ANNUAL REPORT 2015

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

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

Stock code: 00338 Hong Kong 600688 Shanghai SHI New York

Contents

IMPORTANT MESSAGE:

(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 the truthfulness, accuracy and completeness of the information contained in this annual report, and warrant that there are no false representations or misleading statements contained in, or material omissions from, the 2015 annual report of the Company, and severally and jointly accept responsibility.

(2) If any director fails to attend the Board meeting for approving the 2015 annual report of the Company, his name shall be set out separately:

Position	Name of Director not Attending	Reasons for Absence	Name of Proxy
Director	Wu Haijun	Business engagement	Gao Jinping
Director	Ye Guohua	Business engagement	Gao Jinping
Director	Lei Dianwu	Business engagement	Wang Zhiqing
Director	Mo Zhenglin	Business engagement	Wang Zhiqing
Independent Director	Liu Yunhong	Business engagement	Cai Tingji

(3) The financial report for the year ended 31 December 2015 (the "Reporting Period"), prepared under the People's Republic of China ("PRC" or "China")'s Accounting Standards ("CAS") as well as the International Financial Reporting Standards ("IFRS"), was audited by PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers, respectively, and both firms have issued standard unqualified opinions on the financial report in their auditors' reports.

(4) Mr. Wang Zhiqing, Chairman, President and the responsible person of the Company; Mr. Ye Guohua, Director and Chief Financial Officer of the Company; and Mr. Hua Xin, Vice Financial Officer and Director of Finance Department hereby warrant the truthfulness and completeness of the financial statements contained in the annual report.

(5) Plan for Profit Appropriation or Capital Reserve Capitalisation for 2015

In 2015, the net profit attributable to equity shareholders of the Company amounted to RMB3,245,849,000 under CAS (net profit of RMB3,274,308,000 under IFRS). According to the annual profit distribution plan adopted by the Board on 16 March 2016, the Board proposed to distribute a dividend of RMB1.00 per 10 shares (including tax) based on the issued share capital of 10.8 billion shares as at 31 December 2015. The distribution plan will be implemented after approval of the annual general meeting.

(6) Forward-looking statements such as future plans and development strategies in this report do not constitute any substantive commitments of the Company to investors. The Company has alerted investors on the relevant investment risks.

(7) There was no appropriation of funds by the controlling shareholder of the Company and its connected parties for non-operation purposes.

(8) The Company did not provide any external guarantees in violation of the required decision-making procedures.

(9) Major Risk Warning

Potential risks are elaborated in this report. Please refer to Section 2 "Management's Discussion and Analysis"of Chapter (III) "Report of the Directors" for details of the potential future risks.

(1) Definitions

In this report, unless the context otherwise requires, the following terms shall have the following meanings:

"Company"	Sinopec Shanghai Petrochemical Company Limited
"Board"	the Board of Directors of Sinopec Shanghai Petrochemical Company Limited
"Supervisory Committee"	the Supervisory Committee of Sinopec Shanghai Petrochemical Company Limited
"PRC"	the People's Republic of China
"the Reporting Period"	the year ended 31 December 2015
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Shanghai Stock Exchange"	Shanghai Stock Exchange
"Group"	the Company and its subsidiaries
"Sinopec Group"	China Petrochemical Corporation
"Sinopec Corp."	China Petroleum & Chemical Company
"SASAC"	State-owned Assets Supervision and Administration Commission of the State Council
"The Share Option Incentive Scheme"	A Share Option Incentive Scheme of Sinopec Shanghai Petrochemical Company Limited
"Hong Kong Listing Rules"	The Rules Governing the Listing of Securities on the Hong Kong Stock Exchange
"Shanghai Listing Rules"	The Rules Governing the Listing of Securities on the Shanghai Stock Exchange
"Model Code for Securities Transactions"	the Model Code for Securities Transactions by Directors of Listed Issuers
"Securities Law"	the PRC Securities Law
"Company Law"	the PRC Company Law
"CSRC"	China Securities Regulatory Commission
"Articles of Association"	the articles of association of the Company
"Hong Kong Stock Exchange website"	www.hkexnews.hk
"Shanghai Stock Exchange website"	www.sse.com.cn
"Website of the Company"	www.spc.com.cn
"HSE"	Health, Safety, and Environment
"COD"	Chemical Oxygen Demand
"PIMS"	Process Industry Modeling System
"EVA"	Ethylene Vinyl Acetate
"SFO"	the Securities and Futures Ordinance of Hong Kong (Chapter 571 of the Laws of Hong Kong)
"Corporate Governance Code"	the "Corporate Governance Code" set out in Appendix 14 to the Hong Kong Listing Rules

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 2015. 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 optimising 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 Hong Kong Stock Exchange and the New York Stock Exchange.

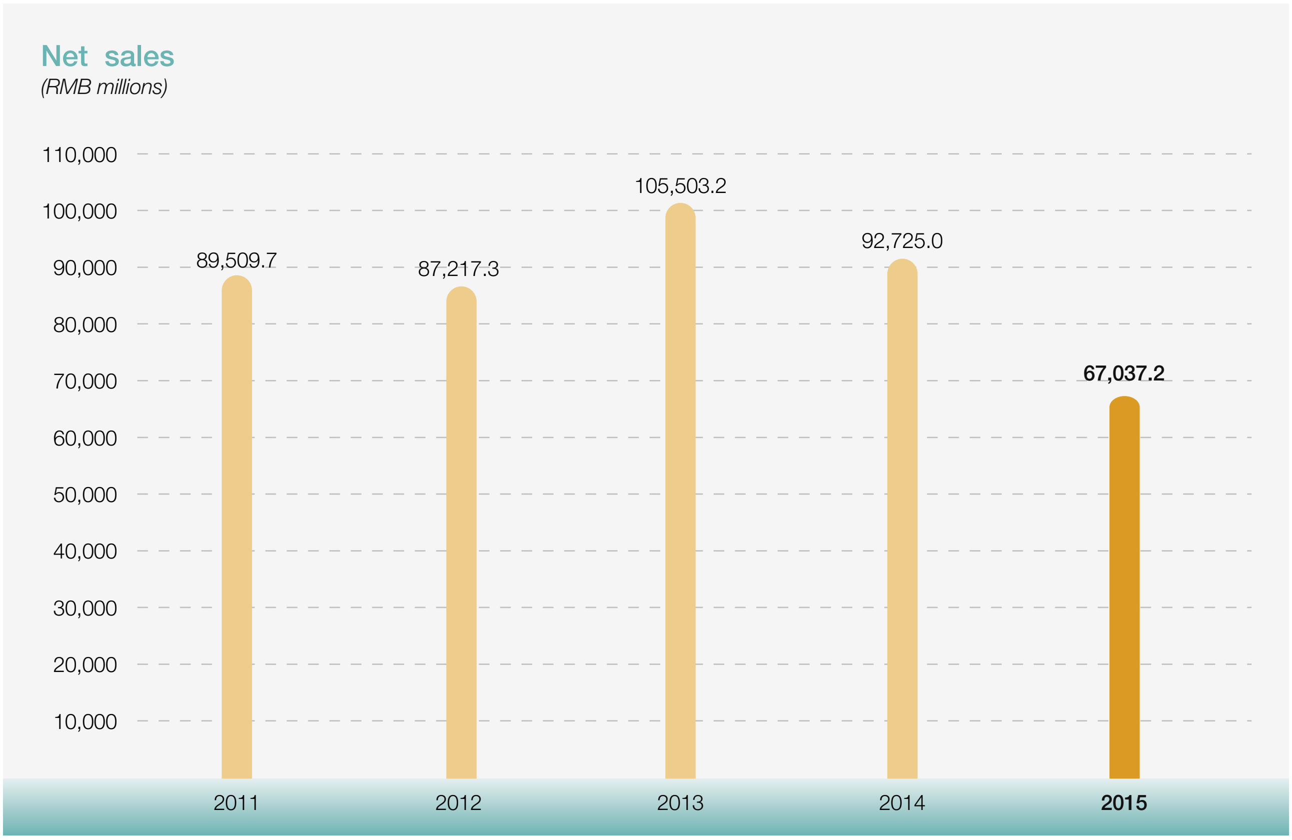
Since the listing of its shares, the Company has strived to continuously improve and enhance its operation and management efficiency with an aim to become a world-class petrochemical enterprise.

Financial Highlights

(Prepared under IFRS)

Expressed in RMB million	**2015**	2014	2013	2012	2011
Year ended 31 December:					
Net sales	**67,037.2**	92,725.0	105,503.2	87,217.3	89,509.7
Profit/(loss) before taxation	**4,237.2**	(889.9)	2,444.7	(2,016.5)	1,296.7
Profit/(loss) after taxation	**3,310.4**	(675.8)	2,065.5	(1,505.1)	986.5
Profit/(loss) attributable to equity shareholders of the Company	**3,274.3**	(692.2)	2,055.3	(1,528.4)	956.1
Basic and diluted earnings/(loss) per share	**RMB0.303**	RMB(0.064)	RMB0.190	RMB(0.212)	RMB0.133
Basic and diluted earnings/(loss) per share (after restatement)*	**N/A**	N/A	N/A	RMB(0.142)	RMB0.089
As at 31 December:					
Total equity attributable to equity shareholders of the Company	**19,797.3**	16,500.3	17,732.5	16,037.2	17,925.6
Total assets	**27,820.6**	30,905.6	36,636.8	36,462.5	30,718.9
Total liabilities	**7,726.3**	14,134.0	18,645.3	20,158.6	12,523.2

* After the implementation of share capital increase from the capital reserve in December 2013, total shares of the company increased from 7.2 billion shares to 10.8 billion shares.



(1) Major accounting data

Unit: RMB'000

Major accounting data	**2015**	2014	Increase/ decrease compared to the previous year (%)	2013
Operating income	**80,803,422**	102,182,861	–20.92	115,539,829
Profit before income tax ("-" for loss)	**4,208,729**	–914,149	N/A	2,392,870
Net profit attributable to equity shareholders of the Company ("-" for net loss)	**3,245,849**	–716,427	N/A	2,003,545
Net profit attributable to equity shareholders of the Company excluding non-recurring items ("-" for net loss)	**3,130,327**	–806,028	N/A	1,650,721
Net cash inflow from operating activities	**5,143,397**	4,039,919	27.31	5,480,669

	Year End of 2015	Year End of 2014	Increase/ decrease compared to the previous year (%)	Year End of 2013
Total equity attributable to equity shareholders of the Company	**19,838,862**	16,570,623	19.72	17,831,617
Total assets	**28,022,171**	31,145,983	–10.03	36,915,933

(2) Major Financial Indicators

Major financial indicators	For the year ended 31 December 2015	2014	Increase/ decrease compared to the previous year (%)	2013
Basic earnings per share ("-" for loss) (RMB/Share)	**0.301**	–0.066	N/A	0.186
Diluted earnings per share ("-" for loss) (RMB/Share)	**0.300**	–0.066	N/A	0.186
Basic earnings per share excluding non-recurring items ("-" for loss) (RMB/Share)	**0.290**	–0.075	N/A	0.153
Return on net assets (weighted average) (%)*	**17.831**	–4.165	Increased by 21.996 percentage points	11.778
Return on net assets based on net profit or loss excluding non-recurring items (weighted average) (%)*	**17.251**	–4.686	Increased by 21.937 percentage points	9.704
Net cash inflow per share from operating activities (RMB/Share)	**0.476**	0.374	27.27	0.507

	As at 31 December Year End of 2015	Year End of 2014	Increase/ decrease compared to the previous year (%)	Year End of 2013
Net asset value per share attributable to equity shareholders of the Company (RMB/Share)*	**1.837**	1.534	19.75	1.651
Liability-to-asset ratio (%)	**28.143**	45.926	Decreased by 17.783 percentage points	50.995

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

(3) Non-recurring items

Non-recurring items	2015 RMB'000	2014 RMB'000	2013 RMB'000
Net earnings/loss from disposal of non-current assets ("-" for loss)	**–9,393**	–33,966	417,280
Employee reduction expenses	**–24,892**	–4,684	–2,463
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	**160,116**	182,829	59,658
Income from external entrusted loans	**2,880**	2,299	2,202
Income from forward exchange contracts	**37,154**	–	–
Other non-operating income and expenses other than those mentioned above	**–10,280**	–25,357	–6,227
Effect attributable to minority interests (after tax)	**–1,525**	–1,240	–1,143
Income tax effect	**–38,538**	–30,280	–116,483
Total	**115,522**	89,601	352,824

(4) The fair value measurement items

Unit: RMB'000

Project	**Beginning balance**	**Ending balance**	**Change**	**The amout of the profit to be influnenced**
Forward exchange contracts	–	–	–	37,154
Total	–	–	–	37,154

(5) Differences between financial statements prepared under CAS and IFRS

1. Differences between the net profit and total equity attributable to equity shareholders of the Company in the financial report prepared under CAS and IFRS

	Net profit attributable to equity shareholders of the Company ("-" for net loss)		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	3,245,849	–716,427	19,838,862	16,570,623
Items and values adjusted under IFRS:				
Government Subsidies	28,771	28,772	–41,580	–70,351
Safety Production Fee Adjustment	–312	–4,567	–	–
Prepared under IFRS	3,274,308	–692,222	19,797,282	16,500,272

2. Description of differences between financial statements prepared under CAS and IFRS

For detailed differences between the financial statements prepared under CAS and IFRS, please refer to supplements to the financial statements prepared under CAS.

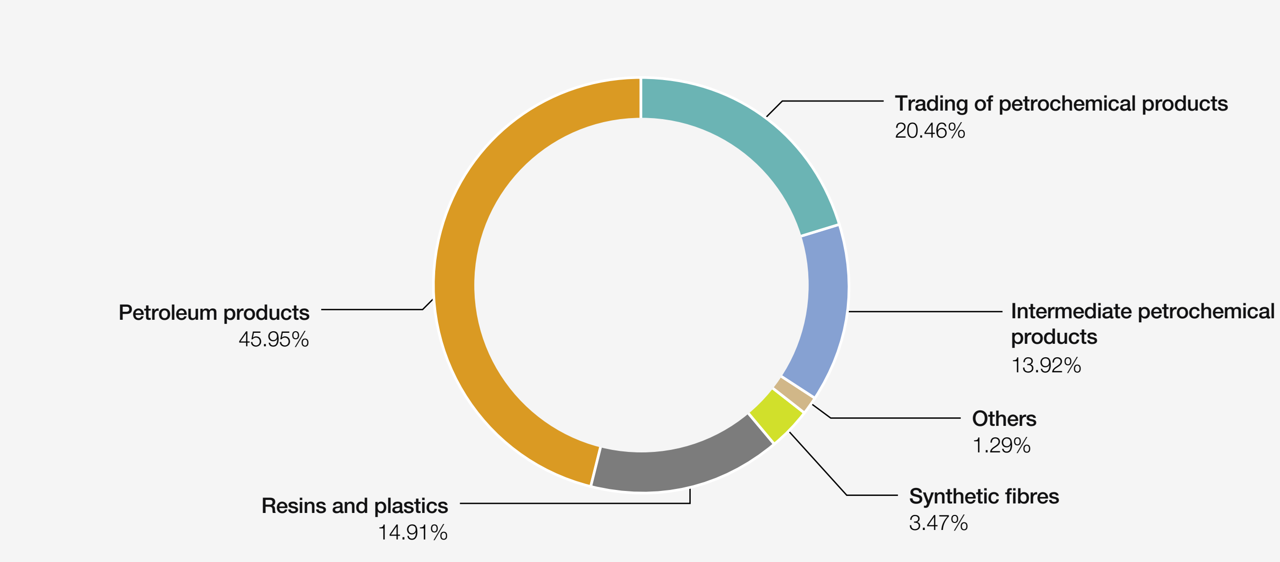
(6) Major Quarterly financial data in 2015

	First Quarter (January to March) RMB'000	Second Quarter (April to June) RMB'000	Third Quarter (July to September) RMB'000	Fourth Quarter (October to December) RMB'000
Operating income	19,630,320	22,522,130	19,405,452	19,245,520
Net profit attributable to equity shareholders of the Company	52,176	1,678,990	514,538	1,000,145
Net profit attributable to equity shareholders of the Company excluding non-recurring items	56,323	1,679,908	482,301	911,795
Net cash inflow from operating activities ("-" for net cash flows used in operating activities)	–1,045,568	2,969,807	1,464,446	1,754,712

Principal Products

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

The following table sets forth the net sales of the Group's major products in 2015 as a percentage of total net sales and their typical uses.



Major products sold by the Company	% of 2015 net sales	Typical use
Manufactured products		
Synthetic Fibres		
Polyester staple	**0.43**	Textiles and apparel
Acrylic staple	**2.89**	Cotton type fabrics, wool type fabrics
Others	**0.15**	
Subtotal:	**3.47**	

Major products sold by the Group	% of 2015 net sales	Typical use
Resins and Plastics		
Polyester chips	2.29	Polyester fibres, films and containers
PE pellets	4.88	Films, ground sheeting, wire and cable compound and other injection moulding products such as housewares and toys
PP pellets	5.02	Films or sheets, injection moulding products such as housewares, toys and household electrical appliances and automobile parts
PVA	0.27	PVA fibres, building coating materials and textile starch
Others	2.45	
Subtotal:	14.91	
Intermediate Petrochemical Products		
Ethylene	0.32	Feedstock for PE, EG, PVC and other intermediate petrochemicals which can be further processed into resins and plastics and synthetic fibre
Ethylene Oxide	1.65	Intermediate for chemical and pharmaceutical industry, dyes, detergents and adjuvant
Benzene	2.22	Intermediate petrochemical products, styrene, plastics, explosives, dyes, detergents, epoxies and polyamide fibre
PX	3.55	Intermediate petrochemical, polyester
Butadiene	0.88	Synthetic rubber and plastics
Ethylene Glycol	2.34	Fine chemicals
Others	2.96	
Subtotal:	13.92	
Petroleum Products		
Gasoline	18.17	Transportation fuels
Diesel	17.75	Transportation and agricultural machinery fuels
Jet fuel	3.08	Transportation fuels
Others	6.95	
Subtotal:	45.95	
Trading of petrochemical products	20.46	**Import and export trade of petrochemical products (purchased from domestic and overseas suppliers)**
Others	1.29	
TOTAL:	100	

Change in Share Capital and Shareholders

(1) Change in share capital of ordinary shares

1. Change in share capital of ordinary shares

	Before the changes		Increase/decrease (+, -)					After the changes	
	Amount (share)	Percentage (%)	New shares issued (share)	Bonus shares (share)	Shares converted from reserves (share)	Others (share)	Subtotal (share)	Amount (share)	Percentage (%)
1. Unlisted non-circulating shares	0	0	0	0	0	0	0	0	0
(1) Shares of Promoters	0	0	0	0	0	0	0	0	0
Including:									
Shares held by the state	0	0	0	0	0	0	0	0	0
(2) Collective legal person shares	0	0	0	0	0	0	0	0	0
2. Shares with Trading restriction	4,920,000,000	45.56	0	0	0	–540,000,000	–540,000,000	4,380,000,000	40.56
(1) Shares held by state-owned legal entities	4,920,000,000	45.56	0	0	0	–540,000,000	–540,000,000	4,380,000,000	40.56
(2) Shares held by other domestic investors	0	0	0	0	0	0	0	0	0
3. Listed circulating shares	5,880,000,000	54.44	0	0	0	+540,000,000	+540,000,000	6,420,000,000	59.44
(1) RMB-denominated ordinary shares	2,385,000,000	22.08	0	0	0	+540,000,000	+540,000,000	2,925,000,000	27.08
(2) Overseas listed foreign shares	3,495,000,000	32.36	0	0	0	0	0	3,495,000,000	32.36
4. Total share number	10,800,000,000	100	0	0	0	0	0	10,800,000,000	100

2. Changes in trading restricted share capital

Name of Shareholders	Number of trading shares held at the beginning of the year (share)	Decrease during 2014 (share)	Increase during 2014 (share)	Number of trading shares held at the end of the year (share)	Reason for restriction	Date of unrestricted shares
China Petroleum & Chemical Corporation	4,920,000,000	540,000,000	0	4,380,000,000	promise of share split reform	20/08/2015
Total	4,920,000,000	540,000,000	0	4,380,000,000	/	/

(2) Issue and listing of shares

1. Issue of shares during the Reporting Period

As at the end of the Reporting Period, the Group did not issue new shares or affect any share listings.

On 6 January 2015, the Proposal regarding the Initial Grant under the Share Option Incentive Scheme were reviewed and approved at the fifth meeting of the eighth session of the Board of Directors of the Company. For details, please refer to the item “Share Option Incentive Scheme and its Impact” in “Report of the Directors”.

2. Changes in the Company’s total number of ordinary shares, share structure, Company assets and gearing structure

There were no changes to the Company’s total number of shares or share structure as a result of reasons such as bonus issues or share placements 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

Number of shareholders as at 31 December 2015	152,258
Number of shareholders as at 29 February 2016	139,966

2. Shareholding of the top ten shareholders as at the end of the reporting period

Name of Shareholders	Increase (+)/ decrease (-) during 2015 (share)	Number of shares held (share)	Percentage of total shareholding (%)	Number of trading restricted shares held (share)	Status of pledged/frozen shares: Status of shares	Status of pledged/frozen shares: Number of shares (share)	Type of shareholders
China Petroleum & Chemical Corporation	–	5,460,000,000	50.56	4,380,000,000	None	0	State-owned enterprise legal person
HKSCC (Nominees) Limited	+8,003,668	3,453,366,321	31.98	–	Unknown	–	Foreign legal person
China Securities Finance Corporation Limited	Unknown	294,785,279	2.73	–	Unknown	–	Others
Central huijin Asset Management Ltd.	Unknown	67,655,800	0.63	–	Unknown	–	Others
Shanghai Kangli Gong Mao Company	–54,700	21,415,300	0.20	–	Unknown	–	Others
Bank of China Limited – ChinaAMC new economy flexible configured hybrid securities investment fund	Unknown	19,645,656	0.18	–	Unknown	–	Others
NSSF Four Hundred Twelve Combination	Unknown	15,735,005	0.15	–	Unknown	–	Others
Da Cheng Fund – Agricultural Bank – Da Cheng China Securities and Financial Assets Management Program	Unknown	13,743,400	0.13	–	Unknown	–	Others
China Southern Fund – Agricultural Bank – China Southern China Securities and Financial Assets Management Program	Unknown	13,743,400	0.13	–	Unknown	–	Others
ICBC Credit Suisse Fund – Agricultural Bank – ICBC Credit Suisse China Securities and Financial Assets Management Program	Unknown	13,743,400	0.13	–	Unknown	–	Others
GF Fund – Agricultural Bank – GF China Securities and Financial Assets Management Program	Unknown	13,743,400	0.13	–	Unknown	–	Others
Zhong Ou Fund – Agricultural Bank – Zhong Ou China Securities and Financial Assets Management Program	Unknown	13,743,400	0.13	–	Unknown	–	Others
Harvest Fund – Agricultural Bank – Harvest China Securities and Financial Assets Management Program	Unknown	13,743,400	0.13	–	Unknown	–	Others
Bosera Funds – Agricultural Bank – Bosera China Securities and Financial Assets Management Program	Unknown	13,743,400	0.13	–	Unknown	–	Others
EFund – Agricultural Bank – EFund China Securities and Financial Assets Management Program	Unknown	13,743,400	0.13	–	Unknown	–	Others

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

2. Shareholding of the top ten shareholders as at the end of the reporting period *(continued)*

Top ten shareholders of circulating shares without trading restriction

Name of shareholders	Number of circulating shares held (share)	Type of shares
HKSCC (Nominees) Limited	3,453,366,321	Overseas listed foreign shares
China Petroleum & Chemical Corporation	1,080,000,000	RMB-denominated ordinary shares
China Securities Finance Corporation Limited	294,785,279	RMB-denominated ordinary shares
Central Huijin Asset Management Ltd.	67,655,800	RMB-denominated ordinary shares
Shanghai Kangli Gong Mao Company	21,415,300	RMB-denominated ordinary shares
Bank of China Limited – ChinaAMC new economy flexible configured hybrid securities investment fund	19,645,656	RMB-denominated ordinary shares
NSSF Four Hundred Twelve Combination	15,735,005	RMB-denominated ordinary shares
Da Cheng Fund – Agricultural Bank – Da Cheng China Securities and Financial Assets Management Program	13,743,400	RMB-denominated ordinary shares
China Southern Fund – Agricultural Bank – China Southern China Securities and Financial Assets Management Program	13,743,400	RMB-denominated ordinary shares
ICBC Credit Suisse Fund – Agricultural Bank – ICBC Credit Suisse China Securities and Financial Assets Management Program	13,743,400	RMB-denominated ordinary shares
GF Fund – Agricultural Bank – GF China Securities and Financial Assets Management Program	13,743,400	RMB-denominated ordinary shares
Zhong Ou Fund– Agricultural Bank–Zhong Ou China Securities and Financial Assets Management Program	13,743,400	RMB-denominated ordinary shares
Harvest Fund – Agricultural Bank – Harvest China Securities and Financial Assets Management Program	13,743,400	RMB-denominated ordinary shares
Bosera Funds – Agricultural Bank – Bosera China Securities and Financial Assets Management Program	13,743,400	RMB-denominated ordinary shares
EFund – Agricultural Bank – EFund China Securities and Financial Assets Management Program	13,743,400	RMB-denominated ordinary shares
Description of any connected relationship or act-in-concert parties relationships among the above shareholders	Among the above-mentioned shareholders, China Petroleum & Chemical Corporation, the State-owned enterprise legal person, does not have any connected relationship with the other shareholders, and is not an act-in-concert party of the other shareholders under the Administrative Measures on Acquisition of Listed Companies. Among the above-mentioned shareholders, HKSCC (Nominees) Limited is a nominee shareholder. Apart from the above, the Company is not aware of any other connected relationships among the other shareholders, or any act-in-concert parties under the Administrative Measures on Acquisition of Listed Companies.	

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

3. Shareholding and conditions of circulating restricted in top ten shareholders

Name of shareholders holding trading restricted shares	Number of trading-restrict shares held (share)	Circumstances under which restricted shares can be traded: Earliest time to be traded	Circumstances under which restricted shares can be traded: Number of shares which will be added to be traded (share)	Restricted Conditions
China Petroleum & Chemical Corporation	4,380,000,000	20/08/2016	4,380,000,000	1. Shall not be traded or transferred in the twelve months since the date of implementation of the Share reform proposal; 2. After the expiration of the first condition, original non-tradable shares sold through the Stock Exchange shall not exceed 5% of the total number of shares of the company, nor shall it exceed 10% within twenty-four months.

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

4. Details of the controlling shareholder and controlling company of the controlling shareholder

(i). Details of the controlling shareholder

Name of controlling shareholder:	China Petroleum & Chemical Corporation
Legal representative	Wang Yupu
Date of incorporation	25 February 2000
Major business operations	Exploration, exploitation, pipeline transportation and trading of crude oil and natural gas; production, trading, storage and transportation of chemical products such as refined oil, petrochemical products, chemical fibres, fertilisers and others; import and export of techniques and goods such as petroleum, natural gas, petroleum products, petrochemical products, and other chemical products; as well as import and export business agent of the aforementioned goods and techniques; research, exploration and application of techniques and information.
Shareholdings in other domestic and overseas companies during the Reporting Period	Sinopec Corp. directly holds shares in other listed companies with the following details:

Company	Number of shares hold	Percentage of shares hold
Sinopec Shandong Taishan Petroleum Co., Ltd.	118,140,120	24.6%

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

4. Details of the controlling shareholder and controlling company of the controlling shareholder *(continued)*

(ii). Controlling company of the controlling shareholder

Name of controlling company of the controlling shareholder	China Petrochemical Corporation
Legal representative	Wang Yupu
Date of incorporation	24 July 1998
Major businesses operations	According to the Group's restructuring strategy in 2000, China Petrochemical Corporation injected its chemicals business into Sinopec Corp. Sinopec continue to operate several petrochemical facilities and small-scale refining plants. Its services include: provision of drilling, logging and downhole operation services, production and maintenance of manufacturing equipment; project construction service and water, electricity and other public utilities and social services.
Shareholdings in other domestic and overseas companies during the Reporting Period	China Petrochemical Corporation directly holds shares in other listed companies with the following details:

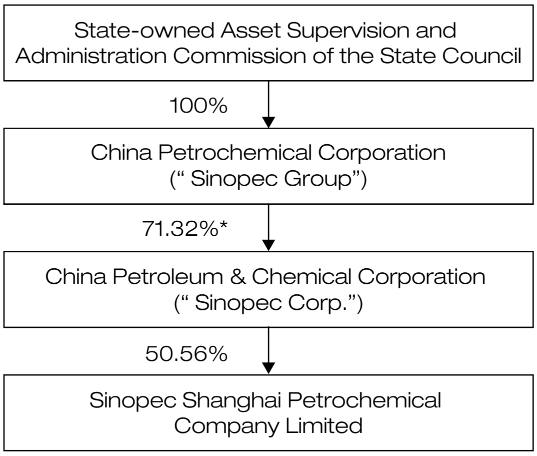
Company	Number of shares hold	Percentage of shares hold
China Petroleum & Chemical Corporation*	85,720,671,101	70.86%
Sinopec Engineering (Group) Co., Ltd.	2,907,856,000	65.67%
Sinopec Oilfield Service Corporation	9,224,327,662	65.22%
Sinopec Oilfield Equipment Corporation	270,270,000	58.73%
China Merchants Energy Shipping Co., Ltd.	912,886,426	17.23%

* Excludes the 553,150,000 H shares held by Sinopec Century Bright Capital Investment Limited, a wholly-owned overseas subsidiary of China Petrochemical Corporation, through HKSCC (Nominees) Limited.

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

4. Details of the controlling shareholder and controlling company of the controlling shareholder *(continued)*

(iii). Relationship between the Company and the controlling shareholders



* Includes 553,150,000 H shares of Sinopec Corp. held by Sinopec Century Bright Capital Investment Limited, a wholly-owned international subsidiary of Sinopec Group, through HKSCC (Nominees) Limited.

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

As at 31 December 2015, HKSCC (Nominees) Limited held 3,453,366,321 H shares of the Company, representing 31.98% of the total issued share capital of the Company.

6. Public Float

Based on the public information available to the Board, as at 16 March 2015, the Company had a sufficient public float which complied with the minimum requirement under the Hong Kong Listing Rules.

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

As at 31 December 2015, 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) 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. Interests in ordinary shares of the Company

Name of shareholders	Number of Shares interests held or deemed as held	Percentage of total issued share capital (%)	Percentage of shareholding in the Company's total issued H shares (%)	Capacity
China Petroleum & Chemical Corporation	5,460,000,000 Promoter legal person shares (L)	50.56	–	Beneficial owner
BlackRock, Inc.	253,955,899 (L)	2.35(L)	7.27 (L)	Beneficial owner; investment manager; Other (lendable shares)

Note: (L):Long position; (S):Short position

Save as disclosed above, no interests of substantial shareholders or other persons (excluding the Directors, Supervisors and Senior Management) 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

As at 31 December 2015, no short positions of substantial shareholders or other persons (excluding the Directors, Supervisors and Senior Management) 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.

Directors, Supervisors, Senior Management and Employees

Changes in Shareholdings and remuneration of Directors, Supervisors and Senior Management

Name	Position	Sex	Age	Date of commencement of service term	Date of end of service term	Number of shares held at the beginning of the year (share)	Number of shares held at the end of the year (share)	Change	Reason of change	Total remuneration received from the Company during the Reporting Period (RMB'000) (before taxation)	Whether received remuneration from connected persons during the Reporting Period (RMB'000) (before taxation)
Wang Zhiqing	Chairman and President	M	53	June 2014	June 2017	Nil	Nil	Nil	–	67.8	No
Wu Haijun	Vice Chairman	M	53	June 2014	June 2017	Nil	Nil	Nil	–	Nil	No
Gao Jinping	Vice Chairman and Vice President	M	49	June 2014	June 2017	Nil	Nil	Nil	–	67.8	No
Ye Guohua	Director & Chief Financial Officer	M	47	June 2014	June 2017	Nil	Nil	Nil	–	59.5	No
Jin Qiang	Director & Vice President	M	50	June 2014	June 2017	Nil	Nil	Nil	–	65.9	No
Guo Xiaojun	Director & Vice President	M	46	June 2014	June 2017	Nil	Nil	Nil	–	58.7	No
Lei Dianwu	Director	M	53	June 2014	June 2017	Nil	Nil	Nil	–	Nil	Yes
Mo Zhenglin	Director	M	51	June 2014	June 2017	Nil	Nil	Nil	–	Nil	Yes
Cai Tingji	Independent Non-executive Director	M	61	June 2014	June 2017	Nil	Nil	Nil		15.0	No
Zhang Yimin	Independent Non-executive Director	M	61	June 2014	June 2017	Nil	Nil	Nil	–	15.0	No
Liu Yunhong	Independent Non-executive Director	M	39	June 2015	June 2017	Nil	Nil	Nil	–	15.0	No
Du Weifeng	Independent Non-executive Director	M	39	June 2015	June 2017	Nil	Nil	Nil	–	15.0	No
Kuang Yuxiang	Chairman of the Supervisory Committee	M	53	June 2015	June 2017	Nil	Nil	Nil	–	28.9	No
Zuo Qiang	Supervisor	M	53	June 2014	June 2017	Nil	Nil	Nil	–	40.1	No
Li Xiaoxia	Supervisor	F	46	June 2014	June 2017	Nil	Nil	Nil	–	37.5	No
Zhai Yalin	Supervisor	M	51	June 2014	June 2017	Nil	Nil	Nil	–	Nil	Yes
Wang Liqun	Supervisor	M	58	June 2014	June 2017	Nil	Nil	Nil	–	Nil	Yes
Zheng Yunrui	Independent Supervisor	M	50	December 2014	June 2017	Nil	Nil	Nil	–	Nil	No
Pan Fei	Independent Supervisor	M	60	June 2015	June 2017	Nil	Nil	Nil	–	Nil	No
Zhang Jianbo	Former Chairman of the Supervisory Committee (Jan-Mar)	M	53	June 2014	March 2017	Nil	Nil	Nil	–	33.4	No
Shen Liqiang	Former Independent Non-executive Director	M	59	June 2014	June 2015	Nil	Nil	Nil	–	–	No
Jin Mingda	Former Independent Non-executive Director	M	65	June 2014	June 2015	Nil	Nil	Nil	–	–	No
Tang Weizhong	Former Company Secretary (Jan-Oct)	M	49	June 2014	June 2017	Nil	Nil	Nil	–	34.6	No
Total	/	/	/	/		Nil	Nil	Nil	/	554.2	/

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

Profiles of Directors, Supervisors and Senior Management

Directors

Wang Zhiqing, 53, is Executive Director, Chairman, President of the Company and Deputy Secretary of the Communist Party Committee of the Company. Mr. Wang commenced work in 1983 and has held various positions, including Deputy Leader of the preparatory team for the chemical fibre 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 fibre plant, and then Deputy Chief Engineer of the complex cum Director of the chemical fibre plant. Mr. Wang was Chief Engineer of Luoyang Petrochemical Complex from June 1999 to December 2001, Vice President cum Chief Engineer of Sinopec Luoyang Company from February 2000 to December 2001, President of Sinopec Luoyang Company from December 2001 to October 2006, Leader of the preparatory team for a Sinopec refinery project in Guangxi from July 2005 to May 2007, manager of Sinopec Jiujiang Company from October 2006 to December 2008, President of Sinopec Jiujiang Company from December 2008 to July 2010, President and Deputy Secretary of the Communist Party Committee of the Company in July 2010, and Director of the Company in December 2010. He was appointed Vice Chairman of the Company from December 2010 to June 2013 and Director and Chairman of Shanghai Secco Petrochemical Company Limited in February 2011. Mr. Wang was Chairman of the Company in June 2013. He 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. In addition, He graduated from The Open University of Hong Kong and China Europe International Business School with a Master of Business Administration in 2001 and 2013, respectively. He is a professor-level senior engineer by professional title.

Wu Haijun, 53, is Executive Director and Vice Chairman of the Company, Director and Vice President of Shanghai Secco Petrochemical Company Limited. Mr. Wu joined the Shanghai Petrochemical Complex (the "Complex") in 1984 and has 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. Mr. Wu 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 a Director of Shanghai Secco Petrochemical Company Limited. From April 2010 to February 2011, Mr. Wu was President of Shanghai Secco Petrochemical Company Limited. In June 2010, he was appointed Director and Vice Chairman of the Company. In February 2011, he was appointed Vice President of Shanghai Secco Petrochemical Company Limited. 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 Master of Business Administration from the China Europe International Business School. He is a senior engineer by professional title.

Gao Jinping, 49, is Vice Chairman, Secretary of the Communist Party Committee of the Company and Executive Director, Vice President and Vice Chairman of the Company. Mr. Gao joined the Complex in 1990 and has held various positions, including Deputy Secretary of the Communist Youth League of the 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. Mr. Gao was Deputy Secretary of the Communist Party Committee from May 2003 to March 2013 Chairman of the Labor Union of the Company from May 2003 to November 2013, and was elected Director of the Company from June 2004 to June 2006. Mr. Gao was appointed Secretary of the Communist Party Discipline Supervisory Committee of the Company From April 2006 to March 2013, and was Supervisor and Chairman of the Supervisory Committee of the Company, from June 2006 to April 2013. He has been Secretary of the Communist Party Committee of the Company since March 2013, as well as Vice President of the Company since April 2013. In June 2013, Mr. Gao was appointed as a Director of the Company. In June 2014, Mr. Gao was appointed as a Vice Chairman 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 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.

Ye Guohua, 47, is Executive Director and Chief Financial Officer of the Company. Mr. Ye joined Shanghai Gaoqiao Petrochemical Corporation in 1991 and has 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. In June 2011, Mr Ye was Director of the Company. Mr. Ye graduated with a major in accounting from the Shanghai University of Finance and Economics in 1991. He is a senior accountant by professional title.

Jin Qiang, 50, is Executive Director and Vice President of the Company. Mr. Jin joined Zhenhai General Petrochemical Works in 1986 and has held various positions, including Deputy Director of the Utilities Department Director of the Machinery and Power Division and Director of of Sinopec Zhenhai Refining & Chemical Co., Ltd. (ZRCC). Mr. Jin was Deputy Chief Engineer of Sinopec Zhenhai Refining & Chemical Company from March 2007 to October 2011, and was appointed Vice President of the Company in October 2011. In June 2014, Mr Jin was appointed Director of the Company. Mr. Jin graduated from the East China Institute of Chemical Technology in 1986 specialising in chemical machinery, and graduated from the Graduate School of Central Party School in 2007 specializing in economic management. He is a professor-level senior engineer by profession title.

Guo Xiaojun, 46, is Executive Director and Vice President of the Company. Mr. Guo joined the Company in 1991 and has held various positions, including Director of the Polyolefin Integrated Plant in the Plastics Division, Deputy Chief Engineer in the Plastics Division, Assistant to the Manager, Assistant Manager and Manager cum Deputy Secretary of the Communist Party Committee. He was Deputy Chief Engineer and Director of the Production Department of the Company from March 2011 to April 2013 and Vice President of the Company in April 2013. In June 2014, Mr. Guo was appointed Director of the Company. He graduated with a major in basic organic chemical engineering from the East China University of Science and Technology in 1991 and obtained Bachelor of Engineering, and obtained a master's degree majoring in chemical engineering from the East China University of Science and Technology in 2008. He is a senior engineer by professional title.

Lei Dianwu, 53, is Non-executive Director of the Company and Vice President of Sinopec Corp, Assistant to the General Manager and Chief Economist of Sinopec Group. In June 2005, Mr. Lei was elected External Director of the Company. Mr. Lei has held various positions, including Deputy Director of Planning Division of Yangzi Petrochemical Company, Director of the Preparation Office of the Joint Venture of Yangzi Petrochemical Company and Vice President and Manager of the 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 the Development and Planning Division at China Dong Lian Petrochemical Limited Liabilities Company, Deputy General Manager of Yangzi Petrochemical Limited Liabilities Company and Deputy Director of the Development and Planning Division of Sinopec Corp. From March 2001 to August 2013, he assumed the position of Director of Development and Planning Division of Sinopec Corp. Mr. Lei was appointed Assistant to General Manager of Sinopec in March 2009, was appointed Vice President of Sinopec Corp in May 2009, and was appointed Chief Economist of Sinopec Group in August 2013. From October 2015, Mr. Lei has acted as Company Secretary of Sinopec Group, 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.

Mo Zhenglin, 51, is Deputy Director and Chief Accountant of the Chemical Division of Sinopec Corp. and Director of Shanghai Secco Petrochemical Company Limited. In June 2014, Mr. Mo was appointed as Non-executive Director of the Company. Mr. Mo began his career in August 1986 and has held various positions, including Deputy Director of the Finance Department and Head of the Accounting Department, as well as Chief Accountant and Director of the Finance Department of the Refinery Division of Beijing Yanshan Petrochemical Corporation (now known as Sinopec Beijing Yanshan Company); and Deputy Chief Accountant of Sinopec Beijing Yanshan Company and Chief Accountant of the Refinery Division. He served as Director of Beijing Yanshan Petrochemical Company Limited and Chief Accountant of Sinopec Beijing Yanshan Company from April 2002 to August 2008. Mr. Mo has been Chief Accountant of the Chemical Division of Sinopec Corp. since August 2008, and Director of Shanghai Secco Petrochemical Company since November 2008. Mr. Mo obtained a bachelor's degree in Management from Zhongnan University of Economics in 1986, majoring in Finance and Accounting. He is a senior accountant by professional title.

Cai Tingji, 61, is a Fellow of the Hong Kong Institute of Certified Public Accountants, a member of the Committee of the Chinese People's Political Consultative Conference of Jing'an District, Shanghai, Honorary Vice-Chairman of the Federation of Returned Overseas Chinese of Jing'an District, Shanghai, and has been Independent Non-executive Director of the Company since June 2011. Mr. Cai graduated from the Department of Accounting, Hong Kong Polytechnic University in 1978. He joined KPMG in the same year and has held various positions, including Deputy Manager and Manager of the audit department of KPMG Hong Kong Office, Managing Partner of KPMG Shanghai Office, Senior Partner of KPMG Huazhen Shanghai Office as well as Senior Partner of KPMG Huazhen in Eastern and Western China. Mr. Cai retired from KPMG Huazhen in April 2010. Mr. Cai was responsible for IPO projects for a number of large Chinese domestic enterprises in China, Hong Kong or overseas, as well as for various projects for listed companies. He possesses a wealth of professional knowledge and experience.

Zhang Yimin, 61, is a Professor of Economics and Finance and head of the Faculty of Accounting and Finance at the China Europe International Business School. He has been Independent Non-executive Director of the Company since October 2013. Mr. Zhang obtained a doctorate degree majoring in finance and political studies at the Business School of the University of British Columbia in Canada, and has held various positions, including a Post-doctoral Fellow at the Business School of the University of British Columbia, Assistant Professor at the Business School of the University of New Brunswick, and Associate Professor of Economics and Finance Department at the City University of Hong Kong. He was appointed as Professor of Economics and Finance at the China Europe International Business School in September 2004. His main area of research interest is in operations, financing and industrial economic studies. He possesses a wealth of professional knowledge and experience.

Liu Yunhong, 39, is General Manager of Investment Banking Department of Hwabao Securities co. Ltd. and Deputy Head of the Institute of International M&A and Investment, Renmin University of China. He has been Independent Non-executive Director of the Company since June 2015. Since June 2008, Mr. Liu has been the Head of Legal and Compliance Division of Guotai Asset Management Co., Ltd. From October 2008 to August 2010, Mr. Liu conducted post-doctoral research in Economics at Guanghua School of Management, Peking University as a deputy professor and master instructor. From September 2010 to July 2012, he worked for fund product development and supervision of listed companies at Shanghai Stock Exchange. From August 2012 to September 2013, Mr. Liu was General Manager of Investment Banking Department of Aerospace Securities Co., Ltd. Since October 2013, Mr. Liu has been the General Manager of the Institutional Business Department of Hwabao Securities Co. Ltd. Since May 2014, Mr. Liu has been Deputy Head of the Institute of International M&A and Investment, Renmin University of China. Mr. Liu obtained a doctorate degree in Law from Renmin University of China, majoring in Civil and Commercial Law in 2008. Mr. Liu was a researcher by professional title.

Du Weifeng, 39, a Partner of the Shanghai branch of JunZeJun Law Offices. He has been the Company's Independent Non-executive Director since June 2015. Mr. Du commenced work in July 1998. He has been Clerk and Assistant Judge of Shanghai Pudong New District People's Court and worked at Watson & Band Law Offices in Shanghai and Wintell & Co Law Firm in Shanghai. He has been a Partner of the Shanghai branch of JunZeJun Law Offices since February 2009. With extensive experience related to work of lawyer, Mr. Du is the designated lawyer of some banks headquarters, Shanghai branch, Shanghai branch of the state-owned asset management companies and private asset management companies. Mr. Du obtained a bachelor's degree in Commercial Law from Shanghai University in 1998, and a master's degree in Commercial Law from Bristol University in 2005. He also obtained a master's degree in Business Administration from China Europe International Business School in 2013.

Supervisors

Kuang Yuxiang, 55, is Chairman of the Supervisory Committee and the Secretary of the Communist Party Discipline Supervisory Committee of the Company. Mr. Kuang started his career in 1982. He has served as chief of the personnel allocation section and the Deputy Director of personnel section of the Human Resources and Education Department of Nanjing Chemical Industrial (Group) Corporation, the Deputy Director of the Labor Section of Human Resources and Education Department of China Donglian Petrochemical Group Company, the Deputy Director of the Personnel and Organization Department of Nanjing Chemical Industrial Co., Ltd, the Director of the Personnel and Organization Department and Vice President of the Communist Party School and the Secretary of the Communist Party Committee of Nanjing Chemical Industrial Co., Ltd. From April 2005 to March 2015, Mr. Kuang served as the Vice Secretary of the Communist Party Committee and the Secretary of the Communist Party Discipline Supervisory Committee of Nanjing Chemical Industrial Co., Ltd. From April 2005 to June 2007, he served as the Chairman of the Supervisory Committee of Nanjing Chemical Industrial Co., Ltd. From June 2008 to March 2015, Mr. Kuang served as the Chairman of the Labor Union of Nanjing Chemical Industrial Co., Ltd. He was appointed the Secretary of the Communist Party Discipline Supervisory Committee of the Company in March 2015 and as Chairman of the Supervisory Committee of the Company in April 2015. Mr. Kuang graduated from the East China Technical Institute of Water Resources and obtained a bachelor's degree of engineering in hydrogeology and engineering geology in 1982, and obtained a master's degree in business administration from the University of Houston in May 2007. He has senior engineer qualifications.

Zuo Qiang, 53, is Supervisor, Deputy Secretary of the Discipline Inspection Commission, Director of the Supervisory Office and Director of Supervisory Committee Office. Mr. Zuo joined the Complex in 1981 and has held various positions, including archivist of the Command Division for the construction of Phase II of No. 1 Chemical Plant, Head of Archives at the ethylene plant, Secretary of the Youth League Committee of the ethylene plant, Secretary of the Youth League Committee of the Refining and Chemical Division of the Complex, Secretary of the Youth League Committee of the Refining and Chemical Division, Secretary of the General Branch of the Communist Party Committee of Ethylene Plant No. 1 of the Refining and Chemical Division of the Company, and Deputy Director of the Supervisory Office of the Company. He was appointed Secretary of the Corporate Discipline Supervisory Committee of the Company. In April 2011, he was appointed Director of the Supervisory Office in April 2011, and has been serving as Supervisor, Director of Supervisory Committee Office since June 2011, and Deputy Secretary of the Discipline Inspection Commission of the Company since October 2011. Mr. Zuo graduated from the Correspondence College of the Communist Party Committee School of the Central Committee in 1993 with a major in Party & Administrative management. He has senior professional technical qualifications.

Li Xiaoxia, 46, is Supervisor and Vice Chairman of the Labor Union of the Company. Ms. Li joined the Complex in 1991 and has held various positions, including Controller of the operation zone of the marine terminal of the Company, Assistant to the Workshop Director, Deputy Workshop Director and Deputy Section Chief of Storage and Transportation Area No. 2 of the Refining and Chemical Division, Deputy Secretary of the Youth League Committee of the Company, Secretary of Party General Branch for Staff Exchange and Relocation Centre, Secretary of the Communist Party Committee and Deputy Manager of the Refining Division of the Company. She was appointed as Supervisor of the Company in June 2011 and Vice Chairman of the Labor Union of the Company in December 2011. Ms. Li graduated from Liaoning University of Petroleum and Chemical Technology in 1991 with a major in petroleum and natural gas transportation. She has senior professional technical qualifications.

Zhai Yalin, 51, is Deputy Director of the Auditing Bureau of Sinopec Group 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 successively served as 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 Group, and Director of the General Administrative Office of the Auditing Bureau of Sinopec Group (Auditing Department of Sinopec Corp.). Since December 2001, Mr. Zhai has concurrently held the posts of Deputy Director of the Auditing Bureau of Sinopec Group 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.

Wang Liqun, 58, is Deputy Chief of the Supervisory Bureau of Sinopec Group and Deputy Director of the Supervisory Department of Sinopec Corp., and has been External Supervisor of the Company since June 2011. Mr. Wang started working in 1976 and has held various positions, including Deputy Director of the Manager's Office of Beijing Yanshan Petrochemical Corporation, Director of the Personnel Department, Deputy Head and Head of the Department for Cadres of Beijing Yanshan Petrochemical Co., Ltd. He served as a member of the Standing Committee of the Communist Party Committee and Chairman of the Labor Union of Beijing Yanshan Petrochemical Co., Ltd. from August 2008 to April 2010. He has been serving as Deputy Chief of the Supervisory Bureau of Sinopec Group and Deputy Director of the Supervisory Department of Sinopec Corp. from April 2010. Mr. Wang graduated from Beijing Federation of Labor Unions University for Workers and Staff in 1984 with a major in environmental protection (Diploma), and graduated from Beijing University of Technology in 1997 with a major in business management (Bachelor). He is a senior economist by professional title.

Zheng Yunrui, 50, is a professor in civil and commercial law at the Faculty of Law of East China University of Political Science and Law in the PRC. Mr. Zheng graduated from Shangrao Normal University in Jiangxi Province in July 1986, majoring in English Language. Mr. Zheng obtained a master's degree in Law and a doctoral degree in Law from the Faculty of Law of Peking University in July 1993 and July 1998, respectively. Mr. Zheng previously worked at the Education Bureau of Shangrao County, Jiangxi Province, Hainan Airport Limited, China Township Enterprise Investment and Development Company Limited and the Legal Affairs Office of the Shanghai Municipal People's Government. He has been teaching at East China University of Political Science and Law since August 2001. He was a visiting scholar at the Faculty of Law of National University of Singapore between July 2002 and December 2002. Mr. Zheng has been engaged in trials, teaching and research relating to civil law, property law, contract law, insurance law, social insurance law and government procurement law. He is experienced in the legal affairs on corporate governance and has great academic achievements. He is also a procurement assessment expert of the Shanghai Municipal People's Government and an arbitrator at the Shenzhen Arbitration Commission.

Pan Fei, 59, is a Professor of Accounting and the Associate Dean of the Accounting School at Shanghai University of Finance and Economics. He has served as the Company's Independent Supervisor since June 2015. Mr. Pan commenced work in 1983. He has been the Lecturer and Associate Professor at Shanghai University of Finance and Economics. In 2000, he worked as Professor of Accounting and the Associate Dean of the Accounting School at Shanghai University of Finance and Economics. Mr. Pan graduated from Shanghai University of Finance and Economics with a major in Accounting in January 1983 and obtained a Master's degree in Accounting with a major in cost management accounting from Shanghai University of Finance and Economics in January 1991. He has also obtained a Doctor's degree in Accounting with a major in accounting theory from Shanghai University of Finance and Economics.

Share Options Granted to the Directors, Supervisors or Senior Management

Name	Position	Number of share options held at the beginning of the Reporting Period	Number of new share options granted during the Reporting Period (10'000)	Number of Share options with exercisable rights during the Reporting Period	Number of Share options excised during the Reporting Period	Stock option exercise price (RMB)	Number of share options held at the end of the Reporting Period (10,000)	Market price at the end of the Reporting Period (RMB)
Wang Zhiqing	Chairman and President	0	50	0	0	4.2	50	6.48
Gao Jinping	Vice Chairman and Vice President	0	50	0	0	4.2	50	6.48
Ye Guohua	Director and Chief Financial Officer	0	43	0	0	4.2	43	6.48
Jin Qiang	Director and Vice President	0	43	0	0	4.2	43	6.48
Guo Xiaojun	Director and Vice President	0	43	0	0	4.2	43	6.48
Tang Weizhong*	Former Company Secretary	0	25	0	0	4.2	0	–
Total	/	0	254	0	0	/	229	/

* Mr. Tang Weizhong resigned as the company secretary of the Company with effect from 23 October 2015. According to the Share Option Incentive Scheme, share options granted to Mr. Tang have been cancelled.

Management Positions held at the Company's Shareholders

Name	Shareholder's name	Position held	Commencement of term of service	End of term of service
Lei Dianwu	Sinopec Corp.	Vice President	May 2015	May 2018
Mo Zhenglin	Sinopec Corp.	Chief Accountant of Chemical Division	May 2015	May 2018
Zhai Yalin	Sinopec Corp.	Deputy Director of Audit Department	May 2015	May 2018
Wang Liqun	Sinopec Corp.	Deputy Director of Supervisory Department	May 2015	May 2018

Management Positions held at other companies

Name	Other company's name	Position held	Commencement of service term	End of term of service
Wu Haijun	Shanghai Secco Petrochemical Company Limited	Director and President	February 2015	February 2019

Aside from the information set out in the tables above and in "Profile of Directors, Supervisors and Senior Management" section, no Director, Supervisor or Senior Management of the Company holds any position at any other company.

Remuneration of Directors, Supervisors and Senior Management

Procedures for determining the remuneration of Directors, Supervisors and Senior Management	Allowances for Independent Directors are determined by the Board, and the resolution of the same are determined according to the Remuneration System for Directors, Supervisors and Senior Management which was passed at the 2002 annual general meeting of the Company.For details of the remuneration of the Directors and Supervisors of the Company, please refer to Note 11 and Note 36 to the financial statements prepared under IFRS.
Basis for determining the remuneration of Directors, Supervisors and Senior Management	The remuneration of Directors, Supervisors and Senior Management of the Company is determined by the principles of "efficiency, motivation and fairness" and approved in accordance with the Remuneration System for Directors, Supervisors and Senior Management.
Remuneration payable of Directors, Supervisors and Senior Management	Please refer to "Changes in Shareholdings and the remuneration of Directors, Supervisors and Senior Management" section.
The total actual remuneration of Directors, Supervisors and Senior Management paid by the Company in the Reporting Period	RMB5.542 million.
The five highest paid individuals	Please refer to Notes36(i) to the financial statements prepared under IFRS. The five individuals are the Directors, Supervisors and Senior Management of the Company.
Pension scheme	Please refer to Notes 2.25and 29(e) to the financial statements prepared under IFRS.

Change of Directors, Supervisors and Senior Management

Name	Position Held	Change	Reason
Kuang Yuxiang	Chairman of the Supervisory Committee	Selected	Change of work allocation
Liu Yunhong	Independent Non-executive Director	Selected	Change of work allocation
Du Weifeng	Independent Non-executive Director	Selected	Change of work allocation
Pan Fei	Independent Supervisor	Selected	Change of work allocation
Zhang Jianbo	Former Chairman of the Supervisory Committee	Resigned	Resignation
Shen Liqiang	Former Independent Non-executive Director	Resigned	Resignation
Jin Mingda	Former Independent Non-executive Director	Resigned	Resignation
Tang Weizhong	Former Company Secretary	Resigned	Resignation

Interests and short positions of Directors, Supervisors and Senior Management in Shares, Underlying Shares and Debentures of the Company

During the Reporting period, the Company granted the Company's share option to five Directors and one senior management. For the details, please refer to the item "Share Option Incentive Scheme and its Impact" under "Major Events" section in the Report. In addition to the above mentioned information and disclosure in "Changes in Shareholdings and Remuneration of Directors, Supervisors and Senior Management" section, as at 31 December 2015, 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 ascribed to it in Part XV of the SFO) in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions.

Directors' and Supervisors' Interests in Transaction, Arrangement or Contract

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

None of the Directors or Supervisors of the Company has entered into any service contracts with the Company which are 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 as set out under Appendix 10 to Hong Kong Listing Rules 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.

Management Contract

In the Reporting Period, the Company did not sign or own any management and administration contract regarding its overall business or any significant part of its businesses.

Permitted Indemnity Provision

Appropriate Directors' liability insurance cover has been arranged to indemnify the Directors for liabilities arising out of corporate activities.

Employees

Number of employees of the Company	10,842
Number of employees of the subsidiaries	1,190
Total number of employees of the Group	12,032
Number of retired workers who require the Group to bear the costs of retirement	17,078

Professionals structure and level of education of the Company's employees	
Category of Professionals	Number of employees
Production personnel	7,718
Sales staff	91
Technical staff	2,428
Financial officers	117
Administrative staff	1,678
Total	12,032

Level of education	
Educational Attainment	Number of employees
College graduate or below	10,201
Undergraduate	1,647
Post-graduate and above	184
Total	12,032

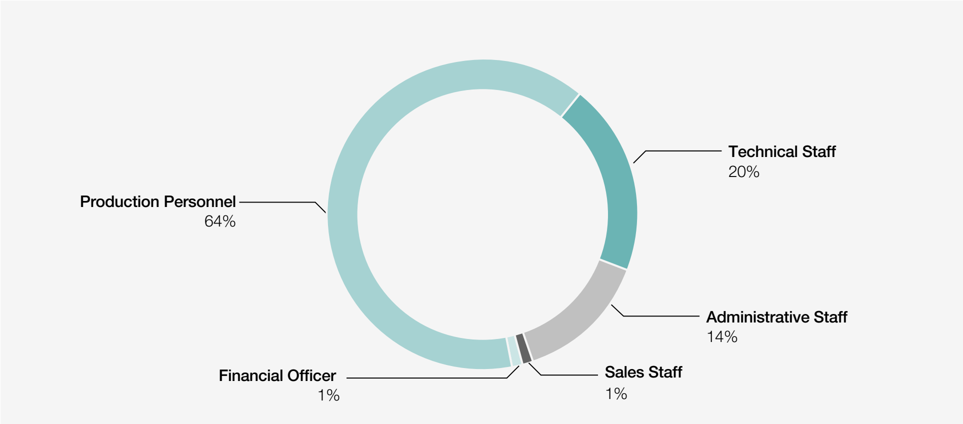
Staff remuneration

Remuneration packages for 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 PRC, the Company also participates in the social security scheme implemented by the relevant authorities. Pursuant to the scheme, the Company contributes to the scheme by a proportion of the monthly salary of its staff.

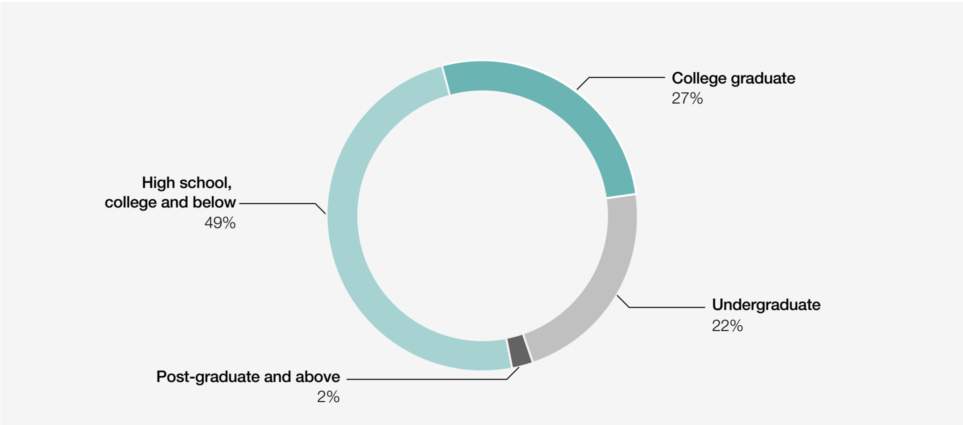
Training programs

According to the human resources main line "streamlining the structure and enhancing the quality" with an aim of "strengthening the team construction and facilitating the employee development", the Company improves the educational training management and talent growth, enhance the focus area and the effectiveness of the training, so as to build nationally leading and world class petrochemical enterprise.

Professional structure chart



Level of education chart



Outsourcing Service

The total remuneration for outsourcing services: RMB33,601,700

Corporate Governance

(1) Notes for corporate governance and insider registration management

1. Corporate governance

In 2015, the Company strictly complied with the Company Law and Securities Law and the Corporate Governance Principles for Listed Companies issued by the 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 continued to improve its corporate governance structure, develop its corporate system, streamline operations and enhance its overall corporate image.

Improving governance policies: During the Reporting Period, in accordance with the requirements of the relevant laws and regulations of the places where the Company's shares are listed, the Company amended and improved the Company's "Internal Control Manual" (2015 edition).

Accomplished specific corporate governance activities for listed companies in an earnest manner: During the Reporting Period, the Company was committed to ensuring the compliance of relevant regulatory rules regarding corporate governance and continued to consolidate its achievements in specific areas of corporate governance. The Company and its Directors, Supervisors, Senior Management, shareholders and the controlling company of its controlling shareholder has not been investigated by the CSRC; nor punished or publicly criticized by the CSRC, The Hong Kong Securities and Futures Commission or the U.S. Securities and Exchange Commission, nor publicly censured by the Shanghai Stock Exchange, the Hong Kong Stock Exchange or the New York Stock Exchange.

Through the continuous implementation of specific corporate governance activities and improvements to the development of its governance system, the Company further enhanced its corporate governance standards. The Company's internal system also became more robust and standardized. Under the guidance of the relevant regulatory authorities, the Company will operate in strict compliance with the relevant laws and regulations and will further strengthen the establishment of standardized and institutionalized corporate governance so as to ensure the lawful, robust and sustained development of the Company.

(1) Notes for corporate governance and insider registration management *(continued)*

2. Registration and management of persons with access to inside information

In 2015, in order to administer the registration and management of persons with access to the Company's inside information, strengthen the confidentiality of inside information and safeguard the fairness of information disclosure, and enhance the operability of "System for the Registration and Management of Inside Information", according to the requirements of Company Law of People's Republic of China, the Security Law of People's Republic of China and related laws, regulations and regulatory documents of Administrative Measures on Information Disclosure by Listed Companies, the Company has made revisions to "System for the Registration and Management of Inside Information" with consideration of the actual situation of the Company, which was approved by the Sixth meeting of the Eighth Session of the Board of Directors. The revised "System for the Registration and Management of Inside Information" further increased the Secrecy of inside information as well as the registration and circulation of the persons with access to the inside information. It will prevent the Company from stock price movement due to the leakage of inside information and the resulting legal risk, thus standardizing the Company's operation.

(2) The brief introduction of General Meeting

Session of the meeting	Convening Date	Name of the motion	Resolutions	Websites for Publication of Resolutions	Date of Publication of Resolutions
The Company's 2014 Annual General Meeting	18 June 2015	1. 2014 Work Report of the Board of the Company 2. 2014 Work Report of the Supervisory Committee of the Company 3. 2014 Audited Financial Statements of the Company 4. 2014 Profit Distribution Plan of the Company 5. 2015 Financial Budget Report of the Company 6. The Re-appointment of the Company's Domestic and International Auditors 7. Approval of Mr. Pan Fei as the Independent Supervisor of the 8th Supervisory Committee 8. Approval of the Independent Non-executive Director of the 8th Board of the Company	Endorsed	Websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company	19 June 2015

(3) Performance of Duties by the Directors

1. Directors' attendance at the Board meetings and General Meeting

Name of Director	Whether as Independent Director	Circumstances on participating in the Board Meeting: Attendance at the Board meetings during the year (no. of times)	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	Circumstances on participating in the Annual General Meeting: Attendance at the Annual General Meeting (no. of times)
Wang Zhiqing	No	6	6	4	0	0	No	1
Wu Haijun	No	6	6	4	0	0	No	1
Gao Jinping	No	6	6	4	0	0	No	1
Ye Guohua	No	6	6	4	0	0	No	0
Jin Qiang	No	6	6	4	0	0	No	1
Guo Xiaojun	No	6	6	4	0	0	No	1
Lei Dianwu	No	6	4	4	2	0	No	0
Mo Zhenglin	No	6	6	4	0	0	No	0
Cai Tingji	Yes	6	6	4	0	0	No	1
Zhang Yimin	Yes	6	6	4	0	0	No	1
Liu Yunhong	Yes	3	3	2	0	0	No	0
Du Weifeng	Yes	3	3	2	0	0	No	1
Shen Liqiang	Yes	3	2	2	1	0	No	0
Jin Mingda	Yes	3	3	2	0	0	No	0

The Board meetings held during the year (no. of times)	6
including: meetings held on site (no. of times)	2
meetings held by correspondence (no. of times)	4
meetings held by correspondence on site and by correspondence (no. of times)	0

2. Disagreement from Independent Directors on relevant issues of the Company

During the Reporting Period, none of the Independent Directors of the Company had any disagreements on any Board resolutions or other issues.

(4) Major comments and recommendations put forward by the special committees under the Board while these committees discharged their duties during the Reporting Period

On 15 March 2016, the Board's Audit Committee reviewed with the management the accounting principles and standards adopted by the Company and studied audit, internal control and financial reporting matters, including the review of the financial statements for the year ended 31 December 2015.

On 15 March 2016, the Board's Remuneration and Appraisal Committee reviewed the remuneration of Directors, Supervisors and Senior Management in the Company's annual report for the year ended 31 December 2015.

(5) Explanation by the Supervisory Committee on the identification of risks in the Company

The Company's Supervisory Committee had no objections to the matters under their supervision during the Reporting Period.

(6) Explanation by the Company on the failure to guarantee independence or maintain autonomous operational ability with its controlling shareholder in various areas, including business, personnel, assets, offices and finances

The Company is independent in various areas, including business, personnel, assets, offices and finances from the controlling shareholder. The Company's business is independent in its entirety with autonomous operational ability.

(7) Evaluation mechanism for Senior Management as well as the establishment and implementation of incentive mechanism during the Reporting Period

The Remuneration System for the Senior Management was considered and approved at the 2002 Annual General Meeting of the Company on 18 June 2003. In 2015, the Company continued to adopt this system as the basis of appraising and rewarding the Company's Senior Management.

During the Reporting period, the A Share Option Incentive Scheme of the Company and its administrative measures was considered and approved at the General Meeting. According to the scheme, Mr. Wang Zhiqing, Mr. Gao Jinping, Mr. Ye Guohua, Mr. Jinqiang and Mr. Guo Xiaojun are the qualified incentive targets, and have been granted the Company's share option on 6 January, 2015. Details of assignment of share option can be referred to "Share Option Incentive Scheme and its Impact" under "Major Events" section in the Report.

Internal Control

(1) Statement of Responsibility for Internal Control and the Establishment of the Internal Control System

Statement of Responsibility for Internal Control

The Board of the Company is responsible for establishing and maintaining a complete internal control system pertinent to financial reporting.

The objectives of internal control pertinent to financial reporting are to ensure that the financial information reported is true, complete and reliable and to prevent the risk of material misstatements. However, internal control has its inherent limitations and can only provide a reasonable level of assurance to achieve the objectives mentioned above.

The Board has evaluated the internal controls pertinent to financial reporting in accordance with the requirements under the Basic Standards for Enterprise Internal Control, and is of the view that such internal control was effective in the year 2015.

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, operations, finance, investment, human resources and information disclosure, and has been amending the Internal Control Manual annually in accordance with domestic and overseas regulatory requirements, risk prevention needs and the internal control review recommendations from external auditors. The Company's internal control system has been established primarily for the following basic objectives: (a) to standardize the enterprise's business operation, prevent operational and managerial risks, ensure that financial statements and relevant information are truthful and complete, improve operational efficiency and effects, and facilitate the achievement of the Company's development strategy; (b) to plug loopholes and eliminate potential hazards so as to prevent, detect and correct mistakes and fraudulent acts in a timely manner, thereby ensuring that the Company's assets are secure and integral; and (c) to ensure that the 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.

(1) Statement of Responsibility for Internal Control and the Establishment of the Internal Control System *(continued)*

Work plan and implementation on establishing and improving the internal control system	The Internal Control Manual (2015 Edition) comprises 51 operation procedures in 22 categories and sets out 1,614 control points and 354 authorization control indicators. The scope of control covers the major areas of the Company's production, operations and development, as well as the key procedures of relevant business such as financial management, accounting and auditing, procurement of raw materials, product sales, capital expenditures, human resources and information management. The scope of control also includes reviewing the sufficiency of the Company's resources of accounting, financial management and reporting functions as well as employee qualifications and experience and the adequacy of the training courses attended by the employees and the relevant budget. In 2015, 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 the relevant rules and regulations. The external auditors of the Company also reviewed the status of the Company's internal control system. The management of the Company considers that the internal control of the Company was effective during the Reporting Period.
Establishment of the department inspecting and supervising internal control	The Company has established 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, considering updates to the Internal Control Manual, reviewing the annual self-assessment report on internal control, handling and rectifying issues identified during an internal control review and reporting major issues to the Board for consideration and approval. The internal control task force has an internal control office, which is a department in charge of internal control review and supervision. The office is responsible for directing or organizing daily inspections and evaluation, organizing annual comprehensive inspections and evaluation of the Company, organizing specific inspections and evaluation as needed, supervising and rectifying, drafting assessment proposals and reporting them 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 has established an internal control supervisor working network consisting of 45 members. These internal control supervisors, on behalf of their respective departments or administrative heads of second-tier units, conduct internal control work and activities within their respective supervisory scope and functionally report to the internal control office of the Company.

(1) Statement of Responsibility for Internal Control and the Establishment of the Internal Control System *(continued)*

The Board's work arrangements for internal control	Through the Audit Committee set up under the Board, the Board reviews reports on the establishment of the internal controls of the Company and the results of the implementation and inspection of the internal controls on a regular basis. It also considers and publishes its self-assessment report on the internal controls of the Company on an annual basis, and considers and approves the revised Internal Control Manual of the Company. PricewaterhouseCoopers Zhong Tian LLP, the Company's external auditor, issued an auditor's report on internal control over financial reporting according to the "Sarbanes-Oxley Act". PricewaterhouseCoopers Zhong Tian LLP, the Company's external auditor, issued an auditor's report on internal control over financial reporting according to "Audit Guidelines for Enterprise Internal Control" in 2015.
Improvements to the internal control system in relation to financial audit	The Company took the lead for the assessment of the rules and regulations, assessing the compliance and effectiveness of the system. 32 terms are revised and 14 systems are added.
Defects present in internal control and relevant rectification	The Company has conducted an assessment on its internal control work in 2015. The results of the assessment are: no material deficiencies were detected in the design or implementation of the internal control of the Company from 1 January 2015 to 31 December 2015.

(2) The Company's Disclosure of the Assessment Report on the Internal Control

The Company has disclosed an assessment report of the Board on internal control.

(3) The Company's Establishment of an Auditor's Report on the Internal Control

The Company has engaged PricewaterhouseCoopers Zhong Tian LLP to conduct an audit on the effectiveness of the internal control over financial reporting of the Company as at 31 December 2015 pursuant to the requirements of Audit Guidelines for Enterprise Internal Control. An auditor's Report on Internal Control over Financial Reporting according to "Audit Guidelines for Enterprises Internal Control" has been issued.

(4) The Company's Establishment of an Accountability System for Major Errors in the Disclosure of Information in Annual Report

The Company's Information Disclosure Management System (2012 Revised Version) defined specific regulations for the accountability for major errors in the disclosure of information in its 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.

Corporate Governance Report
(Prepared in Accordance with Hong Kong Listing Rules)

The Company is committed to operating in compliance with standards by implementing stringent corporate governance measures and enhancing accountability and transparency to deliver higher returns to shareholders. It is the Company's belief that adopting a good corporate governance system and a world-class governance model are essential to the development of the Company into a competitive international petrochemical enterprise.

(1) Corporate Governance Practices

During the Reporting Period, the Company applied and complied with all principles and code provisions set out in the Corporate Governance Code (the "Code") contained in Appendix 14 to the Hong Kong Listing Rules except for certain exceptions from Code Provision A.2.1 as listed below.

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

Deviation: Mr. Wang Zhiqing appointed as Chairman and President of the Company.

Reasons: Mr. Wang Zhiqing has extensive experience in the management of petrochemical production. Mr. Wang is the most suitable candidate to serve the positions of Chairman and President of the Company. For the time being, the Company has been unable to identify another person who possesses better or similar abilities and talent as Mr. Wang to serve any of the positions listed above.

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 2015, the Eighth Session of the Board held six meetings. Most of the Directors entitled to attend the meetings had actively attended the six meetings held this year in person or by means of communication. Before each Board meeting, the Company Secretary would consult each Director on matters to be tabled at the relevant Board meeting. Any matters so raised by the Directors would be included in the agenda of the relevant regular Board meeting. During the year, all notices and draft agenda of all Board meetings were sent to all Directors no later than 14 days before the date of the meeting.

All Directors maintain communication with the Company Secretary of the Company, who is responsible for ensuring that the operations of the Board comply with the relevant procedures and advising the Board on matters concerning corporate governance and regulatory compliance. The Company Secretary is responsible for preparing and maintaining minutes of Board meetings and those of Board committees, and 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 to 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 the Board meeting. The Independent Non-Executive Directors should attend the board meetings if they are not in any transactions or their closed contacts have no major interests.

The Company has purchased liability insurance against any possible legal action against its Directors.

A.2 Chairman and President

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

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

In 2015, the Chairman of the Board and Non-executive Directors (including Independent Non-executive Directors) held a meeting without the attendance of Executive Directors for exchanges and discussions on the Board's annual work plans and the implementation of such plans as well as the state of the Company's production and operations and its development prospects.

The Chairman is the person with the greatest responsibility for the Company's investor relations work, including presiding over and participating in major investor relations activities (including shareholder meetings, results presentations, press conferences, significant events and roadshows, important domestic and overseas capital market conferences and major financial media interviews, etc.) and maintaining contact with shareholders to ensure that the views of the shareholders can be conveyed to the entire Board.

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 websites of the Hong Kong Stock Exchange and 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 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 shareholders at the first general meeting after their appointment.

On 20 March 2015, Mr. Shen Liqiang and Mr. Jin Mingda, the Independent Non-executive Directors of the Company applied to resign from their positions as Independent Non-executive Directors of the Eighth Session of the Board of Directors, as well as their positions in the Audit Committee, Remuneration and Appraisal Committee, and the Nomination Committee of the Eighth Session of the Board of Directors of the Company in line with Chinese regulations and requirements. Mr. Shen and Mr. Jin have undertaken to continue to perform their duties as Independent Non-executive Directors until new Independent Non-executive Directors are approved at general meetings of the Company to fill the vacancies. At the 2014 Annual General Meeting held on 18 June 2015, the resolution on election of Independent Non-executive Directors of the Eighth Session of the Board of Directors was considered and passed. Mr. Liu Yunhong and Mr. Du Weifeng were first appointed as the Independent Non-executive Directors.

A.5 Nomination Committee

The Company has established a nomination committee which is chaired by the Chairman of the Board and comprises two other members who are Independent Non-executive Directors. Mr. Wang Zhiqing is Director of the Nomination Committee. The appointments of Independent Non-executive directors, Mr. Zhang Yimin and Mr. Du Weifeng as members of the Nomination Committee of the Eighth session of the Board were approved.

The Nomination Committee is a special committee under the Board of the Company that is accountable to the Board, and is mainly responsible for making recommendations to the Board on the procedures and criteria for the selection and appointment of the Company's Directors and Senior Management, as well as on their qualifications to hold office.

The Rules of Procedure for the Nomination Committee is published on the websites of the Hong Kong Stock Exchange, the Shanghai Stock Exchange and the Company. It contains a clear statement on the terms of reference of the Nomination Committee.

The Company provides adequate resources to the Nomination Committee for the performance of its duties. If it needs to seek independent professional advice during the performance of its duties, it may do so at the Company's expense.

To enhance the Company's corporate governance practices and comply with the amendments about the diversity on the Company's board of directors of the Code of the Nomination Committee adopted the Board Diversity Policy on 27 August 2014.

A.6 Responsibilities of Directors

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

The Company Secretary of the Company at the time is responsible for ensuring that all Directors receive updates on the requirements of 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 appoints relevant independent professionals such as auditors, sponsors and lawyers to provide independent opinions to help the Directors discharge their duties.

(1) Training of directors

All Directors participated in continuing professional development to upgrade their expertise and skills to ensure that they perform their duties better in contributing to the Board. Each of the Directors has provided to the Company records of their participation in the relevant training in 2015. The Company has also committed to organizing training programs for its Directors.

(2) Changes in part-time jobs disclosed by Directors to the Company

During the Reporting Period, the two new Independent Non-Executive Directors of the Company had disclosed the number and nature of the public companies or organizations they served as well as other major commitments. There was no change in part-time jobs disclosed by other Directors to the Company.

For details of the Directors' participation in Board meetings and attendance at shareholder meetings, please refer to "Performance of Duties by the Directors" under "Corporate Governance" section of this annual report.

A.7 Supply of and access to information

To facilitate the Directors in performing their duties more effectively and obtaining the relevant information to make informed decisions, the agenda of all meetings of the Board or Board committees, together with all relevant documents, are 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 or 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 its 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 and are posted on the websites of the Hong Kong Stock Exchange, the Shanghai Stock Exchange and the Company. In March 2003, the Remuneration and Appraisal Committee submitted to the Board proposals on the remuneration of the Directors, Supervisors and Senior Management of the Company. The proposals were implemented following approval by the shareholders at the Shareholders' General Meeting. The Committee may seek advice from independent professionals if required in accordance with the applicable procedures, and may do so at the expense of the Company.

C. Accountability and Audit

C.1 Financial reporting

All Directors regularly receive comprehensive reports from the management covering strategic proposals, operations updates, 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 announcements relating to inside information and other financial disclosures as required under Hong Kong Listing Rules.

During the Reporting Period, the management provided to members of the Board on monthly basis information on the Company's production and financial analysis, as well as Xinjinshan Post (《新金山報》), a newspaper published by the Company that covers recent developments in the Company's production and operations. In addition, external Directors were also able to promptly learn about the latest updates on the Company's business and information disclosure on the Company's website.

C.2 Internal control

The Company has established and continues to enhance its internal control system. The management conducts self-assessments and reviews of the effectiveness of its risk management and internal control every year. A self-assessment report is be prepared and submitted to the Board for approval. For details of the internal control of the Company for the Reporting Period, please refer to "Statement of Responsibility for Internal Control and the Establishment of the Internal Control System" in "Internal Control" section of this annual report.

C.3 Audit Committee

The Company established the Audit Committee in June 1999. The establishment of the Audit Committee reflects the Company's determination to improve the transparency of its financial reporting system and its financial arrangements. The Company pays close attention to the preparation of minutes by the Audit Committee. The draft of the meeting minutes is prepared by the Company Secretary at the time 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 and are posted on the websites of the Hong Kong Stock Exchange, the Shanghai Stock Exchange and the Company. The committee may seek advice from independent professionals in accordance with the applicable procedures, and may do so at the expense of the Company.

The Board ensures that internal control system of the Company is sound and proper to safeguard its shareholders' investments and its assets through two reviews conducted annually by the Audit Committee of the Company's interim and annual results, as well as the financial system, risk management, internal control system and the efficiency of internal control function of listed issuers. The Audit Committee conducted these reviews of the Company's internal control for 2014 and the first half of 2015 in March and August 2015, respectively. The reviews were reported to the Board, and the recommendations provided by the Board further enhanced the Company's internal control system, thereby enhancing the effectiveness and efficiency of risk management and internal control.

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 separately set out in the Articles of Association. The Rules of Procedure for the Board, an annex to the Articles of Association, contains detailed provisions on the terms of reference, authorization, meeting policies and rules of discussion of the Board. The Company has also developed the Work Rules for the President which contains detailed provisions on the duties and responsibilities as well as the rules of procedure for the management.

D.2 Board Committees

As at the end of the Reporting Period, the Board has three committees, namely the Audit Committee, the Remuneration and Appraisal Committee and the Nomination 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 the progress of their work and results of discussion.

D.3 Corporate Governance Functions

The terms of reference of the Board and its three special committees are set out in the Articles of Association and include the following items:

(a) formulate and review the Company's corporate governance policies and practices and make recommendations to the Board;

(b) review and monitor the training and continuing professional development of Directors and Senior Management;

(c) review and monitor the policies and practices of the Company in the compliance with the relevant legal and regulatory requirements;

(d) review the compliance with Code of the Company and the disclosures in the Corporate Governance Report.

The Board and its special committees have performed the corporate governance duties listed above in 2015.

E. Communication with Shareholders

E.1 Effective Communication

The Board is committed to maintaining smooth communications with the Company's shareholders. The Company developed the "Work System of Investor Relations" and "Information Disclosure Management System", which have been approved by the Board. The Chairman of the Board and a number of the Company's Directors attended the 2014 Annual General Meeting so as to be able to communicate directly with the Company's shareholders. Domestic auditors and international auditors also attended the 2014 Annual General Meeting.

The notice on convening the 2014 Annual General Meeting was dispatched to shareholders at least 45 days before the meeting.

E.2 Voting by Poll

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

During the 2014 Annual 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.

F. Company Secretary

The Company Secretary plays a major role in supporting the Board by ensuring that there is good communication and healthy exchanges between the members of the Board and that the Board complies with the rules of procedure. The Company Secretary is responsible for providing advice to the Board through the Chairman of the Board and the President on governance matters and organizing the relevant training and professional development for Directors.

The Company Secretary is an employee of the Company and is familiar with the day-to-day affairs of the Company. The selection, appointment or dismissal of the Company Secretary should be considered and approved at a Board meeting held on-site. The Company Secretary reports to the Chairman of the Board and the President and provides professional advice and services to all Directors to ensure that the Board procedures are in compliance with all applicable laws, regulations and policies.

Mr. Tang Weizhong applied to the Board to resign from his position as the Company Secretary on 23 October 2015 due to his personal time arrangement with immediate effect. Mr. Zhang Jianbo, from the Company and Ms. Ng Sin Yee, Clare from Tricor Services Limited, an external secretarial service provider, have been appointed as joint company secretaries of the Company at the Eleventh Meeting of the Eighth Session of the Board on 16 March 2016. Mr. Zhang currently does not possess the qualifications of company secretary as required under Rules 3.28 and 8.17 of the Hong Kong Listing Rules. The Company has applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with the requirements under Rules 3.28 and 8.17 of the Hong Kong Listing Rules with respect to the appointment of Mr. Zhang as a joint company secretary of the Company for a period of three years from the date of his appointment as a joint company secretary. For the details, please refer to the announcement of the Company posted on 16 March 2016. Ms. Ng's primary contact person in the Company is Mr. Zhang Jianbo.

(2) Directors' Securities Transactions

For details, please refer to the "Model Code for Securities Transactions" under the "Directors, Supervisors, Senior Management and Employees" section of 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.

(3) Board of Directors

1. Composition of the Board

The Board consists of 12 Directors, including six Executive Directors, two Non-executive Directors and four Independent Non-executive Directors, among whom there is one Chairman and two Vice-chairmen. The personal particulars and terms of office of the Directors are set out in the "Directors, Supervisors and Senior Management" section of this annual report. The members of the Board have no financial, business, family or other material/relevant relationships with each other.

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 Company's operations and financial performance; as well as formulation of the appropriate risk management policies, thereby ensuring the achievement of the Company's strategic objectives.

Subject to the Articles of Association, the Board shall convene at least four regular meetings every year. The Chairman serves as the convener of the Board meetings and is responsible for determining the topics to be considered. In practice, the Board convenes a minimum of four meetings each year. Six Board meetings were held in 2015.

The particulars for Directors' attendance at the Board meetings and Annual General Meeting have been included in the "Corporate Governance" section of this annual report.

3. Qualifications and Independence of the Independent Directors

The four Independent Non-executive Directors of the Company possess extensive experience as well as academic and professional qualifications in various areas that include management, accounting and finance, respectively, thereby ensuring the Board's ability to protect the interests of the Company's shareholders as a whole. During the Reporting Period, the Independent Directors contributed significantly in improving the Company's corporate governance structure and protecting the interests of the Company's minority shareholders. For example, Independent Non-executive Director Mr. Cai Tingji is a fellow of the Hong Kong Institute of Certified Public Accountants. He is highly familiar with financial reporting and accounting given his years of experience in auditing. The Company confirms that it has received from each Independent Non-executive Director confirmation of his independence pursuant to Rule 3.13 of the Hong Kong Listing Rules, confirming to the Company his independence on an annual basis. The Company considers all of its Directors to be independent.

(4) Board Committees

As at the end of the Reporting Period, three committees were set up under the Board, namely the Audit Committee, the Remuneration and Appraisal Committee and the Nomination Committee. Specific rules of procedure for each committee stipulating their terms of reference have been set out. The meetings of these committees are conducted with reference to the procedures of the Board meetings (including requirements on the issue of meeting notices, minutes and records).

On 20 March 2015, Mr. Shen Liqiang and Mr. Jin Mingda, the Independent Non-executive Directors of the Company applied to resign from their positions as Independent Non-executive Directors of the Eighth Session of the Board, as well as their positions in the Audit Committee, Remuneration and Appraisal Committee, and the Nomination Committee of the Eighth Session of the Board of the Company in line with Chinese regulations and requirements. Mr. Shen and Mr. Jin have undertaken to continue to perform their duties as Independent Non-executive Directors until new Independent Non-executive Directors are approved at general meetings of the Company to fill the vacancies. At the 2014 Annual General Meeting held on 18 June 2015, the resolution on election of Independent Non-executive Directors of the Eighth Session of the Board of Directors was considered and passed. Mr. Liu Yunhong and Mr. Du Weifeng were first appointed as the Independent Non-executive Directors. On the same day, the Company convened the Eighth Meeting of the Eighth Session of the Board of Directors to elect Independent Non-executive Directors Mr. Zhang Yimin and Mr. Du Weifeng as additional members of the Remuneration and Appraisal Committee, with Mr. Zhang Yimin as the Director of the committee, and Independent Non-executive Directors Mr. Liu Yunhong and Mr. Du Weifeng as additional members of the Audit Committee, and Independent Non-executive Directors Mr. Zhang Yimin and Mr. Du Weifeng as additional members of the Nomination Committee of the Eighth Session of the Board of Directors.

1. The Remuneration and Appraisal Committee

(i) 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, set performance appraisal standards and conduct performance appraisals of the Directors and Senior Management of the Company.

(ii) Members of the Remuneration and Appraisal Committee

The Remuneration and Appraisal Committee of the Eighth Session of the Board comprises three Directors, two of whom are Independent Non-executive Directors and one who is Executive Director.

Chairman: Jin Mingda, Independent Non-executive Director (January to June)
Zhang Yimin, Independent Non-executive Director (July to December)

Members: Ye Guohua, Executive Director
Jin Mingda, Independent Non-executive Director (January to June)
Shen Liqiang, Independent Non-executive Director (January to June)
Zhang Yimin, Independent Non-executive Director (July to December)
Du Weifeng, Independent Non-executive Director (July to December)

(iii) Meetings of the Remuneration and Appraisal Committee

The Remuneration and Appraisal Committee convenes at least one meeting each year. In 2015, the Remuneration and Appraisal Committee convened two meetings in January and March 2015 respectively. The former Independent Non-executive Directors Jin Mingda and Shen Liqiang reviewed the relevant issues during the meetings. A record of attendance is as follows:

Members of Remuneration and Appraisal Committee	Attendance in Person	Attendance by Proxy	% of Attendance
Jin Mingda	2	0	100%
Ye Guohua	2	0	100%
Shen Liqiang	1	1	100%

(iv) 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. Remuneration for other Directors, Supervisors and Senior Management are determined according to the Remuneration System for Directors, Supervisors and Senior Management which were 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, and determines their remuneration according to the results of the appraisal.

(v) Work Report of the Remuneration and Appraisal Committee for the Reporting Period

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. The committee also reviewed the remuneration situation of the Directors, Supervisors and Senior Management. The Committee reviewed the implementation of the Stock Option Incentive plan, the awardee list and quantity as well as the relevant management measures of incentive objects.

2. The Audit Committee

(i) 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.

(ii) Members of the Audit Committee

The Audit Committee of the Eighth Session of the Board comprises three Independent Non-executive Directors.

Chairman: Cai Tingji, Independent Non-Executive Director (accounting expert)

Members: Cai Tingji, Independent Non-Executive Director
Shen Liqiang, Independent Non-Executive Director (January to June)
Jin Mingda, Independent Non-Executive Director (January to June)
Liu Yunhong, Independent Non-Executive Director (July to December)
Du Weifeng, Independent Non-Executive Director (July to December)

(iii) Meetings of the Audit Committee

The Audit Committee convenes at least two meetings each year. In 2015, the Audit Committee convened two meetings with a record of attendance as follows:

Members of Audit Committee	Attendance in Person	Attendance by Proxy	% of Attendance
Cai Tingji	2	0	100%
Shen Liqiang (January to June)	0	1	100%
Jin Mingda (January to June)	1	0	100%
Liu Yunhong (July to December)	1	0	100%
Du Weifeng (July to December)	1	0	100%

(iv) Work Report of the Audit Committee during the Reporting Period

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 annual report for the 12 months ended 31 December 2014, and the interim report for the period ended 30 June 2015.

3. The Nomination Committee

(i) The role and functions of the Nomination Committee

The Nomination Committee is a special committee under the Board of the Company that is accountable to the Board, and is mainly responsible for making recommendations to the Board on the procedures and criteria for the selection and appointment of Directors and Senior Management of the Company and on their qualifications to hold office.

(ii) Members of the Nomination Committee

The Nomination Committee of the Seventh Session of the Board comprises three Directors, including one Executive Director and two Independent Non-executive Directors.

Chairman: Wang Zhiqing, Executive Director

Members: Wang Zhiqing, Executive Director
Jin Mingda, Independent Non-Executive Director (January to June)
Shen Liqiang, Independent Non-Executive Director (January to June)
Zhang Yimin, Independent Non-Executive Director (July to December)
Du Weifeng, Independent Non-Executive Director (July to December)

(iii) Meetings of the Nomination Committee

The Nomination Committee convenes at least one meeting each year. In 2015, the Audit Committee convened one meeting in April 2015. The former Independent Non-executive Directors Jin Mingda and Shen Liqiang reviewed the relevant issues during the meetings. A record of attendance is as follows:

Name of Committee member	Position	Number of meetings held during the Reporting Period	Number of attendance in person
Wang Zhiqing	1	0	100%
Jin Mingda	1	0	100%
Shen Liqiang	1	0	100%

(iv) The work of the Nomination Committee during the Reporting Period

During the Reporting Period, the Nomination Committee of the Board of Directors reviewed the structure of the Eighth Session of the Board of Directors, number of members and formation of the Board of Directors, as well as recommended and nominated the candidates of the Independent Non-executive Director. It also reviewed the independence of the Independent Non-executive Director and considered Independent Non-executive Director and Executive Director candidates, based on objective criteria whilst, having due regard to the benefits of board diversity (including but not limited to gender, age, culture and educational background, professional experience, skill, knowledge and length of service) and commitment shown towards board responsibilities. Recommendations and nominations were made to the Board of Directors.

(5) Supervisory Committee

The Company's Eighth Session of the Supervisory Committee comprises seven members, including three Staff Supervisors (one of whom serves as Chairperson of the Committee), two External Supervisors and two Independent Supervisors. The particulars and terms of office of each Supervisor are set out in the "Directors, Supervisors, Senior Management and Employees" section of this annual report.

In addition, Mr. Zhang Jianbo, the Chairperson of the Committee, applied to the Supervisory Board to resign from his position as Staff Supervisor and Chairperson on 31 March 2015. Pursuant to the Articles of Association of the Company, the resignations of Mr. Zhang Jianbo came into effect on 31 March 2015 when his resignation report was delivered to the Supervisory Committee of the Company. The appointment of Mr. Kuang Yuxiang as the Staff Supervisor was approved at the twelfth joint session of the sixth Staff Representative Meeting on 1 April 2015. The appointment of Mr. Kuang Yuxiang as the Chairperson of the Supervisory Committee of the Company was approved at the eighth session of the Supervisory Committee on 22 April 2015. The appointment of Mr. Pan Fei as the Independent Supervisor of the Company was approved at the 2014 Annual General Meeting on 18 June 2015.

In 2015, the Supervisory Committee of the Company convened five meetings with a record of attendance as follows:

Name of Supervisor	Position	Attendance in Person	Attendance by Proxy	% of attendance	Remarks
Zhang Jianbo	Staff Supervisor and Chairperson (January to March)	2	0	100%	Two Meetings of the Supervisory Committee were held during his term of service
Kuang Yuxiang	Staff Supervisor and Chairperson (April to present)	3	0	100%	Three Meetings of the Supervisory Committee were held during his term of service
Zuo Qiang	Staff Supervisor	5	0	100%	
Li Xiaoxia	Staff Supervisor	5	0	100%	
Zhai Yalin	External Supervisor	3	2	100%	
Wang Liqun	External Supervisor	3	2	100%	
Zheng Yunrui	Independent Supervisor	5	0	100%	
Pan Fei	Independent Supervisor (June to present)	2	0	100%	Two Meetings of the Supervisory Committee were held during his term of service

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, compliance with decision-making procedures and the implementation of the internal control system, in addition to examining the financial system and the financial situation of the Company in a conscientious manner, thereby ensuring the normal operations of the Company and safeguarding shareholders' legitimate interests.

(6) 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 203 to 204 and pages 117 to 118, respectively, sets out the responsibilities of the Directors in relation to the Company's 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 shall adopt appropriate accounting policies, namely the CAS issued by the Ministry of Finance of the PRC, and the IFRS and IAS. The Directors shall also ensure that the financial statements are 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 the 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 its financial statements.

(7) Company Secretary

The Company Secretary is elected by the Board, and his/her responsibilities are set out in the Articles of Association. Mr. Tang Weizhong applied to the Board to resign from his position as the company secretary on 23 October 2015 due to his personal time arrangement. As at the end of the Reporting Period, the Company has not hired a new company secretary. Mr. Tang Weizhong, a member of the Hong Kong Institute of Chartered Secretaries, received professional training for a total of 16 class hours organized by the institute in 2015.

(8) Auditors' Remuneration

At the 2014 Annual General Meeting of the Company, approval was given for the international and domestic auditors of the Company for the year of 2015 to be PricewaterhouseCoopers and PricewaterhouseCoopers Zhong Tian LLP, respectively. It was also authorized that the audit fees would be determined by the Board.

Item	Amount	Auditor
Audit Fees for the year of 2015	RMB3 million	PricewaterhouseCoopers
Audit Fees for the year of 2015	RMB4.8 million	PricewaterhouseCoopers Zhong Tian LLP

(9) Shareholders' Rights

The Company maintains normal communications with its shareholders. The Company's major communications channels include Shareholders' General Meetings, the Company's website, email account and fax and telephone numbers of the Secretary Office of the Board. Through the use of the communication channels listed above, the shareholders may adequately express their opinions or exercise their rights. For example, a shareholders' question and answer session was arranged at the 2014 Extraordinary General Meeting, allowing direct communications between the shareholders, the Directors and the management.

For details of the procedures and voting and proxy arrangements of the Shareholders' General Meetings of the Company, please refer to the Articles of Association published on the websites of the Hong Kong Stock Exchange, the Shanghai Stock Exchange and the Company.

The rights of shareholders of the Company holding ordinary shares are also set out in the Articles of Association. Once these shareholders provide the Company written documents on the class and numbers of shares of the Company held by them, and after their shareholder identities are verified by the Company, they are entitled to access relevant information as permitted by law, administrative regulations and the Articles of Association.

According to the Articles of Association, the Board shall convene an extraordinary general meeting within two months of the following circumstances:

(i) the number of directors does not meet the number required by the Company Law or less than two-thirds as required by the Articles of Association;

(ii) the uncovered losses of the Company's capital reach one-third of the Company's paid-up share capital;

(iii) upon written requisition by the shareholders individually or jointly holding ten percent, (10%) or more of the issued and outstanding voting shares of the Company;

(iv) when deemed necessary by the Board or proposed by the Supervisors;

(v) in other circumstances as required by the law, administrative regulations, departmental rules or the Articles of Association.

(10) Investor Relations

During the Reporting Period, the Company continued to strengthen the management of investor relations, implement in good faith the "Work System of Investor Relations", engage in active interaction and communications with investors and submit 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 2015, the Company held two large-scale results briefings and press conferences in Hong Kong, while several "one-to-one" meetings were held within and outside China. The Company has also welcomed hundreds of domestic and foreign investors to its headquarters, and conscientiously replied to telephone 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 and so forth.

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

Report of the Directors

I. Business Overview

1. Description of the principal business, operating model and industry in which the Company operated during the Reporting Period

The Company is one of China's largest petrochemical enterprises in terms of sales in 2015. 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 mainly 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 2015, the performance of China's petrochemical market was generally weak. The over capacity of refinery and petrochemical industry together with the decrease in demand led to a prolonged period of petrochemical price. The Company up its effort in safety and environmental protection, optimisation of production and operation as well as reduction of costs and expenses. It successfully ensured stable production and operation, which gave a significant increase in economic efficiency as compared to the previous year.

2. Analysis of core competitiveness

As one of the largest integrated petrochemical enterprises in China with an integrated refinery and petrochemical capacity, the Company possesses competitive business scale and strength, which have made it a major manufacturer of refined oil, intermediate petrochemical products, synthetic resins and synthetic fibers. It also has self-owned utilities and environmental protection systems, as well as sea transport, inland shipping, rail transport and road transport ancillary facilities.

The Company's major competitive advantages include quality, geographical location and its vertically integrated production. The Company has over 40 years of petrochemical production and management experience, and has accumulated extensive resources in the petrochemical industry, which has garnered multiple quality product awards from the central and local governments. Located at the core region of Yangtze River Delta, the most economically active region in China with a strong demand for petrochemical products, the Company built a comprehensive logistics system and supporting facilities to tap its geographic proximity with most of its clients and the convenient coastal and inland shipping. This gave it a competitive edge in terms of transportation costs and timely delivery. The Company has leveraged its advantages in integrated refinery and petrochemical capacity to actively strengthen product structure, while continuously improving products quality and variety. It has also improved production technology and boosted capacity of key upstream equipment to maximize the use of its corporate resources, and is therefore able to achieve strong and sustainable development.

II. Management's Discussion and Analysis

(1) Management's Discussion and Analysis

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

1. General – Review of the Company's operations during the "Reporting Period"

The growth of the world economy was weaker than expected in 2015. The US economy became the engine of the global economy. The effects of its re-industrialization started to emerge and domestic demand was stable, indicative of a growing trend. Due to the quantitative easing policies, the Eurozone and the Japanese economy began to show signs of a mild recovery. Emerging economies lacked growth momentum in general, and the BRIC countries experienced marked economic decline. In view of the intensifying economic downward pressure and overwhelming problem of structural overcapacity, the Chinese government implemented a series of adjustment measures and reform initiatives to stabilise economic growth. Overall, the Chinese economy was stable, with an annual GDP growth of 6.9%, but the economic growth rate further slowed down. In terms of the petrochemical industry in China, the price of bulk petrochemical products remained weak in a low oil price environment, investments in the industry declined, and structural problems associated with the overcapacity of petrochemical products remained overwhelming and restrictions on resources, environmental protection and safety became tighter. However, compared with the significant drop in oil price, the decline in prices for downstream products was less remarkable, there were increases in the profit on such products and the returns of the industry increased and stabilised.

The Group faced a complicated and ever-changing market in 2015. Focusing on efficiency, it made great efforts in safety and environmental protection standards, in optimizing production and operations as well as in cutting costs and expenses. It maintained smooth and stable production and operations, and significantly enhanced economic returns.

(i) Production and operation remained safe and stable

The Group thoroughly revised the HSE accountability system in 2015, strengthened supervision and management of its operational and its efforts in safety and environmental protection maintained rather good results, realizing zero staff fatalities as a result of serious injuries in industrial accidents, zero major fires or explosions, zero major environmental pollution accidents, zero major occupational hazard accidents, zero major traffic accidents, zero major accidents as a result of negligence and zero serious injuries to staff (the seven zero targets). Overall production and operation remained stable. Unscheduled shutdowns of major production facilities dropped 9.09% from last year while the duration of such shutdowns also decreased by 44.81%. Of the 113 major technical and economic indicators covered in the assessment, 67 were better than last year, meaning a year-on-year rate of progress of 59.29%, 21 reached the advanced level for the industry, meaning an advance ratio of 28.00%, (as compared to 75 comparable indicators last year).

In 2015, the Group achieved significant improvements in the stable operation of its production facilities. The expansion of total processing capacity resulted in an increase in actual production volume of the Group, which amounted to 13,866,200 tons, up 2.18% over the previous year. During the year, the Group processed 14,795,300 tons of crude oil (including 2,010,100 tons of crude oil processed on a sub-contract basis), representing a year-on-year increase of 4.41%. Total production output of refined oil products such as gasoline, diesel and jet fuel amounted 8,975,900 tons, up 6.55%, among which the Group produced 3,097,600 tons of gasoline, up 7.91%; 4,265,300 tons of diesel, up 4.92%; and 1,613,000 tons of jet fuel, up 8.36%. The Group produced 836,500 tons of ethylene, 533,000 tons of propylene and 112,300 tons of butadiene, up 3.99%, 4.47% and 6.34%, respectively. The Group produced 359,500 tons of benzene and 659,700 tons of paraxylene, up 3.45% and down 3.07%, respectively. The Group also produced 1,042,700 tons of synthetic resins and copolymers (excluding polyesters and polyvinyl alcohol), at par with the previous year; 801,600 tons of synthetic fiber monomers, up 13.56%; 416,600 tons of synthetic fiber polymers, at par with the previous year; and 223,800 tons of synthetic fibers, down 3.70%.

In 2015, the Group's turnover reached RMB80.748 billion, down 20.93% over the previous year. Its sales to output and receivable recovery ratio were 99.91% and 100%, respectively. The product quality levels remained stable.

(ii) *Market demand for petroleum and petrochemical products slowed down, and their prices underwent continuous decline*

With the Chinese economy under greater downward pressure in 2015, the domestic petroleum and petrochemical market performed poorly overall. In the domestic market, overcapacity of the refinery industry intensified. The growth in refined oil consumption slowed, and the diesel consumption even recorded negative growth. The continuous expansion of production capacity of downstream bulk petrochemicals combined with market demand hovering at low levels resulted in the prolonged low price of petrochemical products. As of 31 December 2015, the weighted average prices (excluding tax) of the Group's synthetic fibers, resins and plastics, intermediate petrochemical products and petroleum products fell by 17.13%, 19.67%, 31.42% and 37.22%, respectively, over the previous year.

(iii) *International crude oil prices decreased while volume of refined crude oil increased*

The world economy experienced a weaker-than-expected economic growth in 2015 and slack demand for oil. At the same time, the reduction in production cost of crude oil helped to maintain a faster growth in production volume. Global crude oil prices fluctuated between mid to low levels, with two rebounds in the first half of the year, followed by a significant decline in the second half. The average WTI crude oil price on the New York Mercantile Exchange in 2015 was US$48.70/barrel, representing a 47.71% decrease from the average of US$93.14/barrel in 2014. The average price of Brent crude oil on the London Intercontinental Exchange was US$52.38/barrel, a decrease of 47.06% from US$98.95/barrel in 2014. The average price of crude oil in Dubai was US$50.84/barrel, down by 47.40%, compared with US$96.66/barrel in 2014.

For the year ended 31 December 2015, the Group processed a total of 14,795,300 tons of crude oil (including 2,010,100 tons of crude oil processed on a sub-contract basis), up 625,100 tons, or 4.41%, over the previous year. In 2015, the average unit cost of crude oil processed by the Group (for its own account) was RMB2,533.46 per ton (2014: RMB4,618.68 per ton), down 45.15% over the previous year. The Group's total cost of processing crude oil in 2015 was RMB32.391 billion, down 45.62% compared with RMB59.560 billion for the previous year, representing 51.61% of the total cost of sales.

(iv) *Efforts to improve system optimization shows significant results in cost control*

In 2015, the Group leveraged its competitive edge in the production integration of the refinery and petrochemical segments and upheld its concept of optimizing the entire production process. It maximized the returns by applying the optimization to individual links in the production chain, such as procurement and allocation of crude oil, product mix, production schedule and fuel mix.

The Group was committed to assessing the marginal returns of products on a daily basis and to making repeated projections of products' chain effects. Relying on the optimization model of key products covering the whole company, the Group strengthened the monitoring of marginal contribution from petrochemical facilities, which was implemented in the planning of production in a speedy manner, and shut down or reduced the workload of facilities short of marginal returns, to pave the way for maximizing efficiencies.

The Group continued to optimize crude oil procurement by reducing the number of crudes and selecting finer crudes, with the aim to cut the procurement cost. The Group fine-tuned the operation model for facilities such as the crude and vacuum distillation unit and adjusted the product layout at its production facilities. It upgraded the production technology at facilities and cut diesel oil production while raising the output of jet fuel. Its efforts in improving the blending process of gasoline increased production of gasoline and high-end gasoline among products, cut output of coked products and raised the production of the higher value asphalt. The Group optimized the mix of raw materials for ethylene, thereby reducing cost of such raw materials. In view of the market opportunity from the price fluctuations of natural gas and liquefied gas, the Group made adjustments to the fuel mix with two goals in mind: realizing a more effective optimization of the fuel mix and gaining exceptionally high profit.

The Group strengthened the control over major expenses and performed budget cuts on various expenditures. It undertook initiatives to bring down costs and expenses, it reduced the expense of crude oil lost in transit, of the waste of materials and of ancillary materials, fuel and power. Taking into account the exchange rate of US dollar and Euro, the Group timely adjusted its loan structure to lower its funding costs. It also expanded funding channels using Shanghai Jinshan Trading Corporation as a platform to avert currency risks and minimize exchange losses. Making full use of preferential policies, the Company obtained a total of RMB150 million of the subsidies, including the local education surtax return and other subsidies in 2015.

(v) *Further progress made in energy conservation and emissions reduction*

In 2015, the Group continued to carry out various measures in energy conservation and emission reduction in compliance with the relevant national requirements, thereby achieving all targets set by the government. During the year, the Company's overall level of energy consumption per RMB10,000 of product value was 0.807 ton of standard coal, down 5.17% from the previous year. As compared with the previous year, the total volume of COD discharged was down 0.69%, while that of sulfur dioxide and nitrogen oxides declined by 4.08% and 9.63% respectively. At the same time, the compliance rate of waste water and waste gas emissions reached 100%, and all hazardous waste was disposed of properly. The average heat efficiency of heaters improved by 0.03 percentage points to 92.45% over the previous year. The Group adopted the energy performance contract model, and the trial operation of its first project concerning the No. 3 atmospheric and vacuum distillation unit became operational.

(vi) *Steady implementation of project construction, R&D and IT projects*

In 2015, the Group was committed to "further expand refining business, take the lead in petrochemical industry, and implement integration of refinery and petrochemical segments". It finished the first draft of the plan to construct and develop the "Thirteenth Five Year" project and steadily launched the preparation for the EVA plant project, the isophthalic acid transformation project and the quality enhancement of No.2 diesel hydrogenation plant. The Group also finished the desulfurization transformation project for boilers of the thermoelectric division, as well as the expansion of the chemical industry wharf of the warehousing and transportation department. The Group's waste water emission upgrade and transformation project also met the target of the stage. The Group invested RMB800 million in total during the year. It actively developed major R&D projects. For instance, the "Technology Development and Industrial Application Project for Production of High Quality Needle Coke from Low Quality Slurry Oil" passed appraisal, while quality of fiber precursors and carbon fiber from PAN based carbon fiber manufacturing technology reached a breakthrough, which ensured the stable production of SCF35S carbon fiber. The Group began the research on technology for post processing applications and the trial operation of carbon fiber sucker rods at some oil field. While enhancing manufacturing of new products, research, sales and customer service model, the Group launched the mass production and promotion campaign for 10 new products including a special purpose high MFR PP synthesized from hydrogen regulating method. During the year, the Group produced 281,400 tons of new products and a total of 774,100 tons of new synthetic resins products and specialized polyolefin materials, with the differentiation rate for synthetic fibers reaching 69.20%. The Group submitted 53 patent applications, and obtained seven patent authorizations. In terms of IT construction, the Group successfully implemented centralized management over the printing system. It commenced and implemented a smart pipeline promotion project, commissioning operation management as well as DCS operation and management.

(vii) *Further enhancement of its corporate management*

In 2015, the Group introduced an advanced model for performance appraisal, aiming to improve the appraisal system by expanding the scope and setting standards. The Group thoroughly reengineered its business flow and preliminarily completed the transformation from job division by departments to division by receiving end of the process flow. It started pilot programs on digitalizing the business operation. It enhanced the accreditation work of the management system and became one of the first enterprises in China to fulfil the management standard for "integration of digitalization and industrialization". The Group endeavored to meet the standards for the energy and measurement system. It accelerated the building of management system and persistently optimized the management duty and organization structure within the Company. It completed the approval of partners, performance appraisal of centralized management of the electricity segment and the organization structure adjustment for certain plants.

As of 31 December 2015, the Group reduced its headcount by 1,154 people, including voluntary redundancies and staff retirements. This accounted for 8.67% of the total workforce of 13,313 on the payroll as of the start of the year.

(viii) *Brief analysis of main factors leading to a turnaround from loss in operating results for the year*

The main reasons for the turnaround from loss in the Group's operating results during the Reporting Period were:

(1) The Group's costs of processing crude oil dropped drastically as compared to the same period last year. In addition, the cost of raw materials declined to a greater extent than average product price, leading to a higher gross profit of products.

(2) The total volumes of crude oil processed by the Group grew from 2014, resulting in varying levels of growth in the total volume of major products, including refined oil and petrochemical products, which in turn enhanced the profitability of the Company.

(3) The Group recorded a significant increase in investment income from an associate, namely Shanghai Secco Petrochemical Company Limited, hence the profit was up by RMB437 million.

(4) The Group further refined its management system and efforts to reduce cost and enhance efficiency. The Group's net finance cost was RMB244 million in 2015, down RMB116 million as compared with the net finance cost of RMB360 million in 2014.

(5) The Group continued to make progress in optimizing both production and operation, which contributed to the growth in profit.

2. Accounting judgments and estimates

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

The selection of critical accounting policies, judgments and other uncertainties affecting the 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. The Company's management believes that the following critical accounting policies involve the most significant judgments and estimates used in the preparation of the financial statements.

(i) Impairments for long-lived assets

Assets, that have an indefinite useful life, must be tested annually for impairment. Long term assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. In determining the value in use, expected cash flows generated by the asset or the cash-generating unit are discounted to their present value. Management 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.

(ii) Depreciation

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

(iii) Allowance for diminution in value of inventories

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

(iv) Income Tax

In June 2007, the State Administrative of Taxation issued a tax circular (Circular No.664) to the local tax authorities requesting that the relevant local tax authorities rectify the applicable enterprise income tax ("EIT") for nine companies listed in Hong Kong in 1993, 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%. 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 were no further developments on this matter during the year ended 31 December 2015. No provisions were made in the financial statements as at 31 December 2015 for this uncertainty because the management believes it is not probable for the Group to be required to pay additional EIT for years prior to 2007.

(v) Recognition of deferred tax assets

There are many transactions and events for which the ultimate tax determination is uncertain during the ordinary course of business. Significant judgment is required from the Group in determining the provision for income taxes in each of these jurisdictions. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Deferred tax assets are recognized in respect of temporary deductible differences and the carrying forward of unused tax losses. Management recognizes deferred tax assets only to the extent that it is probable that future taxable profit will be available against the assets which can be realized or utilized. At the end of each Reporting Period, the management assesses whether previously unrecognized deferred tax assets should be recognized. The Group recognizes a previously unrecognized deferred tax asset to the extent that it is probable that future taxable profit will allow the deferred tax asset to be utilized. In addition, management assesses the carrying amount of deferred tax assets that are recognized 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 utilized.

In making the assessment of whether it is probable the Group will realize or utilize 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 utilize the deferred tax assets recognized at 31 December 2015, the Group would need to generate future taxable income of at least RMB284 million. Based on the 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. Comparison and Analysis of Results of the Company's Operations (Prepared under IFRS)

3.1 Summary

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

	For the Years ended 31 December								
	2015			2014			2013		
	Sales Volume ('000 tons)	**Net Sales (RMB Million)**	**% of Total**	Sales Volume ('000 tons)	Net Sales (RMB Million)	% of Total	Sales Volume ('000 tons)	Net Sales (RMB Million)	% of Total
Synthetic fibres	**222.2**	**2,328.2**	**3.5**	228.7	2,891.5	3.1	250.8	3,220.5	3.1
Resins and plastics	**1,316.0**	**9,992.2**	**14.9**	1,321.4	12,489.4	13.5	1,506.7	14,268.4	13.5
Intermediate petrochemicals	**2,162.1**	**9,332.0**	**13.9**	1,968.9	12,391.0	13.4	2,545.0	18,430.8	17.5
Petroleum products	**9,268.9**	**30,802.0**	**45.9**	9,305.3	49,259.5	53.1	10,391.5	57,419.8	54.4
Trading of petrochemical products	**–**	**13,718.2**	**20.5**	–	14,791.0	15.9	–	11,157.6	10.6
Others	**–**	**864.6**	**1.3**	–	902.6	1.0	–	1,006.1	0.9
Total	**12,969.2**	**67,037.2**	**100.0**	12,824.3	92,725.0	100.0	14,694.0	105,503.2	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					
	2015		2014		2013	
	RMB Million	% of Net sales	RMB Million	% of Net sales	RMB Million	% of Net sales
Synthetic fibres						
Net sales	2,328.2	3.5	2,891.5	3.1	3,220.5	3.1
Operating expenses	(2,684.6)	(4.0)	(3,473.4)	(3.7)	(3,823.4)	(3.6)
Segment loss from operations	(356.4)	(0.5)	(581.9)	(0.6)	(602.9)	(0.5)
Resins and plastics						
Net sales	9,992.2	14.9	12,489.4	13.5	14,268.4	13.5
Operating expenses	(8,773.6)	(13.1)	(12,820.9)	(13.8)	(15,034.7)	(14.3)
Segment profit/(loss) from operations	1,218.6	1.8	(331.5)	(0.3)	(766.3)	(0.8)
Intermediate petrochemicals products						
Net sales	9,332.0	13.9	12,391.0	13.4	18,430.8	17.5
Operating expenses	(8,375.2)	(12.5)	(12,259.2)	(13.2)	(17,366.8)	(16.5)
Segment profit from operations	956.8	1.4	131.8	0.2	1,064.0	1.0
Petroleum products						
Net sales	30,802.0	45.9	49,259.5	53.1	57,419.8	54.4
Operating expenses	(28,939.7)	(43.1)	(49,288.8)	(53.2)	(55,242.6)	(52.3)
Segment profit/(loss) from operations	1,862.3	2.8	(29.3)	(0.1)	2,177.2	2.1
Trading of petrochemical products						
Net sales	13,718.2	20.5	14,791.0	15.9	11,157.6	10.6
Operating expenses	(13,703.0)	(20.5)	(14,724.9)	(15.9)	(11,052.1)	(10.5)
Segment profit from operations	15.2	0.0	66.1	0.0	105.5	0.1
Others						
Net sales	864.6	1.3	902.6	1.0	1,006.1	0.9
Operating expenses	(652.2)	(1.0)	(745.7)	(0.8)	(791.3)	(0.7)
Segment profit/(loss) from operations	212.4	0.3	156.9	0.2	214.8	0.2
Total						
Net sales	67,037.2	100.0	92,725.0	100.0	105,503.2	100.0
Operating expenses	(63,128.3)	(94.2)	(93,312.9)	(100.6)	(103,310.9)	(97.9)
Profit/(loss) from operations	3,908.9	5.8	(587.9)	(0.6)	2,192.3	2.1
Net finance (costs)/income	(243.8)	(0.4)	(359.7)	(0.4)	121.7	0.1
Share of profit of associates and jointly controlled entities	572.1	0.9	57.7	0.1	130.7	0.1
Profit/(loss) before taxation	4,237.2	6.3	(889.9)	(1.0)	2,444.7	2.3
Income tax	(926.8)	(1.4)	214.1	0.2	(379.2)	(0.3)
Profit/(loss) for the year	3,310.4	4.9	(675.8)	(0.7)	2,065.5	2.0
Attributable to:						
Equity shareholders of the Company	3,274.3	4.8	(692.2)	(0.7)	2,055.3	1.9
Non-controlling interests	36.1	0.1	16.4	0.0	10.2	0.1
Profit/(loss) for the year	3,310.4	4.9	(675.8)	(0.7)	2,065.5	2.0

3.2 Comparison and Analysis

The year ended 31 December 2015 compared to the year ended 31 December 2014.

3.2.A Operating results

(1) Net sales

In 2015, net sales of the Group amounted to RMB67,037.2 million, representing a decrease of 27.70% from RMB92,725.0 million over the previous year. For the year ended 31 December 2015, among the Group's synthetic fibers, resins and plastics, intermediate petrochemicals and petroleum products, the weighted average prices (excluding tax) of synthetic fibers, resins and plastics, intermediate petrochemical products and petroleum products decreased by 17.13%, 19.67%, 31.42% and 37.22% over the previous year, respectively.

(i) Synthetic fibers

In 2015, the Group's net sales for synthetic fibers amounted to RMB2,328.2 million, representing a decrease of 19.48% compared with RMB2,891.5 million in the previous year. The decrease in sales was mainly due to the decline in unit price of synthetic fibers, driven by the decline in crude oil price, and also due to the decline in sales volume because of the continued sluggish downstream demand and under-performing initiatives in raw material procurement. Sales volume for synthetic fibers fell 2.84% compared with the previous year, while weighted average sales price fell 17.13%. In particular, the weighted average sales price of acrylic fiber, the principal product of synthetic fibers of the Group, decreased by 18.53%, while the weighted average sales price of polyester fiber decreased by 21.53% over the previous year. Sales of acrylic fiber and polyester fiber accounted for 83.33% and 12.40% of the total sales of synthetic fibers, respectively.

Net sales of synthetic fiber products accounted for 3.5% of the Group's total net sales in 2015, up 0.4 percentage points as compared to the previous year.

(ii) Resins and plastics

The Group's net sales of resins and plastics amounted to RMB9,992.2 million in 2015, representing a decrease of 19.99% as compared with RMB12,489.4 million over the previous year. The decrease in net sales was mainly attributable to the decrease in unit price of resin and plastics, driven by the decline in crude oil unit price. The sales volume of resins and plastics decreased by 0.41%, while weighted average sales price fell 19.67%. In particular, the weighted average sales price of polyethylene, polypropylene and polyester pellet decreased by 13.67%, 24.68% and 23.14%, respectively. Sales of polyethylene, polypropylene and polyester pellet accounted for 33.71%, 33.67% and 15.35% of the total sales of resins and plastics, respectively.

Net sales of resins and plastics accounted for 14.9% of the Group's total net sales in 2015, up 1.4 percentage points as compared to the previous year.

(iii) Intermediate petrochemicals

The Group's net sales of intermediate petrochemical products amounted to RMB9,332.0 million in 2015, representing a decrease of 24.69% as compared with RMB12,391.0 million in 2014. This was mainly due to the decline in the price of intermediate petrochemical products resulted from the decrease of 31.42% in their weighted average sales price, as their unit price was driven down by the drop of crude oil unit price. Meanwhile, taking advantage of low cost, downstream business achieved satisfying operating results, with an increase of 9.81% in sales volume as compared to the previous year. Among the intermediate petrochemicals, the weighted average sales prices of paraxylene, butadiene, ethylene oxide, benzene and glycol decreased by 31.65%, 28.24%, 25.86%, 42.47% and 14.45%, respectively. Sales of paraxylene, butadiene, ethylene oxide, benzene and glycol accounted for 25.47%, 6.36%, 11.84%, 15.98% and 16.82% of the total sales of intermediate petrochemicals, respectively.

Net sales of intermediate petrochemicals accounted for 13.9% of the Group's total net sales in 2015, representing an increase of 0.5 percentage points compared with the previous year.

(iv) Petroleum products

The Group's net sales of petroleum products amounted to RMB30,802.0 million in 2015, representing a decrease of 37.47% as compared with RMB49,259.5 million in the previous year, which was mainly attributable to the drop in prices of refined oil in China driven by the decline in crude oil unit price. The weighted average sales price of major products decreased by 37.22%, while sales volume decreased by 0.39% as compared to last year.

Net sales of petroleum products accounted for 45.9% of the Group's total net sales in 2015, representing a decrease of 7.2 percentage points compared with the previous year.

(v) Trading of petrochemical products

The Group's net sales of the trading of petrochemical products amounted to RMB13,718.2 million in 2015, representing a decrease of 7.25% as compared with RMB14,791.0 million in the previous year. The decrease in net sales was mainly attributable to the reduction of unit price of all major petrochemical products in view of the global oil price and market conditions.

Net sales of trading of petrochemical products accounted for 20.5% of the Group's total net sales in 2015, representing an increase of 4.6 percentage points compared with the previous year.

(vi) Others

The Group's net sales of others amounted to RMB864.6 million in 2015, representing a decrease of 4.21% as compared with RMB902.6 million in the previous year. This decrease in net sales was mainly attributable to the decline in income from disposal of scrap materials.

Net sales of other products accounted for 1.3% of the Group's total net sales in 2015, representing an increase of 0.3 percentage point as compared with the previous year.

(2) 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 slightly decreased by 32.35% from RMB93,312.9 million in 2014 to RMB63,128.3 million in 2015. The operating expenses involving synthetic fibers, resins and plastics, intermediate petrochemicals, petroleum products, trading of petrochemical products and others were RMB2,684.6 million, RMB8,773.6 million, RMB8,375.2 million, RMB28,939.7 million, RMB13,703.0 million and RMB652.2 million, representing a decrease of 22.71%, 31.57%, 31.68%, 41.29%, 6.94% and 12.54% respectively.

The Group's operating expenses involving synthetic fibers, resins and plastics, intermediate petrochemicals, petroleum products, trading of petrochemical products and others decreased compared with the previous year, primarily due to the decline in cost of raw materials driven by the drop in crude oil price, which greatly lowered the cost of sales.

– **Cost of sales**

  The Group's cost of sales amounted to RMB62,757.1 million in 2015, down 32.45% from RMB92,910.1 million in 2014. Cost of sales accounted for 93.62% of net sales for 2015. The decrease in cost of sales was due to the drop in unit price of crude oil for the period.

– **Selling and administrative expenses**

  The Group's selling and administrative expenses amounted to RMB600.9 million in 2015, representing an increase of 6.50% as compared with RMB564.2 million for the previous year, mainly due to an increase in provision for impairment of fixed assets.

– **Other operating revenue**

  The Group's other operating income amounted to RMB234.9 million in 2015, representing a decrease of 10.21% compared with RMB261.6 million in the previous year. The decrease in other operating income was mainly attributable to the receipt of refunds relating to local education surcharge of RMB101 million in 2015, down RMB23 million from the last year.

– **Other operating expenses**

  The Group's other operating expenses were RMB33.9 million in 2015, representing a decrease of 66.17% compared with RMB100.2 million in the previous year. This was mainly due to the reduction of the exchange loss of RMB22 million relevant to the production and operation, and the reduction of the loss on fixed assets disposal of RMB33.8 million.

(3) Profit/(loss) from operations

The Group's profit from operations amounted to RMB3,908.9 million in 2015, representing an increase of RMB4,496.8 million as compared with a loss from operations of RMB587.9 million in the previous year. In 2015, costs for all segments dropped drastically from last year as a result of the falling world crude oil price. Despite the subsequent decline in unit price of finished products, the unit purchase price of raw materials dropped to a larger extent than the unit price of finished products due to the production cycle and value added, leading to a significant growth in profit from operations as compared to last year.

(i) Synthetic fibers

In 2015, the Group's operating loss for synthetic fibers amounted to RMB356.4 million, representing a decrease of RMB225.5 million compared with the operating loss of RMB581.9 million in the previous year. The decrease was mainly attributable to the significant decline in the cost of raw materials of synthetic fiber products, which resulted in higher gross profit and lower loss amid sluggish market demand.

(ii) Resins and plastics

In 2015, the Group's operating profit for resins and plastics amounted to RMB1,218.6 million, representing an increase of RMB1,550.1 million from the operating loss of RMB331.5 million in the previous year. The increase in operating profit was mainly attributable to the significantly lower costs of raw materials driven down by the decrease in world crude oil price. The relatively stable market demand together with the stiff price of products, in particular polyethylene, against the general price decline in the chemical industry, led to a 31.57% decrease in operating expenses and a turnaround from loss.

(iii) Intermediate petrochemicals

In 2015, the Group's operating profit for intermediate petrochemicals amounted to RMB956.8 million, representing an increase of RMB825.0 million as compared with RMB131.8 million in the previous year. This was mainly attributable to a decrease of RMB3,059.0 million in net sales of intermediate petrochemicals, while the operating expenses were down by RMB3,884.0 million, leading to a profit growth as compared to last year.

(iv) Petroleum products

In 2015, the Group's operating profit for petroleum products amounted to RMB1,862.3 million, representing an increase of RMB1,891.6 million as compared with the operating loss of RMB29.3 million in 2014. Such operating profit was mainly attributable to the decrease of RMB18,457.5 million in net sales of petroleum products, while the operating expenses was down by RMB20,349.1 million, which gave profit for the period.

(v) Trading of petrochemical products

In 2015, the Company's operating profit for trading of petrochemical products amounted to RMB15.2 million, representing a decrease of RMB50.9 million as compared with RMB66.1 million for the previous year. This was mainly attributable to a decrease of RMB1,072.8 million in net sales of the trading business, while the operating expenses was down by RMB1,021.9 million, leading to a lower profit as compared to last year.

(vi) Others

In 2015, the Group's operating profit of other products amounted to RMB212.4 million, representing an increase of 35.37% compared with RMB156.9 million in the previous year. This was mainly attributable to a decrease of RMB38.0 million in net sales of other products, while operating expenses fell by RMB93.5 million, which led to a profit growth.

(4) Net finance income/(costs)

The Group's net finance costs were RMB243.8 million in 2015, RMB115.9 million lower than the net finance costs of RMB359.7 million in 2014. This was mainly due to the repayment of long term borrowings and certain short term borrowings by the Group during the Reporting Period, which lowered the interest expense for 2015 to RMB211.9 million from RMB374.6 million for 2014.

(5) Profit/(loss) before taxation

The Group's profit before taxation was RMB4,237.2 million in 2015, representing an increase of RMB5,127.1 million as compared with the loss before taxation of RMB889.9 million in the previous year.

(6) Income tax

The Group's income tax expense amounted to RMB926.8 million in 2015, while the Group's income tax expense was -RMB214.2 million in the previous year. This was primarily attributable to the payment of current income tax due to profit recorded during the year.

In accordance with the *PRC Enterprise Income Tax Law* (amended) which took effect from 1 January 2008, the income tax rate of the Group in 2015 was 25% (2014: 25%).

(7) Profit/(loss) for the year

The Group's profit after taxation for the year was RMB3,310.4 million, representing an increase of RMB3,986.2 million as compared with loss after taxation of RMB675.8 million for the previous year.

3.2.B Liquidity and Capital Sources

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

(1) Capital Sources

(i) Net cash flow generated from operating activities

The Group's net cash inflows from operating activities amounted to RMB4,932.8 million in 2015, representing an increase in cash inflows of RMB1,270.4 million as compared with net cash inflows of RMB3,662.4 million in the previous year. In particular, due to (1) the Group recorded profit from operation during the Reporting Period, net cash inflows from profit before taxation (net of depreciation and impairment losses on property, plant and equipment) amounted to RMB6,009.5 million in 2015, representing an increase of RMB4,959.7 million in cash inflows as compared with net cash inflows of RMB1,049.8 million in the previous year, (2) the Group's decreased inventory balance as at the end of the period led to an increase in operating cash flow of RMB1,752.5 million in 2015 (compared with an increase in operating cash flow of RMB3,108.5 million in the previous year due to decreased inventory balance at the end of the previous year), (3) the decrease in operating payables as at the end of the period led to a decrease in operating cash flow of RMB1,451.7 million in 2015 (as compared to an increase in operating cash flow of RMB1,255.2 million as a result of an increase in operating payables in the corresponding period of the previous year).

(ii) Borrowings

The total borrowings of the Group at the end of 2015 amounted to RMB2,070.0 million, representing a decrease of RMB3,640.9 million as compared with the end of the previous year, of which short-term borrowings decreased by RMB2,008.2 million and long-term borrowings decreased by RMB1,632.7 million.

The Group managed to maintain its asset-to-liability ratio at a safe level by strengthening its management of liabilities (such as borrowings) and by enhancing control over financing risks. The Group generally does not experience any seasonality in borrowings. However, due to the nature of the Group's capital expenditure plan, long-term bank loans can be suitably 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.

(2) Liability-to-asset ratio

As of 31 December 2015, the Group's liability-to-asset ratio was 27.77% (2014: 45.73%). The ratio is calculated using this formula: total liabilities/total assets multiply by 100%.

3.2.C Research and Development, Patents and Licenses

The Group includes a number of technology development units, including the Petrochemical Research Institute, the Plastics Research Institute, the Polyester Fiber Research Institute, the Acrylic Fiber Research Institute and the Environmental Protection Research Institute. These units are charged with various research and development tasks in respect of new technology, new products, new production processes and equipment, as well as environmental protection. The Group's research and development expenditures for the years ended 2013, 2014 and 2015 were RMB67.3 million, RMB43.6 million and RMB87.6 million, respectively. The increase in research and development expenditure over the year was mainly attributable to the higher expenses of raw materials and ancillary materials consumption related to research as well as the growth in travelling allowances.

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

3.2.D Off-Balance Sheet Arrangements

Please refer to note 32 to the financial statements prepared under IFRS in the full text of this annual report for details of the Group's capital commitments. The Group did not provide any guarantee to outside parties during the Reporting Period.

3.2.E Contractual Obligations

The following table sets forth the Group's obligations to repay loan principal in future as at 31 December 2015:

	As at 31 December 2015 payment due by period			
	Total (RMB'000)	Within 1 year (RMB'000)	After 1 year but within 2 years (RMB'000)	After 2 year but within 5 years (RMB'000)
Contractual obligations				
Short term borrowings	2,070,000	2,070,000	–	–
Long term borrowings	–	–	–	–
Total contractual obligations	2,070,000	2,070,000	–	–

3.2.F 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 2015, the Company had more than 50% equity interest in the following principal subsidiaries:

Company name	Place of registration	Principal activities	Place for principal activities	Type of legal person	Percentage of equity held by the Company (%)	Percentage of equity held by the Group (%)	Registered capital ('000)	Profit/(loss) for the year 2015 (RMB'000)
Shanghai Petrochemical Investment Development Company Limited	China	Investment management	China	Limited company	100	100	RMB1,000,000	39,288
China Jinshan Associated Trading Corporation	China	Import and export of petrochemical products and equipment	China	Limited company	67.33	67.33	RMB25,000	9,991
Shanghai Jinchang Engineering Plastics Company Limited	China	Production of polypropylene compound products	China	Limited company	-	74.25	US$9,154	24,967
Shanghai Golden Phillips Petrochemical Company Limited	China	Production of polypropylene products	China	Limited company	-	60	US$50,000	57,863
Zhejiang Jin Yong Acrylic Fibre Company Limited	China	Production of acrylic fibre products	China	Limited company	75	75	RMB250,000	–34,148
Shanghai Golden Conti Petrochemical Company Limited	China	Production of petrochemical products	China	Limited company	-	100	RMB545,776	–28,199
Shanghai Jinmao International Trading Company Limited	China	Import and export of petrochemical products and equipment	China	Limited company	-	67.33	RMB20,000	12,630

None of the subsidiaries have issued any debt securities.

The Group's equity interests in its associates comprised an equity interest of 38.26%, amounting to RMB1,120.9 million, in Shanghai Chemical Industry Park Development Co., Ltd., a company incorporated in the PRC; and an equity interest of 20%, amounting to RMB1,778.8 million, in Shanghai Secco Petrochemical Company Limited, a company incorporated in the PRC. The principal business of Shanghai Chemical Industry Park Development Co., Ltd. includes 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.

(1) Explanation of profits of major controlled companies and share-holding companies affecting more than 10% of the net profit of the Group

In 2015, as the cost of raw materials decreased dramatically and the gross profits of petrochemical products increased, Shanghai Secco Petrochemical Company Limited recorded an operation revenue of RMB23,849 million, profit after tax reached to RMB2,185.3 million, among which RMB437.1million attributed to the Company.

(2) Explanation of operations of major controlled companies and share-holding companies with a 30% or more year-on-year change in operational performance

a. In 2015, operational performance of China Jinshan Associated Trading Corporation decreased by 54.43% year-on-year, mainly because it began LNG operations when the market price of LNG was in decline, resulting in a big loss and affecting the full year results.

b. In 2015, operational performance of Shanghai Jinchang Engineering Plastics Company Limited increased by 242.06% year-on-year, mainly because the falling price of polypropylene, a raw material, and the recovery of downstream industries, resulting in a remarkable increase in operational performance.

c. In 2015, operational performance of Shanghai Golden Phillips Petrochemical Company Limited increased by 250.98% year-on-year, mainly due to the constant fall of international oil prices leading to the decrease in prices of chemical raw materials, which resulted in a huge decrease in cost and increase in profit.

d. In 2015, operational performance of Shanghai Jinmao International Trading Company Limited increased by 383.72% year-on-year, mainly because that Shanghai Jinmao International Trading Company Limited was newly established in the second half of 2014 and experienced a big expansion in business in 2015 with revenue doubling over the last year, resulting in a big increase in profits.

3.2.G Major Suppliers and Customers

The Group's top five suppliers in 2015 were China International United Petroleum & Chemical Co., Ltd., Sinochem Oil Co. Ltd., Shanghai Secco Petrochemical Company Limited, CNOOC-SINOPEC United International Trading Co., Ltd. and Sinochem Industries Co., Ltd.. Total procurement costs involving these suppliers, which amounted to RMB32,684 million, accounted for 55.38% of the total procurement costs of the Group during the year ended 31 December 2015. The procurement costs from the largest supplier amounted to RMB22,991million, representing 38.96% of the total costs of purchases by the Group during the year ended 31 December 2015.

The Group's top five customers in 2015 were East China Branch of Sinopec Sales Company Limited, Sinopec Refinery Product Sales Company Limited, Jiaxing Petrochemical Company Limited, Shanghai Chilor-alkali Chemical Co., Ltd. and Sinopec Chemical Sales Company. Total sales to these customers amounted to RMB46,825.5 million, representing 57.95% of the Group's total turnover during the year ended 31 December 2015. Sales to the Group's largest customer amounted to RMB39,657.3 million, representing 49.08% of the Group's total turnover during the year ended 31 December 2015.

To the knowledge of the Board, in relation to the suppliers and customers listed above, none of the Directors (or their associates) or shareholders of the Company had any interest in Sinochem Oil Co., Ltd., Sinochem Industries Co., Ltd., Jiaxing Petrochemical Company Limited and Shanghai Chilor-alkali Chemical Co., Ltd.. China International United Petroleum & Chemical Co. Ltd., East China Branch of Sinopec Sales Company Limited, Sinopec Chemical Sales Company Limited and Sinopec Refinery Product Sales Company Limited are subsidiaries of China Petroleum & Chemical Corporation, the controlling shareholder of the Company. China International United Petroleum & Chemicals Co., Ltd. owns a 40% equity interest in CNOOC-Sinopec United International Trading Co., Ltd.. China Petroleum & Chemical Corporation and the Company own 30% and 20% equity interests in Shanghai Secco Petrochemical Company Limited, respectively.

(2) Discussion and Analysis of the Company's Operations (prepared under CAS)

1. Analysis of the Company's Major Business

(i) Analysis of Changes in the Consolidated Income Statement and the Consolidated Cash Flow Statement

Item	**For the years ended 31 December 2015 RMB'000**	For the years ended 31 December 2014 RMB'000	Change (%)
Operating income	**80,803,422**	102,182,861	–20.92
Operating costs	**60,089,297**	90,046,890	–33.27
Selling and distribution expenses	**516,943**	544,227	–5.01
General and administrative expenses	**2,667,413**	2,666,597	0.03
Financial expenses-net	**254,114**	391,625	–35.11
Net cash inflow from operating activities	**5,143,397**	4,039,919	Increased Inflow of 27.31%
Net cash inflow from investing activities ("-" for net outflow)	**–438,985**	–910,104	Decreased outflow of 51.77%
Net cash inflow from financing activities ("-" for net outflow)	**–3,906,275**	–2,983,972	Increased outflow of 30.91%
Research and development expenditures	**87,629**	43,569	101.13

Analysis of Major Changes in the Consolidated Income Statement

Item	For the years ended 31 December		Increase/ decrease amount	Change (%)	Major reason for change
	2015 (RMB'000)	2014 (RMB'000)	(RMB'000)		
Operating income	**80,803,422**	102,182,861	–21,379,439	–20.92	Dramatic decrease in price of main products
Operating costs	**60,089,297**	90,046,890	–29,957,593	–33.27	Dramatic decrease in cost of raw materials
Business taxes and surcharges	**13,710,933**	9,401,283	4,309,650	45.84	Increase in consumption tax rate
Financial expenses-net	**254,114**	391,625	–137,511	–35.11	Decrease in interest on borrowings
Asset impairment loss	**95,625**	224,039	–128,414	–57.32	Decrease in inventory depreciation reserves
Investment income	**599,189**	54,145	545,044	1,006.64	Revenue increase in associated and joint enterprises
Operating profit ("-" for loss)	**4,068,286**	–1,037,655	5,105,941	N/A	Major decrease in raw material costs and increase in gross profit
Total profit ("-" for net loss)	**4,208,729**	–914,149	5,122,878	N/A	Major decrease in raw material costs and increase in gross profit
Net profit ("-" for net loss)	**3,281,952**	–699,965	3,981,917	N/A	Major decrease in raw material costs and increase in gross profit
Income tax expenses	**926,777**	–214,184	1,140,961	N/A	Profit recorded this year

Analysis of Major Changes in the Cash Flow Statement

Item	For the years ended 31 December		Increase/ decrease amount	Change (%)	Major reason for change
	2015 (RMB'000)	2014 (RMB'000)			
Net cash inflow from operating activities	**5,143,397**	4,039,919	Increase inflow of 1,103,478	Increase inflow of 27.31%	Recorded profit this year
Net cash inflow from investing activities ("-" for net outflow)	**–438,985**	–910,104	Decrease outflow of 471,119	Decrease outflow of 51.77%	Decrease of long-term assets purchase expenditure of the year
Net cash inflow from financing activities ("-" for net outflow)	**–3,906,275**	–2,983,972	Increase outflow of 922,303	Increase outflow of 30.91%	Increase in the cash flow generated from operating activities, returned borrowings

(ii) *Operating Income*

a. Analysis of Changes in Operating Income

The weighted average prices (VAT excluded) of the Group's synthetic fibres, resins and plastics, intermediate petrochemical products and petroleum products fell by 17.13%, 19.67%, 31.42% and 37.22% respectively, resulting in a lower operating income in 2015 compared with the previous year.

b. Major Customers

Please refer to 3.2.G for details of major customers of the Group.

(iii) Operating Costs

a. Analysis of Operating Costs

Operating costs of the Group amounted to RMB60,089.3 million in 2015, representing a decrease of 33.27% as compared with RMB90,046.9 million in 2014, which was mainly due to a decrease in the price of raw materials.

The following table sets forth the details of the operating costs during the Reporting Period:

	For the years ended 31 December				
	2015		2014		
	RMB Million	**% of Total**	RMB Million	% of Total	Change (%)
Cost of raw materials					
Crude oil	**32,390.7**	**53.90**	59,559.8	66.14	–45.62
Ancillary materials	**9,092.6**	**15.13**	11,865.4	13.18	–23.37
Depreciation and amortisation	**1,659.0**	**2.76**	1,876.7	2.08	–11.60
Staff costs	**1,570.4**	**2.61**	1,655.1	1.84	–5.12
Costs of merchandise	**13,573.2**	**22.59**	14,586.0	16.20	–6.94
Others	**1,803.4**	**3.01**	503.9	0.56	257.89
Total	**60,089.3**	**100.00**	90,046.9	100.00	–33.27

b. Major Suppliers

Please refer to 3.2.G for details of major suppliers of the Group.

(iv) *Expenses*

Please refer to Analysis of Major Changes in the Consolidated Income Statement and the Consolidated Cash Flow Statement in this section for the analysis of expenses changes during the Reporting Period.

(v) *Research and Development Expenditure*

a. Table of Research and Development Expenditure

Unit: RMB'000

Expensed R&D expenditure during the Reporting Period	87,629
Capitalised R&D expenditure during the Reporting Period	–
Total	87,629
% of Operating Income	0.11
% of Capitalised R&D expenditure	–

b. Explanation

Please refer to 3.2.C. of this section for details of Research and Development, Patents and Licenses of the Group.

(vi) *Cash Flow*

Please refer to Analysis of Major Changes in the Consolidated Income Statement and the Consolidated Cash Flow Statement in this section for details of the changes in cash flow statement items.

2. Analysis of Business Operations by Segment, Product and Geographical Location

(i) Principal operations by segment or product

By segment or product	Operating income	Operating costs	Gross profit	Increase/decrease of operating income as compared to the previous year	Increase/decrease of operating costs as compared to the previous year	Increase/decrease of gross profit margin as compared to the previous year
	(RMB'000)	(RMB'000)	(%)	(%)	(%)	(percentage point)
Synthetic fibres	2,397,015	2,368,244	1.20	–18.35	–24.37	7.87
Resins and plastics	10,241,960	7,921,164	22.66	–19.06	–33.95	17.43
Intermediate petrochemicals	9,607,799	7,223,860	24.81	–23.63	–34.89	13.00
Petroleum products	43,894,359	28,377,878	35.35 Note	–24.64	–41.61	18.80
Trading of petrochemical products	13,719,716	13,573,180	1.07	–7.25	–6.94	–0.33
Others	942,573	624,971	33.70	–3.48	–2.09	–0.94

Note: Gross profit margin is calculated according to the price of petroleum products, which includes consumption tax. Gross profit margin of petroleum products after deducting consumption tax amounted to 11.45%.

(ii) Principal operations by geographical location

Geographical location	Operating income	Increase/decrease of operating income compared with the previous year
	(RMB'000)	(%)
Eastern China	71,649,836	–27.12%
Other regions in the PRC	5,055,064	98.07%
Exports	4,098,522	211.21%

3. Analysis of Assets and Liabilities

Item	As at 31 December				Change as between 31 December 2015 and 31 December 2014 (%)	Major reason for change (over 30%)
	2015		2014			
	Amount (RMB'000)	**% of Total Asset**	Amount (RMB'000)	% of Total Asset		
Cash at bank and on hand	**1,077,430**	**3.84**	279,198	0.90	285.90	Increase in cash inflows for operating activities
Notes receivable	**1,007,373**	**3.59**	1,372,277	4.41	–26.59	Decrease in revenue and operation receivables
Advances to suppliers	**15,131**	**0.05**	31,098	0.10	–51.34	Decrease in pre-paid purchase fund by the end of the Year
Interests receivable	**2,491**	**0.01**	76	0.00	3,177.63	Increase in bank deposit in the year, relatively ample cashflow
Dividend receivable	**–**	**–**	19,372	0.06	–100.00	Dividend received of the year
Other accounts receivable	**29,050**	**0.10**	51,771	0.17	–43.89	Decrease in export tax rebates receivable
Inventories	**4,178,188**	**14.91**	5,930,703	19.04	–29.55	Decrease in unit price of ending inventory
Long-term equity investment	**3,471,139**	**12.39**	3,106,262	9.97	11.75	Increase in net profit of joint enterprises
Projects under construction	**722,520**	**2.58**	542,878	1.74	33.09	Newly established projects under construction has not been completed
Long-term deferred expenses	**359,487**	**1.28**	602,451	1.93	–40.33	Amortization of the year
Deferred tax assets	**71,045**	**0.25**	915,069	2.94	–92.24	Recorded profit this year, calculating the deferred tax assets last year
Short-term borrowings	**2,070,000**	**7.39**	4,078,195	13.09	–49.24	Recorded profit this year, resulting a decrease in capital demand
Notes payable	**–**	**–**	11,714	0.04	–100.00	Decrease in operation-related notes payable as a result of adequate cash flow this year
Accounts payable	**3,017,878**	**10.77**	5,924,035	19.02	–49.06	Unit price of purchased goods decreased this year
Interests payable	**1,890**	**0.01**	9,037	0.03	–79.09	Decrease in borrowing balance at the end of the year
Other accounts payable	**629,080**	**2.24**	508,551	1.63	23.70	Increase in equipment and project funds payable and maintenance expense
Long-term borrowings	**–**	**–**	1,632,680	5.24	–100.00	Decrease in capital demand as a result of recorded profit this year
Deferred return	**160,000**	**0.57**	186,436	0.60	–14.18	Amortization of the year

4. **Others**

(i) *Directors, Supervisors, senior management and employees*

Please refer to "Directors, Supervisors, senior management and employees" section.

(ii) *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 in 2015.

(iii) *Pledge of assets*

As at 31 December 2015, no fixed asset was pledged by the Group (31 December 2014: RMB nil).

5. **Status of Holding Foreign Currency Financial Assets and Financial Liabilities**

As at 31 December 2015, the Group held foreign-currency denominated bank deposits equivalent to RMB86,109,000.

6. **Investment by the Company**

(i) *Wealth Management and Derivatives Investment Entrusted by Non-Financial Companies*

(a) Entrusted wealth management

The Company did not engage in any entrusted wealth management during the Reporting Period.

(b) Entrusted loans

Borrower	Amount of entrusted loan (RMB'000)	Term of loan	Interest rate of loan %	Whether it is overdue	Whether it is connected transaction	Whether it has been extended	Whether it is lawsuits related	Whether the capitals are proceed	Connected relationship	Expected income (RMB'000)
Chevron Phillips Chemicals (Shanghai) Corporation	12,000	2015/1/29-2016/1/29	3	No	No	No	No	No	Nil	29
	30,000	2015/4/24-2016/4/22	2.75	No	No	No	No	No	Nil	255
	30,000	2015/8/28-2016/8/26	2.25	No	No	No	No	No	Nil	177
	12,000	2015/9/30-2016/9/29	2	No	No	No	No	No	Nil	180
	28,000	2015/11/27-2016/11/25	1.75	No	No	No	No	Nil	Nil	443
	12,000	2015/12/25-2016/12/23	1.75	No	No	No	No	Nil	Nil	206

Note: Aforesaid entrusted loans are loans provided to shareholders according to the proportion of the shareholding by Shanghai Golden Phillips Petrochemical Company Limited, a subsidiary of the Company.

(ii) Analysis of the Companies in which the Company has Controlling Interests or Investment Interests

Please refer to 3.2.F Analysis of Performance and Results of the Companies in Which the Company Has Controlling Interests or Investment Interests during the Reporting Period in this Chapter for details.

(iii) Major Projects from Non-raised Capital

In 2015, the capital expenditure of the Group amounted to RMB800 million, representing a decrease of 26.54% compared with RMB1,089 million in 2014. Major projects include the following:

Major Project	Total project progress investment in RMB million	Project as at 31 December 2015
The EVA Project with a capacity	1,132	Preliminary
Desulfurization revamps for furnaces No.1, No.5 and No. 7 of the Thermal Power Division	167	Under construction
Project of upgrading the discharged waste water standard	134	Completed
Start up boilers flue gas desulfurization and denitrification in Olefins Division	81	Under construction
Renovation of No. 4 and No. 5 parking lots of chemical terminals in warehousing and transportation department	82	Completed

The Group's capital expenditure for 2016 is estimated at approximately RMB1,700 million.

(3) Discussion and Analysis on Future Development

1. Industry competition and development trends

The global economy will remain complex and volatile in 2016. Amid the continuous moderate recovery in developed countries, the US economy is expected to enter into the expansionary cycle driven by re-industrialization, although emerging economies are still facing downward pressure.

China's economic development faces uncertainties in the recovery of the global economy. Under the principle of upholding growth anchored in stability, China will advance its supply-side structural reform by focusing on reducing production capacity, inventories and leverage, lowering costs and replenishing laggards. Besides, efforts would be stepped up in enhancing the quality and effectiveness of development, and the GDP is anticipated to maintain a medium to high growth rate.

Ample supply is expected to persist in the international crude oil market. In the meantime, the moderate and slow global economic growth imposes a rather major recessionary pressures on emerging economies, which are more affected by changes in the demand for oil, and hence the growth in the demand for oil will be curbed. From the perspective of the supply side: the US oil production may ease; OPEC member countries are expected to maintain policies to secure their market shares; the global crude oil supply outstrips global demand, so the crude oil price is basically under pressure, and it is expected that world crude oil price will remain in the doldrums in 2016.

In this context, the domestic petroleum and petrochemical markets is facing a tougher external business environment. China will accelerate the opening up of the competitive businesses of natural monopolies in the industry, such as oil and natural gas. During the period of the "Thirteenth Five Year" period, petrochemical projects of tens of millions of tons will commence production and intensify the competitive pressure in the petrochemical industry. The central and Shanghai government have introduced a series of safety and environmental protection policies, which will increase the development pressure faced by petrochemical enterprises, while other factors will bring even greater challenges to the development and survival of traditional petrochemical enterprises, including the acceleration of quality upgrading for refined oil, new industrial technologies and extensive application of new materials.

2. Company development strategies

The Company has been focusing on its goal of establishing a refining and petrochemical enterprise which is "Leading domestically, First-class globally". Taking into account the development status and trend of the global petrochemical industry, as well as the development trend of the oil and chemical products market domestically, especially in eastern China, we define our development strategy as follows: giving consideration to both cost-leadership and differentiation, paying equal attention to scale and specialty, laying special emphasis on cost-leadership and scaling up upstream, and on high value-added and refined products downstream, the Company aims to improve its competitiveness by bringing into full play its rather extensive product chain, product diversification and proximity to the market. In view of this development strategy, the Company has adopted the development concept of "expanding the refinery business, taking the lead in the petrochemical industry, and implementing the integration of refinery and petrochemical segments". It is combining the resource optimization and development planning of enterprises in the Shanghai region, to further consolidate the three existing processing chains of refining, olefin and aromatic. The Company has also created a new development model of integrated refinery and petrochemical by using the concept of molecular refinery and molecular petrochemical to further enhance its economic returns.

3. Business plans

Under the complex and volatile market and prolonged severe operation environment in 2016, the Group will continue to adhere to the enhancement of development quality and effectiveness. Such approach would not only ensure the prevention of safety and environmental protection incidents and further enhance production and operation level, but would also deepen system optimization, lower costs and enhance efficiency, while realizing sustained promising operating results.

To achieve its business objectives in 2016, the Group will work hard in the following areas:

(i) Continue safety and environmental protection works

The Group has established a comprehensive HSE accountability system and stringently implements various mechanisms to prevent the occurrence of any accidents. On top of optimizing its local corporate co-operation mechanism, the Group will edge up its efforts on hazards examination and on-site supervision in tandem with raising the safety level of its oil and gas pipelines. The Group will enhance its supervision of the entire process of HSE to continuously eliminate safety hazards. By establishing the work mechanism and management system of hazard and operability study (HAZOP), the Group will fully commence the risk assessment on HAZOP. Meanwhile, the Group will formulate the environmental protection accountability system in a detailed manner and implement such system to raise the awareness of environmental protection among its staff. The Group will continue to commence the examination of environmental protection hazards as well as its leak detection and repair (LDAR) work while enhancing monitoring of the environment. With strengthened management of waste water, waste solid and waste gas, focus will be attached to risk prevention and control of the water environment, and the construction of the incineration project for hazardous wastes will be advanced. The Group will enhance supervision and checks of occupational hygiene and optimize the on-site safety protection measures for production and operation, so as to safeguard occupational health.

(ii) Ensure stable production

By enhancing the organization and co-ordination of refined management and of the production of material operations, the Group endeavors to improve the management of process technology and stringently monitors its operation while minimizing non-scheduled shut-downs. Focus will be placed on the modification and shut-down check and repair for production devices, so as to balance materials arrangement and to ensure the stable operation of the overall production system. Quality management and control will be enhanced while quality supervision throughout the whole process will be consolidated with a view to laying the foundation for stable production and operation. The Group will continue to deepen its quantitative patrol and examination work of its equipment, and enhance its management of equipment failure by strengthening examination and repair and quality management in a bid to ensure the perfect operation of equipment.

(iii) *Deepen the movement of system optimization and cost/expenditure reduction*

Adhering to the practice of "Daily calculation of products' marginal effectiveness and weekly identification of the corporate potential", the Group will utilize its entire major product optimization model and enhance its tracking of marginal contribution from chemical devices, and will adjust the respective workload on a timely basis in accordance with the change of effectiveness. Based on the change in price of crude oil and refined oil products, the Group will optimize and adjust its refined oil product structure, while increasing the proportion and production volume of high-end gasoline. By continuous optimization of ethylene feedstock and utilization of SPYRO software for selecting the best raw ethylene structure, the Group aims to enhance the recovery rate of olefins and reduce the production cost of ethylene. The Group will adjust the raw materials for hydrogen production and fuel structure pursuant to the price of natural gas and liquefied gas, so as to reduce production costs. Apart from continuous cost control in the course of production and operation, efforts will be placed on cutting costs and expenses. The Group will strengthen financial risk prevention and control, further optimize finance structure while enhancing research on fiscal tax policies and proactively taking advantage of the benefits under various taxation concessionary policies.

(vi) *Foster project construction, technological advancement and digitalization*

Drawing on the strength of its existing corporate resources, the Group will organize and co-ordinate the upgrading and modification of its newly built projects and existing equipment. The Group will strengthen its efforts in handling hazards, energy conservation and emission reduction as well as investment in industry upgrading projects. Apart from gradually eliminating backward production capacity, progress on projects such as modification on the desulfurization of thermal boilers would be accelerated, and construction of projects such as "Ultra low discharge& energy conservation" project in congeneration Unit of Thermal Power Divisions, 300,000 tons of alkylation per year will be commenced. While ramping up scientific research and development, the Group will focus efforts on the implementation of key scientific research projects such as carbon fiber and catalyzed conversion of diesel and hydrogen, as well as technological development for new products, industrialization development and market expansion to adjust the product structure. The Group will further regulate the application of ERP, MES and LIMS, and integrate information technology into every aspect of corporate production. On top of the above, the Group will further expand the application of advanced process control (APC) system and facilitate the construction of digitalization projects, including the comprehensive statistics information system.

(v) Strive to enhance internal management

The Group will optimize its corporate appraisal system and business flow by comprehensively optimizing procedures along the supply chain from crude oil to product. The Group aims to maximize its effectiveness and will refine its performance appraisal mode. While strengthening its staff team building and employee management, the Group optimizes its staff structure. Training is expanded to fully enhance the quality of staff. The establishment is consolidated of its corporate culture and great efforts are made at forging a harmonious and stable environment for corporate development.

4. Risk exposure

(i) The cyclical characteristics of the petroleum and petrochemicals market and price volatility in crude oil and petrochemical products may have an adverse impact on the Group's operations.

A large part of the Group's operating income is derived from the sales revenue of refined oil and petrochemical products. Historically, such products have been cyclical in nature and relatively sensitive to macroeconomic changes. In addition to regional and global economic conditions, productivity and output, prices and supply of raw materials, consumer demand and prices and supply of substitutes also have an effect. From time to time, these factors have a major impact on the prices of the Group's products in regional and global markets. Given the reduction of tariffs and other import restrictions as well as Chinese government's relaxed control over the distribution and pricing of products, many of the Group's products will increasingly be subject to the impact of the petrochemical cycle in regional and global markets. In addition, the prices of crude oil and petrochemical products will remain volatile, and uncertain. Higher crude oil prices and lower petrochemical products prices are likely to have an adverse impact on the Group's business, operating results and financial condition.

(ii) *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 price.*

At present, the Group consumes a significant amount of crude oil for the production of petrochemical products. More than 90% of the crude oil required is imported. In recent years, crude oil prices have been subject to significant fluctuations due to a variety of factors, and the Group cannot rule out the possibility of any major unexpected event which may cause a suspension in crude oil supply. The Group has attempted to mitigate the effects of increased costs from rising crude oil prices by passing them on to customers, but the ability to do so is limited by market conditions, and government control over the pricing of refined oil products. Since there is a time-lag between increases in crude oil prices and increases in petrochemical product prices, higher costs cannot be totally offset by raising the selling prices. In addition, the State also imposes control over the distribution of some petroleum products within China. For instance, some of the Group's petroleum products are required to be sold to designated customers (such as subsidiaries of Sinopec Corp). Hence, when crude oil prices are high, the higher costs might not be totally offset by raising the selling prices of the Group's petroleum products.

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

The petrochemical industry is a capital-intensive industry. The Group's ability to maintain and raise income, net income and cash flows is closely connected with ongoing capital expenditures. The Group's estimated capital expenditures is estimated to amount to approximately RMB1,700.0 million in 2016, which will be met by financing activities and by internal funding. The Group's real capital expenditures may vary significantly due to the Group's ability to generate sufficient cash flow from operations, investments and other factors that are beyond its control. Furthermore, there is no assurance as to the completion, cost or success of the Group's capital projects.

The Group's ability 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 the future; China's economic conditions and the market conditions for the Group's products; financing costs and conditions of the financial market, and availability of government approval documents, as well as 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.

(iv) *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. Waste products (waste water, waste gas and waste residue) are generated during the Group's production operations. Currently the Group's operations fully comply with 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 central or local governments will not issue more regulations or enforce certain stricter regulations which may cause the Group to incur additional expenses on environmental protection measures.

(v) *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 on the Chinese political and economic scenes. In July 2005, the PRC government overhauled 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 international pressure to further ease its exchange rate policy, and may as a result 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 revenue is denominated in Renminbi, but a major part of our procurement of crude oil, certain equipment and certain debt repayments are denominated in foreign currencies. Any devaluation of Renminbi in the future will increase our costs and jeopardize 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.

(vi) *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 the Group's controlling shareholder Sinopec Corp, as well as other connected parties (subsidiaries or associates). These connected transactions include: provision of raw materials purchases, the agency sale of petrochemical products, construction, installation and engineering design services, petrochemical industry insurance services and financial services; and the Group's sale of petroleum and petrochemical products to Sinopec Corp. and its connected parties. These connected transactions and services conducted by the Group are carried out under normal commercial terms and in accordance with the relevant agreements. However, if Sinopec Corp. and Sinopec Group 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 adversely impacted. Furthermore, Sinopec Corp. has an interest in certain sectors that are directly or indirectly competing with or which may compete with the Group's business. Since Sinopec Corp. is the controlling shareholder of the Group and its own interests may conflict with those of the Group, it may act for its own benefit regardless of the Group's interests.

(vii) *Risks associated with control by the majority shareholder.*

Sinopec Corp., the controlling shareholder of the Company, owns 5,460,000,000 shares of the Company, which represents 50.56% of the total number of shares of the Company and gives it an absolute controlling position. Sinopec Corp. may, by using its controlling position, exercise influence over the Group's production operations, funds allocations, appointment or removal of senior staff and so forth, thereby adversely impacting the Group's production operations as well as minority shareholders' interests.

III. Major Events

(1) Plan for Common Shares Profit Appropriation or Capital Reserve Capitalization

1. Disclosure of the Cash Dividend Policy and its Stipulation, Implementation or Amendment

The Company made amendments to its cash dividend policy in the Articles of Association. The proposed amendments to the Articles of Association were considered and approved at the 2013 Second Extraordinary General Meeting held on 11 December 2013. The proposed amendments' appendices were approved by the State-owned Assets Supervision and Administration Commission of the State Council on 26 January 2014. According to Article 205 of the amended Articles of Association:

(1) The Company should place emphasis on delivering reasonable return on investments to the investors. The Company shall pay due attention to the opinions of minority shareholders through various channels when allocating its profits. The profits distribution policy of the Company shall be durative and stable, taking into account the long-term interests of the Company, the overall interests of all shareholders and the Company's sustainable development.

(2) The Company may distribute dividends in the following forms: cash, shares or other forms approved by laws, administrative rules, regulations of competent authorities and regulatory provisions in the place where the Company's shares are listed. The Company shall give priority to the distribution of dividends in cash. The Company may make interim dividends distribution.

(3) The Company shall distribute cash dividends when the parent Company's net profit and retained earnings, in separate financial statement, are positive and the Company has adequate cash inflows over the requirements of cash outflows of operation and sustainable development. The company should pay dividend in cash. The total cumulative cash dividend for the most recent three years should not be less than thirty (30) percent of total distributable profit of the Company from the most recent three years.

(4) The Company may adjust its profits distribution policy referred to in subparagraphs (2) and (3) of this Article in case of war, natural disasters or other force majeure events, or where changes to the external environment of the Company result in material impact on the production and operation of the Company, or where there are significant changes in the Company's own operations or financial conditions, or where the Company's board of directors considers it necessary. Independent directors shall issue independent opinions on the adjustment of the profits distribution policy whilst the board of directors shall discuss the rationale of such adjustment in detail and form a resolution which shall be submitted to shareholders' meeting for approval by special resolution. The convening of the shareholders' meeting shall comply with regulatory provisions in the place where the Company's shares are listed.

(5) The management of the Company shall formulate the annual profits distribution plan and submit such plan to the board of directors for consideration. Independent directors shall issue independent opinions on such plan and the board of directors shall form a resolution which shall be submitted for approval by shareholders' meeting. If the conditions for the distribution of cash dividends have been satisfied and the Company does not propose a cash dividends distribution plan or does not propose such plan in compliance with the sub-paragraph (3) of this Article, independent directors shall issue independent opinions whilst the board of directors shall give specific explanation regarding such arrangement and form a resolution which shall be submitted to shareholders' meeting for approval and make relevant disclosures. The plan for half-yearly dividend distribution of the Company shall comply with Article 213 of the Articles of Association.

2. Plan for Profit Appropriation or Capital Reserves Capitalization for the Reporting Period

In 2015, net profit attributable to equity shareholders of the Company amounted to RMB3,245.849 million under CAS (net profit of RMB3,274.308 million under IFRS). The Board proposed to distribute a dividend of RMB1.00 per 10 shares (including tax) based on the issued share capital 10.8 billion shares as at 31 December 2015 according to the 2015 Plan for Profit Appropriation approved on 16 March, 2016. The Plan for Profit Appropriation will be executed after being approved at the Annual General Meeting.

3. Status of the Company's Payment of Common Shares Dividends, Capitalization of capital fund over the Past Three Years (Including the Reporting Period)

Year of paying dividends		Amount of bonus shares allocated every 10 shares (share)	Amount of dividends paid every 10 shares (RMB) (including tax)	Amount of transferred shares every 10 shares (share)	Amount of cash dividends (including tax) RMB'000	Net profit attributable to equity shareholders of the Company prepared under CAS for the Year ("-" for net loss) RMB'000	Percentage of net profit attributable to equity shareholders of the Company prepared under CAS for the Year (%)
2015		–	1.00	–	1,080,000	3,245,849	33.27
2014		–	–	–	–	–716,427	–
2013	Interim	1.64	0.50	3.36	360,000	2,003,545	44.92
	Annual	0	0.50	–	540,000		

(2) Performance of undertakings

1. Undertakings made by the listed company, shareholders, de facto controller, purchasers, directors, supervisors, senior managers and other related parties under the reporting period or following the reporting period

(i) Undertakings about Share Reform Proposal of the Company

The Company disclosed *The Explanatory Memorandum for the Share Reform Proposal of the Company (the Revised Draft)* on 20 June 2013, in which the Company's controlling shareholder Sinopec Corp. has made an undertaking that it will continue to the Reporting Period:

1. Sinopec Corp. shall not, within 12 months from the date on which its non-circulating shares of Company acquire the right to circulate in the market (meaning the first trading day after the implementation of the A-share reform proposal), deal or transfer such shares through the relevant stock exchanges. Upon the expiration of the aforesaid undertaking, the amount of existing non-circulating shares which may be disposed by Sinopec Corp through trading on the stock exchange shall not exceed5% of the total amount of shares held by Sinopec Corp. within the next 12 months, and not exceed 10% within the next 24 months.

2. Sinopec Corp. shall continue to support the subsequent development of the Company upon the completion of the A-share reform scheme, and shall use this as a platform for the development of related businesses in the future.

For details, please refer to The Explanatory Memorandum for the Share Reform Proposal of the Company (the Revised Draft)(Full Version) published in Shanghai Securities News and China Securities Journal, as well as the relevant announcements uploaded to the websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company on 20 June 2013.

The Reform Scheme was reviewed and approved at the relevant shareholders' meeting in the A-share market held on 8 July 2013. After the implementation of the proposal on 20 August 2013, the Company's A shares resumed trading, and non-circulating shares previously held by non-circulating shares shareholders were obtained for circulation. For details on the implementation of Reform Scheme, please refer to the "Implementation Report on Sinopec Shanghai Petrochemical Company Limited Share Reform Scheme" published in Shanghai Securities News and China Securities Journal dated 14 August 2013 and uploaded to the websites of the Shanghai Stock Exchange and the Hong Kong Stock Exchange.

(ii) *Major shareholders' undertakings not to reduce stock holdings*

On July 13, 2015, the Company received notice from controlling shareholder Sinopec Corp. that for the purposes of supporting the healthy development of the Group and to advance China's economy and capital market momentum, Sinopec Corp. undertakes that it would not reduce its share holdings in the Company within 6 months following the announcement.

With regard to the aforementioned three undertakings, the Company did not notice any conditions that violated the undertakings or any unfulfilled matters during the required period.

(3) Events regarding Capital Occupation and Repay

Not applicable

(4) Appointment and dismissal of accounting firm

Unit: Yuan Currency: RMB

	New
Auditors engaged by the Company (domestic): Name	PricewaterhouseCoopers Zhong Tian LLP
Auditors engaged by the Company (domestic): Pay	4,800,000
Auditors engaged by the Company (domestic): Duration	3
Auditors engaged by the Company (international): Name	PricewaterhouseCoopers
Auditors engaged by the Company (international): Pay	3,000,000
Auditors engaged by the Company (international): Duration	3

(5) Events regarding bankruptcy and restructuring

No events regarding bankruptcy or restructuring occurred during the year.

(6) Asset trading and corporate mergers

No asset trading and corporate mergers occurred during the year.

(7) Material litigation, arbitration or media queries

The Company was not involved in any material litigation, arbitration or media queries during the year.

(8) Disciplinary actions upon the Company and its Directors, Supervisors, Senior Management, shareholders and controlling company of the controlling shareholder

Not Applicable

(9) Credit status of controlling shareholders and actual controllers of the Company during the reporting period

The Company and the controlling shareholders and actual controllers of the Company were not involved in any events regarding failure to perform obligations under a judgment of courts and neither have a relatively large amount of debts which have become due and outstanding.

(10) Share Option Incentive Scheme and its Influence

1. Share Option Incentive Scheme has been disclosed in announcement; without further updates or changes during implementation

Summary	For More details, please refer to
The fifth meeting of the Eighth Session of the Board of Directors considered and passed resolution on the "A Share Option Incentive Scheme of Sinopec Shanghai Petrochemical Company Limited (Draft)" ("the Share Option Scheme") and has approved the draft Scheme to be submitted for review by shareholders of the Company.	Published on 7 January, 2015 at China Securities Journal, Shanghai Securities News, Securities Times, uploaded to the websites of Shanghai Stock Exchange, The Stock Exchange of Hong Kong and the Company.

2. Introduction to the Share Option Incentive Scheme

On 15 August 2014, the Share Option Incentive Scheme and the related proposals were reviewed and adopted at the Second Meeting of the Eighth Session of the board of directors of the Company. On 23 December 2014, the Company convened the 2014 First General Meeting and the 2014 First A Shareholders Class Meeting through a combination of on-site voting, online voting (applicable to A shareholders) and solicitation of votes by independent non-executive directors, and convened the 2014 First H Shareholders Class Meeting through a combination of on-site voting and solicitation of votes by independent non-executive directors. At the above meetings, Share Option Incentive Scheme (Draft) and its related proposals were reviewed and approved. The Share Option Incentive Scheme of the Company officially became effective. On 6 January 2015, the proposal regarding the initial grant under the Share Option Incentive Scheme were reviewed and approved at the fifth meeting of the eighth session of the Board of Directors of the Company, which confirmed the granting of an aggregate of 38,760,000 A share options to 214 participants.

Summary of Share Option Incentive Scheme

a. Purpose of the Scheme

The purpose of the Share Option Incentive Scheme is to further establish and improve its operational mechanism; establish and improve its incentive mechanism for members of the senior management; advocate the concept of sustainable development jointly achieved by the Company, its management team and key personnel; effectively incentivise its management team and key personnel; attract and retain talents; enhance its competitive position in the industry and its core competitiveness; and ensure the realisation of its development strategy and operational objectives.

b. Scope of Participants Eligible Participants

The eligible participants shall include the Directors, senior management members and key business personnel of the Company. The participants of the initial grant under the Share Option Incentive Scheme included: i. Directors and senior management members; and ii. key business personnel holding core positions. Such aforesaid Participants of the proposed initial Grant shall exclude independent non-executive Directors, supervisors and Directors who do not concurrently hold senior management positions in the Company, substantial shareholders holding more than 5% of the Shares and the de facto controllers of the Company, together with their respective spouses and immediate family members.

c. Total number of shares to be granted and percentage of the total share capital

Under the Share Option Incentive Scheme, the total number of underlying shares to be granted shall neither exceed 10% of the total share capital of the Company (10,800 million shares) nor exceed 10% of the total A-share capital of the Company (7,305 million shares). Under the proposed initial Grant, the number of Share Options to be granted by the Company to the Participants shall be no more than 41,030,000, with the corresponding Underlying Shares representing 0.38% of the total share capital of the Company (10,800 million shares).

d. Maximum Entitlement of each participant

Unless approved by the Shareholders as a special resolution at a general meeting of the Company, the aggregate number of A Shares to be acquired by each Grantee through the Share Option Incentive Scheme and other effective share option schemes of the Company (if any) at any time shall not exceed 1% of the total A-share capital of the Company. The number of Share Options to be granted to each Participant was determined on the basis that the estimated benefit upon exercise of the Share Options will not exceed 30% of his/her total emolument level (including the estimated benefit upon exercise of the Share Options) at the grant date.

e. Validity Period

The exercisable period for the share options shall be three years, commencing from the expiry of the two-year period after the grant date. Please refer to the following table for the details of the arrangement for the Share Option Incentive Scheme:

Stage	Arrangement	Exercise Ratio Cap
Grant Date	determined by the board of directors upon fulfillment of the conditions for grant under the Share Option Incentive Scheme	
1st Exercisable Period	commencing on the first trading day after the expiry of the 24-month period following the grant date and ending on the last trading day preceding the expiry of the 36-month period following the grant date	40%
2nd Exercisable Period	commencing on the first trading day after the expiry of the 36-month period following the grant date and ending on the last trading day preceding the expiry of the 48-month period following the grant date	30%
3rd Exercisable Period	commencing on the first trading day after the expiry of the 48-month period following the grant date and ending on the last trading day preceding the expiry of the 60-month period following the grant date	30%

If a Participant is also a Director or member of senior management of the Company, at least 20% of the total Options granted to him/her shall not be exercisable until such Participant passes the appraisal during his/her term of office.

f. Vesting Period

The vesting period for each Grant under the Scheme shall be no less than two years.

g. Requirement of fund to apply or accept stock option(if applicable)and allotted time of payment or notice of payment or allotted time of credit payment for application of stock options

Not applicable

h. Exercise Price

1. The Exercise Price under the initial grant

The exercise price under the initial Grant shall not be lower than the highest of the followings:

I. the closing price of the A shares of the Company on the trading day immediately before the date of announcement on the summary of the proposal of the Share Option Incentive Scheme, which was RMB3.29 per share;

II. the average closing price of the A shares of the Company for the 30 trading days immediately before the date of announcement on the summary of the proposal of the Share Option Incentive Scheme, which was RMB3.27 per share; and

III. RMB4.20 per share. In June 2013, the Sinopec Corp. undertook in the Company's equity division reform plan that it would propose to the Board a share option scheme which complies with the relevant systems of the SASAC and the CSRC, with an initial Exercise Price of the Share Options no lower than RMB6.43 per share (if there is occurrence of any ex-dividend event before the release of the draft share option scheme, the price shall be adjusted accordingly). As the Company carried out its 2013 half-year cash dividend plan, capitalisation of capital funds and surplus reserves plan in December 2013, and 2013 annual cash dividend plan in July 2014, the aforesaid initial Exercise Price of the Share Options, i.e. no less than RMB6.43 per share, is adjusted into RMB4.20 per share.

Accordingly, the Exercise Price under the initial Grant shall not be lower than RMB4.20 per share.

2. The Exercise Price under Further Grant

The Exercise Price under each proposed Grant (other than the initial Grant) shall be the higher of the followings:

I. the closing price of the A shares of the Company on the trading day immediately before the date of announcement on the summary of the draft proposal for each Grant; and

II. the average closing price of the A shares of the Company for the 30 trading days immediately before the date of announcement on the summary of the draft proposal for each Grant.

i. Expiry date

The expiry date of the scheme is 22 December 2024.

Initial Grant of the Share Options in the Reporting Period

a. Grant Date: 6 January 2015

b. Number of Share Options Granted: 38,760,000

c. Number of Participants: 214 persons

d. Exercise Price under the Initial Grant:

In accordance with the determination principles for the exercise price, the exercise price under the initial grant is RMB4.20 per share (Until the expiration of the validity period of the Share Options, in the case of, among others, payment of dividends, capitalisation of capital reserves, distribution of bonus shares, subdivision of shares or reduction of shares, and allotment of shares, an adjustment to the exercise price shall be made in accordance with Share Option Incentive Scheme).For reference only, on the grant date, the closing price of A shares of the Company is RMB4.51 per share, and that of H shares of the Company is HK$2.37 per share.

e. Source of Shares: A shares issued by the Company to the participants.

f. Validity Period and Exercise Arrangement under the Initial Grant:

The validity period of the share options shall be five years commencing from the grant date, but subject to the following exercise arrangements. The exercisable period for the share options shall be three years, commencing from the expiry of the two-year period after the grant date. There shall be three exercisable periods (one year for each exercisable period, same for the following) under the Share Option Incentive Scheme. Upon the fulfillment of the exercise conditions, 40%, 30% and 30% of the total share options granted shall become exercisable within the 1st, 2nd and 3rd exercisable periods, respectively.

g. Allocation of Share Options under the Initial Grant to Directors and Senior Management

A total of 2,540,000 A share options were initially granted to five Directors and one Senior Management, which account for 6.55% of the total number of share options to be granted under the initial grant, and account for 0.024% of the total share capital at the time of the initial grant. For the allocation of share options under the initial grant, please refer to "Share Options Granted to the Directors, Supervisors and Senior Management" section.

h. Allocation of Share Options under the Initial Grant to Key Business Personnel Holding Core Positions

A total of 36,220,000 A share options were initially granted to 133 key management personnel, 67 key technical personnel and 8 key skillful personnel, which account for 93.45% of the total number of share options to be granted under the initial grant, and account for 0.335% of the total share capital at the time of the initial grant. During the Reporting Period, none of the share options mentioned in the paragraph has been exercisable, none of the share options are cancelled or lapsed.

(11) Major connected transactions

1. Connected Transactions in Relation to Daily Operations

During the Reporting Period, pursuant to the Mutual Product Supply and Sales Services Framework Agreement entered into with the controlling shareholder of the Company, Sinopec Corp., and the actual controller, Sinopec Group the Company purchased raw materials from, sold petroleum products and petrochemicals and leased properties to Sinopec Group, Sinopec Corp. and their associates. Sinopec Corp. and its associates provided agency sales services for petrochemical products. Pursuant to the Comprehensive Services Framework Agreement entered into with the company's actual controller Sinopec Group, the Company obtained construction and installation, project design, petrochemical industry insurance and financial services provided by Sinopec Group and its associates. The abovementioned 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 and constituted ongoing connected transactions under the Shanghai Listing Rules. The Company disclosed the two agreements and the respective connected transactions under the agreements in an announcement dated 25 October 2013 and a circular dated 1 November 2013. These two agreements and the respective connected transactions under the agreements together with the associated annual caps from 2014 to 2016 were considered and approved at the Second Extraordinary General Meeting for 2013 held on 11 December 2013.

During the Reporting Period, 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 Second Extraordinary General Meeting for 2013.

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

Type of connected transactions	Connected parties	Annual cap for 2015 RMB'000	Transaction amount during the Reporting Period RMB'000	Percentage of the total amount of the same type of transaction (%)
Mutual Product Supply and Sales Services Framework Agreement				
Purchases of raw materials	Sinopec Group, Sinopec Corp. and its associates	91,444,000	30,926,316	57.14
Sales of petroleum products	Sinopec Corp. and its associates	75,678,000	41,731,401	51.65
Sales of petrochemical products	Sinopec Corp. and its associates	29,417,000	4,927,696	6.10
Property leasing	Sinopec Corp. and its associates	114,000	29,071	60.29
Agency sales of petrochemical products	Sinopec Corp. and its associates	305,000	112,245	100.00
Comprehensive Services Framework Agreement				
Construction, installation and engineering design services	Sinopec Group and its associates	1,593,000	158,822	24.10
Petrochemical industry insurance services	Sinopec Group and its associates	190,000	117,914	95.80
Financial services	Sinopec Group and its associates	300,000	31,952	19.65

The transactions between the Company and Sinopec Group, Sinopec Corp. and its associates, as disclosed in Note 29 of the consolidated financial statement prepared under International Financial Reporting Standards in 2015 Annual Report of the Company, constituted connected transactions under Chapter 14A of the Hong Kong Listing Rules. The above-mentioned connected transaction and continuing connected transaction have also been disclosed in accordance with Chapter 14A of the Hong Kong Listing Rules.

2. **Connected creditor's rights and liabilities**

Connected party	Connected relationship	Connected relationship		Funds provided by connected parties to the listed company	
		Net transaction RMB'000	Balance RMB'000	Net transaction RMB'000	Balance RMB'000
Sinopec Corp., its subsidiaries and associates & Sinopec Group and its subsidiaries	Controlling shareholder and its related parties	446	736 note 1	84,120	99,907 note 2

Note 1: The balance of the funds provided by the Group to the connected parties at the end of the Reporting Period mainly included unsettled receivables arising from the provision of services and pipeline leases to Sinopec Corp., its subsidiaries and associates;

Note 2: The balance of the funds provided by other connected parties to the Group at the end of the Reporting Period mainly included unsettled payables arising from the obtaining of services involving construction, installation and engineering design from Sinopec Group and its subsidiaries.

3. **The Independent Non-executive Directors of the Company have reviewed the Group's continuing connected transactions and confirmed that:**

- The continuing connected transactions have been entered into in the ordinary and usual course of business of the Group;

- The continuing connected transactions have been entered into either on normal commercial terms or on terms no less favorable to the Group than terms available to or from independent third parties, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms; and

- The terms of the relevant agreement governing each of the continuing connected transactions are fair and reasonable and in the interests of the shareholders of the Company as a whole.

4. **The independent auditor of the Company, PWC, was engaged to report their conclusions regarding the continuing connected transactions to the Board in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants:**

- Nothing has come to their attention that causes them to believe that the disclosed continuing connected transactions have not been approved by the Company's Board of Directors;

- For transactions involving the provision of goods or services by the Group, nothing has come to their attention that causes them to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Group;

- Nothing has come to their attention that causes them to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and

- With respect to the aggregate amount of each of the continuing connected transactions, nothing has come to their attention that causes them to believe that the disclosed continuing connected transactions have exceeded the maximum aggregate annual value disclosed in the previous announcement dated 11 December 2013 made by the Company in respect of each of the disclosed continuing connected transactions.

(12) Material contracts and the performing of obligations

1. Trust, sub-contract and lease arrangements

The Company had no trusts, sub-contracts or lease arrangements that produced 10% or more (including 10%) of the profit of the Company for the Reporting Period.

2. Guarantees

There were no guarantees provided by the Company during the year.

3. Entrusted wealth management carried out by other persons

a. Entrusted wealth management

Not applicable

b. *Entrusted loans*

Please refer to section "Entrusted loans" under "Investment by the Company".

c. *Other Investments and Derivatives Investment*

Not applicable

4. Other major contracts

There were no major contract of the Company during the year.

(13) The Company's Disclosure on the fulfillment of its Corporate Social Responsibility

1. Fulfillment of social responsibility

For the disclosure of the Company's social responsibility in 2015, please refer to the "Sinopec Shanghai Petrochemical Company Limited's Fulfillment of Corporate Social Responsibility 2015" published by the Company on the website of the Shanghai Stock Exchange and the Hong Kong Stock Exchange.

2. Description of the environmental protection situation of listed companies and their subsidiaries in heavily polluting industries, as required by the state environmental protection department regulations

The Company, as a manufacturing enterprise in the petrochemical industry, consistently places environmental protection as its first priority. It continues to receive ISO14001 Environmental Management System Certification. In January 2013, it received certifications verifying three standards in quality from the Shanghai Audit Center of Quality (GB/T 19001:2008), environment (GB/T 24001:2004) and occupational health and safety (GB/T28001:2011). On 29 November 2013, the continued use of the title "All-China Environmentally Friendly Enterprise" was approved.

In 2015, the Company set its goal to improve the environment in compliance with the environmental protection standards implemented by the Shanghai Municipality and the "Action Plan of the Municipal Government on Environment Improvement of Jinshan District". It intensively launched the "Clear Water, Blue Sky" environmental protection project to improve the environment and took initiatives to reduce emissions. It established the environmental protection standard of the "three simultaneous activities", namely to simultaneously with the main project design, construct and put into operation the facilities for the prevention and control of pollution and other damage to the environment for construction projects in order to keep on strengthening efforts on environmental protection.

The most crucial and fundamental way for a petrochemical enterprise to strengthen its environmental protection initiatives, is to control and reduce the emission of hazardous substances. In 2015, the Company introduced advanced treatment to discharged waste water and phase 2 of the recycle project to control the emission volume of COD, bringing down reducing the total volume of COD for the year by 0.69% as compared to the previous year. Meanwhile, the Company raised the desulphurization efficiency and denitrifying efficiency of boilers of the thermoelectric division to cut total emission volume of sulfur dioxide and nitrogen oxides by 4.08% and 9.63% over the previous year, respectively. In 2015, both the compliance rate of the targets on waste water and waste gas emission was 100%, and all hazardous wastes were disposed properly.

In 2015, the Company proactively facilitated the implementation of its “Clear Water, Blue Sky” environmental protection project. After thorough examination of the existing environmental protection hazards imposed in different areas and production devices, the Company rationalized and formulated 36 environmental protection projects and invested approximately RMB1 billion in aggregate. In 2015, the Company implemented the “Clear Water, Blue Sky” project in an orderly manner to ensure the effectiveness of its environmental protection, and 22 projects of these have been completed and commenced operation throughout the year.

Thoroughly commence clean production: implementing clean production is a vital measure to protect the environment from the source of pollution. The Company implements clean production, which does not only enhances energy efficiency, but also reduces the total emission of pollutants. Upon the assessment by experts as arranged by Shanghai Clean Production Center in 2015, the Company passed the evaluation and acceptance of clean production organized by the Shanghai Environmental Protection Bureau.

Fully implement LDAR works and realize continuous emission reduction of volatile organic compounds (VOC). In 2015, the Company implemented LDAR work on various aspects such as its management system and organizational structure, and conducted on-site inspections and repair for hundreds of thousands of sealed spots of its oil refining and petrochemical devices. Following extensive research and study, the Company came to understand its total amount of VOC emissions, established a comprehensive VOC list and framework, unleashed the potential of emission reduction in terms of VOC governance and determined its emission reduction goal.

Undergo environment assessment, trial production, project examination and acceptance as well as rectification of “three simultaneous activities” issues on environmental protection for construction projects, and accomplish compliance with environmental protection. In 2015, the Company commenced preliminary environment assessment works on projects such as 100,000 tons per year EVA, and 5 of which have received the approval and official reply for environment assessment.

The Company also formulated its comprehensive environmental rectification and governance action plan in 2015 and established its environment supervision team for fully rationalizing its environment rectification and governance projects, which passed the environmental assessment and received approval.

(14) Convertible bond

Not applicable

(15) Equity linked agreement

Other than the Share Option Incentive Scheme disclosed under "Major Events", there was no equity linked agreement signed by the Company or existing during the year.

(16) Tax rate

The charge for PRC income tax is currently calculated at the rate of 25% (2014: 25%).

(17) Deposits

The Company did not have any entrusted deposits during the Reporting Period. As at 31 December 2015, the Group did not have any due deposits which could not be collected upon maturity.

(18) Reserve

Details of changes in reserves are set out in note 24 to the financial statements prepared under IFRS.

(19) Financial summary

A summary of the results, total assets, liabilities and shareholders' equity of the Group as at 31 December 2015 are set out on page 6 of this annual report.

(20) Bank loans and other borrowings

Details of bank loans and other borrowings of the Company and the Group as at 31 December 2015 are set out in note 26 to the financial statements prepared under IFRS.

(21) Interest capitalized

Details of interest capitalized during the year are set out in note 9 to the financial statements prepared under IFRS.

(22) Property, plant and equipment

Changes in property, plant and equipment during the year are set out in note 15 to the financial statements prepared under IFRS.

(23) Purchase, sale and redemption of shares

There were no purchases, sales or redemptions made by the Group during the Reporting Period.

(24) 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.

(25) Donations

As at the end of the reporting period, the company and its subsidiaries did not make any donations.

(26) Other major events

There were no other major events during the Reporting Period.

IV. Results review and outlook

Please refer to the section "Management's Discussion and Analysis" for the business review of the Group for the year ended 31 December 2015 and the outlook for 2016.

羅兵咸永道

To the Shareholders of Sinopec Shanghai Petrochemical Company Limited
(incorporated 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 set out on pages 119 to 202, which comprise the consolidated balance sheet as at 31 December 2015, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows 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 consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion 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 auditor's judgment, 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 auditor considers internal control relevant to the entity's preparation of 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.

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羅兵咸永道

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Company and its subsidiaries as at 31 December 2015, and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 16 March 2016

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Consolidated Income Statement

For the year ended 31 December 2015

	Note	2015 RMB'000	2014 RMB'000
		Year ended 31 December	
Revenue	5	80,748,138	102,126,247
Sales taxes and surcharges		(13,710,933)	(9,401,283)
Net Sales		67,037,205	92,724,964
Cost of sales	10	(62,757,106)	(92,910,062)
Gross profit/(loss)		4,280,099	(185,098)
Selling and administrative expenses	10	(600,859)	(564,161)
Other operating income	6	234,924	261,585
Other operating expenses	7	(33,871)	(100,226)
Other gains-net	8	28,639	–
Operating profit/(loss)		3,908,932	(587,900)
Finance income	9	49,302	64,673
Finance expenses	9	(293,081)	(424,371)
Finance expenses – net		(243,779)	(359,698)
Share of profit of investments accounted for using the equity method	19	572,035	57,654
Profit/(loss) before income tax		4,237,188	(889,944)
Income tax (expense)/benefit	12	(926,777)	214,184
Profit/(loss) for the year		3,310,411	(675,760)
Profit/(loss) attributable to:			
– Owners of the Company		3,274,308	(692,222)
– Non-controlling interests		36,103	16,462
		3,310,411	(675,760)

For the year ended 31 December 2015

	Note	2015 RMB'000	2014 RMB'000
		Year ended 31 December	
Earnings/(loss)per share attributable to owners of the Company for the year (expressed in RMB per share)			
Basic earnings/(loss) per share	13	RMB0.303	RMB(0.064)
Diluted earnings/(loss) per share	13	RMB0.303	RMB(0.064)

The notes on pages 126 to 202 are an integral part of these consolidated financial statements.

Wang Zhiqing
Chairman and General Manager

Ye Guohua
Director and Chief Financial Officer

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2015

	Note	Year ended 31 December	
		2015	2014
		RMB'000	RMB'000
Profit/(loss) for the year		3,310,411	(675,760)
Other comprehensive income for the year, net of tax		–	–
Total comprehensive income/(loss) for the year		3,310,411	(675,760)
Attributable to:			
– Owners of the Company		3,274,308	(692,222)
– Non-controlling interests		36,103	16,462
Total comprehensive income/(loss) for the year		3,310,411	(675,760)

The notes on pages 126 to 202 are an integral part of these consolidated financial statements.

Wang Zhiqing
Chairman and General Manager

Ye Guohua
Director and Chief Financial Officer

Consolidated Balance Sheet

As At 31 December 2015

	Note	As at 31 December 2015 RMB'000	2014 RMB'000
Assets			
Non-current assets			
Lease prepayment and other assets	14	783,016	1,043,591
Property, plant and equipment	15	14,383,319	15,541,575
Investment properties	16	405,572	415,842
Construction in progress	17	722,520	542,878
Investments accounted for using the equity method	19	3,311,139	2,936,262
Deferred income tax assets	12	71,045	915,069
		19,676,611	21,395,217
Current assets			
Inventories	20	4,178,188	5,930,703
Trade receivables	21	488,560	630,883
Bills receivable	21	991,273	1,365,677
Other receivables and prepayments	21	245,401	268,869
Amounts due from related parties	21,29(c)	1,163,128	1,035,085
Cash and cash equivalents	22	1,077,430	279,198
		8,143,980	9,510,415
Total assets		27,820,591	30,905,632
Equity and liabilities			
Equity attributable to owners of the Company			
Share capital	23	10,800,000	10,800,000
Reserves	24	8,997,282	5,700,272
		19,797,282	16,500,272
Non-controlling interests		297,038	271,395
Total equity		20,094,320	16,771,667

As At 31 December 2015

	Note	As at 31 December 2015 RMB'000	2014 RMB'000
Liabilities			
Non-current liabilities			
Borrowings	26	–	1,632,680
Deferred income	27	–	16,436
		–	1,649,116
Current liabilities			
Borrowings	26	2,070,000	4,078,195
Advance from customers	28	561,721	591,059
Trade payables	28	1,562,232	2,920,459
Bills payable	28	–	11,714
Other payables	28	1,898,754	1,831,263
Amounts due to related parties	28,29(c)	1,573,967	3,042,197
Income tax payable		59,597	9,962
		7,726,271	12,484,849
Total liabilities		7,726,271	14,133,965
Total equity and liabilities		27,820,591	30,905,632

The notes on pages 126 to 202 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 119 to 125 were approved by the Board of Directors on 16 March 2016 and were signed on its behalf.

Wang Zhiqing
Chairman and General Manager

Ye Guohua
Director and Chief Financial Officer

Consolidated Statement of Changes in Equity

For the year ended 31 December 2015

	Note	Attributable to owners of the Company					
		Share capital	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2014		10,800,000	4,183,843	2,748,651	17,732,494	259,062	17,991,556
Total comprehensive (loss)/ income for the year		–	–	(692,222)	(692,222)	16,462	(675,760)
Dividends proposed and approved	30	–	–	(540,000)	(540,000)	–	(540,000)
Dividends paid by subsidiaries to non-controlling interests		–	–	–	–	(4,129)	(4,129)
Utilisation of safety production fund	24	–	(4,567)	4,567	–	–	–
Balance at 31 December 2014		10,800,000	4,179,276	1,520,996	16,500,272	271,395	16,771,667

	Note	Attributable to owners of the Company					
		Share capital	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2015		10,800,000	4,179,276	1,520,996	16,500,272	271,395	16,771,667
Total comprehensive income for the year		–	–	3,274,308	3,274,308	36,103	3,310,411
Employees share option scheme	25	–	22,702	–	22,702	–	22,702
Dividends paid by subsidiaries to non-controlling interests		–	–	–	–	(10,460)	(10,460)
Utilisation of safety production fund	24	–	(312)	312	–	–	–
Balance at 31 December 2015		10,800,000	4,201,666	4,795,616	19,797,282	297,038	20,094,320

The notes on pages 126 to 202 are an integral part of these consolidated financial statements.

Wang Zhiqing
Chairman and General Manager

Ye Guohua
Director and Chief Financial Officer

Consolidated Statement of Cash Flows

For the year ended 31 December 2015

	Note	Year ended 31 December 2015 RMB'000	2014 RMB'000
Cash flows from operating activities			
Cash generated from operations	31	5,176,515	4,050,016
Interest paid to related parties		(32,400)	(58,619)
Interest paid to third parties		(178,173)	(318,892)
Income tax paid		(33,118)	(10,097)
Net cash generated from operating activities		4,932,824	3,662,408
Cash flows from investing activities			
Cash received from entrusted lending		82,000	78,000
Dividends received from joint ventures and associates		216,530	98,824
Proceeds from disposal of property, plant and equipment		16,875	24,462
Proceeds from disposal of associates		–	14,822
Interest received from related parties		624	1,057
Interest received from third parties		46,263	63,540
Purchases of property, plant and equipment from related parties		(74,702)	(169,763)
Purchases of property, plant and equipment and other long-term assets from third parties		(620,575)	(919,505)
Investment in an associate		–	(11,541)
Cash payment of entrusted lending		(106,000)	(90,000)
Net cash used in investing activities		(438,985)	(910,104)
Cash flows from financing activities			
Proceeds from borrowings from related parties		5,720,000	7,070,000
Proceeds from borrowings from third parties		26,279,758	44,315,298
Repayments of borrowings to related parties		(6,420,000)	(6,070,000)
Repayments of borrowings to third parties		(29,264,713)	(47,374,473)
Dividends paid to the Company's shareholders		(287)	(543,157)
Dividends paid by subsidiaries to non-controlling interests		(10,460)	(4,129)
Net cash used in financing activities		(3,695,702)	(2,606,461)
Net increase in cash and cash equivalents		798,137	145,843
Cash and cash equivalents at beginning of the year	22	279,198	133,256
Exchange gain on cash and cash equivalents		95	99
Cash and cash equivalents at end of the year	22	1,077,430	279,198

The notes on pages 126 to 202 are an integral part of these consolidated financial statements.

Wang Zhiqing
Chairman and General Manager

Ye Guohua
Director and Chief Financial Officer

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

1 General information

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 Shanghai Petrochemical Complex ("SPC"), a state-owned enterprise. The Company was under the direct supervision of China Petrochemical Corporation ("Sinopec Group") at that time.

The Company completed its initial public offerings in 1993. Its shares were listed on the Stock Exchange of Hong Kong Limited ("H shares") and the New York Stock Exchange in the form of American Depositary Shares ("ADS") on 26 July 1993, and were also listed on the Shanghai Stock Exchange ("ordinary A shares") on 8 November 1993.

Sinopec Group completed its reorganisation on 25 February 2000. After the reorganisation, China Petroleum & Chemical Corporation ("Sinopec Corp.") was established. As part of the reorganisation, Sinopec Group 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.

The Company changed its name to Sinopec Shanghai Petrochemical Company Limited on 12 October 2000, and Sinopec Corp. was the largest shareholder of the Company.

Pursuant to the 'Approval on matters relating to the Share Segregation Reform of Sinopec Shanghai Petrochemical Company Limited' issued by the State-owned Assets Supervision and Administration Commission of the State Council (State Owned Property [2013] No.443), a General Meeting of A share shareholders was held on 8 July 2013 and passed the resolution of 'Share Segregation Reform of Sinopec Shanghai Petrochemical Company Limited (Amendment)' ("the Share Segregation Reform Resolution") which was published by the Company on Shanghai Stock Exchange ("SSE") website on 20 June 2013.

According to the Share Segregation Reform Resolution, the controlling shareholder of the Company, Sinopec Corp., offered shareholders of circulating A shares 5 shares for every 10 circulating A shares they held on 16 August 2013, aggregating 360,000,000 A shares, for the purpose of obtaining the listing rights of its non-circulating shares in the A Shares market. From 20 August 2013 ("the circulation date"), all the Company's non-circulating A shares have been granted circulating rights on Shanghai Stock Exchange ("SSE"). As part of the restricted conditions, Sinopec Corp. committed that all the 3,640,000,000 A shares held were not allowed to be traded on SSE or transferred within 12 months from the circulation date ("the restriction period"). After the restriction period, Sinopec Corp. can only sell no more than 5 and 10 percent of its total shares within 12 and 24 months, respectively. The former 150,000,000 non-circulating A shares held by social legal persons were also prohibited to be traded on SSE or transferred within 12 months from the circulation date. Meanwhile, Sinopec Corp. also committed in the Share Segregation Reform Resolution that a scheme of converting surplus to share capital (no less than 4 shares for every 10 shares) will be proposed on the board of directors and shareholders meetings within 6 months after the circulation date.

1 General information *(continued)*

The 15th meeting of the 7th term of Board of Directors was held on 28 August 2013 and the Company proposed and passed a resolution regarding interim cash dividend for the first half of 2013 and the conversion of share premium and surplus reserve to share capital. The resolution included a distribution of 5 shares and a cash dividend distribution of RMB0.5 (tax included) for every 10 shares based on the 7,200,000 thousands ordinary shares as at 30 June 2013. Among the 5 shares distributed, 3.36 shares were converted from share premium of RMB2,420,841 thousands and 1.64 shares were converted from surplus reserves of RMB1,179,159 thousands. The resolution were approved by the extraordinary general meeting of shareholders, A share class shareholders meeting and H share class shareholders meeting on 22 October 2013, respectively. As at 31 December 2014 and 2015, total shares of the Company were 10,800,000 thousands.

The Company and its subsidiaries ("the Group") are principally engaged in processing crude oil into synthetic fibres, resins and plastics, intermediate petrochemicals and petroleum products.

These consolidated financial statements are presented in thousands of Renminbi Yuan (RMB), unless otherwise stated. These financial statements have been approved for issue by the Board of Directors on 16 March 2016.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by International Accounting Standards Board (IASB). The consolidated financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

2.1.1 Changes in accounting policy and disclosures

(a) New and amended standards adopted by the Group

The following amendments to standards have been adopted by the Group for the first time for the financial year beginning on 1 January 2015. None of them have a material impact on the Group.

- Amendment from annual improvements to IFRSs – 2010 – 2012 Cycle, on IFRS 8, 'Operating segments', IAS 16, 'Property, plant and equipment' and IAS 38, 'Intangible assets' and IAS 24, 'Related party disclosures';

2 Summary of significant accounting policies *(continued)*

2.1 Basis of preparation *(continued)*

2.1.1 Changes in accounting policy and disclosures *(continued)*

(a) New and amended standards adopted by the Group (continued)

- Amendments from annual improvements to IFRSs – 2011 – 2013 Cycle, on IFRS 3, 'Business combinations', IFRS 13, 'Fair value measurement' and IAS 40, 'Investment property'.

(b) New Hong Kong Companies Ordinance (Cap.622)

In addition, the requirements of Part 9 "Accounts and Audit" of the new Hong Kong Companies Ordinance (Cap. 622) come into operation during the financial year, as a result, there are changes to presentation and disclosures of certain information in the consolidated financial statements.

(c) New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2015, and have not been applied in preparing these consolidated financial statements. Those applicable to the Group are listed below.

IFRS 9, 'Financial instruments', on classification, measurement and recognition of financial assets and financial liabilities. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. This standard is effective for accounting periods beginning on or after 1 January 2018. It is expected to have no significant impact on the consolidated financial statement of the Group.

IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. This standard is effective for annual periods beginning on or after 1 January 2018. The Group is assessing IFRS 15's full impact.

IFRS 16, 'Lease' provides updated guidance on the definition of leases, and the guidance on the combination and separation of contracts and requires lessees to recognise lease liability reflecting future lease payments and a 'right-of-use-asset' for almost all lease contracts, with an exemption for certain short-term leases and leases of low-value assets. This standard is effective for annual periods beginning on or after 1 January 2019. The Group is assessing the impact of IFRS 16.

2 Summary of significant accounting policies *(continued)*

2.2 Subsidiaries

2.2.1 Consolidation

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

(a) Business combinations

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by IFRS.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognized in profit or loss.

Any contingent consideration to be transferred by the Group is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with IAS 39 in profit or loss. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired, is recorded as goodwill. If the total consideration transferred, non-controlling interest recognized and previously held interest measured is less than the fair value of the identifiable net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly in the income statement.

2 Summary of significant accounting policies *(continued)*

2.2 Subsidiaries *(continued)*

2.2.1 Consolidation *(continued)*

(a) Business combinations (continued)

Intra-Group transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

(b) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners of the subsidiary in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(c) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognized in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss.

2.2.2 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2 Summary of significant accounting policies *(continued)*

2.3 Associates

An associate is an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognized at cost, and the carrying amount is increased or decreased to recognize the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investments in associates include goodwill identified on acquisition. Upon the acquisition of the ownership interest in an associate, any difference between the cost of the associate and the Group's share of the net fair value of the associate's identifiable assets and liabilities is accounted for as goodwill.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognized in other comprehensive income is reclassified to profit or loss where appropriate.

The Group's share of post-acquisition profit or loss is recognized in the income statement, and its share of post-acquisition movements in other comprehensive income is recognized in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount adjacent to 'share of profit of investments accounted for using equity method' in the income statement.

Profits and losses resulting from upstream and downstream transactions between the Group and its associates are recognized in the Group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealized losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Gain or losses on dilution of equity interest in associates are recognised in the income statement.

2.4 Joint arrangements

The Group has applied IFRS 11 to all joint arrangements. Under IFRS 11, investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

For the year ended 31 December 2015

2 Summary of significant accounting policies *(continued)*

2.4 Joint arrangements *(continued)*

Under the equity method of accounting, interests in joint ventures are initially recognized at cost and adjusted thereafter to recognize the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. The Group's investments in joint ventures include goodwill identified on acquisition. Upon the acquisition of the ownership interest in a joint venture, any difference between the cost of the joint venture and the Group's share of the net fair value of the joint venture's identifiable assets and liabilities is accounted for as goodwill. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint ventures (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint ventures), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

Unrealized gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

2.5 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the steering committee that makes strategic decisions.

2.6 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in RMB, which is the Company's functional and the Group's presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within 'finance income or expenses'. All other foreign exchange gains and losses are presented in the income statement within 'other gains – net'.

For the year ended 31 December 2015

2 Summary of significant accounting policies *(continued)*

2.7 Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Buildings	12-40 years
Plant and machinery	12-20 years
Vehicles and other equipment	4-20 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.11).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within 'Other gains-net' in the income statement.

2.8 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. 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.

2.9 Investment properties

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 (Note 2.11). 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 30-40 years.

2 Summary of significant accounting policies *(continued)*

2.10 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. Lease prepayments and other assets are amortised on a straight-line basis over the respective periods of the rights and the estimated useful lives of the catalysts.

2.11 Impairment of non-financial assets

Intangible assets that have an indefinite useful life or intangible assets not ready to use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.12 Financial assets

2.12.1 Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) *Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

(b) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise 'trade receivables, bills receivable and other receivables' and 'cash and cash equivalents' in the balance sheet (Note 2.17 and 2.18).

2 Summary of significant accounting policies *(continued)*

2.12 Financial assets *(continued)*

2.12.1 Classification *(continued)*

(c) *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

2.12.2 Recognition and measurement

Regular way purchases and sales of financial assets are recognized on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the income statement within 'Other gains-net' in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the income statement as part of other income when the Group's right to receive payments is established.

Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognised in other comprehensive income.

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognized in equity are included in the income statement as 'gains and losses from investment securities'.

Interest on available-for-sale securities calculated using the effective interest method is recognized in the income statement as part of other income. Dividends on available-for-sale equity instruments are recognized in the income statement as part of other income when the Group's right to receive payments is established.

2.13 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

2 Summary of significant accounting policies *(continued)*

2.14 Impairment of financial assets

(a) Assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the receivables or a group of receivables is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognized in the consolidated income statement. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss is recognized in the consolidated income statement.

(b) Financial assets classified as available for sale

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired.

For debt securities, if any such evidence exists, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the consolidated income statement.

2 Summary of significant accounting policies *(continued)*

2.14 Impairment of financial assets *(continued)*

(b) Financial assets classified as available for sale (continued)

For equity investments, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. Impairment losses recognised in the consolidated income statement on equity instruments are not reversed through the consolidated income statement.

2.15 Derivative financial instruments

Derivative financial instruments of the Group are foreign exchange forward contracts, which was not designated as hedges.

Derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value.

Fair values are obtained from quoted market prices in active markets, including recent market transactions, and through the use of valuation techniques, including discounted cash flow models and options pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e., the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets. When such evidence exists, the Group recognizes profits (losses) on that day.

2.16 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average cost method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.17 Trade receivables, bills receivable and other receivables

Trade receivables and bills receivable are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade receivables, bills receivable and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

2 Summary of significant accounting policies *(continued)*

2.17 Trade receivables, bills receivable and other receivables *(continued)*

Trade receivables, bills receivable and other receivables are recognized initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment.

2.18 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. In the Group's balance sheet, bank overdrafts are shown within borrowings in current liabilities.

2.19 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

2.20 Safety production fund

Under China's law and regulation, the Group is required to accrue safety production fund at a certain percentage of the sales of dangerous goods. The fund is earmarked for improving the safety of production. The fund is accrued from retained earnings to other reserves and converted back to retained earnings when used.

2.21 Trade payables and other payables

Trade payables and other payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables and other payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables and other payables are recognized initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.22 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method.

For the year ended 31 December 2015

2 Summary of significant accounting policies *(continued)*

2.22 Borrowings *(continued)*

Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2.23 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

2.24 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognized in the income statement, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

2 Summary of significant accounting policies *(continued)*

2.24 Current and deferred income tax *(continued)*

(b) *Deferred income tax*

Inside basis differences

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and joint arrangements, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally the Group is unable to control the reversal of the temporary difference for associates. Only when there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference in the foreseeable future, deferred tax liability in relation to taxable temporary differences arising from the associate's undistributed profits is not recognised.

Deferred income tax assets are recognized on deductible temporary differences arising from investments in subsidiaries, associates and joint arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

(c) *Offsetting*

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2 Summary of significant accounting policies *(continued)*

2.25 Employee benefits

(a) Pension obligations

The PRC employees of the Group are covered by various PRC government-sponsored defined-contribution pension plans under which the employees are entitled to a monthly pension based on certain formulas. The relevant government agencies are responsible for the pension liability to these employees when they retire. The Group contributes on a monthly basis to these pension plans for the employees which are determined at a certain percentage of their salaries. Under these plans, the Group has no obligation for post-retirement benefits beyond the contribution made. Contributions to these plans are expensed as incurred and contributions paid to the defined contribution pension plans for a staff are not available to reduce the Group's future obligations to such defined-contribution pension plans even if the staff leaves the Group.

(b) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits at the earlier of the following dates: when 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. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

2.26 Share-based payment

(a) Equity-settled share-based payment transactions

The Group operates a number of equity-settled, share-based compensation plans, under which the entity receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- may including any market performance conditions such as an entity's share price;
- excluding the impact of any service and non-market performance vesting conditions such as profitability, sales growth targets and remaining an employee of the entity over a specified time period; and
- including the impact of any non-vesting conditions such as the requirement for employees to save or holding shares for a specified period of time.

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-marketing performance and service conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

2 Summary of significant accounting policies *(continued)*

2.26 Share-based payment *(continued)*

(a) *Equity-settled share-based payment transactions (continued)*

In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (and share premium).

(b) *Share-based payment transactions among Group entities*

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity in the parent entity accounts.

2.27 Provisions

Provisions for environmental restoration, restructuring costs and legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

2.28 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts, returns and value added taxes. The Group recognizes revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group’s activities, as described below. The Group bases its estimates of return on historical results, taking into consideration the type of customers, the type of transactions and the specifics of each arrangement.

2 Summary of significant accounting policies *(continued)*

2.28 Revenue recognition *(continued)*

(a) *Sales of petroleum and chemical products*

Revenues associated with the sale of petroleum and chemical products are recognized in the income statement when the significant risks and rewards of ownership have been transferred to the buyer. Revenue excludes value added tax and is after deduction of any trade discounts and returns. No revenue is recognized 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.

(b) *Pipeline transportation services*

Revenues associated with pipeline transportation services are recognized 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.

(c) *Rental income*

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

2.29 Interest income

Interest income is recognized using the effective interest method. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans and receivables is recognized using the original effective interest rate.

2.30 Dividend income

Dividend income is recognized when the right to receive payment is established.

2.31 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.

2 Summary of significant accounting policies *(continued)*

2.31 Government grants *(continued)*

Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognized in the income statement over the useful life of the asset by way of reduced depreciation expense.

2.32 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

2.33 Dividend distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

2.34 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.

2.35 Related parties

(i) A person, or a close member of that person's family, is related to the Group if that person:

(1) has control or joint control over the Group;

(2) has significant influence over the Group; or

(3) is a member of the key management personnel of the Group or the Group's parent.

2 Summary of significant accounting policies *(continued)*

2.35 Related parties *(continued)*

(ii) An entity is related to the Group if any of the following conditions applies:

(1) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(2) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(3) Both entities are joint ventures of the same third party.

(4) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(5) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(6) The entity is controlled or jointly controlled by a person identified in (i).

(7) A person identified in (i)(1) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

3 Financial risk management

3.1 Financial risk factors

The Group's activities exposed it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and cash flow interest rate risk), credit risk, liquidity risk and commodity price risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

3 Financial risk management *(continued)*

3.1 Financial risk factors *(continued)*

(a) Market risk

(i) Foreign exchange risk

The Group's major operational activities are carried out in Mainland China and a majority of the transactions are denominated in RMB. Nevertheless the Group is exposed to foreign exchange risk arising from the recognised assets and liabilities (mainly trade payables and borrowings), and future transactions denominated in foreign currencies, primarily with respect to USD and EUR. The Group's finance department at its headquarter is responsible for monitoring the amount of assets and liabilities, and transactions denominated in foreign currencies to minimise the foreign exchange risk. The Group entered into forward foreign exchange contracts to mitigate foreign exchange risk arising from borrowings denominated in EUR (Note 8). As at 31 December 2015, the Group had no outstanding borrowings denominated in USD or EUR.

As at 31 December 2015, if the foreign currencies had weakened/strengthened by 5% against RMB with all other variables held constant, the Group's net profit for the year would have been 3,605 thousands increased/decreased as a result of foreign exchange gains/losses which is mainly resulted from the translation of USD denominated trade payables (2014: RMB107,395 thousands decreased/increased in net loss which was mainly resulted from the translation of USD denominated trade payables and EUR denominated borrowings).

(ii) Cash flow and fair value interest rate risk

The Group's interest rate risk arises from short-term and long-term interest bearing borrowings. Borrowings obtained at variable rates expose the Group to cash flow interest rate risk. Borrowings obtained at fixed rates expose the Group to fair value interest rate risk. The Group determines the relative proportions of its fixed rate and floating rate contracts depending on the prevailing market conditions. As at 31 December 2015, the Group's short-term interest bearing borrowings denominated with floating rates amounted to RMB2,000,000 thousands (31 December 2014: the Group's short-term and long-term interest bearing borrowings denominated with floating rates amounted to RMB4,640,875 thousands), which represented 97% of total borrowing balance.

The Group's finance department at its headquarter continuously monitors the interest rate position of the Group. Increases in interest rates will increase the cost of new borrowing and the interest expenses with respect to the Group's outstanding floating rate borrowings, and therefore could have a material adverse effect on the Group's financial position. The Group makes adjustments timely with reference to the latest market conditions and may enter into interest rate swap agreements to mitigate its exposure to interest rate risk. During the years ended 31 December 2015 and 2014, the Group did not enter into any interest rate swap agreements.

3 Financial risk management *(continued)*

3.1 Financial risk factors *(continued)*

(a) Market risk (continued)

(ii) Cash flow and fair value interest rate risk *(continued)*

As at 31 December 2015, if interest rates on the floating rate borrowings had risen/fallen by 50 basis points while all other variables had been held constant, the Group's net profit would have decreased/increased by approximately RMB7,500 thousands (31 December 2014: RMB17,403 thousands increased/decreased in net loss).

(b) Credit risk

Credit risk is managed on group basis. It mainly arises from cash at bank, trade receivables, other receivables, bills receivable, etc.

The Group expects that there is no significant credit risk associated with cash at bank since they are deposited at state-owned banks and other medium or large size listed banks. Management does not expect that there will be any significant losses from non-performance by these counterparties.

In addition, the Group has policies to limit the credit exposure on accounts receivable, other receivables and bills receivable. The Group assesses the credit quality of and sets credit limits on its customers by taking into account their financial position, the availability of guarantee from third parties, their credit history and other factors such as current market conditions. The credit history of the customers is regularly monitored by the Group. In respect of customers with a poor credit history, the Group will use written payment reminders, or shorten or cancel credit periods, to ensure the overall credit risk of the Group is limited to a controllable extent.

(c) Liquidity risk

Cash flow forecast is performed by the operating entities of the Group and aggregated by Group finance. Group finance monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities from major financial institution so that the Group does not breach borrowing limits or covenants on any of its borrowing facilities to meet the short-term and long-term liquidity requirements.

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 its ability to obtain adequate external financing to support its working capital and meet its debt obligation when they become due. As at 31 December 2015, the Group had standby credit facilities with several PRC financial institutions which provided the Group to borrow up to RMB28,179,120 thousands, within which the maturity dates of unused facility amounted to RMB8,300,000 thousands will be after 31 December 2016 as disclosed in Note 26. Management assessed that all the facilities could be renewed upon the expiration dates.

For the year ended 31 December 2015

3 Financial risk management *(continued)*

3.1 Financial risk factors *(continued)*

(c) Liquidity risk (continued)

Surplus cash held by the operating entities over and above balance required for working capital management are transferred to the Group treasury. As at 31 December 2015, the Group held cash and cash equivalents of RMB1,077,430 thousands (2014: RMB279,198 thousands) (Note 22) and trade receivables of RMB488,560 thousands (2014: RMB630,883 thousands) (Note 21) that can be readily realized to provide further source of cash when the need arises.

The table below analyses the Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
At 31 December 2015					
Borrowings	2,103,881	–	–	–	2,103,881
Trade payables	1,562,232	–	–	–	1,562,232
Other payables	549,934	–	–	–	549,934
Amounts due to related parties	1,555,802	–	–	–	1,555,802
	5,771,849	–	–	–	5,771,849

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
At 31 December 2014					
Borrowings	4,172,821	1,648,830	–	–	5,821,651
Bills payable	11,714	–	–	–	11,714
Trade payables	2,920,459	–	–	–	2,920,459
Other payables	519,887	–	–	–	519,887
Amounts due to related parties	3,020,683	–	–	–	3,020,683
	10,645,564	1,648,830	–	–	12,294,394

3 Financial risk management *(continued)*

3.1 Financial risk factors *(continued)*

(d) Commodity price risk

The Group principally engages in processing crude oil into synthetic fibres, resins and plastics, intermediate petrochemicals and petroleum products. The selling price of petroleum products is periodically adjusted by government department based on the market price adjustment mechanism, and generally in connection with the crude oil price. The selling prices of synthetic fibres, resins and plastics and intermediate petrochemicals are market prices. The Group didn't have any derivative financial instrument such as commodity futures and swaps, therefore the fluctuation of crude oil price could have significant impact on the Group.

3.2 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the consolidated balance sheet) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the consolidated balance sheet plus net debt.

The gearing ratios at 31 December 2015 and 31 December 2014 were as follows:

	As at 31 December	
	2015 RMB'000	2014 RMB'000
Total borrowings (Note 26)	2,070,000	5,710,875
Less: cash and cash equivalents (Note 22)	(1,077,430)	(279,198)
Net debt	992,570	5,431,677
Total Equity	20,094,320	16,771,667
Total Capital	21,086,890	22,203,344
Gearing ratio	4.71%	24.46%

The decrease in the gearing ratio during the year ended 31 December 2015 resulted primarily from the significantly improved profitability and the early repayment of some bank loans before its maturity.

3 Financial risk management *(continued)*

3.3 Fair value estimation

The Company analyses the financial instruments carried at fair value as at 31 December 2015 by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level3).

Financial assets and financial liabilities not measured at fair value mainly represent cash and cash equivalents, bills receivable, trade receivables and other receivables (except for the prepayments), trade and other payables (except for the advance from customers, staff salaries and welfare payables and other taxes payables) and borrowings. As at 31 December 2015, the carrying amounts of these financial assets and liabilities not measured at fair value are a reasonable approximation of their fair value.

As at 31 December 2015, the Group had no unsettled forward contract (Note 8).

3.4 Offsetting financial assets and financial liabilities

(a) *Financial assets*

	As at 31 December	
	2015	2014
	RMB'000	RMB'000
Gross amount of recognised amounts due from related parties	1,227,020	1,082,558
Gross amount of recognised amounts due to related parties set off in the balance sheet	(63,892)	(47,473)
Net amount of amounts due from related parties presented in the balance sheet	1,163,128	1,035,085

3 Financial risk management *(continued)*

3.4 Offsetting financial assets and financial liabilities *(continued)*

(b) *Financial liabilities*

	As at 31 December	
	2015 RMB'000	2014 RMB'000
Gross amount of recognised amounts due to related parties	1,637,859	3,089,670
Gross amount of recognised amounts due from related parties set off in the balance sheet	(63,892)	(47,473)
Net amount of amounts due to related parties presented in the balance sheet	1,573,967	3,042,197

According to the offsetting master arrangement entered into in October 2014 between the Company and its related party, Shanghai Secco Petrochemical Company Limited, the relevant financial assets and liabilities of each operating agreement between the Group and Shanghai Secco Petrochemical Company Limited, are settled on a net basis each month.

4 Critical accounting estimates and assumptions

Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4.1 Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) *Impairments for long-lived assets*

Assets, that have an indefinite useful life, must be tested annually for impairment. Long term assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. In determining the value in use, expected cash flows generated by the asset or the cash-generating unit are discounted to their present value. Management 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.

4 Critical accounting estimates and assumptions *(continued)*

4.1 Critical accounting estimates and assumptions *(continued)*

(b) Useful life and residual value of property, plant and equipment

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. Management 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, taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

(c) Allowance for diminution in value of inventories

If the costs of inventories exceed their net realisable values, an allowance for diminution in value of inventories is recognized. 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 the estimate.

(d) Recognition of deferred tax assets

There are many transactions and events for which the ultimate tax determination is uncertain during the ordinary course of business. Significant judgment is required from the Group in determining the provision for income taxes in each of these jurisdictions. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

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 recognized. 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.

4 Critical accounting estimates and assumptions *(continued)*

4.1 Critical accounting estimates and assumptions *(continued)*

(d) Recognition of deferred tax assets (continued)

In making the assessment of whether it is probable the Group will realize 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 utilize the deferred tax assets recognized at 31 December 2015, the Group would need to generate future taxable income of at least RMB284 million. Based on estimated forecast and historical experience, management believes that it is probable that the Group will generate sufficient taxable income to utilize the deferred tax assets.

5 Segment information

The Group manages its business by divisions, which are organized 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 five reportable segments. No operating segments have been aggregated to form the following reportable segments.

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 investments accounted for using the equity method, deferred income tax assets, cash and cash equivalents and incomes relating to these assets (such as share of profit of investments accounted for using equity method and interest income), borrowings and interest expenses, and corporate assets and expenses.

The Group principally operates in five operating segments: synthetic fibres, resins and plastics, intermediate petrochemicals, petroleum products and trading of petrochemical products. Synthetic fibres, resins and plastics, intermediate petrochemicals and petroleum 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, which are mainly used in the textile and apparel industries.

(ii) The resins and plastics segment produces primarily polyester chips, polyethylene resins and films, polypropylene resins and PVA granules. The polyester chips are used to produce polyester fibres, coating and containers. Polyethylene resins and plastics are used to produce insulated cable, mulching films and moulded products such as housewares and toys. Polypropylene resins are used for films, sheets and moulded products such as housewares, toys, consumer electronics and automobile parts.

(iii) The intermediate petrochemicals segment primarily produces p-xylene, benzene and ethylene oxide. The intermediate petrochemicals produced by the Group are both served as raw materials in the production of other petrochemicals, resins, plastics and synthetic fibres, and sold to external customers.

For the year ended 31 December 2015

5 Segment information *(continued)*

(iv) The petroleum products segment is equipped with crude oil distillation facilities used to produce vacuum and atmospheric gas oils used as feedstock of the Group's downstream processing facilities. Residual oil and low octane gasoline fuels are co-products of the crude oil distillation process. Part of the residual oil is further processed into qualified refined gasoline and diesel oil. In addition, the Group produces a variety of fuels for transportation, industry and household heating usage, such as diesel oil, jet fuel, heavy oil and liquefied petroleum gas.

(v) The trading of petrochemical products segment is primarily engaged in importing and exporting of petrochemical products. The products are sourced from international and domestic suppliers.

(vi) Other operating segments represent the operating segments which do not meet the quantitative threshold for determining reportable segments. These include investment property leasing, service provision and a variety of other commercial activities, which are not included in the above five operating segments.

	2015			2014		
	Total segment revenue RMB'000	Inter-segment revenue RMB'000	Revenue from external customers RMB'000	Total segment revenue RMB'000	Inter-segment revenue RMB'000	Revenue from external customers RMB'000
Synthetic fibres	2,397,015	–	2,397,015	2,935,540	–	2,935,540
Resins and plastics	10,348,002	106,042	10,241,960	12,895,531	241,131	12,654,400
Intermediate petrochemicals	23,305,685	13,697,886	9,607,799	27,988,970	15,408,977	12,579,993
Petroleum products	47,473,490	3,579,131	43,894,359	63,510,346	5,266,442	58,243,904
Trading of petrochemical products	16,940,621	3,220,905	13,719,716	17,612,914	2,820,482	14,792,432
Others	1,429,317	542,028	887,289	1,974,929	1,054,951	919,978
	101,894,130	21,145,992	80,748,138	126,918,230	24,791,983	102,126,247

5 Segment information *(continued)*

	2015 RMB'000	2014 RMB'000
Profit/(loss) from operations		
Petroleum products	1,862,304	(29,289)
Resins and plastics	1,218,598	(331,540)
Intermediate petrochemicals	956,820	131,830
Trading of petrochemical products	15,165	66,106
Synthetic fibres	(356,399)	(581,923)
Others	212,444	156,916
Profit/(loss) from operations	3,908,932	(587,900)
Net finance costs	(243,779)	(359,698)
Share of profit of investments accounted for using the equity method	572,035	57,654
Profit/(loss) before taxation	4,237,188	(889,944)

Other profit and loss disclosures

	2015		2014	
	Depreciation and amortisation RMB'000	Impairment loss and inventory write-down RMB'000	Depreciation and amortisation RMB'000	Impairment loss and inventory write-down RMB'000
Synthetic fibres	(159,472)	(4,768)	(185,209)	(28,942)
Resins and plastics	(122,558)	(339)	(233,014)	(114)
Intermediate petrochemicals	(552,833)	(50,430)	(621,545)	(25,018)
Petroleum products	(979,911)	(3,168)	(1,009,980)	(138,624)
Trading of petrochemical products	(175)	(13,150)	(227)	(3,630)
Others	(230,012)	(23,770)	(223,500)	(27,711)
	(2,044,961)	(95,625)	(2,273,475)	(224,039)

5 Segment information *(continued)*

	As at 31 December	
	2015	2014
	Total assets	Total assets
	RMB'000	RMB'000
Allocated assets		
Synthetic fibres	1,624,351	1,762,111
Resins and plastics	1,578,493	1,714,407
Intermediate petrochemicals	4,557,760	5,339,892
Petroleum products	12,164,426	13,856,761
Trading of petrochemical products	924,622	1,312,503
Others	2,299,088	2,156,341
Allocated assets	23,148,740	26,142,015
Unallocated assets		
Investments accounted for using the equity method	3,311,139	2,936,262
Cash and cash equivalents	1,077,430	279,198
Deferred income tax assets	71,045	915,069
Others	212,237	633,088
Unallocated assets	4,671,851	4,763,617
Total assets	27,820,591	30,905,632

5 Segment information *(continued)*

	As at 31 December	
	2015 Total liabilities RMB'000	2014 Total liabilities RMB'000
Allocated liabilities		
Synthetic fibres	272,717	340,837
Resins and plastics	646,347	947,649
Intermediate petrochemicals	675,470	1,028,939
Petroleum products	3,059,334	4,812,737
Trading of petrochemical products	948,775	1,172,575
Others	53,628	120,353
Allocated liabilities	5,656,271	8,423,090
Unallocated liabilities		
Borrowings – current part	2,070,000	4,078,195
Borrowings – non-current part	–	1,632,680
Unallocated liabilities	2,070,000	5,710,875
Total liabilities	7,726,271	14,133,965

	2015 RMB'000	2014 RMB'000
Additions to property, plant and equipment, construction in progress, lease prepayment and other assets		
Synthetic fibres	38,629	39,408
Resins and plastics	94,935	58,955
Intermediate petrochemicals	180,806	668,075
Petroleum products	546,996	573,834
Others	96,886	172,011
	958,252	1,512,283

For the year ended 31 December 2015

6 Other operating income

	2015 RMB'000	2014 RMB'000
Government grants	150,116	172,829
Rental income from investment property	48,553	48,555
Income from pipeline transportation services	6,731	8,059
Others	29,524	32,142
	234,924	261,585

7 Other operating expenses

	2015 RMB'000	2014 RMB'000
Cost related to lease of investment property	(13,453)	(13,306)
Others	(20,418)	(86,920)
	(33,871)	(100,226)

8 Other gains – net

	2015 RMB'000	2014 RMB'000
Forward foreign exchange contracts (Note a)	37,154	–
Others	(8,515)	–
	28,639	–

Note(a): During the year ended 31 December 2015, the Group entered into forward foreign exchange contracts to mitigate foreign exchange risk from borrowings denominated in EUR. For the year ended 31 December 2015, gain from realised forward foreign exchange contracts amounted to RMB37,154 thousands (year ended 31 December 2014: Nil), which was recognised in other gains of the consolidated income statement. As at 31 December 2015, the Group had no unsettled forward foreign exchange contract (31 December 2014: Nil).

9 Finance income and expenses

	2015 RMB'000	2014 RMB'000
Interest income	49,302	64,673
Finance income	49,302	64,673
Interest on bank and other borrowings	(215,460)	(375,808)
Less: amounts capitalized on qualifying assets	3,518	1,208
Net interest expense	(211,942)	(374,600)
Net foreign exchange loss	(81,139)	(49,771)
Finance expenses	(293,081)	(424,371)
Finance expenses – net	(243,779)	(359,698)

10 Expense by nature

	2015 RMB'000	2014 RMB'000
Cost of raw material and trading products	55,056,458	86,087,588
Employee benefit expenses (Note 11)	2,595,646	2,627,357
Depreciation and amortisation (Note 14, 15, 16)	2,044,961	2,273,475
Repairs and maintenance expenses	978,845	1,088,314
Change of goods in process and finished goods	855,692	(546,246)
Transportation costs	337,454	354,735
Sales commissions (Note 29)	112,245	113,162
Impairment loss (Note 15,17, 21)	50,757	10,439
Inventory write-down (Note 20)	44,868	213,600
Auditors' remuneration – audit services	7,800	7,800
Other expenses	1,273,239	1,243,999
Total cost of sales, selling and administrative expenses	63,357,965	93,474,223

For the year ended 31 December 2015

11 Employee benefit expenses

	2015 RMB'000	2014 RMB'000
Wages and salaries	1,719,419	1,731,459
Social welfare costs	694,415	696,925
Share options granted to directors and employees (Note 25)	22,702	–
Others	159,110	198,973
Total employee benefit expense	2,595,646	2,627,357

(i) Five highest paid individuals

During the year ended 31 December 2015 and 2014, all 5 individuals with the highest emoluments are directors and supervisors whose emoluments are disclosed in Note 36(i).

12 Income tax

	2015 RMB'000	2014 RMB'000
– Current income tax	82,753	16,286
– Deferred taxation	844,024	(230,470)
	926,777	(214,184)

12 Income tax *(continued)*

A reconciliation of the expected income tax calculated at the applicable tax rate and total profit/(loss) with the actual income tax is as follows:

	2015 RMB'000	2014 RMB'000
Profit/(loss) before taxation	4,237,188	(889,944)
Expected PRC income tax at the statutory tax rate of 25%	1,059,297	(222,486)
Tax effect of share of profit of investments accounted for using the equity method	(140,509)	(11,913)
Tax effect of other non-taxable income	(19,178)	(18,106)
Tax effect of non-deductible loss, expenses and costs	5,486	5,408
True up for final settlement of enterprise income taxes in respect of previous year	1,752	11
Profit on disposal of associates and joint ventures	–	3,496
Utilisation of previously unrecognized tax losses	–	(536)
Temporary differences for which no deferred income tax asset was recognized in current year	15	12,261
Utilisation of previously unrecognised temporary differences	(12,359)	–
Tax losses for which no deferred income tax asset was recognized	32,273	17,681
Actual income tax	926,777	(214,184)

The provision for PRC income tax is calculated at the rate of 25% (2014: 25%) on the estimated taxable income of the year ended 31 December 2015 determined in accordance with relevant income tax rules and regulations. The Group did not carry out business overseas and therefore does not incur overseas income taxes.

(i) The analysis of deferred tax assets and deferred tax liabilities is as follows:

	2015 RMB'000	2014 RMB'000
Deferred tax assets:		
– Deferred tax asset to be recovered after more than 12 months	47,884	476,679
– Deferred tax asset to be recovered within 12 months	31,862	449,980
	79,746	926,659
Deferred tax liabilities:		
– Deferred tax liabilities to be recovered after more than 12 months	(5,812)	(8,701)
– Deferred tax liabilities to be recovered within 12 months	(2,889)	(2,889)
	(8,701)	(11,590)
Deferred tax assets net	71,045	915,069

12 Income tax *(continued)*

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

	Balance at 1 January 2015 RMB'000	Recognized in income statement RMB'000	Balance at 31 December 2015 RMB'000
Impairment for bad and doubtful debts, provision for inventories and payroll payables	59,580	(39,788)	19,792
Deferred income	4,109	(4,109)	–
Provision for impairment losses in fixed assets, construction in progress and difference in depreciation	53,718	(7,131)	46,587
Capitalisation of borrowing costs	(11,590)	2,889	(8,701)
Tax losses carried forward	803,559	(800,684)	2,875
Share option	–	5,675	5,675
Others	5,693	(876)	4,817
Deferred tax assets	915,069	(844,024)	71,045

	Balance at 1 January 2014 RMB'000	Recognized in income statement RMB'000	Balance at 31 December 2014 RMB'000
Impairment for bad and doubtful debts, provision for inventories and payroll payables	22,734	36,846	59,580
Deferred income	–	4,109	4,109
Provision for impairment losses in fixed assets, construction in progress and difference in depreciation	74,272	(20,554)	53,718
Capitalisation of borrowing costs	(14,479)	2,889	(11,590)
Tax losses carried forward	595,504	208,055	803,559
Others	6,568	(875)	5,693
Deferred tax assets	684,599	230,470	915,069

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

12 Income tax *(continued)*

(iii) Deferred tax assets not recognized

As at 31 December 2015 and 31 December 2014, 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 RMB432,579 thousands and provision for inventories amounting to RMB46,190 thousands. As at 31 December 2015, certain subsidiaries of the Company did not recognize the deferred tax assets in respect of unused tax losses carried forward for PRC income tax purpose amounting to RMB411,284 thousands (2014: RMB353,952 thousands) because it was not probable that the related tax benefit would be realized.

Tax losses carried forward that are not recognised as deferred tax assets will expire in the following years:

	2015 RMB'000	2014 RMB'000
2015	–	71,759
2016	79,526	79,526
2017	68,211	68,211
2018	63,733	63,733
2019	70,723	70,723
2020	129,091	–
	411,284	353,952

13 Earnings/(loss) per share

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year excluding ordinary shares purchased by the Company and held as treasury shares.

	2015 RMB'000	2014 RMB'000
Net profit/(loss) attributable to owners of the Company	3,274,308	(692,222)
Weighted average number of ordinary shares in issue (thousands of shares)	10,800,000	10,800,000
Basic earnings/(loss) per share (RMB per share)	RMB0.303	RMB(0.064)

13 Earnings/(loss) per share *(continued)*

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

The Company has dilutive potential ordinary shares from share options. A calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average market share price of the Company's A shares for year ended 31 December 2015) based on the monetary value of the outstanding share options. The number of ordinary shares in issue is compared with the number of shares that would have been issued assuming the exercise of the share options. The calculation of the diluted earnings/(loss) per share for year ended 31 December 2015 and year ended 31 December 2014 was shown as:

	2015 RMB'000	2014 RMB'000
Earnings		
Profit/(loss) attributable to owners of the Company	3,274,308	(692,222)
Weighted average number of ordinary shares in issue (thousands of shares)	10,800,000	10,800,000
Adjustments for share options granted (thousands of shares)	9,041	–
Weighted average number of ordinary shares for diluted earnings per share (thousands of shares)	10,809,041	10,800,000
Diluted earnings/(loss) per share (RMB per share)	RMB0.303	RMB(0.064)

14 Lease prepayment and other assets

	Land use rights RMB'000	Other Intangible assets RMB'000	Long-term prepaid expense RMB'000	Total RMB'000
At 1 January 2014				
Cost	708,752	81,085	458,463	1,248,300
Accumulated amortisation	(285,397)	(45,908)	—	(331,305)
Net book amount	423,355	35,177	458,463	916,995
Year ended 31 December 2014				
Opening net book amount	423,355	35,177	458,463	916,995
Additions	220	–	558,978	559,198
Charge for the year	(14,690)	(2,922)	(329,532)	(347,144)
Reclassified to other receivables and prepayments	–	–	(85,458)	(85,458)
Closing net book amount	408,885	32,255	602,451	1,043,591
At 31 December 2014				
Cost	708,972	81,085	602,451	1,392,508
Accumulated amortisation	(300,087)	(48,830)	—	(348,917)
Net book amount	408,885	32,255	602,451	1,043,591
Year ended 31 December 2015				
Opening net book amount	408,885	32,255	602,451	1,043,591
Additions	–	–	148,553	148,553
Charge for the year	(14,690)	(2,922)	(305,035)	(322,647)
Reclassified to other receivables and prepayments	–	–	(86,481)	(86,481)
Closing net book amount	394,195	29,333	359,488	783,016
At 31 December 2015				
Cost	708,972	81,085	359,488	1,149,545
Accumulated amortisation	(314,777)	(51,752)	—	(366,529)
Net book amount	394,195	29,333	359,488	783,016

Long-term prepaid expenses are mainly catalyst. As at 31 December 2015, the current portion of catalyst amounted to RMB86,481 thousands (2014: RMB85,458 thousands) was reclassified to other receivables and prepayments, while the net book value of non-current portion was RMB345,414 thousands (31 December 2014: RMB586,171 thousands).

In 2015, the amortisation of RMB322,647 thousands (2014: RMB347,144 thousands) has been charged in cost of sales.

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15 Property, plant and equipment

	Buildings RMB'000	Plant and machinery RMB'000	Vehicles and other equipment RMB'000	Total RMB'000
At 1 January 2014				
Cost	3,727,436	40,086,904	1,936,874	45,751,214
Accumulated depreciation	(2,028,578)	(24,571,769)	(1,500,465)	(28,100,812)
Impairment loss	(279,099)	(647,656)	(54,168)	(980,923)
Net book amount	1,419,759	14,867,479	382,241	16,669,479
Year ended 31 December 2014				
Opening net book amount	1,419,759	14,867,479	382,241	16,669,479
Additions	700	103,500	16,349	120,549
Disposals	(12,300)	(44,380)	(1,748)	(58,428)
Reclassification	19,268	(28,027)	8,759	–
Transferred from construction in progress (Note 17)	36,240	668,152	31,914	736,306
Charge for the year	(94,586)	(1,764,643)	(67,102)	(1,926,331)
Closing net book amount	1,369,081	13,802,081	370,413	15,541,575
At 31 December 2014				
Cost	3,757,546	40,353,304	1,931,721	46,042,571
Accumulated depreciation	(2,109,366)	(25,957,875)	(1,507,236)	(29,574,477)
Impairment loss	(279,099)	(593,348)	(54,072)	(926,519)
Net book amount	1,369,081	13,802,081	370,413	15,541,575
Year ended 31 December 2015				
Opening net book amount	1,369,081	13,802,081	370,413	15,541,575
Additions	–	127,381	23,295	150,676
Disposals	(452)	(23,337)	(2,479)	(26,268)
Reclassification	48,244	(51,253)	3,009	–
Transferred from construction in progress (Note 17)	11,283	444,904	23,194	479,381
Transferred to investment property (Note 16)	(3,277)	–	–	(3,277)
Charge for the year	(106,439)	(1,539,391)	(62,937)	(1,708,767)
Impairment loss	–	(50,001)	–	(50,001)
Closing net book amount	1,318,440	12,710,384	354,495	14,383,319
At 31 December 2015				
Cost	3,813,839	40,630,644	1,903,931	46,348,414
Accumulated depreciation	(2,216,300)	(27,279,363)	(1,495,393)	(30,991,056)
Impairment loss	(279,099)	(640,897)	(54,043)	(974,039)
Net book amount	1,318,440	12,710,384	354,495	14,383,319

15 Property, plant and equipment *(continued)*

In the year ended 31 December 2015, the amount of depreciation expense charged to cost of sales and selling and administrative expense were RMB1,706,595 thousands and RMB2,172 thousands, respectively (2014: were RMB1,926,256 thousands and RMB75 thousands, respectively).

In the year ended 31 December 2015, as a result of increasing market competition and low profit margin of the relevant products, the management of the Company temporarily shut down the manufacturing of acrylonitrile plant. Therefore, the Company made an impairment provision of RMB50,001 thousands to reduce the related equipment's carrying amounts to it's estimated net realizable values (2014: Nil).

16 Investment property

	RMB'000
At 1 January 2014	
Cost	552,534
Accumulated depreciation	(123,242)
Net book amount	429,292
Year ended 31 December 2014	
Opening net book amount	429,292
Charge for the year	(13,450)
Closing net book amount	415,842
At 1 January 2015	
Cost	552,534
Accumulated depreciation	(136,692)
Net book amount	415,842
Year ended 31 December 2015	
Opening net book amount	415,842
Transferred from property, plant and equipment (Note 15)	3,277
Charge for the year	(13,547)
Closing net book amount	405,572
At 31 December 2015	
Cost	556,884
Accumulated depreciation	(151,312)
Net book amount	405,572

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16 Investment property *(continued)*

As at 31 December 2015, the Group had no unprovided contractual obligations for future repairs and maintenance (31 December 2014: Nil).

Investment property represents certain floors of an office building leased to other entities including related parties.

The fair value of the investment property of the Group as at 31 December 2015 were estimated by the directors to be approximately RMB1,262,135 thousands by reference to market values of similar properties in the nearby area (31 December 2014: RMB1,198,556 thousands). This fair value estimation was at level 2 of fair value hierarchy by using market observable inputs. The investment property has not been valued by an external independent appraiser.

Rental income of RMB48,553 thousands was received by the Group during the year ended 31 December 2015 (2014: RMB48,555 thousands).

17 Construction in progress

	2015 RMB'000	2014 RMB'000
At 1 January	542,878	456,823
Additions	659,023	832,536
Transferred to property plant and Equipment (Note 15)	(479,381)	(736,306)
Impairment loss (Note a)	–	(10,175)
At 31 December	722,520	542,878

Note a: During the year ended 31 December 2014, the Group ceased the construction of 50,000 tons per year ethanolamine project and fully provided impairment for this project at its carrying amounts of RMB10,175 thousands.

During the year ended 31 December 2015, the Group capitalised borrowing costs amounting to RMB3,518 thousands (2014: RMB1,208 thousands) on qualifying assets. Borrowing costs were capitalised at the weighted average rate of its general borrowings of 3.47% (2014:3.89%).

18 Subsidiaries

The following list contains the particulars of major subsidiaries of the Group, all of which are limited companies established and operated in the PRC as at 31 December 2015.

Company	Registered capital '000	Percentage of equity directly held by the Company %	Percentage of equity held by the Group %	Percentage of equity held by non-controlling interests %	Principal activities
Shanghai Petrochemical Investment Development Company Limited	RMB1,000,000	100.00	100.00	–	Investment management
China Jinshan Associated Trading Corporation	RMB25,000	67.33	67.33	32.67	Import and export of petrochemical products and equipment
Shanghai Jinchang Engineering Plastics Company Limited	USD9,154	–	74.25	25.75	Production of Polypropylene compound products
Shanghai Golden Phillips Petrochemical Company Limited	USD50,000	–	60.00	40.00	Production of polyethylene products
Zhejiang Jin Yong Acrylic Fibre Company Limited	RMB250,000	75.00	75.00	25.00	Production of acrylic fibre products
Shanghai Golden Conti Petrochemical Company Limited	RMB545,776	–	100.00	–	Production of petrochemical products
Shanghai Jinshan Trading Corporation	RMB20,000	–	67.33	32.67	Import and export of petrochemical products

The total comprehensive income attributable to non-controlling interests for the year ended 31 December 2015 is RMB36,103 thousands (2014:16,462 thousands).

19 Investments accounted for using the equity method

The amounts recognised in the balance sheet are as follows:

	2015 RMB'000	2014 RMB'000
Associates		
– Share of net assets	3,074,156	2,720,134
Joint ventures		
– Share of net assets	236,983	216,128
	3,311,139	2,936,262

19 Investments accounted for using the equity method *(continued)*

The amounts recognised in the share of profit of investments accounted for using the equity method are as follows:

	2015 RMB'000	2014 RMB'000
Associates	550,530	53,429
Joint ventures	21,505	4,225
	572,035	57,654

Investment in associates

	2015 RMB'000	2014 RMB'000
At 1 January	2,720,134	2,727,570
Capital contribution	–	11,541
Share of profit	550,530	53,429
Cash dividends distribution	(196,508)	(64,075)
Disposals	–	(8,331)
At 31 December	3,074,156	2,720,134

Set out below are the major associates of the Group as at 31 December 2015. The associates as listed below have share capital consisting solely of ordinary shares, which are held directly by the Group; the country of incorporation or registration is also their principal place of business.

For the year ended 31 December 2015

19 Investments accounted for using the equity method *(continued)*

Investment in associates *(continued)*

Nature of investment in major associates as at 31 December 2015 and 2014

Name of entity	Place of business/ country of incorporation	% of ownership interest	Nature of the relationship	Measure-ment method
Shanghai Secco Petrochemical Company Limited ("Shanghai Secco")	PRC	20	Manufacturing and distribution of chemical products	Equity
Shanghai Chemical Industry Park Development Company Limited ("Chemical Industry")	PRC	38.26	Planning, development and operation of the Chemical Industry Park in Shanghai, PRC	Equity
Shanghai Jinsen Hydrocarbon Resins Company Limited ("Jinsen")	PRC	40	Production of resins products	Equity
Shanghai Azbil Automation Company Limited ("Azbil")	PRC	40	Service and maintenance of building automation systems and products	Equity

Shanghai Secco, Chemical Industry, Jinsen and Azbil are private companies and there are no quoted market prices available for their shares.

There are no contingent liabilities relating to the Group's interest in the associates.

For the year ended 31 December 2015

19 Investments accounted for using the equity method *(continued)*

Investment in associates *(continued)*

Summarised financial information for major associates

Set out below are the summarised financial information for the above associates.

Summarised balance sheet for material associates

As at 31 December 2015	Shanghai Secco RMB'000	Chemical Industry RMB'000	Jinsen RMB'000	Azbil RMB'000
Current				
– Current Assets	4,879,596	2,486,929	128,354	150,672
– Current Liabilities	(3,532,247)	(404,115)	(7,882)	(41,801)
Non-current				
– Non-current Assets	8,033,469	2,693,119	86,514	3,444
– Non-current liabilities	(487,020)	(980,583)	–	–
Net Assets	8,893,798	3,795,350	206,986	112,315

As at 31 December 2014	Shanghai Secco RMB'000	Chemical Industry RMB'000	Jinsen RMB'000	Azbil RMB'000
Current				
– Current Assets	4,367,559	2,465,826	124,136	173,827
– Current Liabilities	(2,545,646)	(639,628)	(12,050)	(56,557)
Non-current				
– Non-current Assets	9,472,760	2,818,709	94,060	4,538
– Non-current liabilities	(3,806,143)	(1,043,192)	–	–
Net Assets	7,488,530	3,601,715	206,146	121,808

19 Investments accounted for using the equity method *(continued)*

Investment in associates *(continued)*

Summarised statement of comprehensive income for material associates

2015	Shanghai Secco RMB'000	Chemical Industry RMB'000	Jinsen RMB'000	Azbil RMB'000
Revenue	23,848,576	1,032	245,060	186,657
Post-tax profit from continuing operations	2,185,268	235,635	8,155	20,507
Other comprehensive income	–	–	–	–
Total comprehensive income	2,185,268	235,635	8,155	20,507
Dividends declared by associate	780,000	42,000	7,315	30,000

2014	Shanghai Secco RMB'000	Chemical Industry RMB'000	Jinsen RMB'000	Azbil RMB'000
Revenue	26,131,711	566	266,556	276,665
Post-tax (loss)/profit from continuing operations	(339,450)	221,540	12,426	30,153
Other comprehensive income	–	–	–	–
Total comprehensive (loss)/income	(339,450)	221,540	12,426	30,153
Dividends declared by associate	–	30,000	12,115	30,000

The information above reflects the amounts presented in the financial statements of the associates (and not the Group's share of those amounts) adjusted for differences in accounting policies between the Group and the associates.

Reconciliation of summarised financial information

Reconciliation of the summarised financial information presented to the carrying amount of its interest in material associates

19 Investments accounted for using the equity method *(continued)*

Investment in associates *(continued)*

Summarised financial information for material associates

2015	Shanghai Secco RMB'000	Chemical Industry RMB'000	Jinsen RMB'000	Azbil RMB'000
Opening net assets 1 January	7,488,530	3,601,715	206,146	121,808
Profit for the year	2,185,268	235,635	8,155	20,507
Other comprehensive income	–	–	–	–
Capital increment	–	–	–	–
Declared dividends	(780,000)	(42,000)	(7,315)	(30,000)
Closing net assets	8,893,798	3,795,350	206,986	112,315
% of ownership interest	20.00%	38.26%	40.00%	40.00%
Interest in associates	1,778,760	1,452,101	82,794	44,926
Unentitled portion (Note a)	–	(331,242)	–	–
Carrying value	1,778,760	1,120,859	82,794	44,926

2014	Shanghai Secco RMB'000	Chemical Industry RMB'000	Jinsen RMB'000	Azbil RMB'000
Opening net assets 1 January	7,770,275	3,410,175	205,835	121,655
(Loss)/profit for the year	(339,450)	221,540	12,426	30,153
Other comprehensive income	–	–	–	–
Capital increment	57,705	–	–	–
Declared dividends	–	(30,000)	(12,115)	(30,000)
Closing net assets	7,488,530	3,601,715	206,146	121,808
% of ownership interest	20.00%	38.26%	40.00%	40.00%
Interest in associates	1,497,706	1,378,016	82,458	48,723
Unentitled portion (Note a)	–	(334,752)	–	–
Carrying value	1,497,706	1,043,264	82,458	48,723

Note a: Unentitled portion represented some piece of lands injected by Government in Chemical Industry as capital reserve and the earnings from this land cannot be shared by other shareholders.

19 Investments accounted for using the equity method *(continued)*

Investment in associates *(continued)*

Summarised financial information for other associates

	2015 RMB'000	2014 RMB'000
Carrying value of investments at 31 December	46,817	47,983
Aggregate amount of its share of those individually immaterial associates:		
Profit for the year	8,347	29,226
Other comprehensive income	–	–
Total comprehensive income	8,347	29,226

Investment in joint ventures

	2015 RMB'000	2014 RMB'000
At 1 January	216,128	266,024
Share of profit	21,505	4,225
Cash dividends distribution	(650)	(54,121)
At 31 December	236,983	216,128

The joint venture listed below has share capital consisting solely of ordinary shares, which is held directly by the Group.

Name of entity	Place of business/ country of incorporation	% of ownership interest	Nature of the relationship	Measure-ment method
BOC-SPC Gases Company Limited (BOC)	PRC	50	Production and sales of industrial gases	Equity
Shanghai Jinpu Plastic Packing Materials Company Limited (Jinpu)	PRC	50	Production of polypropylene film	Equity
Shanghai Petrochemical Yangu Gas Development Company Limited (Yangu Gas)	PRC	50	Production and sales of industrial gases	Equity

BOC, Jinpu and Yangu Gas are private companies and there are no quoted market prices available for their shares.

19 Investments accounted for using the equity method *(continued)*

Investment in joint ventures *(continued)*

Summarised financial information for joint ventures

Set out below are the summarised financial information for joint ventures which are accounted for using the equity method.

Summarised balance sheet

At 31 December 2015	BOC RMB'000	Jinpu RMB'000	Yangu Gas RMB'000
Current			
Cash and cash equivalents	28,563	1,790	19,224
Other current assets (excluding cash)	55,888	30,886	12,925
Total current assets	84,451	32,676	32,149
Financial liabilities	(57,686)	(31,462)	–
Other current liabilities	(13,077)	(3,236)	(5,807)
Total current liabilities	(70,763)	(34,698)	(5,807)
Non-current			
Total non-current assets	313,884	81,985	78,622
Total non-current liabilities	–	–	–
Net assets	327,572	79,963	104,964

At 31 December 2014	BOC RMB'000	Jinpu RMB'000	Yangu Gas RMB'000
Current			
Cash and cash equivalents	12,636	2,976	11,540
Other current assets (excluding cash)	54,920	41,542	16,287
Total current assets	67,556	44,518	27,827
Financial liabilities	(102,993)	(24,770)	(5,575)
Other current liabilities	(52,902)	(7,536)	(2,799)
Total current liabilities	(155,895)	(32,306)	(8,374)
Non-current			
Total non-current assets	357,525	91,964	90,381
Total non-current liabilities	–	–	(5,400)
Net assets	269,186	104,176	104,434

19 Investments accounted for using the equity method *(continued)*

Investment in joint ventures *(continued)*

2015	BOC RMB'000	Jinpu RMB'000	Yangu Gas RMB'000
Revenue	396,176	118,966	68,469
Depreciation and amortisation	44,727	8,498	10,952
Interest income	326	50	169
Interest expense	(4,012)	(1,072)	(244)
Profit/(loss) from continuing operations	72,778	(24,213)	1,830
Income tax expense	(14,392)	–	–
Post-tax profit/(loss) from continuing operations	58,386	(24,213)	1,830
Other comprehensive income	–	–	–
Total comprehensive income/(loss)	58,386	(24,213)	1,830
Dividends declared by joint venture	–	–	1,300

2014	BOC RMB'000	Jinpu RMB'000	Yangu Gas RMB'000
Revenue	388,391	226,221	75,342
Depreciation and amortisation	44,870	9,783	14,193
Interest income	383	77	167
Interest expense	(5,533)	(2,329)	(965)
Profit/(loss) from continuing operations	41,345	(26,753)	1,397
Income tax expense	(14,545)	–	–
Post-tax profit/(loss) from continuing operations	26,800	(26,753)	1,397
Other comprehensive income	–	–	–
Total comprehensive income/(loss)	26,800	(26,753)	1,397
Dividends declared by joint venture	106,242	–	2,000

The information above reflects the amounts presented in the financial statements of the joint ventures (and not the Group's share of those amounts) adjusted for differences in accounting policies between the Group and the joint ventures.

19 Investments accounted for using the equity method *(continued)*

Investment in joint ventures *(continued)*

Reconciliation of summarised financial information

2015	BOC RMB'000	Jinpu RMB'000	Yangu Gas RMB'000
Opening net assets 1 January	269,186	104,176	104,434
Profit/(loss) for the year	58,386	(24,213)	1,830
Other comprehensive income	–	–	–
Declared dividends	–	–	(1,300)
Closing net assets	327,572	79,963	104,964
% of ownership interest	50.00%	50.00%	50.00%
Interest in joint ventures	163,786	39,982	52,482
Unrealized downstream transactions	(19,267)	–	–
Carrying value	144,519	39,982	52,482

2014	BOC RMB'000	Jinpu RMB'000	Yangu Gas RMB'000
Opening net assets 1 January	348,628	130,929	105,037
Profit/(loss) for the year	26,800	(26,753)	1,397
Other comprehensive income	–	–	–
Declared dividends	(106,242)	–	(2,000)
Closing net assets	269,186	104,176	104,434
% of ownership interest	50.00%	50.00%	50.00%
Interest in joint ventures	134,593	52,088	52,217
Unrealized downstream transactions	(22,770)	–	–
Carrying value	111,823	52,088	52,217

20 Inventories

	As at 31 December	
	2015 RMB'000	2014 RMB'000
Raw materials	2,516,242	3,335,273
Work in progress	870,613	1,453,910
Finished goods	528,747	822,641
Spare parts and consumables	262,586	318,879
	4,178,188	5,930,703

The cost of inventories recognized in Cost of Sales amounted to RMB55,056,458 thousands for the year ended 31 December 2015 (2014: RMB71,425,192 thousands) which included an inventory provision of RMB44,868 thousands (2014: RMB213,600 thousands).

As at 31 December 2015, the provision for inventory write-down was RMB125,135 thousands (31 December 2014: RMB294,771 thousands). During the year ended 31 December 2015, the Group sold the finished goods of RMB214,504 thousands, which were previously provided for, at original cost. The related provision was reversed and included in 'cost of sales' in the consolidated income statement.

21 Trade and other receivables

	As at 31 December	
	2015 RMB'000	2014 RMB'000
Trade receivables	488,584	630,931
Less: impairment provision	(24)	(48)
	488,560	630,883
Bills receivable	991,273	1,365,677
Amounts due from related parties	1,163,128	1,035,085
	2,642,961	3,031,645
Other receivables and prepayments	245,401	268,869
	2,888,362	3,300,514

21 Trade and other receivables *(continued)*

During the year ended 31 December 2015, certain associates and joint ventures of the Group declared dividends with total amount of RMB197,158 thousands to the Group (2014: RMB97,597 thousands). As at 31 December 2015, all these declared dividends had been received by the Group (31 December 2014: RMB19,372 thousands not yet received).

As at 31 December 2015, entrusted lendings of RMB106,000 thousands included in other receivables and prepayments was made by the Group at interest rates ranging from 1.75% to 3.00% per annum, which will be due in 2016 (31 December 2014: RMB82,000 thousands at an interest rate of 3.00% to 3.25% per annum).

As of 31 December 2015, the Group didn't have any trade receivable which was past due but not impaired (31 December 2014: Nil).

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

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

	As at 31 December	
	2015 RMB'000	2014 RMB'000
Within one year	2,642,921	3,031,617
Above one year	40	28
	2,642,961	3,031,645

Movements of the Group's impairment provision for trade and other receivables are as follows:

	2015 RMB'000	2014 RMB'000
At 1 January	1,256	992
Provision for receivables impairment	834	305
Receivables written off during the year as uncollectible	(743)	–
Unused amounts reversed	(78)	(41)
At 31 December	1,269	1,256

21 Trade and other receivables *(continued)*

Bills receivable represent short-term bank 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.

As at 31 December 2015, no trade receivables or bills receivable was pledged as collateral. As at 31 December 2014, trade receivables of RMB76,111 thousands and bills receivable of RMB80,669 thousands were pledged as collateral for issuing letters of credit.

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

22 Cash and cash equivalents

	As at 31 December	
	2015	2014
	RMB'000	RMB'000
Cash deposits with a related party	5,394	5,179
Cash at bank and on hand	1,072,036	274,019
	1,077,430	279,198

23 Share capital

	Ordinary A shares listed in PRC with restriction RMB'000	Ordinary A shares listed in PRC RMB'000	Foreign invested H shares listed overseas RMB'000	Total RMB'000
As at 1 January 2014	5,685,000	1,620,000	3,495,000	10,800,000
Transition to unrestricted shares	(765,000)	765,000	–	–
As at 31 December 2014	4,920,000	2,385,000	3,495,000	10,800,000
As at 1 January 2015	4,920,000	2,385,000	3,495,000	10,800,000
Transition to unrestricted shares	(540,000)	540,000	–	–
As at 31 December 2015	4,380,000	2,925,000	3,495,000	10,800,000

24 Reserves

	Legal surplus RMB'000	Capital surplus RMB'000	Surplus reserve RMB'000	Other reserve RMB'000	Safety production fund RMB'000	Retained earnings RMB'000	Total RMB'000
Balance at 1 January 2014	4,072,476	4,180	101,355	–	5,832	2,748,651	6,932,494
Net loss attributable to shareholders of the Company	–	–	–	–	–	(692,222)	(692,222)
Dividends proposed and approved	–	–	–	–	–	(540,000)	(540,000)
Utilisation of safety production fund	–	–	–	–	(4,567)	4,567	–
Balance at 31 December 2014	4,072,476	4,180	101,355	–	1,265	1,520,996	5,700,272
Net profit attributable to shareholders of the Company	–	–	–	–	–	3,274,308	3,274,308
Utilisation of safety production fund	–	–	–	–	(312)	312	–
Share option scheme (Note 25)	–	–	–	22,702	–	–	22,702
Balance at 31 December 2015	4,072,476	4,180	101,355	22,702	953	4,795,616	8,997,282

25 Share-based payments

Pursuant to the resolution of the fifth meeting of the eighth session of the Board of Directors of the Company on 6 January 2015, the proposal regarding the list of participants and the number of share options under the share option incentive scheme was approved.

According to the Company's share option incentive scheme, the grant date of share options was 6 January 2015, and there were a total of 38,760 thousand share options granted to 214 participants (0.359% of the total ordinary share capital issued). Each share option has a right to purchase an ordinary A share listed in PRC on vesting date at an exercise price of RMB4.20 under vesting conditions. The options are exercisable starting tw0 years from the grant date, subject to the following vesting conditions:

- RoE of the Group should be no less than 9% for 2015, 9.5% for 2016 and 10% for 2017 in respect to the three vesting periods;
- achieving the target compound annual growth rate of 5% in net profit for 2015, 2016 and 2017, respectively based on the net profit of 2013;
- proportion of the main business revenue in the total revenue should be no less than 99%;
- each of the above three conditions should be no lower than the 75% level of peer companies; and
- achieving the target budget set by the Sinopec Corp..

25 Share-based payments *(continued)*

The fair value of the employee services received in exchange for the grant of this equity-settled, share-based compensation plan is recognised as an expense on a straight-line basis over the vesting period of each tranche. The total amount to be expensed is determined by reference to the fair value of the options granted excluding the impact of any service and non-market performance vesting conditions. When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital and share premium. As at 31 December 2015, no share option had been exercised yet.

As at 31 December 2015, the outstanding share options which will expire in twelve months after the vesting dates and their exercise prices are as follows:

Vesting date	Exercise price (per share in RMB)	Outstanding shares
6 January 2017	4.20	15,504,000
6 January 2018	4.20	11,628,000
6 January 2019	4.20	11,628,000

The total fair value of share options at the grant date was RMB65,412 thousands, which has been valued by an external valuation expert using Black-Scholes valuation model.

The significant inputs into the model were as follows:

	Granting date
Spot share price	RMB4.51
Exercise price	RMB4.20
Expected volatility	41.20%
Maturity (years)	5.00
Risk-free interest rate	3.39%~3.67%
Dividend yield	1.00%

Share option expenses of RMB22,702 thousands have been recognised in the consolidated income statement for the year ended 31 December 2015 (the year ended 31 December 2014: Nil).

26 Borrowings

	As at 31 December	
	2015	2014
	RMB'000	RMB'000
Long term bank loans		
– Between one and two years	–	1,632,680
Loans due within one year		
– Short term bank loans	1,700,000	3,008,195
– Short term loans from related parties	370,000	1,070,000
	2,070,000	4,078,195
	2,070,000	5,710,875

During the year ended 31 December 2015, the Group repaid all the long term bank loans which included the borrowings with fixed interest rates amounted to RMB1,000,000 thousands and borrowings with floating interest rates amounted to RMB632,680 thousands.

The weighted average interest rate for the Group's borrowings was 3.55% for the year ended 31 December 2015 (2014: 3.98%).

At 31 December 2015, no borrowings were secured by property, plant and equipment (31 December 2014: nil).

As at 31 December 2015, the Group had standby credit facilities with several PRC financial institutions which provided the Group to borrow up to RMB28,179,120 thousands (31 December 2014:28,696,100 thousands), within which the maturity dates of unused facility amounted to RMB8,300,000 thousands will be after 31 December 2016.

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

	As at 31 December	
	2015	2014
USD (in thousands)	–	USD364,353
EUR (in thousands)	–	EUR57,001

27 Deferred income

	2015 RMB'000	2014 RMB'000
At 1 January	16,436	–
Government grants received during the year to compensate the cost caused by disposal of 1# ethylene equipment	–	35,000
Recognised in other operating income	(16,436)	(18,564)
At 31 December	–	16,436

28 Trade and other payables

	As at 31 December	
	2015 RMB'000	2014 RMB'000
Trade payables	1,562,232	2,920,459
Advance from customers	561,721	591,059
Bills payable	–	11,714
Amounts due to related parties	1,573,967	3,042,197
Subtotal	3,697,920	6,565,429
Staff salaries and welfares payable	39,999	44,464
Taxes payable (exclude income tax payable)	1,308,821	1,266,912
Interest payable	1,642	7,717
Dividends payable	19,119	19,406
Construction payable	205,714	223,061
Other liabilities	323,459	269,703
Subtotal of other payables	1,898,754	1,831,263
	5,596,674	8,396,692

As at 31 December 2015 and 31 December 2014, all trade and other payables of the Group were non- interest bearing, and their fair value, except for the advance from customers which are not financial liabilities, approximated their carrying amounts due to their short maturities.

28 Trade and other payables *(continued)*

As at 31 December 2015, the ageing analysis of the trade payables (including amounts due to related parties with trading nature) based on invoice date was as follows:

	As at 31 December	
	2015	2014
	RMB'000	RMB'000
Within one year	**3,656,761**	6,514,151
Between one and two years	**14,532**	10,978
Over two years	**26,627**	40,300
	3,697,920	6,565,429

29 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")	Ultimate parent company
BOC-SPC Gases Company Limited	Joint venture of the Group
Shanghai Jinpu Plastic Packing Materials Company Limited	Joint venture of the Group
Shanghai Petrochemical Yangu Gas Development Company Limited	Joint venture of the Group
Shanghai Secco Petrochemical Company Limited	Associate of the Group
Shanghai Chemical Industry Park Development Company Limited	Associate of the Group
Shanghai Jinsen Hydrocarbon Resins Company Limited	Associate of the Group
Shanghai Azbil Automation Company Limited	Associate of the Group
Shanghai Nam Kwong Petro-Chemical Company Limited	Associate of the Group
Shanghai Jinhuan Petroleum Naphthalene Development Company Limited	Associate of the Group
Shanghai Chemical Industry Park Logistics Company Limited	Associate of the Group
Sinopec Chemical Commercial Holding Company Limited	Subsidiary of the immediate parent company
Sinopec Huadong Sales Company Limited	Subsidiary of the immediate parent company
Sinopec Huanan Sales Company Limited	Subsidiary of the immediate parent company
Sinopec Huabei Sales Company Limited	Subsidiary of the immediate parent company
Sinopec Huazhong Sales Company Limited	Subsidiary of the immediate parent company
Sinopec Jiangsu Sales Company Limited	Subsidiary of the immediate parent company
Sinopec Yizheng Chemical Fibre Company Limited	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 Refinery Product Sales Company Limited	Subsidiary of the immediate parent company
Sinopec Yangzi Petrochemical Company Limited	Subsidiary of the immediate parent company

29 Related party transactions *(continued)*

Names of related parties	Relationship with the Company
China Petrochemical International Beijing Company Limited	Subsidiary of the immediate parent company
China Petrochemical International Ningbo Company Limited	Subsidiary of the immediate parent company
China Petrochemical International Tianjin Company Limited	Subsidiary of the immediate parent company
China Petrochemical International Russia Company Limited	Subsidiary of the immediate parent company
China Petrochemical International Kazakhstan Company Limited	Subsidiary of the immediate parent company
Sinopec Europe Company Limited	Subsidiary of the immediate parent company
Sinopec USA Company Limited	Subsidiary of the immediate parent company
Sinopec Chemical Commercial Holding (Hongkong Company Limited	Subsidiary of the immediate parent company
Sinopec Huadong Supplies and Equipment Company Limited	Subsidiary of the immediate parent company
Petro-CyberWorks Information Technology Company Limited	Subsidiary of the immediate parent company
Sinopec Qingdao Refining and Chemical Company Limited	Subsidiary of the immediate parent company
Sinopec Fuel Oil Sales Corporation Limited	Subsidiary of the immediate parent company
BASF-YPC Company Limited	Joint venture of the immediate parent company
Zhejiang Baling Hengyi Caprolactam Limited Company	Joint venture of the immediate parent company
Sinopec Petroleum Storage and Reserve Limited	Subsidiary of the ultimate parent company
Sinopec Assets Management Corporation	Subsidiary of the ultimate parent company
Shanghai Petrochemical Machine Manufacturing Company Limited	Subsidiary of the ultimate parent company
Sinopec International Petroleum Exploration and Production Limited	Subsidiary of the ultimate parent company
Sinopec Shanghai Engineering Company Limited	Subsidiary of the ultimate parent company
The Fourth Construction Company of Sinopec	Subsidiary of the ultimate parent company
The Fifth Construction Company of Sinopec	Subsidiary of the ultimate parent company
The Tenth Construction Company of Sinopec	Subsidiary of the ultimate parent company
Sinopec Engineering Incorporation	Subsidiary of the ultimate parent company
Sinopec Ningbo Engineering Company Limited	Subsidiary of the ultimate parent company
Sinopec Tending Company Limited	Subsidiary of the ultimate parent company
Sinopec Finance Company Limited ("Sinopec Finance")	Subsidiary of the ultimate parent company

The following is a summary of significant balances and transactions between the Group and its related parties except for the dividends receivable as disclosed in the forgoing Note 21.

(a) Most of the transactions undertaken by the Group during the year ended 31 December 2015 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.

For the year ended 31 December 2015

29 Related party transactions *(continued)*

(a) *(continued)*

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

Transactions between the Group and Sinopec Corp., its subsidiaries and joint ventures were as follows:

	2015 RMB'000	2014 RMB'000
Sales of petroleum products	41,731,401	54,017,562
Sales other than petroleum products	4,010,856	6,817,448
Purchases of crude oil	23,313,185	30,931,551
Purchases other than crude oil	4,683,317	5,228,636
Sales commissions	112,245	113,162
Rental income	29,071	28,871

29 Related party transactions *(continued)*

(b) Other transactions between the Group and Sinopec Group and its subsidiaries, associates and joint ventures of the Group were as follows:

	2015 RMB'000	2014 RMB'000
Sales of goods and service fee income		
– Sinopec Group and its subsidiaries	151,417	298,190
– Associates and joint ventures of the Group	1,466,511	2,455,829
	1,617,928	2,754,019
Purchase		
– Sinopec Group and its subsidiaries	421,803	1,251,143
– Associates and joint ventures of the Group	3,607,573	3,772,603
	4,029,376	5,023,746
Insurance premiums expenses		
– Sinopec Group and its subsidiaries	117,914	117,896
Interest income		
– Sinopec Finance	624	1,057
Loans borrowed		
– Sinopec Finance	5,720,000	7,070,000
Loans repayment		
– Sinopec Finance	6,420,000	6,070,000
Interest expense		
– Sinopec Finance	31,328	59,939
Construction and installation cost		
– Sinopec Group and its subsidiaries	158,822	144,248

The directors of the Company are of the opinion that the transactions with Sinopec Corp., its subsidiaries and joint ventures, Sinopec Group and its subsidiaries, associates and joint ventures of the Group as disclosed in Note 29(a) and 29(b) were conducted in the ordinary course of business, on normal commercial terms and in accordance with the agreements governing such transactions.

For the year ended 31 December 2015

29 Related party transactions *(continued)*

(c) The relevant amounts due from/to Sinopec Corp., its subsidiaries and joint venture, Sinopec Group and its subsidiaries, associates and joint ventures of the Group, arising from purchases, sales and other transactions as disclosed in Note 29(a) and 29(b), are summarised as follows:

	As at 31 December	
	2015	2014
	RMB'000	RMB'000
Amounts due from related parties		
– Sinopec Corp., its subsidiaries and joint ventures	1,098,872	1,002,841
– Sinopec Group and its subsidiaries	9,263	3,617
– Associates and joint ventures of the Group	54,993	28,627
	1,163,128	1,035,085
Amounts due to related parties		
– Sinopec Corp., its subsidiaries and joint ventures	1,253,940	2,859,927
– Sinopec Group and its subsidiaries	91,342	9,142
– Associates and joint ventures of the Group	228,685	173,128
	1,573,967	3,042,197
Cash deposits, maturing within 3 months		
– Sinopec Finance (i)	5,394	5,179
Short-term loans		
– Sinopec Finance (ii)	370,000	1,070,000

(i) At 31 December 2015 and 31 December 2014, cash deposits with Sinopec Finance were at an interest rate of 0.35% per annum.

(ii) At 31 December 2015, short-term loans from Sinopec Finance were at a weighted average interest rate of 3.92% per annum (31 December 2014: 5.06%), which will be due in 2016.

29 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:

	Year ended 31 December	
	2015 RMB'000	2014 RMB'000
Short-term employee benefits	4,469	7,668
Post-employment benefits	147	170
Share-based payments	1,342	–
	5,958	7,838

(e) Contributions to defined contribution retirement plans

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

	Year ended 31 December	
	2015 RMB'000	2014 RMB'000
Municipal retirement scheme costs	273,841	277,167
Supplementary retirement scheme costs	68,921	72,998

At 31 December 2015 and 31 December 2014, 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 to as "state-controlled entities") through its government authorities, agencies, affiliations and other organisations.

29 Related party transactions *(continued)*

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

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

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

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

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

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

The Group's major domestic suppliers of crude oil are China National Offshore Oil Corporation and its subsidiaries, Sinochem International Group and its subsidiaries, China Arts Huahai Import & Export Corp. Ltd., Heilongjiang United Oil & Chemicals Co., Ltd and Zhuhai Zhenrong Company, all of which are state-controlled entities.

The aggregated amount of crude oil purchased by the Group from the above state-controlled energy and chemical companies are as follows:

	Year ended 31 December	
	2015 RMB'000	2014 RMB'000
Purchases of crude oil	9,981,091	22,763,687

No prepayments for purchases of crude oil made to the above state-controlled energy and chemical companies as at 31 December 2015 (31 December 2014: Nil).

29 Related party transactions *(continued)*

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

(ii) Transactions with state-controlled banks

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

	Year ended 31 December	
	2015 RMB'000	2014 RMB'000
Interest income	15,734	12,955
Interest expense	179,119	303,836

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

	As at 31 December	
	2015 RMB'000	2014 RMB'000
Cash and cash equivalents at state-controlled banks in PRC	1,071,863	274,011
Short-term loans	1,700,000	3,008,195
Long-term loans	–	1,020,780
Current portion of non-current liabilities	–	–
Total loans from state-controlled banks in the PRC	1,700,000	4,028,975

(g) Commitments with related parties

	As at 31 December	
	2015 RMB'000	2014 RMB'000
Construction and installation cost:		
– Sinopec Group and its subsidiaries	35,244	65,319

29 Related party transactions *(continued)*

(h) Investment commitments with related parties

	As at 31 December	
	2015	2014
	RMB'000	RMB'000
Capital contribution to Shanghai Secco	111,263	111,263

Pursuant to the resolution of the 18th meeting of the 7th term of Board of Directors on 5 December 2013, it was approved to make capital contribution of USD30,017 thousands (RMB182,804 thousands equivalent) to Shanghai Secco, an associate of the Group. The capital to Shanghai Secco will be contributed in RMB by instalments. The capital contribution is mainly to meet the funding needs of the implementation of the "260,000 tons of AN-2 project" ("AN-2 project"), and "90,000 tons of BEU-2 project"("BEU-2 project").

As at 10 December 2013, the Company contributed the first instalment of RMB60,000 thousands for AN-2 project. As at 5 March 2014, the Company contributed the first instalment of RMB11,541 thousands for BEU-2 project. According to the approval by Shanghai Municipal Commission of Commerce as issued on 19 October 2015, the rest of the capital contribution to Shanghai Secco should be within 50 years starting from its registration date.

Except for the above disclosed in Note 29(g) and 29(h), the Group had no other material commitments with related parties as at 31 December 2015, which are contracted, but not included in the financial statements.

30 Dividend

An annual dividend in respect of the year ended 31 December 2013 of RMB0.05 per share, amounting to a total dividend of RMB540,000 thousands, was proposed and approved during the year ended 31 December 2014. The Board of Directors did not propose any dividend in respect of the year ended 31 December 2014.

An annual dividend in respect of the year ended 31 December 2015 of RMB0.1 per share, amounting to a total dividend of RMB1,080,000 thousands, was approved by the Board of Directors on 16 March 2016. These financial statements do not reflect this dividend payable.

31 Cash generated from operations

Reconciliation of profit/(losses) before taxation to cash used in operation:

	Year ended 31 December	
	2015	2014
	RMB'000	RMB'000
Profit/(losses) before tax	4,237,188	(889,944)
Adjustment items:		
Interest income	(49,302)	(64,673)
Share of profit of investments accounted for using the equity method	(572,035)	(57,654)
Gain on disposal of associates	–	(6,491)
Gain on forward contract	(37,154)	–
Interest expense	199,908	374,600
Foreign exchange loss	81,139	49,771
Depreciation of property, plant and equipment	1,708,767	1,926,331
Depreciation of investment property	13,547	13,450
Amortisation of lease prepayments and other assets	322,647	347,144
Impairment loss on construction in progress	–	10,175
Impairment loss on property, plant and equipment	50,001	–
Loss on disposal of property, plant and equipment-net	9,393	33,966
Share-based payment	22,702	–
Profit on operation before change of working capital	5,986,801	1,736,675
Decrease in inventories	1,752,515	3,108,536
Decrease in operation receivables	485,167	474,898
(Decrease)/increase in operation payables	(1,451,695)	1,255,221
Decrease in balances to related parties-net	(1,596,273)	(2,525,314)
Cash generated from operating activities	5,176,515	4,050,016

In the statement of cash flows, proceeds from sale of property, plant and equipment comprise:

	2015	2014
	RMB'000	RMB'000
Net book amount	26,268	58,428
Loss on disposal of property, plant and equipment-net	(9,393)	(33,966)
Proceeds from disposal of property, plant and equipment	16,875	24,462

For the year ended 31 December 2015

32 Capital commitments

	As at 31 December	
	2015	2014
	RMB'000	RMB'000
Property, plant and equipment		
Contracted but not provided for	39,814	126,941
Authorised but not contracted for	1,124,660	1,284,433
	1,164,474	1,411,374

33 Contingent liabilities

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 2015. As at 31 December 2015, no provision has been made in the financial report 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 (31 December 2014: Nil).

34 Subsequent event

A dividend in respect of the year ended 31 December 2015 of RMB0.1 per share, amounting to a total dividend of RMB1,080,000 thousands, was proposed by the Board of Directors on 16 March 2016.

35 Balance sheet and reserve movement of the Company

	As at 31 December	
	2015	2014
	RMB'000	RMB'000
Assets		
Non-current assets		
Lease prepayment and other assets	694,171	947,859
Property, plant and equipment	14,039,077	15,151,067
Investment properties	402,581	412,647
Construction in progress	722,520	542,878
Investments in subsidiaries	1,445,620	1,445,620
Investments in associates and jointly controlled entities	2,218,029	2,218,029
Deferred income tax assets	62,867	905,186
	19,584,865	21,623,286
Current assets		
Inventories	3,955,550	5,465,293
Trade receivables	3,768	11,001
Bills receivable	679,084	991,722
Other receivables and prepayments	99,875	99,927
Amounts due from related parties	1,040,889	879,114
Cash and cash equivalents	942,264	186,348
	6,721,430	7,633,405
Total assets	26,306,295	29,256,691
Equity and liabilities		
Equity attributable to owners of the Company		
Share capital	10,800,000	10,800,000
Reserves (a)	8,055,511	5,168,398
Total equity	18,855,511	15,968,398

For the year ended 31 December 2015

35 Balance sheet and reserve movement of the Company *(continued)*

	As at 31 December	
	2015	2014
	RMB'000	RMB'000
Liabilities		
Non-current liabilities		
Borrowings	–	1,611,900
Deferred income	–	16,436
	–	1,628,336
Current liabilities		
Borrowings	2,499,000	4,507,195
Advance from customers	891,760	1,908,818
Trade payables	428,994	490,790
Other payables	1,757,767	1,707,983
Amounts due to related parties	1,823,960	3,045,171
Income tax payable	49,303	–
	7,450,784	11,659,957
Total liabilities	7,450,784	13,288,293
Total equity and liabilities	26,306,295	29,256,691

The balance sheet of the Company was approved by the Board of Directors on 16 March 2016 and were signed on its behalf.

Wang Zhiqing
Chairman and General Manager

Ye Guohua
Director and Chief Financial Officer

35 Balance sheet and reserve movement of the Company *(continued)*

(a) Reserve movement of the Company

	Reserves
	RMB'000
At 1 January 2014	6,298,386
Net loss attributable to shareholders of the Company	(589,988)
Dividends proposed and approved	(540,000)
At 31 December 2014	5,168,398
At 1 January 2015	5,168,398
Employees share option scheme	22,702
Net profit attributable to shareholders of the Company	2,864,411
Dividends proposed and approved	–
At 31 December 2015	8,055,511

36 Benefits and interests of directors

(i) Directors' and chief executives' emoluments:

	2015				
	Salaries and other benefits RMB'000	Retirement scheme contributions RMB'000	Discretionary bonus RMB'000	Share option RMB'000	Total RMB'000
Executive Directors					
Wang Zhiqing	197	18	463	293	971
Gao Jingping	197	18	463	293	971
Ye Guohua	173	18	405	252	848
Jin Qiang	173	17	469	252	911
Guo Xiaojun	173	18	397	252	840
Independent non-executive directors					
Cai Tingji	150	–	–	–	150
Zhang Yiming	150	–	–	–	150
Liu Yunhong	150	–	–	–	150
Du Weifeng	150	–	–	–	150
Supervisors					
Kuang Yuxiang (newly appointed as supervisor in April 2015)	129	14	146	–	289
Zhang Jianbo (Resigned as supervisor in March 2015	48	3	287	–	338
Zuo Qiang	105	14	281	–	400
Li Xiaoxia	115	14	246	–	375
	1,910	134	3,157	1,342	6,543

36 Benefits and interests of directors *(continued)*

(i) Directors' and chief executives' emoluments: *(continued)*

	2014			
	Salaries and other benefits RMB'000	Retirement scheme contributions RMB'000	Discretionary bonus RMB'000	Total RMB'000
Executive Directors				
Wang Zhiqing	195	17	619	831
Gao Jingping	195	17	599	811
Ye Guohua	171	17	543	731
Jin Qiang (As vice president before June 2014, newly appointed as director in June 2014)	171	16	557	744
Guo Xiaojun (As vice president before June 2014, newly appointed as director in June 2014)	171	17	427	615
Li Honggen (Resigned as director and vice president in June 2014)	85	8	470	563
Zhang Jianping (Resigned as director and vice president in June 2014)	85	8	470	563
Independent non- executive directors				
Jin Mingda	150	–	–	150
Cai Tingji	150	–	–	150
Jin Mingda	150	–	–	150
Supervisors				
Zhang Jianbo	174	12	301	487
Zuo Qiang	111	13	274	398
Li Xiaoxia	115	14	244	373
	1,923	139	4,504	6,566

For the year ended 31 December 2015

36 Benefits and interests of directors *(continued)*

(ii) Directors' retirement benefits

No specific retirement benefits were paid to directors in respect of services in connection with the management of the affairs of the company or its subsidiary undertaking(2014:Nil).

(iii) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

普华永道

[English Translation for Reference Only]

Auditor's Report

PwC ZT Shen Zi (2016) No. 10008
(Page 1 of 2)

To the Shareholders of Sinopec Shanghai Petrochemical Company Limited,

We have audited the accompanying financial statements of Sinopec Shanghai Petrochemical Company Limited (hereinafter "the Company"), which comprise the consolidated and company balance sheets as at 31 December 2015, and the consolidated and company income statements, the consolidated and company statements of changes in shareholders' equity and the consolidated and company cash flow statements for the year ended 31 December 2015, and the notes to the financial statements.

Management's Responsibility for the Financial Statements

Management of the Company is responsible for the preparation and fair presentation of these financial statements in accordance with the requirements of Accounting Standards for Business Enterprises, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. 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.

普华永道

[English Translation for Reference Only]

Auditor's Report
(continued)

PwC ZT Shen Zi (2016) No. 10008
(Page 2 of 2)

To the Shareholders of Sinopec Shanghai Petrochemical Company Limited,

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated and company's financial position of the Company as at 31 December 2015, and their financial performance and cash flows for the year then ended in accordance with the requirements of Accounting Standards for Business Enterprises.

PricewaterhouseCoopers Zhong Tian LLP
Shanghai, the People's Republic of China

16 March 2016

Consolidated and Company Balance Sheets

As At 31 December 2015
(All amounts in thousands of Renminbi Yuan unless otherwise stated)
[English translation for reference only]

ASSETS	Note	31 DECEMBER 2015 Consolidated	31 DECEMBER 2014 Consolidated	31 DECEMBER 2015 Company	31 DECEMBER 2014 Company
Current assets					
Cash at bank and on hand	4(1)	1,077,430	279,198	942,264	186,348
Notes receivable	4(2)	1,007,373	1,372,277	679,084	991,722
Accounts receivable	4(5),14(1)	1,624,571	1,628,121	1,034,286	856,198
Advances to suppliers	4(7)	15,131	31,098	10,377	12,546
Interest receivable	4(4)	2,491	76	2,420	–
Dividends receivable	4(3)	–	19,372	–	19,372
Other receivables	4(6),14(2)	29,050	51,771	10,968	16,468
Inventories	4(8)	4,178,188	5,930,703	3,955,550	5,465,293
Other current assets	4(9)	209,746	197,799	86,481	85,458
Total current assets		8,143,980	9,510,415	6,721,430	7,633,405
Non-current assets					
Long-term equity investments	4(10),14(3)	3,471,139	3,106,262	4,550,126	4,201,476
Investment properties	4(11)	405,572	415,842	402,581	412,647
Fixed assets	4(12),14(4)	14,424,899	15,611,926	14,080,657	15,221,418
Construction in progress	4(13)	722,520	542,878	722,520	542,878
Intangible assets	4(14)	423,529	441,140	348,193	360,510
Long-term prepaid expenses	4(15)	359,487	602,451	345,978	587,349
Deferred tax assets	4(16)	71,045	915,069	62,867	905,186
Total non-current assets		19,878,191	21,635,568	20,512,922	22,231,464
Total assets		28,022,171	31,145,983	27,234,352	29,864,869

As At 31 December 2015
(All amounts in thousands of Renminbi Yuan unless otherwise stated)
[English translation for reference only]

LIABILITIES AND SHAREHOLDERS' EQUITY	Note	31 DECEMBER 2015 Consolidated	31 DECEMBER 2014 Consolidated	31 DECEMBER 2015 Company	31 DECEMBER 2014 Company
Current liabilities					
Short-term borrowings	4(18)	2,070,000	4,078,195	2,499,000	4,507,195
Notes payable	4(19)	–	11,714	–	–
Accounts payable	4(20)	3,017,878	5,924,035	2,275,922	4,736,516
Advance from customers	4(21)	579,887	612,573	446,318	503,124
Employee benefits payable	4(22)	39,999	44,464	34,264	38,849
Taxes payable	4(23)	1,368,418	1,276,874	1,330,067	1,239,268
Interest payable	4(24)	1,890	9,037	2,370	9,486
Dividends payable	4(25)	19,119	19,406	19,119	19,406
Other payables	4(26)	629,080	508,551	843,724	606,113
Total current liabilities		7,726,271	12,484,849	7,450,784	11,659,957
Non-current liabilities					
Long-term borrowings	4(28)	–	1,632,680	–	1,611,900
Deferred income	4(27)	160,000	186,436	160,000	186,436
Total non-current liabilities		160,000	1,819,116	160,000	1,798,336
Total liabilities		7,886,271	14,303,965	7,610,784	13,458,293
Shareholders' equity					
Share capital	1,4(29)	10,800,000	10,800,000	10,800,000	10,800,000
Capital surplus	4(30)	516,624	493,922	516,624	493,922
Specific reserve	4(31)	953	1,265	–	–
Surplus reserve	4(32)	4,493,260	4,173,831	4,493,260	4,173,831
Undistributed profits	4(33)	4,028,025	1,101,605	3,813,684	938,823
Total equity attributable to equity shareholders of the Company		19,838,862	16,570,623	19,623,568	16,406,576
Non-controlling interests	4(34)	297,038	271,395	—	—
Total shareholders' equity		20,135,900	16,842,018	19,623,568	16,406,576
Total liabilities and shareholders' equity		28,022,171	31,145,983	27,234,352	29,864,869

The accompanying notes form an integral part of these financial statements.

Chairman and General Manager	Director and Chief Financial Officer	Deputy Chief Financial Officer and Accounting Chief
Wang Zhiqing	**Ye Guohua**	**Hua Xin**

Consolidated and Company Income Statements

For the year ended 31 December 2015
(All amounts in thousands of Renminbi Yuan unless otherwise stated)
[English translation for reference only]

Items	Note	2015 Consolidated	2014 Consolidated	2015 Company	2014 Company
Revenue	4(35),14(5)	80,803,422	102,182,861	64,958,179	84,940,241
Less: Cost of sales	4(35),14(5)	60,089,297	90,046,890	44,585,385	73,119,895
Taxes and surcharges	4(36)	13,710,933	9,401,283	13,701,517	9,394,050
Selling and distribution expenses	4(37)	516,943	544,227	392,210	400,953
General and administrative expenses	4(38)	2,667,413	2,666,597	2,507,570	2,515,543
Financial expenses – net	4(39)	254,114	391,625	273,736	364,157
Asset impairment losses	4(42)	95,625	224,039	112,649	201,946
Add: Investment income	4(41),14(6)	599,189	54,145	564,605	62,551
Including: Share of profits of associates and joint ventures		562,035	54,145	520,718	37,471
Operating profit/(loss)		4,068,286	(1,037,655)	3,949,717	(993,752)
Add: Non-operating income	4(43)	193,695	208,480	187,751	205,119
Including: Profit on disposal of non-current assets		4,055	13,297	3,409	12,966
Less: Non-operating expenses	4(44)	53,252	84,974	51,556	84,944
Including: Losses on disposal of non-current assets		13,448	47,263	13,252	47,245
Total profit/(loss)		4,208,729	(914,149)	4,085,912	(873,577)
Less: Income tax expenses	4(45)	926,777	(214,184)	891,622	(223,893)
Net profit/(loss)		3,281,952	(699,965)	3,194,290	(649,684)
Attributable to shareholders of the Company		3,245,849	(716,427)	–	–
Non-controlling interests		36,103	16,462	–	–
Other comprehensive income		–	–	–	–
Total comprehensive income/(loss)		3,281,952	(699,965)	3,194,290	(649,684)
Attributable to shareholders of the Company		3,245,849	(716,427)	–	–
Non-controlling interests		36,103	16,462	–	–
Earnings/(loss) per share					
Basic earnings/(loss) per share(RMB Yuan)	4(46)	0.301	(0.066)	–	–
Diluted earnings/(loss) per share(RMB Yuan)	4(46)	0.300	(0.066)	–	–

The accompanying notes form an integral part of these financial statements.

Chairman and
General Manager
Wang Zhiqing

Director and
Chief Financial Officer
Ye Guohua

Deputy Chief Financial Officer and
Accounting Chief
Hua Xin

Consolidated and Company Cash Flow Statements

For the year ended 31 December 2015
(All amounts in thousands of Renminbi Yuan unless otherwise stated)
[English translation for reference only]

Items	Note	2015 Consolidated	2014 Consolidated	2015 Company	2014 Company
Cash flows from operating activities					
Cash received from sales of goods or rendering of services		92,100,986	119,205,335	74,382,056	99,919,432
Refund of taxes and surcharges		49,667	46,093	8,544	492
Cash received relating to other operating activities	4(47)	150,044	199,231	133,435	196,202
Sub-total of cash inflows		92,300,697	119,450,659	74,524,035	100,116,126
Cash paid for goods and services		(66,623,585)	(100,774,633)	(49,378,188)	(81,823,833)
Cash paid to and on behalf of employees		(2,570,831)	(2,624,311)	(2,393,771)	(2,449,735)
Payments of taxes and surcharges		(17,362,805)	(11,438,084)	(17,225,068)	(11,373,251)
Cash paid relating to other operating activities	4(47)	(600,079)	(573,712)	(433,960)	(849,068)
Sub-total of cash outflows		(87,157,300)	(115,410,740)	(69,430,987)	(96,495,887)
Net cash flows generated from operating activities	4(48),14(7)	5,143,397	4,039,919	5,093,048	3,620,239
Cash flows from investing activities					
Cash received from entrusted lendings		82,000	78,000	–	–
Cash received from returns on investments		216,530	98,824	198,174	70,307
Net cash received from disposal of fixed assets		16,875	24,462	16,037	24,041
Cash received from disposal of associates		–	14,822	–	–
Cash received relating to other investing activities	4(47)	46,887	64,597	30,616	57,981
Sub-total of cash inflows		362,292	280,705	244,827	152,329
Cash paid to acquire fixed assets, intangible assets and other long-term assets		(695,277)	(1,089,268)	(692,487)	(1,077,570)
Cash payment of entrusted lendings		(106,000)	(90,000)	–	–
Investment in an associate		–	(11,541)	–	(11,541)
Sub-total of cash outflows		(801,277)	(1,190,809)	(692,487)	(1,089,111)

For the year ended 31 December 2015
(All amounts in thousands of Renminbi Yuan unless otherwise stated)
[English translation for reference only]

Items	Note	2015 Consolidated	2014 Consolidated	2015 Company	2014 Company
Net cash flows used in investing activities		(438,985)	(910,104)	(447,660)	(936,782)
Cash flows from financing activities					
Cash received from borrowings		31,999,758	51,385,298	32,413,788	51,777,298
Sub-total of cash inflows		31,999,758	51,385,298	32,413,788	51,777,298
Cash repayments of borrowings		(35,684,713)	(53,444,473)	(36,077,963)	(53,438,453)
Cash paid for distribution of dividends or profits and interest expenses		(221,320)	(924,797)	(225,304)	(914,404)
Including: Cash payments for dividends or profit to non-controlling shareholders of subsidiaries		(10,460)	(4,129)	–	–
Sub-total of cash outflows		(35,906,033)	(54,369,270)	(36,303,267)	(54,352,857)
Net cash flows used in financing activities		(3,906,275)	(2,983,972)	(3,889,479)	(2,575,559)
Effect of foreign exchange rate changes on cash and cash equivalents		95	99	7	2
Net increase in cash and cash equivalents		798,232	145,942	755,916	107,900
Add: Cash and cash equivalents at beginning of the year	4(1)	279,198	133,256	186,348	78,448
Cash and cash equivalents at end of the year	4(1)	1,077,430	279,198	942,264	186,348

The accompanying notes form an integral part of these financial statements.

Chairman and General Manager	Director and Chief Financial Officer	Deputy Chief Financial Officer and Accounting Chief
Wang Zhiqing	**Ye Guohua**	**Hua Xin**

Consolidated Statement of Changes in Shareholders' Equity

For the year ended 31 December 2015
(All amounts in thousands of Renminbi Yuan unless otherwise stated)
[English translation for reference only]

Items	Note	Attributable to equity shareholders of the Company						
		Share capital	Capital surplus	Specific reserve	Surplus reserve	Undistributed profits	Non-controlling interests	Total shareholders' equity
Balance at 1 January 2014		10,800,000	493,922	5,832	4,173,831	2,358,032	259,062	18,090,679
Movements for the year ended 31 December 2014								
Total comprehensive income								
Net (loss)/profit for the year	–	–	–	–		(716,427)	16,462	(699,965)
Appropriation of profits								
Distributions to shareholders	4(33)	–	–	–	–	(540,000)	(4,129)	(544,129)
Specific reserve								
Accrued	4(31)	–	–	167,732	–	–	–	167,732
Utilised	4(31)	–	–	(172,299)	–	–	–	(172,299)
Balance at 31 December 2014		10,800,000	493,922	1,265	4,173,831	1,101,605	271,395	16,842,018
Balance at 1 January 2015		10,800,000	493,922	1,265	4,173,831	1,101,605	271,395	16,842,018
Movements for the year ended 31 December 2015								
Total comprehensive income								
Net profit for the year		–	–	–	–	3,245,849	36,103	3,281,952
Employees share option scheme	4(30)	–	22,702	–	–	–	–	22,702
Appropriation of profits								
Appropriation to surplus reserves	4(32)	–	–	–	319,429	(319,429)	–	–
Distributions to shareholders		–	–	–	–	–	(10,460)	(10,460)
Specific reserve								
Accrued	4(31)	–	–	145,895	–	–	–	145,895
Utilised	4(31)	–	–	(146,207)	–	–	–	(146,207)
Balance at 31 December 2015		10,800,000	516,624	953	4,493,260	4,028,025	297,038	20,135,900

The accompanying notes form an integral part of these financial statements.

Chairman and General Manager	Director and Chief Financial Officer	Deputy Chief Financial Officer and Accounting Chief
Wang Zhiqing	**Ye Guohua**	**Hua Xin**

Statement of Changes in Shareholders' Equity

For the year ended 31 December 2015
(All amounts in thousands of Renminbi Yuan unless otherwise stated)
[English translation for reference only]

Items	Note	Share capital	Capital surplus	Specific reserve	Surplus reserve	Undistributed profits	Total shareholders' equity
Balance at 1 January 2014		10,800,000	493,922	–	4,173,831	2,128,507	17,596,260
Movements for the year ended 31 December 2014							
Total comprehensive income							
Net loss for the year		–	–	–	–	(649,684)	(649,684)
Appropriation of profits							
Distributions to shareholders		–	–	–	–	(540,000)	(540,000)
Specific reserve							
Accrued		–	–	163,333	–	–	163,333
Utilised		–	–	(163,333)	–	–	(163,333)
Balance at 31 December 2014		10,800,000	493,922	–	4,173,831	938,823	16,406,576
Balance at 1 January 2015		10,800,000	493,922	–	4,173,831	938,823	16,406,576
Movements for the year ended 31 December 2015							
Total comprehensive income							
Net profit for the year		–	–	–	–	3,194,290	3,194,290
Employees share option scheme		–	22,702	–	–	–	22,702
Appropriation of profits							
Distributions to shareholders		–	–	–	319,429	(319,429)	–
Specific reserve							
Accrued		–	–	139,964	–	–	139,964
Utilised		–	–	(139,964)	–	–	(139,964)
Balance at 31 December 2015		10,800,000	516,624	–	4,493,260	3,813,684	19,623,568

The accompanying notes form an integral part of these financial statements.

Chairman and General Manager	Director and Chief Financial Officer	Deputy Chief Financial Officer and Accounting Chief
Wang Zhiqing	**Ye Guohua**	**Hua Xin**

Notes to the Financial Statements

For the year ended 31 December 2015
(All amounts in thousands of Renminbi Yuan unless otherwise stated)
[English translation for reference only]

1 General information

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 with registered capital of RMB4,000,000,000, invested by its holding company-China National Petrochemical Corporation; these shares were converted from assets of former Shanghai Petrochemical Complex.

H shares were listed on the Hong Kong Stock Exchange on 26 July 1993, and listed on the New York Stock Exchange in the form of American Depositary Shares at the same time; the A shares were listed on the Shanghai Stock Exchange on 8 November 1993.

Sinopec Group completed its reorganisation on 25 February 2000. After the reorganisation, China Petroleum & Chemical Corporation ("Sinopec Corp.") was established. As part of the reorganisation, Sinopec Group 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.

As at 31 December 2015, total Share capital of the Company were 10,800,000 thousands, 1 Yuan per share.

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 5(1).

These financial statements were authorised for issue by the Board of Directors on 16 March 2016.

2 Summary of significant accounting policies and accounting estimates

The Group determines the accounting policies and accounting estimates based on its production and management features, mainly reflecting in provision for decline in the value of inventories(Note2(11)), depreciation of fixed assets(Note2(14)), impairment of long-term assets (Note2(19)), share-based payments (Note2(23)), revenue recognition (Note2(25)) and income tax(Note2(27)) etc.

The key assumptions adopted by the Group in evaluating significant accounting policies and accounting estimate are listed in Note 2(31).

(1) Basis of preparation

The financial statements are prepared in accordance with the Accounting Standard for Business Enterprises – Basic Standard, and the specific accounting standards and other relevant regulations issued by the Ministry of Finance on 15 February 2006 and in subsequent periods (hereafter collectively referred to as "the Accounting Standard for Business Enterprises" or "CAS").

The financial statements are prepared on a going concern basis.

For the year ended 31 December 2015
(All amounts in thousands of Renminbi Yuan unless otherwise stated)
[English translation for reference only]

2 Summary of significant accounting policies and accounting estimates *(continued)*

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

The financial statements of the Company for the year ended 31 December 2015 are in compliance with the Accounting Standards for Business Enterprises, and truly and completely present the financial position as of 31 December 2015 and the operating results, cash flows and other information for the year then ended of the Group and the Company.

(3) Accounting period

The Company's accounting year starts on 1 January and ends on 31 December.

(4) Recording currency

The recording currency is Renminbi (RMB).

(5) Business combinations

(a) Business combinations involving enterprises under common control

The consideration paid and net assets obtained by the absorbing party in a business combination are measured at the carrying amount. The difference between the carrying amount of the net assets obtained from and the carrying amount of the consideration paid for the combination is treated as an adjustment to capital surplus (capital premium). If the capital surplus (capital premium) is not sufficient to absorb the difference, the remaining balance is adjusted against undistributed profits. Costs directly attributable to the combination are included in profit or loss in the period in which they are incurred. Transaction costs associated with the issue of equity or debt securities for the business combination are included in the initially recognised amounts of the equity or debt securities.

(b) Business combinations involving enterprises not under common control

The cost of combination and identifiable net assets obtained by the acquirer in a business combination are measured at fair value at the acquisition date. Where the cost of the combination exceeds the acquirer's interest in the fair value of the acquiree's identifiable net assets, the difference is recognised as goodwill; where the cost of combination is lower than the acquirer's interest in the fair value of the acquiree's identifiable net assets, the difference is recognised in profit or loss for the current period. Costs directly attributable to the combination are included in profit or loss in the period in which they are incurred. Transaction costs associated with the issue of equity or debt securities for the business combination are included in the initially recognised amounts of the equity or debt securities.

For the year ended 31 December 2015
(All amounts in thousands of Renminbi Yuan unless otherwise stated)
[English translation for reference only]

2 Summary of significant accounting policies and accounting estimates *(continued)*

(6) Preparation of consolidated financial statements

The consolidated financial statements comprise the financial statements of the Company and all of its subsidiaries.

Subsidiaries are consolidated from the date on which the Group obtains control and are de-consolidated from the date that such control ceases. For a subsidiary that is acquired in a business combination involving enterprises under common control, it is included in the consolidated financial statements from the date when it, together with the Company, comes under common control of the ultimate controlling party. The portion of the net profits realised before the combination date is presented separately in the consolidated income statement.

In preparing the consolidated financial statements, where the accounting policies and the accounting periods are inconsistent between the Company and subsidiaries, the financial statements of the subsidiaries are adjusted in accordance with the accounting policies and the accounting period of the Company. For subsidiaries acquired from business combinations involving enterprises not under common control, the individual financial statements of the subsidiaries are adjusted based on the fair value of the identifiable net assets at the acquisition date.

All significant intra-group balances, transactions and unrealised profits are eliminated in the consolidated financial statements. The portion of subsidiaries' owners' equity and the portion of subsidiaries' net profits and losses and comprehensive incomes for the period not attributable to the Company are recognised as non-controlling interests, net profit attributed to non-controlling interests and total comprehensive incomes attributed to non-controlling interests and presented separately in the consolidated financial statements under owners' equity, net profits and total comprehensive income respectively. Unrealised profits and losses resulting from the sale of assets by the Company to its subsidiaries are fully eliminated against net profit attributable to owners of the parent. Unrealized profits and losses resulting from the sale of assets by a subsidiary to the Company are eliminated and allocated between net profit attributable to owners of the parent and non-controlling interests in accordance with the allocation proportion of the parent in the subsidiary. Unrealized profits and losses resulting from the sale of assets by one subsidiary to another are eliminated and allocated between net profit attributable to owners of the parent and non-controlling interests in accordance with the allocation proportion of the parent in the subsidiary.

If the accounting treatment of a transaction which considers the Group as an accounting entity is different from that considers the Company or its subsidiaries as an accounting entity, it is adjusted from the perspective of the Group.

(7) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits that can be readily drawn on demand, and short-term and highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

For the year ended 31 December 2015
(All amounts in thousands of Renminbi Yuan unless otherwise stated)
[English translation for reference only]

2 Summary of significant accounting policies and accounting estimates *(continued)*

(8) Foreign currency translation

Foreign currency transactions

Foreign currency transactions are translated into RMB using the exchange rates prevailing at the dates of the transactions.

At the balance sheet date, monetary items denominated in foreign currencies are translated into RMB using the spot exchange rates on the balance sheet date. Exchange differences arising from these translations are recognised in profit or loss for the current period, except for those attributable to foreign currency borrowings that have been taken out specifically for the acquisition or construction of qualifying assets, which are capitalised as part of the cost of those assets. Non-monetary items denominated in foreign currencies that are measured at historical costs are translated into RMB at the balance sheet date using the spot exchange rates at the date of the transactions. The effect of exchange rate changes on cash is presented separately in the cash flow statement.

(9) Financial Instruments

(a) Financial assets

(i) Financial assets classification

Financial assets are classified into the following categories at initial recognition: financial assets at fair value through profit or loss, receivables, available-for-sale financial assets and held-to-maturity investments. The classification of financial assets depends on the Group's intention and ability to hold the financial assets.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for the purpose of selling in the short term.

Receivables

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories at initial recognition. Available-for-sale financial assets are included in other current assets on the balance sheet if management intends to dispose of them within 12 months after the balance sheet date.

2 Summary of significant accounting policies and accounting estimates *(continued)*

(9) Financial Instruments *(continued)*

(a) Financial assets *(continued)*

(i) Financial assets classification (continued)

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed maturity and fixed or determinable payments that management has the positive intention and ability to hold to maturity. Held-to-maturity investments with maturities over 12 months when the investments were made but are due within 12 months at the balance sheet date are included in the current portion of non-current assets; held-to maturity investments with maturities no more than 12 months when the investments were made are included in other current assets.

(ii) Recognition and measurement

Financial assets are recognised at fair value on the balance sheet when the Group becomes a party to the contractual provisions of the financial instrument. In the case of financial assets at fair value through profit or loss, the related transaction costs incurred at the time of acquisition are recognised in profit or loss for the current period. For other financial assets, transaction costs that are attributable to the acquisition of the financial assets are included in their initially recognised amounts.

Financial assets at fair value through profit or loss and available-for-sale financial assets are subsequently measured at fair value. Investments in equity instruments are measured at cost when they do not have a quoted market price in an active market and whose fair value cannot be reliably measured. Receivables and held-to-maturity investments are measured at amortised cost using the effective interest method.

Gains or losses arising from change in fair value of financial assets at fair value through profit or loss are recognised in profit or loss. Interests and cash dividends received during the period in which such financial assets are held, as well as the gains or losses arising from disposal of these assets are recognised in profit or loss for the current year.

Gains or losses arising from change in fair value of available-for-sale financial assets are recognised directly in equity, except for impairment losses and foreign exchange gains and losses arising from translation of monetary financial assets. When such financial assets are derecognised, the cumulative gains or losses previously recognised directly into equity are recycled into profit or loss for the current period. Interests on available-for-sale investments in debt instruments calculated using the effective interest method during the period in which such investments are held and cash dividends declared by the investee on available-for-sale investments in equity instruments are recognised as investment income, which is recognised in profit or loss for the period.

2 Summary of significant accounting policies and accounting estimates *(continued)*

(9) Financial Instruments *(continued)*

(a) Financial assets *(continued)*

(iii) Impairment of financial assets

The Group assesses the carrying amounts of financial assets other than those at fair value through profit or loss at each balance sheet date. If there is objective evidence that a financial asset is impaired, the Group shall determine the amount of impairment loss.

A financial asset is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The objective evidence that indicate the impairment of available-for-sale investment in equity instruments includes a significant or prolonged decline in the fair value of available-for-sale investment in equity instruments. The Group assesses all kinds of available-for-sale investments in equity instruments individually at balance sheet date. Impairment loss should be recognized if the fair value of investments in equity instruments is less than 50% (50% inclusive) of its initial investment cost or in the case that the fair value has been less than the initial investment cost for more than one year (one year inclusive). The Group will consider other relevant factors, such as the price volatility, to determine whether an impairment loss should be recognised for the equity instrument if the decline in the fair value of an equity instrument is more than 20% (20% inclusive) but less than 50% of its initial investment cost.

When an impairment loss on a financial asset carried at amortised cost has occurred, the amount of loss is provided for at the difference between the asset's carrying amount and the present value of its estimated future cash flows (excluding future credit losses that have not been incurred). If there is objective evidence that the value of the financial asset recovered and the recovery is related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed and the amount of reversal is recognised in profit or loss.

In the case of impairment of available-for-sale financial assets, the cumulative loss arising from the decline in fair value that had been recognised directly in equity is removed from equity and recognised in impairment loss. For an investment in debt instrument classified as available-for-sale on which impairment losses have been recognised, if, in a subsequent period, it's fair value increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the previously recognised impairment loss is reversed and recognized in profit or loss for the current year. For an investment in an equity instrument classified as available-for-sale on which impairment losses have been recognised, the increase in its fair value in a subsequent period is recognised in equity directly.

If an impairment loss on an available-for-sale financial asset measured at cost incurs, the amount of loss is measured at the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. The previously recognised impairment loss will not be reversed in subsequent periods.

For the year ended 31 December 2015
(All amounts in thousands of Renminbi Yuan unless otherwise stated)
[English translation for reference only]

2 Summary of significant accounting policies and accounting estimates *(continued)*

(9) Financial instruments *(continued)*

(a) Financial assets *(continued)*

(iv) Derecognition of financial assets

A financial asset is derecognised when it meets one of the following conditions:

- 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.
- Or if the Group has neither transferred nor retained substantially all of the risks and rewards of the asset, but the Group has ceased the control over the financial asset.

On derecognition of a financial asset, the difference between the carrying amount and the aggregate consideration received and the accumulative amount of the changes of fair value originally recorded in the shareholders' equity is recognised in profit or loss.

(b) Financial liabilities

Financial liabilities are classified into the following categories at initial recognition: financial liabilities at fair value through profit or loss and other financial liabilities. Financial liabilities of the Group mainly comprise of other financial liabilities, including payables and borrowings.

Payables include accounts payable, notes payable, other payables, etc., which are initially recorded at fair value and measured subsequently at amortised cost using the effective interest method subsequently.

Borrowings and notes payable are recorded initially at fair value, net of transaction costs incurred, and subsequently carried at amortised cost using the effective interest method.

Other financial liabilities with maturities no more than one year (including one year) are classified as current liabilities. Other financial liabilities with maturity over one year but are due within one year (including one year) at balance sheet date are classified as the current portion of non-current liabilities. Others are classified as non-current liabilities.

A financial liability shall be derecognised or partly derecognised when the current obligation is discharged or partly discharged. The difference between the carrying amount of the derecognised portion of the financial liability and the consideration paid shall be recognised in profit or loss.

For the year ended 31 December 2015
(All amounts in thousands of Renminbi Yuan unless otherwise stated)
[English translation for reference only]

2 Summary of significant accounting policies and accounting estimates *(continued)*

(9) Financial instruments *(continued)*

(c) Determination of fair value of financial instruments

The fair value of a financial instrument that is traded in an active market is determined at the quoted price in the active market. The fair value of a financial instrument that is not traded in an active market is determined by using a valuation technique which is applicable in the current situation and support with enough available data and other information. Valuation techniques mainly include market approach and income approach.

When a valuation technique is used to establish the fair value of a financial instrument, it chooses the inputs which are consistent with the asset or liability's characteristics considered by market participants in the transaction of the relevant asset or liability and makes the maximum use of relevant observable inputs. Unobservable inputs are used when it is unavailable or impracticable to obtain relevant observable inputs.

(10) Receivables

Receivables comprise accounts receivable and other receivables. Accounts receivable arising from sale of goods or rendering of services are initially recognised at fair value of the contractual payments from the buyers or service recipients.

(a) Receivables that are individually significant and subject to separate provision

Receivables with amounts that are individually significant are subject to separate assessment for impairment. If there exists objective evidence that the Group will not be able to collect the amount under the original terms, a provision for bad debts of that receivable is made.

Judgement basis or criteria for receivables that are individually significant is over RMB10,000 thousands.

Provision for bad debts for receivables that are individually significant and assessed individually is made at the difference between its carrying amount and the present value of its estimated future cash flows.

(b) Receivables that are combined into certain groups and subject to provision by groups

Receivables with amounts that are not individually significant and those receivables that have been individually assessed for impairment and have not been found impaired are classified into certain groupings based on their credit risk characteristics. The provision for bad debts is determined based on the historical loss experience for the groupings of receivables with similar credit risk characteristics, taking into consideration of the current circumstances.

For the year ended 31 December 2015
(All amounts in thousands of Renminbi Yuan unless otherwise stated)
[English translation for reference only]

2 Summary of significant accounting policies and accounting estimates *(continued)*

(10) Receivables *(continued)*

(b) Receivables that are combined into certain groups and subject to provision by groups *(continued)*

Basis for determination of groups is as follows:

Group Name	Criteria
Group 1	Groups of receivables with similar credit risk characteristics
Group 2	Receivables for related parties except for the accounts receivables that are individually significant and subject to separate provision,

Method for provision by groups are summarised as followed:

Group Name	Method for provision
Group 1	Ageing analysis method
Group 2	Percentage of bad debt provision is 0%

Ratios of provision for bad debts used in the ageing analysis method for groups are as follows:

	Provisions as a percentage of accounts receivable	Provisions as a percentage of other receivables
Within one year	–	–
Over one year but within two years	30%	30%
Over two years but within three years	60%	60%
Over three years	100%	100%

(c) Receivables that are individually insignificant but subject to separate provision

If there exists objective evidence that the Group will not be able to collect the amount under the original terms.

The impairment loss and the provision for bad debts are determined based on the amount of the present value of the future cash flows expected to be derived from the asset below the carrying amount.

(d) When the Group transfers the accounts receivable to the financial institutions without recourse, the difference between the proceeds received from the transaction and their carrying amounts and the related taxes is recognised in profit or loss for the current period.

2 Summary of significant accounting policies and accounting estimates *(continued)*

(11) Inventories

(a) Categories of inventories

Inventories include raw materials, work in progress, finished goods, spare parts and consumables, and are measured at the lower of cost and net realisable value.

(b) Measurement of cost of inventories

Cost is determined using the weighted average method. The cost of finished goods and work in progress comprise raw materials, direct labour and systematically allocated production overhead based on the normal production capacity.

(c) Basis for determining net realisable value of inventories and method of provision for impairment of inventories

Provision for decline in the value of inventories is determined at the excess amount of the carrying amounts of the inventories over their net realisable value. Net realisable value is determined based on the estimated selling price in the ordinary course of business, less the estimated costs to completion and estimated costs necessary to make the sale and related taxes.

(d) The Group adopts the perpetual inventory system.

(e) Amortisation methods for low-value consumables

Low value consumables are expensed upon issuance.

(12) Long-term equity investments

Long-term equity investments comprise the Company's long-term equity investments in its subsidiaries, and the Group's long-term equity investments in its joint ventures and associates.

Subsidiaries are the investees over which the Company is able to exercise control. A joint venture is a joint arrangement which is structured through a separate vehicle over which the Group has joint control together with other parties and only has rights to the net assets of the arrangement based on legal forms, contractual terms and other facts and circumstances. An associates is the investee over which the Group has significant influence by participating in the financial and operating policy decisions.

Investments in subsidiaries are presented in the Company's financial statements using the cost method, and are adjusted to the equity method when preparing the consolidated financial statements. Investments in joint ventures and associates are accounted for using the equity method.

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2 Summary of significant accounting policies and accounting estimates *(continued)*

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

(a) Initial recognition

For 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 carrying amount of the subsidiary's equity at the combination date. For a long-term equity investment obtained through a business combination not involving enterprises under common control, the initial investment cost is the combined cost issued by the Company, in exchange for control of the acquire.

For long-term equity investment acquired other than through a business combination, the initial investment cost is recognised at the actual consideration paid if the Group acquires the investment by cash, or at the fair value of the equity securities issued if an investment is acquired by issuing equity securities.

(b) Subsequent measurement

Under the cost method of accounting, long-term equity investments are measured at initial investment cost, investment income is recognised in profit or loss for the cash dividends or profit distribution declared by the investee.

For long-term equity investments accounted for using the equity method, where the initial investment cost exceeds the fair value of the Group's share of the investee's identifiable net assets at the time of acquisition, the investment is initially measured at cost; Where the initial investment cost is less than the fair value of the Group's share of the investee's identifiable net assets at the time of acquisition, the difference is included in profit or loss for the current period and the cost of the long-term equity investment is adjusted upwards accordingly.

Under the equity method of accounting, the Group recognises the investment income according to its share of net profit or loss of the investee. The Group discontinues recognising its share of net losses of an investee after the carrying amount of the long-term equity investment together with any long-term interests that, in substance, form part of the investor's net investment in the investee are reduced to zero. However, if the Group has obligations for additional losses and the criteria with respect to recognition of provisions under the accounting standards on contingencies are satisfied, the Group continues recognising the investment losses and the provisions. For changes in shareholders' equity of the investee other than those arising from its net profit or loss, the Group records its proportionate share directly into capital surplus, provided that the Group's proportion of shareholding in the investee remains unchanged. The carrying amount of the investment is reduced by the Group's share of the profit distribution or cash dividends declared by an investee. The unrealised profits or losses arising from the intra-group transactions amongst the Group and its investees are eliminated in proportion to the Group's equity interest in the investees, and then based on which the investment gain or losses are recognised. For the loss on the intra-group transaction amongst the Group and its investees attributable to asset impairment, and the related unrealised loss is not eliminated.

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2 Summary of significant accounting policies and accounting estimates *(continued)*

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

(c) Definition of control, joint control or significant influence over the investees

Control refers to the power to govern the financial and operating policies of an investee, so as to obtain benefits from their operating activities. In determining whether the Company is able to exercise control over the investee, the effect of potential voting rights of the investee shall be considered, such as convertible debts and warrants currently exercisable.

Joint control is the contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control.

Significant influence refers to the power to participate in making decisions on the financial and operating policies of an enterprise, but not the power to control, or jointly control, the formulation of such policies with other parties.

(d) Impairment of Long-term equity investments

The carrying amount of long-term equity investments in subsidiaries, joint ventures and associates shall be reduced to the recoverable amount if the recoverable amount is below the carrying amount (Note 2(19)).

(13) Investment properties

Investment properties, including land use rights that have already been leased out, buildings that are held for the purpose of leasing and buildings that is being constructed or developed for future use for leasing, are measured initially at cost. Subsequent expenditures incurred in relation to an investment property are included in the cost of the investment property when it is probable that the associated economic benefits will flow to the Group and their costs can be reliably measured; otherwise, the expenditures are recognised in profit or loss in the period in which they are incurred.

The Group adopts the cost model for subsequent measurement of investment properties. Buildings and land use rights are depreciated or amortised to their estimated net residual values over their estimated useful lives. The estimated useful lives, the estimated net residual values that are expressed as a percentage of cost and the annual depreciation rates of investment properties are as follows:

	Estimated useful lives	Estimated net residual values	Annual depreciation rates
Buildings	30-40 years	3%	2.43%-3.23%

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2 Summary of significant accounting policies and accounting estimates *(continued)*

(13) Investment properties *(continued)*

When an investment property is transferred to owner-occupied properties, it is reclassified as fixed asset or intangible asset at the date of the transfer. When an owner-occupied property is transferred out for earning rentals or for capital appreciation, the fixed asset or intangible asset is reclassified as investment properties at its carrying amount at the date of the transfer.

The investment property's estimated useful life, net residual value and depreciation (amortisation) method applied are reviewed and adjusted as appropriate at each year-end.

An investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. The net amount of proceeds from sale, transfer, retirement or damage of an investment property after its carrying amount and related taxes and expenses is recognised in profit or loss for the current period.

When the recoverable amount of investment properties is less than its carrying amount, a provision for impairment and an impairment loss are recognised for the amount by which the asset's carrying amount exceeds its recoverable amount (Note 2 (19)).

(14) Fixed assets

(a) Recognition and initial measurement of fixed assets

Fixed assets comprise buildings, plant and machinery, vehicles, other equipment, etc.

Fixed asset is recognized when it is probable that the associated economic benefits will flow to the Group and the related cost can be reliably measured. Fixed assets purchased or constructed by the Group are initially measured at cost at the time of acquisition. The fixed assets injected by the state-owned shareholder during the restructuring were initially recorded at the valuated amount approved by the relevant authorities managing state-owned assets.

Subsequent expenditures incurred for a fixed asset are included in the cost of the fixed asset when it is probable that the associated economic benefits will flow to the Group and the related cost can be reliably measured. The carrying amount of the replaced part is derecognised. All the other subsequent expenditures are recognised in profit or loss in the period in which they are incurred.

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2 Summary of significant accounting policies and accounting estimates *(continued)*

(14) Fixed assets *(continued)*

(b) Depreciation of fixed assets

Fixed assets are depreciated using the straight-line method to allocate the cost of the assets to their estimated residual values over their estimated useful lives. For the fixed assets that have been provided for impairment loss, the related depreciation charge is prospectively determined based upon the adjusted carrying amounts over their remaining useful lives.

The estimated useful lives, the estimated residual values expressed as a percentage of cost and the annual depreciation rates of fixed assets are as follows:

	Estimated useful lives	Estimated residual values	Annual depreciation rates
Buildings	12-40 years	0% to 5%	2.4% to 8.3%
Plant and machinery	12-20 years	0% to 5%	4.8% to 8.3%
Vehicles and other equipment	4-20 years	0% to 5%	4.8% to 25.0%

The estimated useful life, the estimated net residual value of a fixed asset and the depreciation method applied to the asset are reviewed, and adjusted as appropriate at each year-end.

(c) When the recoverable amount of fixed assets is less than its carrying amount, a provision for impairment and an impairment loss are recognised for the amount by which the asset's carrying amount exceeds its recoverable amount (Note 2 (19)).

(d) Disposal of fixed assets

A fixed asset is derecognised on disposal or when no future economic benefits are expected from its use or disposal. The amount of proceeds from disposals on sale, transfer, retirement or damage of a fixed asset net of its carrying amount and related taxes and expenses is recognised in profit or loss for the current period.

(15) Construction in progress

Construction in progress is measured at actual cost. Actual cost comprises construction costs, installation costs, borrowing costs that are eligible for capitalisation and other costs necessary to bring the fixed assets ready for their intended use. Construction in progress is transferred to fixed assets when the assets are ready for their intended use, and depreciation begins from the following month. When the recoverable amount of construction in progress is less than its carrying amount, a provision for impairment and an impairment loss are recognised for the amount by which the asset's carrying amount exceeds its recoverable amount (Note 2 (19)).

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2 Summary of significant accounting policies and accounting estimates *(continued)*

(16) Borrowing costs

The borrowing costs that are directly attributable to the acquisition and construction of a fixed asset that needs a substantially long period of time for its intended use commence to be capitalised and recorded as part of the cost of the asset when expenditures for the asset and borrowing costs have been incurred, and the activities relating to the acquisition and construction that are necessary to prepare the asset for its intended use have commenced. The capitalisation of borrowing costs ceases when the asset under acquisition or construction becomes ready for its intended use and the borrowing costs incurred thereafter are recognised in profit or loss for the current period. Capitalisation of borrowing costs is suspended during periods in which the acquisition or construction of a fixed asset is interrupted abnormally and the interruption lasts for more than 3 months, until the acquisition or construction is resumed.

For the specific borrowings obtained for the acquisition or construction of a qualifying fixed asset, the amount of borrowing costs eligible for capitalisation is determined by deducting any interest earned from depositing the unused specific borrowings in the banks or any investment income arising on the temporary investment of those borrowing during the capitalisation period.

For the general borrowings obtained for the acquisition or construction of a qualifying fixed asset, the amount of borrowing costs eligible for capitalisation is determined by applying the weighted average effective interest rate of general borrowings used, to the weighted average of the excess amount of cumulative expenditures on the asset over the amount of specific borrowings. The effective interest rate is the rate at which estimated future cash flows during the period of expected duration or shorter period applied discounted to the initial amount of the borrowings.

(17) Intangible assets

Intangible assets include land use rights and patents, and are measured at cost. The intangible assets injected by the state-owned shareholder during the restructuring were initially recorded at the valuated amount approved by the relevant authorities managing state-owned assets.

(a) Land use rights

Land use rights are amortised on the straight-line basis over their approved use period of 30-50 years. If the acquisition costs of the land use rights and the buildings located thereon cannot be reasonably allocated between the land use rights and the buildings, all of the acquisition costs are recognised as fixed assets.

(b) Patents

Patents are amortised on a straight-line basis over the patent protection of 10-28 years as stipulated by the laws.

(c) Periodical review of useful life and amortisation method

For an intangible asset with a finite useful life, review of its useful life and amortisation method is performed at each year-end, with adjustment made as appropriate.

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2 Summary of significant accounting policies and accounting estimates *(continued)*

(17) Intangible assets *(continued)*

(d) Research and development

The expenditure on an internal research and development project is classified into expenditure on the research phase and expenditure on the development phase based on its nature and whether there is material uncertainty that the research and development activities can form an intangible asset at end of the project.

Expenditure on the research phase is recognised in profit or loss in the period in which it is incurred. Expenditure on the development phase is capitalised only if all of the following conditions are satisfied:

- it is technically feasible to complete the research and development project so that it will be available for use or sale;
- management intends to complete the research and development project, and use or sell it;
- it can be demonstrated how the research and development project will generate economic benefits;
- there are adequate technical, financial and other resources to complete the development and the ability to use or sell the research and development project; and
- the expenditure attributable to the research and development project during its development phase can be reliably measured.

Other development expenditures that do not meet the conditions above are recognised in profit or loss in the period in which they are incurred. Development costs previously recognised as expenses are not recognised as an asset in a subsequent period. Capitalised expenditure on the development phase is presented as development costs in the balance sheet and transferred to intangible assets at the date that the asset is ready for its intended use.

(e) Impairment of intangible assets

When the recoverable amount of an intangible asset is less than its carrying amount, a provision for impairment and an impairment loss are recognised for the amount by which the asset's carrying amount exceeds its recoverable amount (Note 2 (19)).

(18) Long-term prepaid expenses

Long-term prepaid expenses mainly include the catalyst expenditures, leasehold improvements and other expenditures that have been incurred but should be recognised as expenses over more than one year in the current and subsequent periods. Long-term prepaid expenses with the book value net of estimated residual value are amortised on the straight-line basis over the expected beneficial periods and are presented at actual expenditure net of accumulated amortisation.

Catalyst expenditures are amortized on a straight-line method within 2 to 5 years.

2 Summary of significant accounting policies and accounting estimates *(continued)*

(19) Impairment of long-term assets

Fixed assets, construction in progress, intangible assets with finite useful lives, long-term prepaid expenses, investment properties measured using the cost model and long-term equity investments in subsidiaries, joint ventures and associates are tested for impairment if there is any indication that the assets may be impaired at the balance sheet date. If the result of the impairment test indicates that the recoverable amount of an asset is less than its carrying amount, a provision for impairment and an impairment loss are recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and the present value of the future cash flows expected to be derived from the asset. Provision for asset impairment is determined and recognised on the individual asset basis. If it is not possible to estimate the recoverable amount of an individual asset, the recoverable amount of a group of assets to which the asset belongs is determined. A group of assets is the smallest group of assets that is able to generate independent cash inflows.

Once the above asset impairment loss is recognised, it will not be reversed for the value recovered in the subsequent periods.

(20) Safety production costs

According to the decision of the State Council on Further Strengthening the work of production safety (Guofa No.2 2004), Shanghai Municipal Government to implement the State Council on Further Strengthening corporate safety work notice (Hufufa No.35 2010) and Safe production costs extraction and use of management practices (Caiqi No.16 2012) issued by the Ministry of Finance and the national production safety supervision administration on 2 February 2012, The Group extracted safety production costs in a certain percentage of sales revenue from the dangerous goods in previous year, which is used for safety costs.

The safety production costs, accrued in accordance with the above regulations, shall be charged in relevant costs or profit and loss, and in the specific reserve. Safety production costs, which belong to expenses, directly offset the special reserves. If the costs formed into fixed assets, the special reserves shall be offset according to the cost forming into fixed assets, and recognize the same amount of accumulated depreciation. This fixed asset shall no longer accrue depreciation in the following period.

(21) Employee benefits

Employee benefits include short-term employee benefits, post-employment benefit and termination benefits provided in various forms of consideration in exchange for service rendered by employees or compensations for the termination of employment relationship.

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2 Summary of significant accounting policies and accounting estimates *(continued)*

(21) Employee benefits

(a) Short-term employee benefits

Short-term employee benefits include employee wages or salaries, bonus, allowances and subsidies, staff welfare, premiums or contributions on medical insurance, work injury insurance and maternity insurance, housing funds, union running costs and employee education costs, short-term paid absences. The employee benefit liabilities are recognised in the accounting period in which the service is rendered by the employees, with a corresponding charge to the profit or loss for the current period or the cost of relevant assets. Employee benefits which are non-monetary benefits are measured at fair value.

(b) Post-employment benefits

The Group classifies post-employment benefit plans as either defined contribution plans or defined benefit plans. Defined contribution plans are post-employment benefit plans under which the Group pays fixed contributions into a separate fund and will have no obligation to pay further contributions; and Defined benefit plans are post-employment benefit plans other than defined contribution plans. During the reporting period, the Group's post-employment benefits mainly include basic pensions, unemployment insurance and supplemental basic pensions, all of which belong to the defined contribution plans.

Basic pensions

The Group's employees participate in the basic pension plan set up and administered by local authorities of Ministry of Human Resource and Social Security. Monthly payments of premiums on the basic pensions are calculated according to prescribed bases and percentage by the relevant local authorities. When employees retire, the relevant local authorities are obliged to pay the basic pensions to them. The amounts based on the above calculations are recognised as liabilities in the accounting period in which the service has been rendered by the employees, with a corresponding charge to the profit or loss for the current period or the cost of relevant assets.

(c) Termination benefits

When the Group terminates the employment relationship with employees before the employment contracts expire, 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 are 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.

Termination benefits expected to be paid in one year are listed as current liabilities.

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2 Summary of significant accounting policies and accounting estimates *(continued)*

(22) Profit distribution

Proposed profit distribution is recognised as a liability in the period in which it is approved by the Shareholders' meeting.

(23) Share-based payments

(a) Types of Share-based payment

The term "share-based payment" refers to a transaction in which an enterprise grants equity instruments or undertakes equity-instrument-based liabilities in return for services from employee or other parties. Equity instruments include equity instruments of the Company itself or its subsidiaries.

Equity-settled share-based payment transactions

The Group's stock option incentive plans are equity-settled share-based payments and are measured at fair value of equity instruments granted to employees on the date of the grant. If the right cannot be exercised until the vesting period comes to an end and until the prescribed performance conditions are met, then within the vesting period, the services obtained in the current period shall, based on the best estimate of the number of vested equity instruments, be included in the relevant costs or expenses and the capital reserves shall be increased accordingly at the fair value of the equity instruments on the date of the grant. If the subsequent information indicates that the number of vested equity instruments is different from the previous estimate, an adjustment shall be made and on the vesting date, and the estimate shall be adjusted to equal the number of the actually vested equity instruments. On the vesting date, an enterprise shall, based on the number of the equity instruments of which the right is actually exercised, confirm share capital and share premium, and carry forward the capital surplus recognised within the vesting period.

(b) Method for determining the fair value of share options

The Group uses Black-Scholes valuation model to determine the fair value of the share options.

(c) Estimate basis of the the number of options

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-marketing performance and service conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity. As at the vesting date, the estimates of the number of options should be same with the actual exercised number.

(d) Accounting treatment for share-based payments exercise

When the options are exercised at the vesting date, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (and share premium).

2 Summary of significant accounting policies and accounting estimates *(continued)*

(24) Provisions

Provisions for contingent liabilities etc. are recognised when the Group has a present obligation, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the obligation can be measured reliably.

A provision is initially measured at the best estimate of the expenditure required to settle the related present obligation. Factors surrounding a contingency, such as the risks, uncertainties and the time value of money, are taken into account as a whole in reaching the best estimate of a provision. Where the effect of the time value of money is material, the best estimate is determined by discounting the related future cash outflows. The increase in the discounted amount of the provision arising from passage of time is recognised as interest expense.

The carrying amount of provisions is reviewed at each balance sheet date and adjusted to reflect the current best estimate.

(25) Revenue recognition

The amount of revenue is determined in accordance with the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of discounts and returns.

Revenue is recognised when the economic benefits associated with the transaction will flow to the Group, the related revenue can be reliably measured, and the specific revenue recognition criteria have been met for each type of the Group's activities as described below:

(a) Sale of goods

Revenue from sale is recognised when all of the general conditions stated above and the following conditions are satisfied: the significant risks and rewards of ownership of goods have been transferred to the buyer, as well as the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold. The Group recognizes revenue when goods are sent to designated place or customer take delivery of the goods from Group's designated warehouse, and confirmed receipt by customers according to the terms of contract.

(b) Rendering of services

Revenue from the rendering of services is recognised using the percentage of completion method, with the stage of completion being determined based on proportion of costs incurred to date to the estimated total costs.

(c) Transfer of asset use rights

Interest income is recognised on a time-proportion basis using the effective interest method.

Income from an operating lease is recognised on a straight-line basis over the period of the lease.

2 Summary of significant accounting policies and accounting estimates *(continued)*

(26) Government grants

Government grants are transfers of monetary assets or non-monetary assets from the government to the Group at no consideration, including tax refund, financial subsidies etc.

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, or nominal amount when fair value not reliably measured.

A government grant related to an asset means grant that used for acquisition, construction or otherwise to form long-term assets. A government grant related to income is grant in addition to government grant related to an asset.

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 measured at nominal amount is recognised in profit or loss for the period immediately.

A government grant related to income 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.

(27) Deferred tax assets and deferred tax liabilities

Deferred tax assets and deferred tax liabilities are calculated and recognised based on the differences arising between the tax bases of assets and liabilities and their carrying amounts (temporary differences). Deferred tax asset is recognised for the deductible losses that can be carried forward to subsequent years for deduction of the taxable profit in accordance with the tax laws. No deferred tax liability is recognised for a temporary difference arising from the initial recognition of goodwill. No deferred tax asset or deferred tax liability is recognised for the temporary differences resulting from the initial recognition of assets or liabilities due to a transaction other than a business combination, which affects neither accounting profit nor taxable profit (or deductible loss). At the balance sheet date, deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled.

Deferred tax assets are only recognised for deductible temporary differences, deductible losses and tax credits to the extent that it is probable that taxable profit will be available in the future against which the deductible temporary differences, deductible losses and tax credits can be utilised.

2 Summary of significant accounting policies and accounting estimates *(continued)*

(27) Deferred tax assets and deferred tax liabilities *(continued)*

Deferred tax liabilities are recognised for temporary differences arising from investments in subsidiaries, associates and joint ventures, except where the Group is able to control the timing of reversal of the temporary difference, and it is probable that the temporary difference will not reverse in the foreseeable future. When it is probable that the temporary differences arising from investments in subsidiaries, associates and joint ventures will be reversed in the foreseeable future and that the taxable profit will be available in the future against which the temporary differences can be utilised, the corresponding deferred tax assets are recognised.

Deferred tax assets and liabilities are offset when:

- the deferred taxes are related to the same tax payer within the Group and the same taxation authority; and

- that tax payer within the Group has a legally enforceable right to offset current tax assets against current tax liabilities.

(28) Leases

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. An operating lease is a lease other than a finance lease. Lease payments under an operating lease are recognised on a straight-line basis over the period of the lease, and are either capitalised as part of the cost of related assets, or charged as an expense for the current period.

(29) 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;

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2 Summary of significant accounting policies and accounting estimates *(continued)*

(29) Related parties *(continued)*

e. enterprises or individuals if a party has control or joint control over both the enterprises or individuals and the Group;

f. joint ventures of the Group, including subsidiaries of joint ventures;

g. associates of the Group, including subsidiaries of associates;

h. principal individual investors of the Group 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 company;

k. close family members of key management personnel of the Company's parents; and

l. other enterprises that are controlled or jointly controlled by principal individual investors, key management personnel of the Group, or close family members of such individuals.

In addition to the related parties stated above determined in accordance with the requirements of CAS, the following enterprises and individuals (but not limited to) are considered as related parties based on the disclosure requirements of Administrative Procedures on the Information Disclosures of Listed Companies issued by the CSRC:

m. enterprises or individuals that act a concert, that hold 5% or more of the Company's shares;

n. individuals who directly or indirectly hold more than 5% of the Company's shares and their close family members, supervisors of the listed companies and their close family members;

o. enterprises that satisfied any of the aforesaid conditions in (a), (c) or (m) during the past 12 months or will satisfy them within the next 12 months pursuant to a relevant agreement;

p. individuals who satisfied any of the aforesaid conditions in (i), (j) or (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 the subsidiaries controlled by the Company, which are controlled directly or indirectly by an individual defined in (i), (j), (n) or (p), or in which such an individual assumes the position of a director or senior executive.

2 Summary of significant accounting policies and accounting estimates *(continued)*

(30) Segment information

The Group identifies operating segments based on the internal organisation structure, management requirements and internal reporting system, and discloses segment information of reportable segments which is determined on the basis of operating segments.

An operating segment is a component of the Group that satisfies all of the following conditions: (1) the component is able to earn revenues and incur expenses from its ordinary activities; (2) whose operating results are regularly reviewed by the Group's management to make decisions about resources to be allocated to the segment and to assess its performance, and (3) for which the information on financial position, operating results and cash flows is available to the Group. If two or more operating segments have similar economic characteristics and satisfy certain conditions, they are aggregated into one single operating segment.

(31) Significant accounting policies and accounting estimates

The Group continually evaluates the critical accounting estimates and key judgments applied based on historical experience and other factors, including expectations of future events that are believed to be reasonable.

The critical accounting estimates and key assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next accounting year are outlined below:

(i) Estimated useful life and residual value of fixed assets

The Group assessed the reasonableness of estimated useful life of fixed assets in line with the historical experience on the basis of similar function or characteristic for the assets. If there are significant changes in estimated useful lives and residual value from previous years, the depreciation expenses for future periods are adjusted.

The Group reviews and adjusts the useful lives and estimated residual value of the assets regularly at the end of each year end.

(ii) Impairment of long-term assets

Long-term assets are reviewed for impairment at each balance sheet date when events or changes in circumstance have indicated that their carrying amounts may not be recoverable. If any such evidence indicated that their carrying amounts may not be recoverable, the carrying amounts exceed the recoverable amounts would be recognized as impairment loss and accounted in current profit or loss.

The recoverable amount of an asset (or an asset group) is the greater of its net selling price and its present value of expected future cash flows. In assessing value in use, significant judgements are exercised over the assets' (or the asset group's) production and sales, selling prices, 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 prices and related operating expenses based on reasonable and supportable assumptions.

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2 Summary of significant accounting policies and accounting estimates *(continued)*

(31) Significant accounting policies and accounting estimates *(continued)*

(iii) Inventory provision

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 cost of sales. 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.

(iv) Income taxes

There are many transactions and events for which the ultimate tax determination is uncertain during the ordinary course of business. Significant judgment is required from the Group in determining the provision for income taxes in each of these jurisdictions. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

In addition, the Group 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 utilized. If profit forecasts deviate from original estimates, the deferred tax assets will need to be adjusted in future, which has significant impact on profit.

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 2015, the Group would need to generate future taxable income of at least RMB284 million. Based on estimated forecast and historical experience, management believes that it is probable that the Group will generate sufficient taxable income.

(All amounts in thousands of Renminbi Yuan unless otherwise stated)

3 Taxation

The main categories and rates of taxes applicable to the Group are set out below:

Category	Tax base	Tax rate
Enterprise income tax	Taxable income	25%
Value added tax ("VAT") (a)	Taxable value added amount (Tax payable is calculated using the taxable sales amount multiplied by the applicable tax rate less deductible VAT input of current year)	6%, 11%, 13% and 17%
Business tax (a)	Taxable turnover amount	5%
Consumption tax	Taxable sales amount	Gasoline: RMB 1,943~2,110 per ton; Diesel oil: RMB 1,294~1,411 per ton
City maintenance and construction tax	Consumption tax payable, business tax payable and VAT payable	1% and 7%

(a) Pursuant to the Circular on the Pilot Plan for Levying VAT in Place of Business Tax (Caishui No.110, 2011) and the Circular on the Pilot Practice of Levying VAT in Place of Business Tax for the Transportation Industry and Some Modern Service Industries in Shanghai (Caishui No.111, 2011) jointly issued by the Ministry of Finance and the State Administration of Taxation, revenue from transportation industry, modern service industries tangible asset's rental income, port service and warehousing service are subject to VAT since 1 January 2012, the applicable tax rate of tangible assets' rental income is 17%, revenue from transportation industry is 11%, modern service, port service and warehousing service income is 6%.

4 Notes to the consolidated financial statements

(1) Cash at bank and on hand

	31 December 2015	31 December 2014
Cash on hand	7	14
Cash at bank	1,077,229	277,056
Other monetary funds	194	2,128
	1,077,430	279,198

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4 Notes to the consolidated financial statements *(continued)*

(2) Notes receivable

	31 December 2015	31 December 2014
Trade acceptance notes	4,680	7,065
Bank acceptance notes	1,002,693	1,365,212
	1,007,373	1,372,277

All of the above notes held are short-term acceptance notes due within six months. No notes receivables, included in the above, were pledged or transferred to accounts receivable due to non-performance of the issuers in 2015.

(a) As at 31 December 2015, the Group had no pledged bank acceptance notes to issue letters of credit (31 December 2014: RMB80,669 thousands).

(b) As at 31 December 2015, unmatured notes receivable that have been endorsed or discounted by the Group is as follows:

	Derecognized	Not derecognized
Bank acceptance notes	1,151,439	–

(3) Dividends receivable

	31 December 2015	31 December 2014
BOC-SPC Gases Company Limited	–	19,372

(4) Interest receivable

	31 December 2015	31 December 2014
Interest on bank deposits	2,420	–
Interest on entrusted loans	71	76
	2,491	76

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4 Notes to the consolidated financial statements *(continued)*

(5) Accounts receivable

	31 December 2015	31 December 2014
Amounts due from related parties (Note 7(6))	1,136,011	997,238
Amounts due from third parties	488,584	630,931
	1,624,595	1,628,169
Less: provision for bad debts	(24)	(48)
	1,624,571	1,628,121

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

	31 December 2015	31 December 2014
Within one year	1,624,530	1,628,093
Over one year but within two years	55	36
Over two years but within three years	7	8
Over three years	3	32
	1,624,595	1,628,169
Less: provision for bad debts	(24)	(48)
	1,624,571	1,628,121

As at 31 December 2015 and 31 December 2014, the Group has no any significant overdue accounts receivable.

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4 Notes to the consolidated financial statements *(continued)*

(5) Accounts receivable *(continued)*

(b) Accounts receivable by categories are analysed as follows:

	31 December 2015				31 December 2014			
	Gross carrying amount		Provision for bad debts		Gross carrying amount		Provision for bad debts	
	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)
Individually significant and subject to separate provision	–	–	–	–	–	–	–	–
Subject to provision by groups:								
– group 1	488,584	30.07	24	0.01	630,931	38.75	48	0.01
– group 2	1,136,011	69.93	–	–	997,238	61.25	–	–
Individually insignificant but subject to separate provision	–	–	–	–	–	–	–	–
	1,624,595	100.00	24	—	1,628,169	100.00	48	—

Classification of accounts receivable, refer to Note2(10(b)).

(c) Subject to provision by group 1 are as follows:

	31 December 2015			31 December 2014		
	Gross carrying amount	Provision for bad debts		Gross carrying amount	Provision for bad debts	
	Amount	Amount	Percentage (%)	Amount	Amount	Percentage (%)
Within one year	488,519	–	–	630,855	–	–
Over one year but within two years	55	17	30.00	36	11	30.00
Over two years but within three years	7	4	60.00	8	5	60.00
Over three years	3	3	100.00	32	32	100.00
	488,584	24	—	630,931	48	—

There are no collateral over the above accounts receivable with provision for bad debts.

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4 Notes to the consolidated financial statements *(continued)*

(5) Accounts receivable *(continued)*

(d) In 2015, the Group assessed the impairment on an individual basis in accordance with the accounting policy as described in Note 2(10), and there were no provision for accounts receivable that are individually significant or insignificant but assessed for impairment individually.

(e) In 2015, the Group had no accounts receivable with fully or substantially write-off or write-back of bad debts which had been fully or substantially provided for in prior years.

(f) The Group had no material accounts receivable that are written off during the year.

(g) As at 31 December 2015, the top five accounts receivable are summarized as follows:

	Amount	Provision for bad debts	Percentage of total accounts receivable (%)
Total amount of the top five accounts receivable	1,252,426	–	77.09%

(h) Accounts receivable derecognized due to the transfer of financial assets this year amounted to RMB526,764 thousands (2014: RMB352,753 thousands), the relating amount recorded in financial expenses was RMB657 thousands (2014: RMB2,372 thousands).

(i) As at 31 December 2015, the Group had no accounts receivable which are pledged for the issuance of letters of credit (31 December 2014: RMB76,711 thousands).

(6) Other receivables

	31 December 2015	31 December 2014
Amounts due from related parties (Note7(6))	4,052	2,800
Amounts due from third parties	26,243	50,179
	30,295	52,979
Less: provision for bad debts	(1,245)	(1,208)
	29,050	51,771

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4 Notes to the consolidated financial statements *(continued)*

(6) Other receivables *(continued)*

(a) The ageing of other receivables is analysed as follows

	31 December 2015	31 December 2014
Within one year	29,050	51,703
Over one year but within two years	–	–
Over two years but within three years	–	168
Over three years	1,245	1,108
	30,295	52,979
Less: provision for bad debts	(1,245)	(1,208)
	29,050	51,771

As at 31 December 2015 and 31 December 2014, the Group has no any significant overdue other receivables.

(b) Other receivables by categories are analysed as follows

	31 December 2015				31 December 2014			
	Gross carrying amount		Provision for bad debts		Gross carrying amount		Provision for bad debts	
	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)
Individually significant and subject to separate provision	–	–	–	–	–	–	–	–
Subject to provision by groups:								
– group 1	26,243	86.62	1,245	4.74	50,179	94.71	1,208	2.41
– group 2	4,052	13.38	–	–	2,800	5.29	–	–
Individually insignificant but subject to separate provision	–	–	–	–	–	–	–	–
	30,295	100.00	1,245	—	52,979	100.00	1,208	—

Classification of other receivable, refer to Note2(10(b)).

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4 Notes to the consolidated financial statements *(continued)*

(6) Other receivables *(continued)*

(c) The groups of other receivable in which provisions are made using ageing analysis method are analysed as follows

	31 December 2015			31 December 2014		
	Gross carrying amount	Provision for bad debts		Gross carrying amount	Provision for bad debts	
	Amount	Amount	Percentage (%)	Amount	Amount	Percentage (%)
Within one year	24,998	–	–	48,903	–	–
Over one year but within two years	–	–	–	–	–	–
Over two years but within three years	–	–	–	168	100	60.00
Over three years	1,245	1,245	100.00	1,108	1,108	100.00
	26,243	1,245	–	50,179	1,208	–

(d) In 2015, the Group assessed the impairment on an individual basis in accordance with the accounting policy as described in Note 2(10), and there were no provision for other receivables that are individually significant or insignificant but assessed for impairment individually.

(e) In 2015, the Group had no material other receivables with fully or substantially write-off or write-back of bad debts which had been fully or substantially provided for in prior years.

(f) The Group had no material other receivable that are written off during the year.

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4 Notes to the consolidated financial statements *(continued)*

(6) Other receivables *(continued)*

(g) As at 31 December 2015, the top five other receivables are as follows:

	Nature	Amount	Ageing	Percentage of total other receivables	Provision for bad debts
Jinshan Customs	Export tax refund	14,261	Within one year	47.07%	–
BOC-SPC Gases Company Limited ("BOC-SPC")	Business transaction	1,704	Within one year	5.62%	–
Shanghai Jinshan Jinshan Guardian material recycling station	Business transaction	1,311	Within one year	4.33%	–
Sinopec Huadong Sales Company Limited	Business transaction	1,127	Within one year	3.72%	–
Shanghai Secco Petrochemical Company Limited ("Shanghai Secco")	Business transaction	735	Within one year	2.43%	–
		19,138		63.17%	

(7) Advances to suppliers

	31 December 2015	31 December 2014
Amounts advance to related parties (Note 7(6))	6,966	28,447
Amounts advance to third parties	8,165	2,651
	15,131	31,098

(a) The ageing of advances to suppliers is analysed as follows:

	31 December 2015		31 December 2014	
	Amount	% of total balance	Amount	% of total balance
Within one year	15,131	100.00%	31,098	100%

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4 Notes to the consolidated financial statements *(continued)*

(7) Advances to suppliers *(continued)*

(b) As at 31 December 2015, the total amount of the top five advances to suppliers are summarized as follows:

	Amount	Percentage of total advances to suppliers (%)
Total amount of the top five advances to suppliers	13,514	89.31%

(8) Inventories

(a) Inventories by categories are as follows:

	31 December 2015			31 December 2014		
	Book value	Provision for declines in the value of inventories	Carrying amount	Book value	Provision for declines in the value of inventories	Carrying amount
Raw materials	2,517,806	(1,564)	2,516,242	3,385,898	(50,625)	3,335,273
Work in progress	898,694	(28,081)	870,613	1,541,624	(87,714)	1,453,910
Finished goods	554,171	(25,424)	528,747	902,807	(80,166)	822,641
Spare parts and consumables	332,652	(70,066)	262,586	395,145	(76,266)	318,879
	4,303,323	(125,135)	4,178,188	6,225,474	(294,771)	5,930,703

(b) Provision for declines in the value of inventories is analysed as follows:

	31 December 2014	Increases	Decreases: Reversal	Decreases: Sold/write-off	31 December 2015
Raw materials	50,625	364	–	(49,425)	1,564
Work in progress	87,714	2,918	–	(62,551)	28,081
Finished goods	80,166	18,581	–	(73,323)	25,424
Spare parts and consumables	76,266	23,005	–	(29,205)	70,066
	294,771	44,868	–	(214,504)	125,135

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4 Notes to the consolidated financial statements *(continued)*

(8) Inventories *(continued)*

(c) Provision for declines in the value of inventories are analysed as follows:

	Basis for determining net realisable value	Main reasons for reversal/write-off
Raw materials	The estimated selling price in the ordinary course of business, less the estimated costs to completion and estimated costs necessary to make the sale and related taxes.	Sold in current year
Work in progress	Same as above	Sold in current year
Spare parts and consumables	The estimated selling price in the ordinary course of business, less the estimated costs necessary to make the sale and related taxes.	Disposal in current year
Finished goods	Same as above	Sold in current year

(9) Other current assets

	31 December 2015	31 December 2014
Entrusted lendings due within one year	106,000	82,000
Catalyst – the current part (Note 4(15))	86,481	85,458
VAT deductible	17,265	30,341
	209,746	197,799

(10) Long-term equity investments

	31 December 2015	31 December 2014
Joint Ventures (a)	236,983	216,128
Associates (b)	3,234,156	2,890,134
	3,471,139	3,106,262
Less: provision for impairment of long-term equity investment	–	–
	3,471,139	3,106,262

There are no significant restrictions over the realization of the Group’s long-term equity investment.

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4 Notes to the consolidated financial statements *(continued)*

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

(a) Joint Ventures

		Current year movement					
	31 December 2014	Additional/ negative investment	Net profit/ (loss) adjusted by equity method	Cash dividends declared in current year	Impairment provision	31 December 2015	Impairment provision
Joint ventures of subsidiaries							
Shanghai Jinpu Plastic Packing Materials Company Limited "Jinpu"	52,088	–	(12,107)	–	–	39,981	–
Shanghai Petrochemical Yangu Gas Development Company Limited "Yangu Gas"	52,217	–	916	(650)	–	52,483	–
BOC-SPC Gases Company Limited "BOC"	111,823	–	32,696	–	–	144,519	–
	216,128	–	21,505	(650)	–	236,983	–

Interests in joint ventures, refer to Note5(2).

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4 Notes to the consolidated financial statements *(continued)*

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

(b) Associates

	31 December 2014	Current year movement: Additional/ negative investment	Current year movement: Net profit/ (loss) adjusted by equity method	Current year movement: Cash dividends declared in current year	Current year movement: Impairment provision	31 December 2015	Impairment provision
Associates of the Company							
Shanghai Secco Petrochemical Company Limited "Shanghai Secco"	1,497,706	–	437,054	(156,000)	–	1,778,760	–
Shanghai Chemical Industry Park Development Company Limited "Chemical Industry"	1,213,264	–	83,664	(16,069)	–	1,280,859	–
Associates of subsidiaries							
Shanghai Jinsen Hydrocarbon Resins Company Limited "Jinsen"	82,458	–	3,262	(2,926)	–	82,794	–
Shanghai Azbil Automation Company Limited "Azbil"	48,723	–	8,203	(12,000)	–	44,926	–
Others	47,983	–	8,347	(9,513)	–	46,817	–
	2,890,134	–	540,530	(196,508)	–	3,234,156	–

Interests in associates, refer to Note5(2).

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4 Notes to the consolidated financial statements *(continued)*

(11) Investment properties

	Buildings
Cost	
31 December 2014	552,534
Transferred from fixed assets (Note4(12))	4,349
31 December 2015	556,883
Accumulated depreciation	
31 December 2014	136,692
Transferred from fixed assets (Note4(12))	1,072
Depreciation charged in current year	13,547
31 December 2015	151,311
Carrying amount	
31 December 2015	405,572
31 December 2014	415,842

In 2015, depreciation charges amounted to RMB13,547 thousands (2014: RMB13,450 thousands), without impairment provided (2014: Nil).

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4 Notes to the consolidated financial statements *(continued)*

(12) Fixed assets

	Buildings	Plant and machinery	Vehicles and other equipment	Total
Cost				
31 December 2014	3,759,524	40,763,696	1,931,791	46,455,011
Reclassification in current year	50,802	(53,437)	2,635	–
Increase in current year	–	127,381	23,296	150,677
Transfer from construction in progress (Note4(13))	11,283	444,904	23,194	479,381
Decrease in current year	(1,443)	(241,508)	(76,915)	(319,866)
Transfer to investment properties (Note4(11))	(4,349)	–	–	(4,349)
31 December 2015	3,815,817	41,041,036	1,904,001	46,760,854
Accumulated depreciation				
31 December 2014	2,109,540	26,299,761	1,507,265	29,916,566
Reclassification in current year	2,558	(2,184)	(374)	–
Current year charges	106,501	1,568,095	62,943	1,737,539
Decrease in current year	(988)	(215,721)	(74,407)	(291,116)
Transfer to investment properties (Note4(11))	(1,072)	–	–	(1,072)
31 December 2015	2,216,539	27,649,951	1,495,427	31,361,917
Provision for impairment				
31 December 2014	279,099	593,348	54,072	926,519
Current year charges	–	50,001	–	50,001
Decrease in current year	–	(2,453)	(29)	(2,482)
31 December 2015	279,099	640,896	54,043	974,038
Carrying amount				
31 December 2015	1,320,179	12,750,189	354,531	14,424,899
31 December 2014	1,370,885	13,870,587	370,454	15,611,926

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4 Notes to the consolidated financial statements *(continued)*

(12) Fixed assets *(continued)*

In 2015, as a result of increasing market competition and low profit margin of the relevant products, the management of the Company temporary shut down the manufacturing of acrylonitrile plant. Therefore, the Company made an impairment provision of RMB50,001 thousands to reduce the related equipment's carrying amounts to its estimated net realizable values (2014: Nil).

As at 31 December 2015 and 31 December 2014, the Group had no pledged fixed assets.

In 2015, the depreciation expenses amounted to RMB1,737,539 thousands (2014: RMB1,955,103 thousands). The depreciation expenses charged to cost of sales, selling and distribution expenses, general and administrative expenses were RMB1,645,418 thousands, RMB2,172 thousands, and RMB89,949 thousands, respectively (2014: RMB1,863,267 thousands, RMB75 thousands, and RMB91,761 thousands, respectively).

The amount of fixed assets transferred from construction in progress was RMB479,381 thousands (2014: RMB736,306 thousands).

(13) Construction in progress

	31 December 2015			31 December 2014		
	Original cost	Provision for impairment	Carrying amount	Original cost	Provision for impairment	Carrying amount
Construction in progress	732,695	(10,175)	722,520	553,053	(10,175)	542,878

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4 Notes to the consolidated financial statements *(continued)*

(13) Construction in progress *(continued)*

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

Projects name	Budget	31 December 2014	Increase in current year	Transferred to fixed assets in current year (Note 4(12))	Provision for impairment in current year	31 December 2015	Percentage of actual cost to budget	Project progress	Source of funds
100,000 tons/year EVA production plant	1,131,520	42,723	72,656	–	–	115,379	10.20%	10.20%	Equity funds and borrowings
1 # ~ 6 # boiler desulphurization project of Thermoelectricity Department	164,050	10,751	103,208	–	–	113,959	69.47%	69.47%	Equity funds and borrowings
Upgrading sewage effluent project of Sinopec Shanghai Petrochemical	134,300	55,050	56,183	(111,233)	–	–	100.00%	100.00%	Equity funds and borrowings
Chemical Terminal 4 # 5 # berth expansion	81,590	59,885	20,494	(80,379)	–	–	100.00%	100.00%	Equity funds and borrowings
Desulfurization and denitrification project for the boiler of Olefins Department	80,540	–	30,170	–	–	30,170	37.46%	37.46%	Equity funds
Oil Tank`s odors control project of Storage and Transportation Department	62,640	–	36,262	–	–	36,262	57.89%	57.89%	Equity funds
The Improvement works of circulating water's clean-up and shunting of Sinopec Shanghai Petrochemical	41,670	–	24,769	–	–	24,769	59.44%	59.44%	Equity funds
The fire station project of Weiliu Road	24,920	–	22,424	–	–	22,424	89.98%	89.98%	Equity funds
The exhaust gas treatment system reconstruction project of the wet oxidation work-shop of environmental and water department	19,550	14,984	2,433	(17,417)	–	–	100.00%	100.00%	Equity funds
Hazards handling project of exhaust system of #2 oxidation integrated unit	17,160	9,841	5,000	(14,841)	–	–	100.00%	100.00%	Equity funds
Unit 2 # boiler fuel optimization and denitration transformation of Thermoelectricity Department	14,000	11,064	3,553	(14,617)	–	–	100.00%	100.00%	Equity funds
The transformation project for the chemical sewage pipeline, sewage of Unit 2# olefin device	9,120	–	5,591	–	–	5,591	61.30%	61.30%	Equity funds
The transformation project of burning tank of Unit 2# olefin device	9,110	–	7,153	–	–	7,153	78.52%	78.52%	Equity funds
Other Business Unit Minor Project		348,755	269,127	(240,894)	–	376,988			
		553,053	659,023	(479,381)	–	732,695			
Less: provision for impairment		(10,175)	–	–	–	(10,175)			
		542,878	659,023	(479,381)	–	722,520			

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4 Notes to the consolidated financial statements *(continued)*

(13) Construction in progress *(continued)*

In 2015, the Group has capitalised borrowing costs amounted to RMB3,518 thousands (2014: RMB1,208 thousands) on qualifying assets.

In 2014, the Group ceased the construction of 50,000 tons per year ethanolamine project and fully provided impairment for this project at its carrying amounts of RMB10,175 thousands.

(14) Intangible assets

	Land use rights	Other intangible assets	Total
Cost			
31 December 2014 and 31 December 2015	708,972	95,370	804,342
Accumulated amortization			
31 December 2014	300,087	63,115	363,202
Charge in current year	14,689	2,922	17,611
31 December 2015	314,776	66,037	380,813
Carrying amount			
31 December 2015	394,196	29,333	423,529
31 December 2014	408,885	32,255	441,140

In 2015, amortization expenses of intangible assets amounted to RMB17,611 thousands (2014: RMB17,612 thousands).

(15) Long-term prepaid expenses

	31 December 2014	Increase in current year	Amortisation in current year	Other decrease in current year (Note4(9))	**31 December 2015**	Reason for other decrease
Catalysts	586,171	148,552	(302,828)	(85,917)	**345,978**	Reclassification to other current assets
Leaseholding improvements	14,603	–	(1,724)	(564)	**12,315**	
Others	1,677	–	(483)	–	**1,194**	
	602,451	148,552	(305,035)	(86,481)	**359,487**	

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4 Notes to the consolidated financial statements *(continued)*

(16) Deferred tax assets and deferred tax liabilities

(a) Deferred tax assets before offsetting

	31 December 2015		31 December 2014	
	Deductible temporary differences and deductible losses	Deferred tax assets	Deductible temporary differences and deductible losses	Deferred tax assets
Provision for bad debts and inventory	79,139	19,785	199,384	49,846
Provision for impairment of fixed assets and depreciation difference	176,174	44,043	204,698	51,174
Provision for impairment of construction in progress	10,175	2,544	10,175	2,544
Investment with fixed assets and sales of fixed assets to a joint ventures	19,267	4,817	22,770	5,693
Employee benefits payable	–	–	38,849	9,712
Share-based payments	22,702	5,675	–	–
Other deferred tax assets	27	7	16,524	4,131
Deductible tax losses	11,500	2,875	3,214,237	803,559
	318,984	79,746	3,706,637	926,659
Including:				
To be recovered within 12 months		31,862		449,980
To be recovered over 12 months		47,884		476,679
		79,746		926,659

(b) Deferred tax liabilities before offsetting

	31 December 2015		31 December 2014	
	Taxable temporary differences	Deferred tax liabilities	Taxable temporary differences	Deferred tax liabilities
Capitalized borrowing costs	(34,802)	(8,701)	(46,358)	(11,590)
Including:				
To be recovered within 12 months		(2,889)		(2,889)
To be recovered over 12 months		(5,812)		(8,701)
		(8,701)		(11,590)

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4 Notes to the consolidated financial statements *(continued)*

(16) Deferred tax assets and deferred tax liabilities *(continued)*

(c) Deductible temporary differences and deductible losses that are not recognised as deferred tax assets are analysed as follows:

	31 December 2015	31 December 2014
Deductible temporary differences	480,685	530,061
Deductible losses	411,284	353,952
	891,969	884,013

As accounting policies stated in Note 2(27), and it is not probable that future taxable income against which the deductible temporary differences and deductible losses can be utilised in some subsidiaries of the Company, such subsidiaries have not recognised deferred tax assets.

As at 31 December 2015 and 31 December 2014, Zhejiang Jinyong Acrylic Fibre Company Limited ("Jinyong") has not recognised deferred tax assets in respect of its fixed assets impairment provision of RMB432,579 thousands, inventory provision of RMB46,190 thousands.

As at 31 December 2015, other subsidiaries of the Company have not recognised deferred tax assets of RMB1,916 thousands (31 December 2014: RMB51,292 thousands).

As accounting policies stated in Note 2(27), the Group not recognised deferred tax assets as it is not probable that future taxable profit against which the losses can be utilized will be available for the Group pursuant to latest tax laws, these accumulated losses will expire from 2016 to 2020.

	31 December 2015	31 December 2014
Jinyong	172,224	187,599
Shanghai Golden Conti Petrochemical Company Limited ("Jindi")	124,288	47,061
Shanghai Petrochemical Investment Development Company Limited ("Toufa")	81,363	88,034
Jinshan Hotel	33,409	31,258
	411,284	353,952

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4 Notes to the consolidated financial statements *(continued)*

(16) Deferred tax assets and deferred tax liabilities *(continued)*

(d) Deductible losses that are not recognised as deferred tax assets will expire in the following years:

	31 December 2015	31 December 2014
2015	–	(71,759)
2016	79,526	79,526
2017	68,211	68,211
2018	63,733	63,733
2019	70,723	70,723
2020	129,091	–
	411,284	353,952

(e) The net balance of deferred tax assets and liabilities after offsetting is as follows:

	31 December 2015		31 December 2014	
	Offsetting amount of deferred tax assets and deferred tax liabilities	Deferred tax assets – net	Offsetting amount of deferred tax assets and deferred tax liabilities	Deferred tax assets – net
Deferred tax assets	(8,701)	71,045	(11,590)	915,069
Deferred tax liabilities	8,701	–	11,590	–

(17) Provision for assets impairment

	31 December 2014	Increase in current year	Decrease in current year		31 December 2015
			Reversal	Sold/write-off	
Bad-debt provision	1,256	834	(78)	(743)	1,269
Including: Accounts receivable bad debts (Note4(5))	48	38	(56)	(6)	24
Other receivable bad debts (Note4(6))	1,208	796	(22)	(737)	1,245
Provision for declines in value of inventories (Note4(8))	294,771	44,868	–	(214,504)	125,135
Impairment provision for fixed assets (Note4(12))	926,519	50,001	–	(2,482)	974,038
Impairment provision for construction in progress (Note4(13))	10,175	–	–	–	10,175
	1,232,721	95,703	(78)	(217,729)	1,110,617

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4 Notes to the consolidated financial statements *(continued)*

(18) Short-term borrowings

	Currency	31 December 2015	31 December 2014
Unsecured			
– bank borrowings	RMB	1,700,000	965,638
	USD	–	1,617,578
	EUR	–	424,979
– borrowings from related party (Note7(6))	RMB	370,000	1,070,000
		2,070,000	4,078,195

As at 31 December 2015, the weighted average interest rate of short-term borrowings ranged from 2.90% to 5.60% per annum (31 December 2014: from 1.16% to 6.00% per annum).

As at 31 December 2015 and 31 December 2014, there are no short-term borrowings which are due but have not been repaid.

(19) Notes payable

	31 December 2015	31 December 2014
Bank acceptance notes	–	11,714

(20) Accounts payable

	31 December 2015	31 December 2014
Related parties (Note 7(6))	1,455,646	3,003,576
Third parties	1,562,232	2,920,459
	3,017,878	5,924,035

As at 31 December 2015 and 31 December 2014, there are no individually significant accounts payable aged over one year.

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4 Notes to the consolidated financial statements *(continued)*

(21) Advance from customers

	31 December 2015	31 December 2014
Related parties (Note 7(6))	18,166	21,514
Third parties	561,721	591,059
	579,887	612,573

Advances from customers are mainly advances on sales.

As at 31 December 2015 and 31 December 2014, there are no advances from customers that are individually significant aged over one year.

(22) Employee benefits payable

	31 December 2015	31 December 2014
Short-term employee benefits payable	16,813	20,255
Defined contribution plans payable	23,186	24,209
	39,999	44,464

(a) Short-term employee benefits payable

	31 December 2014	Increase in current year	Decrease in current year	31 December 2015
Wages and salaries, bonuses, allowances and subsidies	–	1,393,470	(1,393,470)	–
Staff welfare	–	282,551	(282,551)	–
Social insurances	12,554	173,417	(173,084)	12,887
Including: Medical insurance	10,937	144,174	(143,773)	11,338
Work injury insurance	538	6,635	(6,657)	516
Maternity insurance	1,079	13,031	(13,077)	1,033
Supplementary medical insurance	–	9,577	(9,577)	–
Housing funds	–	155,431	(155,431)	–
Compensation for lay-off	–	24,892	(24,892)	–
Others	7,701	177,616	(181,391)	3,926
	20,255	2,207,377	(2,210,819)	16,813

In accordance with the Group voluntary employee reduction plan, employee reduction expenses amounted to RMB24,892 thousands in 2015 (2014: RMB4,684 thousands).

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4 Notes to the consolidated financial statements *(continued)*

(22) Employee benefits payable *(continued)*

(b) Defined contribution plans payable

	31 December 2014	Increase in current year	Decrease in current year	31 December 2015
Basic pensions	22,598	273,841	(274,795)	21,644
Unemployment insurance	1,611	19,625	(19,694)	1,542
Supplemental basic pensions	–	72,101	(72,101)	–
	24,209	365,567	(366,590)	23,186

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.

In addition, pursuant to the document "Order of the Ministry of Labour and Social Security No.20" dated 6 January 2004 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 more than one year 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.

The Group has no other material obligation for the payment of pension benefits associated with these plans beyond the annual contributions described above. In 2015, the Group's contribution to the above two plans amounted to RMB273,841 thousands and RMB72,101 thousands respectively (2014: RMB277,167 thousands and RMB72,998 thousands, respectively).

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4 Notes to the consolidated financial statements *(continued)*

(23) Taxes payable

	31 December 2015	31 December 2014
Consumption tax payable	1,001,250	900,665
Value added tax payable	86,691	161,333
City maintenance and construction tax payable	76,656	74,381
Enterprise income tax payable	59,597	9,962
Educational surcharge payable	54,843	53,131
Land use tax payable	23,263	21,766
Housing property tax payable	19,892	17,999
Individual income tax payable	14,136	7,558
Business tax payable	1,647	844
Others	30,443	29,235
	1,368,418	1,276,874

(24) Interest payable

	31 December 2015	31 December 2014
Interest payable for short-term borrowings	1,890	7,316
Interest payable for long-term borrowings with interest paid in installments		
—RMB	–	1,283
—USD	–	438
	1,890	9,037

(25) Dividends payable

	31 December 2015	31 December 2014
A share dividends	19,119	19,406

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4 Notes to the consolidated financial statements *(continued)*

(26) Other payables

	31 December 2015	31 December 2014
Related parties (Note 7(6))	99,907	15,787
Third parties	529,173	492,764
	629,080	508,551

(a) As at 31 December 2015, there are no other payables that are individually significant aged over 1 year besides unpaid project guaranty deposit.

(b) Other payables by categories are analysed as follows:

	31 December 2015	31 December 2014
Equipment project	205,714	223,061
Payable to related parties (Note7(6))	99,907	15,787
Guaranty deposit	56,200	47,799
Accrued expenses	45,788	37,917
Sales discount	19,297	31,533
Deposits	11,556	11,534
Social insurance withholding	10,194	10,421
Others	180,424	130,499
	629,080	508,551

(27) Deferred income

Government grants project	31 December 2014	Increase in current year	Recognized in non-operating income in current year	31 December 2015	related to assets/ related to income
Investment subsidies for Chemical Industry	170,000	–	(10,000)	160,000	related to assets
1# ethylene equipment demolition project	16,436	–	(16,436)	–	related to income
	186,436	–	(26,436)	160,000	

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4 Notes to the consolidated financial statements *(continued)*

(28) Long-term borrowings

	31 December 2015	31 December 2014
Unsecured		
– Bank borrowings	–	1,632,680

As at 31 December 2015, the Group repaid all the long term bank loans which included the borrowings with fixed interest rates amounted to RMB1,000,000 thousands and borrowings with floating interest rates amounted to RMB632,680 thousands (31 December 2014: the weighted average interest rate of long-term borrowings ranged from 1.84% to 6.40% per annum).

(29) Share capital

		Increase or decrease in current year					
	31 December 2014	Issue new share	Stock dividend	Transfer from capital surplus to paid-in capital	Other	Subtotal	31 December 2015
Restricted Shares –							
Domestic legal persons shares	4,920,000	–	–	–	(540,000)	(540,000)	4,380,000
Non-restricted Shares –							
RMB ordinary A shares listed in PRC	2,385,000	–	–	–	540,000	540,000	2,925,000
Foreign investment H shared listed overseas	3,495,000	–	–	–	–	–	3,495,000
	10,800,000	–	–	–	–	–	10,800,000

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4 Notes to the consolidated financial statements *(continued)*

(29) Share capital *(continued)*

The Company was founded in Shanghai, PRC on 29 June 1993 with registered capital of RMB4,000,000,000 invested by its 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 Offering ("IPO") in July 1993 and September 1993 in Hong Kong, New York and Shanghai to issue 2.23 billion shares, including 1.68 billion H shares and 550 million A shares. The 550 million A shares included 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 Stock Exchange on 26 July 1993, and listed on the New York Stock Exchange in the form of American Depositary Shares at the same time; the A shares were listed on the Shanghai Stock Exchange on 8 November 1993.

After the 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 ordinary A shares with a par value of RMB1 each at an issuing price of RMB2.4 each during the period from 5 April to 10 June 1994. These shares were listed on the 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, another 150 million H shares 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.

In 1998, China National Petrochemical Corporation was restructured to Sinopec Group.

Sinopec Corp. 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 Sinopec Corp.; after the restructuring, the ownership of 4 billion state-owned shares of the Company held by the Sinopec Group were transferred to Sinopec Corp., and the shares were changed to state-owned legal person shares in nature.

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

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4 Notes to the consolidated financial statements *(continued)*

(29) Share capital *(continued)*

Pursuant to the 'Approval on matters relating to the Share Segregation Reform of Sinopec Shanghai Petrochemical Company Limited' issued by the State-owned Assets Supervision and Administration Commission of the State Council (State Owned Property [2013] No.443), a General Meeting of A share shareholders was held on 8 July 2013 and passed the resolution of 'Share Segregation Reform of Sinopec Shanghai Petrochemical Company Limited (Amendment)' ("the share segregation reform resolution") which was published by the Company on Shanghai Stock Exchange ("SSE") website on 20 June 2013. According to the Share Segregation Reform Resolution, the controlling shareholder of the Company, Sinopec Corp., offered shareholders of circulating A shares 5 shares for every 10 circulating A shares they held on 16 August 2013, aggregating 360,000,000 A shares, for the purpose of obtaining the listing rights of its non-circulating shares in the A Shares market. From 20 August 2013 ("the circulation date"), all the Company's non-circulating A shares have been granted circulating rights on Shanghai Stock Exchange("SSE"). As part of the restricted conditions, Sinopec Corp. committed that all the 3,640,000,000 A shares held were not allowed to be traded on SSE or transferred within 12 months from the circulation date ("the restriction period"). After the restriction period, Sinopec Corp. can only sell no more than 5 and 10 percent of its total shares within 12 and 24 months, respectively. The former 150,000,000 non-circulating A shares held by social legal persons were also prohibited to be traded on SSE or transferred within 12 months from the circulation date. Meanwhile, Sinopec Corp. also committed in the Share Segregation Reform Resolution that a scheme of converting surplus to share capital (no less than 4 shares for every 10 shares) will be proposed on the board of directors and shareholders meetings within 6 months after the circulation date.

The resolution were approved by the extraordinary general meeting of shareholders, A share class shareholders meeting and H share class shareholders meeting on 22 Oct 2013, respectively. As at 31 December 2015, total shares of the Company were 10,800,000 thousands.

Since the implementation of share segregation reform resolution on 20 August 2013, the Company's non-circulating A shares had been granted circulating rights. As part of the restricted conditions, 1,080,000,000 A shares (equivalent to ten percent of the total number of Sinopec Shanghai Petrochemical Company's shares) held by Sinopec Corp. and 225,000,000 A shares held by social legal persons had achieved circulation as at 31 December 2015.

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4 Notes to the consolidated financial statements *(continued)*

(29) Share capital *(continued)*

		Increase or decrease in current year					
	31 December 2013	Issue new share	Stock dividend	Transfer from capital surplus to paid-in capital	Other	Subtotal	31 December 2014
Restricted Shares –							
Domestic legal persons shares	5,685,000	–	–	–	(765,000)	(765,000)	4,920,000
Non-restricted Shares –							
RMB ordinary A shares listed in PRC	1,620,000	–	–	–	765,000	765,000	2,385,000
Foreign investment H shared listed overseas	3,495,000	–	–	–	–	–	3,495,000
	10,800,000	–	–	–	–	–	10,800,000

(30) Capital surplus

	31 December 2014	Increase in current year	Decrease in current year	31 December 2015
Government grants	412,370	–	–	412,370
Refund of harbor construction charge	32,485	–	–	32,485
Share-based payments(a)	–	22,702	–	22,702
Others	49,067	–	–	49,067
	493,922	22,702	–	516,624

	31 December 2013	Increase in current year	Decrease in current Year	31 December 2014
Government grants	412,370	–	–	412,370
Refund of harbor construction charge	32,485	–	–	32,485
Others	49,067	–	–	49,067
	493,922	–	–	493,922

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4 Notes to the consolidated financial statements *(continued)*

(30) Capital surplus *(continued)*

(a) Share-based payments

Pursuant to the resolution of the fifth meeting of the eighth session of the Board of Directors of the Company on 6 January 2015, the proposal regarding the list of participants and the number of share options under the share option incentive scheme was approved.

According to the Company's share option incentive scheme, the grant date of share options was 6 January 2015, and there were a total of 38,760 thousand share options granted to 214 participants (0.359% of the total ordinary share capital issued). Each share option has a right to purchase an ordinary A share listed in PRC on vesting date at an exercise price of RMB4.20 under vesting conditions. The options are exercisable starting two years from the grant date, subject to the following vesting conditions:

- RoE of the Group should be no less than 9% for 2015, 9.5% for 2016 and 10% for 2017 in respect to the three vesting periods;
- achieving the target compound annual growth rate of 5% in net profit for 2015, 2016 and 2017, respectively based on the net profit of 2013;
- proportion of the main business revenue in the total revenue should be no less than 99%;
- each of the above three conditions should be no lower than the 75% level of peer companies; and
- achieving the target budget set by the Sinopec Corp..

As at 31 December 2015, the outstanding share options which will expire in twelve months after the vesting dates and their exercise prices are as follows:

Vesting date	Exercise price per share in RMB	Outstanding shares
6 January 2017	4.20	15,504,000
6 January 2018	4.20	11,628,000
6 January 2019	4.20	11,628,000

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4 Notes to the consolidated financial statements *(continued)*

(30) Capital surplus *(continued)*

(b) Changes in number of share options in current year

	2015
Outstanding stock options issued in the beginning of the year	–
Number of share options granted in current year	38,760,000
Number of share options exercised in current year	–
Number of share options invalid in current year	–
Outstanding stock options issued in the end of the year	38,760,000

(c) Fair value of share options as at grant date

The total fair value of share options has been valued by an external valuation expert using Black-Scholes valuation model. As at the grant date, the significant inputs into the model were as follows:

Exercise price (Renminbi: Yuan)	4.20
Maturity (years)	5.00
Spot share price (Renminbi: Yuan)	4.51
Expected volatility	41.20%
Dividend yield	1.00%
Risk-free interest rate	3.39%-3.67%

The total fair value of share options at the grant date was RMB65,412 thousands.

(d) Effect of share-based payment transactions on the financial positionand financial performance

	2015
Total expense recognised for the Equity-settled share-based payment in consolidated income statement	22,702
Accumulated amount recognised for the Equity-settled share-based payment in capital surplus	22,702

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4 Notes to the consolidated financial statements *(continued)*

(31) Specific reserve

	31 December 2014	Accrued during the year	Utilised during the year	31 December 2015
Safety production costs	1,265	145,895	(146,207)	953

	31 December 2013	Accrued during the year	Utilised during the year	31 December 2014
Safety production costs	5,832	167,732	(172,299)	1,265

Specific reserve represents unutilised safety production costs accrued in accordance with state regulations(Note 2(20)).

(32) Surplus reserve

	31 December 2014	Increase in current year	Decrease in current year	31 December 2015
Statutory surplus reserve	4,072,476	319,429	–	4,391,905
Discretionary surplus reserve	101,355	–	–	101,355
	4,173,831	319,429	–	4,493,260

	31 December 2013	Increase in current year	Decrease in current year	31 December 2014
Statutory surplus reserve	4,072,476	–	–	4,072,476
Discretionary surplus reserve	101,355	–	–	101,355
	4,173,831	–	–	4,173,831

In accordance with the Company Law and the Company's Articles of Association, the Company should appropriate 10% of net profit for the year to the statutory surplus reserve, and the Company can cease appropriation when the statutory surplus reserve accumulated to more than 50% of the registered capital. The statutory surplus reserve can be used to make up for the loss or increase the share capital after approval from the appropriate authorities. Statutory surplus reserve amounted to RMB319,429 thousands was provided in current year (2014: Nil).

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4 Notes to the consolidated financial statements *(continued)*

(32) Surplus reserve *(continued)*

The Company appropriates for the discretionary surplus reserve should be proposed by the board of directors and approved by the General Meeting of Shareholders. The discretionary surplus reserve can be used to make up for the loss or increase the share capital after approval from the appropriate authorities. No discretionary surplus reserve was provided in current year (2014: Nil).

(33) Undistributed profits

	2015	2014
Undistributed profits at the beginning of the year	1,101,605	2,358,032
Add: Net profit/(loss) attributable to equity shareholders of the Company	3,245,849	(716,427)
Less: Appropriation to statutory reserve (Note4(32))	(319,429)	–
Less: Ordinary shares dividend payable	–	(540,000)
Undistributed profits at the end of the year	4,028,025	1,101,605

Pursuant to the resolution of the shareholders' meeting on June 18 2015, the Company did not distribute cash dividend to any shareholders(2014: RMB540,000thousands).

A dividend in respect of the year ended 31 December 2015 of RMB0.1 per share, amounting to a total dividend of RMB1,080,000 thousands, was proposed by the Board of Directors on 16 March 2016(2014: Nil).

(34) Non-controlling interests

Attributable to the non-controlling interests of the Group:

	31 December2015	31 December 2014
Shanghai Golden Phillips Petrochemical Company Limited "Jinfei"	196,067	179,471
China Jinshan Associated Trading Corporation	63,723	60,367
Shanghai Jinchang Engineering Plastics Company Limited "Jinchang"	37,248	31,557
	297,038	271,395

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4 Notes to the consolidated financial statements *(continued)*

(35) Revenue and cost of sales

	2015		2014	
	Revenue	Cost of sales	Revenue	Cost of sales
Main operations	80,293,406	59,716,913	101,674,687	89,691,905
Other operations	510,016	372,384	508,174	354,985
	80,803,422	60,089,297	102,182,861	90,046,890

(a) Main operations revenue and main operations cost

Analysis by product is as follows:

	2015		2014	
	Main operations revenue	Main operations cost	Main operations revenue	Main operations cost
Synthetic fibres	2,397,015	2,368,244	2,935,540	3,131,196
Resins and plastics	10,241,960	7,921,164	12,654,400	11,992,851
Intermediate petrochemicals	9,607,799	7,223,860	12,579,993	11,094,167
Petroleum products	43,894,359	28,377,878	58,243,904	48,604,614
Trading of petrochemical products	13,719,716	13,573,180	14,792,432	14,585,761
All others	432,557	252,587	468,418	283,316
	80,293,406	59,716,913	101,674,687	89,691,905

(36) Taxes and surcharges

	2015	2014	Tax base and rate
Consumption tax	11,846,860	8,121,778	According to relevant PRC tax regulations, since 1 January 2009, the Group is required to pay consumption tax based on the Group's sales of gasoline and diesel rate according to the applicable tax rate (Note 3(1))
City maintenance and construction tax	1,076,885	740,615	1% or 7% of actual payments of consumption, business tax and VAT during the year
Educational surcharge and others	778,807	530,327	5% of actual payments of consumption, business tax and VAT during the year
Business tax	8,381	8,563	5% of taxable turnover amount
	13,710,933	9,401,283	

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4 Notes to the consolidated financial statements *(continued)*

(37) Selling and distribution expenses

	2015	2014
Transportation fee	262,403	286,846
Sales commission	112,245	113,162
Storage and logistics expenses	75,083	67,889
Staff costs	57,258	55,992
Others	9,954	20,338
	516,943	544,227

(38) General and administrative expenses

	2015	2014
Repair and maintenance expense	978,845	1,088,314
Staff costs	945,243	916,114
Administrative expenses	164,325	114,082
Taxation charges	101,706	111,533
Depreciation and amortisation	98,959	111,565
Research and development costs	87,629	43,569
Security and fire extinguishment expenses	67,802	76,858
Others Others	222,904	204,562
	2,667,413	2,666,597

(39) Financial expenses - net

	2015	2014
Interest expenses	211,942	374,600
Less: Interest income	(49,302)	(64,673)
Exchange losses net	80,261	71,939
Others	11,213	9,759
	254,114	391,625

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4 Notes to the consolidated financial statements *(continued)*

(40) Expenses by nature

The cost of sales, selling and administrative expenses, general and administrative expenses in the income statements are listed as follows by nature:

	2015	2014
Changes in inventories of finished goods and work in progress	855,692	(546,246)
Consumed raw materials and low value consumables, etc.	41,483,278	71,501,827
Cost of trading products	13,573,180	14,585,761
Employee benefits	2,595,646	2,627,357
Depreciation and amortization expenses	2,073,732	2,315,697
Repair and maintenance expenses	978,845	1,088,314
Transportation expenses	337,454	354,735
Administrative expenses	164,325	114,082
Agency commission	112,245	113,162
Audit fee	7,800	7,800
Others	1,091,456	1,095,225
	63,273,653	93,257,714

(41) Investment income

	2015	2014
Investment accounted for using the equity method	562,035	47,654
Investment income on disposal of long-term equity investment	–	6,491
Forward exchange contract income (a)	37,154	–
	599,189	54,145

There are no severe restrictions on the investee's ability to transfer investment income to the Group.

(a) The Group entered into the forward exchange contracts to avoid foreign exchange risk arising from borrowings denominated in EUR. In 2015, the total realised income from forward exchange contracts is RMB37,154 thousands (2014: Nil). As at 31 December 2015, the Group does not have undue forward exchange contract (31 December 2014: Nil).

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4 Notes to the consolidated financial statements *(continued)*

(42) Asset impairment losses

	2015	2014
Fixed assets	50,001	–
Inventories	44,868	213,600
Accounts receivable	756	264
Construction in progress	–	10,175
	95,625	224,039

(43) Non-operating income

	2015	2014	Recognized as extraordinary profit and loss of current year
Government grants(a)	160,116	182,829	160,116
Gains on disposal of fixed assets	4,055	13,297	4,055
Others	29,524	12,354	29,524
	193,695	208,480	193,695

(a) Government grants mainly include:

	2015	2014
Local education surcharges refund	101,405	124,619
Amortization of deferred income (Note4(27))	26,436	28,564
Fiscal subsidy for incurred scientific research expenditure, energy saving and environmental protection	21,140	24,600
Others	11,135	5,046
	160,116	182,829

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4 Notes to the consolidated financial statements *(continued)*

(44) Non-operating expenses

	2015	2014	Recognized as extraordinary profit and loss of current year
Allowances	36,850	35,700	36,850
Loss on disposal of fixed assets	13,448	47,263	13,448
Others	2,954	2,011	2,954
	53,252	84,974	53,252

(45) Income tax expenses

	2015	2014
Current tax expense for the year based on tax law and regulations	82,753	16,286
Movement of deferred tax	844,024	(230,470)
	926,777	(214,184)

The reconciliation from income tax calculated based on the applicable tax rates and total profit/(loss) presented in the consolidated financial statements to the income tax expenses is listed below:

	2015	2014
Total profit/(loss)	4,208,729	(914,149)
Income tax expenses calculated at applicable tax rates	1,052,182	(228,537)
Tax effect of share of profit of investments accounted for using the equity method	(140,509)	(11,913)
Other non-taxable profit	(11,985)	(10,913)
Tax effect of non-deductible expenses	5,408	4,266
Under provision for income tax expense in respect of preceding years	1,752	11
Income from disposal of joint ventures and associates	–	3,496
Utilisation of previously unrecognized tax losses	–	(536)
Utilisation of previously unrecognised temporary differences	(12,359)	–
Temporary differences for which no deferred income tax asset was recognized in the year	15	12,261
Tax losses for which no deferred income tax asset was recognized in the year	32,273	17,681
Income tax expenses	926,777	(214,184)

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4 Notes to the consolidated financial statements *(continued)*

(46) Earnings/(loss) per share

(a) Basic earnings/(loss)per share

Basic earnings per share is calculated by dividing the consolidated net (loss)/profit attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding:

	2015	2014
Consolidated net profit/(loss) attributable to ordinary shareholders of the Company	3,245,849	(716,427)
Weighted average number of the Company's ordinary shares outstanding (thousands)	10,800,000	10,800,000
Basic earnings/(loss) per share	0.301	(0.066)

(b) Diluted earnings per share:

As there are no diluted ordinary shares outstanding, the diluted earnings per share equals the basic earnings per share.

	2015	2014
Diluted consolidated net profit/(loss) attributable to ordinary shareholders of the parent company	3,245,849	(716,427)
Weighted average number of the Company's ordinary shares outstanding (thousands)	10,800,000	10,800,000
Adjustment for share option incentive (thousands) (i)	9,041	–
Diluted weighted average number of the Company's ordinary shares outstanding(thousands)	10,809,041	10,800,000
Diluted earnings/(losses) per share	0.300	(0.066)

(i) The Company has dilutive potential ordinary shares from share options. A calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average market share price of the Company's A shares for year ended 31 December 2015) based on the monetary value of the outstanding share options. The number of ordinary shares in issue is compared with the number of shares that would have been issued assuming the exercise of the share options.

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(All amounts in thousands of Renminbi Yuan unless otherwise stated)
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4 Notes to the consolidated financial statements *(continued)*

(47) Notes to consolidated cash flow statement

(a) Cash received relating to other operating activities

	2015	2014
Subsidy income	133,680	189,265
Others	16,364	9,966
	150,044	199,231

(b) Cash paid relating to other operating activities

	2015	2014
Administrative expenses	164,325	114,082
Sales commission	112,245	113,162
Research and development costs	87,629	43,569
Storage and logistics expenses	75,083	67,889
Security and fire extinguishment expenses	67,802	76,858
Information system operation and maintenance expenses	28,629	35,191
Others	64,366	122,961
	600,079	573,712

(c) Cash received relation to other investment activities

	2015	2014
Interest income	46,887	64,597

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4 Notes to the consolidated financial statements *(continued)*

(48) Supplementary materials to consolidated cash flow statement

(a) Reconciliation from net profit/(loss)to cash flows from operating activities

	2015	2014
Net profit/(loss)	3,281,952	(699,965)
Add: Provisions for assets impairment	95,625	224,039
Depreciation of investment properties	13,547	13,450
Depreciation of fixed assets	1,737,539	1,955,103
Amortisation of intangible assets	17,611	17,612
Amortisation of long-term prepaid expenses	305,035	329,532
Losses on disposal of fixed assets	9,393	33,966
Financial expenses-net	231,745	359,698
Investment income	(599,189)	(54,145)
Decrease/(Increase) in deferred tax assets	844,024	(230,470)
Decrease in deferred income	(26,436)	(28,564)
Decrease in inventories	1,707,647	2,894,936
Decrease in operating receivables	356,367	1,570,682
Decrease in operating payables	(2,853,853)	(2,341,388)
Decrease in specific reserve	(312)	(4,567)
Share-based payments expense	22,702	–
Net cash flows generated from operating activities	5,143,397	4,039,919

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4 Notes to the consolidated financial statements *(Continued)*

(48) Supplementary materials to consolidated cash flow statement *(Continued)*

(b) Net increase in cash and cash equivalents

	2015	2014
Cash and cash equivalents at the end of the year	1,077,430	279,198
Less: cash and cash equivalents at the beginning of the year	279,198	133,256
Net increase in cash and cash equivalents	798,232	145,942

(c) Cash and cash equivalents

	31 December 2015	31 December 2014
Cash		
Including: Cash on hand	7	14
Bank deposits available on demand	1,077,229	277,056
Other monetary fund available on demand	194	2,128
Cash and cash equivalents at the end of the year	1,077,430	279,198

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4 Notes to the consolidated financial statements *(Continued)*

(49) Foreign monetary items

	31 December 2015		
	Foreign currency	Exchange rate	RMB currency
Cash at bank and on hand—			
USD	13,261	6.4936	86,109
Account receivables—			
USD	60,057	6.4936	389,986
Account payables—			
USD	(89,615)	6.4936	(581,926)
EUR	(17)	7.0952	(121)
			(582,047)

5 Interests in other entities

(1) Interests in subsidiaries

(a) Main components of the Group

	Main business area	Place of registry	Principal activities	Percentage of equity directly held	Percentage of equity indirectly	Way of acquisition
Toufa	Shanghai	Shanghai	Investment	100.00%	–	Establish
Jinmao Company	Shanghai	Shanghai	Trading	67.33%	–	Establish
Jinchang	Shanghai	Shanghai	Manufacturing	–	74.25%	Establish
Jinfei	Shanghai	Shanghai	Manufacturing	–	60.00%	Establish
Jinyong	Zhejiang Ningbo	Zhejiang Ningbo	Manufacturing	75.00%	–	Investment
Jindi	Shanghai	Shanghai	Manufacturing	–	100.00%	Establish
Jinmao International	Shanghai	Shanghai	Trading	–	67.33%	Establish

(b) As at 31 December 2015 and 31 December 2014, attributable to non-controlling interests of subsidiaries' non-controlling shareholders were not significant (Note 4(34)).

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(All amounts in thousands of Renminbi Yuan unless otherwise stated)
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5 Interests in other entities *(continued)*

(2) Interests in joint ventures and associates

(a) Nature of interest in major joint ventures and associates

	Place of main business	Place of registry	Principal activities	Whether it is strategic to group activities	% of ownership interest	
					Directly	Indirectly
Joint ventures–						
BOC	Shanghai	Shanghai	Production and sales of industrial gases	Yes	–	50.00%
Jinpu	Shanghai	Shanghai	Production of polypropylene film	Yes	–	50.00%
Yangu Gas	Shanghai	Shanghai	Production and sales of industrial gases	Yes	–	50.00%
Associates–						
Shanghai Secco	Shanghai	Shanghai	Manufacturing and distribution of chemical products	Yes	20.00%	–
Chemical Industry	Shanghai	Shanghai	Planning, development and operation of the Chemical Industry Park in Shanghai, PRC	Yes	38.26%	–
Jinsen	Shanghai	Shanghai	Production of resins products	Yes	–	40.00%
Azbil	Shanghai	Shanghai	Service and maintenance of building automation systems and products	Yes	–	40.00%

Set out below are the summarised financial information for the above companies which are accounted for using the equity method.

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(All amounts in thousands of Renminbi Yuan unless otherwise stated)
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5 Interests in other entities *(continued)*

(2) Interests in joint ventures and associates *(continued)*

(b) Summarised financial information for major joint ventures

	At 31 December 2015			At 31 December 2014		
	BOC	Jinpu	Yangu Gas	BOC	Jinpu	Yangu Gas
Current Assets	84,451	32,676	32,149	67,556	44,518	27,827
Including: Cash and cash equivalents	28,563	1,790	19,224	12,636	2,976	11,540
Non-current Assets	313,884	81,985	78,622	357,525	91,964	90,381
Total Assets	398,335	114,661	110,771	425,081	136,482	118,208
Current Liabilities	(70,763)	(34,698)	(5,807)	(155,895)	(32,306)	(8,374)
Non-current liabilities	-	-	-	-	-	(5,400)
Total liabilities	(70,763)	(34,698)	(5,807)	(155,895)	(32,306)	(13,774)
Net Assets	327,572	79,963	104,964	269,186	104,176	104,434
Net assets calculated by proportion of shareholding (i)	163,786	39,981	52,483	134,593	52,088	52,217
Adjustment – unrealized downstream transactions	(19,267)	-	-	(22,770)	-	-
Book value of joint ventures	144,519	39,981	52,483	111,823	52,088	52,217

(b) Summarised financial information for major joint ventures

	At 31 December 2015			At 31 December 2014		
	BOC	Jinpu	Yangu Gas	Jinpu	Yangu Gas	BOC
Revenue	396,176	118,966	68,469	388,391	226,221	75,342
Financial expense	(3,677)	(1,058)	(82)	(5,162)	(2,252)	(798)
Income tax	(14,392)	–	–	(14,545)	–	–
Net profit/(loss)	58,386	(24,213)	1,830	26,800	(26,753)	1,397
Other comprehensive income	–	–	–	–	–	–
Total comprehensive income/(loss)	58,386	(24,213)	1,830	26,800	(26,753)	1,397
Dividends declared by joint venture	–	–	650	53,121	–	1,000

(i) The information above reflects the amounts presented in the financial statements of the joint ventures (and not the Group's share of those amounts) adjusted for differences in accounting policies between the group and the associates.

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5 Interests in other entities *(continued)*

(2) Interests in joint ventures and associates *(continued)*

(c) Summarised financial information for major associates

	As at 31 December 2015				As at 31 December 2014			
	Shanghai Secco	Chemical Industry	Jinsen	Azbil	Shanghai Secco	Chemical Industry	Jinsen	Azbil
Current Assets	4,879,596	2,486,929	128,354	150,672	4,367,559	2,465,826	124,136	173,827
Including: Cash and cash equivalents	598,397	981,308	75,881	74,867	725,639	558,495	75,078	95,093
Non-current Assets	8,033,469	3,111,311	86,514	3,444	9,472,760	3,263,037	94,060	4,538
Total Assets	12,913,065	5,598,240	214,868	154,116	13,840,319	5,728,863	218,196	178,365
Current Liabilities	(3,532,247)	(404,115)	(7,882)	(41,801)	(2,545,646)	(639,628)	(12,050)	(56,557)
Non-current liabilities	(487,020)	(980,583)	–	–	(3,806,143)	(1,043,192)	–	–
Total liabilities	(4,019,267)	(1,384,698)	(7,882)	(41,801)	(6,351,789)	(1,682,820)	(12,050)	(56,557)
Net Assets	8,893,798	4,213,542	206,986	112,315	7,488,530	4,046,043	206,146	121,808
Net assets calculated by proportion of shareholding (i)	1,778,760	1,612,101	82,794	44,926	1,497,706	1,548,016	82,458	48,723
Adjustment (ii)	–	(331,242)	–	–	–	(334,752)	–	–
Book value of associates	1,778,760	1,280,859	82,794	44,926	1,497,706	1,213,264	82,458	48,723

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5 Interests in other entities *(continued)*

(2) Interests in associates *(continued)*

(c) Summarised financial information for major associates *(continued)*

	2015				2014			
	Shanghai Secco	Chemical Industry	Jinsen	Azbil	Shanghai Secco	Chemical Industry	Jinsen	Azbil
Revenue	23,848,576	1,032	245,060	186,657	26,131,711	566	266,556	276,665
Net profit/(loss)	2,185,268	218,674	8,155	20,507	(339,450)	170,050	12,426	30,153
Other comprehensive income	–	–	–	–	–	–	–	–
Total comprehensive income	2,185,268	218,674	8,155	20,507	(339,450)	170,050	12,426	30,153
Dividends declared by associates	156,000	16,069	2,926	12,000	–	11,478	4,847	12,000

(i) The information above reflects the amounts presented in the financial statements of the associates (and not the Group's share of those amounts) adjusted for differences in accounting policies between the Group and the associates.

(ii) Unentitled portion represented some piece of lands injected by Government in Chemical Industry as capital reserve and the earnings from this land cannot be shared by other shareholders.

(d) Summarised financial information for immaterial associates

	2015	2014
Total net book value of long-term investment as at 31 December	46,817	47,983
Total amount calculated by proportion of shareholding		
Net profit (i)	8,347	29,226
Other comprehensive income (i)	–	–
Total comprehensive income	8,347	29,226

(i) Net profit and other comprehensive income had considered the fair value of assets and liabilities at the acquisition date and the adjustment for differences in accounting policies between the Group and the associates.

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6 Segment information

Segment information is presented in respect of the Group's business segments, the format of which is based on the structure of the Group's internal organisation, management requirement, and internal reporting system.

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 five reportable segments. No operating segments have been aggregated to form the following reportable segments.

The Group evaluates the performance and allocates resources to its operating segments on an operating income basis, without considering the effects of finance expenses, investment income, non-operating income and non-operating expenses. The accounting policies adopted by the operating segments are the same with the policies in summary of significant accounting policies and accounting estimates. The transfer price of intersegment is recognised with cost plus profit method.

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

(i) The Group's petroleum products segment is equipped with 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 co-products of the crude oil distillation process. Part of the residual oil is further processed into qualified refined gasoline and diesel oil. In addition, the Group produces a variety of fuels for transportation, industry and household heating usage, such as diesel oil, jet fuel, heavy oil and liquefied petroleum gas.

(ii) The intermediate petrochemicals segment primarily produces p-xylene, benzene and ethylene oxide. 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.

(iii) The synthetic fibres segment produces primarily polyester and acrylic fibres, which are mainly used in the textile and apparel industries.

(iv) 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 to produce polyester fibres, coating and containers. Polyethylene resins and plastics are used to produce insulated cable, mulching films and moulded products such as housewares and toys. Polypropylene resins are used for films, sheets and moulded products such as housewares, toys, consumer electronics and automobile parts.

(v) The Group's trading of petrochemical products segment primarily engages in importing and exporting of petrochemical products.

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6 Segment information *(continued)*

(vi) All other operating segments represent the operating segments which do not meet the quantitative threshold for determining reportable segments. These include rental, providing services and a variety of other commercial activities, which are not allocated to the above five operating segments.

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 and its related interest income, investment properties and related depreciation expense, interest-bearing borrowings, interest expenses, and corporate assets and related expenses.

(a) Segment information as at and for the year ended 31 December 2015 is as follows:

	Synthetic fibres	Resins and plastics	Intermediate petrochemicals	Petroleum products	Trading of petrochemical products	Others	Unallocated	Elimination	Total
Revenue from external customers	2,397,015	10,241,960	9,607,799	43,894,359	13,719,716	942,573	–	–	80,803,422
Inter-segment revenue	–	106,042	13,697,886	3,579,131	3,220,905	542,028	–	(21,145,992)	–
Cost of sales	(2,368,244)	(7,921,164)	(7,223,860)	(28,377,878)	(13,573,180)	(624,971)	–	–	(60,089,297)
Interest income	–	–	–	–	–	–	49,302	–	49,302
Interest expenses	–	–	–	–	–	–	(211,942)	–	(211,942)
Investment income from associates and joint ventures	–	–	–	–	–	–	599,189	–	599,189
Asset impairment losses	(4,768)	(339)	(50,430)	(3,168)	(13,150)	(23,770)	–	–	(95,625)
Depreciation and amortisation	(161,477)	(122,558)	(579,593)	(979,916)	(175)	(230,013)	–	–	(2,073,732)
Total (loss)/profit	(362,069)	1,206,679	917,552	1,805,633	9,831	54,111	576,992	–	4,208,729
Income tax expenses	–	–	–	–	–	–	(926,777)	–	(926,777)
Net (loss)/profit	(362,069)	1,206,679	917,552	1,805,633	9,831	54,111	(349,785)	–	3,281,952
									–
Total assets	1,642,815	1,578,493	4,580,839	12,164,463	1,027,230	2,296,097	4,732,234	–	28,022,171
									–
Total liabilities	272,717	646,347	675,470	3,059,334	948,775	53,628	2,230,000	–	7,886,271

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6 Segment information *(continued)*

(b) Segment information as at and for the year ended 31 December 2014 is as follows:

	Synthetic fibres	Resins and plastics	Intermediate petrochemicals	Petroleum products	Trading of petrochemical products	Others	Unallocated	Elimination	Total
Revenue from external customers	2,935,540	12,654,400	12,579,993	58,243,904	14,792,432	976,592	–	–	102,182,861
Inter-segment revenue	–	241,131	15,408,977	5,266,442	2,820,482	1,054,951	–	(24,791,983)	–
Cost of sales	(3,131,196)	(11,992,851)	(11,094,167)	(48,604,614)	(14,585,761)	(638,301)	–	–	(90,046,890)
Interest income	–	–	–	–	–	–	64,673	–	64,673
Interest expenses	–	–	–	–	–	–	(374,600)	–	(374,600)
Investment income from associates and joint ventures	–	–	–	–	–	–	54,145	–	54,145
Asset impairment losses	(28,942)	(114)	(25,018)	(138,624)	(3,630)	(27,711)	–	–	(224,039)
Depreciation and amortisation	(187,215)	(233,014)	(648,305)	(1,009,986)	(227)	(223,500)	(13,450)	–	(2,315,697)
Total (loss) / profit	(583,929)	(331,540)	105,070	(29,295)	66,106	73,412	(213,973)	–	(914,149)
Income tax expenses	–	–	–	–	–	–	214,184	–	214,184
Net (loss) / profit	(583,929)	(331,540)	105,070	(29,295)	66,106	73,412	211	–	(699,965)
Total assets	1,782,581	1,714,407	5,389,731	13,856,803	1,312,503	2,156,341	4,933,617	–	31,145,983
Total liabilities	340,837	947,649	1,028,939	4,812,737	1,172,575	120,353	5,880,875	–	14,303,965

In view of the fact that the Group operates mainly in the PRC, no geographical segment information is presented.

In 2015, revenue from the same customer accounted for 49% of total Group revenue (2014: 60%). The revenue from the customer derived from the following segments: intermediate petrochemicals, petroleum products, trading of petrochemical products and other segment.

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7 Related parties and related party transactions

(1) Information on the parent company

(a) General information of the parent company

	Place of registration	Business nature
China Petroleum & Chemical Corporation	No.22 Chaoyangmen North Street, Chaoyang District, Beijing	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.

The Company's ultimate controlling party is China Petrochemical Corporation.

(b) Registered capital and changes in registered capital of the parent company

	31 December 2014	Increase in current year	Decrease in current year	31 December 2015
China Petroleum & Chemical Corporation	RMB118.3 billion	RMB2.8 billion	–	RMB121.1billion

(c) The percentages of share holding and voting rights in the Company held by the parent company

	31 December 2015		31 December 2014	
	Share holding	Voting rights	Share holding	Voting rights
China Petroleum & Chemical Corporation	50.56%	50.56%	50.56%	50.56%

(2) Information on the Company's subsidiaries

The general information and other related information of the subsidiaries is set out in Note 5.

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7 Related parties and related party transactions *(continued)*

(3) Basic information of associate and joint venture

In addition to the major joint ventures and associates disclosed in Note 5(2), related transactions between the Group and other associates are as follows:

	Place of business/country of incorporation	Place of registry	Business nature	Whether it is strategic for group activities	% of ownership interest Directly	% of ownership interest Indirectly
Shanghai Nanguang Petrochemical Co., Ltd.	Shanghai	Shanghai	Petrochemical products import and export	Yes	–	35%
Shanghai Jinhuan Petroleum Naphthalene Development Company Limited	Shanghai	Shanghai	Production of petrochemical products	Yes	–	25%
Shanghai Chemical Industry Park Logistics Company Limited	Shanghai	Shanghai	Products freight	Yes	–	33.33%

(4) Information on other related parties

Names of related parties	Relationship with the Company
China Petrochemical Corporation(“Sinopec Group”)	Ultimate parent company
Sinopec Chemical Commercial Holding Company Limited	Subsidiary of the immediate parent company
Sinopec Huadong Sales Company Limited	Subsidiary of the immediate parent company
Sinopec Huanan Sales Company Limited	Subsidiary of the immediate parent company
Sinopec Huabei Sales Company Limited	Subsidiary of the immediate parent company
Sinopec Jiangsu Sales Company Limited	Subsidiary of the immediate parent company
Sinopec Huazhong Sales Company Limited	Subsidiary of the immediate parent company
Sinopec Chemical Commercial Holding (Hongkong) Company Limited	Subsidiary of the immediate parent company
Sinopec Yizheng Chemical Fibre Company Limited	Subsidiary of the immediate parent company
China International United Petroleum and Chemical Company Limited	Subsidiary of the immediate parent company
Sinopec Refinery Product Sales Company Limited	Subsidiary of the immediate parent company
Sinopec Yangzi Petrochemical Company Limited	Subsidiary of the immediate parent company
China Petrochemical International Company Limited	Subsidiary of the immediate parent company
China Petrochemical International Beijing Company Limited	Subsidiary of the immediate parent company
China Petrochemical International Ningbo Company Limited	Subsidiary of the immediate parent company
China Petrochemical International Tianjin Company Limited	Subsidiary of the immediate parent company
China Petrochemical International Russia Company Limited	Subsidiary of the immediate parent company
China Petrochemical International Kazakhstan Company Limited	Subsidiary of the immediate parent company

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7 Related parties and related party transactions *(continued)*

(4) Information on other related parties *(continued)*

Names of related parties	Relationship with the Company
Sinopec Assets Management Corporation	Subsidiary of the immediate parent company
Petro-CyberWorks Information Technology Company Limited	Subsidiary of the immediate parent company
Sinopec Qingdao Refining and Chemical Company Limited	Subsidiary of the immediate parent company
Sinopec Fuel Oil Sales Corporation Limited	Subsidiary of the immediate parent company
Sinopec Europe Company Limited	Subsidiary of the immediate parent company
Sinopec USA Company Limited	Subsidiary of the immediate parent company
BASF-YPC Company Limited	Joint venture of the immediate parent company
Zhejiang Baling Hengyi Caprolactam Limited Company	Joint venture of the immediate parent company
Sinopec Petroleum Storage and Reserve Limited	Subsidiary of the ultimate parent company
Sinopec Assets Management Corporation	Subsidiary of the ultimate parent company
Shanghai Petrochemical Machine Manufacturing Company Limited	Subsidiary of the ultimate parent company
Sinopec International Petroleum Exploration and Production Limited	Subsidiary of the ultimate parent company
Sinopec Shanghai Engineering Company Limited	Subsidiary of the ultimate parent company
The Fourth Construction Company of Sinopec	Subsidiary of the ultimate parent company
The Fifth Construction Company of Sinopec	Subsidiary of the ultimate parent company
The Tenth Construction Company of Sinopec	Subsidiary of the ultimate parent company
Sinopec Engineering Incorporation	Subsidiary of the ultimate parent company
Sinopec Ningbo Engineering Company Limited	Subsidiary of the ultimate parent company
Sinopec Tending Company Limited	Subsidiary of the ultimate parent company
Sinopec Finance Company Limited(“Sinopec Finance”)	Subsidiary of the ultimate parent company

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7 Related parties and related party transactions *(continued)*

(5) Major related party transactions

In addition to the related transaction disclosed in Note4(3), Note4(10), Note4(25), Note4(30), Note4(33) and Note4(41), other major related transactions between the Group and its related parties are as follows:

(a) Purchases and sales of goods, rendering and receiving services

Purchases of goods and receiving services:

The Group

			2015		2014	
Name of Related Parties	**Category**	**Transaction type**	Amount	Percentage of the same category (%)	Amount	Percentage of the same category (%)
Sinopec Corp., its subsidiaries and joint ventures	Purchases	Trade	27,996,502	51.72%	36,160,187	52.92%
Sinopec Group and its subsidiaries	Purchases	Trade	421,803	0.78%	1,251,143	1.83%
Associates of the Company	Purchases	Trade	3,237,127	5.98%	3,410,569	4.99%
Joint ventures of the Company	Purchases	Trade	370,446	0.68%	362,034	0.53%
Key management personnel	Short-term employee benefits	Compensation for services	4,469	0.20%	7,668	0.37%
Key management personnel	Retirement scheme contributions	Compensation for services	147	0.01%	170	0.03%
Key management personnel	Share-based payments	Compensation for services	1,342	0.06%	–	–

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7 Related parties and related party transactions *(continued)*

(5) Related party transactions *(continued)*

(a) Purchases and sales of goods, rendering and receiving services *(continued)*

Sales of goods, rendering services:

The Group

			2015		2014	
Name of Related Parties	Category	Transaction type	Amount	Percentage of the same category (%)	Amount	Percentage of the same category (%)
Sinopec Corp., its subsidiaries and joint ventures	Sales/ Service income	Trade	45,742,257	56.61%	60,835,010	59.55%
Sinopec Group and its subsidiaries	Sales/ Service income	Trade	151,417	0.19%	298,190	0.29%
Associates of the Company	Sales/ Service income	Trade	1,167,099	1.44%	2,020,797	1.98%
Joint ventures of the Company	Sales	Trade	299,412	0.37%	435,032	0.43%

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7 Related parties and related party transactions *(continued)*

(5) Related party transactions *(continued)*

(b) Related party funding

In 2015, the Group and the Company borrowed from Sinopec Finance Company Limited amounting to RMB5,720,000 thousands (2014: RMB7,070,000 thousands). The interest rate of RMB dominated borrowings ranged from 3.00% to 5.04% (2014: RMB5.04% to 5.40%).

In 2015, the Group and the Company repaid to Sinopec Finance Company Limited amounting to RMB6,420,000 thousands (2014: RMB6,070,000 thousands).

In 2015, the Group and the Company did not lend any capital to joint ventures (2014: Nil).

(c) Other related transactions

The Group

	Transaction Type	2015	2014
Sinopec Group and its subsidiaries	Insurance premiums	117,914	117,896
Sinopec Finance Company Limited	Interests received and receivable	595	1,057
Sinopec Finance Company Limited	Interests paid and payable	31,328	59,939
Sinopec Group and its subsidiaries	Construction and installation cost	158,822	144,248
Sinopec Chemical Commercial Holding Company Limited	Sales commission	112,245	113,162
Sinopec Corp.and its subsidiaries	Rental income	29,071	28,871

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7 Related parties and related party transactions *(continued)*

(6) Receivables from and payables to related parties

Receivables from related parties:

The Group

		31 December 2015 Amount	31 December 2014 Amount
Cash at bank and on hand	Sinopec Group and its subsidiaries	5,366	5,179
Notes receivable	Sinopec Corp., its subsidiaries and joint ventures	16,100	6,600
Accounts receivable	Sinopec Corp., its subsidiaries and joint ventures	1,074,194	967,220
	Sinopec Group and its subsidiaries	9,263	3,617
	Associates of the Group	23,826	1,829
	Joint ventures of the Group	28,728	24,572
		1,136,011	997,238
Other receivables	Sinopec Corp., its subsidiaries and joint ventures	1,613	574
	Associates of the Group	735	480
	Joint ventures of the Group	1,704	1,746
		4,052	2,800
Advances to suppliers	Sinopec Corp., its subsidiaries and joint ventures	6,966	28,447

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7 Related parties and related party transactions *(continued)*

(6) Receivables from and payables to related parties *(continued)*

Payables to related parties:

The Group

		31 December 2015	31 December 2014
Short-term borrowings	Sinopec Group and its subsidiaries	370,000	1,070,000
Interest payable	Sinopec Group and its subsidiaries	248	1,320
Accounts payable	Sinopec Corp., its subsidiaries and joint ventures	1,226,822	2,830,073
	Sinopec Group and its subsidiaries	1,330	2,064
	Associates of the Group	191,395	137,112
	Joint ventures of the Group	36,099	34,327
		1,455,646	3,003,576
Other payables	Sinopec Corp., its subsidiaries and joint ventures	10,674	10,056
	Sinopec Group and its subsidiaries	89,233	5,731
		99,907	15,787
Advances from customers	Sinopec Corp., its subsidiaries and joint ventures	16,444	19,798
	Sinopec Group and its subsidiaries	531	27
	Associates of the Group	1,191	1,685
	Joint ventures of the Group	–	4
		18,166	21,514

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7 Related parties and related party transactions *(Continued)*

(7) Commitments with related parties

Commitments with related parties contracted for by the Group at the balance sheet date but are not yet necessary to be recognized on the balance sheet are as follows:

(i) Construction and installation cost:

	31 December 2015	31 December 2014
Sinopec Group and its subsidiaries	35,244	65,319

(ii) Investment commitments with related parties

	31 December 2015	31 December 2014
Capital contribution to Shanghai Secco	111,263	111,263

Pursuant to the resolution of the 18th meeting of the 7th term of Board of Directors on 5 December 2013, it was approved to make capital contribution of USD30,017 thousands (RMB182,804 thousands equivalent) to Shanghai Secco, an associate of the Group. The capital to Shanghai Secco will be contributed in RMB by instalments. The capital contribution is mainly to meet the funding needs of the implementation of the "260,000 tons of AN-2 project" ("AN-2 project"), and "90,000 tons of BEU-2 project" ("BEU-2 project").

As at 10 December 2013, the Company contributed the first instalment of RMB60,000 thousands for AN-2 project. As at 5 March 2014, the Company contributed the first instalment of RMB11,541 thousands for BEU-2 project. According to the approval by Shanghai Municipal Commission of Commerce as issued on 19 October 2015, the rest of the capital contribution to Shanghai Secco should be within 50 years starting from its registration date.

Except for the above, the Group and the Company had no other material commitments with related parties at 31 December 2015, which are contracted, but not included in the financial statements.

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8 Contingent liabilities

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 2015. No provision has been made in the financial statements at 31 December 2015 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(31 December 2014:Nil).

9 Commitments

(1) Capital commitments

Capital expenditures contracted for by the Group at the balance sheet date but are not yet necessary to be recognised on the balance sheet are as follows:

	31 December 2015	31 December 2014
Purchase of fixed assets contracted but not provided for	39,814	126,941
Purchase of fixed assets authorised but not contracted for	1,124,660	1,284,433
	1,164,474	1,411,374

(2) Operating lease commitments

The Group had no material commitments under operating leases as at 31 December 2015 and 2014, which are contracted, but not included in the financial statements.

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10 Financial instrument and risk

The Group's activities expose it to a variety of financial risks: market risk (primarily currency risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(1) Market risk

(a) Foreign exchange risk

The Group's major operational activities are carried out in Mainland China and a majority of the transactions are denominated in RMB. Nevertheless the Group is exposed to foreign exchange risk arising from the recognised assets and liabilities, and future transactions denominated in foreign currencies, primarily with respect to US dollars. The Group's finance department at its headquarters is responsible for monitoring the amount of assets and liabilities, and transactions denominated in foreign currencies to minimise the foreign exchange risk.

The foreign exchange risk of the Group is arising from borrowings denominated in EUR. The Group purchased forward exchange contract to avoid foreign exchange risk arising from borrowing denominated in EUR. As at 31 December 2015, the Group does not have undue forward exchange contract.

As at 31 December 2015 and 31 December 2014, the carrying amounts in RMB equivalent of the Group's assets and liabilities denominated in foreign currencies are summarized below:

	31 December 2015		
	USD	Others	Total
Financial assets in foreign currencies –			
Cash at bank and on hand	86,109	–	86,109
Accounts receivable	406,006	–	406,006
	492,115	–	492,115
Financial liabilities in foreign currencies –			
Accounts payable	588,123	121	588,244
Other payables	16,020	–	16,020
	604,143	121	604,264

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10 Financial instrument and risk *(continued)*

(1) Market risk *(continued)*

(a) Foreign exchange risk *(continued)*

	31 December 2014		
	USD	Others	Total
Financial assets in foreign currencies –			
Cash at bank and on hand	32,418	990	33,408
Accounts receivable	527,006	–	527,006
	559,424	990	560,414
Financial liabilities in foreign currencies –			
Short-term borrowings	1,617,578	424,979	2,042,557
Accounts payable	769,378	–	769,378
Interest payable	438	–	438
Long-term borrowings	611,900	–	611,900
	2,999,294	424,979	3,424,273

As at 31 December 2015, if the foreign currencies had weakened/strengthened by 5% against RMB with all other variables held constant, the Group's net profit for the year would have been 4,206 thousands increased/decreased (2014: RMB107,395 thousands decreased/increased in net loss) as a result of foreign exchange gains/losses which is mainly resulted from the translation of USD and EUR denominated short-term borrowings and trade payables.

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10 Financial instrument and risk *(continued)*

(1) Market risk *(continued)*

(b) Interest rate risk

The Group's interest rate risk arises from short-term and long-term interest bearing borrowings. Financial liabilities issued at floating rates expose the Group to cash flow interest rate risk. Financial liabilities issued at fixed rates expose the Group to fair value interest rate risk. The Group determines the relative proportions of its fixed rate and floating rate contracts depending on the prevailing market conditions. As at 31 December 2015, the Group's short-term and long-term interest bearing borrowings denominated with floating rates amounting to RMB2,000,000 thousands (31 December 2014: RMB4,640,875 thousands).

The Group's finance department at its headquarters continuously monitors the interest rate position of the Group. Increases in interest rates will increase the cost of new borrowing and the interest expenses with respect to the Group's outstanding floating rate borrowings, and therefore could have a material adverse effect on the Group's financial position. The Group makes adjustments timely with reference to the latest market conditions and may enter into interest rate swap agreements to mitigate its exposure to interest rate risk. During the year 2015 and 2014, the Group did not enter into any interest rate swap agreements.

As at 31 December 2015, if interest rates on the floating rate borrowings had risen/fallen by 50 basis points while all other variables had been held constant, the Group's net profit would have decreased/increased by approximately RMB7,500 thousands (31 December 2014: RMB17,403 thousands increased/decreased in net loss).

(2) Credit risk

Credit risk is managed on the grouping basis. Credit risk mainly arises from cash at bank, accounts receivable, other receivables, notes receivable etc.

The Group expects that there is no significant credit risk associated with cash at bank since they are deposited at state-owned banks and other medium or large size listed banks. Management does not expect that there will be any significant losses from non-performance by these counterparties.

In addition, the Group has policies to limit the credit exposure on accounts receivable, other receivables and notes receivable. The Group assesses the credit quality of and sets credit limits on its customers by taking into account their financial position, the availability of guarantee from third parties, their credit history and other factors such as current market conditions. The credit history of the customers is regularly monitored by the Group. In respect of customers with a poor credit history, the Group will use written payment reminders, or shorten or cancel credit periods, to ensure the overall credit risk of the Group is limited to a controllable extent.

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10 Financial instrument and risk *(continued)*

(3) Liquidity risk

Cash flow forecasting is performed by each subsidiary of the Group and aggregated by the Group's finance department in its headquarters. The Group's finance department at its headquarters monitors rolling forecasts of the Group's short-term and long-term liquidity requirements to ensure it has sufficient cash and securities that are readily convertible to cash to meet operational needs, while maintaining sufficient headroom on its undrawn committed borrowing facilities from major financial institutions so that the Group does not breach borrowing limits or covenants on any of its borrowing facilities to meet the short-term and long-term liquidity requirements.

At 31 December 2015, the Group had standby credit facilities with several PRC financial institutions which provided the Group to borrow up to RMB28,179,120 thousands, of which RMB25,535,372 thousands was unutilised; the Group had facilities up to RMB1,524,680 thousands to issue letters of credit, of which RMB834,792 thousands was unutilised.

The financial assets and liabilities of the Group at the balance sheet date are analysed by their maturity date below at their undiscounted contractual cash flows:

	31 December 2015				
	Within 1 year	1 to 2 years	2 to 5 years	Over 5 years	Total
Short-term borrowings	2,070,000	–	–	–	2,070,000
Accounts payable	3,017,878	–	–	–	3,017,878
Interest payable	35,771	–	–	–	35,771
Dividends payable	19,119	–	–	–	19,119
Other payables	629,080	–	–	–	629,080
	5,771,848	–	–	–	5,771,848

	31 December 2014				
	Within 1 year	1 to 2 years	2 to 5 years	Over 5 years	Total
Short-term borrowings	4,118,266	–	–	–	4,118,266
Notes payable	11,714	–	–	–	11,714
Accounts payable	5,924,035	–	–	–	5,924,035
Interest payable	9,037	–	–	–	9,037
Dividends payable	19,406	–	–	–	19,406
Other payables	508,551	–	–	–	508,551
Long-term borrowings	54,555	1,648,830	–	–	1,703,385
	10,645,564	1,648,830	–	–	12,294,394

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11 Fair value estimation

The level in which fair value measurement is categorised is determined by the level of the fair value hierarchy of the lowest level input that is significant to the entire fair value measurement:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Unobservable inputs for the asset or liability.

(1) The Group does not have assets measured at fair value on a recurring or non-recurring basis.

(2) Financial assets and financial liabilities not measured at fair value but disclosed it

Financial assets and liabilities measured at amortised cost mainly include notes receivable, trade receivables and other receivables, current portion of entrust lendings, short-term borrowings, trade and other payables, notes payable, current portion of non-current liabilities borrowings and long-term borrowings.

As at 31 December 2015, the carrying amounts of these financial assets and liabilities not measured at fair value are a reasonable approximation of their fair value.

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12 Offsetting financial assets and financial liabilities

(1) Financial assets

The following financial assets are subject to offsetting arrangements:

	31 December 2015	31 December 2014
Gross amounts of recognised amounts due from related parties	1,688,463	1,675,594
Gross amounts of recognised amounts due to related parties set off in the balance sheet	(63,892)	(47,473)
Net amounts of amounts due from related parties presented in the balance sheet	1,624,571	1,628,121

(2) Financial liabilities

The following financial liabilities are subject to offsetting arrangements:

	31 December 2015	31 December 2014
Gross amounts of recognised amounts due to related parties	3,081,770	5,971,508
Gross amounts of recognised amounts due from related parties set off in the balance sheet	(63,892)	(47,473)
Net amounts of amounts due to related parties presented in the balance sheet	3,017,878	5,924,035

For the financial assets and liabilities subject to the offsetting arrangements above, the relevant financial assets and liabilities of each operating agreement between the Group and the counterparty, Shanghai Secco Petrochemical Company Limited, are settled on a net basis.

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13 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group's total capital is calculated as shareholder's equity and total liabilities as shown in the consolidated balance sheet. The Group is not subject to external mandatory capital requirements, and manages capital using gearing ratio.

The gearing ratios at 31 December 2015 and 31 December 2014 were as follows:

	31 December 2015	31 December 2014
Short-term borrowings (Note 4(18))	2,070,000	4,078,195
Long-term borrowings (Note 4(28))	–	1,632,680
Less: cash and cash equivalents (Note 4(1))	(1,077,430)	(279,198)
Net debt	992,570	5,431,677
Add: total Equity	20,135,900	16,842,018
Total Capital	21,128,470	22,273,695
Gearing ratio	4.70%	24.39%

14 Notes to major items of the Company's financial statements

(1) Accounts receivable

	31 December 2015	31 December 2014
Amounts due from related parties	1,030,518	845,197
Amounts due from third parties	3,792	11,049
Less: provision for bad debts	(24)	(48)
	1,034,286	856,198

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14 Notes to major items of the Company's financial statements *(continued)*

(1) Accounts receivable *(continued)*

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

	31 December 2015	31 December 2014
Within one year	1,034,245	856,170
Over one year but within two years	55	36
Over two years but within three years	7	8
Over three years	3	32
	1,034,310	856,246
Less: Provision for bad debts	(24)	(48)
	1,034,286	856,198

As at 31 December 2015, the Company has no any significant overdue accounts receivable (31 December 2014: Nil).

(b) Accounts receivables are analysed by categories as follows:

	31 December 2015				31 December 2014			
	Gross carrying amount		Provision for bad debts		Gross carrying amount		Provision for bad debts	
	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)
Individually significant and subject to separate provision	–	–	–	–	–	–	–	–
Subject to provision by groups:								
– Group 1	3,792	0.37	24	0.63	11,049	1.29	48	0.43
– Group 2	1,030,518	99.63	–	–	845,197	98.71	–	–
Individually insignificant but subject to separate provision	–	–	–	–	–	–	–	–
	1,034,310	100.00	24	–	856,246	100.00	48	–

Classification of accounts receivable: refer to Note2(10)(b)

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14 Notes to major items of the Company's financial statements *(continued)*

(1) Accounts receivable *(continued)*

(c) Subject to provision by group 1 are as follows:

	31 December 2015			31 December 2014		
	Gross carrying amount	Provision for bad debts		Gross carrying amount	Provision for bad debts	
	Amount	Amount	Percentage (%)	Amount	Amount	Percentage (%)
Within one year	3,727	–	–	10,973	–	–
Over one year but within two years	55	17	30.00	36	11	30.00
Over two years but within three years	7	4	60.00	8	5	60.00
Over three years	3	3	100.00	32	32	100.00
	3,792	24	–	11,049	48	–

There are no collateral over the above accounts receivable with provision for bad debts.

(d) In 2015, the Company assessed the impairment on an individual basis in accordance with the accounting policy as described in Note 2(10), and there were no provision for accounts receivable that are individually significant or insignificant but assessed for impairment individually.

(e) In 2015, the Company had no accounts receivable with fully or substantially write-off or write-back of bad debts which had been fully or substantially provided for in prior years.

(f) In 2015, the Company had no significant accounts receivable that are written off.

(g) As at 31 December 2015, top five accounts receivable are summarized as follows:

	Amount	Bad debt	Percentage of total accounts receivable
Total amount of top five accounts receivable	1,010,585	–	97.71%

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14 Notes to major items of the Company's financial statements *(continued)*

(1) Accounts receivable *(continued)*

(h) Accounts receivable from related parties are analysed as below:

	31 December 2015			31 December 2014		
	Amount	Percentage of total accounts receivable(%)	Provision for bad debts	Amount	Percentage of total accounts receivable(%)	Provision for bad debts
Sinopec Corp., its subsidiaries and joint ventures	988,850	95.60	–	760,391	88.81	–
Sinopec Group and its subsidiaries	1,454	0.14	–	3,617	0.42	–
Subsidiaries of the Company	11,275	1.09	–	56,364	6.58	–
Associates of the Company	211	0.02	–	253	0.03	–
Joint ventures of the Company	28,728	2.78	–	24,572	2.87	–
	1,030,518	99.63	–	845,197	98.71	–

(i) There are no accounts receivables derecognized due to the transfer of financial assets during the current year.

(j) As at 31 December 2015, there are no accounts receivables pledged (31 December 2014: Nil).

(2) Other receivables

	31 December 2015	31 December 2014
Amounts due from related parties	801,124	769,591
Amounts due from third parties	7,436	13,919
	808,560	783,510
Less: provision for bad debts	(797,592)	(767,042)
	10,968	16,468

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14 Notes to major items of the Company's financial statements *(continued)*

(2) Other receivables *(continued)*

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

	31 December 2015	31 December 2014
Within one year	41,528	47,418
Over one year but within two years	30,950	31,230
Over two years but within three years	31,230	31,150
Over three years	704,852	673,712
Less: provision for bad debts	(797,592)	(767,042)
	10,968	16,468

(b) Other receivables by categories are analysed as follows:

	31 December 2015				31 December 2014			
	Gross carrying amount		Provision for bad debts		Gross carrying amount		Provision for bad debts	
	Amount	Percent-age (%)	Amount	Percent-age (%)	Amount	Percent-age (%)	Amount	Percent-age (%)
Individually significant and subject to separate provision	797,422	98.62	797,422	100.00	766,862	97.88	766,862	100.00
Subject to provision by groups:								
– Group 1	7,436	0.92	170	2.29	13,919	1.78	180	1.29
– Group 2	3,702	0.46	–	–	2,729	0.34	–	–
Individually insignificant but subject to separate provision	–	–	–	–	–	–	–	–
	808,560	100.00	797,592	–	783,510	100.00	767,042	–

Classification of other receivable: refer to Note2(10)(b)

For the year ended 31 December 2015
(All amounts in thousands of Renminbi Yuan unless otherwise stated)
[English translation for reference only]

14 Notes to major items of the Company's financial statements *(continued)*

(2) Other receivables *(continued)*

(c) Subject to provision by group 1 are as follows:

	31 December 2015			31 December 2014		
	Gross carrying amount	Provision for bad debts		Gross carrying amount	Provision for bad debts	
	Amount	Amount	Percentage (%)	Amount	Amount	Percentage (%)
Within one year	7,266	–	–	13,739	–	–
Over one year but within two years	–	–	–	–	–	–
Over two years but within three years	–	–	–	–	–	–
Over three years	170	170	100.00	180	180	100.00
	7,436	170	–	13,919	180	–

(d) As accounting policies stated in Note 2(10), the following amounts individually significant were subject to bad debt provision in this year, an accumulated bad debt provision for other receivables from the Company's consolidated subsidiary Jinyong was RMB797,422 thousands (31 December 2014: RMB766,862 thousands). Jinyong stopped production till now since August 2008. The additions in this year included labor cost, tax expenses and other fixed expenditures, which were paid by the Company on behalf of Jinyong. The Company provided a full bad debt provision based on the assessment on the possibility of recovery of other receivables. No provision was recognised for other receivables which were not individually significant but subject to bad debt provision.

(e) In 2015, the Company had no other receivable with fully or substantially write-off or write-back of bad debts which had been fully or substantially provided for in prior years.

(f) In 2015, the Company had no significant other receivable that are written off.

For the year ended 31 December 2015
(All amounts in thousands of Renminbi Yuan unless otherwise stated)
[English translation for reference only]

14 Notes to major items of the Company's financial statements *(continued)*

(2) Other receivables *(continued)*

(g) As at 31 December 2015, the top five other receivables are as follows:

	Nature	Amount	Ageing	Percentage of total other receivables	Bad debts
Zhejiang Jinyong	Disbursement fee	797,422	Partially over 3 years	98.62%	797,422
BOC-SPC Gases Company Limited ("BOC-SPC")	Business transaction	1,704	Within 1 year	0.21%	–
Shanghai Jinshan Jinshan Guardian material recycling station	Business transaction	1,311	Within 1 year	0.16%	–
Sinopec Huadong Sales Company Limited	Business transaction	1,127	Within 1 year	0.14%	–
Shanghai Secco Petrochemical Company Limited ("Shanghai Secco")	Business transaction	735	Within 1 year	0.09%	–
		802,299		99.22%	797,422

(3) Long-term equity investments

	31 December 2015	31 December 2014
Subsidiaries (a)	1,718,007	1,718,007
Associates (b)	3,059,619	2,710,969
	4,777,626	4,428,976
Less: Provision for impairment of long-term equity investments	(227,500)	(227,500)
	4,550,126	4,201,476

For the year ended 31 December 2015
(All amounts in thousands of Renminbi Yuan unless otherwise stated)
[English translation for reference only]

14 Notes to major items of the Company's financial statements *(continued)*

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

As at 31 December 2015, the Company has made full provision for the long-term equity investments in its subsidiary Jinyong amounted to RMB227,500 thousands (31 December 2014: RMB227,500 thousands). Jinyong stopped production periodically till now since August 2008. The Company has made full provision for the investment cost based on the estimate of recoverable amount of the Long-term equity investments in this subsidiary.

(a) Subsidiaries

	31 December 2014	Additional/ negative investment	31 December 2015	Impairment provision	Cash dividends declared in current year
Toufa	1,473,675	–	1,473,675	–	–
Jinyong	227,500	–	227,500	–	–
Jinmao Company	16,832	–	16,832	–	6,733
	1,718,007	–	1,718,007	–	6,733

(b) Associates

The information relating to the associates of the Company is disclosed in Note 4(10(b)).

For the year ended 31 December 2015
(All amounts in thousands of Renminbi Yuan unless otherwise stated)
[English translation for reference only]

14 Notes to major items of the Company's financial statements *(continued)*

(4) Fixed assets

	Buildings	Plant and machinery	Vehicles and other equipment	Total
Cost				
31 December 2014	3,178,707	38,751,474	1,699,947	43,630,128
Reclassification in current year	50,802	(53,437)	2,635	–
Increase in current year	–	125,318	23,064	148,382
Transfer from construction in progress	11,283	444,904	22,698	478,885
Decrease in current year	(1,443)	(233,726)	(73,423)	(308,592)
Transfer to investment properties	(4,349)	–	–	(4,349)
31 December 2015	3,235,000	39,034,533	1,674,921	43,944,454
Accumulated depreciation				
31 December 2014	1,847,193	24,724,103	1,343,474	27,914,770
Reclassification in current year	2,558	(2,184)	(374)	–
Current year charges	89,007	1,540,035	59,828	1,688,870
Decrease in current year	(988)	(208,220)	(71,022)	(280,230)
Transfer to investment properties	(1,072)	–	–	(1,072)
31 December 2015	1,936,698	26,053,734	1,331,906	29,322,338
Provision for impairment				
31 December 2014	50,785	436,988	6,167	493,940
Current year charges	–	50,001	–	50,001
Decrease in current year	–	(2,453)	(29)	(2,482)
31 December 2015	50,785	484,536	6,138	541,459
Carrying amount				
31 December 2015	1,247,517	12,496,263	336,877	14,080,657
31 December 2014	1,280,729	13,590,383	350,306	15,221,418

In 2015, as a result of increasing market competition and low profit margin of the relevant products, the management of the Company temporarily shut down the manufacturing of acrylonitrile plant. Therefore, the Company made an impairment provision of RMB50,001 thousands to reduce the related equipment's carrying amounts to it's estimated net realizable values (2014: Nil).

At 31 December 2015 and 31 December 2014, the Company had no pledged fixed assets.

For the year ended 31 December 2015
(All amounts in thousands of Renminbi Yuan unless otherwise stated)
[English translation for reference only]

14 Notes to major items of the Company's financial statements *(continued)*

(4) Fixed assets *(continued)*

In 2015, the depreciation expenses amounted to RMB1,688,870 thousands (2014: RMB1,906,092 thousands). The amount of depreciation expense charged to cost of sales, selling and distribution expenses, general and administrative expenses were RMB1,600,206 thousands, RMB2,136 thousands and RMB86,528 thousands, respectively (2014: were RMB1,817,404 thousands, RMB40 thousands and RMB88,648 thousands, respectively).

In 2015, the fixed assets with a carrying amount of RMB478,885 thousands (2014: RMB729,865 thousands) was transferred from construction in progress.

(5) Revenue and cost of sales

	2015		2014	
	Revenue	Cost of sales	Revenue	Cost of sales
Main operations	64,465,507	44,197,226	84,331,489	72,645,257
Other operations	492,672	388,159	608,752	474,638
	64,958,179	44,585,385	84,940,241	73,119,895

(6) Investment income

	2015	2014
Investment accounted for using the cost method (a)	6,733	25,080
Investment income generated by the disposal of long-term equity investments	–	24,522
Investment accounted for using the equity method (b)	520,718	12,949
Gain on forward contract	37,154	–
	564,605	62,551

There are no severe restrictions on the investee's ability to transfer investment income to the Company.

For the year ended 31 December 2015
(All amounts in thousands of Renminbi Yuan unless otherwise stated)
[English translation for reference only]

14 Notes to major items of the Company's financial statements *(continued)*

(6) Investment income *(continued)*

(a) Income from long-term equity investments accounted for using the cost method is as follow:

	2015	2014
China Jinshan Associated Trading Corporation	6,733	8,080
Shanghai Petrochemical Investment Development Company Limited	–	17,000
	6,733	25,080

(b) Income/(loss) from long-term equity investments accounted for using the equity method is as follow:

	2015	2014
Shanghai Secco Petrochemical Company Limited	437,054	(67,890)
Shanghai Chemical Industrial Park Development Company Limited	83,664	65,061
BOC-SPC Gases Company Limited	–	15,778
	520,718	12,949

For the year ended 31 December 2015
(All amounts in thousands of Renminbi Yuan unless otherwise stated)
[English translation for reference only]

14 Notes to major items of the Company's financial statements *(continued)*

(7) Supplementary information on cash flow statements

(a) Reconciliation from net profit/(loss) to cash flow from operating activities

	2015	2014
Net profit/(loss)	3,194,290	(649,684)
Add: Provisions for assets impairment	112,649	201,946
Depreciation of investment properties	13,342	13,245
Depreciation of fixed assets	1,688,870	1,906,092
Amortisation of intangible assets	12,317	12,317
Amortization of long-term deferred expense	303,443	327,955
Losses on disposal of fixed assets	9,843	34,279
Financial expenses-net	262,575	360,796
Investment income	(564,605)	(62,551)
Decrease/(Increase) in deferred tax assets	842,319	(223,893)
Decrease in deferred income	(26,436)	(28,564)
Decrease in inventories	1,478,362	3,008,806
Decrease in operating receivables	47,857	1,621,849
Decrease in operating payables	(2,304,480)	(2,902,354)
Share-based payments expense	22,702	–
Net cash inflow generated from operating activities	5,093,048	3,620,239

(b) Net increase in cash and cash equivalents

	2015	2014
Cash and cash equivalents balance at the end of the year	942,264	186,348
Less: cash and cash equivalents balance at the beginning of the year	186,348	78,448
Net increase in cash and cash equivalents	755,916	107,900

Supplementary Information to the Financial Statements

For the year ended 31 December 2015
(All amounts in thousands of Renminbi Yuan unless otherwise stated)
[English translation for reference only]

1 Non-recurring items

	2015	2014
Losses on disposal of non-current assets	(9,393)	(33,966)
Government grants recognised through profit or loss	160,116	182,829
Employee reduction expenses	(24,892)	(4,684)
Income from external entrusted lendings	2,880	2,299
Gain on forward contract	37,154	–
Other non-operating expenses other than those mentioned above	(10,280)	(25,357)
Tax effect for the above items	(38,538)	(30,280)
Effect on non-controlling interests after tax	(1,525)	(1,240)
	115,522	89,601

Basis of preparation for extraordinary profit and loss

Pursuant to Announcement [2008] Explanatory Announcement No.1 on Information Disclosure for Companies Offering Their Securities to the Public issued by China Securities regulatory commission (CSRC), extraordinary profit and loss arises in various trading and issues that have no direct relation with the normal operations of a company, or that are related with normal operations but affect the users of the statement to make reasonable judgment of the Company's operation performance and profitability due to the special and occasional nature of such trading and issues.

For the year ended 31 December 2015
(All amounts in thousands of Renminbi Yuan unless otherwise stated)
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2 Reconciliation between financial statements prepared under CAS and IFRS

The Company is listed on the Stoke Exchange of Hong Kong. The Group prepared financial statements under International Financial Reporting Standards ("IFRS") which is audited by PricewaterhouseCoopers. There are reconciliation items in the consolidated financial report prepared under CAS and IFRS, the reconciliation items and the amount are listed as follows:

	Net profit/(loss) (Consolidated)		Net assets (Consolidated)	
	2015	2014	31 December 2015	31 December 2014
Under CAS	3,245,849	(716,427)	19,838,862	16,570,623
Adjustments under IFRS				
– Government grants (a)	28,771	28,772	(41,580)	(70,351)
Safety production costs (b)	(312)	(4,567)	–	–
Under IFRS	3,274,308	(692,222)	19,797,282	16,500,272

Notes:

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

(b) Safety production costs

Under CAS, safety production costs should be recognised in profit or loss with a corresponding increase in reserve according to PRC regulations. Such reserve is reduced for expenses incurred for safety production purposes or, when safety production related fixed assets are purchased, is reduced by the purchased cost with a corresponding increase in the accumulated depreciation. Such fixed assets are not depreciated thereafter. Under IFRS, expenses are recognised in profit or loss when incurred, and property, plant and equipment are depreciated with applicable methods.

3 Return on net assets and earnings per share

	Weighted average return on net assets (%)		Earnings/(Loss) per share Basic (RMB)		Earnings/(Loss) per share Diluted(RMB)	
	2015	2014	2015	2014	2015	2014
Net profit/(losses) attributable to shareholders of the Company	17.831	(4.165)	0.301	(0.066)	0.300	(0.066)
Net profit/(losses) attributable to shareholders of the Company excluding non-recurring items	17.251	(4.686)	0.290	(0.075)	0.290	(0.075)

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 2015, we, being Directors, Supervisors and the Senior Management of the Company, having carefully studied and reviewed the Company's 2015 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 2015 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 PricewaterhouseCoopers and PricewaterhouseCoopers Zhong Tian LLP, respectively, were true and fair. We warrant that the information contained in the 2015 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:

Wang Zhiqing

Wu Haijun

Gao Jinping

Ye Guohua

Jin Qiang

Guo xiaojun

Lei Dianwu

Mo Zhenglin

Supervisors:

Liu Yunhong

Du Weifeng

Cai Tingji

Zhang Yimin

Kuang Yuxiang

Zuo Qiang

Li Ziaoxia

Zhai Yalin

Zheng Yunrui

Pan Fei

Senior Management:

Zhang Jianbo

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:	Mr. Wang Zhiqing

(2) Contact Persons and Contact Details

	Secretary to the Board	Securities Affairs Representative
Name:	Zhang Jianbo*	Wu Yuhong
Address:	48 Jinyi Road, Jinshan District, Shanghai, PRC,	48 Jinyi Road, Jinshan District, Shanghai, PRC
Postal Code:	200540	200540
Tel:	8621-57943143	8621-57933728
Fax:	8621-57940050	8621-57940050
E-mail:	zhangjb@spc.com.cn	wuyh@spc.com.cn

* Mr. Zhang Jianbo was appointed as Secretary to the Board on the eleventh meeting of the Eighth Session of the Board of Directors on 16 March 2016.

(3) Basic Information

Registered address:	48 Jinyi Road, Jinshan District, Shanghai, PRC
Postal Code:	200540
Business address:	48 Jinyi Road, Jinshan District, Shanghai, PRC
Postal Code:	200540
Website of the Company:	www.spc.com.cn
E-mail address:	spc@spc.com.cn

(4) Information Disclosure and Disclosure Sources

Designated newspapers for the publication of Company announcements:	"Shanghai Securities News", "China Securities Journal" and "Securities Times"
Websites for the publication of the Company's annual reports:	Shanghai Stock Exchange website, Hong Kong Stock Exchange website and the website of the Company
Place for access to the Company's annual reports:	Secretariat Office to the Board, 48 Jinyi Road, Jinshan District, Shanghai, 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	上海石化	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, PRC
First time:	
Date of change of the Company's registration:	12 October 2000
Change of the registered address of the Company:	48 Jinyi Road, Jinshan District, Shanghai, PRC
SAIC registration number of the Company:	310000000021453
Tax registration number of the Company:	310228132212291
Company and Organization Code:	13221229-1

Auditors engaged by the Company (Onshore)

Name:	PricewaterhouseCoopers Zhong Tian LLP
Address:	11/F., PricewaterhouseCoopers Center, 2 Corporate Avenue, 202 Hu Bin Road, Huangpu District, Shanghai 200021, PRC
Signing Auditors:	Xu Hong, Huang Zhejun

Auditors engaged by the Company (Offshore)

Name:	PricewaterhouseCoopers
Address:	22/F Prince's Building, 10 Chater Road, Central, Hong Kong
Signing Auditors:	Han Zongqing

Legal advisors:

PRC Law:	Haiwen & Partners 20th Floor, Fortune & Finance Center No.5 Dong San Huan Central Road Chaoyang District, Beijing, PRC Postal Code: 100020
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
Share Registrar:	Hong Kong Registrars Limited 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong
Depositary:	The Bank of New York Mellon Shareowner Services P.O. Box 358516 Pittsburgh, PA 15252-8516 Toll Free Number for Domestic Calls: 1-888-BNY-ADRS Number for International Calls: 201-680-6825 Email: shareowners@bankofny.com Website: www.stockbny.com

Documents for Inspection

1. Financial statements signed and sealed by the Company's Chairman, Chief Financial Officer and Deputy CFO cum Director of the Finance Department;

2. Original copies of auditor's 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: Wang Zhiqing
Sinopec Shanghai Petrochemical Company Limited
16 March 2016

This annual report is published in both Chinese and English. Should any conflict regarding meaning arises, the Chinese version shall prevail (unless otherwise provided).