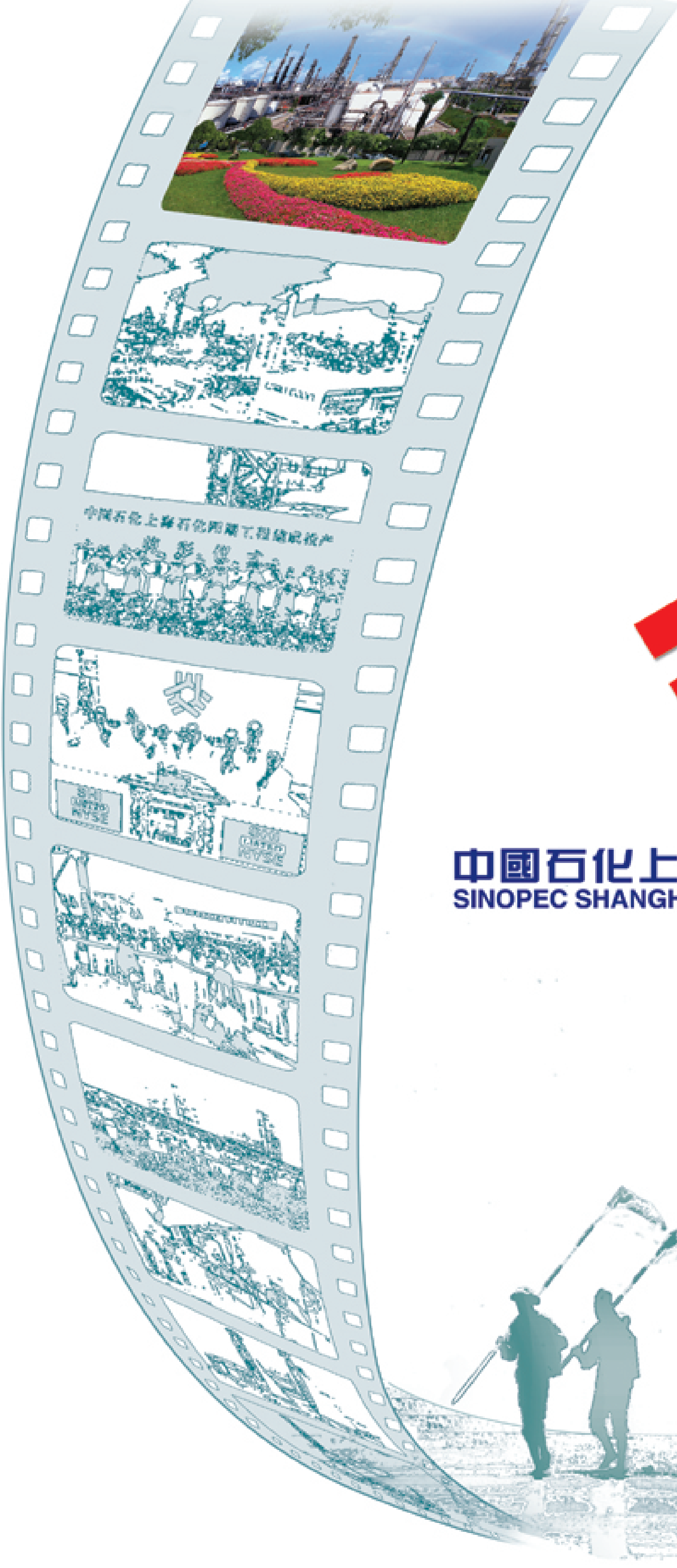
2011
Annual Report



中國石化上海石油化工股份有限公司

SINOPEC SHANGHAI PETROCHEMICAL COMPANY LIMITED

Contents

IMPORTANT:

(1) The Board of Directors (the "Board") and the Supervisory Committee of Sinopec Shanghai Petrochemical Company Limited (the "Company" or "SPC") as well as its Directors, Supervisors and Senior Management warrant that there are no false representations or misleading statements contained in, or material omissions from, the 2011 annual report of the Company, and severally and jointly accept full responsibility for the truthfulness, accuracy and completeness of the information contained in the 2011 annual report.

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

Name of Director not Attending	Role of Director no Attending	Explanation of Director not Attending	Name of Proxy
Wu Haijun	Vice Chairman	Business engagement	Rong Guangdao
Lei Dianwu	Director	Business engagement	Rong Guangdao

(3) The Company prepared the financial statements for the year ended 31 December 2011 (the "Reporting Period") in accordance with the People's Republic of China ("PRC" or "China") Accounting Standards for Business Enterprises ("CAS") as well as the International Financial Reporting Standards ("IFRS"). They have been audited by KPMG Huazhen and KPMG respectively, and both firms have issued standard unqualified opinions on the financial statements in their auditor's reports.

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

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

(6) Mr. Rong Guangdao, Chairman and the responsible person of the Company, Mr. Wang Zhiqing, Vice Chairman and President, and Mr. Ye Guohua, Director and Chief Financial Officer hereby warrant the truthfulness and completeness of the financial statements contained in the 2011 annual report.

Company Profile

Sinopec Shanghai Petrochemical Company Limited is one of the largest petrochemical enterprises in the People's Republic of China based on sales in 2011. It is also one of the largest PRC producers of ethylene. Ethylene is one of the most important intermediate petrochemical products used in the production of synthetic fibres, resins and plastics.

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

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

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

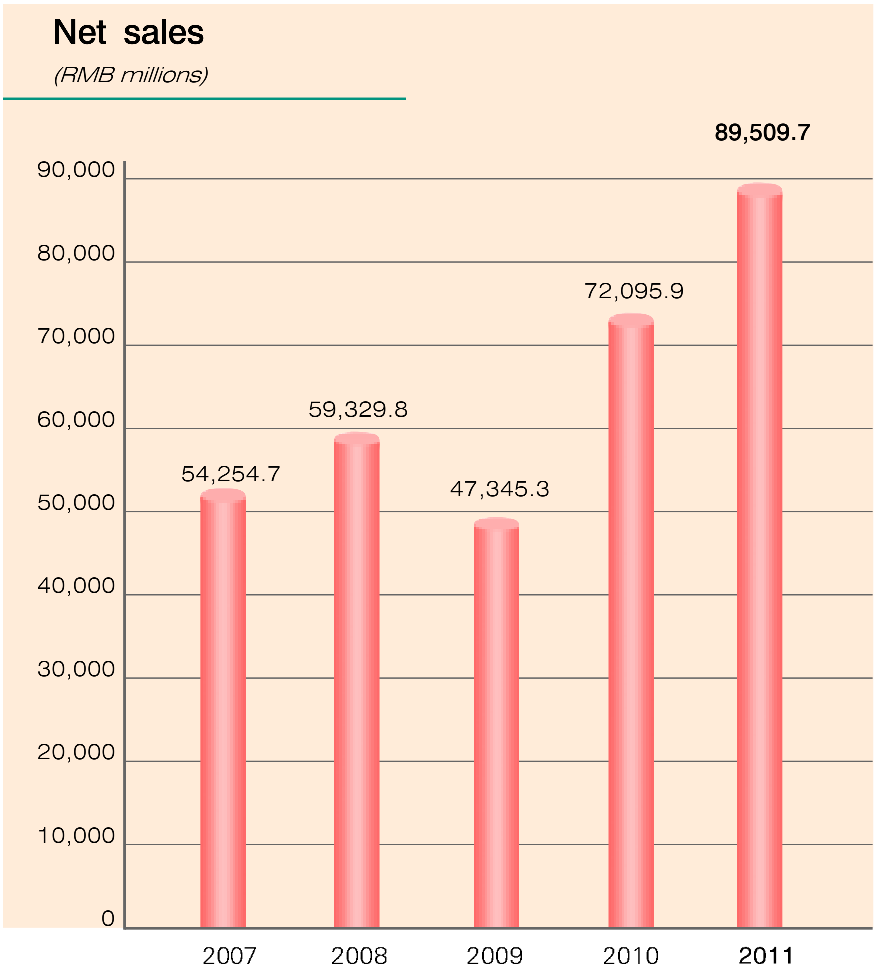
Since the listing of its shares, the Company has strived to continuously improve and enhance its operation and management efficiency with an aim to become a world-class petrochemical enterprise.

Financial Highlights

(Prepared under International Financial Reporting Standards)

Expressed in RMB millions	**2011**	2010* (Restated)	2009* (Restated)	2008* (Restated)	2007* (Restated)
Year ended 31 December:					
Net sales	**89,509.7**	72,095.9	47,345.3	59,329.8	54,254.7
Profit / (loss) before taxation	**1,296.7**	3,529.9	2,163.0	(8,017.9)	2,147.9
Profit / (loss) after taxation	**986.5**	2,794.4	1,652.8	(6,204.4)	1,680.5
Profit / (loss) attributable to equity shareholders of the Company	**956.1**	2,769.0	1,588.3	(6,241.1)	1,631.5
Earnings / (loss) per share	**RMB0.13**	RMB0.39	RMB0.22	RMB(0.87)	RMB0.23
As at 31 December:					
Total equity attributable to equity shareholders of the Company	**17,925.6**	17,689.5	15,136.4	13,630.9	20,784.7
Total assets	**30,718.9**	28,697.5	30,039.9	27,667.0	29,989.8
Total liabilities	**12,523.2**	10,748.2	14,609.2	13,771.7	8,901.0

* The Company adopted the amendments to IFRS 1 "First-time Adoption of IFRS" and restated the comparative figures of 2010 and before. Please refer to note 2 to the financial statements prepared under IFRS.



1. Major Accounting Data

(Prepared under CAS)

	For the years ended 31 December			
	2011	2010	Increase / decrease compared to the previous year	2009
	RMB'000	RMB'000	(%)	RMB'000
Operating income	**95,601,248**	77,591,187	23.21	51,722,727
Operating profit	**1,260,377**	3,540,888	-64.41	2,057,894
Profit before income tax	**1,292,291**	3,453,744	-62.58	2,136,251
Net profit attributable to equity shareholders of the Company	**944,414**	2,703,734	-65.07	1,561,605
Net profit attributable to equity shareholders of the Company excluding non-recurring items	**928,365**	2,771,632	-66.50	1,298,826
Net cash inflow from operating activities	**2,481,431**	4,243,832	-41.53	3,703,542

	As at 31 December			
	2011	2010	Increase / decrease compared to the previous year	2009
	RMB'000	RMB'000	(%)	RMB'000
Total assets	**31,110,085**	29,158,104	6.69	30,458,322
Total liabilities	**12,727,501**	10,985,211	15.86	14,817,964
Total equity attributable to equity shareholders of the Company	**18,112,483**	17,913,040	1.11	15,346,073
Total share capital	**7,200,000**	7,200,000	-	7,200,000

(Prepared under the China Accounting Standards for Business Enterprises)

2. Major Financial Indicators

	For the years ended 31 December			
	2011	2010	Increase/decrease compared to the previous year(%)	2009
Basic earnings per share (RMB)	**0.131**	0.376	-65.07	0.217
Diluted earnings per share (RMB)	**0.131**	0.376	-65.07	0.217
Basic earnings per share excluding non-recurring items (RMB)	**0.129**	0.385	-66.50	0.180
Return on net assets (weighted average)(%)*	**5.243**	16.259	Decreased by 11.016 percentage points	10.701
Return on net assets based on net profit excluding non-recurring items (weighted average) (%)*	**5.154**	16.667	Decreased by 11.513 percentage points	8.900
Net cash inflow per share from operating activities (RMB)	**0.345**	0.589	-41.53	0.514

	As at 31 December			
	2011	2010	Increase/ decrease compared to the previous year(%)	2009
Net asset value per share attributable to equity shareholders of the Company(RMB)*	**2.516**	2.488	1.11	2.131
Liability-to-asset ratio (%)	**40.911**	37.675	Increased by 3.236 percentage points	48.650

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

3. Non-recurring Items

	2011 RMB'000	2010 RMB'000	2009 RMB'000
Net (loss)/ gain from disposal of non-current assets	**(18,006)**	(34,635)	180,203
Employee reduction expenses	**(9,758)**	(3,646)	(12,518)
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)	**76,965**	37,211	25,310
Losses arising from changes in fair value of financial assets held for trading	**-**	-	(10,423)
Investment income from disposal of available-for-sale financial assets	**685**	215	222,810
Income from external entrusted loans	**1,298**	1,581	-
Other non-operating income and expenses other than those mentioned above	**(27,045)**	(89,720)	(54,941)
Income tax effect	**(7,606)**	21,427	(87,610)
Effect attributable to minority interests (after tax)	**(484)**	(331)	(52)
Total	**16,049**	(67,898)	262,779

4. Differences between financial statements prepared under CAS and IFRS

	Net profit attributable to equity shareholders of the Company		Total equity attributable to equity shareholders of the Company	
	The Reporting Period RMB'000	Corresponding period of the previous year RMB'000	At the end of the Reporting Period RMB'000	At the beginning of the Reporting Period RMB'000
Prepared under CAS	944,414	2,703,734	18,112,483	17,913,040
Prepared under IFRS	956,106	2,769,023*	17,925,563	17,689,457*

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

* Restated items. For details, please refer to the financial statements prepared under IFRS.



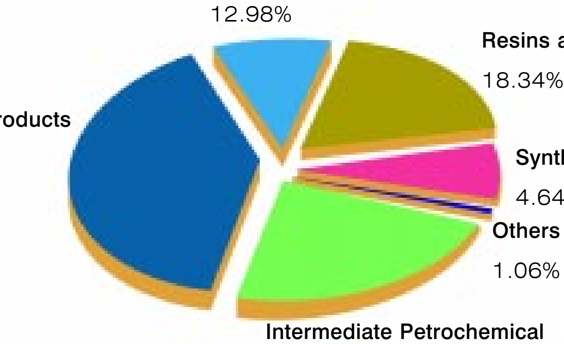
Principal Products

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

The following table sets forth the net sales of the Group's major products in 2011 as a percentage of total net sales and their typical uses.

Major products sold by the Group	% of 2011 net sales	Typical use
Manufactured Products		
Synthetic Fibres		
Polyester staple	**0.92**	Textiles and apparel
Acrylic staple	**3.46**	Cotton type fabrics wool type fabrics delre, and acrylic top
Others	**0.26**	
Subtotal:	**4.64**	
Resins and Plastics		
Polyester chips	**5.77**	Polyester fibres, films and containers
PE pellets	**6.62**	Films, ground sheeting, wire and cable compound and other injection moulding products such as housewares and toys
PP pellets	**5.27**	Extruded films or sheets, injection moulding products such as housewares, toys and household electrical appliances and automobile parts
PVA	**0.49**	PVA fibres, building coating materials and textile starch
Others	**0.19**	
Subtotal:	**18.34**	



Major products sold by the Group	% of 2011 net sales	Typical use
Intermediate Petrochemical Products		
Ethylene	1.44	Feedstock for PE, EG, PVC and other intermediate petrochemicals which can be further processed into resins and plastics and synthetic fibre
Ethylene oxide	1.69	Intermediate for chemical and pharmaceutical industry, dyes, detergents and adjuvant
Benzene	3.04	Intermediate petrochemical products, styrene, plastics, explosives, dyes, detergents, epoxies and polyamide fibre
PX	7.37	Intermediate petrochemical, polyester
Butadiene	2.50	Synthetic rubber and plastics
Ethylene glycol	1.95	Fine chemicals
Others	3.26	
Subtotal:	21.25	
Petroleum Products		
Gasoline	6.94	Transportation fuels
Diesel	24.22	Transportation and agricultural machinery fuels
Jet oil	4.00	Transportation fuels
Others	6.57	
Subtotal:	41.73	
Trading of Petrochemical Products	12.98	
Others	1.06	
TOTAL:	100	

Change in share capital and shareholders for the year ended 31 December 2011

(1) Change in share capital

1. Table of change in share capital

	Before the changes		Increase/decrease (+, -)					After the changes	
	Number (shares)	Percentage (%)	New shares issued (shares)	Bonus shares (shares)	Shares converted from reserves (shares)	Others (shares)	Subtotal (shares)	Number (shares)	Percentage (%)
1. Unlisted non-circulating shares	4,150,000,000	57.64	-	-	-	-	-	4,150,000,000	57.64
(1) Shares of Promoters	4,000,000,000	55.56	-	-	-	-	-	4,000,000,000	55.56
Including:									
Shares held by the State	4,000,000,000	55.56	-	-	-	-	-	4,000,000,000	55.56
Shares held by domestic legal entities	-	-	-	-	-	-	-	-	-
Shares held by foreign legal entities	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-
(2) Raised legal person shares	150,000,000	2.08	-	-	-	-	-	150,000,000	2.08
(3) Employee shares	-	-	-	-	-	-	-	-	-
(4) Preferred shares and others	-	-	-	-	-	-	-	-	-
2. Listed circulating shares	3,050,000,000	42.36	-	-	-	-	-	3,050,000,000	42.36
(1) RMB-denominated ordinary shares	720,000,000	10.00	-	-	-	-	-	720,000,000	10.00
(2) Domestic listed foreign shares	-	-	-	-	-	-	-	-	-
(3) Overseas listed foreign shares	2,330,000,000	32.36	-	-	-	-	-	2,330,000,000	32.36
(4) Others	-	-	-	-	-	-	-	-	-
3. Total share number	7,200,000,000	100	-	-	-	-	-	7,200,000,000	100

(2) Issue and listing of shares

1. Issue of shares during the previous three years

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

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

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

3. Current employee shares

   The Company had no employee shares during the Reporting Period.

(3) Shareholders and controlling company of the controlling shareholder

1. Total number of shareholders and their shareholdings as at 31 December 2011

Total number of shareholders as at the end of the Reporting Period	109,657
Total number of shareholders as at the end of the month before the 2011 annual report published (i.e. 29 February 2012)	110,770

Shareholding of the top ten shareholders

Name of Shareholders	Type of shareholders	Percentage of total shareholding (%)	Number of shares held (shares)	Increase(+)/ decrease(-) during the Reporting Period (shares)	Type of shares	Number of non-circulating shares held (shares)	Number of shares pledged or frozen (shares)
China Petroleum & Chemical Corporation	State-owned Shareholder	55.56	4,000,000,000	0	Non-circulating	4,000,000,000	Nil
HKSCC (Nominees) Limited	Foreign Shareholder	31.86	2,293,950,101	+486,000	Circulating	0	Unknown
China Construction Bank-CIFM China Advantage Security Investment Fund	Others	1.00	71,924,157	-75,843	Circulating	0	Unknown
ICBC - SWS MU New Economy Balanced Equity Fund	Others	0.30	21,266,423	Unknown	Circulating	0	Unknown
Shanghai Kangli Gong Mao Company	Others	0.23	16,730,000	0	Non-circulating	16,730,000	Unknown
China Life Insurance Company Limited - Bonus - Individual Bonus - 005L - FH002 Shanghai	Others	0.20	14,166,204	+4,450,400	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
ICBC - Harvest Theme New Driving Force Stock Securities Investment Fund	Others	0.10	7,437,693	Unknown	Circulating	0	Unknown
Shanghai Textile Development Company	Others	0.08	5,650,000	0	Non-circulating	5,650,000	Unknown

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

1. Total number of shareholders and their shareholdings as at 31 December 2011 *(continued)*

Top ten shareholders of shares in circulation

Name of shareholders	Number of circulating shares held (shares)	Type of Shares
HKSCC (Nominees) Limited	2,293,950,101	Overseas listed foreign shares
China Construction Bank - CIFM China Advantage Security Investment Fund	71,924,157	RMB-denominated ordinary shares
ICBC - SWS MU New Economy Balanced Equity Fund	21,266,423	RMB-denominated ordinary shares
China Life Insurance Company Limited - Bonus - Individual Bonus - 005L-FH002 Shanghai	14,166,204	RMB-denominated ordinary shares
China Life Insurance Company Limited - Tradition - Ordinary Insurance Product - 005L-CT001 Shanghai	12,408,194	RMB-denominated ordinary shares
ICBC - Harvest Theme New Driving Force Stock Securities Investment Fund	7,437,693	RMB-denominated ordinary shares
IP KOW	5,432,000	Overseas listed foreign shares
ICBC - Franklin Templeton Sealand China Income Securities Investment Fund	4,599,907	RMB-denominated ordinary shares
BOC - Fortis Haitong Income Growth Securities Investment Fund	4,476,450	RMB-denominated ordinary shares
Taiping Life Insurance Limited - Dividend - Group Insurance Dividend	4,000,000	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 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.

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

2. Details of the controlling shareholder and controlling company of the controlling shareholder of the Company

(i) Details of the controlling shareholder

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

(ii) Controlling company of the controlling shareholder

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

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

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

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

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

(iv) Diagram of the Ownership and Controlling Relationship between the Company and the Controlling Company of the Controlling Shareholder

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

↓ 100%

China Petrochemical Corporation

↓ 75.84%*

China Petroleum & Chemical Corporation

↓ 55.56%

Sinopec Shanghai Petrochemical Company Limited

* On 9 January 2012, Sinopec directly and indirectly held 76.38% of the total issued share capital of Sinopec Corp. after directly or indirectly increasing its shareholdings in A shares and H shares of Sinopec Corp. through the secondary market.

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

As at 31 December 2011, HKSCC (Nominees) Limited held 2,293,950,101 H shares of the Company, representing 31.86% of the total issued share capital of the Company.

4. Public Float

Based on the public information available to the Board, as at 28 March 2012, the Company had a sufficient public float which complied with the minimum requirement under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Hong Kong Listing Rules").

Interests and Short Positions of the Substantial Shareholders of the Company and other Persons in Shares and Underlying Shares

As at 31 December 2011, the interests and short positions of the Company's substantial shareholders and other persons who are required to disclose their interests pursuant to Part XV of the Securities and Futures Ordinance of Hong Kong (Chapter 571 of the Laws of Hong Kong) (the "SFO") (including those who are entitled to exercise, or control the exercise of, 5% or more of the voting power at any general meeting of the Company but excluding the Directors, Supervisors and Senior Management) in the shares and underlying shares of equity derivatives of the Company as recorded in the register required to be kept under Section 336 of the SFO were as set out below:

(1) Interests in shares and underlying shares of the Company

(a) Interests in ordinary shares of the Company

Name of shareholders	Capacity	Number of share interests held or deemed as held (shares)	Percentage of total issued share capital (%)	Percentage of shareholding in the Company's total issued H shares (%)
China Petroleum & Chemical Corporation	Beneficial owner	4,000,000,000 Promoter legal person shares(L)	55.56	-
Blackrock, Inc.	Beneficial owner	146,342,313(L) 2,130,686(S)	2.03(L) 0.03(S)	6.28(L) 0.09(S)
Government of Singapore Investment Corporation Pte Ltd	Beneficial owner	140,005,700(L)	1.94(L)	6.01(L)

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

(b) Interests in underlying shares of the Company

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

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

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

Save as disclosed above, as at 31 December 2011, no interests or short positions of any other person (excluding the Directors, Supervisors and Senior Management) in the shares or underlying shares of equity derivatives of the Company were recorded in the register required to be kept under Section 336 of the SFO.

Directors, Supervisors and Senior Management

Name	Position	Sex	Age	Date of commencement and end of service term	Number of shares held at the beginning of the year (shares)	Number of shares held at the end of the year (shares)	Reason of change	Total remuneration received from the Company during the Reporting Period (RMB'000) (before taxation)	Whether they received remuneration or allowance from shareholder or other connected party
Rong Guangdao	Chairman	M	56	June 2011 to June 2014	3,600	3,600	-	660	No
Wang Zhiqing	Vice Chairman and President	M	49	June 2011 to June 2014	0	0	-	601	No
Wu Haijun	Vice Chairman	M	49	June 2011 to June 2014	0	0	-	-	Yes
Li Honggen	Director and Vice President	M	55	June 2011 to June 2014	0	0	-	571	No
Shi Wei	Director and Vice President	M	52	June 2011 to June 2014	0	0	-	581	No
Ye Guohua	Director and Chief Financial Officer	M	43	June 2011 to June 2014	0	0	-	559	No
Lei Dianwu	External Director	M	49	June 2011 to June 2014	0	0	-	-	Yes
Xiang Hanyin	External Director	M	57	June 2011 to June 2014	0	0	-	-	Yes
Shen Liqiang	Independent Non-executive Director	M	55	June 2011 to June 2014	0	0	-	-	No
Jin Mingda	Independent Non-executive Director	M	61	June 2011 to June 2014	0	0	-	75	No
Wang Yongshou	Independent Non-executive Director	M	71	June 2011 to June 2014	3,600	3,600	-	75	No
Cai Tingji	Independent Non-executive Director	M	57	June 2011 to June 2014	0	0	-	75	No
Gao Jinping	Chairman of the Supervisory Committee	M	45	June 2011 to June 2014	0	0	-	559	No
Zuo Qiang	Supervisor	M	49	June 2011 to June 2014	0	0	-	116	No
Li Xiaoxia	Supervisor	F	42	June 2011 to June 2014	0	0	-	132	No
Zhai Yalin	External Supervisor	M	47	June 2011 to June 2014	0	0	-	-	Yes
Wang Liqun	External Supervisor	M	54	June 2011 to June 2014	0	0	-	-	Yes
Chen Xinyuan	Independent Supervisor (Note)	M	47	June 2011 to June 2014	0	0	-	75	No
Zhou Yunnong	Independent Supervisor (Note)	M	69	June 2011 to June 2014	0	0	-	75	No
Zhang Zhiliang	Vice President	M	58	June 2011 to June 2014	0	0	-	516	No
Zhang Jianping	Vice President	M	49	June 2011 to June 2014	0	0	-	560	No
Tang Chengjian	Vice President	M	56	June 2011 to June 2014	0	0	-	560	No
Jin Qiang	Vice President	M	46	November 2011 to June 2014	0	0	-	54	No
Zhang Jingming	Company Secretary and General Counsel	M	54	June 2011 to June 2014	0	0	-	404	No
Dai Jinbao	Previous Director of the Sixth Session of the Board	M	56	June 2008 to June 2011	0	0	-	255	No
Sun Chiping	Previous Independent Non-executive Director of the Sixth Session of the Board	M	53	June 2008 to June 2011	0	0	-	75	No
Jiang Zhiquan	Previous Independent Non-executive Director of the Sixth Session of the Board	M	61	June 2008 to June 2011	0	0	-	75	No
Zhang Chenghua	Previous Supervisor of the Sixth Session of the Supervisory Committee	M	56	June 2008 to June 2011	0	0	-	249	No
Wang Yanjun	Previous Supervisor of the Sixth Session of the Supervisory Committee	F	51	June 2008 to June 2011	0	0	-	218	No
Wu Xiaoqi	Previous Supervisor of the Sixth Session of the Supervisory Committee	M	55	June 2008 to June 2011	0	0	-	-	Yes
Liu Xiangdong	Previous Independent Supervisor of the Sixth Session of the Supervisory Committee	M	60	June 2008 to June 2011	0	0	-	-	No
Yin Yongli	Previous Independent Supervisor of the Sixth Session of the Supervisory Committee	M	72	June 2008 to June 2011	0	0	-	-	No
Total								7,120	

Note: Chen Xinyuan and Zhou Yunnong were appointed as Directors of the sixth session of the Board with service term from June 2008 to June 2011. During the Reporting Period, their remuneration received from the Company was the independent director allowance for the first half of 2011.

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

Profiles of Directors, Supervisors and Senior Management

Directors

Rong Guangdao, 56, is Chairman, Secretary of the Communist Party Committee of the Company. Mr. Rong joined the Shanghai Petrochemical Complex (the "Complex") in 1973 and held various positions, including Deputy Director of the No.1 Chemical Plant and Deputy Director and Director of the Ethylene Plant. In April 1994 he was appointed Vice President of the Company, and in June 1995 he was elected Director of the Company. From October 2003 to July 2010, Mr. Rong was President of the Company. In May 2004, Mr. Rong was elected Chairman of the China Jinshan Associated Trading Corporation. From June 2004 to June 2005, Mr. Rong was Vice Chairman of the Company. From April 2005 to July 2010, Mr. Rong was elected Deputy Secretary of the Communist Party Committee of the Company. In June 2005, Mr. Rong was elected Chairman of the Company. From November 2006 to February 2011, Mr. Rong was appointed Director and Vice Chairman of Shanghai Secco Petrochemical Company Limited. In August 2008, he was appointed Director and Chairman of Shanghai Chemical Industrial Park Development Company Limited. In July 2010, he was appointed Secretary of the Communist Party Committee of the Company. Mr. Rong has rich experience in management of large-scale petrochemical enterprise operations. In 1985, Mr. Rong graduated from the Automated Instrument Department of the Shanghai Petrochemical College for Workers and Staff Members. In 1997, he obtained an MBA from China Europe International Business School. He is a senior engineer by professional title.

Wang Zhiqing, 49, is Vice Chairman, President and Deputy Secretary of the Communist Party Committee of the Company. Mr. Wang commenced work in 1983 and held various positions including Deputy Leader of preparatory team for the chemical fiber plant of Luoyang Petrochemical Complex, Deputy Chief Engineer of Luoyang Petrochemical Complex cum Officer-in-Charge of the preparatory team for the complex's chemical fiber plant, and then Deputy Chief Engineer of the complex cum Director of the chemical fiber plant. From June 1999 to December 2001, Mr. Wang was Chief Engineer of Luoyang Petrochemical Complex. From February 2000 to December 2001, Mr. Wang was Vice President cum Chief Engineer of Sinopec Luoyang Company. From December 2001 to October 2006, Mr. Wang was President of Sinopec Luoyang Company. From July 2005 to May 2007, Mr. Wang was the Leader of the preparatory team for a Sinopec refinery project in Guangxi. From October 2006 to December 2008, Mr. Wang was President of Sinopec Jiujiang Company. From December 2008 to July 2010, Mr. Wang was General Manager of Sinopec Jiujiang Company. Mr. Wang was appointed President and Deputy Secretary of the Communist Party Committee of the Company in July 2010. Mr. Wang was appointed Director and Vice Chairman of the Company in December 2010. Mr. Wang was appointed Director and Chairman of Shanghai Secco Petrochemical Company Limited in February 2011. Mr. Wang graduated from the East China Petroleum Institute with a Bachelor of Engineering in 1983, majoring in refinery engineering, and graduated from China University of Petroleum (East China) with a Doctorate in Engineering in 2006, majoring in chemical engineering and technology. He is a senior engineer by professional title.

Wu Haijun, 49, is Vice Chairman of the Company, Director and Deputy General Manager of Shanghai Secco Petrochemical Company Limited. Mr. Wu joined the Complex in 1984 and held various positions including Deputy Director and Director of the Company's No.2 Chemical Plant as well as manager of the Chemical Division. He was Vice President of the Company from May 1999 to March 2006 and Director of the Company from June 2004 to June 2006. He was Manager and Secretary of the Communist Party Committee of the Chemical Sales Branch Office of Sinopec Corp. from December 2005 to March 2008. From December 2005 to April 2010, he was Director of the Chemical Business Department of Sinopec Corp. In April 2010, he was appointed Director of Shanghai Secco Petrochemical Company Limited. From April 2010 to February 2011, Mr. Wu was General Manager of Shanghai Secco Petrochemical Company Limited. In June 2010, he was appointed Director and Vice Chairman of the Company. In February 2011, he was appointed Deputy General Manager of Shanghai Secco Petrochemical Company Limited. Mr. Wu graduated from the East China Institute of Chemical Technology in 1984, majoring in chemical engineering, and obtained a Bachelor of Engineering degree. In 1997, he obtained an MBA from the China Europe International Business School. He is a senior engineer by professional title.

Li Honggen, 55, is Executive Director and Vice President of the Company. Mr. Li joined the Complex in 1973 and held various positions including Deputy Director of No. 1 Chemical Plant and Deputy Director of the Ethylene Plant of the Complex, Director of the Ethylene Plant of the Company and Deputy Manager and Manager of the Refining and Chemical Division of the Company. From August 2000 to December 2003, he was Vice President of Shanghai Chemical Industrial Park Development Company Limited. From August 2002 to January 2006, he was Deputy General Manager of Shanghai Secco Petrochemical Company Limited. In March 2006, he was appointed Vice President of the Company. In June 2006, he was appointed Director of the Company. In August 2008, he was appointed Director of Shanghai Chemical Industrial Park Development Company Limited. In 1988, Mr. Li graduated from East China Institute of Chemical Technology majoring in engineering management and completed a post-graduate course majoring in engineering management at East China University of Science and Technology in 1998. He is an engineer by professional title.

Shi Wei, 52, is Executive Director and Vice President of the Company. Mr. Shi joined the Complex in 1982 and held various positions including Assistant to the Manager and then Deputy Manager of the Refining and Chemical Division of the Company, Manager of the Environmental Department, Secretary of the Communist Party Committee and then Manager of the Refining and Chemical Division of the Company. In October 2003, Mr. Shi was appointed Vice President of the Company. In June 2005, he was appointed Director of the Company. In 1982, Mr. Shi graduated from East China University of Science and Technology majoring in oil refining engineering and obtained a bachelor's degree in engineering. Mr. Shi completed the post-graduate studies in Business Management at East China University of Science and Technology in 1998. Mr. Shi is a senior engineer by professional title.

Ye Guohua, 43, is Executive Director and Chief Financial Officer of the Company. Mr. Ye joined Shanghai Gaoqiao Petrochemical Company in 1991 and held various positions, including Deputy Chief and Chief of the Cost Accounting Section of the Finance Office, Director of the Finance Office of the Refinery Plant of Shanghai Gaoqiao Petrochemical Company and Deputy Chief Accountant and Director of the Finance Department of Sinopec Shanghai Gaoqiao Branch. In October 2009, Mr. Ye was appointed Chief Financial Officer of the Company. In June 2011, Mr. Ye was appointed Director of the Company. Mr. Ye graduated with a major in accounting from the Shanghai University of Finance and Economics in July 1991. He is a senior accountant by professional title.

Lei Dianwu, 49, is Assistant to General Manager of Sinopec and Vice President and Director of Development and Planning Division of Sinopec Corp. In June 2005, Mr. Lei was elected External Director of the Company. Mr. Lei held various positions including Deputy Director of Planning Division of Yangzi Petrochemical Company, Director of the Preparation Office of the Joint Venture of Yangzi Petrochemical Company, Vice President and Manager of production division of Yangzi BASF Stylene Company Limited. He acted as Deputy Manager and Deputy Director of the Joint Venture Office at Yangzi Petrochemical Company, Director of Development and Planning Division in China Dong Lian Petrochemical Limited Liabilities Company, Deputy General Manager of Yangzi Petrochemical Limited Liabilities Company and Deputy Director of Development and Planning Division of Sinopec Corp. In March 2001, he assumed the current position of Director of Development and Planning Division of Sinopec Corp. In March 2009, he was appointed Assistant to General Manager of Sinopec. In May 2009, he was appointed Vice President of Sinopec Corp. Mr. Lei has rich experience in enterprise planning and investment development management. In 1984, Mr. Lei graduated from the East China Petroleum Institute with a major in basic organic chemicals and obtained a bachelor's degree in engineering. He is a senior engineer by professional title.

Xiang Hanyin, 57, is Deputy Director of Chemical Division of Sinopec Corp. In June 2005, Mr. Xiang was elected External Director of the Company. Mr. Xiang commenced work in February 1982 and was Deputy Director of the Chemical Plant of Yizheng Chemical Fibre Company and Director of Chemical Plant of Yizheng Chemical Fibre Co., Ltd. In February 2000, he assumed the current position of Deputy Director of Chemical Division of Sinopec Corp. Mr. Xiang has rich experience in management of chemical enterprise operation. Mr. Xiang graduated from Nanjing Chemical College with a major in basic organic chemicals and a bachelor's degree in engineering in 1982. In 2000, he completed post-graduate studies in enterprise management at Nanjing University. He is a senior engineer by professional title.

Shen Liqiang, 55, is President and Secretary of the Communist Party Committee of the Shanghai Branch of the Industrial and Commercial Bank of China ("ICBC"). In June 2011, Mr. Shen was elected Independent Non-executive Director of the Company. Mr. Shen has been engaged in financial business since December 1976, and has held various positions, including Deputy Director and Director of the Hangzhou Banking Department of the ICBC; Deputy Director of the Accounting and Cashier Department, Deputy Director and Director of the Savings Department, Director of the Personnel Department and Assistant to the President cum Director of Personnel Department of the Zhejiang Branch of the ICBC; Vice President of the Zhejiang Branch of the ICBC; Vice President cum General Manager and Secretary of the Communist Party Committee of the Banking Department of the Zhejiang Branch of the ICBC. He was Vice President and Deputy Secretary of the Communist Party Committee of the Zhejiang Branch of the ICBC from October 2005 to March 2007, and was appointed President and Secretary of the Communist Party Committee of the Hebei Branch of the ICBC from March 2007 to June 2009. He has been President and Secretary of the Communist Party Committee of the Shanghai Branch of the ICBC since June 2009. Mr. Shen has long been engaged in banking business management and has both in-depth expertise on finance theory and extensive experience in finance practice. Mr. Shen holds a Master's Degree in Economics and is a senior accountant by professional title.

Jin Mingda, 61, is Chairman and Secretary of the Communist Party Committee of Shanghai Huayi (Group) Company. In June 2011, Mr. Jin was elected Independent Non-executive Director of the Company. Mr. Jin started working in October 1968 and has held various positions, including Deputy Secretary of the Communist Party Committee, Deputy Director, Secretary of the Communist Party Committee and Director of Shanghai Power Station Auxiliary Equipment Works Co., Ltd; General Manager cum Deputy Secretary of the Communist Party Committee of Shanghai Boiler Works Co., Ltd; Vice President of Shanghai Electric (Group) Corporation; Vice President of Shanghai Electric Group Co., Ltd.; and General Manager and Secretary of the Communist Party Committee of Shanghai Mechanical & Electrical Industry Co., Ltd. He served as Director, President and Deputy Secretary of the Communist Party Committee of Shanghai Huayi (Group) Company from November 2005 to October 2007, and Chairman and Secretary of the Communist Party Committee of Shanghai Huayi (Group) Company from October 2007. He was appointed Independent Director of Shanghai Electric Power Co., Ltd in November 2009. Mr. Jin has extensive experience in business decision-making and management of conglomerates. He possesses postgraduate qualifications and is a senior economist by professional title.

Wang Yongshou, 71, is Independent Non-executive Director of the Company since June 2011. Mr. Wang started working in September 1964 and has held various positions, including Deputy Secretary of the Communist Party Committee, Deputy Director and Director of Plastics Factory of the Complex; Chief Economist of the Complex and Deputy General Manager of Sinopec Shanghai Jinshan Industrial Company. He served as General Manager of Shanghai Jinshan Industrial Investment and Development Co., Ltd. from September 1997 to November 2001. Mr. Wang has extensive experience in corporate operation and management. Mr. Wang graduated from Zhejiang Institute of Chemical Technology in September 1964, and is a senior engineer by professional title.

Cai Tingji, 57, is a Fellow of the Hong Kong Institute of Certified Public Accountants, a member of the Committee of the Chinese People's Political Consultative Conference of Jing'an District, Shanghai, and Honorary Vice-Chairman of the Federation of Returned Overseas Chinese of Jing'an District, Shanghai, and is Independent Non-executive Director of the Company since June 2011. Mr. Cai graduated from the Department of Accounting, Hong Kong Polytechnic University in 1978. He joined KPMG in the same year and has held various positions, including Deputy Manager and Manager of the audit department of KPMG Hong Kong Office, Managing Partner of KPMG Shanghai Office, Senior Partner of KPMG Huazhen Shanghai Office as well as Senior Partner of KPMG Huazhen in Eastern and Western China. Mr. Cai retired from KPMG Huazhen in April 2010. Mr. Cai was responsible for IPO projects for a number of large Chinese domestic enterprises in China, Hong Kong or overseas, as well as for various projects for listed companies. He possesses a wealth of professional knowledge and experience.

Supervisors

Gao Jinping, 45, is Chairman of the Supervisory Committee, Deputy Secretary of the Communist Party Committee, Secretary of the Communist Party Discipline Supervisory Committee and Chairman of the Labor Union of the Company. Mr. Gao joined the Complex in 1990 and held various positions including Deputy Secretary of the Communist Youth League of the Company, Deputy Secretary of the Communist Party Committee of the Experimental Plant and Chemical Division of the Company, and Director of the Propaganda Department of the Company. In May 2003, Mr. Gao was appointed Deputy Secretary of the Communist Party Committee and Chairman of the Labor Union of the Company. From June 2004 to June 2006, Mr. Gao was elected Director of the Company. In April 2006, Mr. Gao was appointed Secretary of the Communist Party Discipline Supervisory Committee of the Company. In June 2006, Mr. Gao was appointed Supervisor and Chairman of the Supervisory Committee of the Company. Mr. Gao graduated from the Food Processing Faculty of Shanghai Aquatic Products University with a major in cooling and cold storage technology and obtained a bachelor's degree in engineering in July 1990. In 2001, he completed his post-graduate studies in business administration in the aspect of industrial economics at Shanghai Academy of Social Sciences. He has senior professional technical qualifications.

Zuo Qiang, 49, is Supervisor, Deputy Secretary of Discipline Inspection Commission, Director of the Supervisory Office, Director of Supervisory Committee Office, and Secretary of the Discipline Supervisory Committee of the Headquarter of the Company. Mr. Zuo joined the Complex in 1981 and has held various positions, including archivist of the Command Division for the construction of Phase II of No. 1 Chemical Plant, Head of archives of the ethylene plant, Secretary of the Youth League Committee of the ethylene plant, Secretary of the Youth League Committee of the Refining and Chemical Division of the Complex, Secretary of the Youth League Committee of the Refining and Chemical Division, Secretary of General Branch of the Communist Party Committee of Ethylene Plant No. 1 of the Refining and Chemical Division of the Company, and Deputy Director of the Supervisory Office of the Company. He was appointed as Secretary of the Discipline Supervisory Committee of the Headquarter of the Company in August 2008. He was appointed as the Director of the Supervisory Office in April 2011. He has been serving as Supervisor, Director of Supervisory Committee Office since June 2011, and has been serving as Deputy Secretary of Discipline Inspection Commission of the Company since October 2011. Mr. Zuo graduated from the Correspondence College of the Communist Party Committee School of the Central Committee in June 1993 with a major in Party & Administrative management. He is an ideologist by professional title.

Li Xiaoxia, 42, is Supervisor and Vice Chairman of the Labor Union of the Company. Ms. Li joined the Complex in 1991 and has held various positions, including Controller of the operation zone of the marine terminal of the Company, Assistant to the Workshop Director, Deputy Workshop Director and Deputy Section Chief of Storage and Transportation Area No. 2 of the Refining and Chemical Division, Deputy Secretary of the Youth League Committee of the Company, Secretary of Party General Branch for Staff Exchange and Relocation Centre, and Secretary of the Communist Party Committee and Deputy Manager of the Refining Division of the Company. In June 2011, she was appointed as Supervisor of the Company. In December 2011, she was Vice Chairman of the Labor Union of the Company. Ms. Li graduated from Liaoning University of Petroleum and Chemical Technology in August 1991 with a major in petroleum and natural gas transportation. She has senior professional technical qualifications.

Zhai Yalin, 47, is Deputy Director of the Auditing Bureau of Sinopec and Deputy Director of Auditing Department of Sinopec Corp., and has been External Supervisor of the Company since June 2008. Mr. Zhai began his career in 1986 and had been successively Deputy Head of the Head Office and Director of the Auditing Department of Qianguo Refinery, Deputy Director of the General Office of Sinopec Huaxia Auditing Company, Deputy Director of the General Administrative Office of the Auditing Bureau of China Petrochemical Corporation, Director of the General Administrative Office of the Auditing Bureau of Sinopec, and Director of the General Administrative Office of the Auditing Bureau of Sinopec (Auditing Department of Sinopec Corp.). Since December 2001, Mr. Zhai has been holding concurrently the posts of Deputy Director of the Auditing Bureau of Sinopec and Deputy Director of Auditing Department of Sinopec Corp. Mr. Zhai graduated from Jilin Siping Normal College in 1986 and is a senior economist by professional title.

Wang Liqun, 54, is Deputy Chief of the Supervisory Bureau of Sinopec and Deputy Director of the Supervisory Department of Sinopec Corp., and has been External Supervisor of the Company since June 2011. Mr. Wang started working in 1976 and has held various positions, including Deputy Director of the Manager's Office of Beijing Yanshan Petrochemical Corporation, Director of the Personnel Department, Deputy Head and Head of the Department for Cadres of Beijing Yanshan Petrochemical Co., Ltd. He served as a member of the Standing Committee of the Communist Party Committee and Chairman of the Labour Union of Beijing Yanshan Petrochemical Co., Ltd. from August 2008 to April 2010. He has been serving as Deputy Chief of the Supervisory Bureau of Sinopec and Deputy Director of the Supervisory Department of Sinopec Corp from April 2010. Mr. Wang graduated from Beijing Federation of Labour Unions University for Workers and Staff in 1984 with a major in environmental protection (Diploma), and graduated from Beijing University of Technology in 1997 with a major in business management (Bachelor). He is a senior economist by professional title.

Chen Xinyuan, 47, is Dean, Professor and Tutor to doctoral students of the College of Accounting, Shanghai University of Finance and Economics, and has been Independent Supervisor of the Company since June 2011. After graduation from the Accounting Faculty, Hangzhou College of Commerce in July 1985, Mr. Chen undertook post-graduate studies at the Accounting Faculty of Shanghai University of Finance and Economics and continued as a lecturer. He commenced his doctoral studies in accounting while teaching and received his doctorate in June 1994. He has been a tutor to doctoral students since December 1998. From June 2000 to June 2003, Mr. Chen was appointed Independent Supervisor of the Company. From June 2003 to June 2011, Mr. Chen was Independent Non-executive Director of the Company. Mr. Chen has also studied in West Germany for one year. He is an expert in financial reporting and accounting, given his experience in the teaching and academic aspects of accounting and notable achievements in accounting research. He is also experienced in business management.

Zhou Yunnong, 69, has been Independent Supervisor of the Company since June 2011. Mr. Zhou joined the Complex in October 1972 and held various positions, including Deputy President of the Complex, Deputy Director of the Human Resource Department of China Petrochemical Corporation, Deputy Secretary of Communist Party Committee of the Complex, Vice President of the Company, Secretary of the Communist Party Committee of Sinopec Jinshan Industrial Company and the Governor of Jinshan District of Shanghai. From November 1999 to April 2002 he was a bureau-class inspector to Shanghai Jinshan District. From June 2003 to June 2005, Mr. Zhou was appointed Independent Supervisor of the Company. From June 2005 to June 2011, Mr. Zhou was appointed Independent Non-executive Director of the Company. Mr. Zhou has extensive experience in business management and public administration management. Mr. Zhou graduated from East China Normal University in August 1964, majoring in radio. He is a senior engineer by professional title.

Senior Management

Zhang Zhiliang, 58, is Vice President of the Company. Mr. Zhang joined the Complex in 1977 and held various positions including Deputy Director and Director of the No.1 Chemical Plant of the Complex, as well as deputy manager and manager of the Company's Refining and Chemical Division. He was Vice President of the Company from April 1997 to March 2006. He was Director of the Company from June 1997 to June 2003. He was Director of Shanghai Secco Petrochemical Company Limited from November 2002 to April 2010, and Vice President of Shanghai Secco Petrochemical Company Limited from January 2006 to November 2006. He was President of Shanghai Secco Petrochemical Company Limited from November 2006 to April 2010. In April 2010, he was appointed Vice President of the Company. Mr. Zhang graduated from Fudan University in 1977, majoring in high molecular chemistry. He graduated from Shanghai No.2 Industrial University in 1999, majoring in Applied Computer Management. He is a senior cadre of professoriate rank.

Zhang Jianping, 49, is Vice President of the Company. Mr. Zhang joined the Complex in 1987 and held various positions including Deputy Chief Engineer of the Aromatics Plant of the Refining and Chemical Division, Deputy Director of the Plastics Plant, Deputy Manager of Plastic Division of the Company, Director of the Petrochemical Research Institute, Director of the Production Department of the Company, Assistant to President of the Company and concurrently Director of the Production Department. In July 2004, Mr. Zhang was appointed Vice President of the Company. Mr. Zhang graduated in 1984 from East China Institute of Chemical Technology specialising in petroleum refining. He obtained a master's degree in 1987 from East China Institute professor level Chemical Technology specialising in oil processing. He is a senior engineer by professional title.

Tang Chengjian, 56, is Vice President of the Company. Mr. Tang joined the Complex in 1974 and held various positions including Deputy Secretary of the Communist Party Committee, Chairman of the Labour Union and Deputy Director of the Thermal Power Plant of the Complex, Deputy Director of the Thermal Power Plant of the Company, Deputy Director and then Director of the Company's General Thermal Power Plant. In July 2004, Mr. Tang was appointed Vice President of the Company. Mr. Tang graduated from the Shanghai Electric Power College specialising in steam turbine in 1974 and graduated from Shanghai Electric Power Institute with a major in electrical power system in 1986. In 1991, Mr. Tang graduated from the Shanghai Second Polytechnic University majoring in management engineering. In 2001, he obtained an MBA degree from the China Europe International Business School. He is a senior economist by professional title.

Jin Qiang, 46, is Vice President of the Company. Mr. Jin joined Zhenhai General Petrochemical Works in 1986 and held various positions including Deputy Chief of the atmosphere and vacuum distillation unit and Deputy Chief of the heavy oil catalytic cracking plant. He then became Deputy Head and Head of the Machinery and Power Section of the Refinery Plant of Zhenhai Refining & Chemical Co., Ltd. He was appointed Deputy Director of the Utilities Department of Sinopec Zhenhai Refining & Chemical Co., Ltd (ZRCC) from June 2002 to April 2004, Deputy Director of the Machinery and Power Division of ZRCC from April 2004 to July 2005, Director of the Machinery and Power Division of ZRCC from July 2005 to October 2006, Director of the Machinery and Power Division of Sinopec Zhenhai Refining & Chemical Company from October 2006 to March 2007 and Deputy Chief Engineer of Sinopec Zhenhai Refining & Chemical Company from March 2007 to November 2011. Mr. Jin graduated in July 1986 from the East China Institute of Chemical Technology specialising in chemical machinery, and graduated in July 2007 from the Graduate School of Central Party School specialising in economic management. He is a senior engineer by profession title.

Zhang Jingming(FCIS,FCS), 54, is Secretary to the Board, General Counsel in-house and Director of Strategy Research Department of the Company. Mr. Zhang joined the Complex in 1978. He has held various positions including Project Manager of the International Department, the Company's Securities Affairs Representative in Hong Kong, Deputy Director of the International Department and Deputy Director of the Board Secretariat. In June 1999, Mr. Zhang was appointed Secretary to the Board. From June 1999 to June 2011, he was Director of the Board Secretariat. In June 2001, Mr. Zhang was appointed Director of Strategy Research Department of the Company. In January 2005, Mr. Zhang was appointed General Counsel in-house of the Company. Mr. Zhang graduated from the Shanghai International Studies University majoring in English in 1987. During 1992 and 1993, he enrolled at the fourth Sino-British joint MBA program at Northwestern Polytechnic University. Mr. Zhang subsequently left for the University of Hull in the United Kingdom to pursue his studies in an MBA program, and in July 1995, he was conferred an MBA by the University of Hull. In 2002, Mr. Zhang completed his studies in a master program in international economic law at East China University of Politics and Law. He is a senior economist by professional title.

Management Positions held at the Company's Shareholders

Name	Company	Position held	Commencement of service term	End of service term	Whether they received remuneration and allowance from shareholder
Lei Dianwu	Sinopec Corp.	Vice President cum Director of the Development and Planning Division	May 2009	May 2012	Yes
Xiang Hanyin	Sinopec Corp.	Deputy Director of Chemical Division	May 2009	May 2012	Yes
Zhai Yalin	Sinopec Corp.	Deputy Director of Audit Department	May 2009	May 2012	Yes
Wang Liqun	Sinopec Corp.	Deputy Director of Supervisory Department	April 2010	May 2012	Yes

Management Positions held in other companies

Name	Other company's name	Position held	Commencement of service term	End of service term	Whether they received remuneration and allowance
Wu Haijun	Shanghai Secco Petrochemical Company Limited	Director and Deputy General Manager	February 2011	February 2015	Yes

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

Remuneration of Directors, Supervisors and Senior Management

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

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

   For details of remuneration of the Directors and Supervisors, please refer to Note 7 to the financial statements prepared under IFRS.

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

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

3. The five highest paid individuals

   Please refer to Note 7 to the financial statements prepared under IFRS. All of the five highest paid individuals are Directors, Supervisors and Senior Management of the Company.

4. Pension scheme

   Please refer to Notes 7, 25(e) and 26 to the financial statements prepared under IFRS.

5. Staff remuneration

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

Change of Directors, Supervisors and Senior Management

1. Change of Directors, Supervisors and Senior Management

Name	Position held	Change	Reason
Dai Jinbao	Director	Resigned	Retirement by rotation
Chen Xinyuan	Independent Non-executive Director	Resigned	Retirement by rotation
Sun Chiping	Independent Non-executive Director	Resigned	Retirement by rotation
Jiang Zhiquan	Independent Non-executive Director	Resigned	Retirement by rotation
Zhou Yunnong	Independent Non-executive 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 Non-executive Director	Newly appointed	-
Jin Mingda	Independent Non-executive Director	Newly appointed	-
Wang Yongshou	Independent Non-executive Director	Newly appointed	-
Cai Tingji	Independent Non-executive Director	Newly appointed	-
Zuo Qiang	Supervisor	Newly appointed	-
Li Xiaoxia	Supervisor	Newly appointed	-
Wang Liqun	Supervisor	Newly appointed	-
Chen Xinyuan	Independent Supervisor	Newly appointed	-
Zhou Yunnong	Independent Supervisor	Newly appointed	-
Jin Qiang	Vice President	Newly appointed	-

2. Description

The seventh session of the Board 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 Non-executive Directors. At the first meeting of the seventh session of the Board 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 employees' democratic management authority of the Company on 15 June 2011 and the Company's 2010 Annual General Meeting held on 29 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 the same day.

The appointment of Jin Qiang as Vice President of the Company was considered and approved at the fourth meeting of the seventh session of the Board held on 11 November 2011.

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

Save for the shares held by the Company's Directors, Supervisors and Senior Management as set out in the above section "Directors, Supervisors and Senior Management", as at 31 December 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 for Securities Transactions") set out under Appendix 10 of the Hong Kong Listing Rules.

As at 31 December 2011, none of the Directors, Supervisors or Senior Management or their respective spouses and children under 18 years had been granted by the Company or had exercised any rights to subscribe for shares or debentures of the Company or any of its associated corporations.

Directors' and Supervisors' Interests in Contract

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

None of the Directors or Supervisors of the Company has entered into any service contracts with the Company which is not terminable by the Company within one year without payment of compensation other than statutory compensation.

Model Code for Securities Transactions

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

Employees

As at 31 December 2011, the Group had 15,655 employees in total. Among them, there were 8,857 production staff, 5,166 sales representatives, financial personnel and other personnel and 1,632 administrative staff. There were 39.06% of the employees who had tertiary qualifications or above.

Current Status of Corporate Governance in the Company

In 2011, the Company strictly complied with the regulatory documents such as the PRC Company Law (the "Company Law"), the PRC Securities Law (the "Securities Law") and the Corporate Governance Principles for Listed Companies issued by the China Securities Regulatory Commission (the "CSRC"), as well as the relevant provisions and requirements of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the New York Stock Exchange. It continued to improve its corporate governance structure, strengthens its development of corporate system, standardise its corporate operation and enhance overall corporate image.

Improvement to the legal person governance structure: During the Reporting Period, pursuant to the relevant laws, regulations and the articles of association of the Company (the "Articles of Association"), the Company conscientiously carried out relative consideration and approval procedures and smoothly completed the work of replacing the Board and management members. In addition, the Company newly appointed a Vice President on 11 November 2011 (For details, please refer to the "Change of Directors, Supervisors and Senior Management" on page 26).

Improvement to the development of governance system: During the Reporting Period, in accordance with the requirements of the relevant laws and regulations of the places where the Company's shares are listed and the Company's actual situation, the Company formulated the Working Rules for the Secretary to the Board, and amended and improved the Internal Control Manual (2011 Edition), the Working Rules for Independent Directors and the Working Instructions for President. In particular, the Company added provisions to the Working Rules for Independent Directors including those in relation to the factors assessing its Independent Directors' independence, specified the President's working form and content in the Working Instructions for President, and adjusted and improved the Internal Control Manual in accordance with domestic and overseas regulatory requirements, risk prevention needs, the internal control recommendations from external auditors and the actual situation of the Company. The aforesaid institutional documents were considered and approved by the sixth session of the Board.

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

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

Not-Yet-Rectified Problem during the Year

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

Performance of Duties by the Directors

1. Directors' attendance at the Board meetings

Name of Director	Whether as Independent Director	Attendance at meetings of the Board during the year	Attendance in person (no. of times)	Attendance by correspondence (no. of times)	Attendance by proxy (no. of times)	Absence (no. of times)	Whether not attending in person for two consecutive times
Rong Guangdao	No	6	6	3	0	0	No
Wang Zhiqing	No	6	5	3	1	0	No
Wu Haijun	No	6	5	3	1	0	No
Li Honggen	No	6	6	3	0	0	No
Shi Wei	No	6	5	3	1	0	No
Dai Jinbao	No	2	2	1	0	0	No
Lei Dianwu	No	6	3	3	3	0	No
Xiang Hanyin	No	6	4	3	2	0	No
Chen Xinyuan	Yes	2	2	1	0	0	No
Sun Chiping	Yes	2	2	1	0	0	No
Jiang Zhiquan	Yes	2	1	1	1	0	No
Zhou Yunnong	Yes	2	2	1	0	0	No
Ye Guohua	No	4	4	2	0	0	No
Shen Liqiang	Yes	4	4	2	0	0	No
Jin Mingda	Yes	4	4	2	0	0	No
Wang Yongshou	Yes	4	4	2	0	0	No
Cai Tingji	Yes	4	4	2	0	0	No

the Board meetings held during the year (no. of times)	6
including: meetings held on site (no. of times)	3
meetings held by correspondence (no. of times)	3
meetings held by correspondence on site and by correspondence (no. of times)	0

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

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

3. Particulars of the establishment of a sound work system for Independent Directors, its major elements and performance of duties by Independent Directors

The Company formulated the Work System for Independent Directors and the Work System for Independent Directors on Annual Report. In the Work System for Independent Directors, it clearly defines the requirements for the appointment, nomination, election and replacement of Independent Directors as well as special duties, expression of independent opinions and work conditions of Independent Directors.

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

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

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

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

Overall plan of internal control establishment

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

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

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

The Internal Control Manual (2011 Edition) comprises 47 operation procedures in 20 categories and sets out 1,413 control points and 332 authorisation control indicators. The scope of control covers the major areas of the Company's production, operation and development and the key procedures of relevant business, such as financial management, accounting and auditing, procurement of raw materials, product sales, capital expenditure, human resources and information management. The scope of control also includes reviewing the sufficiency of the Company's resources of accounting, financial management and reporting function as well as employees' qualifications and experience and the adequacy of the training courses attended by the employees and the relevant budget.

In 2011, the Company conscientiously enforced the Internal Control Manual approved by the Board, and conducted self-review, walk-through test on procedures and integrated inspection on internal control in accordance with rules and regulations. The management of the Company considers that the internal control of the Company was effective during the Reporting Period.

Establishment of the department inspecting and supervising internal control

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

The internal control task force has an internal control office, which is a department in charge of internal control review and supervision. The office is responsible for directing or organising daily inspection and evaluation, organising annual comprehensive inspection and evaluation of the Company organising specific inspection and evaluation as needed, supervising and rectifying, drafting assessment proposals and reporting it to the internal control task force and submitting regular reports on internal control inspection and supervision to the Audit Committee of the Board.

The Company sets up an internal control supervisor working network consisting of 42 members. These internal control supervisors, on behalf of their respective departments or administrative heads of second-tier units, conduct internal control work and activities within their respective supervisory scope and functionally report to the internal control office of the Company.

The Board's work arrangements for internal control

Through Audit Committee set up under the Board, the Board listens to the reports on the establishment of internal controls of the Company and the results of the implementation and inspection on a regular basis. It also annually considers and publishes its self-assessment report on the internal controls of the Company and considers and approves the revised Internal Control Manual of the Company.

Improvements to the internal control system in relation to financial audit

Based on the Accounting Law, Enterprise Accounting Standards and other laws and regulations, the Company has formulated an array of financial and accounting management policies such as the Financial Management Policy, the Budget Management Policy and the Fund Management Measures. In accordance with domestic and overseas regulatory requirements, the Company has developed 34 sets of internal control operating procedures in relation to financial management as well as accounting and auditing, such as the Business Processes for Overall Budget Management, the Business Processes for Cost Management, the Business Processes for Fund Management and the Business Processes for Capital Expenditures. The Matrix Table on Locus of Control in Relation to Financial Reporting has also been published pursuant to the Internal Control Manual of the Company.

Defects present in internal control and relevant rectification

The Board has conducted a self-assessment on its internal control work in 2011. The results of the assessment are: no material defects were detected in the design or enforcement of the internal control of the Company from 1 January 2011 to 31 December 2011.

Appraisal and Incentive Mechanisms for Senior Management

The Remuneration System for the Senior Management was considered and approved at the 2002 annual general meeting of the Company on 18 June 2003. In 2011, the Company has continued to adopt this system as the basis to appraise and reward the Company's senior management.

The Company's Disclosure of the Assessment Report on the Internal Control and the Report on Fulfilment of Corporate Social Responsibility

1. The Company has disclosed an assessment report on internal control. For details, please refer to the Appendix 1 to this annual report.

2. The Company has disclosed its external auditor's report on internal control over financial reporting of the Company as of the year ended 31 December 2011 according to "Sarbanes-Oxley Act". For details, please refer to the Appendix 2 to this annual report.

3. The Company has disclosed its external auditor's report on internal control over financial reporting of the Company as at 31 December 2011 according to the requirements of "Audit Guidelines for Enterprise Internal Control". For details, please refer to the Appendix 3 to this annual report.

4. The Company has disclosed the Report on Fulfilment of Corporate Social Responsibility for 2011. For details, please refer to the Appendix 4 to this annual report.

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

The Company's Information Disclosure Management System (2010 Revised Version) defined specific regulations for the accountability for major errors in the disclosure of information in annual report. During the Reporting Period, there were no major errors in the disclosure of information in the Company's annual report such as amendments to major accounting errors, supplements to material omission of information or amendments to results forecasts.

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

Corporate Governance Practices

In 2011, the Company complied with all the principles and code provisions set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 to the Hong Kong Listing Rules.

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

A. Directors

A.1 The Board

The Board meets at least once per quarter. In 2011, six Board meetings were held, two of which were conducted by the sixth session of the Board and four of which were conducted by the seventh session of the Board. For attendance rates of the Directors, please refer to the "Directors' attendance at the Board meetings" set out on page 30. Before each Board meeting, the Secretary to the Board would consult each Director for matters to be tabled at the relevant Board meeting. Any matters so raised by the Directors would be included in the agenda of the relevant regular Board meeting. During the year, all notices and draft agenda of all Board meetings were sent to all Directors no later than 14 days before the date of the meeting.

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

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

A.2 Chairman and President

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

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

A.3 Board composition

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

A.4 Appointments, re-election and removal

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

The resolution on the election of the Board of the Company was passed at the Company's 2010 Annual General Meeting held on 29 June 2011. Directors Mr. Rong Guangdao, Mr. Wang Zhiqing, Mr. Wu Haijun, Mr. Li Honggen, Mr. Shi Wei, Mr. Lei Dianwu and Mr. Xiang Hanyin were elected to serve the second term of office at the 2010 Annual General Meeting. Director Mr. Ye Guohua, Independent Non-executive Directors Mr. Shen Liqiang, Mr. Jin Mingda, Mr. Wang Yongshou and Mr. Cai Tingji assumed their offices for the first time.

A.5 Responsibilities of Directors

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

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

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

A.6 Supply of and access to information

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

B. Remuneration of Directors and Senior Management

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

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

C. Accountability and Audit

C.1 Financial reporting

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

C.2 Internal control

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

The Board ensures that the internal control system of the Company is sound and proper so as to safeguard shareholders' investments and the Company's assets through two reviews conducted annually by the Audit Committee on the Company's internal control system. The Audit Committee conducted these reviews on the Company's internal control for 2010 and the first half of 2011 in March and August 2011 respectively. They reported to the Board and adopted the recommendations provided by the Board to further enhance the Company's internal control system, thereby enhancing the effectiveness and efficiency of internal control.

C.3 Audit Committee

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

D. Delegation of powers by the Board

D.1 Management functions

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

D.2 Board Committees

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

E. Communication with Shareholders

E.1 Effective Communication

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

The notice on convening the 2010 Annual General Meeting was dispatched to the shareholders at least 45 days before the meeting.

E.2 Voting by Poll

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

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

Directors' securities transactions

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

Board of Directors

(a) Composition of the Board

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

(b) Functions of the Board

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

Subject to the Articles of Association, the Board shall convene at least 4 regular meetings every year. The Chairman serves as the convener of the Board meetings and is responsible for determining the topics to be considered. In practice, the Board convenes a minimum of 4 meetings each year and 6 Board meetings were held during 2011.

(c) Qualifications and Independence of the Independent Directors

The 4 Independent Non-executive Directors of the Company possess extensive experience as well as academic and professional qualifications in various areas including management, accounting and finance respectively, thereby ensuring the Board's ability in protecting the interests of the shareholders as a whole. During the Reporting Period, the Independent Directors contributed significantly in improving the Company's corporate governance structure and protecting the interest of the minority shareholders. For example, Independent Non-executive Director Mr. Cai Tingji is a fellow of the Hong Kong Institute of Certified Public Accountants. He is very familiar with financial reporting and accounting, given his years of experience in auditing. The Company confirms that it has received from each Independent Non-executive Director a confirmation of his independence pursuant to Rule 3.13 of the Hong Kong Listing Rules, confirming to the Company annually in respect of his independence. The Company considers all these directors to be independent.

Board Committees

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

(1) The Remuneration and Appraisal Committee

A. Role and Functions of the Remuneration and Appraisal Committee

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

B. Members of the Remuneration and Appraisal Committee

The Remuneration and Appraisal Committee of the Sixth Session of the Board comprises 3 Directors, 2 of whom are Independent Non-executive Directors and 1 is Executive Director.

Chairman: Zhou Yunnong, Independent Non-executive Director

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

The Remuneration and Appraisal Committee of the Seventh Session of the Board comprises 3 Directors, 2 of whom are Independent Non-executive Directors and 1 is Executive Director.

Chairman: Wang Yongshou, Independent Non-executive Director

Members: Jin Mingda, Independent Non-executive Director and Ye Guohua, Executive Director

C. Meetings of the Remuneration and Appraisal Committee

The Remuneration and Appraisal Committee convenes at least one meeting each year. In 2011, the Committee of the Sixth Session of the Board convened one meeting with record of attendance as follows:

Members of Remuneration and Appraisal Committee	Attendance in Person (no. of times)	Attendance by Proxy (no. of times)	% of Attendancy
Zhou Yunnong	1	0	100%
Jiang Zhiquan	1	0	100%
Dai Jinbao	1	0	100%

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

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

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

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

During the Reporting Period, the Remuneration and Appraisal Committee reviewed the remuneration policy of the Directors and conducted annual appraisals with the Directors and the Senior Management.

(2) The Audit Committee

A. Role and Functions of the Audit Committee

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

B. Members of the Audit Committee

The Audit Committee of the Sixth Session of the Board comprises 3 Independent Non-executive Directors.

Chairman: Chen Xinyuan (accounting expert)

Members: Sun Chiping and Zhou Yunnong

The Audit Committee of the Seventh Session of the Board comprises 3 Independent Non-executive Directors.

Chairman: Cai Tingji (accounting expert)

Members: Shen Liqiang and Wang Yongshou

C. Meetings of the Audit Committee

The Audit Committee convenes at least two meetings each year. In 2011, the Audit Committee convened two meetings, which were convened by the Sixth Session and the Seventh Session of the Board, respectively, with record of attendance as follows:

Session	Members of Audit Committee	Attendance in Person (no. of times)	Attendance by Proxy (no. of times)	% of Attendancy
The Sixth Session	Chen Xinyuan	1	0	100%
	Sun Chiping	1	0	100%
	Zhou Yunnong	1	0	100%
The Seventh Session	Cai Tingji	1	0	100%
	Shen Liqiang	1	0	100%
	Wang Yongshou	1	0	100%

D. Work Report of the Audit Committee during the Reporting Period

During the Reporting Period, the Audit Committee reviewed with the management the accounting principles and standards adopted by the Company and discussed matters regarding auditing, internal control and financial reporting, including reviews of the audited annual report for the 12 months ended 31 December 2010, the interim report for the period ended 30 June 2011 and so forth.

(3) Nomination of Directors

As at the end of the Reporting Period, the Board has not set up a nomination committee. The Board identifies suitable candidates for Directors or Senior Management within the Company or in the human resources market after it has evaluated the requirements for any new Directors or Senior Management personnel. Candidates for independent directorship may be nominated by the Board and by shareholders jointly or severally holding 1% or more of the issued shares of the Company. Candidates for non-independent directorship may be nominated by the Board and by shareholders jointly or severally holding 3% or more of the issued shares of the Company.

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

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

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

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

During the Reporting Period, in accordance with the aforesaid procedures and the Articles of Association, the Company completed the personnel change in relation to Directors and Senior Management. For details, please refer to page 26 of "Change of Directors, Supervisors and Senior Management".

Supervisory Committee

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

During 2011, the Supervisory Committee of the Company convened 5 meetings, which were convened by the Sixth Session and the Seventh Session of the Supervisory Committee. Record of attendance of each Supervisor is set out below:

Session	Name of Supervisor	Position	Number of meetings held during the Reporting Period	Number of attendance in person	% of attendance
The Sixth and the Seventh Session	Gao Jinping	Staff Supervisor and Chairman	5	5	100%
The Sixth Session	Zhang Chenghua	Staff Supervisor	2	2	100%
The Sixth Session	Wang Yanjun	Staff Supervisor	2	2	100%
The Sixth Session	Wu Xiaoqi	External Supervisor	2	2	100%
The Sixth and the Seventh Session	Zhai Yalin	External Supervisor	5	4	100% (attendance by proxy: 20%)
The Sixth Session	Liu Xiangdong	Independent Supervisor	2	2	100%
The Sixth Session	Yin Yongli	Independent Supervisor	2	2	100%
The Seventh Session	Zuo Qiang	Staff Supervisor	3	3	100%
The Seventh Session	Li Xiaoxia	Staff Supervisor	3	3	100%
The Seventh Session	Wang Liqun	External Supervisor	3	3	100%
The Seventh Session	Chen Xinyuan	Independent Supervisor	3	3	100%
The Seventh Session	Zhou Yunnong	Independent Supervisor	3	3	100%

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

Directors' Responsibilities in relation to the Financial Statements

The following statement, which should be read in conjunction with the domestic and international auditors' reports on pages 171 to 172 and pages 93 to 94, respectively, sets out the responsibilities of the Directors in relation to the financial statements.

- Annual reports and accounts

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

- Accounting policies

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

- Accounting records

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

- Going concern

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

Auditors' Remuneration

At the 2010 Annual General Meeting of the Company held on 29 June 2011, it was approved that KPMG and KPMG Huazhen would continue to be appointed as the international and domestic auditors of the Company for 2011. It was also authorised that the audit fees would be determined by the Board. As in 2011, KPMG and KPMG Huazhen have been providing audit services to the Company for 19 consecutive years since 1993.

Item	Amount	Auditor
Audit Fees	RMB 3.00 million	KPMG
Audit Fees	RMB 5.50 million	KPMG Huazhen

Shareholders' Rights

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

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

Investor Relations

During the Reporting Period, the Company continued to strengthen the management of investor relations, implement conscientiously the Work System of Investor Relations, interacted and communicated actively with investors and submitted investors' opinions and suggestions to the Company's management in a timely manner. In principle, the Company convenes results briefings every six months after the release of its annual and interim results. In 2011, the Company held two large-scale results briefings and press conferences in Hong Kong, while several "one-to-one" meetings were held within and outside China. The Company has also welcomed over 200 domestic and foreign investors at the Company's headquarters, as well as conscientiously replying to phone queries and letters from investors, intermediaries and fund managers. In addition, the Company also actively attended capital market meetings organised by securities research companies and investment banks, etc.

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

Amendments to the Articles of Association

During the Reporting Period, the Company did not amend its Articles of Association.

Information on the Annual General Meeting

The Company held the 2010 Annual General Meeting on 29 June 2011. The resolution announcement was published in "Shanghai Securities News" and "China Securities Journal", and on the websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company on 30 June 2011.

Management's Discussion and Analysis

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

A. Operating Results

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

In 2011, we witnessed a downturn in the world economy, a weak economic recovery in the developed countries, slackened economic growth in the emerging economies and a decline in growth in international trade and investment. Conditions were further complicated by the volatility in the prices of bulk commodities at high levels with a rising trend, the unceasing volatility in the global financial markets and the far-reaching impact of the sovereign debt crises in Europe and the US. The world's petrochemical industry suffered under pressures from both the cyclical adjustment in the petrochemical market and weak global economic growth, resulting in a rapid shift in the focus of the petrochemical industry's development to the Middle East, with its superior resources, and to the Asia-Pacific region, with its market advantage. China's economic development progressed in line with the macro-economic control initiatives. The economy continued to maintain steady and relatively rapid growth, with slower annual GDP growth of 9.2%. In the process of engaging in aggressive efforts to push forward a change in the development model and adjustments on the industrial structuring and product mix in China's petroleum and petrochemical industry, the industry demonstrated rapid and steady growth with further optimised structure and moderately increasing investment, while imports and exports continued to grow rapidly. It also achieved a balance between supply and demand. The scale of economies therefore reached to a yet higher level.

Despite the complex and volatile domestic and international economic landscape in 2011, the Company and its subsidiaries (the "Group") managed to seize opportunities when facing challenges in the market, put more effort into optimising its production and operation, focused on safety, environmental protection, energy conservation and emissions reduction, maintained the stable production, optimised its systems and mechanisms, improved the standards of the Company's management, carried out the construction of the Phase 6 Project, accelerated structural adjustments, and strengthened team building of talented professionals and maintained a harmonious and stable corporate environment. As a result, the Group accomplished all of its production and operational tasks for the year and reached record highs in various indicators such as crude oil processing volume, total volume of goods and turnover. In 2011, the Group's operating costs rose sharply due to the high prices of international crude oil. Meanwhile, domestic prices of refined oil products were controlled and were not adjusted in an adequate and timely manner and were not adjusted in an adequate and timely manner, the prices of petrochemical products declined remarkably in the fourth quarter, resulting in a substantial decline in profit for the year compared to last year.

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

In 2011, the Group leveraged the strengths of its integrated refining and petrochemical operations, captured opportunities in the market and increased total production volume to ensure that its major refining and petrochemical production plants operated at near-full capacity so as to achieve overall economies of scale as a result. During the year, the organisational coordination and optimal management of the Group's production and operation were strengthened. The average utilisation rate and the average load rate of approximately 40 major production plants reached 93.89% and 101.61%, respectively. The operations of the Group's major production plants remained sound. Important technical and economic indicators improved, with approximately 75.45% of the indicators exceeding those of the previous year and approximately 37.74% of the indicators reaching advanced levels within the industry. No accidents involving serious consequences occurred during the year, such as major fires, explosions or environmental pollution.

In 2011, the Group recorded continuous growth in physical production volume, with the total volume of goods amounted to 12,001,500 tons representing an increase of 4.53% over the previous year. During the year, the Group processed 10,866,700 tons of crude oil (including 257,000 tons of crude oil processed on a sub-contract basis), representing an increase of 3.29%. Total production output of gasoline, diesel and jet fuel was 5,745,600 tons, representing an increase of 6.92%, among which the Group produced 968,500 tons of gasoline, 3,979,800 tons of diesel and 797,300 tons of jet fuel, representing an increase of 3.87%, 8.27% and 4.13%, respectively. The Group produced 910,100 tons of ethylene and 481,700 tons of propylene, representing a decrease of 6.45% and 7.93%, respectively. The Group produced 923,100 tons of paraxylene, representing an increase of 9.81%. The Group also produced 1,097,900 tons of synthetic resins and copolymers (excluding polyesters and polyvinyl alcohol), representing a decrease of 3.16%; 946,200 tons of synthetic fiber monomers, representing a decrease of 0.41%; 664,200 tons of synthetic fiber polymers, representing an increase of 3.26%; and 250,000 tons of synthetic fiber, representing a decrease of 1.42%. Meanwhile, the Group continued to maintain the premium level of quality in its products.

In 2011, the Group's turnover amounted to RMB95,518.9 million, representing an increase of 23.22% over the previous year. Its output-to-sales ratio and receivable recovery ratio were 99.76% and 99.81%, respectively. The value of the Group's annual imports and exports (excluding crude oil imports) amounted to US$7,615 million, representing an increase of 44.44%.

2. Overall supply and demand in the market remained balanced

In 2011, the aggregate economic volume of China's petroleum and petrochemical industry rose to new heights, with rapid and stable growth overall and relatively minor fluctuations. The rapid growth of the industry was primarily boosted by the domestic consumer market. In 2011, the total apparent consumption of major chemicals in China increased by 10.1% over the previous year. The strong demand from the domestic market was demonstrated by slower growth after a fast increase in the production of petroleum products, the continued rapid growth in natural gas consumption and the overall shortage in the supply of organic chemicals and synthetic materials. Supply and demand in the domestic market remained balanced in general, with overall price levels in the petroleum and petrochemical industry surging during the year. For the year ended 31 December 2011, the weighted average prices (excluding tax) of the Group's synthetic fibers, resins and plastics, intermediate petrochemical products and petroleum products increased by 8.35%, 12.23%, 17.44% and 18.32%, respectively, over the previous year.

3. **International crude oil prices fluctuated and at higher level and costs of crude oil processing increased significantly**

In 2011, international crude oil prices fluctuated within a broad range primarily due to geopolitical risks and the European and US macroeconomic outlook, and continued to maintain a year-on-year rising trend for the third consecutive year. In 2011, the price of West Texas Intermediate ("WTI") crude oil on the New York Mercantile Exchange fluctuated within a broad range of US$75-US$114/barrel (US$65-US$92/barrel in 2010), with peak and the bottom closing prices of US$113.93/barrel and US$75.67/barrel, respectively (US$91.44/barrel and US$65.58/barrel, respectively in 2010), for the year. The peak and the bottom closing prices of Brent crude oil futures on the London Intercontinental Exchange were US$126.64/barrel and $93.69/barrel, respectively (US$94.75/barrel and US$69.55/barrel, respectively in 2010), for the year. In 2011, the average price of WTI crude oil on the New York Mercantile Exchange was US$95.09/barrel, an increase of US$15.62 or 19.66% from US$79.47 in 2010; the average price of Brent crude oil on the London Intercontinental Exchange was US$110.95/barrel, an increase of US$31.46, or 39.58% from US$79.49 in 2010; and the average price of a package of OPEC oil was US$107.47/barrel, an increase of 38.71% compared to the daily average price of US$77.48 in 2010, reaching a record high.

For the year ended 31 December 2011, the Group processed a total of 10,866,700 tons of crude oil (including 257,000 tons processed on a sub-contract basis), representing an increase of 346,000 tons, or 3.29% over the previous year. Among them, domestic offshore oil accounted for 1,204,200 tons and imported oil accounted for 9,662,500 tons. The average unit cost of crude oil processed (for its own account) was RMB5,044.64 per ton (RMB3,925.56 per ton in 2010), representing an increase of 28.51%. Crude oil costs increased by RMB13,827.3 million as compared to 2010. The Group's total costs of crude oil processing reached RMB53,521.9 million in 2011, a significant increase of 34.83% compared to RMB39,694.6 million for the previous year, representing 60.90% of the total cost of sales.

4. **Construction of Phase 6 Project in full swing**

In 2011, construction of the Group's Phase 6 Project, in which the Group made an investment of RMB 3,225 million for the year, proceeded in full swing, with the Refinery Revamping and Expansion Project as its key project for the sake of speed and quality. The Isopentene Plant, with a capacity of 10,000 tons/year, was completed and put into operation. The construction of carbonization and oxidation units of the first stage of the Carbon Fiber Project with a capacity of 1,500 tons/year was mechanically completed. In addition, various projects were proceeded in an orderly manner as planned, including the Refinery Revamping and Expansion Project (including the construction of a new Residual Oil Hydrogenation Plant with a capacity of 3,900,000 tons/year and a new Catalytic Cracking Plant with a capacity of 3,500,000 tons/year, etc.), the Ethanolamine Project with a capacity of 50,000 tons/year, the Up-grading Project for the optimisation of the system and reduction in energy and feedstock consumption of the No. 2 PTA Plant, and No. 2 and No. 3 Aromatics Complexes Energy-saving Up-grading Project. A feasibility study report on the EVA (Ethylene-Vinyl Acetate Copolymer) Project, with a capacity of 100,000 tons/year, was also submitted. Other key technical renovation projects were implemented as planned, including the Incremental Revamping of the Jinchang Company's Modified Polypropylene Plant, which was under construction with a capacity of 30,000 tons/year.

5. Progress achieved in energy conservation and emissions reduction

In 2011, the Group continued to carry out various energy-saving and emissions reduction measures in accordance with the State's relevant energy conservation and emissions reduction requirements, and completed all energy-saving and emissions reduction targets set by the government during the year. In 2011, the Company's overall level of energy consumption per RMB10,000 product value was 0.998 ton of standard coal (2010: 1.054 tons of standard coal), representing a decrease of 5.31%, resulting in savings of 410,768 tons of standard coal. Furthermore, the Company provided 58,069,200 tons of water for production (2010: 61,515,800 tons), representing a decrease of 3,446,600 tons, or 5.60% year-on-year, while the recycling rate of industrial water reached 96.84%. Total volumes of COD, solid wastes and industrial waste water discharge declined 16%, 10.8% and 13.8%, respectively. Various indices for waste water discharge compliance rate and the hazardous waste treatment ratio met requirements for environmental protection compliance. The average heat efficiency of heaters improved by 0.2 percentage points to 91.45% over the previous year. In 2011, the Group's various projects, such as the Flue-gas Desulphurisation Project for Furnaces of Coal-fired Power Plants, the Removal of Foul Gas from the De-aeration Pool of the Waste Water Treatment Plants, Tail Gas Regenerative Thermal Oxidation ("RTO") Facilities at PTA Plants, Flare Gas Recovery System and the addition of Recycled Hydrogen Desulfurization Unit to the Diesel Hydrogenation Plant (with a capacity 550,000 tons/year), played an effective role in energy conservation and emissions reduction.

6. Staged achievement in technological progress

In 2011, in order to achieve technological progress, the Group focused on actual production and operations, increased investment in R&D, improved work mechanisms, accelerated the development of new products and new technologies, intensified the marketing exploration of new products, developed and applied new technologies, and provided firm support to speed up the adjustment of product mix, push forward the energy conservation and emissions reduction and for the subsequent development of the Group. The Group focused on developing new technologies and products such as propylene and butene-1 random copolymers. The special material (YGM091T), used in bimodal polyethylene piping material, obtained PE80 rating certification. The special material (GM750E), for polypropylene infusion bottle, and the probucol random copolymer polypropylene series of products filled the gaps in the domestic market. The Group completed the research and development of new products such as the flame-resistant polyester chips for industrial yarn, making it the only domestic enterprise that carried out the production of flame-resistant polyester series of a product on a continuous basis. The development of NEP polyester chips (excluding heavy metal and ecological polyester chips) was completed and these products were successfully exported to the European Union. The production of new polyester staple fiber products for vortex spinning was industrialised, and mass production of anti-pill polyacrylonitrile fiber was launched. A total of 450,500 tons new products were produced in the year, with a synthetic fiber differential rate of 58.16%, while synthetic resin new products and the rate of use of special resin reached 84.68%. A total of 44 patent applications were submitted and 34 patent licences were received. The Company's seven achievements won the 2011 Annual Science and Technology Progress Award, and nine new and high-tech achievement transformation projects received special financial support of RMB19.75 million from the government. The No. 2 Polyester Plant (formerly the Shanghai Petrochemical Complex) was named a "classic project" at a ceremony marking the 30th anniversary of the National Quality Project Prize.

With respect to the development of the Company's information technology, the Group pushed forward the establishment and application of its three major platforms, namely business operations and management, production and operations as well as information infrastructure and operations and maintenance, by deepening ERP and LIMS applications and establishing KBC, MES and APC systems. The Oil Refining-petrochemical Integrated PPIMS Construction Project was put into trial operation and the Manufacturing Execution System ("MES") was established.

7. Further strengthening corporate internal reforms and management

In 2011, the Group made improvements to its "specialised, flattened and standardised" management mechanism in full scale. It integrated specialised management resources and further enhanced specialised management efficiency by carrying out its specialised mechanism reforms on financial management, environment protection and water supply management, statistical measurement management, and archive management. It largely accomplished its goals and objectives regarding the Group's specialised and centralised management. The Group adjusted the three-tier "company-business division-workshop" management model, specified the management hierarchy and duties, and standardised the allocation of offices and duties and established a foundation for optimising management efficiency. The Group embarked on building an integrated management system at the Group level in accordance with requirements for "one text version for multiple management systems". It organised and carried out comprehensive reviews of the existing systems in order to better serve the needs of the new management mechanism, management system and business process so as to improve the corporate system at the management level and enhance its ability to manage the Company in compliance with the law. The Group commenced the "three fundamentals" work (i.e. "strengthening grass-root units", "fundamental work" and "training on basic skills") effectively, organised and conducted daily spot checks on the "three fundamentals" work so that such work is institutionalised on a permanent basis. The Group made active efforts to enhance its performance improvement mechanism and established various mechanisms such as those aimed at "making recommendations on improving operations and management". This helped to place the appraisal of organisational performance at the heart of performance management. At the same time, it helped to govern the incentive scheme for the general manager and enable the assessment to be conducted in a coordinated and systematic manner, thus providing the necessary impetus to drive better performance.

As at 31 December 2011, the Group reduced its headcount by 714 people, including voluntary redundancies and retired staff. This accounted for 4.36% of the total work force of 16,369 people as at the beginning of the year.

8. Brief analysis of main factors affecting operating results for the year

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

a. International crude oil prices, while remaining at high levels, were volatile, leading to a significant increase in costs. In 2011, the total volume of goods produced by the Group amounted to 12,001,500 tons, representing an increase of 4.53% year-on-year. Turnover (excluding trading) amounted to RMB83,898.4 million (2010: RMB 70,952.9 million), representing an increase of 18.25%. In view of the significant increase in prices of crude oil, which is the main raw material of the Group, the total cost of the Group's crude oil processing amounted to RMB53,521.9 million for 2011, representing a substantial increase of 34.83% from RMB39,694.6 million over the previous year, resulting in a significant decline in operating profit.

b. The failure to adjust the domestic prices of refined oil products in an adequate and timely manner. In 2011, the domestic prices of refined oil products were not brought into line with the prices of crude oil on the international markets in a timely manner due to a number of factors such as the rate of inflation in China as accounted for under national policies, resulting in losses in the Group's refining business and causing the operating profit of the refining business to decline by RMB1,593.6 million over the previous year.

c. The decline in the prices of petrochemical products since the fourth quarter and intensifying market competition resulted in a decline in the profit of the Company's petrochemical business. In 2011, the operating profit of the Group's petrochemical business decreased by RMB329.9 million over the previous year.

d. The Group's share of profit of associates and jointly controlled entities decreased. In 2011, the Group's share of profit of associates and jointly controlled entities amounted to RMB152.7 million (2010: RMB661.3 million), representing a decrease of 76.91%. Of this amount, the share of profit of Shanghai Secco Petrochemical Company Limited amounted to RMB9.8 million (2010: RMB537.9 million).

e. The Group's expenses, such as selling expenses and labour costs and etc., increased significantly during 2011.

On the other hand, the Group further optimised its production and operations. In 2011, 445 million standard cubic meters of natural gas were imported for use as raw materials and fuel for hydrogen production, generating approximately RMB600 million in economic benefits. The launch of Shanghai IV refined oil products by the Group and 30,000 tons of Euro V diesel on the Hong Kong market contributed to the increase in economic benefits to some extent.

Accounting judgment and estimates

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

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

Impairments for long-lived assets

If circumstances indicate that the net book value of a long-lived asset may not be recoverable, the asset may be considered "impaired", and an impairment loss may be recognised in accordance with IAS 36 "Impairment of Assets" and CAS 8 "Impairment of Assets". Long-lived assets are reviewed for impairment at the end of each reporting period or whenever events or changes in circumstance have indicated that their carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount. The recoverable amount is the greater of the net selling price and the value in use. It is difficult to precisely estimate selling price because quoted market prices for the Group's assets or cash-generating units are not readily available. In determining the value in use, expected cash flows generated by the asset or the cash-generating unit are discounted to their present value, which requires significant judgement relating to level of sale volume, selling price and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of sale volume, selling price and amount of operating costs.

Depreciation

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

Impairment for bad and doubtful debts

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

Allowance for diminution in value of inventories

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

Income tax

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 listed in Hong Kong. After the notice was issued, the Company was required by the relevant tax authority to settle the EIT for 2007 at a rate of 33 percent. To date, the Company has not been requested by the tax authorities to pay additional EIT in respect of any years prior to 2007. There is no further development of this matter during the year ended 31 December 2011. No provision has been made in the financial statements at 31 December 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.

Recognition of deferred tax assets

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

In making the assessment of whether it is probable the Group will realise or utilise the deferred tax assets, management primarily relies on the generation of future taxable income to support the recognition of deferred tax assets. In order to fully utilise the deferred tax assets recognised at 31 December 2011, the Group would need to generate future taxable income of at least RMB2,077 million, of which RMB1,497 million is required to be generated by 2013 prior to the expiration of the unused tax losses generated in 2008. Based on estimated forecast and historical experience, management believes that it is probable that the Group will generate sufficient taxable income before the unused tax losses expire.

Summary

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

	For the Years ended 31 December								
	2011			2010(Restated)			2009(Restated)		
	Sales Volume ('000 tons)	**Net Sales (Millions of RMB)**	**% of Total Net Sales**	Sales Volume ('000 tons)	Net Sales (Millions of RMB)	% of Total Net Sales	Sales Volume ('000 tons)	Net Sales (Millions of RMB)	% of Total Net Sales
Synthetic Fibres	**250.9**	**4,150.2**	**4.6**	255.9	3,906.6	5.4	245.8	2,823.7	6.0
Resins and Plastics	**1,590.7**	**16,418.6**	**18.3**	1,620.2	14,900.0	20.7	1,543.3	12,263.6	25.9
Intermediate Petrochemicals	**2,246.7**	**19,023.2**	**21.3**	2,386.5	17,206.4	23.9	1,519.4	8,421.0	17.8
Petroleum Products	**6,968.1**	**37,350.2**	**41.7**	6,342.8	28,733.9	39.9	5,271.4	18,917.9	39.9
Trading of Petrochemical Products	**-**	**11,617.0**	**13.0**	-	6,565.9	9.1	-	4,624.0	9.8
Others	**-**	**950.5**	**1.1**	-	783.1	1.0	-	295.1	0.6
Total	**11,056.4**	**89,509.7**	**100.0**	10,605.4	72,095.9	100.0	8,579.9	47,345.3	100.0

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

	For the Years ended 31 December					
	2011		2010(Restated)		2009(Restated)	
	Millions of RMB	% of Net sales	Millions of RMB	% of Net sales	Millions of RMB	% of Net sales
Synthetic Fibres						
Net sales	**4,150.2**	**4.6**	3,906.6	5.4	2,823.7	6.0
Operating expenses	**(3,848.9)**	**(4.3)**	(3,471.0)	(4.8)	(2,812.3)	(5.9)
Segment profit from operations	**301.3**	**0.3**	435.6	0.6	11.4	0.1
Resins and Plastics						
Net sales	**16,418.6**	**18.3**	14,900.0	20.7	12,263.6	25.9
Operating expenses	**(16,406.6)**	**(18.3)**	(13,908.9)	(19.3)	(11,419.3)	(24.1)
Segment profit from operations	**12.0**	**0.0**	991.1	1.4	844.3	1.8
Intermediate Petrochemicals Products						
Net sales	**19,023.2**	**21.3**	17,206.4	23.9	8,421.0	17.8
Operating expenses	**(17,874.6)**	**(20.0)**	(16,841.3)	(23.4)	(8,230.2)	(17.4)
Segment profit from operations	**1,148.6**	**1.3**	365.1	0.5	190.8	0.4
Petroleum Products						
Net sales	**37,350.2**	**41.7**	28,733.9	39.9	18,917.9	39.9
Operating expenses	**(37,803.6)**	**(42.2)**	(27,593.6)	(38.3)	(18,113.0)	(38.3)
Segment (loss) / profit from operations	**(453.4)**	**(0.5)**	1,140.3	1.6	804.9	1.6
Trading of Petrochemical Products						
Net sales	**11,617.0**	**13.0**	6,565.9	9.1	4,624.0	9.8
Operating expenses	**(11,602.0)**	**(13.0)**	(6,551.8)	(9.1)	(4,598.9)	(9.7)
Segment profit from operations	**15.0**	**0.0**	14.1	0.0	25.1	0.1
Others						
Net sales	**950.5**	**1.1**	783.1	1.0	295.1	0.6
Operating expenses	**(914.2)**	**(1.0)**	(765.7)	(1.0)	(151.6)	(0.3)
Segment profit from operations	**36.3**	**0.1**	17.4	0.0	143.5	0.3
Total						
Net sales	**89,509.7**	**100.0**	72,095.9	100.0	47,345.3	100.0
Operating expenses	**(88,449.9)**	**(98.8)**	(69,132.3)	(95.9)	(45,325.3)	(95.7)
Profit from operations	**1,059.8**	**1.2**	2,963.6	4.1	2,020.0	4.3
Net financing income/(costs)	**83.5**	**0.1**	(95.2)	(0.1)	(321.1)	(0.7)
Investment income	**0.7**	**0.0**	0.2	0.0	222.8	0.5
Share of profit of associates and jointly controlled entities	**152.7**	**0.1**	661.3	0.9	241.3	0.5
Profit before taxation	**1,296.7**	**1.4**	3,529.9	4.9	2,163.0	4.6
Income tax	**(310.2)**	**(0.3)**	(735.5)	(1.0)	(510.2)	(1.1)
Profit for the year	**986.5**	**1.1**	2,794.4	3.9	1,652.8	3.5
Attributable to:						
Equity shareholders of the Company	**956.1**	**1.0**	2,769.0	3.8	1,588.3	3.4
Non-controlling interests	**30.4**	**0.1**	25.4	0.1	64.5	0.1
Profit for the year	**986.5**	**1.1**	2,794.4	3.9	1,652.8	3.5

Results of operations

The year ended 31 December 2011 compared to the year ended 31 December 2010.

Net sales

In 2011, net sales of the Group amounted to RMB89,509.7 million, representing an increase of 24.15% from RMB72,095.9 million over the previous year. For the year ended 31 December 2011, the weighted average prices (excluding tax) of the Group's synthetic fibres, resins and plastics, intermediate petrochemical products and petroleum products increased by 8.35%, 12.23%, 17.44% and 18.32% over the previous year, respectively.

1. Synthetic fibres

   In 2011, the Group's net sales of synthetic fibre products amounted to RMB4,150.2 million, representing a 6.24% increase compared to RMB3,906.6 million in the previous year. The weighted average price of synthetic fibres increased by 8.35% as compared to the previous year. In particular, the weighted average price of acrylic fibre and polyester fiber, the principal products of synthetic fibre of the Group, increased by 5.78% and 20.31% over the previous year, respectively. Sales of acrylic fibre and polyester fiber accounted for 74.67% and 19.78% of the total sales of synthetic fibres, respectively.

   Net sales of synthetic fibre products accounted for 4.6% of the Group's total net sales in 2011, representing a decrease of 0.8 percentage points as compared to the previous year.

2. Resins and plastics

   The Group's net sales of resins and plastics amounted to RMB16,418.6 million in 2011, representing an increase of 10.19% as compared to RMB14,900.0 million in 2010. The weighted average price of resins and plastics in 2011 increased by 12.23% and sales volume in 2011 decreased by 1.82%. Among resins and plastics products, the weighted average price of polyethylene for 2011 increased by 7.03% and sales volume decreased by 2.57%; the average sales price of polyester pellet for 2011 increased by 22.34% and sales volume decreased by 0.02%. The sales of polyethylene and polyester pellet accounted for 36.02% and 31.49% of the total sales of resins and plastics, respectively.

   Net sales of resins and plastics accounted for 18.3% of the Group's total net sales in 2011, representing a decrease of 2.4 percentage points as compared to the previous year.

3. Intermediate petrochemical products

The Group's net sales of intermediate petrochemical products amounted to RMB19,023.2 million in 2011, representing an increase of 10.56% as compared to RMB17,206.4 million in 2010, with the weighted average price of intermediate petrochemical products increased by 17.44% as compared to the previous year while sales volume decreased by 5.86%. Among the intermediate petrochemical products, weighted average prices of paraxylene, butadiene and benzene increased by 31.33%, 30.50% and 11.57%, respectively. The sales of paraxylene, butadiene and bensene accounted for 34.70%, 11.74% and 14.28% of the total sales of intermediate petrochemical products, respectively.

Net sales of intermediate petrochemical accounted for 21.3% of the Group's total net sales in 2011, representing a decrease of 2.6 percentage points as compared to the previous year.

4. Petroleum products

The Group's net sales of petroleum products amounted to RMB37,350.2 million in 2011, representing an increase of 29.99% as compared to RMB28,733.9 million in the previous year, with the weighted average product prices increased by 18.32% as compared to 2010 while sales volume increased by 9.86%. Due to the impact of increase in demand of domestic market, the market demand for diesel and gasoline increased as compared to the previous year which led to the increases of 13.72% and 2.25% in the Group's sales volume of diesel and gasoline respectively. The sales of diesel and gasoline accounted for 59.90% and 17.78% of the total sales of petroleum products respectively.

Net sales of petroleum products accounted for 41.7% of the Group's total net sales in 2011, representing an increase of 1.8 percentage points as compared to the previous year.

5. Trading of petrochemical products

The Group's net sales of the trading of petroleum products amounted to RMB11,617.0 million in 2011, representing an increase of 76.93% as compared to RMB6,565.9 million in the previous year. Such increase in the net sales was mainly attributed to a significant increase in the Group's trading volume of petrochemical products as compared to the previous year.

Net sales of trading of petrochemical products accounted for 13.0% of the Group's total net sales in 2011, representing an increase of 3.9 percentage points as compared to the previous year.

6. Others

The Group's net sales of others amounted to RMB950.5 million in 2011, representing an increase of 21.38% as compared to RMB783.1 million in the previous year. Such increase in the net sales was mainly attributed to an increase in the Group's business of crude oil processed on a sub-contract basis.

Net sales of other accounted for 1.1% of the Group's total net sales in 2011, basically at par with the previous year.

Operating expenses

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

Operating expenses of the Group increased substantially by RMB19,317.6 million to RMB88,449.9 million in 2011, an increase of 27.94% as compared to RMB69,132.3 million in 2010. The operating expenses of synthetic fibres, resins and plastics, intermediate petrochemicals, petroleum products, trading of petrochemical products and others amounted to RMB3,848.9 million, RMB16,406.6 million, RMB17,874.6 million, RMB37,803.6 million, RMB11,602.0 million and RMB91,420.0 million, and representing an increase of 10.89%, 17.96%, 6.14%, 37.00%, 77.08% and 19.39% as compared to the previous year, respectively.

1. Synthetic fibres

The Group's operating expenses of synthetic fibres in 2011 increased by RMB377.9 million as compared to the previous year, primarily due to increased unit prices for raw materials (e.g. acrylonitrile) for producing synthetic fibres.

2. Resins and plastics

The Group's operating expenses of resins and plastics in 2011 increased by RMB2,497.7 million as compared to the previous year, primarily due to increased unit costs for raw materials such as ethylene and propylene.

3. Intermediate petrochemicals

The Group's operating expenses of intermediate petrochemicals in 2011 increased by RMB1,033.3 million as compared to the previous year, primarily due to a significant increase in costs and expenses of intermediate petrochemical products resulting from the increase in unit cost of intermediate petrochemical products following the increase in unit cost of crude oil.

4. Petroleum products

The Group's operating expenses of petroleum products in 2011 increased by RMB10,210.0 million as compared to the previous year, primarily due to the increase in crude oil prices (which was the major raw material of the Group) and an increased processing volume, which directly led to an increase in the operating expenses of petroleum products.

5. Trading of petrochemical products

The Group's operating expenses of trading of petrochemical products in 2011 increased by RMB5,050.2 million as compared to the previous year, primarily due to the significant increase in the Group's trading volume of petrochemical products as compared to the previous year.

6. Others

The Group's operating expenses of others in 2011 increased by RMB148.5 million as compared to the previous year, primarily due to an increase in the cost of crude oil processed on a sub-contract basis.

- Cost of sales

The Group's cost of sales amounted to RMB87,881.2 million in 2011, representing a significant increase of 28.64% compared to RMB68,317.4 million in 2010. Cost of sales accounted for 98.18% of the net sales for 2011, primarily due to an increase in crude oil prices in 2011 which was the Group's major raw material.

1. Crude Oil

In 2011, the Group processed 10,866,700 tons of crude oil (including 257,000 tons of crude oil processed on a sub-contract basis), representing an increase of 346,000 tons as compared to 10,520,700 tons in the previous year. The volumes of imported crude oil and domestic offshore crude oil processed by the Group were 9,662,500 tons and 1,204,200 tons, respectively. The total cost of crude oil processed by the Group in 2011 amounted to RMB53,521.9 million, representing a significant increase of 34.83% as compared to RMB39,694.6 million in the previous year and accounting for 60.90% of the total cost of sales. The weighted average cost of crude oil of the Group was RMB5,044.64 per ton, representing an increase of 28.51% as compared to the previous year. The average costs of imported crude oil and domestic offshore crude oil were RMB5,030.16 per ton and RMB5,157.75 per ton, respectively.

2. Other expenses

The Group's other expenses were RMB14,846.8 million in 2011, basically at par with RMB14,699.0 million in the previous year.

- Selling and administrative expenses

The Group's selling and administrative expenses amounted to RMB675.8 million in 2011, representing an increase of 7.47% as compared to RMB628.8 million in the previous year, mainly due to an increase in the sales transportation expenses as a result of an increase in sales volume of the Group during the Reporting Period, and an increase in agency fees with respect to product sales in routine (continuing) connected transactions resulted from the increase in sales volume.

- Other operating income

The Group's other operating income amounted to RMB164.3 million in 2011, representing an increase of 49.64% compared to RMB109.8 million in the previous year, mainly due to an increase of RMB39.8 million in the government grants received in 2011 as compared to the previous year.

- Other operating expenses

The Group's other operating expenses decreased from RMB296.0 million in the previous year to RMB57.2 million in 2011, representing a decrease of 80.68%, mainly due to a decrease of RMB227.6 million in the Group's impairment losses of fixed assets in 2011 as compared to the previous year.

Profit from operations

The Group's profit from operations amounted to RMB1,059.8 million in 2011, representing a decrease of RMB1,903.8 million as compared to RMB2,963.6 million in the previous year.

Net financing income/costs

The Group's net financing income was RMB83.5 million in 2011, while there were net financing costs of RMB95.2 million in 2010. The record of net finance income was primarily attributable to an increase of RMB58.6 million in net foreign exchange gain of the Group during the Reporting Period, a decrease of RMB58.2 million in interest expense as compared to the previous year, and an increase of RMB62.0 million in interest income.

Investment income

The Group's investment income was RMB0.7 million in 2011. In 2010, the Group's investment income was RMB0.2 million, which mainly represented gain on disposal of available-for-sale financial assets.

Profit before taxation

The Group's profit before taxation was RMB1,296.7 million in 2011, representing a decrease of RMB2,233.2 million as compared to RMB3,529.9 million in the previous year.

Income tax

The Group's income tax expense was RMB310.2 million in 2011, representing a decrease of RMB425.3 million as compared to RMB735.5 million in the previous year. The change was in line with the decrease on taxable income of the Group.

In accordance with the PRC Enterprise Income Tax Law (as amended) which took effect from 1 January 2008, the income tax rate of the Group in 2011 was 25% (2010: 25%).

Profit for the year

The Group's profit for the year was RMB986.5 million in 2011, representing a decrease of RMB1,807.9 million as compared to RMB2,794.4 million in the previous year.

B. Analysis of the Company's Principal Operations and Performance (Prepared under CAS)

1. Principal operations by segment or product

By segment or product	Operating income (RMB'000)	Operating cost (RMB'000)	Gross profit margin (%)	Increase/ decrease of operating income as compared to the previous year (%)	Increase/ decrease of operating cost as compared to the previous year (%)	Increase/ decrease of gross profit margin as compared to the previous year (percentage point)
Synthetic fibres	4,198,251	3,603,539	14.17	6.14	16.93	-7.92
Resins and plastics	16,589,438	15,937,031	3.93	10.12	20.95	-8.61
Intermediate petrochemicals	19,242,850	17,381,437	9.67	10.59	7.72	2.41
Petroleum products	42,896,821	35,745,755	16.67(note)	27.16	36.87	-5.91
Trading of petrochemical products	11,620,440	11,521,911	0.85	76.93	77.07	-0.08
Others	1,053,448	852,521	19.07	21.29	10.72	7.72
Including: connected transactions*	53,282,721	45,930,771	13.80	30.21	34.86	-2.97

Note: The gross profit margin is calculated according to the price of petroleum products which includes consumption tax. The gross profit margin of petroleum products after deducting consumption tax amounted to 3.74%.

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

2. Principal operations by geographical location

Geographical location	Operating income RMB'000	Increase/decrease of operating income as compared to the previous year (%)
Eastern China	89,239,692	24.52
Other regions in China	5,977,042	9.82
Exports	384,514	-19.95

C. Liquidity and Capital Resources

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

Capital Sources

Net cash generated from operating activities (prepared under IFRS)

The Group's net cash inflows from operating activities amounted to RMB2,220.0 million in 2011, representing a decrease in cash inflows of RMB1,753.7 million as compared to net cash inflows of RMB3,973.7 million in the previous year, mainly due to the following reasons: 1) due to the decline in the Group's profit from operations during the Reporting Period, net cash inflows from profit before taxation (net of depreciation and impairment losses on property, plant and equipment) amounted to RMB2,931.0 million in 2011, representing a decrease of RMB2,492.3 million of cash inflows compared to net cash inflows of RMB5,423.3 million in the previous year; 2) the Group's increased inventory balance led to a decrease in operating cash flow of RMB230.1 million in 2011 (as compared to an increase in operating cash flow of RMB1,531.5 million due to decreased inventory balance at the end of the previous year); 3) increases in the balances of debtors, bills receivable and prepayments led to a decrease in operating cash flow of RMB1,015.4 million in 2011 (as compared to a decrease in operating cash flow of RMB1,571.1 million as a result of an increase in such year-end balances of the previous year); and 4) increases in the year-end net balances of amounts due to related parties led to an increase in operating cash flow of RMB573.8 million (as compared to a decrease in operating cash flow of RMB1,881.4 million as a result of a decrease in such year-end balances of the previous year).

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

	2011 RMB'000	2010 RMB'000
Net cash inflow from operating activities	**2,481,431**	4,243,832
Net cash outflow from investing activities	**(2,810,179)**	(463,306)
Net cash inflow / (outflow) from financing activities	**320,370**	(3,805,977)

Borrowings

The total borrowings of the Group at the end of 2011 amounted to RMB5,672.1 million, representing an increase of RMB1,101.7 million as compared to the end of the previous year, of which short-term debts increased by RMB1,116.6 million, and long-term debts decreased by RMB15.0 million.

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

Liability-to-asset ratio (prepared under IFRS)

As at 31 December 2011, the Group's liability-to-asset ratio was 40.77% (2010: 37.45%). The ratio is calculated using this formula: total liabilities/total assets.

D. Research and Development, Patents and Licenses

The Group comprises a number of technology development units, including the Petrochemical Research Institute, the Plastics Research Institute, the Polyester Fibre Research Institute, the Acrylic Fibre Research Institute and the Environmental Protection Research Institute. These units are charged with various research and development tasks with respect to new technology, new products, new production processes and equipment and environmental protection. The Group's research and development expenditures for the years ended 2009, 2010 and 2011 were RMB40.3 million, RMB58.2 million and RMB79.6 million, respectively, all representing approximately 0.1% of the total turnover for those years.

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

E. Off-Balance Sheet Arrangements

Please refer to notes 27 and 28 to the financial statements prepared under IFRS in this 2011 annual report for details of the Group's capital commitments and external guarantee.

F. Contractual obligations

The following table sets forth the Group's obligations to repay loan principal in future as at 31 December 2011:

		As at 31 December 2011 payment due by period		
	Total (RMB'000)	Less than 1 year (RMB'000)	1-3 years (RMB'000)	4-5 years (RMB'000)
Contractual obligations				
Short-term borrowings	5,512,074	5,512,074	-	-
Long-term borrowings	160,050	-	125,000	35,050
Total contractual obligations	5,672,124	5,512,074	125,000	35,050

G. Description of Substantial Changes in the Company's Major Financial Data during the Reporting Period as Compared to the Previous Year (Prepared under CAS)

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

Item	For the years ended 31December **2011** **RMB'000**	2010 RMB'000	Increase/ decrease amount RMB'000	Change %	Major reason for change
Operating profit	**1,260,377**	3,540,888	-2,280,511	-64.41	Gross profit of sales decreased in 2011.
Profit before income tax	**1,292,291**	3,453,744	-2,161,453	-62.58	
Net profit for the year	**974,830**	2,729,092	-1,754,262	-64.28	
Net profit attributable to equity shareholders of the Company	**944,414**	2,703,734	-1,759,320	-65.07	
Impairment losses	**284,574**	433,465	-148,891	-34.35	Provision of impairment losses on fixed assets decreased in 2011.
Investment income	**143,340**	651,503	-508,163	-78.00	Net profit of associates decreased in 2011.
Income tax expense	**317,461**	724,652	-407,191	-56.19	Operating results decreased substantially.

Item	**As at 31December 2011 RMB'000**	As at 31December 2010 RMB'000	Increase/ decrease amount RMB'000	Change %	Major Reason for change
Bills receivable	**3,131,579**	2,043,493	1,088,086	53.25	Sales settled with bills receivable increased and discounted bills decreased.
Construction in progress	**3,882,992**	1,192,225	2,690,767	225.69	Balance of the Refinery Revamping and Expansion Project increased at the end of the year.
Short-term loans	**5,512,074**	3,295,438	2,216,636	67.26	Short-term loans were borrowed to replenish the working capital in 2011.
Accounts payable	**4,650,007**	3,322,811	1,327,196	39.94	The unsettled payables for purchases increased at the end of the year.

H. Analysis of Performance and Results of the Companies in Which the Company Has Controlling Interests or Investment Interests During the Reporting Period

As at 31 December 2011, the Company had more than 50% equity interests in the following principal subsidiaries:

Company	Place of registration	Principal Activities	Place for principal activities	Type of legal person	Percentage of equity held by the Company (%)	Percentage of equity held by subsidiaries (%)	Registered Capital ('000)	Net Profit/ (loss) for 2011 (RMB'000)
Shanghai Petrochemical Investment Development Company Limited	China	Investment management	China	Limited liability company	100	-	RMB1,000,000	50,996
China Jinshan Associated Trading Corporation	China	Import and export of petrochemical products and equipment	China	Limited liability company	67.33	-	RMB 25,000	26,643
Shanghai Jinchang Engineering Plastics Company Limited	China	Production of polypropylene compound products	China	Limited liability company	-	74.25	US$9,153.8	1,973
Shanghai Golden Phillips Petrochemical Company Limited	China	Production of polypropylene products	China	Limited liability company	-	60	US$50,000	58,554
Zhejiang Jin Yong Acrylic Fibre Company Limited	China	Production of acrylic fibre products	China	Limited liability company	75	-	RMB 250,000	(42,360)
Shanghai Golden Conti Petrochemical Company Limited	China	Production of petrochemical products	China	Limited liability company	-	100	RMB 545,776	(16,548)

None of the subsidiaries has issued any debt securities.

The Group's equity interests in its associates comprised an equity interest of 38.26%, amounted to RMB1,097.1 million, in Shanghai Chemical Industry Park Development Co., Ltd., a company incorporated in the PRC; and an equity interest of 20%, amounted to RMB1,529.3 million, in Shanghai Secco Petrochemical Company Limited, a company incorporated in the PRC. The principal business of Shanghai Chemical Industry Park Development Co., Ltd. consists of planning, developing and operating the Chemical Industry Park in Shanghai, while the principal business of Shanghai Secco Petrochemical Company Limited is the production and distribution of petrochemicals.

In 2011, none of the subsidiaries controlled by the Group had more than 10% effect on the net profit of the Group.

I. Major suppliers and customers

The Group's top five suppliers in 2011 were China International United Petroleum & Chemical Co., Ltd., China Petroleum & Chemical Corporation, Sinochem Petroleum Company Limited, China National Offshore Oil Corporation and Shanghai Secco Petrochemical Company Limited. Total procurement costs from these suppliers, which amounted to RMB56,298.2 million, accounted for 71% of the total procurement costs by the Group during the year. The procurement costs from the largest supplier amounted to RMB31,569.9 million, representing 40% of the total costs of purchases by the Group during the year.

The Group's top five customers in 2011 were Sinopec Huadong Sales Company Limited, China Petroleum & Chemical Corporation, Sinopec Yizheng Chemical Fibre Company Limited, Shanghai Secco Petrochemical Company Limited and Oriental Petrochemical (Shanghai) Corporation. The total sales derived from these customers amounted to RMB53,555.1 million, representing 56% of the Group's total turnover during the year. The sales derived from the largest customer amounted to RMB36,609.3 million, representing 38% of the Group's total turnover during the year.

To the knowledge of the Board, in relation to the above suppliers and customers, none of the Directors (or their associates) or shareholders of the Company had any interest in Sinochem International Company Limited, China National Offshore Oil Corporation and Oriental Petrochemical (Shanghai) Corporation. China Petroleum & Chemical Corporation is the controlling shareholder of the Company. China International United Petroleum & Chemical Co. Ltd, Sinopec Huadong Sales Company Limited and Sinopec Yizheng Chemical Fibre Company Limited are subsidiaries of China Petroleum & Chemical Corporation, the controlling shareholder of the Company. The Company owns an equity interest of 20% in Shanghai Secco Petrochemical Company Limited.

J. Others

Group's employees

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

Purchase, sale and Investment

Save and except as disclosed in this annual report, there was no material purchase or sale of the Group's subsidiaries or associates or any other material investments in 2011.

Pledge of assets

As at 31 December 2011, no fixed asset was pledged by the Group (31 December 2010: RMB nil).

K. Status of Holding Foreign Currency Financial Assets and Financial Liabilities

As at 31 December 2011, the Group held foreign-currency denominated bank deposits and loans and borrowings, equivalent to RMB3,063,000 and RMB4,622,573,000 respectively.

L. Company Outlook on Future Development (Business Prospects)

1. Trends and competition in the industry

In 2012, the world economy will remain complex and challenging and will face increasing instability and uncertainty, characterised by the European debt crisis constraining economic recovery, slowed economic growth in the developed countries and the possibility of further slackening economic growth in the emerging economies. Hit by the European debt crisis and the decline in global demand, China's economy will come under pressure from the slowdown in exports. Assisted by the increasing instability and uncertainty of the domestic economy, the development of various sectors such as automobile and real estate will be slowed down, weakening the demand dynamics serving to boost economic growth. The relatively fast increases in costs of energy, raw materials, labour and other factors will lead to a decline in the economic growth. However, given that China's economy is still in the important strategic period with opportunities, the considerable potential for boosting domestic demand will continue to offer much room for development. The competitive landscape of the worldwide petrochemical industry is undergoing major changes as the industry will be greatly affected by the rise of the petrochemical industry in the Middle East, the development of the coal chemical industry, the development of the shale gas in North America and the challenges posed by energy conservation and emissions reduction requirements. In 2012, the petroleum market may become more volatile and oil prices may remain at high levels as increasing geopolitical risks intertwine with risks created by the European debt crisis concerning the global economy and demand. China's petroleum and petrochemical industry will also come under pressure from the slower economic growth. In the macro environment in which the State is putting aggressive effort into boosting domestic demand and developing new energy resources and strategic emerging industries, the demand for petrochemical products will remain high and the growing trend will sustain stable and relatively fast. However, the pressure from resources, costs, energy conservation and emissions reduction will make the industry's development prospects more challenging. The current failure to fully relieve the cost pressures in the oil refining industry under high oil prices, the limited space for growth in external demand and the emergence of protectionism in international trade will further intensify the competition in the chemical market.

2. **Business plans for 2012**

In 2012, the Group aims to develop itself into a leading oil refining petrochemical enterprise, domestically and globally, strengthen production and optimise operations, enhance safety and environmental management, accelerate construction of the Phase 6 Project, improve the management system and the overall quality of the workforce, enhance the leading role of corporate culture and endeavour to improve profitability.

To achieve its business objectives in 2012, the Group will carry out tasks in following areas:

(a) Strengthening safety management and environmental protection as well as energy conservation and emissions reduction

The Group will further improve its safety management and environmental protection and will implement policies and accountability to reinforce these measures in its production and operations. It will strengthen on-site safety management by implementing standardised management on all construction sites, establish and improve a safety evaluation mechanism for all staff to strengthen the management of accidents, ensure that the equipment is intrinsically safe by enhancing equipment operation and management, identify safety risks to strengthen the safety management of all production processes, strengthen remediation and worker protection at the work sites to safeguard the health of workers and continue to carry out clean production and adhere to environmental controls to ensure that the "three wastes" meets the discharge standards and that the target for controlling energy conservation and emissions reduction is accomplished.

(b) Strengthening production and optimising operations to enhance profitability

Having maintained the full-capacity operation of its plants on a long-term basis, the Group will continue to optimise the flow of its oil refining and petrochemical processing operations, resume its efforts to maintain material supplies and maintain healthy sales, and endeavour to increase profitability. It will resume its efforts to optimise the composition of crude oil resources and its varieties of oil so as to effectively reduce the purchase costs of crude oil. It will strengthen the organisation and management of production to maintain the full-capacity operation of its plants on a long-term basis. It will continue to optimise the allocation of its raw material resources, implement technological advancements that minimise energy consumption through production, optimise its reserves, inventory management and product distribution and actively market incremental products.

(c) Pushing forward the construction and development of the Phase 6 Project and the development of new products

The Group will proceed with the construction of the Phase 6 Project, including the Refinery Renovation Project that is the principal component, and aim to commence production smoothly and on schedule. With safety and quality as the top priorities, the Group will focus on the key sections of the project to ensure that construction is on schedule and that operations commence on time and efficiently. It will focus on the preliminary work of the No. 1 Ethylene Renovation Project as it strives to launch operations within the year. The Group will use existing resources to develop and produce marketable and differentiated products and will continue to proceed with the development and application of information technology to enhance the production and operation management.

(d) Accelerating improvements to the management system to further enhance management

The Group will accelerate improvements to its integrated management system, aggressively reduce costs and expenses and enhance the levels of sophisticated, standardised and scientific management. It will further improve the supporting reforms on systematic adjustment, establish a more scientific and rational indicator evaluation system to improve organisational performance, strengthen the preparation and implementation of budgets to better manage various expenses and to reduce costs and expenses, establish a sound management model for abnormal situation, and improve the emergency management system to make progress of the work on an ongoing basis.

(e) Enhancing the overall quality of the workforce to make the best use of the Group's human resources

The Group will continue to improve the path of growth for all levels of its qualified staff so as to fully mobilise their enthusiasm and creativity. It will establish a scientific and standardised evaluation mechanism for its staff so as to enhance upward occupational mobility and to optimise the work allocation. The Group will control the size of its workforce and regulate the relationships with its employees to further improve the productivity of its workforce, and will step up staff training and enhance the actual capabilities of the staff, including operations management, technical expertise and operating skills.

(f) Enhancing the leading role of corporate culture to create a stable and harmonious corporate atmosphere

The Group will continue to enhance the leading role of corporate culture to strengthen the senses of identity, belonging and mission among the staff towards the enterprise. It will carry out practical corporate culture education activities and further ingrain its core corporate values to entrench its corporate vision into the staff and make it a driving force for its growth and development. The Group will pay proper attention to the lives of the staff and improve their work environment and living conditions. It will continue to do substantive work and solve problems for the sake of the staff and will enhance staff cohesion in order to ensure the security, stability and harmony of the enterprise.

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

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

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

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

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

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

The petrochemical industry is a capital-intensive industry. The Group's capability to maintain and increase income, net income and cash flows has a bearing upon ongoing capital expenditures. The Group's estimated capital expenditures amount to RMB 3,200.0 million in 2012 (2011: RMB3,225.0 million), which will be met by financing activities and part of the Group's internal funds. The Group's real capital expenditures may vary significantly due to the Group's capability to generate sufficient cash flow from operations, investments and other factors that are beyond the control of the Group. Besides, there is no assurance as to whether the Group's capital projects will be completed or, if completed, at what costs, or whether success will be made as a result of the completion of such projects.

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

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

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

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

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

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

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

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

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

(8) Risks associated with the failure to complete the share reform.

Commissioned by the shareholders of non-tradable shares, the Company initiated a share reform proposal first in October 2006 and subsequently in December 2007, but the two share reform proposals failed to obtain approval by the shareholders of tradable A shares because such shareholders disagreed with the share reform proposals. According to the relevant regulations, starting from 8 January 2007, the Shanghai Stock Exchange began to adopt a special arrangement of differentiated system for listed companies that were unable to complete the share reform, under which the range of share price movements for such A shares were unitarily adjusted up or down by 5% each day, with a trading information disclosure system equivalent to that of ST and *ST stocks applied to such stocks. It does not rule out the possibility that the China Securities Regulation Commission (the "CSRC") and the Shanghai Stock Exchange may set more limits for companies which have not yet completed the share reform. In addition, CSRC will keep paying special attention to the implementation of share reforms by the listed companies which have not yet implemented share reforms when reviewing any securities-related applications by such listed companies, their substantial shareholders or controlling company of the controlling shareholder. Such regulations may have an adverse impact on the business environment, market image and market financing activities of the Company.

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

No.

Investment by the Company

1. Entrust Finance Management and Entrust Loans

   (1) Entrust Finance Management

   The Company purchased a financial product bearing floating return rates with a carrying amount of RMB700 million from a domestic bank in China on 30 June 2011. The financial product mainly invests in debt and equity securities. The Company redeemed the financial product on 8 July 2011 and recognised a gain on disposal of RMB685,000.

   (2) Entrust Loans

Borrower	Amount of entrusted loan RMB'000	Term of loan	Interest rate of loan %	Whether it is overdue	Whether it is connected transaction	Whether it has been extended	Whether it is lawsuits related	Whether the capitals are proceeds	Connected relationship	Expected income RMB'000
Chevron Phillips	30,000	2009/4/30-2012/4/28	2.25	No	No	No	No	No	Nil	220
Chemicals	12,000	2011/8/26-2012/8/25	3.50	No	No	No	No	No	Nil	274
(Shanghai)	28,000	2011/11/29-2012/11/28	3.50	No	No	No	No	No	Nil	894
Corporation	16,000	2011/12/30-2012/1/6	1.49	No	No	No	No	No	Nil	4

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

2. Application of Capital Raised

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

3. Projects not Funded by Proceeds from Share Issue

In 2011, the capital expenditure of the Group amounted to RMB3,225.0 million, representing an increase of 136.44% as compared to RMB1,364.0 million in 2010. Major projects include the following:

Project	Total project investment RMB million	Project progress as at 31 December 2011
The Isopentene Plant with a capacity of 10,000 tons/year	99	Completion and commencement of operation
The Carbon Fiber Project with a capacity of 1,500 tons/year	848	Under construction
The Refinery Revamping and Expansion Project	6,628	Under construction
The Up-grading Project for the optimisation of the system and reduction in energy and feedstock consumption of the No. 2 PTA Plant	186	Under construction
No. 2 and No. 3 Aromatics Complexes Energy-saving Up-grade Project	954	Preliminary work
The Ethanolamine Project with a capacity of 50,000 tons/year	189	Preliminary work

The Group's capital expenditure for 2012 is estimated at approximately RMB3,200 million.

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

During the Reporting Period, the Group adopted the amendments to IFRS 1 "First-time Adoption of IFRS", and restated the comparative figures retrospectively. Please refer to note 2 to the financial statements prepared under IFRS.

Daily Operation of the Board

1. The convening and the resolutions of Board meetings

Session of the meeting	Convening Date	Content of Resolutions	Newspaper and Websites for Publication of Resolutions	Date of Publication of Resolutions
The Nineteenth Meeting of the Sixth Session	25 March 2011	Refer to the announcement for details.	"Shanghai Securities News" and "China Securities Journal"; the websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company	28 March 2011
The Twentieth Meeting of the Sixth Session	27 April 2011	Refer to the announcement for details.	Same as above	28 April 2011
The First Meeting of the Seventh Session	29 June 2011	Refer to the announcement for details.	Same as above	30 June 2011
The Second Meeting of the Seventh Session	26 August 2011	1. Approval of the Company's 2011 Interim Report. 2. The resolution on no payment of interim dividends was considered and approved. 3. The scheme of Company's organisation establishment was considered and approved.	-	-
The Third Meeting of the Seventh Session	27 October 2011	The 2011 Third Quarterly Report was considered and approved.	-	-
The Fourth Meeting of the Seventh Session	11 November 2011	Refer to the announcement for details.	"Shanghai Securities News" and "China Securities Journal"; the websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company	12 November 2011

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

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

3. A summary report on the establishment and improvement of the work system of the Board's Audit Committee, as well as its major elements and details on its performance of duties

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

The Audit Committee of the sixth session of the Board was composed of three Directors who were Independent Non-executive Directors. Mr. Chen Xinyuan (accounting expert) was the chairman; Mr. Sun Chiping and Mr. Zhou Yunnong were the members.

The resolution on the election of the members of the seventh session of the Board was approved at the Company's 2010 Annual General Meeting convened on 29 June 2011. The resolution on the election of the members of the Audit Committee of the seventh session of the Board was approved at the first meeting of the seventh session of the Board convened on the same day. The Audit Committee of the seventh session of the Board was composed of three Directors who were Independent Non-executive Directors. Mr. Cai Tingji (accounting expert) was the chairman. Mr. Shen Liqiang and Mr. Wang Yongshou were the members.

Pursuant to the Rules of Procedure of the Audit Committee, the Audit Committee shall hold at least two meetings every year. In 2011, the Audit Committee held two meetings in total, which were convened by the Audit Committee of the sixth session of the Board and the Audit Committee of the seventh session of the Board, respectively. All members attended the meetings in person.

At the fourth meeting of the Audit Committee of the sixth session of the Board held on 24 March 2011, five resolutions were approved: (i) the 2010 annual report of the Company was considered and approved; (ii) the resolution on reappointment of the Company's domestic and international auditors for 2011 was considered and approved; (iii) the "Board's Self-Assessment Report on the Internal Control of the Company" was considered and approved; (iv) the Company's "Internal Control Manual" (2011 Edition) was considered and approved; and (v) the Company's work plan for implementation of internal control standards was approved.

At the fifth meeting of the Audit Committee of the seventh session of the Board held on 25 August 2011, two resolutions were approved: (i) the 2011 interim report of the Company was considered and approved; and (ii) the Company's internal control mechanism and execution inspection report for the first half of 2011 was considered and approved.

In the first quarter of 2011, pursuant to relevant requirements of China's regulatory authorities and the Rules of Procedure of the Audit Committee, the Audit Committee of the Board communicated with the external auditors before they started to audit the annual report and finalised the "Arrangement and Scope of Auditing Work on the Financial Statements for 2010". Before the external auditors started the auditing work, members of the Audit Committee reviewed the financial statements prepared by the Company; and before the external auditors issued the audit opinion, they reviewed the financial statements of the Company again, and considered and voted on the annual financial statements.

As at 28 March 2012, the Audit Committee and the management have reviewed the accounting principles and standards adopted by the Company, and discussed the matters relating to the audit, internal control and financial reporting, including the audited financial statements for the year ended 31 December 2011.

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

Pursuant to the relevant requirements of the Corporate Governance Principles for Listed Companies of the CSRC and the Code, the Board has set up the Remuneration and Appraisal Committee. The Remuneration and Appraisal Committee is primarily responsible for formulating and reviewing the remuneration policies and plans for the Directors, Supervisors and Senior Management; formulating the appraisal criteria for Directors, Supervisors and Senior Management and conducting appraisals.

The Remuneration and Appraisal Committee of the sixth session of the Board was composed of three Directors, of whom two were Independent Non-executive Directors and one was Executive Director. Mr. Zhou Yunnong, Independent Non-executive Director, was the chairman; Mr. Jiang Zhiquan, Independent Non-executive Director and Mr. Dai Jinbao, Executive Director, were the members.

The resolution on the election of the members of the seventh session of the Board was approved at the Company's 2010 Annual General Meeting convened on 29 June 2011. The resolution on the election of members of the Remuneration and Appraisal Committee of the seventh session of the Board was approved at the first meeting of the seventh session of the Board convened on the same day.

The Remuneration and Appraisal Committee of the seventh session of the Board was composed of three Directors, of whom two were Independent Non-executive Directors and one was Executive Director. Mr. Wang Yongshou, Independent Non-executive Director, was the chairman; Mr. Jin Mingda, Independent Non-executive Director and Mr.Ye Guohua, Executive Director, were the members.

Pursuant to the Rules of Procedure of the Remuneration and Appraisal Committee, the Remuneration and Appraisal Committee shall hold at least one meeting every year. In 2011, the Remuneration and Appraisal Committee held one meeting, which was convened by the Remuneration and Appraisal Committee of the sixth session of the Board. All members attended the meetings in person.

At the third meeting of the Remuneration and Appraisal Committee of the sixth session of the Board held on 24 March 2011, two resolutions were approved: (i) agreement on the performance appraisal of the Company's management; and (ii) agreement on the continued adoption of the Company's remuneration policies in 2011.

As at 28 March 2012, the Remuneration and Appraisal Committee has reviewed details regarding the remuneration of the Company's Directors, Supervisors and Senior Management in the audited annual report for the year ended 31 December 2011.

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

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

In 2011, in accordance with the requirements of the Necessity to Formulate A Complete Insider Information Management System and Management System for External Information Users by Listed Companies ([2009] No.34 Announcement of the CSRC), the Company conscientiously implemented the revised Information Disclosure Management System, and ensured the truthfulness, accuracy, completeness, timeliness and fairness of the Company's information disclosure.

6. Statement of the Board's responsibilities for internal control

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

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

The Board had evaluated the internal control over financial reporting according to the Basic Standards for Enterprise Internal Control and had the opinion that the internal control over financial reporting was effective during 2011.

7. **Establishment and Execution of Insider Information Management System**

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

Pursuant to the Requirements on Establishment of Registration and Management System of Persons with Access to Inside Information by Listed Companies issued by the CSRC in October 2011, the Company formulated the Registration and Management System of Persons with Access to Inside Information, which was submitted to the fifth meeting of the seventh session of the Board held on 29 March 2012 for consideration and approval.

Cash Dividend Distribution Policy and its Implementation

Article 206 of the Articles of Association reads:

"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 to meet its reasonable capital requirements.

The profit distribution policies of the Company are as follows:

a) 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.

b) The profit distribution policies of the Company shall maintain consistency and stability.

c) The accumulated profits distributed in cash by the Company over the past three years shall represent no less than 30% of the realized average annual distributable profits over the past three years.

d) 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 held on 29th June 2011 and thereafter implemented as scheduled.

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

In 2011, the net profit of the Company amounted to RMB704,563,000 in accordance with CAS. The Company appropriated a statutory surplus reserve of RMB70,456,000 from 10% of the net profit. As at 31 December 2011, retained earnings of the Company amounted to RMB2,532,261,000 in accordance with CAS (RMB2,505,952,000 in accordance with IFRS). The Board proposed to distribute a dividend of RMB0.50 per 10 shares (including tax), totaling RMB360,000,000 based on the total 7.2 billion shares as at 31 December 2011.

Status of the Company's Payment of Dividend over the Past Three Years

Year of paying dividends	Amount of cash dividends (Including tax) RMB'000	Net profit attributable to equity shareholders of the Company prepared under CAS for the year of paying dividends RMB'000	Ratio (%)
2008	-	-6,245,412	-
2009	216,000	1,561,605	13.83
2010	720,000	2,703,734	26.63

Other Disclosure Matters

During the Reporting Period, there were no other disclosable matters of the Company.

In 2011, the Supervisory Committee of the Company abided by principle of good faith and conscientiously discharged its supervisory duties in accordance with the Company Law and the Articles of Association, actively participated in process supervision, seriously considered major decisions, and strived to safeguard shareholders' rights and the Company's interests.

1. Operation of the Supervisory Committee

Five meetings of the supervisory committee were convened during the Reporting Period.

The fourteenth meeting of the sixth session of the Supervisory Committee was convened on 24 March 2011. The Company's "2010 Annual Report", the "Supervisory Committee's Comments and Recommendations on the Company's 2010 Annual Report", "Self-Assessment Report of the Board on the Internal Control of the Company", the "Work Report of the Supervisory Committee for the Year 2010" and "Major Work of the Supervisory Committee for the Year 2011" were considered and approved as resolutions at the meeting.

The fifteenth meeting of the sixth session of the Supervisory Committee was convened on 26 April 2011 (by correspondence). The Company's "2011 First Quarterly Report" and the "Supervisory Committee's Comments and Recommendations on the Company's 2011 First Quarterly Report" were considered and approved as resolutions at the meeting.

The first meeting of the seventh session of the Supervisory Committee was convened on 29 June 2011. The election of the chairman of the Supervisory Committee and the appointment of director and deputy director of the Supervisory Committee's office of the Company were considered and approved as resolutions at the meeting.

The second meeting of the seventh session of the Supervisory Committee was convened on 25 August 2011. The Company's "2011 Interim Report" and the "Supervisory Committee's Comments and Recommendations on the Company's 2011 Interim Report" were considered and approved as resolutions at the meeting.

The third meeting of the seventh session of the Supervisory Committee was convened on 26 October 2011 (by correspondence). The Company's "2011 Third Quarterly Report" and the "Supervisory Committee's Comments and Recommendations on the Company's 2011 Third Quarterly Report" were considered and approved as resolutions at the meeting.

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

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

The Supervisory Committee considers that in 2011 the Board conscientiously exercised the rights and obligations conferred under the relevant State laws and regulations such as the Company Law and the Articles of Association, and made scientific decisions on major matters such as production and operations, reform and development in a lawful manner. Based on "ensuring security, striving for profitability, implementing reform, enhancing management, adjusting structure and accelerating development" as the work mainstream, the General Manager's team led the entire staff to carry out the campaign of "excelling in performance" and the work of "comparing, learning, catching up with and surpassing the advanced levels and assisting under-performers", continue to increase total output, improve the system and mechanism, push forward the system optimization, accelerate structure adjustment and improve management standards . As a result, the Company achieved a generally stable production and operation. None of the Board, the General Manager's team or the senior management of the Company has been found to have acted against laws, regulations or the Articles of Association, or harmed the interests of the Company or the rights of the shareholders during the execution of their duties for the Company.

The Supervisory Committee was of the view that the financial reports of the Company prepared under CAS and IFRS for the year 2011 truthfully and fairly reflected the Company's financial position and operating results. No breach of the financial and accounting system in the Company and its controlling subsidiaries' operating activities was discovered. The standard unqualified audit reports issued by KPMG and KPMG Huazhen are objective and fair.

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

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

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

The Supervisory Committee reviewed the "Assessment Report on the Internal Control of Sinopec Shanghai Petrochemical Company Limited for 2011" issued by the Board on 28 March 2012 and was of the view that the Company complied with the principles of internal control system in accordance with the relevant provisions of the CSRC and the Shanghai Stock Exchange; established and effectively implemented a complete and reasonable internal control system according to the enterprise's actual situation, which ensured normal operation of the Company's business and the safety and integrity of the Company's assets. In 2011, no material defects were found in the design or implementation of the Company's internal control.

In 2012, following scientific development strategy, and based on the principle of good faith and focusing on the Company's decisions on significant matters, internal control management, connected transactions, information disclosure and so forth, the Supervisory Committee will continue to conscientiously carry out its supervisory duties and strive to safeguard shareholders' rights and interests and the Company's interests, with a view to making due contributions to the Company's steady growth in economic benefits and sustainable and healthy development.

1. **Material litigation or arbitration**

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

2. **Events regarding bankruptcy and restructuring**

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

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

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

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

   The Company was not involved in any acquisition, disposal of assets or mergers by absorption during the year.

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

   (1) Connected transactions in relation to daily operation

   During the Reporting Period, pursuant to the Mutual Product Supply and Sales Services Framework Agreement entered into with Sinopec Corp., the Company purchased raw materials from, and sold petroleum products and petrochemicals as well as leasing properties to, Sinopec Corp. and its associates. Sinopec Corp. and its associates provided agency sales services for petrochemical products. Pursuant to the Comprehensive Services Framework Agreement entered into with Sinopec, the Company obtained construction and installation, project design, petrochemical industry insurance agency and financial services provided by Sinopec and its associates. The abovementioned transactions under the Mutual Product Supply and Sales Services Framework Agreement and the Comprehensive Services Framework Agreement constituted continuing connected transactions under Chapter 14A of the Hong Kong Listing Rules, and constituted on-going connected transactions under the listing rules of Shanghai Stock Exchange. The Company disclosed the two agreements and the respective connected transactions under the agreements in an announcement dated 11 November 2010 and a circular dated 26 November 2010. These two agreements and the respective connected transactions under the agreements together with the associated annual caps from 2011 to 2013 were considered and approved at the 2010 Extraordinary General Meeting held on 28 December 2010.

During the Reporting Period, the relevant connected transactions were conducted in accordance with the terms of the Mutual Product Supply and Services Framework Agreement and the Comprehensive Services Framework Agreement. The transaction amounts of the relevant connected transactions did not exceed the caps in relation to the continuing connected transactions approved at the 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; or (ii) State guidance prices; or (iii) market prices. Such connected transactions were entered into in line with the Company's production and operation needs. Accordingly, the aforesaid connected transactions did not have a significant adverse impact on the Company's independence.

Major connected transactions involving purchases and sales of goods and services

Type of transactions	Related parties	Amount RMB'000	Percentage of the total amount of this type of transaction (%)
Income from sales of products and services income	Sinopec Huadong Sales Company Limited	36,585,798	38.29
	Other related parties	16,696,923	17.44
Purchases	China International United Petroleum & Chemical Co., Ltd.	31,569,944	39.95
	Other related parties	16,238,905	20.55
Sales commission	Sinopec Corp. Chemical Products Sales Branch	195,606	100.00
Insurance premiums for petrochemical industry	Sinopec and its subsidiaries	115,910	79.37
Construction and installation cost	Sinopec and its subsidiaries	286,023	38.17

This includes an amount of RMB50,703,632,000 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 jointly controlled entities by the listed company during the Reporting Period.

Connected creditor's rights and liabilities

Connected party	Connected relationship	Funds provided to connected parties		Funds provided by connected parties to the Company	
		Net transaction RMB'000	Balance RMB'000	Net transaction RMB'000	Balance RMB'000
Sinopec Corp. and its subsidiaries and its jointly controlled entities	Controlling shareholder	(6,884)	1,307[note1]	(9,340)	6,859
Sinopec and other related parties	Controlling company of the controlling shareholder and other related parties	(5,941)	2,550[note2]	(22,863)	5,662
Total		(12,825)	3,857	(32,203)	12,521

During the Reporting Period, the funds which the Company provided to the controlling shareholder and its subsidiaries (RMB'000)	(6,884)
The balance of funds provided by the Company to the controlling shareholder and its subsidiaries (RMB'000)	1,307

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

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

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

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

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

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

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

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

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

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

- With respect to the aggregate amount of each of the continuing connected transactions, nothing has come to their attention that causes them to believe that the disclosed continuing connected transactions have exceeded the maximum aggregate annual value disclosed in the previous announcement dated 11 November 2010 made by the Company in respect of each of the disclosed continuing connected transactions.

6. Material contracts and the performing of obligations

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

(a) Trust
The Company did not enter into any trust arrangements during the year.

(b) Sub-contracting
The Company did not enter into any sub-contracting arrangements during the year.

(c) Leasing
The Company did not enter into any leasing arrangements during the year.

(2) Guarantees

The Company did not enter into any guarantees during the year.

(3) Trust financial management

Please refer to the "Investment by the Company" in the "Report of the Directors".

(4) Other material contracts

There was no other material contract during the year.

7. Performance of undertakings

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

8. Appointment and dismissal of accounting firm

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

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

In 2011, the Company and its Directors, Supervisors, Senior Management, shareholders and controlling company of the controlling shareholder had not been investigated, administratively punished or publicly criticised by the CSRC or publicly censured by the stock exchanges.

10. Tax rate

The charge for PRC income tax is currently calculated at the rate of 25% (2010:25%).

11. Deposits

The Company did not have any entrusted deposits during the Reporting Period. As at 31 December 2011, the Group did not have any due deposits which could not be collected upon maturity.

12. The execution of the 2010 Profit Appropriation Plan

The profit appropriation plan for 2010 was considered and approved at the Company's 2010 Annual General Meeting. A dividend of RMB1.00 (tax inclusive) per 10 shares was distributed to shareholders, based on the total share capital of 7.2 billion shares as at 31 December 2010. The relevant announcement was published on "China Securities Journal" and "Shanghai Securities News" on 30 June 2011. On 15 July 2011, the Company published an announcement on profit appropriation plan for A shares. In respect of the distribution of A-share dividend, the share right registration date was 20 July 2011 and the ex-dividend date was 21 July 2011. The dividend payment date for H shares and social public shares of A shares was 27 July 2011. Such profit appropriation plan was implemented as scheduled.

13. **Reserve**

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

14. **Financial summary**

A summary of the results, total assets, liabilities and shareholders' equity of the Group as at 31 December 2011 are set out on page 4 of this annual report.

15. **Bank loans and other borrowings**

Details of bank loans and other borrowings of the Company and the Group as at 31 December 2011 are set out in note 20 to the financial statements prepared under IFRS.

16. **Interest capitalised**

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

17. **Property, plant and equipment**

Changes in property, plant and equipment during the year are set out in note 12 to the financial statements prepared under IFRS during the year.

18. **Purchase, sale and redemption of securities**

During the year, no purchase, sale or redemption of the Company's shares was made by the Group.

19. **Pre-emptive rights**

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

20. **Implementation of share option incentive scheme and the impact**

No.

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

No.

22. **Other important events**

There was no other important event during the year.

23. Disclosure of information

Item	Publication	Publishing Date	Websites
Announcement on Estimated Increase on Annual Results of 2010	"China Securities Journal", "Shanghai Securities News"	24 January 2011	Websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company
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 and the Company
2011 Interim Report Summary	"China Securities Journal", "Shanghai Securities News"	29 August 2011	Websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company
2011 Third Quarterly Report	"China Securities Journal", "Shanghai Securities News"	28 October 2011	Same as above
Resolutions of the Fourth Meeting of the Seventh Session of the Board of Directors	"China Securities Journal", "Shanghai Securities News"	14 November 2011	Same as above

KPMG

Independent Auditor's Report

To the shareholders of Sinopec Shanghai Petrochemical Company Limited

(Established in The People's Republic of China with limited liability)

We have audited the consolidated financial statements of Sinopec Shanghai Petrochemical Company Limited ("the Company") and its subsidiaries (together "the Group") set out on pages 95 to 170, which comprise the consolidated and company balance sheets as at 31 December 2011, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2011 and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

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

29 March 2012

Consolidated Income Statement

For the year ended 31 December 2011
(Prepared under International Financial Reporting Standards)
(Expressed in Renminbi)

	Note	2011 RMB'000	2010 RMB'000 (Restated)*
Turnover		95,518,856	77,520,699
Sales taxes and surcharges		(6,009,203)	(5,424,817)
Net sales		89,509,653	72,095,882
Cost of sales		(87,881,160)	(68,317,413)
Gross profit		1,628,493	3,778,469
Selling and administrative expenses		(675,771)	(628,761)
Other operating income	3	164,286	109,842
Other operating expenses	4	(57,184)	(295,956)
Profit from operations		1,059,824	2,963,594
Financial income		299,036	178,462
Financial expenses		(215,494)	(273,681)
Net financing income/(costs)	5	83,542	(95,219)
Investment income		685	215
Share of profit of associates and jointly controlled entities		152,655	661,288
Profit before taxation	6	1,296,706	3,529,878
Income tax	8(a)	(310,184)	(735,497)
Profit for the year		986,522	2,794,381
Attributable to:			
Equity shareholders of the Company		956,106	2,769,023
Non-controlling interests		30,416	25,358
Profit for the year		986,522	2,794,381
Earnings per share	9		
Basic		RMB 0.133	RMB 0.385
Diluted		RMB 0.133	RMB 0.385

* See note 2.

The notes on pages 105 to 170 form part of these financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2011
(Prepared under International Financial Reporting Standards)
(Expressed in Renminbi)

	Note	2011 RMB'000	2010 RMB'000 (Restated)*
Profit for the year		986,522	2,794,381
Other comprehensive income for the year (after tax and reclassification adjustments)	11	-	-
Total comprehensive income for the year		986,522	2,794,381
Attributable to:			
Equity shareholders of the Company		956,106	2,769,023
Non-controlling interests		30,416	25,358
Total comprehensive income for the year		986,522	2,794,381

* See note 2.

The notes on pages 105 to 170 form part of these financial statements.

Consolidated Balance Sheet

As at 31 December 2011
(Prepared under International Financial Reporting Standards)
(Expressed in Renminbi)

	Note	2011 RMB'000	2010 RMB'000 (Restated)*
Non-current assets			
Property, plant and equipment	12(a)	12,501,980	13,570,559
Investment property	13	452,555	465,805
Construction in progress	14	3,852,692	1,139,239
Interest in associates and jointly controlled entities	16	2,901,305	3,316,290
Lease prepayments and other assets		825,250	874,192
Deferred tax assets	8(b)	519,269	799,609
Total non-current assets		21,053,051	20,165,694
Current assets			
Inventories	17	5,582,425	5,352,301
Trade debtors	18	121,936	74,193
Bills receivable	18	2,988,010	1,993,273
Other debtors and prepayments	18	242,811	235,730
Amounts due from related parties	18,25(c)	639,286	776,234
Cash and cash equivalents	19	91,346	100,110
Total current assets		9,665,814	8,531,841
Current liabilities			
Loans and borrowings	20	5,512,074	4,395,438
Trade creditors	21	3,126,495	2,376,452
Bills payable	21	15,688	41,034
Other creditors		1,352,367	1,943,327
Amounts due to related parties	21,25(c)	2,242,868	1,800,991
Income tax payable		22,340	15,983
Total current liabilities		12,271,832	10,573,225
Net current liabilities		(2,606,018)	(2,041,384)
Total assets less current liabilities carried forward		18,447,033	18,124,310

* See note 2.

The notes on pages 105 to 170 form part of these financial statements.

As at 31 December 2011
(Prepared under International Financial Reporting Standards)
(Expressed in Renminbi)

	Note	2011 RMB'000	2010 RMB'000 (Restated)*
Total assets less current liabilities brought forward		18,447,033	18,124,310
Non-current liabilities			
Loans and borrowings	20	160,050	175,000
Deferred income	22	91,319	-
Total non-current liabilities		251,369	175,000
Net assets		18,195,664	17,949,310
Shareholders' equity			
Share capital	23	7,200,000	7,200,000
Reserves	24	10,725,563	10,489,457
Total equity attributable to equity shareholders of the Company		17,925,563	17,689,457
Non-controlling interests		270,101	259,853
Total equity		18,195,664	17,949,310

* See note 2.

Approved and authorised for issue by the Board of Directors on 29 March 2012.

Rong Guangdao
Chairman

Wang Zhiqing
Vice Chairman and President

The notes on pages 105 to 170 form part of these financial statements.

Balance Sheet

As at 31 December 2011
(Prepared under International Financial Reporting Standards)
(Expressed in Renminbi)

	Note	2011 RMB'000	2010 RMB'000 (Restated)*
Non-current assets			
Property, plant and equipment	12(b)	11,979,120	12,990,109
Investment property	13	452,555	524,560
Construction in progress	14	3,781,922	1,123,243
Investments in subsidiaries	15	1,310,401	1,310,401
Interest in associates and jointly controlled entities	16	2,274,480	2,274,480
Lease prepayments and other assets		725,439	738,261
Deferred tax assets	8(b)	510,658	790,186
Total non-current assets		21,034,575	19,751,240
Current assets			
Inventories	17	5,281,885	5,110,036
Trade debtors	18	54,581	14,048
Bills receivable	18	2,841,979	1,836,466
Other debtors and prepayments	18	101,279	144,522
Amounts due from related parties	18,25(c)	599,654	432,132
Cash and cash equivalents	19	61,057	89,224
Total current assets		8,940,435	7,626,428
Current liabilities			
Loans and borrowings	20	5,571,574	4,216,438
Trade creditors	21	2,120,028	1,702,002
Bills payable	21	15,688	41,034
Other creditors		1,218,772	1,810,607
Amounts due to related parties	21,25(c)	3,525,614	2,501,259
Total current liabilities		12,451,676	10,271,340
Net current liabilities		(3,511,241)	(2,644,912)
Total assets less current liabilities carried forward		17,523,334	17,106,328

* See note 2.

The notes on pages 105 to 170 form part of these financial statements.

Balance Sheet (continued)

As at 31 December 2011
(Prepared under International Financial Reporting Standards)
(Expressed in Renminbi)

	Note	2011 RMB'000	2010 RMB'000 (Restated)*
Total assets less current liabilities brought forward		17,523,334	17,106,328
Non-current liabilities			
Loans and borrowings	20	135,000	220,000
Deferred income	22	91,319	-
Total non-current liabilities		226,319	220,000
Net asset		17,297,015	16,886,328
Shareholders' equity			
Share capital	23	7,200,000	7,200,000
Reserves	24	10,097,015	9,686,328
Total equity		17,297,015	16,886,328

* See note 2.

Approved and authorised for issue by the Board of Directors on 29 March 2012.

Rong Guangdao
Chairman

Wang Zhiqing
Vice Chairman and President

The notes on pages 105 to 170 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2011
(Prepared under International Financial Reporting Standards)
(Expressed in Renminbi)

		Attributable to equity shareholders of the Company						
	Note	Share capital	Share premium	Reserves	Retained earnings	Total	Non-controlling interest	Total Equity
		RMB'000	RMB'000	RMB'000	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 2010:								
Profit for the year		-	-	-	2,769,023	2,769,023	25,358	2,794,381
Other comprehensive income		-	-	-	-	-	-	-
Total comprehensive income for the year		-	-	-	2,769,023	2,769,023	25,358	2,794,381
Dividends approved in respect of the previous year	10(b)	-	-	-	(216,000)	(216,000)	-	(216,000)
Appropriation of profits	24	-	-	279,548	(279,548)	-	-	-
Dividends paid by subsidiaries to non-controlling interests		-	-	-	-	-	(59,790)	(59,790)
Restated balance at 31 December 2010		7,200,000	2,420,841	5,085,494	2,983,122	17,689,457	259,853	17,949,310

The notes on pages 105 to 170 form part of these financial statements.

For the year ended 31 December 2011
(Prepared under International Financial Reporting Standards)
(Expressed in Renminbi)

	Note	Attributable to equity shareholders of the Company						
		Share capital	Share premium	Reserves	Retained earnings	Total	Non-controlling interest	Total Equity
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
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 2011:								
Profit for the year		-	-	-	956,106	956,106	30,416	986,522
Other comprehensive income		-	-	-	-	-	-	-
Total comprehensive income for the year		-	-	-	956,106	956,106	30,416	986,522
Dividends approved in respect of the previous year	10(b)	-	-	-	(720,000)	(720,000)	-	(720,000)
Appropriation of profits	24	-	-	70,456	(70,456)	-	-	-
Appropriation of safety production fund	24	-	-	21,777	(21,777)	-	-	-
Dividends paid by subsidiaries to non-controlling interests		-	-	-	-	-	(20,168)	(20,168)
Balance at 31 December 2011		7,200,000	2,420,841	5,177,727	3,126,995	17,925,563	270,101	18,195,664

The notes on pages 105 to 170 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2011
(Prepared under International Financial Reporting Standards)
(Expressed in Renminbi)

	Note	2011 RMB'000	2010 RMB'000
Operating activities			
Cash generated from operations	(a)	2,504,918	4,263,123
Interest paid		(261,437)	(270,113)
Income tax paid		(23,487)	(19,291)
Net cash generated from operating activities		2,219,994	3,973,719
Investing activities			
Interest income received		99,345	37,375
Dividend income received		588,118	89,817
Proceeds from disposal of property, plant and equipment and other long-term assets		70,344	66,347
Proceeds from disposal of investments		700,000	700,000
Capital expenditure		(3,481,235)	(1,356,845)
Purchase of investments and interests in associates		(786,751)	-
Net cash used in investing activities		(2,810,179)	(463,306)
Financing activities			
Proceeds from loans and borrowings		35,106,127	39,355,780
Repayment of loans and borrowings		(32,791,261)	(42,631,344)
Proceeds from issuance of corporate bonds		-	1,000,000
Repayment of corporate bonds		(1,000,000)	(1,000,000)
Dividends paid to equity shareholders of the Company		(712,891)	(200,510)
Dividends paid by subsidiaries to non-controlling interests		(20,168)	(59,790)
Net cash generated from /(used in) financing activities		581,807	(3,535,864)
Net decrease in cash and cash equivalents		(8,378)	(25,451)
Cash and cash equivalents at 1 January	19	100,110	125,917
Effect of exchange rate fluctuations on cash held		(386)	(356)
Cash and cash equivalents at 31 December	19	91,346	100,110

The notes on pages 105 to 170 form part of these financial statements.

For the year ended 31 December 2011
(Prepared under International Financial Reporting Standards)
(Expressed in Renminbi)

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

	2011 RMB'000	2010 RMB'000 (Restated)*
Profit before taxation	1,296,706	3,529,878
Interest income	(99,345)	(37,375)
Share of profit of associates and jointly controlled entities	(152,655)	(661,288)
Gain on disposal of available-for-sale financial assets	(685)	(215)
Interest expense	215,494	273,681
Depreciation of property, plant and equipment	1,610,450	1,641,961
Depreciation of investment property	13,250	13,256
Impairment losses on property, plant and equipment	10,552	238,200
Amortisation of lease prepayments	18,401	19,573
Unrealised exchange gain	(50,480)	(29,845)
Loss on disposal of property, plant and equipment and other long-term assets, net	18,006	34,635
(Increase)/decrease in inventories	(230,124)	1,531,533
Increase in debtors, bills receivable and prepayments	(1,015,449)	(1,571,121)
Increase in trade creditors, other creditors and bills payable	205,695	1,161,697
Increase/(decrease) in balances with related parties	573,783	(1,881,447)
Increase in deferred income	91,319	-
Cash generated from operations	2,504,918	4,263,123

* See note 2.

The notes on pages 105 to 170 form part of these financial statements.

1. Significant accounting policies

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

(a) Statement of compliance

The consolidated financial statements of Sinopec Shanghai Petrochemical Company Limited ("the Company") and its subsidiaries (collectively "the Group") have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). IFRS includes International Accounting Standards ("IAS") and related interpretations. These financial statements also comply with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. These financial statements have been approved by the Board of Directors on 29 March 2012.

(b) Basis of preparation of the financial statements

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

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

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

Judgements made by management in the application of IFRS that have significant effect on the financial statements and major sources of estimation uncertainty are disclosed in note 30.

1. Significant accounting policies *(continued)*

(c) Basis of consolidation

(i) Subsidiaries and non-controlling interests

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

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

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

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

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

1. Significant accounting policies *(continued)*

(c) Basis of consolidation *(continued)*

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

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

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

(ii) Associates and jointly controlled entities

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

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

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

1. Significant accounting policies *(continued)*

(c) Basis of consolidation *(continued)*

(ii) Associates and jointly controlled entities (continued)

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

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

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

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

(d) Other investments

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

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

1. Significant accounting policies *(continued)*

(e) Property, plant and equipment

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

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

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

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

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

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

(f) Investment property

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

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

(g) Lease prepayments and other assets

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

1. Significant accounting policies *(continued)*

(h) Construction in progress

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

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

No depreciation is provided in respect of construction in progress.

(i) Inventories

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

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

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

1. Significant accounting policies *(continued)*

(j) Trade receivables, bills and other receivables

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

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

(k) Interest-bearing borrowings

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

(l) Trade and other payables

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

(m) Cash and cash equivalents

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

1. Significant accounting policies *(continued)*

(n) Translation of foreign currencies

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

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

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

(o) Revenue recognition

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

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

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

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

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

1. Significant accounting policies *(continued)*

(p) Government grants

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

(q) Net finance income/(costs)

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

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

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

(r) Repairs and maintenance expenses

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

(s) Research and development costs

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

(t) Employee benefits

The contributions payable under the Group's retirement plans are charged to the profit or loss on an accrual basis according to the contribution determined by the plans. Further information is set out in note 26.

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

1. Significant accounting policies *(continued)*

(u) Impairment loss

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

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

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

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

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

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

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

1. Significant accounting policies *(continued)*

(u) Impairment loss *(continued)*

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

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

(v) Dividends payable

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

(w) Income tax

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

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

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

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

1. Significant accounting policies *(continued)*

(x) Provisions and contingent liabilities

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

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

(y) Related parties

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

(1) has control or joint control over the Group;
(2) has significant influence over the Group; or
(3) is a member of the key management personnel of the Group or the Group's parent.

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

(1) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
(2) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
(3) Both entities are joint ventures of the same third party.
(4) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
(5) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
(6) The entity is controlled or jointly controlled by a person identified in (i).
(7) A person identified in (i)(1) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

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

1. Significant accounting policies *(continued)*

(z) Segment reporting

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

2. Changes in accounting policies

The IASB has issued 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 and the Company. 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 financial statements.

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).

2. Changes in accounting policies *(continued)*

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 be 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.

The adjustments made to the amounts reported for previous periods and the effect of the changes on the current period, as reported in these financial statements, 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

	2011 Increase/(decrease) RMB'000	2010 Increase/(decrease) RMB'000
Cost of sales	**3,498**	3,498
Income tax	**(875)**	(875)
Profit for the year	**(2,623)**	(2,623)
Profit attributable to equity shareholders of the Company	**(2,623)**	(2,623)
Basic and diluted earnings per share (RMB)	**-**	-

2. Changes in accounting policies *(continued)*

There is no material impact on the Group's financial position as a result of the change in accounting policy as mentioned above. Therefore, an additional consolidated balance sheet and related notes are not presented as at the beginning of the earliest comparative period in these consolidated financial statements.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (Note 32).

3. Other operating income

	2011 RMB'000	2010 RMB'000
Income from rendering of services	40,634	30,826
Gain on disposal of property, plant and equipment	3,119	2,425
Rental income from investment property	41,758	39,662
Government grants	66,965	27,211
Others	11,810	9,718
	164,286	109,842

4. Other operating expenses

	2011 RMB'000	2010 RMB'000
Employee reduction expenses (note a)	9,758	3,646
Loss on disposal of property, plant and equipment	21,125	37,060
Impairment losses on property, plant and equipment (note 12(d))	10,552	238,200
Others	15,749	17,050
	57,184	295,956

Note (a):

In accordance with the Group's voluntary employee reduction plan, the Group recognised employee reduction expenses of RMB 9,758,000 in respect of the voluntary resignation of approximately 135 employees (83 employees in 2010) during the year ended 31 December 2011 (2010: RMB 3,646,000).

5. Net finance income/(costs)

	2011 RMB'000	2010 RMB'000
Interest income	99,345	37,375
Net foreign exchange gain	199,691	141,087
Financial income	299,036	178,462
Interest on loans and borrowings	(246,326)	(274,511)
Less:borrowing costs capitalised as construction in progress*	30,832	830
Financial expenses	(215,494)	(273,681)
Net finance income/(costs)	83,542	(95,219)

* The borrowing costs during 2011 have been capitalised at a rate of 2.75%-4.86% per annum (2010: 2.00%-3.25%) for construction in progress.

6. Profit before taxation

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

	2011 RMB'000	2010 RMB'000 (Restated)*
Cost of inventories sold#	87,881,160	68,317,413
Depreciation of property, plant and equipment#	1,610,450	1,641,961
Depreciation of investment property#	13,250	13,256
Amortisation of lease prepayments#	18,401	19,573
Repairs and maintenance expenses#	1,093,339	1,016,530
Research and development costs#	79,573	58,242
Employee's pension costs#		
- Municipal retirement scheme costs	235,013	209,752
- Supplementary retirement scheme costs	59,922	57,867
Staff costs#	1,699,158	1,441,296
Rental income from investment property	(41,758)	(39,662)
Impairment losses		
- Trade and other receivables	(2,384)	(2,916)
- Property, plant and equipment	10,552	238,200
Gain on sale of available-for-sale financial assets	(685)	(215)
Share of profit of associates and jointly controlled entities	(152,655)	(661,288)
Auditors' remuneration - audit services	8,500	8,300

Cost of inventories sold includes RMB 4,752,353,000 (2010: RMB 4,374,738,000) relating to staff costs, depreciation and amortisation, repairs and maintenance expenses, research and development costs and pension costs, which amount is also included in the respective total amounts disclosed separately above for each of these types of expenses.

The consolidated profit attributable to equity shareholders of the Company includes a profit of RMB 798,355,000 (2010: a profit of RMB 2,147,511,000) which has been dealt with in the financial statements of the Company.

* See note 2.

7. Directors' and supervisors' emoluments

(i) Directors' and supervisors' emoluments:

	2011			
	Salaries and other benefits RMB'000	Retirement scheme contributions RMB'000	Discretionary bonus RMB'000	Total RMB'000
Executive Directors				
Rong Guangdao	181	12	467	660
Wang Zhiqing	181	12	408	601
Li Honggen	157	12	402	571
Shi Wei	157	12	412	581
Ye Guohua (appointed in June 2011)	80	6	77	163
Dai Jinbao (resigned in June 2011)	48	5	202	255
Independent non-executive directors				
Jin Mingda (appointed in June 2011)	75	-	-	75
Wang Yongshou (appointed in June 2011)	75	-	-	75
Cai Tingji (appointed in June 2011)	75	-	-	75
Chen Xinyuan (resigned in June 2011)	75	-	-	75
Zhou Yunnong (resigned in June 2011)	75	-	-	75
Sun Chiping (resigned in June 2011)	75	-	-	75
Jiang Zhiquan (resigned in June 2011)	75	-	-	75
Supervisors				
Gao Jinping	157	12	390	559
Zuo Qiang (appointed in June 2011)	49	5	62	116
Li Xiaoxia (appointed in June 2011)	54	6	72	132
Zhang Chenghua (resigned in June 2011)	54	5	190	249
Wang Yanjun (resigned in June 2011)	46	5	167	218
	1,689	92	2,849	4,630

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

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

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

For the years ended 31 December 2011 and 2010, no emolument was paid to the directors or supervisors as an inducement to join or upon joining the Company or as compensation for loss of office.

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

(ii) Individuals with the highest emoluments

Of the five individuals with the highest emoluments, four (2010: four) are directors and supervisors whose emoluments are disclosed in note 7 (i). The emolument of the other one (2010: one) is as follows:

	2011 RMB'000	2010 RMB'000
Salaries and other benefits	157	156
Retirement scheme contributions	12	15
Discretionary bonus	391	348
	560	519

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

	2011 Number of individuals	2010 Number of individuals
RMB		
nil - 1,000,000	1	1

8. Income tax

(a) Taxation in the consolidated income statement represents:

	2011 RMB'000	2010 RMB'000 (Restated)*
Current tax		
-Provision for PRC income tax for the year	30,280	22,523
-(Over)/under-provision in respect of prior years	(436)	3,453
Deferred taxation	280,340	709,521
Total income tax expense	310,184	735,497

* See note 2.

8. Income tax *(continued)*

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

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

	2011 RMB'000	2010 RMB'000 (Restated)*
Profit before taxation	1,296,706	3,529,878
Expected PRC income tax expense at the statutory tax rate of 25%	324,177	882,469
Tax effect of non-deductible expenses	22,604	6,240
Tax effect of non-taxable income	(3,957)	(225)
(Over)/under-provision in prior years	(436)	3,453
Tax effect of share of profit recognised under the equity method	(38,164)	(165,322)
Tax effect of unused tax losses not recognised	10,582	12,324
Others	(4,622)	(3,442)
Actual income tax expense	310,184	735,497

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

* See note 2.

8. Income tax *(continued)*

(b) Deferred taxation:

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

	The Group					
	Assets		Liabilities		Net balance	
	2011	2010	2011	2010	2011	2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
		(Restated)*		(Restated)*		(Restated)*
Current						
Provisions	42,123	21,539	-	-	42,123	21,539
Non-current						
Provision for impairment losses	112,297	139,379	-	-	112,297	139,379
Capitalisation of borrowing costs	-	-	(20,395)	(23,448)	(20,395)	(23,448)
Tax losses carry forward	374,186	651,529	-	-	374,186	651,529
Others	11,058	10,610	-	-	11,058	10,610
Deferred tax assets / (liabilities)	539,664	823,057	(20,395)	(23,448)	519,269	799,609

	The Company					
	Assets		Liabilities		Net balance	
	2011	2010	2011	2010	2011	2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
		(Restated)*		(Restated)*		(Restated)*
Current						
Provisions	41,832	21,312	-	-	41,832	21,312
Non-current						
Provision for impairment losses	112,297	139,379	-	-	112,297	139,379
Capitalisation of borrowing costs	-	-	(20,395)	(23,448)	(20,395)	(23,448)
Tax losses carry forward	374,186	651,529	-	-	374,186	651,529
Others	2,738	1,414	-	-	2,738	1,414
Deferred tax assets / (liabilities)	531,053	813,634	(20,395)	(23,448)	510,658	790,186

* See note 2.

8. Income tax *(continued)*

(b) Deferred taxation: *(continued)*

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

	The Group		
	Restated balance at 1 January 2010 RMB'000	Recognised in income statement RMB'000	Restated balance at 31 December 2010 RMB'000
Current			
Provisions	36,778	(15,239)	21,539
Non-current			
Provision for impairment losses	85,112	54,267	139,379
Capitalisation of borrowing costs	(26,322)	2,874	(23,448)
Tax losses carry forward	1,401,978	(750,449)	651,529
Others	11,584	(974)	10,610
Net deferred tax assets	1,509,130	(709,521)	799,609

	The Group		
	Balance at 1 January 2011 RMB'000	**Recognised in income statement RMB'000**	**Balance at 31 December 2011 RMB'000**
Current			
Provisions	**21,539**	**20,584**	**42,123**
Non-current			
Provision for impairment losses	**139,379**	**(27,082)**	**112,297**
Capitalisation of borrowing costs	**(23,448)**	**3,053**	**(20,395)**
Tax losses carry forward	**651,529**	**(277,343)**	**374,186**
Others	**10,610**	**448**	**11,058**
Net deferred tax assets	**799,609**	**(280,340)**	**519,269**

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

8. Income tax *(continued)*

(b) Deferred taxation: *(continued)*

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

	The Company		
	Restated balance at 1 January 2010 RMB'000	Recognised in income statement RMB'000	Restated balance at 31 December 2010 RMB'000
Current			
Provisions	36,417	(15,105)	21,312
Non-current			
Provision for impairment losses	85,112	54,267	139,379
Capitalisation of borrowing costs	(26,322)	2,874	(23,448)
Tax losses carry forward	1,401,978	(750,449)	651,529
Others	1,514	(100)	1,414
Net deferred tax assets	1,498,699	(708,513)	790,186

	The Company		
	Balance at 1 January 2011 RMB'000	Recognised in income statement RMB'000	Balance at 31 December 2011 RMB'000
Current			
Provisions	21,312	20,520	41,832
Non-current			
Provision for impairment losses	139,379	(27,082)	112,297
Capitalisation of borrowing costs	(23,448)	3,053	(20,395)
Tax losses carry forward	651,529	(277,343)	374,186
Others	1,414	1,324	2,738
Net deferred tax assets	790,186	(279,528)	510,658

8. Income tax *(continued)*

(b) Deferred taxation: *(continued)*

(iii) Deferred tax assets not recognised

As at 31 December 2011, a subsidiary of the Company did not recognise the deferred tax assets in respect of the impairment losses on property, plant and equipment amounting to RMB 432,579,000 (2010: RMB 432,579,000) and the unused tax losses carried forward for PRC income tax purpose amounting to RMB 465,414,000 (2010: RMB 452,443,000), because it was not probable that the related tax benefit will be realised. The unused tax losses carried forward of RMB 68,548,000, RMB 197,952,000, RMB 107,292,000, RMB 49,294,000 and RMB 42,328,000 will expire in 2012, 2013, 2014, 2015 and 2016, respectively.

9. Earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of RMB 956,106,000 (2010: RMB 2,769,023,000) and 7,200,000,000 (2010: 7,200,000,000) shares in issue during the year.

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

10. Dividends

(a) Dividends attributable to the year

	The Group and the Company	
	2011	2010
	RMB'000	RMB'000
Final dividend proposed after the balance sheet date of RMB 0.05 per share (2010: RMB 0.10 per share)	360,000	720,000

Pursuant to a resolution passed at the directors' meeting on 29 March 2012, a final dividend of RMB 0.05 per share totalling RMB 360,000,000 (2010: RMB 720,000,000) was proposed for shareholders' approval at the Annual General Meeting. The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

10. Dividends *(continued)*

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

	The Group and the Company	
	2011	2010
	RMB'000	RMB'000
Final dividend in respect of the previous financial year, approved during the year, of RMB 0.10 per share (2010: RMB 0.03 per share)	720,000	216,000

11. Other comprehensive income

Reclassification adjustments relating to components of other comprehensive income

	2011	2010
	RMB'000	RMB'000
Available-for-sale financial assets:		
Changes in fair value recognised during the year	685	215
Reclassification adjustments for amounts transferred to profit or loss		
- gains on disposal	(685)	(215)
Net movement in fair value reserve during the year recognised in other comprehensive income	-	-

12. Property, plant and equipment

(a) The Group

	Buildings RMB'000	Plant and Machinery RMB'000	Vehicles and other equipment RMB'000	Total RMB'000
Cost:				
At 1 January 2010	5,755,856	25,711,423	6,910,367	38,377,646
Additions	220	61,883	34,401	96,504
Transferred from construction in progress (note 14)	12,226	332,073	63,508	407,807
Disposal	(35,408)	(298,580)	(111,844)	(445,832)
At 31 December 2010	5,732,894	25,806,799	6,896,432	38,436,125
At 1 January 2011	5,732,894	25,806,799	6,896,432	38,436,125
Additions	-	131,945	55,792	187,737
Transferred from construction in progress (note 14)	12,221	349,348	29,467	391,036
Disposal	(5,175)	(274,098)	(76,734)	(356,007)
At 31 December 2011	5,739,940	26,013,994	6,904,957	38,658,891
Accumulated depreciation and impairment losses:				
At 1 January 2010	3,640,145	15,035,434	4,724,862	23,400,441
Charge for the year	139,591	1,234,816	267,554	1,641,961
Impairment loss	8,578	206,929	22,693	238,200
Written back on disposal	(26,396)	(283,655)	(104,985)	(415,036)
At 31 December 2010	3,761,918	16,193,524	4,910,124	24,865,566
At 1 January 2011	3,761,918	16,193,524	4,910,124	24,865,566
Charge for the year	140,673	1,185,535	284,242	1,610,450
Impairment loss	542	8,629	1,381	10,552
Written back on disposal	(3,519)	(252,859)	(73,279)	(329,657)
At 31 December 2011	3,899,614	17,134,829	5,122,468	26,156,911
Net book value:				
At 31 December 2011	1,840,326	8,879,165	1,782,489	12,501,980
At 31 December 2010	1,970,976	9,613,275	1,986,308	13,570,559

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

(b) The Company

	Buildings RMB'000	Plant and Machinery RMB'000	Vehicles and other equipment RMB'000	Total RMB'000
Cost:				
At 1 January 2010	4,713,269	23,735,595	6,608,616	35,057,480
Additions	-	60,179	35,419	95,598
Transferred from construction in progress (note 14)	7,315	327,793	61,302	396,410
Disposal	(34,463)	(297,546)	(109,758)	(441,767)
At 31 December 2010	4,686,121	23,826,021	6,595,579	35,107,721
At 1 January 2011	4,686,121	23,826,021	6,595,579	35,107,721
Additions	-	96,101	51,533	147,634
Transferred from construction in progress (note 14)	12,221	345,833	22,672	380,726
Reclassification from investment property (note 13)	68,922	-	-	68,922
Disposal	(3,175)	(263,288)	(73,211)	(339,674)
At 31 December 2011	4,764,089	24,004,667	6,596,573	35,365,329
Accumulated depreciation and impairment losses:				
At 1 January 2010	3,119,711	13,120,940	4,459,349	20,700,000
Charge for the year	128,333	1,200,583	262,640	1,591,556
Impairment loss	8,578	206,929	22,693	238,200
Written back on disposal	(25,969)	(283,143)	(103,032)	(412,144)
At 31 December 2010	3,230,653	14,245,309	4,641,650	22,117,612
At 1 January 2011	3,230,653	14,245,309	4,641,650	22,117,612
Charge for the year	129,410	1,160,668	275,729	1,565,807
Reclassification from investment property (note 13)	11,839	-	-	11,839
Impairment loss	542	8,629	1,381	10,552
Written back on disposal	(2,485)	(247,236)	(69,880)	(319,601)
At 31 December 2011	3,369,959	15,167,370	4,848,880	23,386,209
Net book value:				
At 31 December 2011	1,394,130	8,837,297	1,747,693	11,979,120
At 31 December 2010	1,455,468	9,580,712	1,953,929	12,990,109

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

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

Buildings in Hong Kong with a net book value of RMB 28,203,000 (2010: RMB 29,388,000) were held under medium-term leases.

(d) Impairment losses

2011

Impairment losses recognised on certain idle facilities of the intermediate petrochemicals segment were RMB 10.6 million for the year ended 31 December 2011. These facilities were tested for impairment in accordance with the Company's accounting policy described in note 1(u)(ii) to the consolidated financial statements. The estimated recoverable amounts were based on the assets' fair value less costs to sell, which were determined by reference to the recent observable market prices for similar assets within the same industry.

2010

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

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

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

(d) Impairment losses *(continued)*

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

(e) The carrying value of the above assets prior to the impairment losses and the carrying value of the assets subsequent to the impairment losses by asset category for the years ended 31 December 2011 and 2010 are presented as follows:

Asset Category

	2011			
	Original cost RMB'000	Net book value before impairment RMB'000	Impairment loss recognised RMB'000	Net book value after impairment RMB'000
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

Asset Category

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

13. Investment property

	The Group RMB'000	The Company RMB'000
Cost:		
At 1 January 2010	546,630	615,334
Disposal	(218)	-
At 31 December 2010	546,412	615,334
At 1 January 2011	546,412	615,334
Reclassification to property, plant and equipment (note 12 (b))	-	(68,922)
At 31 December 2011	546,412	546,412
Accumulated depreciation:		
At 1 January 2010	67,383	75,852
Charge for the year	13,256	14,922
Written back on disposal	(32)	-
At 31 December 2010	80,607	90,774
At 1 January 2011	80,607	90,774
Charge for the year	13,250	14,922
Reclassification to property, plant and equipment (note 12 (b))	-	(11,839)
At 31 December 2011	93,857	93,857
Net book value:		
At 31 December 2011	452,555	452,555
At 31 December 2010	465,805	524,560

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

The fair value of the investment property of the Group and the Company as at 31 December 2011 were estimated by the directors to be approximately RMB 964,816,000, by reference to market values of similar properties in the relevant region (2010: the Group and the Company: RMB 994,053,000 and RMB 1,121,326,000 respectively). The investment property has not been valued by an external independent valuer.

Rental income of RMB 41,758,000 was received by the Group during the year ended 31 December 2011 (2010: RMB 39,662,000).

14. Construction in progress

	The Group		The Company	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
At 1 January	**1,139,239**	348,865	**1,123,243**	338,856
Additions	**3,104,489**	1,198,181	**3,039,405**	1,180,797
Transferred to property, plant and equipment (Note 12)	**(391,036)**	(407,807)	**(380,726)**	(396,410)
At 31 December	**3,852,692**	1,139,239	**3,781,922**	1,123,243

15. Investments in subsidiaries (The Company)

	2011	2010
	RMB'000	RMB'000
Unlisted shares, at cost	**1,537,901**	1,537,901
Less: impairment losses	**(227,500)**	(227,500)
	1,310,401	1,310,401

These amounts represent the investments made by the Company in its consolidated subsidiaries. At 31 December 2011, the following list contains the particulars of the subsidiaries, all of which are limited companies established and operated in the PRC, which principally affected the results and assets of the Group.

		Percentage of equity		
Company	**Registered capital '000**	**held by the Company %**	**held by subsidiaries %**	**Principal activities**
Shanghai Petrochemical Investment Development Company Limited	RMB 1,000,000	100	-	Investment management
China Jinshan Associated Trading Corporation	RMB 25,000	67.33	-	Import and export of petrochemical products and equipment
Shanghai Jinchang Engineering Plastics Company Limited	US$ 9,154	-	74.25	Production of polypropylene compound products

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

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

None of the subsidiaries have issued any debt securities.

16. Interest in associates and jointly controlled entities

	The Group		The Company	
	2011 RMB'000	2010 RMB'000	2011 RMB'000	2010 RMB'000
Interest in associates				
- Unlisted shares, at cost	-	-	2,146,488	2,146,488
- Share of net assets	2,777,292	3,198,114	-	-
Interest in jointly controlled entities				
- Unlisted shares, at cost	-	-	127,992	127,992
- Share of net assets	124,013	118,176	-	-
	2,901,305	3,316,290	2,274,480	2,274,480

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

The particulars of the significant associates and jointly controlled entities, which are limited companies established and operating in the PRC, which principally affected the results or assets of the Group at 31 December 2011 are as follows:

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

Summary financial information of the associates is as follows:

	Assets RMB'000	Liabilities RMB'000	Equity RMB'000	Revenues RMB'000	Profit RMB'000
2011					
100 per cent	**23,784,913**	**(11,634,208)**	**12,150,705**	**29,815,375**	**299,026**
Group's effective interest	**6,297,332**	**(3,520,040)**	**2,777,292**	**6,354,876**	**122,818**
2010					
100 per cent	26,273,106	(11,710,361)	14,562,745	30,772,706	2,947,033
Group's effective interest	6,797,152	(3,599,038)	3,198,114	6,463,076	632,127

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

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

17. Inventories

(a) Inventories in the balance sheet comprise:

	The Group		The Company	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Raw materials	**2,042,098**	2,602,299	**1,926,576**	2,498,028
Work in progress	**1,980,028**	1,417,789	**1,962,208**	1,406,264
Finished goods	**1,167,872**	841,250	**1,036,685**	747,786
Spare parts and consumables	**392,427**	490,963	**356,416**	457,958
	5,582,425	5,352,301	**5,281,885**	5,110,036

At 31 December 2011, the Group and the Company had inventories that were carried at net realisable value of RMB 1,288,075,000 and RMB 1,136,819,000 respectively (2010: RMB 881,191,000 and RMB 748,842,000, respectively).

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

The cost of inventories recognised as an expense in the consolidated income statement amounted to RMB 87,881,160,000 for the year ended 31 December 2011 (2010: RMB 68,317,413,000), which included the write-down of inventories of RMB 109,666,000 (2010: RMB 11,921,000).

18. Trade and other debtors

	The Group		The Company	
	2011	2010	2011	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Trade debtors	126,671	82,030	55,950	18,418
Less: Impairment losses for bad and doubtful debts	(4,735)	(7,837)	(1,369)	(4,370)
	121,936	74,193	54,581	14,048
Bills receivable	2,988,010	1,993,273	2,841,979	1,836,466
Amounts due from related parties	639,286	776,234	599,654	432,132
	3,749,232	2,843,700	3,496,214	2,282,646
Other debtors and prepayments	242,811	235,730	101,279	144,522
	242,811	235,730	101,279	144,522
	3,992,043	3,079,430	3,597,493	2,427,168

Amounts due from related parties mainly 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:

	The Group		The Company	
	2011	2010	2011	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Invoice date:				
Within one year	3,748,135	2,842,788	3,496,016	2,282,634
Between one and two years	1,097	912	198	12
	3,749,232	2,843,700	3,496,214	2,282,646

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

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

19. Cash and cash equivalents

	The Group		The Company	
	2011 RMB'000	2010 RMB'000	2011 RMB'000	2010 RMB'000
Cash deposits with a related party	1,093	6,870	970	6,823
Cash at bank and in hand	90,253	93,240	60,087	82,401
	91,346	100,110	61,057	89,224

20. Loans and borrowings

Loans and borrowings are repayable as follows:

	The Group		The Company	
	2011 RMB'000	2010 RMB'000	2011 RMB'000	2010 RMB'000
Long term bank loans (note b)				
- Between two and five years	35,050	175,000	10,000	220,000
- Between one and two years	125,000	-	125,000	-
	160,050	175,000	135,000	220,000
Loans due within one year				
- Current portion of long term bank loans (note b)	-	100,000	45,000	100,000
- Corporate bonds (note a)	-	1,000,000	-	1,000,000
- Short term bank loans	4,852,074	2,885,438	4,866,574	2,906,438
- Short term loans from a related party	660,000	410,000	660,000	210,000
	5,512,074	4,395,438	5,571,574	4,216,438
	5,672,124	4,570,438	5,706,574	4,436,438

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.

20. Loans and borrowings *(continued)*

Note (b):

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

Repayment terms and last payment date	Interest rate at 31 December 2011	Interest type	The Group 2011 RMB'000	The Group 2010 RMB'000	The Company 2011 RMB'000	The Company 2010 RMB'000
Arranged by the Company:						
Renminbi denominated:						
Due in 2011	5.10%	Floating	-	100,000	-	100,000
Due in 2012	2.25%	Fixed	-	-	45,000	45,000
Due in 2013	5.36%	Floating	125,000	175,000	125,000	175,000
Due in 2016	6.21%	Floating	10,000	-	10,000	-
Arranged by subsidiaries:						
Renminbi denominated:						
Due in 2016	6.90%	Floating	25,050	-	-	-
Total long term loans and borrowings outstanding			160,050	275,000	180,000	320,000
Less: Amounts due within one year			-	(100,000)	(45,000)	(100,000)
Amounts due after one year			160,050	175,000	135,000	220,000

The weighted average short term interest rates for the Group and the Company were 2.75% and 2.69% respectively at 31 December 2011 (2010: the Group and the Company 2.34% and 2.26% respectively).

At 31 December 2011, no loans and borrowings were secured by property, plant and equipment (2010: nil).

20. Loans and borrowings *(continued)*

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

	The Group		The Company	
	2011	2010	2011	2010
	'000	'000	'000	'000
United States Dollars	USD 733,637	USD 381,935	USD 733,637	USD 381,935

21. Trade payable

	The Group		The Company	
	2011	2010	2011	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Trade creditors	3,126,495	2,376,452	2,120,028	1,702,002
Bills payable	15,688	41,034	15,688	41,034
Amounts due to related parties	2,242,868	1,800,991	3,525,614	2,501,259
	5,385,051	4,218,477	5,661,330	4,244,295

The maturity analysis of trade accounts payable is as follows:

	The Group		The Company	
	2011	2010	2011	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Due within 1 month or on demand	5,166,297	4,082,246	5,444,016	4,135,795
Due after 1 month and within 3 months	218,754	136,231	217,314	108,500
	5,385,051	4,218,477	5,661,330	4,244,295

22. Deferred income

Deferred income represents government grants of RMB 91,319,000 received in December 2011 as compensation for employee education charges to be incurred by the Group, and which will be recognised as income in accordance with the accounting policy adopted for government grants in note 1(p).

23. Share capital

	The Group and the Company	
	2011	2010
	RMB'000	RMB'000
Registered, issued and paid up capital:		
4,870,000,000 A shares of RMB 1.00 each	4,870,000	4,870,000
2,330,000,000 H shares of RMB 1.00 each	2,330,000	2,330,000
	7,200,000	7,200,000

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

Capital management

Management optimises the structure of its capital, comprising equity and loans. In order to maintain or adjust the capital structure, management may cause the Group to issue new shares, adjust the capital expenditure plan, sell assets to reduce debt, or adjust the proportion of short-term and long-term loans. Management monitors capital on the basis of debt-to-equity ratio, which is calculated by dividing loans and borrowings by the total equity attributable to equity shareholders of the Company, and liability-to-asset ratio, which is calculated by dividing total liabilities by total assets. Management's strategy is to make appropriate adjustments according to the operating and investment needs and changes in market conditions, and to maintain the debt-to-equity ratio and the liability-to-asset ratio at a range considered reasonable by management. As at 31 December 2011, the debt-to-equity ratio and the liability-to-asset ratio of the Group were 31.64% (2010: 25.84%) and 40.77% (2010: 37.45%), respectively.

The schedules of the contractual maturities of loans and commitments are disclosed in notes 20 and 27, respectively.

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

24. Reserves

Movements on reserves comprise:

	The Group		The Company	
	2011	2010	2011	2010
	RMB'000	RMB'000	RMB'000	RMB'000
		(Restated)*		(Restated)*
Share premium				
At 1 January and 31 December (note (a))	2,420,841	2,420,841	2,420,841	2,420,841
Statutory surplus reserve				
At 1 January	3,800,800	3,521,252	3,800,800	3,521,252
Appropriation (note (b))	70,456	279,548	70,456	279,548
At 31 December (note (b))	3,871,256	3,800,800	3,871,256	3,800,800
Capital reserve				
At 1 January and 31 December (note (c))	4,180	4,180	4,180	4,180
Discretionary surplus reserve				
At 1 January and 31 December (note (d))	1,280,514	1,280,514	1,280,514	1,280,514
Specific reserve for safety production fund				
At 1 January	-	-	-	-
Appropriation (note (e))	21,777	-	14,272	-
At 31 December	21,777	-	14,272	-
Retained profits				
At 1 January	2,983,122	709,647	2,179,993	370,168
Profit for the year attributable to the equity shareholders of the Company	956,106	2,769,023	1,130,687	2,305,373
Dividend approved in respect of previous year	(720,000)	(216,000)	(720,000)	(216,000)
Appropriation of profits	(70,456)	(279,548)	(70,456)	(279,548)
Appropriation of safety production fund	(21,777)	-	(14,272)	-
At 31 December (note (f))	3,126,995	2,983,122	2,505,952	2,179,993
	10,725,563	10,489,457	10,097,015	9,686,328

* See note 2.

24. Reserves *(continued)*

Notes:

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

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

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

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

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

(e) According to the relevant PRC regulations, the Group is required to transfer an amount to specific reserve for the safety production fund based on the turnover of certain refining and chemicals products. During the year ended 31 December 2011, the Group transferred RMB 21,777,000 (2010: RMB nil) from retained earnings to specific reserve for the safety production fund.

(f) According to the Company's Articles of Association, the reserve available for distribution is the lower of the amount determined under China Accounting Standards for Business Enterprises and the amount determined under IFRS. Final dividend of RMB 360,000,000 (2010: RMB 720,000,000) in respect of the financial year 2011 was declared after the balance sheet date.

25. 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 Limited	Subsidiary of the immediate parent company
China International United Petroleum and Chemical Company Limited	Subsidiary of the immediate parent company
China Petrochemical International Company Limited	Subsidiary of the immediate parent company
Sinopec Yizheng Chemical Fibre Company Limited	Subsidiary of the immediate parent company
Sinopec Finance Company Limited ("Sinopec Finance")	Subsidiary of the ultimate parent company
Sinopec Storage and Transportations Company Limited	Subsidiary of the ultimate parent company
Shanghai Secco Petrochemical Co., Ltd.	Associate
BOC-SPC Gases Co., Ltd.	Jointly controlled entity

(a) Most of the transactions undertaken by the Group during the year ended 31 December 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).

25. Related party transactions *(continued)*

(a) *(continued)*

Transactions between the Group and Sinopec Corp, its subsidiaries and jointly controlled entities during the year ended 31 December 2011 were as follows:

	2011 RMB'000	2010 RMB'000
Sales of petroleum products	36,585,798	30,352,483
Sales other than petroleum products	14,117,834	8,982,711
Purchases of crude oil	35,795,694	24,555,912
Purchases other than crude oil	7,816,204	7,296,474
Sales commissions	195,606	168,896
Rental income	23,246	26,942

(b) Other transactions between the Group and Sinopec Group Company and its subsidiaries, associates and jointly controlled entities of the Group during the year ended 31 December 2011 were as follows:

	2011 RMB'000	2010 RMB'000
Sales of goods and service income		
- Sinopec Group Company and its subsidiaries	279,289	307,658
- Associates and jointly controlled entities of the Group	2,299,800	1,279,154
	2,579,089	1,586,812

25. Related party transactions *(continued)*

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

	2011 RMB'000	2010 RMB'000
Purchases		
- Sinopec Group Company and its subsidiaries	42,858	45,773
- Associates and jointly controlled entities of the Group	4,154,093	5,702,541
	4,196,951	5,748,314
Insurance premiums		
- Sinopec Group Company and its subsidiaries	115,910	96,712
Interest income		
- Sinopec Finance	859	570
Loans borrowed		
- Sinopec Finance	4,790,000	5,160,000
Loans repayment		
- Sinopec Finance	4,540,000	4,990,000
Interest expense		
- Sinopec Finance	22,148	29,029
Construction and installation cost		
- Sinopec Group Company and its subsidiaries	286,023	88,586

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 25(a) and 25(b) were conducted in the ordinary course of business, on normal commercial terms and in accordance with the agreements governing such transactions.

25. 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 25(a) and 25(b), are summarised as follows:

	The Group		The Company	
	2011 RMB'000	2010 RMB'000	2011 RMB'000	2010 RMB'000
Amounts due from related parties				
- Subsidiaries	-	-	22,502	42,681
- Sinopec Corp, its subsidiaries and jointly controlled entities	553,562	686,097	493,574	310,942
- Sinopec Group Company and its subsidiaries	1,910	12,823	1,910	1,195
- Associates and jointly controlled entities of the Group	83,814	77,314	81,668	77,314
Total	639,286	776,234	599,654	432,132
Amounts due to related parties				
- Subsidiaries	-	-	1,353,281	727,361
- Sinopec Corp, its subsidiaries and jointly controlled entities	2,027,816	1,588,791	2,014,702	1,580,581
- Sinopec Group Company and its subsidiaries	10,081	41,688	10,081	41,688
- Associates and jointly controlled entities of the Group	204,971	170,512	147,550	151,629
Total	2,242,868	1,800,991	3,525,614	2,501,259
Cash deposits, maturing within 3 months				
- Sinopec Finance	1,093	6,870	970	6,823
Short-term loans				
- Sinopec Finance	660,000	410,000	660,000	210,000

Amounts due from / to related parties are unsecured and interest free.

25. 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:

	2011 RMB'000	2010 RMB'000
Short-term employee benefits	6,973	6,318
Post-employment benefits	147	190
	7,120	6,508

Post-employment benefits are included in "contributions to defined contribution retirement plans" as disclosed in note 25(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:

	2011 RMB'000	2010 RMB'000
Municipal retirement scheme costs (note 26)	235,013	209,752
Supplementary retirement scheme costs (note 26)	59,922	57,867

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

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

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

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

- sales and 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.

25. Related party transactions *(continued)*

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

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

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

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

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

During the year ended 31 December 2011, the aggregate amount of crude oil purchased by the Group from the above state-controlled energy and chemical companies are as follows:

	2011 RMB'000	2010 RMB'000
Purchases of crude oil	16,987,956	13,474,022

Prepayments for purchases of crude oil made to the above state-controlled energy and chemical companies were RMB 8,747,000 as at 31 December 2011 (31 December 2010: 48,891,000).

(ii) Transactions with state-controlled banks

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

	2011 RMB'000	2010 RMB'000
Interest income	98,486	36,805
Interest expense	193,200	191,460

25. Related party transactions *(continued)*

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

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

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

	2011 RMB'000	2010 RMB'000
Cash and cash equivalents at state-controlled banks in the PRC	90,253	93,240
Short-term loans and current portion of long-term loans	4,852,074	2,985,438
Long-term loans excluding current portion of long-term loans	160,050	175,000
Total loans from state-controlled banks in the PRC	5,012,124	3,160,438

(g) Commitments with related parties

	2011 RMB'000	2010 RMB'000
Construction and installation cost:		
- Sinopec Group Company and its subsidiaries	408,664	6,608

Except for the above, the Group and the Company had no other material commitments with related parties at 31 December, which are contracted, but not included in the financial statements.

26. Retirement schemes

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

26. Retirement schemes *(continued)*

A member of the above plans is entitled to a pension amount equal to a fixed proportion of the salary prevailing at his or her retirement date. Both the Group and participating employees make defined contributions to the above two retirement plans. The Group has no other material obligation for the payment of pension benefits associated with these plans beyond the annual contributions described above. For the year ended 31 December 2011, the Group's contribution to the above two plans amounted to RMB 235,013,000 and RMB 59,922,000 respectively (2010: RMB 209,752,000 and RMB 57,867,000 respectively).

27. Capital commitments

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

	The Group and the Company	
	2011	2010
	RMB'000	RMB'000
Property, plant and equipment		
Contracted but not provided for	**2,817,581**	887,928
Authorised by the Board but not contracted for	**2,708,271**	6,110,386
	5,525,852	6,998,314

28. Contingent liabilities

(a) Financial guarantees issued

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

	The Group		The Company	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Guarantees issued to a related party in favour of:				
- a subsidiary	**-**	-	**-**	200,000

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

28. Contingent liabilities *(continued)*

(b) Income tax differences

In June 2007, the State Administrative of Taxation issued a tax circular (Circular No.664) to the local tax authorities requesting the relevant local tax authorities to rectify the applicable enterprise income tax ("EIT") for nine listed companies, which included the Company. After the notice was issued, the Company was required by the relevant tax authority to settle the EIT for 2007 at a rate of 33 percent. To date, the Company has not been requested by the tax authorities to pay additional EIT in respect of any years prior to 2007. There is no further development of this matter during the year ended 31 December 2011. No provision has been made in the financial statements at 31 December 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.

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

29. Segment reporting

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

In a manner consistent with the way in which information is reported internally to the Group's chief operating decision maker for the purposes of resource allocation and performance assessment, the Group has identified the following five reportable segments (2010: four). No operating segments have been aggregated to form the following reportable segments.

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 turnover of the trading of petrochemical products segment was more than 10 percent of the combined turnover of all operating segments during the year ended 31 December 2011, the trading of petrochemical products segment is identified as a reportable segment and the corresponding information for the year ended 31 December 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 mainly used in the textile and apparel industries.

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

29. Segment reporting *(continued)*

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

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

(v) 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 sales of consumer products and services and a variety of other commercial activities, which are not allocated to the above five operating segments.

(a) Segment results, assets and liabilities

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

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

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

29. Segment reporting *(continued)*

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

Turnover

	2011 RMB'000	2010 RMB'000 (Restated)
Manufactured Products		
Synthetic fibres		
- external sales	4,198,251	3,955,396
- intersegment sales	118	82
Total	4,198,369	3,955,478
Resins and plastics		
- external sales	16,589,438	15,065,276
- intersegment sales	136,352	118,699
Total	16,725,790	15,183,975
Intermediate petrochemicals		
- external sales (note a)	19,242,850	17,399,592
- intersegment sales (note b)	19,498,129	18,583,283
Total	38,740,979	35,982,875
Petroleum products		
- external sales (note a)	42,896,821	33,734,607
- intersegment sales	5,156,614	2,678,172
Total	48,053,435	36,412,779
Trading of petrochemical products		
- external sales (note a)	11,620,440	6,567,757
- intersegment sales	3,385,692	1,878,590
Total	15,006,132	8,446,347
Others		
- external sales (note a)	971,056	798,071
- intersegment sales	814,281	688,715
Total	1,785,337	1,486,786
Elimination of intersegment sales	(28,991,186)	(23,947,541)
Turnover	95,518,856	77,520,699

29. Segment reporting *(continued)*

Profit before taxation

	2011 RMB'000	2010 RMB'000 (Restated)*
Profit from operations		
Synthetic fibres	301,334	435,594
Resins and plastics	11,994	991,091
Intermediate petrochemicals	1,148,572	365,124
Petroleum products	(453,368)	1,140,268
Trading of petrochemical products	14,969	14,085
Others	36,323	17,432
Consolidated profit from operations	1,059,824	2,963,594
Net financing income/(costs)	83,542	(95,219)
Investment income	685	215
Share of profit of associates and jointly controlled entities	152,655	661,288
Profit before taxation	1,296,706	3,529,878

* See note 2.

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

	2011 RMB'000	2010 RMB'000 (Restated)
Sales to Sinopec Corp, its subsidiaries and jointly controlled entities		
Intermediate petrochemicals	4,851,962	3,838,121
Petroleum products	36,585,798	30,352,483
Trading of petrochemical products	8,721,026	4,668,546
Others	544,846	476,044
Total	50,703,632	39,335,194

29. Segment reporting *(continued)*

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

	2011 RMB'000	2010 RMB'000
Synthetic fibres	3,160,141	3,366,715
Resins and plastics	16,037,690	14,938,149
Petroleum products	300,298	278,419
Total	19,498,129	18,583,283

Assets	2011 RMB'000	2010 RMB'000 (Restated)*
Segment assets		
Synthetic fibres	1,615,153	1,287,452
Resins and plastics	1,162,060	1,374,343
Intermediate petrochemicals	6,628,962	6,921,260
Petroleum products	14,401,380	11,749,387
Trading of petrochemical products	547,692	538,498
Others	2,238,739	2,040,871
Total segment assets	26,593,986	23,911,811
Interest in associates and jointly controlled entities	2,901,305	3,316,290
Unallocated	1,223,574	1,469,434
Total assets	30,718,865	28,697,535

* See note 2.

29. Segment reporting *(continued)*

Liabilities	2011 RMB'000	2010 RMB'000 (Restated)
Segment liabilities		
Synthetic fibres	257,964	261,801
Resins and plastics	1,019,349	997,145
Intermediate petrochemicals	1,182,389	1,151,650
Petroleum products	3,795,554	3,263,676
Trading of petrochemical products	411,433	421,043
Others	70,729	66,489
Total segment liabilities	6,737,418	6,161,804
Loans and borrowings -current	5,512,074	4,395,438
Loans and borrowings -non-current	160,050	175,000
Unallocated	113,659	15,983
Total liabilities	12,523,201	10,748,225

29. Segment reporting *(continued)*

Depreciation and amortisation

	2011 RMB'000	2010 RMB'000 (Restated)*
Synthetic fibres	217,963	224,644
Resins and plastics	350,548	350,760
Intermediate petrochemicals	580,385	575,704
Petroleum products	319,269	344,609
Trading of petrochemical products	601	830
Others	160,085	164,987
Segment depreciation and amortisation	1,628,851	1,661,534
Unallocated	13,250	13,256
Depreciation and amortisation	1,642,101	1,674,790

* See note 2.

Impairment losses on long-lived assets

	2011 RMB'000	2010 RMB'000
Synthetic fibres	-	92,000
Resins and plastics	-	26,300
Intermediate petrochemicals	10,552	119,900
Impairment losses on long-lived assets	10,552	238,200

Total capital expenditures for segment long-lived assets

	2011 RMB'000	2010 RMB'000
Synthetic fibres	549,058	154,149
Resins and plastics	72,571	15,179
Intermediate petrochemicals	298,880	197,774
Petroleum products	2,212,855	825,494
Others	347,871	164,249
Capital expenditures for segment long-lived assets	3,481,235	1,356,845

30. Accounting judgements and estimates

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

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

Impairments for long lived assets

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

Depreciation

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

30. Accounting judgements and estimates *(continued)*

Impairment for bad and doubtful debts

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

Allowance for diminution in value of inventories

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

Recognition of deferred tax assets

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

In making the assessment of whether it is probable the Group will realise or utilise the deferred tax assets, management primarily relies on the generation of future taxable income to support the recognition of deferred tax assets. In order to fully utilise the deferred tax assets recognised at 31 December 2011, the Group would need to generate future taxable income of at least RMB 2,077 million, of which RMB 1,497 million is required to be generated by 2013 prior to the expiration of the unused tax losses. Based on estimated forecast and historical experience, management believes that it is probable that the Group will generate sufficient taxable income before the unused tax losses expire.

31. Financial Instruments

Overview

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

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

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

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

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

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's deposits placed with financial institutions and receivables from customers. The majority of the Group's trade debtors and amounts due from related parties relate to sales of petroleum and chemical products to third parties and related parties operating in the petroleum and chemical industries. Management performs ongoing credit evaluations of its customers' financial condition and generally does not require collateral on trade debtors and related parties. The Group maintains an impairment loss for doubtful accounts and actual losses have been within management's expectations. The details of the Group's credit policy and quantitative disclosures in respect of the Group's exposure on credit risk for trade debtors are set out in note 18.

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

31. Financial Instruments *(continued)*

Liquidity risk

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

At 31 December 2011, the Group's current liabilities exceeded its current assets by RMB 2,606,018,000 (2010: RMB 2,041,384,000). In 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 31 December 2011, the Group has standby credit facilities with several PRC financial institutions which provide the Group to borrow up to RMB 10,400,000,000 (2010: RMB 9,300,000,000) on an unsecured basis. At 31 December 2011, the Group's outstanding borrowings under these facilities were RMB 1,252,381,000 (2010: RMB 2,363,336,000) and were included in short-term bank loans.

Management has carried out a detailed review of the cash flow forecast of the Group for the twelve months ending 31 December 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.

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

31. Financial Instruments *(continued)*

Liquidity risk *(continued)*

The Group

	2011				
	Carrying amount RMB'000	Total contractual undiscounted cash flow RMB'000	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000
Loans and borrowings (current)	5,512,074	(5,603,336)	(5,603,336)	-	-
Loans and borrowings (non-current)	160,050	(183,933)	(9,054)	(133,393)	(41,486)
Trade creditors	3,126,495	(3,126,495)	(3,126,495)	-	-
Bills payable	15,688	(15,688)	(15,688)	-	-
Other creditors	1,352,367	(1,352,367)	(1,352,367)	-	-
Amounts due to related parties	2,242,868	(2,242,868)	(2,242,868)	-	-
	12,409,542	(12,524,687)	(12,349,808)	(133,393)	(41,486)

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

31. Financial Instruments *(continued)*

Liquidity risk *(continued)*

The Company

	2011				
	Carrying amount RMB'000	Total contractual undiscounted cash flow RMB'000	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000
Loans and borrowings (current)	5,571,574	(5,663,464)	(5,663,464)	-	-
Loans and borrowings (non-current)	135,000	(150,847)	(7,326)	(131,665)	(11,856)
Trade creditors	2,120,028	(2,120,028)	(2,120,028)	-	-
Bills payable	15,688	(15,688)	(15,688)	-	-
Other creditors	1,218,772	(1,218,772)	(1,218,772)	-	-
Amounts due to related parties	3,525,614	(3,525,614)	(3,525,614)	-	-
	12,586,676	(12,694,413)	(12,550,892)	(131,665)	(11,856)

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

31. Financial Instruments *(continued)*

Market risk

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

(a) Currency risk

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

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

	The Group		The Company	
	2011	2010	2011	2010
	USD'000	USD'000	USD'000	USD'000
Gross exposure arising from loans and borrowings	733,637	381,935	733,637	381,935

A 5 percent strengthening / weakening of Renminbi against USD at 31 December 2011 would have increased / decreased net profit for the year and retained earnings of the Group by approximately RMB 173,347,000 (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.

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

31. Financial Instruments *(continued)*

Market risk *(continued)*

(b) Interest rate risk

The Group's interest rate risk exposure arises primarily from its short-term and long-term loans. Loans carrying interest at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. The interest rates of loans and borrowings of the Group are disclosed in note 20.

As at 31 December 2011, it is estimated that a general increase / decrease of 100 basis points in variable interest rates, with all other variables held constant, would decrease / increase the Group's net profit for the year and retained earnings by approximately RMB 35,185,000 (2010: RMB 19,808,000). This sensitivity analysis has been determined assuming that the change in interest rates had occurred at the end of the reporting period and the change was applied to the Group's debts outstanding at that date with exposure to cash flow interest rate risk. The impact on the Group's net profit for the year and retained earnings is estimated as an annualised impact on interest expense or income of such a change in interest rates. The analysis is performed on the same basis for 2010.

Fair value

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

The fair value of long term loans is estimated by discounting future cash flows thereon using current market interest rates offered to the Group for loans with substantially the same characteristics and maturities ranging from 5.90% to 6.21% (2010: 5.23% to 5.60%). The following table presents the carrying amounts and fair values of the Group's long term loans at 31 December 2011 and 2010.

	2011		2010	
	Carrying amount RMB'000	Fair value RMB'000	Carrying amount RMB'000	Fair value RMB'000
Liabilities				
Long term loans	160,050	158,721	275,000	273,777

31. Financial Instruments *(continued)*

Fair value *(continued)*

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

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

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

Up to the date of issue of these financial statements, the IASB has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2011 and which have not been adopted in these financial statements.

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

33. Parent companies

The directors consider the immediate parent company and the ultimate parent company at 31 December 2011 to be China Petroleum & Chemical Corporation and China Petrochemical Corporation, respectively, which are incorporated in the PRC. China Petroleum & Chemical Corporation produces financial statements available for public use.

34. 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.

KPMG Huazhen

All Shareholders of Sinopec Shanghai Petrochemical Company Limited:

We have audited the accompanying financial statements of Sinopec Shanghai Petrochemical Company Limited ("the Company"), which comprise the consolidated balance sheet and balance sheet as at 31 December 2011, the consolidated income statement and income statement, the consolidated cash flow statement and cash flow statement, the consolidated statement of changes in shareholders' equity and statement of changes in shareholders' equity for the year then ended, and notes to the financial statements.

Management's Responsibility for the Financial Statements

The Company's management is responsible for the preparation and fair presentation of these financial statements. This responsibility includes: (1) preparing these financial statements in accordance with Accounting Standards for Business Enterprises issued by the Ministry of Finance of the People's Republic of China, and fairly presenting them; (2) designing, implementing and maintaining internal control which is necessary to enable that the financial statements are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the consolidated financial position and financial position of the Company as at 31 December 2011, and the consolidated financial performance and financial performance and the consolidated cash flows and cash flows of the Company for the year then ended in accordance with the requirements of Accounting Standards for Business Enterprises issued by the Ministry of Finance of the People's Republic of China.

KPMG Huazhen

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

Yu Xiaojun

Cheng Yujing

Beijing, the People's Republic of China

29 March 2012

Consolidated Balance Sheet

As at 31 December 2011
(Prepared under Accounting Standards for Business Enterprises)

Expressed in thousands of Renminbi Yuan

Assets	Note	2011	2010
Current assets:			
Cash at bank and on hand	5(1)	91,346	100,110
Bills receivable	5(2)	3,131,579	2,043,493
Accounts receivable	5(3)	609,906	751,935
Prepayments	5(4)	43,160	146,865
Dividends receivable	5(5)	-	5,042
Other receivables	5(6)	46,994	58,185
Inventories	5(7)	5,582,425	5,352,301
Other current assets	5(8)	160,404	73,910
Total current assets		9,665,814	8,531,841
Non-current assets:			
Long-term receivables	5(9)	-	30,000
Long-term equity investments	5(10)	3,101,305	3,526,290
Investment properties	5(11)	452,555	465,805
Fixed assets	5(12)	12,659,332	13,802,184
Construction in progress	5(13)	3,882,992	1,192,225
Intangible assets	5(14)	519,198	537,599
Long-term deferred expenses	5(15)	306,052	261,706
Deferred tax assets	5(16)	522,837	810,454
Total non-current assets		21,444,271	20,626,263
Total assets		31,110,085	29,158,104

The notes on pages 185 to 295 form part of these financial statements.

As at 31 December 2011
(Prepared under Accounting Standards for Business Enterprises)

Expressed in thousands of Renminbi Yuan

Liabilities and shareholders' equity	Note	2011	2010
Current liabilities:			
Short-term loans	5(18)	5,512,074	3,295,438
Bills payable	5(19)	15,688	41,034
Accounts payable	5(20)	4,650,007	3,322,811
Advances from customers	5(21)	706,835	809,908
Employee benefits payable	5(22)	46,140	8,920
Taxes payable	5(23)	507,938	1,042,054
Interest payable	5(24)	9,442	24,553
Dividends payable		22,599	15,490
Other payables	5(25)	801,109	834,780
Short-term debentures payable	5(26)	-	1,000,000
Non-current liabilities due within one year	5(27)	-	178,237
Total current liabilities		12,271,832	10,573,225
Non-current liabilities:			
Long-term loans	5(28)	160,050	175,000
Other non-current liabilities	5(29)	295,619	236,986
Total non-current liabilities		455,669	411,986
Total liabilities		12,727,501	10,985,211
Shareholders' equity:			
Share capital	5(30)	7,200,000	7,200,000
Capital reserve	5(31)	2,914,763	2,914,763
Specific reserve	5(32)	21,777	46,748
Surplus reserve	5(33)	5,151,770	5,081,314
Retained earnings	5(34)	2,824,173	2,670,215
Total equity attributable to equity shareholders of the Company		18,112,483	17,913,040
Minority interests		270,101	259,853
Total equity		18,382,584	18,172,893
Total liabilities and shareholders' equity		31,110,085	29,158,104

These financial statements were approved by the Board of Directors of the Company on 29 March 2012.

Rong Guangdao	**Wang Zhiqing**	**Ye Guohua**
Chairman	Vice Chairman and President	Director and Chief Financial Officer

The notes on pages 185 to 295 form part of these financial statements.

Balance Sheet

As at 31 December 2011
(Prepared under Accounting Standards for Business Enterprises)

Expressed in thousands of Renminbi Yuan

Assets	Note	2011	2010
Current assets:			
Cash at bank and on hand	11(1)	61,057	89,224
Bills receivable	11(2)	2,941,248	1,887,416
Accounts receivable	11(3)	538,149	347,327
Prepayments		51,583	147,004
Dividends receivable	5(5)	-	5,042
Other receivables	11(4)	10,592	18,650
Inventories	11(5)	5,281,885	5,110,036
Other current assets	11(6)	55,921	21,729
Total current assets		8,940,435	7,626,428
Non-current assets:			
Long-term equity investments	11(7)	4,105,694	4,578,274
Investment properties	11(8)	452,555	524,560
Fixed assets	11(9)	12,136,472	13,176,847
Construction in progress	11(10)	3,812,222	1,176,229
Intangible assets	11(11)	419,387	432,418
Long-term deferred expenses	11(12)	306,052	260,956
Deferred tax assets	11(13)	522,544	810,225
Total non-current assets		21,754,926	20,959,509
Total assets		30,695,361	28,585,937

The notes on pages 185 to 295 form part of these financial statements.

As at 31 December 2011
(Prepared under Accounting Standards for Business Enterprises)

Expressed in thousands of Renminbi Yuan

Liabilities and shareholders' equity	Note	2011	2010
Current liabilities:			
Short-term loans	11(15)	5,526,574	3,116,438
Bills payable	11(16)	15,688	41,034
Accounts payable		4,377,765	2,888,621
Advances from customers		674,368	741,364
Employee benefits payable		41,506	5,060
Taxes payable	11(17)	481,854	1,013,520
Interest payable		9,434	24,553
Dividends payable		22,599	15,490
Other payables		1,256,888	1,325,260
Short-term debentures payable	5(26)	-	1,000,000
Non-current liabilities due within one year	11(18)	45,000	100,000
Total current liabilities		12,451,676	10,271,340
Non-current liabilities:			
Long-term loans	11(19)	135,000	220,000
Other non-current liabilities	5(29)	295,619	236,986
Total non-current liabilities		430,619	456,986
Total liabilities		12,882,295	10,728,326
Shareholders' equity:			
Share capital	5(30)	7,200,000	7,200,000
Capital reserve	5(31)	2,914,763	2,914,763
Specific reserve	11(20)	14,272	43,380
Surplus reserve	5(33)	5,151,770	5,081,314
Retained earnings		2,532,261	2,618,154
Total equity		17,813,066	17,857,611
Total liabilities and shareholders' equity		30,695,361	28,585,937

These financial statements were approved by the Board of Directors of the Company on 29 March 2012.

Rong Guangdao
Chairman

Wang Zhiqing
Vice Chairman and President

Ye Guohua
Director and Chief Financial Officer

The notes on pages 185 to 295 form part of these financial statements.

Consolidated Income Statement

For the year ended 31 December 2011
(Prepared under Accounting Standards for Business Enterprises)

Expressed in thousands of Renminbi Yuan

	Note	2011	2010
Operating income	5(35)	95,601,248	77,591,187
Less: Operating costs	5(35)	85,042,194	65,787,455
Business taxes and surcharges	5(36)	6,009,203	5,424,817
Selling and distribution expenses	5(37)	675,771	578,761
General and administrative expenses	5(38)	2,556,011	2,382,085
Financial expenses ("-" represents financial income)	5(39)	-83,542	95,219
Impairment losses	5(40)	284,574	433,465
Add: Investment income	5(41)	143,340	651,503
Including: Income from investment in associates and jointly controlled enterprises		142,655	651,288
Operating profit		1,260,377	3,540,888
Add: Non-operating income	5(42)	91,894	49,354
Less: Non-operating expenses	5(43)	59,980	136,498
Including: Losses from disposal of non-current assets		21,125	37,060
Profit before income tax		1,292,291	3,453,744
Less: Income tax expense	5(44)	317,461	724,652
Net profit for the year		974,830	2,729,092
Attributable to: Equity shareholders of the Company		944,414	2,703,734
Minority shareholders		30,416	25,358
Earnings per share:			
Basic and diluted earnings per share	5(45)	RMB 0.131	RMB 0.376
Other comprehensive income for the year	5(46)	-	-
Total comprehensive income for the year		974,830	2,729,092
Attributable to: Equity shareholders of the Company		944,414	2,703,734
Minority shareholders		30,416	25,358

These financial statements were approved by the Board of Directors of the Company on 29 March 2012.

Rong Guangdao
Chairman

Wang Zhiqing
Vice Chairman and President

Ye Guohua
Director and Chief Financial Officer

The notes on pages 185 to 295 form part of these financial statements.

Income Statement

For the year ended 31 December 2011
(Prepared under Accounting Standards for Business Enterprises)

Expressed in thousands of Renminbi Yuan

	Note	2011	2010
Operating income	11(21)	81,212,164	67,082,950
Less: Operating costs	11(21)	70,922,591	55,526,570
Business taxes and surcharges	11(22)	5,999,021	5,421,403
Selling and distribution expenses		575,691	496,337
General and administrative expenses		2,411,375	2,242,147
Financial expenses ("-" represents financial income)	11(23)	-72,644	84,951
Impairment losses	11(24)	522,692	481,363
Add: Investment income	11(25)	102,819	748,578
Including: Income from investment in associates and jointly controlled enterprises		94,054	620,957
Operating profit		956,257	3,578,757
Add: Non-operating income	11(26)	89,311	48,832
Less: Non-operating expenses	11(27)	53,324	133,567
Including: Losses from disposal of non-current assets		14,977	35,963
Profit before income tax		992,244	3,494,022
Less: Income tax expense	11(28)	287,681	698,544
Net profit for the year		704,563	2,795,478
Other comprehensive income for the year	5(46)	-	-
Total comprehensive income for the year		704,563	2,795,478

These financial statements were approved by the Board of Directors of the Company on 29 March 2012.

Rong Guangdao
Chairman

Wang Zhiqing
Vice Chairman and President

Ye Guohua
Director and Chief Financial Officer

The notes on pages 185 to 295 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2011
(Prepared under Accounting Standards for Business Enterprises)

Expressed in thousands of Renminbi Yuan

	Note	2011	2010
Cash flows from operating activities:			
Cash received from sale of goods and rendering of services		111,087,715	89,722,717
Refund of taxes		71,454	66,163
Cash received relating to other operating activities	5(47(a))	147,408	49,134
Sub-total of cash inflows		111,306,577	89,838,014
Cash paid for goods and services		-96,541,704	-74,510,101
Cash paid to and for employees		-2,372,769	-2,111,392
Cash paid for all types of taxes		-9,365,576	-8,542,156
Cash paid relating to other operating activities	5(47(b))	-545,097	-430,533
Sub-total of cash outflows		-108,825,146	-85,594,182
Net cash inflow from operating activities	5(48(a)1)	2,481,431	4,243,832
Cash flows from investing activities:			
Cash received from disposal of investments		700,000	700,000
Cash received from investment income		588,118	89,817
Net cash received from disposal of fixed assets and other long-term assets		70,344	66,347
Cash received relating to other investing activities	5(47(c))	99,345	37,375
Sub-total of cash inflows		1,457,807	893,539
Cash paid for acquisition of fixed assets and other long-term assets		-3,481,235	-1,356,845
Cash paid for acquisition of investments		-786,751	-
Sub-total of cash outflows		-4,267,986	-1,356,845
Net cash outflow from investing activities		-2,810,179	-463,306

The notes on pages 185 to 295 form part of these financial statements.

For the year ended 31 December 2011
(Prepared under Accounting Standards for Business Enterprises)

Expressed in thousands of Renminbi Yuan

	Note	2011	2010
Cash flows from financing activities:			
Cash received from issuance of corporate bonds		-	1,000,000
Cash received from borrowings		35,106,127	39,355,780
Sub-total of cash inflows		35,106,127	40,355,780
Cash repayments of corporate bonds		-1,000,000	-1,000,000
Cash repayments of borrowings		-32,791,261	-42,631,344
Cash paid for dividends, profit distributions and interest		-994,496	-530,413
Sub-total of cash outflows		-34,785,757	-44,161,757
Net cash inflow from financing activities ("-" represents outflow)		320,370	-3,805,977
Effect of foreign exchange rate changes on cash and cash equivalents		-386	-356
Net decrease in cash and cash equivalents	5(48(a)2)	-8,764	-25,807
Add: cash and cash equivalents at the beginning of the year		100,110	125,917
Cash and cash equivalents at the end of the year	5(48(b))	91,346	100,110

These financial statements were approved by the Board of Directors of the Company on 29 March 2012.

Rong Guangdao
Chairman

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Vice Chairman and President

Ye Guohua
Director and Chief Financial Officer

The notes on pages 185 to 295 form part of these financial statements.

Cash Flow Statement

For the year ended 31 December 2011
(Prepared under Accounting Standards for Business Enterprises)

Expressed in thousands of Renminbi Yuan

	Note	2011	2010
Cash flows from operating activities:			
Cash received from sale of goods and rendering of services		93,639,385	77,399,856
Cash received relating to other operating activities		144,908	48,612
Sub-total of cash inflows		93,784,293	77,448,468
Cash paid for goods and services		-79,624,048	-62,628,799
Cash paid to and for employees		-2,211,455	-1,975,043
Cash paid for all types of taxes		-9,237,941	-8,299,060
Cash paid relating to other operating activities		-504,854	-398,302
Sub-total of cash outflows		-91,578,298	-73,301,204
Net cash inflow from operating activities	11(29(a)1)	2,205,995	4,147,264
Cash flows from investing activities:			
Cash received from disposal of investments		700,000	700,000
Cash received from investment income		580,441	200,634
Net cash received from disposal of fixed assets		8,130	-
Cash received relating to other investing activities		89,596	29,583
Sub-total of cash inflows		1,378,167	930,217
Cash paid for acquisition of fixed assets and other long-term assets		-3,410,113	-1,341,450
Net cash paid for disposal of fixed assets		-	-3,915
Cash paid relating to other investing activities		-700,000	-
Sub-total of cash outflows		-4,110,113	-1,345,365
Net cash outflow from investing activities		-2,731,946	-415,148

The notes on pages 185 to 295 form part of these financial statements.

Cash Flow Statement (continued)

For the year ended 31 December 2011
(Prepared under Accounting Standards for Business Enterprises)

Expressed in thousands of Renminbi Yuan

	Note	2011	2010
Cash flows from financing activities:			
Cash received from issuance of corporate bonds		-	1,000,000
Cash received from borrowings		35,059,077	39,281,980
Sub-total of cash inflows		35,059,077	40,281,980
Cash repayments of corporate bonds		-1,000,000	-1,000,000
Cash repayments of borrowings		-32,603,596	-42,577,314
Cash paid for dividends, profit distributions and interest		-957,353	-448,283
Sub-total of cash outflows		-34,560,949	-44,025,597
Net cash inflow from financing activities ("-" represents outflow)		498,128	-3,743,617
Effect of foreign exchange rate changes on cash and cash equivalents		-344	-351
Net decrease in cash and cash equivalents	11(29(a)2)	-28,167	-11,852
Add: cash and cash equivalents at the beginning of the year		89,224	101,076
Cash and cash equivalents at the end of the year	11(29(b))	61,057	89,224

These financial statements were approved by the Board of Directors of the Company on 29 March 2012.

Rong Guangdao
Chairman

Wang Zhiqing
Vice Chairman and President

Ye Guohua
Director and Chief Financial Officer

The notes on pages 185 to 295 form part of these financial statements.

Consolidated Statement of Changes in Shareholders' Equity

For the year ended 31 December 2011
(Prepared under Accounting Standards for Business Enterprises)

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 year															
1. Net profit for the year		-	-	-	-	944,414	30,416	974,830	-	-	-	-	2,703,734	25,358	2,729,092
2. Other comprehensive income for the year	5(46)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sub-total of 1&2		-	-	-	-	944,414	30,416	974,830	-	-	-	-	2,703,734	25,358	2,729,092
3. Shareholders' contributions of capital															
- Refund of harbour construction charge	5(31)	-	-	-	-	-	-	-	-	32,485	-	-	-	-	32,485
4. Appropriation of profits															
- Appropriation for surplus reserve	5(33)	-	-	-	70,456	-70,456	-	-	-	-	-	279,548	-279,548	-	-
- Distribution to shareholders	5(34)	-	-	-	-	-720,000	-20,168	-740,168	-	-	-	-	-216,000	-59,790	-275,790
5. Specific reserve															
- Accrued	5(32)	-	-	125,188	-	-	-	125,188	-	-	100,518	-	-	-	100,518
- Utilised	5(32)	-	-	-150,159	-	-	-	-150,159	-	-	-53,770	-	-	-	-53,770
Balance at 31 December		7,200,000	2,914,763	21,777	5,151,770	2,824,173	270,101	18,382,584	7,200,000	2,914,763	46,748	5,081,314	2,670,215	259,853	18,172,893

These financial statements were approved by the Board of Directors of the Company on 29 March 2012.

Rong Guangdao
Chairman

Wang Zhiqing
Vice Chairman and President

Ye Guohua
Director and Chief Financial Officer

The notes on pages 185 to 295 form part of these financial statements.

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 year													
1. Net profit for the year		-	-	-	-	704,563	704,563	-	-	-	-	2,795,478	2,795,478
2. Other comprehensive income for the year	5(46)	-	-	-	-	-	-	-	-	-	-	-	-
Sub-total of 1&2		-	-	-	-	704,563	704,563	-	-	-	-	2,795,478	2,795,478
3. Shareholders' contributions of capital													
- Refund of harbour construction charge	5(31)	-	-	-	-	-	-	-	32,485	-	-	-	32,485
4. Appropriation of profits													
- Appropriation for surplus reserve	5(33)	-	-	-	70,456	-70,456	-	-	-	-	279,548	-279,548	-
- Distribution to shareholders	5(34)	-	-	-	-	-720,000	-720,000	-	-	-	-	-216,000	-216,000
5. Specific reserve													
- Accrued	11(20)	-	-	117,960	-	-	117,960	-	-	94,481	-	-	94,481
- Utilised	11(20)	-	-	-147,068	-	-	-147,068	-	-	-51,101	-	-	-51,101
Balance at 31 December		7,200,000	2,914,763	14,272	5,151,770	2,532,261	17,813,066	7,200,000	2,914,763	43,380	5,081,314	2,618,154	17,857,611

These financial statements were approved by the Board of Directors of the Company on 29 March 2012.

Rong Guangdao
Chairman

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Vice Chairman and President

Ye Guohua
Director and Chief Financial Officer

The notes on pages 185 to 295 form part of these financial statements.

1. Company status

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

China Petrochemical Corporation finished its reorganisation on 25 February 2000. After the reorganisation, China Petroleum & Chemical Corporation ("Sinopec Corp") was established. As 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 of the Company as at 31 December 2011 and the consolidated financial performance and financial performance and the consolidated cash flows and cash flows of the Company for the year then ended.

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 and these financial statements are presented in Renminbi. Functional currency is determined by the Company and its subsidiaries on the basis of the currency in which major income and costs are denominated and settled.

(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. Any costs directly attributable to the combination shall be recognised in profit or loss for the current period when occurred. 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 at the acquisition date 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 acquiree's identifiable asset, liabilities and contingent liabilities, if satisfying the recognition criteria, are recognised by the Group at their fair value at the acquisition date. The acquisition date is the date on which the acquirer effectively obtains control of the acquiree.

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

(6) Preparation of consolidated financial statements

The scope of consolidated financial statements is based on control and the consolidated financial statements comprise the Company and its subsidiaries. Control is the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its operating activities. The financial position, financial performance and cash flows 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. The opening balances and the comparative figures of the consolidated financial statements are also restated. In the preparation of the consolidated financial statements, the subsidiary's assets and liabilities based on their carrying amounts are included in the consolidated balance sheet, and financial performance is included in the consolidated income statement, respectively, from the date that the ultimate parent company of the Company obtains the control of the subsidiary to be consolidated.

Where a subsidiary was acquired during the reporting period, through a business combination involving enterprises not under common control, the identifiable assets and liabilities of the acquired subsidiaries are included in the scope of consolidation from the date that control commences, base on the fair value of those identifiable assets and liabilities at the acquisition date.

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

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 (share premium) in the consolidated balance sheet. If the credit balance of capital reserve (share premium) is insufficient, any excess is adjusted to retained earnings.

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

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

When the Group loses control of a subsidiary due to the disposal of a portion of an equity investment, the Group derecognises assets, liabilities, minority interests and other related items in shareholders' equity in relation to that subsidiary. The remaining equity investment is remeasured at its fair value at the date when control is lost. Any gains or losses therefore incurred are recognised as investment income for the current period when control is lost.

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

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

When the accounting period or accounting policies of a subsidiary are different from those of the Company, the Company makes necessary adjustments to the financial statements of the subsidiary based on the Company's own accounting period or accounting policies. Intra-group balances and transactions, and any unrealised profit or loss arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as 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, except for those arising from the principal and interest of specific foreign currency borrowings for the purpose of acquisition or construction of qualifying assets (see Note 2(16)), are recognised in profit or loss. 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 resulting 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 as other comprehensive income in capital reserve.

(9) Financial instruments

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

(a) 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 related 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) 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 measured 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-sale and other financial assets which do not fall into any of other categories.

Available-for-sale financial assets whose fair value cannot be measured reliably are measured at cost subsequent to initial recognition. Other available-for-sale financial assets are measured at fair value subsequent to initial recognition 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 as other comprehensive income in capital reserve. When an investment is derecognised, the cumulative gain or loss is reclassified from equity to profit or loss. Dividend income from the available-for-sale 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.

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 contingencies (see Note 2 (20)).

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

(9) Financial instruments *(continued)*

(a) Recognition and measurement of financial assets and financial liabilities *(continued)*

- Other financial liabilities *(continued)*

  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.

(b) Offsetting a financial asset against a financial liability

Financial assets and financial liabilities are presented separately in the balance sheet and are not offset. However, a financial asset and a financial liability are offset and the net amount is presented in the balance sheet when both of the following conditions are satisfied:

- the Group has a legal right to set off the recognised amounts and the legal right is currently enforceable; and

- the Group intends either to settle on a net basis, or to realise the financial asset and settle the financial liability simultaneously.

(c) Determination of fair value

If there is an active market for a financial asset or financial liability, the quoted price in the active market is used to establish the fair value of the financial asset or financial liability.

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)*

(d) Derecognition of financial assets and financial liabilities

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

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

- the 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, cancelled or expires.

(e) 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)*

(e) 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 reclassified to profit or loss even though the financial asset has not been derecognised.

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

(f) 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 shareholders' equity.

(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 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:

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

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

Reason for provision for bad and doubtful debts for individually insignificant receivables	Receivables which are overdue more than 1 year or with special characteristics.
Method of provision for bad and doubtful debts	An impairment loss is provided if its carrying amount exceeds the present value of the estimated future cash flows (exclusive of future credit losses that have not been incurred) discounted at the original effective interest rate.

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

(10) Impairment of receivables *(continued)*

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

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

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

(11) Inventories

(a) Categories of inventories

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

(b) Measurement of cost of inventories

Cost of inventories is calculated using the weighted average method.

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

Inventories are initially measured at cost. Cost of inventories comprises all costs of purchase, costs of conversion and other expenditures incurred in bringing the inventories to their present location and condition. 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.

At the balance sheet date, inventories are carried at the lower of cost and net realisable value.

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

(11) Inventories *(continued)*

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

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

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

(d) Inventory counting system

The Group maintains a perpetual inventory system.

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

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

(12) Long-term equity investments

(a) Determination of initial investment cost

- Long-term equity investments acquired through a business combination

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

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

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

(a) Determination of initial investment cost *(continued)*

- Long-term equity investments acquired through a business combination *(continued)*

  For a long-term equity investment obtained through a business combination not involving enterprises under common control, the initial investment cost comprises the aggregate of the fair value of assets transferred, liabilities incurred or assumed, and equity securities issued by the Company, in exchange for control of the acquiree. If it is 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.

- 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 consideration paid if the Group acquires the investment by cash, or at the fair value of the equity securities issued if an investment is acquired by issuing equity securities, 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 profit distributions declared but not yet distributed that have been included in the price or consideration paid in obtaining the investments, the Company recognises its share of the cash dividends or profit distributions declared by the investee as investment income irrespective of whether these represent the net profit realised by the investee before or after the investment. The investments in subsidiaries are stated in the balance sheet at cost less impairment losses.

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

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

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

(b) Subsequent measurement *(continued)*

- Investment in jointly controlled enterprises and associates

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

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

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

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

  - Where the initial investment cost of a long-term equity investment exceeds the Group's interest in the fair value of the investee's identifiable net assets at the date of acquisition, the investment is initially recognised at the initial investment cost. Where the initial investment cost is less than the Group's interest in the fair value of the investee's identifiable net assets at the date of acquisition, the investment is initially recognised at the investor's share of the fair value of the investee's identifiable net assets, and the difference is charged to profit or loss.

  - After the acquisition of the investment in a jointly controlled enterprise or an associate, the Group recognises its share of the investee's profit or loss after deducting the amortisation of the debit balance of the equity investment difference, which was recognised by the Group before the first-time adoption of CAS, as investment income or losses, and adjusts the carrying amount of the investment accordingly. Once the investee declares any cash dividends or profit 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 value of the investee's identifiable net assets at the date of acquisition. Unrealised profits and losses resulting from transactions between the Group and its associates or jointly controlled enterprises are eliminated to the extent of the Group's interest in the associates or jointly controlled enterprises. Unrealised losses resulting from transactions between the Group and its associates or jointly controlled enterprises are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

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

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

(b) Subsequent measurement *(continued)*

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

- The Group adjusts the carrying amount of the long-term equity investment for changes in shareholders' equity of the investee other than those arising from net profits or losses, and recognises the corresponding adjustment in equity.

- 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 cash dividends or profit distributions 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.

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

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

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

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

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

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

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

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

(d) Impairment of long-term equity investments

The Group makes provision for impairment loss of investments in subsidiaries, jointly controlled enterprises and associates (see Note 2(19)).

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

(13) Investment properties

Investment properties are properties held either to earn rental income or for capital appreciation or for both. Investment properties are accounted for using the cost model and stated in the balance sheet at cost less accumulated depreciation and impairment losses. An investment property is depreciated, less its estimated residual value, 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, residual value and depreciation rate of investment properties are as follows:

Item	Estimated useful life (year)	Estimated residual value (%)	Depreciation rate (%)
Properties	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 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 criteria to recognise fixed assets 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.

(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 value and depreciation rates of each class of fixed assets are as follows:

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

Useful lives, residual values and depreciation methods are reviewed annually.

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 stated in construction in progress and no depreciation is provided against construction in progress. Construction in progress is stated in the balance sheet at cost less impairment losses (see Note 2(19)).

(16) Borrowing costs

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

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

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

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

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

(16) Borrowing costs *(continued)*

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

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

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

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

(17) Intangible assets

Intangible assets are stated in the balance sheet at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see Note 2(19)). For an intangible asset with finite useful life, its cost less residual value and impairment loss is amortised on the 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)*

(17) Intangible assets *(continued)*

Expenditure on an internal research and development project is classified into expenditure on the research phase and expenditure on the development phase.

Expenditure on the research phase is recognised in profit or loss when incurred. Expenditure on development phase is capitalised if development costs can be measured reliably, the product or process is technically and commercially feasible, and the Group intends to and has sufficient resources to complete the development. Other development expenditure is recognised as an expense in the period in which it is incurred. No expenditure on the development phase of the Group is capitalised.

(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

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

(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
- long-term deferred expenses
- investment properties measured using a cost model
- long-term equity investments in subsidiaries, associates and jointly controlled enterprises

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 an appropriate pre-tax discount rate.

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

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

If the result of the recoverable amount calculation indicates the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is recognised as an impairment loss and charged to profit or loss for the current period. A provision for impairment 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 lower than the greatest amount of its individual fair value less costs to sell (if determinable), the present value of expected future cash flows (if determinable) and zero.

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

(20) Provisions

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

(21) Revenue recognition

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

(a) Sale of goods

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

- The significant risks and rewards of ownership of goods have been transferred to the buyer;

- The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.

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

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

(21) Revenue recognition *(continued)*

(b) Rendering of services

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

At the balance sheet date, where the outcome of a transaction involving the rendering of services can be estimated reliably, revenue from the rendering of services is recognised 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 the cost of relevant assets or expenses in the current period.

(a) Social insurance and housing fund

Pursuant to the relevant laws and regulations of the PRC, employees of the Group participate in the social insurance system established and managed by government organisations. The Group makes social insurance contributions - including contributions to basic pension insurance, basic medical insurance, unemployment insurance, work-related injury insurance, maternity insurance and etc. - as well as contributions to housing fund, at the applicable benchmarks and rates stipulated by the government for the benefit of its employees. The social insurance and housing fund contributions are recognised as part of the cost of assets or charged to profit or loss on an accrual basis.

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

(22) Employee benefits *(continued)*

(b) Termination benefits

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

- The Group has a formal plan for the termination of employment or has made an offer to employees for voluntary redundancy, which will be implemented shortly;

- The Group is not allowed to withdraw from termination plan or redundancy offer unilaterally.

(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. Such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

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

- the taxable entity has a legally enforceable right to offset current tax liabilities and assets, and

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

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

(25) Assets held for sale

A non-current asset is accounted for 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 include fixed assets, intangible assets, investment properties subsequently measured using the cost model, long-term equity investment and etc, (but do not include financial assets and 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 an impairment loss. At the balance sheet date, non-current assets held for sale continue to be presented under the same asset classification as before they were held for sale.

(26) Profit distributions to shareholders

Distributions of profit proposed in the profit appropriation plan to 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) joint controlled enterprises of the Group, including subsidiaries of joint 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, or close family members of such individuals.

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

(27) Related parties *(continued)*

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

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

(28) Segment reporting

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

- engage in business activities from which it may earn revenues and incur expenses;

- whose operating results are regularly reviewed by the Group's management to make decisions about resource to be allocated to the segment and assess its performance, and;

- for which financial information regarding financial position, financial performance 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.

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

(29) Significant accounting estimates and judgments

The Group's financial position and financial performance 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 recognised.

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 of the assets are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

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

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

(c) Impairment for bad and doubtful debts

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

(d) Allowance for diminution in value of inventories

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

(e) Recognition of deferred tax assets

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

In making the assessment of whether it is probable the Group will realise or utilise the deferred tax assets, management primarily relies on the generation of future taxable income to support the recognition of deferred tax assets. In order to fully utilise the deferred tax assets recognised at 31 December 2011, the Group would need to generate future taxable income of at least RMB 2,091 million, of which RMB 1,497 million is required to be generated by 2013, prior to the expiration of the unused tax losses. Based on estimated forecast and historical experience, management believes that it is probable that the Group will generate sufficient taxable income before the unused tax losses expire.

3. Taxation

(1) The types of taxes and tax rate:

The type of taxes	Tax base	Tax rate
Value added tax ("VAT")	Taxable VAT income (VAT payable is calculated at the applicable tax rate on taxable income deducted by input VAT)	13%, 17%
Consumption tax	Income subject to consumption tax	Gasoline: RMB 1,388 per ton; diesel oil: RMB 940.8 per ton.
Business tax	Income subject 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%).

4. Business combination and consolidated financial statements

(1) Principal subsidiaries

At 31 December 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	Subsidiary type	Company type	Registered place	Business nature	Registered capital	Principal activities	Closing amount of the Company's capital investment	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 year end	Losses attributable to minority shareholders during the year
Shanghai Petrochemical Investment Development Company Limited	Wholly-owned	Limited company	Shanghai	Investment	RMB1,000,000	Investment management	1,338,456	-	100	100	Yes	-	-
China Jinshan Associated Trading Corporation	Holding	Limited company	Shanghai	Trading	RMB25,000	Import and export of petrochemical products and equipment	16,832	-	67.33	67.33	Yes	45,441	-
Shanghai Jinchang Engineering Plastics Company Limited	Holding	Limited company	Shanghai	Manufacturing	USD9,153.8	Production of polypropylene compound products	75,832	-	74.25	74.25	Yes	29,328	-
Shanghai Golden Phillips Petrochemical Company Limited	Holding	Limited company	Shanghai	Manufacturing	USD50,000	Production of polypropylene products	249,374	-	60	60	Yes	195,955	-
Zhejiang Jin Yong Acrylic Fibre Company Limited	Holding	Limited company	Ningbo, Zhejiang	Manufacturing	RMB250,000	Production of acrylic fibre products	227,500	-	75	75	Yes	-	-
Shanghai Golden Conti Petrochemical Company Limited	Wholly-owned	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	2011			2010		
	Original currency	Exchange rate	RMB	Original currency	Exchange rate	RMB
Cash on hand:						
RMB	—	—	75	—	—	105
Deposits with banks:						
RMB	—	—	88,047	—	—	86,967
HKD	825	0.8107	669	13,772	0.8509	11,719
USD	233	6.3009	1,471	68	6.6227	449
Other monetary funds:(Note)						
RMB	—	—	161	—	—	40
CHF	138	6.7085	923	118	7.0562	830
Total	—	—	91,346	—	—	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	2011	2010
Bank acceptance bills	3,090,890	2,023,638
Commercial acceptance bills	40,689	19,855
Total	3,131,579	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 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 31 December 2011, the Group's discounted bank bills (with recourse) which are still undue amounted to RMB 222,169,000 (31 December 2010: RMB 107,314,000).

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

(c) At 31 December 2011, the Group's endorsed bank bills which are still undue amounted to RMB 44,849, 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
Shaoxing Xiangyu Green Package Company Limited	08/12/2011	07/03/2012	5,500	Bank acceptance bills
Zhejiang Huangyan Zhouhuang Company Limited	26/09/2011	26/03/2012	5,000	Bank acceptance bills
Zhejiang Huangyan Zhongda Industrial & Trade Company Limited	26/09/2011	26/03/2012	2,000	Bank acceptance bills
Dongyang Pengcheng Fabric Manufacturing Company Limited	23/09/2011	22/03/2012	2,000	Bank acceptance bills
Changzhou Boleisheng Electronic Technology Company Limited	22/09/2011	22/03/2012	1,000	Bank acceptance bills
Total			15,500	

At 31 December 2011, the Group's endorsed 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

Customer Type	Note	2011	2010
Amounts due from related parties	6(6)	487,970	677,742
Amounts due from third parties		126,671	82,030
Less: Provision for bad and doubtful debts		-4,735	-7,837
Total		609,906	751,935

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

(3) Accounts receivable *(continued)*

(b) Accounts receivable by ageing:

Expressed in thousands of Renminbi Yuan

Type	2011	2010
Within one year(inclusive)	608,809	751,023
Over one year but within two years(inclusive)	1,477	1,278
Over two years but within three years(inclusive)	8	11
Over three years	4,347	7,460
Less: Provision for bad and doubtful debts	-4,735	-7,837
Total	609,906	751,935

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

(c) Accounts receivable by categories:

Expressed in thousands of Renminbi Yuan

Category	2011				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(inclusive)	608,809	99.05	-	-	751,023	98.85	-	-
Over one year but within two years(inclusive)	1,477	0.24	384	26.00	1,278	0.17	370	28.95
Over two years but within three years(inclusive)	8	0.00	4	50.00	11	0.00	7	63.64
Over three years	4,347	0.71	4,347	100.00	7,460	0.98	7,460	100.00
Total	614,641	100.00	4,735	—	759,772	100.00	7,837	—

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

During the year, the Group assessed the impairment on an individual basis in accordance with the accounting policy as described in Note 2 (10), and there were no individually significant or insignificant accounts receivable with bad debt provision provided for; the Group had no individually significant write off or write back of bad debts which had been fully or substantially provided for in prior years. At 31 December 2011, the Group had no individually significant accounts receivable that aged over three years.

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

(3) Accounts receivable *(continued)*

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

Expressed in thousands of Renminbi Yuan

Company's name	Relationship with the Company	Amount	Ageing	Percentage of total accounts receivable (%)
Sinopec Huadong Sales Company Limited	Subsidiary of Sinopec Corp	360,941	Due within one year	58.72
Shanghai Secco Petrochemical Company Limited	Associate	53,296	Due within one year	8.67
Shanghai Pudong International Airport Jet Oil Company Limited	Third party	22,973	Due within one year	3.74
China Jet Oil Company Limited Shanghai Branch	Third party	21,912	Due within one year	3.57
BOC-SPC Gases Company Limited	Jointly controlled enterprise	21,908	Due within one year	3.56
Total		481,030		78.26

(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	2011	2010
Prepayments to related parties	6(6)	3,890	31,589
Prepayments to third parties		39,270	115,276
Total		43,160	146,865

(b) All prepayments are aged within one year.

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

Expressed in thousands of Renminbi Yuan

Company's name	Relationship with the Company	Amount RMB	Percentage of total prepayment(%)	Ageing	Reason for unsettled account
Zhongxing Energy Equipment Company Limited	Third Party	10,800	25.02	Due within one year	Prepayment for goods
Jiangsu Wujin Stainless Steel Pipe Factory Group Company Limited	Third Party	10,800	25.02	Due within one year	Prepayment for goods
Sinochem Xinzhong Oil Staging (Zhoushan) Company Limited	Third Party	8,747	20.27	Due within one year	Prepayment for goods
Sunny Industrial System Gmbh	Third Party	7,079	16.40	Due within one year	Prepayment for goods
Jiangsu Yinhuan Precision Steel Tube Company Limited	Third Party	2,820	6.53	Due within one year	Prepayment for goods
Total		40,246	93.24		

(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 31 December 2011
Dividends receivable due within one year	5,042	582,391	-587,433	-
-Shanghai Secco Petrochemical Company Limited	5,042	528,096	-533,138	-

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

Customer Type	Note	2011	2010
Amounts due from related parties	6(6)	**3,857**	11,641
Amounts due from third parties		**45,843**	50,646
Less: Provision for bad and doubtful debts		**-2,706**	-4,102
Total		**46,994**	58,185

(b) Other receivables by ageing:

Expressed in thousands of Renminbi Yuan

Type	2011	2010
Within one year (inclusive)	**46,833**	57,782
Over one year but within two years(inclusive)	**17**	416
Over two years but within three years(inclusive)	**45**	50
Over three years	**2,805**	4,039
Less: Provision for bad and doubtful debts	**-2,706**	-4,102
Total	**46,994**	58,185

The ageing is counted from the date when 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	2011				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(inclusive)	46,833	94.23	-	-	57,782	92.77	-	-
Over one year but within two years(inclusive)	17	0.03	5	29.41	416	0.67	125	30.05
Over two years but within three years(inclusive)	45	0.09	27	60.00	50	0.08	30	60.00
Over three years	2,805	5.65	2,674	95.33	4,039	6.48	3,947	97.72
Total	49,700	100.00	2,706	—	62,287	100.00	4,102	—

During the year, the Group assessed the impairment on an individual basis in accordance with the accounting policy as described in Note 2 (10), and there are no individually significant or insignificant other receivables with bad debt provision provided for; the Group had no individually significant write off or write back of bad debts which had been fully or substantially provided for in prior years. At 31 December 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	13,315	Due within one year	26.79
2. Shanghai Yali Development Company Limited	Third Party	7,275	Due within one year	14.64
3. BOC-SPC Gases Company Limited	Jointly controlled enterprise	2,065	Due within one year	4.15
4. Resettlement office of Jinshanwei Town, Shanghai	Third Party	2,000	Due within one year	4.02
5. Shanghai railway station HangZhou depot (North)	Third Party	1,166	Due within one year	2.35
Total		25,821		51.95

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

(6) Other receivables *(continued)*

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

(7) Inventories

(a) Inventories by category

Expressed in thousands of Renminbi Yuan

Items	2011			2010		
	Cost	Provision for diminution in value	Carrying amount	Cost	Provision for diminution in value	Carrying amount
Raw materials	2,046,740	4,642	2,042,098	2,602,962	663	2,602,299
Work in progress	1,980,028	-	1,980,028	1,417,789	-	1,417,789
Finished goods	1,291,813	123,941	1,167,872	877,889	36,639	841,250
Spare parts and consumables	457,428	65,001	392,427	555,623	64,660	490,963
Total	5,776,009	193,584	5,582,425	5,454,263	101,962	5,352,301

All the above inventories are purchased or self-manufactured.

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

Expressed in thousands of Renminbi Yuan

Items	At 1 January 2011	Increases	Decreases	At 31 December 2011
Raw materials	2,602,962	80,832,990	-81,389,212	2,046,740
Work in progress	1,417,789	85,008,268	-84,446,029	1,980,028
Finished goods	877,889	84,446,029	-84,032,105	1,291,813
Spare parts and consumables	555,623	335,483	-433,678	457,428
Sub-total	5,454,263	250,622,770	-250,301,024	5,776,009
Less: provision for diminution in value of inventories	-101,962	-276,432	184,810	-193,584
Carrying amount	5,352,301	250,346,338	-250,116,214	5,582,425

(c) Provision for diminution in value of inventories

Expressed in thousands of Renminbi Yuan

Items	At 1 January 2011	Provision for the year	Decreases during the year		At 31 December 2011
			Reversal	Write-off	
Raw materials	663	3,979	-	-	4,642
Finished goods	36,639	147,985	-	-60,683	123,941
Spare parts and consumables	64,660	124,468	-26	-124,101	65,001
Total	101,962	276,432	-26	-184,784	193,584

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

(8) Other current assets

Expressed in thousands of Renminbi Yuan

Items	2011	2010
Deductible value added tax	44,639	6,181
Current portion of long-term deferred expenses	29,765	21,729
Entrusted Loan due within one year	86,000	46,000
Total	160,404	73,910

(9) Long-term receivables

Expressed in thousands of Renminbi Yuan

Item	2011	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
Increase during the year	14,751	-	14,751	-	14,751
Share of profit of investments accounted for under equity method	112,818	29,837	142,655	-	142,655
Dividends receivable/ received	-558,391	-24,000	-582,391	-	-582,391
Balance at 31 December 2011	2,977,292	124,013	3,101,305	-	3,101,305

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

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

(b) Information about major associates and jointly controlled enterprises

Expressed in thousands of RMB/USD

Name of investee	Company type	Investment cost	Registered place	Balance at 1 January 2011	Movement during the year	Balance at 31 December 2011	Legal representative	Business Scope	Registered capital	Effective shareholding percentage (%)	Effective voting right (%)	Total assets at year end	Total liabilities at year end	Net assets at year end	Total revenue during the year	Net profit during the year
1, Equity method-jointly controlled enterprises																
BOC-SPC Gases Company Limited*	Limited company	RMB 127,992	Shanghai	118,176	5,837	124,013	Xu Zhongwei	Production and sales of industrial gases	USD 32,000	50	50	554,772	233,126	321,646	406,643	54,747
2, Equity method-associates																
Shanghai Chemical Industry Park Development Company Limited*	Limited company	RMB 907,770	Shanghai	1,057,164	39,887	1,097,051	Rong Guangdao	Planning, development and operation of the Chemical Industry Park in Shanghai	RMB 2,372,439	38.26	38.26	7,122,975	3,434,001	3,688,974	5,553	127,052
Shanghai Secco Petrochemical Company Limited*	Limited company	RMB 1,488,718	Shanghai	2,047,646	-518,304	1,529,342	Wang Zhiqing	Manufacturing and distribution of chemical products	USD 901,441	20	25	15,602,578	7,983,085	7,619,493	27,693,414	17,036
Shanghai Jinsen Hydrocarbon Resins Company Limited	Limited company	RMB 77,503	Shanghai	62,143	22,258	84,401	Sun Xiaofeng	Production of resin products	USD 23,395	40	40	231,989	22,939	209,050	311,557	66,524
Shanghai Azbil Automation Company Limited	Limited company	RMB 9,776	Shanghai	60,171	9,918	70,089	Wang Weiguo	Service and maintenance of building automation systems and products	USD 3,000	40	40	246,487	70,302	176,185	254,103	58,615
Others				180,990	15,419	196,409										
Total				3,526,290	-424,985	3,101,305						23,758,801	11,743,453	12,015,348	28,671,270	323,974

* Represents associates/jointly controlled enterprises of the Company

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

(11) Investment properties

Expressed in thousands of Renminbi Yuan

Items	Buildings
Original cost	
Balance at the beginning and end of the year	546,412
Accumulated depreciation	
Balance at the beginning of the year	80,607
Charge for the year	13,250
Balance at the end of the year	93,857
Carrying amount	
At the end of the year	452,555
At the beginning of the year	465,805

Depreciation charged for the year on the investment properties of the Group amounted to RMB 13,250,000 (2010: RMB 13,256,000).

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

(12) Fixed assets

(a) Fixed assets

Expressed in thousands of Renminbi Yuan

Items	Buildings	Plant and machinery	Vehicles and other equipment	Total
Original Cost				
Balance at the beginning of the year	5,798,141	26,198,013	6,903,713	38,899,867
Additions during the year	-	87,058	55,792	142,850
Transfer from construction in progress	12,221	349,348	29,467	391,036
Disposal during the year	-5,175	-274,098	-76,734	-356,007
Balance at the end of the year	5,805,187	26,360,321	6,912,238	39,077,746
Accumulated depreciation				
Balance at the beginning of the year	3,652,613	15,621,135	4,833,842	24,107,590
Charge for the year	142,319	1,212,687	284,830	1,639,836
Written back on disposal	-3,469	-242,415	-73,181	-319,065
Balance at the end of the year	3,791,463	16,591,407	5,045,491	25,428,361
Provision for impairment losses				
Balance at the beginning of the year	110,950	802,273	76,870	990,093
Charge for the year	542	8,629	1,381	10,552
Written back on disposal	-49	-10,444	-99	-10,592
Balance at the end of the year	111,443	800,458	78,152	990,053
Carrying amount				
Balance at the end of the year	1,902,281	8,968,456	1,788,595	12,659,332
Balance at the beginning of the year	2,034,578	9,774,605	1,993,001	13,802,184

Depreciation charged for the year amounted to RMB 1,639,836,000 (2010: RMB 1,671,347,000).

Construction in progress amounting to RMB 391,036,000 (2010: RMB 440,291,000) was transferred to fixed assets during the year.

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

(12) Fixed assets *(continued)*

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

(c) Impairment losses

Impairment losses recognised on certain idle facilities of the intermediate petrochemicals segment were RMB 10,552,000 for the year ended 31 December 2011. These facilities were tested for impairment in accordance with the Company's accounting policy described in note 2(19) to the consolidated financial statements. The estimated recoverable amounts were based on the assets' fair value less costs to sell, which were determined by reference to the recent observable market prices for similar assets within the same industry.

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

(13) Construction in progress

(a) Construction in progress

Expressed in thousands of Renminbi Yuan

Projects	2011		
	Original Cost	Provision for impairment	Carrying amount
The Refinery Revamping and Expansion Project	2,687,879	-	2,687,879
The Carbon Fiber Project with a capacity of 1,500 tons/year	366,841	-	366,841
The Up-grading Project for the Optimisation of the System and Reduction in Energy and Feedstock Consumption of the 2# Oxidation Unit (PTA Plant)	176,134	-	176,134
Jinchang 30,000 ton Modified Polypropylene project	70,058	-	70,058
5# 6# Furnace Secondary Desulfurisation Project for Department of Thermoelectric	30,468	-	30,468
Numerous small projects of Synthetic Fibres segment	143,376	-	143,376
Numerous small projects of Resins and Plastics segment	16,245	-	16,245
Numerous small projects of Intermediate Petrochemicals segment	149,012	-	149,012
Numerous small projects of Petroleum Products segment	67,656	-	67,656
Numerous small projects of all others	175,323	-	175,323
Total	3,882,992	-	3,882,992

Expressed in thousands of Renminbi Yuan

Projects	2010		
	Original Cost	Provision for impairment	Carrying amount
The Refinery Revamping and Expansion Project	714,513	-	714,513
The Up-grading Project for the Optimisation of the System and Reduction in Energy and Feedstock Consumption of the 2# Oxidation Unit (PTA Plant)	57,416	-	57,416
The Carbon Fiber Project with a capacity of 1,500 tons/year	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 year	Interest capitalisation rate(%)	Source of capital	Balance at 31 December 2011
The Refinery Revamping and Expansion Project	6,627,700	714,513	1,973,366	-	40.56	40.56	24,451	24,451	2.75-4.86	Equity funds and loans	2,687,879
The Carbon Fiber Project with a Capacity of 1,500 tons/year	847,794	56,055	310,786	-	43.27	43.27	3,498	3,498	2.75-4.86	Equity funds and loans	366,841
The Up-grading Project for the Optimisation of the System and Reduction in Energy and Feedstock Consumption of the 2# Oxidation Unit (PTA plant)	185,570	57,416	118,718	-	94.92	94.92	2,457	2,192	2.75-4.86	Equity funds and loans	176,134
Jinchang 30,000 ton Modified Polypropylene Project	93,100	15,996	54,062	-	75.32	75.32	691	691	2.75-4.86	Equity funds and loans	70,058
5# 6# Furnace Secondary Desulfurisation Project for Department of Thermoelectric	129,714	-	30,468	-	23.49	23.49	-	-	-	Equity funds	30,468
Numerous small projects of Synthetic Fibres segment	735,825	64,018	126,338	46,980	25.87	25.87	-	-	-	Equity funds	143,376
Numerous small projects of Resins and Plastics segment	204,552	17,891	17,994	19,640	17.54	17.54	-	-	-	Equity funds	16,245
Numerous small projects of Petroleum Products segment	7,770,959	112,999	221,642	185,629	4.31	4.31	-	-	-	Equity funds	149,012
Numerous small projects of Intermediate Petrochemicals segment	3,016,197	40,917	68,956	42,217	3.64	3.64	-	-	-	Equity funds	67,656
Numerous small projects of all others	2,453,466	112,420	159,473	96,570	11.08	11.08	-	-	-	Equity funds	175,323
Total	22,064,877	1,192,225	3,081,803	391,036	-	-	31,097	30,832	-		3,882,992

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

The capitalised borrowing costs included in the balances of construction in progress were RMB 30,832,000 (2010: RMB 830,000). The interest rates per annum at which borrowing costs were capitalised for the year ended 31 December 2011 by the Group were 2.75%-4.86% (2010: 2.00%-3.25%).

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

(14) Intangible assets

Expressed in thousands of Renminbi Yuan

Items	Land use rights	Other intangible assets	Total
Cost			
Balance at the beginning and end of the year	748,867	95,339	844,206
Accumulated amortisation			
Balance at the beginning of the year	255,168	51,439	306,607
Amortisation for the year	15,485	2,916	18,401
Balance at the end of the year	270,653	54,355	325,008
Carrying amount			
Balance at the end of the year	478,214	40,984	519,198
Balance at the beginning of the year	493,699	43,900	537,599

Amortisation charged for the year amounted to RMB 18,401,000 (2010: RMB 19,573,000).

(15) Long-term deferred expenses

Expressed in thousands of Renminbi Yuan

Item	At 1 January 2011	Increase for the year	Amortisation for the year	Reclassification to other current assets	At 31 December 2011
Catalysts	261,706	203,389	-129,278	-29,765	306,052

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

(16)Deferred tax assets

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

Expressed in thousands of Renminbi Yuan

Items	2011		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	145,064	36,266	62,073	15,518
Impairment losses on fixed assets	449,188	112,297	557,514	139,379
Contribution by fixed assets and sales of assets to a jointly controlled enterprise	33,272	8,318	36,777	9,194
Deductible tax losses	1,496,744	374,186	2,606,114	651,529
Specific reserve accrued	14,272	3,568	43,380	10,845
Other deferred tax assets	34,388	8,597	29,746	7,437
Sub-total	2,172,928	543,232	3,335,604	833,902
Offsetting	-81,580	-20,395	-93,790	-23,448
After offsetting	2,091,348	522,837	3,241,814	810,454
Deferred tax liabilities:				
Capitalisation of borrowing costs	-81,580	-20,395	-93,790	-23,448
Offsetting	81,580	20,395	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 year change charged to profit or loss	Balance at 31 December 2011
Deferred tax assets:			
Provision for bad debt and inventories	15,518	20,748	36,266
Impairment losses on fixed assets	139,379	-27,082	112,297
Contribution by fixed assets and sales of assets to a jointly controlled enterprise	9,194	-876	8,318
Deductible tax losses	651,529	-277,343	374,186
Specific reserve accrued	10,845	-7,277	3,568
Other deferred tax assets	7,437	1,160	8,597
Capitalisation of borrowing costs	-23,448	3,053	-20,395
Total	810,454	-287,617	522,837

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	2011	2010
Impairment losses on fixed assets	(i)	432,579	432,579
Deductible tax losses	(ii)	465,414	452,443
Total		897,993	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 (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 465,414,000 (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 2012 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	2011	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	42,328	-

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 31 December 2011
				Reversal	Write-off	
Accounts receivable	5(3)	7,837	-	-1,927	-1,175	4,735
Other receivables	5(6)	4,102	134	-591	-939	2,706
Inventories	5(7)	101,962	276,432	-26	-184,784	193,584
Fixed assets	5(12)	990,093	10,552	-	-10,592	990,053
Total		1,103,994	287,118	-2,544	-197,490	1,191,078

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

(18) Short-term loans

(a) Short-term loans by category

Expressed in thousands of Renminbi Yuan

Items	**2011**	2010
Credit loans		
-bank loans	**4,852,074**	2,885,438
-loans from related party	**660,000**	410,000
Total	**5,512,074**	3,295,438

At 31 December, 2011, the weighted average interest rate of the Group's short-term loans was 2.75% (2010: 2.34%).

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

(19) Bills payable

Expressed in thousands of Renminbi Yuan

Item	**2011**	2010
Commercial acceptance bills	**15,688**	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	2011	2010
Related parties	2,204,823	1,721,244
Third parties	2,445,184	1,601,567
Total	4,650,007	3,322,811

At 31 December 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	2011	2010
Related parties	25,524	35,023
Third parties	681,311	774,885
Totals	706,835	809,908

At 31 December 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 31 December 2011
1. Salaries, bonuses and allowances	5,060	1,432,386	-1,432,386	5,060
2. Staff welfare fees	-	192,901	-192,901	-
3. Social insurances	664	463,293	-431,604	32,353
Including: 1) Medical insurance premium	215	129,116	-118,837	10,494
2) Basic Pension insurance premium	395	235,013	-216,172	19,236
3) Unemployment insurance premium	36	19,868	-18,419	1,485
4) Staff and workers' injury insurance premium	9	5,455	-5,027	437
5) Maternity insurance premium	9	7,031	-6,339	701
6) Supplementary medical insurance premium	-	371	-371	-
7) Complementary pension insurance premium	-	59,922	-59,922	-
8) Other insurance premium	-	6,517	-6,517	-
4. Housing fund	-	98,236	-98,236	-
5. Termination benefits (including early retirement)	-	9,758	-9,758	-
6. Others	3,196	213,415	-207,884	8,727
Total	8,920	2,409,989	-2,372,769	46,140

At 31 December 2011, no amount in arrears was included in the balance of the employee benefits payable.

At 31 December 2011, labour union fee and staff and workers' education fee amounting to RMB 5,213,000 (2010: RMB 157,000), and non-monetary welfare amounting to RMB nil (2010: RMB nil) was included in the above balance of "others".

The balance of employee benefits payable as at 31 December 2011 was expected to be fully distributed or utilised in the first quarter of 2012.

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 two plans is entitled to a pension amount equal to a fixed proportion of the salary prevailing at his or her retirement date. The Group has no other material obligation for the payment of pension benefits associated with these plans beyond the annual contributions described above. For the year ended 31 December 2011, the Group's contribution to the above two plans amounted to RMB 235,013,000 and RMB 59,922,000 respectively (2010: RMB 209,752,000 and RMB 57,867,000 respectively).

In accordance with the Group voluntary employee reduction plan, the Group recorded employee reduction expenses of RMB 9,758,000 (2010: RMB 3,646,000) during the year ended 31 December 2011, in respect of the voluntary resignation of approximately 135 employees (2010: 83 employees).

(23) Taxes payable

Expressed in thousands of Renminbi Yuan

Items	2011	2010
Value added tax	592	446,997
Business tax	2,347	2,086
Income tax	22,340	15,983
Consumption tax	413,431	458,600
Education surcharge	20,628	26,854
City maintenance and construction tax	28,855	62,632
Others	19,745	28,902
Total	507,938	1,042,054

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

(24) Interest payable

Expressed in thousands of Renminbi Yuan

Items	2011	2010
Interest payable of interest due instalments of long-term loans	277	461
Interest payable of corporate bonds	-	17,440
Interest payable of short-term loans	9,165	6,652
Total	9,442	24,553

(25) Other payables

(a) Other payables by category:

Expressed in thousands of Renminbi Yuan

Items	2011	2010
Related parties	12,521	44,724
Third parties	788,588	790,056
Total	801,109	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 31 December 2011, there are no significant other payables aged over one year.

(26) Short-term debentures payable

Expressed in thousands of Renminbi Yuan

Item	2011	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)*

(27) Non-current liabilities due within one year

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

Expressed in thousands of Renminbi Yuan

Items	2011	2010
Current portion of long-term loans	-	100,000
Others	-	78,237
Total	-	178,237

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

Expressed in thousands of Renminbi Yuan

Item	2011	2010
Credit loans	-	100,000

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

Expressed in thousands of RMB

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

(28) Long-term loans

(a) Long-term loans by category

Expressed in thousands of Renminbi Yuan

Item	2011	2010
Credit loans	160,050	175,000

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

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

(b) As at 31 December 2011, long-term loans were as follows:

Expressed in thousands of Renminbi Yuan

Creditors	Starting date	Maturity date	Currency	Annual Interest rate (%)	At 31 December 2011	At 31 December 2010
Industry and Commercial Bank of China, Jinshan Branch	2008.11.27	2013.11.25	RMB	5.364	50,000	75,000
Industry and Commercial Bank of China, Jinshan Branch	2008.12.25	2013.11.25	RMB	5.364	75,000	100,000
Industry and Commercial Bank of China, Jinshan Branch	2011.12.27	2016.12.14	RMB	6.210	10,000	-
Industry and Commercial Bank of China, Jinshan Branch	2011.09.16	2016.08.24	RMB	6.900	25,050	-
Total					160,050	175,000

(29) Other non-current liabilities

Expressed in thousands of Renminbi Yuan

Item	2011	2010
Deferred income		
Include: government grants related to assets	204,300	236,986
government grants related to income in the subsequent periods (note)	91,319	-
Total	295,619	236,986

The Group received the government grants of RMB 91,319,000 in December 2011 as compensation for employee education charges to be incurred by the Group, and which will be recognised as income in accordance with the accounting policy adopted for government grants in Note 2(23).

(30) Share capital

Expressed in thousands of Renminbi Yuan

Items	At 1 January 2011	At 31 December 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)*

(30) 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 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)*

(31) 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 31 December 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

(32) Specific reserve

Expressed in thousands of Renminbi Yuan

Item	At 1 January 2011	Accrued	Utilised	At 31 December 2011
Safety production costs	46,748	125,188	-150,159	21,777

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

(33) Surplus reserve

Expressed in thousands of Renminbi Yuan

Items	At 1 January 2011	Additions	At 31 December 2011
Statutory surplus reserve (Note)	3,800,800	70,456	3,871,256
Discretionary surplus reserve	1,280,514	-	1,280,514
Total	5,081,314	70,456	5,151,770

Note: Pursuant to Articles of Association, the Company transferred 10% of net profit after taxation of the Company to the statutory surplus reserve for the year ended 31 December 2011.

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

(34) Retained earnings

Expressed in thousands of Renminbi Yuan

Items	Note	2011	2010
Retained earnings at 1 January		2,670,215	462,029
Add: Net profit attributable to equity shareholders of the Company		944,414	2,703,734
Less: Appropriation to statutory surplus reserve		-70,456	-279,548
Dividends approved to ordinary shares	(a)	-720,000	-216,000
Retained earnings at 31 December	(b)	2,824,173	2,670,215

(a) Dividends of ordinary shares attributed during the year

For the year ended 31 December 2011, the Company approved and declared the final dividend of RMB 0.10 per share totalling RMB 720,000,000 (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 year is RMB 10,505,000 (2010: RMB 10,253,000).

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

(35) Operating income, operating costs

(a) Operating income, operating costs

Expressed in thousands of Renminbi Yuan

Items	2011	2010
Income from principal operations	95,089,397	77,162,454
Income from other operations	511,851	428,733
Sub-total	95,601,248	77,591,187
Operating costs	85,042,194	65,787,455

Operating income represents sales of products after deduction of VAT.

(b) The Group mainly operates in petrochemical industry.

(c) For operating income and operating costs by product, see note 10(1).

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

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

(d) Revenue from sales to the five largest customers for 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	36,609,316	38.29
2. China Petroleum & Chemical Corporation	12,226,963	12.79
3. Sinopec Yizheng Chemical Fibre Company Limited	1,630,598	1.71
4. Shanghai Secco Petrochemical Company Limited	1,562,263	1.63
5. Oriental Petrochemical (Shanghai) Corporation	1,525,943	1.60
Total	53,555,083	56.02

(36) Business taxes and surcharges

Expressed in thousands of Renminbi Yuan

Items	2011	2010	Tax base
Consumption tax	5,085,746	4,641,710	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	9,971	7,404	5% of income entitled to business tax
City maintenance and construction tax	532,837	542,874	7% of consumption tax, VAT and business tax paid
Education surcharge and others	380,649	232,829	5% of consumption tax, VAT and business tax paid (2010: 3%)
Total	6,009,203	5,424,817	–

(37) Selling expenses

Expressed in thousands of Renminbi Yuan

Items	2011	2010
Transportation fee	320,982	262,898
Agency fee	195,606	168,896
Storage and logistics expenses	55,269	51,222
Staff costs	55,959	48,449
Others	47,955	47,296
Total	675,771	578,761

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

(38) Administrative expenses

Expressed in thousands of Renminbi Yuan

Items	2011	2010
Repair and maintenance fee	1,093,339	1,016,530
Staff costs	840,795	736,315
Depreciation and amortisation	90,035	96,479
Tax	105,929	87,068
Administrative expenses	83,716	85,229
Services charges	36,313	25,523
Research and development costs	79,573	58,242
IT system maintenance fee	29,001	27,785
Others	197,310	248,914
Total	2,556,011	2,382,085

(39) Financial expenses("-" represents income)

Expressed in thousands of Renminbi Yuan

Items	2011	2010
Interest expenses from loans and payables	246,326	274,511
Less: Borrowing costs capitalised	-30,832	-830
Interest income from deposits and receivables	-99,345	-37,375
Net foreign exchange gain	-213,644	-154,692
Others	13,953	13,605
Total	-83,542	95,219

(40) Impairment losses ("-" represents reversals)

Expressed in thousands of Renminbi Yuan

Items	2011	2010
Accounts receivable	-1,927	-2,916
Other receivables	-457	-284
Inventories	276,406	198,465
Fixed assets	10,552	238,200
Total	284,574	433,465

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

(41) Investment income

(a) Investment income by category:

Expressed in thousands of Renminbi Yuan

Items	Note	2011	2010
Long-term equity investments income accounted for under the equity method	(b)	**142,655**	651,288
Gain on disposal of available-for-sale financial assets	5(46)	**685**	215
Total		**143,340**	651,503

(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	2011	2010
Shanghai Chemical Industrial Park Development Company Limited	**54,425**	53,920
BOC-SPC Gases Company Limited	**29,837**	29,161
Shanghai Jinsen Hydrocarbon Resins Company Limited	**22,258**	13,969
Shanghai Azbil Automation Company Limited	**16,718**	11,909
Shanghai Secco Petrochemical Company Limited(Note)	**9,792**	537,876
Total	**133,030**	646,835

Note: For the year ended 31 December 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)*

(42) Non-operating income

(a) Non-operating income by category:

Expressed in thousands of Renminbi Yuan

Items	Note	2011	2010
Gain on disposal of fixed assets		3,119	2,425
Government grants	(b)	76,965	37,211
Others		11,810	9,718
Total		91,894	49,354
Amount recognised in non-recurring items		91,894	49,354

(b) Government grants in details:

Expressed in thousands of Renminbi Yuan

Items	2011	2010
Amortisation of deferred income	39,986	37,131
Others (Note)	39,979	80
Total	76,965	37,211

Note: Others mainly represent government grants received during 2011 to compensate the expenditures incurred in research and development and environment protection.

(43) Non-operating expenses

Expressed in thousands of Renminbi Yuan

Items	2011	2010
Loss on disposal of fixed assets	21,125	37,060
Landscaping fee	-	50,000
Others	38,855	49,438
Total	59,980	136,498
Amount recognised in non-recurring items	59,980	136,498

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

(44) Income tax expense

Expressed in thousands of Renminbi Yuan

Items	Note	2011	2010
Income tax expense for the year, calculated in accordance with tax laws and related regulations		30,280	22,523
Changes in deferred taxation		287,617	698,676
Under provision for income tax expense in prior years ("-" represents over provision)		-436	3,453
Total	(a)	317,461	724,652

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

Expressed in thousands of Renminbi Yuan

Items	2011	2010
Profit before income tax	1,292,291	3,453,744
Expected income tax expense at a rate of 25% (2010: 25%)	323,073	863,436
Add: Tax effect of non-deductible expenses	22,604	6,240
Tax effect of non-taxable income	-3,957	-225
Under provision for income tax expense in prior years ("-" represents over provision)	-436	3,453
Tax effect of share of profit recognised under the equity method	-35,664	-162,822
Tax effect of unused tax losses not recognised	10,582	12,324
Others	1,259	2,246
Income tax expense	317,461	724,652

(45) 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	2011	2010
Consolidated net profit attributable to ordinary shareholders of the Company	944,414	2,703,734
Weighted average number of the Company's ordinary shares outstanding ('000)	7,200,000	7,200,000
Basic earnings per share (RMB/Share)	0.131	0.376

(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)*

(46) Other comprehensive income

Expressed in thousands of Renminbi Yuan

Items	2011	2010
Unrealised income of available-for-sale financial assets	685	215
Reclassification adjustment for gain on disposal of available-for-sale financial assets transferred to profit or loss	-685	-215
Total	-	-

(47) Notes to the cash flow statement

(a) Cash received relating to other operating activities:

Expressed in thousands of Renminbi Yuan

Items	Amount
Government grants	135,598
Others	11,810
Total	147,408

(b) Cash received relating to other operating activities:

Expressed in thousands of Renminbi Yuan

Items	Amount
Agency fee	-195,606
Administrative expenses	-83,716
Research and development costs	-79,573
Storage and logistics expenses	-55,269
Services charges	-36,313
IT system maintenance fee	-29,001
Others	-65,619
Total	-545,097

(c) Cash received relating to other investing activities:

Expressed in thousands of Renminbi Yuan

Item	Amount
Interest income	99,345

5. Notes to the consolidated financial statements (continued)

(48) Supplemental information to the cash flow statement

(a) Supplemental information to the cash flow statement

Expressed in thousands of Renminbi Yuan

Supplemental information	2011	2010
1. Reconciliation of net profit to cash flows from operating activities:		
Net profit	974,830	2,729,092
Add: Impairment losses	284,574	433,465
Depreciation of investment properties	13,250	13,256
Depreciation of fixed assets	1,639,836	1,671,347
Amortisation of intangible assets	18,401	19,573
Losses on disposal of fixed assets and other long-term assets	18,006	34,635
Financial expenses ("-" represents income)	-97,495	81,614
Investment income	-143,340	-651,503
Decrease in deferred tax assets	287,617	698,676
Decrease in inventories ("-" represents increase)	-506,530	1,333,068
Increase in operating receivables	-881,159	-1,762,714
Increase in operating payables ("-" represents decrease)	898,412	-403,425
Increase in specific reserve ("-" represents decrease)	-24,971	46,748
Net cash inflow from operating activities	2,481,431	4,243,832
2. Net change in cash and cash equivalents:		
Cash and cash equivalents balance at the end of the year	91,346	100,110
Less: cash and cash equivalents balance at the beginning of the year	100,110	125,917
Net decrease in cash and cash equivalents	-8,764	-25,807

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

Expressed in thousands of Renminbi Yuan

Items	2011	2010
1. Cash		
-Cash on hand	75	105
-Bank deposits available on demand	90,187	99,135
-Other monetary fund available on demand	1,084	870
2. Closing balance of cash and cash equivalents	91,346	100,110

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 Chaoyangmen 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 year ended 31 December 2011.

At 31 December 2011, Sinopec Corp held 4 billion shares of the Company. There are no changes during the year.

(2) Information on the Company's subsidiaries

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

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

See Note5(10)(b) for details of the Company's important 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 Shanghai Gaoqiao Branch	Branch of the immediate parent company	834486537
Sinopec Corp Shanghai Asphalt Sales Branch	Branch of the immediate parent company	76599896-8
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	2011 Amount	2011 Percentage of the same category (%)	2010 Amount	2010 Percentage of the same category (%)
Sinopec Corp, its subsidiaries and jointly controlled enterprises	Trade	Sales/Service income	50,703,632	53.04	39,335,194	50.70
Sinopec Corp, its subsidiaries and jointly controlled enterprises	Trade	Purchases	43,611,898	55.19	31,852,386	53.98
Sinopec Group and its subsidiaries	Trade	Sales/Service income	279,289	0.29	307,658	0.40
Sinopec Group and its subsidiaries	Trade	Purchases	42,858	0.05	45,773	0.08
Associates of the Group	Trade	Sales	2,019,155	2.11	1,142,499	1.47
Associates of the Group	Trade	Purchases	3,782,988	4.79	5,205,275	8.82
Jointly controlled enterprises of the Group	Trade	Sales	280,645	0.29	136,655	0.18
Jointly controlled enterprises of the Group	Trade	Purchases	371,105	0.47	497,266	0.84
Key management personnel	Compensation for services	Short-term employee benefits	6,973	0.35	6,318	0.39
Key management personnel	Compensation for services	Retirement scheme contributions	147	0.03	190	0.04

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

(5) Related parties transactions *(continued)*

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

The Company

Expressed in thousands of Renminbi Yuan

Related Parties	Transaction type	Category	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	43,158,961	53.14	34,190,604	50.97
Sinopec Corp, its subsidiaries and jointly controlled enterprises	Trade	Purchases	42,840,205	66.58	31,368,984	62.67
Sinopec Group and its subsidiaries	Trade	Sales/service income	151,531	0.19	162,053	0.24
Sinopec Group and its subsidiaries	Trade	Purchases	42,858	0.07	45,773	0.09
Subsidiaries of the Company	Trade	Sales	1,333,799	1.64	1,854,879	2.77
Subsidiaries of the Company	Trade	Purchases	1,235,483	1.92	1,152,126	2.30
Associates of the Company	Trade	Sales	1,152,936	1.42	1,004,446	1.50
Associates of the Company	Trade	Purchases	3,019,510	4.69	4,319,606	8.63
Jointly controlled enterprises of the Company	Trade	Sales	280,645	0.35	136,655	0.20
Jointly controlled enterprises of the Company	Trade	Purchases	371,105	0.58	497,266	0.99
Key management personnel	Compensation for services	Short-term employee benefits	6,973	0.35	6,318	0.42
Key management personnel	Compensation for services	Retirement scheme contributions	147	0.03	190	0.05

Most of the transactions undertaken by the Group with those counterparties and their terms during the year ended 31 December 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 guarantees

As at 31 December 2010, the Company issued guarantees in relation to loans amounting to RMB 200,000,000 drawn down by a consolidated subsidiary which expired on 26 May 2011.

(c) Related party borrowing and lending

For the year ended 31 December 2011, both the Group and the Company borrowed from Sinopec Finance Company Limited amounting to RMB 4,790,000,000 (2010: RMB 5,160,000,000).

For the year ended 31 December 2011, the Group and the Company repaid the loans to Sinopec Finance Company Limited amounting to RMB 4,540,000,000 and 4,340,000,000 respectively (2010: both RMB 4,990,000,000).

(d) Other related party transactions

The Group

Expressed in thousands of Renminbi Yuan

Transaction	Related Parties	2011	2010
Insurance premiums	Sinopec Group	115,910	96,712
Interest received and receivable	Sinopec Finance Company Limited	859	570
Interest paid and payable	Sinopec Finance Company Limited	22,148	29,029
Construction and installation cost	Sinopec Group	286,023	88,586
Sales commissions	Sinopec Corp Chemical Products Sales Branch	195,606	168,896
Rental income	Sinopec Corp	23,246	20,781
Rental income	Associates of the Group	-	6,161

The Company

Expressed in thousands of Renminbi Yuan

Transaction	Related Parties	2011	2010
Insurance premiums	Sinopec Group	115,910	96,712
Interest received and receivable	Sinopec Finance Company Limited	858	569
Interest paid and payable	Sinopec Finance Company Limited	15,124	19,244
Construction and installation cost	Sinopec Group	286,023	88,586
Sales commissions	Sinopec Corp Chemical Products Sales Branch	195,606	168,896
Rental income	Sinopec Corp	23,246	20,781
Rental income	Subsidiaries of the Company	5,496	6,732
Rental income	Associates of the Company	-	6,161

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	2011	2010
Bills receivable	Sinopec Corp, its subsidiaries and jointly controlled enterprises	143,569	50,220
Accounts receivable	Sinopec Corp, its subsidiaries and jointly controlled enterprises	404,796	596,097
Accounts receivable	Sinopec Group and its subsidiaries	1,908	12,482
Accounts receivable	Associates of the Company	59,358	46,071
Accounts receivable	Jointly controlled enterprises of the Company	21,908	23,092
Dividends receivable	Associates of the Company	-	5,042
Other receivables	Sinopec Corp, its subsidiaries and jointly controlled enterprises	1,307	8,191
Other receivables	Sinopec Group and its subsidiaries	2	341
Other receivables	Associates of the Company	483	164
Other receivables	Jointly controlled enterprises of the Company	2,065	2,945
Prepayments	Sinopec Corp, its subsidiaries and jointly controlled enterprises	3,890	31,589
Accounts payable	Sinopec Corp, its subsidiaries and jointly controlled enterprises	1,998,915	1,541,493
Accounts payable	Sinopec Group and its subsidiaries	4,139	20,942
Accounts payable	Associates of the Company	164,957	116,447
Accounts payable	Jointly controlled enterprises of the Company	36,812	42,362
Other payables	Sinopec Corp, its subsidiaries and jointly controlled enterprises	6,859	16,199
Other payables	Sinopec Group and its subsidiaries	5,655	19,739
Other payables	Associates of the Company	7	8,786
Advances from customers	Sinopec Corp, its subsidiaries and jointly controlled enterprises	22,042	31,099
Advances from customers	Sinopec Group and its subsidiaries	287	1,007
Advances from customers	Associates of the Company	3,195	2,917
Short-term loans	Subsidiaries of Sinopec Group	660,000	410,000

As at 31 December 2011, no bad debt provison was provided for receivables from related parties (2010: RMB nil).

6. Related party relationships and transactions (continued)

(6) Balance of receivables and payables with related parties (continued)

The Company

Expressed in thousands of Renminbi Yuan

Items	Related Parties	2011	2010
Bills receivable	Sinopec Corp, its subsidiaries and jointly controlled enterprises	99,269	20,000
Bills receivable	Subsidiaries of the Company	-	30,950
Accounts receivable	Sinopec Corp, its subsidiaries and jointly controlled enterprises	390,433	251,530
Accounts receivable	Sinopec Group and its subsidiaries	1,908	854
Accounts receivable	Subsidiaries of the Company	12,107	11,731
Accounts receivable	Associates of the Company	57,212	46,071
Accounts receivable	Jointly controlled enterprises of the Company	21,908	23,092
Dividends receivable	Associates of the Company	-	5,042
Other receivables	Sinopec Corp, its subsidiaries and jointly controlled entities	1,307	8,191
Other receivables	Sinopec Group and its subsidiaries	2	341
Other receivables	Subsidiaries of the Company(Note a)	268	-
Other receivables	Associates of the Company	483	164
Other receivables	Jointly controlled enterprises of the Company	2,065	2,945
Prepayments	Sinopec Corp, its subsidiaries and jointly controlled entities	2,565	31,221
Prepayments	Subsidiaries of the Company	10,127	-
Accounts payable	Sinopec Corp, its subsidiaries and jointly controlled entities	1,985,801	1,533,442
Accounts payable	Sinopec Group and its subsidiaries	4,139	20,942
Accounts payable	Subsidiaries of the Company	769,480	195,282
Accounts payable	Associates of the Company	107,560	97,588
Accounts payable	Jointly controlled enterprises of the Company	36,812	42,362
Other payables	Sinopec Corp, its subsidiaries and jointly controlled entities	6,859	16,199
Other payables	Sinopec Group and its subsidiaries	5,655	19,739
Other payables	Subsidiaries of the Company	580,988	528,551
Other payables	Associates of the Company	7	8,786
Advances from customers	Sinopec Corp, its subsidiaries and jointly controlled entities	22,042	30,940
Advances from customers	Sinopec Group and its subsidiaries	287	1,007
Advances from customers	Subsidiaries of the Company	2,813	3,528
Advances from customers	Associates of the Company	3,171	2,893
Short-term loans	Subsidiaries of Sinopec Group	660,000	210,000

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

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

The Company *(continued)*

(a) For the year ended 31 December 2011, an accumulated bad debt provision provided for other receivables due from Jinyong, the Company's consolidated subsidiary, amounting to RMB 673,532,000, was included in the above balance of other receivables due from subsidiaries (2010: RMB 431,150,000). The Company provided a full bad debt provision based on the reasons stated in Note 11 (4)(c). No provision was recognised for other receivables due from other related parties.

(7) Commitments with related parties

The Group and the Company

Expressed in thousands of Renminbi Yuan

Item	Related Parties	2011	2010
Construction and installation cost	Sinopec Group and its subsidiaries	408,664	6,608

Except for the above, the Group and the Company had no other material commitments with related parties at 31 December, which are contracted, but not included in the financial statements.

7. Contingencies

(1) Contingent liabilities resulted from guarantees provided to others and their financial impact

The Company

Expressed in thousands of Renminbi Yuan

Items	2011	2010
Guarantees issued to financial institutions in favour of:		
- A subsidiary	-	200,000
Total	-	200,000

As at 31 December 2010, the Company issued guarantees in relation to loans amounting to RMB 200,000,000 drawn down by a consolidated subsidiary which expired on 26 May 2011.

7. Contingencies *(continued)*

(2) Income tax differences

In June 2007, the State Administrative of Taxation issued a tax circular (Circular No.664) to the local tax authorities requesting the relevant local tax authorities to rectify the applicable enterprise income tax ("EIT") for nine listed companies, which included the Company. After the notice was issued, the Company was required by the relevant tax authority to settle the EIT for 2007 at a rate of 33 percent. To date, the Company has not been requested by the tax authorities to pay additional EIT in respect of any years prior to 2007. There is no further development of this matter during the year ended 31 December 2011. No provision has been made in the financial statements at 31 December 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

Item	2011	2010
Purchases of fixed assets contracted but not provided for	2,817,581	887,928
Purchases of fixed assets authorised by the Board but not contracted for	2,708,271	6,110,386
Total	5,525,852	6,998,314

At 31 December 2011, the Group did not have material operating lease commitments.

9. Post balance sheet events

(1) Profit appropriation after balance sheet date

Expressed in thousands of Renminbi Yuan

Profit or dividend to be appropriated	Note(a)	360,000

(a) Dividends of ordinary shares proposed after the balance sheet date

The Board of Directors proposed on 29 March 2012, the appropriation of a cash dividend of RMB 0.05 per share (2010: RMB 0.10 per share) to the Company's ordinary shareholders, totalling RMB 360,000,000 (2010: RMB 720,000,000). The proposal is subject to the approval by the Annual General Meeting. Such cash dividend has not been recognised as a liability at the balance sheet date.

10. Other important matters

(1) Segment reporting

Segment information is presented in respect of the Group's business segments, the format of which is based on the Group's management and internal reporting structure.

In 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 (2010: four). No operating segments have been aggregated to form the following reportable segments.

The Group evaluates the performance and allocates resources to its operating segments on an operating income basis, without considering the effects of finance expenses, investment income, non-operating income and non-operating expenses. The accounting policies adopted by the operating segments are the same with the policies in Note 2. The transfer price of intersegment is recongnised with cost plus profit method.

10. Other important matters *(continued)*

(1) Segment reporting *(continued)*

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

The Group principally operates in 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 year ended 31 December 2011, the trading of petrochemical products segment is identified as a reportable segment and the corresponding information for the year ended 31 December 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.

10. Other important matters *(continued)*

(1) Segment reporting *(continued)*

(iv) The Group's petroleum products segment has crude oil distillation facilities used to produce vacuum and atmospheric gas oils used as 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.

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 properties and related revenues (such as investment income and interest income), interest-bearing loans, interest expenses, and corporate assets and expenses.

10. Other important matters *(continued)*

(1) Segment reporting *(continued)*

(a) Segment results, assets and liabilities

Expressed in thousands of Renminbi Yuan

	2011	2010
		(Restated)
Operating income		
Synthetic fibres		
External sales	4,198,251	3,955,396
Intersegment sales	118	82
Sub-total	4,198,369	3,955,478
Resins and plastics		
External sales	16,589,438	15,065,276
Intersegment sales	136,352	118,699
Sub-total	16,725,790	15,183,975
Intermediate petrochemicals		
External sales (Note (i))	19,242,850	17,399,592
Intersegment sales (Note (ii))	19,498,129	18,583,283
Sub-total	38,740,979	35,982,875
Petroleum products		
External sales(Note (i))	42,896,821	33,734,607
Intersegment sales	5,156,614	2,678,172
Sub-total	48,053,435	36,412,779
Trading of petrochemical products		
External sales(Note (i))	11,620,440	6,567,757
Intersegment sales	3,385,692	1,878,590
Sub-total	15,006,132	8,446,347
Others		
External sales(Note (i))	1,053,448	868,559
Intersegment sales	814,281	688,715
Sub-total	1,867,729	1,557,274
Elimination of intersegment sales	-28,991,186	-23,947,541
Total	95,601,248	77,591,187

(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 (2010:51%).

10. Other important matters *(continued)*

(1) Segment reporting *(continued)*

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

(ii) The sales of the intermediate petrochemicals segment to other segments are as follows:

Expressed in thousands of Renminbi Yuan

	2011	2010
Synthetic fibres	3,160,141	3,366,715
Resins and plastics	16,037,690	14,938,149
Petroleum products	300,298	278,419
Total	19,498,129	18,583,283

Expressed in thousands of Renminbi Yuan

	2011	2010
		(Restated)
Operating expenses		
Synthetic fibres	3,895,752	3,514,964
Resins and plastics	16,572,844	14,072,745
Intermediate petrochemicals	18,130,905	17,026,194
Petroleum products	43,351,809	32,592,086
Trading of petrochemical products	11,605,471	6,553,672
Others	1,010,972	846,922
Total	94,567,753	74,606,583
Operating profit ("-" represents loss)		
Synthetic fibres	302,499	440,432
Resins and plastics	16,594	992,531
Intermediate petrochemicals	1,111,945	373,398
Petroleum products	-454,988	1,142,521
Trading of petrochemical products	14,969	14,085
Others	42,476	21,637
Total segment profit	1,033,495	2,984,604
Financial income ("-" represents expenses)	83,542	-95,219
Add:Investment income	143,340	651,503
Operating profit	1,260,377	3,540,888
Non-operating income	91,894	49,354
Non-operation expenses	-59,980	-136,498
Profit before income tax	1,292,291	3,453,744
Income tax expense	-317,461	-724,652
Net profit	974,830	2,729,092

10. Other important matters *(continued)*

(1) Segment reporting *(continued)*

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

Expressed in thousands of Renminbi Yuan

	2011	2010
		(Restated)
Assets		
Synthetic fibres	1,649,234	1,333,295
Resins and plastics	1,193,992	1,475,329
Intermediate petrochemicals	6,666,002	7,010,751
Petroleum products	14,483,951	11,739,532
Trading of petrochemical products	547,692	538,498
Others	2,240,767	2,049,088
Total segment assets	26,781,638	24,146,493
Long-term equity investments	3,101,305	3,526,290
Unallocated	1,227,142	1,485,321
Total assets	31,110,085	29,158,104
Liabilities		
Segment Liabilities		
Synthetic fibres	240,037	233,051
Resins and plastics	948,510	887,641
Intermediate petrochemicals	1,100,221	1,025,178
Petroleum products	3,875,716	3,341,120
Trading of petrochemical products	411,433	421,043
Others	60,232	17,103
Total segment liabilities	6,636,149	5,925,136
Short-term loans	5,512,074	3,295,438
Short-term debentures payable	-	1,000,000
Long-term loans due within one year	-	178,237
Long-term loans	160,050	175,000
Unallocated	419,228	411,400
Total liabilities	12,727,501	10,985,211

10. Other important matters *(continued)*

(1) Segment reporting *(continued)*

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

Expressed in thousands of Renminbi Yuan

	2011	2010
		(Restated)
Depreciation and amortisation		
Synthetic fibres	222,234	226,951
Resins and plastics	351,081	351,670
Intermediate petrochemicals	583,402	586,734
Petroleum products	337,724	358,105
Trading of petrochemical products	601	830
Others	163,195	166,630
Total segment depreciation and amortisation	1,658,237	1,690,920
Unallocated	13,250	13,256
Total Depreciation and amortisation	1,671,487	1,704,176
Impairment losses on fixed assets		
Synthetic fibres	-	92,000
Resins and plastics	-	26,300
Intermediate petrochemicals	10,552	119,900
Total impairment losses on fixed assets impairment	10,552	238,200
Capital expenditures for segment long-lived assets		
Synthetic fibres	549,058	154,149
Resins and plastics	72,571	15,179
Intermediate petrochemicals	298,880	197,774
Petroleum products	2,212,855	825,494
Others	347,871	164,249
Total capital expenditures for segment long-lived assets	3,481,235	1,356,845

10. Other important matters *(continued)*

(1) Segment reporting *(continued)*

(b) Geographic information

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

(2) Financial Risk Management

Overview

The Group has exposure to the following risks from its use of financial instruments in the normal course of the Group's operations, which mainly include:

- credit risk;
- liquidity risk;
- interest rate risk; and
- foreign currency 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 aims to seek the appropriate balance between the risks and benefits from its use of financial instruments and to mitigate the adverse effects that the risks of financial instruments have on the Group's financial performance. Based on such objectives, the Group's 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 cash at bank, receivables from customers and etc. The carrying amount of accounts receivable, bills receivable, other receivables and entrusted loans represent the Group's maximum exposure to credit risk in relation to financial assets. Exposure to these credit risks are monitored by management on an ongoing basis.

The cash at bank of the Group is mainly held with well-known financial institutions. Bills receivables were accepted by financial instituations with good credit. Management does not foresee any significant credit risks from these deposits and does not expect that these financial institutions may default and cause losses to the Group.

10. Other important matters *(continued)*

(2) Financial Risk Management *(continued)*

(a) Credit risk *(continued)*

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

(b) Liquidity risk

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

At 31 December 2011, the Group's current liabilities exceeded its current assets by RMB 2,606,018,000 (31 December 2010:RMB 2,041,384,000). For the year ended 31 December 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 31 December 2011, the Group has standby credit facilities with several PRC financial institutions which provide the Group to borrow up to RMB 10,400,000,000 (31 December 2010: RMB 9,300,000,000) on an unsecured basis. At 31 December 2011, the Group's outstanding borrowings under these facilities were RMB 1,252,381,000 (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 31 December 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.

10. Other important matters *(continued)*

(2) Financial Risk Management *(continued)*

(b) Liquidity risk *(continued)*

The following table sets out the remaining contractual maturities at the balance sheet dates of the Group's financial assets and 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	2011 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	91,346	-	-	91,346	91,346
Bills receivable	3,131,579	-	-	3,131,579	3,131,579
Accounts receivable and other receivables	656,900	-	-	656,900	656,900
Entrusted loans due with one year	87,392	-	-	87,392	86,000
Sub-total	3,967,217	-	-	3,967,217	3,965,825
Financial liabilities:					
Short-term loans	-5,685,834	-	-	-5,685,834	-5,512,074
Bills payable	-15,688	-	-	-15,688	-15,688
Accounts payable and other payables	-5,451,116	-	-	-5,451,116	-5,451,116
Long-term loans	-9,054	-133,393	-41,486	-183,933	-160,050
Sub-total	-11,079,194	-133,393	-41,486	-11,254,073	-11,138,928
Net amount	-7,111,977	-133,393	-41,486	-7,286,856	-7,173,103

10. Other important matters *(continued)*

(2) Financial Risk Management *(continued)*

(b) Liquidity risk *(continued)*

Expressed in thousands of Renminbi Yuan

Items	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
Entrusted Loans due within one year	46,389	-	-	46,389	46,000
Long-term receivables	675	30,675	-	31,350	30,000
Sub-total	3,000,787	30,675	-	3,031,462	3,029,723
Financial liabilities:					
Short-term loans	-3,380,797	-	-	-3,380,797	-3,295,438
Bills payable	-41,034	-	-	-41,034	-41,034
Accounts payable and other payables	-4,157,591	-	-	-4,157,591	-4,157,591
Short-tem debentures payable	-1,032,700	-	-	-1,032,700	-1,000,000
Non-current 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	-5,804,062	21,288	-184,387	-5,967,161	-5,817,577

10. Other important matters *(continued)*

(2) Financial Risk Management *(continued)*

(c) 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), (26), (27) and (28). The Group determines the appropriate weightings of the fixed and floating rate interest-bearing instruments based on the current market conditions and performs regular reviews and monitoring to achieve an appropriate mix of fixed and floating rate exposure.

As at 31 December 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 year and retained earnings by approximately RMB 35,185,000 (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) 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) and as below, the amounts of other financial assets and liabilities of the Group are substantially denominated in the functional currency of respective entities within the Group.

Included in 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	2011	2010
Loans and borrowings denominated in US Dollars	733,637	381,935

The following are the exchange rates for Renminbi against foreign currencies applied by the Group:

Item	Weighted average exchange rate		Middle exchange rate at the balance sheet date	
	2011	2010	2011	2010
USD	6.4618	6.7255	6.3009	6.6227

10. Other important matters *(continued)*

(2) Financial Risk Management *(continued)*

(d) Currency risk *(continued)*

A 5 percent strengthening / weakening of USD against Renminbi at 31 December 2011 would have decreased/increased net profit for the year and retained earnings of the Group by approximately RMB 173,347,000 (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.

(e) 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 31 December 2011, the debt-to-equity ratio and the liability-to-asset ratio of the Group were 31.32% (2010: 25.95%) and 40.91% (2010: 37.67%) respectively.

The schedule of the contractual maturities of loans and commitments are disclosed in Note 5(18), (26), (27), (28) and 8, respectively.

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

10. Other important matters *(continued)*

(2) Financial Risk Management *(continued)*

(f) Fair value

(i) 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 31 December 2011 and 31 December 2010.

Expressed in thousands of Renminbi Yuan

Item	2011		2010	
	Carrying amount	Fair Value	Carrying amount	Fair Value
Liabilities				
Long-term bank loans	160,050	158,721	275,000	273,777

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 5.90% to 6.21% (2010: 5.23% to 5.60%).

The fair values of the Group's financial assets and liabilities, except the items mentioned above, are not materially different from their carrying amounts.

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.

10. Other important matters *(continued)*

(3) Financial assets and liabilities denominated in foreign currency

Expressed in thousands of Renminbi Yuan

Items	Note	Balance at 1 January 2011	Changes in fair value for the year	Cumulative changes in fair value recognised directly in equity	Provision for impairment for the year	Balance at 31 December 2011
Financial assets						
1. Cash at bank and on hand		12,998	-	-	-	3,063
Sub-total		12,998				3,063
Financial liabilities	(a)	2,529,441				4,622,573

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

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

(1) Cash at bank and on hand

Expressed in thousands of RMB/USD/HKD/CHF

Items	2011			2010		
	Original currency	Exchange rate	RMB	Original currency	Exchange rate	RMB
Cash on hand:						
Renminbi	—	—	34	—	—	52
Deposits with banks:						
Renminbi	—	—	59,342	—	—	76,478
HKD	825	0.8107	669	13,771	0.8509	11,718
USD	14	6.3009	89	22	6.6227	146
Other monetary funds: (Note)						
CHF	138	6.7085	923	118	7.0562	830
Total	—	—	61,057	—	—	89,224

Note: Other monetary funds represent deposit in credit cards.

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

(2) Bills receivable

(a) Bills receivable by category

Expressed in thousands of Renminbi Yuan

Items	2011	2010
Bank acceptance bills	2,936,348	1,879,316
Commercial acceptance bills	4,900	8,100
Total	2,941,248	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 year ended 31 December 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 31 December 2011, the Company's discounted bank bills, and commercial bills (with recourse) amounted to RMB nil (2010: RMB nil).

At 31 December 2011, the Company's endorsed bank bills and commercial bills amounted to RMB nil (2010: RMB nil).

(3) Accounts receivable

(a) Accounts receivable by customer type:

Expressed in thousands of Renminbi Yuan

Customer Type	Note	2011	2010
Amounts due from related parties	6(6)	483,568	333,278
Amounts due from third parties		55,950	18,419
Less: Provision for bad and doubtful debts		-1,369	-4,370
Total		538,149	347,327

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

(3) Accounts receivable *(continued)*

(b) Accounts receivable by ageing:

Expressed in thousands of Renminbi Yuan

Type	2011	2010
Within one year (inclusive)	537,951	347,315
Over one year but within two years (inclusive)	278	11
Over two years but within three years (inclusive)	8	11
Over three years	1,281	4,360
Less: Provision for bad and doubtful debts	-1,369	-4,370
Total	538,149	347,327

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

(c) Accounts receivable by category:

Expressed in thousands of Renminbi Yuan

Category	2011				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 (inclusive)	537,951	99.71	-	-	347,315	98.75	-	-
Over one year but within two years (inclusive)	278	0.05	84	30.22	11	0.00	3	27.27
Over two years but within three years (inclusive)	8	0.00	4	50.00	11	0.00	7	63.64
Over three years	1,281	0.24	1,281	100.00	4,360	1.25	4,360	100.00
Total	539,518	100.00	1,369	—	351,697	100.00	4,370	—

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

During the year, the Company assessed the impairment on an individual basis in accordance with the accouting 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 31 December 2011, the Company had no individually significant accounts receivables that aged over three years.

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

(3) Accounts receivable *(continued)*

(d) Accounts receivable due from the five largest customers of the Company are as follows:

Expressed in thousands of Renminbi Yuan

Company's name	Relationship with the Company	Amount	Ageing	Percentage of total accounts receivable (%)
Sinopec Huadong Sales Company Limited	Subsidiary of Sinopec Corp	360,941	Due within one year	66.90
Shanghai Secco Petrochemical Company Limited	Associate	51,150	Due within one year	9.48
Shanghai Pudong International Airport Jet Oil Company Limited	Third party	22,973	Due within one year	4.26
China Jet Oil Company Limited Shanghai Branch	Third party	21,912	Due within one year	4.06
BOC-SPC Gases Company Limited	Jointly controlled enterprise	21,908	Due within one year	4.06
Total		478,884		88.76

(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

Customer Type	2011	2010
Amounts due from related parties	677,657	442,791
Amounts due from third parties	7,360	9,270
Less: Provision for bad and doubtful debts	-674,425	-433,411
Total	10,592	18,650

11. 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	2011	2010
Within one year (inclusive)	252,856	68,802
Over one year but within two years (inclusive)	50,621	98,283
Over two years but within three years (inclusive)	97,850	262,750
Over three years	283,690	22,226
Less: Provision for bad and doubtful debts	-674,425	-433,411
Total	10,592	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	2011				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	673,532	98.32	673,532	100.00	431,150	95.37	431,150	100.00
Other receivables collectively assessed for impairment								
Within one year (inclusive)	10,478	1.53	-	-	18,202	4.03	-	-
Over one year but within two years (inclusive)	17	-	5	29.41	433	0.10	98	22.63
Over two years but within three years (inclusive)	-	-	-	-	50	0.01	46	92.00
Over three years	990	0.15	888	89.70	2,226	0.49	2,117	95.10
Sub-total	11,485	1.68	893	7.78	20,911	4.63	2,261	10.81
Total	685,017	100.00	674,425	—	452,061	100.00	433,411	—

During the year, 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 673,532,000 for the other receivables due from its consolidated subsidiary, Jinyong (2010: RMB 431,150,000). The increase in other receivables was attributable to a debt due from Jinyong arising from the Company's fulfillment of guarantee obligation to repay the bank loans of RMB 200,000,000 due from Jinyong, which were due in May 2011. Jinyong has periodically suspended its operations since August 2008 and has maintained such status under the current circumstance. 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 years. At 31 December 2011, the Company recognised a full bad debt provision on the individually significant other receivables that aged over three years.

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

(4) Other receivables *(continued)*

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

Expressed in thousands of Renminbi Yuan

Company's name	Relationship with the Company	Amount	Ageing	Percentage of total accounts receivable(%)
Zhejiang Jinyong Acrylic Fibre Company Limited	Subsidiary	673,532	Due within three years	98.32
BOC-SPC Gases Company Limited	Jointly controlled enterprise	2,065	Due within one year	0.30
Shanghai Railway Bureau, Hangzhou North Depot	Third party	1,166	Due within one year	0.17
Shanghai Bozhan Industry Company Limited	Third party	888	Due within one year	0.13
Shanghai Yali Development Company Limited	Third party	825	Due within one years	0.12
Total		678,476		99.04

(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	2011			2010		
	Cost	Provision for diminution in value	Carrying amount	Cost	Provision for diminution in value	Carrying amount
Raw materials	1,926,576	-	1,926,576	2,498,028	-	2,498,028
Work in progress	1,962,208	-	1,962,208	1,406,264	-	1,406,264
Finished goods	1,160,348	123,663	1,036,685	784,425	36,639	747,786
Spare parts and consumables	375,172	18,756	356,416	476,347	18,389	457,958
Total	5,424,304	142,419	5,281,885	5,165,064	55,028	5,110,036

All the above inventories are purchased or self-manufactured.

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

(5) Inventories *(continued)*

(b) Provision for diminution in value of inventories

Expressed in thousands of Renminbi Yuan

Items	At 1 January 2011	Provision for the year	Decrease during the year Write-off	At 31 December 2011
Finished goods	36,639	147,707	-60,683	123,663
Spare parts and consumables	18,389	124,468	-124,101	18,756
Total	55,028	272,175	-184,784	142,419

(6) Other current assets

Expressed in thousands of Renminbi Yuan

Items	2011	2010
Deductible value added tax	26,156	-
Current portion of long-term deferred expenses	29,765	21,729
Total	55,921	21,729

(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 of investments accounted for under equity method	64,217	29,837	-	94,054	-	94,054
Dividends receivable/received	-542,634	-24,000	-	-566,634	-	-566,634
Balance at 31 December 2011	2,626,393	124,013	1,582,788	4,333,194	-227,500	4,105,694

(i) As at 31 December 2011, the Company made cumulative impairment losses of RMB 227,500,000 for the long-term equity investment in its consolidated subsidiary, Jinyong (2010: RMB 227,500,000). The Company provided a full provision for the investment in Jinyong based on the reasons disclosed in Note 11(4(c)).

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

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

(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 properties

Expressed in thousands of Renminbi Yuan

Items	Buildings
Original cost	
At the beginning of the year	615,334
Transferred to fixed assets	-68,922
At the end of the year	546,412
Accumulated depreciation	
At the beginning of the year	90,774
Charge for the year	14,922
Transferred to fixed assets	-11,839
At the end of the year	93,857
Carrying amount	
At the end of the year	452,555
At the beginning of the year	524,560

Depreciation charged for the year on the investment properties of the Company amounted to RMB 14,922,000 (2010: RMB 14,922,000).

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

(9) Fixed assets

(a) Fixed assets

Expressed in thousands of Renminbi Yuan

Items	Buildings	Plant and machinery	Vehicles and other equipment	Total
Original Cost				
Balance at the beginning of the year	4,815,596	24,539,165	6,623,024	35,977,785
Additions for the year	-	87,058	55,792	142,850
Transferred from construction in progress	12,221	340,833	27,671	380,725
Transferred from investment properties	68,922	-	-	68,922
Disposal during the year	-3,175	-263,286	-73,211	-339,672
Balance at the end of the year	4,893,564	24,703,770	6,633,276	36,230,610
Accumulated depreciation				
Balance at the beginning of the year	3,281,653	14,329,469	4,632,302	22,243,424
Depreciation charge for the year	131,057	1,182,778	276,575	1,590,410
Transferred from investment properties	11,839	-	-	11,839
Written back on disposal	-2,436	-235,792	-70,781	-309,009
Balance at the end of the year	3,422,113	15,276,455	4,838,096	23,536,664
Provision for impairment losses				
Balance at the beginning of the year	59,760	467,652	30,102	557,514
Additions for the year	542	8,629	1,381	10,552
Written back on disposal	-49	-10,444	-99	-10,592
Balance at the end of the year	60,253	465,837	31,384	557,474
Carrying amount				
Balance at the end of the year	1,411,198	8,961,478	1,763,796	12,136,472
Balance at the beginning of the year	1,474,183	9,742,044	1,960,620	13,176,847

Depreciation charged for the year amounted to RMB 1,590,410,000 (2010: RMB 1,623,837,000).

Construction in progress amounting to RMB 380,725,000 (2010: RMB 428,894,000) were transferred to fixed assets during the year.

For the information of the provision for impairment losses, see note 5(12)(c).

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

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

(10) Construction in progress

Expressed in thousands of Renminbi Yuan

Projects	2011		
	Original cost	Provision for impairment	Carrying amount
The Refinery Revamping and Expansion Project	2,687,879	-	2,687,879
The Carbon Fiber Project with a capacity of 1,500 tons/year	366,841	-	366,841
The Up-grading Project for the Optimisation of the System and Reduction in Energy and Feedstock Consumption of the 2# Oxidation Unit (PTA Plant)	176,134	-	176,134
5# 6# Furnace Secondary Desulfurization Project for Department of Thermoelectric	30,468	-	30,468
Numerous small projects of Synthetic Fibres segment	143,376	-	143,376
Numerous small projects of Resins and Plastics segment	16,245	-	16,245
Numerous small projects of Intermediate Petrochemicals segment	148,300	-	148,300
Numerous small projects of Petroleum Products segment	67,656	-	67,656
Numerous small projects of all others	175,323	-	175,323
Total	3,812,222	-	3,812,222

Expressed in thousands of Renminbi Yuan

Projects	2010		
	Original cost	Provision for impairment	Carrying amount
The Refinery Revamping and Expansion Project	714,513	-	714,513
The Up-grading Project for the Optimisation of the System and Reduction in Energy and Feedstock Consumption of the 2# Oxidation Unit (PTA Plant)	57,416	-	57,416
The Carbon Fiber Project with a capacity of 1,500 tons/year	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

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

(11) Intangible assets

Expressed in thousands of Renminbi Yuan

Items	Land use rights
Cost	
Balance at the beginning and the end of the year	650,642
Accumulated amortisation	
Balance at the beginning of the year	218,224
Charge for the year	13,031
Balance at the end of the year	231,255
Net book value	
Balance at the end of the year	419,387
Balance at the beginning of the year	432,418

Amortisation charged for the year amounted to RMB 13,031,000 (2010: RMB 13,032,000).

(12) Long-term deferred expenses

Expressed in thousands of Renminbi Yuan

Item	Balance at the beginning of the year	Additions for the year	Amortisation charge for the year	Reclassification to other current assets	Balance at the end of the year
Catalysts	260,956	203,389	-128,528	-29,765	306,052

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

(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	2011		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	144,681	36,170	61,660	15,415
Impairment losses on fixed assets	449,188	112,297	557,514	139,379
Contribution by fixed assets and sales of assets to a jointly controlled enterprise	33,272	8,318	36,777	9,194
Deductible tax losses	1,496,744	374,186	2,606,114	651,529
Specific reserve accrued	14,272	3,568	43,380	10,845
Other deferred tax assets	33,598	8,400	29,244	7,311
Sub-total	2,171,755	542,939	3,334,689	833,673
Offsetting amount	-81,580	-20,395	-93,790	-23,448
After offsetting	2,090,175	522,544	3,240,899	810,225
Deferred tax liabilities:				
Capitalisation of borrowing costs	-81,580	-20,395	-93,790	-23,448
Offsetting amount	81,580	20,395	93,790	23,448
After offsetting	-	-	-	-

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

(13) Deferred tax assets *(continued)*

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

Expressed in thousands of Renminbi Yuan

Items	Balance at 1 January 2011	Current year increase charged to profit or loss ("-" represents decrease)	Balance at 31 December 2011
Deferred tax assets:			
Provision for bad debt and inventories	15,415	20,755	36,170
Impairment losses on fixed assets	139,379	-27,082	112,297
Contribution by fixed assets and sales of assets to a jointly controlled enterprise	9,194	-876	8,318
Deductible tax losses	651,529	-277,343	374,186
Specific reserve accrued	10,845	-7,277	3,568
Other deferred tax assets	7,311	1,089	8,400
Capitalisation of borrowing costs	-23,448	3,053	-20,395
Total	810,225	-287,681	522,544

(c) Deferred tax assets not recognised

Expressed in thousands of Renminbi Yuan

Item	Note	2011	2010
Impairment losses for long-term equity investment	(i)	227,500	227,500

(i) As stated in Note 11 (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 (2010: RMB 227,500,000).

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

(14) Movement of provision for impairment

Expressed in thousands of Renminbi Yuan

Items	Note	At 1 January 2011	Additions	Decreases		At 31 December 2011
				Reversal	Write-off	
Accounts receivable	11(3)	4,370	-	-1,826	-1,175	1,369
Other receivables	11(4)	433,411	242,382	-591	-777	674,425
Inventories	11(5)	55,028	272,175	-	-184,784	142,419
Long-term equity investments	11(7)	227,500	-	-	-	227,500
Fixed assets	11(9)	557,514	10,552	-	-10,592	557,474
Total		1,277,823	525,109	-2,417	-197,328	1,603,187

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

(15) Short-term loans

(a) Short-term loans by category

Expressed in thousands of Renminbi Yuan

Items	2011	2010
Credit loans		
- Bank loans	4,866,574	2,906,438
- Loans from related party	660,000	210,000
Total	5,526,574	3,116,438

At 31 December 2011, the weighted average interest rate of the Company's short-term loans was 2.69% (2010: 2.26%).

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

(16) Bills payable

Expressed in thousands of Renminbi Yuan

Item	2011	2010
Commercial acceptance bills	15,688	41,034

The above bills are due within one year.

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

(17) Taxes payable

Expressed in thousands of Renminbi Yuan

Items	2011	2010
Value added tax	-	436,969
Business tax	1,502	1,599
Consumption tax	413,431	458,600
Education surcharge	20,549	26,827
City maintenance and construction tax	28,769	62,596
Others	17,603	26,929
Total	481,854	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	2011	2010
Long-term loans due within one year - credit loans	45,000	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 31 December 2011	At 31 December 2010
1.China Construction Bank, Jinshan Branch	2008.11.27	2011.11.25	RMB	5.103	-	50,000
2.China Construction Bank, Jinshan Branch	2008.12.25	2011.11.25	RMB	5.103	-	50,000
3.Industrial and Commercial Bank of China, Jinshan Branch	2009.04.30	2012.04.28	RMB	2.250	45,000	-
Total					45,000	100,000

(19) Long-term loans

(a) Long-term loans by category

Expressed in thousands of Renminbi Yuan

Item	2011	2010
Credit loans	135,000	220,000

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

(19) Long-term loans

(b) The details of long-term loans as at 31 December 2011 is as follows:

Expressed in thousands of Renminbi Yuan

Creditors	Starting date	Ending date	Currency	Interest rate (%)	At 31 December 2011	At 31 December 2010
1. Industrial and Commercial Bank of China, Jinshan Branch	2008.11.27	2013.11.25	RMB	5.364	50,000	75,000
2. Industrial and Commercial Bank of China, Jinshan Branch	2008.12.25	2013.11.25	RMB	5.364	75,000	100,000
3. Industrial and Commercial Bank of China, Jinshan Branch	2009.04.30	2012.04.28	RMB	2.250	-	45,000
4. Industrial and Commercial Bank of China, Jinshan Branch	2011.12.27	2016.12.14	RMB	6.210	10,000	-
Total					135,000	220,000

(20) Specific reserve

Expressed in thousands of Renminbi Yuan

Item	At 1 January 2011	Accrual	Utilised	At 31 December 2011
Safety production costs	43,380	117,960	-147,068	14,272

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

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

(21) Operating income and operating costs

(a) Operating income, operating costs

Expressed in thousands of Renminbi Yuan

Items	2011	2010
Income from principal operations	**80,696,829**	66,631,060
Income from other operations	**515,335**	451,890
Sub-total	**81,212,164**	67,082,950
Operating costs	**70,922,591**	55,526,570

Operating income represents sales of products after deduction of VAT.

(b) The Company mainly operates in the petrochemical industry.

(c) Revenue from sales to the top five customers for 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	36,609,316	45.08
2. China Petroleum & Chemical Corporation	4,787,288	5.89
3. Sinopec Yizheng Chemical Fibre Company Limited	1,630,598	2.01
4. Oriental Petrochemical (Shanghai) Corporation	1,525,943	1.88
5. Jialong Petrochemical Fibre Company Limited	1,367,695	1.68
Total	45,920,840	56.54

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

(22) Business taxes and surcharges

Expressed in thousands of Renminbi Yuan

Items	2011	2010	Tax base
Consumption tax	5,085,746	4,641,710	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	6,749	5,635	5% of income entitled to business tax
City maintenance and construction tax	528,808	541,841	7% of consumption tax, VAT and business tax paid
Education surcharge and others	377,718	232,217	5% of consumption tax, VAT and business tax paid (2010:3%)
Total	5,999,021	5,421,403	—

(23) Financial expenses("-" represents income)

Expressed in thousands of Renminbi Yuan

Items	2011	2010
Interest expenses from loans and payables	229,343	252,171
Less: Borrowing costs capitalised	-30,141	-830
Interest income from deposits and receivables	-89,596	-29,583
Net foreign exchange gain	-185,345	-143,226
Others	3,095	6,419
Total	-72,644	84,951

(24) Impairment losses ("-" represents reversals)

Expressed in thousands of Renminbi Yuan

Items	2011	2010
Accounts receivable	-1,826	-3,279
Other receivables	241,791	46,476
Inventories	272,175	199,966
Fixed assets	10,552	238,200
Total	522,692	481,363

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

(25) Investment income

(a) Investment income by category:

Expressed in thousands of Renminbi Yuan

Items	Note	2011	2010
Long-term equity investment income accounted for under the cost method	(b)	8,080	127,406
Long-term equity investment income accounted for under the equity method	(c)	94,054	620,957
Gain on disposal of available-for-sale financial assets		685	215
Total		102,819	748,578

(b) Long-term equity investment income accounted for under the cost method is as follows:

Expressed in thousands of Renminbi Yuan

Investee	2011	2010
Shanghai Petrochemical Investment Development Co., Ltd.	-	120,000
China Jinshan Associate Trading Corporation	8,080	7,406
Total	8,080	127,406

(c) Long-term equity investment income accounted for under equity method is as follows:

Expressed in thousands of Renminbi Yuan

Investee	2011	2010
Shanghai Chemical Industrial Park Development Company Limited	54,425	53,920
BOC-SPC Gases Company Limited	29,837	29,161
Shanghai Secco Petrochemical Company Limited (Note)	9,792	537,876
Total	94,054	620,957

Note: For the year ended 31 December 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.

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

(26) Non-operating income

Expressed in thousands of Renminbi Yuan

Items	2011	2010
Gain on disposal of fixed assets	3,036	2,425
Government grants	76,965	37,131
Others	9,310	9,276
Total	89,311	48,832

(27) Non-operating expenses

Expressed in thousands of Renminbi Yuan

Items	2011	2010
Loss on disposal of fixed assets	14,977	35,963
Landscaping fee	-	50,000
Others	38,347	47,604
Total	53,324	133,567

(28) Income tax expense

Expressed in thousands of Renminbi Yuan

Items	Note	2011	2010
Income tax expenses for the year, calculated in accordance with tax laws and related regulations		-	-
Changes in deferred taxation	(a)	287,681	698,544
Total		287,681	698,544

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

(28) Income tax expense *(continued)*

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

Expressed in thousands of Renminbi Yuan

Items	2011	2010
Profit before taxation	992,244	3,494,022
Expected income tax expense at a rate of 25% (2010: 25%)	248,061	873,506
Add: Tax effect of non-deductible expenses	74,037	15,796
Tax effect of non-taxable income	-5,977	-32,077
Tax effect of share of profit recognised under the equity method	-23,514	-155,239
Others	-4,926	-3,442
Income tax expense	287,681	698,544

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

(29) Supplemental information to the cash flow statement

(a) Supplemental information to the cash flow statement:

Expressed in thousands of Renminbi Yuan

Supplemental information	2011	2010
1. Reconciliation of net profit to cash flows from operating activities:		
Net profit	704,563	2,795,478
Add: Impairment losses	522,692	481,363
Depreciation of investment properties	14,922	14,922
Depreciation of fixed assets	1,590,410	1,623,837
Amortisation of intangible assets	13,031	13,032
Losses on disposal of fixed assets	11,941	33,538
Financial expenses ("-" represents income)	-75,739	78,532
Investment income	-102,819	-748,578
Decrease in deferred tax assets	287,681	698,544
Decrease in inventories ("-" represents increase)	-444,024	1,386,470
Increase in operating receivables	-1,460,428	-1,431,993
Increase in operating payables ("-" represents decrease)	1,172,873	-841,261
Increase in specific reserve ("-" represents decrease)	-29,108	43,380
Net cash inflow from operating activities	2,205,995	4,147,264
2: Net change in cash and cash equivalents:		
Cash and cash equivalents balance at the end of the year	61,057	89,224
Less: cash and cash equivalents balance at the beginning of the year	89,224	101,076
Net decrease in cash and cash equivalent	-28,167	-11,852

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

Expressed in thousands of Renminbi Yuan

Items	2011	2010
1. Cash		
- Cash on hand	34	52
- Bank deposits available on demand	60,100	88,342
- Other monetary fund available on demand	923	830
2. Closing balance of cash and cash equivalents	61,057	89,224

(1) Non-recurring items for the year ended 31 December 2011("-" represents losses):

Expressed in thousands of Renminbi Yuan

Non-recurring items	Amount	Note
Net loss on disposal of non-current assets	-18,006	Net loss on disposal of fixed assets
Employee reduction expenses	-9,758	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)	76,965	Government grants on energy-saving and research and development projects, etc.
Investment income on disposal of available-for-sale financial assets	685	Gain on disposal of a bank financial product
Income from external entrusted loans	1,298	Interest income from external entrusted loans
Other non-operating income and expenses other than those mentioned above	-27,045	Other miscellaneous items
Tax effect for the above items	-7,606	
Effect on minority interests after tax	-484	
Total	16,049	

Note: The non-recurring items are presented in the amount before tax.

(2) The reconciliation between financial statements prepared under 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 the CAS and the IFRS:

Expressed in thousands of Renminbi Yuan

		Net profit attributable to equity shareholders of the Company		Net assets attributable to equity shareholders of the Company	
	Note	2011	2010	2011	2010
Under CAS		944,414	2,703,734	18,112,483	17,913,040
Adjustments:					
Government grants	(i)	29,386	29,386	-183,352	-212,738
Safety production costs	(ii)	-24,971	46,748	-	-
Effects of the above adjustments on taxation		7,277	-10,845	-3,568	-10,845
Under IFRS*		956,106	2,769,023	17,925,563	17,689,457

(2) The reconciliation between financial statements prepared under 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 recoganised in profit or loss when incurred, and property, plant and equipment are depreciated with applicable methods.

* The above figures are extracted from the consolidated financial statements prepared under IFRS, which have been audited by KPMG.

(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:

Net profit during the year	Weighted average return on net assets (%)	Earnings per share	
		Basic (RMB)	Diluted (RMB)
Net profit attributable to equity shareholders of the Company	5.243	0.131	0.131
Net profit attributable to equity shareholders of the Company excluding non-recurring items	5.154	0.129	0.129

Appendix 1 Assessment Report on the Internal Control of Sinopec Shanghai Petrochemical Company Limited for 2011

All members of the Board of Sinopec Shanghai Petrochemical Company Limited (the "Company") warrant that the information contained in this report is true, accurate and complete, and that there are no false representations or misleading statements contained in, or material omissions from, this report.

To: all the shareholders of Sinopec Shanghai Petrochemical Company Limited

The Board of Directors of the Company (the "Board") is accountable for establishing and maintaining an adequate internal control over financial reporting.

It is the responsibility of the Board and the management to establish, improve and effectively implement a sound internal control system. Since 2004, the Company has established and implemented a comprehensive internal control system encompassing decision-making, execution, supervision and assessment.

The internal control of the Company primarily aims to achieve the following basic objectives: (1) To standardise how the Company conducts its business operations and to prevent management risk in operations; to ensure the truthfulness and completeness of financial reports and relevant information; to improve operational efficiency and effectiveness, and to facilitate the implementation of the Company's development strategy; (2) To close loopholes and eliminate potential hazards so as to prevent, detect and correct mistakes and acts of fraud in a timely manner, thereby ensuring the safety and integrity of the Company's assets; (3) To ensure the effective enforcement of relevant State laws and regulations, the Articles of Association of the Company (the "Articles of Association") and internal rules and regulations so as to satisfy the regulatory requirements for listed companies in both domestic and foreign capital markets and to protect the lawful rights and interests of the investors.

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

In establishing an internal control system, the Company has considered five basic elements, namely the internal environment, risk assessments, the control of activities, information and communication, and internal supervision.

1. Internal Environment

   In accordance with the requirements of the modern enterprise system, the Company has established a corporate governance structure comprising general meetings of shareholders, the Board, the supervisory committee and managerial grade staff. In 2011, the Company organised and held the general meeting of shareholders, Board meetings and supervisory committee meetings in strict compliance with the relevant laws and regulations of the places in which the Company's Share are listed and the Articles of Association, and the resolutions made at these meetings were lawful and valid. The Company has continued to push forward the establishment of a corporate culture with core corporate values of "observing responsibilities, abiding by disciplines and being trustworthy"; corporate objectives of "developing the Company, contributing to the State, rewarding shareholders, serving the society and benefiting employees"; and corporate operating principles of "faithfulness and standardisation, cooperation and win-win". We aim to cultivate and guide our entire employees to recognise and observe the vision of the corporate core values, and to promote the sustainable, effective and harmonious development of the Company.

2. Risk Assessments

The Company has established an internal risk assessment mechanism. According to control objectives, the Company collects relevant information in a comprehensive, systematic and continuous manner; identifies and realises controls over internal and external risks relating to relevant objectives; determines the relevant risk tolerance level according to the actual situation; and conducts risk assessment in a timely manner. Various functional departments of the Company and their subordinate units assign relevant personnel to set up a working network in light of the flow of the internal controls in order to conduct analysis regularly and to record the changes relating to potential risks. Internal control procedures can be adjusted in advance or in a timely manner according to the findings of the risk analysis upon the completion of appropriate supervision and authorisation, with all parties affected notified promptly. As such, new or previously un-controlled risks are properly managed.

3. Control of Activities

According to the Company's internal control objectives and in light of the findings of risk assessments, the Company exercises effective control over various businesses and matters by means of the ongoing optimisation of the flow of internal controls, the appointment of the departments responsible for the internal control process and the positions responsible for the control point, urging the personnel to perform internal control duties, regular inspections and tests, the timely rectification and remedy of irregularities,and incorporating internal controls into the day-to-day management of the Company. The Company's Internal Control Manual (2011 edition) contains 47 sets of operational procedures covering 1,413 control points in 20 areas, including financing activities, procurement and production activities, asset management, the sales business, research and development management, construction projects, the guarantee business, business outsourcing, financial reporting, overall budget, contract management, the management of connected party transactions, tax management, human resources, safety and environmental management, product quality management, information resources management, information system management, information disclosure and internal audit.

4. Information and Communication

The Company has established an information and communication system to allocate and manage information resources by department. The Company actively implements informatizational management, and all relevant internal information are centralised and integrated onto the Company's integrated information platform and are shared internally upon authorisation. A system governing information disclosure has been formulated to regulate information disclosures by the Company so as to protect the lawful rights and interests of investors and to ensure that information disclosed in a truthful, accurate, complete, timely and impartial manner, as well as to continue to enhance the transparency of the Company. A system governing investor relations has been established to maintain relationship and communications with shareholders, potential investors, the media and regulatory authorities.

5. Internal Supervision

The Company's internal supervision comprises daily supervision and specific supervision. Daily supervision refers to the Company conducting regular and ongoing supervision and inspection of the status of the establishment and implementation of the internal control system. It covers the entire production and operation process, including the daily management and supervision activities and actions taken by all employees in performing their duties. Specific supervision refers to the supervision and inspection of one or some aspects of the internal control system under circumstances in which there are relatively significant adjustments or changes in development strategies, organisational structure, operating activities, business flows and key personnel of the Company. The scope and frequency of such supervision and inspection depends on the scale of the risks and the effectiveness of the control. A two-tier internal control supervision and inspection mechanism has established for the Company, as well as for various functional departments and their subordinate units. Timely reports are submitted to the Internal Control Office of the Company when internal control defects are detected in the course of supervision. Significant defects and real loopholes in the internal control system are reported to the internal steering committee, the Board and the supervisory committee in succession. The Company has formulated inspection assessment and appraisal methods for internal control. The Company's Internal Control Office conducts a self-assessment of the effectiveness of the internal control system every half-year in according to the findings through internal control supervision, while the Audit Department conducts an independent audit and assessment of the design and effectiveness of the enforcement of internal control and issues a report on the development of the internal control system as well as its enforcement inspection.

The Board conducted an assessment of the internal control system in relation to financial reporting according to the Basic Standards for Corporate Internal Control, concluding that the internal controls as of 31 December 2011 were effective. The Board has determined that the Company's internal control system was integrated, reasonable, and effective through the optimisation of the internal control system from 1 January of the year to the end of this reporting period. Various systems were thoroughly and effectively implemented through the persistent implementation of various internal inspection activities in 2011 with corresponding rectifications and enhancement. The systems also met the requirements for the current management and the development needs of the Company to ensure the orderly operation of the Company, and were capable of further assuring the truthfulness, lawfulness, and completeness of its accounting information to ensure the safety and completeness of the Company's assets as well as achieving the true, accurate, timely and integral disclosure of information, thereby ensuring the open, fair and justified treatment for all of its investors. From 1 January to 31 December 2011, no material deficiencies were detected in the design or enforcement of the internal control of the Company. We did not detect any deficiencies in the internal control unrelated to financial reporting during the internal control self-assessment process.

This report was duly considered and approved at the fifth meeting of the seventh session of the Board on 29 March 2012. The Board and its all members jointly and severally accept responsibility for the truthfulness, accuracy and completeness of the information contained in this report.

As a Chinese company listed on the New York Stock Exchange in the USA, the Company continues to engage KPMG to conduct audits on its internal control over financial reporting of the Company as at 31 December 2011 pursuant to the requirements of the Sarbanes-Oxley Act. In the report (please refer to the Auditor's Report on Internal Control over Financial Reporting according to "Sarbanes-Oxley Act") issued by KPMG on 29 March 2012, KPMG is of the view that, the Company has maintained, in all material respects, effective internal control over financial reporting as at 31 December 2011, based on criteria established in the Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Pursuant to the requirements of the Audit Guidelines for Enterprise Internal Control issued by the Ministry of Finance, KPMG Huazhen, appointed by the Company, conducted an audit on the effectiveness of the internal controls over financial reporting of the Company as at 31 December 2011. In the report (please refer to the Auditor's Report on Internal Control over Financial Reporting according to "Audit Guidelines for Enterprise Internal Control") issued by KPMG Huazhen on 29 March 2012, KPMG Huazhen is of the view that, the Company has maintained, in all material respects, effective internal control over financial reporting as at 31 December 2011 in accordance with the Basic Standards for Enterprise Internal Control and relevant requirements.

Chairman of the Board: Rong Guangdao
Sinopec Shanghai Petrochemical Company Limited
29 March 2012

KPMG

The Board of Directors and Shareholders of Sinopec Shanghai Petrochemical Company Limited:

We have audited Sinopec Shanghai Petrochemical Company Limited's internal control over financial reporting as of December 31, 2011, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Sinopec Shanghai Petrochemical Company Limited's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Sinopec Shanghai Petrochemical Company Limited maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Sinopec Shanghai Petrochemical Company Limited and subsidiaries as of December 31, 2010 and 2011, and the related consolidated statements of income, comprehensive income, equity and cash flows for each of the years in the three-year period ended December 31, 2011, and our report dated March 29, 2012 expressed an unqualified opinion on those consolidated financial statements.

KPMG
Hong Kong, China
March 29, 2012

The Shareholders of Sinopec Shanghai Petrochemical Company Limited:

We have audited the effectiveness of the internal control over financial reporting of Sinopec Shanghai Petrochemical Company Limited ("the Company") as at 31 December 2011 in accordance with the Audit Guidelines for Enterprise Internal Control and the revelant requirements of the Professional Standards for China's Certified Public Accountants.

1. The Company's responsibility for internal control

The Company's Board of Directors is responsible for establishing sound internal control, implementing such internal control effectively, and assessing its effectiveness in accordance with the Basic Standards for Enterprise Internal Control, the Implementation Guidelines for Enterprise Internal Control and the Assessment Guidelines for Enterprise Internal Control.

2. Auditor's responsibility

Our responsibility is to express an audit opinion on the effectiveness of internal control over financial reporting based on our audit and to describe material deficiencies in internal controls unrelated to financial reporting that have come to our attention.

3. Inherent limitations of internal controls

Because of its inherent limitations, internal control may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

4. Audit opinion on internal control over financial reporting

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as at 31 December 2011 in accordance with the Basic Standards for Enterprise Internal Control and relevant requirements.

KPMG Huazhen

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

Yu Xiaojun

Cheng Yujing

Beijing, the People's Republic of China

29 March 2012

(If there is any conflict of meaning between the Chinese version and English translation, the Chinese version will prevail.)

Appendix 4 Report on Fulfillment of Corporate Social Responsibility of Sinopec Shanghai Petrochemical Company Limited for 2011

The Board of Directors (the "Board") of Sinopec Shanghai Petrochemical Company Limited and all members of the Board warrant that there are no false representations or misleading statements contained in, or material omissions from, this report, and severally and jointly accept full responsibility for the truthfulness, accuracy and completeness of the information contained herein.

Located at Jinshanwei, Jinshan District of Shanghai and occupying an area of 9.4 sq. km, Sinopec Shanghai Petrochemical Company Limited ("SPC" or the "Company"), a refining-chemical integrated petrochemical enterprise, is an important base for the development of the modern petrochemical industry of the People's Republic of China ("PRC"). The Company produces more than 60 kinds of products categorized into four main categories, namely petroleum products, intermediate petrochemicals, synthetic resins and plastics, synthetic fibre monomers and polymers as well as synthetic fibres.

SPC takes "developing the company, contributing to the State, rewarding the shareholders, serving the society and benefiting employees" as its corporate objectives, building a "domestically advanced and internationally first-class" refining-chemical intergrated company as its ultimate target, and "faithfulness and standardization, cooperation and win-win" as its corporate operating principles. As one of the first batch of pilot enterprises having carried out standardized State owned enterprises restructuring in 1993 and since the Company was listed concurrently in Shanghai, Hong Kong and New York, its production and operation scale has been expanding from time to time so as to supply the society with quality products. At the same time, the Company has abided by its corporate goal and earnestly fulfilled its social responsibilities. It emphasizes the importance of production safety, resources conservation, environment protection and care for its employees. By supporting public welfare and charities, helping and bring along the regional economic development, the Company strives for a sustainable development with the society and the environment.

The Report on Fulfillment of Corporate Social Responsibility of Sinopec Shanghai Petrochemical Company Limited for 2011 (the "Report") reflects a proactive fulfillment of its social responsibilities towards its stakeholders including shareholders, creditors, employees, suppliers and customers as well as the society in the course of conducting its production and business operations in 2011. The Report was prepared in accordance with the relevant laws and regulations such as the PRC Company Law, the PRC Securities Law and the Guidance on Environment Information Disclosure by Listed Companies on the Shanghai Stock Exchange, together with a due consideration to the actual circumstances of the Company.

I. Protecting the Interests of Shareholders and Creditors

Sound corporate governance provides a cornerstone for the sustainable development of SPC. The Company has strictly complied with the securities regulatory laws and regulations of the jurisdictions in which its shares are listed and the Articles of Association of Sinopec Shanghai Petrochemical Company Limited (the "Articles of Association") to continuously enhance its corporate governance structure. The Company has established and is continuously improving its corporate governance structure which comprises the shareholders' general meeting as the organ with the ultimate authority, the Board as the decision-making tier, the general manager's team as the execution tier and the supervisory committee as the supervision tier. The Company has established and completed its internal control system in compliance with the domestic and overseas laws and requirements; completed and enhanced the existing systems of the Communist Party Committee, labour union, and workers and staff representatives conference, thereby enabling their integration with the corporate governance structure; established an effective and balanced decision-making supervision system which comprises the functions of the "Three New tiers" and the "Three Existing tiers" with the characteristics of SPC and joint stock enterprises, and which ensured effective division of authorities and appropriate discharge of duties in a coordinated manner; and built a complementary job responsibility structure through the dual-appointment of senior management members by shareholders and the Party Committee and a position-interchange system so as to pool the wisdom of all parties concerned. All these measures enable the enterprise to operate in a democratic, legal, regulated and transparent manner. For information about the corporate governance of the Company in 2011, please refer to the sections headed "Corporate Governance Structure" and "Corporate Governance Report" in the 2011 annual report.

In order to be responsible to its investors at large and creditors, the Company takes the initiative in complying with the stringent regulations of the jurisdictions in which its shares are listed and strictly adopts the financial auditing and information disclosure systems. All annual operating results and financial indicators are audited by international and domestic independent accounting firms in accordance with the relevant international and domestic standards each year. All material operational activities and operating results are completely and accurately announced to the capital markets and investors in a timely manner. The Company adopts a number of ways to enhance its communication and exchange with its shareholders (particularly its public shareholders), including answering questions and enquiries from investors through its hotline, email correspondence and letter correspondence as well as meetings. Investors may access the Company's information through the "Company News" and "Investor Relations" columns on the Company's website. The disclosure of information in a truthful, timely, accurate and comprehensive manner and the regulated business operations of SPC are acknowledged by the investors at large, securities regulatory authorities and the media. The Company was awarded the Best Disclosure Award by the Hong Kong Stock Exchange. The Company was also ranked the first in investor relations in China by Thomson Reuter in the "Extel Survey" of the securities and investment community in Asia (excluding Japan). The Company has been nominated or awarded several times the Certificate of Excellence in Investor Relations by the internationally authoritative IR Magazine. In 2011, the Company was given commendation the excellence in Information Disclosure for 2010-2011 by Shanghai Stock Exchange.

The Company pays great attention on sharehodlers' return and maintains a stable profit distribution policy. Since its listing in 1993, with the exception of 2001 (when the Company was in the low ebb of the industry cycle) and 2008 (when the Company incurred significant losses due to policy and external market reasons), the Company distributed dividends to all shareholders every year with an aggregate distribution of RMB9,808 million (of which dividends of RMB360 million to be distributed for year 2011 subject to the approval from the general meeting of shareholders). Among the companies listed in Shanghai and Shenzhen, the Company maintains higher cash dividend / fund-raising ratio (that is, the ratio between the aggregate amount of cash dividend distributed and the amount of funds raised).

Creditors of the Company are principally major commercial banks. The Company has taken into full consideration of the legal rights and interests of the creditors when making material operation decisions. The current AAA+ credit rating of the Company indicates the recognition from its creditors for its credibility, stability, pragmatism and responsible performance as no delay or default in the repayment of bank borrowings or interests has ever occurred. The Company was named among "2008-2009 Shanghai Contract-abiding and Trustworthy Enterprises" (effective period up to 30 June 2012) by the Shanghai Municipal Industrial and Commercial Administration Bureau and "2008-2009 AA-rated Enterprises in Contract Creditworthiness" by the Shanghai Contract Creditworthiness Promotion Association.

II. Protecting the Interests of Employees

Employees are the most valuable assets of SPC. The Company upholds its employee-oriented corporate value and places all-round development of its employees as one of the major objectives in its corporate development. The Company relies on the collaboration of its employees to achieve the unification of corporate values with employee values.

1. Safeguarding employees' interests

In accordance with the relevant laws, regulations and stipulations such as the PRC Labor Law, the PRC Labor Contract Law, and the PRC Trade Union Law, SPC implemented the labor contract system. The Company signed with employees written labor contracts based on the principle of "equality, self-willingness and consensus through consultation". The rate of signing the labor contract is 100%. The Company has established and improved on a transparent and democratic management system for the openness and fairness of factory affairs and has further enhanced its democratic management based on the workers and staff representatives' conferences, improved and enhanced the mechanism to handle expression of employees' petition and interest coordination. The Company values the establishment of labor unions at all levels. A fair negotiation system for collective contracts has been set up between representatives from labor unions and representatives from administrative departments for the discussion of policies involving the immediate interests of the employees. Through entering into collective contracts and collective contracts specifically for protecting female employees' interests, the Company has ensured harmony and stability at the workplace by setting out in the contracts the terms of labor employment, remuneration, working hours, rest, holidays, labor safety and hygiene, insurance and benefits, staff trainings and protections for collective contracts as well as for the interests of female labor. The Company was named as a "National Advanced Unit with Transparent Factory Management". In 2011, the Company was given the honor as the "State Model Harmonious Labor Relations Enterprise".

In recent years, the Company has reformed its internal remuneration system through adopting coordinated planning, overall design, stage-by-stage implementation and gradually in place as its work target. Based on consolidated assessments of the major aspects of various job positions including job duties, responsibilities, work load and work environment, and having taken into account the wage levels of the labor market, the Company has established rankings and wage level indicators for its “three teams”, namely business and operation managerial staff, specialised technical professionals and skilled operators, thereby establishing a remuneration allocation system which is primarily based on a base compensation wage system but which links individual income with job position and work performance at the same time. The Company has formulated a series of policies and systems such as employment, remuneration, performance and reward and sanction to strengthen and improve distribution management and the fairness of income distribution. In 2011, to motivate the employees of the Company and to establish a harmonious relationship with its employees, the Company revised and improved its basic remuneration policy to include the payment of allowances and subsidies, as well as strengthening assessment-based bonus incentives to better reflect the fairness and rationality of the internal distribution of income.

Pursuant to the relevant laws, regulations and stipulations, the Company has joined the basic social insurance planfor employees, including the Shanghai Municipality’s pension insurance, medical, unemployment, maternity and work-related injury insurances. It made full contributions on time, and has continuously improved the supplemental social protection mechanism for employees. The Company made contributions to the housing fund and supplemental fund for all the employees, established corporate annuity system, implemented supplemental medical insurance coverage to reduce self-paid expenses by sick employees, conscientiously implemented the paid annual leave system and the periodic recuperation program for employees, set up a regular health check system with health check profiles created for all employees, commenced occupational health management work, and alloted a certain amount of funds to restore the collective welfare facilities every year, with a view to constantly improving the living standard and work environment of employees. The Company place great emphasis on helping employees in difficulty. The “Methods for the Management on Mutual Aid Funds for Helping the Needy Employees of the Company” was revised to help those needy employees.

2. Ensuring employees’ occupational health and safety

The production operation of the petrochemical industry is characterised by high temperature and high pressure, as well as inflammable and explosive. Some of the materials and work media are poisonous and harmful. In order to prevent occupational diseases, the Company has adopted various measures to ensure safety and health of its employees by complying with the “Law on Prevention of Occupational Diseases of People’s Republic of China”. The Company has worked out rules and regulations such as the “Occupational Health Management Regulations”, the “Standards on Provision of Labor Protection Articles” and the “Management Methods for Labor Protection Articles”. Every year, off-duty recuperation is organised for various batches of employees in contact with occupational-disease-inductive substances, with a view to truly ensuring employees’ safety and health during the work.

The Company attaches great importance to the supervision of employees' health and to the identification and detection of any possible hazardous elements potentially existing at the work sites. It publishes on the bulletin boards its monitoring results on particular hazardous elements of known occupational diseases at monitor stations, and informs operational staff of those hazardous elements of occupational diseases, national codes and monitoring results. As to work sites with existence of hazardous elements, the Company places warning boards and notice cards to alert employees about highly toxic substances, and posted notice boards specifying "safe operation procedures, possible consequences, emergency rescue measures and floor layout" at obvious spots. As to employees who are exposed to detriments of occupational diseases, the Company explicitly sets out the possible exposure to such occupational diseases in the employment contracts and provides adequate protective articles and apparatus during actual production processes. In addition, the Company strengthens publicity and education and enhance employees' preventative knowledge, to ensure that employees understand the severity of occupational hazards and the importance of prevention and treatment and to raise their self-protection awareness. The Company was named as a "National Model Enterprise in Occupational Hygiene".

In 2011, the Company continued to reinforce control against an excessive level of potential hazards of occupational diseases, effectively managed poisoning and harmful gas and dust, and improved the on-site operation environment. At the request of the Company, Jinshan Hospital of Fudan University and the Shanghai Municipal Centre for Disease Prevention performed health check on 5,739 employees of the Company with possible exposures to hazardous elements of occupational diseases, achieving an examination rate of 100%. No diagnose of occupational diseases was found, but 12 employees were diagnosed as being occupationally contraindicated, and 7 employees were put under medical observation. The Company had timely redeployed such employees from their original positions and arranged medical visits and clinic treatment for them.

3. Career development for employees

In 2011, based on the goals of corporate reforms and development, SPC established three teams for employee development: the "business and operation manageried staff" team, "specialised technical professionals" team and "skilled operators" team. The Company adjusted its previous occupational titles and ranking levels, thus forming an advanced scientific system to standardize the development of talent. Meanwhile, SPC provides education and training for employees throughout their entire careers, and continues to push forward the project on enhancing employee quality. The Company actively supports education and training in various ways, such as the provision of systems, expenditures, training bases, resources and learning materials. The Company continuously enhances employees' moral and political quality, occupational ethics, professional expertise and integrated quality by providing training for various categories and levels respectively for the members of the "three teams", namely "business and operation managerial staff, specialised technical professionals and skilled operators", and by launching activities such as training for Internet study, skills competition and training for taking up new posts with great efforts. These measures facilitate human resource development and employee redeployment, which set a solid foundation for realising the goals of the Company's operations and reforms as well as social stability.

In 2011, the Company provided training for employees with 124,461 attendances, representing an increase of 64.01% over the previous year. The percentage of specialised technical professionals in the proportion of all present staff increased to 32.81% from 32.43% in the previous year, whereas the percentage of senior skilled operators or above to the total number of operators increased to 42.68% from 41.24%.

III. Protecting the Interests of Suppliers and Customers

SPC always recognises the importance of maintaining good relationships with suppliers and customers as a key to achieve long-term cooperation, mutual benefits and win-win solution.

The Company has established and continuously improved its management system on material and equipment supply. In 2011, in line with the adjustment of the management system of material and equipment supply and the requirements of ERP operation workflow, the Company modified its “General Materials Purchase Control Process”, “Suppliers Management Process” and materials supply system and operational rules. The focus of procurement management was more emphasised on controlling procurement risks, reducing procurement costs, pursuing optimal performance to the best price ratio and the lowest total supply costs. The procurement methods changed from procurement based on comparisons of suppliers’ price quotations and by invitation of tenders to procurement through framework agreements, dynamic bidding and other methods. According to the Company’s regulations, for purchases of materials exceeding RMB1 million, a tender process is required. Tender purchases were conducted in an open, fair, just and honest manner and in strict compliance with relevant systems and operation procedures under the supervision of relevant management departments. With respect to the management of suppliers, the Company continued to enforce a policy for supplier pre-qualification and the management of catalogs of available products to systematize and routinise management work to safeguard the legitimate rights and interests of suppliers. Meanwhile, the Company has fully utilized the e-commerce website platform of China Petroleum & Chemical Corporation (“Sinopec Corp.”) to continuously expand the scope and size of online purchasing, vigorously promoted online bidding and online dynamic bidding purchases for a large-amount and general materials, and increase transparency in the purchase process. Leveraging the overall strengths Sinopec Corp., the Company has improved its supplier structure and established long-term strategic partnerships with qualified and reputable suppliers offering quality products and services. In 2011, the online purchase ratio (excluding crude oil) of the Company reached 100%, thereby saving transaction costs for suppliers and the Company.

The Company has adhered to the quality policy of "quality always taking the lead" and the quality target of "good quality, sufficient quantity and customer satisfaction". While expanding its production scale, the Company continuously intensifies its quality assurance management. Each production division has set up the quality assurance management system in conformity with the GB/T 19001 certification standards, and has passed system certification. The Company as a whole began the construction of an integrated management system that conforms with the structure of the GB/T 19001 quality assurance management system. The Company's quality systems operate appropriately and effectively and are continuously being upgraded. In the ordinary course of business, the Company, having taking adequate advantage of its technological and management strengths, provides users with quality and prompt technological consultancy services as well as guidelines for proper selection and use of the Company's products while providing users with "trustworthy" products. Through proactively conducting market research and product upgrading and replacement projects, the Company has secured trust and affirmation from customers by the on-going development and launch of products with high content of technology and high quality in response to market demands. Apart from collecting customers' opinions during products exhibitions and new products promotion fairs, in order to obtain more feedback on products quality and service quality so as to further enhance its products and service quality, the Company has also engaged the Customer Evaluation Centre of the Shanghai Municipal Quality Management Association to evaluate satisfaction of third-party users on its major products. In 2011, the "Sanren" Brand industrial pure benzene, fiber grade polyester chip, acrylic staple fibre, and full density polyethylene of the Company was named as the "Product with Shanghai and National Users' Satisfaction" at the same time, and the Company was named as Shanghai and nationwide Client Satisfactory Enterprise. In 2011, 22 "Sanren" Brand motor gasoline, pure benzene, ethylene oxide, polyethylene, polypropylene, industrial polyester filament and acrylic staple fibre were again named as "Shanghai Famous Brand Products".

To avoid competition with industry peers, enhance overall bargaining power and consolidate and expand market shares, the Company has entered into various transactions with its controlling shareholder, Sinopec Corp., and China Petrochemical Corporation ("Sinopec"), the controlling shareholder of Sinopec Corp. as well as its associates, pursuant to which these connected parties would provide the Company with various services such as raw material purchase, petrochemical product sales agency service, construction, installation and project design, and the Company would sell petroleum and petrochemical products to connected parities. The aforesaid continuing connected transactions and services are necessary for the ordinary production and operation activities of SPC and are conducted on normal commercial terms and relevant agreement terms. The continuing connected transactions between the Company and Sinopec Corp. and Sinopec are conducted in strict compliance with the relevant laws and regulations of the jurisdictions of listings and the relevant requirements set out in the Articles of Association. All parties to the transactions have carried out necessary decision-making procedures and obtained approvals from their respective independent shareholders. The Company has also disclosed information in accordance with the requirements stipulated by the securities regulatory authorities in the jurisdictions where the Company's Share are listed.

IV. Emphasis on Safe Production

Responsibility for safety is of the utmost importance. SPC always pays high regards to and controls safe pruduction, manages the overall situation under the guidelines of "Scientific Outlook on Development" and safety development, and conscientiously performs the duty as an entity of production safety.

1. Safe production

As an enterprise engaging in a highly dangerous industry, the Company places safe production as its priority and adheres to the policy of "putting safety and prevention first, all staff be mobilized and involved, problems concerning safety be tackled in a comprehensive way". The Company implements standardised safety management by adhering to the principle that emphasises the involvement of all staff, all orientations, 24-hour and all work processes, building the QHSE (Quality, Health, Safety and Environment) integrated management system, and taking such standard as guidelines in implementing standardized safety management. The Company has a comprehensive safety management system and organization, as well as a set of sound production management rules and regulations and effective management methods for safety. The Company implements HSE supervision and inspection and various specific inspections during its day-to-day operation. One-vote rejection and safety accountability applies to any accident arises. In accordance with the four "not let-off" (namely not letting off (i) accidents of which reasons not being verified thoroughly, (ii) persons accountable for accidents not being punished, (iii) rectification measures not being made and taken, and (iv) lessons not being learned by those relevant people involved in the accidents), the Company would investigate and find out the causes of an accident, draw lessons therefrom and eliminate potential and hidden peril or danger, so as to enhance production safety. At the same time, the Company has strengthened employees' training for HSE education, enhanced employees' HSE awareness and skills, and reinforced the safety supervision management over certain highly hazardous sources existing in some key facilities and vital production positions or sections. The Company has carried out risk identification and assessment, enacted major accident prevention measures and emergency rescue plans at all levels, and has organized emergency response drills, so as to enhance the capability for handling emergencies. The Company has strictly complied with the State's safety pre-assessment system, and implemented a "three concurrent" policy in newly-built, revamped and expansion projects: to ensure that safety facilities, fire fighting facilities, environmental protection and occupational hygiene facilities are designed, constructed and put into operation concurrently with the core project development. In 2011, the Company strictly implemented the safe production accountability system, signed HSE letters of responsibility level by level with all employees proceeding with the HSE undertaking, and actively carried out the themed activities called "We Want Safety", and activities such as "Comparing with, Learning from, Catching up, Assisting Under-Performers and Surpassing the Advanced", and "Specific Competition in Safety, Environmental protection and Zero Accident" in which we further specified prohibitions for safe production, improved the safety supervision of production and construction sites and intensified third-party safety supervision of its operation detail, so as to realize stable and smooth operation of production facilities and safe operation of construction sites. In 2011, the Company achieved its objective of having "zero in six aspects": occurrence of staff injury and fatal incidents, significant fire or explosion accidents, major environmental pollution incidents, hazardous incidents causing significant occupational diseases, serious traffic accidents and incidents of significant accountability. The Company was accredited by Sinopec as its one of advanced subsidiaries in operational safety for nine consecutive years. In 2011, in a contest regarding the implementation of an accountability system for corporate production safety, the Company received a prize jointly awarded by the State Administration of Work Safety and the All-China Federation of Trade Unions and a prize for Industry (System) Safe Production Work awarded by the Safe Production Committee of Shanghai Municipal Government .

2. Treatment of hidden defects

The Company pays special attention to finding out and removing hidden defects and rectification work. In this connection, the Company adheres to "four determining" principles, namely determining rectification solutions, determining capital sources, determining persons in charge and determining the rectification period, to ensure that items with hidden defects can be eliminated in time. In 2011, the Company continuously intensified efforts on finding out and removing hidden defects and carrying out rectification work. An aggregate amount of RMB106.18 million was used in the centralized rectification of 44 items of hidden defects and thereby the Company further improved the safety level of its facilities. Meanwhile, the Company actively carried out massive defects screening campaign and identified 2,808 items with hidden defects of all kinds, with 2,786 of them or 99.22% being rectified. For those which were not readily rectified temporarily, safe preventive measures were implemented to avoid accidents.

V. Emphasis on Environmental Protection

Environmental protection is a basic State policy in the PRC. Since its establishment, SPC has all along placed importance to environmental protection. Since the announcement of the "Guidelines on Environmental Information Disclosure by Companies Listed on the Shanghai Stock Exchange", the Company has conscientiously reviewed its own practice of environmental protection and has taken the initiative to undertake the due social responsibilities of listed companies in accordance with the requirements.

1. Approval of ISO 14001 Environmental Management System Certification

Taking into account the characteristics of the petroleum and petrochemical industry, the Company introduced in 2008 the management mode of ISO 14001 Environmental Management Standards, which is widely implemented by the international petroleum and petrochemical industry. Based on the environmental protection policy of "lawful operation, friendly environment, energy conservation, emissions reduction and green environmental protection", by means of setting up, promulgating, implementing and continuously improving the ISO 14001 Environmental Management System, the Company promoted clean production with full efforts. The Company has made a commitment to all employees and the public in the local district regarding the environment, continuously carrying out risk assessments and environmental effect assessments and systematically controlling factors which are hazardous to the environment, thereby effectively preventing the occurrence of various kinds of incidents and improving the environmental quality of the production area and nearby districts. Through the efforts made in the past two years, the Company obtained the certificate of ISO 14001 Environmental Management System Certification issued by China Quality Mark Certification Group in March 2010. In November 2010 and October 2011, the Company underwent monitoring and examination twice. After the rectification in strict compliance with the "PDCA" (plan-do-check-act) procedure for the non-compliance issues raised by the surveillance auditor, the Company has managed to pass the monitoring and examination smoothly. With the on-going progress in the environmental management system of the Company, which shows that SPC's environmental management is in line with international practices, the Company has made another new stride toward people-oriented and sustainable development.

In 2011, the total amount of industrial waste water discharged was decreased by 13.8% compared to that of the previous year. Emission of sulphur dioxide decreased by 4.65% and total COD discharge decreased by 16%. The comprehensive on-spec ratio of discharged sewage reached 99.83%; the combustion rate of exhaust gas and the optimal disposal rate of hazardous wastes reached 100%; and the rate of recycling of industrial water reached 96.84%. In addition, the Company achieved economic benefits of approximately RMB30 million by implementing various clean production plans.

2. Disposal of the "three wastes"

The "three wastes" that the Company needs to dispose of are categorized as exhaust gas, waste water and solid wastes.

Exhaust gas: The Company has cooperated with the Shanghai Environmental Protection Bureau for a continuing identification of sources of air pollution, and has implemented focal inspection of common and specific pollutants such as sulphur dioxide, nitrogen oxides and smoke dust in the operations of the Company and has put forward rectification suggestions, thereby providing a technical base for rectification work in the future. In 2011, the flue-gas desulphurization project for furnaces of the coal-fired power plant of the Thermal Power Division, the removal of foul gas from the deaeration pool of the waste water treatment plant at the Environmental Protection Water Department, the Regenerative Thermal Oxidizer (RTO) for the tail gas from PTA plant in the Polyester Business Division, the flare gas recovery system and the renovation project of adding the recycle-hydrogen desulphurization facilities to the 550,000 ton/year diesel hydrogenation plant brought about better effects. The two automatic monitoring stations for the atmospheric environment and one automatic monitoring vehicle for the atmospheric environment provided real-time surveillance to the atmospheric environment of the district where the Company is located. In accordance with the objectives set by the Company to "eliminate peculiar odors in Aromatics Division within one year, and eliminate peculiar odors in the Company within two years during its normal production" as well as the requirements of Sinopec's "Rules Governing Environmental Protection Management during Start-up, Shut-down and Maintenance of Production Plants", the Company carried out temporary measures to seal valves for pollutant discharge with lead lining, and carried out leak detection and repair ("LDAR") and airtight purging in 2011. The monitoring data suggested that the quality of the atmospheric environment in which the Company is located improved substantially in 2011.

Waste water: The Company has 28 sets of waste water treatment facilities, 24 of which are pre-treatment facilities, three are in-depth-treatment facilities (with designed capacity of 188 thousand cubic meters/day) and one is a waste water recycling facility (with designed capacity of 250 cubic meters/hour). The Company discharges waste water treated by two-stage biochemical treatment into deep sea such that its waste water discharge meets the relevant requirements in all years. In 2011, some of the waste water treatment facilities were modified, and the renovation project of PTA plant waste water treatment and recycling of the Polyester Division was completed.

Solid wastes: Hazardous solid wastes and general industrial solid wastes produced during production processes of the Company are handled and treated by qualified subcontractors in the community. The Company has strengthened its control over its production processes and properly handled the disposal of its wastes, achieving a treatment rate of 100%.

In 2011, the Company was accredited by Sinopec as an advanced unit in environmental protection for ten consecutive years, and was named as "National Petroleum and Chemical Environmental Protection Advanced Unit" by National Petroleum and Chemical Industry Association.

VI. Contributing to the Society

Enterprises generate wealth from the society and thus it is their responsibilities to contribure back to the society. SPC has sincerely devoted itself to fulfilling its social responsibilities since its establishment. It has zealously undertaken its responsibilities and obligations and established a sound corporate image. It was accredited as the National Model Civilized Unit by the Central Guidance Committee on Spiritual Civilization Cultivation in 2005, 2008 and 2011 in a row. In 2011, the Company was ranked the fifth among the Shanghai Top 100 Tax Payers.

As one of the major producers and suppliers of refined oil products in the Yangtze River Delta region, the Company has complied with the requirements from the National Development and Reform Commission and the local governments throughout the years. It has carried out various measures to fully ensure supplies of refined oil products to the region, contributing to the steady and relatively fast growth of the regional economy and the society. In 2011, in order to satisfy the market demand for refined oil, the Company increased production of refined oil under a severe situation that international crude oil prices surged and remained in a high level, domestic refined oil prices were controlled by the government, and refining business of the Company recorded losses. In 2011, the Company produced 968,500 ton of gasoline (including 859,000 ton of Shanghai IV standard gasoline) and 3,979,800 ton of diesel (including 646,000 ton of Shanghai IV standard diesel), with respective increases of 3.87% and 8.27% over the previous year, completed the mission of ensuring the market supply of refined oil products.

In addition to accelerating its own development, the Company proactively participated in public welfare activities. Since its listing, the Company has donated to the China Welfare Institute, the Shanghai Education Development Foundation, the Shanghai Children and Teenagers' Fund, the Shanghai Foundation for Justice and Courage, the Shanghai Foundation for the Aged, the Shanghai Women's Federation, the Shanghai Science and Technology Museum, the Shanghai Song Chingling Foundation as well as schools and hospitals. It has also provided substantial financial support to Jingshan District, Shanghai, where the Company is located, on its economic development and various public welfare affairs regarding culture, education and community development. Since its listing, total social donations from the Company amounted to several hundred millions of Renminbi, which has enabled a harmonious development of the enterprise and the society.

The Company was ranked 32nd in The Fortune China CSR Ranking for 2011.

The above Report demonstrated that SPC has implemented various measures and achieved positive results in respect of protecting the interests of major stakeholders, ensuring safe production and environmental protection and facilitating sustainable economic and social development in 2011. In 2012, the Company will continue its work to duly fulfill its social responsibilities as usual, thereby further facilitating sustainable economic, social and environmental development.

The Report has been considered and approved at the fifth meeting of the seventh session of the Board on 29 March 2012. The Company has not engaged any third party to verify the fulfillment of its social responsibilities.

The Board of Directors
Sinopec Shanghai Petrochemical Company Limited
29 March 2012

Pursuant to the requirements of Article 68 of the Securities Law and Regulation on the Preparation of Information Disclosure Contents and Format of Companies Issuing Public Shares, No. 2 revised by the China Securities Regulatory Commission (CSRC) in 2007, we, being Directors, Supervisors and the Senior Management of the Company, having carefully studied and reviewed the Company's 2011 annual report, are in the opinion that: the Company was in strict compliance with the standardised operation of financial system operation of joint stock companies and the 2011 annual report gave a true and fair view of the financial position and operating results of the Company. The unqualified auditors' reports of the Company issued by KPMG Huazhen and KPMG, respectively, were true and fair. We warrant that the information contained in the 2011 annual report is true, accurate and complete, and that there are no false or misleading statements contained in or material omissions from this report. We jointly and severally accept full responsibility for the authenticity, accuracy and completeness of the information contained in this report.

Signature:

Directors:

Rong Guangdao

Wang Zhiqing

Wu Haijun

Li Honggen

Shi Wei

Ye Guohua

Lei Dianwu

Xiang Hanyin

Shen Liqiang

Jin Mingda

Wang Yongshou

Cai Tingji

Supervisors:

Gao Jinping

Zhuo Qiang

Li Xiaoxia

Zhai Yalin

Wang Liqun

Chen Xinyuan

Zhou Yunnong

Senior Management:

Zhang Zhiliang

Zhang Jianping

Tang Chengjian

Jin Qiang

Zhang Jingming

(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 Affairs Representative
Name:	Zhang Jingming	Tang Weizhong
Address:	48 Jinyi Road, Jinshan District, Shanghai, PRC,	Suite B, 28/F, Huamin Empire Plaza, 728 West Yan'an Road, Shanghai, PRC,
Postal Code:	200540	200050
Tel:	8621-57943143/52377880	8621-57943143/52377880
Fax:	8621-57940050/52375091	8621-57940050/52375091
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 annual reports:
www.sse.com.cn, www.hkex.com.hk and www.spc.com.cn

Place for access to the Company's annual reports:
Board Secretariat Office,48 Jinyi Road, Jinshan District, Shanghai, PRC

(5) Shares Profile of the Company

Share Type	Place of listing of the shares	Stock abbreviation	Stock Code	Stock abbreviation before change
A Shares	Shanghai Stock Exchange	S 上石化	600688	-
H Shares	The Stock Exchange of Hong Kong Limited	SHANGHAI PECHEM	00338	-
ADR	New York Stock Exchange	SHI	-	-

(6) Other Information

Date of the Company's initial registration:	29 June 1993
Initial registered 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 registered address of the Company:	48 Jinyi Road, Jinshan District, Shanghai, the People's Republic of China
	SAIC registration number of the Company:	310000000021453
	Tax registration number of the Company:	310228132212291
	Company and Organization Code:	13221229-1

Name of domestic auditor engaged by the Company:	KPMG Huazhen
Address of the domestic auditor engaged by the Company:	8th Floor, Office Tower 2, Oriental Plaza, No. 1, East Chang An Avenue, Beijing, People's Republic of China, Postal Code: 100738
Name of international auditor engaged by the Company:	KPMG
Address of the international auditor engaged by the Company:	8th Floor, Prince's Building, 10 Chater Road, Central, Hong Kong

Legal advisors:

PRC Law: Haiwen & Partners
21st Floor, Beijing Silver Tower
No.2 Dong San Huan Road
Chaoyang District, Beijing, People's Republic of China
Postal Code:100027

Hong Kong Law: Freshfields Bruckhaus Deringer
11th Floor, Two Exchange Square, Central, Hong Kong

United States law: Morrison & Foerster
425 Market Street
San Francisco, California 94105-2482
U.S.A

Principal Bankers:

China Construction Bank, Shanghai Branch
900 Lujiazui Ring Road, Pudong New Area, Shanghai, People's Republic of China
Postal Code: 200120

Industrial & Commercial Bank of China, Shanghai Branch
No.9 Pudong Avenue, Pudong New Area
Shanghai, People's Republic of China
Postal Code: 200120

Registrars:

Hong Kong Registrars Limited
17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong

Depositary:

The Bank of New York Mellon
Shareowner Services
PO BOX 358516
Pittsburgh, PA 15252-8516
Toll Free Number for Domestic Calls: 1-888-BNY-ADRS
Number for International Calls: 201-680-6825
E-mail: shareowners@bankofny.com
Website: www.stockbny.com

Documents for Inspection

1. Financial statements signed and sealed by the Company's Chairman, Vice Chairman and President and Chief Financial Officer;

2. Original copies of auditor's report signed by the auditors;

3. Original copies of all documents and announcements of the Company which were disclosed in newspapers designated by CSRC during the Reporting Period; and

4. The written confirmation issued by the Directors, Supervisors and Senior Management.

Chairman: **Rong Guangdao**
Sinopec Shanghai Petrochemical Company Limited
29 March 2012

This annual report is published in both Chinese and English. Should any conflict regarding meaning arises, the Chinese version shall prevail (unless otherwise provided).