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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 that there are no false representations or misleading statements contained in, or material omission from, the 2011 interim report, and severally and jointly accept full responsibility for the truthfulness, accuracy and completeness of the information contained in the 2011 interim report.

(2) If any Director fails to attend the Board meeting for considering and approving the 2011 interim report of the Company, his name shall be set out separately:

Name of Director not Attending	Position	Reasons for the Absence	Name of Proxy
Wu Haijun	Vice Chairman	Business engagement	Rong Guangdao
Lei Dianwu	Director	Business engagement	Rong Guangdao

(3) The financial report of the Company for the six-month period ended 30 June 2011 (the "Reporting Period") was unaudited.

(4) There was no appropriation of funds by our controlling shareholder and its connected parties for non-operation purpose.

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

(6) Mr. Rong Guangdao, our Chairman and the responsible person of the Company, Mr. Ye Guohua, our Chief Financial Officer (overseeing the accounting operations) and Mr. Hua Xin, our Finance Manager (Accounting Chief) hereby warrant the truthfulness and completeness of the financial report contained in the 2011 interim report.

REPORT OF THE DIRECTORS

1. Discussion and Analysis of the Overall Operation during the Reporting Period

The following discussion and analysis should be read in conjunction with the unaudited financial report of the Group (the Company and its subsidiaries) and the notes in the interim report. The financial data involved hereinafter are extracted from the unaudited financial report prepared in accordance with International Financial Reporting Standards ("IFRS").

Review and discussion on operating results

In the first half of 2011, the world economy went through a strenuous recovery due to a number of difficulties such as the war in Libya, the political turmoil in West Asia and North Africa, the major earthquake, tsunami and nuclear leakage accident that severely hit the Japanese economy, the lower-than-expected economic recovery and a rebound in the unemployment rate in the U.S., the challenging sovereign debt crisis in Europe, and the spread of inflation from countries with emerging markets to developed nations. The Chinese economy continued to maintain stable and relatively fast growth amid a complex and volatile international environment, the continuous implementation of the macro-economic control initiatives in the country and the emergence of more new situations and new issues in China's economic operation. In the first half of 2011, China's gross domestic product (GDP) grew 9.6%, and its economic operation looked sound in general, moving towards the expected direction set in the macro-economic control initiatives. China's petrochemical industry continued to maintain a healthy and steady operation, witnessed by a steady and relatively fast growth in production, expanded market demand, stable supply and demand as a whole, active import and export trade, stable pace of growth in industrial investment and satisfactory profitability as a whole.

During the first half of 2011, the Group was faced with a complex and volatile international environment, an overall stability of the domestic macro-economy, a healthy and steady operation of the petrochemical industry, high international crude oil prices after a significant surge, and a substantial decline in the profitability of the oil refining industry resulting in a turnaround from profits to losses. The Group applied the "assurance of safety, maximisation of profitability, focusing on reform, strengthening of management, adjustment on structure and promotion of development" as its work theme, coping with external market changes in an aggressive approach, continuing to increase total physical production volume of products, and pushing forward various tasks on production, operation, reform and development. In the first half of 2011, the Group maintained sound operations and production, and crude oil processing volume and outputs of gasoline, diesel, jet fuel, synthetic resin, plastics and other products reached record highs once again as compared to previous corresponding periods. No accidents involving serious consequences or major fires, explosions or environmental pollution happened. Major production plants maintained high utilisation and load rates. Major technical and economic indices were fulfilled well. The output-to-sales ratio and the receivable recovery ratio continued to remain at satisfactory levels. The natural gas integrated utilisation project reaped good economic benefits. As at 30 June 2011, the Group's turnover amounted to RMB49,500.8 million, an increase of RMB13,372.5 million or 37.01% year-on-year; profit before taxation amounted to RMB1,858.1 million, a decrease of RMB37.9 million year-on-year; and profit after taxation and non-controlling interests amounted to RMB1,425.7 million, a decrease of RMB 88.0 million year-on-year.

The fully completed Phase 5 Project of the Group continued to effectively produce its overall scale effect during the first half of 2011. As a result, total volume of goods produced increased by 14.87% over the corresponding period of the previous year. From January to June 2011, the Group processed 5,678,300 tons of crude oil (including 131,400 tons of crude oil processed on a sub-contracting basis), an increase of 635,500 tons or 12.60% over the corresponding period of the previous year. Specifically, imported crude oil and offshore crude oil processed amounted to 5,165,900 tons and 512,400 tons respectively. Output of gasoline, diesel and jet fuel were 510,300 tons, 2,055,700 tons and 402,500 tons respectively, representing increases of 10.24%, 33.49% and 5.78% year-on-year respectively. Output of ethylene and propylene were 492,100 tons and 258,700 tons respectively, representing decreases of 0.36% and 4.30% year-on-year respectively. Output of synthetic resins and plastics (excluding polyester and polyvinyl alcohol) was 570,800 tons, representing an increase of 0.39% year-on-year. Output of synthetic fibre monomers, synthetic fibre polymers and synthetic fibres were 499,600 tons, 326,400 tons and 129,100 tons respectively, representing an increase of 0.04%, a decrease of 1.03% and an increase of 4.20% year-on-year respectively. The Group's output-to-sales ratio and receivable recovery ratio in the first half of 2011 were 99.85% and 99.37% respectively.

The following table sets forth the Group's sales volume and net sales, net of sales taxes and surcharges, for the Reporting Period:

	For the six-month period ended 30 June					
	2011			2010		
	Sales Volume ('000 tons)	Net Sales (Millions of RMB)	% of Total	Sales volume ('000 tons)	Net Sales (Millions of RMB)	% of Total
Synthetic fibres	128.7	2,292.8	4.95	123.7	1,871.2	5.56
Resins and plastics	804.2	8,505.9	18.35	821.6	7,524.6	22.34
Intermediate petrochemicals	1,202.3	10,197.0	22.00	1,117.1	7,851.4	23.31
Petroleum products	3,593.0	18,899.6	40.78	2,852.5	12,876.4	38.23
Trading of petrochemical products	-	5,988.0	12.92	-	3,200.5	9.50
Others	-	461.8	1.00	-	354.1	1.06
Total	5,728.2	46,345.1	100.00	4,914.9	33,678.2	100.00

In the first half of 2011, the Group realised total net sales of RMB46,345.1 million, representing an increase of 37.61% as compared to the corresponding period of the previous year, of which net sales derived from petroleum products, intermediate petrochemicals, resins and plastics, synthetic fibres and trading of petrochemical products increased by 46.78%, 29.87%, 13.04%, 22.53% and 87.10% respectively. Increase in net sales of products were primarily attributable to increased prices of raw materials and energy, resulting in increased prices for petroleum products, intermediate petrochemicals, resins and plastics and synthetic fibres, as well as increases in sales volume for a portion of products as compared to the corresponding period of the previous year. Compared to the first half of 2010, the average prices (excluding tax) of the Group's petroleum products, intermediate petrochemicals, resins and plastics and synthetic fibres increased by 16.53%, 20.67%, 15.49% and 17.77% respectively during the Reporting Period. When comparing to the second half of 2010, the average prices (excluding tax) of the above four major categories of products of the Group increased by 15.78%, 15.08%, 14.52% and 15.72% respectively. In the first half of 2011, net sales of the Group's trading of petrochemical products increased by 87.10% as compared to the corresponding period of the previous year, primarily because the business volume of the trading company controlled by the Group increased significantly. In the first half of 2011, net sales of the Group's other activities increased by 30.42% as compared to the corresponding period of the previous year, primarily because the Group's other activities including sales of water, electricity and gas, and revenues from processing crude oil on a sub-contracting basis increased substantially as compared to the corresponding period of the previous year.

A majority of the Group's products were sold in eastern China.

During the first half of 2011, the Group's cost of sales increased by 39.38% year-on-year to RMB44,348.7 million, accounting for 95.69% of net sales.

Crude oil is the Group's major raw material. Under the impact of a number of factors such as the war in Libya, the turmoil in West Asia and North Africa, the major earthquake and the nuclear leak in Japan as well as the European debt crisis during the first half of 2011, international crude oil prices fell after a rise but in general tended to surge substantially and remained at high levels. In particular, the increase in Brent crude oil prices was approximately 18 percentage points higher than that in West Texas Intermediate ("WTI") crude oil prices. This situation may remain unchanged in the short run. In the first half of 2011, Brent crude oil futures closed highest at US\$126.65/barrel and lowest at US\$93.33/barrel. The average price over the first half was approximately US\$111/barrel, a year-on-year increase of approximately 44%. WTI crude oil futures closed highest at US\$113.93/barrel and lowest at US\$84.32/barrel. The average price over the first half was approximately US\$98/barrel, a year-on-year increase of approximately 26%. With such impact, the Group's average unit cost of crude oil processed (the portion traded for the Group's own account) was RMB4,937.91/ton in the first half of 2011, representing an increase of RMB1,005.54/ton or 25.57% over the corresponding period of the previous year. As a result of the significant increase in the average price of crude oil and the increase in the volume of crude oil processed, the Group's total costs of crude oil processed during the Reporting Period increased substantially by 42.89% to RMB27,390.2 million year-on-year. The crude oil costs accounted for 61.76% of the Group's cost of sales in the first half of 2011.

Expenses on other auxiliary raw materials of the Group amounted to RMB9,880.5 million in the first half of 2011, representing an increase of 57.04% as compared to the corresponding period of the previous year, primarily attributable to increases in prices and volumes of production materials. During the Reporting Period, depreciation and maintenance costs of the Group amounted to RMB830.2 million and RMB523.0 million respectively. Depreciation cost decreased slightly year-on-year while maintenance cost increased year-on-year. Fuel and power expenses increased by RMB290.0 million year-on-year to RMB1,288.2 million as a result of the year-on-year increases to various degrees in both purchase volume and purchase prices of coal for power generation.

The Group's selling and administrative expenses in the first half of 2011 amounted to RMB335.4 million, representing an increase of 31.22% from RMB255.6 million in the corresponding period of the previous year. The increase was primarily attributable to the increase in sales transportation expenses as a result of a substantial increase in sales volume (as one of the measures to cope with the intense market competition, the percentage of product distribution was raised substantially year-on-year during the first half of 2011, thereby increasing sales transportation and miscellaneous charges accordingly), and the increase in agency fees with respect to product sales in ordinary (continuing) connected transactions as a result of an increase in sales volume during the Reporting Period.

The Group's other operating expenses in the first half of 2011 increased by RMB12.7 million year-on-year to RMB27.5 million, primarily attributable to the provision for the impairment of fixed assets amounting to RMB10.6 million during the Reporting Period.

Financing costs of the Group in the first half of 2011 decreased by 112.11% year-on-year to RMB-14.1 million, primarily because of the appreciation of Renminbi against US dollar during the current period. As a result, there was an increase in net foreign exchange gains of the Group during the Reporting Period. Furthermore, the Group has adjusted the borrowing structure between US dollar-denominated loans and Renminbi-denominated loans, and borrowed more US dollar-denominated borrowings with lower interest rates during the Reporting Period than in the corresponding period of the previous year, resulting in a drop in interest expenses.

The Group's profit after taxation and non-controlling interests was RMB1,425.7 million in the first half of 2011, representing a decrease of RMB88.0 million from RMB1,513.7 million in the corresponding period of the previous year.

Liquidity and capital resources

The Group's net cash inflow from operating activities amounted to RMB965.6 million for the first half of 2011, representing an increase in cash inflow of RMB757.9 million as compared to net cash inflow of RMB207.7 million in the corresponding period of the previous year, due to the following reasons: (1) the Group's net cash inflow from profit before tax (net of share of profit of associates and jointly controlled entities) amounted to RMB1,675.5 million, representing an increase in cash inflow of RMB170.2 million as compared to net cash inflow of RMB1,505.3 million in the corresponding period of the previous year; (2) the increased inventory balance by RMB3,632.6 million led to an increase in cash outflow of RMB3,084.5 million as compared to the increased inventory balance by RMB548.1 million in the corresponding period of the previous year; and (3) the increased balance of net amounts due to related parties by RMB2,747.9 million led to a decrease in cash outflow of RMB3,621.9 million as compared to the decreased balance by RMB874.0 million in the corresponding period of the previous year.

In the first half of 2011, the Group's net cash outflow from investing activities amounted to RMB833.7 million, as compared to the net cash inflow of RMB572.4 million in the corresponding period of the previous year, due to the following reasons: (1) in the corresponding period of the previous year, the Group redeemed the financial products which were purchased from state-controlled banks in China at the end of 2009, amounting to RMB700.0 million, and (2) the Group purchased financial products amounting to RMB700.0 million from state-controlled banks in China during the Reporting Period.

In the first half of 2011, the Group's net cash inflow from financing activities amounted to RMB105.2 million, while the net cash outflow amounted to RMB506.0 million in the corresponding period of the previous year, primarily attributable to the Group's repayments of a substantial amount of short-term borrowings during the corresponding period of the previous year.

Borrowings and debts

The Group's long-term borrowings are mainly applied to capital expansion projects. In general, the Group arranges long-term borrowings according to capital expenditure plans and on the whole, there are no seasonal borrowings. Short-term debts are used to replenish the Group's working capital requirements during the normal course of production operation. During the first half of 2011, the Group's total borrowings increased by RMB32.1 million to RMB4,602.5 million as compared to the beginning of the Reporting Period. Of such amount, short-term debts increased by RMB32.1 million while long-term borrowings remained unchanged.

Risks associated with exchange rate fluctuation

Since the Group purchases its major raw materials, particularly crude oil, from overseas sources and also exports a portion of the Group's petrochemical products directly as well, exchange rate changes will indirectly affect the prices of the Group's raw materials and petrochemical products. This may, in turn, have a discernible impact on the Group's profitability. In addition, a change in the relevant exchange rates will affect the level of the Group's financial expenses since the majority of the Group's debts are denominated in foreign currencies. Accordingly, the Group's profitability will be affected as well. As at 30 June 2011, the Group's loans denominated in US dollars amounted to RMB4,249.6 million.

Capital expenditure

In the first half of 2011, the Group fully commenced the construction of the Phase 6 Project, with the refinery revamping and expansion project as the key project, according to the development strategy of "giving due consideration to both cost-leadership and differentiation, attaching equal importance to scale and refinement, laying particular emphasis on being cost and scale effective at upstream and being highly value-added and highly refined at downstream". Under the refinery revamping and expansion project, the construction of the new 3,900,000 tons/year residual oil hydrogenation plant, the new 3,500,000 tons/year catalytic cracking plant and the carbon fiber project with a capacity of 1,500 tons/year has already commenced; the preliminary work for other projects such as the ethanolamine project with a capacity of 50,000 tons/year and the EVA (ethylene-vinyl acetate copolymer) project with a capacity of 100,000 tons/year proceeded actively as planned. Meanwhile, other key technological renovation projects of the Group, such as the optimisation of energy saving and consumption reduction of No.2 PTA plant, the renovation on energy conservation and consumption reduction of No. 2 and No. 3 aromatics complexes, No. 4 main transformer of the 220 KV petrochemical substation and the capacity expansion on No. 6 main transformer of the No. 1 thermal power station, were also being carried out in an orderly manner.

In the first half of 2011, the Group's capital expenditure amounted to RMB731.6 million, mainly invested in the refinery revamping and expansion project, the carbon fiber project and the upgrade project for optimisation of energy saving and consumption reduction at No. 2 PTA Plant. In the second half of 2011, the Group will continue to actively push forward the above construction projects and other projects regarding technological renovation, safety and environmental protection, energy conservation and consumption reduction. The Group plans to fund the capital expenditure with cash from operations and banking facilities.

Liability-to-asset ratio

As at 30 June 2011, the Group's liability-to-asset ratio was 42.59% (31 December 2010: 37.45%). The ratio is calculated using this formula: total liabilities/ total assets.

Employees

As at 30 June 2011, the Group's on-record employees totaled 15,959. Staff salaries for the six-month period ended 30 June 2011 amounted to RMB1,080.8 million.

Income tax

Since the official implementation of the "Enterprise Income Tax Law of the People's Republic of China" on 1 January 2008, the enterprise income tax rate has been uniformly adjusted to 25%. Accordingly, the Group's income tax rate is 25% for 2011.

Disclosure required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Hong Kong Listing Rules")

Save as disclosed herein, pursuant to paragraph 40 in Appendix 16 to the Hong Kong Listing Rules, the Company confirmed that there have been no material changes in the existing information of the Company relating to the matters as set out in paragraph 32 in Appendix 16 and the relevant information disclosed in the Company's 2010 annual report.

Market outlook and work plans for the second half of 2011

In the second half of 2011, there were complexities and numerous uncertainties and instabilities during the process of recovery of the world economy due to various unfavorable factors such as a continuation of slackening economic growth in developed economies, mounting global inflationary pressures the degrading of sovereign credit rating of US and the possibility of having further deterioration and spread of the sovereign debt crisis in Europe. China's economy will continue to maintain steady and relatively fast development. Although the fundamentals of the development look sound, the problem of unbalanced and uncoordinated development will be more acute, and there are a number of factors that restrict growth in internal and external demand such as rising general commodity price level, an unplanned mode of economic growth, and a prominent problem regarding inconsistency between supply and demand of production factors such as energy and resources. Although the economic operation of the domestic petrochemical industry will maintain a stable and sound trend in general, the pace of growth of the industry is likely to gradually slow down due to pressures from all fronts, such as further tightening of the policy environment, further strengthening of environmental protection restrictions on energy resources, an acute imbalance in structural surplus of production capacity, rising operating costs of the industry, further short-term and local volatility of market prices of products, and more demanding tasks on energy conservation and emissions reduction.

Due to increasing uncertainties over the recovery of the world economy and increasing risks of having a declining economy, international crude oil prices are likely to lose the momentum for a substantial rise but to fluctuate at relatively high price levels. This is due to the impact of a number of factors such as slackened economic growth, weakened demand for petroleum, relatively stable geopolitics, a deterioration of debt crisis in Europe and the US, excessive liquidity, anticipated inflation, and rising market sentiment favoring risk aversion. Although the Chinese government is taking proactive measures to explore and improve the pricing mechanism for refined oil products, the possibility is not ruled out that the Chinese government may still exercise controls over the prices of domestic refined oil products if international crude oil prices reach a higher level.

To sum up, the Group expects that the cost pressure upon enterprises will increase and market competition will further intensify in the second half as the prices of energy and resources will stay high, and therefore the Group cannot take an optimistic view towards its production and operation. In the second half of 2011, the Group will continue to proceed with various tasks in a proactive, diligent, pragmatic and effective manner according to the tasks and objectives set out at the beginning of 2011:

1. Attach great importance to HSE (health, safety and environment) to ensure the Group maintains safe and stable operation.
2. Continue to focus on the "safe, steady, long-team, full-capacity and optimised" operation of plants, and strive to increase the total physical production volume of products.
3. Further optimise production and operation and strive to improve profitability.
4. Push forward in full scale the construction of the Phase 6 Project, and constantly enhance the development potential of the Group.
5. Further improve the managerial system and mechanism and push forward sophisticated management on an ongoing basis.
6. Continue to strengthen the cultivation of corporate culture and proactively maintain a harmonious and stable corporate atmosphere.

2. Analysis of the Company's Principal Operations and Performance

- (i) Principal operations by segment or product (prepared under the China Accounting Standards for Business Enterprise ("CAS"))

By segment or by product	Operating income (RMB'000)	Operating cost (RMB'000)	Gross profit margin (%)	Increase/ decrease of operating income compared to the corresponding period of the previous year (%)	Increase/ decrease of operating cost compared to the corresponding period of the previous year (%)	Increase/ decrease of gross profit margin compared to the corresponding period of the previous year (percentage points)
Synthetic fibres	2,320,085	1,795,924	22.59	22.66	22.21	0.28
Resins and plastics	8,597,308	7,971,507	7.28	13.16	12.22	0.78
Intermediate petrochemicals	10,317,965	8,597,179	16.68	30.01	17.36	8.98
Petroleum products ^{Note}	21,806,087	18,294,492	16.10	44.01	58.89	-7.86
Trading of petrochemical products	5,989,376	5,944,881	0.74	87.12	93.87	-3.46
Others	494,171	403,121	18.42	29.02	17.49	8.01
Including: connected transactions	27,631,155	23,873,340	13.60	46.14	47.61	-0.86

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

Description of the necessity and continuity of connected transactions: The Company purchases crude oil and related materials from China Petroleum & Chemical Corporation (the "Sinopec Corp.") and its associates in accordance with the State's regulatory system regarding crude oil operation. The Company uses the crude oil storage tanks and pipeline transportation facilities of Sinopec Corp. and its associates to ensure stable and secured supply of crude oil for the Company, thereby reducing storage and transportation costs of crude oil. The Company sells petroleum products to Sinopec Corp. and its associates in accordance with the State's relevant policies, and given the widespread sales networks and a fairly high market share possessed by Sinopec Corp. and its associates. The Company sold petrochemicals to Sinopec Corp. and its associates, and Sinopec Corp. and its associates acted as agents for the sale of petrochemicals, in order to reduce the Company's inventories, to expand its trading, distribution and sales networks, to improve the Company's bargaining power with its customers and to eliminate the competition between the Company and subsidiaries under Sinopec Corp. The Company obtained construction installation and engineering design services, petrochemical industry insurance services and financial services from China Petrochemical Corporation ("Sinopec") and its associates in order to secure steady, timely and reliable services at reasonable prices.

For relevant details, please refer to the announcement regarding the continuing connected transactions dated 11 November 2010 and the circular regarding the continuing connected transactions dated 26 November 2010 published on the websites of Hong Kong Exchanges and Clearing Limited ("Hong Kong Stock Exchange") and the Shanghai Stock Exchange.

Note: The gross profit margin is calculated according to the price of petroleum products which includes consumption tax. The gross profit margin of petroleum products after deducting consumption tax amounts to 3.20%.

(ii) Principal operations by geographical location (prepared under CAS)

Geographical location	Operating income (RMB'000)	Increase/decrease of operating income compared to the corresponding period of the previous year (%)
Eastern China	46,230,809	39.60
Other regions in the PRC	3,114,575	11.92
Exports	179,608	-28.42

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

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

Item	For the six-month period ended 30 June		Increase/ (decrease)	Change (%)	Reasons for change
	2011 RMB'000	2010 RMB'000	amount RMB'000		
Operating income	49,524,992	36,151,430	13,373,562	36.99	Both sales volume and unit price increased during the Reporting Period.
Operating costs	43,007,104	30,821,820	12,185,284	39.53	Unit cost of crude oil increased as a result of the increase in international crude oil prices during the Reporting Period. The volume of crude oil processed also increased during the Reporting Period.
Selling and distribution expenses	335,445	255,584	79,861	31.25	Selling expenses increased as a result of the increase in sales volume.

Item	As at 30 June 2011 RMB'000	As at 31 December 2010 RMB'000	Increase/ (decrease) amount RMB'000	Change (%)	Reasons for change
Inventories	8,984,946	5,352,301	3,632,645	67.87	The purchase of crude oil at the end of the Reporting Period increased, and the price of raw materials increased significantly during the Reporting Period.
Short-term loans	4,327,516	3,295,438	1,032,078	31.32	The Company borrowed short-term loans to replenish the working capital during the Reporting Period.
Accounts payable	5,966,685	3,322,811	2,643,874	79.57	The payables for purchase of crude oil increased at the end of the Reporting Period.

3. Investment by the Company

(i) Application of capital raised

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

(ii) Projects from non-raised capital

Project	Total project investment RMB million	Project progress as at 30 June 2011
The Refinery Upgrade Project	6,627.7	Under construction
The Carbon Fiber Project with a Capacity of 1,500 tons/year	847.8	Under construction
Upgrade Project for Optimization of Energy Saving and Consumption Reduction for No. 2 Oxidation Device System	185.6	Under construction

CHANGE IN SHARE CAPITAL AND SHAREHOLDERS

1. Change in Share Capital

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

2. Shareholding of Shareholders

(1) Total number of shareholders and their shareholdings

Total number of shareholders as at the end of the Reporting Period: 106,724

Shareholdings of top ten shareholders:

Name of shareholders	Type of shareholders	Percentage of total shareholding (%)	Number of shares held at the end of the Reporting Period (shares)	Increase(+)/ decrease(-) during the Reporting Period (shares)	Type of shares	Number of non-circulating shares held (shares)	Number of shares pledged or frozen (shares)
China Petroleum & Chemical Corporation	State-owned enterprise shareholder	55.56	4,000,000,000	0	Non-circulating	4,000,000,000	Nil
HKSCC (Nominees) Limited	Foreign shareholder	31.86	2,293,834,101	+370,000	Circulating	0	Unknown
China Construction Bank - CIFM China Advantage Security Investment Fund	Others	0.90	64,515,310	-7,484,690	Circulating	0	Unknown
Shanghai Kangli Gong Mao Company	Others	0.23	16,730,000	0	Non-circulating	16,730,000	Unknown
ICBC-SWSMU New Economy Balanced Equity Fund	Others	0.23	16,255,747	Unknown	Circulating	0	Unknown
China Life Insurance Company Limited - Bonus - Individual Bonus - 005L - FH002 Shanghai	Others	0.21	15,294,394	5,578,590	Circulating	0	Unknown
China Life Insurance Company Limited - Tradition - Ordinary Insurance Product - 005L-CT001-Shanghai	Others	0.17	12,408,194	-2,000,000	Circulating	0	Unknown
Zhejiang Economic Construction Investment Co., Ltd	Others	0.17	12,000,000	0	Non-circulating	12,000,000	Unknown
CBC - HFT Style Rotation Equity Fund	Others	0.15	10,845,757	Unknown	Circulating	0	Unknown
ICBC - China Universal Aggressive Growth Equity Fund	Others	0.14	10,000,000	Unknown	Circulating	0	Unknown

Top ten shareholders of shares in circulation:

Name of shareholders	Number of circulating shares held (shares)	Type of shares
HKSCC (Nominees) Limited	2,293,834,101	Overseas listed foreign shares
China Construction Bank - CIFM China Advantage Security Investment Fund	64,515,310	RMB-denominated ordinary shares
ICBC - SWS MU New Economy Balanced Equity Fund	16,255,747	RMB-denominated ordinary shares
China Life Insurance Company Limited - Bonus - Individual Bonus - 005L-FH002 Shanghai	15,294,394	RMB-denominated ordinary shares
China Life Insurance Company Limited - Tradition - Ordinary Insurance Product - 005L-CT001 Shanghai	12,408,194	RMB-denominated ordinary shares
CBC - HFT Style Rotation Equity Fund	10,845,757	RMB-denominated ordinary shares
ICBC - China Universal Aggressive Growth Equity Fund	10,000,000	RMB-denominated ordinary shares
BOC - HFT Equity Fund	9,018,432	RMB-denominated ordinary shares
BOC - E Fund Stable Growth Balanced Equity Fund	6,500,390	RMB-denominated ordinary shares
Agricultural Bank of China - BOCOM Schroder Growth Equity Fund	5,699,933	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 shareholder, 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.
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(2) Change in controlling shareholder and controlling company of the controlling shareholder of the Company

There was no change to the controlling shareholder and controlling company of the controlling shareholder of the Company during the Reporting Period.

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

As at 30 June 2011, the interests and short positions of the Company's substantial shareholders (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) and other persons (excluding the Directors, Supervisors and Senior Management of the Company) who are required to disclose their interests pursuant to Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO") in the shares, underlying shares of equity derivatives or debentures of the Company as recorded in the register which is required to be kept under Section 336 of the SFO were as set out below:

(i) Interests in ordinary shares of the Company

Name of shareholders	Number and type of shares held (shares)	% of total issued share capital	% of shareholding in the Company's total issued H shares	Capacity
China Petroleum & Chemical Corporation	4,000,000,000 Promoter legal person shares (L)	55.56	-	Beneficial owner
JPMorgan Chase & Co.	159,205,090(L) 3,055,000(S) 30,222,238(P)	2.21(L) 0.04(S) 0.42(P)	6.83 (L) 0.13 (S) 1.30 (P)	Beneficial owner; Investment managers; Other (Available-for-lending shares)

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

Save as disclosed above, no interests of substantial shareholders or other persons (excluding the Directors, Supervisors and Senior Management of the Company) who are required to disclose their interests pursuant to Part XV of the SFO in the shares, underlying shares of equity derivatives, or debentures of the Company were recorded in the register required to be kept under Section 336 of the SFO.

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

As at 30 June 2011, no short positions of substantial shareholders or other persons (excluding the Directors, Supervisors and Senior Management of the Company) who are required to disclose their interests pursuant to Part XV of the SFO in the shares, underlying shares of equity derivatives, or debentures of the Company were recorded in the register required to be kept under Section 336 of the SFO.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND OTHERS

1. Shareholdings of Directors, Supervisors and Senior Management

During the Reporting Period, there were no changes to the number of shares of the Company held by the Directors, Supervisors and Senior Management of the Company. The actual number of shares in the issued share capital of the Company held by the Directors, Supervisors and Senior Management as at the end of the Reporting Period were as follows:

Name	Position	Number of shares held at the beginning of the Reporting Period (shares)	Number of shares held at the end of the Reporting Period (shares)	Change
Rong Guangdao	Chairman	3,600	3,600	No change
Wang Zhiqing	Vice Chairman and President	Nil	Nil	No change
Wu Haijun	Vice Chairman	Nil	Nil	No change
Li Honggen	Director and Vice President	Nil	Nil	No change
Shi Wei	Director and Vice President	Nil	Nil	No change
Ye Guohua	Director and Chief Financial Officer	Nil	Nil	No change
Lei Dianwu	Director	Nil	Nil	No change
Xiang Hanyin	Director	Nil	Nil	No change
Shen Liqiang	Independent Director	Nil	Nil	No change
Jin Mingda	Independent Director	Nil	Nil	No change
Wang Yongshou	Independent Director	3,600	3,600	No change
Cai Tingji	Independent Director	Nil	Nil	No change
Gao Jinping	Chairman of the Supervisory Committee	Nil	Nil	No change
Zuo Qiang	Supervisor	Nil	Nil	No change
Li Xiaoxia	Supervisor	Nil	Nil	No change
Zhai Yalin	Supervisor	Nil	Nil	No change
Wang Liqun	Supervisor	Nil	Nil	No change
Chen Xinyuan	Independent Supervisor	Nil	Nil	No change
Zhou Yunnong	Independent Supervisor	Nil	Nil	No change
Zhang Zhiliang	Vice President	Nil	Nil	No change
Zhang Jianping	Vice President	Nil	Nil	No change
Tang Chengjian	Vice President	Nil	Nil	No change
Zhang Jingming	Company Secretary and General Counsel	Nil	Nil	No change

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

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

Save as disclosed above, as at 30 June 2011, 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) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code").

As of 30 June 2011, none of the Directors or Supervisors of the Company or their respective spouses and children under 18 years of age had been granted by the Company or had exercised any rights to subscribe for shares or debentures of the Company or any of its associated corporations.

2. Appointment or Dismissal of the Company's Directors, Supervisors and Senior Management

1. Change of Directors, Supervisors and Senior Management

Name	Position held	Change	Reason
Dai Jinbao	Director	Resigned	Retirement by rotation
Chen Xinyuan	Independent Director	Resigned	Retirement by rotation
Sun Chiping	Independent Director	Resigned	Retirement by rotation
Jiang Zhiquan	Independent Director	Resigned	Retirement by rotation
Zhou Yunnong	Independent Director	Resigned	Retirement by rotation
Zhang Chenghua	Supervisor	Resigned	Retirement by rotation
Wang Yanjun	Supervisor	Resigned	Retirement by rotation
Wu Xiaoqi	Supervisor	Resigned	Retirement by rotation
Liu Xiangdong	Independent Supervisor	Resigned	Retirement by rotation
Yin Yongli	Independent Supervisor	Resigned	Retirement by rotation
Ye Guohua	Director	Newly appointed	-
Shen Liqiang	Independent Director	Newly appointed	-
Jin Mingda	Independent Director	Newly appointed	-
Wang Yongshou	Independent Director	Newly appointed	-
Cai Tingji	Independent Director	Newly appointed	-
Zuo Qiang	Supervisor	Newly appointed	-
Li Xiaoxia	Supervisor	Newly appointed	-
Wang Liquan	Supervisor	Newly appointed	-
Chen Xinyuan	Independent Supervisor	Newly appointed	-
Zhou Yunnong	Independent Supervisor	Newly appointed	-

2. Description

The seventh session of the Board of the Company was established by election at the Company's 2010 annual general meeting held on 29 June 2011. The seventh session of the Board comprises Rong Guangdao, Wang Zhiqing, Wu Haijun, Li Honggen, Shi Wei, Ye Guohua, Lei Dianwu, Xiang Hanyin, Shen Liqiang, Jin Mingda, Wang Yongshou and Cai Tingji, among whom Shen Liqiang, Jin Mingda, Wang Yongshou and Cai Tingji are Independent Directors. At the first meeting of the seventh session of the Board of the Company held on the same day, Rong Guangdao was elected as Chairman; Wang Zhiqing and Wu Haijun were elected as Vice Chairmen; Rong Guangdao, Wang Zhiqing, Wu Haijun, Li Honggen, Shi Wei and Ye Guohua were designated as Executive Directors; Wang Zhiqing was appointed as President; Zhang Zhiliang, Li Honggen, Shi Wei, Zhang Jianping and Tang Chengjian were appointed as Vice Presidents; Ye Guohua was appointed as Chief Financial Officer; Zhang Jingming was appointed as Secretary to the Board; and Tang Weizhong was appointed as the Company's Securities Affairs Representative.

The seventh session of the Supervisory Committee of the Company was established by election at the Company's 2010 annual general meeting held on 29 June 2011 and the employees' democratic management authority of the Company on 15 June 2011. The seventh session of the Supervisory Committee of the Company comprises Gao Jinping, Zuo Qiang, Li Xiaoxia, Zhai Yalin, Wang Liqun, Chen Xinyuan and Zhou Yunnong, among whom Chen Xinyuan and Zhou Yunnong are Independent Supervisors. Gao Jinping was elected as Chairman of the Supervisory Committee at the first meeting of the seventh session of the Supervisory Committee held on 29 June 2011.

3. Audit Committee

On 25 August 2011, the Audit Committee of the seventh session of the Board held its first meeting, primarily to review the interim financial report of the Group for the Reporting Period.

4. Purchase, Sale or Redemption of the Company's Securities

During the Reporting Period, the Group has not purchased, sold or redeemed any of the Company's securities (for the definition of "security", please refer to paragraph 1 of Appendix 16 to the Hong Kong Listing Rules).

5. Compliance with Code of Corporate Governance Practices

The Company has complied with all the principles and code provisions set out in the Code on Corporate Governance Practices set out in Appendix 14 to Hong Kong Listing Rules during the Reporting Period.

6. Implementation of Model Code

The Directors of the Company confirm that the Company has adopted the Model Code. After making specific enquiries with all the Directors and Supervisors of the Company, the Company is not aware of any information that would reasonably indicate that the Directors and Supervisors of the Company were not in compliance with the requirements of the Model Code for securities transactions during the Reporting Period.

MAJOR EVENTS

1. Current Status of Corporate Governance in the Company

The Company has strictly complied with regulatory documents such as the Company Law, Securities Law and Corporate Governance Principles for Listed Companies and Guidelines for Establishing the Independent Directors System for Listed Companies issued by the China Securities Regulatory Commission (“CSRC”), as well as the relevant requirements of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the New York Stock Exchange to put forward the advancement of the Company’s system and management, to improve the corporate governance structure, and to strengthen the establishment of the Company’s system in order to enhance the overall image of the Company.

2. Implementation of the Profit Appropriation Plan during the Reporting Period

- (1) The profit appropriation plan for 2010 was considered and approved at the Company’s 2010 annual general meeting convened on 29 June 2011. The plan is: distributing a dividend of RMB1.00 per 10 shares (tax inclusive) based on the total share capital of RMB7.2 billion as at 31 December 2010. The relevant announcements were published on “Shanghai Securities News” and “China Securities Journal” on 30 June 2011. The Company published the Announcement on Distribution of Cash Dividends to Holders of A Shares on 15 July 2011. The share registration date for the distribution of dividends to holders of A shares was 20 July 2011. The ex-dividend date was 21 July 2011. The dividend payment date for H shares and social public A shares was 27 July 2011. The profit appropriation plan has been implemented as scheduled.
- (2) The Company did not declare an interim dividend for 2011, nor did the Company increase share capital by transferring reserve funds.

3. Implementation of Cash Dividend Distribution Policy during the Reporting Period

Article 208 of the articles of association of the Company is as follows:

“Where there is any profit that may be distributed to shareholders, the Company shall take steps to implement a profit distribution scheme with the principle of providing reasonable investment return to shareholders as well as ensuring the Company meets its reasonable capital requirements.”

The profit distribution policies of the Company are as follows:

- (i) The Company shall properly deal with the correlation between the short-term benefits and long-term development of the Company and formulate a reasonable dividend distribution plan each year based on the prevailing operating environment and the capital requirement plan for project investment and after thoroughly considering the benefits of shareholders.
- (ii) The profit distribution policies of the Company shall maintain consistency and stability.
- (iii) The accumulated profits distributed in cash by the Company over the past three years shall represent no less than 30% of the realised average annual distributable profits over the past three years.
- (iv) If the Board of the Company does not make any cash profit distribution proposal, the Company shall disclose the reason(s) in its periodic reports.”

The 2010 profit appropriation plan was considered and approved at the 2010 annual general meeting of the Company convened on 29 June 2011 and has been implemented as scheduled.

4. Material Litigation or Arbitration

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

5. Events regarding Bankruptcy and Restructuring

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

6. Shareholdings by the Company in Other Listed Companies and in Financial Enterprises

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

7. Acquisition or Disposal of Assets or Merger by Absorption during the Reporting Period

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

8. Major Connected Transactions of the Company during the Reporting Period

(1) Connected transactions in relation to routine operations

During the Reporting Period, pursuant to the Mutual Product Supply and Sales Services Framework Agreement entered into with Sinopec Corp., the Company purchased raw materials from, and sold petroleum products and petrochemicals as well as leasing properties to, Sinopec Corp. and its associates. Sinopec Corp. and its associates provided agency sales services for petrochemical products. Pursuant to the Comprehensive Services Framework Agreement entered into with Sinopec, the Company obtained construction and installation, project design, and petrochemical industry insurance agency and financial services provided by Sinopec and its associates. The above mentioned transactions under the Mutual Product Supply and Sales Services Framework Agreement and the Comprehensive Services Framework Agreement constituted continuing connected transactions under Chapter 14A of the Hong Kong Listing Rules and routine connected transactions under Listing Rules of Shanghai Stock Exchange. The Company disclosed the two agreements and each continuing connected transaction (i.e. routine connected transaction, same as below) under the agreements in an announcement dated 11 November 2010 and a circular dated 26 November 2010. The two agreements, each continuing connected transaction under the agreements and the respective annual caps from 2011 to 2013 were considered and approved at the extraordinary general meeting held on 28 December 2010.

During the Reporting Period, the relevant connected transactions were conducted in accordance with the terms of the Mutual Product Supply and Sales Services Framework Agreement and the Comprehensive Services Framework Agreement. The transaction amounts of the relevant connected transactions did not exceed the caps in relation to the continuing connected transactions approved at the 2010 extraordinary general meeting.

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

Prepared under CAS

Type of transactions	Related parties	Transaction amounts RMB'000	Percentage of total amounts of the same type of transaction (%)
Income from sales of products and service income	Sinopec Huadong Sales Company Limited	18,867,720	38.10
	Other related parties	8,763,435	17.69
Purchases	China International United Petroleum & Chemical Co., Ltd.	18,189,875	40.81
	Other related parties	10,264,985	23.03
Sales commissions	Sinopec Corp. Chemical Products Sales Branch	103,970	100.00
Insurance premiums	Sinopec and its subsidiaries	66,075	89.57
Installation fees	Sinopec and its subsidiaries	<u>55,348</u>	<u>64.73</u>

This includes an amount of RMB26,294.057 million for the connected transactions in respect of the sales of products or the rendering of services to the controlling shareholder and its subsidiaries and its joint controlled entities by the listed company during the Reporting Period.

(2) Non-operating connected creditor's rights and liabilities

Connected party	Connected relationship	Funds provided to connected parties		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.	Controlling shareholder	(7,786)	405	408,109	424,308 ^{Note 1}
Sinopec and other related parties	Controlling company of the controlling shareholder and other related parties	1,780	10,271 ^{Note 2}	(17,378)	11,147
Total		<u>(6,006)</u>	<u>10,676</u>	<u>390,731</u>	<u>435,455</u>

Note 1: The balance of the funds at the end of the Reporting Period provided by connected parties to the Group included the balance of dividends payable amounting to RMB 400,000,000 due to Sinopec Corp.

Note 2: The balance of the funds provided by the Group to its connected parties at the end of the Reporting Period mainly included unsettled receivables arising from rendering of services to the Group's associates and jointly controlled entities.

9. Material Contracts and the Performing of Obligations

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

- (i) Trust

The Company did not enter into any trust arrangements during the Reporting Period.

- (ii) Sub-contracting

The Company did not enter into any sub-contracting arrangements during the Reporting Period.

- (iii) Leasing

The Company did not enter into any leasing arrangements during the Reporting Period.

- (2) Guarantees

There was no guarantee provided by the Company during the Reporting Period.

- (3) Trust financial management

The Company purchased a financial product bearing floating return rates of RMB700,000,000 from a domestic bank in China on 30 June 2011. The financial products mainly invest in bond securities and equity securities. The Company redeemed those financial products on 8 July 2011 and gained an income of RMB685,000.

- (4) Other material contracts

There was no other material contract during the Reporting Period.

10. Performance of Undertakings

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

- (i) As at the date of publication of the interim report, is there any unfulfilled undertaking in respect of operating results? No.
- (ii) As at the date of publication of the interim report, is there any unfulfilled undertaking in respect of asset injection and asset integration? No.

11. Appointment and Dismissal of Accounting Firm

During the Reporting Period, the Company did not appoint new accounting firms. The Company currently appoints KPMG Huazhen as the Company's domestic auditors. The Company currently appoints KPMG as the Company's international auditors who issued a review report on the interim financial report prepared under the International Accounting Standard 34, *Interim Financial Reporting*.

12. Disciplinary Actions upon the Company and its Directors, Supervisors, Senior Management, Shareholders and Controlling Company of the Controlling Shareholder

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

13. Other Important Events

There was no other important event during the Reporting Period.

14. Disclosure of Information

Item	Publication	Publishing Date	Websites
Estimated Increase in Profit for The Annual Results of 2010	"China Securities Journal", "Shanghai Securities News"	24 January 2011	Websites of the Shanghai Stock Exchange (www.sse.com.cn), the Hong Kong Stock Exchange (www.hkex.com.hk) and the Company (www.spc.com.cn)
Resolutions of the 19th Meeting of the Sixth Session of the Board of Directors; Resolutions of the 14th Meeting of the Sixth Session of the Supervisory Committee; 2010 Annual Report Summary	"China Securities Journal", "Shanghai Securities News"	28 March 2011	Same as above
Resolutions of the 20th Meeting of the Sixth Session of the Board of Directors; Resolutions of the 15th Meeting of the Sixth Session of the Supervisory Committee; 2011 First Quarterly Report	"China Securities Journal", "Shanghai Securities News"	28 April 2011	Same as above
Notice of 2010 Annual General Meeting	"China Securities Journal", "Shanghai Securities News"	13 May 2011	Same as above
Further Information on the Payment of Final Dividends of H Shares	—	28 June 2011	Same as above
Resolutions Passed at the 2010 Annual General Meeting; Resolutions of the First Meeting of the Seventh Session of the Board of Directors; Resolutions of the First Meeting of the Seventh Session of the Supervisory Committee	"China Securities Journal", "Shanghai Securities News"	30 June 2011	Same as above
Further Announcement on the Progress of Payment of Final Dividends for H Shares for Year 2010	—	6 July 2011	Same as above
Announcement on the Implementation of Distribution of 2010 Cash Dividends of A Shares	"China Securities Journal", "Shanghai Securities News"	15 July 2011	Websites of the Shanghai Stock Exchange (www.sse.com.cn) and the Company (www.spc.com.cn)

DOCUMENTS FOR INSPECTION

- (1) The Company's documents available for inspection comprise the following:
- i. 2011 interim report signed by the Chairman;
 - ii. Financial statements signed and sealed by the legal representative, chief financial officer and head of the accounting department of the Company;
 - iii. Original copies of all documents and announcements of the Company which were disclosed in the newspapers designated by the CSRC during the Reporting Period; and
 - iv. The Company's articles of association.
- (2) The Company has kept all the above documents in the Company's Secretariat Department the address of which is as follows:
- No.48 Jinyi Road, Jinshan District, Shanghai, PRC
- Postal code: 200540
- (3) All information required in paragraph 46 of Appendix 16 to the Hong Kong Listing Rules will be disclosed on the websites of the Hong Kong Stock Exchange and of the Company.

FINANCIAL HIGHLIGHTS

Prepared under the CAS (unaudited)

1. Major Accounting Data and Financial Indicators

	As at the end of the Reporting Period	As at the end of the previous year	Increase/decrease at the end of the Reporting Period as compared to the end of the previous year(%)
Total assets (RMB'000)	32,943,260	29,158,104	12.98
Total equity attributable to equity shareholders of the Company(RMB'000)	18,612,631	17,913,040	3.91
Net asset value per share attributable to equity shareholders of the Company (RMB)*	2.585	2.488	3.91
	The Reporting Period (January to June)	Corresponding period of the previous year	Increase/decrease during the Reporting Period as compared to the corresponding period of the previous year (%)
Operating profit(RMB'000)	1,818,377	1,887,627	-3.67
Profit before income tax(RMB'000)	1,805,805	1,882,526	-4.08
Net profit attributable to equity shareholders of the Company(RMB'000)	1,381,533	1,493,930	-7.52
Net profit attributable to equity shareholders of the Company excluding non-recurring items(RMB'000)	1,391,700	1,497,812	-7.08
Basic earnings per share (RMB)	0.192	0.207	-7.52
Basic earnings per share excluding non-recurring items (RMB)	0.193	0.208	-7.08
Diluted earnings per share (RMB)	0.192	0.207	-7.52
Return on net assets (weighted average) (%)*	7.565	9.344	Decreased by 1.779 percentage points
Net cash inflow from operating activities(RMB'000)	1,115,924	366,735	204.29
Net cash inflow per share from operating activities (RMB)	0.155	0.051	204.29

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

2. Non-recurring Items and Amounts

Non-recurring items	Amount RMB'000
Net loss on disposal of non-current assets	-7,198
Employee reduction expenses	-1,158
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)	5,240
Income from external entrusted loans	705
Other non-operating income and expenses other than those mentioned above	-10,614
Income tax effect	3,135
Effect attributable to minority interests (after tax)	-277
Total	-10,167

3. Differences Between Financial Report Prepared Under CAS and IFRS

	Net profit attributable to equity shareholders of the Company		Total equity attributable to equity shareholders of the Company	
	The Reporting Period RMB'000	Corresponding period of the previous year RMB'000 (Restated)	At the beginning of the Reporting Period RMB'000 (Restated)	At the end of the Reporting Period RMB'000
Prepared under CAS	1,381,533	1,493,930	17,913,040	18,612,631
Prepared under IFRS	1,425,719	1,513,739*	17,689,457*	18,395,176

For detailed differences, please refer to the supplements of the interim financial statements prepared under CAS.

* For details, please refer to Note 2, Changes in Accounting Policies, of the unaudited interim financial report prepared under IFRS.



**Review report to the board of directors of
Sinopec Shanghai Petrochemical Company Limited**
(Established in the People's Republic of China with limited liability)

Introduction

We have reviewed the interim financial report set out on pages 30 to 54 which comprises the consolidated balance sheet of Sinopec Shanghai Petrochemical Company Limited as of 30 June 2011 and the related consolidated income statement, statement of comprehensive income, statement of changes in equity and condensed consolidated cash flow statement for the six-month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and International Accounting Standard 34, *Interim Financial Reporting*, issued by the International Accounting Standards Board. The directors are responsible for the preparation and presentation of the interim financial report in accordance with International Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*, issued by the Hong Kong Institute of Certified Public Accountants. A review of the interim financial report consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2011 is not prepared, in all material respects, in accordance with International Accounting Standard 34, *Interim Financial Reporting*.

KPMG

Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
26 August 2011

A. Interim Financial Report Prepared under International Accounting Standard 34 *Interim Financial Reporting* (see note 1)

Consolidated Income Statement for the six-month period ended 30 June 2011 (unaudited)

(Expressed in Renminbi)

	Note	Six-month period ended 30 June	
		2011 RMB'000	2010 RMB'000 (Restated)
Turnover	3	49,500,789	36,128,309
Sales taxes and surcharges		(3,155,653)	(2,450,087)
Net sales		46,345,136	33,678,222
Cost of sales		(44,348,719)	(31,817,534)
Gross profit		1,996,417	1,860,688
Selling and administrative expenses		(335,445)	(255,584)
Other operating income		27,866	31,479
Other operating expenses		(27,478)	(14,813)
Profit from operations		1,661,360	1,621,770
Financial income		131,303	29,607
Financial expenses		(117,171)	(146,319)
Net finance income/(costs)		14,132	(116,712)
Investment income		-	215
Share of profit of associates and jointly controlled entities		182,564	390,633
Profit before taxation	3,4	1,858,056	1,895,906
Income tax	5	(425,959)	(388,954)
Profit for the period		1,432,097	1,506,952
Attributable to:			
Equity shareholders of the Company		1,425,719	1,513,739
Non-controlling interests		6,378	(6,787)
Profit for the period		1,432,097	1,506,952
Earnings per share	7		
Basic		RMB0.198	RMB0.210
Diluted		RMB0.198	RMB0.210

The notes on pages 37 to 54 form part of this unaudited interim financial report.

Consolidated Statement of Comprehensive Income for the six-month period ended 30 June 2011 *(unaudited)*

(Expressed in Renminbi)

	Note	<u>Six-month period ended 30 June</u>	
		2011 RMB'000	2010 RMB'000 (Restated)
Profit for the period		1,432,097	1,506,952
Other comprehensive income for the period	6	-	-
Total comprehensive income for the period		1,432,097	1,506,952
Attributable to:			
Equity shareholders of the Company		1,425,719	1,513,739
Non-controlling interests		6,378	(6,787)
Total comprehensive income for the period		1,432,097	1,506,952

The notes on pages 37 to 54 form part of this unaudited interim financial report.

Consolidated Balance Sheet at 30 June 2011 *(unaudited)*

(Expressed in Renminbi)

	Note	At 30 June 2011 RMB'000	At 31 December 2010 RMB'000 (Restated)
Non-current assets			
Property, plant and equipment	9	12,855,294	13,570,559
Investment property		459,180	465,805
Construction in progress		1,545,560	1,139,239
Interest in associates and jointly controlled entities		2,977,705	3,316,290
Lease prepayments and other assets		731,230	874,192
Deferred tax assets		381,505	799,609
Total non-current assets		18,950,474	20,165,694
Current assets			
Inventories		8,984,946	5,352,301
Other investments	10	700,000	-
Trade debtors	11	155,479	74,193
Bills receivable	11	2,106,341	1,993,273
Other debtors and prepayments		288,399	235,730
Amounts due from related parties	11, 16(c)	949,864	776,234
Cash and cash equivalents	12	337,006	100,110
Total current assets		13,522,035	8,531,841
Current liabilities			
Loans and borrowings	13	4,427,516	4,395,438
Trade creditors	14	1,798,600	2,376,452
Bills payable	14	33,346	41,034
Other creditors		2,669,932	1,943,327
Amounts due to related parties	14, 16(c)	4,722,531	1,800,991
Income tax payable		4,345	15,983
Total current liabilities		13,656,270	10,573,225
Net current liabilities		(134,235)	(2,041,384)
Total assets less current liabilities carried forward		18,816,239	18,124,310

The notes on pages 37 to 54 form part of this unaudited interim financial report.

Consolidated Balance Sheet at 30 June 2011 *(unaudited) (continued)*

(Expressed in Renminbi)

	Note	At 30 June 2011 RMB'000	At 31 December 2010 RMB'000 (Restated)
Total assets less current liabilities brought forward		18,816,239	18,124,310
Non-current liabilities			
Loans and borrowings	13	175,000	175,000
Total non-current liabilities		175,000	175,000
Net assets		18,641,239	17,949,310
Shareholders' equity			
Share capital		7,200,000	7,200,000
Reserves	15	11,195,176	10,489,457
Total equity attributable to equity shareholders of the Company		18,395,176	17,689,457
Non-controlling interests		246,063	259,853
Total equity		18,641,239	17,949,310

Approved and authorised for issue by the Board of Directors on 26 August 2011.

Rong Guangdao
Chairman

Wang Zhiqing
Vice Chairman and President

The notes on pages 37 to 54 form part of this unaudited interim financial report.

**Consolidated Statement of Changes in Equity
for the six-month period ended 30 June 2011 (unaudited)**

(Expressed in Renminbi)

	Note	Attributable to equity shareholders of the Company				Non- controlling interests	Total Equity	
		Share capital	Share premium	Reserves	Retained earnings			
		RMB'000	RMB'000	RMB'000	RMB'000			
Balance at 1 January 2010, as previously reported		7,200,000	2,420,841	4,657,342	726,835	15,005,018	294,285	15,299,303
Impact of change in accounting policy	2	-	-	148,604	(17,188)	131,416	-	131,416
Restated balance at 1 January 2010		7,200,000	2,420,841	4,805,946	709,647	15,136,434	294,285	15,430,719
Changes in equity for the period:								
Profit / (loss) for the period		-	-	-	1,513,739	1,513,739	(6,787)	1,506,952
Other comprehensive income		-	-	-	-	-	-	-
Total comprehensive income for the period		-	-	-	1,513,739	1,513,739	(6,787)	1,506,952
Dividends approved in respect of the previous year	8	-	-	-	(216,000)	(216,000)	-	(216,000)
Dividends paid by subsidiaries to non-controlling interests		-	-	-	-	-	(58,345)	(58,345)
Others		-	-	5,473	-	5,473	-	5,473
Restated balance as at 30 June 2010		7,200,000	2,420,841	4,811,419	2,007,386	16,439,646	229,153	16,668,799

The notes on pages 37 to 54 form part of this unaudited interim financial report.

Consolidated Statement of Changes in Equity *(continued)*
for the six-month period ended 30 June 2011 *(unaudited)*
(Expressed in Renminbi)

	Note	Attributable to equity shareholders of the Company				Total	Non-controlling interests	Total Equity
		Share capital	Share premium	Reserves	Retained earnings			
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2011,								
as previously reported		7,200,000	2,420,841	4,936,890	3,002,933	17,560,664	259,853	17,820,517
Impact of change in accounting policy	2	-	-	148,604	(19,811)	128,793	-	128,793
Restated balance at 1 January 2011		7,200,000	2,420,841	5,085,494	2,983,122	17,689,457	259,853	17,949,310
Changes in equity for the period:								
Profit for the period		-	-	-	1,425,719	1,425,719	6,378	1,432,097
Other comprehensive income		-	-	-	-	-	-	-
Total comprehensive income for the period		-	-	-	1,425,719	1,425,719	6,378	1,432,097
Dividends approved in respect of the previous year	8	-	-	-	(720,000)	(720,000)	-	(720,000)
Dividends paid by subsidiaries to non-controlling interests		-	-	-	-	-	(20,168)	(20,168)
Appropriation of safety production fund	15	-	-	84,806	(84,806)	-	-	-
Balance as at 30 June 2011		7,200,000	2,420,841	5,170,300	3,604,035	18,395,176	246,063	18,641,239

The notes on pages 37 to 54 form part of this unaudited interim financial report.

Condensed Consolidated Cash Flow Statement for the six-month period ended 30 June 2011

(unaudited)

(Expressed in Renminbi)

	Note	Six-month period ended 30 June	
		2011 RMB'000	2010 RMB'000
Cash generated from operations		1,135,417	378,639
Interest paid		(150,357)	(159,005)
Income tax paid		(19,493)	(11,903)
Net cash generated from operating activities		965,567	207,731
Net cash (used in)/ generated from investing activities		(833,659)	572,378
Net cash generated from/(used in) financing activities		105,188	(505,996)
Net increase in cash and cash equivalents		237,096	274,113
Cash and cash equivalents at 1 January	12	100,110	125,917
Effect of exchange rate fluctuations on cash held		(200)	(182)
Cash and cash equivalents at 30 June	12	337,006	399,848

The notes on pages 37 to 54 form part of this unaudited interim financial report.

Notes to the Unaudited Interim Financial Report

1. Principal activities and basis of preparation

Sinopec Shanghai Petrochemical Company Limited (“the Company”) and its subsidiaries (collectively “the Group”) is an integrated entity which processes crude oil into synthetic fibres, resins and plastics, intermediate petrochemicals and petroleum products. The Company is a subsidiary of China Petroleum & Chemical Corporation (“Sinopec Corp”).

This interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*, issued by the Hong Kong Institute of Certified Public Accountants. KPMG’s independent review report to the Board of Directors is included on page 29.

The interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard (“IAS”) 34 *Interim Financial Reporting* issued by the International Accounting Standards Board (“IASB”).

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2010 annual financial statements. Accounting policy changes that are expected to be reflected in the 2011 annual financial statements are set out in note 2.

The preparation of an interim financial report in conformity with IAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

The financial information relating to the financial year ended 31 December 2010 that is included in the interim financial report as being previously reported information does not constitute the Company’s statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2010 are available from the Company’s registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 25 March 2011.

2. Changes in accounting policies

The IASB has issued a number of amendments to International Financial Reporting Standards (“IFRSs”) and one new Interpretation that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group’s financial statements:

- IAS 24 (revised 2009), *Related party disclosures*
- Improvements to IFRS (2010)

IAS 24 (revised 2009), *Related party disclosures*, simplifies the definition of “related party” and removes inconsistencies, which emphasises a symmetrical view of related party transactions. The revised standard also provides limited relief from disclosure of information by government-related entities in respect of transactions with the government to which the Group is related, or transactions with other entities related to the same government. The amendments to IAS 24 have had no material impact on the Group’s interim financial report.

In the Improvements to IFRSs (2010) omnibus standard, the IASB extended the scope of paragraph D8 of IFRS 1, *First time adoption of IFRSs*, for the use of the deemed cost exemption for an event-driven fair value. Under the amended standard, an entity is permitted to take as deemed cost the fair value of some or all of its assets and liabilities, when these fair values were determined under previous GAAP at one particular date because of a specific event which occurred during the period covered by its first financial statements prepared under IFRSs. Previously, IFRS 1 only permitted such valuations to be used as deemed cost if the event occurred before the date of the entity’s transition to IFRSs (being the start of the earliest comparative period included in the first set of IFRS financial statements).

The Group’s first financial statements prepared under IFRSs were for the year ended 31 December 1992, with the start of the earliest comparative period being 1 January 1990. During that period and pursuant to applicable laws and regulations of the PRC, the Group’s financial statements prepared under Accounting Standards for Business Enterprises and other relevant rules and regulations (collectively “PRC GAAP”) included leasehold land use rights at deemed cost based on the valuation performed by an independent valuer as of 1 January 1993. As this valuation was performed as of a date later than the date of transition to IFRSs, the Group was not permitted to adopt these valuations as deemed cost for the purposes of its IFRS financial statements and instead adopted the IFRS policy that leasehold land use rights were measured at historical cost and therefore, the related revaluation gains arising from the revaluation in 1993 as mentioned above were not recognised. The Group has chosen to adopt the amendments to IFRS 1 by making retrospective adjustments in order to eliminate the aforementioned differences between the Group’s financial statements under IFRSs and those under PRC GAAP. Specifically, the Group has retrospectively adjusted the amounts reported for previous periods in its IFRS financial statements to reflect the recognition of the leasehold land use rights at their deemed cost based on the valuation performed by the independent valuer as of 1 January 1993, with consequential adjustments for amortisation charged in subsequent periods.

2. Changes in accounting policies *(continued)*

The major adjustments made to the amounts reported for previous periods and the effect of the changes on the current period, as reported in this interim financial report, are set out below:

Consolidated balance sheet items

	1 January 2011 Increase/(decrease) RMB'000	1 January 2010 Increase/(decrease) RMB'000
Lease prepayments and other assets	156,760	160,258
Deferred tax assets	(27,967)	(28,842)
Total equity attributable to equity shareholders of the Company	128,793	131,416

Consolidated income statement items

	Six-month period ended 30 June	
	2011 Increase/(decrease) RMB'000	2010 Increase/(decrease) RMB'000
Cost of sales	1,749	1,749
Income tax	(437)	(437)
Profit for the period	(1,312)	(1,312)
Profit attributable to equity shareholders of the Company	(1,312)	(1,312)
Basic and diluted earnings per share (RMB)	-	-

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (Note 19).

3. Segment reporting

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

	Six-month period ended 30 June	
	2011	2010
	RMB'000	RMB'000
		(Restated)
Turnover		
Manufactured Products		
<i>Synthetic fibres</i>		
- External sales	2,320,085	1,891,401
- Intersegment sales	81	56
Total	2,320,166	1,891,457
<i>Resins and plastics</i>		
- External sales	8,597,308	7,597,388
- Intersegment sales	57,158	44,053
Total	8,654,466	7,641,441
<i>Intermediate petrochemicals</i>		
- External sales (note a)	10,317,965	7,936,403
- Intersegment sales	10,588,623	9,728,886
Total	20,906,588	17,665,289
<i>Petroleum products</i>		
- External sales (note a)	21,806,087	15,142,333
- Intersegment sales	3,409,625	1,347,563
Total	25,215,712	16,489,896
<i>Trading of petrochemical products</i>		
- External sales (note a)	5,989,376	3,200,879
- Intersegment sales	1,735,103	791,147
Total	7,724,479	3,992,026
<i>All others</i>		
- External sales (note a)	469,968	359,905
- Intersegment sales	512,269	334,308
Total	982,237	694,213
Elimination of intersegment sales	(16,302,859)	(12,246,013)
Turnover	49,500,789	36,128,309

3. Segment reporting (continued)

	Six-month period ended 30 June	
	2011	2010
	RMB'000	RMB'000 (Restated)
<i>Profit before taxation</i>		
Profit from operations		
Synthetic fibres	364,407	314,507
Resins and plastics	43,349	81,972
Intermediate petrochemicals	1,044,617	261,370
Petroleum products	144,960	930,489
Trading of petrochemical products	7,968	6,553
All others	56,059	26,879
Consolidated profit from operations	1,661,360	1,621,770
Net finance income/(costs)	14,132	(116,712)
Investment income	-	215
Share of profit of associates and jointly controlled entities	182,564	390,633
Profit before taxation	1,858,056	1,895,906

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

	Six-month period ended 30 June	
	2011	2010
	RMB'000	RMB'000 (Restated)
Intermediate petrochemicals	3,201,242	3,310,910
Petroleum products	18,867,720	13,027,296
Trading of petrochemical products	4,016,116	1,561,762
All others	208,979	143,405
Total	26,294,057	18,043,373

Segment assets

The major changes in segment assets during the period relate to additions of construction in progress in petroleum products segment.

The total segment assets of the petroleum products segment at 30 June 2011 is RMB 15,038,115,000 (31 December 2010: RMB 11,749,387,000).

4. Profit before taxation

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

	<u>Six-month period ended 30 June</u>	
	2011 RMB'000	2010 RMB'000 (Restated)
(a) Net finance (income) / costs		
Interest on bank loans and advances	133,451	147,130
Less: Amount capitalised into construction in progress	(16,280)	(811)
Total financial expenses	<u>117,171</u>	<u>146,319</u>
Net foreign exchange gain	(88,429)	(12,341)
Interest income	(42,874)	(17,266)
Total financial income	<u>(131,303)</u>	<u>(29,607)</u>
(b) Other items		
Amortisation of lease prepayments	9,201	9,786
Depreciation	821,511	840,056
Research and development costs	25,138	7,014
Write-down of inventories (Note a)	128,602	48,499
Impairment loss on property, plant and equipment	10,552	–
Net loss on disposal of property, plant and equipment	7,198	3,893
Gain on sale of available-for-sale financial assets	–	(215)

Note a: The write-down of inventories mainly represents the write-down of long aged spare parts amounting to RMB 128,602,000 for the six-month period ended 30 June 2011 (six-month period ended 30 June 2010: RMB 48,499,000).

5. Income tax

	Six-month period ended 30 June	
	2011	2010
	RMB'000	RMB'000 (Restated)
Provision for PRC income tax for the period	7,855	5,164
Deferred taxation	418,104	383,790
	425,959	388,954

The provision for PRC income tax is calculated at the rate of 25% (2010: 25%) on the estimated assessable income of the period determined in accordance with relevant income tax rules and regulations. The Company did not carry out business overseas and therefore does not incur overseas income taxes.

6. Other comprehensive income

Reclassification adjustments relating to components of other comprehensive income

	Six-month period ended 30 June	
	2011	2010
	RMB'000	RMB'000
<i>Available-for-sale securities:</i>		
Changes in fair value recognised during the period	-	215
Reclassification adjustments for amounts transferred to profit or loss		
- gains on disposal	-	(215)
Net movement in fair value reserve during the period recognised in other comprehensive income	-	-

7. Earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company for the six-month period ended 30 June 2011 of RMB 1,425,719,000 (six-month period ended 30 June 2010: RMB 1,513,739,000) and 7,200,000,000 (six-month period ended 30 June 2010: 7,200,000,000) shares in issue during the interim period.

The Group had no dilutive potential ordinary shares in existence during the six-month periods ended 30 June 2011 and 2010.

8. Dividends

	<u>Six-month period ended 30 June</u>	
	2011 RMB'000	2010 RMB'000
Final dividend in respect of the previous financial year approved during the period, of RMB 0.10 per share (2010: RMB 0.03 per share)	<u>720,000</u>	<u>216,000</u>

Pursuant to a resolution passed at the Annual General Meeting held on 29 June 2011, a final dividend of RMB 720,000,000 was declared and approved for the year ended 31 December 2010 (2009: RMB 216,000,000).

The Board of Directors did not declare the payment of an interim dividend for the period (2010: RMB nil).

9. Property, plant and equipment

Acquisitions and disposals

The acquisitions and disposals of items of property, plant and equipment during the six months ended 30 June 2011 and 2010 are as follows:

	<u>Six-month period ended 30 June</u>	
	2011 RMB'000	2010 RMB'000
Cost of acquisition and transfer from construction in progress	<u>120,197</u>	<u>237,508</u>
Disposals (net carrying amount)	<u>(10,024)</u>	<u>(4,872)</u>

10. Other investment

	At 30 June 2011 RMB'000	At 31 December 2010 RMB'000
	Available-for-sale financial assets	<u>700,000</u>

Available-for-sale financial assets, with a carrying amount of RMB 700,000,000 were acquired on 30 June 2011. The balance approximates the acquisition cost, which represents an investment fund purchased from a PRC state-owned bank. The fund mainly invests in debt and equity securities in the PRC. The Group redeemed this fund on 8 July 2011 and recognised an investment income of RMB 685,000 on that date.

11. Trade receivables

	At 30 June 2011 RMB'000	At 31 December 2010 RMB'000
Trade debtors	162,958	82,030
Less: Impairment losses for bad and doubtful debts	(7,479)	(7,837)
	155,479	74,193
Bills receivable	2,106,341	1,993,273
Amounts due from related parties	949,864	776,234
	3,211,684	2,843,700

Amounts due from related parties represent trade-related balances.

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

	At 30 June 2011 RMB'000	At 31 December 2010 RMB'000
Invoice date:		
Within one year	3,210,615	2,842,788
Between one and two years	1,069	912
	3,211,684	2,843,700

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

12. Cash and cash equivalents

	At 30 June 2011 RMB'000	At 31 December 2010 RMB'000
Cash deposits with a related party	2,569	6,870
Cash at bank and in hand	334,437	93,240
	<u>337,006</u>	<u>100,110</u>

13. Loans and borrowings

	At 30 June 2011 RMB'000	At 31 December 2010 RMB'000
Short-term loans	4,327,516	3,295,438
Corporate bonds (Note a)	-	1,000,000
Current portion of long-term loans	100,000	100,000
Loans and borrowings - current	4,427,516	4,395,438
Loans and borrowings - non-current	175,000	175,000
	<u>4,602,516</u>	<u>4,570,438</u>

Note a:

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

14. Trade payables

	At 30 June 2011 RMB'000	At 31 December 2010 RMB'000
Trade creditors	1,798,600	2,376,452
Bills payable	33,346	41,034
Amounts due to related parties	4,722,531	1,800,991
	<u>6,554,477</u>	<u>4,218,477</u>

14. Trade payables (continued)

The maturity analysis of trade accounts payable is as follows:

	At 30 June 2011 RMB'000	At 31 December 2010 RMB'000
Due within 1 month or on demand	6,305,119	4,082,246
Due after 1 month but within 3 months	249,358	136,231
	6,554,477	4,218,477

15. Reserves

For the six-month period ended 30 June 2011, the Group transferred RMB 84,806,000 (2010: RMB nil) from retained earnings to reserves for the safety production fund determined according to relevant PRC regulations.

For the six-month periods ended 30 June 2011 and 2010, no transfers were made to the statutory surplus reserve or the discretionary surplus reserve.

16. Related party transactions

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

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

16. Related party transactions *(continued)*

- (a) Most of the transactions undertaken by the Group during the six-month period ended 30 June 2011 have been affected on such terms as determined by Sinopec Corp and relevant PRC authorities.

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

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

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

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

Transactions between the Group and Sinopec Corp, its subsidiaries and jointly controlled entities during the six-month period ended 30 June 2011 and 2010 were as follows:

	Six-month period ended 30 June	
	2011	2010
	RMB'000	RMB'000
Sales of petroleum products	18,867,720	13,027,296
Sales other than petroleum products	7,426,337	5,016,077
Purchases of crude oil	21,816,513	13,058,654
Purchases other than crude oil	3,941,887	2,970,243
Sales commissions	103,970	84,096
Rental income	11,639	9,425

16. Related party transactions (continued)

(b) Other transactions between the Group and Sinopec Group Company and its subsidiaries, associates and jointly controlled entities of the Group during the six-month period ended 30 June 2011 and 2010 were as follows:

	Six-month period ended 30 June	
	2011	2010
	RMB'000	RMB'000
Sales of goods and service fee income		
- Sinopec Group Company and its subsidiaries	138,291	174,929
- Associates and jointly controlled entities of the Group	1,198,807	688,764
	1,337,098	863,693
Purchases		
- Sinopec Group Company and its subsidiaries	16,143	18,545
- Associates and jointly controlled entities of the Group	2,680,317	2,251,043
	2,696,460	2,269,588
Insurance premiums		
- Sinopec Group Company and its subsidiaries	66,075	55,655
Interest income		
- Sinopec Finance	361	277
Loans borrowed		
- Sinopec Finance	2,570,000	3,220,000
Loans repayment		
- Sinopec Finance	2,970,000	3,100,000
Interest expenses		
- Sinopec Finance	11,911	14,811
Construction and installation fees		
- Sinopec Group Company and its subsidiaries	55,348	35,851

The directors of the Company are of the opinion that the transactions with Sinopec Corp, its subsidiaries and jointly controlled entities, Sinopec Group Company and its subsidiaries, associates and jointly controlled entities of the Group as disclosed in notes 16(a) and 16(b) were conducted in the ordinary course of business, on normal commercial terms and in accordance with the agreements governing such transactions.

16. Related party transactions *(continued)*

- (c) The relevant amounts due from/to Sinopec Corp, its subsidiaries and jointly controlled entities, Sinopec Group Company and its subsidiaries, associates and jointly controlled entities of the Group, arising from purchases, sales and other transactions as disclosed in notes 16(a) and 16(b), are summarised as follows:

	At 30 June 2011 RMB'000	At 31 December 2010 RMB'000
Amounts due from related parties		
- Sinopec Corp, its subsidiaries and jointly controlled entities	821,051	686,097
- Sinopec Group Company and its subsidiaries	380	12,823
- Associates and jointly controlled entities of the Group	128,433	77,314
Total	949,864	776,234
Amounts due to related parties		
- Sinopec Corp, its subsidiaries and jointly controlled entities	4,005,711	1,588,791
- Sinopec Group Company and its subsidiaries	505,183	41,688
- Associates and jointly controlled entities of the Group	211,637	170,512
Total	4,722,531	1,800,991
Cash deposits, maturing within 3 months		
- Sinopec Finance	2,569	6,870
Short-term loans		
- Sinopec Finance	10,000	410,000

16. 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:

	Six-month period ended 30 June	
	2011	2010
	RMB'000	RMB'000
Short-term employee benefits	4,833	4,059
Post-employment benefits	73	53
	4,906	4,112

Post-employment benefits are included in "contributions to defined contribution retirement plans" as disclosed in note 16 (e).

(e) Contributions to defined contribution retirement plans

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

	Six-month period ended 30 June	
	2011	2010
	RMB'000	RMB'000
Municipal retirement scheme costs	114,322	101,797
Supplementary retirement scheme costs	29,500	22,898

At 30 June 2011 and 31 December 2010, there was no material outstanding contribution to the above defined contributions retirement plans.

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

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

16. Related party transactions *(continued)*

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

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

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

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

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

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

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

During the six-month periods ended 30 June 2011 and 2010, the aggregate amount of crude oil purchased by the Group from the above state-controlled energy and chemical companies are as follows:

	Six-month period ended 30 June	
	2011	2010
	RMB'000	RMB'000
Purchases of crude oil	6,849,638	6,414,378

Prepayment due to Sinochem and its subsidiaries is RMB 124,314,000 as at 30 June 2011 (31 December 2010: RMB 48,891,000).

16. 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 expenses to these state-controlled banks in the PRC are as follows:

	Six-month period ended 30 June	
	2011	2010
	RMB'000	RMB'000
Interest income	42,513	16,989
Interest expenses	121,540	132,319

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

	At 30 June	At 31 December
	2011	2010
	RMB'000	RMB'000
Cash and cash equivalents at state-controlled banks in PRC	334,313	93,240
Short-term loans and current portion of long-term loans	4,417,516	2,985,438
Long-term loans excluding current portion of long-term loans	175,000	175,000
Total loans from state-controlled banks in the PRC	4,592,516	3,160,438

17. Capital commitments

	At 30 June 2011 RMB'000	At 31 December 2010 RMB'000
<u>Property, plant and equipment</u>		
Contracted but not provided for	1,483,094	887,928
Authorised by the Board but not contracted for	5,202,701	6,110,386
	<u>6,685,795</u>	<u>6,998,314</u>

18. Contingent liabilities

(a) Income tax differences

In June 2007, the State Administrative of Taxation issued a tax circular (Circular No.664) to the local tax authorities requesting the relevant local tax authorities to rectify the applicable enterprise income tax ("EIT") for nine listed companies, which included the Company. After the notice was issued, the Company was required by the relevant tax authority to settle the EIT for 2007 at a rate of 33 percent. To date, the Company has not been requested by the tax authorities to pay additional EIT in respect of any years prior to 2007. There is no further development of this matter during the period ended 30 June 2011. No provision has been made in this interim 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.

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

19. Possible impact of amendments, new standards and interpretations issued but not yet effective for the annual accounting period ending 31 December 2011

Up to the date of issue of the interim financial report, the IASB has issued a number of amendments, new standards and interpretations which are not yet effective for the annual accounting period ending 31 December 2011 and which have not been adopted in the interim financial report.

Management is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application and has so far concluded that the adoption of these amendments, new standards and new interpretations is unlikely to have a significant impact on the Group's results of operations and financial position.

20. Restatement of comparatives

As a result of the adoption of Improvements to IFRS (2010), certain comparative figures have been adjusted to reflect the accounting of leasehold land use rights at deemed cost. Further details of changes in accounting policies are disclosed in note 2.

B. Financial Statements Prepared under China Accounting Standards for Business Enterprises

Consolidated Balance Sheet *(Unaudited)*

As at 30 June 2011

Expressed in thousands of Renminbi Yuan

Assets	Note	At 30 June 2011	At 31 December 2010
Current assets:			
Cash at bank and on hand	5(1)	337,006	100,110
Bills receivable	5(2)	2,213,515	2,043,493
Accounts receivable	5(3)	941,888	751,935
Prepayments	5(4)	202,610	146,865
Dividends receivable	5(5)	-	5,042
Other receivables	5(6)	58,072	58,185
Inventories	5(7)	8,984,946	5,352,301
Other current assets	5(8)	783,998	73,910
Total current assets		13,522,035	8,531,841
Non-current assets:			
Long-term receivables	5(9)	-	30,000
Long-term equity investments	5(10)	3,182,705	3,526,290
Investment property	5(11)	459,180	465,805
Fixed assets	5(12)	13,027,839	13,802,184
Construction in progress	5(13)	1,619,856	1,192,225
Intangible assets	5(14)	528,398	537,599
Long-term deferred expenses	5(15)	202,832	261,706
Deferred tax assets	5(16)	400,415	810,454
Total non-current assets		19,421,225	20,626,263
Total assets		32,943,260	29,158,104

The notes on pages 67 to 171 form part of these financial statements.

Consolidated Balance Sheet (Unaudited) (continued)

As at 30 June 2011

Expressed in thousands of Renminbi Yuan

Liabilities and shareholders' equity	Note	At 30 June 2011	At 31 December 2010
Current liabilities:			
Short-term loans	5(18)	4,327,516	3,295,438
Bills payable	5(19)	38,946	41,034
Accounts payable	5(20)	5,966,685	3,322,811
Advances from customers	5(21)	513,391	809,908
Employee benefits payable	5(22)	144,503	8,920
Taxes payable	5(23)	953,561	1,042,054
Interest payable	5(24)	7,647	24,553
Dividends payable	5(25)	734,401	15,490
Other payables	5(26)	869,620	834,780
Short-term debentures payable	5(27)	-	1,000,000
Non-current liabilities due within one year	5(28)	100,000	178,237
Total current liabilities		13,656,270	10,573,225
Non-current liabilities:			
Long-term loans	5(29)	175,000	175,000
Other non-current liabilities	5(30)	253,296	236,986
Total non-current liabilities		428,296	411,986
Total liabilities		14,084,566	10,985,211
Shareholders' equity:			
Share capital	5(31)	7,200,000	7,200,000
Capital reserve	5(32)	2,914,763	2,914,763
Specific reserve	5(33)	84,806	46,748
Surplus reserve	5(34)	5,081,314	5,081,314
Retained earnings	5(35)	3,331,748	2,670,215
Total equity attributable to equity shareholders of the Company		18,612,631	17,913,040
Minority interests		246,063	259,853
Total equity		18,858,694	18,172,893
Total liabilities and shareholders' equity		32,943,260	29,158,104

The notes on pages 67 to 171 form part of these financial statements.

Balance Sheet *(Unaudited)*

As at 30 June 2011

Expressed in thousands of Renminbi Yuan

Assets	Note	At 30 June 2011	At 31 December 2010
Current assets:			
Cash at bank and on hand	10(1)	270,802	89,224
Bills receivable	10(2)	1,965,196	1,887,416
Accounts receivable	10(3)	659,376	347,327
Prepayments		200,305	147,004
Dividends receivable	5(5)	-	5,042
Other receivables	10(4)	23,535	18,650
Inventories	10(5)	8,518,979	5,110,036
Other current assets	10(6)	722,185	21,729
Total current assets		12,360,378	7,626,428
Non-current assets:			
Long-term equity investments	10(7)	4,214,794	4,578,274
Investment property	10(8)	517,098	524,560
Fixed assets	10(9)	12,427,462	13,176,847
Construction in progress	10(10)	1,585,961	1,176,229
Intangible assets	10(11)	425,902	432,418
Long-term deferred expenses	10(12)	202,584	260,956
Deferred tax assets	10(13)	400,186	810,225
Total non-current assets		19,773,987	20,959,509
Total assets		32,134,365	28,585,937

The notes on pages 67 to 171 form part of these financial statements.

Balance Sheet (Unaudited) (continued)

As at 30 June 2011

Expressed in thousands of Renminbi Yuan

Liabilities and shareholders' equity	Note	At 30 June 2011	At 31 December 2010
Current liabilities:			
Short-term loans	10(15)	4,289,616	3,116,438
Bills payable	10(16)	38,946	41,034
Accounts payable		5,348,763	2,888,621
Advances from customers		462,462	741,364
Employee benefits payable		139,766	5,060
Taxes payable	10(17)	946,210	1,013,520
Interest payable		7,590	24,553
Dividends payable		720,000	15,490
Other payables		1,283,136	1,325,260
Short-term debentures payable	5(27)	-	1,000,000
Non-current liabilities due within one year	10(18)	145,000	100,000
Total current liabilities		13,381,489	10,271,340
Non-current liabilities:			
Long-term loans	10(19)	175,000	220,000
Other non-current liabilities	5(30)	253,296	236,986
Total non-current liabilities		428,296	456,986
Total liabilities		13,809,785	10,728,326
Shareholders' equity:			
Share capital	5(31)	7,200,000	7,200,000
Capital reserve	5(32)	2,914,763	2,914,763
Specific reserve	10(20)	75,638	43,380
Surplus reserve	5(34)	5,081,314	5,081,314
Retained earnings		3,052,865	2,618,154
Total equity		18,324,580	17,857,611
Total liabilities and shareholders' equity		32,134,365	28,585,937

The notes on pages 67 to 171 form part of these financial statements.

Consolidated Income Statement (Unaudited)

For the six-month period ended 30 June 2011

Expressed in thousands of Renminbi Yuan

	Note	Six-month period ended 30 June	
		2011	2010
Operating income	5(36)	49,524,992	36,151,430
Less: Operating costs	5(36)	43,007,104	30,821,820
Business taxes and surcharges	5(37)	3,155,653	2,450,087
Selling and distribution expenses	5(38)	335,445	255,584
General and administrative expenses	5(39)	1,243,528	958,094
Financial expenses ("-" represents financial income)	5(40)	-14,132	116,712
Impairment losses	5(41)	156,581	47,354
Add: Investment income	5(42)	177,564	385,848
Including: Income from investment in associates and jointly controlled enterprises		177,564	385,633
Operating profit		1,818,377	1,887,627
Add: Non-operating income	5(43)	8,663	13,358
Less: Non-operating expenses	5(44)	21,235	18,459
Including: Losses from disposal of non-current assets		9,133	4,678
Profit before income tax		1,805,805	1,882,526
Less: Income tax expense	5(45)	417,894	388,954
Net profit for the period		1,387,911	1,493,572
Attributable to: Equity shareholders of the Company		1,381,533	1,493,930
Minority shareholders		6,378	-358
Earnings per share:			
Basic and diluted earnings per share	5(46)	RMB 0.192	RMB 0.207
Other comprehensive income for the period	5(47)	-	-
Total comprehensive income for the period		1,387,911	1,493,572
Attributable to: Equity shareholders of the Company		1,381,533	1,493,930
Minority shareholders		6,378	-358

The notes on pages 67 to 171 form part of these financial statements.

Income Statement (Unaudited)

For the six-month period ended 30 June 2011

Expressed in thousands of Renminbi Yuan

	Note	Six-month period ended 30 June	
		2011	2010
Operating income	10(21)	42,110,743	31,915,310
Less: Operating costs	10(21)	35,691,900	26,674,152
Business taxes and surcharges	10(22)	3,151,643	2,449,119
Selling and distribution expenses		292,515	217,327
General and administrative expenses		1,178,477	893,393
Financial expenses ("-" represents financial income)	10(23)	-4,537	106,785
Impairment losses	10(24)	379,563	73,266
Add: Investment income	10(25)	156,696	385,028
Including: Income from investment in associates and jointly controlled enterprises		148,616	377,407
Operating profit		1,577,878	1,886,296
Add: Non-operating income	10(26)	8,088	12,944
Less: Non-operating expenses	10(27)	21,216	15,792
Including: Losses from disposal of non-current assets		9,125	3,650
Profit before income tax		1,564,750	1,883,448
Less: Income tax expense	10(28)	410,039	383,790
Net profit for the period		1,154,711	1,499,658
Other comprehensive income for the period	10(29)	-	-
Total comprehensive income for the period		1,154,711	1,499,658

The notes on pages 67 to 171 form part of these financial statements.

Consolidated Cash Flow Statement *(Unaudited)*

For the six-month period ended 30 June 2011

Expressed in thousands of Renminbi Yuan

	Note	Six-month period ended 30 June	
		2011	2010
Cash flows from operating activities:			
Cash received from sale of goods and rendering of services		57,417,667	41,993,214
Refund of taxes		43,578	-
Cash received relating to other operating activities	5(48(a))	23,038	62,710
Sub-total of cash inflows		57,484,283	42,055,924
Cash paid for goods and services		-50,313,527	-36,529,514
Cash paid to and for employees		-945,237	-868,974
Cash paid for all types of taxes		-4,835,934	-4,042,318
Cash paid relating to other operating activities	5(48(b))	-273,661	-248,383
Sub-total of cash outflows		-56,368,359	-41,689,189
Net cash inflow from operating activities	5(49(a)1)	1,115,924	366,735
Cash flows from investing activities:			
Cash received from disposal of investments		26,000	770,000
Cash received from investment income		526,191	63,079
Net cash received from disposal of fixed assets		2,826	979
Cash received relating to other investing activities	5(48(c))	42,874	17,266
Sub-total of cash inflows		597,891	851,324
Cash paid for acquisition of fixed assets		-731,550	-278,946
Cash paid for acquisition of investments		-700,000	-
Sub-total of cash outflows		-1,431,550	-278,946
Net cash inflow from investing activities ("-" represents outflow)		-833,659	572,378

The notes on pages 67 to 171 form part of these financial statements.

Consolidated Cash Flow Statement *(Unaudited) (continued)*

For the six-month period ended 30 June 2011

Expressed in thousands of Renminbi Yuan

	Note	Six-month period ended 30 June	
		2011	2010
Cash flows from financing activities:			
Cash received from issuance of corporate bonds		-	1,000,000
Cash received from borrowings		18,477,796	22,642,235
Sub-total of cash inflows		18,477,796	23,642,235
Cash repayments of corporate bonds		-1,000,000	-1,000,000
Cash repayments of borrowings		-17,351,351	-23,138,235
Cash paid for dividends, profits distribution and interest		-171,614	-169,000
Sub-total of cash outflows		-18,522,965	-24,307,235
Net cash outflow from financing activities		-45,169	-665,000
Effect of foreign exchange rate changes on cash and cash equivalents		-200	-182
Net increase in cash and cash equivalents	5(49(a)2)	236,896	273,931
Add: cash and cash equivalents at the beginning of the period		100,110	125,917
Cash and cash equivalents at the end of the period	5(49(b))	337,006	399,848

The notes on pages 67 to 171 form part of these financial statements.

Cash Flow Statement (Unaudited)

For the six-month period ended 30 June 2011

Expressed in thousands of Renminbi Yuan

	Note	Six-month period ended 30 June	
		2011	2010
Cash flows from operating activities:			
Cash received from sale of goods and rendering of services		48,570,448	36,846,570
Cash received relating to other operating activities		22,463	64,881
Sub-total of cash inflows		48,592,911	36,911,451
Cash paid for goods and services		-41,759,114	-31,481,854
Cash paid to and for employees		-876,807	-806,019
Cash paid for all types of taxes		-4,767,677	-3,963,519
Cash paid relating to other operating activities		-252,462	-219,272
Sub-total of cash outflows		-47,656,060	-36,470,664
Net cash inflow from operating activities	10(30(a)1)	936,851	440,787
Cash flows from investing activities:			
Cash received from disposal of investments		-	700,000
Cash received from investment income		525,218	61,505
Net cash received from disposal of fixed assets		2,779	914
Cash received relating to other investing activities		37,757	12,870
Sub-total of cash inflows		565,754	775,289
Cash paid for acquisition of fixed assets		-713,932	-282,935
Cash paid for acquisition of investments		-700,000	-
Sub-total of cash outflows		-1,413,932	-282,935
Net cash inflow from investing activities ("-" represents outflow)		-848,178	492,354

The notes on pages 67 to 171 form part of these financial statements.

Cash Flow Statement *(Unaudited) (continued)*

For the six-month period ended 30 June 2011

Expressed in thousands of Renminbi Yuan

	Note	Six-month period ended 30 June	
		2011	2010
Cash flows from financing activities:			
Cash received from issuance of corporate bonds		-	1,000,000
Cash received from borrowings		18,429,596	22,580,835
Sub-total of cash inflows		18,429,596	23,580,835
Cash repayments of corporate bonds		-1,000,000	-1,000,000
Cash repayments of borrowings		-17,179,272	-23,202,420
Cash paid for dividends, profits distribution and interest		-157,243	-148,060
Sub-total of cash outflows		-18,336,515	-24,350,480
Net cash inflow from financing activities (“-” represents outflow)		93,081	-769,645
Effect of foreign exchange rate changes on cash and cash equivalents		-176	-153
Net increase in cash and cash equivalents	10(30(a)2)	181,578	163,343
Add: cash and cash equivalents at the beginning of the period		89,224	101,076
Cash and cash equivalents at the end of the period	10(30(b))	270,802	264,419

The notes on pages 67 to 171 form part of these financial statements.

Consolidated statement of changes in shareholders' equity (Unaudited)

For the six-month period ended 30 June 2011

Expressed in thousands of Renminbi Yuan

	Note	2011							2010						
		Attributable to equity shareholders of the Company					Minority interests	Total	Attributable to equity shareholders of the Company					Minority interests	Total
		Share capital	Capital reserve	Specific reserve	Surplus reserve	Retained earnings			Share capital	Capital reserve	Specific reserve	Surplus reserve	Retained earnings		
Balance at 1 January		7,200,000	2,914,763	46,748	5,081,314	2,670,215	259,853	18,172,893	7,200,000	2,882,278	-	4,801,766	462,029	294,285	15,640,358
Changes in equity for the period															
1. Net profit for the period ("-" represents loss)		-	-	-	-	1,381,533	6,378	1,387,911	-	-	-	-	1,493,930	-358	1,493,572
2. Other comprehensive income for the period	5(47)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sub-total of 1&2		-	-	-	-	1,381,533	6,378	1,387,911	-	-	-	-	1,493,930	-358	1,493,572
3. Appropriation of profits															
- Distribution to shareholders	5(35)	-	-	-	-	-720,000	-20,168	-740,168	-	-	-	-	-216,000	-58,345	-274,345
4. Specific reserve															
- Accrued	5(33)	-	-	56,800	-	-	-	56,800	-	-	5,473	-	-	-	5,473
- Utilised	5(33)	-	-	-18,742	-	-	-	-18,742	-	-	-	-	-	-	-
Balance at 30 June		7,200,000	2,914,763	84,806	5,081,314	3,331,748	246,063	18,858,694	7,200,000	2,882,278	5,473	4,801,766	1,739,959	235,582	16,865,058

Statement of changes in equity *(Unaudited)*

For the six-month period ended 30 June 2011

Expressed in thousands of Renminbi Yuan

	Note	2011						2010					
		Share capital	Capital reserve	Specific reserve	Surplus reserve	Retained earnings	Total	Share capital	Capital reserve	Specific reserve	Surplus reserve	Retained earnings	Total
Balance at 1 January		7,200,000	2,914,763	43,380	5,081,314	2,618,154	17,857,611	7,200,000	2,882,278	-	4,801,766	318,224	15,202,268
Changes in equity for the period													
1. Net profit for the period		-	-	-	-	1,154,711	1,154,711	-	-	-	-	1,499,658	1,499,658
2. Other comprehensive income for the period	10(29)	-	-	-	-	-	-	-	-	-	-	-	-
Sub-total of 1&2		-	-	-	-	1,154,711	1,154,711	-	-	-	-	1,499,658	1,499,658
3. Appropriation of profits													
- Distribution to shareholders	5(35)	-	-	-	-	-720,000	-720,000	-	-	-	-	-216,000	-216,000
4. Specific reserve													
- Accrued	10(20)	-	-	51,000	-	-	51,000	-	-	5,473	-	-	5,473
- Utilised	10(20)	-	-	-18,742	-	-	-18,742	-	-	-	-	-	-
Balance at 30 June		7,200,000	2,914,763	75,638	5,081,314	3,052,865	18,324,580	7,200,000	2,882,278	5,473	4,801,766	1,601,882	16,491,399

The notes on pages 67 to 171 form part of these financial statements.

Notes to the Unaudited Interim Financial Statements

(Prepared under China Accounting Standards for Business Enterprises)

1. Company status

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

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

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

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

Details of the Company’s principal subsidiaries are set out in Note 4 “Business combination and consolidated financial statements”.

2. Significant accounting policies and accounting estimates

(1) Basis of preparation of the financial statements

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

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

The financial statements have been prepared in accordance with the requirements of “Accounting Standards for Business Enterprises - Basic Standard” and 38 Specific Standards issued by the Ministry of Finance (“MOF” of the People’s Republic of China (“PRC”)) on 15 February 2006, and application guidance, bulletins and other relevant accounting regulations issued subsequently (collectively referred to as “Accounting Standards for Business Enterprises” or “CAS”). These financial statements present truly and completely the consolidated financial position and financial position, the consolidated results of operations and results of operations and the consolidated cash flows and cash flows of the Company.

These financial statements also comply with the disclosure requirements of “Regulation on the Preparation of Information Disclosures of Companies Issuing Public Shares, No. 15: General Requirements for Financial Reports” as revised by the China Securities Regulatory Commission (“CSRC”) in 2010.

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

(3) Accounting year

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

(4) Functional currency

The Company's functional currency is Renminbi. These financial statements are presented in Renminbi.

(5) Accounting treatment of business combinations involving enterprises under and not under common control

(a) Business combinations involving enterprises under common control

A business combination involving enterprises under common control is a business combination in which all of the combining enterprises are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory. The assets and liabilities obtained are measured at the carrying amounts as recorded by the enterprise being combined at the combination date. The difference between the carrying amount of the net assets obtained and the carrying amount of consideration paid for the combination (or the total face value of shares issued) is adjusted to share premium in the capital reserve. If the balance of share premium is insufficient, any excess is adjusted to retained earnings. The combination date is the date on which one combining enterprise effectively obtains control of the other combining enterprises.

(b) Business combination involving enterprises not under common control

A business combination involving enterprises not under common control is a business combination in which all of the combining enterprises are not ultimately controlled by the same party or parties both before and after the business combination. Where 1) the aggregate of the fair value at the acquisition date of assets transferred (including the acquirer's previously held equity interest in the acquiree), liabilities incurred or assumed, and equity securities issued by the acquirer, in exchange for control of the acquiree, exceeds 2) the acquirer's interest in the fair value of the acquiree's identifiable net assets, the difference is recognised as goodwill. Where 1) is less than 2), the difference is recognised in profit or loss for the current period. The costs of the issuance of equity or debt securities as part of the consideration paid for the acquisition are included as part of initial recognition amount of the equity or debt securities. Other acquisition-related costs arising from the business combination are recognised as expenses in the periods in which the costs are incurred. The difference between the fair value and the carrying amount of the assets transferred is recognised in profit or loss. The acquisition date is the date on which the acquirer effectively obtains control of the acquiree.

The acquirer, at the acquisition date, allocates the cost of the business combination by recognising the acquiree's identifiable asset, liabilities and contingent liabilities at their fair value at that date.

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

(5) Accounting treatment of business combinations involving enterprises under and not under common control *(continued)*

(b) Business combination involving enterprises not under common control *(continued)*

In a business combination, the acquiree's deductible temporary differences obtained by the Group are not recognised if the deductible temporary differences do not satisfy the criteria for recognition of deferred tax assets at the acquisition date. The Group recognises the relevant deferred tax assets and reduces the amount of goodwill, if within 12 months of the acquisition date, new or updated information indicates that at the acquisition date, the obtained deferred tax benefit is expected to be realised in future periods. If the amount of goodwill is insufficient to allow for the deduction, any remaining deferred tax benefits shall be recognised in profit or loss for the current period. All other acquired deferred tax benefit shall be included in profit or loss for the current period.

(6) Preparation of consolidated financial statements

The consolidated financial statements comprise the Company and its subsidiaries. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its operating activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Where a subsidiary was acquired during the reporting period through a business combination involving enterprises under common control, the financial statements of the subsidiary are included in the consolidated financial statements as if the combination had occurred at the date that the ultimate controlling party first obtained control. Therefore the opening balances and the comparative figures of the consolidated financial statements are restated. In the preparation of the consolidated financial statements, the subsidiary's assets, liabilities and results of operations are included in the consolidated balance sheet and the consolidated income statement, respectively, based on their carrying amounts, from the date that common control was established.

Where a subsidiary was acquired during the reporting period, through a business combination involving enterprises not under common control, the identifiable assets, liabilities and results of operations of the subsidiaries are consolidated into consolidated financial statements from the date that control commences, based on the fair value of those identifiable assets and liabilities at the acquisition date.

For a business combination not involving enterprises under common control and achieved in stages, the Group remeasures its previously-held equity interest in the acquiree to its fair value at the acquisition date. The difference between the fair value and the carrying amount is recognised as investment income for the current period; the amount recognised in other comprehensive income relating to the previously-held equity interest in the acquiree is reclassified as investment income for the current period.

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

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

Where the Company acquires a minority interest from a subsidiary's minority shareholders or disposes of a portion of an interest in a subsidiary without a change in control, the difference between the amount by which the minority interests are adjusted and the amount of the consideration paid or received is adjusted to the capital reserve in the consolidated balance sheet. If the credit balance of capital reserve is insufficient, any excess is adjusted to retained earnings.

When the Group loses control of a subsidiary due to the disposal of a portion of an equity investment, the remaining equity investment is remeasured at its fair value at the date when control is lost. The difference between 1) the total amount of consideration received from the transaction that resulted in the loss of control and the fair value of the remaining equity investment and 2) the carrying amounts of the interest in the former subsidiary's net assets immediately before the loss of the control is recognised as investment income for the current period when control is lost. The amount recognised in other comprehensive income in relation to the former subsidiary's equity investment is reclassified as investment income for the current period when control is lost.

Minority shareholders' interest is presented separately in the consolidated balance sheet within shareholders' equity. Net profit or loss attributable to minority shareholders is presented separately in the consolidated income statement below the net profit line item.

When the amount of loss for the current period attributable to the minority shareholders of a subsidiary exceeds the minority shareholders' portion of the opening balance of shareholders' equity of the subsidiary, the excess is allocated against the minority interests.

When the accounting period or accounting policies of a subsidiary are different from those of the Company, the Company makes necessary adjustments to the financial statements of the subsidiary based on the Company's own accounting period or accounting policies. Intra-group balances and transactions, and any unrealised profit or loss arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

(7) Cash and cash equivalents

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

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

(8) Translation of foreign currencies

When the Group receives capital in foreign currencies from investors, the capital is translated to Renminbi at the spot exchange rate at the date of the receipt. Other foreign currency transactions are, on initial recognition, translated to Renminbi at the spot exchange rates on the dates of the transactions.

A spot exchange rate is an exchange rate quoted by the People's Bank of China.

Monetary items denominated in foreign currencies are translated to Renminbi at the spot exchange rate at the balance sheet date. The resulting exchange differences are recognised in profit or loss, except those arising from the principal and interest on foreign currency borrowings specifically for the purpose of acquisition or construction of qualifying assets (see Note 2(16)). Non-monetary items denominated in foreign currencies that are measured at historical cost are translated to Renminbi using the foreign exchange rate at the transaction date. Non-monetary items denominated in foreign currencies that are measured at fair value are translated using the foreign exchange rate at the date the fair value is determined; the exchange differences are recognised in profit or loss, except for the differences arising from the translation of available-for-sale financial assets, which are recognised in capital reserve.

(9) Financial instruments

Financial instruments include cash at bank and on hand, receivables, payables, available-for-sale financial assets, loans and borrowings, short-term debentures payable and share capital.

(a) Classification, recognition and measurement of financial assets and financial liabilities

A financial asset or financial liability is recognised in the balance sheet when the Group becomes a party to contractual provisions of a financial instrument.

The Group classifies financial assets and liabilities into different categories at initial recognition based on the purpose of acquiring assets or assuming liabilities: loans and receivables, available-for-sale financial assets and other financial liabilities.

Financial assets and financial liabilities are measured initially at fair value. Any directly attributable transaction costs are included in their initial costs. Subsequent to initial recognition, financial assets and liabilities are measured as follows:

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

(9) Financial instruments *(continued)*

(a) Classification, recognition and measurement of financial assets and financial liabilities *(continued)*

- Receivables

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Subsequent to initial recognition, receivables are stated at amortised cost using the effective interest method.

- Available-for-sale financial assets

Available-for-sale financial assets include non-derivative financial assets that are designated upon initial recognition as available for sales and other financial assets which do not fall into any other categories.

An investment in equity instrument which does not have a quoted market price in an active market and whose fair value cannot be reliably measured is measured at cost subsequent to initial recognition.

Other than investments in equity instruments whose fair value cannot be measured reliably as described above, subsequent to initial recognition, other available-for-sale financial assets are measured at fair value and changes therein, except for impairment losses and foreign exchange gains and losses from monetary financial assets, which are recognised directly in profit or loss, are recognised directly in equity. When an investment is derecognised, the cumulative gain or loss in equity is removed from equity and recognised in profit or loss. Dividend income from these equity instruments is recognised in profit or loss when the investee declares the dividends. Interest on available-for-sale financial assets calculated using the effective interest method is recognised in profit or loss (see Note 2(21)(c)).

- Other financial liabilities

Financial liabilities other than the financial liabilities at fair value through profit or loss are classified as other financial liabilities.

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

(9) Financial instruments *(continued)*

(a) Classification, recognition and measurement of financial assets and financial liabilities *(continued)*

- Other financial liabilities *(continued)*

Other financial liabilities include the liabilities arising from financial guarantee contracts. Financial guarantees are contracts that require the Group (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the holder) for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Where the Group issues a financial guarantee, subsequent to initial recognition, the guarantee is measured at the higher of the amount initially recognised less accumulated amortisation and the amount of a provision determined in accordance with the principles of contingent liabilities (see Note 2(20)).

Except for the other financial liabilities described above, subsequent to initial recognition, other financial liabilities are measured at amortised cost using the effective interest method.

In the balance sheet, financial assets and financial liabilities are separately disclosed and not offset unless both the following conditions are met:

- The Group has a legally enforceable right to offset financial assets against financial liabilities, and
- The Group intends to settle the financial assets and liabilities on a net basis, or to realise the asset and settle the liability simultaneously.

(b) Determination of fair values

If there is an active market for a financial asset or financial liability, the quoted price in the active market without adjusting for transaction costs that may be incurred upon future disposal or settlement is used to establish the fair value of the financial asset or financial liability. For a financial asset held or a financial liability to be assumed, the quoted price is the current bid price and, for a financial asset to be acquired or a financial liability assumed, it is the current asking price.

If no active market exists for a financial instrument, a valuation technique is used to establish the fair value. Valuation techniques include reference to the current fair value of another instrument that is substantially the same. The Group calibrates the valuation technique and tests it for validity periodically.

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

(9) Financial instruments *(continued)*

(c) Derecognition of financial assets and financial liabilities

A financial asset is derecognised if the Group's contractual rights to the cash flows from the financial asset expire or if the Group transfers substantially all the risks and rewards of ownership of the financial asset to another party.

Where a transfer of a financial asset in its entirety meets the criteria for derecognition, the difference between the two amounts below is recognised in profit or loss:

- carrying amount of the financial asset transferred;
- the sum of the consideration received from the transfer and any cumulative gain or loss that has been recognised directly in shareholders' equity.

The Group derecognises a financial liability (or part of it) only when the underlying present obligation (or part of it) is discharged.

(d) Impairment of financial assets

The carrying amounts of financial assets (other than those at fair value through profit or loss) are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Impairment losses are recognised when there has been objective evidence of impairment.

Objective evidence of impairment comes to the attention of the Group about one or more of the following loss events:

- (a) significant financial difficulty of the debtor or obligator;
- (b) a breach of contract, such as a default or delinquency in interest or principal;
- (c) it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;
- (d) the disappearance of an active market for that financial asset because of financial difficulties;
- (e) significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor, and indicate that the cost of an investment in an equity instrument may not be recovered;
- (f) a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

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

(9) Financial instruments *(continued)*

(d) Impairment of financial assets *(continued)*

The impairment of receivables is described in Note 2(10), and the impairment of other financial assets is as follows:

- Available-for-sale financial assets

Available-for-sale financial assets are assessed for impairment on an individual basis. When an available-for-sale financial asset is impaired, the cumulative loss arising from decline in fair value that has been recognised directly in equity is removed from equity and recognised in profit or loss even though the financial asset has not been derecognised.

If, after an impairment loss has been recognised on an available-for-sale debt instrument, the fair value of the debt instrument increases in a subsequent period and the increase can be objectively related to an event occurring after the impairment loss is recognised, the impairment loss is reversed through profit or loss. An impairment loss recognised for an investment in an equity instrument classified as available-for-sale is not reversed through profit or loss.

(e) Equity instrument

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

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

(10) Impairment of receivables

Receivables are assessed for impairment both on an individual basis and on a collective group basis.

Where impairment is assessed on an individual basis, an impairment loss in respect of receivables is calculated as the excess of its carrying amount over the present value of the estimated future cash flows (exclusive of future credit losses that have not been incurred) discounted at the original effective interest rate. All impairment losses are recognised in profit or loss.

The assessment is made collectively where receivables share similar credit risk characteristics (including those having not been individually assessed as impaired), based on their historical loss experiences, and adjusted by the observable factors reflecting present economic conditions.

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

(10) Impairment of receivables *(continued)*

If, after an impairment loss has been recognised on receivables, there is objective evidence of recovery in value of the financial asset which can be related objectively to an event occurring after the impairment was recognised, impairment loss is reversed through profit or loss. A reversal of an impairment loss will not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

- (a) Accounts receivable that are individually significant and assessed individually for impairment:

Individually significant receivables are assessed for impairment on an individual basis.

Judgement basis or amount criteria of provision for bad and doubtful debts for individually significant receivables	An impairment loss is recognised on receivables if there is objective evidence of difficulty in collection in original terms.
Method of provision for bad and doubtful debts	An impairment loss is provided if its carrying amount exceeds the present value of the estimated future cash flows (exclusive of future credit losses that have not been incurred) discounted at the original effective interest rate.

- (b) Accounts receivable that are individually insignificant but assessed individually for impairment:

Reason for provision for bad and doubtful debts for individually insignificant receivables	Receivables which are overdue more than one year or with special characteristics.
Method of provision for bad and doubtful debts	An impairment loss is provided if its carrying amount exceeds the present value of the estimated future cash flows (exclusive of future credit losses that have not been incurred) discounted at the original effective interest rate.

- (c) Accounts receivable that are collectively assessed for impairment:

For receivables in (a) and (b) without objective evidence of impairment after assessment for impairment on an individual basis, the Group performs the impairment test on a collective basis by categorising them into groups with similar credit risk feature and then adopt ageing analysis and provide provisions for bad and doubtful debts at the percentages shown below:

Age	Provision proportion of accounts receivables (%)	Provision proportion of other receivables (%)
Within one year	-	-
1-2 years(inclusive)	30%	30%
2-3 years(inclusive)	60%	60%
More than 3 years	100%	100%

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

(11) Inventories

(a) Categories of inventories

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

(b) Measurement of cost of inventories

Cost of inventories is calculated using the weighted average method.

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

Inventories are carried at the lower of cost and net realisable value.

Cost of inventories comprises all costs of purchase, costs of conversion and other costs. Inventories are initially measured at their actual cost. In addition to the purchasing cost of raw materials, work in progress and finished goods include direct labour costs and an appropriate allocation of production overheads.

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

Any excess of the cost over the net realisable value of each item of inventories is recognised as a provision for diminution in the value of inventories.

(d) Inventory counting system

The Group maintains a perpetual inventory system.

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

Reusable materials (including low-value consumables, packaging materials, etc.) are amortised in full when received for use. The amounts of the amortisation are included in the cost of the related assets or profit or loss.

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

(12) Long-term equity investments

(a) Determination of initial investment cost

- Long-term equity investments acquired through a business combination

The initial investment cost of a long-term equity investment obtained through a business combination involving enterprises under common control is the Company's share of the subsidiary's equity at the combination date. The difference between the initial investment cost and the carrying amounts of the consideration given is adjusted to share premium (capital premium) in capital reserve. If the balance of the share premium (capital premium) is insufficient, any excess is adjusted to retained earnings.

For a long-term equity investment obtained through a business combination not involving enterprises under common control and achieved in stages, the initial cost comprises the carrying value of previously-held equity investment in the acquiree immediately before the acquisition date, and the additional investment cost at the acquisition date. Any amounts recognised in other comprehensive income relating to the previously-held equity interest in the acquiree, are reclassified to profit or loss as investment income when the equity investment is disposed of.

For other long-term equity investments obtained through business combinations involving enterprises not under common control, the initial investment cost represents the aggregate of the fair values of assets transferred, liabilities assumed, and equity securities issued by the Company, in exchange for control of the acquiree.

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

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

(b) Subsequent measurement

- Investments in subsidiaries

In the Company's separate financial statements, long-term equity investments in subsidiaries are accounted for using the cost method. Except for cash dividends or profits distribution declared but not yet distributed that have been included in the price or consideration paid in obtaining the investments, the Company recognises its share of the cash dividends or profit distributions declared by the investee as investment income irrespective of whether these represent the net profit realised by the investee before or after the investment. The investments in subsidiaries are stated in the balance sheet at cost less impairment losses.

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

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

(b) Subsequent measurement *(continued)*

- Investments in subsidiaries *(continued)*

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

- Investment in jointly controlled enterprises and associates

A jointly controlled enterprise is an enterprise which operates under joint control in accordance with a contractual agreement between the Group and other parties (see Note 2(12) (c)).

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

An investment in a jointly controlled enterprise or an associate is accounted for using the equity method unless the investment is classified as held for sale (see Note 2(25)).

The Group makes the following accounting treatments when using the equity method:

- Where the initial investment cost of a long-term equity investment exceeds the Group's interest in the fair value of the investee's identifiable net assets at the date of acquisition, the investment is initially recognised at the initial investment cost. Where the initial investment cost is less than the Group's interest in the fair value of the investee's identifiable net assets at the date of acquisition, the investment is initially recognised at the investor's share of the fair value of the investee's identifiable net assets, and the difference is charged to profit or loss.
- After the acquisition of the investment in a jointly controlled enterprise or an associate, the Group recognises its share of the investee's profit or loss as investment income or losses, and adjusts the carrying amount of the investment accordingly. Once the investee declares any cash dividends or profits distributions, the carrying amount of the investment is reduced by that amount attributable to the Group.

The Group recognises its share of the investee's net profits or losses after making appropriate adjustments to align the accounting policies or accounting periods with those of the Group based on the fair values of the investee's identifiable net assets at the date of acquisition. Unrealised profits and losses resulting from transactions between the Group and its associates or jointly controlled enterprises are eliminated to the extent of the Group's interest in the associates or jointly controlled enterprises. Unrealised losses resulting from transactions between the Group and its associates or jointly controlled enterprises are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

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

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

(b) Subsequent measurement *(continued)*

- Investment in jointly controlled enterprises and associates *(continued)*
 - The Group discontinues recognising its share of net losses of the investee after the carrying amount of the long-term equity investment and any long-term interest that in substance forms part of the Group's net investment in the associate or the jointly controlled enterprise is reduced to zero, except to the extent that the Group has an obligation to assume additional losses. Where net profits are subsequently made by the associate or jointly controlled enterprise, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.
- Other long-term equity investments

Other long-term equity investments refer to investments where the Group does not have control, joint control or significant influence over the investees, and the investments are not quoted in an active market and their fair value cannot be reliably measured.

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

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

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

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

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

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

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

Significant influence is the power to participate in the financial and operating policy decisions of an investee but is not control or joint control over those policies. The Group often considers the following factors when determining whether the Group has significant influence over the investee:

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

(d) Impairment of long-term equity investments

The methods of impairment assessment and the basis on which the impairment is provided for investments in jointly controlled enterprises and associates are described in Note 2(19).

The carrying amounts of other long-term equity investments are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, other long-term equity investments are assessed for impairment on an individual basis. The amount of the impairment loss is measured as the difference between the carrying amount of the investment and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss is not reversed. Other long-term equity investments are stated at cost less impairment losses in the balance sheet.

(13) Investment property

Investment property is a property held either to earn rental income or for capital appreciation or for both. Investment property is accounted for using the cost model and stated in the balance sheet at cost less accumulated depreciation and impairment losses (see Note 2(19)). Investment property is depreciated using the straight-line method over its estimated useful life, unless the investment property is classified as held for sale (see Note 2(25)). The methods of impairment assessment and the basis on which the impairment is provided are described in Note 2(19).

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

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

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

(14) Fixed assets

(a) Recognition of fixed assets

Fixed assets represent the tangible assets held by the Group for use in the production of goods or supply of services or for operation and administrative purposes with useful lives over one year.

The cost of a purchased fixed asset comprises the purchase price, related taxes, and any directly attributable expenditure for bringing the asset to working condition for its intended use. The determination of initial cost of self-constructed assets is described in Note 2(15).

Where parts of an item of fixed assets have different useful lives or provide benefits to the Group in different pattern thus necessitating use of different depreciation rates or methods, each part is recognised as a separate fixed asset.

The subsequent costs including the cost of replacing part of an item of fixed assets are recognised in the carrying amount of the item if the recognition criteria are satisfied, and the carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of fixed assets are recognised in profit or loss as incurred.

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

(b) Depreciation of fixed assets

Fixed assets are depreciated using the straight-line method over their estimated useful lives, unless the fixed asset is classified as held for sale (see Note 2(25)). The estimated useful lives, residual values and depreciation rates of each class of fixed assets are as follows:

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

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

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

(14) Fixed assets *(continued)*

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

(d) Disposal of fixed assets

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

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

Gains or losses arising from the retirement or disposal of an item of fixed asset are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

(15) Construction in progress

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

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

(16) Borrowing costs

Borrowing costs incurred directly attributable to the acquisition or construction of a qualifying asset are capitalised as part of the cost of the asset.

Except for the above, other borrowing costs are recognised as financial expenses in the income statement when incurred.

During the capitalisation period, the amount of interest (including amortisation of any discount or premium on borrowing) to be capitalised in each accounting period is determined as follows:

- Where funds are borrowed specifically for the acquisition or construction of a qualifying asset, the amount of interest to be capitalised is the interest expense calculated using effective interest rates during the period less any interest income earned from depositing the borrowed funds or any investment income on the temporary investment of those funds before being used on the asset.

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

(16) Borrowing costs *(continued)*

- Where funds are borrowed generally and used for the acquisition or construction of a qualifying asset, the amount of interest to be capitalised on such borrowings is determined by applying a capitalisation rate to the weighted average of the excess amounts of cumulative expenditures on the asset over the above amounts of specific borrowings. The capitalisation rate is the weighted average of the interest rates applicable to the general-purpose borrowings.

The effective interest rate is determined as the rate that exactly discounts estimated future cash flow through the expected life of the borrowing or, when appropriate, a shorter period to the initially recognised amount of the borrowings.

During the capitalisation period, exchange differences related to the principal and interest on a specific-purpose borrowing denominated in foreign currency are capitalised as part of the cost of the qualifying asset. The exchange differences related to the principal and interest on foreign currency borrowings other than a specific-purpose borrowing are recognised as a financial expense in the period in which they are incurred.

The capitalisation period is the period from the date of commencement of capitalisation of borrowing costs to the date of cessation of capitalisation, excluding any period over which capitalisation is suspended. Capitalisation of borrowing costs commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities of acquisition, construction that are necessary to prepare the asset for its intended use are in progress, and ceases when the assets become ready for their intended use. Capitalisation of borrowing costs is suspended when the acquisition, construction activities are interrupted abnormally and the interruption lasts for more than three months.

(17) Intangible assets

Intangible assets are stated in the balance sheet at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see Note 2(19)). For an intangible asset with finite useful life, its cost less residual value and impairment loss is amortised on a straight-line basis over its estimated useful lives, unless the intangible asset is classified as held for sale (see Note 2(25)). The respective amortisation periods for such intangible assets are as follows:

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

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

(18) Long-term deferred expenses

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

Item	Amortisation period (years)
Catalyst	2-3

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

The carrying amounts of the following assets are reviewed at each balance sheet date based on the internal and external sources of information to determine whether there is any indication of impairment:

- fixed assets
- construction in progress
- intangible assets
- investment property measured using a cost model
- long-term equity investments in subsidiaries, associates and jointly controlled entities

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

The recoverable amount of an asset, asset group or set of asset groups is the higher of its fair value less costs to sell and its present value of expected future cash flows.

An asset group is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or asset groups. An asset group is composed of assets directly relating to cash-generation. Identification of an asset group is based on whether major cash inflows generated by the asset group are largely independent of the cash inflows from other assets or asset groups. In identifying an asset group, the Group also considers how management monitors the Group's operations and how management makes decisions about continuing or disposing of the Group's assets.

An asset's fair value less costs to sell is the amount determined by the price of a sale agreement in an arm's length transaction, less the costs that are directly attributable to the disposal of the asset. The present value of expected future cash flows of an asset is determined by discounting the future cash flows, estimated to be derived from continuing use of the asset and from its ultimate disposal, to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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

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

If the result of the recoverable amount calculation indicates the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is recognised as an impairment loss and charged to profit or loss for the current period. A provision for impairment loss of the asset is recognised accordingly. For impairment losses related to an asset group or a set of asset groups, first reduce the carrying amount of any goodwill allocated to the asset group or set of asset groups, and then reduce the carrying amount of the other assets in the asset group or set of asset groups on a pro rata basis. However, the carrying amount of an impaired asset will not be reduced below the highest of its individual fair value less costs to sell (if determinable), the present value of expected future cash flows (if determinable) and zero.

Once an impairment loss is recognised, it is not reversed in a subsequent period.

(20) Provisions

A provision is for an obligation related to a contingency if the Group has a present obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Where the effect of time value of money is material, provisions are determined by discounting the expected future cash flows.

(21) Revenue recognition

Revenue is the gross inflow of economic benefit arising in the course of the Group's ordinary activities when the inflows result in increase in shareholder's equity, other than increase relating to contributions from shareholders. Revenue is recognised in profit or loss when it is probable that the economic benefits will flow to the Group, the revenue and costs can be measured reliably and the following respective conditions are met:

(a) Sale of goods

Revenue from sale of petroleum and chemical products is recognised when all of the general conditions stated above and the following conditions are satisfied:

- The significant risks and rewards of ownership of goods have been transferred to the buyer;
- The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable under the sales contract or agreement.

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

(21) Revenue recognition *(continued)*

(b) Rendering of services

The Group provides pipeline transportation services to customers. Revenue from rendering of services is measured at the fair value of the consideration received or receivable under the contract or agreement.

At the balance sheet date, where the outcome of a transaction involving the rendering of services can be estimated reliably, revenue from the rendering of services is recognised in the income statement by reference to the stage of completion of the transaction based on the proportion of services performed to date to the total services to be performed.

Where the outcome of rendering of services cannot be estimated reliably, if the costs incurred are expected to be recoverable, revenues are recognised to the extent of the costs incurred that are expected to be recoverable, and an equivalent amount is charged to profit or loss as service cost; if the costs incurred are not expected to be recoverable, the costs incurred are recognised in profit or loss and no service revenue is recognised.

(c) Interest income

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

(22) Employee benefits

Employee benefits are all forms of consideration given and other relevant expenditures incurred in exchange for services rendered by employees. Except for termination benefits, employee benefits are recognised as a liability in the period in which the associated services are rendered by employees, with a corresponding increase in cost of relevant assets or expenses in the current period.

(a) Pension benefits

Pursuant to the relevant laws and regulations of the PRC, the Group has joined a basic pension insurance for the employees arranged by local Labour and Social Security Bureaus. The Group makes contributions to the pension insurance at the applicable rates based on the amounts stipulated by the government organisation. The contributions are charged to capital cost or profit or loss on an accrual basis. When employees retire, the local Labour and Social Security Bureaus are responsible for the payment of the basic pension benefits to the retired employees.

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

(22) Employee benefits *(continued)*

(b) Housing fund and other social insurances

Besides the pension benefits, pursuant to the relevant laws and regulations of the PRC, the Group has joined defined social security contributions for employees, such as a housing fund, basic medical insurance, unemployment insurance, injury insurance and maternity insurance. The Group makes contributions to the housing fund and other social insurance mentioned above at the applicable rate(s) based on the employees' salaries. The contributions are recognised as cost of assets or charged to profit or loss on an accrual basis.

(c) Termination benefits

When the Group terminates the employment relationship with employees before the employment contracts have expired, or provides compensation as an offer to encourage employees to accept voluntary redundancy, a provision for the termination benefits provided, is recognised in profit or loss when both of the following conditions have been satisfied:

- The Group has a formal plan for the termination of employment or has made an offer to employees for voluntary redundancy, which will be implemented shortly;
- The Group is not allowed to withdraw from termination plan or redundancy offer unilaterally.

(23) Government grants

Government grants are transfers of monetary assets or non-monetary assets from the government to the Group at no consideration except for any capital contribution from the government as an investor in the Group. Special funds such as investment grants allocated by the government, if clearly defined in official documents as part of "capital reserve" are dealt with as capital contributions, and not regarded as government grants.

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

If a government grant is in the form of a transfer of a monetary asset, it is measured at the amount that is received or receivable. If a government grant is in the form of a transfer of a non-monetary asset, it is measured at its fair value.

A government grant related to an asset is recognised initially as deferred income and amortised to profit or loss on a straight-line basis over the useful life of the asset. A grant that compensates the Group for expenses to be incurred in the subsequent periods is recognised initially as deferred income and recognised in profit or loss in the same periods in which the expenses are recognised. A grant that compensates the Group for expenses incurred is recognised in profit or loss immediately.

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

(24) Deferred tax assets and liabilities

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases, which include the deductible losses and tax credits carried forward to subsequent periods. Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax is not recognised for the temporary differences arising from the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting profit nor taxable profit (or tax loss). Deferred tax is not recognised for taxable temporary differences arising from the initial recognition of goodwill.

At the balance sheet date, the amount of deferred tax recognised is measured based on the expected manner of recovery or settlement of the carrying amount of the assets and liabilities, using tax rates that are expected to be applied in the period when the asset is recovered or the liability is settled in accordance with tax laws.

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

At the balance sheet date, deferred tax assets and liabilities are offset if all the following conditions are met:

- the taxable entity has a legally enforceable right to offset current tax liabilities and assets, and
- they relate to income taxes levied by the same tax authority on either:
 - the same taxable entity; or
 - different taxable entities which intend either to settle the current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

(25) Assets held for sale

A non-current asset is classified as held for sale when the Group has made a decision and signed a non-cancellable agreement on the transfer of the asset with the transferee, and the transfer is expected to be completed within one year. Such non-current assets may be fixed assets, intangible assets, investment property subsequently measured using the cost model, long-term equity investment etc, but not include deferred tax assets. Non-current assets held for sale are stated at the lower of carrying amount and net realisable value. Any excess of the carrying amount over the net realisable value is recognised as impairment loss. At the balance sheet date, non-current assets held for sale are still presented under corresponding asset classification as they were before.

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

(26) Dividends appropriated to investors

Dividends or distributions of profits proposed in the profit appropriation plan which will be authorised and declared after the balance sheet date, are not recognised as a liability at the balance sheet date but disclosed in the notes separately.

(27) Related parties

If a party has the power to control, jointly control or exercise significant influence over another party, or vice versa, or where two or more parties are subject to common control or joint control from another party, they are considered to be related parties. Related parties may be individuals or enterprises. Enterprises with which the Company is under common control only from the State and that have no other related party relationships are not regarded as related parties of the Group. Related parties of the Group and the Company include, but are not limited to:

- (a) the Company's parent;
- (b) the Company's subsidiaries;
- (c) enterprises that are controlled by the Company's parent;
- (d) investors that have joint control or exercise significant influence over the Group;
- (e) enterprises or individuals if a party has control or joint control over both the enterprises or individuals and the Group;
- (f) jointly controlled enterprises of the Group, including subsidiaries of jointly controlled enterprises;
- (g) associates of the Group, including subsidiaries of associates;
- (h) principal individual investors and close family members of such individuals;
- (i) key management personnel of the Group and close family members of such individuals;
- (j) key management personnel of the Company's parent;
- (k) close family members of key management personnel of the Company's parents and;
- (l) other enterprises that are controlled on jointly controlled by principal individual investors, key management personnel of the Group, and close family members of such individuals.

In addition to the related parties stated above determined in accordance with the requirements of CAS, the following enterprises and individuals are considered as (but not restricted to) related parties based on the disclosure requirements of Administrative Procedures on the Information Disclosures of Listed Companies issued by the CSRC:

- (m) enterprises or persons that act a concert, that hold 5% or more of the Company's shares;
- (n) individuals and close family members of such individuals who directly or indirectly hold 5% or more of the Company's shares;
- (o) enterprises that satisfy any of the aforesaid conditions in (a), (c) and (m) during the past 12 months or will satisfy them within the next 12 months pursuant to a relevant agreement;
- (p) individuals who satisfy any of the aforesaid conditions in (i), (j) and (n) during the past 12 months or will satisfy them within the next 12 months pursuant to a relevant agreement; and
- (q) enterprises, other than the Company and subsidiaries controlled by the Company, which are controlled directly or indirectly by an individual defined in (i), (j), (n) or (p), or in which such individual assumes the position of a director or senior executive.

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

(28) Segment reporting

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

- engage in business activities from which it may earn revenues and incur expenses;
- whose operating results are regularly reviewed by the Group's management to make decisions about resource to be allocated to the segment and assess its performance, and;
- for which financial information regarding financial position, results of operations and cash flows is available.

When the Group prepares the segment reporting, the sales of segments is based on actual transaction price. The accounting policy applied in segment reporting is consistent with the Group's financial statements.

(29) Significant accounting estimates and judgements

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

The selection of critical accounting policies, the judgements and other uncertainties affecting application of those policies and the sensitivity of results to changes in conditions and assumptions are factors to be considered when financial statements are read. The principal accounting policies are set forth in Note 2. Management believes the following critical accounting estimates involve the most significant judgements and estimates used in the preparation of the financial statements.

(a) Impairments for long-lived assets

If circumstances indicate that the net book value of a long-lived asset may not be recoverable, the asset may be considered "impaired", and an impairment loss may be recognised in accordance with "CAS 8 Impairment of Assets". Long-lived assets are reviewed for impairment at each balance sheet date or whenever events or changes in circumstance have indicated that their carrying amounts may not be recoverable. If any such indication exists, impairment loss is provided.

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

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

(a) Impairment for long-lived assets *(continued)*

The recoverable amount of an asset is the greater of its net selling price and its present value of expected future cash flows. Since the market price of part of the assets cannot be obtained reliably, the fair value of the assets cannot be estimated reliably. In assessing value in use, significant judgements are exercised over the asset's production, selling price, related operating expenses and discount rate to calculate the present value. All relevant materials which can be obtained are used for estimation of the recoverable amount, including the estimation of the production, selling price and related operating expenses based on reasonable and supportable assumptions.

(b) Depreciation

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

(c) Impairment for bad and doubtful debts

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

(d) Allowance for diminution in value of inventories

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

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

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

(e) Recognition of deferred tax assets

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

In making the assessment of whether it is probable the Group will realise or utilise the deferred tax assets, management primarily relies on the generation of future pre-taxable income to support the recognition of deferred tax assets. In order to fully utilise the deferred tax assets recognised at 30 June 2011, the Group would need to generate future taxable income of at least RMB 1,602 million, of which RMB 793 million is required to be generated by 2013, prior to the expiration of the unused tax losses. Based on estimated forecast and historical experience, management believes that it is probable that the Group will generate sufficient pre-tax income before the unused tax losses expire.

3. Taxation

(1) The types of taxes and tax rate

The type of taxes	Tax base	Tax rate
Value added tax ("VAT")	Taxable VAT income(VAT payable is calculated at the applicable tax rate on taxable income deducted by input VAT)	13%,17%
Consumption tax	Income entitled to consumption tax	Gasoline: RMB 1,388 per ton; diesel oil: RMB 940.8 per ton.
Business tax	Income entitled to business tax	5%
City maintenance and construction tax	Actual payments of consumption, business tax and VAT during the year	7%
Income tax	Taxable income	25%

The applicable income tax rate for the Company and its subsidiaries is 25% (2010: 25%).

94 **4. Business combination and consolidated financial statements**

(1) Principal subsidiaries

At 30 June 2011, all principal subsidiaries of the Company included in the consolidated financial statements came into existence through establishment, details are as follows:

Expressed in thousands of RMB/USD

Names of enterprise	Company type	Registered place	Business nature	Registered capital	Principal activities	Amounts of the Company's capital contributions at the period end	Interest that in substance form part of the Company's net investment	Direct and indirect percentage of equity held (%)	Direct and indirect percentage of voting power (%)	Within consolidation scope	Minority interests at the period end	Losses attributable to minority shareholders during the period
Shanghai Petrochemical Investment Development Company Ltd.	Limited company	Shanghai	Investment	RMB800,000	Investment management	1,338,456	-	100	100	Yes	-	-
China Jinshan Associated Trading Corporation	Limited company	Shanghai	Trading	RMB25,000	Import and export of petrochemical products and equipment	16,832	-	67.33	67.33	Yes	41,653	-
Shanghai Jinchang Engineering Plastics Company Ltd.	Limited company	Shanghai	Manufacturing	USD9,153.8	Production of polypropylene compound products	75,832	-	74.25	74.25	Yes	28,701	-
Shanghai Golden Phillips Petrochemical Company Ltd.	Limited company	Shanghai	Manufacturing	USD50,000	Production of polypropylene products	249,374	-	60	60	Yes	175,081	-
Zhejiang Jinyong Acrylic Fibre Company Ltd.	Limited company	Ningbo, Zhejiang	Manufacturing	RMB250,000	Production of acrylic fibre products	227,500	-	75	75	Yes	-	-
Shanghai Golden Conti Petrochemical Company Ltd.	Limited company	Shanghai	Manufacturing	RMB545,776	Production of petrochemical products	545,776	-	100	100	Yes	-	-

5. Notes to the consolidated financial statements

(1) Cash at bank and on hand

Expressed in thousands of RMB/USD/HKD/CHF

Items	At 30 June 2011			At 31 December 2010		
	Original currency	Exchange rate	RMB/RMB equivalents	Original currency	Exchange rate	RMB/RMB equivalents
Cash on hand:						
RMB	—	—	124	—	—	105
Deposits with banks:						
RMB	—	—	322,015	—	—	86,967
HKD	14,164	0.8316	11,779	13,772	0.8509	11,719
USD	344	6.4716	2,226	68	6.6227	449
Other monetary funds:(Note)						
RMB	—	—	19	—	—	40
CHF	109	7.7655	843	118	7.0562	830
Total	—	—	337,006	—	—	100,110

Note: Other monetary funds represent deposits for credit cards.

(2) Bills receivable

(a) Bills receivable by category

Expressed in thousands of Renminbi Yuan

Items	At 30 June 2011	At 31 December 2010
Bank acceptance bills	2,195,572	2,023,638
Commercial acceptance bills	17,943	19,855
Total	2,213,515	2,043,493

All of the above bills held are short-term acceptance bills, due within six months. No bills receivables, included in the above, were pledged or transferred to accounts receivable due to non-performance of the issuers in the six-month period ended 30 June 2011.

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

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

(2) Bills receivable *(continued)*

- (b) At 30 June 2011, the Group's discounted bank bills (with recourse) amounted to RMB 38,624,000 (31 December 2010: RMB 107,314,000).

At 30 June 2011, the Group's discounted commercial bills amounted to RMB nil (31 December 2010: RMB nil).

- (c) At 30 June 2011, the Group's endorsed bills which are still undue amounted to RMB 74,925,000 (31 December 2010: RMB 83,864,000).

The five largest bills receivable that have been endorsed but still undue are as follows:

Expressed in thousands of Renminbi Yuan

Issuer	Date of issuance	Due date	Amount	Note
1. Zhejiang Hailide New Material Company Limited	26/04/2011	26/07/2011	10,000	Bank acceptance bills
2. Jiangsu Yingxiang Synthetic Fibre Company Limited	12/05/2011	11/08/2011	7,000	Bank acceptance bills
3. Zhejiang Wankai New Material Company Limited	10/06/2011	10/09/2011	6,713	Bank acceptance bills
4. Fujian Baikai Jinbian Industrial Company Limited	11/03/2011	11/09/2011	5,000	Bank acceptance bills
5. Hangzhou Siyuan Synthetic Fibre Company Limited	16/06/2011	16/09/2011	3,000	Bank acceptance bills
Total			31,713	

At 30 June 2011, the Group's endorsed commercial bills amounted to RMB nil (31 December 2010: RMB nil).

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

(3) Accounts receivable

(a) Accounts receivable by customer type

Expressed in thousands of Renminbi Yuan

Type	Note	At 30 June 2011	At 31 December 2010
Amounts due from related parties	6(6)	786,409	677,742
Amounts due from third parties		162,958	82,030
Less: provision for bad and doubtful debts		-7,479	-7,837
Total		941,888	751,935

(b) Accounts receivable by ageing

Expressed in thousands of Renminbi Yuan

Type	At 30 June 2011	At 31 December 2010
Within one year (inclusive)	940,819	751,023
Between one and two years (inclusive)	1,137	1,278
Between two and three years (inclusive)	683	11
Over three years	6,728	7,460
Less: provision for bad and doubtful debts	-7,479	-7,837
Total	941,888	751,935

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

(c) Accounts receivable by categories

Expressed in thousands of Renminbi Yuan

Category	At 30 June 2011				At 31 December 2010			
	Gross carrying amount		Bad debt provision		Gross carrying amount		Bad debt provision	
	Amount	Percentage(%)	Amount	Percentage(%)	Amount	Percentage(%)	Amount	Percentage(%)
Accounts receivable collectively assessed for impairment								
Within one year	940,819	99.10	-	-	751,023	98.85	-	-
Between one and two years	1,137	0.12	344	30.26	1,278	0.17	370	28.95
Between two and three years	683	0.07	407	59.59	11	0.00	7	63.64
Over three years	6,728	0.71	6,728	100.00	7,460	0.98	7,460	100.00
Total	949,367	100.00	7,479	-	759,772	100.00	7,837	-

There are no guarantees for the accounts receivable with bad debt provision.

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

(3) Accounts receivable *(continued)*

(c) Accounts receivable by categories: *(continued)*

During the period, the Group assessed the impairment on an individual basis in accordance with Note 2 (10), and there were no individually significant or insignificant accounts receivable with bad debt provision provided for; the Group had no individually significant write off or write back of bad debts which had been fully or substantially provided for in prior years. At 30 June 2011, the Group had no individually significant accounts receivable that aged over three years.

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

Expressed in thousands of Renminbi Yuan

Name	Relationship with the Company	Amount	Ageing	Percentage of total accounts receivable(%)
Sinopec Huadong Sales Company Limited	Subsidiary of Sinopec Corp	389,360	Due within one year	41.01
Sinopec Corp Chemical Products Sales Branch	Branch of Sinopec Corp	199,412	Due within one year	21.01
Sinopec Yizheng Chemical Fibre Company Limited	Subsidiary of Sinopec Corp	83,106	Due within one year	8.75
Shanghai Secco Petrochemical Company Limited	Associate	60,653	Due within one year	6.39
Bayer Material Science (China) Company Limited	Third party	45,843	Due within one year	4.83
Total		778,374		81.99

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

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

(4) Prepayments

(a) Prepayments by category:

Expressed in thousands of Renminbi Yuan

Items	Note	At 30 June 2011	At 31 December 2010
Prepayments to related parties	6(6)	45,605	31,589
Prepayments to third parties		157,005	115,276
Total		202,610	146,865

(b) All prepayments are aged within one year.

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

Expressed in thousands of Renminbi Yuan

Company's name	Relationship with the Company	Amount	Percentage of total prepayments(%)	Ageing	Reason for unsettled account
Sinochem Xinzhong Oil Staging (Zhoushan) Company Limited	Third Party	123,894	61.15	Due within one year	Prepayments for goods
China International United Petroleum and Chemical Company Ltd Ningbo Branch	Subsidiary of Sinopec Corp	41,730	20.60	Due within one year	Prepayments for goods
Shanghai Natural Gas Pipeline Networks Company Limited	Third Party	25,650	12.66	Due within one year	Prepayments for goods
Hangzhou Steam Turbine Mechanic Company Limited	Third Party	2,250	1.11	Due within one year	Prepayments for goods
Beijing Hangtian Petrochemical Equipment Company Limited	Third Party	1,170	0.58	Due within one year	Prepayments for goods
Total		194,694	96.10		

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

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

(5) Dividends receivable

Expressed in thousands of Renminbi Yuan

Items	At 1 January 2011	Additions	Decreases	At 30 June 2011
Dividends receivable due within one year	5,042	521,149	-526,191	-
-Shanghai Secco Petrochemical Company Limited	5,042	488,096	-493,138	-

No amount due from shareholders who hold 5% or more of the voting rights of the Company is included in the above balance of dividends receivable.

(6) Other receivables

(a) Other receivables by customer type:

Expressed in thousands of Renminbi Yuan

Type	Note	At 30 June 2011	At 31 December 2010
Amounts due from related parties	6(6)	10,676	11,641
Amounts due from third parties		51,239	50,646
Less: provision for bad and doubtful debts		-3,843	-4,102
Total		58,072	58,185

(b) Other receivables by ageing:

Expressed in thousands of Renminbi Yuan

Type	At 30 June 2011	At 31 December 2010
Within one year (inclusive)	57,977	57,782
Between one and two years(inclusive)	107	416
Between two and three years (inclusive)	50	50
Over three years	3,781	4,039
Less: provision for bad and doubtful debts	-3,843	-4,102
Total	58,072	58,185

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

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

(6) Other receivables *(continued)*

(c) Other receivables by category:

Expressed in thousands of Renminbi Yuan

Category	At 30 June 2011				At 31 December 2010			
	Gross carrying amount		Bad debt provision		Gross carrying amount		Bad debt provision	
	Amount	Percentage(%)	Amount	Percentage(%)	Amount	Percentage(%)	Amount	Percentage(%)
Other receivables collectively assessed for impairment								
Within one year	57,977	93.64	-	-	57,782	92.77	-	-
Between one and two years	107	0.17	32	29.91	416	0.67	125	30.05
Between two and three years	50	0.08	30	60.00	50	0.08	30	60.00
Over three years	3,781	6.11	3,781	100.00	4,039	6.48	3,947	97.72
Total	61,915	100.00	3,843	—	62,287	100.00	4,102	—

During the period, the Group assessed the impairment on an individual basis in accordance with the accounting policy as described in Note 2 (10), and there are no individually significant or insignificant other receivables with bad debt provision provided for; the Group had no individually significant write off or write back of bad debts which had been fully or substantially provided for in prior years. At 30 June 2011, the Group had no individually significant other receivables that aged over three years.

(d) Other receivables due from the five largest customers are as follows:

Expressed in thousands of Renminbi Yuan

Company's name	Relationship with the Company	Amount	Ageing	Percentage of total other receivables(%)
1. Jinshan Customs	Third party	14,203	Due within one year	22.94
2. BOC-SPC Gases Company Limited	Jointly controlled enterprise	8,007	Due within one year	12.93
3. Shanghai Yali Development Company Limited	Third Party	6,450	Due within one year	10.42
4. Shanghai Jinshan Petrochemical Logistics Company Limited	Third Party	4,582	Due within one year	7.40
5. Shanghai Bozhan Industry Company Limited	Third Party	1,188	Due within one year	1.92
Total		34,430		55.61

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

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

(7) Inventories

(a) Inventories by category

Expressed in thousands of Renminbi Yuan

Items	At 30 June 2011			At 31 December 2010		
	Cost	Provision for diminution in value	Carrying amount	Cost	Provision for diminution in value	Carrying amount
Raw materials	5,389,813	663	5,389,150	2,602,962	663	2,602,299
Work in progress	2,174,425	-	2,174,425	1,417,789	-	1,417,789
Finished goods	1,103,760	40,773	1,062,987	877,889	36,639	841,250
Spare parts and consumables	547,512	189,128	358,384	555,623	64,660	490,963
Total	9,215,510	230,564	8,984,946	5,454,263	101,962	5,352,301

All the above inventories are purchased or self-manufactured.

(b) The movement of inventories during the period is analysed as follows

Expressed in thousands of Renminbi Yuan

Items	At 1 January 2011	Increases	Decreases	At 30 June 2011
Raw materials	2,602,962	44,034,903	-41,248,052	5,389,813
Work in progress	1,417,789	43,842,074	-43,085,438	2,174,425
Finished goods	877,889	43,085,438	-42,859,567	1,103,760
Spare parts and consumables	555,623	135,480	-143,591	547,512
Sub-total	5,454,263	131,097,895	-127,336,648	9,215,510
Less: provision for diminution in value of inventories	-101,962	-146,646	18,044	-230,564
Carrying amount	5,352,301	130,951,249	-127,318,604	8,984,946

(c) Provision for diminution in value of inventories

Expressed in thousands of Renminbi Yuan

Items	At 1 January 2011	Provision	Decreases	At 30 June 2011
			Write-off	
Raw materials	663	-	-	663
Finished goods	36,639	22,178	-18,044	40,773
Spare parts and consumables	64,660	124,468	-	189,128
Total	101,962	146,646	-18,044	230,564

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

(8) Other current assets

Expressed in thousands of Renminbi Yuan

Items	Note	At 30 June 2011	At 31 December 2010
Available-for-sale financial assets	(i)	700,000	-
Others	(ii)	83,998	73,910
Total		783,998	73,910

- (i) The Group purchased an investment fund from a PRC state-owned bank with a carrying amount of RMB 700,000,000 at 30 June 2011 (31 December 2010: RMB nil). The fund mainly invests in debt and equity securities.
- (ii) As at 30 June 2011 and 31 December 2010, the balance of others includes deductible value added tax and long-term deferred expense within one year.

(9) Long-term receivable

Expressed in thousands of Renminbi Yuan

Item	At 30 June 2011	At 31 December 2010
Entrusted loans	-	30,000

(10) Long-term equity investments

- (a) Long-term equity investments by category

Expressed in thousands of Renminbi Yuan

	Interests in associates	Interests in jointly controlled enterprises	Sub-total	Provision for impairment losses	Carrying amount
Balance at 1 January 2011	3,408,114	118,176	3,526,290	-	3,526,290
Share of profit from investments accounted for under equity method	157,923	19,641	177,564	-	177,564
Dividends receivable/ received	-497,149	-24,000	-521,149	-	-521,149
Balance at 30 June 2011	3,068,888	113,817	3,182,705	-	3,182,705

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

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

(b) Information about major associates and jointly controlled enterprises:

Expressed in thousands of Renminbi Yuan/USD

Name of investee	Company type	Investment cost	Registered place	Balance at 1 January 2011	Movement during the period	Balance at 30 June 2011	Legal representative	Business Scope	Registered capital	Effective shareholding percentage (%)	Effective voting right (%)	Total assets at period end	Total liabilities at period end	Net assets at period end	Total revenue during the period	Net profit during the period
1, Equity method-jointly controlled enterprises																
BOC-SPC Gases Company Limited*	Limited company	RMB 127,992	Shanghai	118,176	-4,359	113,817	Xu Zhongwei	Production and sales of industrial gases	USD32,000	50	50	555,707	257,736	297,971	214,676	36,163
2, Equity method-associates																
Shanghai Chemical Industry Park Development Company Limited*	Limited company	RMB 907,770	Shanghai	1,057,164	30,410	1,087,574	Rong Guangdao	Planning, development and operation of the Chemical Industry Park in Shanghai	RMB2,372,439	38.26	38.26	6,585,123	3,644,025	2,941,098	2,945	66,761
Shanghai Secco Petrochemical Company Limited*	Limited company	RMB 1,488,718	Shanghai	2,047,646	-389,531	1,658,115	Jeanne Marie Johns	Manufacturing and distribution of chemical products	USD901,441	20	25	16,290,195	7,977,999	8,312,196	15,765,936	509,739
Shanghai Jinsen Hydrocarbon Resins Company Limited	Limited company	RMB 77,503	Shanghai	62,143	15,415	77,558	Sun Xiaofeng	Production of resin products	USD23,395	40	40	211,069	14,720	196,349	182,667	39,822
Shanghai Jinpu Plastic Packaging Material Company Limited	Limited company	RMB 83,879	Shanghai	87,452	975	88,427	Xu Zhongwei	Production of polypropylene film	USD20,204	50	50	203,346	26,678	176,668	170,596	1,714
Shanghai Azbil Automation Company Limited	Limited company	RMB 9,776	Shanghai	60,171	819	60,990	Lu Zhishang	Service and maintenance of building automation systems and products	USD3,000	40	40	218,735	61,115	157,620	114,712	16,850
Others				93,538	2,686	96,224						335,828	78,626	257,202	657,545	15,626
Total				3,526,290	-343,585	3,182,705						24,400,003	12,060,899	12,339,104	17,109,077	686,675

* Represents associates/jointly controlled enterprises of the Company

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

(11) Investment property

Expressed in thousands of Renminbi Yuan

Items	At 1 January 2011	Additions	Decreases	At 30 June 2011
1. Original cost	546,412	-	-	546,412
2. Accumulated depreciation	80,607	6,625	-	87,232
3. Net book value	465,805			459,180
4. Provision for impairment	-	-	-	-
5. Carrying amount	465,805			459,180

The investment property of the Group represents buildings.

Depreciation charged for the period amounted to RMB 6,625,000 (Six-month period ended 30 June 2010: RMB 6,629,000).

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

(12) Fixed assets

(a) Fixed assets:

Expressed in thousands of Renminbi Yuan

Items	Balance at 1 January 2011	Additions	Decreases	Balance at 30 June 2011
1, Original Cost:	38,899,867	75,310	-194,208	38,780,969
-Buildings	5,798,141	-	-656	5,797,485
-Plant and machinery	26,198,013	56,366	-157,237	26,097,142
-Vehicles and other equipment	6,903,713	18,944	-36,315	6,886,342
		Charge for the period		
2, Accumulated depreciation:	24,107,590	829,079	-181,641	24,755,028
-Buildings	3,652,613	71,929	-412	3,724,130
-Plant and machinery	15,621,135	611,379	-146,312	16,086,202
-Vehicles and other equipment	4,833,842	145,771	-34,917	4,944,696
3, Net book value:	14,792,277			14,025,941
-Buildings	2,145,528			2,073,355
-Plant and machinery	10,576,878			10,010,940
-Vehicles and other equipment	2,069,871			1,941,646
4, Provision for impairment losses:	990,093	10,552	-2,543	998,102
-Buildings	110,950	542	-	111,492
-Plant and machinery	802,273	8,629	-2,516	808,386
-Vehicles and other equipment	76,870	1,381	-27	78,224
5, Carrying amount:	13,802,184			13,027,839
-Buildings	2,034,578			1,961,863
-Plant and machinery	9,774,605			9,202,554
-Vehicles and other equipment	1,993,001			1,863,422

Depreciation charged for the period amounted to RMB 829,079,000 (Six-month period ended 30 June 2010: RMB 846,807,000).

Construction in progress amounting to RMB 21,724,000 (Six-month period ended 30 June 2010: RMB 189,451,000) was transferred to fixed assets during the period.

(b) At 30 June 2011 and 31 December 2010, the Group had no pledged fixed assets.

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

(12) Fixed assets *(continued)*

(c) Impairment losses

For the six-month period ended 30 June 2011

Impairment losses recognised on certain idle facilities of the intermediate petrochemicals segment were RMB 10,552,000 for the period ended 30 June 2011. These assets were tested for impairment in accordance with the Group's accounting policy described in Note 2(19) to the consolidated financial statements. The recoverable amounts of these production facilities were estimated based on their fair value less costs to sell, which were determined by reference to the recent observable market prices for similar assets within the same industry.

For the six-month period ended 30 June 2010

No impairment losses were recognised for the period ended 30 June 2010.

As at 30 June 2011, the carrying amount of assets prior to the impairment charge and the carrying value of the assets subsequent to the impairment charge by asset category for the period ended 30 June 2011 are presented as follows:

Expressed in thousands of Renminbi Yuan

Items	At 30 June 2011			
	Original Cost	Net book value before impairment	Impairment loss recognised	Net book value after impairment
-Buildings	3,363	647	-542	105
-Plant and machinery	114,303	12,145	-8,629	3,516
-Vehicles and other equipment	13,831	1,650	-1,381	269
Total	131,497	14,442	-10,552	3,890

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

(13) Construction in progress

(a) Construction in progress

Expressed in thousands of Renminbi Yuan

Projects	At 30 June 2011		
	Original Cost	Provision for impairment	Carrying amount
Refinery Renovation Project	971,905	-	971,905
Energy Saving and Upgrade Reconstruction on 2# Oxidation Unit	94,722	-	94,722
1500 ton/year PAN-based Carbon Fibre Project	122,625	-	122,625
Numerous small projects of Synthetic Fibres segment	71,125	-	71,125
Numerous small projects of Resins and Plastics segment	40,080	-	40,080
Numerous small projects of Intermediate Petrochemicals segment	130,680	-	130,680
Numerous small projects of Petroleum Products segment	56,101	-	56,101
Numerous small projects of all others	132,618	-	132,618
Total	1,619,856	-	1,619,856

Expressed in thousands of Renminbi Yuan

Projects	At 31 December 2010		
	Original Cost	Provision for impairment	Carrying amount
Refinery Renovation Project	714,513	-	714,513
Energy Saving and Upgrade Reconstruction on 2# Oxidation Unit	57,416	-	57,416
1500 ton/year PAN-based Carbon Fibre Project	56,055	-	56,055
Numerous small projects of Synthetic Fibres segment	64,018	-	64,018
Numerous small projects of Resins and Plastics segment	33,887	-	33,887
Numerous small projects of Intermediate Petrochemicals segment	112,999	-	112,999
Numerous small projects of Petroleum Products segment	40,917	-	40,917
Numerous small projects of all others	112,420	-	112,420
Total	1,192,225	-	1,192,225

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

(13) Construction in progress *(continued)*

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

Expressed in thousands of Renminbi Yuan

Projects	Budget	Balance at 1 January 2011	Additions	Transferred to fixed assets	Percentage of input to budget (%)	Project progress (%)	Accumulated capitalised interest	Including: capitalised interest for the period	Interest capitalisation rate(%)	Source of capital	Balance at 30 June 2011
Energy Saving and Upgrade Reconstruction on 2# Oxidation Unit	185,570	57,416	37,306	-	51.04	51.04	1,429	1,164	3.13-5.36	equity fund and loans	94,722
1500 ton/year PAN-based Carbon Fibre Project	847,794	56,055	66,570	-	14.46	14.46	1,460	1,460	3.13-5.36	equity fund and loans	122,625
Refinery Renovation Project	6,627,700	714,513	257,392	-	14.66	14.66	13,375	13,375	3.13-5.36	equity fund and loans	971,905
Numerous small projects of Synthetic Fibres segment	198,988	64,018	13,589	6,482	39.00	39.00	-	-	-	equity fund	71,125
Numerous small projects of Resins and Plastics segment	174,677	33,887	11,582	5,389	26.03	26.03	281	281	3.13-5.36	equity fund and loans	40,080
Numerous small projects of Intermediate Petrochemicals segment	831,573	112,999	18,721	1,040	15.84	15.84	-	-	-	equity fund	130,680
Numerous small projects of Petroleum Products segment	4,293,224	40,917	15,184	-	1.31	1.31	-	-	-	equity fund	56,101
Numerous small projects of all others	1,492,597	112,420	29,011	8,813	9.48	9.48	-	-	-	equity fund	132,618
Total	14,652,123	1,192,225	449,355	21,724	—	—	16,545	16,280	-		1,619,856

All the above projects were made out of equity fund and loans borrowed from financial institutions.

The capitalised borrowing costs included in the balances of construction in progress were RMB16,545,000 (31 December 2010: RMB 830,000). The interest rates per annum at which borrowing costs were capitalised for the period ended 30 June 2011 by the Group were 3.13%-5.36% (Six-month period ended 30 June 2010: 2.00%-3.25%).

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

(14) Intangible assets

Expressed in thousands of Renminbi Yuan

Items	Balance at 1 January 2011	Additions	Decreases	Balance at 30 June 2011
1, Cost	844,206	-	-	844,206
-Land use rights	748,867	-	-	748,867
-Other intangible assets	95,339	-	-	95,339
2, Accumulated amortisation	306,607	9,201	-	315,808
-Land use rights	255,168	7,742	-	262,910
-Other intangible assets	51,439	1,459	-	52,898
3, Net book value	537,599			528,398
-Land use rights	493,699			485,957
-Other intangible assets	43,900			42,441

Amortisation charged for the period amounted to RMB 9,201,000 (Six-month period ended 30 June 2010: RMB 9,786,000).

(15) Long-term deferred expenses

Long-term deferred expenses primarily represent catalysts expenditures with useful lives over one year.

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

(16) Deferred tax assets

- (a) Deferred tax assets or liabilities after offsetting each other and the deductible or taxable temporary differences are as follows:

Expressed in thousands of Renminbi Yuan

Items	At 30 June 2011		At 31 December 2010	
	Deductible/ (taxable) temporary differences	Deferred tax assets/ (liabilities)	Deductible/ (taxable) temporary differences	Deferred tax assets/ (liabilities)
Deferred tax assets:				
Provision for bad debt and inventories	190,058	47,514	62,073	15,518
Impairment losses on fixed assets	565,523	141,381	557,514	139,379
Contribution by fixed assets and sales of assets to a jointly controlled enterprise	35,024	8,756	36,777	9,194
Deductible tax losses	792,905	198,226	2,606,114	651,529
Specific reserve accrued	75,638	18,910	43,380	10,845
Other deferred tax assets	30,020	7,505	29,746	7,437
Sub-total	1,689,168	422,292	3,335,604	833,902
Offsetting	-87,508	-21,877	-93,790	-23,448
After offsetting	1,601,660	400,415	3,241,814	810,454
Deferred tax liabilities:				
Capitalisation of borrowing costs	-87,508	-21,877	-93,790	-23,448
Offsetting	87,508	21,877	93,790	23,448
After offsetting	-	-	-	-

- (b) The movement of deferred tax assets is as follows:

Expressed in thousands of Renminbi Yuan

Items	Balance at 1 January 2011	Current period changes charged to profit or loss	Current period changes recognised directly in equity	Balance at 30 June 2011
Deferred tax assets:				
Provision for bad debt and inventories	15,518	31,996	-	47,514
Impairment losses on fixed assets	139,379	2,002	-	141,381
Contribution by fixed assets and sales of assets to a jointly controlled enterprise	9,194	-438	-	8,756
Deductible tax losses	651,529	-453,303	-	198,226
Specific reserve accrued	10,845	8,065	-	18,910
Other deferred tax assets	7,437	68	-	7,505
Capitalisation of borrowing costs	-23,448	1,571	-	-21,877
Total	810,454	-410,039	-	400,415

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

(16) Deferred tax assets *(continued)*

(c) Deferred tax assets not recognised

Expressed in thousands of Renminbi Yuan

Items	Note	At 30 June 2011	At 31 December 2010
Impairment losses on fixed assets	(i)	432,579	432,579
Deductible tax losses	(ii)	474,387	452,443
Total		906,966	885,022

(i) In accordance with the accounting policy set out in Note 2(24), the Group has not recognised deferred tax assets in respect of impairment losses on fixed assets of RMB 432,579,000 (31 December 2010: RMB 432,579,000) as it is not probable that future taxable income against which the losses can be utilised will be available in a subsidiary of the Company, Zhejiang Jinyong Acrylic Fibre Company Limited (“Jinyong”).

(ii) In accordance with the accounting policy set out in Note 2(24), the Group has not recognised deferred tax assets in respect of cumulative tax losses of RMB 474,387,000 (31 December 2010: RMB 452,443,000) as it is not probable that future taxable profits against which the losses can be utilised will be available at Jinyong. The deductible tax losses will expire from 2011 to 2016 under current tax law.

(d) The tax losses with deferred tax assets not recognised will expire in the following years

Expressed in thousands of Renminbi Yuan

Year	At 30 June 2011	At 31 December 2010
2011	29,357	29,357
2012	68,548	68,548
2013	197,952	197,952
2014	107,292	107,292
2015	49,294	49,294
2016	21,944	-

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

(17) Movement of provision for impairment

Expressed in thousands of Renminbi Yuan

Items	Note	At 1 January 2011	Additions	Decreases		At 30 June 2011
				Reversal	Write-off	
1, Receivables	5(3),(6)	11,939	-	-617	-	11,322
2, Inventories	5(7)	101,962	146,646	-	-18,044	230,564
3, Fixed assets	5(12)	990,093	10,552	-	-2,543	998,102
Total		1,103,994	157,198	-617	-20,587	1,239,988

The reasons for corresponding impairment losses recognised during the period are set out in the respective notes of the relevant assets.

(18) Short-term loans

(a) Short-term loans by category

Expressed in thousands of Renminbi Yuan

Items	At 30 June 2011	At 31 December 2010
Credit loans		
-bank loans	4,317,516	2,885,438
-loans from related party	10,000	410,000
Total	4,327,516	3,295,438

At 30 June 2011, the weighted average interest rate of the Group's short-term loans was 3.96% (31 December 2010: 2.34%).

(b) At 30 June 2011 and 31 December 2010, the Group had no overdue short-term loans.

(19) Bills payable

Expressed in thousands of Renminbi Yuan

Items	At 30 June 2011	At 31 December 2010
Commercial acceptance bills	26,757	41,034
Bank acceptance bills	12,189	-
Total	38,946	41,034

The above bills are due within one year.

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

(20)Accounts payable

- (a) Accounts payable by category:

Expressed in thousands of Renminbi Yuan

Items	At 30 June 2011	At 31 December 2010
Related parties	4,668,491	1,721,244
Third parties	1,298,194	1,601,567
Total	5,966,685	3,322,811

At 30 June 2011, there are no significant accounts payable aged over one year.

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

(21)Advances from customers

- (a) Advances from customers by category:

Expressed in thousands of Renminbi Yuan

Items	At 30 June 2011	At 31 December 2010
Related parties	12,985	35,023
Third parties	500,406	774,885
Total	513,391	809,908

At 30 June 2011, there are no significant advances from customers aged over one year.

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

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

(22) Employee benefits payable

Expressed in thousands of Renminbi Yuan

Items	At 1 January 2011	Additions	Decreases	At 30 June 2011
1. Salaries, bonuses and allowances	5,060	655,469	-555,469	105,060
2. Staff welfare fees	-	27,417	-27,417	-
3. Social insurances	664	228,579	-196,345	32,898
Including: 1) Medical insurance premium	215	62,666	-52,210	10,671
2) Basic pension insurance premium	395	114,322	-95,157	19,560
3) Unemployment insurance premium	36	10,457	-8,715	1,778
4) Staff and workers' injury insurance premium	9	2,626	-2,190	445
5) Maternity insurance premium	9	2,631	-2,196	444
6) Supplementary medical insurance premium	-	227	-227	-
7) Complementary pension insurance premium	-	29,500	-29,500	-
8) Other insurance premium	-	6,150	-6,150	-
4. Housing fund	-	33,989	-33,989	-
5. Termination benefits (including early retirement)	-	1,158	-1,158	-
6. Others	3,196	134,208	-130,859	6,545
Total	8,920	1,080,820	-945,237	144,503

At 30 June 2011, no amount in arrears was included in the balance of the employee benefits payable.

At 30 June 2011, labour union fee and staff and workers' education fee amounting to RMB 2,887,000 (31 December 2010: RMB 157,000), and non-monetary welfare amounting to RMB nil (31 December 2010: RMB nil) were included in the above balance of "others".

The balance of employee benefits payable as at 30 June 2011 is expected to be fully distributed or utilised in the second half year of 2011.

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

(22) Employee benefits payable *(continued)*

As stipulated by the regulations of the PRC, the Group participates in a defined contribution retirement plan organised by the Shanghai Municipal Government for its staff. From 1 August 2004, the Group is required to make contributions to the retirement plan at a rate of 22% of the salaries, bonuses and certain allowances of its staff in 2011 (2010: 22%).

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

A member of the above plans is entitled to a pension amount equal to a fixed proportion of the salary prevailing at his or her retirement date. The Group has no other material obligation for the payment of pension benefits associated with these plans beyond the annual contributions described above. For the period ended 30 June 2011, the Group's contribution to the above two plans amounted to RMB 114,322,000 and RMB 29,500,000 respectively (Six-month period ended 30 June 2010: RMB 101,797,000 and RMB 22,898,000 respectively).

In accordance with the Group voluntary employee reduction plan, the Group recorded employee reduction expenses of RMB 1,158,000 (Six-month period ended 30 June 2010: RMB 1,123,000) during the period ended 30 June 2011, in respect of the voluntary resignation of approximately 50 employees (Six-month period ended 30 June 2010: 34 employees).

(23) Taxes payable

Expressed in thousands of Renminbi Yuan

Items	At 30 June 2011	At 31 December 2010
Value added tax	352,738	446,997
Business tax	1,059	2,086
Income tax	4,345	15,983
Consumption tax	461,014	458,600
Education surcharge	40,622	26,854
City maintenance and construction tax	56,859	62,632
Others	36,924	28,902
Total	953,561	1,042,054

(24) Interest payable

Expressed in thousands of Renminbi Yuan

Items	At 30 June 2011	At 31 December 2010
Interest payable of interest due instalments of long-term loans	429	461
Interest payable of corporate bonds	-	17,440
Interest payable of short-term loans	7,218	6,652
Total	7,647	24,553

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

(25) Dividends payable

Expressed in thousands of Renminbi Yuan

Company's name	At 30 June 2011	At 31 December 2010	Reasons for unpaid for over one year
Sinopec Corp	400,000	-	—
Phillips Petroleum International Investment Company	14,401	-	—
Others	320,000	15,490	—
Total	734,401	15,490	—

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

(26) Other payables

(a) Other payables by category:

Expressed in thousands of Renminbi Yuan

Items	At 30 June 2011	At 31 December 2010
Related parties	35,455	44,724
Third parties	834,165	790,056
Total	869,620	834,780

Other payables mainly represent construction fee payables.

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

(c) At 30 June 2011, there are no significant other payables aged over one year.

(27) Short-term debentures payable

Expressed in thousands of Renminbi Yuan

Item	At 30 June 2011	At 31 December 2010
Short-term debentures payable	-	1,000,000

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

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

(28) Non-current liabilities due within one year

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

Expressed in thousands of Renminbi Yuan

Items	At 30 June 2011	At 31 December 2010
Current portion of long-term loans	100,000	100,000
Others	-	78,237
Total	100,000	178,237

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

Expressed in thousands of Renminbi Yuan

Item	At 30 June 2011	At 31 December 2010
Credit loans	100,000	100,000

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

Expressed in thousands of Renminbi Yuan

Creditors	Starting date	Ending date	Currency	Annual Interest rate (%)	At 30 June 2011	At 31 December 2010
1. China Construction Bank, Jinshan Branch	2008.11.27	2011.11.25	RMB	5.103	50,000	50,000
2. China Construction Bank, Jinshan Branch	2008.12.25	2011.11.25	RMB	5.103	50,000	50,000
Total					100,000	100,000

(29) Long-term loans

(a) Long-term loans by category

Expressed in thousands of Renminbi Yuan

Item	At 30 June 2011	At 31 December 2010
Credit loans	175,000	175,000

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

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

(b) As at 30 June 2011, long-term loans were as follows:

Expressed in thousands of Renminbi Yuan

Creditors	Starting date	Maturity date	Currency	Annual Interest rate (%)	At 30 June 2011	At 31 December 2010
Industry and Commercial Bank of China, Jinshan Branch	2008.11.27	2013.11.25	RMB	5.364	75,000	75,000
Industry and Commercial Bank of China, Jinshan Branch	2008.12.25	2013.11.25	RMB	5.364	100,000	100,000
Total					175,000	175,000

(30) Other non-current liabilities

Expressed in thousands of Renminbi Yuan

Item	At 30 June 2011	At 31 December 2010
Deferred income	253,296	236,986

Government grants related to assets are recognised initially as deferred income and amortised to profit or loss on a straight-line basis over the useful life of the assets. For the six-month period ended 30 June 2011, the Group received the government grants related to an asset amounting to RMB 21,550,000 (2010: RMB 39,336,000), which mainly comprised of grants for research and development and environment protection.

(31) Share capital

Expressed in thousands of Renminbi Yuan

Items	At 1 January 2011	At 30 June 2011
(1) Non-circulating Shares:		
- Domestic legal persons shares	4,150,000	4,150,000
(2) Circulating Shares:		
- RMB ordinary A shares listed in PRC	720,000	720,000
- Foreign investment H shares listed overseas	2,330,000	2,330,000
Total	7,200,000	7,200,000

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

(31) Share capital *(continued)*

The Company was founded on 29 June 1993 with registered capital of RMB 4,000,000,000 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, Shanghai and Shenzhen 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 common A shares with a par value of RMB 1 each at an issuing price of RMB 2.4 each during the period from 5 April to 10 June 1994. These shares were listed on 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, 150 million H shares again were issued to overseas investors. By then, the total quantity of shares issued was expanded to 7.2 billion, including 2.33 billion H shares.

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

China Petrochemical & Chemical Corporation (“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 therefore the shares were changed to state-owned legal person shares in nature.

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

Capital verifications of the issued and paid up capital were performed by KPMG Huazhen. Capital verification reports were issued on 27 October 1993, 10 June 1994, 15 September 1996 and 20 March 1997 accordingly.

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

(32) Capital reserve

The capital reserve of the Group is analysed as follows:

Expressed in thousands of Renminbi Yuan

Items	At 1 January 2011	Additions	Decreases	At 30 June 2011
Share premium	2,420,841	-	-	2,420,841
Government grants	412,370	-	-	412,370
Refund of harbour construction charge	32,485	-	-	32,485
Others	49,067	-	-	49,067
Total	2,914,763	-	-	2,914,763

(33) Specific reserve

Expressed in thousands of Renminbi Yuan

Item	At 1 January 2011	Accrued	Utilised	At 30 June 2011
Safety production costs	46,748	56,800	-18,742	84,806

Specific reserve represents unutilised safety production costs accrued in accordance with state regulations.

(34) Surplus reserve

Expressed in thousands of Renminbi Yuan

Items	At 1 January 2011	Additions	At 30 June 2011
Statutory surplus reserve	3,800,800	-	3,800,800
Discretionary surplus reserve	1,280,514	-	1,280,514
Total	5,081,314	-	5,081,314

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

(35) Retained earnings

Expressed in thousands of Renminbi Yuan

Items	Note	At 30 June 2011	At 31 December 2010
Retained earnings at 1 January		2,670,215	462,029
Add: Net profit attributable to equity shareholders of the Company		1,381,533	2,703,734
Less: Appropriation to statutory surplus reserve		-	-279,548
Dividends payable to ordinary shares	(a)	-720,000	-216,000
Retained earnings at 30 June / 31 December	(b)	3,331,748	2,670,215

- (a) Dividends of ordinary shares attributed during the period.

For the six-month period ended 30 June 2011, the Company approved and declared the final dividend of RMB 0.10 per share totalling RMB 720,000,000 for the year ended 31 December 2010 (2010: RMB 216,000,000).

- (b) Notes on the ending balance of retained earnings

The surplus reserve attributable to the Company which were accrued by the subsidiaries during the period is RMB 10,505,000 (Six-month period ended 30 June 2010: RMB 9,667,000).

As at 30 June 2011, the consolidated retained earnings attributable to the Company included an appropriation of RMB 118,506,000 to surplus reserve made by the subsidiaries (31 December 2010: RMB 108,001,000).

(36) Operating income, operating costs

- (a) Operating income, operating costs

Expressed in thousands of Renminbi Yuan

Items	Six-month period ended 30 June	
	2011	2010
Income from principal operations	49,295,528	35,973,454
Income from other operations	229,464	177,976
Sub-total	49,524,992	36,151,430
Operating costs	43,007,104	30,821,820

Operating income represents sales of products after deduction of VAT.

- (b) The Group mainly operates in petrochemical industry.
- (c) For operating income and operating costs by product, see note 9(1).

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

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

(d) Revenue from sales to the five largest customers for the six-month period ended 30 June 2011 is set out as follows:

Expressed in thousands of Renminbi Yuan

Customers	Operating income	Percentage of total operating income(%)
1. Sinopec Huadong Sales Company Limited	18,867,720	38.10
2. China Petroleum & Chemical Corporation	6,464,287	13.05
3. Sinopec Yizheng Chemical Fibre Company Limited	860,211	1.74
4. Shanghai Secco Petrochemical Company Limited	835,037	1.68
5. Oriental Petrochemical (Shanghai) Corporation	787,450	1.59
Total	27,814,705	56.16

(37) Business taxes and surcharges

Expressed in thousands of Renminbi Yuan

Items	Six-month period ended 30 June		Tax base
	2011	2010	
Consumption tax	2,657,270	2,107,283	In accordance with the relevant tax regulation, with effect from 1 January 2009, consumption tax rate for sale of gasoline and diesel oil have been adjusted to RMB 1,388 per ton and RMB 940.8 per ton respectively.
Business tax	3,315	2,427	5% of income entitled to business tax
City maintenance and construction tax	288,839	238,225	7% of consumption tax, VAT and business tax paid
Education surcharge and others	206,229	102,152	5% of consumption tax, VAT and business tax paid (2010: 3%)
Total	3,155,653	2,450,087	—

(38) Selling expenses

Expressed in thousands of Renminbi Yuan

Items	Six-month period ended 30 June	
	2011	2010
Transportation fee	162,189	104,033
Agency fee	103,970	84,096
Storage and logistics expenses	22,631	32,576
Staff costs	20,764	19,245
Others	25,891	15,634
Total	335,445	255,584

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

(39) Administrative expenses

Expressed in thousands of Renminbi Yuan

Items	Six-month period ended 30 June	
	2011	2010
Repair and maintenance fee	523,025	390,772
Staff costs	405,480	320,543
Depreciation and amortisation	50,206	48,559
Tax	66,889	37,767
Administrative expenses	41,197	34,143
Security and fire prevention fee	31,734	25,950
Research and development costs	25,138	7,014
IT system maintenance fee	3,014	2,723
Others	96,845	90,623
Total	1,243,528	958,094

(40) Financial expenses (“-” represents income)

Expressed in thousands of Renminbi Yuan

Items	Six-month period ended 30 June	
	2011	2010
Interest expenses from loans and payables	133,451	147,130
Less: Borrowing costs capitalised	-16,280	-811
Interest income from deposits and receivables	-42,874	-17,266
Net foreign exchange gain	-94,585	-20,403
Others	6,156	8,062
Total	-14,132	116,712

(41) Impairment losses (“-” represents reversals)

Expressed in thousands of Renminbi Yuan

Items	Six-month period ended 30 June	
	2011	2010
1. Receivables	-617	-1,145
2. Inventories	146,646	48,499
3. Fixed assets	10,552	-
Total	156,581	47,354

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

(42) Investment income

(a) Investment income by category

Expressed in thousands of Renminbi Yuan

Items	Note	Six-month period ended 30 June	
		2011	2010
Long-term equity investments income accounted for under the equity method	(b)	177,564	385,633
Gain on disposal of available-for-sale financial assets	5(47)	-	215
Total		177,564	385,848

(b) Long-term equity investments whose individual income under the equity method is more than 5% of profit before income tax, or less than 5% but one of the five largest:

Expressed in thousands of Renminbi Yuan

Investees	Six-month period ended 30 June	
	2011	2010
Shanghai Secco Petrochemical Company Limited(Note)	98,565	326,463
Shanghai Chemical Industrial Park Development Company Limited	30,410	33,483
BOC-SPC Gases Company Limited	19,641	17,461
Shanghai Jinsen Hydrocarbon Resins Company Limited	15,415	3,235
Shanghai Azbil Automation Company Limited	7,619	4,500
Total	171,650	385,142

Note: For the period ended 30 June 2011, the decrease of investment income from long-term equity investments under the equity method of the Group was attributed by the decrease of profit after tax of Shanghai Secco Petrochemical Company Limited.

There are no severe restrictions on the investee's ability to transfer investment income to the Group.

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

(43) Non-operating income

(a) Non-operating income by category:

Expressed in thousands of Renminbi Yuan

Items	Note	Six-month period ended 30 June	
		2011	2010
Gain on disposal of non-current assets		1,935	785
Include: Gain on disposal of fixed assets		1,935	785
Government grants	(b)	5,240	5,000
Penalty income		11	2,084
Others		1,477	5,489
Total		8,663	13,358
Amount recognised in non-recurring items		8,663	13,358

(b) Government grants in details:

Expressed in thousands of Renminbi Yuan

Item	Six-month period ended 30 June	
	2011	2010
Amortisation of deferred income	5,240	5,000

(44) Non-operating expenses

Expressed in thousands of Renminbi Yuan

Items	Six-month period ended 30 June	
	2011	2010
Loss on disposal of fixed assets	9,133	4,678
Others	12,102	13,781
Total	21,235	18,459
Amount recognised in non-recurring items	21,235	18,459

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

(45) Income tax expense

Expressed in thousands of Renminbi Yuan

Items	Note	Six-month period ended 30 June	
		2011	2010
Income tax expense for the period, calculated in accordance with tax laws and related regulations		8,291	5,303
Deferred taxation		410,039	383,790
Over provision for income tax expense in prior years		-436	-139
Total	(a)	417,894	388,954

(a) Reconciliation between income tax expense and accounting profit is as follows:

Expressed in thousands of Renminbi Yuan

Items	Six-month period ended 30 June	
	2011	2010
Profit before income tax	1,805,805	1,882,526
Expected income tax expense at a rate of 25% (2010: 25%)	451,451	470,632
Add: Tax effect of non-deductible expenses	2,657	3,098
Tax effect of non-taxable income	-	-225
Over provision for income tax expense in prior years	-436	-139
Tax effect of share of profit recognised under the equity method	-44,391	-96,408
Tax effect of unused tax losses not recognised	5,486	6,053
Others	3,127	5,943
Income tax expense	417,894	388,954

(46) Calculation of basic and diluted earnings per share

(a) Basic earnings per share:

Basic earnings per share is calculated by dividing the consolidated net profit attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding:

Expressed in thousands of Renminbi Yuan

Items	Six-month period ended 30 June	
	2011	2010
Consolidated net profit attributable to ordinary shareholders of the Company	1,381,533	1,493,930
Weighted average number of the Company's ordinary shares outstanding ('000)	7,200,000	7,200,000
Basic earnings per share (RMB/Share)	0.192	0.207

(b) Diluted earnings per share:

As there are no diluted ordinary shares outstanding, the diluted earnings per share equals the basic earnings per share.

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

(47) Other comprehensive income (“-” represents loss)

Expressed in thousands of Renminbi Yuan

Items	Six-month period ended 30 June	
	2011	2010
Unrealised income of available-for-sale financial assets	-	215
Reclassification adjustment for gain on disposal of available-for-sale financial assets transferred to profit or loss	-	-215
Total	-	-

(48) Notes to the cash flow statement

- (a) Cash received relating to other operating activities:

Expressed in thousands of Renminbi Yuan

Items	Amount
Government grants	21,550
Others	1,488
Total	23,038

- (b) Cash paid relating to other operating activities

Expressed in thousands of Renminbi Yuan

Items	Amount
Agency fee	-103,970
Administrative fees	-41,197
Security and fire prevention fee	-31,734
Research and development costs	-25,138
Storage and logistics expenses	-22,631
Auditing and consulting fees	-11,826
Others	-37,165
Total	-273,661

- (c) Cash received relating to other investing activities:

Expressed in thousands of Renminbi Yuan

Item	Amount
Interest income	42,874

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

(49) Supplemental information to the cash flow statement

(a) Supplemental information to the cash flow statement:

Expressed in thousands of Renminbi Yuan

Supplemental information	Six-month period ended 30 June	
	2011	2010
1. Reconciliation of net profit to cash flows from operating activities:		
Net profit	1,387,911	1,493,572
Add: Impairment losses	156,581	47,354
Depreciation of investment property	6,625	6,629
Depreciation of fixed assets	829,079	846,807
Amortisation of intangible assets	9,201	9,786
Losses on disposal of fixed assets, intangible assets and other long-term assets	7,198	3,893
Financial expenses ("-" represents income)	-20,288	108,650
Investment income	-177,564	-385,848
Decrease in deferred tax assets	410,039	383,790
Increase in inventories	-3,779,291	-596,550
Increase in operating receivables	-356,572	-396,645
Increase in operating payables ("-" represents decrease)	2,604,947	-1,160,176
Increase in specific reserve	38,058	5,473
Net cash inflow from operating activities	1,115,924	366,735
2. Net change in cash and cash equivalents:		
Cash and cash equivalents balance at the end of the period	337,006	399,848
Less: cash and cash equivalents balance at the beginning of the period	100,110	125,917
Net increase in cash and cash equivalents	236,896	273,931

(b) Cash and cash equivalents held by the Group are as follows:

Expressed in thousands of Renminbi Yuan

Items	Six-month period ended 30 June	
	2011	2010
1. Cash		
- Cash on hand	124	111
- Bank deposits available on demand	336,020	386,981
- Other monetary fund available on demand	862	12,756
2. Closing balance of cash and cash equivalents	337,006	399,848

6. Related party relationships and transactions

(1) Information on the parent of the Company is listed as follows:

Name of company	Relationship with the Company	Economic nature	Registered address	Authorised representative	Scope of operations	Registered capital	Shareholding percentage (%)	Proportion of voting rights (%)	The ultimate parent company	Organisation code
China Petroleum & Chemical Corporation	The immediate parent company	Joint stock limited company	No.22 Chao yang men North Street, Chaoyang District, Beijing	Fu Chengyu	Exploring for, extracting and selling crude oil and natural gas; oil refining; production, sale and transport of petrochemical, chemical fibres and other chemical products; pipe transport of crude oil and natural gas; research and development and application of new technologies and information.	RMB 86.7 billion	55.56	55.56	China Petrochemical Corporation	71092609-4

The above registered capital did not change during the period ended 30 June 2011.

At 30 June 2011, Sinopec Corp held 4 billion shares of the Company. There are no changes during the period.

(2) Information on the Company's subsidiaries

See Note4(1) for details of the Company's subsidiaries .

(3) Information on the Company's jointly controlled enterprises and associates

See Note5(10)(b) for details of the Company's jointly controlled enterprises and associates .

6. Related party relationships and transactions *(continued)*

(4) Information of other related parties

Names of other related parties	Relationship with the Company	Organisation code
China Petrochemical Corporation	The ultimate parent company	10169286-X
Sinopec Corp Zhenhai Refining & Chemical Branch	Branch of the immediate parent company	79301742-6
Sinopec Corp Pipeline Storage & Transportation Branch	Branch of the immediate parent company	71853333-2
Sinopec Corp Chemical Products Sales Branch	Branch of the immediate parent company	77405580-6
Sinopec Corp Anqing Branch	Branch of the immediate parent company	71398286-8
Sinopec Corp Qilu Branch	Branch of the immediate parent company	72326778-8
Sinopec Yizheng Chemical Fibre Company Limited	Subsidiary of the immediate parent company	62590829-7
Sinopec Huadong Sales Company Limited	Subsidiary of the immediate parent company	74491218-4
China International United Petroleum and Chemical Company Limited	Subsidiary of the immediate parent company	10001343-1
China Petrochemical International Company Limited	Subsidiary of the immediate parent company	10169063-7
Sinopec Finance Company Limited	Subsidiary of the ultimate parent company	10169290-7
Sinopec Storage and Transportation Company Limited	Subsidiary of the ultimate parent company	70356548-9

6. Related party relationships and transactions *(continued)*

(5) Related parties transactions

- (a) Sales and purchases of goods, rendering and receiving of services

The Group

Expressed in thousands of Renminbi Yuan

Related Parties	Transaction type	Category	Six-month period 30 June			
			2011		2010	
			Amount	Percentage of the same category (%)	Amount	Percentage of the same category (%)
Sinopec Corp, its subsidiaries and jointly controlled enterprises	Trade	Sales/Service income	26,294,057	53.09	18,043,373	49.91
Sinopec Corp, its subsidiaries and jointly controlled enterprises	Trade	Purchases	25,758,400	57.78	14,663,840	52.15
Sinopec Group and its subsidiaries	Trade	Sales/Service income	138,291	0.28	174,929	0.48
Sinopec Group and its subsidiaries	Trade	Purchases	16,143	0.04	1,321,899	4.70
Associates of the Group	Trade	Sales	1,066,563	2.15	552,365	1.53
Associates of the Group	Trade	Purchases	2,485,199	5.58	2,118,840	7.54
Jointly controlled enterprises of the Group	Trade	Sales	132,244	0.27	136,399	0.38
Jointly controlled enterprises of the Group	Trade	Purchases	195,118	0.44	193,906	0.69
Key management personnel	Compensation for services	Short-term employee benefits	4,833	0.57	4,059	0.73
Key management personnel	Compensation for services	Retirement scheme contributions	73	0.03	53	0.04

6. Related party relationships and transactions *(continued)*

(5) Related parties transactions *(continued)*

(a) Sales and purchase of goods, rendering and receiving of services: *(continued)*

The Company

Expressed in thousands of Renminbi Yuan

Related Parties	Transaction type	Category	Six-month period 30 June			
			2011		2010	
			Amount	Percentage of the same category (%)	Amount	Percentage of the same category (%)
Sinopec Corp, its subsidiaries and jointly controlled enterprises	Trade	Sales/Service income	22,277,941	52.90	15,551,475	48.73
Sinopec Corp, its subsidiaries and jointly controlled enterprises	Trade	Purchases	25,264,504	72.86	14,596,875	60.59
Sinopec Group and its subsidiaries	Trade	Sales/Service income	69,061	0.16	100,032	0.31
Sinopec Group and its subsidiaries	Trade	Purchases	16,143	0.05	1,321,061	5.48
Subsidiaries of the Company	Trade	Sales	833,730	1.98	1,057,128	3.31
Subsidiaries of the Company	Trade	Purchases	468,621	1.35	195,118	0.81
Associates of the Company	Trade	Sales	632,806	1.50	538,446	1.69
Associates of the Company	Trade	Purchases	2,093,000	6.04	1,777,107	7.38
Jointly controlled enterprises of the Company	Trade	Sales	132,244	0.31	136,399	0.43
Jointly controlled enterprises of the Company	Trade	Purchases	195,118	0.56	193,905	0.80
Key management personnel	Compensation for services	Short-term employee benefits	4,833	0.61	4,059	0.73
Key management personnel	Compensation for services	Retirement scheme contributions	73	0.03	53	0.04

Most of the transactions undertaken by the Group with those counterparties and their terms during the period ended 30 June 2011 have been determined by Sinopec Corp and the relevant government authorities.

The above transactions with related parties were entered into the normal course of business and on normal commercial terms in accordance with the agreements governing such transactions.

6. Related party relationships and transactions *(continued)*

(5) Related parties transactions *(continued)*

(b) Related party borrowing and lending

For the period ended 30 June 2011, both the Group and the Company borrowed from Sinopec Finance Company Limited amounting to RMB 2,570,000,000 (Six-month period ended 30 June 2010: RMB 3,220,000,000).

For the period ended 30 June 2011, the Group and the Company repaid the loans to Sinopec Finance Company Limited amounting to RMB 2,970,000,000 and 2,770,000,000 respectively (Six-month period ended 30 June 2010: RMB 3,100,000,000 and RMB 3,100,000,000).

(c) Other related party transactions

The Group

Expressed in thousands of Renminbi Yuan

Transaction	Related Parties	Six-month period ended 30 June	
		2011	2010
Insurance premiums	Sinopec Group	66,075	55,655
Interest received and receivable	Sinopec Finance Company Limited	361	277
Interest paid and payable	Sinopec Finance Company Limited	11,911	14,811
Construction and installation fees	Sinopec Group	55,348	35,851
Sales commissions	Sinopec Corp Chemical Products Sales Branch	103,970	84,096
Rental income	Sinopec Corp	11,639	9,425

The Company

Expressed in thousands of Renminbi Yuan

Transaction	Related Parties	Six-month period ended 30 June	
		2011	2010
Insurance premiums	Sinopec Group	66,075	55,655
Interest received and receivable	Sinopec Finance Company Limited	361	276
Interest paid and payable	Sinopec Finance Company Limited	7,664	9,968
Construction and installation fees	Sinopec Group	55,348	35,851
Sales commissions	Sinopec Corp Chemical Products Sales Branch	103,970	84,096
Rental income	Sinopec Corp	11,639	9,425
Rental income	Subsidiaries of the Company	3,070	3,749

6. Related party relationships and transactions *(continued)*

(6) Balances of receivables and payables with related parties

The Group

Expressed in thousands of Renminbi Yuan

Items	Related Parties	At 30 June 2011	At 31 December 2010
Bills receivable	Sinopec Corp, its subsidiaries and jointly controlled enterprises	78,764	50,220
Bills receivable	Associates of the Company	28,410	-
Accounts receivable	Sinopec Corp, its subsidiaries and jointly controlled enterprises	696,277	596,097
Accounts receivable	Sinopec Group and its subsidiaries	1	12,482
Accounts receivable	Associates of the Company	67,352	46,071
Accounts receivable	Jointly controlled enterprises of the Company	22,779	23,092
Dividends receivable	Associates of the Company	-	5,042
Other receivables	Sinopec Corp, its subsidiaries and jointly controlled enterprises	405	8,191
Other receivables	Sinopec Group and its subsidiaries	379	341
Other receivables	Associates of the Company	1,885	164
Other receivables	Jointly controlled enterprises of the Company	8,007	2,945
Prepayments	Sinopec Corp, its subsidiaries and jointly controlled enterprises	45,605	31,589
Bills payable	Sinopec Corp, its subsidiaries and jointly controlled enterprises	5,600	-
Accounts payable	Sinopec Corp, its subsidiaries and jointly controlled enterprises	3,968,791	1,541,493
Accounts payable	Sinopec Group and its subsidiaries	491,899	20,942
Accounts payable	Associates of the Company	169,587	116,447
Accounts payable	Jointly controlled enterprises of the Company	38,214	42,362
Other payables	Sinopec Corp, its subsidiaries and jointly controlled enterprises	24,308	16,199
Other payables	Sinopec Group and its subsidiaries	11,147	19,739
Other payables	Associates of the Company	-	8,786
Advances from customers	Sinopec Corp, its subsidiaries and jointly controlled enterprises	7,012	31,099
Advances from customers	Sinopec Group and its subsidiaries	2,137	1,007
Advances from customers	Associates of the Company	3,836	2,917
Dividends payable	Sinopec Corp	400,000	-
Short-term loans	Subsidiaries of Sinopec Group	10,000	410,000

As at 30 June 2011, bad provision of receivables from related parties was RMB nil (31 December 2010: RMB nil)

6. Related party relationships and transactions *(continued)*

(6) Balances of receivables and payables with related parties *(continued)*

The Company

Expressed in thousands of Renminbi Yuan

Items	Related Parties	At 30 June 2011	At 31 December 2010
Bills receivable	Sinopec Corp, its subsidiaries and jointly controlled enterprises	8,531	20,000
Bills receivable	Subsidiaries of the Company	15,955	30,950
Bills receivable	Associates of the Company	28,410	-
Accounts receivable	Sinopec Corp, its subsidiaries and jointly controlled enterprises	495,468	251,530
Accounts receivable	Sinopec Group and its subsidiaries	1	854
Accounts receivable	Subsidiaries of the Company	11,497	11,731
Accounts receivable	Associates of the Company	67,251	46,071
Accounts receivable	Jointly controlled enterprises of the Company	22,779	23,092
Dividends receivable	Associates of the Company	-	5,042
Other receivables	Sinopec Corp, its subsidiaries and jointly controlled entities	405	8,191
Other receivables	Sinopec Group and its subsidiaries	379	341
Other receivables	Subsidiaries of the Company(Note a)	724	-
Other receivables	Associates of the Company	1,491	164
Other receivables	Jointly controlled enterprises of the Company	8,007	2,945
Prepayments	Sinopec Corp, its subsidiaries and jointly controlled entities	45,306	31,221
Prepayments	Subsidiaries of the Company	14,634	-
Bills payable	Sinopec Corp, its subsidiaries and jointly controlled entities	5,600	-
Accounts payable	Sinopec Corp, its subsidiaries and jointly controlled entities	3,934,085	1,533,442
Accounts payable	Sinopec Group and its subsidiaries	491,899	20,942
Accounts payable	Subsidiaries of the Company	143,002	195,282
Accounts payable	Associates of the Company	122,586	97,588
Accounts payable	Jointly controlled enterprises of the Company	38,214	42,362
Other payables	Sinopec Corp, its subsidiaries and jointly controlled entities	24,308	16,199
Other payables	Sinopec Group and its subsidiaries	11,147	19,739
Other payables	Subsidiaries of the Company	529,845	528,551
Other payables	Associates of the Company	-	8,786

6. Related party relationships and transactions *(continued)*

(6) Balances of receivables and payables with related parties *(continued)*

The Company *(continued)*

Expressed in thousands of Renminbi Yuan

Items	Related Parties	At 30 June 2011	At 31 December 2010
Advances from customers	Sinopec Corp, its subsidiaries and jointly controlled entities	7,012	30,940
Advances from customers	Sinopec Group and its subsidiaries	2,137	1,007
Advances from customers	Subsidiaries of the Company	5,505	3,528
Advances from customers	Associates of the Company	3,811	2,893
Dividends payable	Sinopec Corp	400,000	-
Short-term loans	Subsidiaries of the Sinopec Group	10,000	210,000

- (a) For the period ended 30 June 2011, an accumulated bad debt provision for other receivables due from Jinyong, the Company's consolidated subsidiary, amounting to RMB 654,132,000, was included in the above balance of other receivables due from subsidiaries (Year ended 31 December 2010: RMB 431,150,000). The Company provided a full bad debt provision based on the reasons stated in Note 10 (4)(c). No provision was recognised for other receivables due from other related parties.

7. Contingencies

(1) Income tax differences

In June 2007, the State Administrative of Taxation issued a tax circular (Circular No.664) to the local tax authorities requesting the relevant local tax authorities to rectify the applicable enterprise income tax ("EIT") for nine listed companies, which included the Company. After the notice was issued, the Company was required by the relevant tax authority to settle the EIT for 2007 at a rate of 33 percent. To date, the Company has not been requested by the tax authorities to pay additional EIT in respect of any years prior to 2007. There is no further development of this matter during the period ended 30 June 2011. No provision has been made in the financial statements at 30 June 2011 for this uncertainty because management believes it is not probable that the Group will be required to pay additional EIT for tax years prior to 2007.

8. Commitments

(1) Significant commitments

(a) Capital commitments:

Expressed in thousands of Renminbi Yuan

Items	At 30 June 2011	At 31 December 2010
Contracted but not provided for	1,483,094	887,928
Authorised by the Board but not contracted for	5,202,701	6,110,386
Total	6,685,795	6,998,314

Capital commitments relate primarily to the expenditure of property, plant and equipment, the Group's other investments and investment in associates.

At 30 June 2011, the Group did not have material operating lease commitment.

9. Other important matters

(1) Segment reporting

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

In a manner consistent with the way in which information is reported internally to the Group's chief operating decision maker for the purposes of resource allocation and performance assessment, the Group identified the following 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 financial 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 Note 2. The transfer price of intersegment is recognised with cost plus profit method.

Operating expenses include operating costs, business taxes and surcharges, selling and distribution expenses, general and administrative expenses and impairment losses.

9. Other important matters *(continued)*

(1) Segment reporting *(continued)*

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, petroleum products are produced through intermediate steps from the principal raw material of crude oil. As the reported revenue of the trading of petrochemical products segment was more than 10 percent of the combined revenue of all operating segments during the period ended 30 June 2011, the trading of petrochemical products segment is identified as a reportable segment and the corresponding information for the period ended 30 June 2010 has been restated accordingly. The specific products of each segment are as follows:

- (i) The synthetic fibres segment produces primarily polyester and acrylic fibres primarily used in the textile and apparel industries.
- (ii) The resins and plastics segment produces primarily polyester chips, low-density polyethylene resins and films, polypropylene resins and PVA granules. The polyester chips are used in the processing of polyester fibres and construction coating materials and containers. Low-density polyethylene resins and plastics are used in cable jacketing, sheeting, the manufacture of moulded products, such as housewares and toys and for agricultural and packaging uses. Polypropylene resins are used in the manufacturing of extruded films or sheets and injection moulded products such as housewares, toys and household electric appliance and automobile parts.
- (iii) The intermediate petrochemicals segment primarily produces p-xylene, benzene and butadiene. Most of the intermediate petrochemicals produced by the Group are used by the Group as raw materials in the production of other petrochemicals, resins, plastics and synthetic fibres. A portion of the intermediate petrochemicals as well as certain by-products of the production process are sold to outside customers.
- (iv) The Group's petroleum products segment has crude oil distillation facilities used to produce vacuum and atmospheric gas oils used as feed stocks of the Group's downstream processing facilities. Residual oil and low octane gasoline fuels are produced primarily as a co-product of the crude oil distillation process. A proportion of the residual oil is further processed into qualified refined gasoline and diesel oil. In addition, the Group produces a variety of other transportation, industrial and household heating fuels, such as diesel oils, jet fuels, heavy oils and liquefied petroleum gases.
- (v) The Group's trading of petrochemical products segment primarily engages in importing and exporting of petrochemical products. The products are sourced from international and domestic suppliers to the Group.
- (vi) All other operating segments represent the operating segments which do not meet the quantitative threshold for determining reportable segments. These include consumer products and services and a variety of other commercial activities, which are not allocated to the above five operating segments.

9. Other important matters *(continued)*

(1) Segment reporting *(continued)*

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items mainly comprise long-term equity investments, deferred tax assets, cash and cash equivalents, investment property and related revenues (such as investment income and interest income), interest-bearing loans, interest expenses, and corporate assets and expenses.

(a) Segment results, assets and liabilities

Expressed in thousands of Renminbi Yuan

	Six-month period ended 30 June	
	2011	2010
		(Restated)
Operating income		
Synthetic fibres		
External sales	2,320,085	1,891,401
Intersegment sales	81	56
Sub-total	2,320,166	1,891,457
Resins and plastics		
External sales	8,597,308	7,597,388
Intersegment sales	57,158	44,053
Sub-total	8,654,466	7,641,441
Intermediate petrochemicals		
External sales(Note (i))	10,317,965	7,936,403
Intersegment sales	10,588,623	9,728,886
Sub-total	20,906,588	17,665,289
Petroleum products		
External sales(Note (i))	21,806,087	15,142,333
Intersegment sales	3,409,625	1,347,563
Sub-total	25,215,712	16,489,896
Trading of petrochemical products		
External sales(Note (i))	5,989,376	3,200,879
Intersegment sales	1,735,103	791,147
Sub-total	7,724,479	3,992,026
All others		
External sales(Note (i))	494,171	383,026
Intersegment sales	512,269	334,308
Sub-total	1,006,440	717,334
Elimination of intersegment sales	-16,302,859	-12,246,013
Total	49,524,992	36,151,430

- (i) Among the operating income from the segments of intermediate petrochemicals, petroleum products, trading of petrochemical products and all others, one customer contributed 53% of the Group's operating income (Six-month period ended 30 June 2010:50%).

9. Other important matters *(continued)*

(1) Segment reporting *(continued)*

(a) Segment results, assets and liabilities *(continued)*

Expressed in thousands of Renminbi Yuan

	Six-month period ended 30 June	
	2011	2010
		(Restated)
Operating expenses		
Synthetic fibres	1,957,108	1,577,030
Resins and plastics	8,559,257	7,515,963
Intermediate petrochemicals	9,284,311	7,675,604
Petroleum products	21,674,566	14,213,066
Trading of petrochemical products	5,981,408	3,194,959
All others	441,661	356,317
Total	47,898,311	34,532,939
Operating profit		
Synthetic fibres	362,977	314,371
Resins and plastics	38,051	81,425
Intermediate petrochemicals	1,033,654	260,799
Petroleum products	131,521	929,267
Trading of petrochemical products	7,968	5,920
All others	52,510	26,709
Total segment profit	1,626,681	1,618,491
Financial expenses ("-" represents income)	-14,132	116,712
Add: Investment income	177,564	385,848
Operating profit	1,818,377	1,887,627
Non-operating income	8,663	13,358
Non-operation expenses	-21,235	-18,459
Profit before income tax	1,805,805	1,882,526
Income tax expense	-417,894	-388,954
Net profit	1,387,911	1,493,572

9. Other important matters *(continued)*

(1) Segment reporting *(continued)*

(a) Segment results, assets and liabilities: *(continued)*

Expressed in thousands of Renminbi Yuan

	At 30 June 2011	At 31 December 2010
		(Restated)
Assets		
Synthetic fibres	1,514,781	1,333,295
Resins and plastics	1,330,778	1,475,329
Intermediate petrochemicals	7,016,164	7,010,751
Petroleum products	15,057,178	11,739,532
Trading of petrochemical products	497,989	252,405
All others	2,363,066	2,335,181
Total segment assets	27,779,956	24,146,493
Long-term equity investments	3,182,705	3,526,290
Unallocated	1,980,599	1,485,321
Total assets	32,943,260	29,158,104
Liabilities		
Segment Liabilities		
Synthetic fibres	251,798	233,051
Resins and plastics	933,062	887,641
Intermediate petrochemicals	1,119,804	1,025,178
Petroleum products	5,296,733	3,341,120
Trading of petrochemical products	582,661	381,043
All others	153,633	57,103
Total segment liabilities	8,337,691	5,925,136
Short-term loans	4,327,516	3,295,438
Short-term debentures payable	-	1,000,000
Long-term loans due within one year	100,000	178,237
Long-term loans	175,000	175,000
Dividends payable	734,401	15,490
Unallocated	409,958	395,910
Total liabilities	14,084,566	10,985,211

9. Other important matters *(continued)*

(1) Segment reporting *(continued)*

(a) Segment results, assets and liabilities: *(continued)*

Expressed in thousands of Renminbi Yuan

	Six-month period ended 30 June	
	2011	2010
		(Restated)
Depreciation and amortisation of intangible assets		
Synthetic fibres	109,154	112,586
Resins and plastics	168,905	169,247
Intermediate petrochemicals	300,372	303,444
Petroleum products	173,400	183,153
Trading of petrochemical products	315	447
All others	86,134	87,716
Total segment depreciation and amortisation of intangible assets	838,280	856,593
Unallocated	6,625	6,629
Total depreciation and amortisation of intangible assets	844,905	863,222

Expressed in thousands of Renminbi Yuan

	At 30 June 2011	At 31 December 2010
Impairment losses on fixed assets		
Intermediate petrochemicals	10,552	-
Total impairment losses on fixed assets	10,552	-
Capital expenditures for segment long-lived assets		
Synthetic fibres	171,735	17,688
Resins and plastics	16,932	1,941
Intermediate petrochemicals	71,252	98,283
Petroleum products	395,247	142,908
All others	76,384	18,126
Total capital expenditures for segment long-lived assets	731,550	278,946

(b) Geographic information

In view of the fact that the Group operates mainly in the PRC, no geographical segment information is presented.

9. Other important matters *(continued)*

(2) Financial Risk Management

Overview

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

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

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

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

(a) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers. The carrying amount of accounts receivable, bills receivable, and other receivables represent the Group's maximum exposure to credit risk in relation to financial assets.

The majority of the Group's accounts receivable relate to sales of petroleum and chemical products to related parties and third parties operating in the petroleum and chemical industries. Management performs ongoing credit evaluations of its customers' financial condition and generally does not require collateral on accounts receivable. The Group maintains an impairment loss for doubtful accounts and actual losses have been within management's expectations.

9. Other important matters *(continued)*

(2) Financial Risk Management *(continued)*

(b) Liquidity risk

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

At 30 June 2011, the Group's current liabilities exceeded its current assets by RMB 134,235,000 (31 December 2010: RMB 2,041,384,000). For the period ended 30 June 2011, the liquidity of the Group is primarily dependent on its ability to maintain adequate cash inflow from operations, the renewal of its short-term bank loans and on its ability to obtain adequate external financing, including the issuance of short-term corporate bonds, to support its working capital and meet its debt obligation when they become due. At 30 June 2011, the Group has standby credit facilities with several PRC financial institutions which provide the Group to borrow up to RMB 10,900,000,000 (31 December 2010: RMB 9,300,000,000) on an unsecured basis. At 30 June 2011, the Group's outstanding borrowings under these facilities were RMB 2,867,607,000 (31 December 2010: RMB 2,363,336,000) and were included in short-term loans.

Management has carried out a detailed review of the cash flow forecast of the Group for the twelve months ending 30 June 2012. Based on such forecast, management believes that adequate sources of liquidity exist to fund the Group's working capital and capital expenditure requirements, and meet its short term debt obligations as they become due. In preparing the cash flow forecast, management has considered historical cash requirements of the Group as well as other key factors, including the availability of the above-mentioned banking facilities which may impact the operations of the Group during the next twelve-month period. Management is of the opinion that the assumptions used in the cash flow forecast are reasonable.

9. Other important matters *(continued)*

(2) Financial Risk Management *(continued)*

(b) Liquidity risk *(continued)*

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

Expressed in thousands of Renminbi Yuan

Items	At 30 June 2011				Carrying amount
	Total contractual undiscounted cash flow				
	Within one year or on demand	More than one year but less than two years	More than two years but less than five years	Total	
Financial assets					
Cash at bank and on hand	337,006	-	-	337,006	337,006
Bills receivable	2,213,515	-	-	2,213,515	2,213,515
Accounts receivable and other receivables	999,960	-	-	999,960	999,960
Other current assets-available-for-sale financial assets	700,000	-	-	700,000	700,000
Sub-total	4,250,481	-	-	4,250,481	4,250,481
Financial liabilities:					
Short-term loans	-4,424,516	-	-	-4,424,516	-4,327,516
Bills payable	-38,946	-	-	-38,946	-38,946
Accounts payable and other payables	-6,836,305	-	-	-6,836,305	-6,836,305
Non-current liabilities due within one year	-105,103	-	-	-105,103	-100,000
Long-term loans	-9,387	-9,387	-184,387	-203,161	-175,000
Sub-total	-11,414,257	-9,387	-184,387	-11,608,031	-11,477,767
Net amount	-7,163,776	-9,387	-184,387	-7,357,550	-7,227,286

9. Other important matters *(continued)*

(2) Financial Risk Management *(continued)*

(b) Liquidity risk *(continued)*

Expressed in thousands of Renminbi Yuan

Items	At 31 December 2010 Total contractual undiscounted cash flow				Carrying amount
	Within one year or on demand	More than one year but less than two years	More than two years but less than five years	Total	
Financial assets:					
Cash at bank and on hand	100,110	-	-	100,110	100,110
Bills receivable	2,043,493	-	-	2,043,493	2,043,493
Accounts receivable and other receivables	810,120	-	-	810,120	810,120
Long-term receivables	675	30,675	-	31,350	30,000
Sub-total	2,954,398	30,675	-	2,985,073	2,983,723
Financial liabilities:					
Short-term loans	-3,380,797	-	-	-3,380,797	-3,295,438
Bills payable	-41,034	-	-	-41,034	-41,034
Accounts payable and other payables	-4,157,591	-	-	-4,157,591	-4,157,591
Short-term debentures payable	-1,032,700	-	-	-1,032,700	-1,000,000
Non-current assets due within one year	-183,340	-	-	-183,340	-178,237
Long-term loans	-9,387	-9,387	-184,387	-203,161	-175,000
Sub-total	-8,804,849	-9,387	-184,387	-8,998,623	-8,847,300
Net amount	-5,850,451	21,288	-184,387	-6,013,550	-5,863,577

9. Other important matters *(continued)*

(2) Financial Risk Management *(continued)*

(c) Market risk

(i) Currency risk

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

Other than the cash at bank and on hand and the loan balances as disclosed in Note 5(1), the amounts of other financial assets and liabilities of the Group are substantially denominated in the functional currency of respective entity of the Group.

Included in short-term loans and long-term loans are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

Expressed in thousands of USD

Item	At 30 June 2011	At 31 December 2010
Loans and borrowings denominated in US Dollars	-656,656	-381,935

The analysis on the major applicable foreign exchange rates is as follows:

Item	Weighted average exchange rate		Middle exchange rate at the balance sheet date	
	At 30 June 2011	At 31 December 2010	At 30 June 2011	At 31 December 2010
USD	6.5472	6.7255	6.4716	6.6227

A 5 percent strengthening / weakening of USD against Renminbi at 30 June 2011 would have decreased/ increased net profit for the period and retained earnings of the Group by approximately RMB 159,361,000 (31 December 2010: RMB 94,854,000). This analysis has been determined assuming that the change in foreign exchange rates had occurred at the balance sheet date and had been applied to the foreign currency balances to which the Group has significant exposure as stated above, and that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2010.

9. Other important matters *(continued)*

(2) Financial Risk Management *(continued)*

(c) Market risk *(continued)*

(ii) Interest rate risk

The Group's interest rate risk exposure arises primarily from its short-term and long-term debts. Loans carrying interest at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. The interest rates and terms of repayment of short-term and long-term loans of the Group are disclosed in Note 5(18), (27), (28) and (29).

As at 30 June 2011, it is estimated that a general increase / decrease of 100 basis points in interest rates, with all other variables held constant, would decrease / increase the Group's net profit for the period and retained earnings by approximately RMB 31,128,000 (31 December 2010: RMB 19,808,000). This sensitivity analysis has been determined assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to floating interest rate risk for financial instruments in existence at that date. The analysis is performed on the same basis for 2010.

(d) Capital Management

Management optimises the structure of its capital, comprising equity and loans. In order to maintain or adjust the capital structure, management may cause the Group to issue new shares, adjust the capital expenditure plan, sell assets to reduce debt, or adjust the proportion of short-term and long-term loans. Management monitors capital on the basis of debt-to-equity ratio, which is calculated by dividing loans and debentures payable, including short-term loans, short-term debentures payable, non-current liabilities due within one year and long-term loans by the total of equity attributable to equity shareholders of the Company, and liability-to-asset ratio, which is calculated by dividing total liabilities by total assets. Management's strategy is to make appropriate adjustments according to the operating and investment needs and the changes in market conditions, and to maintain the debt-to-equity ratio and the liability-to-asset ratio at a range considered reasonable by management. As at 30 June 2011, the debt-to-equity ratio and the liability-to-asset ratio of the Group were 24.73% (31 December 2010: 25.95%) and 42.75% (31 December 2010: 37.67%) respectively.

The schedule of the contractual maturities of loans and commitments are disclosed in Note 5(18), (27), (28), (29) and 8, respectively.

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

9. Other important matters *(continued)*

(2) Financial Risk Management *(continued)*

(e) Fair value

(i) Financial instruments carried at fair value

The following table presents the carrying value of financial instruments measured at fair value as at 30 June 2011 across the three levels of the fair value hierarchy. The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level of input that is significant to the fair value measurement in its entirety. The levels are defined as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: inputs other than quoted prices that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Expressed in thousands of Renminbi Yuan

Assets	Note	Level 1	Level 2	Level 3	Total
Other current assets					
-available-for-sale financial assets	5(8)	-	700,000	-	700,000
Total		-	700,000	-	700,000

During the period ended 30 June 2011, there were no significant transfers between instruments in Level 1 and Level 2.

During the period ended 30 June 2011, there were no changes in valuation technique of fair value.

Although the Group believes that its estimates of fair value are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value.

(ii) Fair value of other financial assets (carried at other than fair value)

The following table presents the carrying amounts and fair values of the Group's long-term bank loans at 30 June 2011 and 31 December 2010.

Expressed in thousands of Renminbi Yuan

Item	At 30 June 2011		At 31 December 2010	
	Carrying amount	Fair Value	Carrying amount	Fair Value
Liabilities				
Long-term bank loans	275,000	272,368	275,000	273,777

9. Other important matters *(continued)*

(2) Financial Risk Management *(continued)*

(e) Fair value *(continued)*

(ii) Fair value of other financial assets (carried at other than fair value) *(continued)*

The fair value of long-term bank loans is estimated by discounting future cash flows thereon using current market interest rates offered to the Group for loans with substantially the same characteristics and maturities ranging from 5.68% to 5.99% (31 December 2010: 5.23% to 5.60%).

The fair values of cash at bank and on hand, accounts receivable, bills receivable, prepayments, other receivables, accounts payable, advances from customers and other payables are not materially different from their carrying amounts.

The fair value of short-term loans and short-term debentures payable approximate their carrying amounts due to the nature or short-term maturity of these instruments.

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

(3) Assets calculated at fair value

Expressed in thousands of Renminbi Yuan

Items	Balance at 1 January 2011	Changes in fair value for the period	Cumulative changes in fair value recognised directly in equity	Provision for impairment for the period	Balance at 30 June 2011
Financial assets					
Other current assets -available-for-sale financial assets	-	-	-	-	700,000
Total	-	-	-	-	700,000

9. Other important matters *(continued)*

(4) Financial assets and liabilities denominated in foreign currency

Expressed in thousands of Renminbi Yuan

Items	Note	Balance at 1 January 2011	Changes in fair value for the period	Cumulative changes in fair value recognised directly in equity	Provision for impairment for the period	Balance at 30 June 2011
Financial assets						
1. Cash at bank and on hand		12,998	—	—	—	14,848
Sub-total		12,998				14,848
Financial liabilities						
	(a)	2,529,441				4,249,616

(a) Financial liabilities represent bank loans denominated in foreign currency.

10. Notes to major items of the Company's financial statements

(1) Cash at bank and on hand

Expressed in thousands of RMB/USD/HKD/CHF

Items	At 30 June 2011			At 31 December 2010		
	Original currency	Exchange rate	RMB/ RMB equivalents	Original currency	Exchange rate	RMB/ RMB equivalents
Cash on hand:						
Renminbi	—	—	67	—	—	52
Deposits with banks:						
Renminbi	—	—	257,995	—	—	76,478
HKD	14,128	0.8316	11,749	13,771	0.8509	11,718
USD	23	6.4716	148	22	6.6227	146
Other monetary funds: (Note)						
CHF	109	7.7655	843	118	7.0562	830
Total	—	—	270,802	—	—	89,224

Note: Other monetary funds represent deposit in credit cards.

10. Notes to major items of the Company's financial statements *(continued)*

(2) Bills receivable

(a) Bills receivable by category

Expressed in thousands of Renminbi Yuan

Items	At 30 June 2011	At 31 December 2010
Bank acceptance bills	1,958,891	1,879,316
Commercial acceptance bills	6,305	8,100
Total	1,965,196	1,887,416

All of the above bills held are short-term acceptance bills, due within six months. No bills receivables, included in the above, were pledged or transferred to accounts receivable due to non-performance of the issuers in the six-month period ended 30 June 2011.

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

At 30 June 2011, the Company's discounted bank bills (with recourse) amounted to RMB nil (31 December 2010: RMB nil).

At 30 June 2011, the Company's discounted commercial bills amounted to RMB nil (31 December 2010: RMB nil).

(3) Accounts receivable

(a) Accounts receivable by customer type:

Expressed in thousands of Renminbi Yuan

Type	Note	At 30 June 2011	At 31 December 2010
Amounts due from related parties	6(6)	596,996	333,278
Amounts due from third parties		66,391	18,419
Less: provision for bad and doubtful debts		-4,011	-4,370
Total		659,376	347,327

10. Notes to major items of the Company's financial statements *(continued)*

(3) Accounts receivable *(continued)*

(b) Accounts receivable by ageing:

Expressed in thousands of Renminbi Yuan

Type	At 30 June 2011	At 31 December 2010
Within one year (inclusive)	659,174	347,315
Between one and two years (inclusive)	283	11
Between two and three years (inclusive)	9	11
Over three years	3,921	4,360
Less: provision for bad and doubtful debts	-4,011	-4,370
Total	659,376	347,327

The ageing is counted from the date accounts receivable are recognised

(c) Accounts receivable by category:

Expressed in thousands of Renminbi Yuan

Category	At 30 June 2011				At 31 December 2010			
	Gross carrying amount		Bad debt provision		Gross carrying amount		Bad debt provision	
	Amount	Percentage(%)	Amount	Percentage(%)	Amount	Percentage(%)	Amount	Percentage(%)
Accounts receivable collectively assessed for impairment								
Within one year	659,174	99.37	-	-	347,315	98.75	-	-
Between one and two years	283	0.04	84	29.68	11	0.00	3	27.27
Between two and three years	9	0.00	6	66.67	11	0.00	7	63.64
Over three years	3,921	0.59	3,921	100.00	4,360	1.25	4,360	100.00
Total	663,387	100.00	4,011	-	351,697	100.00	4,370	-

There are no guaranties for the accounts receivables with bad debt provision.

During the period, 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 individually significant or insignificant accounts receivables provided for bad debt provision; the Company had no individually significant write off or write back of bad debts which had been fully or substantially provided for in prior years. At 30 June 2011, the Company had no individually significant accounts receivables that aged over three years.

10. Notes to major items of the Company's financial statements *(continued)*

(3) Accounts receivable *(continued)*

(d) Accounts receivable due from the five largest customers of the Company are as follows:

Expressed in thousands of Renminbi Yuan

Name	Relationship with the Company	Amount	Ageing	Percentage of total accounts receivable(%)
Sinopec Huadong Sales Company Limited	Subsidiary of Sinopec Corp	337,011	Due within one year	50.80
Sinopec Yizheng Chemical Fibre Company Limited	Subsidiary of Sinopec Corp	83,106	Due within one year	12.53
Shanghai Secco Petrochemical Company Limited	Associate	60,552	Due within one year	9.13
Bayer Material Science (China) Company Limited	Third party	45,843	Due within one year	6.91
Sinopec Corp Asphalt Sales Shanghai Branch	Branch of Sinopec Corp	23,340	Due within one year	3.52
Total		549,852		82.89

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

(4) Other receivables

(a) Other receivables by customer type:

Expressed in thousands of Renminbi Yuan

Type	At 30 June 2011	At 31 December 2010
Amounts due from related parties	665,138	442,791
Amounts due from third parties	14,532	9,270
Less: provision for bad and doubtful debts	-656,135	-433,411
Total	23,535	18,650

10. Notes to major items of the Company's financial statements *(continued)*

(4) Other receivables *(continued)*

(b) Other receivables by ageing:

Expressed in thousands of Renminbi Yuan

Type	At 30 June 2011	At 31 December 2010
Within one year (inclusive)	268,733	68,802
Between one and two years (inclusive)	53,777	98,283
Between two and three years (inclusive)	255,104	262,750
Over three years	102,056	22,226
Less: provision for bad and doubtful debts	-656,135	-433,411
Total	23,535	18,650

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

(c) Other receivables by category:

Expressed in thousands of Renminbi Yuan

Category	At 30 June 2011				At 31 December 2010			
	Gross carrying amount		Bad debt provision		Gross carrying amount		Bad debt provision	
	Amount	Percentage(%)	Amount	Percentage(%)	Amount	Percentage(%)	Amount	Percentage(%)
Other receivables that are individually significant and assessed individually for impairment								
Sub-total	654,132	96.24	654,132	100.00	431,150	95.37	431,150	100.00
Other receivables collectively assessed for impairment								
Within one year	23,401	3.44	-	-	18,202	4.03	-	-
Between one and two years	27	0.00	5	18.52	433	0.10	98	22.63
Between two and three years	54	0.01	30	55.56	50	0.01	46	92.00
Over three years	2,056	0.31	1,968	95.72	2,226	0.49	2,117	95.10
Sub-total	25,538	3.76	2,003	7.84	20,911	4.63	2,261	10.81
Total	679,670	100.00	656,135	-	452,061	100.00	433,411	-

During the period, the Company assessed the impairment on an individual basis in accordance with the accounting policy as described in Note 2(10), and there were individually significant other receivables provided for: the Company made a full bad debt provision of RMB 654,132,000 for the other receivables due from its subsidiary, Jinyong (31 December 2010: RMB 431,150,000). Jinyong has suspended its operations and has maintained such status since August 2008. The Company has made an estimate on the recoverability of the other receivables due from Jinyong and made a full provision. The Company had no other individually insignificant other receivables provided for impairment.

The Company had no individually significant write off or write back of bad debts which had been fully or substantially provided for in prior periods. At 30 June 2011, the Company had no individually significant other receivables that aged over three years.

10. Notes to major items of the Company's financial statements *(continued)*

(4) Other receivables *(continued)*

(d) Other receivables due from the five largest customers of the Company are as follows:

Expressed in thousands of Renminbi Yuan

Name	Relationship with the Company	Amount	Ageing	Percentage of total other receivables
Zhe Jiang Jinyong Acrylic Fibre Company Limited	Subsidiary	654,132	Due within three years	96.24
BOC-SPC Gases Company Limited	Jointly controlled enterprise	8,007	Due within one year	1.18
Shanghai Jinshan Petrochemical Logistics Company Limited	Third party	4,582	Due within one year	0.67
Shanghai Bozhan Industry Company Limited	Third party	1,188	Due within one year	0.17
Shanghai Petrochemical Alphalt Company Limited	Associate	850	Due within one year	0.13
Total		668,759		98.39

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

(5) Inventories

(a) Inventories by category

Expressed in thousands of Renminbi Yuan

Items	At 30 June 2011			At 31 December 2010		
	Cost	Provision for diminution in value	Carrying amount	Cost	Provision for diminution in value	Carrying amount
Raw materials	5,126,598	-	5,126,598	2,498,028	-	2,498,028
Work in progress	2,164,063	-	2,164,063	1,406,264	-	1,406,264
Finished goods	946,287	40,773	905,514	784,425	36,639	747,786
Spare parts and consumables	465,661	142,857	322,804	476,347	18,389	457,958
Total	8,702,609	183,630	8,518,979	5,165,064	55,028	5,110,036

All the above inventories are purchased or self-manufactured.

10. Notes to major items of the Company's financial statements *(continued)*

(5) Inventories *(continued)*

- (b) Provision for diminution in value of inventories

Expressed in thousands of Renminbi Yuan

Items	At 1 January 2011	Provision	Decreases	At 30 June 2011
			Write-off	
Finished goods	36,639	22,178	-18,044	40,773
Spare parts and consumables	18,389	124,468	-	142,857
Total	55,028	146,646	-18,044	183,630

(6) Other current assets

Expressed in thousands of Renminbi Yuan

Items	Note	At 30 June 2011	At 31 December 2010
Available-for-sale financial assets	(i)	700,000	-
Others	(ii)	22,185	21,729
Total		722,185	21,729

- (i) The Company purchased an investment fund from a PRC state-owned bank with a carrying amount of RMB 700,000,000 at 30 June 2011 (31 December 2010: RMB nil). The financial product mainly invests in debt and equity securities.
- (ii) As at 30 June 2011 and 31 December 2010, the balance of other current assets includes deductible value added tax and long-term deferred expenses within one year.

10. Notes to major items of the Company's financial statements *(continued)*

(7) Long-term equity investments

(a) Long-term equity investments by category:

Expressed in thousands of Renminbi Yuan

	Interests in associates	Interests in jointly controlled enterprises	Interests in subsidiaries	Sub-total	Provision for impairment losses	Carrying amount
					Note(i)	
Balance at 1 January 2011	3,104,810	118,176	1,582,788	4,805,774	-227,500	4,578,274
Share of profit from investments accounted for under equity method	128,975	19,641	-	148,616	-	148,616
Dividends receivable/received	-488,096	-24,000	-	-512,096	-	-512,096
Balance at 30 June 2011	2,745,689	113,817	1,582,788	4,442,294	-227,500	4,214,794

(i) As at 30 June 2011, the Company made cumulative impairment losses of RMB 227,500,000 for the long-term equity investment in its subsidiary, Jinyong (31 December 2010: RMB 227,500,000). The Company provided a full provision for the investment in Jinyong based on the reasons disclosed in Note 10(4)(c).

(b) The Company's major jointly controlled enterprises and associates

For the information of the Company's major jointly controlled enterprises and associates, see note 5(10)(b).

(8) Investment property

Expressed in thousands of Renminbi Yuan

Items	At 1 January 2011	Additions	Decreases	At 30 June 2011
1, Cost	615,334	-	-	615,334
2, Accumulated depreciation	90,774	7,462	-	98,236
3, Net book value	524,560			517,098
4, Provision for impairment	-	-	-	-
5, Carrying amount	524,560			517,098

The investment property of the Company represents buildings.

Depreciation charged for the period of the investment property of the Company amounted to RMB 7,462,000 (Six-month period ended 30 June 2010: RMB 7,462,000).

10. Notes to major items of the Company's financial statements *(continued)*

(9) Fixed assets

(a) Fixed assets

Expressed in thousands of Renminbi Yuan

Items	Balance at 1 January 2011	Additions	Decreases	Balance at 30 June 2011
1, Original Cost:	35,977,785	75,310	-193,937	35,859,158
-Buildings	4,815,596	-	-656	4,814,940
-Plant and machinery	24,539,165	56,366	-157,237	24,438,294
-Vehicles and other equipment	6,623,024	18,944	-36,044	6,605,924
		Charge for the period		
2, Accumulated depreciation:	22,243,424	804,174	-181,425	22,866,173
-Buildings	3,281,653	66,266	-412	3,347,507
-Plant and machinery	14,329,469	594,225	-146,312	14,777,382
-Vehicles and other equipment	4,632,302	143,683	-34,701	4,741,284
3, Net book value:	13,734,361			12,992,985
-Buildings	1,533,943			1,467,433
-Plant and machinery	10,209,696			9,660,912
-Vehicles and other equipment	1,990,722			1,864,640
4, Provision for impairment losses:	557,514	10,552	-2,543	565,523
-Buildings	59,760	542	-	60,302
-Plant and machinery	467,652	8,629	-2,516	473,765
-Vehicles and other equipment	30,102	1,381	-27	31,456
5, Carrying amount:	13,176,847			12,427,462
-Buildings	1,474,183			1,407,131
-Plant and machinery	9,742,044			9,187,147
-Vehicles and other equipment	1,960,620			1,833,184

Depreciation charged for the period amounted to RMB 804,174,000 (Six-month period ended 30 June 2010: RMB 824,502,000).

Construction in progress amounting to RMB 21,724,000 (Six-month period ended 30 June 2010: RMB 179,649,000) were transferred to fixed assets during the period.

For the information of the provision for impairment losses, see note 5(12)(c).

(b) At 30 June 2011 and 31 December 2010, the Company had no pledged fixed assets.

10. Notes to major items of the Company's financial statements *(continued)*

(10) Construction in progress

Expressed in thousands of Renminbi Yuan

Projects	At 30 June 2011		
	Original Cost	Provision for impairment	Carrying amount
Refinery Renovation Project	971,905	-	971,905
Energy Saving and Upgrade Reconstruction on 2# Oxidation Unit	94,722	-	94,722
1500 ton/year PAN-based Carbon Fibre Project	122,625	-	122,625
Numerous small projects of Synthetic Fibres segment	71,125	-	71,125
Numerous small projects of Resins and Plastics segment	6,987	-	6,987
Numerous small projects of Intermediate Petrochemicals segment	130,680	-	130,680
Numerous small projects of Petroleum Products segment	56,101	-	56,101
Numerous small projects of all others	131,816	-	131,816
Total	1,585,961	-	1,585,961

Expressed in thousands of Renminbi Yuan

Projects	At 31 December 2010		
	Original Cost	Provision for impairment	Carrying amount
Refinery Renovation Project	714,513	-	714,513
Energy Saving and Upgrade Reconstruction on 2# Oxidation Unit	57,416	-	57,416
1500 ton/year PAN-based Carbon Fibre Project	56,055	-	56,055
Numerous small projects of Synthetic Fibres segment	64,018	-	64,018
Numerous small projects of Resins and Plastics segment	17,891	-	17,891
Numerous small projects of Intermediate Petrochemicals segment	112,999	-	112,999
Numerous small projects of Petroleum Products segment	40,917	-	40,917
Numerous small projects of all others	112,420	-	112,420
Total	1,176,229	-	1,176,229

10. Notes to major items of the Company's financial statements *(continued)*

(11) Intangible assets

Expressed in thousands of Renminbi Yuan

Items	Balance at 1 January 2011	Additions	Decreases	Balance at 30 June 2011
1. Cost	650,642	-	-	650,642
2. Accumulated amortisation	218,224	6,516	-	224,740
3. Net book value	432,418			425,902

The intangible assets of the Company represent land use rights.

Amortisation charged for the period amounted to RMB 6,516,000 (Six-month period ended 30 June 2010: RMB 6,516,000).

(12) Long-term deferred expenses

Long-term deferred expenses primarily represent catalysts expenditures with useful lives over one year.

(13) Deferred tax assets

- (a) Deferred tax assets or liabilities after offsetting each other and the deductible or taxable temporary differences are as follows:

Expressed in thousands of Renminbi Yuan

Items	At 30 June 2011		At 31 December 2010	
	Deductible/ (taxable) temporary differences	Deferred tax assets/ (liabilities)	Deductible/ (taxable) temporary differences	Deferred tax assets/ (liabilities)
Deferred tax assets:				
Provision for bad debt and inventories	189,644	47,411	61,660	15,415
Impairment losses on fixed assets	565,523	141,381	557,514	139,379
Contribution by fixed assets and sales of assets to a jointly controlled enterprise	35,024	8,756	36,777	9,194
Deductible tax losses	792,905	198,226	2,606,114	651,529
Specific reserve accrued	75,638	18,910	43,380	10,845
Other deferred tax assets	29,518	7,379	29,244	7,311
Sub-total	1,688,252	422,063	3,334,689	833,673
Offsetting amount	-87,508	-21,877	-93,790	-23,448
Amount after offsetting	1,600,744	400,186	3,240,899	810,225
Deferred tax liabilities:				
Capitalisation of borrowing costs	-87,508	-21,877	-93,790	-23,448
Offsetting amount	87,508	21,877	93,790	23,448
Amount after offsetting	-	-	-	-

10. Notes to major items of the Company's financial statements *(continued)*

(13) Deferred tax assets *(continued)*

(b) The movement of deferred tax assets is as follows:

Expressed in thousands of Renminbi Yuan

Items	Balance at 1 January 2011	Current period changes charged to profit or loss	Current period changes recognised directly in equity	Balance at 30 June 2011
Deferred tax assets:				
Provision for bad debt and inventories	15,415	31,996	-	47,411
Impairment losses on fixed assets	139,379	2,002	-	141,381
Contribution by fixed assets and sales of assets to a jointly controlled enterprise	9,194	-438	-	8,756
Deductible tax losses	651,529	-453,303	-	198,226
Specific reserve accrued	10,845	8,065	-	18,910
Other deferred tax assets	7,311	68	-	7,379
Capitalisation of borrowing costs	-23,448	1,571	-	-21,877
Total	810,225	-410,039	-	400,186

(c) Deferred tax assets not recognised

Expressed in thousands of Renminbi Yuan

Item	Note	At 30 June 2011	At 31 December 2010
Impairment losses for long-term equity investment	(i)	227,500	227,500

(i) As stated in Note 10 (7)(a)(i), the Company has made full provision for the long-term equity investment in Jinyong. As it is not probable that future taxable income against which the losses can be utilised, the Company has not recognised deferred tax assets in respect of impairment loss on long-term equity investment of RMB 227,500,000 (31 December 2010: RMB 227,500,000).

10. Notes to major items of the Company's financial statements *(continued)*

(14) Movement of provision for impairment

Expressed in thousands of Renminbi Yuan

Items	Note	At 1 January 2011	Additions	Decreases		At 30 June 2011
				Reversal	Write-off	
1, Receivables	10(3),(4)	437,781	222,982	-617	-	660,146
2, Inventories	10(5)	55,028	146,646	-	-18,044	183,630
3, Long-term equity investments	10(7)	227,500	-	-	-	227,500
4, Fixed assets	10(9)	557,514	10,552	-	-2,543	565,523
Total		1,277,823	380,180	-617	-20,587	1,636,799

The reasons for corresponding impairment losses recognised during the period are set out in the respective notes of the relevant assets.

(15) Short-term loans

(a) Short-term loans by category

Expressed in thousands of Renminbi Yuan

Items	At 30 June 2011	At 31 December 2010
Credit loans		
- Bank loans	4,279,616	2,906,438
- Loans from related party	10,000	210,000
Total	4,289,616	3,116,438

As at 30 June 2011, the weighted average interest rate of the Company's short-term loans was 3.96% (31 December 2010: 2.26%).

(b) As at 30 June 2011 and 31 December 2010, the Company had no overdue short-term loans.

(16) Bills payable

Expressed in thousands of Renminbi Yuan

Items	At 30 June 2011	At 31 December 2010
Commercial acceptance bills	26,757	41,034
Bank acceptance bills	12,189	-
Total	38,946	41,034

The above bills are due within one year.

10. Notes to major items of the Company's financial statements *(continued)*

(17) Taxes payable

Expressed in thousands of Renminbi Yuan

Items	At 30 June 2011	At 31 December 2010
Value added tax	351,135	436,969
Business tax	751	1,599
Consumption tax	461,014	458,600
Education surcharge	40,518	26,827
City maintenance and construction tax	56,725	62,596
Others	36,067	26,929
Total	946,210	1,013,520

(18) Non-current liabilities due within one year

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

Expressed in thousands of Renminbi Yuan

Item	At 30 June 2011	At 31 December 2010
Long-term loans due within one year-credit loans	145,000	100,000

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

Expressed in thousands of Renminbi Yuan

Creditors	Starting date	Ending date	Currency	Interest rate (%)	At 30 June 2011	At 31 December 2010
1.China Construction Bank, Jinshan Branch	2008.11.27	2011.11.25	RMB	5.103	50,000	50,000
2.China Construction Bank, Jinshan Branch	2008.12.25	2011.11.25	RMB	5.103	50,000	50,000
3.Industrial and Commercial Bank of China, Jinshan Branch	2009.04.30	2012.04.28	RMB	2.250	45,000	-
Total					145,000	100,000

(19) Long-term loans

(a) Long-term loans by category

Expressed in thousands of Renminbi Yuan

Item	At 30 June 2011	At 31 December 2010
Credit loans	175,000	220,000

10. Notes to major items of the Company's financial statements *(continued)*

(20) Specific reserve

Expressed in thousands of Renminbi Yuan

Item	At 1 January 2011	Accrued	Utilised	At 30 June 2011
Safety production costs	43,380	51,000	-18,742	75,638

Specific reserve represents unutilised safety production costs accrued in accordance with state regulations.

(21) Operating income and operating costs

(a) Operating income, operating costs

Expressed in thousands of Renminbi Yuan

Items	Six-month period ended 30 June	
	2011	2010
Income from principal operations	41,882,618	31,737,974
Income from other operating	228,125	177,336
Sub-total	42,110,743	31,915,310
Operating costs	35,691,900	26,674,152

Operating income represents the amount from sales of products after the deduction of VAT.

(b) The Company mainly operates in the petrochemical industry.

(c) Revenue from sales to the top five customers for the period ended 30 June 2011 is set out as follows:

Expressed in thousands of Renminbi Yuan

Customers	Operating income	Percentage of total operating income(%)
1. Sinopec Huadong Sales Company	18,867,720	44.81
2. China Petroleum & Chemical Corporation	2,496,117	5.93
3. Sinopec Yizheng Chemical Fibre Company Limited	860,211	2.04
4. Oriental Petrochemical (Shanghai) Corporation	787,450	1.87
5. Shishi Jialong Petrochemical Fibre Company Limited	729,981	1.73
Total	23,741,479	56.38

10. Notes to major items of the Company's financial statements *(continued)*

(22) Business taxes and surcharges

Expressed in thousands of Renminbi Yuan

Items	Six-month period ended 30 June		Tax base
	2011	2010	
Consumption tax	2,657,270	2,107,283	In accordance with the relevant tax regulation, with effect from 1 January 2009, the Company's sales of gasoline and diesel oil have been adjusted to a tax rate of RMB 1,388 per ton and RMB 940.8 per ton respectively
Business tax	2,246	1,843	5% of income entitled to business tax
City maintenance and construction tax	287,075	237,995	7% of consumption tax, VAT and business tax paid
Education surcharge and others	205,052	101,998	5% of consumption tax, VAT and business tax paid (2010: 3%)
Total	3,151,643	2,449,119	—

(23) Financial expenses ("-" represents income)

Expressed in thousands of Renminbi Yuan

Items	Six-month period ended 30 June	
	2011	2010
Interest expenses from loans and payables	124,790	136,005
Less: Borrowing costs capitalised	-15,999	-811
Interest income from deposits and receivables	-37,757	-12,870
Net foreign exchange gain	-77,146	-20,818
Others	1,575	5,279
Total	-4,537	106,785

10. Notes to major items of the Company's financial statements *(continued)*

(24) Impairment losses

Expressed in thousands of Renminbi Yuan

Items	Six-month period ended 30 June	
	2011	2010
Receivables	222,365	23,266
Inventories	146,646	50,000
Fixed assets	10,552	-
Total	379,563	73,266

(25) Investment income (“-” represents losses)

(a) Investment income by category:

Expressed in thousands of Renminbi Yuan

Items	Note	Six-month period ended 30 June	
		2011	2010
Long-term equity investment income accounted for under the cost method	(b)	8,080	7,406
Long-term equity investment income accounted for under the equity method	(c)	148,616	377,407
Gain on disposal of available-for-sale financial assets		-	215
Total		156,696	385,028

(b) Long-term equity investment income accounted for under the cost method is as follows:

Expressed in thousands of Renminbi Yuan

Investee	Six-month period ended 30 June	
	2011	2010
China Jinshan Associate Trading Corporation	8,080	7,406
Total	8,080	7,406

(c) Long-term equity investment income accounted for under equity method is as follows:

Expressed in thousands of Renminbi Yuan

Investees	Six-month period ended 30 June	
	2011	2010
Shanghai Secco Petrochemical Company Limited (Note)	98,565	326,463
Shanghai Chemical Industrial Park Development Company Limited	30,410	33,483
BOC-SPC Gases Company Limited	19,641	17,461
Total	148,616	377,407

Note: For the period ended 30 June 2011, the decrease of investment income from long-term equity investments under the equity method of the Company was attributed by the decrease of profit after tax of Shanghai Secco Petrochemical Company Limited.

10. Notes to major items of the Company's financial statements *(continued)*

(26) Non-operating income

(a) Non-operating income by category

Expressed in thousands of Renminbi Yuan

Items	Six-month period ended 30 June	
	2011	2010
Gain on disposal of non-current assets	1,935	785
Include: Gain on disposal of fixed assets	1,935	785
Government grants- amortisation of deferred income	5,240	5,000
Penalty income	11	2,081
Others	902	5,078
Total	8,088	12,944

(27) Non-operating expenses

Expressed in thousands of Renminbi Yuan

Items	Six-month period ended 30 June	
	2011	2010
Losses on disposal of fixed assets	9,125	3,650
Others	12,091	12,142
Total	21,216	15,792

(28) Income tax expense

Expressed in thousands of Renminbi Yuan

Items	Note	Six-month period ended 30 June	
		2011	2010
Tax expense for the period, calculated in accordance with tax laws and related regulations		-	-
Deferred taxation	(a)	410,039	383,790
Total		410,039	383,790

10. Notes to major items of the Company's financial statements *(continued)*

(28) Income tax expense *(continued)*

(a) Reconciliation between income tax expense and accounting profit is as follows:

Expressed in thousands of Renminbi Yuan

Items	Six-month period ended 30 June	
	2011	2010
Profit before taxation	1,564,750	1,883,448
Expected income tax expense at a rate of 25% (2010: 25%)	391,188	470,862
Add: Tax effect of non-deductible expenses	56,005	7,505
Tax effect of non-taxable income	-	-225
Tax effect of share of profit recognised under the equity method	-37,154	-94,352
Income tax expense	410,039	383,790

(29) Other comprehensive income (“-” represents loss)

Expressed in thousands of Renminbi Yuan

Items	Six-month period ended 30 June	
	2011	2010
Unrealisable income of available-for-sale financial assets	-	215
Reclassification adjustment for gain on disposal of available-for-sale financial assets transferred to profit or loss	-	-215
Total	-	-

10. Notes to major items of the Company's financial statements *(continued)*

(30) Supplemental information to the cash flow statement

(a) Supplemental information to the cash flow statement

Expressed in thousands of Renminbi Yuan

Supplemental information	Six-month period ended 30 June	
	2011	2010
1. Reconciliation of net profit to cash flows from operating activities:		
Net profit	1,154,711	1,499,658
Add: Impairment losses	379,563	73,266
Depreciation of investment property	7,462	7,462
Depreciation of fixed assets	804,174	824,502
Amortisation of intangible assets	6,516	6,516
Losses on disposal of fixed assets	7,190	2,865
Financial expenses ("-" represents income)	-6,112	101,506
Investment income	-156,696	-385,028
Decrease in deferred tax assets	410,039	383,790
Increase in inventories	-3,555,589	-503,683
Increase in gross operating receivables	-612,464	-367,497
Increase in operating payables ("-" represents decrease)	2,465,799	-1,208,043
Increase in specific reserve	32,258	5,473
Net cash inflow from operating activities	936,851	440,787
2. Net change in cash and cash equivalents:		
Cash and cash equivalents balance at the end of the period	270,802	264,419
Less: cash and cash equivalents balance at the beginning of the period	89,224	101,076
Net increase in cash and cash equivalent	181,578	163,343

(b) Cash and cash equivalents held by the Company are as follows:

Expressed in thousands of Renminbi Yuan

Items	Six-month period ended 30 June	
	2011	2010
1. Cash		
- Cash on hand	67	60
- Bank deposits available on demand	269,892	251,631
- Other monetary fund available on demand	843	12,728
2. Closing balance of cash and cash equivalents	270,802	264,419

Supplements

(1) Non-recurring items for the period ended 30 June 2011 is as follows (“-” represents losses):

Expressed in thousands of Renminbi Yuan

Non-recurring items	Amount	Note
Net loss on disposal of non-current assets	-7,198	Net loss on disposal of fixed assets
Employee reduction expenses	-1,158	Employee reduction expenses incurred according to the reduction plan, varying from year to year.
Government grants charged in profit or loss (excluding those closely related to business operation, received on a quantified scale specified by state standards)	5,240	Government grants on energy-saving projects, etc.
Income from external entrusted loans	705	Interest income from external entrusted loans
Other non-operating income and expenses other than those mentioned above	-10,614	Others miscellaneous items
Tax effect for the above items	3,135	
Effect on minority interests after tax	-277	
Total	-10,167	

Note: The non-recurring items are presented in the amount before tax.

(2) The reconciliation between financial statements prepared under China Accounting Standards for Business Enterprises (“CAS”) and International Financial Reporting Standards (“IFRS”)

- (a) The reconciliation between the net profit and net assets of the consolidated financial statements prepared under CAS and IFRS:

Expressed in thousands of Renminbi Yuan

	Note	Net profit attributable to the equity shareholders of the Company		Net assets attributable to equity shareholders of the Company	
		Six-month period ended 30 June	2010 (Restated)	At 30 June 2011	At 31 December 2010 (Restated)
Under CAS		1,381,533	1,493,930	18,612,631	17,913,040
Adjustments:					
Government grants	(i)	14,193	13,380	-198,545	-212,738
Safety production costs	(ii)	38,058	-	-	-
Others		-	6,429	-	-
Effects of the above adjustments on taxation		-8,065	-	-18,910	-10,845
Under IFRS		1,425,719	1,513,739	18,395,176	17,689,457

Supplements *(continued)*

(2) The reconciliation between financial statements prepared under China Accounting Standards for Business Enterprises (“CAS”) and International Financial Reporting Standards (“IFRS”) *(continued)*

(a) The reconciliation between the net profit and net assets of the consolidated financial statements prepared under CAS and IFRS: *(continued)*

(i) Government grants

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

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

(ii) 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 asset and earnings per share

Complied to “Regulations on the preparation of information Disclosures by Companies Publicly Issuing Securities No.9 - Calculation and Disclosure of Earnings Per Share and Return on Net Assets” (2010 Revised) issued by China Security Regulation Committee, return on net asset and earnings per share are calculated as follows:

Expressed in thousands of Renminbi Yuan

Net profit during the period	Weighted average return on net assets (%)	Earnings per share	
		Basic (RMB)	Diluted (RMB)
Net profit attributable to equity shareholders of the Company	7.565	0.192	0.192
Net profit attributable to equity shareholders of the Company excluding non-recurring items	7.620	0.193	0.193

Written Confirmation Issued by Directors, Supervisors and Senior Management

Pursuant to the requirements of No.68 of the PRC Securities Law and Regulation on the Preparation of Information Disclosure Contents and Format of Companies Issuing Public Shares, No.3 revised by the China Securities Regulatory Commission(CSRC) in 2007, we, being directors, supervisors and the senior management of the Company, having carefully studied and reviewed the Company's 2011 interim report, are in the opinion that: the Company was in strict compliance with the financial system operation of listed companies and the 2011 interim report gave a true and fair view of the financial position and operating results of the Company. We warrant that the information contained in the 2011 interim report is true, accurate and complete, and that there are no false or misleading statements contained in or material omissions from this report. We jointly and severally accept full responsibility for the authenticity, accuracy and completeness of the information contained in this report.

Signature:




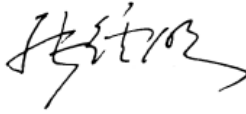
Directors:

 Rong Guangdao	 Wang Zhiqing	 Wu Haijun	 Li Honggen
 Shi wei	 Ye Guohua	 Lei Dianwu	 Xiang Hanyin
 Shen Liqiang	 Jin Mingda	 Wang Yongshou	 Cai Tingji

Supervisors:

 Gao Jinping	 Zhou qiang	 Li Xiaoxia	 Zhai Yalin
 Wang Liqun	 Cheng xinyuan	 Zhou Yunnong	

Senior Management:

 Zhang Zhiliang	 Zhang Jianping	 Tang Chengjian	 Zhang Jingming
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Corporate information

(1) Company Information

Legal Chinese Name of the Company: 中國石化上海石油化工股份有限公司
Abbreviation for Legal Chinese Name of the Company: 上海石化
Legal English Name of the Company : Sinopec Shanghai Petrochemical Company Limited
Abbreviation for Legal English Name of the Company: SPC
Legal Representative of the Company: Rong Guangdao

(2) Contact Persons and Contact Methods

	Secretary to the Board	Securities Representative
Name:	Zhang Jingming	Tang Weizhong
Address:	48 Jinyi Road, Jinshan District Shanghai, PRC	Suite B, 28/F, Huamin Empire Plaza, 728 West Yan'an Road, Shanghai, PRC
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E-mail:	spc@spc.com.cn	tom@spc.com.cn

(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 Place for Access to Information

Newspapers designated for publication of announcements of the Company:
"Shanghai Securities News" and "China Securities Journal"
Websites for the publication of the Company's interim report:
www.sse.com.cn, www.hkex.com.hk and www.spc.com.cn
Place for access to the Company's interim report:
Secretariat Office to the Board, 48 Jinyi Road, Jinshan District,
Shanghai, PRC
Others: This interim report is published in both Chinese and English.
Should any conflict regarding meaning arises, the Chinese
version shall prevail.

(5) Shares Profile of the Company

Share Type	Place of listing of the shares	Stock abbreviation	Stock Code	Stock abbreviation before change
A Shares	Shanghai Stock Exchange	S 上石化	600688	-
H Shares	Hong Kong Stock Exchange	Shanghai Pechem	00338	-
ADR	New York Stock Exchange	SHI	-	-

(6) Other Information

Date of the Company's initial registration: 29 June 1993
Initial registration address of the Company: Jinshan Wei, Shanghai, the People's Republic of China
First time: Date of change of the Company's registration: 12 October 2000
Change of the registration address of the Company: 48 Jinyi Road, Jinshan District, Shanghai,
the People's Republic of China
SAIC registration number of the Company: 31000000021453
Tax registration number of the Company: 310228132212291
Company and Organization Code: 13221229-1

Name of domestic auditors engaged by the Company: KPMG Huazhen
Address of the domestic auditors engaged by the Company: 8th floor, Office Tower 2, Oriental Plaza,
No. 1, East Chang An Avenue, Beijing,
PRC,
Postal Code: 100738

Name of international auditors engaged by the Company: KPMG
Address of the international auditors engaged by the Company: 8th floor, Prince's Building, 10 Chater Road ,
Central, Hong Kong

Legal advisors:

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United States Law: Morrison & Foerster
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Industrial & Commercial Bank of China, Shanghai Branch
No.9 Pudong Avenue Pudong New Area
Shanghai, PRC
Postal Code: 200120

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