Newly appointed	-
Wu Haijun	Vice Chairman	Newly appointed	-
Zhang Zhiliang	Vice President	Newly appointed	-

Interests and short positions of Directors, Supervisors and Senior Management in shares, underlying shares and debentures

Save for the shares held by the Company's Directors, Supervisors and Senior Management as set out in Section "Directors, Supervisors and Senior Management" of this chapter, as at 31 December 2010, 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 the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code for Securities Transactions") set out under Appendix 10 of the Hong Kong Listing Rules.

As at 31 December 2010, none of the Directors, Supervisors or Senior Management or their respective spouses and children under 18 years of age had been granted by the Company or had exercised any rights to subscribe for shares or debentures of the Company or any of its associated corporations.

Directors' and Supervisors' Interests in Contract

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

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

Model Code for Securities Transactions

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

Employees

As at 31 December 2010, the Group had 16,369 employees in total. Among them, there were 9,023 production staff, 6,014 sales representatives, financial personnel and other personnel and 1,332 administrative staff. There were 37.16% of the employees who had tertiary qualifications or above.

Current Status of Corporate Governance in the Company

In 2010, the Company has strictly complied with the regulatory documents such as the PRC Company Law (the "Company Law"), the PRC Securities Law (the "Securities Law") and the Corporate Governance Principles for Listed Companies issued by the China Securities Regulatory Commission ("CSRC"), as well as the relevant provisions and requirements of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the New York Stock Exchange. It continuously improves its corporate governance structure, strengthens the formulation of its system, standardizes its operation and enhances its overall image.

Improvement to the legal person governance structure: During the Reporting Period, changes were made to six members of the Board and the management of the Company due to various reasons including age, change in job unit and improvement in governance structure (please refer to page 25, "Change of Directors, Supervisors and Senior Management", for details). Pursuant to the relevant laws, regulations and the articles of association of the Company (the "Articles of Association"), the Company conscientiously carried out the relevant consideration and approval procedures and smoothly completed the work of replacing the Board and management members.

Improvement to the formulation of governance system: During the Reporting Period, in accordance with the requirements of the relevant laws and regulations of the countries where the Company's shares are listed, and the Company's current status, the Company has amended and improved the Articles of Association and its appendices including the Rules of Procedures for the Shareholders' General Meetings, the Rules of Procedures for the Board of Directors' meetings and the Rules of Procedures for the Supervisory Committee meetings, as well as the Information Disclosure Management System and the Internal Control Manual (2010 edition). In particular, the Company has made significant amendments to the Articles of Association and its appendices; added provisions to the Information Disclosure Management System including the accountability for errors in the disclosure of information, management of personnel with access to insider information and management of external information users; adjusted and improved Internal Control Manual in accordance with domestic and overseas regulatory requirements, the needs of risk prevention, the internal control review recommendations made by external auditors and the specific situation of the Company. The rate of revision reached 30.3%. The aforesaid institutional documents were considered and approved at the sixth session of the Board. Amendments to the Articles of Association and its appendices were considered and approved at the 2009 Annual General Meeting.

Strictly carried out approval procedures for connected transactions: Due to the special nature of the industry and the requirements of the business operation, the Company has, since its listing in 1993, been conducting various transactions with Sinopec Corp., Sinopec and their associates, including the purchase of raw materials; the sale of petroleum products and petrochemical products and the agency sale of petrochemical products; the provision of construction, installation and engineering design services; and the provision of petrochemical industry insurance services and financial services. These transactions and services are crucial to ensure the normal operation of the Company. During the Reporting Period, the continuing connected transaction framework agreements entered into between the Company and Sinopec Corp. and Sinopec in 2007 would expire. In order to ensure the normal operation of the Company, the Board proposed the Company to renew the framework agreements with Sinopec Corp. and Sinopec respectively. Pursuant to relative requirements of the Hong Kong Listing Rules and Shanghai Listing Rules, the Company strictly carried out the procedures of independent shareholders' approval and the relevant information disclosure in respect of the aforesaid continuing connected transactions. The resolutions on continuing connected transactions for years 2011-2013 between the Company and Sinopec Corp. and Sinopec were considered and approved at the 2010 extraordinary general meeting on 28 December 2010.

Accomplished specific corporate governance activities for listed companies in a conscientious manner: During the Reporting Period, the Company conscientiously enforced the relevant rules of the regulators regarding corporate governance and continued to consolidate the achievements in specific corporate governance activities. The Company, Directors, Supervisors, Senior Management, shareholders and controlling company of the controlling shareholder had not been investigated by the CSRC; punished or publicly criticized by the CSRC, the Securities and Futures Commission or the U.S. Securities and Exchange Commission; or publicly reprimanded by the Shanghai Stock Exchange, the Hong Kong Stock Exchange or the New York Stock Exchange.

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

Not-Yet-Rectified Problem During the Year

Description	Reason	Current Progress
The Company was entrusted by the shareholders (Sinopec Corp.) of the non-circulating shares to initiate the share reform which would make these non-circulating shares tradable, in October 2006 and December 2007 respectively. However, as the shareholders of the circulating A shares disagreed with the share reform plan, the share reform was not approved.	The completion of the share reform requires a basic consensus on the plan thereof between the shareholders of the non-circulating shares and the shareholders of the circulating A shares. Since there were major disagreements between both parties on the understanding of the amount of consideration paid for the share reform, the share reform could not be further proceeded during the Reporting Period.	The Company will continue to actively communicate with the shareholders of the non-circulating shares and the shareholders of the circulating A shares to seek early completion of the share reform.

Performance of Duties by the Directors

(1) Attendance at meetings of the Board by Directors

Name of Director	Whether as Independent Director	Attendance at meetings of the Board during the year	Attendance in person (no. of times)	Attendance by correspondence (no. of times)	Attendance by proxy (no. of times)	Absence (no. of times)	whether not attending in person for two consecutive times
Rong Guangdao	No	8	8	5	0	0	No
Wang Zhiqing	No	1	1	1	0	0	No
Wu Haijun	No	6	5	4	1	0	No
Li Honggen	No	8	8	5	0	0	No
Shi Wei	No	8	6	5	2	0	No
Dai Jinbao	No	8	8	5	0	0	No
Lei Dianwu	No	8	5	5	3	0	No
Xiang Hanyin	No	8	6	5	2	0	No
Chen Xinyuan	Yes	8	8	5	0	0	No
Sun Chiping	Yes	8	7	5	1	0	No
Jiang Zhiquan	Yes	8	7	5	1	0	No
Zhou Yunnong	Yes	8	8	5	0	0	No
Du Chongjun	No	7	7	4	0	0	No
Han Zhihao	No	2	2	1	0	0	No

the Board meetings held during the year(no. of times)		8
including:	The meetings held on site (no. of times)	3
	The meetings held by correspondence(no. of times)	5
	The meetings held on site and by correspondence(no. of times)	0

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

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

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

The Company formulated the "Work System for Independent Directors" and the "Work System for Independent Directors on Annual Report". In the "Work System for Independent Directors", the requirements for the appointment, nomination, election and replacement of independent directors as well as special powers, expression of independent opinions and work conditions of independent directors are clearly defined.

During the Reporting Period, with the attitude of being accountable for all shareholders, the Company's independent directors strictly enforced the "Work System for Independent Directors", and conscientiously discharged their duties and obligations conferred by the relevant laws and regulations as well as the Articles of Association. Independent directors paid close attention to the Company's production and operation, reform and development; conscientiously reviewed relevant documents and materials; actively participated in shareholders' general meetings, Board meetings and committees' meetings; and conscientiously considered resolutions regarding quarterly reports, interim reports, annual reports, profit appropriation, re-appointment of domestic and international auditors, financial budgets, internal control and connected transactions. Independent directors also expressed their independent opinions on significant matters such as connected transactions, provisions of external guarantees, and appointments of Directors and senior management staff. They proposed suggestions and strategies on the Company's corporate governance, production and operation and long-term development. The independent directors discharged their duties faithfully and diligently and safeguarded the legitimate rights and interests of all shareholders, in particular minority and medium-sized shareholders at large, in an independent and objective manner.

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

The Company is independent in various areas including business, personnel, assets, organizations and finance vis-a-vis the controlling shareholder. The Company's business is independent in its entirety with autonomous operation ability.

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

Overall plan of internal control establishment

Since 2004, the Company has established and implemented a full internal control system which covers aspects such as production, operation, finance, investment, human resources and information disclosure, and amendments are made to the Internal Control Manual annually in accordance with the domestic and overseas regulatory requirements, the needs of the risk prevention and the internal control review recommendations made by external auditors.

The Company's internal control system has been established primarily for achieving the following basic objectives: (a) to standardize the enterprise's business operation, prevent operation management risks, ensure financial reports and relevant information are truthful and integral, improve operational efficiency and effectiveness, and facilitate the achievement of the Company's development strategy; (b) to plug loopholes and eliminate potential hazards so as to prevent, timely detect and correct mistakes and fraud acts, thereby ensuring the Company's assets are secure and integral; and (c) to ensure relevant State laws and regulations, the Articles of Association and internal rules and regulations are thoroughly enforced so as to fulfill the regulatory requirements for listed companies in both domestic and overseas capital markets.

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

The 2010 edition of the Internal Control Manual comprises 52 operation procedures in 18 categories and sets out 1,207 control points and 269 authorization control indicators. The scope of control covers the major areas of the Company's production, operation and development, such as financial management, accounting and auditing, procurement of raw materials, product sales, capital expenditure, human resources and information management. The scope of control also involves a review on the Company's resources of accounting and financial reporting function, whether the staff's qualifications and experiences are sufficient and whether the training courses attended by the staff and the relevant budget is adequate.

In 2010, the Company conscientiously enforced the Internal Control Manual approved by the Board, and conducted self-review, walk-through test on procedures and integrated inspection on internal control in accordance with regulations. The external auditors of the Company also carried out review of the status of the Company's internal control. The management of the Company considers that the internal control of the Company was effective during the Reporting Period.

Establishment of a department inspecting and supervising internal control

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

The internal control task force has an internal control office, which is the department in charge of internal control review and supervision. The office is responsible for guiding or organizing daily inspection and evaluation; organizing annual comprehensive inspection and evaluation of the Company; organizing specific inspection and evaluation in accordance with needs; supervising and rectifying; drafting plan for assessment and reporting it to the internal control task force; and submitting regular reports on internal control inspection and supervision to the Audit Committee of the Board.

The Company set up an internal control supervisor working network consisting of 39 members. The internal control supervisors are representatives of the respective departments where they work or administrative heads of second-tier units who will conduct internal control work and activities within their respective supervisory scope and functionally report to the internal control office of the Company.

The Board's work arrangements for internal control

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

Improvements to the internal control system in relation to financial audit

Based on the Accounting Law, Enterprise Accounting Standards and other laws and regulations, the Company has formulated an array of financial and accounting management policies such as the "Financial Management Policy", the "Budget Management Policy" and the "Fund Management Measures". In accordance with domestic and overseas regulatory requirements, the Company has developed 26 sets of internal control operating procedures in relation to financial management as well as accounting and auditing such as the "Business Processes for Overall Budget Management", the "Business Processes for Cost Management", the "Business Processes for Fund Management" and the "Business Processes for Capital Expenditures". The "Matrix Table on Locus of Control in Relation to Financial Reporting" was also published and applied on the basis of the Company's "Internal Control Manual".

Defects present in internal control and correction of such defects

The Board of the Company has conducted a self-assessment on its internal control work in 2010. The results of the assessment are: no material defects were detected in the design or enforcement of the internal control of the Company from 1 January 2010 to 31 December 2010.

Appraisal and Reward Mechanisms for Senior Management Staff Members

The remuneration system for the senior management staff of the Company was considered and approved at the 2002 Annual General Meeting on 18 June 2003. In 2010, the Company continued to adopt the remuneration system, and appraised and rewarded the Company's senior management staff based on the system.

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

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

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

3. The Company has disclosed the Report on the Fulfillment of Corporate Social Responsibility 2010. For details, please refer to the appendixes of this annual report.

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

During the Reporting Period, the 11th meeting of the sixth session of the Board of the Company considered and approved the revised "Information Disclosure Management System" which defined specific regulations for the accountability for major errors in the disclosure of information in annual report. During the Reporting Period, there were no major errors in the disclosure of information in the Company's annual report such as amendments to major accounting errors, supplements to material omission of information or amendments to results forecasts.

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

The Code of Corporate Governance Practices

In 2010, the Company complied with all provisions set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 to the Hong Kong Listing Rules, except for the following one deviation:

Code Provision A.4.1:	Non-executive directors should be appointed for a specific term, subject to re-election.
Deviation:	Mr. Chen Xinyuan, the independent non-executive Director, has served as a non-executive Director for more than the six-year period as stipulated in the Articles of Association of the Company.
Reason:	Mr. Chen Xinyuan currently serves as the Dean, Professor and Tutor to doctoral students of the College of Accounting, Shanghai University of Finance and Economics. He is very familiar with financial reporting and accounting and has extensive experience in management. Mr. Chen also serves as the Director of the Audit Committee of the Board of the Company. For the time being, as the Company is unable to identify another accounting professional like Mr. Chen, Mr. Chen will be changed at the election of a new session of the Board to be held in June 2011.

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

A. Directors

A.1 The Board

The Board meets at least once per quarter. In 2010, eight Board meetings were held, all of which were conducted by the sixth session of the Board. For details of attendance of the Directors, please refer to the "Attendance at Meetings of the Board by Directors" set out on page 29. Before each Board meeting, the Secretary to the Board would consult each Director for matters to be tabled at the relevant Board meeting. Any matters so raised by the Directors would be included in the agenda of the relevant regular Board meeting. During the year, all notices and draft agenda of all Board meetings were sent to all Directors no later than 14 days before the date of the meeting.

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

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

A.2 Chairman and President

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

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

A.3 Board composition

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

A.4 Appointments, re-election and removal

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

In 2010, Directors Mr. Wu Haijun and Mr. Wang Zhiqing assumed their offices after their appointments were approved at the 2009 Annual General Meeting and 2010 Extraordinary General Meeting, respectively.

A.5 Responsibilities of Directors

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

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

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

A.6 Supply of and access to information

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

B. Remuneration of Directors and Senior Management

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

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

C. Accountability and Audit

C.1 Financial reporting

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

C.2 Internal control

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

The Board ensures that the internal control system of the Company is sound and proper so as to safeguard shareholders' investments and the Company's assets through two reviews conducted annually by the Audit Committee on the Company's internal control system. The Audit Committee conducted these reviews on the Company's internal control for 2009 and the first half of 2010 in March and August 2010 respectively. They reported to the Board and adopted the recommendations provided by the Board to further enhance the Company's internal control system, thereby enhancing the effectiveness and efficiency of internal control.

C.3 Audit Committee

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

D. Delegation of powers by the Board

D.1 Management functions

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

D.2 Board Committees

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

E. Communication with Shareholders

E.1 Effective Communication

The Board is committed to maintaining smooth communications with the shareholders. All Executive Directors, Independent Non-executive Directors and Chairmen of the Audit Committee and the Remuneration Committee attended the 2009 Annual General Meeting and 2010 Extraordinary General Meeting so as to directly communicate with the shareholders.

The notices on convening the 2009 Annual General Meeting and 2010 Extraordinary General Meeting were dispatched to the shareholders at least 45 days before the meetings.

E.2 Voting by Poll

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

During the 2009 Annual General Meeting and 2010 Extraordinary General Meeting, the Chairman of the meeting explained the detailed procedures of voting by way of a poll at the meeting and answered all questions from the shareholders regarding voting by way of a poll.

Directors' securities transactions

For details, please refer to "Model Code for Securities Transactions" under "Directors, Supervisors, Senior Management and Employees" in this annual report. The Company is not aware of any information that would reasonably indicate that the Directors and Supervisors were not in compliance with the requirements of the Model Code for Securities Transactions during the Reporting Period.

Board of Directors

(1) Composition of the Board

The Board consists of 12 Directors, including 6 Executive Directors, 2 Non-executive Directors and 4 Independent Non-executive Directors, among whom there is 1 Chairman and 2 Vice Chairmen. The personal particulars and terms of office of the Directors are set out in "Directors, Supervisors and Senior Management" and "Profiles of Directors, Supervisors and Senior Management" under the section headed "Directors, Supervisors, Senior Management and Employees" of this annual report.

(2) Functions of the Board

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

Subject to the Articles of Association, the Board shall convene at least 4 regular meetings every year. The Chairman serves as the convener of the Board meetings and is responsible for determining the topics to be considered. In practice, the Board convenes a minimum of 4 meetings each year and 8 Board meetings were held during 2010.

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

The 4 Independent Non-executive Directors of the Company possess extensive experience as well as academic and professional qualifications in various areas including management, accounting and finance respectively, thereby ensuring the Board's ability in protecting the interests of the shareholders as a whole. During the Reporting Period, the Independent Directors contributed significantly in improving the Company's corporate governance structure and protecting the interest of the minority shareholders. For example, Independent Non-executive Director Mr. Chen Xinyuan currently serves as the Dean, Professor and Tutor to doctoral students of the College of Accounting at Shanghai University of Finance and Economics. He is very familiar with financial reporting and accounting, given his years of experience in the academic aspects of accounting and notable achievements in accounting research. He is also experienced in business management. The Company confirms that it has received from each Independent Non-executive Director a confirmation of his independence pursuant to Rule 3.13 of the Hong Kong Listing Rules, confirming to the Company annually in respect of his independence. The Company considers all these directors to be independent.

Board Committees

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

(1) Remuneration and Appraisal Committee

A. Role and Functions of the Remuneration and Appraisal Committee

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

B. Members of the Remuneration and Appraisal Committee

The Committee comprises 3 Directors, 2 of whom are Independent Non-executive Directors and 1 is Executive Director.

Chairman: Zhou Yunnong, Independent Non-executive Director

Members: Jiang Zhiquan, Independent Non-executive Director and Dai Jinbao, Executive Director

C. Meetings of the Remuneration and Appraisal Committee

The Remuneration and Appraisal Committee convenes at least one meeting each year. In 2010, the Committee convened one meeting with record of attendance as follows:

Members of Remuneration and Appraisal Committee	Attendance in Person	Attendance by Proxy	% of Attendancy
Zhou Yunnong	1	0	100%
Jiang Zhiquan	1	0	100%
Dai Jinbao	1	0	100%

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

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

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

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

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

(2) Audit Committee

A. Role and Functions of the Audit Committee

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

B. Members of the Audit Committee

The Committee comprises three Independent Non-executive Directors.

Chairman: Chen Xinyuan (accounting expert)

Members: Sun Chiping and Zhou Yunnong

C. Meetings of the Audit Committee

The Audit Committee convenes at least two meetings each year. In 2010, the Committee convened two meetings with record of attendance as follows:

Members of Audit Committee	Attendance in Person	Attendance by Proxy	% of Attendancy
Chen Xinyuan	2	0	100%
Sun Chiping	2	0	100%
Zhou Yunnong	2	0	100%

D. Work Report of the Audit Committee during the Year

During the Reporting Period, the Audit Committee reviewed with the management the accounting principles and standards adopted by the Company and discussed matters regarding auditing, internal control and financial reporting, including reviews of the audited annual report for the 12 months ended 31 December 2009, the interim report for the period ended 30 June 2010 and so forth.

(3) Nomination of Directors

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

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

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

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

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

During the Reporting Period, in accordance with the aforesaid procedures and the Articles of Association, the Company completed the personnel change in relation to Directors and Senior Management. For details, please refer to page 25 of "Change of Directors, Supervisors and Senior Management".

Supervisory Committee

The Company's Supervisory Committee comprises 7 members, including 3 Staff Supervisors, 2 External Supervisors and 2 Independent Supervisors, one of whom serves as the Chairman. Particulars and term of office of each Supervisor are set out in "Directors, Supervisors and Senior Management" and "Profile of Directors, Supervisors and Senior Management" under section headed "Directors, Supervisors, Senior Management and Employees" in this annual report.

During 2010, the Supervisory Committee convened 5 meetings. Record of attendance of each Supervisor is set out below:

Name of Supervisor	Position	Number of meetings held during the Reporting Period	Number of attendance in person	% of attendance
Gao Jinping	Staff Supervisor and Chairman	5	5	100%
Zhang Chenghua	Staff Supervisor	5	5	100%
Wang Yanjun	Staff Supervisor	5	4	100% (attendance by proxy: 20%)
Wu Xiaoqi	External Supervisor	5	5	100%
Zhai Yalin	External Supervisor	5	4	100% (attendance by proxy: 20%)
Liu Xiangdong	Independent Supervisor	5	5	100%
Yin Yongli	Independent Supervisor	5	5	100%

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

Directors' Responsibilities in relation to the Financial Statements

The following statement, which should be read in conjunction with the domestic and international auditors' reports on pages 165 to 166 and pages 91 to 92, respectively, sets out the responsibilities of the Directors in relation to the financial statements.

- Annual reports and accounts

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

- Accounting policies

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

- Accounting records

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

- Going concern

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

Auditors' Remuneration

At the 2009 Annual General Meeting of the Company held on 23 June 2010, it was approved that KPMG and KPMG Huazhen would continue to be appointed as the domestic and overseas auditors of the Company for 2010. It was also authorized that the audit fees would be determined by the Board. As in 2010, KPMG and KPMG Huazhen have been providing audit services to the Company for 18 consecutive years since 1993.

Item	Amount	Auditor
Audit Fees	RMB 3.0 million	KPMG
Audit Fees	RMB 5.3 million	KPMG Huazhen

Shareholders’ Rights

The Company maintains normal communication with shareholders. The Company’s major communication channels include shareholders’ general meetings, the Company’s website, email account and fax and telephone communication of the Secretary Office of the Board. Through the use of the above communication channels, the shareholders may adequately express their opinions or exercise their rights. For example, a shareholders’ question and answer session was arranged at the 2009 Annual General Meeting and the 2010 Extraordinary General Meeting, allowing direct communication between the shareholders, the Directors and the management.

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

Investor Relations

During the Reporting Period, the Company continued to strengthen the management of investor relations, implemented conscientiously the “Work System of Investor Relations”, interacted and communicated actively with investors and submitted investors’ opinions and suggestions to the Company’s management in a timely manner. In principle, the Company convenes results briefings every six months after the release of its annual and interim results. In 2010, the Company held two large-scale results briefings and press conferences in Hong Kong, while over 100 “one-to-one” meetings were held within and outside China. The Company has also welcomed over 200 domestic and foreign investors at the Company’s headquarters, as well as conscientiously replying to phone queries and letters from investors, intermediaries and fund managers. In addition, the Company also actively attended capital market meetings organized by securities research companies and investment banks, etc.

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

Amendments to the Articles of Association

On 23 June 2010, the Company amended its Articles of Association and Appendix upon approval by the 2009 Annual General Meeting. For details, please refer to resolution passed at the 2009 Annual General Meeting of the Company published in “China Securities Journal” and “Shanghai Securities News”, and on the websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company on 24 June 2010.

Information on the annual general meeting

The Company held the 2009 Annual General Meeting on 23 June 2010. The resolution announcement was published in "Shanghai Securities News" and "China Securities Journal", and on the websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company on 24 June 2010.

Information on the extraordinary general meeting

The Company held the 2010 Extraordinary General Meeting on 28 December 2010. The resolution announcement was published in "Shanghai Securities News" and "China Securities Journal", and on the websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company on 29 December 2010.

Management Discussion and Analysis

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

A. Operating Results

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

The world economy recovered slowly in 2010 under the actions of large-scale economic stimulus policies launched by various nations amid a complex environment. The world's petroleum and petrochemical industry gradually emerged from the shadow of the global financial crisis, showing signs of recovery and slowly regaining a boom. The Chinese economy encountered a complex and volatile economic environment as well as grand challenges from home, abroad and the nature. As the State applied an array of specific macro control initiatives to boost domestic demand, stabilize foreign trade and adjust structure, it has managed to consolidate and broaden the achievements in countering the impact of the global financial crisis, thereby enabling the economic operation to change from recovery to steady growth. Overall, the domestic economy has maintained steady and relatively fast growth, with the gross domestic product (GDP) growing by a better-than-expected 10.3%. Given the impact of the global financial crisis being weakened and a stable and rapid growth in the domestic economy, the Chinese petroleum and petrochemical industry emerged fast from the severe shock of the crisis, thereby achieving the anticipatory target of steady and relatively fast development. The scale of economic operation was expanded significantly; economic structure was optimized continuously; the quality of operation was further improved; over 30% increase in output value and profit was recorded; and the overall strength of the industry was significantly enhanced.

In 2010, the Group (the Company and its subsidiaries) actively capitalized on various favorable conditions such as a better overall macro-environment than that in 2009, a sound economic operation of the domestic petroleum and petrochemical industry, relatively reduced volatility in international crude oil prices, relatively sufficient adjustments of the prices of domestic refined oil products, an increase in demand from the petrochemical market, and the overall completion and operation of the entire Phase 5 Project of the Company. The Group has thereby increased total output unswervingly, accelerated development with concerted efforts, strengthened internal management on an ongoing basis and enhanced efficiency by all possible means to ensure a harmonious and stable business. As a result, it has completed all the production and operation tasks for the year; reached a record high in various indicators such as crude oil processing volume, ethylene output, total volume of goods as well as turnover; and achieved good operating results.

1. Production and business operations continued to remain safe, stable and optimal

In 2010, the Group's product mix was further optimized, the rate of resources utilization was improved and the overall economies of scale was enhanced effectively as a result of the completion and full operation of the Phase 5 Project. During the year, the organizational coordination and optimization management of the Group's production operations were strengthened. The average utilization rate and the average load rate of approximately 40 major production plants amounted to 90.82% and 99.80% respectively. Ethylene and other important production plants maintained a high load rate of around 100%. The operation of major production plants remained sound. All important technical and economic indicators improved, with approximately 84% of the indicators being better than those in the previous year and approximately 52% of the indicators reaching the advanced levels among the Sinopec. No accidents involving serious consequences, major fires or explosions, environmental pollution happened during the year.

In 2010, the Group recorded a substantial growth in physical production volume of products, while the total volume of goods exceeded 10,000,000 tons for the first time to reach 11,481,100 tons, an increase of 29.24% over the previous year. During the year, the Group processed 10,520,700 tons of crude oil (including 408,900 tons of crude oil processed on a sub-contracting basis), up 20.13%. Total production output of gasoline, diesel and jet fuel increased by 25.34%. Specifically, output of gasoline was 932,400 tons, output of diesel was 3,675,900 tons and output of jet fuel was 765,700 tons, up 15.68%, 31.16% and 12.77% respectively. The Group produced 972,900 tons of ethylene and 523,200 tons of propylene, up 4.87% and 7.30% respectively. The Group also produced 1,133,700 tons of synthetic resins and copolymers (excluding polyester and polyvinyl alcohol), up 4.03%; 950,100 tons of synthetic fibre monomers, 643,200 tons of synthetic fibre polymers and 253,600 tons of synthetic fibre, up 86.77%, 7.25% and 5.10% respectively. Meanwhile, the quality of the Group's products was consistently maintained at a premium level.

In 2010, the Group's turnover amounted to RMB77,520.7 million, an increase of 50.07% over the previous year. The Group's output-to-sales ratio and receivable recovery ratio were 99.97% and 100.12%, respectively. The Group's annual imports and exports (excluding crude oil imports) amounted to US$5,272 million, an increase of 51.62%.

2. Overall market supply and demand remained stable

In 2010, the policies package introduced by China to cope with the impact of the global financial crisis came into full effect, as witnessed by a strong rebound in industrial production. As to the petrochemical market, there was a significant increase in the supply and demand of petrochemical products and a steady growth in consumption. Additional production capacity was almost digested by the market, with the overall market supply and demand remaining stable and production and sales being carried out smoothly. Prices tended to stay on a steady rise and the overall price level in petroleum and chemical industry increased for the year. For the year ended 31 December 2010, the weighted average prices (excluding tax) of the Group's synthetic fibres, resins and plastics, intermediate petrochemical products and petroleum products increased by 32.89%, 15.73%, 30.09% and 26.23% respectively over the previous year.

3. International crude oil prices fluctuated within a narrow range

In 2010, as a result of a number of factors such as relatively relaxed global supply and demand of petroleum, weakened speculative forces that drove up oil prices and less geopolitical incidents or emergencies that affected oil supply, international crude oil prices fluctuated within a narrow range which was not commonly seen during the past 15 years. The West Texas Intermediate ("WTI") crude oil closing price on the New York Mercantile Exchange fluctuated within a range of US$70-US$90/barrel in general, hitting the lowest point of US$65.58/barrel (on 25 May) and the highest point of US$91.44/barrel (on 31 December), representing a volatility of 39%, far lower than 139% in 2009 and 329% in 2008. The annual average price was US$79.47/barrel (2009: US$62.20/barrel), a rise of 27.77%. The annual average Brent crude oil price on the London Intercontinental Exchange was US$79.49/barrel in 2010 (2009: US$62.56/barrel), a rise of 27.06%. For the year ended 31 December 2010, the Group processed 10,520,700 tons of crude oil in total (including 408,900 tons on a sub-contracting basis), representing an increase of 1,762,900 tons over the previous year, up 20.13%. Of this volume, offshore oil accounted for 960,400 tons and imported oil accounted for 9,560,300 tons. The average unit cost of crude oil processed (for its own account) was RMB3,925.56 per ton (2009: RMB3,020.15 per ton), representing an increase of 29.98%. Crude oil costs increased by RMB13,244.6 million as compared to 2009. The Group's crude oil costs totaled RMB39,694.6 million for the year, representing 58.11% of the annual cost of sales.

4. Phase 6 Project commenced

In 2010, the Group commenced the construction of the Phase 6 Project, with refinery revamping and expansion project as the key project, based on the development ideas of "giving due consideration to both low cost and differentiation, attaching equal importance to scale and refinement, laying particular emphasis on being cost and scale effective at upstream and being highly value-added and highly refined at downstream". The natural gas integrated utilization project was gradually put into operation in the first quarter to replace fuels such as hydrogen-making feedstock, liquefied petroleum gas (LPG) and residual oil, and satisfactory economic return were reaped. The upgrade project for optimization of energy saving and consumption reduction of No. 2 PTA plant commenced on 29 July. Procurement of equipment with long manufacturing cycle and pile foundation treatment have been carried out for the carbon fiber project with a capacity of 1,500 tons/year and the refinery revamping and expansion project (including the construction of a new 3,900,000 tons/year residual oil hydrogenation plant and a new 3,500,000 tons/year catalytic cracking plant and so on). The preliminary work for other projects such as the isopentene project with a capacity of 10,000 tons/year, the ethanolamine project with a capacity of 50,000 tons/year and the EVA (ethylene-vinyl acetate copolymer) project with a capacity of 100,000 tons/year proceeded as planned. Meanwhile, other key technical renovation projects of the Group were being steadily implemented as planned. For example, upon completion of the capacity expansion and renovation of the Jin Min Pipeline of refined oil pipeline in June, the Group's transmission capacity for Shanghai IV standard gasoline and diesel increased from 1,200,000 tons/year to 1,800,000 tons/year; and the technological revamping project for No.1 EO/EG Plant was completed in November.

The Shanghai Secco Petrochemical Company Limited's 900,000 ton/year ethylene joint-venture plant (which production capacity was expanded and upgraded to 1,190,000 tons/year in 2009) between the Group, Sinopec Corp. and BP Chemicals East China Investments Ltd. produced 1,294,300 tons of ethylene in 2010, representing an increase of 419,000 tons over the previous year, up 47.87%. The plant realized an operating revenue of RMB29,169 million for the year.

5. Energy conservation and emissions reduction work deepened further

In 2010, the Group continued to carry out various energy-saving and emissions reduction measures in accordance with the State's relevant energy conservation and emissions reduction requirements, having completed all the energy-saving and emissions reduction targets set in the Eleventh Five-year Plan delivered by the NDRC, Sinopec and Shanghai Municipality. In 2010, the Group's overall energy consumption per RMB10,000 product value was 1.311 tons of standard coal (2009: 1.597 tons of standard coal), down 17.91%; industrial water consumption was 11.25 tons per RMB10,000 (2009: 13.39 tons per RMB10,000), down 15.98% ; industrial water recycling rate remained at above 96%. Various indices for waste water discharges, industrial waste water discharge volume, total COD discharge and hazardous waste treatment ratio all met the compliance requirements for environmental protection. The average thermal efficiency of heaters increased by 0.24 percentage points over the previous year to 91.25%. A number of energy-saving and consumption reduction, water-saving and emissions reduction, environment protection and removal of lurking danger projects including sewage treatment in the flare area have been completed successfully. Please refer to the Company's Social Responsibility Report 2010 in this annual report for other details.

6. Technological progress made big strides of achievements

In 2010, the Group focused on its principal business, laid emphasis on key areas and continued to push forward various technological advancement work. It has actively carried out the development of new products, such as carbon fiber, propylene/1-butene random copolymer, (a kind of transparent polypropylene materials for special purposes), flame-resistant polyester for industrial yarn and bio-degradable polyester chips. The development and practical application of a set of technology for the industrialization of 150,000 tons/year C5 segregation plant, the selective hydrodesulfurization second-generation technology for catalytic cracking gasoline (RSDS-II) and the oxygen-rich ignition combustion technology for pulverized coal boilers were completed, and significant economic benefits were generated. The Company won the second prize of "2010 National Scientific and Technological Advancement" for the development of the project for "key technology for the production of large-scale PTA - development and application of Hydro-refining catalyst and reaction technology". The Company won scientific and technological advancement awards of Sinopec or Shanghai Municipality for its seven achievements. In particular, the project involving "a set of technology for the industrialization of 150,000 tons/year C5 segregation plant" was awarded the first prize of "Scientific and Technological Advancement of Sinopec"; the project involving the "research and production of titanium polyester catalyst" was awarded the second prize of "Technology Invention of Sinopec"; the project involving the "research, production and industrial applications of high efficient pyrolysis gasoline hydrogenation catalyst" was awarded the first prize of "Scientific and Technological Advancement in Shanghai Municipality". Three industrial application projects won the New Technology Awards first given by Sinopec. Nine new and high-tech achievement transformation projects gained a special financial support fund of RMB11.03 million from Shanghai Municipality, which was the largest amount ever. Twenty three patent applications were submitted and thirteen patent licences were received during the year.

With respect to information system development, the BW/BCS (Business Warehouse and Business Consolidation System) project operated online in January; the equipment management information system, the manufacturing execution system (MES) and the Systems, Applications and Products in Data Processing - Human Resources (SAP-HR) were successively put into operation in the third quarter. The project involving the development and application of cracking severity control system for cracking furnace at No. 2 ethylene plant and the APC project involving No. 2 delayed coking plant were launched in April and May respectively; the APC project for No. 2 ethylene glycol plant was put into operation in October; and the real-time database phase Ⅱ project covering all of the Company's production plants was basically completed. The Company was rated as an A-level enterprise in Sinopec Corp's evaluation on corporate information system development and application.

7. Corporate internal reforms and management were continuously strengthened

In 2010, the Group waged a campaign in all aspects that covering "learn the advanced operation and manage with best care, sophisticated management as well as comparing, learning, catching with and surpassing the advanced and assisting under-performers" by earnestly learning from and using the good methods and experiences of its counterpart enterprises in the industry to further strengthen internal management and to resolve practical problems in production operations. The organization and management responsibilities for materials supply and product sales were further improved to integrate business management resources and streamline business processes; the second phase reform on the quality assurance system was completed to improve the quality management system; an energy management office and a corporate culture division were set up; a "three fundamentals" work mechanism was established for carrying out management by level, inspection by category and assessment by category; and a briefing system was set up for reporting details on the accomplishment of major indicators. All these were aimed to further improve and strengthen the assessment on organizational performance.

As at 31 December 2010, the Group reduced its work force by 762 employees, including voluntary resignees and retirees, accounting for 4.45% of the total work force of 17,131 employees as at the beginning of the year.

8. Brief analysis of the reasons for achieving good operating results for the year

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

(a) An increase in both physical production volume and sales prices of products. In 2010, total volume of goods produced by the Group amounted to 11,481,100 tons, up 29.24% year-on-year; and turnover amounted to RMB77,520.7 million (2009: RMB51,657.9 million), up 50.07%. Specifically, turnover increased by RMB15,824.3 million as a result of an increase in sales volume; and turnover increased by RMB10,038.5 million as a result of a rise in average sales prices.

(b) The establishment of a market-oriented pricing mechanism for refined oil products. In 2010, the prices of domestic refined oil products continued to be indirectly brought in line with the prices of crude oil in the international market in a controlled manner, ensuring the basic profit of the Group's oil refining business.

(c) Significant profits made by the petrochemical business. The domestic petrochemical industry delivered outstanding performance in 2010, with its economic share rising steadily and its total economic volume ranking the top globally. The Group's petrochemical business also performed well, posting an operating profit of RMB1,791.8 million (2009: RMB1,046.5 million), up 71.22%.

(d) An increase in the Group's share of profits of associates and jointly-controlled entities. In 2010, the Group's share of profits of associates and jointly-controlled entities amounted to RMB661 million (2009: RMB464 million), representing an increase of 42.46% . Of such amount, the share of profits of Shanghai Secco Petrochemical Company Limited amounted to RMB538 million (2009: RMB134 million).

(e) The Group further strengthened its internal management and reaped good results from unleashed potential, increased efficiency, reduced costs and expenses, as well as from energy conservation and consumption reduction efforts, so much so that the overall quality and level of operation improved to a significant extent. In 2010, various initiatives to unleash potential, increase efficiency and reduce costs and expenses have resulted in enhanced cost efficiencies amounting to RMB545 million.

Accounting judgment and estimates

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

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

Impairments for long-lived assets

If circumstances indicate that the net book value of a long-lived asset may not be recoverable, the asset may be considered "impaired", and an impairment loss may be recognised in accordance with IAS 36 "Impairment of Assets" and CAS 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 price because quoted market prices for the Group's assets or cash-generating units are not readily available. In determining the value in use, expected cash flows generated by the asset or the cash-generating unit are discounted to their present value, which requires significant judgement relating to level of sale volume, selling price and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of sale volume, selling price and amount of operating costs.

Depreciation

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

Impairment for bad and doubtful debts

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

Allowance for diminution in value of inventories

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

Income tax differences

In June 2007, the State Administrative of Taxation issued a tax circular (Circular No.664) to the local tax authorities requesting the relevant local tax authorities to rectify the applicable enterprise income tax ("EIT") for nine companies listed in Hong Kong. After the notice was issued, the Company was required by the relevant tax authority to settle the EIT for 2007 at a rate of 33 percent. To date, the Company has not been requested by the tax authorities to pay additional EIT in respect of any years prior to 2007. There is no further development of this matter during the year ended 31 December 2010. No provision has been made in the financial statements at 31 December 2010 for this uncertainty because management believes it is not probable that the Group will be required to pay additional EIT for tax years prior to 2007.

Recognition of deferred tax assets

Deferred tax assets are recognised in respect of temporary deductible differences and the carryforward of unused tax losses. Management recognises deferred tax assets only to the extent that it is probable that future taxable profit will be available against the assets which can be realised or utilised. At the end of each reporting period, management assesses whether previously unrecognised deferred tax assets should be recognised. The Group recognises a previously unrecognised deferred tax asset to the extent that it is probable that future taxable profit will allow the deferred tax asset to be utilised. In addition, management assesses the carrying amount of deferred tax assets that are recognised at the end of each reporting period. The Group reduces the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available for the deferred tax asset to be utilised.

In making the assessment of whether it is probable the Group will realise or utilise the deferred tax assets, management primarily relies on the generation of future taxable income to support the recognition of deferred tax assets. In order to fully utilise the deferred tax assets recognised at 31 December 2010, the Group would need to generate future taxable income of at least RMB 3,310 million, of which RMB 2,606 million is required to be generated by 2013, prior to the expiration of the unused tax losses. Based on estimated forecast and historical experience, management believes that it is probable that the Group will generate sufficient taxable income before the unused tax losses expire.

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								
	2010			2009			2008		
	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	**255.9**	**3,906.6**	**5.4**	245.8	2,823.7	6.0	278.4	3,662.0	6.2
Resins and Plastics	**1,620.2**	**14,900.0**	**20.7**	1,543.3	12,263.6	25.9	1,462.6	14,850.3	25.0
Intermediate Petrochemicals	**2,386.5**	**17,206.4**	**23.9**	1,519.4	8,421.0	17.8	1,347.1	10,271.8	17.3
Petroleum Products	**6,342.8**	**28,733.9**	**39.9**	5,271.4	18,917.9	39.9	5,747.0	27,552.9	46.4
All others	**-**	**7,349.0**	**10.1**	-	4,919.1	10.4	-	2,992.8	5.1
Total	**10,605.4**	**72,095.9**	**100.0**	8,579.9	47,345.3	100.0	8,835.1	59,329.8	100.0

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

	For the Years ended 31 December					
	2010		2009		2008	
	Millions of RMB	**% of Net sales**	Millions of RMB	% of Net sales	Millions of RMB	% of Net sales
Synthetic fibres						
Net sales	**3,906.6**	**5.4**	2,823.7	6.0	3,662.0	6.2
Operating expenses	**(3,471.0)**	**(4.8)**	(2,812.3)	(5.9)	(5,313.5)	(9.0)
Segment profit/(loss) from operations	**435.6**	**0.6**	11.4	0.1	(1,651.5)	(2.8)
Resins and plastics						
Net sales	**14,900.0**	**20.7**	12,263.6	25.9	14,850.3	25.0
Operating expenses	**(13,908.9)**	**(19.3)**	(11,419.3)	(24.1)	(17,027.0)	(28.7)
Segment profit/(loss) from operations	**991.1**	**1.4**	844.3	1.8	(2,176.7)	(3.7)
Intermediate petrochemicals products						
Net sales	**17,206.4**	**23.9**	8,421.0	17.8	10,271.8	17.3
Operating expenses	**(16,841.3)**	**(23.4)**	(8,230.2)	(17.4)	(10,314.5)	(17.4)
Segment profit/(loss) from operations	**365.1**	**0.5**	190.8	0.4	(42.7)	(0.1)
Petroleum Products						
Net sales	**28,733.9**	**39.9**	18,917.9	39.9	27,552.9	46.4
Other income	**-**	**-**	-	-	2,312.2	3.9
Operating expenses	**(27,593.6)**	**(38.3)**	(18,113.0)	(38.3)	(33,811.0)	(57.0)
Segment profit/(loss) from operations	**1,140.3**	**1.6**	804.9	1.6	(3,945.9)	(6.7)
Others						
Net sales	**7,349.0**	**10.1**	4,919.1	10.4	2,992.8	5.1
Operating expenses	**(7,314.0)**	**(10.1)**	(4,747.0)	(10.0)	(2,993.3)	(5.1)
Segment profit/(loss) from operations	**35.0**	**(0.0)**	172.1	0.4	(0.5)	0.0
Total						
Net sales	**72,095.9**	**100.0**	47,345.3	100.0	59,329.8	100.0
Other income	**-**	**-**	-	-	2,312.2	3.9
Operating expenses	**(69,128.8)**	**(95.9)**	(45,321.8)	(95.7)	(69,459.3)	(117.1)
Profit/(loss) from operations	**2,967.1**	**4.1**	2,023.5	4.3	(7,817.3)	(13.2)
Net financing costs	**(95.2)**	**(0.1)**	(321.1)	(0.7)	(330.4)	(0.6)
Investment income	**0.2**	**0.0**	222.8	0.5	131.8	0.2
Share of profit of associates and jointly controlled entities	**661.3**	**0.9**	241.3	0.5	1.5	0.0
Profit/(loss) before taxation	**3,533.4**	**4.9**	2,166.5	4.6	(8,014.4)	(13.5)
Income tax	**(736.4)**	**(1.0)**	(511.0)	(1.1)	1,812.7	3.1
Profit/(loss) for the year	**2,797.0**	**3.9**	1,655.5	3.5	(6,201.7)	(10.4)
Attributable to:						
Equity shareholders of the Company	**2,771.6**	**3.8**	1,591.0	3.4	(6,238.4)	(10.5)
Non-controlling interests	**25.4**	**0.1**	64.5	0.1	36.7	0.1
Profit/(loss) for the year	**2,797.0**	**3.9**	1,655.5	3.5	(6,201.7)	(10.4)

Results of operations

The year ended 31 December 2010 compared to the year ended 31 December 2009.

Net sales

In 2010, net sales of the Group amounted to RMB72,095.9 million, representing an increase of 52.28% from RMB47,345.3 million of the previous year. In 2010, the world economy experienced a slow recovery under the impact of large-scale economic stimulus policies launched by various nations amid a complex environment. The world's petroleum and petrochemical industry gradually emerged from the shadow of the global financial crisis, showing signs of recovery and slowly regaining a boom. The policies package introduced by China to cope with the impact of the global financial crisis came into full effect. Thereby, there was a significant increase in the supply and demand of petrochemical products, with the overall market supply and demand remaining stable and production and sales being carried out smoothly. Prices tended to stay on a steady rise and the overall price level in petroleum and chemical industry increased for the year. For the year ended 31 December 2010, the weighted average prices (excluding tax) of the Group's synthetic fibres, resins and plastics, intermediate petrochemical products and petroleum products increased by 32.89%, 15.73%, 30.09% and 26.23% respectively over the previous year.

1. Synthetic fibres

   In 2010, the Group's net sales of synthetic fibre products amounted to RMB3,906.6 million, representing a 38.35% increase compared to RMB2,823.7 million in the previous year. The weighted average price of synthetic fibres increased by 32.89% as compared to the previous year. In particular, the price of acrylic fibre, the principal product of synthetic fibre of the Group, increased by 36.57% over the previous year driven by the price increase in cotton. In addition, the total sales volume of synthetic fibres increased by 4.09% as compared to the previous year due to the sales volumes of major synthetic fibre products rose to various degrees resulting from an increase of domestic market demand.

   Net sales of synthetic fibre products accounted for 5.40% of the Group's total net sales in 2010, representing a decrease of 0.60 percentage point as compared to the previous year.

2. Resins and plastics

The Group's net sales of resins and plastics amounted to RMB14,900.0 million in 2010, representing an increase of 21.50% as compared to RMB12,263.6 million in 2009. The weighted average price of resins and plastics in 2010 increased by 15.73% and sales volume in 2010 increased by 4.99%. Among resins and plastics products, the average sales price of polyester pellet for 2010 increased by 21.13% and sales volume increased by 8.25%; the average sales price of polypropylene increased by 17.96% and sales volume increased by 2.10%. The sales of polyester pellet and polypropylene accounted for 28.35% and 28.85% of the total sales of resins and plastics respectively.

Net sales of resins and plastics accounted for 20.70% of the Group's total net sales in 2010, representing a decrease of 5.20 percentage points as compared to the previous year.

3. Intermediate petrochemical products

The Group's net sales of intermediate petrochemical products amounted to RMB17,206.4 million in 2010, representing an increase of 104.33% as compared to RMB8,421.0 million in 2009, with the weighted average price of intermediate petrochemical products increased by 30.09% as compared to the previous year. Following the commencement of operation of the 600,000 tons/year PX aromatics complex in the second half of 2009, the production volume and sales volume of intermediate petrochemical products increased significantly with a year-on-year increase of 57.07% in sales volume. Among the intermediate petrochemical products, weighted average prices of purified petroleum benzene and butadiene increased by 32.98% and 80.50%, respectively. The sales of purified petroleum benzene and butadiene accounted for 14.89% and 10.27% of the total sales of intermediate petrochemical products, respectively.

Net sales of intermediate petrochemical accounted for 23.90% of the Group's total net sales in 2010, representing an increase of 6.10 percentage points as compared to the previous year.

4. Petroleum products

The Group's net sales of petroleum products amounted to RMB28,733.9 million in 2010, representing an increase of 51.89% as compared to RMB18,917.9 million in the previous year, with the weighted average product prices increased by 26.23% as compared to 2009 while sales volume increased by 20.32%. Due to the impact of significant increase in demand of domestic market, the market demand for diesel and gasoline increased as compared to the previous year which led to the increases of 25.32% and 18.04% in the Group's sales volume of diesel and gasoline respectively. The sales of diesel and gasoline accounted for 58.36% and 19.19% of the total sales of petroleum products respectively.

Net sales of petroleum products accounted for 39.90% of the Group's total net sales in 2010, basically at par with the previous year.

5. Other activities

The Group's net sales of other activities amounted to RMB7,349.0 million in 2010, representing an increase of 49.40% as compared to RMB4,919.1 million in the previous year. Such increase in the net sales was mainly attributed to a significant increase in the Group's trading volume of petrochemical products as compared to the previous year.

Net sales of other activities accounted for 10.10% of the Group's total net sales in 2010, basically at par with the previous year.

Operating expenses

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

Operating expenses of the Group increased substantially by 52.53% to RMB69,128.8 million in 2010 as compared to RMB45,321.8 million in 2009. The operating expenses of synthetic fibres, resins and plastics, intermediate petrochemicals, petroleum products and other activities amounted to RMB3,471.0 million, RMB13,908.9 million, RMB16,841.3 million, RMB27,593.6 million and RMB7,314.0 million, respectively, representing increases of 23.42%, 21.80%, 104.63%, 52.34% and 54.08%, respectively, as compared to 2009.

1. Synthetic fibres

The Group's operating expenses of synthetic fibres in 2010 increased by RMB658.7 million as compared to the previous year, primarily due to increased unit prices for raw materials (eg. acrylonitrile) for producing synthetic fibres and an increase in production volume.

2. Resins and plastics

The Group's operating expenses of resins and plastics in 2010 increased by RMB2,489.6 million as compared to the previous year, which was primarily due to increased unit costs for raw materials such as ethylene and propylene.

3. Intermediate petrochemicals

The Group's operating expenses of intermediate petrochemicals in 2010 increased by RMB8,611.1 million as compared to the previous year, which was mainly attributable to a significant increase in sales volume of intermediate petrochemical products, and the corresponding increases in costs and expenses of intermediate petrochemical products resulting from the increase in unit cost of intermediate petrochemical products following the increase in average unit cost of crude oil during the year.

4. Petroleum products

The Group's operating expenses of petroleum products in 2010 increased by RMB9,480.6 million as compared to the previous year, primarily due to the increase in crude oil prices (which was the major production raw material of the Group) and an increased processing volume, which directly led to an increase in the operating expenses of petroleum products.

5. Other activities

The Group's operating expenses of other activities in 2010 increased by RMB2,567.0 million as compared to the previous year, which was primarily attributable to increased costs and expenses of petrochemical products resulting from a significant increase in external sales volume of petrochemical products.

- Cost of sales

The Group's cost of sales amounted to RMB68,313.9 million in 2010, representing a significant increase of 51.77% compared to RMB45,010.2 million in 2009. Cost of sales accounted for 94.75% of the net sales for 2010, primarily due to an increase in crude oil prices in 2010 which was the Group's major raw material and a significant increase in product sales volume.

1. Crude Oil

In 2010, the Group processed 10,520,700 tons of crude oil (including 408,900 tons of crude oil processed on a sub-contracting basis), representing an increase of 1,762,900 tons as compared to 8,757,800 tons in the previous year. The volumes of imported crude oil and domestic offshore crude oil processed by the Group were 9,560,300 tons and 960,400 tons, respectively.

The total cost of crude oil processed by the Group in 2010 amounted to RMB39,694.6 million, representing a significant increase of 50.07% as compared to RMB26,450.0 million in the previous year and accounting for 58.11% of the total cost of sales. The weighted average cost of crude oil of the Group was RMB3,925.56 per ton, representing an increase of 29.98% as compared to the previous year. The average costs of imported crude oil and domestic offshore crude oil were RMB3,921.28 per ton and RMB3,966.34 per ton, respectively.

2. Other expenses

The Group's expenses for other auxiliary raw materials were RMB14,699.0 million in 2010, representing a significant increase of 90.28% as compared to RMB7,725.0 million in the previous year, which was primarily attributable to an increase in the cost of auxiliary raw materials as a result of the increase in the crude oil price, and an increase in the consumption of ancillary materials as a result of the increase in the crude oil processing volume.

- **Selling and administrative expenses**

The Group's selling and administrative expenses amounted to RMB628.8 million in 2010, representing an increase of 39.61% as compared to RMB450.4 million in the previous year, mainly due to an increase in the sales transportation expenses as a result of an increase in sales volume of the Group during the Reporting Period, and an increase in agency fees with respect to product sales in routine (continuing) connected transactions resulted from the increase in production volume.

- **Other operating income**

The Group's other operating income amounted to RMB109.8 million in 2010, a decrease of 60.39% compared to RMB277.2 million in the previous year, which was primarily due to an income of RMB91.8 million generated from the disposal of lease prepayments on land and an income of RMB72.2 million generated from the disposal of other investment in 2009, which did not occur during the Reporting Period.

- **Other operating expenses**

The Group's other operating expenses increased from RMB138.3 million in the previous year to RMB296.0 million in 2010, representing an increase of 114.03%, which was primarily due to an increase of RMB139.7 million in the Group's impairment losses of fixed assets during the Reporting Period as compared to the previous year. In addition, the Group's loss on disposal of fixed assets during the Reporting Period increased by RMB28.6 million as compared to the previous year.

Profit from operations

The Group's profit from operations amounted to RMB2,967.1 million in 2010, representing a significant increase of RMB943.6 million as compared to RMB2,023.5 million in the previous year, which was primarily due to a significant increase in the Group's operating efficiency during the Reporting Period.

Net financing costs

The Group's net financing costs were RMB95.2 million in 2010, representing a significant decrease of 70.35% as compared to RMB321.1 million in previous year, which was primarily attributable to an increase of RMB157.2 million in net foreign exchange gain of the Group during the Reporting Period, and a decrease of RMB84.0 million in interest expense as compared to the previous year.

Investment income

The Group's investment income was RMB0.2 million in 2010. In 2009 the Group's investment income was RMB222.8 million, which mainly comprised of gain on disposal of available-for-sale financial assets.

Profit before taxation

The Group's profit before taxation was RMB3,533.4 million in 2010, representing a substantial increase of RMB1,366.9 million as compared to RMB2,166.5 million in the previous year.

Income tax

The Group's income tax expense was RMB736.4 million in 2010, representing an increase of RMB225.3 million as compared to RMB511.1 million in the previous year. The change was in line with the increase on taxable income of the Group.

In accordance with the PRC Income Tax Law (as amended) which took effect from 1 January 2008, the income tax rate of the Group in 2010 was 25% (2009: 25%).

Profit for the year

The Group's profit for the year was RMB2,797.0 million in 2010, representing an increase of RMB1,141.5 million as compared to RMB1,655.5 million in the previous year.

B. Analysis of the Company's principal operations and performance (prepared under CAS)

1. Principal operations by segment or product

By segment or product	Operating income (RMB'000)	Operating cost (RMB'000)	Gross profit margin (%)	Increase/ decrease of operating income compared to the previous year (%)	Increase/ decrease of operating cost compared to the previous year (%)	Increase/ decrease of gross profit margin as compared to the previous year (percentage point)
Synthetic fibres	3,955,396	3,081,724	22.09	38.26	22.65	9.92
Resins and plastics	15,065,276	13,176,784	12.54	21.42	26.72	-3.65
Intermediate petrochemicals	17,399,592	16,136,223	7.26	104.43	107.23	-1.25
Petroleum products	33,734,607	26,115,933	22.58(note)	47.08	49.53	-1.27
Others	7,436,316	7,276,791	2.15	48.54	61.63	-7.92
Including: connected transactions*	40,922,006	34,058,958	16.77	50.64	49.94	0.39

Note: The gross profit margin is calculated according to the price of petroleum products which includes consumption tax. The gross profit margin of petroleum products after deducting consumption tax amounted to 7.76%.

* For details of necessity, continuity and price-setting principles of connected transactions, please refer to the section headed "Connected transactions in relation to routine operations" under "Major Events" in this annual report.

2. Principal operations by geographical location

Geographical location	Operating income RMB'000	Increase/decrease of operating income compared to the previous year (%)
Eastern China	71,668,261	49.32
Other regions in China	5,442,572	52.10
Exports	480,354	225.60

C. Liquidity and Capital Resources

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

Capital Sources

Net cash inflows from operating activities (prepared under IFRS)

The Group's net cash inflows from operating activities amounted to RMB3,973.7 million in 2010, representing an increase in cash inflows of RMB626.8 million as compared to net cash inflows of RMB3,346.9 million in the previous year. Due to the significant improvement in the Group's operating activities during the Reporting Period, net cash inflows from profit before tax (net of depreciation and impairment losses of fixed assets) amounted to RMB5,426.8 million in 2010, representing an increase of RMB1,513.0 million of cash inflows compared to net cash inflows of RMB3,913.8 million in the previous year. The Group's decreased inventory balance led to an increase in operating cash flow of RMB1,512.8 million in 2010 (as compared to a decrease in operating cash flow of RMB2,391.6 million due to increased inventories at the end of the previous year). Increases in the year-end balances of debtors, bills receivable and prepayments led to a decrease in operating cash flow of RMB1,571.1 million in 2010 (as compared to a decrease in operating cash flow of RMB202.9 million during the previous year as a result of an increase in such year-end balances). Decreases in the year-end net balances of amounts due to related parties led to a decrease in operating cash flow of RMB1,881.4 million (as compared to an increase in operating cash flow of RMB1,362.4 million during the previous year as a result of an increase in such year-end balances).

Cash flow breakdowns of the Group during the Reporting Period (prepared under CAS)

	2010 RMB'000	2009 RMB'000
Net cash inflow from operating activities	**4,243,832**	3,703,542
Net cash outflow from investing activities	**(463,306)**	(2,175,372)
Net cash outflow from financing activities	**(3,805,977)**	(2,029,936)

Borrowings

The total borrowing of the Group at the end of 2010 amounted to RMB4,570.4 million, representing a decrease of RMB3,508.5 million as compared to the end of the previous year, of which short-term debts decreased by RMB 3,379.2 million, and long-term debts decreased by RMB129.3 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 the Group's existing borrowings do not restrict its ability to pay dividends on its shares.

Liability-to-asset ratio (prepared under IFRS)

As at 31 December 2010, the Group's liability-to-asset ratio was 37.62% (2009: 48.85%). The ratio is calculated using this formula: total liabilities/total assets.

D. Research and Development, Patents and Licenses

The Group comprises a number of technology development units, including the Petrochemical Research Institute, the Plastics Research Institute, the Polyester Fibre Research Institute, the Acrylic Fibre Research Institute and the Environmental Protection Research Institute. These units are charged with various research and development tasks with respect to new technology, new products, new production processes and equipment and environmental protection. The Group's research and development expenditures for the years ended 2008, 2009 and 2010 were RMB47.3 million, RMB40.3 million and RMB58.2 million, respectively, representing approximately 0.1% of the total turnover for those years.

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

E. Off-Balance Sheet Arrangements

Please refer to the section of Major Events-Guarantees and notes 29 and 30 to the financial statements prepared under IFRS of this annual report for details of the Group's external guarantee and capital commitments.

F. Contractual obligations

The following table sets forth the Group's obligations to repay loan principal in future as at 31 December 2010:

		As at 31 December 2010 payment due by period		
	Total (RMB'000)	Less than 1 year (RMB'000)	1-3 years (RMB'000)	4-5 years (RMB'000)
Contractual obligations				
Short-term borrowings and short-term bonds payable	4,295,438	4,295,438	-	-
Long-term borrowings (including the amounts due within one year)	275,000	100,000	175,000	-
Total contractual obligations	4,570,438	4,395,438	175,000	-

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

(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 profit before income tax for the Reporting Period, together with reasons for the changes)

	For the years ended 31December		Increase/ decrease		
Item	**2010 RMB'000**	2009 RMB'000	amount RMB'000	change %	Reason for change
Operating profit	**3,540,888**	2,057,894	1,482,994	72.06	Gross profit of sales increased significantly in 2010.
Profit before income tax	**3,453,744**	2,136,251	1,317,493	61.67	
Net profit for the year	**2,729,092**	1,626,076	1,103,016	67.83	
Net profit attributable to equity shareholders of the Company	**2,703,734**	1,561,605	1,142,129	73.14	
Operating income	**77,591,187**	51,722,727	25,868,460	50.01	Both the unit price and sales volume increased in 2010.
Operating costs	**65,787,455**	42,665,330	23,122,125	54.19	Both the crude oil purchase costs and sales volume increased in 2010.
Selling and distribution expenses	**578,761**	410,432	168,329	41.01	Both the sales transportation fees and sales commission fees increased in 2010.
Impairment losses	**433,465**	154,836	278,629	179.95	Provision of impairment losses on fixed assets and inventories increased.
Income tax expense	**724,652**	510,175	214,477	42.04	Operating results grew substantially.

Item	As at 31December 2010 RMB'000	As at 31December 2009 RMB'000	Increase/ decrease amount RMB'000	Change %	Reason for change
Bills receivable	**2,043,493**	603,701	1,439,792	238.49	Sales increased and discounted bills decreased.
Short-term loans	**3,295,438**	6,700,398	-3,404,960	-50.82	Short-term loans were repaid during the year.
Retained earnings	**2,670,215**	462,029	2,208,186	477.93	Profit during the year increased significantly and profit of the previous year was mainly used to make good of prior year losses.

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

As at 31 December 2010, 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 2010 (RMB'000)
Shanghai Petrochemical Investment Development Company Limited	China	Investment management	China	Limited company	100	-	RMB800,000	90,974
China Jinshan Associated Trading Corporation	China	Import and export of petrochemical products and equipment	China	Limited company	67.33	-	RMB25,000	24,764
Shanghai Jinchang Engineering Plastics Company Limited	China	Production of polypropylene compound products	China	Limited company	-	50.38	US$4,750	5,342
Shanghai Golden Phillips Petrochemical Company Limited	China	Production of polyethylene products	China	Limited company	-	60	US$50,000	41,375
Zhejiang Jin Yong Acrylic Fibre Company Limited	China	Production of acrylic fibre products	China	Limited company	75	-	RMB250,000	(50,923)
Shanghai Golden Conti Petrochemical Company Limited	China	Production of Petrochemical products	China	Limited company	-	100	RMB545,776	(2,085)

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 RMB847.2 million, in Shanghai Chemical Industry Park Development Co., Ltd., a company set up in the PRC; and an equity interest of 20%, amounting to RMB2,047.6 million, in Shanghai Secco Petrochemical Company Limited, a company set up in the PRC. The principal business of Shanghai Chemical Industry Park Development Co., Ltd. consists of planning, developing and operating the Chemical Industry Park in Shanghai, while the principal business of Shanghai Secco Petrochemical Company Limited is the production and distribution of petrochemicals.

In 2010, no controlling subsidiary had more than 10% effect on the net profit of the Group.

I. Major suppliers and customers

The Group's top five suppliers in 2010 were China International United Petroleum & Chemical Co., Ltd., Sinochem Petroleum Company Limited, China Petroleum & Chemical Corporation, Shanghai Secco Petrochemical Company Limited and China National Offshore Oil Corporation. Total procurement cost from these suppliers accounted for 80% of the total procurement cost by the Group during the year, amounting to RMB47,096.7 million. The procurement cost from the largest supplier amounted to RMB23,066.5 million, representing 39% of the total cost of purchases by the Group during the year.

The Group's top five customers during 2010 were Sinopec Huadong Sales Company Limited, China Petroleum & Chemical Corporation, Oriental Petrochemical (Shanghai) Corporation, Sinopec Yizheng Chemical Fibre Company Limited and Shanghai Secco Petrochemical Company Limited. The total sales derived from these customers amounted to RMB40,959.1 million, representing 53% of the Group's total turnover during the year. The sales derived from the largest customer amounted to RMB29,025.1 million, representing 37% 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 Petroleum Company Limited, China National Offshore Oil Corporation and Oriental Petrochemical (Shanghai) Corporation. China Petroleum & Chemical Corporation is the controlling shareholder of the Company. China International United Petroleum & Chemical Co. Ltd, Sinopec Huadong Sales Company Limited and Sinopec Yizheng Chemical Fibre Company Limited are subsidiaries of China Petroleum & Chemical Corporation, the controlling shareholder of the Company. The Company owns an equity interest of 20% in Shanghai Secco Petrochemical Company Limited.

J. Others

Employees

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

Purchase, Sale and Investment

Save and except as disclosed in this annual report, there was no material purchase or sale of the Group's subsidiaries or associates or any other material investments during 2010.

Pledge of Assets

As at 31 December 2010, no fixed asset was pledged by the Group (31 December 2009: RMB nil).

K. Items related to fair value measurement

Item	Amount at the beginning of the Reporting Period RMB'000	Gains or losses arising from changes in fair value for the Reporting Period RMB'000	Cumulative gains or losses previously reported in equity RMB'000	Impairment made for the Reporting Period RMB'000	Amount at the end of the Reporting Period RMB'000
Financial assets					
Including:					
Available-for-sale financial assets					
- other current assets	700,000	-	215	-	-
Subtotal of financial assets	700,000	-	215	-	-

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

As at 31 December 2010, the Group held foreign currency denominated bank deposits and loans and borrowings, equivalent to RMB12,998,000 and RMB2,529,441,000, respectively.

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

1. Industry's trends and competition that the Company is faced with

In 2011, the world economy is expected to continue to resume growth, but the deep-rooted impact of the global financial crisis has not completely gone. The economy will be characterized by increasing instabilities and uncertainties, a slow, complex and winding recovery process and a slowed growth rate. In a very complex international environment, the Chinese economy, however, has the favorable conditions for maintaining steady and relatively fast development. The improving macroeconomic situation will be further consolidated and the implementation of the Twelfth Five-year Plan will inject new vitality and impetus into the economy. A full start of the planning for strategic emerging industries, accelerated development on urbanization and industrialization, upgraded consumption of residents and so on will boost domestic demand further. The application of a proactive fiscal policy and a prudent monetary policy will make macrocontrols more specific, flexible and effective. The overall competitiveness of enterprises has been enhanced after the onslaught of the global financial crisis. However, the Chinese economy is facing a number of conflicts and problems as well, such as the fact that the endogenous growth momentum for the economy has not been fully restored, that price increases, that marginal effect of the stimulus policy is gradually decreasing, that potential financial risks remain and that long-standing issues such as an irrational economic structure and a raw development mode have become more evident. China's economic growth rate in 2011 is anticipated to decline from 2010.

The overall trend of international crude oil prices could rally upward in 2011 due to a number of factors such as a gradual recovery of the world economy, continuous growth in oil demand with a relatively tight supply, coupled with rising inflationary pressures, increased geopolitical risks, intensified climate change, continuous weakness of the U.S. dollar and speculations by speculative funds. The global petroleum and petrochemical industry will continue to maintain the recovery momentum, with a growth rate higher than that of global economic growth. The stable and relatively fast growth momentum of China's petroleum and petrochemical industry will be sustained as the focus of the macro-control policy is changed from expansion to steady development, but the development environment remains very challenging. With respect to the favorable factors, the macroeconomic situation will improve further and the full start of the planning for the development of strategic emerging industries such as energy conservation, environmental protection, new generation of information technology, biotechnology, high-end equipment manufacturing, new energy, new materials and new energy vehicles will give rise to the commencement of a large number of investment projects for industrial upgrade, and a number of new industrial growth drivers will drive increasing demand from the domestic market for petroleum and petrochemical products. As to the unfavorable aspects, international crude oil prices will continue to stay high; the growth in the petrochemical industry will slow as the cost pressures in the oil refining industry have not been fully relieved under the high oil prices; and the increase in demand from the domestic market will slow in general although such demand will continue to rise. Market competition will become more intense due to the structural overcapacity, a surge in petrochemical imports from the Middle East and neighboring countries and regions, and a quickened development pace for alternative energy such as coal-to-oil and non-petroleum chemicals such as coal-to-alkene. Inflationary pressures tend to increase; international trade conflicts will intensify due to limited room for growth in external demand; and pressure is mounting on energy conservation and emissions reduction.

2. New business plans for 2011

2011 marks the commencement of the "Twelfth Five-year Plan". The Group will actively capitalize on the favorable market environment and opportunities; focus on safety, environmental protection, energy conservation and emissions reduction; promote a green and healthy environment; continue to maintain safe and stable production and operation; improve sophisticated management standards on an ongoing basis; steadily push forward various internal reform programs; fully proceed with the construction of the Phase 6 Project; further strengthen staff team building; continue to maintain the harmony and stability of the enterprise; and endeavor to achieve stable growth in profitability.

To achieve its business objectives in 2011, the Group will conscientiously carry out the tasks in the following areas:

(a) Consistently devoting efforts to HSE (health, safety and environment), energy conservation and emissions reduction work.

The Group will devote efforts to production safety, environmental protection, occupational health, energy conservation and emissions reduction as it did in the past. It will put safety and environmental protection work as its priority by fully implementing the all-staff HSE accountability system to strictly prevent safety and environment-related accidents and control the discharge of pollutants; continue to step up troubleshooting, prevention and control by increasing efforts to strengthen safety and environmental monitoring in key areas, key plants and vital parts; and improve the archives of occupational health of employees and implement prevention and control measures for occupational hazards. In accordance with the control objectives for energy conservation and emissions reduction set in the "Twelfth Five-year Plan", it will further proceed with various tasks and fully enforce the responsibilities and measures for energy conservation and emissions reduction.

(b) Continuously optimizing production and operation for profitability.

The Group will continue to leverage the overall strength in the oil refining-petrochemical integrated industry chain, endeavor to maintain high-load and stable operation of its oil refining and petrochemical plants, and further increase the total physical production volume of products. It will continue to improve the management and optimization of production and operation, establishing and strengthening the PIMS system to improve the overall efficiency of production and operation. It will further push forward the optimization and adjustment of raw and auxiliary materials, product mix, fuel, power and other aspects, further enhancing the standards for major technical and economic indicators. It will endeavor to reduce the procurement costs of crude oil, bulk raw materials of petrochemicals and fuels, as well as the operating costs of plants and various production and operation expenses; make efforts on product sales and after-sales service; and increase market shares, with a view to improving profitability.

(c) Pushing forward in full scale the construction of the Phase 6 Project and the progress on corporate technology.

In accordance with its requirements for "sound and fast development", the Group will push forward the construction of the Phase 6 Project which comprises the refinery renovation project as the principal component. It will strengthen the all-process management of the project construction and lay emphasis on controls over safety, progress, quality and costs, endeavoring to build the Phase 6 Project as a "safe, quality, profitable and sunshine project". It will continue to focus on the "bottle neck" in production operations and "short board" in market competition; accomplish practical technology development, new technology application as well as research and development of high value-added products; and seek to explore a new direction and a new way for the industry and product mix adjustments. It will continue to further the application of the computerization project and strive to rank top in Sinopec Corp's evaluation on corporate information system development and application standards.

(d) Pushing forward sophisticated management on an ongoing basis

With reference to the international and domestic advanced levels, the Group will deepen the work that highlights "comparing, learning, catching with and surpassing the advanced levels and assisting under-performers", and improve the corporate sophisticated management standards on an ongoing basis. It will establish a long-acting mechanism for the campaign, formulate plans for implementing recommendations to improve its operation, and integrate such recommendations into every segment of production, operation and management. It will establish an all-staff system governing the indicators for cost objectives, and a standard flow to push forward the management of cost objectives for all staff on an ongoing basis. It will further improve budget management; and strengthen the formulation, control, analysis and evaluation of budget. It will lay down standardized operations that regulate internal control processes and push forward a full-scale implementation of the internal control system for all staff and in all processes within the Company.

(e) Further enhancing management system and mechanism

Based on the "flat, specialized and standardized" direction for the management system, the Group will modify and improve the management system and mechanism to further enhance organizational performance. It will integrate various elements and resources of management; regulate the organizational structure, job responsibilities, staffing and operation flow; and build a three-tier management model covering "company-management-workshop". It will commence the establishment of an integrated management system in full scale; systematically smoothen and comprehensively modify the existing system; and complete the standardization reform for the system within the year. It will improve an all-staff performance appraisal system to further strengthen the appraisal of organizational performance. It will reinforce the management of foreign investment businesses to enable them to become leading, specialized and superior enterprises that support the principal operations. The Group will continue to accomplish good tracking management of reformed enterprises to facilitate the continuous improvement of their capabilities and standards for self-management, self-operation and self-development.

(f) Proactively maintaining a cohesive, harmonious and stable corporate atmosphere.

The Group will conscientiously implement the development outline for building a corporate culture. It will vigorously carry out practical education activities for corporate culture, and proactively nurture an institutional culture and behavioral style being consistent with corporate values and philosophy, thereby creating a positive, harmonious, stable, striving and dedicated atmosphere. It will continue to reinforce the building of the operation management team, the professional technical team and the skills operation team; further improve and optimize the restructuring of human resources; smoothen the path for the development of technical and skilled staff; improve the remuneration and benefits systems for staff; and improve the working environment and living conditions for staff, with a view to fully mobilizing the enthusiasm and creativity of different staff and continuously enhancing the cohesiveness and sense of belonging among staff so as to ensure the safety, stability and harmony of the enterprise.

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

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

A large part of the Group's operating revenue is derived from the revenue of refined oil and petrochemical products. Historically, such products have been cyclical in nature and relatively sensitive towards changes in the macro economy as well as regional and global economic conditions, changes in productivity and output, changes in the prices and supply of raw materials, changes in consumer demand and changes in the prices and supply of substitutes. These factors have a major impact, from time to time, on the prices of the Group's products available in the regional and global markets. Given the reduction of tariffs and other import restrictions as well as China's relaxed control over the distribution and pricing of products, many of the Group's products will be subject to the increasing impact of the petrochemical cycle of the regional and global markets. In addition, the prices of crude oil and petrochemical products will remain volatile and uncertain. Increased crude oil prices and decreased petrochemical products prices are likely to have an adverse impact on the Group's business, operating results and financial condition.

(2) The Group may be exposed to risks associated with the procurement of imported crude oil and may not be able to pass on all increased costs due to rising crude oil prices.

At present, a significant amount of crude oil is being consumed by the Group for the production of petrochemical products. More than 90% of the crude oil required has to be imported. In recent years, crude oil prices have been fluctuating significantly due to a number of factors, and the Group cannot rule out the possibility that a number of major unexpected events may cause a suspension in crude oil supply. Although the Group attempted to mitigate the effect of increased costs due to rising crude oil prices by passing on the increased costs to the Group's customers, the Group's ability to pass on the increased costs to its customers is subject to market conditions and the State's control. Since there is a time lag between the rise in crude oil prices and the rise in petrochemical products prices, increased costs cannot be totally offset by increasing the sales prices of the Group's products. In addition, the State also imposes stringent control over the distribution of many petroleum products within China. For instance, some of the Group's petroleum products are required to be sold to designated customers (such as the subsidiaries of Sinopec Corp.). Hence, when crude oil prices are high, the increases in these prices cannot be totally offset by the increases in the sales prices of the Group's petroleum products. This has created, and will continue to create, a major adverse impact on the Group's financial condition, operating results or cash flow.

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

The petrochemical industry is a capital-intensive industry. The Group's capability to maintain and increase income, net income and cash flows has a bearing upon ongoing capital expenditures. The Group's estimated capital expenditures amount to RMB3,000.0 million in 2011 (2010: RMB1,364.0 million), which will be met by financing activities and part of the Group's internal funds. The Group's real capital expenditures may vary significantly due to the Group's capability to generate sufficient cash flow from operations, investments and other factors that are beyond the control of the Group. Besides, there is no assurance as to whether the Group's capital projects will be completed or, if completed, at what costs, or whether success will be made as a result of the completion of such projects.

The Group's capability to secure external financing in the future is subject to a number of uncertainties which include the Company's operating results, financial condition and cash flow in future; China's economic conditions and the market conditions for the Group's products; financing costs and conditions of the financial market; and grant of government approval documents, other risks associated with the development of infrastructure projects in China and so forth. The Group's failure to secure sufficient financing required for its operations or development plans may have an adverse impact on the Group's business, operating results and financial condition.

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

The Group is governed by a number of environmental protection laws and regulations in China. Wastes (waste water, waste gas and waste residue) are generated during the Group's production operations. Currently the Group's operations are in full compliance with the requirements of all applicable Chinese environmental protection laws and regulations. However, the Chinese Government has already enforced and may further enforce stricter environmental standards, and the Group cannot assure that the State or local governments will not enact more regulations or enforce certain regulations more strictly which may cause the Group to incur additional expenses on environmental protection measures.

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

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

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

The Group will, from time to time, continue to conduct transactions with Sinopec Corp., the controlling shareholder of the Group; Sinopec, the controlling shareholder of Sinopec Corp.; as well as connected parties (subsidiaries or associates) thereof. These connected transactions include: provisions of the purchase of raw materials, the agency sale of petrochemical products, the construction, installation and engineering design services, petrochemical industry insurance services and financial services to the Group by these connected parties; and the Group's sale of petroleum and petrochemical products to Sinopec Corp. and its connected parties. The aforesaid connected transactions and services conducted by the Group are carried out under normal commercial terms and terms of relevant agreements. However, if Sinopec Corp. and Sinopec refuse to conduct such transactions or revise the agreements between the Group and itself in a manner unfavorable to the Group, the Group's business and business efficiency will be subject to an adverse impact. Besides, Sinopec Corp. has an interest in certain sectors that are directly or indirectly competing with or may be competing with the Group's business. Since Sinopec Corp. is the controlling shareholder of the Group and its own interest may be in conflict with that of the Group, it may act for its own benefit regardless of the interest of the Group.

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

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

(8) 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 disagreed with the share reform proposals. According to the relevant regulations, starting from 8 January 2007, the Shanghai Stock Exchange began to adopt a special arrangement of differentiated system for listed companies that were unable to complete the share reform, under which the range of share price movements for such A shares were unitarily adjusted up or down by 5% each day, with a trading information disclosure system equivalent to that of ST and *ST stocks applied to such stocks. It does not rule out the possibility that the CSRC and the Shanghai Stock Exchange may set more limits for companies which have not yet completed the share reform. In addition, CSRC will keep paying special attention to the implementation of share reforms by the listed companies which have not yet implemented share reforms when reviewing any securities-related applications by such listed companies, their substantial shareholders or controlling company of the controlling shareholder. Such regulations may have an adverse impact on the business environment, market image and market financing activities of the Company.

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

No.

Investment by the Company

1. Application of Capital Raised

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

2. Projects from non-raised capital

   In 2010, the capital expenditure of the Group amounted to RMB1,364.0 million, representing a decrease of 35.67% as compared to RMB2,120.3 million in 2009. Major projects include the following:

Project	Total project investment RMB million	Project progress as at 31 December 2010
Natural Gas Integrated Utilization Project	195	Completed
The Refinery Upgrade Project	6,628	Preliminary work
The Carbon Fiber Project with a Capacity of 1,500 tons/year	848	Preliminary work
Upgrade Project for Optimization of Energy Saving and Consumption Reduction for No.2 Oxidation Device System	186	Under construction
Total	7,857	–

   The Group's capital expenditure for 2011 is estimated at approximately RMB3,000 million.

State the discussion results on the reasons for the Company's changes in accounting policies or accounting estimates, amendments to major accounting errors, supplements to material omitted information or revisions to results forecasts and the impact thereof, as well as the responsibility pursuance measures that have been taken toward the responsible person and subsequent results

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

Daily Operation of the Board

(1) The convening and the resolutions of Board meetings

Session of the meeting	Convening Date	Content of Resolutions	Newspaper and Websites for Publication of Resolutions	Date of Publication of Resolutions
The Eleventh Meeting of the Sixth Session	26 March 2010	Refer to the announcement for details.	"Shanghai Securities News" and "China Securities Journal"; the websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company	29 March 2010
The Twelfth Meeting of the Sixth Session	28 April 2010	Refer to the announcement for details.	Same as above	29 April 2010
The Thirteenth Meeting of the Sixth Session	23 June 2010	Refer to the announcement for details.	Same as above	24 June 2010
The Fourteenth Meeting of the Sixth Session	19 July 2010	Refer to the announcement for details.	Same as above	20 July 2010
The Fifteenth Meeting of the Sixth Session	27 August 2010	1. Approval of the Company's 2010 Interim Report. 2. The resolution on no payment of interim dividends was considered and approved.	-	-
The Sixteenth Meeting of the Sixth Session	27 October 2010	The 2010 Third Quarterly Report was considered and approved.	-	-
The Seventeenth Meeting of the Sixth Session	11 November 2010	Refer to the announcement for details.	"Shanghai Securities News" and "China Securities Journal"; the websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company	12 November 2010
The Eighteenth Meeting of the Sixth Session	28 December 2010	Refer to the announcement for details.	Same as above	29 December 2010

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

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

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

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

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

Pursuant to the Rules of Procedure for Audit Committee Meetings, the Audit Committee holds at least two meetings every year. In 2010, the Audit Committee held two meetings in total where all members attended the meetings in person.

At the fourth meeting of the Audit Committee of the sixth session of the Board held on 25 March 2010, four resolutions were approved: (i) the 2009 annual report of the Company was considered and approved; (ii) the resolution on reappointment of the Company's domestic and international auditors for 2010 was considered and approved; (iii) the Board's Self-assessment Report on the Internal Control of the Company was considered and approved; and (iv) the Company's Internal Control Manual (2010 Edition) was considered and approved.

At the fifth meeting of the Audit Committee of the sixth session of the Board held on 26 August 2010, two resolutions were approved: (i) the 2010 interim report of the Company was considered and approved; and (ii) the Company's internal control mechanism and execution inspection report for the first half of 2010 was considered and approved.

In the first quarter of 2010, pursuant to the relevant requirements and rules of procedure of China's regulatory authorities, the Audit Committee of the Board communicated with the external auditors before they began the auditing work of the annual report and finalized the "Arrangement and Scope of Auditing Work on the Financial Reports for 2009". Before the external auditors began the audit work, members of the committee reviewed the financial statements (balance sheet, income statement and cash flow statement) prepared by the Company; and after the external auditors had issued the preliminary audit opinion for the annual audit, they reviewed the financial statements of the Company again, and considered and voted on the annual financial reports.

As at 24 March 2011, the Audit Committee and the management have reviewed the accounting principles and standards adopted by the Company, and discussed the matters relating to the audit, internal control and financial reporting, including the audited annual report for the year ended 31 December 2010.

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

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

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

Pursuant to the Rules of Procedure for Remuneration and Appraisal Committee Meetings, the Remuneration and Appraisal Committee holds at least one meeting every year. In 2010, the Remuneration and Appraisal Committee held one meeting where all members attended in person.

At the second meeting of the Remuneration and Appraisal Committee of the sixth session of the Board held on 25 March 2010, two resolutions were approved: (i) agreement on the performance appraisal of the Company's management; and (ii) agreement on the continued adoption of the Company's remuneration policies in 2010.

As at 24 March 2011, the Remuneration and Appraisal Committee has reviewed details regarding the remuneration of the Company's Directors, Supervisors and Senior Management in the audited annual report for the year ended 31 December 2010.

(5) Establishment and improvement of the Company's management system for external information users

The Company had formulated the Information Disclosure Management System. Such system makes specific provisions to the content of information disclosure, basic principles, workflow, approval procedures, and management and liabilities of information disclosure affairs. This will fully regulate internal information management, safeguard the principles of fairness in information disclosure, and prevent industry insiders from abusing the right of information, divulging inside information or conducting inside dealing.

During the Reporting Period, in accordance with the requirements of the Necessity to Formulate a Complete Insider Information Management System and Management System for External Information Users by Listed Companies ([2009] No.34 Announcement of the CSRC), the Company amended its Information Disclosure Management System and had it considered and approved at the Eleventh Meeting of the Sixth Session of the Board. In 2010, the Company conscientiously implemented the amended Information Disclosure Management System, and ensured the truthfulness, accuracy, completeness, timeliness and fairness of the Company's information disclosure.

(6) Statement of the Board's liabilities for internal control

The Board of the Company accepts responsibility for the establishment and maintenance of an adequate internal control system in relation to financial reporting.

The aim of the internal control system in relation to financial reporting is to ensure the truthfulness, completeness and reliability of the information contained in the financial reports, and to prevent the risk of having material mistakes in the financial reports. Given the fact that internal control has its inherent limitations, it can only provide a reasonable assurance for achieving the aforesaid objectives.

The Board had evaluated the internal control in relation to financial reporting according to the Basic Standards of Corporate Internal Control and had the opinion that the internal control in relation to financial reporting was effective during 2010.

Pursuant to the requirements of the Sarbanes-Oxley Act, KPMG, the accounting firm appointed by the Company, conducted an audit on internal control over financial reporting of the Company for the year ended 31 December 2010 and issued the auditors' report on internal control over financial reporting pursuant to the requirements of the Sarbanes-Oxley Act.

(7) Work plan and implementation Scheme for the Establishment of a Sound Internal Control System

In 2011, the Company will make comprehensive revisions to the Internal Control Manual in accordance with the relevant requirements of the Basic Standards of Corporate Internal Control and the Auxiliary Guidelines on Corporate Internal Control issued by the Ministry of Finance and four other ministries or commissions. Revisions have been carried out from early 2011, and are scheduled to be completed in March and submitted to the Board for consideration. The Group will fully implement the 2011 edition of the Internal Control Manual from 1 April to ensure that the internal control system is being improved on a continuous basis, and that the internal control system is operating effectively to continuously enhance the Company's capability of risk prevention and regulatory operational standards. The Company will continue to carry out self-assessments on its internal control, and will disclose the Self-assessment Report of the Board of Directors on the Internal Control of the Company at the same time as the 2011 annual report.

The Company will continue to appoint KPMG as the external auditors of the Company. KPMG will audit the Company's internal control over financial reporting for the year ended 31 December 2011 and issue the auditors' report on internal control over financial reporting in accordance with the relevant requirements.

(8) Execution of Insider Information Management System

During the Reporting Period, the Company conscientiously executed the requirement of the Information Disclosure Management System and did not discover any trading of the Company's shares by insiders before the disclosure of material price-sensitive information.

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

In 2010, the net profit of the Company amounted to RMB2,795,478,000 in accordance with CAS. The Company appropriated a statutory surplus reserve of RMB279,548,000 from 10% of the net profit. At 31 December 2010, retained earnings of the Company amounted to RMB2,618,154,000 in accordance with CAS (RMB2,199,804,000 in accordance with IFRS). The Board of the Company proposed to distribute a dividend of RMB1.00 per 10 shares (including tax), totaling RMB720,000,000 based on the total shares of 7,200 million as at 31 December 2010.

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

Year of paying dividends	Amount of cash dividends (Including tax) RMB'000	Net profit attributable to equity shareholders of the Company prepared under CAS for the year of paying dividends RMB'000	Ratio (%)
2007	648,000	1,592,110	40.70
2008	0	-6,245,412	-
2009	216,000	1,561,605	13.83

Other Disclosure Matters

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

In 2010, the Supervisory Committee of the Company abided by principle of good faith and conscientiously discharged its supervisory duties in accordance with the Company Law and the Articles of Association, actively participated in process supervision, seriously considered major decisions, and strived to safeguard shareholders' rights and the Company's interests.

1. Operation of the Supervisory Committee

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

The ninth meeting of the sixth session of the Supervisory Committee was convened on 25 March 2010. The Company's "2009 Annual Report", the "Supervisory Committee's Comments and Recommendations on the Company's 2009 Annual Report", the "Work Report of the Supervisory Committee for the Year 2009" and "Major Work of the Supervisory Committee for the Year 2010" were considered and approved as resolutions at the meeting.

The tenth meeting of the sixth session of the Supervisory Committee was convened on 26 April 2010 (by correspondence). The Company's "2010 First Quarterly Report" and the "Supervisory Committee's Comments and Recommendations on the Company's 2010 First Quarterly Report" were considered and approved as resolutions at the meeting.

The eleventh meeting of the sixth session of the Supervisory Committee was convened on 26 August 2010. The Company's "2010 Interim Report" and the "Supervisory Committee's Comments and Recommendations on the Company's 2010 Interim Report" were considered and approved as resolutions at the meeting.

The twelfth meeting of the sixth session of the Supervisory Committee was convened on 26 October 2010 (by correspondence). The Company's "2010 Third Quarterly Report" and the "Supervisory Committee's Comments and Recommendations on the Company's 2010 Third Quarterly Report" were considered and approved as resolutions at the meeting.

The thirteenth meeting of the sixth session of the Supervisory Committee was convened on 2 December 2010 (by correspondence). The "Change in Candidate for Director of the Supervisory Committee Office of the Company" was considered and approved as the resolution at the meeting.

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

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

The Supervisory Committee considers that in 2010 the Board conscientiously exercised the rights and obligations conferred under the relevant State laws and regulations such as the Company Law and the Articles of Association, and made scientific decisions on major matters such as production and operations, reform and development in a lawful manner. Based on "advanced learning, sophisticated management, acceleration of development and solidarity" as the work mainstream, supported by a campaign that highlights "excelling in performance" and "comparing, learning, catching up with and surpassing the advanced levels and assisting under-performers", the General Manager's team, despite complex and volatile market conditions, led the entire staff of the Company in firmly capitalizing on market opportunities, increasing total output unswervingly, accelerating development in a solidified manner and enhancing efficiency by all possible means to fully ensure a harmonious and stable business. As a result, the Company has excellently accomplished all the production operation tasks for the year and delivered good operating results. None of the Board, the General Manager's team or the senior management of the Company has been found to have acted against laws, regulations or the Articles of Association, or harmed the interests of the Company or the rights of the shareholders during the execution of their duties for the Company.

The Supervisory Committee was of the view that the financial reports of the Company prepared under CAS and IFRS for the year 2010 truthfully and fairly reflected the Company's financial position and operating results. No breach of the financial and accounting system in the Company and its controlling subsidiaries' operating activities was discovered. The standard unqualified audit reports issued by KPMG and KPMG Huazhen are objective and fair.

During the Reporting Period, the Company did not issue any share to raise funds.

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

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

The Supervisory Committee reviewed the "Self-assessment Report of the Board on Internal Control of the Company" on 24 March 2011 and was of the view that the Company complied with the principles of internal control system in accordance with the relevant provisions of the CSRC and the Shanghai Stock Exchange; established and effectively implemented a complete and reasonable internal control system according to the enterprise's actual situation, which ensured normal operation of the Company's business and the safety and integrity of the Company's assets. In 2010, no material defects were found in the design or implementation of the Company's internal control.

In 2011, guided by the concept of scientific development, based on the principle of good faith and focusing on the Company's decisions on significant matters, internal control management, connected transactions, information disclosure and so forth, the Supervisory Committee will continue to conscientiously carry out their supervisory duties and strived to safeguard shareholders' rights and the interests of the Company, with a view to making due contributions to the Company's steady growth in economic benefits and sustainable and healthy development.

1. Material litigation or arbitration

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

2. Events regarding bankruptcy and restructuring

No events regarding bankruptcy and restructuring occurred in the Company during the year.

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

There was no shareholding by the Company in other listed companies or in financial enterprises during the year.

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

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

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

(1) Connected transactions in relation to routine operation

During the reporting period, pursuant to the Mutual Product Supply and Sales Services Framework Agreement entered into with Sinopec Corp., the Company purchased raw materials from, and sold petroleum products and petrochemicals as well as leasing properties to, Sinopec Corp. and its associates. Sinopec Corp. and its associates provided agency sales services for petrochemical products. Pursuant to the Comprehensive Services Framework Agreement entered into with Sinopec, the Company obtained construction and installation, project design, petrochemical industry insurance agency and financial services provided by Sinopec and its associates. The above mentioned transactions under the Mutual Product Supply and Sales Services Framework Agreement and the Comprehensive Services Framework Agreement constituted continuing connected transactions under Chapter 14A of the Hong Kong Listing Rules. The Company disclosed the relevant connected transactions in an announcement dated 19 October 2007 and a circular dated 29 October 2007. The relevant connected transactions and the respective annual caps from 2008 to 2010 were considered and approved at the extraordinary general meeting held on 13 December 2007. The relevant connected transactions were conducted in accordance with the terms of the Mutual Product Supply and Services Framework Agreement and the Comprehensive Services Framework Agreement. The transaction amounts of the relevant connected transactions did not exceed the caps in relation to the continuing connected transactions approved at the 2007 extraordinary general meeting.

The purchases by the Company of crude oil and related materials from, and sales of petroleum products by the Company to, Sinopec Corp. and its associates were conducted in accordance with the State's relevant policies and applicable State tariffs or State guidance prices. As long as the State does not lift its control over purchases of crude oil, sales of petroleum products and pricing thereof, such connected transactions will continue to take place. The Company sold petrochemicals to Sinopec Corp. and its associates, and Sinopec Corp. and its associates acted as agents for the sale of petrochemicals, in order to reduce the Company's inventories, to expand its trading, distribution and sales networks and to improve the Company's bargaining power with its customers. The Company leased part of the properties to Sinopec Corp. and its associates after taking into account of the solid financial background and reputation of Sinopec Corp. and its associates. The Company obtained construction and installation, project design, petrochemical industry insurance agency and financial services from Sinopec and its associates in order to secure steady and reliable services at reasonable prices.

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

The Company renewed the Mutual Product Supply and Sale Services Framework Agreement and the Comprehensive Services Framework Agreement with Sinopec Corp and Sinopec respectively on 11 November 2010 and intended to continue to conduct the aforesaid continuing connected transactions from 2011 to 2013. The Company disclosed the two agreements and the respective connected transactions under the agreements in an announcement dated 11 November 2010 and in a circular dated 26 November 2010. These two agreements and the respective connected transactions under the agreements together with the associated annual caps from 2011 to 2013 were considered and approved at the 2010 extraordinary general meeting held on 28 December 2010.

Major connected transactions involving purchases and sales of goods and services

Type of transactions	Related parties	Amount RMB'000	Percentage of the total amount of this type of transaction (%)
Income from sales of products and services income	Sinopec Huadong Sales Company Limited	29,019,075	37.43
	Other related parties	11,902,931	15.35
Purchases	China International United Petroleum & Chemical Co., Ltd.	23,066,452	39.09
	Other related parties	14,534,248	24.63
Installation fees	China Petrochemical Corporation and its subsidiaries	88,586	65.14

This includes an amount of RMB39,324,426,940 for the connected transactions in respect of the sales of products or the rendering of services to the controlling shareholder and its subsidiaries by the listed company during the Reporting Period.

(2) Connected creditor's rights and liabilities

Connected party	Connected relationship	Funds provided to connected parties		Funds provided by connected parties to the Company	
		Net transaction RMB'000	Balance RMB'000	Net transaction RMB'000	Balance RMB'000
Sinopec Corp. and its subsidiaries	Controlling shareholder	8,191	8,191 [note1]	(159,019)	16,199
Sinopec and other related parties	Controlling company of the controlling shareholder and other related parties	1,821	8,491 [note2]	(944)	28,525
Total		10,012	16,682	(159,963)	44,724

During the reporting period, the funds the Company had provided to the controlling shareholder and its subsidiaries (RMB'000)	8,191
The balance of funds provided by the Company to the controlling shareholder and its subsidiaries (RMB'000)	8,191

Note 1: The balance of funds provided by the Group to the controlling shareholders at the end of the Reporting Period mainly included unsettled receivables arising from provision of services to the controlling shareholders' subsidiaries;

Note 2: The balance of funds provided by the Group to other connected parties at the end of the Reporting Period mainly included unsettled receivables arising from provision of service to the Group's associates and jointly controlled entities and the unreceived dividends from Shanghai Secco Petrochemical Company Limited, the Company's associate.

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

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

(4) Independent auditors of the Company KPMG provided a letter regarding the continuing connected transactions to the Board on 25 March 2011.

6. Material contracts and the performing of obligations

(1) Trust, sub-contract and lease arrangements that produced 10% or more (including 10%) of the profit of the Company for the current period.

(a) Trust

The Company did not enter into any trust arrangements during 2010.

(b) Sub-contracting

The Company did not enter into any sub-contracting arrangements during 2010.

(c) Leasing

The Company did not enter into any sub-contracting arrangements during 2010.

(2) Guarantees

	Amount Unit: RMB'000
The Group's External Guarantees (excluding guarantees to subsidiaries)	
Amount of guarantees signed during the Reporting Period (excluding guarantees to subsidiaries)	-
Amount of guarantees at the end of the Reporting Period (A) (excluding guarantees to subsidiaries)	-
Group's guarantees to subsidiaries	
Amount of guarantees to subsidiaries signed by the Company during the Reporting Period	-
Amount of guarantees to subsidiaries at the end of the Reporting Period (B)	200,000
Total guarantee amount (including guarantees to subsidiaries)	
Total guarantee amount (A+B)	200,000
Total guarantee amount as a percentage of net asset value of the Company (%)	1.12
of which:	
Amount of guarantee provided for shareholders, the controlling company of the controlling shareholder or the other connected parties (C)	-
Amount of debt guarantee provided for the companies with liabilities to assets ratio of over 70% directly or indirectly (D)	200,000
Total amount of guarantee is over 50% of the net asset (E)	-
Total guarantee amount of the above three items (C+D+E)	200,000

(3) Trust financial management

The Company purchased a financial product bearing floating return rates for RMB700,000,000 from domestic banks in China on 30 December 2009. The financial products mainly invest in bond securities and equity securities. The Company redeemed those financial products on 8 January 2010 and recorded a gain of RMB215,000.

(4) Other material contracts

There was no other material contract during 2010.

7. Performance of undertakings

There was no undertaking by the Company or its shareholders with shareholding of over 5% during 2010 and until the Reporting Period.

8. Appointment and dismissal of accounting firm

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

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

During 2010, the Company and its Directors, Supervisors, Senior Management, shareholders and controlling company of the controlling shareholder had not been investigated, administratively punished or publicly criticized by the CSRC or publicly reprimanded by the stock exchanges.

10. Tax rate

The charge for PRC income tax is currently calculated at the rate of 25% (2009:25%).

11. Deposits

The Company did not have any entrusted deposits during the Reporting Period. As at 31 December 2010, the Group did not have any time deposits which could not be collected upon maturity.

12. The Execution of the 2009 Profit Appropriation Plan

The profit appropriation plan for 2009 was considered and approved at the Company's 2009 annual general meeting. A dividend of RMB0.30 (tax inclusive) per 10 shares was distributed to shareholders, based on the total shares of 7,200 million shares as at 31 December 2009. The relevant announcement was published on the "Shanghai Securities Journal" and "China Securities News" on 24 June 2010. On 8 July 2010, the Company published an announcement on profit appropriation plan for A shares. In respect of the distribution of A-share dividend, the share right registration date was 13 July 2010 and the ex-dividend date was 14 July 2010. The dividend payment date for H shares and social public shares of A shares was 20 July 2010. Such profit appropriation plan was implemented as scheduled.

13. Reserve

Details of changes in reserves are set out in note 26 to the financial statements prepared under IFRS.

14. Financial summary

A summary of the results, total assets, liabilities and shareholders' equity of the Group as at 31 December 2010 are set out on page 4 of this annual report.

15. Bank loans and other borrowings

Details of bank loans and other borrowings of the Company and the Group as at 31 December 2010 are set out in note 22 to the financial statements prepared under IFRS.

16. Interest capitalised

Details of interest capitalized during the year are set out in note 5 to the financial statements prepared under IFRS.

17. Property, plant and equipment

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

18. Purchase, sale and redemption of securities

During the year, no purchase, sale or redemption was made by the Company or any of its subsidiaries.

19. Pre-emptive rights

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

20. Implementation of share option incentive scheme and the impact

No.

21. Whether the Company is listed in enterprises that cause serious pollution by the environmental protection department

No.

22. Other important events

There was no other important event during the year.

23. Disclosure of information

Item	Publication	Publishing Date	Websites
Clarification Announcement	"Shanghai Securities News", "China Securities Journal"	9 March 2010	Websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company
Resolutions of the 11th Meeting of the Sixth Session of the Board of Directors; Resolutions of the 9th Meeting of the Sixth Session of the Supervisory Committee; Summary of 2009 Annual Report	Same as above	29 March 2010	Same as above
Resolutions of the 12th Meeting of the Sixth Session of the Board of Directors; 2010 First Quarterly Report	Same as above	29 April 2010	Same as above
Notice of 2009 Annual General Meeting	Same as above	7 May 2010	Same as above
Resolutions Passed at the 2009 Annual General Meeting; Resolutions of the 13th Meeting of the Sixth Session of the Board of Directors	Same as above	24 June 2010	Same as above
Announcement on the Implementation of Distribution of 2009 Cash Dividends for A shares	Same as above	8 July 2010	Websites of the Shanghai Stock Exchange and the Company
Resolutions of the 14th Meeting of the Sixth Session of the Board of Directors	Same as above	20 July 2010	Websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company
2010 Interim Report	Same as above	30 August 2010	Same as above
2010 Third Quarterly Report	Same as above	28 October 2010	Same as above
Continuing (/On-going) Connected Transactions; Resolutions of the 17th Meeting of the Sixth Session of the Board of Directors; Notice of 2010 Extraordinary General Meeting	Same as above	12 November 2010	Same as above
Resolutions of the 2010 Extraordinary General Meeting; Resolutions of the 18th Meeting of the Sixth Session of the Board of Directors	Same as above	29 December 2010	Same as above

KPMG

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

We have audited the consolidated financial statements of Sinopec Shanghai Petrochemical Company Limited ("the Company") and its subsidiaries (together "the Group") set out on pages 93 to 164, which comprise the consolidated and company balance sheets as at 31 December 2010, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

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

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

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2010 and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

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

25 March 2011

Consolidated Income Statement

For the year ended 31 December 2010
(Prepared under International Financial Reporting Standards)
(Expressed in Renminbi)

	Note	2010 RMB'000	2009 RMB'000
Turnover		77,520,699	51,657,929
Sales taxes and surcharges		(5,424,817)	(4,312,665)
Net sales		72,095,882	47,345,264
Cost of sales		(68,313,915)	(45,010,196)
Gross profit		3,781,967	2,335,068
Selling and administrative expenses		(628,761)	(450,432)
Other operating income	3	109,842	277,169
Other operating expenses	4	(295,956)	(138,329)
Profit from operations		2,967,092	2,023,476
Financial income		178,462	19,405
Financial expenses		(273,681)	(340,554)
Net financing costs	5	(95,219)	(321,149)
Investment income	6	215	222,810
Share of profit of associates and jointly controlled entities		661,288	241,372
Profit before taxation	7	3,533,376	2,166,509
Income tax	9(a)	(736,372)	(511,050)
Profit for the year		2,797,004	1,655,459
Attributable to:			
Equity shareholders of the Company		2,771,646	1,590,988
Non-controlling interests		25,358	64,471
Profit for the year		2,797,004	1,655,459
Earnings per share	10		
Basic		RMB 0.385	RMB 0.221
Diluted		RMB 0.385	RMB 0.221

The notes on pages 102 to 164 form part of these financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2010
(Prepared under International Financial Reporting Standards)
(Expressed in Renminbi)

	Note	2010 RMB'000	2009 RMB'000
Profit for the year		**2,797,004**	1,655,459
Other comprehensive income for the year (after tax and reclassification adjustments)			
Available-for-sale financial assets: net movement in the fair value reserve	12	**-**	(82,903)
Total comprehensive income for the year		**2,797,004**	1,572,556
Attributable to:			
Equity shareholders of the Company		**2,771,646**	1,508,085
Non-controlling interests		**25,358**	64,471
Total comprehensive income for the year		**2,797,004**	1,572,556

The notes on pages 102 to 164 form part of these financial statements.

Consolidated Balance Sheet

As at 31 December 2010
(Prepared under International Financial Reporting Standards)
(Expressed in Renminbi)

	Note	2010 RMB'000	2009 RMB'000
Non-current assets			
Property, plant and equipment	13(a)	13,570,559	14,977,205
Investment property	14	465,805	479,247
Construction in progress	15	1,139,239	348,865
Interest in associates and jointly controlled entities	17	3,316,290	2,749,646
Lease prepayments and other assets		717,432	754,126
Deferred tax assets	9(b)	827,576	1,537,972
Total non-current assets		20,036,901	20,847,061
Current assets			
Inventories	19	5,352,301	6,883,834
Other investments	18	-	700,000
Trade debtors	20	74,193	120,145
Bills receivable	20	1,993,273	573,283
Other debtors and prepayments	20	235,730	81,847
Amounts due from related parties	20,24	776,234	576,399
Cash and cash equivalents	21	100,110	125,917
Total current assets		8,531,841	9,061,425
Current liabilities			
Loans and borrowings	22	4,395,438	7,774,673
Trade creditors	23	2,376,452	1,521,319
Bills payable	23	41,034	112,271
Other creditors		1,943,327	1,399,719
Amounts due to related parties	23,24	1,800,991	3,487,645
Income tax payable		15,983	9,298
Total current liabilities		10,573,225	14,304,925
Net current liabilities		(2,041,384)	(5,243,500)
Total assets less current liabilities carried forward		17,995,517	15,603,561

The notes on pages 102 to 164 form part of these financial statements.

As at 31 December 2010
(Prepared under International Financial Reporting Standards)
(Expressed in Renminbi)

	Note	2010 RMB'000	2009 RMB'000
Total assets less current liabilities brought forward		17,995,517	15,603,561
Non-current liabilities			
Loans and borrowings	22	175,000	304,258
Total non-current liabilities		175,000	304,258
Net assets		17,820,517	15,299,303
Shareholders' equity			
Share capital	25	7,200,000	7,200,000
Reserves	26	10,360,664	7,805,018
Total equity attributable to equity shareholders of the Company		17,560,664	15,005,018
Non-controlling interests		259,853	294,285
Total equity		17,820,517	15,299,303

Approved and authorised for issue by the Board of Directors on 25 March 2011.

Rong Guangdao
Chairman

Wang Zhiqing
Vice Chairman and President

The notes on pages 102 to 164 form part of these financial statements.

Balance Sheet

As at 31 December 2010
(Prepared under International Financial Reporting Standards)
(Expressed in Renminbi)

	Note	2010 RMB'000	2009 RMB'000
Non-current assets			
Property, plant and equipment	13(b)	12,990,109	14,357,480
Investment property	14	524,560	539,482
Construction in progress	15	1,123,243	338,856
Investments in subsidiaries	16	1,310,401	1,310,401
Interest in associates and jointly controlled entities	17	2,274,480	2,274,480
Lease prepayments and other assets		581,501	540,654
Deferred tax assets	9(b)	818,153	1,527,541
Total non-current assets		19,622,447	20,888,894
Current assets			
Inventories	19	5,110,036	6,658,450
Other investments	18	-	700,000
Trade debtors	20	14,048	47,487
Bills receivable	20	1,836,466	496,487
Other debtors and prepayments	20	144,522	45,020
Amounts due from related parties	20,24	432,132	561,120
Cash and cash equivalents	21	89,224	101,076
Total current assets		7,626,428	8,609,640
Current liabilities			
Loans and borrowings	22	4,216,438	7,424,998
Trade creditors	23	1,702,002	1,140,008
Bills payable	23	41,034	26,048
Other creditors		1,810,607	1,361,906
Amounts due to related parties	23,24	2,501,259	4,430,035
Total current liabilities		10,271,340	14,382,995
Net current liabilities		(2,644,912)	(5,773,355)
Total assets less current liabilities carried forward		16,977,535	15,115,539

The notes on pages 102 to 164 form part of these financial statements.

Balance Sheet (continued)

As at 31 December 2010
(Prepared under International Financial Reporting Standards)
(Expressed in Renminbi)

	Note	2010 RMB'000	2009 RMB'000
Total assets less current liabilities brought forward		16,977,535	15,115,539
Non-current liabilities			
Loans and borrowings	22	220,000	450,000
Total non-current liabilities		220,000	450,000
Net assets		16,757,535	14,665,539
Shareholders' equity			
Share capital	25	7,200,000	7,200,000
Reserves	26	9,557,535	7,465,539
Total equity		16,757,535	14,665,539

Approved and authorised for issue by the board of directors on 25 March 2011.

Rong Guangdao
Chairman

Wang Zhiqing
Vice Chairman and President

The notes on pages 102 to 164 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2010
(Prepared under International Financial Reporting Standards)
(Expressed in Renminbi)

	Note	Share capital RMB'000	Share premium RMB'000	Reserves RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interest RMB'000	Total Equity RMB'000
		Attributable to equity shareholders of the Company						
Balance at 1 January 2009		7,200,000	2,420,841	4,704,887	(828,795)	13,496,933	264,353	13,761,286
Changes in equity for 2009:								
Profit for the year		-	-	-	1,590,988	1,590,988	64,471	1,655,459
Other comprehensive income		-	-	(82,903)	-	(82,903)	-	(82,903)
Total comprehensive income for the year		-	-	(82,903)	1,590,988	1,508,085	64,471	1,572,556
Appropriation	26	-	-	35,358	(35,358)	-	-	-
Dividends paid by subsidiaries to non-controlling interests		-	-	-	-	-	(34,539)	(34,539)
Balance at 31 December 2009		7,200,000	2,420,841	4,657,342	726,835	15,005,018	294,285	15,299,303
Balance at 1 January 2010		7,200,000	2,420,841	4,657,342	726,835	15,005,018	294,285	15,299,303
Changes in equity for 2010:								
Profit for the year		-	-	-	2,771,646	2,771,646	25,358	2,797,004
Other comprehensive income		-	-	-	-	-	-	-
Total comprehensive income for the year		-	-	-	2,771,646	2,771,646	25,358	2,797,004
Dividends approved in respect of the previous year	11(b)	-	-	-	(216,000)	(216,000)	-	(216,000)
Appropriation	26	-	-	279,548	(279,548)	-	-	-
Dividends paid by subsidiaries to non-controlling interests		-	-	-	-	-	(59,790)	(59,790)
Balance at 31 December 2010		7,200,000	2,420,841	4,936,890	3,002,933	17,560,664	259,853	17,820,517

The notes on pages 102 to 164 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2010
(Prepared under International Financial Reporting Standards)
(Expressed in Renminbi)

	Note	2010 RMB'000	2009 RMB'000
Operating activities			
Cash generated from operations	(a)	4,263,123	3,747,646
Interest paid		(270,113)	(356,652)
Income tax paid		(19,291)	(52,539)
Income tax refunded		-	8,435
Net cash generated from operating activities		3,973,719	3,346,890
Investing activities			
Interest income received		37,375	19,405
Dividend income received		89,817	116,713
Proceeds from disposal of property, plant and equipment and other long-term assets		66,347	139,666
Proceeds from disposal of investments		700,000	506,144
Capital expenditure		(1,356,845)	(2,120,292)
Purchase of investments and interests in associates		-	(837,008)
Net cash used in investing activities		(463,306)	(2,175,372)
Financing activities			
Proceeds from loans and borrowings		39,355,780	29,211,434
Repayment of loans and borrowings		(42,631,344)	(31,849,620)
Proceeds from issuance of corporate bonds		1,000,000	1,000,000
Repayment of corporate bonds		(1,000,000)	-
Dividends paid to equity shareholders of the Company		(200,510)	(559)
Dividends paid by subsidiaries to non-controlling interests		(59,790)	(34,539)
Net cash used in financing activities		(3,535,864)	(1,673,284)
Net decrease in cash and cash equivalents		(25,451)	(501,766)
Cash and cash equivalents at 1 January	21	125,917	627,685
Effect of exchange rate fluctuations on cash held		(356)	(2)
Cash and cash equivalents at 31 December	21	100,110	125,917

The notes on pages 102 to 164 form part of these financial statements.

For the year ended 31 December 2010
(Prepared under International Financial Reporting Standards)
(Expressed in Renminbi)

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

	2010 RMB'000	2009 RMB'000
Profit before taxation	3,533,376	2,166,509
Interest income	(37,375)	(19,405)
Income from unlisted investment	-	(72,215)
Share of profit of associates and jointly controlled entities	(661,288)	(241,372)
Gain on disposal of available-for-sale financial assets	(215)	(222,810)
Interest expense	273,681	313,989
Depreciation of property, plant and equipment	1,641,961	1,635,518
Depreciation of investment property	13,256	13,261
Impairment losses on property, plant and equipment	238,200	98,486
Amortisation of lease prepayments	16,075	16,111
Unrealised exchange gain	(29,845)	(47)
Loss/(gain) on disposal of property, plant and equipment and other long-term assets, net	34,635	(107,988)
Decrease/(increase) in inventories	1,531,533	(2,391,619)
(Increase)/decrease in debtors, bills receivable and prepayments	(1,571,121)	202,876
Increase in trade creditors, other creditors and bills payable	1,161,697	993,976
(Decrease)/increase in balances with related parties	(1,881,447)	1,362,376
Cash generated from operations	4,263,123	3,747,646

The notes on pages 102 to 164 form part of these financial statements.

1. Significant accounting policies

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

(a) Statement of compliance

The consolidated financial statements of Sinopec Shanghai Petrochemical Company Limited ("the Company") and its subsidiaries (collectively "the Group") have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). IFRS includes International Accounting Standards ("IAS") and related interpretations. These financial statements also comply with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. These financial statements have been approved by the Board of Directors on 25 March 2011.

(b) Basis of preparation of the financial statements

The consolidated financial statements are prepared on the historical cost basis except for available-for-sale financial assets (see note 1(d)), and derivative financial instruments (see note 1(k)) which are stated at fair value.

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

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

Judgements made by management in the application of IFRS that have significant effect on the financial statements and major sources of estimation uncertainty are disclosed in note 32.

1. Significant accounting policies *(continued)*

(c) Basis of consolidation

(i) Subsidiaries and non-controlling interests

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

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

Non-controlling interests (previously known as "minority interests") represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at their proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated income statement and the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in accordance with notes 1(l) or 1(m) depending on the nature of the liability.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

1. Significant accounting policies *(continued)*

(c) Basis of consolidation *(continued)*

(i) Subsidiaries and non-controlling interests (continued)

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 1(d)) or, when appropriate, the cost on initial recognition of an investment in an associate or jointly controlled entity (see note 1(c)(ii)).

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

(ii) Associates and jointly controlled entities

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

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

An investment in an associate or a jointly controlled entity is accounted for in the consolidated financial statements under the equity method. Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see note 1(v)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated income statement, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of comprehensive income. For the periods presented, no adjustments have been made (or are necessary) to conform the associate's or jointly controlled entity's accounting policies to those of the Company as there are no material differences between the accounting policies adopted by the associate and the jointly controlled entity and the Group.

1. Significant accounting policies *(continued)*

(c) Basis of consolidation *(continued)*

(ii) Associates and jointly controlled entities (continued)

When the Group's share of losses exceeds its interest in the associate or the jointly controlled entity, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate or the jointly controlled entity.

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

When the Group ceases to have significant influence over an associate or joint control over a jointly controlled entity, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 1(d)) or, when appropriate, the cost on initial recognition of an investment in an associate (see note 1(c) (ii)).

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

(d) Other investments

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

Investments in available-for-sale financial assets are carried at fair value with any change in fair value recognised in other comprehensive income and accumulated separately in equity in the fair value reserve. When these investments are derecognised or impaired, the cumulative gain or loss is reclassified from equity to profit or loss. Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the balance sheet at cost less impairment losses (see note 1(v)).

1. Significant accounting policies *(continued)*

(e) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 1(v)).

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

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

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

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

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

(f) Investment property

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

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

(g) Lease prepayments and other assets

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

1. Significant accounting policies *(continued)*

(h) Construction in progress

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

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

No depreciation is provided in respect of construction in progress.

(i) Inventories

Inventories, other than spare parts and consumables, are carried at the lower of cost and net realisable value. Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Costs of conversion of inventories include cost directly related to the units of production as well as allocation of production overheads. The allocation of fixed production overhead to the costs of conversion is based on normal operating capacity of the production facilities, whereas variable production overheads are allocated to each unit of production on the basis of the actual use of the production facilities. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

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

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

1. Significant accounting policies *(continued)*

(j) Trade receivables, bills and other receivables

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

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

(k) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At each balance sheet date the fair value is remeasured. The gain or loss on remeasurement of derivative financial instruments to fair value is recognised in profit or loss.

(l) Interest-bearing borrowings

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

(m) Trade and other payables

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

(n) Cash and cash equivalents

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

1. Significant accounting policies *(continued)*

(o) Translation of foreign currencies

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

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

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

(p) Revenue recognition

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

The Group provides pipeline transportation services to customers. Revenues associated with transportation services are recognised by reference to the stage of completion (that is, when the services are rendered) of the transaction at the end of the reporting period and when the outcome of the transaction can be estimated reliably. The outcome of the transaction can be estimated reliably when the amount of revenue, the costs incurred and the stage of completion can be measured reliably and it is probable that the economic benefits associated with the transaction will flow to the Group.

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

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

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

1. Significant accounting policies *(continued)*

(q) Government grants

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

(r) Net financing costs

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

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

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

(s) Repairs and maintenance expenses

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

(t) Research and development costs

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

1. Significant accounting policies *(continued)*

(u) Employee benefits

The contributions payable under the Group's retirement plans are charged to the profit or loss on an accrual basis according to the contribution determined by the plans. Further information is set out in note 28.

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

(v) Impairment loss

(i) Trade accounts receivable, bills and other receivables and investments in equity securities other than investments in subsidiaries, associates and jointly controlled entities, that do not have a quoted market price in an active market are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, an impairment loss is determined and recognised.

The impairment loss is measured as the difference between the asset's carrying amount and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material, and is recognised as an expense in the profit or loss. Impairment losses for trade accounts receivable, bills and other receivables are reversed through the profit or loss if in a subsequent period the amount of the impairment loss decreases. Impairment losses for investments in equity securities carried at cost are not reversed.

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

1. Significant accounting policies *(continued)*

(v) Impairment loss *(continued)*

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

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

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

The amount of the reduction is recognised as an expense in the profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit and then, to reduce the carrying amount of the other assets in the unit on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

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

(w) Dividends payable

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

1. Significant accounting policies *(continued)*

(x) Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

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

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

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

(y) Provisions and contingent liabilities

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

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

1. Significant accounting policies *(continued)*

(z) Related parties

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

(aa) Segment reporting

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

2. Changes in accounting policies

The IASB has issued certain new and revised IFRS that are first effective for the current accounting period of the Group and the Company. There have been no significant changes to the accounting policy applied in these financial statements for the years presented as a result of these developments.

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

3. Other operating income

	2010 RMB'000	2009 RMB'000
Income from rendering of services	30,826	33,565
Gain on disposal of property, plant and equipment	2,425	24,674
Gain on disposal of lease prepayments	-	91,802
Rental income from investment property	39,662	31,233
Gain on disposal of unlisted investments	-	72,215
Government grants	27,211	15,310
Others	9,718	8,370
	109,842	277,169

4. Other operating expenses

	2010 RMB'000	2009 RMB'000
Employee reduction expenses (note a)	3,646	12,518
Loss on disposal of property, plant and equipment	37,060	8,488
Impairment losses on property, plant and equipment (note 13(d))	238,200	98,486
Others	17,050	18,837
	295,956	138,329

Note (a):

In accordance with the Group's voluntary employee reduction plan, the Group recognised employee reduction expenses of RMB 3,646,000 in respect of the voluntary resignation of approximately 83 employees (238 employees in 2009) during the year ended 31 December 2010 (2009: RMB 12,518,000).

5. Net financing costs

	2010 RMB'000	2009 RMB'000
Interest income	(37,375)	(19,405)
Net foreign exchange gain	(141,087)	-
Financial income	(178,462)	(19,405)
Net foreign exchange loss	-	16,142
Net loss in fair value change of derivative financial instruments	-	10,423
Interest on loans and borrowings	274,511	358,474
Less: borrowing costs capitalised as construction in progress*	(830)	(44,485)
Financial expenses	273,681	340,554
Net financing costs	95,219	321,149

* The borrowing costs during 2010 have been capitalised at a rate of 2.00%-3.25% per annum (2009: 2.12%-5.04%) for construction in progress.

6. Investment income

Investment income represents the gain on disposal of available-for-sale financial assets of RMB 215,000 during the year ended 31 December 2010 (2009: RMB 222,810,000).

7. Profit before taxation

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

	2010 RMB'000	2009 RMB'000
Cost of inventories sold#	68,313,915	45,010,196
Depreciation of property, plant and equipment#	1,641,961	1,635,518
Depreciation of investment property#	13,256	13,261
Amortisation of lease prepayments#	16,075	16,111
Repairs and maintenance expenses#	1,016,530	1,044,863
Research and development costs#	58,242	40,293
Employee's pension costs#		
- Municipal retirement scheme costs	209,752	192,791
- Supplementary retirement scheme costs	57,867	49,513
Staff costs#	1,441,296	1,233,729
Rental income from investment property	(39,662)	(31,233)
Impairment losses		
- Trade and other receivables	(2,916)	(1,690)
- Property, plant and equipment	238,200	98,486
Net loss in fair value change of derivative financial instruments	-	10,423
Gain on sale of available-for-sale financial assets	(215)	(222,810)
Share of profits of associates	(632,127)	(218,862)
Share of profits of jointly controlled entities	(29,161)	(22,510)
Auditors' remuneration - audit services	8,300	8,787

\# Cost of inventories sold includes RMB 4,371,240,000 (2009: RMB 4,217,577,000) relating to staff costs, depreciation and amortisation, repairs and maintenance expenses, research and development costs and pension costs, which amount is also included in the respective total amounts disclosed separately above for each of these types of expenses.

The consolidated profit attributable to equity shareholders of the Company includes a profit of RMB 2,150,135,000 (2009: a profit of RMB 1,376,235,000) which has been dealt with in the financial statements of the Company.

8. Directors' and supervisors' emoluments

(i) Directors' and supervisors' emoluments:

	2010			
	Salaries and other benefits RMB'000	Retirement scheme contributions RMB'000	Discretionary bonus RMB'000	Total RMB'000
Rong Guangdao	180	15	421	616
Wang Zhiqing (appointed in December 2010)	14	1	25	40
Li Honggen	156	15	359	530
Shi Wei	156	15	365	536
Dai Jinbao	94	15	245	354
Chen Xinyuan	150	-	-	150
Sun Chiping	150	-	-	150
Jiang Zhiquan	150	-	-	150
Zhou Yunnong	150	-	-	150
Gao Jinping	156	15	348	519
Zhang Chenghua	97	15	225	337
Wang Yanjun	82	14	209	305
Du Chongjun (resigned in November 2010)	101	9	352	462
Han Zhihao (resigned in April 2010)	38	5	46	89
	1,674	119	2,595	4,388

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

For the years ended 31 December 2010 and 2009, no emolument was paid to the directors or supervisors as an inducement to join or upon joining the Company or as compensation for loss of office.

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

(ii) Individuals with the highest emoluments

Of the five individuals with the highest emoluments, four (2009: five) are directors and supervisors whose emoluments are disclosed in note 8 (i). The emolument in respect of the other one (2009: nil) is as follows:

	2010 RMB'000	2009 RMB'000
Salaries and other benefits	156	-
Retirement scheme contributions	15	-
Discretionary bonus	348	-
	519	-

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

	2010 Number of individuals	2009 Number of individuals
RMB		
nil - 1,000,000	1	-

9. Income tax

(a) Taxation in the consolidated income statement represents:

	2010 RMB'000	2009 RMB'000
Current tax		
-Provision for PRC income tax for the year	22,523	58,410
-Under-provision in respect of prior years	3,453	843
Deferred taxation	710,396	451,797
Total income tax expense	736,372	511,050

9. Income tax *(continued)*

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

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

	2010 RMB'000	2009 RMB'000
Profit before taxation	3,533,376	2,166,509
Expected PRC income tax expense at the statutory tax rate of 25%	883,344	541,627
Tax effect of non-deductible expenses	6,240	5,932
Tax effect of non-taxable income	(225)	(472)
Under-provision in prior years	3,453	843
Tax effect of share of profits recognised under the equity method	(165,322)	(60,343)
Tax effect of unused tax losses not recognised	12,324	26,823
Tax effect of unrecognised deferred tax assets	-	18,755
Utilisation of unrecognised deferred tax assets	-	(17,176)
Others	(3,442)	(4,939)
Actual income tax expense	736,372	511,050

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

9. Income tax *(continued)*

(b) Deferred taxation:

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

The Group

	Assets		Liabilities		Net balance	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Current						
Provisions	21,539	36,778	-	-	21,539	36,778
Non-current						
Provision for impairment losses	139,379	85,112	-	-	139,379	85,112
Land use rights	27,967	28,842	-	-	27,967	28,842
Capitalisation of borrowing costs	-	-	(23,448)	(26,322)	(23,448)	(26,322)
Tax losses carry forward	651,529	1,401,978	-	-	651,529	1,401,978
Others	10,610	11,584	-	-	10,610	11,584
Deferred tax assets / (liabilities)	851,024	1,564,294	(23,448)	(26,322)	827,576	1,537,972

The Company

	Assets		Liabilities		Net balance	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Current						
Provisions	21,312	36,417	-	-	21,312	36,417
Non-current						
Provision for impairment losses	139,379	85,112	-	-	139,379	85,112
Land use rights	27,967	28,842	-	-	27,967	28,842
Capitalisation of borrowing costs	-	-	(23,448)	(26,322)	(23,448)	(26,322)
Tax losses carry forward	651,529	1,401,978	-	-	651,529	1,401,978
Others	1,414	1,514	-	-	1,414	1,514
Deferred tax assets / (liabilities)	841,601	1,553,863	(23,448)	(26,322)	818,153	1,527,541

9. Income tax *(continued)*

(b) Deferred taxation: *(continued)*

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

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

	The Group			
	Balance at 1 January 2010 RMB'000	Recognised in income statement RMB'000	Recognised in reserve RMB'000	Balance at 31 December 2010 RMB'000
Current				
Provisions	36,778	(15,239)	-	21,539
Non-current				
Provision for impairment losses	85,112	54,267	-	139,379
Land use rights	28,842	(875)	-	27,967
Capitalisation of borrowing costs	(26,322)	2,874	-	(23,448)
Tax losses carry forward	1,401,978	(750,449)	-	651,529
Others	11,584	(974)	-	10,610
Net deferred tax assets	1,537,972	(710,396)	-	827,576

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

9. Income tax *(continued)*

(b) Deferred taxation: *(continued)*

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

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

	The Company			
	Balance at 1 January 2010 RMB'000	Recognised in income statement RMB'000	Recognised in reserve RMB'000	Balance at 31 December 2010 RMB'000
Current				
Provisions	36,417	(15,105)	-	21,312
Non-current				
Provision for impairment losses	85,112	54,267	-	139,379
Land use rights	28,842	(875)	-	27,967
Capitalisation of borrowing costs	(26,322)	2,874	-	(23,448)
Tax losses carry forward	1,401,978	(750,449)	-	651,529
Others	1,514	(100)	-	1,414
Net deferred tax assets	1,527,541	(709,388)	-	818,153

9. Income tax *(continued)*

(b) Deferred taxation: *(continued)*

(iii) Deferred tax assets not recognised:

As at 31 December 2010, a subsidiary of the Company did not recognise the deferred tax assets in respect of the impairment losses on property, plant and equipment amounting to RMB 432,579,000 (2009: RMB 432,579,000) and the unused tax losses carried forward for PRC income tax purpose amounting to RMB 452,443,000 (2009: RMB 417,688,000), because it was not probable that the related tax benefit will be realised. The unused tax losses carried forward of RMB 29,357,000, RMB 68,548,000, RMB197,952,000, RMB 107,292,000 and RMB 49,294,000 will expire in 2011, 2012, 2013, 2014 and 2015, respectively.

10. Earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of RMB 2,771,646,000 (2009: RMB 1,590,988,000) and 7,200,000,000 (2009: 7,200,000,000) shares in issue during the year.

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

11. Dividends

(a) Dividends attributable to the year

	The Group and the Company	
	2010	2009
	RMB'000	RMB'000
Final dividend proposed after the balance sheet date of RMB 0.10 per share (2009: RMB 0.03 per share)	720,000	216,000

Pursuant to a resolution passed at the directors' meeting on 25 March 2011, a final dividend of RMB 0.10 per share totalling RMB 720,000,000 (2009: RMB 216,000,000) was proposed for shareholders' approval at the Annual General Meeting. The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

11. Dividends *(continued)*

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

	The Group and the Company	
	2010	2009
	RMB'000	RMB'000
Final dividend in respect of the previous financial year, approved during the year, of RMB 0.03 per share (2009: RMB nil share)	216,000	-

12. Other comprehensive income

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

	2010			2009		
	Before-tax amount	Tax benefit	Net-of-tax amount	Before-tax amount	Tax benefit	Net-of-tax amount
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Available-for-sale financial assets:						
Net movement in fair value reserve	-	-	-	(110,537)	27,634	(82,903)

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

	2010	2009
	RMB'000	RMB'000
Available-for-sale financial assets:		
Changes in fair value recognised during the year	215	112,273
Reclassification adjustments for amounts transferred to profit or loss		
- gains on disposal	(215)	(222,810)
Income tax on other comprehensive income	-	27,634
Net movement in fair value reserve during the year recognised in other comprehensive income	-	(82,903)

13. Property, plant and equipment

(a) The Group

	Buildings RMB'000	Plant and Machinery RMB'000	Vehicles and Other Equipment RMB'000	Total RMB'000
Cost:				
At 1 January 2009	5,665,757	23,125,018	6,708,164	35,498,939
Additions	69,270	61,973	74,446	205,689
Transferred from construction in progress (note 15)	55,347	3,003,956	204,116	3,263,419
Disposals	(34,518)	(479,524)	(76,359)	(590,401)
At 31 December 2009	5,755,856	25,711,423	6,910,367	38,377,646
At 1 January 2010	5,755,856	25,711,423	6,910,367	38,377,646
Additions	220	61,883	34,401	96,504
Transferred from construction in progress (note 15)	12,226	332,073	63,508	407,807
Disposals	(35,408)	(298,580)	(111,844)	(445,832)
At 31 December 2010	5,732,894	25,806,799	6,896,432	38,436,125
Accumulated depreciation and impairment losses:				
At 1 January 2009	3,439,818	14,317,665	4,468,557	22,226,040
Charge for the year	175,598	1,154,494	305,426	1,635,518
Impairment loss	51,480	25,269	21,737	98,486
Written back on disposals	(26,751)	(461,994)	(70,858)	(559,603)
At 31 December 2009	3,640,145	15,035,434	4,724,862	23,400,441
At 1 January 2010	3,640,145	15,035,434	4,724,862	23,400,441
Charge for the year	139,591	1,234,816	267,554	1,641,961
Impairment loss	8,578	206,929	22,693	238,200
Written back on disposals	(26,396)	(283,655)	(104,985)	(415,036)
At 31 December 2010	3,761,918	16,193,524	4,910,124	24,865,566
Net book value:				
At 31 December 2010	1,970,976	9,613,275	1,986,308	13,570,559
At 31 December 2009	2,115,711	10,675,989	2,185,505	14,977,205

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

(b) The Company

	Buildings RMB'000	Plant and Machinery RMB'000	Vehicles and Other Equipment RMB'000	Total RMB'000
Cost:				
At 1 January 2009	4,650,162	21,062,178	6,433,102	32,145,442
Additions	35,506	163,517	46,233	245,256
Transferred from construction in progress (note 15)	47,707	2,982,062	200,292	3,230,061
Disposals	(20,106)	(472,162)	(71,011)	(563,279)
At 31 December 2009	4,713,269	23,735,595	6,608,616	35,057,480
At 1 January 2010	4,713,269	23,735,595	6,608,616	35,057,480
Additions	-	60,179	35,419	95,598
Transferred from construction in progress (note 15)	7,315	327,793	61,302	396,410
Disposals	(34,463)	(297,546)	(109,758)	(441,767)
At 31 December 2010	4,686,121	23,826,021	6,595,579	35,107,721
Accumulated depreciation and impairment losses:				
At 1 January 2009	2,993,748	12,476,413	4,236,771	19,706,932
Charge for the year	139,294	1,080,412	287,740	1,507,446
Impairment loss	290	22,099	957	23,346
Written back on disposals	(13,621)	(457,984)	(66,119)	(537,724)
At 31 December 2009	3,119,711	13,120,940	4,459,349	20,700,000
At 1 January 2010	3,119,711	13,120,940	4,459,349	20,700,000
Charge for the year	128,333	1,200,583	262,640	1,591,556
Impairment loss	8,578	206,929	22,693	238,200
Written back on disposals	(25,969)	(283,143)	(103,032)	(412,144)
At 31 December 2010	3,230,653	14,245,309	4,641,650	22,117,612
Net book value:				
At 31 December 2010	1,455,468	9,580,712	1,953,929	12,990,109
At 31 December 2009	1,593,558	10,614,655	2,149,267	14,357,480

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

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

Buildings in Hong Kong with a net book value of RMB 29,388,000 (2009: RMB 30,573,000) were held under medium-term leases.

(d) Impairment losses

2010

Impairment losses recognised on property, plant and equipment of the synthetic fibres segment were RMB 92 million for the year ended 31 December 2010, which represented impairment losses in respect of certain filament production facilities. The primary factor resulting in the impairment losses on the filament production facilities is the high operating and production costs caused by the increase in the raw material price that are not expected to be covered through an increase in selling price of those products in the foreseeable future. These assets were tested for impairment in accordance with the Company's accounting policy described in note 1(v)(ii) to the consolidated financial statements. The recoverable amounts of these production facilities were estimated based on their value in use. The estimate of value in use was determined using a pre-tax discount rate of 10%.

Impairment losses recognised on certain idle facilities of the resins and plastics segment were RMB 26.3 million for the year ended 31 December 2010. These facilities were abandoned and tested for impairment in accordance with the Company's accounting policy described in note 1(v)(ii) to the consolidated financial statements. The estimated recoverable amounts were based on the assets' fair value less costs to sell, which were determined by reference to the recent observable market prices for similar assets within the same industry.

Impairment losses recognised on property, plant and equipment of the intermediate petrochemicals segment were RMB 119.9 million for the year ended 31 December 2010, which mainly represented impairment losses of RMB 89.9 million in respect of a newly constructed facility that has not started production as it cannot meet the local environmental requirement. The asset was tested for impairment in accordance with the Company's accounting policy described in note 1(v)(ii) to the consolidated financial statements. The estimated recoverable amounts was based on the asset's fair value less costs to sell, which was determined by reference to the recent observable market prices for similar assets within the same industry.

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

(d) Impairment losses *(continued)*

2009

A synthetic fibre plant of a subsidiary was shut down and abandoned and a power generator unit of the Company was damaged and placed out of service. These assets were tested for impairment in accordance with the Company's accounting policy described in note 1(v)(ii) to the consolidated financial statements. The Group determined that the carrying values of the synthetic fibre plant and the power generator unit were higher than their recoverable amounts and accordingly, impairment losses of RMB 98.5 million were recognised during the year ended 31 December 2009. The estimated recoverable amounts were based on the assets' fair values less costs to sell, which were determined by reference to the recent observable market prices for similar assets within the same industry.

(e) The carrying value of above assets prior to the impairment losses and the carrying value of the assets subsequent to the impairment losses by asset category for the years ended 31 December 2010 and 2009 are presented as follows:

Asset Category	**2010**			
	Original cost RMB'000	**Net book value before impairment RMB'000**	**Impairment loss recognised RMB'000**	**Net book value after impairment RMB'000**
Buildings	**59,504**	**38,149**	**(8,578)**	**29,571**
Plant and machinery	**805,340**	**246,605**	**(206,929)**	**39,676**
Vehicles and other equipment	**136,058**	**46,176**	**(22,693)**	**23,483**
Total	**1,000,902**	**330,930**	**(238,200)**	**92,730**

Asset Category	2009			
	Original cost RMB'000	Net book value before impairment RMB'000	Impairment loss recognised RMB'000	Net book value after impairment RMB'000
Buildings	423,530	63,179	(51,480)	11,699
Plant and machinery	704,402	46,483	(25,269)	21,214
Vehicles and other equipment	154,306	26,254	(21,737)	4,517
Total	1,282,238	135,916	(98,486)	37,430

14. Investment property

	The Group RMB'000	The Company RMB'000
Cost:		
At 1 January 2009	546,838	615,334
Disposals	(208)	-
At 31 December 2009	546,630	615,334
At 1 January 2010	546,630	615,334
Disposals	(218)	-
At 31 December 2010	546,412	615,334
Accumulated depreciation:		
At 1 January 2009	54,148	60,929
Charge for the year	13,261	14,923
Written back on disposals	(26)	-
At 31December 2009	67,383	75,852
At 1 January 2010	67,383	75,852
Charge for the year	13,256	14,922
Written back on disposals	(32)	-
At 31December 2010	80,607	90,774
Net book value:		
At 31 December 2010	465,805	524,560
At 31 December 2009	479,247	539,482

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

The fair value of the investment property of the Group and the Company as at 31 December 2010 were estimated by the directors to be approximately RMB 994,053,000 and RMB 1,121,326,000, respectively, by reference to market values of like properties in the relevant region (2009: the Group and the Company: RMB 808,751,000 and RMB 912,277,000 respectively). The investment property has not been valued by an external independent valuer.

Rental income of RMB 39,662,000 was received by the Group during the year ended 31 December 2010 (2009: RMB 31,233,000).

15. Construction in progress

	The Group		The Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
At 1 January	**348,865**	1,854,154	**338,856**	1,815,344
Additions	**1,198,181**	1,758,130	**1,180,797**	1,753,573
Transferred to property, plant and equipment (Note 13)	**(407,807)**	(3,263,419)	**(396,410)**	(3,230,061)
At 31 December	**1,139,239**	348,865	**1,123,243**	338,856

16. Investments in subsidiaries (The Company)

	2010	2009
	RMB'000	RMB'000
Unlisted shares, at cost	**1,537,901**	1,537,901
Less: impairment losses	**(227,500)**	(227,500)
	1,310,401	1,310,401

These amounts represent the investments made by the Company in its consolidated subsidiaries. At 31 December 2010, the following list contains the particulars of the subsidiaries, all of which are limited companies established and operated in the PRC, which principally affected the results and assets of the Group.

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

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

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

None of the subsidiaries have issued any debt securities.

17. Interest in associates and jointly controlled entities

	The Group		The Company	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Interest in associates				
-Unlisted shares, at cost	-	-	2,146,488	2,146,488
-Share of net assets	3,198,114	2,640,631	-	-
Interest in jointly controlled entities				
-Unlisted shares, at cost	-	-	127,992	127,992
-Share of net assets	118,176	109,015	-	-
	3,316,290	2,749,646	2,274,480	2,274,480

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

The particulars of the significant associates and jointly controlled entities, which are limited companies established and operating in the PRC, which principally affected the results and assets of the Group at 31 December 2010 are as follows:

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

Summary financial information of the associates is as follows:

	Assets RMB'000	Liabilities RMB'000	Equity RMB'000	Revenues RMB'000	Profit RMB'000
2010					
100 per cent	**26,273,106**	**(11,710,361)**	**14,562,745**	**30,772,706**	**2,947,033**
Group's effective interest	**6,797,152**	**(3,599,038)**	**3,198,114**	**6,463,076**	**632,127**
2009					
100 per cent	25,558,995	(13,671,420)	11,887,575	17,881,950	922,218
Group's effective interest	6,162,828	(3,522,197)	2,640,631	3,850,409	218,862

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

For the periods presented, no adjustments have been made (or are necessary) to conform the associates' accounting policies to those of the Group as there are no material differences between the accounting policies adopted by the associates and the Group.

18. Other Investments

	The Group		The Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Current investments				
Available-for-sale financial assets	**-**	700,000	**-**	700,000

Available-for-sale financial assets with a carrying amount of RMB 700,000,000 at 31 December 2009 represent an investment fund purchased from a PRC state-owned bank. The fund mainly invests in debt and equity securities in the PRC. The Company redeemed this fund in January 2010.

The Group's exposure to credit and interest rate risks related to other investments is disclosed in note 33.

19. Inventories

(a) Inventories in the balance sheet comprise:

	The Group		The Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Raw materials	**2,602,299**	4,188,941	**2,498,028**	4,084,148
Work in progress	**1,417,789**	1,352,767	**1,406,264**	1,325,669
Finished goods	**841,250**	717,337	**747,786**	651,400
Spare parts and consumables	**490,963**	624,789	**457,958**	597,233
	5,352,301	6,883,834	**5,110,036**	6,658,450

At 31 December 2010, the Group and the Company had inventories that were carried at net realisable value of RMB 881,191,000 and RMB 748,842,000, respectively (2009: RMB 1,603,140,000 and RMB 1,527,702,000, respectively).

19. Inventories *(continued)*

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

The cost of inventories recognised as an expense in the consolidated income statement amounted to RMB 68,313,915,000 for the year ended 31 December 2010 (2009: RMB 45,010,196,000), which included the write-down of inventories of RMB 11,921,000 (2009: RMB 58,040,000).

20. Trade and other receivable

	The Group		The Company	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Trade debtors	82,030	132,779	18,418	57,017
Less: Impairment losses for bad and doubtful debts	(7,837)	(12,634)	(4,370)	(9,530)
	74,193	120,145	14,048	47,487
Bills receivable	1,993,273	573,283	1,836,466	496,487
Amounts due from related parties	776,234	576,399	432,132	561,120
	2,843,700	1,269,827	2,282,646	1,105,094
Other debtors and prepayments	235,730	81,847	144,522	45,020
	235,730	81,847	144,522	45,020
	3,079,430	1,351,674	2,427,168	1,150,114

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

20. Trade and other receivable *(continued)*

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

	The Group		The Company	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Invoice date:				
Within one year	2,842,788	1,269,793	2,282,634	1,105,060
Between one and two years	912	34	12	34
	2,843,700	1,269,827	2,282,646	1,105,094

Bills receivable represent short-term banker acceptance receivables that entitle the Group to receive the full face amount of the receivables from the banks at maturity, which generally range from one to six months from the date of issuance. Historically, the Group had experienced no credit losses on bills receivable.

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

21. Cash and cash equivalents

	The Group		The Company	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Cash deposits with a related party	6,870	957	6,823	559
Cash at bank and in hand	93,240	124,960	82,401	100,517
	100,110	125,917	89,224	101,076

22. Loans and borrowings

Loans and borrowings are repayable as follows:

	The Group		The Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Long term bank loans (note b)				
- Between two and five years	**175,000**	200,000	**220,000**	350,000
- Between one and two years	**-**	104,258	**-**	100,000
	175,000	304,258	**220,000**	450,000
Loans due within one year				
- Current portion of long term bank loans (note b)	**100,000**	74,275	**100,000**	-
- Corporate bonds (note a)	**1,000,000**	1,000,000	**1,000,000**	1,000,000
- Short term bank loans	**2,885,438**	6,460,398	**2,906,438**	6,384,998
- Short term loans from a related party	**410,000**	240,000	**210,000**	40,000
	4,395,438	7,774,673	**4,216,438**	7,424,998
	4,570,438	8,078,931	**4,436,438**	7,874,998

Note (a):

The Company issued RMB 1 billion 365-day unsecured corporate bonds to corporate investors in the PRC inter-bank debenture market on 23 June 2010. The bonds were issued at 100% of face value, with an effective yield of 3.27% per annum, and mature on 23 June 2011.

22. Loans and borrowings *(continued)*

Note (b):

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

Repayment terms and last payment date	Interest rate at 31 December 2010	Interest type	The Group 2010 RMB'000	The Group 2009 RMB'000	The Company 2010 RMB'000	The Company 2009 RMB'000
Arranged by the Company:						
Renminbi denominated:						
Due in 2011	5.10%	Floating	100,000	100,000	100,000	100,000
Due in 2012	2.25%	Fixed	-	-	45,000	150,000
Due in 2013	5.36%	Floating	175,000	200,000	175,000	200,000
Arranged by subsidiaries:						
U.S. Dollars denominated:						
Payable annually through 2011	Interest free	-	-	9,833	-	-
Renminbi denominated:						
Payable annually through 2010	Interest free	-	-	61,500	-	-
Payable annually through 2011	Interest free	-	-	7,200	-	-
Total long term loans and borrowings outstanding			275,000	378,533	320,000	450,000
Less: amounts due within one year			(100,000)	(74,275)	(100,000)	-
Amounts due after one year			175,000	304,258	220,000	450,000

The weighted average short term interest rates for the Group and the Company were 2.34% and 2.26% respectively at 31 December 2010 (2009: the Group and the Company 3.32% and 3.16% respectively).

At 31 December 2010, no loans and borrowings were secured by property, plant and equipment (2009: nil).

22. Loans and borrowings *(continued)*

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

	The Group		The Company	
	2010	2009	**2010**	2009
	'000	'000	**'000**	'000
United States Dollars	**USD 381,935**	USD 886,007	**USD 381,935**	USD 884,567

23. Trade accounts payable

	The Group		The Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade creditors	**2,376,452**	1,521,319	**1,702,002**	1,140,008
Bills payable	**41,034**	112,271	**41,034**	26,048
Amounts due to related parties	**1,800,991**	3,487,645	**2,501,259**	4,430,035
	4,218,477	5,121,235	**4,244,295**	5,596,091

The maturity analysis of trade accounts payable is as follows:

	The Group		The Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Due within 1 month or on demand	**4,082,246**	4,891,657	**4,135,795**	5,378,762
Due after 1 month and within 3 months	**136,231**	229,578	**108,500**	217,329
	4,218,477	5,121,235	**4,244,295**	5,596,091

24. Amounts due from / to related parties

Amounts due from / to related parties are unsecured and interest free (see note 27(c)).

25. Share capital

	The Group and the Company	
	2010	2009
	RMB'000	RMB'000
Registered, issued and paid up capital:		
4,870,000,000 A shares of RMB 1.00 each	4,870,000	4,870,000
2,330,000,000 H shares of RMB 1.00 each	2,330,000	2,330,000
	7,200,000	7,200,000

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

Capital management

Management optimises the structure of its capital, comprising equity and loans. In order to maintain or adjust the capital structure, management may cause the Group to issue new shares, adjust the capital expenditure plan, sell assets to reduce debt, or adjust the proportion of short-term and long-term loans. Management monitors capital on the basis of debt-to-equity ratio, which is calculated by dividing loans and borrowings by the total equity attributable to equity shareholders of the Company, and liability-to-asset ratio, which is calculated by dividing total liabilities by total assets. Management's strategy is to make appropriate adjustments according to the operating and investment needs and changes in market conditions, and to maintain the debt-to-equity ratio and the liability-to-asset ratio at a range considered reasonable by management. As at 31 December 2010, the debt-to-equity ratio and the liability-to-asset ratio of the Group were 26.03% (2009: 53.84%) and 37.62% (2009: 48.85%), respectively.

The schedule of the contractual maturities of loans and commitments are disclosed in notes 22 and 29, respectively.

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

26. Reserves

Movements on reserves comprise:

	The Group		The Company	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Share premium				
At 1 January and 31December (note (a))	2,420,841	2,420,841	2,420,841	2,420,841
Statutory surplus reserve				
At 1 January	3,521,252	3,485,894	3,521,252	3,485,894
Appropriation (note (b))	279,548	35,358	279,548	35,358
At 31 December (note (b))	3,800,800	3,521,252	3,800,800	3,521,252
Capital reserve				
At 1 January and 31 December (note (c))	4,180	4,180	4,180	4,180
Discretionary surplus reserve				
At 1 January and 31 December (note (d))	1,280,514	1,280,514	1,280,514	1,280,514
Excess over share capital				
At 1 January and 31 December (note (e))	(148,604)	(148,604)	(148,604)	(148,604)
Fair value reserve				
At 1 January	-	82,903	-	74,134
Other comprehensive income for the year(note 12(b))	-	(82,903)	-	(74,134)
At 31 December (note (f))	-	-	-	-
Retained profits/ (accumulated losses)				
At 1 January	726,835	(828,795)	387,356	(782,636)
Profit for the year attributable to the equity shareholders of the Company	2,771,646	1,590,988	2,307,996	1,205,350
Dividend approved in respect of previous year	(216,000)	-	(216,000)	-
Appropriation	(279,548)	(35,358)	(279,548)	(35,358)
At 31 December (note (g))	3,002,933	726,835	2,199,804	387,356
	10,360,664	7,805,018	9,557,535	7,465,539

26. Reserves *(continued)*

Notes:

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

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

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

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

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

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

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

(g) According to the Company's Articles of Association, the reserve available for distribution is the lower of the amount determined under China Accounting Standards for Business Enterprises and the amount determined under IFRS. Final dividend of RMB 720,000,000 (2009: RMB 216,000,000) in respect of the financial year 2010 was declared after the balance sheet date.

27. Related party transactions

The following is a list of the Group's major related parties:

Names of related parties	Relationship with the Company
China Petrochemical Corporation ("Sinopec Group Company")	Ultimate parent company
China Petroleum & Chemical Corporation ("Sinopec Corp")	Immediate parent company
Sinopec Huadong Sales Company	Subsidiary of the immediate parent company
China International United Petroleum and Chemical Company Limited	Subsidiary of the immediate parent company
China Petrochemical International Company Limited	Subsidiary of the immediate parent company
Sinopec Yizheng Chemical Fibre Company Limited	Subsidiary of the immediate parent company
Sinopec Finance Company Limited ("Sinopec Finance")	Subsidiary of the ultimate parent company
Sinopec Storage and Transportations Company Limited	Subsidiary of the ultimate parent company
Shanghai Secco Petrochemical Co., Ltd.	Associate
BOC-SPC Gases Co., Ltd.	Jointly controlled entity

(a) Most of the transactions undertaken by the Group during the year ended 31 December 2010 have been affected on such terms as determined by Sinopec Corp and relevant PRC authorities.

Sinopec Corp negotiates and agrees the terms of crude oil supply with suppliers on a group basis, which is then allocated among its subsidiaries, including the Group, on a discretionary basis. Sinopec Corp also owns a widespread petroleum products sales network and possesses a fairly high market share in domestic petroleum products market, which is subject to extensive regulation by the PRC government.

The Group has entered into a mutual product supply and sales services framework agreement with Sinopec Corp. Pursuant to the agreement, Sinopec Corp provide the Company with crude oil, other petrochemical raw materials and agent services. On the other hand, the Company provides Sinopec Corp with petroleum products, petrochemical products and property leasing services.

The pricing policy for these services and products provided under the agreement is as follows:

- if there are applicable State (central and local government) tariffs, the pricing shall follow the State tariffs;
- if there are no State tariffs, but there are applicable State's guidance prices, the pricing shall follow the State's guidance prices; or
- if there are no State tariffs or State's guidance prices, the pricing shall be determined in accordance with the prevailing market prices (including any bidding prices).

27. Related party transactions *(continued)*

(a) *(continued)*

Transactions between the Group and Sinopec Corp, its subsidiaries and jointly controlled entities during the year ended 31 December 2010 and 2009 were as follows:

	2010 RMB'000	2009 RMB'000
Sales of petroleum products	30,352,483	20,299,415
Sales other than petroleum products	8,982,711	5,383,416
Purchases of crude oil	24,555,912	20,332,851
Purchases other than crude oil	7,296,474	2,510,323
Sales commissions	168,896	116,441
Rental income	26,942	20,213

(b) Other transactions between the Group and Sinopec Group Company and its subsidiaries, associates and jointly controlled entities of the Group during the year ended 31 December 2010 and 2009 were as follows:

	2010 RMB'000	2009 RMB'000
Sales of goods and service income		
- Sinopec Group Company and its subsidiaries	307,658	131,117
- Associates and jointly controlled entities of the Group	1,279,154	1,351,675
	1,586,812	1,482,792

27. Related party transactions *(continued)*

(b) Other related party transactions *(continued)*

	2010 RMB'000	2009 RMB'000
Purchases		
- Sinopec Group Company and its subsidiaries	45,773	-
- Associates and jointly controlled entities of the Group	5,702,541	1,952,846
	5,748,314	1,952,846
Insurance premiums		
- Sinopec Group Company and its subsidiaries	96,712	88,408
Interest income		
- Sinopec Finance	570	532
Loans borrowed		
- Sinopec Finance	5,160,000	2,353,000
Loans repayment		
- Sinopec Finance	4,990,000	2,643,000
Interest expense		
- Sinopec Finance	29,029	26,423
Construction and installation fees		
- Sinopec Group Company and its subsidiaries	88,586	165,204

The directors of the Company are of the opinion that the transactions with Sinopec Corp, its subsidiaries and jointly controlled entities, Sinopec Group Company and its subsidiaries, associates and jointly controlled entities of the Group as disclosed in notes 27(a) and 27(b) were conducted in the ordinary course of business, on normal commercial terms and in accordance with the agreements governing such transactions.

27. Related party transactions *(continued)*

(c) The relevant amounts due from/to Sinopec Corp, its subsidiaries and jointly controlled entities, Sinopec Group Company and its subsidiaries, associates and jointly controlled entities of the Group, arising from purchases, sales and other transactions as disclosed in notes 27(a) and 27(b), are summarised as follows:

	The Group		The Company	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Amounts due from related parties				
- Subsidiaries	-	-	42,681	26,649
- Sinopec Corp, its subsidiaries and jointly controlled entities	686,097	523,236	310,942	481,519
- Sinopec Group Company and its subsidiaries	12,823	2,174	1,195	2,174
- Associates and jointly controlled entities of the Group	77,314	50,989	77,314	50,778
Total	776,234	576,399	432,132	561,120
Amounts due to related parties				
- Subsidiaries	-	-	727,361	1,010,060
- Sinopec Corp, its subsidiaries and jointly controlled entities	1,588,791	3,246,147	1,580,581	3,246,144
- Sinopec Group Company and its subsidiaries	41,688	41,209	41,688	41,210
- Associates and jointly controlled entities of the Group	170,512	200,289	151,629	132,621
Total	1,800,991	3,487,645	2,501,259	4,430,035
Cash deposits, maturing within 3 months				
- Sinopec Finance	6,870	957	6,823	559
Short-term loans				
- Sinopec Finance	410,000	240,000	210,000	40,000

27. Related party transactions *(continued)*

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

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

	2010 RMB'000	2009 RMB'000
Short-term employee benefits	6,318	6,019
Post-employment benefits	190	102
	6,508	6,121

Post-employment benefits are included in "Contributions to defined contribution retirement plans" as disclosed in note 27(e).

(e) Contributions to defined contribution retirement plans

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

	2010 RMB'000	2009 RMB'000
Municipal retirement scheme costs (note 28)	209,752	192,791
Supplementary retirement scheme costs (note 28)	57,867	49,513

At 31 December 2010 and 2009, there was no material outstanding contribution to the above defined contribution retirement plans.

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

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

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

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

27. Related party transactions *(continued)*

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

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

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

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

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

During the year ended 31 December 2010 and 2009, the aggregate amount of crude oil purchased by the Group from the above state-controlled energy and chemical companies were as follows:

	2010 RMB'000	2009 RMB'000
Purchase of crude oil	13,474,022	7,643,780

Prepayments due to the above state-controlled energy and chemical companies were RMB 48,891,000 as at 31 December 2010 (31 December 2009: nil).

(ii) Transactions with state-controlled banks

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

	2010 RMB'000	2009 RMB'000
Interest income	36,805	18,873
Interest expense	191,460	272,248

27. Related party transactions *(continued)*

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

(ii) Transactions with state-controlled banks *(continued)*

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

	2010 RMB'000	2009 RMB'000
Cash and cash equivalents at state-controlled banks in the PRC	93,240	124,960
Short-term loans and current portion of long-term loans	2,985,438	6,460,398
Long-term loans excluding current portion of long-term loans	175,000	300,000
Total loans from state-controlled banks in the PRC	3,160,438	6,760,398

28. Retirement schemes

As stipulated by the regulations of the PRC, the Group participates in a defined contribution retirement plan organised by the Shanghai Municipal Government for its staff. The Group is required to make contributions to the retirement plan at a rate of 22% of the salaries, bonuses and certain allowances of its staff in 2010 (2009: 22%).

In addition, pursuant to a document "Lao Bu Fa (1995) No.464" dated 29 December 1995 issued by the Ministry of Labour of the PRC, the Group has set up a supplementary defined contribution retirement plan for the benefit of employees. Employees who have served the Group for five years or more may participate in this plan. The Group and participating employees make defined contributions to their pension saving accounts according to the plan. The assets of this plan are held separately from those of the Group in an independent fund administered by a committee consisting of representatives from the employees and the Group.

A member of the above plans is entitled to a pension amount equal to a fixed proportion of the salary prevailing at his or her retirement date. Both the Group and participating employees make defined contributions to the above two retirement plans. The Group has no other material obligation for the payment of pension benefits associated with these plans beyond the annual contributions described above. For the year ended 31 December 2010, the Group's contribution to the above two plans amounted to RMB 209,752,000 and RMB 57,867,000 respectively (2009: RMB 192,791,000 and RMB 49,513,000 respectively).

29. Capital commitments

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

	The Group and the Company	
	2010	2009
	RMB'000	RMB'000
Property, plant and equipment		
Contracted but not provided for	887,928	35,745
Authorised by the Board but not contracted for	6,110,386	7,754,320
	6,998,314	7,790,065

30. Contingent liabilities

(a) Financial guarantees issued

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

	The Group		The Company	
	2010	2009	2010	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Guarantees issued to a related party in favour of:				
- a subsidiary	-	-	200,000	200,000

As at 31 December 2010, the Company has issued guarantees in relation to loans drawn down by a subsidiary. The guarantees will mature on 26 May 2011.

Guarantees issued to banks in favour of subsidiaries, associates and joint ventures are given to the extent of the Company's respective interest in these entities. Management monitors the conditions that are subject to the guarantees to identify whether it is probable that a loss has occurred, and recognise any such losses under guarantees when those losses are estimable. At 31 December 2010 and 2009, it is not probable that the Group will be required to make payments under the guarantees. Thus no liability has been accrued for a loss related to the Group's obligation under the guarantee arrangements.

30. Contingent liabilities *(continued)*

(b) Income tax differences

In June 2007, the State Administrative of Taxation issued a tax circular (Circular No.664) to the local tax authorities requesting the relevant local tax authorities to rectify the applicable enterprise income tax ("EIT") for nine listed companies, which included the Company. After the notice was issued, the Company was required by the relevant tax authority to settle the EIT for 2007 at a rate of 33 percent. To date, the Company has not been requested by the tax authorities to pay additional EIT in respect of any years prior to 2007. There is no further development of this matter during the year ended 31 December 2010. No provision has been made in the financial statements at 31 December 2010 for this uncertainty because management believes it is not probable that the Group will be required to pay additional EIT for tax years prior to 2007.

(c) Except for the above, there are no contingent liabilities for which the possibility of any outflow of resources is other than remote.

31. Segment reporting

The Group manages its business by divisions, which are organised by business lines. In view of the fact that the Company and its subsidiaries operate mainly in the PRC, no geographical segment information is presented.

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

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

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

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

31. Segment reporting *(continued)*

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

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

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

(a) Segment results, assets and liabilities

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

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items mainly comprise interest in associates or jointly controlled entities, deferred tax assets, cash and cash equivalents, investment property and related revenues (such as share of profit of associates and jointly controlled entities, interest income and investment income), interest-bearing loans, borrowings and interest expense, and corporate assets and expenses.

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

31. Segment reporting *(continued)*

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

Turnover

	2010 RMB'000	2009 RMB'000
Manufactured Products		
Synthetic fibres		
- external sales	3,955,396	2,860,851
- intersegment sales	82	57
Total	3,955,478	2,860,908
Resins and plastics		
- external sales	15,065,276	12,407,738
- intersegment sales	118,699	44,245
Total	15,183,975	12,451,983
Intermediate petrochemicals		
- external sales (note a)	17,399,592	8,511,347
- intersegment sales (note b)	18,583,283	12,165,836
Total	35,982,875	20,677,183
Petroleum products		
- external sales (note a)	33,734,607	22,936,392
- intersegment sales	2,678,172	1,762,391
Total	36,412,779	24,698,783
All others		
- external sales (note a)	7,365,828	4,941,601
- intersegment sales	2,567,305	2,589,206
Total	9,933,133	7,530,807
Elimination of intersegment sales	(23,947,541)	(16,561,735)
Turnover	77,520,699	51,657,929

31. Segment reporting *(continued)*

Profit before taxation

	2010 RMB'000	2009 RMB'000
Profit from operations		
Synthetic fibres	435,594	11,423
Resins and plastics	991,091	844,325
Intermediate petrochemicals	365,124	190,761
Petroleum products	1,140,268	804,871
All others	35,015	172,096
Consolidated profit from operations	2,967,092	2,023,476
Net financing costs	(95,219)	(321,149)
Investment income	215	222,810
Share of profits of associates and jointly controlled entities	661,288	241,372
Profit before taxation	3,533,376	2,166,509

Note (a): External sales include sales to Sinopec Corp, its subsidiaries and jointly controlled entities as follows:

	2010 RMB'000	2009 RMB'000
Sales to Sinopec Corp, its subsidiaries and jointly controlled entities		
Intermediate petrochemicals	3,838,121	2,149,576
Petroleum products	30,352,483	20,299,415
All others	5,144,590	3,233,840
Total	39,335,194	25,682,831

Note (b): Intermediate petrochemicals' intersegment sales to each of the other reportable segments are as follows:

	2010 RMB'000	2009 RMB'000
Synthetic fibres	3,366,715	2,721,968
Resins and plastics	14,938,149	9,200,552
Petroleum products	278,419	243,316
Total	18,583,283	12,165,836

31. Segment reporting *(continued)*

Assets	2010 RMB'000	2009 RMB'000
Segment assets		
Synthetic fibres	1,279,077	1,497,295
Resins and plastics	1,365,165	1,628,238
Intermediate petrochemicals	6,876,401	6,973,974
Petroleum products	11,671,875	12,034,731
All others	2,562,533	2,081,466
Total segment assets	23,755,051	24,215,704
Interest in associates and jointly controlled entities	3,316,290	2,749,646
Unallocated	1,497,401	2,943,136
Total assets	28,568,742	29,908,486

Liabilities	2010 RMB'000	2009 RMB'000
Segment liabilities		
Synthetic fibres	261,801	238,911
Resins and plastics	997,145	1,035,855
Intermediate petrochemicals	1,151,650	710,695
Petroleum products	3,263,676	4,123,220
All others	487,532	412,273
Total segment liabilities	6,161,804	6,520,954
Loans and borrowings -current	4,395,438	7,774,673
Loans and borrowings -non-current	175,000	304,258
Unallocated	15,983	9,298
Total liabilities	10,748,225	14,609,183

31. Segment reporting *(continued)*

Depreciation and amortisation

	2010 RMB'000	2009 RMB'000
Synthetic fibres	224,390	223,924
Resins and plastics	350,728	350,669
Intermediate petrochemicals	574,173	571,369
Petroleum products	343,379	341,126
All others	165,366	164,541
Segment depreciation and amortisation	1,658,036	1,651,629
Unallocated	13,256	13,261
Depreciation and amortisation	1,671,292	1,664,890

Impairment losses on long-lived assets

	2010 RMB'000	2009 RMB'000
Synthetic fibres	92,000	75,140
Resins and plastics	26,300	-
Intermediate petrochemicals	119,900	-
All others	-	23,346
Impairment losses on long-lived assets	238,200	98,486

Total capital expenditures for segment long-lived assets

	2010 RMB'000	2009 RMB'000
Synthetic fibres	154,149	98,668
Resins and plastics	15,179	16,913
Intermediate petrochemicals	197,774	1,324,081
Petroleum products	825,494	397,482
All others	164,250	283,148
Capital expenditures for segment long-lived assets	1,356,846	2,120,292

32. Accounting judgements and estimates

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

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

Impairments for long lived assets

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

Depreciation

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

32. Accounting judgements and estimates *(continued)*

Impairment for bad and doubtful debts

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

Allowance for diminution in value of inventories

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

Recognition of deferred tax assets

Deferred tax assets are recognised in respect of temporary deductible differences and the carryforward of unused tax losses. Management recognises deferred tax assets only to the extent that it is probable that future taxable profit will be available against the assets which can be realised or utilised. At the end of each reporting period, management assesses whether previously unrecognised deferred tax assets should be recognised. The Group recognises a previously unrecognised deferred tax asset to the extent that it is probable that future taxable profit will allow the deferred tax asset to be utilised. In addition, management assesses the carrying amount of deferred tax assets that are recognised at the end of each reporting period. The Group reduces the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available for the deferred tax asset to be utilised.

In making the assessment of whether it is probable the Group will realise or utilise the deferred tax assets, management primarily relies on the generation of future taxable income to support the recognition of deferred tax assets. In order to fully utilise the deferred tax assets recognised at 31 December 2010, the Group would need to generate future taxable income of at least RMB 3,310 million, of which RMB 2,606 million is required to be generated by 2013 prior to the expiration of the unused tax losses. Based on estimated forecast and historical experience, management believes that it is probable that the Group will generate sufficient taxable income before the unused tax losses expire.

33. Financial Instruments

Overview

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

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

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

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

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

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's deposits placed with financial institutions and receivables from customers. The majority of the Group's trade debtors and amounts due from related parties relate to sales of petroleum and chemical products to third parties and related parties operating in the petroleum and chemical industries. Management performs ongoing credit evaluations of its customers' financial condition and generally does not require collateral on trade debtors and related parties. The Group maintains an impairment loss for doubtful accounts and actual losses have been within management's expectations. The details of the Group's credit policy and quantitative disclosures in respect of the Group's exposure on credit risk for trade debtors are set out in note 20.

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

33. Financial Instruments *(continued)*

Liquidity risk

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

At 31 December 2010, the Group's current liabilities exceeded its current assets by RMB 2,041,384,000 (2009: RMB 5,243,500,000). In 2010, the liquidity of the Group is primarily dependent on its ability to maintain adequate cash inflow from operations, the renewal of its short-term bank loans and on its ability to obtain adequate external financing, including the issuance of short-term corporate bonds, to support its working capital and meet its debt obligation when they become due. At 31 December 2010, the Group has standby credit facilities with several PRC financial institutions which provide the Group to borrow up to RMB 9,300,000,000 (2009: RMB 9,100,000,000) on an unsecured basis. At 31 December 2010, the Group's outstanding borrowings under these facilities were RMB 2,363,336,000 (2009: RMB 4,458,044,000) and were included in short-term bank loans.

Management has carried out a detailed review of the cash flow forecast of the Group for the twelve months ending 31 December 2011. Based on such forecast, management believes that adequate sources of liquidity exist to fund the Group's working capital and capital expenditure requirements, and meet its short term debt obligations as they become due. In preparing the cash flow forecast, management has considered historical cash requirements of the Group as well as other key factors, including the availability of the above-mentioned banking facilities which may impact the operations of the Group during the next twelve-month period. Management is of the opinion that the assumptions used in the cash flow forecast are reasonable.

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

33. Financial Instruments *(continued)*

Liquidity risk *(continued)*

The Group

	2010				
	Carrying amount RMB'000	Total contractual undiscounted cash flow RMB'000	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000
Loans and borrowings (current)	4,395,438	(4,518,600)	(4,518,600)	-	-
Loans and borrowings (non-current)	175,000	(203,161)	(9,387)	(9,387)	(184,387)
Trade creditors	2,376,452	(2,376,452)	(2,376,452)	-	-
Bills payable	41,034	(41,034)	(41,034)	-	-
Other creditors	1,943,327	(1,943,327)	(1,943,327)	-	-
Amounts due to related parties	1,800,991	(1,800,991)	(1,800,991)	-	-
	10,732,242	(10,883,565)	(10,689,791)	(9,387)	(184,387)

	2009				
	Carrying amount RMB'000	Total contractual undiscounted cash flow RMB'000	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000
Loans and borrowings (current)	7,774,673	(7,884,195)	(7,884,195)	-	-
Loans and borrowings (non-current)	304,258	(355,936)	(15,471)	(119,729)	(220,736)
Trade creditors	1,521,319	(1,521,319)	(1,521,319)	-	-
Bills payable	112,271	(112,271)	(112,271)	-	-
Other creditors	1,399,719	(1,399,719)	(1,399,719)	-	-
Amounts due to related parties	3,487,645	(3,487,645)	(3,487,645)	-	-
	14,599,885	(14,761,085)	(14,420,620)	(119,729)	(220,736)

33. Financial Instruments *(continued)*

Liquidity risk *(continued)*

The Company

	2010				
	Carrying amount RMB'000	Total contractual undiscounted cash flow RMB'000	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000
Loans and borrowings (current)	4,216,438	(4,329,181)	(4,329,181)	-	-
Loans and borrowings (non-current)	220,000	(250,187)	(10,400)	(55,400)	(184,387)
Trade creditors	1,702,002	(1,702,002)	(1,702,002)	-	-
Bills payable	41,034	(41,034)	(41,034)	-	-
Other creditors	1,810,607	(1,810,607)	(1,810,607)	-	-
Amounts due to related parties	2,501,259	(2,501,259)	(2,501,259)	-	-
	10,491,340	(10,634,270)	(10,394,483)	(55,400)	(184,387)

	2009				
	Carrying amount RMB'000	Total contractual undiscounted cash flow RMB'000	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000
Loans and borrowings (current)	7,424,998	(7,520,573)	(7,520,573)	-	-
Loans and borrowings (non-current)	450,000	(511,803)	(18,846)	(118,846)	(374,111)
Trade creditors	1,140,008	(1,140,008)	(1,140,008)	-	-
Bills payable	26,048	(26,048)	(26,048)	-	-
Other creditors	1,361,906	(1,361,906)	(1,361,906)	-	-
Amounts due to related parties	4,430,035	(4,430,035)	(4,430,035)	-	-
	14,832,995	(14,990,373)	(14,497,416)	(118,846)	(374,111)

33. Financial Instruments *(continued)*

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

(a) Currency risk

Currency risk arises on financial instruments that are denominated in a currency other than the functional currency in which they are measured. The Group's currency risk exposure primarily relates to short-term and long-term debts denominated in US dollars.

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

	The Group		The Company	
	2010	2009	**2010**	2009
	USD'000	USD'000	**USD'000**	USD'000
Gross exposure arising from loans and borrowings	**(381,935)**	(886,007)	**(381,935)**	(884,567)

A 5 percent strengthening/weakening of Renminbi against USD at 31 December 2010 would have increased/decreased net profit for the year and retained earnings of the Group by approximately RMB 94,854,000 (2009: RMB 226,869,000). This analysis has been determined assuming that the change in foreign exchange rates had occurred at the balance sheet date and had been applied to the foreign currency balances to which the Group has significant exposure as stated above, and that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2009.

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

33. Financial Instruments *(continued)*

Market risk *(continued)*

(b) Interest rate risk

The Group's interest rate risk exposure arises primarily from its short-term and long-term loans. Loans carrying interest at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. The interest rates of loans and borrowings of the Group are disclosed in note 22.

As at 31 December 2010, it is estimated that a general increase / decrease of 100 basis points in variable interest rates, with all other variables held constant, would decrease / increase the Group's net profit for the year and retained earnings by approximately RMB 19,808,000 (2009: RMB 43,444,000). This sensitivity analysis has been determined assuming that the change in interest rates had occurred at the balance sheet date and the change was applied to the Group's debts outstanding at that date with exposure to cash flow interest rate risk. The analysis is performed on the same basis for 2009.

Fair value

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

The fair value of long term loans is estimated by discounting future cash flows thereon using current market interest rates offered to the Group for loans with substantially the same characteristics and maturities ranging 5.23% to 5.60% (2009: 5.31% to 5.94%). The following table presents the carrying amounts and fair values of the Group's long term loans at 31 December 2010 and 2009.

	2010		2009	
	Carrying amount RMB'000	Fair value RMB'000	Carrying amount RMB'000	Fair value RMB'000
Liabilities				
Long term loans	275,000	273,777	378,533	375,233

33. Financial Instruments *(continued)*

Fair value *(continued)*

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

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

34. Possible impact of amendments, new standards and interpretations issued but not yet effective for the annual accounting period ended 31 December 2010

Up to the date of issue of these financial statements, the IASB has issued a number of amendments, Interpretations and one new standard which are not yet effective for the year ended 31 December 2010 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group:

	Effective for accounting periods beginning on or after
Revised IAS 24, *Related party disclosure*	1 January 2011
IFRS 9, *Financial Instruments*	1 January 2013
Improvements to IFRS 2010	1 July 2010 or 1 January 2011

The Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

35. Parent companies

The Directors consider the immediate parent company and the ultimate parent company at 31 December 2010 to be China Petroleum & Chemical Corporation and China Petrochemical Corporation, respectively, which are incorporated in the PRC. China Petroleum & Chemical Corporation produces financial statements available for public use.

KPMG Huazhen

All Shareholders of Sinopec Shanghai Petrochemical Company Limited:

We have audited the accompanying financial statements of Sinopec Shanghai Petrochemical Company Limited ("the Company"), which comprise the consolidated balance sheet and balance sheet as at 31 December 2010, the consolidated income statement and income statement, the consolidated statement of changes in equity and statement of changes in equity, the consolidated cash flow statement and cash flow statement for the year then ended, and notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements comply with the requirements of China Accounting Standards for Business Enterprises issued by the Ministry of Finance of the People's Republic of China and present fairly, in all material respects, the consolidated financial position and financial position of the Company as at 31 December 2010, and the consolidated results of operations and results of operations and the consolidated cash flows and cash flows of the Company for the year then ended.

KPMG Huazhen

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

Yu Xiaojun

Beijing, the People's Republic of China

Cheng Yujing

25 March 2011

Consolidated Balance Sheet

As at 31 December 2010
(Prepared under China Accounting Standards for Business Enterprises)

Expressed in thousands of Renminbi Yuan

Assets	Note	2010	2009
Current assets:			
Cash at bank and on hand	5(1)	100,110	125,917
Bills receivable	5(2)	2,043,493	603,701
Accounts receivable	5(3)	751,935	534,948
Prepayments	5(4)	146,865	127,568
Dividends receivable	5(5)	5,042	-
Other receivables	5(6)	58,185	85,457
Inventories	5(7)	5,352,301	6,883,834
Other current assets	5(8)	73,910	700,000
Total current assets		8,531,841	9,061,425
Non-current assets:			
Long-term receivables	5(9)	30,000	100,000
Long-term equity investments	5(10)	3,526,290	2,969,646
Investment property	5(11)	465,805	479,247
Fixed assets	5(12)	13,802,184	15,205,731
Construction in progress	5(13)	1,192,225	363,646
Intangible assets	5(14)	537,599	557,172
Long-term deferred expenses	5(15)	261,706	212,325
Deferred tax assets	5(16)	810,454	1,509,130
Total non-current assets		20,626,263	21,396,897
Total assets		29,158,104	30,458,322

The notes on pages 179 to 285 form part of these financial statements.

As at 31 December 2010
(Prepared under China Accounting Standards for Business Enterprises)

Expressed in thousands of Renminbi Yuan

Liabilities and shareholders' equity	Note	2010	2009
Current liabilities:			
Short-term loans	5(18)	3,295,438	6,700,398
Bills payable	5(19)	41,034	722,271
Accounts payable	5(20)	3,322,811	3,664,996
Advances from customers	5(21)	809,908	529,282
Employee benefits payable	5(22)	8,920	27,674
Taxes payable	5(23)	1,042,054	635,930
Interest payable	5(24)	24,553	20,155
Dividends payable		15,490	-
Other payables	5(25)	834,780	903,944
Short-term debentures payable	5(26)	1,000,000	1,000,000
Non-current liabilities due within one year	5(27)	178,237	74,275
Total current liabilities		10,573,225	14,278,925
Non-current liabilities:			
Long-term loans	5(28)	175,000	304,258
Other non-current liabilities	5(29)	236,986	234,781
Total non-current liabilities		411,986	539,039
Total liabilities		10,985,211	14,817,964
Shareholders' equity:			
Share capital	5(30)	7,200,000	7,200,000
Capital reserve	5(31)	2,914,763	2,882,278
Specific reserve	5(32)	46,748	-
Surplus reserve	5(33)	5,081,314	4,801,766
Retained earnings	5(34)	2,670,215	462,029
Total equity attributable to equity shareholders of the Company		17,913,040	15,346,073
Minority interests		259,853	294,285
Total equity		18,172,893	15,640,358
Total liabilities and shareholders' equity		29,158,104	30,458,322

These financial statements have been approved by the Board of Directors of the Company on 25 March 2011.

Rong Guangdao
Chairman

Wang Zhiqing
Vice Chairman and President

Ye Guohua
Chief Financial Officer

The notes on pages 179 to 285 form part of these financial statements.

Balance Sheet

As at 31 December 2010
(Prepared under China Accounting Standards for Business Enterprises)

Expressed in thousands of Renminbi Yuan

Assets	Note	2010	2009
Current assets:			
Cash at bank and on hand	11(1)	89,224	101,076
Bills receivable	11(2)	1,887,416	542,739
Accounts receivable	11(3)	347,327	432,686
Prepayments		147,004	125,419
Dividends receivable	5(5)	5,042	-
Other receivables	11(4)	18,650	49,270
Inventories	11(5)	5,110,036	6,658,450
Other current assets	11(6)	21,729	700,000
Total current assets		7,626,428	8,609,640
Non-current assets:			
Long-term equity investments	11(7)	4,578,274	4,035,372
Investment property	11(8)	524,560	539,482
Fixed assets	11(9)	13,176,847	14,541,119
Construction in progress	11(10)	1,176,229	353,637
Intangible assets	11(11)	432,418	445,450
Long-term deferred expenses	11(12)	260,956	210,575
Deferred tax assets	11(13)	810,225	1,508,769
Total non-current assets		20,959,509	21,634,404
Total assets		28,585,937	30,244,044

The notes on pages 179 to 285 form part of these financial statements.

As at 31 December 2010
(Prepared under China Accounting Standards for Business Enterprises)

Expressed in thousands of Renminbi Yuan

Liabilities and shareholders' equity	Note	2010	2009
Current liabilities:			
Short-term loans	11(15)	3,116,438	6,424,998
Bills payable	11(16)	41,034	878,105
Accounts payable		2,888,621	3,350,364
Advances from customers		741,364	513,071
Employee benefits payable		5,060	24,118
Taxes payable	11(17)	1,013,520	627,964
Interest payable		24,553	20,155
Dividends payable		15,490	-
Other payables		1,325,260	1,518,220
Short-term debentures payable	5(26)	1,000,000	1,000,000
Non-current liabilities due within one year	11(18)	100,000	-
Total current liabilities		10,271,340	14,356,995
Non-current liabilities:			
Long-term loans	11(19)	220,000	450,000
Other non-current liabilities	5(29)	236,986	234,781
Total non-current liabilities		456,986	684,781
Total liabilities		10,728,326	15,041,776
Shareholders' equity:			
Share capital	5(30)	7,200,000	7,200,000
Capital reserve	5(31)	2,914,763	2,882,278
Specific reserve	11(20)	43,380	-
Surplus reserve	5(33)	5,081,314	4,801,766
Retained earnings		2,618,154	318,224
Total equity		17,857,611	15,202,268
Total liabilities and shareholders' equity		28,585,937	30,244,044

These financial statements have been approved by the Board of Directors of the Company on 25 March 2011.

Rong Guangdao
Chairman

Wang Zhiqing
Vice Chairman and President

Ye Guohua
Chief Financial Officer

The notes on pages 179 to 285 form part of these financial statements.

Consolidated Income Statement

For the year ended 31 December 2010
(Prepared under China Accounting Standards for Business Enterprises)

Expressed in thousands of Renminbi Yuan

	Note	2010	2009
Operating income	5(35)	77,591,187	51,722,727
Less: Operating costs	5(35)	65,787,455	42,665,330
Business taxes and surcharges	5(36)	5,424,817	4,312,665
Selling and distribution expenses	5(37)	578,761	410,432
General and administrative expenses	5(38)	2,382,085	2,326,818
Financial expenses	5(39)	95,219	310,726
Impairment losses	5(40)	433,465	154,836
Add: Gains/(losses) from changes in fair value	5(41)	-	-10,423
Investment income	5(42)	651,503	526,397
Including: Income from investment in associates and jointly controlled enterprises		651,288	231,372
Operating profit		3,540,888	2,057,894
Add: Non-operating income	5(43)	49,354	150,156
Less: Non-operating expenses	5(44)	136,498	71,799
Including: Losses from disposal of non-current assets		37,060	8,488
Profit before income tax		3,453,744	2,136,251
Less: Income tax expense	5(45)	724,652	510,175
Net profit for the year		2,729,092	1,626,076
Attributable to: Equity shareholders of the Company		2,703,734	1,561,605
Minority shareholders		25,358	64,471
Earnings per share:			
Basic and diluted earnings per share	5(46)	RMB 0.376	RMB 0.217
Other comprehensive income for the year	5(47)	-	-82,903
Total comprehensive income for the year		2,729,092	1,543,173
Attributable to: Equity shareholders of the Company		2,703,734	1,478,702
Minority shareholders		25,358	64,471

These financial statements have been approved by the Board of Directors of the Company on 25 March 2011.

Rong Guangdao
Chairman

Wang Zhiqing
Vice Chairman and President

Ye Guohua
Chief Financial Officer

The notes on pages 179 to 285 form part of these financial statements.

Income Statement

For the year ended 31 December 2010
(Prepared under China Accounting Standards for Business Enterprises)

Expressed in thousands of Renminbi Yuan

	Note	2010	2009
Operating income	11(21)	67,082,950	44,102,664
Less:Operating costs	11(21)	55,526,570	35,454,622
Business taxes and surcharges	11(22)	5,421,403	4,306,089
Selling and distribution expenses		496,337	333,805
General and administrative expenses		2,242,147	2,114,608
Financial expenses	11(23)	84,951	288,508
Impairment losses	11(24)	481,363	170,780
Add: Gains/ (losses) from changes in fair value	5(41)	-	-10,423
Investment income	11(25)	748,578	327,609
Including: Income from investment in associates and jointly controlled enterprises		620,957	224,328
Operating profit		3,578,757	1,751,438
Add: Non-operating income	11(26)	48,832	147,923
Less: Non-operating expenses	11(27)	133,567	70,744
Including: Losses from disposal of non-current assets		35,963	7,833
Profit before income tax		3,494,022	1,828,617
Less: Income tax expense	11(28)	698,544	452,437
Net profit for the year		2,795,478	1,376,180
Other comprehensive income for the year	11(29)	-	-74,134
Total comprehensive income for the year		2,795,478	1,302,046

These financial statements have been approved by the Board of Directors of the Company on 25 March 2011.

Rong Guangdao
Chairman

Wang Zhiqing
Vice Chairman and President

Ye Guohua
Chief Financial Officer

The notes on pages 179 to 285 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2010
(Prepared under China Accounting Standards for Business Enterprises)

Expressed in thousands of Renminbi Yuan

	Note	2010	2009
Cash flows from operating activities:			
Cash received from sale of goods and rendering of services		89,722,717	60,581,191
Refund of taxes		66,163	8,435
Cash received relating to other operating activities	5(48(a))	49,134	23,680
Sub-total of cash inflows		89,838,014	60,613,306
Cash paid for goods and services		-74,510,101	-50,698,203
Cash paid to and for employees		-2,111,392	-1,827,448
Cash paid for all types of taxes		-8,542,156	-4,080,188
Cash paid relating to other operating activities	5(48(b))	-430,533	-303,925
Sub-total of cash outflows		-85,594,182	-56,909,764
Net cash inflow from operating activities	5(49(a)1)	4,243,832	3,703,542
Cash flows from investing activities:			
Cash received from disposal of investments		700,000	506,144
Cash received from investment income		89,817	116,713
Net cash received from disposal of fixed assets and other long-term assets		66,347	139,666
Cash received relating to other investing activities	5(48(c))	37,375	19,405
Sub-total of cash inflows		893,539	781,928
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets		-1,356,845	-2,120,292
Cash paid for acquisition of investments		-	-837,008
Sub-total of cash outflows		-1,356,845	-2,957,300
Net cash outflow from investing activities		-463,306	-2,175,372

The notes on pages 179 to 285 form part of these financial statements.

For the year ended 31 December 2010
(Prepared under China Accounting Standards for Business Enterprises)

Expressed in thousands of Renminbi Yuan

	Note	2010	2009
Cash flows from financing activities:			
Cash received from issuance of corporate bonds		1,000,000	1,000,000
Cash received from borrowings		39,355,780	29,211,434
Sub-total of cash inflows		40,355,780	30,211,434
Cash repayments of corporate bonds		-1,000,000	-
Cash repayments of borrowings		-42,631,344	-31,849,620
Cash paid for dividends, profits distribution and interest		-530,413	-391,750
Sub-total of cash outflows		-44,161,757	-32,241,370
Net cash outflow from financing activities		-3,805,977	-2,029,936
Effect of foreign exchange rate changes on cash and cash equivalents		-356	-2
Net decrease in cash and cash equivalents	5(49(a)2)	-25,807	-501,768
Add: cash and cash equivalents at the beginning of the year		125,917	627,685
Cash and cash equivalents at the end of the year	5(49(b))	100,110	125,917

These financial statements have been approved by the Board of Directors of the Company on 25 March 2011.

Rong Guangdao
Chairman

Wang Zhiqing
Vice Chairman and President

Ye Guohua
Chief Financial Officer

The notes on pages 179 to 285 form part of these financial statements.

Cash Flow Statement

For the year ended 31 December 2010
(Prepared under China Accounting Standards for Business Enterprises)

Expressed in thousands of Renminbi Yuan

	Note	2010	2009
Cash flows from operating activities:			
Cash received from sale of goods and rendering of services		77,399,856	51,363,653
Cash received relating to other operating activities		48,612	21,591
Sub-total of cash inflows		77,448,468	51,385,244
Cash paid for goods and services		-62,628,799	-41,785,107
Cash paid to and for employees		-1,975,043	-1,660,564
Cash paid for all types of taxes		-8,299,060	-3,968,696
Cash paid relating to other operating activities		-398,302	-278,725
Sub-total of cash outflows		-73,301,204	-47,693,092
Net cash inflow from operating activities	11(30(a)1)	4,147,264	3,692,152
Cash flows from investing activities:			
Cash received from disposal of investments		700,000	375,103
Cash received from investment income		200,634	118,690
Net cash received from disposal of fixed assets and other long-term assets		-	134,752
Cash received relating to other investing activities		29,583	14,809
Sub-total of cash inflows		930,217	643,354
Cash paid for acquisition of fixed assets and other long-term assets		-1,341,450	-2,019,017
Net cash paid for disposal of fixed assets		-3,915	-
Cash paid relating to other investing activities		-	-700,000
Sub-total of cash outflows		-1,345,365	-2,719,017
Net cash outflow from investing activities		-415,148	-2,075,663

The notes on pages 179 to 285 form part of these financial statements.

Cash Flow Statement (continued)

For the year ended 31 December 2010
(Prepared under China Accounting Standards for Business Enterprises)

Expressed in thousands of Renminbi Yuan

	Note	2010	2009
Cash flows from financing activities:			
Cash received from issuance of corporate bonds		1,000,000	1,000,000
Cash received from borrowings		39,281,980	29,062,964
Sub-total of cash inflows		40,281,980	30,062,964
Cash repayments of corporate bonds		-1,000,000	-
Cash repayments of borrowings		-42,577,314	-31,535,502
Cash paid for dividends, profits distribution and interest		-448,283	-337,659
Sub-total of cash outflows		-44,025,597	-31,873,161
Net cash outflow from financing activities		-3,743,617	-1,810,197
Effect of foreign exchange rate changes on cash and cash equivalents		-351	-2
Net decrease in cash and cash equivalents	11(30(a)2)	-11,852	-193,710
Add: cash and cash equivalents at the beginning of the year		101,076	294,786
Cash and cash equivalents at the end of the year	11(30(b))	89,224	101,076

These financial statements have been approved by the Board of Directors of the Company on 25 March 2011.

Rong Guangdao
Chairman

Wang Zhiqing
Vice Chairman and President

Ye Guohua
Chief Financial Officer

The notes on pages 179 to 285 form part of these financial statements.

Expressed in thousands of Renminbi Yuan

	Note	2010							2009					
		Attributable to equity shareholders of the Company					Minority interests	Total	Attributable to equity shareholders of the Company				Minority interests	Total
		Share capital	Capital reserve	Specific reserve	Surplus reserve	Retained earnings			Share capital	Capital reserve	Surplus reserve	Retained earnings		
Balance at 1 January		7,200,000	2,882,278	-	4,801,766	462,029	294,285	15,640,358	7,200,000	2,939,181	4,766,408	-1,064,218	264,353	14,105,724
Changes in equity for the year														
1. Net profit for the year		-	-	-	-	2,703,734	25,358	2,729,092	-	-	-	1,561,605	64,471	1,626,076
2. Other comprehensive income for the year	5(47)	-	-	-	-	-	-	-	-	-82,903	-	-	-	-82,903
Sub-total of 1&2		-	-	-	-	2,703,734	25,358	2,729,092	-	-82,903	-	1,561,605	64,471	1,543,173
3. Shareholders' contributions and decrease of capital														
- Government grants	5(31)	-	-	-	-	-	-	-	-	26,000	-	-	-	26,000
- Refund of harbour construction charge	5(31)	-	32,485	-	-	-	-	32,485	-	-	-	-	-	-
4. Appropriation of profits														
- Surplus reserve	5(33)	-	-	-	279,548	-279,548	-	-	-	-	35,358	-35,358	-	-
- Distribution to shareholders	5(34)	-	-	-	-	-216,000	-59,790	-275,790	-	-	-	-	-34,539	-34,539
5. Specific reserve														
- Accrued	5(32)	-	-	100,518	-	-	-	100,518	-	-	-	-	-	-
- Utilised	5(32)	-	-	-53,770	-	-	-	-53,770	-	-	-	-	-	-
Balance at 31 December		7,200,000	2,914,763	46,748	5,081,314	2,670,215	259,853	18,172,893	7,200,000	2,882,278	4,801,766	462,029	294,285	15,640,358

These financial statements have been approved by the Board of Directors of the Company on 25 March 2011.

Rong Guangdao	**Wang Zhiqing**	**Ye Guohua**
Chairman	Vice Chairman and President	Chief Financial Officer

The notes on pages 179 to 285 form part of these financial statements.

Expressed in thousands of Renminbi Yuan

	Note	2010						2009				
		Share capital	Capital reserve	Specific reserve	Surplus reserve	Retained earnings	Total	Share capital	Capital reserve	Surplus reserve	Retained earnings	Total
Balance at 1 January		7,200,000	2,882,278	-	4,801,766	318,224	15,202,268	7,200,000	2,930,412	4,766,408	-1,022,598	13,874,222
Changes in equity for the year												
1. Net profit for the year		-	-	-	-	2,795,478	2,795,478	-	-	-	1,376,180	1,376,180
2. Other comprehensive income for the year	11(29)	-	-	-	-	-	-	-	-74,134	-	-	-74,134
Sub-total of 1&2		-	-	-	-	2,795,478	2,795,478	-	-74,134	-	1,376,180	1,302,046
3. Shareholders' contributions and decrease of capital												
- Government grants	5(31)	-	-	-	-	-	-	-	26,000	-	-	26,000
- Refund of harbour construction charge	5(31)	-	32,485	-	-	-	32,485	-	-	-	-	-
4. Appropriation of profits												
- Surplus reserve	5(33)	-	-	-	279,548	-279,548	-	-	-	35,358	-35,358	-
- Distribution to shareholders	5(34)	-	-	-	-	-216,000	-216,000	-	-	-	-	-
5. Specific reserve												
- Accrued	11(20)	-	-	94,481	-	-	94,481	-	-	-	-	-
- Utilised	11(20)	-	-	-51,101	-	-	-51,101	-	-	-	-	-
Balance at 31 December		7,200,000	2,914,763	43,380	5,081,314	2,618,154	17,857,611	7,200,000	2,882,278	4,801,766	318,224	15,202,268

These financial statements have been approved by the Board of Directors of the Company on 25 March 2011.

Rong Guangdao	**Wang Zhiqing**	**Ye Guohua**
Chairman	Vice Chairman and President	Chief Financial Officer

The notes on pages 179 to 285 form part of these financial statements.

1. Company status

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

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

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

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

Details of the Company's principal subsidiaries are set out in Note 4 "Business combination and consolidated financial statements".

2. Significant accounting policies and accounting estimates

(1) Basis of preparation of the financial statements

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

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

The financial statements have been prepared in accordance with the requirements of "Accounting Standards for Business Enterprises-Basic Standard" and 38 Specific Standards issued by the Ministry of Finance ("MOF") of the People's Republic of China ("PRC") on 15 February 2006, and application guidance, bulletins and other relevant accounting regulations issued subsequently (collectively referred to as "Accounting Standards for Business Enterprises" or "CAS"). These financial statements present truly and completely the consolidated financial position and financial position, the consolidated results of operations and results of operations and the consolidated cash flows and cash flows of the Company.

These financial statements also comply with the disclosure requirements of "Regulation on the Preparation of Information Disclosures of Companies Issuing Public Shares, No. 15: General Requirements for Financial Reports" as revised by the China Securities Regulatory Commission ("CSRC") in 2010.

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

(3) Accounting year

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

(4) Functional currency

The Company's functional currency is Renminbi. These financial statements are presented in Renminbi.

(5) Accounting treatment of business combinations involving enterprises under and not under common control

(a) Business combinations involving enterprises under common control

A business combination involving enterprises under common control is a business combination in which all of the combining enterprises are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory. The assets and liabilities obtained are measured at the carrying amounts as recorded by the enterprise being combined at the combination date. The difference between the carrying amount of the net assets obtained and the carrying amount of consideration paid for the combination (or the total face value of shares issued) is adjusted to share premium in the capital reserve. If the balance of share premium is insufficient, any excess is adjusted to retained earnings. The combination date is the date on which one combining enterprise effectively obtains control of the-other combing enterprises.

(b) Business combination involving enterprises not under common control

A business combination involving enterprises not under common control is a business combination in which all of the combining enterprises are not ultimately controlled by the same party or parties both before and after the business combination. Where 1) the aggregate of the fair value at the acquisition date of assets transferred (including the acquirer's previously held equity interest in the acquiree), liabilities incurred or assumed, and equity securities issued by the acquirer, in exchange for control of the acquiree, exceeds 2) the acquirer's interest in the fair value of the acquiree's identifiable net assets, the difference is recognised as goodwill. Where 1) is less than 2), the difference is recognised in profit or loss for the current period. The costs of the issuance of equity or debt securities as a part of the consideration paid for the acquisition are included as a part of initial recognition amount of the equity or debt securities. Other acquisition-related costs arising from the business combination are recognised as expenses in the periods in which the costs are incurred. The difference between the fair value and the carrying amount of the assets transferred is recognised in profit or loss. The acquisition date is the date on which the acquirer effectively obtains control of the acquiree.

The acquirer, at the acquisition date, allocates the cost of the business combination by recognising the acquiree's identifiable asset, liabilities and contingent liabilities at their fair value at that date.

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

(5) Accounting treatment of business combinations involving enterprises under and not under common control *(continued)*

(b) Business combination involving enterprises not under common control *(continued)*

In a business combination, the acquiree's deductible temporary differences obtained by the Group are not recognised if the deductible temporary differences do not satisfy the criteria for recognition of deferred tax assets at the acquisition date. The Group recognises the relevant deferred tax assets and reduces goodwill accordingly if within 12 months of the acquisition date, new or updated information indicates that at the acquisition date, the obtained deferred tax benefit is expected to be realised in future periods. If the goodwill is insufficient to be deducted, any remaining deferred tax benefits shall be recognised in profit or loss for the current period. All other acquired deferred tax benefit shall be included in profit or loss for the current period.

(6) Preparation of consolidated financial statements

The consolidated financial statements comprise the Company and its subsidiaries. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its operating activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Where a subsidiary was acquired during the reporting period through a business combination involving enterprises under common control, the financial statements of the subsidiary are included in the consolidated financial statements as if the combination had occurred at the date that the ultimate controlling party first obtained control. Therefore the opening balances and the comparative figures of the consolidated financial statements are restated. In the preparation of the consolidated financial statements, the subsidiary's assets, liabilities and results of operations are included in the consolidated balance sheet and the consolidated income statement, respectively, based on their carrying amounts, from the date that common control was established.

Where a subsidiary was acquired during the reporting period, through a business combination involving enterprises not under common control, the identifiable assets, liabilities and results of operations of the subsidiaries are consolidated into consolidated financial statements from the date that control commences, base on the fair value of those identifiable assets and liabilities at the acquisition date.

For a business combination not involving enterprises under common control and achieved in stages, the Group remeasures its previously-held equity interest in the acquiree to its fair value at the acquisition date. The difference between the fair value and the carrying amount is recognised as investment income for the current period; the amount recognised in other comprehensive income relating to the previously-held equity interest in the acquiree is reclassified as investment income for the current period.

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

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

Where the Company acquires a minority interest from a subsidiary's minority shareholders or disposes of a portion of an interest in a subsidiary without a change in control, the difference between the amount by which the minority interests are adjusted and the amount of the consideration paid or received is adjusted to the capital reserve in the consolidated balance sheet. If the credit balance of capital reserve is insufficient, any excess is adjusted to retained earnings.

When the Group loses control of a subsidiary due to the disposal of a portion of an equity investment, the remaining equity investment is remeasured at its fair value at the date when control is lost. The difference between 1) the total amount of consideration received from the transaction that resulted in the loss of control and the fair value of the remaining equity investment and 2) the carrying amounts of the interest in the former subsidiary's net assets immediately before the loss of the control is recognised as investment income for the current period when control is lost. The amount recognised in other comprehensive income in relation to the former subsidiary's equity investment is reclassified as investment income for the current period when control is lost.

Minority interest is presented separately in the consolidated balance sheet within shareholders' equity. Net profit or loss attributable to minority shareholders is presented separately in the consolidated income statement below the net profit line item.

When the amount of loss for the current period attributable to the minority shareholders of a subsidiary exceeds the minority shareholders' portion of the opening balance of shareholders' equity of the subsidiary, the excess is allocated against the minority interests.

When the accounting period or accounting policies of a subsidiary are different from those of the Company, the Company makes necessary adjustments to the financial statements of the subsidiary based on the Company's own accounting period or accounting policies. Intra-group balances and transactions, and any unrealised profit or loss arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealized gains but only to the extent that there is no evidence of impairment.

(7) Cash and cash equivalents

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

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

(8) Translation of foreign currencies

When the Group receives capital in foreign currencies from investors, the capital is translated to Renminbi at the spot exchange rate at the date of the receipt. Other foreign currency transactions are, on initial recognition, translated to Renminbi at the spot exchange rates on the dates of the transactions.

A spot exchange rate is an exchange rate quoted by the People's Bank of China.

Monetary items denominated in foreign currencies are translated to Renminbi at the spot exchange rate at the balance sheet date. The resulting exchange differences are recognised in profit or loss, except those arising from the principal and interest on foreign currency borrowings specifically for the purpose of acquisition, construction of qualifying assets (see Note 2(16)). Non-monetary items denominated in foreign currencies that are measured at historical cost are translated to Renminbi using the foreign exchange rate at the transaction date. Non-monetary items denominated in foreign currencies that are measured at fair value are translated using the foreign exchange rate at the date the fair value is determined; the exchange differences are recognised in profit or loss, except for the differences arising from the translation of available-for-sale financial assets, which are recognised in capital reserve.

(9) Financial instruments

Financial instruments include cash at bank and on hand, financial assets held for trading, receivables, payables, available-for-sale financial assets, loans and borrowings, short-term debentures payable and share capital.

(a) Classification, recognition and measurement of financial assets and financial liabilities

A financial asset or financial liability is recognised in the balance sheet when the Group becomes a party to the contractual provisions of a financial instrument.

The Group classifies financial assets and liabilities into different categories at initial recognition based on the purpose of acquiring assets or assuming liabilities: financial assets and financial liabilities at fair value through profit or loss, loans and receivables, available-for-sale financial assets and other financial liabilities.

Financial assets and financial liabilities are measured initially at fair value. For financial assets and financial liabilities at fair value through profit or loss, any directly attributable transaction costs are charged to profit or loss; for other categories of financial assets and financial liabilities, any directly attributable transaction costs are included in their initial costs. Subsequent to initial recognition, financial assets and liabilities are measured as follows:

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

(9) Financial instruments *(continued)*

(a) Classification, recognition and measurement of financial assets and financial liabilities *(continued)*

- Financial assets and financial liabilities at fair value through profit or loss (including financial assets or financial liabilities held for trading)

  A financial asset or financial liability is classified as at fair value through profit or loss if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term or if it is a derivative, unless the derivative is a designated and effective hedging instrument.

  Subsequent to initial recognition, financial assets and financial liabilities at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

- Receivables

  Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

  Subsequent to initial recognition, receivables are stated at amortised cost using the effective interest method.

- Available-for-sale financial assets

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

  An investment in equity instrument which does not have a quoted market price in an active market and whose fair value cannot be reliably measured is measured at cost subsequent to initial recognition.

  Other than investments in equity instruments whose fair value cannot be measured reliably as described above, subsequent to initial recognition, other available-for-sale financial assets are measured at fair value and changes therein, except for impairment losses and foreign exchange gains and losses from monetary financial assets, which are recognised directly in profit or loss, are recognised directly in equity. When an investment is derecognised, the cumulative gain or loss in equity is removed from equity and recognised in profit or loss. Dividend income from these equity instruments is recognised in profit or loss when the investee declares the dividends. Interest on available-for-sale financial assets calculated using the effective interest method is recognised in profit or loss (see Note 2(21)(c)).

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

(9) Financial instruments *(continued)*

(a) Classification, recognition and measurement of financial assets and financial liabilities *(continued)*

- Other financial liabilities

  Financial liabilities other than the financial liabilities at fair value through profit or loss are classified as other financial liabilities.

  Other financial liabilities include the liabilities arising from financial guarantee contracts. Financial guarantees are contracts that require the Group (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the holder) for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Where the Group issues a financial guarantee, subsequent to initial recognition, the guarantee is measured at the higher of the amount initially recognised less accumulated amortisation and the amount of a provision determined in accordance with the principles of contingent liabilities (see Note 2(20)).

  Except for the other financial liabilities described above, subsequent to initial recognition, other financial liabilities are measured at amortised cost using the effective interest method.

In the balance sheet, financial assets and financial liabilities are separately disclosed and not offset unless all of the following conditions are met :

- the Group has a legally enforceable right to offset financial assets against financial liabilities, and
- the Group intends to settle the financial assets and liabilities on a net basis, or to realise the assets and settle the liabilities simultaneously.

(b) Determination of fair values

If there is an active market for a financial asset or financial liability, the quoted price in the active market without adjusting for transaction costs that may be incurred upon future disposal or settlement is used to establish the fair value of the financial asset or financial liability. For a financial asset held or a financial liability to be assumed, the quoted price is the current bid price and, for a financial asset to be acquired or a financial liability assumed, it is the current asking price.

If no active market exists for a financial instrument, a valuation technique is used to establish the fair value. Valuation techniques include reference to the current fair value of another instrument that is substantially the same. The Group calibrates the valuation technique and tests it for validity periodically.

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

(9) Financial instruments *(continued)*

(c) Derecognition of financial assets and financial liabilities

A financial asset is derecognised if the Group's contractual rights to the cash flows from the financial asset expire or if the Group transfers substantially all the risks and rewards of ownership of the financial asset to another party.

Where a transfer of a financial asset in its entirely meets the criteria for derecognition, the difference between the two amounts below is recognised in profit or loss:

- carrying amount of the financial asset transferred

- the sum of the consideration received from the transfer and any cumulative gain or loss that has been recognised directly in shareholders' equity.

The Group derecognises a financial liability (or part of it) only when the underlying present obligation (or part of it) is discharged.

(d) Impairment of financial assets

The carrying amounts of financial assets (other than those at fair value through profit or loss) are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Impairment loses are recognised when there has been objective evidence of impairment.

Objective evidence of impairment comes to the attention of the Group about one or more of the following loss events:

(a) significant financial difficulty of the debtor or obligor;
(b) a breach of contract, such as a default or delinquency in interest or principal payments;
(c) it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;
(d) the disappearance of an active market for that financial asset because of financial difficulties;
(e) significant changes in the technological, market, economic on legal environment that have an adverse effect on the debtor, and indicates that the cost of an investment in an equity instrument may not be recovered;
(f) a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

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

(9) Financial instruments *(continued)*

(d) Impairment of financial assets *(continued)*

The impairment of receivables is described in Note 2(10), and the impairment of other financial assets is as follows:

- Available-for-sale financial assets

  Available-for-sale financial assets are assessed for impairment on an individual basis. When an available-for-sale financial asset is impaired, the cumulative loss arising from decline in fair value that has been recognised directly in equity is removed from equity and recognised in profit or loss even though the financial asset has not been derecognised.

  If, after an impairment loss has been recognised on an available-for-sale debt instrument, the fair value of the debt instrument increases in a subsequent period and the increase can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. An impairment loss recognised for an investment in an equity instrument classified as available-for-sale is not reversed through profit or loss.

(e) Equity instrument

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

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

(10) Impairment of receivables

Receivables are assessed for impairment both on an individual basis and on a collective group basis.

Where impairment is assessed on an individual basis, an impairment loss in respect of receivables is calculated as the excess of its carrying amount over the present value of the estimated future cash flows (exclusive of future credit losses that have not been incurred) discounted at the original effective interest rate. All impairment losses are recognised in profit or loss.

The assessment is made collectively where receivables share similar credit risk characteristics (including those having not been individually assessed as impaired), based on their historical loss experiences, and adjusted by the observable factors reflecting present economic conditions.

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

(10) Impairment of receivables *(continued)*

If, after an impairment loss has been recognised on receivables, there is objective evidence of recovery in value of the financial asset which can be related objectively to an event occurring after the impairment was recognised impairment loss is reversed through profit or loss. A reversal of an impairment loss will not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

(a) Accounts receivable that are individually significant and assessed individually for impairment:

Individually significant receivables are assessed for impairment on an individual basis.

Judgement basis or amount criteria of provision for bad and doubtful debts for individually significant receivables	An impairment loss is recognised on receivables if there is objective evidence of difficulty in collection in original terms.
Method of provision for bad and doubtful debts	An impairment loss is provided if its carrying amount exceeds the present value of the estimated future cash flows (exclusive of future credit losses that have not been incurred) discounted at the original effective interest rate.

(b) Accounts receivable that are individually insignificant but assessed individually for impairment:

Reason for provision for bad and doubtful debts for individually insignificant receivables	Receivables which are overdue more than 1 year or with special characteristics.
Method of provision for bad and doubtful debts	An impairment loss is provided if its carrying amount exceeds the present value of the estimated future cash flows (exclusive of future credit losses that have not been incurred) discounted at the original effective interest rate.

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

(10) Impairment of receivables *(continued)*

(c) Accounts receivable that are collectively assessed for impairment:

For receivables in (a) and (b) without objective evidence of impairment after assessment for impairment on an individual basis, the Group performs the impairment test on a collective basis by categorising them into the groups with similar credit risk feature, and then adopt ageing analysis and provide provisions for bad and doubtful debts at the percentage shown below:

Age	Provision proportion of accounts receivables (%)	Provision proportion of other receivables (%)
Within one year	-	-
1-2 year (inclusive)	30%	30%
2-3 year (inclusive)	60%	60%
Over 3 year	100%	100%

(11) Inventories

(a) Categories of inventories

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

(b) Measurement of cost of inventories

Cost of inventories is calculated using the weighted average method.

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

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

Cost of inventories comprises all costs of purchase, costs of conversion and other costs. Inventories are initially measured at their actual cost. In addition to the purchasing cost of raw materials, work in progress and finished goods include direct labour costs and an appropriate allocation of production overheads.

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

(11) Inventories *(continued)*

(c) Determination of net realisable value and method of provision for diminution in the value of inventories *(continued)*

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

Any excess of the cost over the net realisable value of each item of inventories is recognised as a provision for diminution in the value of inventories.

(d) Inventory counting system

The Group maintains a perpetual inventory system.

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

Reusable materials (including low-value consumables, packaging materials, etc.) are amortised in full when received for use. The amounts of the amortisation are included in the cost of the related assets or profit or loss.

(12) Long-term equity investments

(a) Determination of initial investment cost

- Long-term equity investments acquired through a business combination

  The initial investment cost of a long-term equity investment obtained through a business combination involving enterprises under common control is the Company's share of the subsidiary's equity at the combination date. The difference between the initial investment cost and the carrying amounts of the consideration given is adjusted to share premium (capital premium) in capital reserve. If the balance of the share premium (capital premium) is insufficient, any excess is adjusted to retained earnings.

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

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

(a) Determination of initial investment cost *(continued)*

For a long-term equity investment obtained through a business combination not involving enterprises under common control and achieved in stages, the initial cost comprises the carrying value of previously-held equity investment in the acquiree immediately before the acquisition date, and the additional investment cost at the acquisition date. Any amounts recognised in other comprehensive income relating to the previously-held equity interest in the acquiree, are reclassified to profit or loss as investment income when the equity investment is disposed of.

For other long-term equity investments obtained through business combinations involving enterprises not under common control, the initial investment cost represents the aggregate of the fair values of assets transferred, liabilities assumed, and equity securities issued by the Company, in exchange for control of the acquiree.

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

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

(b) Subsequent measurement

- Investments in subsidiaries

In the Company's separate financial statements, long-term equity investments in subsidiaries are accounted for using the cost method. Except for cash dividends or profits distribution declared but not yet distributed that have been included in the price or consideration paid in obtaining the investments, the Company recognises its share of the cash dividends or profit distributions declared by the investee as investment income irrespective of whether these represent the net profit realised by the investee before or after the investment. The investments in subsidiaries are stated in the balance sheet at cost less impairment losses.

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

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

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

(b) Subsequent measurement *(continued)*

- Investment in jointly controlled enterprises and associates

A jointly controlled enterprise is an enterprise which operates under joint control in accordance with a contractual agreement between the Group and other parties (see Note 2(12) (c)).

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

An investment in a jointly controlled enterprise or an associate is accounted for using the equity method unless the investment is classified as held for sale (see Note 2(25)).

The Group makes the following accounting treatments when using the equity method:

- Where the initial investment cost of a long-term equity investment exceeds the Group's interest in the fair value of the investee's identifiable net assets at the date of acquisition, the investment is initially recognised at the initial investment cost. Where the initial investment cost is less than the Group's interest in the fair value of the investee's identifiable net assets at the date of acquisition, the investment is initially recognised at the investor's share of the fair value of the investee's identifiable net assets, and the difference is charged to profit or loss.

- After the acquisition of the investment in a jointly controlled enterprise or an associate, the Group recognises its share of the investee's profit or loss as investment income or losses, and adjusts the carrying amount of the investment accordingly. Once the investee declares any cash dividends or profits distributions, the carrying amount of the investment is reduced by that amount attributable to the Group.

  The Group recognises its share of the investee's net profits or losses after making appropriate adjustments to align the accounting policies or accounting periods with those of the Group based on the fair values of the investee's identifiable net assets at the date of acquisition. Unrealised profits and losses resulting from transactions between the Group and its associates or jointly controlled enterprises are eliminated to the extent of the Group's interest in the associates or jointly controlled enterprises. Unrealised losses resulting from transactions between the Group and its associates or jointly controlled enterprises are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

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

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

(b) Subsequent measurement *(continued)*

- The Group discontinues recognising its share of net losses of the investee after the carrying amount of the long-term equity investment and any long-term interest that in substance forms part of the Group's net investment in the associate or the jointly controlled enterprise is reduced to zero, except to the extent that the Group has an obligation to assume additional losses. Where net profits are subsequently made by the associate or jointly controlled enterprise, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

- Other long-term equity investments

Other long-term equity investments refer to investments where the Group does not have control, joint control or significant influence over the investees, and the investments are not quoted in an active market and their fair value cannot be reliably measured.

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

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

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

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

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

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

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

Significant influence is the power to participate in the financial and operating policy decisions of an investee but is not control or joint control over those policies. The Group often considers the following factors when determining whether the Group has significant influence over the investee:

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

(d) Impairment of long-term equity investments

The Group makes provision for impairment loss of investments in jointly controlled enterprises and associates (see Note 2(19)).

The carrying amounts of other long-term equity investments are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, other long-term equity investments are assessed for impairment on an individual basis. The amount of the impairment loss is measured as the difference between the carrying amount of the investment and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss is not reversed. Other long-term equity investments are stated at cost less impairment losses in the balance sheet.

(13) Investment property

Investment property is a property held either to earn rental income or for capital appreciation or for both. Investment property is accounted for using the cost model and stated in the balance sheet at cost less accumulated depreciation and impairment losses (see Note 2(19)). Investment property is depreciated using the straight-line method over its estimated useful life, unless the investment property is classified as held for sale (see Note 2(25)). For method of impairment assessment and the basis on which the impairment is provided are described in Note 2(19).

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

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

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

(14) Fixed assets

(a) Recognition of fixed assets

Fixed assets represent the tangible assets held by the Group for use in the production of goods or supply of services or for operation and administrative purposes with useful lives over one year.

The cost of a purchased fixed asset comprises the purchase price, related taxes, and any directly attributable expenditure for bringing the asset to working condition for its intended use. The determination of initial cost of self-constructed assets is described in Note 2(15).

Where parts of an item of fixed assets have different useful lives or provide benefits to the Group in different pattern thus necessitating use of different depreciation rates or methods, each part is recognised as a separate fixed asset.

The subsequent costs including the cost of replacing part of an item of fixed assets are recognised in the carrying amount of the item if the recognition criteria are satisfied, and the carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of fixed assets are recognised in profit or loss as incurred.

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

(b) Depreciation of fixed assets

Fixed assets are depreciated using the straight-line method over their estimated useful lives, unless the fixed asset is classified as held for sale (see Note 2(25)). The estimated useful lives, residual values and depreciation rates of each class of fixed assets are as follows:

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

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

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

(14) Fixed assets *(continued)*

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

(d) Disposal of fixed assets

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

- on disposal; or

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

Gains or losses arising from the retirement or disposal of an item of fixed asset are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

(15) Construction in progress

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

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

(16) Borrowing costs

Borrowing costs incurred directly attributable to the acquisition, construction or of a qualifying asset are capitalised as part of the cost of the asset.

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

During the capitalisation period, the amount of interest (including amortisation of any discount or premium on borrowing) to be capitalised in each accounting period is determined as follows:

- Where funds are borrowed specifically for the acquisition, construction of a qualifying asset, the amount of interest to be capitalised is the interest expense calculated using effective interest rates during the period less any interest income earned from depositing the borrowed funds or any investment income on the temporary investment of those funds before being used on the asset.

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

(16) Borrowing costs *(continued)*

- Where funds are borrowed generally and used for the acquisition, construction of a qualifying asset, the amount of interest to be capitalised on such borrowings is determined by applying a capitalisation rate to the weighted average of the excess amounts of cumulative expenditures on the asset over the above amounts of specific borrowings. The capitalisation rate is the weighted average of the interest rates applicable to the general-purpose borrowings.

The effective interest rate is determined as the rate that exactly discounts estimated future cash flow through the expected life of the borrowing or, when appropriate, a shorter period to the initially recognised amount of the borrowings.

During the capitalisation period, exchange differences related to the principal and interest on a specific-purpose borrowing denominated in foreign currency are capitalised as part of the cost of the qualifying asset. The exchange differences related to the principal and interest on foreign currency borrowings other than a specific-purpose borrowing are recognised as a financial expense in the period in which they are incurred.

The capitalisation period is the period from the date of commencement of capitalisation of borrowing costs to the date of cessation of capitalisation, excluding any period over which capitalisation is suspended. Capitalisation of borrowing costs commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities of acquisition, construction that are necessary to prepare the asset for its intended use are in progress, and ceases when the assets become ready for their intended use. Capitalisation of borrowing costs is suspended when the acquisition, construction activities are interrupted abnormally and the interruption lasts for more than three months.

(17) Intangible assets

Intangible assets are stated in the balance sheet at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see Note 2(19)). For an intangible asset with finite useful life, its cost less residual value and impairment loss is amortised on a straight-line basis over its estimated useful lives, unless the intangible asset is classified as held for sale (see Note 2 (25)). The respective amortisation periods for such intangible assets are as follows:

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

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

(18) Long-term deferred expenses

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

Item	Amortisation period (years)
Catalyst	1-3

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

The carrying amounts of the following assets are reviewed at each balance sheet date based on the internal and external sources of information to determine whether there is any indication of impairment:

- fixed assets
- construction in progress
- intangible assets
- investment property measured using a cost model
- long-term equity investments in subsidiaries, associates and jointly controlled entities

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

The recoverable amount of an asset, asset group or set of asset groups is the higher of its fair value less costs to sell and its present value of expected future cash flows.

An asset group is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or asset groups. An asset group is composed of assets directly relating to cash-generation. Identification of an asset group is based on whether major cash inflows generated by the asset group are largely independent of the cash inflows from other assets or asset groups. In identifying an asset group, the Group also considers how management monitors the Group's operations and how management makes decisions about continuing or disposing of the Group's assets.

An asset's fair value less costs to sell is the amount determined by the price of a sale agreement in an arm's length transaction, less the costs that are directly attributable to the disposal of the asset. The present value of expected future cash flows of an asset is determined by discounting the future cash flows, estimated to be derived from continuing use of the asset and from its ultimate disposal, to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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

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

If the result of the recoverable amount calculation indicates the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is recognised as an impairment loss and charged to profit or loss for the current period. A provision for impairment loss of the asset is recognised accordingly. For impairment losses related to an asset group or a set of asset groups, first reduce the carrying amount of any goodwill allocated to the asset group or set of asset groups, and then reduce the carrying amount of the other assets in the asset group or set of asset groups on a pro rata basis. However, the carrying amount of an impaired asset will not be reduced below the highest of its individual fair value less costs to sell (if determinable), the present value of expected future cash flows (if determinable) and zero.

Once an impairment loss is recognised, it is not reversed in a subsequent period.

(20) Provisions

A provision is for an obligation related to a contingency if the Group has a present obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Where the effect of time value of money is material, provisions are determined by discounting the expected future cash flows.

(21) Revenue recognition

Revenue is the gross inflow of economic benefit arising in the course of the Group's ordinary activities when the inflows result in increase in shareholder's equity, other than increase relating to contributions from shareholders. Revenue is recognised in profit or loss when it is probable that the economic benefits will flow to the Group, the revenue and costs can be measured reliably and the following respective conditions are met:

(a) Sale of goods

Revenue from sale of petroleum and chemical products is recognised when all of the general conditions stated above and following conditions are satisfied:

- The significant risks and rewards of ownership of goods have been transferred to the buyer;

- The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable under the sales contract or agreement.

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

(21) Revenue recognition *(continued)*

(b) Rendering of services

The Group provides pipeline transportation services to customers. Revenue from rendering of services is measured at the fair value of the consideration received or receivable under the contract or agreement.

At the balance sheet date, where the outcome of a transaction involving the rendering of services can be estimated reliably, revenue from the rendering of services is recognised in the income statement by reference to the stage of completion of the transaction based on the proportion of services performed to date to the total services to be performed.

Where the outcome of rendering of services cannot be estimated reliably, if the costs incurred are expected to be recoverable, revenues are recognised to the extent of the costs incurred that are expected to be recoverable, and an equivalent amount is charged to profit or loss as service cost; if the costs incurred are not expected to be recoverable, the costs incurred are recognised in profit or loss and no service revenue is recognised.

(c) Interest income

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

(22) Employee benefits

Employee benefits are all forms of consideration given and other relevant expenditures incurred in exchange for services rendered by employees. Except for termination benefits, employee benefits are recognised as a liability in the period in which the associated services are rendered by employees, with a corresponding increase in cost of relevant assets or expenses in the current period.

(a) Pension benefits

Pursuant to the relevant laws and regulations of the PRC, the Group has joined a basic pension insurance for the employees arranged by local Labour and Social Security Bureaus. The Group makes contributions to the pension insurance at the applicable rates based on the amounts stipulated by the government organisation. The contributions are charged to capital cost or profit or loss on an accrual basis. When employees retire, the local Labour and Social Security Bureaus are responsible for the payment of the basic pension benefits to the retired employees.

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

(22) Employee benefits *(continued)*

(b) Housing fund and other social insurance

In addition to the pension benefits, pursuant to the relevant laws and regulations of the PRC, the Group has joined defined social security contributions for employees, such as a housing fund, basic medical insurance, unemployment insurance, injury insurance and maternity insurance. The Group makes contributions to the housing fund and other social insurance mentioned above at the applicable rate(s) based on the employees' salaries. The contributions are recognised as cost of assets or charged to profit or loss on an accrual basis.

(c) Termination benefits

When the Group terminates the employment relationship with employees before the employment contracts have expired, or provides compensation as an offer to encourage employees to accept voluntary redundancy, a provision for the termination benefits provided, is recognised in profit or loss when both of the following conditions have been satisfied:

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

- The Group is not allowed to withdraw from termination plan or redundancy offer unilaterally.

(23) Government grants

Government grants are transfers of monetary assets or non-monetary assets from the government to the Group at no consideration except for any capital contribution from the government as an investor in the Group. Special funds such as investment grants allocated by the government, if clearly defined in official documents as part of "capital reserve" are dealt with as capital contributions, and not regarded as government grants.

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

If a government grant is in the form of a transfer of a monetary asset, it is measured at the amount that is received or receivable. If a government grant is in the form of a transfer of a non-monetary asset, it is measured at its fair value.

A government grant related to an asset is recognised initially as deferred income and amortised to profit or loss on a straight-line basis over the useful life of the asset. A grant that compensates the Group for expenses to be incurred in the subsequent periods is recognised initially as deferred income and recognised in profit or loss in the same periods in which the expenses are recognised. A grant that compensates the Group for expenses incurred is recognised in profit or loss immediately.

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

(24) Deferred tax assets and liabilities

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases, which include the deductible losses and tax credits carried forward to subsequent periods. Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax is not recognised for the temporary differences arising from the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting profit nor taxable profit (or tax loss). Deferred tax is not recognised for taxable temporary differences arising from the initial recognition of goodwill.

At the balance sheet date, the amount of deferred tax recognised is measured based on the expected manner of recovery or settlement of the carrying amount of the assets and liabilities, using tax rates that are expected to be applied in the period when the asset is recovered or the liability is settled in accordance with tax laws.

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

At the balance sheet date, deferred tax assets and liabilities are offset if all the following conditions are met:

- the taxable entity has a legally enforceable right to offset current tax liabilities and assets, and

- they relate to income taxes levied by the same tax authority on either:
  - the same taxable entity; or
  - different taxable entities which intend either to settle the current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

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

(25) Assets held for sale

A non-current asset is classified as held for sale when the Group has made a decision and signed a non-cancellable agreement on the transfer of the asset with the transferee, and the transfer is expected to be completed within one year. Such non-current assets may be fixed assets, intangible assets, investment property subsequently measured using the cost model, long-term equity investment, etc., but not include deferred tax assets. Non-current assets held for sale are stated at the lower of carrying amount and net realisable value. Any excess of the carrying amount over the net realisable value is recognised as impairment loss. At the balance sheet date, non-current assets held for sale are still presented under corresponding asset classification as they were before.

(26) Dividends appropriated to shareholders

Dividends or distributions of profits proposed in the profit appropriation plan which will be authorised and declared after the balance sheet date, are not recognised as a liability at the balance sheet date but disclosed in the notes separately.

(27) Related parties

If a party has the power to control, jointly control or exercise significant influence over another party, or vice versa, or where two or more parties are subject to common control or joint control from another party, they are considered to be related parties. Related parties may be individuals or enterprises. Enterprises with which the Company is under common control only from the State and that have no other related party relationships are not regarded as related parties of the Group. Related parties of the Group and the Company include, but are not limited to:

(a) the Company's parent;
(b) the Company's subsidiaries;
(c) enterprises that are controlled by the Company's parent;
(d) investors that have joint control or exercise significant influence over the Group;
(e) enterprises or individuals if a party has control or joint control over both the enterprises or individuals and the Group;
(f) jointly controlled enterprises of the Group, including subsidiaries of jointly controlled enterprises;
(g) associates of the Group, including subsidiaries of associates;
(h) principal individual investors and close family members of such individuals;
(i) key management personnel of the Group and close family members of such individuals;
(j) key management personnel of the Company's parent;
(k) close family members of key management personnel of the Company's parent; and
(l) other enterprises that are controlled on jointly controlled by principal individual investors, key management personnel of the Group, and close family members of such individuals.

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

(27) Related parties *(continued)*

In addition to the related parties stated above determined in accordance with the requirements of CAS, the following enterprises and individuals are considered as (but not restricted to) related parties based on the disclosure requirements of Administrative Procedures on the Information Disclosures of Listed Companies issued by the CSRC:

(m) enterprises or persons that act a concert, that hold 5% or more of the Company's shares;
(n) individuals and close family members of such individuals who directly or indirectly hold 5% or more of the Company's shares;
(o) enterprises that satisfy any of the aforesaid conditions in (a), (c) and (m) during the past 12 months or will satisfy them within the next 12 months pursuant to a relevant agreement;
(p) individuals who satisfy any of the aforesaid conditions in (i), (j) and (n) during the past 12 months or will satisfy them within the next 12 months pursuant to a relevant agreement; and
(q) enterprises, other than the Company and subsidiaries controlled by the Company, which are controlled directly or indirectly by an individual defined in (i), (j), (n) or (p), or in which such individual assumes the position of a director or senior executive.

(28) Segment reporting

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

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

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

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

When the Group prepares the segment reporting, intersegment sales are measured based on actual transaction price. The accounting policies applied in preparing the segment reporting are consistent with those applied in preparing the Group's financial statements.

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

(29) Significant accounting estimates and judgments

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

The selection of critical accounting policies, the judgements and other uncertainties affecting application of those policies and the sensitivity of results to changes in conditions and assumptions are factors to be considered when financial statements are read. The principal accounting policies are set forth in Note 2. Management believes the following critical accounting estimates involve the most significant judgements and estimates used in the preparation of the financial statements.

(a) Impairments for long-lived assets

If circumstances indicate that the net book value of a long-lived asset may not be recoverable, the asset may be considered "impaired", and an impairment loss may be recognised in accordance with "CAS 8 Impairment of Assets". Long-lived assets are reviewed for impairment at the end of each balance sheet date or whenever events or changes in circumstance have indicated that their carrying amounts may not be recoverable. If any such indication exists, impairment loss is provided.

The recoverable amount of an asset is the greater of its net selling price and its present value of expected future cash flows. Since the market price of part of the assets cannot be obtained reliably, the fair value of the assets cannot be estimated reliably. In assessing value in use, significant judgements are exercised over the asset's production, selling price, related operating expenses and discount rate to calculate the present value. All relevant materials which can be obtained are used for estimation of the recoverable amount, including the estimation of the production, selling price and related operating expenses based on reasonable and supportable assumptions.

(b) Depreciation

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

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

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

(c) Impairment for bad and doubtful debts

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

(d) Allowance for diminution in value of inventories

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

(e) Recognition of deferred tax assets

Deferred tax assets are recognised in respect of temporary deductible differences and the carry forward of unused tax losses. Management recognises deferred tax assets only to the extent that it is probable that future taxable profit will be available against the assets which can be realised or utilised. At the end of each reporting period, management assesses whether previously unrecognised deferred tax assets should be recognised. The Group recognises a previously unrecognised deferred tax asset to the extent that it is probable that future taxable profit will allow the deferred tax asset to be utilised. In addition, management assesses the carrying amount of deferred tax assets that are recognised at the end of each reporting period. The Group reduces the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available for the deferred tax asset to be utilised.

In making the assessment of whether it is probable the Group will realise or utilise the deferred tax assets, management primarily relies on the generation of future taxable income to support the recognition of deferred tax assets. In order to fully utilise the deferred tax assets recognised at 31 December 2010, the Group would need to generate future taxable income of at least RMB 3,240 million, of which RMB 2,606 million is required to be generated by 2013, prior to the expiration of the unused tax losses. Based on estimated forecast and historical experience, management believes that it is probable that the Group will generate sufficient taxable income before the unused tax losses expire.

3. Taxation

(1) The types of taxes and tax rate:

The type of taxes	Tax base	Tax rate
Value added tax ("VAT")	Taxable VAT income (VAT payable is calculated at the applicable tax rate on taxable income deducted by input VAT)	13%, 17%
Consumption tax	Income entitled to consumption tax	Gasoline: RMB 1,388 per ton; diesel oil: RMB 940.8 per ton.
Business tax	Income entitled to business tax	5%
City maintenance and construction tax	Actual payments of consumption, business tax and VAT during the year	7%
Income tax	Taxable income	25%

The applicable income tax rate for the Company and its subsidiaries is 25% (2009: 25%).

4. Business combination and consolidated financial statements

(1) Principal subsidiaries

At 31 December 2010, all principal subsidiaries of the Company included in the consolidated financial statements came into existence through establishment, details are as follows:

Expressed in thousands of RMB/USD

Names of enterprise	Company type	Registered place	Business nature	Registered capital	Principal activities	Closing amount of the Company's investment	Interest that in substance form part of the Company's net investment	Shareholding percentage direct / indirect (%)	Voting rights direct / indirect (%)	Within consolidation scope	Minority interests at the year end	The excess of losses attributable to minority shareholders during the year
Shanghai Petrochemical Investment Development Company Limited	Limited company	Shanghai	Investment	RMB800,000	Investment management	1,338,456	-	100	100	Yes	-	-
China Jinshan Associated Trading Corporation	Limited company	Shanghai	Trading	RMB25,000	Import and export of petrochemical products and equipment	16,832	-	67.33	67.33	Yes	40,657	-
Shanghai Jinchang Engineering Plastics Company Limited	Limited company	Shanghai	Manufacturing	USD4,750	Production of polypropylene compound products	20,832	-	50.38	50.38	Yes	28,252	-
Shanghai Golden Phillips Petrochemical Company Limited	Limited company	Shanghai	Manufacturing	USD50,000	Production of polypropylene products	249,374	-	60	60	Yes	188,782	-
Zhejiang Jin Yong Acrylic Fibre Company Limited	Limited company	Ningbo, Zhejiang	Manufacturing	RMB250,000	Production of acrylic fibre products	227,500	-	75	75	Yes	-	-
Shanghai Golden Conti Petrochemical Company Limited	Limited company	Shanghai	Manufacturing	RMB545,776	Production of petrochemical products	545,776	-	100	100	Yes	-	-

5. Notes to the consolidated financial statements

(1) Cash at bank and on hand

Expressed in thousands of RMB/USD/HKD/CHF

Items	2010			2009		
	Original currency	Exchange rate	RMB/ RMB equivalents	Original currency	Exchange rate	RMB/ RMB equivalents
Cash on hand:						
RMB	—	—	105	—	—	93
Deposits with banks:						
RMB	—	—	86,967	—	—	112,655
HKD	13,772	0.8509	11,719	13,674	0.8805	12,040
USD	68	6.6227	449	37	6.8282	250
Other monetary funds:(Note)						
RMB	—	—	40	—	—	39
CHF	118	7.0562	830	127	6.5938	840
Total	—	—	100,110	—	—	125,917

Note: Other monetary funds represent deposits for credit cards.

(2) Bills receivable

(a) Bills receivable by category

Expressed in thousands of Renminbi Yuan

Items	2010	2009
Bank acceptance bills	2,023,638	583,478
Commercial acceptance bills	19,855	20,223
Total	2,043,493	603,701

All of the above bills held are short-term acceptance bills due within six months. No bills receivables, included in the above, were pledged or transferred to accounts receivable due to non-performance of the issuers in 2010.

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

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

(2) Bills receivable *(continued)*

(b) At 31 December 2010, the Group's discounted bank bills (with recourse) amounted to RMB 107,314,000 (2009: RMB 554,388,000).

At 31 December 2010, the Group's discounted commercial bills amounted to RMB nil (2009: RMB nil).

(c) At 31 December 2010, the Group's endorsed bank bills which were still undue amounted to RMB 83,864,000 (2009: RMB 1,730,000).

The five largest bills receivable that have been endorsed but still undue are as follows:

Expressed in thousands of Renminbi Yuan

Issuer	Date of issuance	Due date	Amount	Note
1.Zhejiang Hailide New Material Company Limited	10/12/2010	10/03/2011	10,000	Bank acceptance bills
2.Zhejiang Hailide New Material Company Limited	10/12/2010	10/03/2011	9,820	Bank acceptance bills
3.Zhejiang Hailide New Material Company Limited	09/11/2010	09/02/2011	9,000	Bank acceptance bills
4.Zhejiang Hailide New Material Company Limited	09/11/2010	09/02/2011	8,618	Bank acceptance bills
5.Shanghai Hailuo International Investment Development Company Limited	14/10/2010	14/01/2011	8,197	Bank acceptance bills
Total			45,635	

At 31 December 2010, the Group's endorsed commercial bills amounted to RMB nil (2009: RMB nil).

(3) Accounts receivable

(a) Accounts receivable by customer type:

Expressed in thousands of Renminbi Yuan

Type	Note	2010	2009
Amounts due from related parties	6(6)	677,742	414,803
Amounts due from third parties		82,030	132,779
Less: provision for bad and doubtful debts		-7,837	-12,634
Total		751,935	534,948

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

(3) Accounts receivable *(continued)*

(b) Accounts receivable by ageing:

Expressed in thousands of Renminbi Yuan

Type	2010	2009
Within one year (inclusive)	751,023	534,914
Between one and two years (inclusive)	1,278	37
Between two and three years (inclusive)	11	5
Over three years	7,460	12,626
Less: Provision for bad and doubtful debts	-7,837	-12,634
Total	751,935	534,948

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

(c) Accounts receivable by categories:

Expressed in thousands of Renminbi Yuan

Category	2010				2009			
	Gross carrying amount		Bad debt provision		Gross carrying amount		Bad debt provision	
	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)
Accounts receivable collectively assessed for impairment								
Within one year	751,023	98.85	-	-	534,914	97.69	-	-
Between one and two years	1,278	0.17	370	28.95	37	0.01	4	10.81
Between two and three years	11	0.00	7	63.64	5	0.00	4	80.00
Over three years	7,460	0.98	7,460	100.00	12,626	2.30	12,626	100.00
Total	759,772	100.00	7,837	—	547,582	100.00	12,634	—

There are no guaranties for the accounts receivables with bad debt provision.

During the year, the Group assessed the impairment on an individual basis in accordance with the accounting policy as describe in Note 2 (10), and there were no individually significant or insignificant accounts receivable with bad debt provision provided for; the Group had no individually significant write off or write back of bad debts which had been fully or substantially provided for in prior years. At 31 December 2010, the Group had no individually significant accounts receivable that aged over three years.

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

(3) Accounts receivable *(continued)*

(d) Accounts receivable due from the five largest customers of the Group are as follows:

Expressed in thousands of Renminbi Yuan

Name	Relationship with the Company	Amount	Ageing	Percentage of total accounts receivable (%)
Sinopec Corp Chemical Products Sales Branch	Branch of Sinopec Corp	344,567	Due within one year	45.35
Sinopec Huadong Sales Company Limited	Subsidiary of Sinopec Corp	207,625	Due within one year	27.33
Shanghai Secco Petrochemical Company Limited	Associate	37,881	Due within one year	4.99
BOC-SPC Gases Company Limited	Jointly controlled enterprise	23,092	Due within one year	3.04
Sinopec Corp Anqing Branch	Branch of Sinopec Corp	20,903	Due within one year	2.75
Total		634,068		83.46

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

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

(4) Prepayments

(a) Prepayments by category:

Expressed in thousands of Renminbi Yuan

Items	Note	2010	2009
Prepayment to related parties	6(6)	31,589	124,571
Prepayment to third parties		115,276	2,997
Total		146,865	127,568

(b) All prepayments are aged within one year.

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

Expressed in thousands of Renminbi Yuan

Name	Relationship with the Company	Amount RMB	Percentage of total prepayment(%)	Ageing	Reason for unsettled account
Ningbo Taili International Express Agent Company Limited	Third Party	58,731	39.99	Due within one year	Prepayment for goods
Sinochem Xinzhong Oil Staging (Zhoushan) Company Limited	Third Party	49,392	33.63	Due within one year	Prepayment for goods
China International United Petroleum and Chemical Company Limited Ningbo Branch	Subsidiary of Sinopec Corp	25,998	17.70	Due within one year	Prepayment for goods
Sinopec Corp Shanghai Branch	Branch of Sinopec Corp	2,400	1.64	Due within one year	Prepayment for goods
Hangzhou Steam Turbine Mechanic Company Limited	Third Party	2,250	1.53	Due within one year	Prepayment for goods
Total		138,771	94.49		

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

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

(5) Dividends receivable

Expressed in thousands of Renminbi Yuan

Items	At 1 January	Additions	Decreases	At 31 December
Dividends receivable due within one year	-	94,644	-89,602	5,042
-Shanghai Secco Petrochemical Company Limited	-	38,926	-33,884	5,042

No amount due from shareholders who hold 5% or more of the voting rights of the Company is included in the above balance of dividends receivable.

(6) Other receivables

(a) Other receivables by customer type:

Expressed in thousands of Renminbi Yuan

Type	Note	2010	2009
Amounts due from related parties	6(6)	11,641	6,607
Amounts due from third parties		50,646	84,075
Less: provision for bad and doubtful debts		-4,102	-5,225
Total		58,185	85,457

(b) Other receivables by ageing:

Expressed in thousands of Renminbi Yuan

Type	2010	2009
Within one year (inclusive)	57,782	83,765
Between one and two years(inclusive)	416	755
Between two and three years (inclusive)	50	124
Over three years	4,039	6,038
Less: provision for bad and doubtful debts	-4,102	-5,225
Total	58,185	85,457

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

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

(6) Other receivables *(continued)*

(c) Other receivables by category

Expressed in thousands of Renminbi Yuan

Category	2010				2009			
	Gross carrying amount		Bad debt provision		Gross carrying amount		Bad debt provision	
	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)
Other receivables collectively assessed for impairment								
Within one year	57,782	92.77	-	-	83,765	92.37	-	-
Between one and two years	416	0.67	125	30.05	755	0.83	223	29.54
Between two and three years	50	0.08	30	60.00	124	0.14	-	-
Over three years	4,039	6.48	3,947	97.72	6,038	6.66	5,002	82.84
Total	62,287	100.00	4,102	—	90,682	100.00	5,225	—

During the year, the Group assessed the impairment on an individual basis in accordance with the accounting policy as described in Note 2 (10), and there are no individually significant or insignificant other receivables with bad debt provision provided for; the Group had no individually significant write off or write back of bad debts which had been fully or substantially provided for in prior years. At 31 December 2010, the Group had no individually significant other receivables that aged over three years.

(d) Other receivables due from the five largest customers are as follows:

Expressed in thousands of Renminbi Yuan

Name	Relationship with the Company	Amount	Ageing	Percentage of total other receivables (%)
1. Jinshan Customs	Third party	8,466	Due within one year	13.59
2. Sinopec Huadong Sales Company Limited	Subsidiary of Sinopec Corp	7,940	Due within one year	12.75
3. Shanghai Yali Development Company Limited	Third Party	6,576	Due within one year	10.56
4. Rijizhuang Company Limited	Third Party	3,048	Due within one year	4.89
5. BOC-SPC Gases Company Limited	Jointly controlled enterprise	2,945	Due within one year	4.73
Total		28,975		46.52

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

(6) Other receivables *(continued)*

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

(7) Inventories

(a) Inventories by category

Expressed in thousands of Renminbi Yuan

Items	2010			2009		
	Cost	Provision for diminution in value	Carrying amount	Cost	Provision for diminution in value	Carrying amount
Raw materials	2,602,962	663	2,602,299	4,206,343	17,402	4,188,941
Work in progress	1,417,789	-	1,417,789	1,352,767	-	1,352,767
Finished goods	877,889	36,639	841,250	750,320	32,983	717,337
Spare parts and consumables	555,623	64,660	490,963	734,212	109,423	624,789
Total	5,454,263	101,962	5,352,301	7,043,642	159,808	6,883,834

All the above inventories are purchased or self-manufactured.

(b) The movement of inventories during the year is analysed as follows:

Expressed in thousands of Renminbi Yuan

Items	At 1 January	Increase	Decrease	At 31 December
Raw materials	4,206,343	60,846,217	-62,449,598	2,602,962
Work in progress	1,352,767	65,551,313	-65,486,291	1,417,789
Finished goods	750,320	65,486,291	-65,358,722	877,889
Spare parts and consumables	734,212	597,972	-776,561	555,623
Sub-total	7,043,642	192,481,793	-194,071,172	5,454,263
Less: provision for diminution in value of inventories	-159,808	-198,465	256,311	-101,962
Carrying amount	6,883,834	192,283,328	-193,814,861	5,352,301

(c) Provision for diminution in value of inventories

Expressed in thousands of Renminbi Yuan

Items	At 1 January	Provision for the year	Decrease during the year	At 31 December
			Write-off	
Raw materials	17,402	-	-16,739	663
Finished goods	32,983	99,049	-95,393	36,639
Spare parts and consumables	109,423	99,416	-144,179	64,660
Total	159,808	198,465	-256,311	101,962

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

(8) Other current assets

As at 31 December 2010, the balance of other current assets includes deductible value added tax and long-term deferred expense within one year.

The Group purchased a bank financial product from a PRC state-owned bank with a carrying amount of RMB 700,000,000 in 2009. The financial product mainly invests in debt and equity securities and was redeemed in January 2010.

(9) Long-term receivables

Expressed in thousands of Renminbi Yuan

Items	2010	2009
Entrusted loans	30,000	100,000

The entrusted loans will be due in April 2012.

(10) Long-term equity investments

(a) Long-term equity investments by category

Expressed in thousands of Renminbi Yuan

	Interests in associates	Interests in jointly controlled enterprises	Sub-total	Provision for impairment losses	Carrying amount
Balance at 1 January 2010	2,860,631	109,015	2,969,646	-	2,969,646
Share of profits from investments accounted for under equity method	622,127	29,161	651,288	-	651,288
Dividends receivable/ received	-74,644	-20,000	-94,644	-	-94,644
Balance at 31 December 2010	3,408,114	118,176	3,526,290	-	3,526,290

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

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

(b) Information about major associates and jointly controlled enterprises

Expressed in thousands of RMB/USD

Name of investee	Company type	Investment cost	Registered place	Balance at 1 January 2010	Movement during the year	Balance at 31 December 2010	Legal representative	Business Scope	Registered capital	Effective shareholding percentage (%)	Effective voting right (%)	Total assets at year end	Total liabilities at year end	Net assets at year end	Total revenue during the year	Net profit during the year
1, Equity method-jointly controlled enterprises																
BOC-SPC Gases Company Limited*	Limited company	RMB 127,992	Shanghai	109,015	9,161	118,176	Xu Zhongwei	Production and sales of industrial gases	USD 32,000	50	50	605,954	294,631	311,323	440,011	51,456
2, Equity method-associates																
Shanghai Chemical Industry Park Development Company Limited*	Limited company	RMB 907,770	Shanghai	1,022,374	34,790	1,057,164	Rong Guangdao	Planning, development and operation of the Chemical Industry Park in Shanghai	RMB 2,372,439	38.26	38.26	7,298,498	3,734,847	3,563,651	16,000	136,181
Shanghai Secco Petrochemical Company Limited*	Limited company	RMB 1,488,718	Shanghai	1,548,695	498,951	2,047,646	Jeanne Marie Johns	Manufacturing and distribution of chemical products	USD 901,441	20	25	18,079,060	7,808,901	10,270,159	29,168,626	2,722,433
Shanghai Jinsen Hydrocarbon Resins Company Limited	Limited company	RMB 77,503	Shanghai	48,174	13,969	62,143	Tan Biqing	Production of resin products	USD 23,395	40	40	192,700	36,174	156,526	277,842	36,208
Shanghai Jinpu Plastic Packaging Material Company Limited	Limited company	RMB 83,879	Shanghai	98,845	-11,393	87,452	Xu Zhongwei	Production of polypropylene film	USD 20,204	50	50	203,422	28,467	174,955	308,791	12,792
Shanghai Azbil Automation Company Limited (Formerly known as "Shanghai Yamatake Automation Company Limited)"	Limited company	RMB 9,776	Shanghai	52,262	7,909	60,171	Lu Zhishang	Service and maintenance of building automation systems and products	USD 3,000	40	40	196,784	42,876	153,908	211,257	33,636
Others				90,281	3,257	93,538										
Total				2,969,646	556,644	3,526,290										

* Represents associates/jointly controlled enterprises of the Company

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

(11) Investment property

Expressed in thousands of Renminbi Yuan

Items	At 1 January	Additions	Decreases	At 31 December
1. Original cost	546,630	-	-218	546,412
2. Accumulated depreciation	67,383	13,256	-32	80,607
3. Net book value	479,247			465,805
4. Provision for impairment	-	-	-	-
5. Carrying amount	479,247			465,805

The investment property of the Group represents buildings.

Depreciation charged for the year of the investment property of the Group amounted to RMB 13,256,000 (2009: RMB 13,261,000).

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

(12) Fixed assets

(a) Fixed assets

Expressed in thousands of Renminbi Yuan

Items	Balance at 1 January	Additions	Decreases	Balance at 31 December
1. Original cost:	38,808,903	536,796	-445,832	38,899,867
-Buildings	5,800,744	32,805	-35,408	5,798,141
-Plant and machinery	26,097,792	398,801	-298,580	26,198,013
-Vehicles and other equipment	6,910,367	105,190	-111,844	6,903,713
		Charge for the year		
2. Accumulated depreciation:	22,830,147	1,671,347	-393,904	24,107,590
-Buildings	3,537,492	141,237	-26,116	3,652,613
-Plant and machinery	14,623,522	1,261,968	-264,355	15,621,135
-Vehicles and other equipment	4,669,133	268,142	-103,433	4,833,842
3. Net book value:	15,978,756			14,792,277
-Buildings	2,263,252			2,145,528
-Plant and machinery	11,474,270			10,576,878
-Vehicles and other equipment	2,241,234			2,069,871
4. Provision for impairment losses:	773,025	238,200	-21,132	990,093
-Buildings	102,652	8,578	-280	110,950
-Plant and machinery	614,644	206,929	-19,300	802,273
-Vehicles and other equipment	55,729	22,693	-1,552	76,870
5. Carrying amount:	15,205,731			13,802,184
-Buildings	2,160,600			2,034,578
-Plant and machinery	10,859,626			9,774,605
-Vehicles and other equipment	2,185,505			1,993,001

Depreciation charged for the year amounted to RMB 1,671,347,000 (2009: RMB 1,662,278,000).

Construction in progress amounting to RMB 440,291,000 (2009: RMB 3,263,419,000) was transferred to fixed assets during the year.

(b) At 31 December 2010 and 31 December 2009, the Group had no pledged fixed assets.

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

(12) Fixed assets *(continued)*

(c) Impairment losses

2010

Impairment losses recognised on fixed assets of the synthetic fibres segment were RMB 92 million for the year ended 31 December 2010, which represented impairment losses in respect of certain filament production facilities. The primary factor resulting in the impairment losses on the filament production facilities is the high operating and production costs caused by the increase in the raw material price that are not expected to be covered through an increase in selling price of those products in the foreseeable future. These assets were tested for impairment in accordance with the Company's accounting policy described in Note 2(19) to the consolidated financial statements. The recoverable amounts of these production facilities were estimated based on their present value of estimated future cash flows. The present value of estimated future cash flows was determined using a pre-tax discount rate of 10%.

Impairment losses recognised on certain idle facilities of the resins and plastics segment were RMB 26.3 million for the year ended 31 December 2010. These facilities were abandoned and tested for impairment in accordance with the Company's accounting policy described in Note 2(19) to the consolidated financial statements. The estimated recoverable amounts were based on the assets' fair value less costs to sell, which were determined by reference to the recent observable market prices for similar assets within the same industry.

Impairment losses recognised on fixed assets of the intermediate petrochemicals segment were RMB 119.9 million for the year ended 31 December 2010, which mainly represented impairment losses of RMB 89.9 million in respect of a newly constructed facility that has not started production as it cannot meet the local environmental requirement. The asset was tested for impairment in accordance with the Company's accounting policy described in Note 2(19) to the consolidated financial statements. The estimated recoverable amounts was based on the asset's fair value less costs to sell, which was determined by reference to the recent observable market prices for similar assets within the same industry.

2009

A synthetic fibre plant of a subsidiary was shut down and abandoned and a power generator unit of the Company was damaged and placed out of service. These assets were tested for impairment in accordance with the Company's accounting policy described in Note 2(19) to the consolidated financial statements. The Group determined that the carrying values of the synthetic fibre plant and the power generator unit were higher than their recoverable amounts and accordingly, impairment losses of RMB 98.5 million were recognised during the year ended 31 December 2009. The estimated recoverable amounts were based on the assets' fair values less costs to sell, which were determined by reference to the recent observable market prices for similar assets within the same industry.

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

(12) Fixed assets *(continued)*

(c) Impairment losses *(continued)*

The carrying value of the above assets prior to the impairment charge and the carrying value of the asset subsequent to the impairment charge by asset category for the years ended 31 December 2010 and 2009 are presented as follows:

Expressed in thousands of Renminbi Yuan

Items	2010			
	Original cost	Net book value before impairment	Impairment losses recognised	Net book value after impairment
-Buildings	59,504	38,149	-8,578	29,571
-Plant and machinery	805,340	246,605	-206,929	39,676
-Vehicles and other equipment	136,058	46,176	-22,693	23,483
Total	1,000,902	330,930	-238,200	92,730

Expressed in thousands of Renminbi Yuan

Items	2009			
	Original cost	Net book value before impairment	Impairment losses recognised	Net book value after impairment
-Buildings	423,530	63,179	-51,480	11,699
-Plant and machinery	704,402	46,483	-25,269	21,214
-Vehicles and other equipment	154,306	26,254	-21,737	4,517
Total	1,282,238	135,916	-98,486	37,430

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

(13) Construction in progress

(a) Construction in progress

Expressed in thousands of Renminbi Yuan

Project	2010		
	Original Cost	Provision for impairment	Carrying amount
Refinery Renovation Project	714,513	-	714,513
Energy Saving and Upgrade Reconstruction on 2# Oxidation Unit	57,416	-	57,416
1500 ton/year PAN-based Carbon Fibre Project	56,055	-	56,055
Numerous small projects of Synthetic Fibres segment	64,018	-	64,018
Numerous small projects of Resins and Plastics segment	33,887	-	33,887
Numerous small projects of Intermediate Petrochemicals segment	112,999	-	112,999
Numerous small projects of Petroleum Products segment	40,917	-	40,917
Numerous small projects of all others	112,420	-	112,420
Total	1,192,225	-	1,192,225

Expressed in thousands of Renminbi Yuan

Project	2009		
	Original Cost	Provision for impairment	Carrying amount
Shanghai Petrochemical Gas Utilisation Project	63,048	-	63,048
Energy Saving and Upgrade Reconstruction on 2# Oxidation Unit	14,417	-	14,417
Numerous small projects of Synthetic Fibres segment	65,733	-	65,733
Numerous small projects of Resins and Plastics segment	22,345	-	22,345
Numerous small projects of Intermediate Petrochemicals segment	65,466	-	65,466
Numerous small projects of Petroleum Products segment	38,536	-	38,536
Numerous small projects of all others	94,101	-	94,101
Total	363,646	-	363,646

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

(13) Construction in progress *(continued)*

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

Expressed in thousands of Renminbi Yuan

Projects	Budget	Balance at 1 January	Additions	Transferred to fixed assets	Percentage of input to budget (%)	Project progress (%)	Accumulated capitalised interest	Including: capitalised interest for the year	Interest capitalisation rate(%)	Source of capital	Balance at 31 December
Shanghai Petrochemical Gas Utilisation Project	195,090	63,048	73,777	136,825	70.13	100	754	565	2.00-2.89	equity fund and loans	-
Energy Saving and Upgrade Reconstruction on 2# Oxidation Unit	185,570	14,417	42,999	-	30.94	30.94	265	265	2.89-3.25	equity fund and loans	57,416
1,500ton/year PAN-based Carbon Fiber Project	847,794	6,622	49,433	-	6.61	6.61	-	-	-	equity fund	56,055
Refinery Renovation Project	6,627,700	-	714,513	-	10.78	10.78	-	-	-	equity fund	714,513
Numerous small projects of Synthetic Fibres segment	167,546	59,111	17,238	12,331	45.57	45.57	-	-	-	equity fund	64,018
Numerous small projects of Resins and Plastics segment	164,265	22,345	31,633	20,091	32.86	32.86	-	-	-	equity fund	33,887
Numerous small projects of Intermediate Petrochemicals segment	707,991	65,466	142,862	95,329	29.43	29.43	107	-	-	equity fund and loans	112,999
Numerous small projects of Petroleum Products segment	4,265,609	38,536	69,325	66,944	2.53	2.53	374	-	-	equity fund and loans	40,917
Numerous small projects of all others	1,355,823	94,101	127,090	108,771	16.31	16.31	8	-	-	equity fund and loans	112,420
Total	14,517,388	363,646	1,268,870	440,291	-	-	1,508	830	-		1,192,225

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

The capitalised borrowing costs included in the balances of construction in progress were RMB 830,000 (2009: RMB 677,000). The interest rates per annum at which borrowing costs were capitalised for the year ended 31 December 2010 by the Group were 2.00%-3.25% (2009: 2.12%-5.04%).

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

(14) Intangible assets

Expressed in thousands of Renminbi Yuan

Items	Balance at 1 January	Additions	Decreases	Balance at 31 December
1. Cost	844,206	-	-	844,206
-Land use rights	748,867	-	-	748,867
-Other intangible assets	95,339	-	-	95,339
2. Accumulated amortisation	287,034	19,573	-	306,607
-Land use rights	239,683	15,485	-	255,168
-Other intangible assets	47,351	4,088	-	51,439
3. Net book value	557,172			537,599
-Land use rights	509,184			493,699
-Other intangible assets	47,988			43,900

Amortisation charged for the year amounted to RMB 19,573,000 (2009: RMB 19,609,000).

(15) Long-term deferred expenses

Long-term deferred expenses primarily represent catalysts expenditures with useful lives over one year.

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

(16) Deferred tax assets

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

Expressed in thousands of Renminbi Yuan

Items	2010		2009	
	Deductible/ (taxable) temporary differences	Deferred tax assets/ (liabilities)	Deductible/ (taxable) temporary differences	Deferred tax assets/ (liabilities)
Deferred tax assets:				
Provision for bad debt and inventories	62,073	15,518	124,700	31,175
Impairment losses on fixed assets	557,514	139,379	340,446	85,112
Contribution by fixed assets and sales of assets to a jointly controlled enterprise	36,777	9,194	40,280	10,070
Deductible tax losses	2,606,114	651,529	5,607,912	1,401,978
Specific reserve accrued	43,380	10,845	-	-
Other deferred tax assets	29,746	7,437	28,469	7,117
Sub-total	3,335,604	833,902	6,141,807	1,535,452
Offsetting	-93,790	-23,448	-105,288	-26,322
After offsetting	3,241,814	810,454	6,036,519	1,509,130
Deferred tax liabilities:				
Capitalisation of borrowing costs	-93,790	-23,448	-105,288	-26,322
Offsetting	93,790	23,448	105,288	26,322
After offsetting	-	-	-	-

(b) The movement of deferred tax assets is as follows:

Expressed in thousands of Renminbi Yuan

Items	Balance at 1 January	Current year increase/ decrease charged to profit or loss	Current year increase/ decrease recognised directly in equity	Balance at 31 December
Deferred tax assets:				
Provision for bad debt and inventories	31,175	-15,657	-	15,518
Impairment losses on fixed assets	85,112	54,267	-	139,379
Contribution by fixed assets and sales of assets to a jointly controlled enterprise	10,070	-876	-	9,194
Deductible tax losses	1,401,978	-750,449	-	651,529
Specific reserve accrued	-	10,845	-	10,845
Other deferred tax assets	7,117	320	-	7,437
Capitalisation of borrowing costs	-26,322	2,874	-	-23,448
Total	1,509,130	-698,676	-	810,454

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

(16) Deferred tax assets *(continued)*

(c) Deferred tax assets not recognised

Expressed in thousands of Renminbi Yuan

Items	Note	2010	2009
Impairment losses on fixed assets	(i)	432,579	432,579
Deductible tax losses	(ii)	452,443	417,688
Total		885,022	850,267

(i) In accordance with the accounting policy set out in Note 2(24), the Group has not recognised deferred tax assets in respect of impairment losses on fixed assets of RMB 432,579,000 (2009: RMB 432,579,000) as it is not probable that future taxable income against which the losses can be utilised will be available in the Zhejiang Jinyong Acrylic Fibre Company Limited ("Jin Yong").

(ii) In accordance with the accounting policy set out in Note 2(24), the Group has not recognised deferred tax assets in respect of cumulative tax losses of RMB 452,443,000 (2009: RMB 417,688,000) as it is not probable that future taxable profits against which the losses can be utilised will be available at Jin Yong. The deductible tax losses will expire from 2011 to 2015 under current tax law.

(d) The expiration information of the tax losses with deferred tax assets not recognised

Expressed in thousands of Renminbi Yuan

Year	2010	2009
2010	14,539	14,539
2011	29,357	29,357
2012	68,548	68,548
2013	197,952	197,952
2014	107,292	107,292
2015	49,294	-

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

(17) Movement of provision for impairment

Expressed in thousands of Renminbi Yuan

Items	Note	At 1 January	Additions	Decreases		At 31 December
				Reversal	Write-off	
1, Receivables	5(3),(6)	17,859	-	-3,200	-2,720	11,939
2, Inventories	5(7)	159,808	198,465	-	-256,311	101,962
3, Fixed assets	5(12)	773,025	238,200	-	-21,132	990,093
Total		950,692	436,665	-3,200	-280,163	1,103,994

The reason for corresponding impairment losses recognised during the year are set out in the respective notes of the relevant assets.

(18) Short-term loans

(a) Short-term loans by category

Expressed in thousands of Renminbi Yuan

Items	2010	2009
Credit loans		
-bank loans	2,885,438	6,460,398
-loans from related party	410,000	240,000
Total	3,295,438	6,700,398

At 31 December, 2010, the weighted average interest rate of the Group's short-term loans was 2.34% (2009: 3.32%).

(b) At 31 December 2010 and 31 December 2009, the Group had no overdue short-term loans.

(19) Bills payable

Expressed in thousands of Renminbi Yuan

Items	2010	2009
Commercial acceptance bills	41,034	6,048
Bank acceptance bills	-	716,223
Total	41,034	722,271

The above bills are due within one year.

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

(20) Accounts payable

(a) Accounts payable by category:

Expressed in thousands of Renminbi Yuan

Items	2010	2009
Related parties	1,721,244	2,656,857
Third parties	1,601,567	1,008,139
Total	3,322,811	3,664,996

At 31 December 2010, there were no significant accounts payable aged over one year.

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

(21) Advances from customers

(a) Advances from customers by category:

Expressed in thousands of Renminbi Yuan

Items	2010	2009
Related parties	35,023	16,102
Third parties	774,885	513,180
Totals	809,908	529,282

At 31 December 2010, there were no significant advances from customers aged over one year.

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

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

(22) Employee benefits payable

Expressed in thousands of Renminbi Yuan

Items	At 1 January	Additions	Decreases	At 31 December
1. Salaries, bonuses and allowances	5,060	1,195,706	1,195,706	5,060
2. Staff welfare fees	-	53,948	53,948	-
3. Social insurances	17,035	425,788	442,159	664
Including: 1). Medical insurance premium	286	123,446	123,517	215
2). Basic Pension insurance premium	15,331	209,752	224,688	395
3). Unemployment insurance premium	1,394	19,205	20,563	36
4). Staff and workers' injury insurance premium	12	5,139	5,142	9
5). Maternity insurance premium	12	5,174	5,177	9
6). Supplementary medical insurance premium	-	124	124	-
7). Complementary pension insurance premium	-	57,867	57,867	-
8).Other insurance premium	-	5,081	5,081	-
4. Housing fund	-	64,987	64,987	-
5. Termination benefits (including early retirement)	-	3,646	3,646	-
6. Others	5,579	348,563	350,946	3,196
Total	27,674	2,092,638	2,111,392	8,920

At 31 December 2010, no amount in arrears were included in the balance of the employee benefits payable.

At 31 December 2010, labour union fee and staff and workers' education fee amounting to RMB 157,000 (2009:RMB 3,080,000), and non-monetary welfare amounting to RMB nil were included in the above balance of "others"(2009: RMB nil).

The balance of employee benefits payable as at 31 December 2010 was expected to be fully distributed or utilised in the first quarter of 2011.

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

(22) Employee benefits payable *(continued)*

As stipulated by the regulations of the PRC, the Group participates in a defined contribution retirement plan organised by the Shanghai Municipal Government for its staff. From 1 August 2004, the Group is required to make contributions to the retirement plan at a rate of 22% of the salaries, bonuses and certain allowances of its staff in 2010 (2009: 22%).

In addition, pursuant to a document "Lao Bu Fa (1995) No.464" dated 29 December 1995 issued by the Ministry of Labour of the PRC, the Group has set up a supplementary defined contribution retirement plan for the benefit of employees. Employees who have served the Group for five years or more may participate in this plan. The Group and participating employees make defined contributions to their pension saving accounts according to the plan. The assets of this plan are held separately from those of the Group in an independent fund administered by a committee consisting of representatives from the employees and the Group.

A member of the above plans is entitled to a pension amount equal to a fixed proportion of the salary prevailing at his or her retirement date. The Group has no other material obligation for the payment of pension benefits associated with these plans beyond the annual contributions described above. For the year ended 31 December 2010, the Group's contribution to the above two plans amounted to RMB 209,752,000 and RMB 57,867,000 respectively (2009: RMB 192,791,000 and RMB 49,513,000 respectively).

In accordance with the Group voluntary employee reduction plan, the Group recorded employee reduction expenses of RMB 3,646,000 (2009: RMB 12,518,000) during the period ended 31 December 2010, in respect of the voluntary resignation of approximately 83 employees (2009: 238 employees).

(23) Taxes payable

Expressed in thousands of Renminbi Yuan

Item	2010	2009
Value added tax	446,997	114,234
Business tax	2,086	2,822
Income tax	15,983	9,298
Consumption tax	458,600	439,973
Education surcharge	26,854	16,761
City maintenance and construction tax	62,632	39,126
Others	28,902	13,716
Total	1,042,054	635,930

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

(24) Interest payable

Expressed in thousands of Renminbi Yuan

Items	2010	2009
Interest payable of interest due instalments of long-term loans	461	576
Interest payable of corporate bonds	17,440	15,318
Interest payable of short-term loans	6,652	4,261
Total	24,553	20,155

(25) Other payables

(a) Other payables by category:

Expressed in thousands of Renminbi Yuan

Items	2010	2009
Related parties	44,724	204,687
Third parties	790,056	699,257
Total	834,780	903,944

Other payables mainly represent construction fee payables.

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

(c) At 31 December 2010, there are no significant other payables aged over 1 year.

(26) Short-term debentures payable

Expressed in thousands of Renminbi Yuan

Item	2010	2009
Short-term debentures payable	1,000,000	1,000,000

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

The Company issued RMB 1 billion 365-day unsecured corporate bonds to corporate investors in the PRC inter-bank debenture market on 23 June 2010. The bonds were issued at 100% of face value, with an effective yield of 3.27% per annum, and will mature on 23 June 2011.

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

(27) Non-current liabilities due within one year

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

Expressed in thousands of Renminbi Yuan

Item	2010	2009
Current portion of long-term loans	100,000	74,275
Others (Note)	78,237	-
Total	178,237	74,275

Notes: Others represent payable to the minority shareholders of Jin Yong, a subsidiary of the Company.

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

Expressed in thousands of Renminbi Yuan

Item	2010	2009
Credit loans	100,000	74,275

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

Expressed in thousands of RMB/USD

Creditors	Starting date	Ending date	Currency	Interest rate (%)	2010		2009	
					Original Currency	RMB	Original Currency	RMB
1. China Construction Bank, Jinshan Branch	2008.11.27	2011.11.25	RMB	5.103	-	50,000	-	-
2. China Construction Bank, Jinshan Branch	2008.12.25	2011.11.25	RMB	5.103	-	50,000	-	-
3. Zhejiang Provincial Developing Assets Operation Co., Ltd.	1997.12.21	2010.09.30	RMB	Interest free	-	-	-	61,500
4. Ningbo Development & Investment Group Co., Ltd.	1997.12.21	2010.03.20	USD	Interest free	-	-	1,080	7,375
5. Ningbo Development & Investment Group Co., Ltd.	1997.12.21	2010.03.20	RMB	Interest free	-	-	-	5,400
Total						100,000		74,275

(28) Long-term loans

(a) Long-term loans by category

Expressed in thousands of Renminbi Yuan

Item	2010	2009
Credit loans	175,000	304,258

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

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

(b) As at 31 December 2010, long-term loans were as follows:

Expressed in thousands of Renminbi Yuan/USD

Creditors	Starting date	Maturity date	Currency	Annual Interest rate (%)	2010		2009	
					Original Currency	RMB	Original Currency	RMB
Industry and Commercial Bank of China, Jinshan Branch	2008.11.27	2013.11.25	RMB	5.364	-	75,000	-	100,000
Industry and Commercial Bank of China, Jinshan Branch	2008.12.25	2013.11.25	RMB	5.364	-	100,000	-	100,000
China Construction Bank, Jinshan Branch	2008.11.27	2011.11.25	RMB	5.103	-	-	-	50,000
China Construction Bank, Jinshan Branch	2008.12.25	2011.11.25	RMB	5.103	-	-	-	50,000
Others					-	-	-	4,258
Total					-	175,000	-	304,258

(29) Other non-current liabilities

Expressed in thousands of Renminbi Yuan

Item	2010	2009
Deferred income	236,986	234,781

Government grants related to assets are recognised initially as deferred income and amortised to profit or loss on a straight-line basis over the useful life of the assets. In 2010, the Group received the government grants related to an asset amounting to RMB 39,336,000 (2009: RMB14,781,000), which mainly comprised of grants for research and development and environment protection.

(30) Share capital

Expressed in thousands of Renminbi Yuan

Items	At 1 January 2010	At 31 December 2010
(1) Non-circulating Shares:		
- Domestic legal persons shares	4,150,000	4,150,000
(2) Circulating Shares:		
- RMB ordinary A shares listed in PRC	720,000	720,000
- Foreign investment H shares listed overseas	2,330,000	2,330,000
Total	7,200,000	7,200,000

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

(30) Share capital *(continued)*

The Company was founded on 29 June, 1993 with registered capital of RMB 4,000,000,000 invested by its upper level holding company- China National Petrochemical Corporation; these shares were converted from assets of former Shanghai Petrochemical Complex.

Approved by Zheng Wei Fa No. [1993]30 issued by the State Council Securities Committee, the Company launched its Initial Public Offer ("IPO") in July 1993 and September 1993 in Hong Kong, New York, Shanghai and Shenzhen to issue 2.23 billion shares, including 1.68 billion H shares, 550 million A shares. The 550 million A shares include 400 million individual shares (including 150 million shares issued to SPC employees) and 150 million legal person shares. H shares were listed on the Hong Kong Exchanges and Clearing Company Limited on 26 July 1993, and listed on the NYSE in the form of ADS at the same time; the A shares were listed on the Shanghai Stock Exchanges on 8 November 1993.

After IPO, the total quantity of shares issued by the Company was 6.23 billion, including 4 billion state-owned shares, 150 million legal person shares, 400 million individual shares, and 1.68 billion H shares.

According to the plan stated in the prospectus issued in July 1993, and approved by the China Securities Regulatory Commission, the Company issued 320 million common A shares with a par value of RMB 1 each at an issuing price of RMB 2.4 each during the period from 5 April to 10 June 1994. These shares were listed on Shanghai Stock Exchange on 4 July 1994. By then, the total quantity of shares issued was expanded from 6.23 billion to 6.55 billion.

On 22 August 1996, the Company issued 500 million H shares to overseas investors; on 6 January 1997, 150 million H shares again were issued to overseas investors. By then, the total quantity of shares issued was expanded to 7.2 billion, including 2.33 billion H shares.

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

China Petrochemical & Chemical Corporation (CPCC) was founded on 28 February 2000 based on the approved assets restructuring of Sinopec Group. As part of the restructuring, the shares of the Company held by the Sinopec Group were injected in CPCC; after the restructuring, the ownership of 4 billion state-owned shares of the Company held by the Sinopec Group were transferred to CPCC, and therefore the shares were changed to state-owned legal person shares in nature.

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

Capital verifications of the issued and paid up capital were performed by KPMG Huazhen. The respective capital verification reports were issued on 27 October 1993, 10 June 1994, 15 September 1996 and 20 March 1997.

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

(31) Capital reserve

The capital reserve of the Group is analysed as follows:

Expressed in thousands of Renminbi Yuan

Items	Note	At 1 January 2010	Additions	Decreases	At 31 December 2010
Share premium		2,420,841	-	-	2,420,841
Government grants	(a)	412,370	-	-	412,370
Refund of harbour construction charge	(b)	-	32,485	-	32,485
Others		49,067	-	-	49,067
Total		2,882,278	32,485	-	2,914,763

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

(b) During the year ended 31 December 2010, the Group utilised the refund of harbour construction charge of RMB 32,485,000 for construction of harbour related fixed assets (2009: RMB nil). According to the Article 6 of "The Ministry of Refund of Harbour Construction Charge" issued by MOF [97] Cai Gong Zi No. 141, the harbour construction charge utilised in the investment of fixed assets are deemed as the capital contribution from the government and recorded as capital reserve.

(32) Specific reserve

Expressed in thousands of Renminbi Yuan

Items	At 1 January 2010	Accrued	Utilised	At 31 December 2010
Safety production costs	-	100,518	-53,770	46,748

Specific reserve represents safety production costs accrued in accordance with state regulations and unutilised.

(33) Surplus reserve

Expressed in thousands of Renminbi Yuan

Items	At 1 January 2010	Additions	At 31 December 2010
Statutory surplus reserve (Note)	3,521,252	279,548	3,800,800
Discretionary surplus reserve	1,280,514	-	1,280,514
Total	4,801,766	279,548	5,081,314

Note: Pursuant to the resolution of the Board, the Company transferred 10% of net profit after taxation of the Company to the statutory surplus reserve for the year ended 31 December 2010.

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

(34) Retained earnings

Expressed in thousands of Renminbi Yuan

Items	Note	2010	2009
Retained earnings at 1 January		462,029	-1,064,218
Add: Net profit attributable to equity shareholders of the Company		2,703,734	1,561,605
Less: Appropriation to statutory surplus reserve		-279,548	-35,358
Dividends payable to ordinary shares	(a)	-216,000	-
Retained earnings at 31 December	(b)	2,670,215	462,029

(a) Dividends of ordinary shares attributed during the year

During the year ended 31 December 2010, the Company approved and declared the final dividend of RMB 0.03 per share totalling RMB 216,000,000 (2009: RMB nil).

(b) Retained earnings at the end of the year

The surplus reserve attributable to the Company which were accrued by the subsidiaries during the year was RMB 10,253,000 (2009:RMB 38,492,000).

As at 31 December 2010, the consolidated retained earnings attributable to the Company included an appropriation of RMB 108,001,000 to surplus reserve made by the subsidiaries. (2009: RMB 97,748,000).

(35) Operating income, operating costs

(a) Operating income, operating costs

Expressed in thousands of Renminbi Yuan

Items	2010	2009
Income from principal operations	77,162,454	51,333,161
Income from other operations	428,733	389,566
Sub-total	77,591,187	51,722,727
Operating costs	65,787,455	42,665,330

Operating income represents sales of products after deduction of VAT.

(b) The Group mainly operates in petrochemical industry.

(c) For operating income and operating costs by product, see Note 10(1).

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

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

(d) Revenue from sales to the five largest customers for 2010 is set out as follows:

Expressed in thousands of Renminbi Yuan

Customer	Operating income	Percentage of total operating income(%)
1. Sinopec Huadong Sales Company Limited	29,025,075	37.41
2. China Petroleum & Chemical Corporation	9,288,386	11.97
3. Shanghai Yadong Petrochemical Company Limited	933,503	1.20
4. Sinopec Yizheng Chemical Fibre Company Limited	928,682	1.20
5. Shanghai Secco Petrochemical Company Limited	783,416	1.01
Total	40,959,062	52.79

(36) Business taxes and surcharges

Expressed in thousands of Renminbi Yuan

Items	2010	2009	Tax base
Consumption tax	4,641,710	3,819,859	In accordance with the relevant tax regulation, with effect from 1 January 2009, consumption tax rate for sale of gasoline and diesel oil have been adjusted to RMB 1,388 per ton and RMB 940.8 per ton respectively.
Business tax	7,404	10,605	5% of income entitled to business tax
City maintenance and construction tax	542,874	337,262	7% of consumption tax, VAT and business tax paid
Education surcharge and others	232,829	144,939	3% of consumption tax, VAT and business tax paid
Total	5,424,817	4,312,665	–

(37) Selling expenses

Expressed in thousands of Renminbi Yuan

Items	2010	2009
Transportation fee	262,898	159,595
Agency fee	168,896	116,441
Storage and logistics expenses	51,222	49,898
Staff costs	48,449	47,322
Others	47,296	37,176
Total	578,761	410,432

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

(38) Administrative expenses

Expressed in thousands of Renminbi Yuan

Items	2010	2009
Repair and maintenance fee	1,016,530	1,044,863
Staff costs	736,315	650,754
Depreciation and amortisation	96,479	109,830
Tax	87,068	86,977
Administrative expenses	85,229	55,927
Security and fire prevention fee	84,075	69,937
Research and development costs	58,242	40,293
IT system maintenance fee	27,785	23,461
Others	190,362	244,776
Total	2,382,085	2,326,818

(39) Financial expenses

Expressed in thousands of Renminbi Yuan

Items	2010	2009
Interest expenses from loans and payables	274,511	358,474
Less: Borrowing costs capitalised	-830	-44,485
Interest income from deposits and receivables	-37,375	-19,405
Net foreign exchange (gain)/ loss	-154,692	2,592
Others	13,605	13,550
Total	95,219	310,726

(40) Impairment losses ("-" represents reversals)

Expressed in thousands of Renminbi Yuan

Items	2010	2009
1. Receivables	-3,200	-1,690
2. Inventories	198,465	58,040
3. Fixed assets	238,200	98,486
Total	433,465	154,836

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

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

Expressed in thousands of Renminbi Yuan

Items resulting in changes in fair value	2010	2009
Financial assets held for trading		
- Changes in fair value	-	-10,423

(42) Investment income

(a) Investment income by category:

Expressed in thousands of Renminbi Yuan

Items	Note	2010	2009
Long-term equity investments income accounted for under the equity method	(b)	651,288	231,372
Gain on disposal of long-term equity investments		-	72,215
Gain on disposal of available-for-sale financial assets		215	222,810
Total		651,503	526,397

(b) Long-term equity investments whose individual investment income/(loss) under the equity method is more than 5% of profit before income tax, or less than 5% but one of the five largest:

Expressed in thousands of Renminbi Yuan

Investee	2010	2009
Shanghai Secco Petrochemical Company Limited(Note)	537,876	133,842
Shanghai Chemical Industrial Park Development Company Limited	53,920	67,976
BOC-SPC Gases Company Limited	29,161	22,510
Shanghai Jinsen Hydrocarbon Resins Company Limited	13,969	-2,952
Shanghai Azbil Automation Company Limited	11,909	12,082
Total	646,835	233,458

Note: For the year ended 31 December 2010, the increase of investment income from long-term equity investments under the equity method of the Group was attributed by the increase of profit after tax of Shanghai Secco Petrochemical Company Limited.

There are no severe restrictions on the investee's ability to transfer investment income to the Group.

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

(43) Non-operating income

(a) Non-operating income by category:

Expressed in thousands of Renminbi Yuan

Items	Note	2010	2009
Gain on disposal of non-current assets		2,425	116,476
Include: Net gain on disposal of fixed assets		2,425	24,674
Net gain on disposal of intangible assets		-	91,802
Government grants	(b)	37,211	25,310
Penalty income		2,100	35
Others		7,618	8,335
Total		49,354	150,156
Amount recognised in non-recurring items		49,354	150,156

(b) Government grants in details:

Expressed in thousands of Renminbi Yuan

Items	2010	2009
Amortisation of deferred income	37,131	25,310
Others	80	-
Total	37,211	25,310

(44) Non-operating expenses

Expressed in thousands of Renminbi Yuan

Items	2010	2009
Loss on disposal of fixed assets	37,060	8,488
Landscaping fee	50,000	40,000
Others	49,438	23,311
Total	136,498	71,799
Amount recognised in non-recurring items	136,498	71,799

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

(45) Income tax expense

Expressed in thousands of Renminbi Yuan

Items	Note	2010	2009
Income tax expense for the year, calculated in accordance with tax laws and related regulations		22,523	58,410
Deferred taxation		698,676	450,922
Under-provision for income tax expense in prior years		3,453	843
Total	(a)	724,652	510,175

(a) Reconciliation between income tax expense and accounting profit is as follows:

Expressed in thousands of Renminbi Yuan

Items	2010	2009
Profit before income tax	3,453,744	2,136,251
Expected income tax expense at a rate of 25% (2009: 25%)	863,436	534,063
Add: Tax effect of non-deductible expenses	6,240	5,932
Tax effect of non-taxable income	-225	-473
Under-provision for income tax expense in prior years	3,453	843
Tax effect of share of profits recognised under the equity method	-162,822	-57,843
Tax effect of unused tax losses not recognised	12,324	26,823
Others	2,246	830
Income tax expense	724,652	510,175

(46) Calculation of basic and diluted earnings per share

(a) Basic earnings per share:

Basic earnings per share is calculated by dividing the consolidated net profit attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding:

Expressed in thousands of Renminbi Yuan

Items	2010	2009
Consolidated net profit attributable to ordinary shareholders of the Company	2,703,734	1,561,605
Weighted average number of the Company's ordinary shares outstanding('000)	7,200,000	7,200,000
Basic earnings per share (RMB/Share)	0.376	0.217

(b) Diluted earnings per share:

As there are no diluted ordinary shares outstanding, the diluted earnings per share equals the basic earnings per share.

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

(47) Other comprehensive income ("-" represents loss)

Expressed in thousands of Renminbi Yuan

Items	2010	2009
Unrealised income of available-for-sale financial assets	215	112,273
Reclassification adjustment for gains on disposal of available-for-sale financial assets transferred to profit or loss	-215	-222,810
Tax effect of other comprehensive income	-	27,634
Total	-	-82,903

(48) Notes to the cash flow statement

(a) Cash received relating to other operating activities:

Expressed in thousands of Renminbi Yuan

Items	Amount
Government grants	39,336
Others	9,798
Total	49,134

(b) Cash received relating to other investing activities:

Expressed in thousands of Renminbi Yuan

Items	Amount
Agency fee	-168,896
Administrative fee	-85,229
Research and development costs	-58,242
Storage and logistics expenses	-51,222
Landscaping fee	-50,000
Others	-16,944
Total	-430,533

(c) Cash received relating to other investing activities:

Expressed in thousands of Renminbi Yuan

Item	Amount
Interest income	37,375

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

(49) Supplemental information to the cash flow statement

(a) Supplemental information to the cash flow statement

Expressed in thousands of Renminbi Yuan

Supplemental information	2010	2009
1. Reconciliation of net profit to cash flows from operating activities:		
Net profit	2,729,092	1,626,076
Add: Impairment losses	433,465	154,836
Depreciation of investment property	13,256	13,261
Depreciation of fixed assets	1,671,347	1,662,278
Amortisation of intangible assets	19,573	19,609
Losses/(gains) on disposal of fixed assets, intangible assets and other long-term assets	34,635	-107,988
Losses from changes in fair value	-	10,423
Financial expenses	81,614	297,176
Investment income	-651,503	-526,397
Decrease in deferred tax assets	698,676	450,922
Decrease/(increase) in gross inventories	1,333,068	-2,449,659
Increase in gross operating receivables	-1,762,714	-427,290
(Decrease)/increase in operating payables	-403,425	2,980,295
Increase in specific reserve	46,748	-
Net cash inflow from operating activities	4,243,832	3,703,542
2.Net change in cash and cash equivalents:		
Cash and cash equivalents balance at the end of the year	100,110	125,917
Less: cash and cash equivalents balance at the beginning of the year	125,917	627,685
Net decrease in cash and cash equivalents	-25,807	-501,768

(b) Cash and cash equivalents held by the Group are as follows:

Expressed in thousands of Renminbi Yuan

Items	2010	2009
1. Cash		
-Cash on hand	105	93
-Bank deposits available on demand	99,135	124,945
-Other monetary fund available on demand	870	879
2. Closing balance of cash and cash equivalents	100,110	125,917

6. Related party relationships and transactions

(1) Information on the parent of the Company is listed as follows:

Name of company	Relationship with the Company	Economic nature	Registered address	Authorised representative	Scope of operations	Registered capital	Shareholding percentage (%)	Proportion of voting rights (%)	The ultimate parent company	Organisation code
China Petroleum & Chemical Corporation	The immediate parent company	Joint stock limited company	No.22 Chao yang men North Street, Chaoyang District, Beijing	Su Shulin	Exploring for, extracting and selling crude oil and natural gas; oil refining; production, sale and transport of petrochemical, chemical fibres and other chemical products; pipe transport of crude oil and natural gas; research and development and application of new technologies and information.	RMB 86.7 billion	55.56	55.56	China Petrochemical Corporation	71092609-4

The above registered capital did not change during the year ended 31 December 2010.

At 31 December 2010, Sinopec Corp held 4 billion shares of the Company. There are no changes during the year.

(2) Information on the Company's subsidiaries

See Note4(1) for details of the Company's subsidiaries .

(3) Information on the Company's jointly controlled enterprises and associates

See Note5(10) for details of the Company's jointly controlled enterprises and associates .

6. Related party relationships and transactions (continued)

(4) Information of other related parties

Names of other related parties	Relationship with the Company	Organisation code
China Petrochemical Corporation	The ultimate parent company	10169286-X
Sinopec Corp Zhenhai Refining & Chemical Branch	Branch of the immediate parent company	79301742-6
Sinopec Corp Pipeline Storage & Transportation Branch	Branch of the immediate parent company	71853333-2
Sinopec Corp Chemical Products Sales Branch	Branch of the immediate parent company	77405580-6
Sinopec Corp Anqing Branch	Branch of the immediate parent company	71398286-8
Sinopec Corp Qilu Branch	Branch of the immediate parent company	72326778-8
Sinopec Yizheng Chemical Fibre Company Limited	Subsidiary of the immediate parent company	62590829-7
Sinopec Huadong Sales Company Limited	Subsidiary of the immediate parent company	74491218-4
China International United Petroleum and Chemical Company Limited	Subsidiary of the immediate parent company	10001343-1
China Petrochemical International Company Limited	Subsidiary of the immediate parent company	10169063-7
Sinopec Finance Company Limited	Subsidiary of the ultimate parent company	10169290-7
Sinopec Corp Storage and Transportation Company Limited	Subsidiary of the ultimate parent company	70356548-9

6. Related party relationships and transactions *(continued)*

(5) Related party transactions

(a) Sales and purchases of goods, rendering and receiving of services

The Group

Expressed in thousands of Renminbi Yuan

Related Parties	Transaction type	Category	2010 Amount	2010 Percentage of the same category (%)	2009 Amount	2009 Percentage of the same category (%)
Sinopec Corp, its subsidiaries and jointly controlled enterprises	Trade	Sales/Service income	39,335,194	50.70	26,471,248	51.18
Sinopec Corp, its subsidiaries and jointly controlled enterprises	Trade	Purchases	31,852,386	53.98	24,262,836	60.86
Sinopec Group and its subsidiaries	Trade	Sales/Service income	307,658	0.40	131,117	0.25
Sinopec Group and its subsidiaries	Trade	Purchases	45,773	0.08	-	-
Associates of the Company	Trade	Sales	1,142,499	1.47	290,395	0.56
Associates of the Company	Trade	Purchases	5,205,275	8.82	113,386	0.28
Jointly controlled enterprises of the Company	Trade	Sales	136,655	0.18	272,863	0.53
Jointly controlled enterprises of the Company	Trade	Purchases	497,266	0.84	419,798	1.05
Key management personnel	Compensation for services	Short-term employee benefits	6,318	0.39	6,019	0.41
Key management personnel	Compensation for services	Retirement scheme contributions	190	0.04	102	0.03

6. Related party relationships and transactions *(continued)*

(5) Related party transactions *(continued)*

(a) Sales and purchases of goods, rendering and receiving of services *(continued)*

The Company

Expressed in thousands of Renminbi Yuan

Related Parties	Transaction type	Category	2010		2009	
			Amount	Percentage of the same category (%)	Amount	Percentage of the same category (%)
Sinopec Corp, its subsidiaries and jointly controlled enterprises	Trade	Sales/service income	34,190,604	50.97	22,787,760	51.67
Sinopec Corp, its subsidiaries and jointly controlled enterprises	Trade	Purchases	31,368,984	62.67	23,473,666	71.11
Sinopec Group and its subsidiaries	Trade	Sales/service income	162,053	0.24	131,117	0.30
Sinopec Group and its subsidiaries	Trade	Purchases	45,773	0.09	-	-
Subsidiaries of the Company	Trade	Sales	1,854,879	2.77	835,355	1.89
Subsidiaries of the Company	Trade	Purchases	1,152,126	2.30	2,171,650	6.58
Associates of the Company	Trade	Sales	1,004,446	1.50	290,395	0.66
Associates of the Company	Trade	Purchases	4,319,606	8.63	113,386	0.34
Jointly controlled enterprises of the Company	Trade	Sales	136,655	0.20	272,738	0.62
Jointly controlled enterprises of the Company	Trade	Purchases	497,266	0.99	419,798	1.27
Key management personnel	Compensation for services	Short-term employee benefits	6,318	0.42	6,019	0.45
Key management personnel	Compensation for services	Retirement scheme contributions	190	0.05	102	0.03

Most of the transactions undertaken by the Group with those counterparties and their terms during the year ended 31 December 2010 have been determined by Sinopec Corp and the relevant government authorities.

The above transactions with related parties were entered into the normal course of business and on normal commercial terms in accordance with the agreements governing such transactions.

6. Related party relationships and transactions *(continued)*

(5) Related party transactions *(continued)*

(b) Related party guarantees

The Company issued guarantees in relation to loans amounting to RMB 200,000,000 drawn down by a consolidated subsidiary which will mature on 26 May 2011.

(c) Related party borrowing and lending

For the year ended 31 December 2010, both the Group and the Company borrowed from Sinopec Finance Company Limited amounting to RMB 5,160,000,000(2009: RMB 2,353,000,000).

For the year ended 31 December 2010, both the Group and the Company repaid the loans to Sinopec Finance Company Limited amounting to RMB 4,990,000,000 (2009: 2,643,000,000).

(d) Other related party transactions

The Group

Expressed in thousands of Renminbi Yuan

Transaction	Related Parties	2010	2009
Insurance premiums	Sinopec Group	96,712	88,408
Interest received and receivable	Sinopec Finance Company Limited	570	532
Interest paid and payable	Sinopec Finance Company Limited	29,029	26,423
Construction and installation fees	Sinopec Group	88,586	165,204
Sales commissions	Sinopec Huadong Sales Company Limited	168,896	116,441
Rental income	Sinopec Corp	20,781	14,995
Rental income	Associates of the Company	6,161	5,218

The Company

Expressed in thousands of Renminbi Yuan

Transaction	Related Parties	2010	2009
Insurance premiums	Sinopec Group	96,712	88,408
Interest received and receivable	Sinopec Finance Company Limited	569	531
Interest paid and payable	Sinopec Finance Company Limited	19,244	15,919
Construction and installation fees	Sinopec Group	88,586	165,204
Sales commissions	Sinopec Huadong Sales Company Limited	168,896	116,441
Rental income	Sinopec Corp	20,781	14,995
Rental income	Subsidiaries of the Company	6,732	5,826
Rental income	Associates of the Company	6,161	5,218

6. Related party relationships and transactions *(continued)*

(6) Balances of receivables and payables with related parties

The Group

Expressed in thousands of Renminbi Yuan

Items	Related Parties	2010	2009
Bills receivable	Sinopec Corp, its subsidiaries and jointly controlled enterprises	50,220	2,000
Bills receivable	Associates of the Company	-	28,418
Accounts receivable	Sinopec Corp, its subsidiaries and jointly controlled enterprises	596,097	395,253
Accounts receivable	Sinopec Group and its subsidiaries	12,482	134
Accounts receivable	Associates of the Company	46,071	16,685
Accounts receivable	Jointly controlled enterprises of the Company	23,092	2,731
Dividends receivable	Associates of the Company	5,042	-
Other receivables	Sinopec Corp, its subsidiaries and jointly controlled enterprises	8,191	3,138
Other receivables	Sinopec Group and its subsidiaries	341	422
Other receivables	Associates of the Company	164	206
Other receivables	Jointly controlled enterprises of the Company	2,945	2,841
Prepayments	Sinopec Corp, its subsidiaries and jointly controlled enterprises	31,589	122,845
Prepayments	Sinopec Group and its subsidiaries	-	1,618
Prepayments	Associates of the Company	-	108
Bills payable	Sinopec Corp, its subsidiaries and jointly controlled enterprises	-	610,000
Accounts payable	Sinopec Corp, its subsidiaries and jointly controlled enterprises	1,541,493	2,435,094
Accounts payable	Sinopec Group and its subsidiaries	20,942	24,485
Accounts payable	Associates of the Company	116,447	197,278
Accounts payable	Jointly controlled enterprises of the Company	42,362	-
Other payables	Sinopec Corp, its subsidiaries and jointly controlled enterprises	16,199	190,092
Other payables	Sinopec Group and its subsidiaries	19,739	14,587
Other payables	Associates of the Company	8,786	8
Advances from customers	Sinopec Corp, its subsidiaries and jointly controlled enterprises	31,099	10,961
Advances from customers	Sinopec Group and its subsidiaries	1,007	2,138
Advances from customers	Associates of the Company	2,917	3,003
Short-term loans	Subsidiaries of the ultimate holding company	410,000	240,000

As at 31 December 2010, bad debt provision of receivables from related parties was RMB:nil (2009: RMB nil)

6. Related party relationships and transactions *(continued)*

(6) Balance of receivables and payables with related parties *(continued)*

The Company

Expressed in thousands of Renminbi Yuan

Items	Related Parties	2010	2009
Bills receivable	Sinopec Corp, its subsidiaries and jointly controlled enterprises	20,000	2,000
Bills receivable	Subsidiaries of the Company	30,950	15,834
Bills receivable	Associates of the Company	-	28,418
Accounts receivable	Sinopec Corp, its subsidiaries and jointly controlled enterprises	251,530	354,937
Accounts receivable	Sinopec Group and its subsidiaries	854	134
Accounts receivable	Subsidiaries of the Company	11,731	10,815
Accounts receivable	Associates of the Company	46,071	16,582
Accounts receivable	Jointly controlled enterprises of the Company	23,092	2,731
Dividends receivable	Associates of the Company	5,042	-
Other receivables	Sinopec Corp, its subsidiaries and jointly controlled enterprises	8,191	3,138
Other receivables	Sinopec Group and its subsidiaries	341	422
Other receivables	Subsidiaries of the Company(Note a)	-	-
Other receivables	Associates of the Company	164	206
Other receivables	Jointly controlled enterprises of the Company	2,945	2,841
Prepayments	Sinopec Corp, its subsidiaries and jointly controlled enterprises	31,221	121,444
Prepayments	Sinopec Group and its subsidiaries	-	1,618
Bills payable	Sinopec Corp, its subsidiaries and jointly controlled enterprises	-	610,000
Bills payable	Subsidiaries of the Company	-	242,057
Accounts payable	Sinopec Corp, its subsidiaries and jointly controlled enterprises	1,533,442	2,435,090
Accounts payable	Sinopec Group and its subsidiaries	20,942	24,485
Accounts payable	Subsidiaries of the Company	195,282	112,923
Accounts payable	Associates of the Company	97,588	129,635
Accounts payable	Jointly controlled enterprises of the Company	42,362	-
Other payables	Sinopec Corp, its subsidiaries and jointly controlled enterprises	16,199	190,091
Other payables	Sinopec Group and its subsidiaries	19,739	14,587
Other payables	Subsidiaries of the Company	528,551	649,865
Other payables	Associates of the Company	8,786	8
Advances from customers	Sinopec Corp, its subsidiaries and jointly controlled enterprises	30,940	10,963
Advances from customers	Sinopec Group and its subsidiaries	1,007	2,138
Advances from customers	Subsidiaries of the Company	3,528	5,215
Advances from customers	Associates of the Company	2,893	2,978
Short-term loans	Subsidiaries of the ultimate holding company	210,000	40,000

6. Related party relationships and transactions *(continued)*

(6) Balance of receivables and payables with related parties *(continued)*

(a) As at 31 December 2010, a bad debt provision for other receivables due from Jin Yong, the Company's consolidated subsidiary, amounting to RMB 431,150,000, was included in the above balance of other receivables from subsidiaries (2009: RMB 383,550,000). The Company provided a full bad debt provision based on the reasons stated in Note 11 (4)(c). No provision was recognised for other receivables due from other related parties.

7. Contingencies

(1) Contingent liabilities resulted from guarantees provided to others and their financial impact

The Company

Expressed in thousands of Renminbi Yuan

Items	2010	2009
Guarantees issued to banks in favour of:		
- A subsidiary	200,000	200,000
Total	200,000	200,000

Management monitors the conditions that are subject to the guarantees to identify whether it is probable that a loss has occurred, and recognises any such losses under guarantees when those losses can be reliably estimated. At 31 December 2010, it is not probable that the Group will be required to make payments under the guarantees. Thus no liability has been accrued for a loss related to the Group's obligation under the guarantees arrangement.

(2) Income tax differences

In June 2007, the State Administrative of Taxation issued a tax circular (Circular No.664) to the local tax authorities requesting the relevant local tax authorities to rectify the applicable enterprise income tax ("EIT") for nine listed companies, which included the Company. After the notice was issued, the Company was required by the relevant tax authority to settle the EIT for 2007 at a rate of 33 percent. To date, the Company has not been requested by the tax authorities to pay additional EIT in respect of any years prior to 2007. There is no further development of this matter during the year ended 31 December 2010. No provision has been made in the financial statements at 31 December 2010 for this uncertainty because management believes it is not probable that the Group will be required to pay additional EIT for tax years prior to 2007.

8. Commitments

(1) Significant commitments

(a) Capital commitments:

Expressed in thousands of Renminbi Yuan

Item	2010	2009
Contracted but not provided for	887,928	35,745
Authorised by the Board but not contracted for	6,110,386	7,754,320
Total	6,998,314	7,790,065

Capital commitments relate primarily to the expenditures of property, plant and equipment, the Group's other investments and investment in associates.

At 31 December 2010, the Group did not have material operating lease commitment.

9. Post balance sheet events

(1) Profit appropriation after balance sheet date

Expressed in thousands of Renminbi Yuan

Profit or dividend to be appropriated	Note(a)	720,000

(a) Dividends of ordinary shares proposed after the balance sheet date

The Board of Directors proposed on 25 March 2011, the appropriation of a cash dividend of RMB 0.10 per share (2009: RMB 0.03 per share) to the Company's ordinary shareholders, totalling RMB 720,000,000 (2009: RMB 216,000,000). The proposal is subject to the approval by the Shareholders' Meeting. Such cash dividend has not been recognised as a liability at the balance sheet date.

10. Other important matters

(1) Segment reporting

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

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

10. Other important matters *(continued)*

(1) Segment reporting *(continued)*

The Group evaluates the performance and allocates resources to its operating segments on an operating income basis, without considering the effects of finance costs, investment income, non-operating income and non-operating expense. The accounting policies adopted by the operating segments are the same with the policies in Note 2. The transfer price of inter segment is recognised with cost plus profit method.

Operating expenses include operating costs, business taxes and surcharges, selling and distribution expenses, general and administrative expenses and impairment losses.

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

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

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

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

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

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

10. Other important matters *(continued)*

(1) Segment reporting *(continued)*

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items mainly comprise long-term equity investments, deferred tax assets, cash and cash equivalents, investment property and related revenues (such as investment income and interest income), interest-bearing loans, interest expenses and corporate assets and expenses.

(a) Segment results, assets and liabilities

Expressed in thousands of Renminbi Yuan

	2010	2009
Operating income		
Synthetic fibres		
External sales	3,955,396	2,860,851
Intersegment sales	82	57
Sub-total	3,955,478	2,860,908
Resins and plastics		
External sales	15,065,276	12,407,738
Intersegment sales	118,699	44,245
Sub-total	15,183,975	12,451,983
Intermediate petrochemicals		
External sales(Note (i))	17,399,592	8,511,347
Intersegment sales(Note (ii))	18,583,283	12,165,836
Sub-total	35,982,875	20,677,183
Petroleum products		
External sales(Note (i))	33,734,607	22,936,392
Intersegment sales	2,678,172	1,762,391
Sub-total	36,412,779	24,698,783
All others		
External sales(Note (i))	7,436,316	5,006,399
Intersegment sales	2,567,305	2,589,206
Sub-total	10,003,621	7,595,605
Elimination of inter segment sales	-23,947,541	-16,561,735
Total	77,591,187	51,722,727

(i) Among the operating income from the segments of intermediate petrochemicals, petroleum products and all others, one customer contributed 51% of the Group's operating income.(2009: 49%)

10. Other important matters *(continued)*

(1) Segment reporting *(continued)*

(a) Segment results, assets and liabilities *(continued)*

(ii) The sales of the intermediate petrochemicals segment to the other segments are as follows:

Expressed in thousands of Renminbi Yuan

	2010	2009
Synthetic fibres	3,366,715	2,721,968
Resins and plastics	14,938,149	9,200,552
Petroleum products	278,419	243,316
Total	18,583,283	12,165,836

Expressed in thousands of Renminbi Yuan

	2010	2009
Operating expenses		
Synthetic fibres	3,514,964	2,847,894
Resins and plastics	14,072,745	11,556,762
Intermediate petrochemicals	17,026,194	8,316,023
Petroleum products	32,592,086	22,151,679
All others	7,400,594	4,997,723
Total	74,606,583	49,870,081
Operating profit		
Synthetic fibres	440,432	12,957
Resins and plastics	992,531	850,976
Intermediate petrochemicals	373,398	195,324
Petroleum products	1,142,521	784,713
All others	35,722	8,676
Total segment profit	2,984,604	1,852,646
Financial expenses	-95,219	-310,726
Add: Gains/(losses) from changes in fair value	-	-10,423
Investment income	651,503	526,397
Operating profit	3,540,888	2,057,894
Non-operating income	49,354	150,156
Non-operation expenses	-136,498	-71,799
Profit before income tax	3,453,744	2,136,251
Income tax expense	-724,652	-510,175
Net profit	2,729,092	1,626,076

10. Other important matters *(continued)*

(1) Segment reporting *(continued)*

(a) Segment results, assets and liabilities *(continued)*

Expressed in thousands of Renminbi Yuan

	2010	2009
Assets		
Synthetic fibres	1,333,295	1,548,519
Resins and plastics	1,475,329	1,729,735
Intermediate petrochemicals	7,010,751	7,091,910
Petroleum products	11,739,532	12,107,543
All others	2,587,586	2,096,675
Total segment assets	24,146,493	24,574,382
Long-term equity investments	3,526,290	2,969,646
Unallocated	1,485,321	2,914,294
Total assets	29,158,104	30,458,322

10. Other important matters *(continued)*

(1) Segment reporting *(continued)*

(a) Segment results, assets and liabilities *(continued)*

Expressed in thousands of Renminbi Yuan

	2010	2009
Liabilities		
Segment Liabilities		
Synthetic fibres	233,051	262,766
Resins and plastics	887,641	1,139,638
Intermediate petrochemicals	1,025,178	781,758
Petroleum products	3,341,120	3,644,145
All others	438,146	459,833
Total segment liabilities	5,925,136	6,288,140
Short-term loans	3,295,438	6,700,398
Short-term debentures payable	1,000,000	1,000,000
Non-current liabilities due within one year	178,237	74,275
Long-term loans	175,000	304,258
Unallocated	411,400	450,893
Total liabilities	10,985,211	14,817,964
Depreciation and amortisation of intangible assets		
Synthetic fibres	226,951	226,295
Resins and plastics	351,670	351,587
Intermediate petrochemicals	586,734	582,781
Petroleum products	358,105	354,928
All others	167,460	166,296
Total segment depreciation and amortisation of intangible assets	1,690,920	1,681,887
Unallocated	13,256	13,261
Total depreciation and amortisation of intangible assets	1,704,176	1,695,148
Impairment losses on fixed assets		
Synthetic fibres	92,000	75,140
Resins and plastics	26,300	-
Intermediate petrochemicals	119,900	-
Others	-	23,346
Total impairment losses on fixed assets	238,200	98,486

10. Other important matters *(continued)*

(1) Segment reporting *(continued)*

(a) Segment results, assets and liabilities *(continued)*

Expressed in thousands of Renminbi Yuan

	2010	2009
Capital expenditures for segment long-lived assets		
Synthetic fibres	154,149	98,668
Resins and plastics	15,179	16,913
Intermediate petrochemicals	197,774	1,324,081
Petroleum products	825,494	397,482
All others	164,250	283,148
Total capital expenditures for segment long-lived assets	1,356,846	2,120,292

(b) Geographic information

In view of the fact that the Group mainly operates in the PRC, no geographical segment information is presented.

(2) Financial Risk Management

Overview

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

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

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

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

10. Other important matters *(continued)*

(2) Financial Risk Management *(continued)*

(a) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers. The carrying amount of accounts receivable, bills receivable, and other receivables represent the Group's maximum exposure to credit risk in relation to financial assets.

The majority of the Group's accounts receivable relate to sales of petroleum and chemical products to related parties and third parties operating in the petroleum and chemical industries. Management performs ongoing credit evaluations of its customers' financial condition and generally does not require collateral on accounts receivable. The Group maintains an impairment loss for doubtful accounts and actual losses have been within management's expectations.

(b) Liquidity risk

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

At 31 December 2010, the Group's current liabilities exceeded its current assets by RMB 2,041,384,000 (2009: RMB 5,217,500,000). In 2010, the liquidity of the Group is primarily dependent on its ability to maintain adequate cash inflow from operations, the renewal of its short-term bank loans and on its ability to obtain adequate external financing, including the issuance of short-term corporate bonds, to support its working capital and meet its debt obligation when they become due. At 31 December 2010, the Group has standby credit facilities with several PRC financial institutions which provide the Group to borrow up to RMB 9,300,000,000 (2009: RMB 9,100,000,000)on an unsecured basis. At 31 December 2010, the Group's outstanding borrowings under these facilities were RMB 2,363,336,000 (2009: RMB 4,458,044,000) and were included in short-term loans.

Management has carried out a detailed review of the cash flow forecast of the Group for the twelve months ending 31 December 2011. Based on such forecast, management believes that adequate sources of liquidity exist to fund the Group's working capital and capital expenditure requirements, and meet its short term debt obligations as they become due. In preparing the cash flow forecast, management has considered historical cash requirements of the Group as well as other key factors, including the availability of the above-mentioned banking facilities which may impact the operations of the Group during the next twelve-month period. Management is of the opinion that the assumptions used in the cash flow forecast are reasonable.

10. Other important matters *(continued)*

(2) Financial Risk Management *(continued)*

(b) Liquidity risk *(continued)*

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

Expressed in thousands of Renminbi Yuan

Item	2010 Total contractual undiscounted cash flow				Carrying amount
	Within one year or on demand	More than one year but less than two years	More than two years but less than five years	Total	
Financial Assets					
Cash at bank and on hand	100,110	-	-	100,110	100,110
Bills receivable	2,043,493	-	-	2,043,493	2,043,493
Accounts receivable and other receivables	810,120	-	-	810,120	810,120
Long-term receivables	675	30,675	-	31,350	30,000
Sub-total	2,954,398	30,675	-	2,985,073	2,983,723
Financial liabilities:					
Short-term loans	-3,380,797	-	-	-3,380,797	-3,295,438
Bills payable	-41,034	-	-	-41,034	-41,034
Accounts payable and other payables	-4,157,591	-	-	-4,157,591	-4,157,591
Short-tem debentures payable	-1,032,700	-	-	-1,032,700	-1,000,000
Non-current liabilities due within one year	-183,340	-	-	-183,340	-178,237
Long-term loans	-9,387	-9,387	-184,387	-203,161	-175,000
Sub-total	-8,804,849	-9,387	-184,387	-8,998,623	-8,847,300
Net amount	-5,850,451	21,288	-184,387	-6,013,550	-5,863,577

10. Other important matters *(continued)*

(2) Financial Risk Management *(continued)*

(b) Liquidity risk *(continued)*

Expressed in thousands of Renminbi Yuan

Item	2009 Total contractual undiscounted cash flow				Carrying amount
	Within one year or on demand	More than one year but less than two years	More than two years but less than five years	Total	
Financial Assets					
Cash at bank and on hand	125,917	-	-	125,917	125,917
Bills receivable	603,701	-	-	603,701	603,701
Accounts receivable and other receivables	620,405	-	-	620,405	620,405
Long-term receivables	1,581	1,581	101,581	104,743	100,000
Sub-total	1,351,604	1,581	101,581	1,454,766	1,450,023
Financial liabilities:					
Short-term loans	-6,789,420	-	-	-6,789,420	-6,700,398
Bills payable	-722,271	-	-	-722,271	-722,271
Accounts payable and other payables	-4,568,940	-	-	-4,568,940	-4,568,940
Short-tem debentures payable	-1,020,500	-	-	-1,020,500	-1,000,000
Non-current liabilities due within one year	-74,275	-	-	-74,275	-74,275
Long-term loans	-15,471	-119,729	-220,736	-355,936	-304,258
Sub-total	-13,190,877	-119,729	-220,736	-13,531,342	-13,370,142
Net amount	-11,839,273	-118,148	-119,155	-12,076,576	-11,920,119

10. Other important matters *(continued)*

(2) Financial Risk Management *(continued)*

(c) Market risk

(i) Currency risk

Currency risk arises on financial instruments that are denominated in a currency other than the functional currency in which they are measured. The Group's currency risk exposure primarily relates to loans and borrowings denominated in US dollars.

Other than the cash at bank and on hand and the loan balances as disclosed in Note 5(1), the amounts of other financial assets and liabilities of the Group are substantially denominated in the functional currency of respective entity of the Group.

Included in short-term loans and long-term loans are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

Expressed in thousands of USD

Items	2010	2009
Loans and borrowings denominated in US Dollars	-381,935	-886,007

The analysis on the major applicable foreign exchange rates is as follows:

Item	Weighted average exchange rate		Middle exchange rate at the balance sheet date	
	2010	2009	2010	2009
USD	6.7255	6.8314	6.6227	6.8282

A 5 percent strengthening / weakening of USD against Renminbi at 31 December 2010 would have increased / decreased net profit for the year and retained earnings of the Group by approximately RMB 94,854,000 (2009: RMB 226,869,000). This analysis has been determined assuming that the change in foreign exchange rates had occurred at the balance sheet date and had been applied to the foreign currency balances to which the Group has significant exposure as stated above, and that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2009.

10. Other important matters *(continued)*

(2) Financial Risk Management *(continued)*

(c) Market risk *(continued)*

(ii) Interest rate risk

The Group's interest rate risk exposure arises primarily from its short-term and long-term debts. Loans carrying interest at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. The interest rates and terms of repayment of short-term loans and long-term loans of the Group are disclosed in Note 5(18), (27) and (28).

As at 31 December 2010, it is estimated that a general increase / decrease of 100 basis points in interest rates, with all other variables held constant, would decrease / increase the Group's net profit for the year and retained earnings by approximately RMB 19,808,000 (2009: RMB 43,444,000). This sensitivity analysis has been determined assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to floating interest rate risk for financial instruments in existence at that date. The analysis is performed on the same basis for 2009.

(d) Capital management

Management optimises the structure of its capital, comprising equity and loans. In order to maintain or adjust the capital structure, management may cause the Group to issue new shares, adjust the capital expenditure plan, sell assets to reduce debt, or adjust the proportion of short-term and long-term loans. Management monitors capital on the basis of debt-to-equity ratio, which is calculated by dividing loans and debentures payable, including short-term loans, short-term debentures payable, non-current liabilities due within one year and long-term loans, by the total equity attributable to equity shareholders of the Company, and liability-to-asset ratio, which is calculated by dividing total liabilities by total assets. Management's strategy is to make appropriate adjustments according to the operating and investment needs and the changes in market conditions, and to maintain the debt-to-equity ratio and the liability-to-asset ratio at a range considered reasonable by management. As at 31 December 2010, the debt-to-equity ratio and the liability-to-asset ratio of the Group were 25.95% (2009: 52.64%) and 37.67% (2009: 48.65%) respectively.

The schedule of the contractual maturities of loans and commitments are disclosed in Note 5(18), (26), (27), (28) and 8, respectively.

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

10. Other important matters *(continued)*

(2) Financial Risk Management *(continued)*

(e) Fair value

The following table presents the carrying amounts and fair values of the Group's long-term bank loans at 31 December 2010 and 2009.

Expressed in thousands of Renminbi Yuan

Item	2010		2009	
	Carrying amount	Fair Value	Carrying amount	Fair Value
Liabilities				
Long-term bank loans	275,000	273,777	378,533	375,233

The fair value of long-term bank loans is estimated by discounting future cash flows thereon using current market interest rates offered to the Group for loans with substantially the same characteristics and maturities ranging 5.23% to 5.60% (2009: 5.31% to 5.94%).

The fair value of available-for-sale financial assets was based on quoted market price at the balance sheet date. Unquoted equity investments are individually and in the aggregate not material to the Group's financial condition or results of operations. There are no listed market prices for such interests in the PRC and, accordingly, a reasonable estimate of fair value could not be made without incurring excessive costs.

The fair values of cash at bank and on hand, accounts receivable, bills receivable, prepayments, other receivables, accounts payable, advances from customers and other payables are not materially different from their carrying amounts.

The fair value of short-term loans and short-term debentures payable approximate their carrying amounts due to the nature or short-term maturity of these instruments.

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

10. Other important matters *(continued)*

(3) Financial assets and liabilities denominated in foreign currency

Expressed in thousands of Renminbi Yuan

Items	Note	Balance at 1 January	Changes in fair value for the year	Cumulative changes in fair value recognised directly in equity	Provision for impairment for the year	Balance at 31 December
Financial assets						
1. Cash at bank and on hand		13,130	-	-	-	12,998
Sub-total		13,130				12,998
Financial liabilities	(a)	6,049,833				2,529,441

(a) Financial liabilities represent bank loans denominated in foreign currency.

11. Notes to major items of the Company's financial statements

(1) Cash at bank and on hand

Expressed in thousands of RMB/USD/HKD/CHF

Items	2010			2009		
	Original currency	Exchange rate	RMB/ RMB equivalents	Original currency	Exchange rate	RMB/ RMB equivalents
Cash on hand:						
RMB	—	—	52	—	—	57
Deposits with banks:						
RMB	—	—	76,478	—	—	87,910
HKD	13,771	0.8509	11,718	13,674	0.8805	12,040
USD	22	6.6227	146	34	6.8282	229
Other monetary funds: (Note)						
CHF	118	7.0562	830	127	6.5938	840
Total	—	—	89,224	—	—	101,076

Note: other monetary funds represent deposit in credit cards.

11. Notes to major items of the Company's financial statements *(continued)*

(2) Bills receivable

(a) Bills receivable by category

Expressed in thousands of Renminbi Yuan

Items	2010	2009
Bank acceptance bills	1,879,316	528,739
Commercial acceptance bills	8,100	14,000
Total	1,887,416	542,739

All of the above bills held are short-term acceptance bills, due within six months. No bills receivables, included in the above, were pledged or transferred to accounts receivable due to non-performance of the issuers in 2010.

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

At 31 December 2010, the Company's discounted bank bills (with recourse) amounted to RMB nil. (2009: RMB 503,748,000).

At 31 December 2010, the Company's discounted commercial bills amounted to RMB nil.(2009: RMB nil).

(3) Accounts receivable

(a) Accounts receivable by customer type:

Expressed in thousands of Renminbi Yuan

Type	Note	2010	2009
Amounts due from related parties	6(6)	333,278	385,199
Amounts due from third parties		18,419	57,017
Less: provision for bad and doubtful debts		-4,370	-9,530
Total		347,327	432,686

11. Notes to major items of the Company's financial statements *(continued)*

(3) Accounts receivable *(continued)*

(b) Accounts receivable by ageing:

Expressed in thousands of Renminbi Yuan

Type	2010	2009
Within one year (including one year)	347,315	432,651
Between one and two years (including two years)	11	37
Between two and three years (including three years)	11	5
Over three years	4,360	9,523
Less: provision for bad and doubtful debts	-4,370	-9,530
Total	347,327	432,686

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

(c) Accounts receivable by categories:

Expressed in thousands of Renminbi Yuan

Category	2010				2009			
	Gross carrying amount		Bad debt provision		Gross carrying amount		Bad debt provision	
	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)
Accounts receivable collectively assessed for impairment								
Within one year	347,315	98.75	-	-	432,651	97.84	-	-
Between one and two years	11	0.00	3	27.27	37	0.01	4	10.81
Between two and three years	11	0.00	7	63.64	5	0.00	3	60.00
Over three years	4,360	1.25	4,360	100.00	9,523	2.15	9,523	100.00
Total	351,697	100.00	4,370	—	442,216	100.00	9,530	—

There are no guaranties for the accounts receivables with bad debt provision.

During the year, the Group assessed the impairment on an individual basis in accordance with the accounting policy as described in Note 2(10), and there are no individually significant or insignificant accounts receivables provided for bad debt provision; the Group had no individually significant write off or write back of bad debts which had been fully or substantially provided for in prior years. At 31 December 2010, the Group had no individually significant accounts receivables that aged over three years.

11. Notes to major items of the Company's financial statements *(continued)*

(3) Accounts receivable *(continued)*

(d) Accounts receivable due from the five largest customers of the Company are as follows:

Expressed in thousands of Renminbi Yuan

Name	Relationship with the Company	Amount	Ageing	Percentage of total accounts receivable (%)
Sinopec Huadong Sales Company Limited	Subsidiary of Sinopec Corp	207,625	Due within one year	59.04
Shanghai Secco Petrochemical Company Limited	Associate	37,881	Due within one year	10.77
BOC-SPC Gases Company Limited	Jointly controlled enterprise	23,092	Due within one year	6.57
Sinopec Corp Anqing Branch	Branch of Sinopec Corp	20,903	Due within one year	5.94
Sinopec Corp Qilu Branch	Branch of Sinopec Corp	10,783	Due within one year	3.06
Total		300,284		85.38

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

(4) Other receivables

(a) Other receivables by customer type:

Expressed in thousands of Renminbi Yuan

Type	2010	2009
Amounts due from related parties	442,791	390,157
Amounts due from third parties	9,270	46,048
Less: provision for bad and doubtful debts	-433,411	-386,935
Total	18,650	49,270

11. Notes to major items of the Company's financial statements *(continued)*

(4) Other receivables *(continued)*

(b) Other receivables by aging:

Expressed in thousands of Renminbi Yuan

Type	2010	2009
Within one year (including one year)	68,802	148,653
Between one and two years (including two years)	98,283	263,365
Between two and three years (including three years)	262,750	20,022
Over three years	22,226	4,165
Less: provision for bad and doubtful debts	-433,411	-386,935
Total	18,650	49,270

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

(c) Other receivables by category:

Expressed in thousands of Renminbi Yuan

Category	2010				2009			
	Gross carrying amount		Bad debt provision		Gross carrying amount		Bad debt provision	
	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)
Other receivables that are individually significant and assessed individually for impairment								
Sub-total	431,150	95.37	431,150	100.00	422,341	96.82	383,550	90.82
Other receivables collectively assessed for impairment								
Within one year	18,202	4.03	-	-	9,012	2.07	-	-
Between one and two years	433	0.10	98	22.63	665	0.15	196	29.47
Between two and three years	50	0.01	46	92.00	22	0.01	-	-
Over three years	2,226	0.49	2,117	95.10	4,165	0.95	3,189	76.57
Sub-total	20,911	4.63	2,261	10.81	13,864	3.18	3,385	24.42
Total	452,061	100.00	433,411	—	436,205	100.00	386,935	—

During the year, the Group assessed the impairment on an individual basis in accordance with the accounting policy as described in Note 2(10), and there are individually significant other receivables provided for: the Company made a full bad debt provision of RMB 431,150,000 for the other receivables due from its subsidiary, Jin Yong, (2009: RMB 383,550,000). Jin Yong has suspended its operations since August 2008. The Company has made an estimate on the recoverability of the other receivables due from Jin Yong and made a full provision. The Company had no other individually insignificant other receivables provided for impairment.

The Company had no individually significant write off or write back of bad debts which had been fully or substantially provided for in prior years. At 31 December 2010, the Company had no individually significant other receivables that aged over three years.

11. Notes to major items of the Company's financial statements *(continued)*

(4) Other receivables *(continued)*

(d) Other receivables due from the five largest customers of the Company are as follows:

Expressed in thousands of Renminbi Yuan

Name	Relationship with the Company	Amount	Ageing	Percentage of total accounts receivable(%)
Zhe Jiang Jin Yong Acrylic Fibre Company Limited	Subsidiary	431,150	Due within three years	95.37
Sinopec Huadong Sales Company Limited	Subsidiary of Sinopec Corp	7,940	Due within one year	1.76
BOC-SPC Gases Company Limited	Jointly controlled enterprise	2,945	Due within one year	0.65
Shanghai Bozhan Industry Company Limited	Third party	1,338	Due within one year	0.30
Shanghai Petrochemical Haiti Management Office	Subsidiary of Sinopec Corp	341	Due within three years	0.08
Total		443,714		98.16

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

(5) Inventories

(a) Inventories by category:

Expressed in thousands of Renminbi Yuan

Items	2010			2009		
	Cost	Provision for diminution in value	Carrying amount	Cost	Provision for diminution in value	Carrying amount
Raw materials	2,498,028	-	2,498,028	4,100,888	16,739	4,084,149
Work in progress	1,406,264	-	1,406,264	1,325,669	-	1,325,669
Finished goods	784,425	36,639	747,786	684,383	32,983	651,400
Spare parts and consumables	476,347	18,389	457,958	658,883	61,651	597,232
Total	5,165,064	55,028	5,110,036	6,769,823	111,373	6,658,450

All the above inventories are purchased or self-manufactured.

11. Notes to major items of the Company's financial statements *(continued)*

(5) Inventories *(continued)*

(b) Provision for diminution in value of inventories

Expressed in thousands of Renminbi Yuan

Items	At 1 January	Provision for the year	Decrease during the year	At 31 December
			Write-off	
Raw materials	16,739	-	-16,739	-
Finished goods	32,983	99,049	-95,393	36,639
Spare parts and Consumables	61,651	100,917	-144,179	18,389
Total	111,373	199,966	-256,311	55,028

(6) Other current assets

As at 31 December 2010, the balance of other current assets represents long-term deferred expense due within one year.

The Company purchased a bank financial product from a PRC state-owned bank with a carrying amount of RMB 700,000,000 in 2009. The financial product mainly invests in debt and equity securities and was redeemed in January 2010.

11. Notes to major items of the Company's financial statements *(continued)*

(7) Long-term equity investments

(a) Long-term equity investments by category:

Expressed in thousands of Renminbi Yuan

	Interests in associates	Interests in jointly controlled enterprises	Interests in subsidiaries	Sub-total	Provision for impairment losses	Carrying amount
					Note(i)	
Balance at 1 January 2010	2,571,069	109,015	1,582,788	4,262,872	-227,500	4,035,372
Share of profits from investments accounted for under equity method	591,796	29,161	-	620,957	-	620,957
Dividends receivable/received	-58,055	-20,000	-	-78,055	-	-78,055
Balance at 31 December 2010	3,104,810	118,176	1,582,788	4,805,774	-227,500	4,578,274

(i) As at 31 December 2010, the Company made cumulative impairment losses of RMB 227,500,000 for the long-term equity investment in its subsidiary, Jin Yong (31 December 2009: RMB 227,500,000). The Company provided a full impairment for the investment in Jin Yong based on the reasons disclosed in Note 11(4(c)).

(b) The Company's major jointly controlled enterprises and associates

For the information of the Company's major jointly controlled enterprises and associates, see note 5(10)(b).

(8) Investment property

Expressed in thousands of Renminbi Yuan

Items	At 1 January	Additions	Decreases	At 31 December
1. Cost	615,334	-	-	615,334
2. Accumulated depreciation	75,852	14,922	-	90,774
3. Net book value	539,482			524,560
4. Provision for impairment	-	-	-	-
5. Carrying amount	539,482			524,560

The investment property of the Company represents all buildings.

Depreciation charged for the year of the investment property of the Company amounted to RMB14,922,000 (2009: RMB 14,923,000).

11. Notes to major items of the Company's financial statements *(continued)*

(9) Fixed assets

(a) Fixed assets

Expressed in thousands of Renminbi Yuan

Items	Balance at 1 January	Additions	Decreases	Balance at 31 December
1. Original Cost:	35,892,165	527,388	-441,768	35,977,785
-Buildings	4,822,343	27,716	-34,463	4,815,596
-Plant and machinery	24,443,698	393,013	-297,546	24,539,165
-Vehicles and other equipment	6,626,124	106,659	-109,759	6,623,024
		Charge for the year		
2. Accumulated depreciation:	21,010,600	1,623,837	-391,013	22,243,424
-Buildings	3,177,322	130,020	-25,689	3,281,653
-Plant and machinery	13,365,374	1,227,930	-263,835	14,329,469
-Vehicles and other equipment	4,467,904	265,887	-101,489	4,632,302
3. Net book value:	14,881,565			13,734,361
-Buildings	1,645,021			1,533,943
-Plant and machinery	11,078,324			10,209,696
-Vehicles and other equipment	2,158,220			1,990,722
4. Provision for impairment losses:	340,446	238,200	-21,132	557,514
-Buildings	51,462	8,578	-280	59,760
-Plant and machinery	280,031	206,929	-19,308	467,652
-Vehicles and other equipment	8,953	22,693	-1,544	30,102
5. Carrying amount:	14,541,119			13,176,847
-Buildings	1,593,559			1,474,183
-Plant and machinery	10,798,293			9,742,044
-Vehicles and other equipment	2,149,267			1,960,620

Depreciation charged for the year amounted to RMB 1,623,837,000 (2009: RMB 1,514,828,000).

Construction in progress amounting to RMB 428,894,000 (2009: RMB 3,230,061,000) was transferred to fixed assets during the year.

For the information of the provision for impairment losses, see Note5(12)(c).

(b) At 31 December 2010 and 2009, the Company had no pledged fixed assets.

11. Notes to major items of the Company's financial statements *(continued)*

(10) Construction in progress

Project	2010		
	Original cost	Provision for impairment	Carrying amount
Refinery Renovation Project	714,513	-	714,513
Energy Saving and Upgrade Reconstruction on 2# Oxidation Unit	57,416	-	57,416
1500 ton/year PAN-based Carbon Fibre Project	56,055	-	56,055
Numerous small projects of Synthetic Fibres segment	64,018	-	64,018
Numerous small projects of Resins and Plastics segment	17,891	-	17,891
Numerous small projects of Intermediate Petrochemicals segment	112,999	-	112,999
Numerous small projects of Petroleum Products segment	40,917	-	40,917
Numerous small projects of all others	112,420	-	112,420
Total	1,176,229	-	1,176,229

Expressed in thousands of Renminbi Yuan

Project	2009		
	Original cost	Provision for impairment	Carrying amount
Shanghai Petrochemical Gas Utilisation Project	63,048	-	63,048
Energy Saving and Upgrade Reconstruction on 2# Oxidation Unit	14,417	-	14,417
Numerous small projects of Synthetic Fibres segment	65,733	-	65,733
Numerous small projects of Resins and Plastics segment	22,345	-	22,345
Numerous small projects of Intermediate Petrochemicals segment	65,466	-	65,466
Numerous small projects of Petroleum Products segment	38,536	-	38,536
Numerous small projects of all others	84,092	-	84,092
Total	353,637	-	353,637

11. Notes to major items of the Company's financial statements *(continued)*

(11) Intangible assets

Expressed in thousands of Renminbi Yuan

Items	Balance at 1 January	Additions	Decreases	Balance at 31 December
1. Cost	650,642	-	-	650,642
2. Accumulated amortisation	205,192	13,032	-	218,224
3. Net book value	445,450			432,418

The intangible assets of the Company represent land use rights.

Amortisation charged for the year amounted to RMB13,032,000 (2009: RMB 13,033,000).

(12) Long-term deferred expenses

Long-term deferred expenses primarily represent catalysts expenditures with useful lives over one year.

(13) Deferred tax assets

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

Expressed in thousands of Renminbi Yuan

Items	2010		2009	
	Deductible/ (taxable) temporary differences	Deferred tax assets/ (liabilities)	Deductible/ (taxable) temporary differences	Deferred tax assets/ (liabilities)
Deferred tax assets:				
Provision for bad debt and inventories	61,660	15,415	124,288	31,072
Impairment losses on fixed assets	557,514	139,379	340,448	85,112
Contribution by fixed assets and sales of assets to a jointly controlled enterprise	36,777	9,194	40,280	10,070
Deductible tax losses	2,606,114	651,529	5,607,912	1,401,978
Specific reserve accrued	43,380	10,845	-	-
Other deferred tax assets	29,244	7,311	27,437	6,859
Sub-total	3,334,689	833,673	6,140,365	1,535,091
Offsetting amount	-93,790	-23,448	-105,288	-26,322
Amount after offsetting	3,240,899	810,225	6,035,077	1,508,769
Deferred tax liabilities:				
Capitalisation of borrowing cost	-93,790	-23,448	-105,288	-26,322
Offsetting amount	93,790	23,448	105,288	26,322
Amount after offsetting	-	-	-	-

11. Notes to major items of the Company's financial statements *(continued)*

(13) Deferred tax assets *(continued)*

(b) The movement of deferred tax assets is as follows:

Expressed in thousands of Renminbi Yuan

Items	Balance at 1 January	Current year increase/ decrease charged to profit or loss	Current year increase/ decrease recognised directly in equity	Balance at 31 December
Deferred tax assets:				
Provision for bad debt and inventories	31,072	-15,657	-	15,415
Impairment losses on fixed assets	85,112	54,267	-	139,379
Contribution by fixed assets and sales of assets to a jointly controlled enterprise	10,070	-876	-	9,194
Deductible tax losses	1,401,978	-750,449	-	651,529
Specific reserve accrued	6,859	452	-	7,311
Other deferred tax assets	-	10,845	-	10,845
Capitalisation of borrowing costs	-26,322	2,874	-	-23,448
Total	1,508,769	-698,544	-	810,225

(c) Deferred tax assets not recognised

Expressed in thousands of Renminbi Yuan

Items	Note	2010	2009
Impairment losses for long-term equity investment	(i)	227,500	227,500

(i) As stated Note 11 (7)(a), the Company has made full impairment loss for the long-term equity investment in Jin Yong. As it is not probable that future taxable income against which the losses can be utilised, the Company has not recognised deferred tax assets in respect of impairment loss on long-term equity investment of RMB 227,500,000 (2009: RMB 227,500,000).

11. Notes to major items of the Company's financial statements *(continued)*

(14) Movement of provision for impairment

Expressed in thousands of Renminbi Yuan

Items	Note	At 1 January	Additions	Decreases		At 31 December
				Reversal	Write-off	
1, Receivables	11(3),(4)	396,465	46,476	-3,279	-1,881	437,781
2, Inventories	11(5)	111,373	199,966	-	-256,311	55,028
3, Long-term equity investments	11(7)	227,500	-	-	-	227,500
4, Fixed assets	11(9)	340,446	238,200	-	-21,132	557,514
Total		1,075,784	484,642	-3,279	-279,324	1,277,823

The reason for corresponding impairment losses recognised during the year are set out in the respective notes of the relevant assets.

(15) Short-term loans

(a) Short-term loans by category

Expressed in thousands of Renminbi Yuan

Items	2010	2009
Credit loans		
- Bank loans	2,906,438	6,384,998
- Loans from related party	210,000	40,000
Total	3,116,438	6,424,998

At 31 December 2010, the weighted average interest rate of the Company's short-term loans was 2.26% (2009: 3.16%).

(b) At 31 December 2010 and 2009, the Company had no overdue short-term loans.

(16) Bills payable

Expressed in thousands of Renminbi Yuan

Items	2010	2009
Commercial acceptance bills	41,034	146,048
Bank acceptance bills	-	732,057
Total	41,034	878,105

The above bills are due within one year.

11. Notes to major items of the Company's financial statements *(continued)*

(17) Taxes payable

Expressed in thousands of Renminbi Yuan

Items	2010	2009
Value added tax	436,969	117,443
Business tax	1,599	2,328
Consumption tax	458,600	439,973
Education surcharge	26,827	16,755
City maintenance and construction tax	62,596	39,096
Others	26,929	12,369
Total	1,013,520	627,964

(18) Non-current liabilities due within one year

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

Expressed in thousands of Renminbi Yuan

Item	2010	2009
Long-term loans due within one year - credit loans	100,000	-

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

Expressed in thousands of RMB/USD

Creditors	Starting date	Ending date	Currency	Interest rate (%)	2010		2009	
					Original Currency	RMB	Original Currency	RMB
1. China Construction Bank, Jinshan Branch	2008.11.27	2011.11.25	RMB	5.103	-	50,000	-	-
2. China Construction Bank, Jinshan Branch	2008.12.25	2011.11.25	RMB	5.103	-	50,000	-	-
Total						100,000		-

(19) Long-term loans

(a) Long-term loans by category

Expressed in thousands of Renminbi Yuan

Item	2010	2009
Credit loans	220,000	450,000

11. Notes to major items of the Company's financial statements *(continued)*

(20) Specific reserve

Expressed in thousands of Renminbi Yuan

Items	At 1 January 2010	Accrual	Utilised	At 31 December 2010
Safety production costs	-	94,481	-51,101	43,380

Specific reserve represents safety production costs accrued in accordance with state regulations and unutilised.

(21) Operating income and operating costs

(a) Operating income, operating costs

Expressed in thousands of Renminbi Yuan

Items	2010	2009
Income from principal operations	66,631,060	43,657,463
Income from other operating	451,890	445,201
Sub-total	67,082,950	44,102,664
Operating costs	55,526,570	35,454,622

Operating income represents the amount from sales of products after the deduction of VAT.

(b) The Company mainly operates in the petrochemical industry.

(c) Revenue from sales to the top five customers for 2010 is set out as follows:

Expressed in thousands of Renminbi Yuan

Customer	Operating income	Percentage of total operating income(%)
1. Sinopec Huadong Sales Company Limited	29,025,075	43.27
2. China Petroleum & Chemical Corporation	4,145,594	6.18
3. China Jinshan Associated Trading Corporation	1,634,572	2.44
4. Shanghai Yadong Petrochemical Company Limited	933,503	1.39
5. Sinopec Yizheng Chemical Fibre Company Limited	928,682	1.38
Total	36,667,426	54.66

11. Notes to major items of the Company's financial statements *(continued)*

(22) Business taxes and surcharges

Expressed in thousands of Renminbi Yuan

Items	2010	2009	Tax base
Consumption tax	4,641,710	3,819,859	In accordance with the relevant tax regulation, with effect from 1 January 2009, consumption tax rate for sale of gasoline and diesel oil have been adjusted to RMB 1,388 per ton and RMB 940.8 per ton respectively.
Business tax	5,635	8,040	5% of income entitled to business tax
City maintenance and construction tax	541,841	334,733	7% of consumption tax, VAT and business tax paid
Education surcharge and others	232,217	143,457	3% of consumption tax, VAT and business tax paid
Total	5,421,403	4,306,089	

(23) Financial expenses

Expressed in thousands of Renminbi Yuan

Items	2010	2009
Interest expenses from loans and payables	252,171	338,922
Less: Borrowing costs capitalised	-830	-44,485
Interest income from deposits and receivables	-29,583	-14,809
Net foreign exchange (gain)/loss	-143,226	1,553
Others	6,419	7,327
Total	84,951	288,508

(24) Impairment losses

Expressed in thousands of Renminbi Yuan

Items	2010	2009
1. Receivables	43,197	98,991
2. Inventories	199,966	48,443
3. Fixed assets	238,200	23,346
Total	481,363	170,780

11. Notes to major items of the Company's financial statements *(continued)*

(25) Investment income

(a) Investment income by category:

Expressed in thousands of Renminbi Yuan

Items	Note	2010	2009
Long-term equity investments income accounted for under the cost method	(b)	127,406	11,451
Long-term equity investments income accounted for under the equity method	(c)	620,957	224,328
Loss on disposal of long-term equity investments		-	-114,969
Gain on disposal of available-for-sale financial assets		215	206,799
Total		748,578	327,609

(b) Long-term equity investments income accounted for under the cost method is as follows:

Expressed in thousands of Renminbi Yuan

Investee	2010	2009
Shanghai Petrochemical Investment development Company Limited	120,000	4,718
China Jinshan Associated Trading Corporation	7,406	6,733
Total	127,406	11,451

(c) Long-term equity investment income accounted for under equity method is as follows:

Expressed in thousands of Renminbi Yuan

Investee	2010	2009
Shanghai Secco Petrochemical Company Limited (Note)	537,876	133,842
Shanghai Chemical Industrial Park Development Company Limited	53,920	67,976
BOC-SPC Gases Company Limited	29,161	22,510
Total	620,957	224,328

Note: During the year ended 31 December 2010, the increase of investment income from long-term equity investments under the equity method of the Company was attributed by the increase of profit after tax of Shanghai Secco Petrochemical Company Limited.

11. Notes to major items of the Company's financial statements *(continued)*

(26) Non-operating income

(a) Non-operating income by category

Expressed in thousands of Renminbi Yuan

Items	2010	2009
Gain on disposal of non-current assets	2,425	116,332
Include: Net gain on disposal of fixed assets	2,425	24,530
Net gain on disposal of intangible assets	-	91,802
Government grants - amortisation of deferred income	37,131	25,310
Penalty income	2,095	35
Others	7,181	6,246
Total	48,832	147,923

(27) Non-operating expenses

Expressed in thousands of Renminbi Yuan

Items	2010	2009
Loss on disposal of fixed assets	35,963	7,833
Landscaping fee	50,000	40,000
Others	47,604	22,911
Total	133,567	70,744

(28) Income tax expense

Expressed in thousands of Renminbi Yuan

Items	Note	2010	2009
Income tax expense for the year, calculated in accordance with tax laws and related regulations		-	-
Deferred taxation	(a)	698,544	451,794
Under-provision for income tax expense in respect of prior years		-	643
Total		698,544	452,437

11. Notes to major items of the Company's financial statements *(continued)*

(28) Income tax expense *(continued)*

(a) Reconciliation between income tax expense and accounting profit is as follows:

Expressed in thousands of Renminbi Yuan

Items	2010	2009
Profit before income tax	3,494,022	1,828,617
Expected income tax expense at a rate of 25% (2009: 25%)	873,506	457,154
Add: Tax effect of non-deductible expenses	15,796	58,996
Tax effect of non-taxable income	-32,077	-3,335
Under-provision for income tax expense in prior years	-	643
Tax effect of share of profits recognised under the equity method	-155,239	-56,082
Others	-3,442	-4,939
Income tax expense	698,544	452,437

(29) Other comprehensive income("-" represents loss)

Expressed in thousands of Renminbi Yuan

Items	2010	2009
Unrealisable income of available-for-sale financial assets	215	107,953
Reclassification adjustment for gains on disposal of available-for-sale financial assets transferred to profit or loss	-215	-206,799
Tax effect of other comprehensive income	-	24,712
Total	-	-74,134

11. Notes to major items of the Company's financial statements *(continued)*

(30) Supplemental information to the cash flow statement

(a) Supplemental information to the cash flow statement

Expressed in thousands of Renminbi Yuan

Supplemental information	2010	2009
1. Reconciliation of net profit to cash flows from operating activities:		
Net profit	2,795,478	1,376,180
Add: Impairment losses	481,363	170,780
Depreciation of investment property	14,922	14,923
Depreciation of fixed assets	1,623,837	1,514,828
Amortisation of intangible assets	13,032	13,033
Losses/(gains) on disposal of fixed assets, intangible assets and other long-term assets	33,538	-108,499
Losses from changes in fair value	-	10,423
Financial expenses	78,532	281,181
Investment income	-748,578	-327,609
Decrease in deferred tax assets	698,544	451,794
Decrease/(increase) in gross inventories	1,386,470	-2,457,639
Increase in gross operating receivables	-1,431,993	-580,720
(Decrease)/increase in operating payables	-841,261	3,333,477
Increase in specific reserve	43,380	-
Net cash inflow from operating activities	4,147,264	3,692,152
2.Net change in cash and cash equivalents:		
Cash and cash equivalents balance at the end of the year	89,224	101,076
Less: cash and cash equivalents balance at the beginning of the year	101,076	294,786
Net decrease in cash and cash equivalents	-11,852	-193,710

(b) Cash and cash equivalents held by the Company are as follows:

Expressed in thousands of Renminbi Yuan

Items	2010	2009
1. Cash		
- Cash on hand	52	57
- Bank deposits available on demand	88,342	100,179
- Other monetary fund available on demand	830	840
2. Closing balance of cash and cash equivalents	89,224	101,076

(1) Non-recurring items in 2010 is as follows:

Expressed in thousands of Renminbi Yuan

Non-recurring items	Amount	Note
Net loss on the disposal of non-current assets	-34,635	Net loss on the disposal of fixed assets, intangible assets and long-term equity investment
Employee reduction expenses	-3,646	Employee reduction expenses incurred according to the reduction plan, varying from year to year.
Government grants charged in profit or loss (excluding those closely related to business operation, received on a quantified scale specified by state standards)	37,211	Government grants on energy-saving projects, etc.
Investment income on the disposal of available-for-sale financial assets	215	Gain on the disposal of financial assets available-for-sales
Gains from entrusted loans	1,581	Interest income from entrusted loans
Other non-operating income and expenses other than those mentioned above	-89,720	Landscaping fee and etc.
Tax effect for the above items	21,427	
Effect on minority interests after tax	-331	
Total	-67,898	

Note:The non-recurring items are presented in the amount before tax.

(2) The reconciliation between financial statements prepared under China Accounting Standards for Business Enterprises ("CAS") and International Financial Reporting Standards ("IFRS")

(a) The reconciliation between the net profit and net assets of the consolidated financial statements prepared under CAS and IFRS:

Expressed in thousands of Renminbi Yuan

		Net profit attributable to equity shareholders of the Company		Net assets attributable to equity shareholders of the Company	
	Note	2010	2009	2010	2009
Under CAS		2,703,734	1,561,605	17,913,040	15,346,073
Adjustments:					
Government grants	(i)	29,386	26,760	-212,738	-209,639
Revaluation of land use rights	(ii)	3,498	3,498	-156,760	-160,258
Safety production costs	(iii)	46,748	-	-	-
Effects of the above adjustments on taxation		-11,720	-875	17,122	28,842
Under IFRS		2,771,646	1,590,988	17,560,664	15,005,018

(2) The reconciliation between financial statements prepared under China Accounting Standards for Business Enterprises ("CAS") and International Financial Reporting Standards ("IFRS") *(continued)*

(a) The reconciliation between the net profit and net assets of the consolidated financial statements prepared under CAS and IFRS (continued)

(i) Government grants

Under CAS, 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 costs of assets to which the grants are related. Upon transfer to property, plant and equipment, the grant is recognised as income over the useful life of the property, plant and equipment by way of a reduced depreciation charge.

(ii) Revaluation of land use rights

Under IFRS, land use rights are carried at historical cost less accumulated amortisation. Under CAS, 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) Safety production costs

Pursuant to the relevant regulations of the government authorities in the PRC, provision for safety production costs is accrued by companies producing dangerous goods based on the sales amount of dangerous goods during the year, which is recognised as an expense in profit or loss and separately recorded as a specific reserve in shareholders' equity. On utilisation of the specific reserve as fixed assets in accordance with the relevant regulation, full amount of accumulated depreciation is recognised at the same time when the cost of the relevant assets is recorded.

Under IFRS, these expenses are recognised in profit or loss when incurred. Relevant capital expenditure on safety production is recognised as property, plant and equipment and depreciated according to the relevant depreciation method.

(3) Return on net asset and earnings per share

Complied to "Regulations on the preparation of information Disclosures by Companies Publicly Issuing Securities No.9 - Calculation and Disclosure of Earnings Per Share and Return on Net Assets" (2010 Revised) issued by China Security Regulation Committee, return on net asset and earnings per share are calculated as follows:

Expressed in thousands of Renminbi Yuan

Net profit during this period	Weighted average return on net assets (%)	Earnings per share	
		Basic (RMB)	Diluted (RMB)
Net profit attributable to equity shareholders of the Company	16.259	0.376	0.376
Net profit attributable to equity shareholders of the Company excluding non-recurring items	16.667	0.385	0.385

Appendix: Self-assessment Report of the Board of Directors of Sinopec Shanghai Petrochemical Company Limited on the Internal Control of the Company

The board of directors (the "Board") of Sinopec Shanghai Petrochemical Company Limited and all members of the Board warrant that there are no false representations or misleading statements contained in, or material omissions from, this report, and severally and jointly accept responsibility for the truthfulness, accuracy and completeness of the information contained in this report.

It is the responsibility of the Board and the management of Sinopec Shanghai Petrochemical Company (the "Company") to establish sound internal control and implement the same effectively. Since 2004, the Company has established and implemented a comprehensive internal control system covering the aspects of decision-making, execution, supervision and assessment. (For the establishment and improvement of the Company's internal control system, please refer to pages 30 to 32 of 2010 annual report of the Company.)

The internal control of the Company primarily achieves the following basic objectives: (1) To standardize the Company's business operation conduct and prevent operation management risks; to ensure the truthfulness and completeness of financial reports and relevant information; to improve operational efficiency and effectiveness, and facilitate the achievement of the Company's development strategy; (2) To plug loopholes and eliminate potential hazards so as to prevent and timely detect and correct mistakes, and corrupt acts, thereby ensuring the safety and integrity of the Company's assets; (3) To ensure the thorough enforcement of relevant State laws and regulations, the articles of association of Sinopec Shanghai Petrochemical Company Limited (the "Articles of Association") and internal rules and regulations so as to satisfy the regulatory requirements for listed companies in both domestic and foreign capital markets and protect investors' lawful rights and interests.

Given the fact that internal control has its inherent limitations, it can only provide a reasonable assurance for achieving the aforesaid objectives. Also, whether internal control is effective or not may also vary with changes in the Company's internal and external environment as well as the Company's operating conditions. An inspection and supervision mechanism has been established for the Company's internal control, under which remedial measures will be taken immediately once a defect in the internal control is identified.

In establishing and implementing the internal control system, the Company has considered five basic elements, namely the internal environment, risk assessments, control of activities, information and communication, and internal supervision.

1. Internal Environment

   In accordance with the requirements of the modern enterprise system, the Company has established the corporate governance structure comprising shareholders' general meeting, the Board, the supervisory committee and staff of managerial grade. In 2010, the Company has organized and held shareholders' general meetings, Board meetings, supervisory meetings in strict compliance with the relevant laws and regulations of the places where the Company was listed and the requirements stipulated in the Articles of Association; and the resolutions resolved were lawful and valid. The Company has continued to push forward the establishment of a corporate culture with "observing responsibilities, abiding by disciplines and being trustworthy" as the corporate core values; "developing enterprise, contributing to the Country, rewarding the shareholders, serving the society and benefiting the staff" as the corporate objectives; and "trustworthy, disciplined and corporative to achieve win-win outcomes" as the corporate operating principles of the Company. Our aim is to cultivate and guide our entire staff to recognize and self-observe the vision of the corporate core values; and to promote the sustainable, effective and harmonious development of the Company.

2. Risk Assessment

The Company has established the internal risk assessment mechanism. According to the pre-set control objectives, the Company collects relevant information in a comprehensive, systematic and continuing manner; identifies and exercises controls over internal and external risks relating to relevant objectives; determines the relevant risk tolerance level by taking into account of the actual situation; and conducts risk assessment in a timely manner. Various functional departments and their subordinate units of the Company assign relevant personnel to set up a working network in light of the business flow of the internal control, in order to regularly conduct analysis and record the changes of potential risks. Based on the findings of the risk analysis and upon completion of appropriate supervision and authorization, internal control procedures will be revised in advance or timely and the parties affected will be notified promptly. As such, new or previously un-controlled risks are properly managed.

3. Control of Activities

According to the internal control objectives and in light of the findings of risk assessments, the Company exercises effective control over various businesses and matters by means of on-going optimization of the workflow of internal control, substantiation of the process responsibility department and the control point responsibility post, urging the personnel to perform internal control duties, regular inspection and test, as well as timely rectification and remedy to keep on infusing internal control into the daily management of the Company. The Company's Internal Control Manual (2010 edition) contains 18 categories and 1,207 control points with 52 operation procedures covering procurement, budget, cost and expenses, sales, capitals, capital expenditures, assets, connected transactions, accounting statements, material events, information management, production operations, safety and environmental protection, tax management, contract management, human resources, internal audit and information disclosure.

4. Information and Communication

The Company has established an information and communication system for the centralized management of information resources. It takes an active approach to carry out information-based management. Through the centralization and compilation of information and other means, all relevant information is incorporated into an unified information platform of the Company for internal sharing after authorization is granted by the system. An information disclosure management system has been established to govern the act of information disclosure by the Company to protect the legitimate rights and interests of investors and ensure that information is disclosed in a true, accurate, complete, timely and fair manner, aiming to improve the transparency of the Company on a continuous basis. A work system of investor relations has been devised to maintain the contact and communication with shareholders, potential investors, the media and the regulators.

5. Internal Supervision

The Company's internal supervision comprises on-going supervision and specific supervision. On-going supervision refers to the Company's conduct of regular and ongoing supervision and inspection on the status of establishing and implementing the internal control system. It covers the entire production and operation process, including daily management and supervision activities and actions taken by all employees in performing their duties. Specific supervision refers to the exercise of particular supervision and inspection of one or certain aspects of the internal control system under the circumstances where there are relatively significant adjustments or changes in development strategies, organization structure, operating activities, business flows and key personnel of the Company. Its scope and frequency depend on the scale of risks and the effectiveness of control. The Company has established the two-tier internal control supervision and inspection mechanism for the Company, various functional departments and their subordinate units. Timely report is made to the Internal Control Office of the Company when internal control defects are detected in the course of supervision. Significant defects and physical loopholes in the internal control system will be reported level-by-level to the internal steering committee, the Board and the supervisory committee of the Company. The Company has formulated inspection assessment and appraisal methods for internal control. In light of the supervision situation of internal control, the Internal Control Office of the Company conducts every half-year a self-assessment on the effectiveness of the internal control system and issues a report on the development of the internal control system as well as its implementation of inspection.

The Board of the Company has conducted a self-assessment of all the aforesaid aspects of internal control in 2010, with the view that through on-going optimization of the internal control system, from 1 January of the year to the end of this reporting period, the internal control system of the Company was relatively integral, reasonable, and effective, and through the persistent implementation of various internal inspection activities in 2010 with corresponding rectifications, and enhancement, various systems were adequately and effectively implemented, and adapted to the current management requirements and development needs of the Company to safeguard the orderly launch of the operating activities of the Company; and capable of further assuring the truthfulness, lawfulness, and completeness of its accounting information to ensure the safety and completeness of the Company assets as well as achieving the true, accurate, timely and integral information disclosure., thereby ensuring the open, fair and justified treatment for all of its investors. The findings of the assessment are: no material defects were detected in the design or enforcement of the internal control of the Company from 1 January 2010 to 31 December 2010.

This report was duly considered and approved at the nineteenth meeting of the sixth session of the Board of the Company on 25 March 2011. The Company's Board and all members of the Board jointly and severally accept responsibility for the truthfulness, accuracy and completeness of the information contained in this report.

As a Chinese company listed on the New York Stock Exchange in the USA, the Company continues to engage KPMG to conduct audit on the internal control over financial reporting of the Company as at 31 December 2010 pursuant to the requirements of the Sarbanes-Oxley Act. In a report (please refer to the Auditor's Report on Internal Control over Financial Reporting according to "Sarbanes-Oxley Act") issued by KPMG on 25 March 2011, KPMG is of the view that, the Company has maintained, in all material respects, effective internal control over financial reporting as of December 31 2010, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

25 March, 2011

KPMG

The Board of Directors and Shareholders of Sinopec Shanghai Petrochemical Company Limited:

We have audited Sinopec Shanghai Petrochemical Company Limited's internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission(COSO). Sinopec Shanghai Petrochemical Company Limited's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Sinopec Shanghai Petrochemical Company Limited maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission(COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Sinopec Shanghai Petrochemical Company Limited and subsidiaries as of December 31, 2009 and 2010, and the related consolidated statements of income, comprehensive income, equity and cash flows for each of the years in the three-year period ended December 31, 2010, and our report dated March 25, 2011 expressed an unqualified opinion on those consolidated financial statements.

KPMG
Hong Kong, China
March 25, 2011

Appendix: Sinopec Shanghai Petrochemical Company Limited Report on Fulfillment of Corporate Social Responsibility 2010

The board of directors (the "Board") of Sinopec Shanghai Petrochemical Company Limited and all members of the Board warrant that there are no false representations or misleading statements contained in, or material omissions from, this report, and severally and jointly accept full responsibility for the truthfulness, accuracy and completeness of the information contained herein.

Located at Jinshanwei, Jinshan District of Shanghai and occupying an area of 9.4 square kilometers, Sinopec Shanghai Petrochemical Company Limited ("SPC" or the "Company"), a petrochemical enterprise engaging in the integrated refining and chemical operations, is an important base for the development of the modern petrochemical industry of the People's Republic of China ("PRC"). The Company mainly produces more than 60 products categorized into four main groups, namely petroleum products, intermediate petrochemicals, synthetic resins and plastics, synthetic fibre monomers and polymers as well as synthetic fibres.

SPC takes "developing enterprises, contributing to the country, rewarding the shareholders, serving the society and benefiting the staff" as the corporate goal. It takes "building into a modern petrochemical enterprise with international competitiveness" as its mission, and "trustworthy, disciplined, and cooperative to achieve win-win outcomes" as the operating philosophy of the Company. As one of the first batch of pilot enterprises having carried out standardized SOE restructuring in 1993 and since the Company was listed concurrently in Shanghai, Hong Kong and New York, its scale of production and operation has been expanding with a continuous supply of quality products to the society. At the same time, the Company has abided by its corporate goal and earnestly fulfilled its social responsibilities. It emphasizes the importance of production safety, resources conservation, environment protection and care for employees. The Company also supports public welfare and charities, as well as assisting and promoting the regional economic development and striving for a sustainable development of the enterprise, the society and the environment.

The 2010 Report on Fulfillment of Corporate Social Responsibility of Sinopec Shanghai Petrochemical Company Limited (the "Report") reflects a thorough application of the scientific development concept and a proactive fulfillment of its social responsibilities towards its stakeholders, including shareholders, creditors, employees, suppliers and customers, as well as the society in the course of conducting its production and business operations in 2010. The Report was prepared in accordance with the relevant laws and regulations such as the Company Law of the People's Republic of China, the Securities Law of the People's Republic of China and the Guidelines on Environmental Information Disclosure by Companies Listed on the Shanghai Stock Exchange, together with a due consideration to the actual circumstances of the Company.

I. Protecting the Interests of Shareholders and Creditors

Sound corporate governance provides a cornerstone for the sustainable development of SPC. The Company has strictly complied with the securities regulatory laws and regulations of the jurisdictions in which its shares are listed and the Articles of Association of Sinopec Shanghai Petrochemical Company Limited (the "Articles of Association") to continuously enhance its corporate governance structure. The Company has established and is continuously improving its corporate governance structure which comprises the shareholders' general meeting as the organ with the highest authority, the Board as the decision-making level, the general management team as the execution level and the supervisory committee as the supervision level. The Company has established and strengthened its internal control system in compliance with the domestic and international laws and requirements; strengthened and enhanced the systems of the Communist Party Committee, labour union, and workers and staff representatives conference, thereby enabling their integration with the corporate governance structure; established an effective and balanced decision-making supervision system which comprised the clear delineation of the functions of the "Three New Committees" and the "Three Existing Committees" with the characteristics of SPC and joint stock enterprises, and which ensured effective division of labour and appropriate discharge of duties in a coordinated manner; and built a complementary job responsibility structure through the dual-appointment of Senior Management members by shareholders and the Party Committee and a position-interchange system so as to pool the wisdom of all parties concerned. All these measures enable the enterprise to operate in a democratic, lawful, regulated and transparent manner. For information about the corporate governance of the Company in 2010, please refer to the sections headed "Corporate Governance Structure" and "Corporate Governance Report" in the 2010 annual report.

In order to be responsible to the investors at large and its debtors, the Company takes the initiative in complying with the stringent laws of the jurisdictions in which its shares are listed and strictly adopts the financial auditing and information disclosure systems. All annual operating results and financial indicators are audited by overseas and domestic independent accounting firms in accordance with the relevant international and domestic standards each year. All material business activities and operating results are completely and accurately announced to the capital markets and investors at large in a timely manner. The Company proactively enhances its communication and exchange with its shareholders (particularly its public shareholders) in a number of ways, including answering questions and enquiries from investors through its telephone hotline, email correspondence and letter correspondence as well as meetings. Investors may access to the Company's information through the "Company News" and "Investor Relations" columns on the Company's website to carry out timely disclosure on the Company's information. The disclosure of information in a truthful, timely, accurate and comprehensive manner and the regulated operations of SPC are acknowledged by the investors at large, securities regulatory authorities and the media. The Company has been awarded the Best Disclosure Award from the Hong Kong Stock Exchange. The Company has also been ranked first in investor relations in China by Thomson Reuter in the "Extel Survey" of the securities and investment community in Asia (excluding Japan). The Company has been repeatedly nominated and awarded the Certificate of Excellence in Investor Relations by the internationally authoritative IR Magazine.

The Company takes shareholders' returns seriously and maintains a stable profit distribution policy. Since its listing in 1993 to 2010, with the exception of 2001 (when the Company was at a low ebb of the industry cycle) and 2008 (when the Company incurred significant losses due to policy and external market reasons), the Company distributed dividends to all shareholders every year with an aggregate distribution of RMB9,448 million (of which dividends of RMB720 million to be distributed for year 2010 are subject to be approved by the general meeting of shareholders). Among the companies listed in Shanghai and Shenzhen stock exchanges, the Company is one of those enjoying higher cash dividends / fund-raising ratio (that is, the ratio between the aggregate amount of cash dividend distributed and the amount of funds raised).

Creditors of the Company are principally major commercial banks. The Company has taken into full consideration of the legal rights and interests of the creditors when making material business decisions. The current AAA+ credit rating of the Company indicates the recognition from its creditors for its credibility, stability, pragmatism and responsible performance as no delay or default in the repayment of bank borrowings or interests has ever occurred. In 2010, the Company was named among "2008-2009 Shanghai Contract-abiding and Trustworthy Enterprises" (effective period up to 30 June 2012) by the Shanghai Administration Bureau for Industry and Commerce and "2008-2009 AA-rated Enterprises in Contract Creditworthiness" by the Shanghai Contract Creditworthiness Promotion Association.

II. Protecting the Interests of Employees

Employees are the most valuable assets of SPC. The Company upholds its employee-oriented corporate value and treats all-round development of its employees as one of the major objectives in its corporate development. The Company relies on the collaboration of its employees to achieve the unification of corporate values with employee values.

1. Safeguarding employees' interests

In accordance with the relevant laws, regulations and stipulations such as the Labour Law of the People's Republic of China, the Labour Contract Law of the People's Republic of China, and the Trade Union Law of the People's Republic of China, SPC implemented the labour contract system. The Company signed with employees written labour contracts based on the principle of "fairness, self-willingness and consensus through negotiation". The rate of signing the labour contract is 100%. The Company has established and improved a system for transparent and democratic management of the plant affairs, continuously enhanced its democratic management based on the workers and staff representatives' conferences, and improved and enhanced the mechanism to handle expression of employees' petition and interest coordination. The Company values the establishment of labour unions at all levels. A fair negotiation system for collective contracts has been set up between representatives from labour unions and representatives from administration departments for the discussion of policies involving the immediate interests of the employees. Through entering into collective contracts and collective contracts specifically for protecting female employees' interests, the Company has ensured harmony and stability at the workplace by setting out in the contracts terms on labour employment, remuneration, working hours, rest, holidays, labour safety and hygiene, insurance and fringe benefits, staff trainings and protections for collective contracts as well as for the interests of female labour. The Company was named as the "National Advanced Unit with Transparent Factory Management". In 2010, the Company, having passed the field assessment by a tripartite team on labour relations from the Shanghai Municipality for the award of "Enterprises with Harmonious Labour Relations Nationwide", was on the candidate list according to a public announcement.

In recent years, the Company has reformed its internal remuneration system through adopting the coordinated planning, overall design, stage-by-stage implementation and gradual completion as its work target. Based on consolidated assessments of the major aspects of various job positions including job duties, responsibilities, work intensity and work environment, and having taken into account the wage levels of the labour market, the Company has established rankings and wage level indicators for its "three teams", namely business and operation managerial staff, specialized technical professionals and skilled operators, thereby establishing a remuneration allocation system which is primarily based on a position-grade determined basic wage system which links individual income with the skills required for an individual job position and the work performance at the same time. Since 2009, the Company has formulated the "Guiding Opinion on Bonus Distribution for the Company's Employees" and the "Measures on the Management of Performance Appraisals and Awards for the Company's Employees", and amended the "Measures on the Management of Special Allowances for Employees". It has standardised and rationalised the distribution of remuneration through an improvement of its various systems. On the whole, since the reinforcement on remuneration distribution management in 2009, the Company has obtained initial effectiveness in achieving a balanced increase in employees' income, and the remuneration distribution of various employees has gradually become more rationalized.

Pursuant to the relevant laws, regulations and stipulations, the Company has joined the basic social insurance package for employees, including the Shanghai city and towns pension insurance, medical, unemployment, maternity and work-related injury insurances. It pays in full various social insurance premiums on time, and has continuously improved the supplemental protection mechanism for employees' livelihood. The Company made contributions to the housing fund for all the employees; implemented supplemental medical insurance coverage to reduce self-paid expenses by employees arising from illness; conscientiously implemented the paid annual leave system and the periodic recuperation program for employees, with 5,264 employees arranged for recuperation in 2010; set up a regular health check system with health profiles created for all employees; commenced occupational health management work; endeavored to improve the meal quality and services for employees; and allocated a certain amount of funds to restore the collective welfare facilities every year, with renovation on canteens, lounges and toilets for employees on various shifts of 24 major production sites in 2010, coupled with the restoration of 16,000 square meters of damaged roads within the plant area, with a view to constantly improving the living standard and work environment of employees. The Company placed great emphasis on helping employees in difficulty. In 2010, the "Detailed Rules for Implementing the Management on Mutual Aid Funds for Helping the Needy Employees of the Company" and the "Measures for Helping the Most Needy Employees of the Company" were amended and improved, with the standards for defining, and the amount of subsidies grant to, the most needy employees being increased. During the year, the Company provided subsidies to 3,147 needy employees, leading to an accumulated payment of various types of subsidies amounting to RMB4,028,100.

2. Ensuring employees' occupational health assurance

The production operation of the petrochemical industry is characterized by high temperature and high pressure, as well as an inflammable and explosive environment. Some of the materials and work media are poisonous and harmful. In order to prevent occupational diseases, the Company has adopted various measures to ensure safety and health of its employees by complying with the "Law on Prevention of Occupational Diseases". The Company has worked out rules and regulations such as the "Occupational Health Management System", the "Standards on Provision of Labour Protection Articles" and the "Management Methods for Labour Protection Articles". An annual off-duty recuperation is organized in batches for employees in contact with occupational-disease-inductive substances, with a view to effectively ensuring employees' safety and health at work.

The Company attaches great importance to, and seriously carries out, the supervision of employees' health and to the identification and detection of any possible hazardous elements potentially existing at the job sites. It publishes on the bulletin boards its monitoring results on particular hazardous elements of known occupational diseases at monitor stations, and informs operational staff of those hazardous elements of occupational diseases, national standards and monitoring results. As to job sites with existence of hazardous elements, the Company places warning signals and highly poisonous substance notification cards, and posted signboards comprising of four signage and a diagram that specify "safe operation procedures, harmful consequences, emergency rescue measures and floor plans" at prominent positions. As to employees who are exposed to hazardous elements of occupational diseases, the Company explicitly sets out the possible exposure to such occupational diseases in the employment contracts and provides adequate protective articles and apparatus during actual production processes. In addition, the Company intensifies its efforts in publicity and education and earnestly enhances employees' knowledge towards the prevention of occupational diseases to ensure that employees understand the severity of occupational hazards and the importance of prevention and treatment of occupational diseases and to raise their self-protection awareness. The Company was named as the "National Model Enterprise in Occupational Hygiene".

In 2010, the Company continued to reinforce control against an excessive level of potential hazards of occupational diseases, effectively managed poisonous and harmful waste gas and dust, improved the on-site operation environment and protected the health of its staff. At the request of the Company, Jinshan Hospital of Fudan University and the Shanghai Municipal Centre for Disease Prevention performed health check on 6,050 employees of the Company with possible exposures to hazardous elements of occupational diseases, achieving an examination rate of 100%. In the health check of the staff, no diagnose of occupational diseases was found, but 17 employees were diagnosed as being occupationally contraindicated, and 12 employees were put under medical observation. The Company timely redeployed such employees from their original positions and arranged medical visits and clinic treatment for them.

3. Career development for employees

Based on the goals of corporate reforms and development, SPC provides education and training for employees throughout their entire careers, and continues to push forward the project on enhancing quality of the employees. The Company actively supports education and training in various ways, such as the provision of systems, funds, training bases, training resources and learning materials. The Company continuously enhances employees' moral and political quality, occupational ethics, professional skills and integrated quality by providing training of different categories and levels for the members of the "three teams", namely "business and operation managerial staff, specialized technical professionals and skilled operators", and by launching activities such as training for Internet study, skills competition and training for taking up new posts with great efforts. These measures facilitate human resource development and employee redeployment, which set a solid foundation for realising the goals of the Company's operations and reforms as well as social stability.

In 2010, the Company provided training for various employees with 75,878 attendances, representing an increase of 39.6% over the previous year. The percentage of staff who were graduates possessing post-secondary or above qualifications increased to 37.2% from 34.9% in the previous year, whereas the percentage of senior skilled operators or above to the total number of skilled operators increased to 41.2% from 40.0% in the previous year. This year, SPC was honored as the Advanced Unit for Job Training of China Petrochemical Corporation (the "Sinopec").

III. Protecting the Interests of Suppliers and Customers

SPC always recognizes the importance of maintaining good relationships with suppliers and customers as a key to achieving long-term cooperation, mutual benefits and win-win results.

The Company has established and continuously improved its management system on material and equipment supply. In 2010, in line with the adjustment of the management system of material and equipment supply and the requirements of ERP operational workflow, the Company modified a series of systems and measures including the "Materials Supply Management System", the "Warehousing and Transportation Management System" and the "Implementation Measures on the Management of Suppliers" to further reinforce the professional management, supervision and appraisal on its plans for materials, suppliers, prices, quality and warehousing, transportation and storage. In order to push forward standardized purchases and open purchases, starting from 2010, the annual material purchase plan of the Company will be subject to the examination and approval by the Materials Supply Management Committee. The annual purchase plan covers key aspects such as the strategy of selecting suppliers, the strategy of selecting purchase methods, the strategy of quality control and the pricing strategy. When strictly carrying out the plan, the Company made corresponding adjustments, supplements and optimizations after the plan has been examined and approved, in line with the changing market situation and the adjusted production plan. In respect of supplier management, the Company has further improved the supplier appraisal mechanism and the results guidance mechanism to safeguard the lawful interests of the suppliers. As to the purchase methods, the Company has implemented framework agreement purchases with great efforts. This year, the ratio of framework agreement purchases for bulk and general materials reached 74.5%. For the purchase of materials at a single-transaction amount exceeding RMB1 million, a tender process would be required. Tender purchases were conducted in an open, fair, just and honest manner and in strict compliance with relevant systems and operational procedures under the supervision of relevant management departments. Meanwhile, the Company has fully utilized the e-commerce website platform provided by China Petroleum & Chemical Corporation ("Sinopec Corp.") to continuously expand its scope and scale of online purchase, and to increase the transparency of the purchase process. Leveraging on the overall strengths of Sinopec Corp., the Company has improved its supplier structure and established long-term strategic partnerships with qualified and reputable suppliers offering quality products and services. In 2010, the online purchase ratio (excluding crude oil) of the Company reached 99.7%, thereby saving transaction costs for suppliers and the Company as well as improving work efficiency.

The Company has adhered to the quality policy of "quality always taking the lead in advance" and the quality target of "good quality, sufficient quantity and customer satisfaction". While expanding its production scale, the Company continuously intensifies its quality assurance management. Each production division has set up the quality assurance management system in conformity with the GB/T19001 certification standards, and has passed system certification. The Company's quality systems operate appropriately and effectively and are continuously being upgraded. In the ordinary course of business, the Company, by taking the full advantages of its technological and management strengths, provides users with quality and prompt technological consultancy services as well as guidelines for proper selection and use of the Company's products while providing users with "trustworthy" products. Through proactively conducting market research and product upgrading and replacement projects, the Company has secured trust and affirmation from customers by the on-going development and the introduction of hi-tech products with premium quality in response to market demands. Apart from collecting customers' opinions during products exhibitions and new products promotion fairs, in order to obtain more feedback on products quality and service quality so as to further enhance its products and service quality, the Company has also engaged the Customer Evaluation Centre of the Shanghai Quality Control Association to evaluate the satisfaction levels of the third-party users on its major products. In 2010, the low density polyethylene resins of the Company under the "Sanren" Brand was named as the "Satisfactory Product Among Users throughout the PRC"; the industrial polyester filament and polypropylene resins under the "Sanren" Brand and the acrylic staple fibre under the "Golden Sun" Brand were both named as the "Satisfactory Product Among Users throughout the PRC". The aforesaid products were also named as the "Satisfactory Product Among Users in Shanghai" at the same time. A total of 11 products including butadiene for industrial use, ethylene glycol and polyester staple fiber were again named as the "Satisfactory Products Among Users in Shanghai". A total of 22 products, including "Sanren" Brand motor gasoline, pure benzene, ethylene oxide, polyethylene, polypropylene, industrial polyester filament and acrylic staple fibre were again named as the "Shanghai Famous Brand Products".

To avoid competition with industry peers, enhance overall bargaining power and consolidate and expand market shares, the Company entered into various transactions with its controlling shareholder, Sinopec Corp. and Sinopec, the controlling shareholder of Sinopec Corp., as well as associates of Sinopec Corp. and Sinopec, pursuant to which these connected parties provided the Company with various services such as purchase of raw material, agency sale of petrochemical product, construction, installation and engineering design, and the Company sold petroleum and petrochemical products to connected parities. The aforesaid ordinary connected transactions and services are necessary for the ordinary production and operation activities of SPC and are conducted on normal commercial terms and relevant agreement terms. The ordinary connected transactions among the Company and Sinopec Corp. and Sinopec are conducted in strict compliance with the relevant laws and regulations of the jurisdictions in which their shares are listed and the relevant requirements set out in the Articles of Association. All parties to the transactions have carried out necessary decision-making procedures and obtained approvals from their respective independent shareholders. The Company has also disclosed information in accordance with the requirements stipulated by the regulatory authorities in the jurisdictions where the Company is listed.

IV. Emphasis on Safe Production

The responsibility on safety is of crucial importance. SPC always pays high regard to this and conscientiously implements safe production as well as treating safety as a prerequisite for implementing scientific development and for building a harmonious society.

1. Safe production

As an enterprise engaging in a high-risk industry, the Company maintains safe production as its priority and adheres to the policy of "putting safety and prevention first, all staff be mobilized and involved, problems concerning safety be tackled in a comprehensive way". The Company implements standardized safety management by adhering to the principle of carrying out a comprehensive safety management covering the entire work processes on a 24-hour basis with the involvement of all staff and by taking the HSE (Health, Safety and Environment) management system as guidelines. The Company has a comprehensive safety management system and organization, as well as a set of sound management rules and regulations for safe production and effective methods for the management of safety. The Company implements HSE supervision and inspection and various specific inspections during its day-to-day operation. Both the one-vote veto system and safety accountability system apply in the event of the occurrence of any accident. In accordance with the four "not let-off" (namely not letting off (i) accidents with the causes of which have not been verified thoroughly, (ii) persons who are accountable for the accidents but have not been punished, (iii) rectification measures which have not been made and taken, and (iv) the relevant persons who have not learned lessons from the accidents), the Company will investigate and find out the reasons of an accident, draw lessons therefrom and eliminate potential and hidden peril or danger, so as to enhance production safety. At the same time, the Company has strengthened employees' training for HSE education, enhanced employees' HSE awareness and skills, and reinforced the safety supervision management over certain material sources of hazards existing in some key facilities and vital production positions or sections. The Company has formulated tailor-made major accident prevention measures and emergency rescue plans at all levels, and has organized emergency response drills, so as to enhance the ability for handling emergencies. The Company has strictly complied with the State's safety pre-assessment system, and implemented a "three concurrent" policy in newly-built, revamped and expansion projects to ensure that safety facilities, fire fighting facilities, environmental protection and occupational hygiene facilities are designed, constructed and put into operation concurrently with the core project development. In 2010, the Company strictly implemented the safe production accountability system, signed HSE letters of responsibility level by level with all employees proceeding with the HSE undertaking, and actively carried out the themed activities called "We Want Safety" and "Comparing, Learning, Catching with and Surpassing the Advanced and Assisting Under-Performers", in which we further specified prohibitions for safe production, improved the safety supervision of production and construction sites and intensified third-party safety supervision of the direct production link, so as to realize stable and smooth operation of production facilities and safe operation of construction sites. In 2010, the Company had no significant safety accident. In the campaign of "Six Assessments and Comparisons, Competing for the Red Flag" of Sinopec's HSE system, the Company was awarded the gold medals as an Advanced Entity of the Year and on the annual comprehensive assessment and comparison, and was named the "Excellent Entity in the Nationwide Safe Production Month Campaign in 2010" by seven ministries/commissions including the Publicity Department of the Central Committee of the Chinese Communist Party and the Ministry of Public Security.

2. Treatment of hidden defects

The Company pays special attention to finding out and removing hidden defects and to carrying out rectification work. In this connection, the Company adheres to the "four determining" principles, namely determining the rectification solutions, determining the sources of capital, determining the persons in charge and determining the term of rectification so as to ensure that items with hidden defects can be eliminated in time. In 2010, the Company continuously intensified its efforts on finding out and removing hidden defects and carrying out rectification work. It invested an aggregate amount of RMB54.83 million and focused on rectifying 27 items of hidden defects, thereby further improving the safety level of the facilities. Meanwhile, the Company actively carried out massive defects screening campaign and identified 2,579 items with hidden defects of all kinds, with 2,566 of them or 99.5% being rectified. For matters not readily rectified for the time being, safety and precautionary measures were adopted to avoid accidents.

V. Emphasis on Environmental Protection

Environmental protection is a basic State's policy in the PRC. Since its establishment, SPC has all along placed importance to environmental protection. Since the announcement of the "Guidelines on Environmental Information Disclosure by Companies Listed on the Shanghai Stock Exchange", the Company has conscientiously reviewed its own practice of environmental protection and has taken the initiative to undertake the social responsibilities that should be assumed by listed companies in accordance with the requirements.

1. Passing the ISO14001 Environmental Management System Certification

Taking into account the characteristics of the petroleum and petrochemical industry, the Company introduced in 2008 the management mode of ISO14001 Environmental Management Standards, which is widely implemented by the international petroleum and petrochemical industry. Based on the environmental protection policy of "lawful operation, environmental friendly, energy saving, emissions reduction and green conservation", by means of setting up, promulgating, implementing and continuously improving the ISO14001 Environmental Management System, the Company promoted clean production with full efforts. The Company has made a commitment in respect of matters relating to environment to all employees and the public in the local districts, continuously carried out risk assessments and environmental impact assessments and systematically controlled factors which are hazardous to the environment, thereby effectively preventing the occurrence of various kinds of incidents and improving the environmental quality of the production area and nearby districts. Through the efforts made in the past two years, the Company obtained the certificate of ISO14001 Environmental Management System Certification issued by China Quality Mark Certification Group in March 2010. In November 2010, the Company underwent the first supervision and examination. After the rectification in strict compliance with the "PDCA" (plan-do-check-act) procedure for the 8 non-compliance issues raised by the surveillance auditor, the Company has managed to pass the supervision and examination smoothly. The on-going implementation of the environmental management system of the Company shows that SPC has been in line with the international practices in respect of environmental management, and has made a new step forward in pursuing the people-oriented and sustainable development.

In 2010, the total volume of effluent discharge was basically similar to that of the previous year. Emission of sulphur dioxide decreased by 19.3% and the total COD discharge decreased by 5.3%. The composite compliance rate for waste water discharge reached 99.9%; the combustion rate of exhaust gas and the optimal disposal rate of hazardous wastes reached 100%; and the rate of recycling of industrial water reached 96.5%.

2. Disposal of the "three wastes"

The "three wastes" that the Company needs to dispose of are categorized as exhaust gas, waste water and solid wastes.

Exhaust gas: The Company has cooperated with the Shanghai Environmental Protection Bureau for a continuing identification of sources of air pollution, and has implemented focal inspection of common and specific pollutants such as sulphur dioxide, nitrogen oxides and smog in the operations of the Company and has put forward rectification suggestions, thereby providing a technical base for rectification work in the future. In 2010, the flue-gas desulphurization project for furnaces of the coal-fired power plant of the Thermal Power Division, the removal of foul gas from the deaeration pool of the waste water treatment plant at the Environmental Protection Center, the Regenerative Thermal Oxidizer (RTO) in the Polyester Business Division, the flare gas recovery system and the revamp project of adding the recycled hydrogen desulphurization facilities to the 550,000 tons/year diesel hydrogenation plant played an effective role. The two automatic monitoring stations for the atmospheric environment and one automatic monitoring vehicle for the atmospheric environment provided real-time surveillance to the atmospheric environment of the district where the Company is located. As indicated by monitoring data, in 2010, the quality of the atmospheric environment in the local district reached Grade 2 of the National Atmospheric and Environmental Quality Standard.

Waste water: The Company has 28 sets of waste water treatment facilities, 24 of which are pre-treatment facilities, three are in-depth-treatment facilities (with designed capacity of 188 thousand cubic meters/day) and one is a waste water recycling facility (with designed capacity of 250 cubic meters/hour). The Company discharges waste water treated by two-stage biochemical treatment into deep sea such that its waste water discharge meets the relevant requirements in all years. In 2010, some of the waste water treatment facilities were revamped, and the project of diverting clean water from waste water for the Acetaldehyde Complex of the Chemical Division was completed.

Solid wastes: Hazardous solid wastes and general industrial solid wastes produced during production processes of the Company are handled and treated by qualified subcontractors in the community. The Company has strengthened its control over its production processes and properly handled the disposal of its wastes, achieving a treatment rate of 100%.

In 2010, the Company achieved its objective of having “zero in six aspects”: occurrence of staff injury and fatal incidents, major fire or explosion accidents, major environmental pollution incidents, hazardous incidents causing major occupational diseases, serious traffic accidents and major accountability-related incidents. The Company was accredited by Sinopec as an advanced unit in operational safety and environmental protection for eight consecutive years, and was awarded the title of “China Environmentally Friendly Enterprise” by All-China Environmental Protection Federation.

VI. Contribution to the Society

Enterprises generate wealth from the society and thus it is their responsibilities to pay back to the society. SPC has sincerely devoted itself to fulfilling its social responsibilities since its establishment. It has zealously undertaken its responsibilities and obligations and established a sound corporate image. It was accredited as the National Model Civilized Unit by the Central Guidance Committee on Spiritual Civilization Cultivation in 2005 and 2008 respectively.

As one of the major producers and suppliers of refined oil products in the Yangtze River Delta region, the Company has complied with the requirements of the National Development and Reform Commission and the local governments throughout the years. It has carried out various measures to fully ensure supplies of refined oil products to the region in order to contribute to the steady and relatively fast growth of the regional economy and the society. In 2010, in order to satisfy the demand of Shanghai World Expo for Shanghai IV standard refined oil, the Company swiftly completed the expansion and renovation for the Jin Min Pipeline of refined oil pipeline. Since June, the transmission capacity for Shanghai IV standard gasoline and diesel increased from 1,200,000 tons/year to 1,800,000 tons/year. In the fourth quarter, in view of the tight supply of diesel in the domestic market, the Company, after taking the entire situation into account, immediately reduced the ethylene load and adjusted the product mix to increase the output volume of diesel with full force, thereby assuring market supply in the Yangtze River Delta Region. In 2010, the Company produced 932,400 tons of gasoline (including 809,200 tons of Shanghai IV standard gasoline) and 3,679,500 tons of diesel (including 670,900 tons of Shanghai IV standard diesel), representing an increase of 15.68% (369.29%) and 31.16% (473.12%) over the previous year respectively.

During the key security period of Shanghai World Expo from 15 April to 15 November 2010, the Company proactively launched the themed activity of “Welcome World Expo and Secure Safety” by further reinforcing precautionary controls on critical facilities, important parts and major targets; implementing technological and physical prevention measures; and properly establishing the volunteer teams, thereby smoothly achieving the objective of having a safe Expo. The Company was honored with the “Award of Environmental Remediation Contribution in Preparation for Shanghai World Expo” and was named the “Advanced Counter-terrorism Unit for Shanghai World Expo”. In the Concluding Award Ceremony of 2010 Shanghai World Expo, jointly participated by CNPC, Sinopec and CNOOC, SPC was honoured with the “Outstanding Contribution Award”.

In addition to accelerating its own development, the Company proactively participated in public welfare activities. Since its listing, the Company has offered donations to the China Welfare Institute, the Shanghai Education Development Foundation, the Shanghai Children and Teenagers’ Fund, the Shanghai Foundation for Justice and Courage, the Shanghai Foundation for the Aged, the Shanghai Women’s Federation, the Shanghai Science and Technology Museum, the Shanghai Song Qingling Foundation as well as schools and hospitals. It has also provided substantial financial support to Jinshan District, Shanghai, where the Company is located, on its economic development and various public welfare affairs regarding cultural, education and community development. Since its listing, total social donations of the Company amounted to several hundred millions of Renminbi, which has enabled a harmonious development of the enterprise and the society.

SPC’s employees have all along been enthusiastic in humanitarian aid. At the beginning of this century, nearly 400 volunteers from the Company became voluntary donors of bone marrow in light of the comparatively scarce availability of blood specimens for matching purpose in China Bone Marrow Bank (Shanghai). Subsequently, the Company continued to launch the campaign of enrolling donors of hematopoietic stem cells. So far, more than 1,600 employees, that is, more than one-tenth of total existing employees, have joined China Bone Marrow Bank (Shanghai). After three employees succeeded in donating hematopoietic stem cells in 2006 and 2007, another employee of the Company participated in the donation of hematopoietic stem cells in 2010. In this aspect, The Shanghai Red Cross particularly issued a honour certificate to the Company to praise SPC’s outstanding contribution to the aspects of humanitarian aid, love and care.

The above Report demonstrated that SPC has implemented various measures and achieved positive results in respect of protecting the interests of major stakeholders, ensuring safe production and environmental protection and facilitating sustainable economic and social development in 2010. In 2011, the Company will continue its work to duly fulfill its social responsibilities as usual, thereby further facilitating sustainable economic, social and environmental development.

The Report has been considered and approved at the nineteenth meeting of the sixth session of the Board on 25 March 2011. The Company has not engaged any third party to verify the fulfillment of its social responsibilities.

25 March, 2011

Written Confirmation Issued by Directors, Supervisors and Senior Management

Pursuant to the requirements of Article 68 of the Securities Law and Regulation on the Preparation of Information Disclosure Contents and Format of Companies Issuing Public Shares, No. 2 revised by the China Securities Regulatory Commission (CSRC) in 2007, we, being Directors, Supervisors and the Senior Management of the Company, having carefully studied and reviewed the Company's 2010 annual report, are in the opinion that: the Company was in strict compliance with the standardised operation of financial system operation of joint stock companies and the 2010 annual report gave a true and fair view of the financial position and operating results of the Company. The unqualified auditors' reports of the Company issued by KPMG Huazhen and KPMG, respectively, were true and fair. We warrant that the information contained in the 2010 annual report is true, accurate and complete, and that there are no false or misleading statements contained in or material omissions from this report. We jointly and severally accept full responsibility for the authenticity, accuracy and completeness of the information contained in this report.

Signature:

Directors:

Rong Guangdao
Wang Zhiqing
Wu Haijun
Li Honggen
Shi Wei
Dai JinBao
Lei Dianwu
Xiang Hanyin
Chen Xinyuan
Sun Chiping
Jiang Zhiquan
Zhou Yunnong

Supervisors:

Gao Jinping
Zhang Chenghua
Wang Yanjun
Zhai Yalin
Wu Xiaoqi
Liu Xiangdong
Yin Yongli

Senior Management:

Zhang Zhiliang
Zhang Jianping
Tang Chengjian
Ye Guohua
Zhang Jingming

Corporate Information

(1) Company Information

Legal Chinese Name of the Company:	中國石化上海石油化工股份有限公司
Abbreviation for Legal Chinese Name of the Company:	上海石化
Legal English Name of the Company :	Sinopec Shanghai Petrochemical Company Limited
Abbreviation for Legal English Name of the Company:	SPC
Legal Representative of the Company:	Rong Guangdao

(2) Contact Persons and Contact Methods

	Corporate Secretary	Securities Affairs Representative
Name:	Zhang Jingming	Tang Weizhong
Address:	48 Jinyi Road, Jinshan District, Shanghai, PRC,	Suite B, 28/F, Huamin Empire Plaza, 728 West Yan'an Road, Shanghai, PRC,
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Fax:	8621-57940050/52375091	8621-52375091
E-mail:	spc@spc.com.cn	tom@spc.com.cn

(3) Basic Information

Registered address:	48 Jinyi Road, Jinshan District, Shanghai, PRC
Post Code:	200540
Business address:	48 Jinyi Road, Jinshan District, Shanghai, PRC
Post Code:	200540
Website of the Company:	www.spc.com.cn
E-mail address:	spc@spc.com.cn

(4) Information Disclosure and Place for Access to Information

Newspapers designated for publication of announcements of the Company:
"Shanghai Securities News" and "China Securities Journal"

Websites for the publication of the Company's annual reports:
www.sse.com.cn, www.hkex.com.hk and www.spc.com.cn

Place for access to the Company's annual reports:
Board Secretariat Office,48 Jinyi Road, Jinshan District, Shanghai, the PRC

(5) Shares Profile of the Company

Share Type	Place of listing of the shares	Stock abbreviation	Stock Code	Stock abbreviation before change
A Shares	Shanghai Stock Exchange	S 上石化	600688	-
H Shares	Hong Kong Stock Exchange	Shanghai Pechem	00338	-
ADR	New York Stock Exchange	SHI	-	-

(6) Other Information

Date of the Company's initial registration:	29 June 1993
Initial registration address of the Company:	Jinshan Wei, Shanghai, the People's Republic of China

First time:	Date of change of the Company's registration:	12 October 2000
	Change of the registration address of the Company:	48 Jinyi Road, Jinshan District, Shanghai, the People's Republic of China
	SAIC registration number of the Company:	310000000021453
	Tax registration number of the Company:	310228132212291
	Company and Organization Code:	13221229-1

Name of domestic auditor engaged by the Company:	KPMG Huazhen
Address of the domestic auditor engaged by the Company:	8th floor, Office Tower 2, Oriental Plaza, No. 1, East Chang An Avenue, Beijing, People's Republic of China, Postal Code: 100738
Name of international auditor engaged by the Company:	KPMG
Address of the international auditor engaged by the Company:	8th Floor, Prince's Building, 10 Chater Road, Central, Hong Kong

Legal advisors:

PRC Law:	Haiwen & Partners 21st Floor, Beijing Silver Tower No.2 Dong San Huan Road Chaoyang District Beijing, People's Republic of China Postal Code:100027
Hong Kong Law:	Freshfields Bruckhaus Deringer 11th Floor, Two Exchange Square, Central, Hong Kong
United States law:	Morrison & Foerster 425 Market Street San Francisco, California 94105-2482 U.S.A

Principal Bankers:

China Construction Bank, Shanghai Branch
900 Lujiazui Ring Road, Pudong New Area, Shanghai, People's Republic of China
Postal Code: 200120

Industrial & Commercial Bank of China, Shanghai Branch
No.9 Pudong Avenue Pudong New Area
Shanghai, People's Republic of China
Postal Code: 200120

Registrars:

Hong Kong Registrars Limited
17/F, Hopewell Centre, 183 Queen's Road East, Wanchi, Hong Kong

Depositary:

The Bank of New York Mellon
Investor Services
P.O. Box 11258
Church Street Station
New York, NY 10286-1258
Toll Free Number for Domestic Calls:
1-888-BNY-ADRS
Number for International Calls:
1-201-680-6825
E-mail: shareowners@bankofny.com
Website: www.stockbny.com

Documents for Inspection

1. Financial statements signed and sealed by the Company's Chairman, Vice Chairman cum President and Chief Financial Officer;

2. Original copies of auditors' reports signed by the auditors;

3. Original copies of all documents and announcements of the Company which were disclosed in newspapers designated by CSRC during the Reporting Period; and

4. The written confirmation issued by the Directors, Supervisors and Senior Management.

Chairman: **Rong Guangdao**
Sinopec Shanghai Petrochemical Company Limited
25 March 2011

This annual report is published in both Chinese and English. Should any conflict regarding meaning arises, the Chinese version shall prevail (unless otherwise provided).