

2012 Interim Report



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

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IMPORTANT MESSAGE

(1) The Board of Directors (the "Board") and the Supervisory Committee of Sinopec Shanghai Petrochemical Company Limited (the "Company" or "SPC") as well as its Directors, Supervisors and Senior Management warrant that there are no false representations or misleading statements contained in, or material omission from, the 2012 interim report, and severally and jointly accept full responsibility for the truthfulness, accuracy and completeness of the information contained in the 2012 interim report.

(2) If any director fails to attend the Board meeting for considering and approving the 2012 interim report of the Company, his name shall be set out separately:

| Name of Director not Attending | Position | Reasons for the Absence | Name of Proxy |
|--------------------------------|----------|-------------------------|---------------|
| Lei Dianwu | Director | Business engagement | Rong Guangdao |
| Xiang Hanyin | Director | Business engagement | Rong Guangdao |

(3) The interim financial report of the Company for the six-month period ended 30 June 2012 (the "Reporting Period") was unaudited.

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

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

(6) Mr. Rong Guangdao, Chairman and the responsible person of the Company, Mr. Ye Guohua, Chief Financial Officer overseeing the accounting operations, and Mr. Hua Xin, Deputy Chief Financial Officer, person-in-charge of Accounting Department (Accounting Chief) and Finance Manager, hereby warrant the truthfulness and completeness of the financial report contained in the 2012 interim report.

REPORT OF THE DIRECTORS

(1) Discussion and Analysis of the Overall Operation during the Reporting Period

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

Review and discussion on operating results

Although the global economy continued to maintain recovery momentum in the first half of 2012, the recovery was yet subject to some instability and uncertainty due to a number of factors such as the weak recovery in developed economies, decelerated growth in emerging economies and deteriorating European debt crisis. In particular, since the second quarter, global economic growth continued to fall slightly on the further revelation of the Spanish bank debt problem, significant declines in economic growth in Germany and France, ongoing U.S. fiscal deadlock and overall economic slowdown and lack of significant improvement in the decelerated economic growth in the BRICS nations. In such a complex and severe domestic and global economic environment, China's economy basically remained stable, but production growth continued to slow down, putting an increasing amount of downward pressure on the economy. Gross domestic product (GDP) growth for the first half of the year reached 7.8%, of which growth for the second quarter was 7.6%, representing a decline for the sixth consecutive quarter. The Chinese government has introduced a series of stable growth measures to support the real economy. China's macroeconomic performance showed signs of stabilising amid a slowdown. With respect to China's petroleum and chemical industry in the first half, production growth decelerated and chemical market prices fell, resulting in a decline in the profit for the sector and a slowdown in export growth. The industry experienced a continued slowdown in growth, and faced difficult conditions such as shrinking demand in the external market, a slowdown in the domestic market, higher operating costs and severe policy-related losses.

In the first half of 2012, amid complex and volatile international situations, decelerating domestic economic growth, low demand for the petrochemicals, substantial volatility in international crude oil prices and sharp declines in the profitability of oil refining and chemical industries, the Group braved challenges with firm confidence by strengthening safety and environmental protection, optimising production and operations, and orderly pushing forward the construction of the Phase 6 Project, thereby maintaining overall stable production and operation. In the first half of the year, no accidents involving material liabilities and serious consequences such as major fires, explosions or environmental pollution were recorded; production plants maintained stable operations; major technical and economic indices improved steadily; system optimisation and the potential tapping achieved certain good results; construction of the Phase 6 Project and technological progress continued to proceed; the managerial system was improved, employee's competence was enhanced and corporate harmony and stability were further strengthened. However, since international crude oil prices fluctuated drastically in the first half of 2012, the prices soared to a record high for recent years in the first quarter and fell to a record low, following some consolidation in April. After this inflection point, the Group's in-transit and inventory costs of crude oil pushed up the Group's average crude oil processing costs in the first half of the year and production costs of semi-products and finished products, such as those of intermediate chemicals. This puts the Company's costs in great contrast to the domestic refined oil prices which went down swiftly along with international crude oil prices, as well as to the market prices of petrochemical products, which fell substantially. The Company's refining business incurred a certain degree of policy-related loss, since domestic refined oil prices were not adjusted promptly and adequately in the first quarter, and were quickly adjusted downwards twice in the second quarter, as a result of a slump of international crude oil prices. With respect to the Company's chemical product business, the prices of petrochemical products, such as intermediate petrochemical products, synthetic resins and synthetic fibres, fell sharply in the second quarter due to a slump of international crude oil prices, remarkable slackened growth in domestic and external demand, a decline in exports, a downturn of downstream production activities and destocking by intermediaries, thus resulting in a substantial impact on the Company's business activities in the short term and losses in the Company's petrochemical product business. During the first half of 2012, the Group's turnover amounted to RMB46,442.1 million, a decrease of RMB3,058.7 million or 6.18% year-on-year; loss before taxation amounted to RMB1,507.2 million, a decrease of RMB3,365.3 million year-on-year; and loss after taxation and non-controlling interests amounted to RMB1,151.5 million, a decrease of RMB2,577.2 million year-on-year.

During the first half of 2012, the production and operations of the Group remained stable. As the Group adjusted the production plan and arranged turnaround for some plants in a timely manner due to the weak market demand, total volume of goods produced decreased by 4.21% over the corresponding period of the previous year. From January to June 2012, the Group processed 5,518,100 tons of crude oil (including 231,800 tons of crude oil processed on a sub-contract basis), a decrease of 160,300 tons or 2.82% over the corresponding period of the previous year. Specifically, imported crude oil and domestic offshore crude oil processed amounted to 5,292,000 tons and 226,100 tons respectively. Output of refined oil products was 2,866,000 tons, a decrease of 3.45% year-on-year. Specifically, output of gasoline was 437,500 tons, representing a decrease of 14.28% year-on-year. The output of diesel was 2,056,500 tons, representing an increase of 0.04% year-on-year. And output of jet fuel was 372,100 tons, representing a decrease of 7.56% year-on-year. Outputs of ethylene and paraxylene were 479,800 tons and 425,200 tons respectively, representing decreases of 2.51% and 8.28% year-on-year respectively. Output of synthetic resins and plastics (excluding polyester and polyvinyl alcohol) was 565,400 tons, representing a decrease of 0.96% year-on-year. Outputs of synthetic fibre monomers, synthetic fibre polymers and synthetic fibres were 512,800 tons, 326,700 tons and 124,900 tons respectively, representing an increase of 2.63%, an increase of 0.09% and a decrease of 3.26% year-on-year respectively. The Group's output-to-sales ratio and receivable recovery ratio in the first half of the year were 100.14% and 99.96% respectively.

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

| | For the six-month period ended 30 June | | | | | |
|-----------------------------------|--|-------------------------|--------------|--------------------------|-------------------------|--------------|
| | 2012 | | | 2011 | | |
| | Sales Volume ('000 tons) | Net Sales (RMB Million) | % of Total | Sales Volume ('000 tons) | Net Sales (RMB Million) | % of Total |
| Synthetic fibres | 124.1 | 1,705.1 | 3.9 | 128.7 | 2,292.8 | 4.9 |
| Resins and plastics | 805.5 | 7,485.2 | 17.2 | 804.2 | 8,505.9 | 18.4 |
| Intermediate petrochemicals | 1,104.6 | 9,236.3 | 21.2 | 1,202.3 | 10,197.0 | 22.0 |
| Petroleum products | 3,446.9 | 19,455.5 | 44.6 | 3,593.0 | 18,899.6 | 40.8 |
| Trading of petrochemical products | - | 5,276.0 | 12.1 | - | 5,988.0 | 12.9 |
| Others | - | 446.7 | 1.0 | - | 461.8 | 1.0 |
| Total | 5,481.1 | 43,604.8 | 100.0 | 5,728.2 | 46,345.1 | 100.0 |

In the first half of 2012, the Group realised total net sales of RMB43,604.8 million, representing a decrease of 5.91% as compared to the corresponding period of the previous year, of which net sales derived from petroleum products increased by 2.94%; and net sales of intermediate petrochemicals, resins and plastics, synthetic fibres and trading of petrochemical products decreased by 9.42%, 12.00%, 25.63% and 11.89% respectively. Decrease in net sales of products was primarily attributable to weakened market demand, resulting in decreased prices for intermediate petrochemicals, resins and plastics and synthetic fibres, as well as decrease in sales volume for a portion of products as compared to the corresponding period of the previous year. Compared to the first half of 2011, the average price (excluding tax) of the Group's petroleum products increased by 7.30% during the Reporting Period; and those of intermediate petrochemicals, resins and plastics and synthetic fibres decreased by 1.41%, 12.14% and 22.88% respectively during the Reporting Period. When comparing to the second half of 2011, the average price (excluding tax) of the Group's petroleum products increased by 3.25%; and those of intermediate petrochemicals, resins and plastics and synthetic fibres decreased by 1.06%, 7.63% and 9.61% respectively. In the first half of the year, net sales of the Group's trading of petrochemical products decreased by 11.89% as compared to the corresponding period of the previous year, primarily because the business volume and the commodity price of the trading company controlled by the Group decreased. In the first half of the year, net sales of the Group's other activities decreased by 3.27% as compared to the corresponding period of the previous year, primarily because the Group's other activities including sales of water, electricity and gas, and revenues from processing crude oil on a sub-contract basis decreased as compared to the corresponding period of the previous year.

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

During the first half of 2012, the Group's cost of sales increased by 0.88% year-on-year to RMB44,737.9 million, accounting for 102.60% of net sales.

Crude oil is the Group's main raw material. International crude oil prices in general showed a falling trend after rising in the first half of 2012. In the first half of the year, Brent crude oil futures closed highest at US\$128.17/barrel and lowest at US\$88.62/barrel. The average price over the first half was approximately US\$113.61/barrel, a year-on-year increase of approximately 2.35%. WTI crude oil futures closed highest at US\$109.06/barrel and lowest at US\$78.04/barrel. The average price over the first half was approximately US\$98.27/barrel, a year-on-year increase of approximately 0.28%. The Group's average unit cost of crude oil processed (the portion traded for the Group's own account) was RMB5,465.53/ton in the first half of 2012, representing an increase of RMB527.62/ton or 10.69% over the corresponding period of the previous year. As a result of the increase in the average price of crude oil and the high cost of crude oil used by the Group, the Group's total costs of crude oil processed during the Reporting Period increased by 5.48% to RMB28,892.1 million year-on-year. The crude oil costs accounted for 64.58% of the Group's cost of sales in the first half of the year.

Cost of other auxiliary raw materials of the Group amounted to RMB6,563.8 million in the first half of 2012, representing a decrease of 33.57% as compared to the corresponding period of the previous year, primarily attributable to decreases in prices and consumption of auxiliary materials. During the Reporting Period, depreciation and amortisation, and maintenance costs of the Group amounted to RMB838.9 million and RMB480.0 million respectively. Depreciation and amortisation costs increased slightly year-on-year while maintenance cost decreased year-on-year. Fuel and power expenses increased by RMB124.6 million year-on-year to RMB1,412.8 million as a result of the year-on-year increases to various degrees in both purchase volume and purchase price of electricity purchased outside the Group.

The Group's selling and administrative expenses in the first half of 2012 amounted to RMB329.8 million, representing a decrease of 1.67% from RMB335.4 million in the corresponding period of the previous year. The decrease was primarily attributable to the decrease in sales transportation expenses as a result of a decrease in sales volume, and the decrease in sales commission with respect to product sales in ordinary (continuing) connected transactions as a result of a decrease in sales volume during the Reporting Period.

The Group's other operating income in the first half of 2012 increased by RMB138.9 million year-on-year to RMB166.8 million, primarily representing the local education surcharges refund of RMB114.3 million.

Net financing costs of the Group in the first half of 2012 amounted to RMB193.1 million compared with net financing income of RMB14.1 million during the corresponding period of the previous year, primarily because of the appreciation of US dollar against Renminbi during the Reporting Period. As a result, there was an increase in net foreign exchange loss of the Group during the Reporting Period. Furthermore, the Group has extended a substantial amount of short-term borrowings during the Reporting Period, resulting in a rise in interest expenses.

The Group's loss after taxation and non-controlling interests was RMB1,151.5 million in the first half of 2012, representing a decrease of RMB2,577.2 million from the profit of RMB1,425.7 million in the corresponding period of the previous year.

Liquidity and capital resources

The Group's net cash outflow from operating activities amounted to RMB1,285.5 million for the first half of 2012 as compared to net cash inflow of RMB965.6 million in the corresponding period of the previous year, due to the following reasons: (1) due to the decline in the Group's performance during the Reporting Period, net cash outflow from loss before taxation (net of depreciation and share of profit of associates and jointly controlled entities) amounted to RMB680.5 million (as compared to the net cash inflow for the corresponding period of the previous year amounted to RMB2,497.0 million); (2) the increased inventory balance at the end of the period led to a decrease in operating cash flow of RMB2,010.8 million in the Reporting Period (as compared to a decrease in operating cash flow of RMB3,632.6 million due to increased inventory balance at the end of the corresponding period of the previous year); (3) increases in the net balances of amounts due to related parties (trade related) at the end of the period led to an increase in operating cash flow of RMB642.3 million in the Reporting Period (as compared to an increase in operating cash flow of RMB2,747.9 million as a result of an increase in such balances at the end of the corresponding period of the previous year); and (4) the decrease in operating receivables led to an increase in operating cash flow of RMB1,729.2 million in the Reporting Period (as compared to a decrease in operating cash flow of RMB183.6 million as a result of an increase in operating receivables in the corresponding period of the previous year).

In the first half of 2012, the Group's net cash outflow from investing activities amounted to RMB2,265.4 million compared to a net cash outflow of RMB833.7 million in the corresponding period of the previous year. This was primarily attributable to the year-on-year increase in the Group's capital expenditures during the Reporting Period, resulting in a RMB1,650.6 million increase in net cash outflow from investment activities.

In the first half of 2012, the Group's net cash inflow from financing activities amounted to RMB3,651.4 million, while the net cash inflow amounted to RMB105.2 million in the corresponding period of the previous year, primarily attributable to the Group's obtaining of a substantial amount of short-term borrowings during the Reporting Period.

Borrowings and debts

The Group's long-term borrowings are mainly applied to capital expansion projects. In general, the Group arranges long-term borrowings according to capital expenditure plans and on the whole, there are no seasonal borrowings. Short-term debts are used to replenish the Group's working capital requirements during the normal course of production operation. During the first half of 2012, the Group's total borrowings increased by RMB3,747.7 million to RMB9,419.8 million as at the end of the Reporting Period as compared to the beginning of the Reporting Period. Of such amount, short-term debts increased by RMB3,176.4 million while long-term borrowings increased by RMB571.3 million.

Risks associated with exchange rate fluctuation

A change in the relevant exchange rates will affect the level of the Group's financing expenses since the majority of the Group's debts are denominated in foreign currencies. Accordingly, the Group's profitability will be affected. As at 30 June 2012, the Group's loans denominated in US dollars amounted to RMB7,329.8 million.

Capital expenditure

In the first half of 2012, in accordance with the Group's fast and effective work requirements, the Group was committed to carrying out the construction of Phase 6 Project with the Refinery Revamping and Expansion Project and technological advancement programme as its focuses. Piling for the Refinery Revamping and Expansion Project commenced on 28 December 2010, and the project has currently entered into the final sprint stage. The first stage of the carbon fiber project with a capacity of 1,500 tons/year has completed the oxidation and carbonisation processes on 18 March and the spinning unit was mechanically completed on 26 April. The Up-grading Project for Optimisation of the System and Reduction in Energy and Feedstock Consumption of the No. 2 PTA Plant was mechanically completed in April and was put into trial operation.

In the first half of the year, the Group's capital expenditure amounted to RMB2,257 million, mainly used for the Refinery Revamping and Expansion Project and the Carbon Fiber Project. In the second half of the year, the Group will continue to actively push forward the above construction projects and other projects regarding technological revamping, safety and environmental protection, energy conservation and consumption reduction. It will commence the retrofitting project for the No. 1 Ethylene Plant and will commence the overall project design and long-cycle equipment orders. The Group plans to fund the capital expenditure with cash from operations and banking facilities.

Liability-to-asset ratio

As at 30 June 2012, the Group's liability-to-asset ratio was 49.64% (31 December 2011: 40.77%). The ratio is calculated using this formula: total liabilities/total assets.

Employees

As at 30 June 2012, the Group's on-record employees totaled 15,256. Among them, there were 8,732 production staff, 5,364 sales representatives, financial personnel and other personnel, and 1,160 administrative staff. There were 40.14% of the employees who had tertiary qualifications or above.

Income tax

Since the official implementation of the "Enterprise Income Tax Law of the People's Republic of China" on 1 January 2008, the enterprise income tax rate has been uniformly adjusted to 25%. Accordingly, the Group's income tax rate was 25% for 2012.

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

Save as disclosed herein, pursuant to paragraph 40 in Appendix 16 to the Hong Kong Listing Rules, the Company confirmed that there have been no material changes in the existing information of the Company relating to the matters as set out in paragraph 32 in Appendix 16 and the information disclosed in the Company's 2011 annual report.

Market outlook and work plans for the second half of the year

In the second half of 2012, the international situation will remain complex and challenging as the possible further escalation of Europe's debt crisis and the dilemma over global monetary policy adjustment will pose a threat to prospects for economic growth across the globe. As prospects for recovery in developed economies like the United States and Europe remain uncertain, most emerging economies have introduced economic stimulus policies, and as a result, the risk of a further slowdown in economic growth has been, to certain extent, minimised, and the world economy will continue to maintain slow growth. The Chinese economy is expected to gradually level off and pick up under the effect of the pre-tuned and fine-tuned policy for maintaining "steady growth". Industrial production is anticipated to pick up steadily as destocking by industrial enterprises will be completed gradually in the second half of the year. However, since the pressure from both cyclical and structural problems of the domestic economy's operation have not been fundamentally relieved, and global economic recovery will remain weak, the extent of any upturn in the Chinese economy could be quite limited in the second half of the year. China's petroleum and chemical industry still has a relatively high potential for steady growth, and is expected to rebound from low levels, and to stabilise in the second half of the year. However, the contradiction of structural surplus is still significant in the industry, leading to keener international competition across the industry.

The price trend of international crude oil for the second half of the year will depend on various factors such as the changes in market supply and demand, global economic recovery and the situation in the Middle East. Currently, the market supply and demand of international crude oil is balanced. Although prospects for global economic recovery are still uncertain, the possibility of governments introducing easing policies to stimulate the economy is higher with the situation in the Middle East remains unstable, international crude oil prices for the second half of the year are expected to continue to fluctuate at a high level. Although the Chinese government is taking proactive initiatives to explore and improve the pricing mechanism for refined oil products, we cannot rule out the possibility of the Chinese government continuing to regulate the prices of domestic refined oil products if international crude oil prices remain high.

In conclusion, the overall domestic and international macroeconomic environment has been unfavourable to the Company's production and operations since the beginning of the year. As we currently face an exceptionally challenging production and operational situation, in order to turn challenges into opportunities and pressures into motivational forces, ensure safe and stable production, push forward the construction and development, and strive to improve economic return in the second half of 2012, we will take the following positive measures:

1. Attach great importance to safety and environmental protection, and continue to maintain safe and stable operation of the plants.
2. Continue to enhance the level of production and operational optimisation, and strive to improve economic return.
3. Ensure that the Phase 6 Project be put into operation successfully, and further accelerate the development of new products.
4. Improve business management on an ongoing basis and focus on cost reduction and enhancing efficiency.
5. Strengthen human resource development and create a stable and harmonious environment for development.

(2) Analysis of the Company's Principal Operations and Performance (Prepared under the China Accounting Standards for Business Enterprises ("CAS"))

(i) Principal operations by segment or by product

| By segment or by product | Operating income (RMB'000) | Operating costs (RMB'000) | Gross profit margin (%) | Increase/ decrease of operating income compared to the corresponding period of the previous year (%) | Increase/ decrease of operating costs compared to the corresponding period of the previous year (%) | Increase/ decrease of gross profit margin compared to the corresponding period of the previous year (percentage points) |
|-----------------------------------|-------------------------------|------------------------------|----------------------------|---|--|---|
| Synthetic fibres | 1,719,557 | 1,757,757 | -2.22 | -25.88 | -2.13 | -24.81 |
| Resins and plastics | 7,541,352 | 7,962,017 | -5.58 | -12.28 | -0.12 | -12.86 |
| Intermediate petrochemicals | 9,314,678 | 7,858,285 | 15.64 | -9.72 | -8.59 | -1.04 |
| Petroleum products | 22,135,936 | 20,264,188 | 8.46 ^{Note} | 1.51 | 10.77 | -7.64 |
| Trading of petrochemical products | 5,278,623 | 5,210,015 | 1.30 | -11.87 | -12.36 | 0.56 |
| Others | 482,448 | 395,834 | 17.95 | -2.37 | -1.81 | -0.47 |
| Including: connected transactions | 26,904,589 | 24,378,277 | 9.39 | -2.63 | 2.12 | -4.21 |

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

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

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

Note: The gross profit margin is calculated according to the price of petroleum products which includes consumption tax. The gross profit margin of petroleum products after deducting consumption tax amounts to -4.16%.

This includes a total amount of RMB26,388.104 million for the connected transactions in respect of the sale of products or the provision of services to the controlling shareholder and its subsidiaries, associates and jointly controlled entities by the Company during the Reporting Period.

(ii) Principal operations by geographical location

| Geographical location | Operating income (RMB'000) | Increase/decrease of operating income compared to the corresponding period of the previous year (%) |
|--|-------------------------------|---|
| Eastern China | 43,323,280 | |
| Other regions in the People's Republic of China("PRC") | 2,535,594 | -4.98 |
| Exports | 613,720 | -17.45 |

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

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

| Item | For the six-month period ended 30 June | | Increase/ decrease | | Reason for change |
|---|---|-----------------|-----------------------|---------------|--|
| | 2012 RMB'000 | 2011 RMB'000 | amount RMB'000 | Change (%) | |
| Financial expenses ("-" for financial income) | 193,087 | -14,132 | 207,219 | -1466% | The appreciation of the US dollar resulted in an increase in exchange loss, and the increase in borrowings resulted in an increase in interest expenses. |
| Non-operating income | 161,263 | 8,663 | 152,600 | 1762% | Refund of local education surcharge during the Reporting Period increased. |
| Operating profit ("-" for loss) | -1,695,130 | 1,818,377 | -3,513,507 | -193% | Gross profit decreased during the Reporting Period. |
| Profit before income tax ("-" for loss) | -1,558,652 | 1,805,805 | -3,364,457 | -186% | |
| Income tax expense | -377,530 | 417,894 | -795,424 | -190% | |
| Net profit for the period ("-" for net loss) | -1,181,122 | 1,387,911 | -2,569,033 | -185% | |
| Net profit attributable to equity shareholders of the Company ("-" for net loss) | -1,194,489 | 1,381,533 | -2,576,022 | -186% | |

| Item | As at 30 June 2012 RMB'000 | As at 31 December 2011 RMB'000 | Increase/ decrease amount RMB'000 | Change (%) | Reason for change |
|--------------------------|-------------------------------------|---|--|---------------|---|
| Inventories | 7,582,902 | 5,582,425 | 2,000,477 | 36% | The purchases of crude oil increased at the end of the Reporting Period. |
| Construction in progress | 5,409,157 | 3,882,992 | 1,526,165 | 39% | Balance of Refinery Revamping and Expansion Project increased at the end of the Reporting Period. |
| Short-term loans | 8,688,455 | 5,512,074 | 3,176,381 | 58% | The Company borrowed short-term loans to replenish the working capital during the Reporting Period. |
| Total liabilities | 16,630,628 | 12,727,501 | 3,903,127 | 31% | Loans and borrowings increased at the end of the Reporting Period. |

(3) Investment by the Company

(i) Application of capital raised

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

(ii) Major projects from non-raised capital

| Major project | Total project investment RMB million | Project progress as at 30 June 2012 |
|---|---|---|
| The Refinery Revamping and Expansion Project | 6,627.7 | Under construction |
| The Carbon Fiber Project with a Capacity of 1,500 tons/year | 847.8 | The first stage of the project was mechanically completed |
| The Up-grading Project for Optimisation of the System and Reduction in Energy and Feedstock Consumption of the No.2 PTA Plant | 185.6 | Completion and commencement of operation |
| No.5 and No.6 Furnace Secondary Desulfurization Project for Department of Thermoelectrics | 129.7 | Under construction |

(4) Warning and Explanation of the Forecast of A Possible Loss for the Period from the Beginning of the Year to the End of the Next Reporting Period, or A Significant Change in Profit or Loss Compared with the Corresponding Period of the Previous Year

Although the Chinese economy is expected to stabilise and pick up gradually given the effects of the pre-tuned and fine-tuned policy for “maintaining steady growth” in the second half of 2012, the extent of such pick-up will be limited. Given the heavy loss in the first half of 2012, the Group is expected to continue to incur a loss in the operating results for the nine-month period ending 30 September 2012.

(5) Cash Dividend Distribution Policy and its Implementation during the Reporting Period

The Articles of Association of the Company stipulate the profit appropriation policies, the dividend distribution standards and the specific proportions of the Company. Article 206 of the Articles of Association provides that:

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

The profit distribution policies of the Company are as follows:

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

During the Reporting Period, the Company devised the 2011 cash bonus distribution plan. The decision was made under sound and comprehensive procedures and mechanisms. The independent directors fulfilled their duties and responsibilities and played a proper role. Minority shareholders had the opportunity to fully express their views and appeals, and their legitimate rights and interests were fully safeguarded.

CHANGE IN SHARE CAPITAL AND SHAREHOLDERS

(1) Change in Share Capital

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

(2) Shareholders and Controlling Company of the Controlling Shareholder of the Company

1. Total number of shareholders and their shareholdings

Total number of shareholders as at the end of the Reporting Period: 109,768

Shareholdings of top ten shareholders:

| Name of shareholders | Type of shareholders | Percentage of total shareholding (%) | Number of shares held at the end of the Reporting Period (shares) | Increase(+) / decrease (-) during the Reporting Period (shares) | Type of shares | Number of non-circulating shares held or frozen (shares) | Number of shares pledged or frozen (shares) |
|---|-------------------------------------|--------------------------------------|---|---|-----------------|--|---|
| China Petroleum & Chemical Corporation | State-owned enterprise legal person | 55.56 | 4,000,000,000 | 0 | Non-circulating | 4,000,000,000 | Nil |
| HKSCC (Nominees) Limited | Foreign legal person | 31.86 | 2,294,120,101 | +170,000 | Circulating | - | Unknown |
| China Construction Bank - CIFM China Advantage Security Investment Fund | Others | 0.94 | 67,508,464 | -4,415,693 | Circulating | - | Unknown |
| ICBC - SWS MU New Economy Balanced Equity Fund | Others | 0.29 | 20,818,257 | -448,166 | Circulating | - | Unknown |
| Shanghai Kangli Gong Mao Company | Others | 0.23 | 16,730,000 | 0 | Non-circulating | 16,730,000 | Unknown |
| Zhejiang Economic Construction Investment Co., Ltd | Others | 0.17 | 12,000,000 | 0 | Non-circulating | 12,000,000 | Unknown |
| China Life Insurance Company Limited - Tradition - Ordinary Insurance Product - 005L-CT001 - Shanghai | Others | 0.17 | 11,648,194 | -760,000 | Circulating | - | Unknown |
| Shanghai Textile Development Corporation | Others | 0.08 | 5,650,000 | 0 | Non-circulating | 5,650,000 | Unknown |
| Shanghai Xiangshun Shiye Company Limited | Others | 0.08 | 5,500,000 | 0 | Non-circulating | 5,500,000 | Unknown |
| IP KOW | Others | 0.08 | 5,432,000 | 0 | Circulating | - | Unknown |

Top ten shareholders of shares in circulation:

| Name of shareholders | Number of circulating shares held (shares) | Type of shares |
|--|---|---------------------------------|
| HKSCC (Nominees) Limited | 2,294,120,101 | Overseas listed foreign shares |
| China Construction Bank - CIFM China Advantage Security Investment Fund | 67,508,464 | RMB-denominated ordinary shares |
| ICBC - SWS MU New Economy Balanced Equity Fund | 20,818,257 | RMB-denominated ordinary shares |
| China Life Insurance Company Limited - Tradition - Ordinary Insurance Product - 005L-CT001 Shanghai | 11,648,194 | RMB-denominated ordinary shares |
| IP KOW | 5,432,000 | Overseas listed foreign shares |
| Agricultural Bank of China Limited - New China Selected Growth Stock Fund | 4,518,720 | RMB-denominated ordinary shares |
| Industrial and Commercial Bank of China Limited - Harvest Theme New Power Stock Fund | 3,367,193 | RMB-denominated ordinary shares |
| Weng Xuejun | 3,120,000 | RMB-denominated ordinary shares |
| China Merchants Bank Co., Limited - Fortis Haitong Surging Return Mixed Type Fund | 3,029,933 | RMB-denominated ordinary shares |
| Changjiangwan Investments Group Limited | 2,900,085 | RMB-denominated ordinary shares |

| | |
|--|---|
| Description of any connected relationship or act-in-concert parties relationships among the above shareholders | Among the above-mentioned shareholders, China Petroleum & Chemical Corporation, the State-owned enterprise shareholder, does not have any connected relationship with the other shareholders, and is not an act-in-concert party of the other shareholders under the Administrative Measures on Acquisition of Listed Companies. Among the above-mentioned shareholders, HKSCC (Nominees) Limited is a nominee shareholder. Apart from the above, the Company is not aware of any other connected relationships among the other shareholders, or any act-in-concert parties under the Administrative Measures on Acquisition of Listed Companies. |
|--|---|

2. Change in controlling shareholder and controlling company of the controlling shareholder of the Company

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

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

As at 30 June 2012, the interests and short positions of the Company's substantial shareholders (including those who are entitled to exercise, or control the exercise of, 5% or more of the voting power at any general meeting of the Company) and other persons (excluding the Directors, Supervisors and Senior Management of the Company) who are required to disclose their interests pursuant to Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO") in the shares, underlying shares of equity derivatives or debentures of the Company as recorded in the register which is required to be kept under Section 336 of the SFO were as set out below:

(i) Interests in ordinary shares of the Company

| Name of shareholders | Number and type of shares held (shares) | % of total issued share capital | % of shareholding in the Company's total issued H shares | Capacity |
|--|--|---------------------------------|--|---|
| China Petroleum & Chemical Corporation | 4,000,000,000 Promoter legal person shares (L) | 55.56 | - | Beneficial owner |
| Government of Singapore Investment Corporation Pte Ltd | 140,005,700(L) | 1.94(L) | 6.01(L) | Beneficial owner; Investment managers; Other (Available-for-lending shares) |

(L): Long position

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

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

As at 30 June 2012, no short positions of substantial shareholders or other persons (excluding the Directors, Supervisors and Senior Management of the Company) who are required to disclose their interests pursuant to Part XV of the SFO in the shares, underlying shares of equity derivatives, or debentures of the Company were recorded in the register required to be kept under Section 336 of the SFO.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND OTHERS

(1) Shareholdings of Directors, Supervisors and Senior Management

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

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

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

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

Save as disclosed above, as at 30 June 2012, none of the Directors, Supervisors or Senior Management of the Company had any interests or short positions in any shares, underlying shares of equity derivatives or debentures of the Company or its associated corporations (within the meaning ascribed to it in Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code").

As at 30 June 2012, none of the Directors or Supervisors of the Company or their respective spouses and children under 18 years of age had been granted by the Company or had exercised any rights to subscribe for shares or debentures of the Company or any of its associated corporations.

(2) Appointment or Dismissal of Directors, Supervisors and Senior Management of the Company.

Due to the work allocation of Mr. Tang Chengjian, the Board terminated the appointment of Mr. Tang as the Company's Vice President on 17 May 2012 on the seventh meeting of the seventh session of the Board, by way of correspondence.

(3) Audit Committee

On 23 August 2012, the Audit Committee of the seventh session of the Board held its third meeting, primarily to review the interim financial report of the Group for the Reporting Period.

(4) Purchase, Sale and Redemption of the Company's Securities

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

(5) Compliance with Code on Corporate Governance Practices and Corporate Governance Code

During the Reporting Period, the Company has applied the principles and complied with all code provisions of the Code on Corporate Governance Practices during the period from 1 January 2012 to 31 March 2012 and the Corporate Governance Code (“CG Code”) during the period from 1 April 2012 to 30 June 2012 as set out in Appendix 14 to the Hong Kong Listing Rules, except for certain deviations from code provisions A.5.1 (in respect of establishment of nomination committee) and A.6.7 (in respect of attending general meetings by independent non-executive directors and other non-executive directors) of the CG Code as set out below.

For the purpose of compliance with the code provision A.5.1 of the CG Code in respect of establishment of nomination committee, the Board resolved on 29 March 2012 to establish a nomination committee, subject to the approval of shareholders at the annual general meeting of the Company. On 27 June 2012, the 2011 annual general meeting of the Company approved the establishment of the nomination committee.

Mr. Lei Dianwu, Non-executive Director of the Company, and Mr. Jin Mingda, Independent Non-executive Director of the Company, were absent from the 2011 annual general meeting of the Company held on 27 June 2012 due to business engagements.

(6) Implementation of Model Code

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

MAJOR EVENTS

(1) Current Status of Corporate Governance in the Company

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

Improvement to the legal person governance structure: During the Reporting Period, a nomination committee of the Board was established pursuant to the relevant laws and regulations of the places where the Company's shares are listed and in line with the actual situations upon approval by voting at the fifth meeting of the seventh session of the Board held on 29 March 2012 and at the 2011 annual general meeting of the Company held on 27 June 2012.

Improvement to the development of governance system: During the Reporting Period, the System for Registration of Persons with Access to Insider Information was established pursuant to the relevant requirements. With particular respect to the newly established Nomination Committee of the Board, the Rules of Procedure for the Nomination Committee of the Board were formulated to define its terms of reference and to regulate its proceedings and daily operations. Pursuant to the relevant requirements and in combination with the Company's actual situations, the Articles of Association and their appendices, the Rules of Procedure for the Remuneration and Appraisal Committee of the Board, the Rules of Procedure for the Audit Committee of the Board, the Work System for Independent Directors, the Work System for Investor Relations and the System Governing the Disclosure of Information were amended as well. The formulation of and amendments to the governance documents listed above were all considered and approved at the fifth meeting of the seventh session of the Board. The amendments to the Articles of Association and their appendices were also approved by vote at the 2011 annual general meeting of the Company.

(2) Implementation of the Profit Appropriation Plan during the Reporting Period

- (i) The 2011 Profit Distribution Plan was considered and approved at the 2011 annual general meeting held on 27 June 2012: a final dividend for 2011 amounting to RMB0.50 per 10 shares (tax inclusive) was distributed based on the total share capital of 7.2 billion shares as at 31 December 2011. The relevant announcement was published on the Shanghai Securities News and China Securities Journal dated 28 June 2012. An announcement regarding the distribution of cash dividends for A shares was published on 17 July 2012. The date of record for the distribution of dividends to holders of A-share was 20 July 2012, while the ex-dividend date was 23 July 2012. Dividends for A and H public shares were distributed on 27 July 2012. The profit distribution plan was carried out as scheduled.
- (ii) The Company will not distribute any interim profit for 2012 nor increase any capital from the capital reserve.

(3) Material Litigation or Arbitration

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

(4) Events regarding Bankruptcy and Restructuring

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

(5) Shareholdings by the Company in Other Listed Companies and in Financial Enterprises

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

(6) Acquisition or Disposal of Assets or Merger by Absorption during the Reporting Period

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

(7) Major Connected Transactions of the Company during the Reporting Period

(i) Connected transactions in relation to routine operations

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

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

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

The table below sets out the amount of the continuing connected transactions of the Company with Sinopec Corp. and Sinopec during the Reporting Period:

| Type of connected transactions | Connected parties | Annual cap for 2012 RMB'000 | Transaction amount during the Reporting Period RMB'000 | Percentage of the total amount of the type of transaction (%) |
|--------------------------------|-------------------|--------------------------------|---|--|
|--------------------------------|-------------------|--------------------------------|---|--|

Mutual Product Supply and Sale Services Framework Agreement

| | | | | |
|---------------------------------------|----------------------------------|------------|------------|--------|
| Purchase of raw materials | Sinopec Corp. and its associates | 57,700,000 | 28,045,054 | 63.41 |
| Sale of petroleum products | Sinopec Corp. and its associates | 52,000,000 | 18,885,862 | 40.67 |
| Sale of petrochemical products | Sinopec Corp. and its associates | 17,400,000 | 7,502,242 | 16.15 |
| Property leasing | Sinopec Corp. and its associates | 31,000 | 11,611 | 46.08 |
| Agency sale of petrochemical products | Sinopec Corp. and its associates | 310,000 | 99,763 | 100.00 |

Comprehensive Services Framework Agreement

| | | | | |
|--|----------------------------|---------|---------|-------|
| Construction, installation and engineering design services | Sinopec and its associates | 640,000 | 244,816 | 44.15 |
| Petrochemical industry insurance services | Sinopec and its associates | 141,000 | 65,657 | 92.59 |
| Financial services | Sinopec and its associates | 229,000 | 12,895 | 6.99 |

(ii) Connected creditor's rights and liabilities

| Connected party | Connected relationship | Funds provided to connected parties | | Funds provided by connected parties to the listed company | |
|---|---|-------------------------------------|-----------------------|---|---------------------------|
| | | Net transaction RMB'000 | Balance RMB'000 | Net transaction RMB'000 | Balance RMB'000 |
| Sinopec Corp., its subsidiaries and associates & Sinopec and its subsidiaries | Controlling shareholder and its related parties | (3,278) | 579 ^{Note 1} | 261,908 | 274,429 ^{Note 2} |

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

Note 2: The balance of the funds provided by connected parties to the Group at the end of the Reporting Period mainly included the balance of dividends payable amounting to RMB200 million due to Sinopec Corp. and unsettled payables arising from obtaining construction, installation and engineering design services from Sinopec and its subsidiaries.

(8) Material Contracts and the Performing of Obligations

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

- (1) Trust

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

- (2) Sub-contracting

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

- (3) Leasing

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

- (ii) Guarantees

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

- (iii) Trust financial management and entrusted loans

- (1) Trust financial management

There was no trust financial management obtained by the Company during the Reporting Period.

- (2) Entrusted loans

There was no entrusted loan obtained by the Company during the Reporting Period.

- (iv) Other material contracts

There was no other material contract during the Reporting Period.

(9) Performance of Undertakings

There was no undertaking by the Company, its controlling shareholder or controlling company of the controlling shareholder of the Company during and until the Reporting Period.

(10) Appointment and Dismissal of Accounting Firm

During the Reporting Period, the Company did not appoint new accounting firms.

In July 2012, the 2012 domestic auditors appointed by the Company, KPMG Huazhen, has completed a conversion to a Special General Partnership, as stipulated in the "Notice on the 'Sino-foreign Joint Venture Accounting Firms Localisation Conversion Programme'" (Caikuai [2012] No.8), and obtained its business licence in July 2012. Following the conversion, KPMG Huazhen's full name has been changed to KPMG Huazhen (Special General Partnership). The Special General Partnership has been approved to count its qualifying operating period and results to include those of the former entity, KPMG Huazhen. Its professional certifications (including securities and futures business qualifications) have also been extended.

KPMG Huazhen (Special General Partnership) and KPMG are the Company's domestic and international auditors. KPMG has issued a review report on the interim financial report prepared under the International Accounting Standard 34, Interim Financial Reporting for the Company.

(11) Disciplinary Actions upon the Company and its Directors, Supervisors, Senior Management, Shareholders and Controlling Company of the Controlling Shareholder

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

(12) Other Important Events

There was no other important event during the Reporting Period.

(13) Disclosure of Main Information

| Item | Publication | Publishing Date | Websites |
|---|---|-----------------|---|
| Announcement on Estimated Decrease in Annual Results of 2011 | “China Securities Journal”, “Shanghai Securities News” | 19 January 2012 | Websites of the Shanghai Stock Exchange (www.sse.com.cn), the Hong Kong Stock Exchange (www.hkex.com.hk) and the Company (www.spc.com.cn) |
| Resolutions of the 5th Meeting of the Seventh Session of the Board of Directors; Resolutions of the 4th Meeting of the Seventh Session of the Supervisory Committee; 2011 Annual Report Summary | “China Securities Journal”, “Shanghai Securities News” | 30 March 2012 | Same as above |
| 2012 First Quarterly Report | “China Securities Journal”, “Shanghai Securities News” | 28 April 2012 | Same as above |
| Notice of 2011 Annual General Meeting | “China Securities Journal”, “Shanghai Securities News” | 11 May 2012 | Same as above |
| Resolutions of the 7th Meeting of the Seventh Session of the Board of Directors | “China Securities Journal”, “Shanghai Securities News” | 18 May 2012 | Same as above |
| Resolutions Passed at the 2011 Annual General Meeting | “China Securities Journal”, “Shanghai Securities News” | 28 June 2012 | Same as above |

DOCUMENTS FOR INSPECTION

- (1) The Company's documents available for inspection comprise the following:
- i. 2012 interim report signed by the Chairman;
 - ii. Financial statements signed and sealed by the legal representative, chief financial officer and head of the accounting department of the Company;
 - iii. Original copies of all documents and announcements of the Company which were disclosed in the newspapers designated by the CSRC during the Reporting Period; and
 - iv. The Company's Articles of Association.
- (2) The Company has kept all the above documents in the Company's Secretariat Department the address of which is as follows:
- No.48 Jinyi Road, Jinshan District, Shanghai, PRC
- Postal code: 200540
- (3) All information required in paragraph 46 of Appendix 16 to the Hong Kong Listing Rules will be disclosed on the websites of the Hong Kong Stock Exchange and of the Company.

MAJOR FINANCIAL DATA AND INDICATORS

Prepared under CAS (Unaudited)

(1) Major Accounting Data and Financial Indicators

| | As at the end of the Reporting Period | As at the end of the previous year | Increase/decrease at the end of the Reporting Period as compared to the end of the previous year(%) |
|--|---|---|--|
| Total assets (RMB'000) | 33,482,137 | 31,110,085 | 7.62 |
| Total equity attributable to equity shareholders of the Company (RMB'000) | 16,594,614 | 18,112,483 | -8.38 |
| Net asset value per share attributable to equity shareholders of the Company (RMB/Share)* | 2.305 | 2.516 | -8.38 |
| | The Reporting Period (January to June) | Corresponding period of the previous year | Increase/decrease during the Reporting Period as compared to the corresponding period of the previous year (%) |
| Operating profit ("-" for loss) (RMB'000) | -1,695,130 | 1,818,377 | -193.22 |
| Profit before income tax ("-" for loss) (RMB'000) | -1,558,652 | 1,805,805 | -186.31 |
| Net profit attributable to equity shareholders of the Company ("-" for net loss) (RMB'000) | -1,194,489 | 1,381,533 | -186.46 |
| Net profit attributable to equity shareholders of the Company excluding non-recurring items ("-" for net loss) (RMB'000) | -1,298,177 | 1,391,700 | -193.28 |
| Basic earnings per share ("-" for loss) (RMB/Share) | -0.166 | 0.192 | -186.46 |
| Basic earnings per share excluding non-recurring items ("-" for loss) (RMB/Share) | -0.180 | 0.193 | -193.28 |
| Diluted earnings per share ("-" for loss) (RMB/Share) | -0.166 | 0.192 | -186.46 |
| Return on net assets (weighted average) (%)* | -6.883 | 7.565 | Decreased by 14.448 percentage points |
| Net cash inflow from operating activities (RMB'000) ("-" for outflow) | -1,066,238 | 1,115,924 | -195.55 |
| Net cash inflow per share from operating activities (RMB/Share) ("-" for outflow) | -0.148 | 0.155 | -195.55 |

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

(2) Non-recurring Items

| Non-recurring items | Amount RMB'000 |
|---|-------------------|
| Net loss from disposal of non-current assets | -5,381 |
| Employee reduction expenses | -7,153 |
| Government grants recorded through profit or loss (excluding those having close relationship with the Company's operation and enjoyed in fixed amount on quantity according to uniform national standard) | 138,064 |
| Income from external entrusted loans | 1,059 |
| Other non-operating income and expenses other than those mentioned above | 10,241 |
| Income tax effect | -32,630 |
| Effect on minority interests after taxation | -512 |
| Total | 103,688 |

(3) Differences between Interim Financial Report Prepared under CAS and IFRS

| | Net profit attributable to equity shareholders of the Company ("-" for net loss) | | Total equity attributable to equity shareholders of the Company | |
|---------------------|--|--|--|--|
| | The Reporting Period RMB'000 | Corresponding period of the previous year RMB'000 | At the end of the Reporting Period RMB'000 | At the beginning of the Reporting Period RMB'000 |
| Prepared under CAS | -1,194,489 | 1,381,533 | 16,594,614 | 18,112,483 |
| Prepared under IFRS | -1,151,524 | 1,425,719 | 16,414,039 | 17,925,563 |

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



**Review report to the board of directors of
Sinopec Shanghai Petrochemical Company Limited**

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

Introduction

We have reviewed the interim financial report set out on pages 30 to 52 which comprises the consolidated balance sheet of Sinopec Shanghai Petrochemical Company Limited as at 30 June 2012 and the related consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six-month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and International Accounting Standard 34, *Interim Financial Reporting*, issued by the International Accounting Standards Board. The directors are responsible for the preparation and presentation of the interim financial report in accordance with International Accounting Standard 34.

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

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2012 is not prepared, in all material respects, in accordance with International Accounting Standard 34, *Interim Financial Reporting*.

KPMG

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

24 August 2012

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

Consolidated Income Statement

for the six-month period ended 30 June 2012 (*unaudited*)

(Expressed in Renminbi)

| | Note | Six-month period ended 30 June | |
|---|------|--------------------------------|-----------------|
| | | 2012 RMB'000 | 2011 RMB'000 |
| Turnover | 3 | 46,442,079 | 49,500,789 |
| Sales taxes and surcharges | | (2,837,286) | (3,155,653) |
| Net sales | | 43,604,793 | 46,345,136 |
| Cost of sales | | (44,737,873) | (44,348,719) |
| Gross (loss)/profit | | (1,133,080) | 1,996,417 |
| Selling and administrative expenses | | (329,807) | (335,445) |
| Other operating income | | 166,778 | 27,866 |
| Other operating expenses | | (27,758) | (27,478) |
| (Loss)/profit from operations | | (1,323,867) | 1,661,360 |
| Financing income | | 48,948 | 131,303 |
| Financing expenses | | (242,035) | (117,171) |
| Net financing (costs)/income | | (193,087) | 14,132 |
| Investment income | | 6,446 | - |
| Share of profit of associates and jointly controlled entities | | 3,272 | 182,564 |
| (Loss)/profit before taxation | 3, 4 | (1,507,236) | 1,858,056 |
| Income tax | 5 | 369,079 | (425,959) |
| (Loss)/profit for the period | | (1,138,157) | 1,432,097 |
| Attributable to: | | | |
| Equity shareholders of the Company | | (1,151,524) | 1,425,719 |
| Non-controlling interests | | 13,367 | 6,378 |
| (Loss)/profit for the period | | (1,138,157) | 1,432,097 |
| (Loss)/earnings per share | 6 | | |
| Basic | | (RMB0.160) | RMB0.198 |
| Diluted | | (RMB0.160) | RMB0.198 |

The notes on pages 37 to 52 form part of this unaudited interim financial report.

Consolidated Statement of Comprehensive Income
for the six-month period ended 30 June 2012 (*unaudited*)
(Expressed in Renminbi)

| | <u>Six-month period ended 30 June</u> | |
|---|---------------------------------------|-----------------|
| | 2012 RMB'000 | 2011 RMB'000 |
| (Loss)/profit for the period | (1,138,157) | 1,432,097 |
| Other comprehensive income for the period | - | - |
| Total comprehensive (loss)/income for the period | (1,138,157) | 1,432,097 |
| Attributable to: | | |
| Equity shareholders of the Company | (1,151,524) | 1,425,719 |
| Non-controlling interests | 13,367 | 6,378 |
| Total comprehensive (loss)/income for the period | (1,138,157) | 1,432,097 |

The notes on pages 37 to 52 form part of this unaudited interim financial report.

Consolidated Balance Sheet
as at 30 June 2012 (*unaudited*)
(Expressed in Renminbi)

| | Note | 30 June 2012 RMB'000 | 31 December 2011 RMB'000 |
|--|-----------|----------------------------|--------------------------------|
| Non-current assets | | | |
| Property, plant and equipment | 8 | 12,335,855 | 12,501,980 |
| Investment property | | 445,930 | 452,555 |
| Construction in progress | | 5,404,497 | 3,852,692 |
| Interest in associates and jointly controlled entities | | 2,844,376 | 2,901,305 |
| Lease prepayments and other assets | | 863,177 | 825,250 |
| Deferred tax assets | | 900,773 | 519,269 |
| Total non-current assets | | 22,794,608 | 21,053,051 |
| Current assets | | | |
| Inventories | | 7,582,902 | 5,582,425 |
| Trade debtors | 9 | 86,156 | 121,936 |
| Bills receivable | 9 | 1,270,674 | 2,988,010 |
| Other debtors and prepayments | | 484,893 | 242,811 |
| Amounts due from related parties | 9, 14(c) | 690,773 | 639,286 |
| Cash and cash equivalents | 10 | 191,896 | 91,346 |
| Total current assets | | 10,307,294 | 9,665,814 |
| Current liabilities | | | |
| Loans and borrowings | 11 | 8,688,455 | 5,512,074 |
| Trade creditors | 12 | 2,175,537 | 3,126,495 |
| Bills payable | 12 | – | 15,688 |
| Other creditors | | 1,892,471 | 1,352,367 |
| Amounts due to related parties | 12, 14(c) | 2,936,671 | 2,242,868 |
| Income tax payable | | 6,494 | 22,340 |
| Total current liabilities | | 15,699,628 | 12,271,832 |
| Net current liabilities | | (5,392,334) | (2,606,018) |
| Total assets less current liabilities carried forward | | 17,402,274 | 18,447,033 |

The notes on pages 37 to 52 form part of this unaudited interim financial report.

Consolidated Balance Sheet *(continued)*as at 30 June 2012 *(unaudited)*

(Expressed in Renminbi)

| | Note | 30 June 2012 RMB'000 | 31 December 2011 RMB'000 |
|--|------|----------------------------|--------------------------------|
| Total assets less current liabilities brought forward | | 17,402,274 | 18,447,033 |
| <hr/> | | | |
| Non-current liabilities | | | |
| Loans and borrowings | 11 | 731,340 | 160,050 |
| Deferred income | | - | 91,319 |
| Total non-current liabilities | | 731,340 | 251,369 |
| <hr/> | | | |
| Net assets | | 16,670,934 | 18,195,664 |
| <hr/> | | | |
| Shareholders' equity | | | |
| Share capital | 13 | 7,200,000 | 7,200,000 |
| Reserves | | 9,214,039 | 10,725,563 |
| Total equity attributable to equity shareholders of the Company | | 16,414,039 | 17,925,563 |
| Non-controlling interests | | 256,895 | 270,101 |
| Total equity | | 16,670,934 | 18,195,664 |

Approved and authorised for issue by the Board of Directors on 24 August 2012.

Rong Guangdao*Chairman***Wang Zhiqing***Vice Chairman and President*

The notes on pages 37 to 52 form part of this unaudited interim financial report.

Consolidated Statement of Changes in Equity

for the six-month period ended 30 June 2012 (*unaudited*)

(Expressed in Renminbi)

| | Note | Attributable to equity shareholders of the Company | | | | Non-controlling interests | Total Equity | |
|---|------|--|---------------|-----------|-------------------|---------------------------|--------------|------------|
| | | Share capital | Share premium | Reserves | Retained earnings | | | |
| | | RMB'000 | RMB'000 | RMB'000 | RMB'000 | | | |
| Balance at 1 January 2011, as previously reported | | 7,200,000 | 2,420,841 | 4,936,890 | 3,002,933 | 17,560,664 | 259,853 | 17,820,517 |
| Impact of change in accounting policy | | - | - | 148,604 | (19,811) | 128,793 | - | 128,793 |
| Restated balance at 1 January 2011 | | 7,200,000 | 2,420,841 | 5,085,494 | 2,983,122 | 17,689,457 | 259,853 | 17,949,310 |
| Changes in equity for the period: | | | | | | | | |
| Profit for the period | | - | - | - | 1,425,719 | 1,425,719 | 6,378 | 1,432,097 |
| Other comprehensive income | | - | - | - | - | - | - | - |
| Total comprehensive income for the period | | - | - | - | 1,425,719 | 1,425,719 | 6,378 | 1,432,097 |
| Dividends approved in respect of the previous year | 7 | - | - | - | (720,000) | (720,000) | - | (720,000) |
| Dividends paid by subsidiaries to non-controlling interests | | - | - | - | - | - | (20,168) | (20,168) |
| Appropriation of safety production fund | 13 | - | - | 84,806 | (84,806) | - | - | - |
| Balance as at 30 June 2011 | | 7,200,000 | 2,420,841 | 5,170,300 | 3,604,035 | 18,395,176 | 246,063 | 18,641,239 |

The notes on pages 37 to 52 form part of this unaudited interim financial report.

Consolidated Statement of Changes in Equity *(continued)*

for the six-month period ended 30 June 2012 *(unaudited)*

(Expressed in Renminbi)

| Note | Attributable to equity shareholders of the Company | | | | | Non-controlling interests | Total Equity |
|---|--|---------------|-----------|-------------------|-------------|---------------------------|--------------|
| | Share capital | Share premium | Reserves | Retained earnings | Total | | |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | | |
| Balance at 1 January 2012 | 7,200,000 | 2,420,841 | 5,177,727 | 3,126,995 | 17,925,563 | 270,101 | 18,195,664 |
| Changes in equity for the period: | | | | | | | |
| (Loss)/profit for the period | - | - | - | (1,151,524) | (1,151,524) | 13,367 | (1,138,157) |
| Other comprehensive income | - | - | - | - | - | - | - |
| Total comprehensive (loss)/ income for the period | - | - | - | (1,151,524) | (1,151,524) | 13,367 | (1,138,157) |
| Dividends approved in respect of the previous year | 7 | - | - | (360,000) | (360,000) | - | (360,000) |
| Dividends paid by subsidiaries to non-controlling interests | | - | - | - | - | (26,573) | (26,573) |
| Appropriation of safety production fund | 13 | - | - | 36,620 | (36,620) | - | - |
| Balance at 30 June 2012 | 7,200,000 | 2,420,841 | 5,214,347 | 1,578,851 | 16,414,039 | 256,895 | 16,670,934 |

The notes on pages 37 to 52 form part of this unaudited interim financial report.

Condensed Consolidated Statement of Cash Flows
for the six-month period ended 30 June 2012 *(unaudited)*
(Expressed in Renminbi)

| | Note | Six-month period ended 30 June | |
|--|------|--------------------------------|-----------------|
| | | 2012 RMB'000 | 2011 RMB'000 |
| Cash (used in)/ generated from operations | | (1,037,967) | 1,135,417 |
| Interest paid | | (219,231) | (150,357) |
| Income tax paid | | (28,271) | (19,493) |
| Net cash (used in)/ generated from operating activities | | (1,285,469) | 965,567 |
| Net cash used in investing activities | | (2,265,395) | (833,659) |
| Net cash generated from financing activities | | 3,651,423 | 105,188 |
| Net increase in cash and cash equivalents | | 100,559 | 237,096 |
| Cash and cash equivalents at 1 January | 10 | 91,346 | 100,110 |
| Effect of exchange rate fluctuations on cash held | | (9) | (200) |
| Cash and cash equivalents at 30 June | 10 | 191,896 | 337,006 |

The notes on pages 37 to 52 form part of this unaudited interim financial report.

Notes to the Unaudited Interim Financial Report for the six-month period ended 30 June 2012

1. Principal activities and basis of preparation

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

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

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

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2011 annual financial statements.

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

The financial information relating to the financial year ended 31 December 2011 that is included in the interim financial report as being previously reported information does not constitute the Company’s statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2011 are available from the Company’s registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 29 March 2012.

2. Change in accounting policies

The IASB has issued a few amendments to International Financial Reporting Standards (“IFRSs”) that are first effective for the current accounting period of the Group. None of the developments are relevant to the Group’s financial report and the Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

3. Segment reporting

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

| | Six-month period ended 30 June | |
|--|---------------------------------------|---------------------|
| | 2012 | 2011 |
| | RMB'000 | RMB'000 |
| <i>Turnover</i> | | |
| Manufactured Products | | |
| Synthetic fibres | | |
| - External sales | 1,719,557 | 2,320,085 |
| - Intersegment sales | 73 | 81 |
| Total | 1,719,630 | 2,320,166 |
| ----- | | |
| Resins and plastics | | |
| - External sales | 7,541,352 | 8,597,308 |
| - Intersegment sales | 48,244 | 57,158 |
| Total | 7,589,596 | 8,654,466 |
| ----- | | |
| Intermediate petrochemicals | | |
| - External sales (note a) | 9,314,678 | 10,317,965 |
| - Intersegment sales | 9,734,781 | 10,588,623 |
| Total | 19,049,459 | 20,906,588 |
| ----- | | |
| Petroleum products | | |
| - External sales (note a) | 22,135,936 | 21,806,087 |
| - Intersegment sales | 3,886,484 | 3,409,625 |
| Total | 26,022,420 | 25,215,712 |
| ----- | | |
| Trading of petrochemical products | | |
| - External sales (note a) | 5,278,623 | 5,989,376 |
| - Intersegment sales | 1,256,624 | 1,735,103 |
| Total | 6,535,247 | 7,724,479 |
| ----- | | |
| Others | | |
| - External sales (note a) | 451,933 | 469,968 |
| - Intersegment sales | 407,376 | 512,269 |
| Total | 859,309 | 982,237 |
| ----- | | |
| Elimination of intersegment sales | (15,333,582) | (16,302,859) |
| ----- | | |
| Turnover | 46,442,079 | 49,500,789 |

3. Segment reporting *(continued)*

| | Six-month period ended 30 June | |
|--|---------------------------------------|-----------|
| | 2012 | 2011 |
| | RMB'000 | RMB'000 |
| <i>(Loss)/profit before taxation</i> | | |
| (Loss)/profit from operations | | |
| Synthetic fibres | (165,655) | 364,407 |
| Resins and plastics | (865,462) | 43,349 |
| Intermediate petrochemicals | 678,635 | 1,044,617 |
| Petroleum products | (1,074,343) | 144,960 |
| Trading of petrochemical products | 29,321 | 7,968 |
| Others | 73,637 | 56,059 |
| Consolidated (loss)/profit from operations | (1,323,867) | 1,661,360 |
| Net financing (costs)/income | (193,087) | 14,132 |
| Investment income | 6,446 | - |
| Share of profit of associates and jointly controlled entities | 3,272 | 182,564 |
| (Loss)/profit before taxation | (1,507,236) | 1,858,056 |

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

| | Six-month period ended 30 June | |
|-----------------------------------|---------------------------------------|------------|
| | 2012 | 2011 |
| | RMB'000 | RMB'000 |
| Intermediate petrochemicals | 2,646,674 | 3,201,242 |
| Petroleum products | 18,885,862 | 18,867,720 |
| Trading of petrochemical products | 3,755,301 | 4,016,116 |
| Others | 242,239 | 208,979 |
| Total | 25,530,076 | 26,294,057 |

Segment assets

The major changes in segment assets during the period relate to additions of construction in progress and inventory balance in petroleum products segment. The total segment assets of the petroleum products segment at 30 June 2012 were RMB 17,395,472,000 (31 December 2011: RMB 14,401,380,000).

4. (Loss)/profit before taxation

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

| | Six-month period ended 30 June | |
|--|--------------------------------|-----------------|
| | 2012 RMB'000 | 2011 RMB'000 |
| (a) Net financing costs / (income) | | |
| Interest on bank loans and advances | 233,356 | 133,451 |
| Less: Amount capitalised into construction in progress | (50,504) | (16,280) |
| Interest expenses, net | 182,852 | 117,171 |
| Net foreign exchange loss | 59,183 | – |
| Total financing expenses | 242,035 | 117,171 |
| Net foreign exchange gain | – | (88,429) |
| Interest income | (48,948) | (42,874) |
| Total financing income | (48,948) | (131,303) |
| (b) Other items | | |
| Amortisation of lease prepayments | 9,162 | 9,201 |
| Depreciation | 829,987 | 821,511 |
| Research and development costs | 16,232 | 25,138 |
| Write-down of inventories | 235,350 | 128,602 |
| Impairment loss on property, plant and equipment | – | 10,552 |
| Net loss on disposal of property, plant and equipment | 11,827 | 7,198 |
| Refund of education surcharges | (114,343) | – |

5. Income tax

| | Six-month period ended 30 June | |
|---|--------------------------------|---------|
| | 2012 | 2011 |
| | RMB'000 | RMB'000 |
| Provision for PRC income tax for the period | 12,425 | 7,855 |
| Deferred taxation | (381,504) | 418,104 |
| | (369,079) | 425,959 |

The provision for PRC income tax is calculated at the rate of 25% (2011: 25%) on the estimated assessable income of the period determined in accordance with relevant income tax rules and regulations. The Company did not carry out business overseas and therefore does not incur overseas income taxes.

6. (Loss)/earnings per share

The calculation of basic loss per share is based on the loss attributable to equity shareholders of the Company for the six-month period ended 30 June 2012 of RMB 1,151,524,000 (six-month period ended 30 June 2011: profit of RMB 1,425,719,000) and 7,200,000,000 (six-month period ended 30 June 2011: 7,200,000,000) shares in issue during the interim period.

The Group had no dilutive potential ordinary shares in existence during the six-month periods ended 30 June 2012 and 2011.

7. Dividends

| | Six-month period ended 30 June | |
|--|--------------------------------|---------|
| | 2012 | 2011 |
| | RMB'000 | RMB'000 |
| Final dividend in respect of the previous financial year, approved during the period, of RMB 0.05 per share (2011: RMB 0.10 per share) | 360,000 | 720,000 |

Pursuant to a resolution passed at the Annual General Meeting held on 27 June 2012, a final dividend of RMB 360,000,000 was declared and approved for the year ended 31 December 2011 (2010: RMB 720,000,000).

The Board of Directors did not declare the payment of an interim dividend for the period (2011: RMB nil).

8. Property, plant and equipment

Acquisitions and disposals

The acquisitions and disposals of items of property, plant and equipment during the six-month periods ended 30 June 2012 and 2011 are as follows:

| | Six-month period ended 30 June | |
|--|--------------------------------|----------|
| | 2012 | 2011 |
| | RMB'000 | RMB'000 |
| Cost of acquisition and transfer from construction in progress | 704,340 | 120,197 |
| Disposals (net carrying amount) | (47,103) | (10,024) |

9. Trade receivables

| | 30 June 2012 RMB'000 | 31 December 2011 RMB'000 |
|--|-------------------------------------|--------------------------------|
| Trade debtors | 90,582 | 126,671 |
| Less: Impairment losses for bad and doubtful debts | (4,426) | (4,735) |
| | 86,156 | 121,936 |
| Bills receivable | 1,270,674 | 2,988,010 |
| Amounts due from related parties | 690,773 | 639,286 |
| | 2,047,603 | 3,749,232 |

Amounts due from related parties represent trade-related balances.

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

| | 30 June 2012 RMB'000 | 31 December 2011 RMB'000 |
|---------------------------|-------------------------------------|--------------------------------|
| Invoice date: | | |
| Within one year | 2,047,484 | 3,748,135 |
| Between one and two years | 119 | 1,097 |
| | 2,047,603 | 3,749,232 |

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

10. Cash and cash equivalents

| | 30 June 2012 RMB'000 | 31 December 2011 RMB'000 |
|------------------------------------|-------------------------------------|--------------------------------|
| Cash deposits with a related party | 2,089 | 1,093 |
| Cash at bank and in hand | 189,807 | 90,253 |
| | 191,896 | 91,346 |

11. Loans and borrowings

| | 30 June 2012 RMB'000 | 31 December 2011 RMB'000 |
|------------------------------------|-------------------------------------|--------------------------------|
| Short term loans | 8,688,455 | 5,512,074 |
| Long term loans | | |
| -Between one and two years | - | 125,000 |
| -Between four years and five years | 731,340 | 35,050 |
| | 9,419,795 | 5,672,124 |

12. Trade payables

| | 30 June 2012 RMB'000 | 31 December 2011 RMB'000 |
|--------------------------------|-------------------------------------|--------------------------------|
| Trade creditors | 2,175,537 | 3,126,495 |
| Bills payable | - | 15,688 |
| Amounts due to related parties | 2,936,671 | 2,242,868 |
| | 5,112,208 | 5,385,051 |

12. Trade payables (continued)

The maturity analysis of trade accounts payable is as follows:

| | 30 June 2012 RMB'000 | 31 December 2011 RMB'000 |
|---|-------------------------------------|--------------------------------|
| Due within one month or on demand | 4,899,411 | 5,166,297 |
| Due after one month but within three months | 212,797 | 218,754 |
| | 5,112,208 | 5,385,051 |

13. Reserves

For the six-month period ended 30 June 2012, the Group transferred RMB 36,620,000 (2011: RMB 84,806,000) from retained earnings to reserves for the safety production fund determined according to relevant PRC regulations.

For the six-month periods ended 30 June 2012 and 2011, no transfers were made to the statutory surplus reserve or the discretionary surplus reserve.

14. Related party transactions

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

| <u>Names of related parties</u> | <u>Relationship with the Company</u> |
|--|--|
| China Petrochemical Corporation ("Sinopec Group") | Ultimate parent company |
| China Petroleum & Chemical Corporation | 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 Chemical Commercial Holding 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 |
| Shanghai Secco Petrochemical Co., Ltd. | Associate |
| BOC-SPC Gases Co., Ltd. | Jointly controlled entity |

14. Related party transactions *(continued)*

- (a) Most of the transactions undertaken by the Group during the six-month period ended 30 June 2012 have been affected on such terms as determined by Sinopec Corp and relevant PRC authorities.

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

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

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

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

Transactions between the Group and Sinopec Corp, its subsidiaries and jointly controlled entities during the six-month periods ended 30 June 2012 and 2011 were as follows:

| | Six-month period ended 30 June | |
|-------------------------------------|--------------------------------|------------|
| | 2012 | 2011 |
| | RMB'000 | RMB'000 |
| Sales of petroleum products | 18,885,862 | 18,867,720 |
| Sales other than petroleum products | 6,644,214 | 7,426,337 |
| Purchases of crude oil | 21,228,750 | 21,816,513 |
| Purchases other than crude oil | 5,222,139 | 3,941,887 |
| Sales commissions | 99,763 | 103,970 |
| Rental income | 11,611 | 11,639 |

14. Related party transactions (continued)

(b) Other transactions between the Group and Sinopec Group and its subsidiaries, associates and jointly controlled entities of the Group during the six-month periods ended 30 June 2012 and 2011 were as follows:

| | Six-month period ended 30 June | |
|---|---------------------------------------|-----------|
| | 2012 | 2011 |
| | RMB'000 | RMB'000 |
| Sales of goods and service fee income | | |
| - Sinopec Group and its subsidiaries | 247,137 | 138,291 |
| - Associates and jointly controlled entities of the Group | 1,127,376 | 1,198,807 |
| | 1,374,513 | 1,337,098 |
| Purchases | | |
| - Sinopec Group and its subsidiaries | 8,877 | 16,143 |
| - Associates and jointly controlled entities of the Group | 1,974,836 | 2,680,317 |
| | 1,983,713 | 2,696,460 |
| Insurance premiums | | |
| - Sinopec Group and its subsidiaries | 65,657 | 66,075 |
| Interest income | | |
| - Sinopec Finance | 260 | 361 |
| Loans borrowed | | |
| - Sinopec Finance | 2,143,883 | 2,570,000 |
| Loans repayment | | |
| - Sinopec Finance | 2,350,000 | 2,970,000 |
| Interest expenses | | |
| - Sinopec Finance | 13,155 | 11,911 |
| Construction and installation cost | | |
| - Sinopec Group and its subsidiaries | 244,816 | 55,348 |

The directors of the Company are of the opinion that the transactions with Sinopec Corp, its subsidiaries and jointly controlled entities, Sinopec Group and its subsidiaries, associates and jointly controlled entities of the Group as disclosed in notes 14(a) and 14(b) were conducted in the ordinary course of business, on normal commercial terms and in accordance with the agreements governing such transactions.

14. Related party transactions *(continued)*

- (c) The relevant amounts due from/to Sinopec Corp, its subsidiaries and jointly controlled entities, Sinopec Group and its subsidiaries, associates and jointly controlled entities of the Group, arising from purchases, sales and other transactions as disclosed in notes 14(a) and 14(b), are summarised as follows:

| | 30 June 2012 RMB'000 | 31 December 2011 RMB'000 |
|--|-------------------------------------|--------------------------------|
| Amounts due from related parties | | |
| - Sinopec Corp, its subsidiaries and jointly controlled entities | 575,503 | 553,562 |
| - Sinopec Group and its subsidiaries | 2,638 | 1,910 |
| - Associates and jointly controlled entities of the Group | 112,632 | 83,814 |
| Total | 690,773 | 639,286 |
| Amounts due to related parties | | |
| - Sinopec Corp, its subsidiaries and jointly controlled entities | 2,626,030 | 2,027,816 |
| - Sinopec Group and its subsidiaries | 62,746 | 10,081 |
| - Associates and jointly controlled entities of the Group | 247,895 | 204,971 |
| Total | 2,936,671 | 2,242,868 |
| Cash deposits, maturing within three months | | |
| - Sinopec Finance | 2,089 | 1,093 |
| Short-term loans | | |
| - Sinopec Finance | 453,883 | 660,000 |

14. Related party transactions (continued)

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

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

| | Six-month period ended 30 June | |
|------------------------------|--------------------------------|---------|
| | 2012 | 2011 |
| | RMB'000 | RMB'000 |
| Short-term employee benefits | 5,494 | 4,833 |
| Post-employment benefits | 84 | 73 |
| | 5,578 | 4,906 |

Post-employment benefits are included in "contributions to defined contribution retirement plans" as disclosed in note 14(e).

(e) Contributions to defined contribution retirement plans

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

| | Six-month period ended 30 June | |
|---------------------------------------|--------------------------------|---------|
| | 2012 | 2011 |
| | RMB'000 | RMB'000 |
| Municipal retirement scheme costs | 128,042 | 114,322 |
| Supplementary retirement scheme costs | 34,245 | 29,500 |

At 30 June 2012 and 31 December 2011, there was no material outstanding contribution to the above defined contributions retirement plans.

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

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

14. Related party transactions *(continued)*

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

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

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

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

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

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

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

During the six-month periods ended 30 June 2012 and 2011, the aggregate amount of crude oil purchased by the Group from the above state-controlled energy and chemical companies are as follows:

| | Six-month period ended 30 June | |
|------------------------|--------------------------------|-----------|
| | 2012 | 2011 |
| | RMB'000 | RMB'000 |
| Purchases of crude oil | 6,483,348 | 6,849,638 |

Prepayments for purchases of crude oil made to the above state-controlled energy and chemical companies were RMB 1,638,000 as at 30 June 2012 (31 December 2011: RMB 8,747,000).

14. Related party transactions (continued)

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

(ii) Transactions with state-controlled banks

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

| | Six-month period ended 30 June | |
|-------------------|--------------------------------|-----------------|
| | 2012 RMB'000 | 2011 RMB'000 |
| Interest income | 8,828 | 9,975 |
| Interest expenses | 220,201 | 121,540 |

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

| | 30 June 2012 RMB'000 | 31 December 2011 RMB'000 |
|--|--|--------------------------------|
| | Cash and cash equivalents at state-controlled banks in PRC | 189,807 |
| Short-term loans | 8,234,572 | 4,852,074 |
| Long-term loans | 731,340 | 160,050 |
| Total loans from state-controlled banks in the PRC | 8,965,912 | 5,012,124 |

(g) Commitments with related parties

| | 30 June 2012 RMB'000 | 31 December 2011 RMB'000 |
|--|---|--------------------------------|
| | Construction and installation cost: - Sinopec Group and its subsidiaries | 177,004 |

Except for the above, the Group had no other material commitments with related parties at 30 June 2012 and 31 December 2011, which are contracted, but not included in the interim financial report.

15. Capital commitments

| | 30 June 2012 RMB'000 | 31 December 2011 RMB'000 |
|--------------------------------------|-------------------------------------|--------------------------------|
| <u>Property, plant and equipment</u> | | |
| Contracted but not provided for | 881,300 | 2,817,581 |
| Authorised but not contracted for | 2,672,580 | 2,708,271 |
| | 3,553,880 | 5,525,852 |

16. Contingent liabilities

(a) Income tax differences

In June 2007, the State Administrative of Taxation issued a tax circular (Circular No.664) to the local tax authorities requesting the relevant local tax authorities to rectify the applicable enterprise income tax ("EIT") for nine listed companies, which included the Company. After the notice was issued, the Company was required by the relevant tax authority to settle the EIT for 2007 at a rate of 33 percent. To date, the Company has not been requested by the tax authorities to pay additional EIT in respect of any years prior to 2007. There is no further development of this matter during the period ended 30 June 2012. No provision has been made in this interim financial report for this uncertainty because management believes it is not probable that the Group will be required to pay additional EIT for tax years prior to 2007.

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

17. Possible impact of amendments, new standards and interpretations issued but not yet effective for the annual accounting period ending 31 December 2012

Up to the date of issue of the interim financial report, the IASB has issued a number of amendments, new standards and interpretations which are not yet effective for the annual accounting period ending 31 December 2012 and which have not been adopted in the interim financial report.

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

B. Interim Financial Statements Prepared under China Accounting Standards for Business Enterprises *(unaudited)*

Consolidated Balance Sheet

As at 30 June 2012 *(unaudited)*

Expressed in thousands of Renminbi Yuan

| Assets | Note | At 30 June 2012 | At 31 December 2011 |
|---------------------------------|-------|-------------------|---------------------|
| Current assets: | | | |
| Cash at bank and on hand | 5(1) | 191,896 | 91,346 |
| Bills receivable | 5(2) | 1,329,653 | 3,131,579 |
| Accounts receivable | 5(3) | 702,852 | 609,906 |
| Prepayments | 5(4) | 55,772 | 43,160 |
| Dividends receivable | | 14,921 | - |
| Other receivables | 5(5) | 62,595 | 46,994 |
| Inventories | 5(6) | 7,582,902 | 5,582,425 |
| Other current assets | 5(7) | 366,703 | 160,404 |
| | | | |
| Total current assets | | 10,307,294 | 9,665,814 |
| Non-current assets: | | | |
| Long-term equity investments | 5(8) | 3,039,376 | 3,101,305 |
| Investment properties | 5(9) | 445,930 | 452,555 |
| Fixed assets | 5(10) | 12,504,411 | 12,659,332 |
| Construction in progress | 5(11) | 5,409,157 | 3,882,992 |
| Intangible assets | 5(12) | 506,736 | 519,198 |
| Long-term deferred expenses | 5(13) | 356,441 | 306,052 |
| Deferred tax assets | 5(14) | 912,792 | 522,837 |
| | | | |
| Total non-current assets | | 23,174,843 | 21,444,271 |
| | | | |
| Total assets | | 33,482,137 | 31,110,085 |

The notes on pages 65 to 171 form part of these interim financial statements.

Consolidated Balance Sheet *(continued)*

As at 30 June 2012 *(unaudited)*

Expressed in thousands of Renminbi Yuan

| Liabilities and shareholders' equity | Note | At 30 June 2012 | At 31 December 2011 |
|--|-------|-------------------|---------------------|
| Current liabilities: | | | |
| Short-term loans | 5(16) | 8,688,455 | 5,512,074 |
| Bills payable | | - | 15,688 |
| Accounts payable | 5(17) | 4,554,250 | 4,650,007 |
| Advances from customers | 5(18) | 482,044 | 706,835 |
| Employee benefits payable | 5(19) | 48,944 | 46,140 |
| Taxes payable | 5(20) | 438,300 | 507,938 |
| Interest payable | 5(21) | 23,567 | 9,442 |
| Dividends payable | 5(22) | 360,079 | 22,599 |
| Other payables | 5(23) | 1,103,989 | 801,109 |
| | | | |
| Total current liabilities | | 15,699,628 | 12,271,832 |
| | | | |
| Non-current liabilities: | | | |
| Long-term loans | 5(24) | 731,340 | 160,050 |
| Other non-current liabilities | 5(25) | 199,660 | 295,619 |
| | | | |
| Total non-current liabilities | | 931,000 | 455,669 |
| | | | |
| Total liabilities | | 16,630,628 | 12,727,501 |
| | | | |
| Shareholders' equity: | | | |
| Share capital | 5(26) | 7,200,000 | 7,200,000 |
| Capital reserve | 5(27) | 2,914,763 | 2,914,763 |
| Specific reserve | 5(28) | 58,397 | 21,777 |
| Surplus reserve | 5(29) | 5,151,770 | 5,151,770 |
| Retained earnings | 5(30) | 1,269,684 | 2,824,173 |
| Total equity attributable to equity shareholders of the Company | | 16,594,614 | 18,112,483 |
| Minority interests | | 256,895 | 270,101 |
| Total equity | | 16,851,509 | 18,382,584 |
| | | | |
| Total liabilities and shareholders' equity | | 33,482,137 | 31,110,085 |

The notes on pages 65 to 171 form part of these interim financial statements.

Balance Sheet

As at 30 June 2012 (*unaudited*)

Expressed in thousands of Renminbi Yuan

| Assets | Note | At 30 June 2012 | At 31 December 2011 |
|---------------------------------|--------|-------------------|---------------------|
| Current assets: | | | |
| Cash at bank and on hand | 10(1) | 140,173 | 61,057 |
| Bills receivable | 10(2) | 1,242,587 | 2,941,248 |
| Accounts receivable | 10(3) | 557,837 | 538,149 |
| Prepayments | | 88,759 | 51,583 |
| Dividends receivable | | 14,921 | - |
| Other receivables | 10(4) | 23,138 | 10,592 |
| Inventories | 10(5) | 7,330,740 | 5,281,885 |
| Other current assets | 10(6) | 282,441 | 55,921 |
| | | | |
| Total current assets | | 9,680,596 | 8,940,435 |
| | | | |
| Non-current assets: | | | |
| Long-term equity investments | 10(7) | 4,051,379 | 4,105,694 |
| Investment properties | 10(8) | 445,930 | 452,555 |
| Fixed assets | 10(9) | 11,965,452 | 12,136,472 |
| Construction in progress | 10(10) | 5,409,157 | 3,812,222 |
| Intangible assets | 10(11) | 412,871 | 419,387 |
| Long-term deferred expenses | 10(12) | 342,165 | 306,052 |
| Deferred tax assets | 10(13) | 912,499 | 522,544 |
| | | | |
| Total non-current assets | | 23,539,453 | 21,754,926 |
| | | | |
| Total assets | | 33,220,049 | 30,695,361 |

The notes on pages 65 to 171 form part of these interim financial statements.

Balance Sheet *(continued)*As at 30 June 2012 *(unaudited)*

Expressed in thousands of Renminbi Yuan

| Liabilities and shareholders' equity | Note | At 30 June 2012 | At 31 December 2011 |
|---|--------|------------------------|---------------------|
| Current liabilities: | | | |
| Short-term loans | 10(15) | 8,744,755 | 5,526,574 |
| Bills payable | | - | 15,688 |
| Accounts payable | | 4,351,100 | 4,377,765 |
| Advances from customers | | 438,485 | 674,368 |
| Employee benefits payable | | 43,528 | 41,506 |
| Taxes payable | 10(16) | 428,598 | 481,854 |
| Interest payable | | 23,567 | 9,434 |
| Dividends payable | | 360,000 | 22,599 |
| Other payables | | 1,558,328 | 1,256,888 |
| Non-current liabilities due within one year | 10(17) | - | 45,000 |
| | | | |
| Total current liabilities | | 15,948,361 | 12,451,676 |
| | | | |
| Non-current liabilities: | | | |
| Long-term loans | 10(18) | 700,000 | 135,000 |
| Other non-current liabilities | 5(25) | 199,660 | 295,619 |
| | | | |
| Total non-current liabilities | | 899,660 | 430,619 |
| | | | |
| Total liabilities | | 16,848,021 | 12,882,295 |
| | | | |
| Shareholders' equity: | | | |
| Share capital | 5(26) | 7,200,000 | 7,200,000 |
| Capital reserve | 5(27) | 2,914,763 | 2,914,763 |
| Specific reserve | 10(19) | 48,075 | 14,272 |
| Surplus reserve | 5(29) | 5,151,770 | 5,151,770 |
| Retained earnings | | 1,057,420 | 2,532,261 |
| | | | |
| Total equity | | 16,372,028 | 17,813,066 |
| | | | |
| Total liabilities and shareholders' equity | | 33,220,049 | 30,695,361 |

The notes on pages 65 to 171 form part of these interim financial statements.

Consolidated Income Statement

For the six-month period ended 30 June 2012 (*unaudited*)

Expressed in thousands of Renminbi Yuan

| | Note | Six-month period ended 30 June | |
|--|-------|--------------------------------|------------|
| | | 2012 | 2011 |
| Operating income | 5(31) | 46,472,594 | 49,524,992 |
| Less: Operating costs | 5(31) | 43,448,096 | 43,007,104 |
| Business taxes and surcharges | 5(32) | 2,837,286 | 3,155,653 |
| Selling and distribution expenses | 5(33) | 329,807 | 335,445 |
| General and administrative expenses | 5(34) | 1,178,587 | 1,243,528 |
| Financial expenses ("-" for financial income) | 5(35) | 193,087 | -14,132 |
| Impairment losses | 5(36) | 185,579 | 156,581 |
| Add: Investment income | 5(37) | 4,718 | 177,564 |
| Including: Income from investment in associates and jointly controlled enterprises("-" for losses) | | -1,728 | 177,564 |
| Operating profit("-" for loss) | | -1,695,130 | 1,818,377 |
| Add: Non-operating income | 5(38) | 161,263 | 8,663 |
| Less: Non-operating expenses | 5(39) | 24,785 | 21,235 |
| Including: Losses from disposal of non-current assets | | 12,357 | 9,133 |
| Profit before income tax("-" for loss) | | -1,558,652 | 1,805,805 |
| Less: Income tax expense | 5(40) | -377,530 | 417,894 |
| Net profit for the period("-" for net loss) | | -1,181,122 | 1,387,911 |
| Attributable to: Equity shareholders of the Company | | -1,194,489 | 1,381,533 |
| Minority interests | | 13,367 | 6,378 |
| Earnings per share: | | | |
| Basic and diluted earnings per share ("-" for loss) | 5(41) | RMB -0.166 | RMB 0.192 |
| Other comprehensive income for the period | | - | - |
| Total comprehensive income for the period("-" for loss) | | -1,181,122 | 1,387,911 |
| Attributable to: Equity shareholders of the Company | | -1,194,489 | 1,381,533 |
| Minority interests | | 13,367 | 6,378 |

The notes on pages 65 to 171 form part of these interim financial statements.

Income Statement

For the six-month period ended 30 June 2012 (*unaudited*)

Expressed in thousands of Renminbi Yuan

| | Note | Six-month period ended 30 June | |
|---|--------|--------------------------------|------------|
| | | 2012 | 2011 |
| Operating income | 10(20) | 40,006,786 | 42,110,743 |
| Less: Operating costs | 10(20) | 37,121,742 | 35,691,900 |
| Business taxes and surcharges | 10(21) | 2,834,292 | 3,151,643 |
| Selling and distribution expenses | | 285,183 | 292,515 |
| General and administrative expenses | | 1,109,755 | 1,178,477 |
| Financial expenses ("-" for financial income) | 10(22) | 177,480 | -4,537 |
| Impairment losses | 10(23) | 201,948 | 379,563 |
| Add: Investment income | 10(24) | 83,186 | 156,696 |
| Including: Income from investment in associates and jointly controlled enterprises ("-" for losses) | | -14,894 | 148,616 |
| Operating profit("-" for loss) | | -1,640,428 | 1,577,878 |
| Add: Non-operating income | 10(25) | 160,417 | 8,088 |
| Less: Non-operating expenses | 10(26) | 24,785 | 21,216 |
| Including: Losses from disposal of non-current assets | | 12,357 | 9,125 |
| Profit before income tax("-" for loss) | | -1,504,796 | 1,564,750 |
| Less: Income tax expense | 10(27) | -389,955 | 410,039 |
| Net profit for the period("-" for net loss) | | -1,114,841 | 1,154,711 |
| Other comprehensive income for the period | | - | - |
| Total comprehensive income for the period("-" for loss) | | -1,114,841 | 1,154,711 |

The notes on pages 65 to 171 form part of these interim financial statements.

Consolidated Cash Flow Statement

For the six-month period ended 30 June 2012 (*unaudited*)

Expressed in thousands of Renminbi Yuan

| | Note | Six-month period ended 30 June | |
|--|-----------|--------------------------------|-------------|
| | | 2012 | 2011 |
| Cash flows from operating activities: | | | |
| Cash received from sale of goods and rendering of services | | 56,031,060 | 57,417,667 |
| Refund of taxes | | 37,778 | 43,578 |
| Cash received relating to other operating activities | 5(42(a)) | 44,774 | 23,038 |
| Sub-total of cash inflows | | 56,113,612 | 57,484,283 |
| Cash paid for goods and services | | -52,431,931 | -50,313,527 |
| Cash paid to and for employees | | -1,226,888 | -945,237 |
| Cash paid for all types of taxes | | -3,272,880 | -4,835,934 |
| Cash paid relating to other operating activities | 5(42(b)) | -248,151 | -273,661 |
| Sub-total of cash outflows | | -57,179,850 | -56,368,359 |
| Net cash inflow from operating activities (“-” for outflow) | 5(43(a)1) | -1,066,238 | 1,115,924 |
| Cash flows from investing activities: | | | |
| Cash received from disposal of investments | | 46,000 | 26,000 |
| Cash received from investment income | | 45,280 | 526,191 |
| Net cash received from disposal of fixed assets and other long-term assets | | 2,812 | 2,826 |
| Net cash received from disposal of a subsidiary | | 3,743 | - |
| Cash received relating to other investing activities | 5(42(c)) | 48,948 | 42,874 |
| Sub-total of cash inflows | | 146,783 | 597,891 |
| Cash paid for acquisition of fixed assets and other long-term assets | | -2,382,178 | -731,550 |
| Cash paid for acquisition of investments | | -30,000 | -700,000 |
| Sub-total of cash outflows | | -2,412,178 | -1,431,550 |
| Net cash outflow from investing activities | | -2,265,395 | -833,659 |

The notes on pages 65 to 171 form part of these interim financial statements.

Consolidated Cash Flow Statement *(continued)*

For the six-month period ended 30 June 2012 *(unaudited)*

Expressed in thousands of Renminbi Yuan

| | Note | Six-month period ended 30 June | |
|---|-----------|--------------------------------|-------------|
| | | 2012 | 2011 |
| Cash flows from financing activities: | | | |
| Cash received from borrowings | | 26,377,504 | 18,477,796 |
| Sub-total of cash inflows | | 26,377,504 | 18,477,796 |
| Cash repayments of corporate bonds | | - | -1,000,000 |
| Cash repayments of borrowings | | -22,676,988 | -17,351,351 |
| Cash paid for dividends, profit distributions and interest | | -268,324 | -171,614 |
| Sub-total of cash outflows | | -22,945,312 | -18,522,965 |
| | | | |
| Net cash inflow from financing activities ("-" for outflow) | | 3,432,192 | -45,169 |
| | | | |
| Effect of foreign exchange rate changes on cash and cash equivalents | | -9 | -200 |
| | | | |
| Net increase in cash and cash equivalents | 5(43(a)2) | 100,550 | 236,896 |
| Add: cash and cash equivalents at the beginning of the period | | 91,346 | 100,110 |
| | | | |
| Cash and cash equivalents at the end of the period | 5(43(b)) | 191,896 | 337,006 |

The notes on pages 65 to 171 form part of these interim financial statements.

Cash Flow Statement

For the six-month period ended 30 June 2012 (*unaudited*)

Expressed in thousands of Renminbi Yuan

| | Note | Six-month period ended 30 June | |
|--|------------|--------------------------------|-------------|
| | | 2012 | 2011 |
| Cash flows from operating activities: | | | |
| Cash received from sale of goods and rendering of services | | 48,215,753 | 48,570,448 |
| Cash received relating to other operating activities | | 43,946 | 22,463 |
| Sub-total of cash inflows | | 48,259,699 | 48,592,911 |
| Cash paid for goods and services | | -44,797,710 | -41,759,114 |
| Cash paid to and for employees | | -1,150,851 | -876,807 |
| Cash paid for all types of taxes | | -3,249,614 | -4,767,677 |
| Cash paid relating to other operating activities | | -228,900 | -252,462 |
| Sub-total of cash outflows | | -49,427,075 | -47,656,060 |
| | | | |
| Net cash inflow from operating activities (“-” for outflow) | 10(28(a)1) | -1,167,376 | 936,851 |
| | | | |
| Cash flows from investing activities: | | | |
| Cash received from investment income | | 122,580 | 525,218 |
| Net cash received from disposal of fixed assets and other long-term assets | | 2,793 | 2,779 |
| Cash received relating to other investing activities | | 43,979 | 37,757 |
| Sub-total of cash inflows | | 169,352 | 565,754 |
| Cash paid for acquisition of fixed assets and other long-term assets | | -2,381,968 | -713,932 |
| Cash paid for acquisition of investments | | - | -700,000 |
| Sub-total of cash outflows | | -2,381,968 | -1,413,932 |
| | | | |
| Net cash outflow from investing activities | | -2,212,616 | -848,178 |

The notes on pages 65 to 171 form part of these interim financial statements.

Cash Flow Statement *(continued)*

For the six-month period ended 30 June 2012 *(unaudited)*

Expressed in thousands of Renminbi Yuan

| | Note | Six-month period ended 30 June | |
|---|------------|--------------------------------|-------------|
| | | 2012 | 2011 |
| Cash flows from financing activities: | | | |
| Cash received from borrowings | | 26,379,514 | 18,429,596 |
| Sub-total of cash inflows | | 26,379,514 | 18,429,596 |
| Cash repayments of corporate bonds | | - | -1,000,000 |
| Cash repayments of borrowings | | -22,688,894 | -17,179,272 |
| Cash paid for dividends, profit distributions and interest | | -231,500 | -157,243 |
| Sub-total of cash outflows | | -22,920,394 | -18,336,515 |
| Net cash inflow from financing activities | | 3,459,120 | 93,081 |
| Effect of foreign exchange rate changes on cash and cash equivalents | | -12 | -176 |
| Net increase in cash and cash equivalents | 10(28(a)2) | 79,116 | 181,578 |
| Add: cash and cash equivalents at the beginning of the period | | 61,057 | 89,224 |
| Cash and cash equivalents at the end of the period | 10(28(b)) | 140,173 | 270,802 |

The notes on pages 65 to 171 form part of these interim financial statements.

Consolidated Statement of Changes in Shareholders' Equity

For the six-month period ended 30 June 2012 (*unaudited*)

Expressed in thousands of Renminbi Yuan

| | Note | 2012 | | | | | | | 2011 | | | | | | |
|--|-------|--|-----------------|------------------|-----------------|-------------------|--------------------|------------|--|-----------------|------------------|-----------------|-------------------|--------------------|------------|
| | | 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 | 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 |
| Changes in equity for the period | | | | | | | | | | | | | | | |
| 1. Net profit for the period ("—" for net loss) | | - | - | - | - | -1,194,489 | 13,367 | -1,181,122 | - | - | - | - | 1,381,533 | 6,378 | 1,387,911 |
| 2. Other comprehensive income for the period | | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Sub-total of 1&2 | | - | - | - | - | -1,194,489 | 13,367 | -1,181,122 | - | - | - | - | 1,381,533 | 6,378 | 1,387,911 |
| 3. Appropriation of profits | | | | | | | | | | | | | | | |
| (1) Distributions to shareholders | 5(30) | - | - | - | - | -360,000 | -26,573 | -386,573 | - | - | - | - | -720,000 | -20,168 | -740,168 |
| 4. Specific reserve | | | | | | | | | | | | | | | |
| (1) Accrued | 5(28) | - | - | 61,150 | - | - | - | 61,150 | - | - | 56,800 | - | - | - | 56,800 |
| (2) Utilised | 5(28) | - | - | -24,530 | - | - | - | -24,530 | - | - | -18,742 | - | - | - | -18,742 |
| Balance at 30 June | | 7,200,000 | 2,914,763 | 58,397 | 5,151,770 | 1,269,684 | 256,895 | 16,851,509 | 7,200,000 | 2,914,763 | 84,806 | 5,081,314 | 3,331,748 | 246,063 | 18,858,694 |

Statement of Changes in Shareholders' Equity

For the six-month period ended 30 June 2012 (*unaudited*)

Expressed in thousands of Renminbi Yuan

| | Note | 2012 | | | | | | 2011 | | | | | |
|--|--------|---------------|-----------------|------------------|-----------------|-------------------|------------|---------------|-----------------|------------------|-----------------|-------------------|------------|
| | | 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 | 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 |
| Changes in equity for the period | | | | | | | | | | | | | |
| 1. Net profit for the period ("-" for net loss) | | - | - | - | - | -1,114,841 | -1,114,841 | - | - | - | - | 1,154,711 | 1,154,711 |
| 2. Other comprehensive income for the period | | - | - | - | - | - | - | - | - | - | - | - | - |
| Sub-total of 1&2 | | - | - | - | - | -1,114,841 | -1,114,841 | - | - | - | - | 1,154,711 | 1,154,711 |
| 3. Appropriation of profits | | | | | | | | | | | | | |
| (1) Distributions to shareholders | 5(30) | - | - | - | - | -360,000 | -360,000 | - | - | - | - | -720,000 | -720,000 |
| 4. Specific reserve | | | | | | | | | | | | | |
| (1) Accrued | 10(19) | - | - | 57,960 | - | - | 57,960 | - | - | 51,000 | - | - | 51,000 |
| (2) Utilised | 10(19) | - | - | -24,157 | - | - | -24,157 | - | - | -18,742 | - | - | -18,742 |
| Balance at 30 June | | 7,200,000 | 2,914,763 | 48,075 | 5,151,770 | 1,057,420 | 16,372,028 | 7,200,000 | 2,914,763 | 75,638 | 5,081,314 | 3,052,865 | 18,324,580 |

The notes on pages 65 to 171 form part of these interim financial statements.

Notes to the Unaudited Interim Financial Statements

(Prepared under China Accounting Standards for Business Enterprises)

(All Renminbi amounts in thousands, except otherwise indicated)

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”).

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

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

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 of going concern.

(2) Statement of compliance

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 30 June 2012 and the consolidated financial performance and financial performance and the consolidated cash flows and cash flows of the Company for the period 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 period

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

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

(6) Consolidated financial statements *(continued)*

Where the Company acquires a minority interest from a subsidiary's minority shareholders or disposes of a portion of an interest in a subsidiary without a change in control, the difference between the amount by which the minority interests are adjusted and the amount of the consideration paid or received is adjusted to the capital reserve (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.

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 interests are presented separately in the consolidated balance sheet within shareholders' equity. Net profit or loss and total comprehensive income attributable to minority shareholders are presented separately in the consolidated income statement below the net profit line item and total comprehensive income 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 owners' 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) Foreign currency transactions and transactions of financial statements denominated in 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, 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 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)).

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.

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

(9) Financial instruments *(continued)*

(b) Presentation of financial assets against financial liabilities

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.

(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 entirety 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.

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

(9) Financial instruments *(continued)*

(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. If any such evidence exists, an impairment loss is recognised.

Objective evidence that a financial asset is impaired includes but is not limited to:

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

For the calculation method of impairment of receivables, refer to Note 2(10). The impairment of other financial assets is measured 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 shareholders' 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.

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

(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 a receivable 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.

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

(a) Receivables that are individually significant and assessed individually for impairment:

| | |
|---|--|
| Judgement basis or criteria for receivables that are individually significant. | 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 for receivables that are individually significant and assessed individually. | An impairment loss in respect of a receivable 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. |

(b) Receivables that are individually insignificant but assessed individually for impairment:

| | |
|--|---|
| Reasons for assessing individually for impairment of receivables that are individually insignificant | Receivables which are overdue more than one year or with special characteristics. |
| Method of provision for bad and doubtful debts | An impairment loss in respect of a receivable is calculated 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. |

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

(10) Impairment of receivables *(continued)*

- (c) Receivables that are collectively assessed for impairment:

Receivables that have not been individually assessed as impaired in the above assessments in Notes (a) and (b), are included in the collective assessment of impairment for receivables sharing similar credit risk characteristics. Ageing analysis is adopted to provide provisions for bad and doubtful debts at the percentages shown below:

| Ageing | Provisions as a percentage of accounts receivable (%) | Provisions as a percentage of other receivables (%) |
|---|---|---|
| Within one year (inclusive) | - | - |
| Over one year but within two years (inclusive) | 30% | 30% |
| Over two years but within three years (inclusive) | 60% | 60% |
| Over three years | 100% | 100% |

(11) Inventories

- (a) Categories of inventories

Inventories include 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.

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

(11) Inventories *(continued)*

- (c) Basis for determining net realisable value of inventories and method of provision for diminution in 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.

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. The net realisable value of materials held for use in the production is measured based on the net realisable value of the finished goods in which they will be incorporated. The net realisable value of the quantity of inventory held to satisfy sales or service contracts is measured based on the contract price. If the quantities held by the Group are more than the quantities of inventories specified in sales contracts, the net realisable value of the excess portion of inventories is measured based on general selling prices.

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

- (d) Inventory counting system

The Group maintains a perpetual inventory system.

- (e) Amortisation methods for 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 amortisation is included in the cost of the related assets or recognised in profit or loss for the current period.

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

(12) Long-term equity investments

(a) Investment cost

(1) 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 the share premium in capital reserve. If the balance of the share premium is insufficient, any excess is adjusted to retained earnings.
- For a long-term equity investment obtained through a business combination not involving enterprises under common control, 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. For a long-term equity investment obtained through a business combination not involving enterprises under common control and achieved in stages, the initial cost comprises the carrying value of previously-held equity investment in the acquiree immediately before the acquisition date, and additional investment cost at the acquisition date.

(2) Long-term equity investments acquired other than through a business combination

- A long-term equity investment acquired other than through a business combination is initially recognised at the actual consideration paid if the Group acquires the investment by cash, or at the fair value of the equity securities issued if an investment is acquired by issuing equity securities, or at the value stipulated in the investment contract or agreement if an investment is contributed by shareholders.

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

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

(b) Subsequent measurement

(1) Investments in subsidiaries

In the Company's separate financial statements, long-term equity investments in subsidiaries are accounted for using the cost method for subsequent measurement. 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 accumulated impairment losses.

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

(2) Investments in jointly controlled enterprises and associates

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

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 for subsequent measurement, unless the investment is classified as held for sale (see Note 2(25)).

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

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

(b) Subsequent measurement *(continued)*

(2) Investments in jointly controlled enterprises and associates *(continued)*

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

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

- 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.

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

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

(b) Subsequent measurement *(continued)*

(2) Investments in jointly controlled enterprises and associates *(continued)*

- 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 shareholders' equity.

(3) 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.

Other long-term equity investments are accounted for subsequently 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 determining the existence of joint control or significant influence over an investee

Joint control is the contractually agreed sharing of control over an investee's economic activities, and exists only when the strategic financial and operating decisions relating to the activities require the unanimous consent of the parties sharing the control. The following factors are usually considered when assessing whether the Group can exercise joint control over an investee:

- Whether no single investor is in a position to control the investee's operating activities unilaterally;
- Whether strategic decisions relating to the investee's main operating activities require the unanimous consent of all investors;
- If one investor is appointed, through contract or agreement by all investors, to manage the investee's daily activities, whether this investor must act within the financial and operating policies that have been agreed upon by all investors.

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

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

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

Significant influence is the power to participate in the financial and operating policy decisions of an investee but does not have control or joint control over those policies. The following one or more factors are considered usually when assessing whether the Group can exercise significant influence over an investee:

- Whether the Group has representation on the board of directors or equivalent governing body of the investee;
- Whether the Group participates in the policy-making processes of the investee;
- Whether the Group has material transactions with the investee;
- Whether the Group dispatches management personnel to the investee;
- Whether the Group provides essential technical information to the investee.

(d) Method of impairment test and measurement

For the method of impairment test and measurement for investments in subsidiaries, jointly controlled enterprises and associates, refer to Note 2(19).

For other long-term equity investments, the carrying amount is tested for impairment at the balance sheet date. If there is objective evidence that the investment may be impaired, impairment is assessed on an individual basis. Impairment loss is measured at the amount by which the carrying amount of the investment exceeds the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset and recognised in profit or loss. Such impairment loss is not reversed.

Other long-term equity investments are stated at cost less accumulated 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's cost less estimated residual value and accumulated impairment losses is depreciated using the straight-line method over its estimated useful life, unless the investment property is classified as held for sale (see Note 2(25)). For the method of impairment testing and measurement, refer to Note 2(19).

The estimated useful life, residual value rate and depreciation rate of investment properties are as follows:

| Class | Estimated useful life (years) | Residual value rate (%) | 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 production of goods, for use in supply of services or for administrative purposes with useful lives over one accounting 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 cost of self-constructed assets is measured in accordance with the policy set out 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' cost less estimated residual value and accumulated impairment losses is 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 category of fixed assets are as follows:

| Category | Estimated useful life (years) | Residual value (%) | Depreciation rate (%) |
|------------------------------|-------------------------------|--------------------|-----------------------|
| Buildings | 12-50 | 0-5 | 1.9-8.3 |
| Plant and machinery | 5-20 | 0-5 | 4.8-20.0 |
| Vehicles and other equipment | 4-20 | 0-5 | 4.8-25.0 |

Useful lives, residual value and depreciation methods are reviewed annually.

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

(14) Fixed assets *(continued)*

(c) For the method of impairment test and measurement, refer to Note 2(19).

(d) Disposal of fixed assets

The carrying amount of a fixed asset is derecognised:

- when the fixed asset is on disposal; or
- when no future economic benefit is 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.

A self-constructed asset is included in construction in progress before it is transferred to fixed asset when it is ready for its intended use. No depreciation is provided against construction in progress.

Construction in progress is stated in the balance sheet at cost less accumulated impairment losses (see Note 2 (19)).

(16) Borrowing costs

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

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

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

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

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

(16) Borrowing costs *(continued)*

- Where funds are borrowed generally and used for the acquisition, 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 or 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 estimated residual value and accumulated impairment losses is amortised on the straight-line method over its estimated useful life, unless the intangible asset is classified as held for sale (see Note 2(25)).

The respective amortisation periods for such intangible assets are as follows:

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

Expenditure on an internal research and development project is classified into expenditure on the research phase and expenditure on the development phase.

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

(17) Intangible assets *(continued)*

Expenditure on the research phase is recognised in profit or loss when incurred. Expenditure on the 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 method within the benefit period. The respective amortisation periods for such expenses are as follows:

| Item | Amortisation period (years) |
|----------|-----------------------------|
| Catalyst | 2-3 |

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

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

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

(21) Revenue recognition

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

(a) Sale of goods

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

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

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

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

(21) Revenue recognition *(continued)*

(b) Rendering of services

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

At the balance sheet date, where the outcome of a transaction involving the rendering of services can be estimated reliably, revenue from the rendering of services is recognised 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) Income Tax

Current tax and deferred tax are recognised in profit or loss except to the extent that they relate to a business combination or items recognised directly in equity (or other comprehensive income).

Current tax is the expected tax payable calculated at the tax rate enacted on the taxable income for the period, plus any adjustment to tax payable in respect of previous years.

At the balance sheet date, current tax assets and liabilities are offset if the Group has a legally enforceable right to offset and intends either to settle on a net basis or to realise the assets and settle the liabilities simultaneously.

Deferred tax assets and deferred tax 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

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

(27) Related parties

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

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

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 (but not limited to) are considered as related parties based on the disclosure requirements of Administrative Procedures on the Information Disclosures of Listed Companies issued by the CSRC:

- (m) enterprises or persons that act a concert, that hold 5% or more of the Company's shares;
- (n) individuals who directly or indirectly hold more than 5% of the Company's shares and their close family members, supervisors of the listed companies and their close family members;
- (o) enterprises that satisfied any of the aforesaid conditions in (a), (c) or (m) during the past 12 months or will satisfy them within the next 12 months pursuant to a relevant agreement;
- (p) individuals who satisfied any of the aforesaid conditions in (i), (j) or (n) during the past 12 months or will satisfy them within the next 12 months pursuant to a relevant agreement;
- (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 an 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 financial performance is 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 judgements

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 (or an asset group) 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 Group's assets (or the asset group) cannot be obtained reliably, the fair value of the assets (or the asset group) cannot be estimated reliably. In assessing value in use, significant judgements are exercised over the asset's (or the asset group'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.

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

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

(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.

(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.

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

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

(e) Recognition of deferred tax assets

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

In making the assessment of whether it is probable the Group will realise or utilise the deferred tax assets, management primarily relies on the generation of future taxable income to support the recognition of deferred tax assets. In order to fully utilise the deferred tax assets recognised at 30 June 2012, the Group would need to generate future taxable income of at least RMB 3,651 million, of which RMB 1,497 million is required to be generated by 2013 prior to the expiration of the unused tax losses incurred in 2008 and RMB 1,433 million is required to be generated by 2017 prior to the expiration of the unused tax losses incurred in the current period. 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 rates

| Tax type | Tax basis | Tax rate |
|---------------------------------------|--|--|
| Value added tax("VAT") | Output VAT is calculated based on product sales and taxable services revenue according to the tax laws. VAT payable is the remaining balance of output VAT after subtracting the deductible input VAT of the period. | 13%,17% |
| Consumption tax | Based on taxable revenue | Gasoline: RMB 1,388 per ton; diesel oil: RMB 940.8 per ton. |
| Business tax | Based on taxable revenue | 5% |
| City maintenance and construction tax | Based on consumption tax, business tax and VAT paid | 7% |
| Income tax | Based on taxable profits | 25% |

The applicable income tax rate applicable to the Company and each of its subsidiaries for the period is 25% (2011: 25%).

94 4. Business combination and consolidated financial statements

(1) Background of major subsidiaries

At 30 June 2012, all major 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

| Full name | Type | Company type | Registration place | Business nature | Registered capital | Principal activities | Year-end actual investment | Closing balance of other items that in substance form net investment in a subsidiary | Share-holding percentage (%) | Voting rights percentage (%) | Within consolidation scope | Closing balance of minority interests at the period end | Loss attributable to minority interest during the period |
|---|--------------|-----------------|--------------------|-----------------|--------------------|---|----------------------------|--|------------------------------|------------------------------|----------------------------|---|--|
| 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 | 46,341 | - |
| 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 | 29,504 | - |
| Shanghai Golden Phillips Petrochemical Company Limited | Holding | Limited company | Shanghai | Manufacturing | USD50,000 | Production of polyethylene products | 249,374 | - | 60 | 60 | Yes | 181,050 | - |
| 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

| Item | At 30 June 2012 | | | At 31 December 2011 | | |
|------------------------------------|-------------------|---------------|---------------------|---------------------|---------------|---------------------|
| | Original currency | Exchange rate | RMB/RMB equivalents | Original currency | Exchange rate | RMB/RMB equivalents |
| Cash on hand: | | | | | | |
| RMB | — | — | 86 | — | — | 75 |
| Deposits with banks: | | | | | | |
| RMB | — | — | 189,974 | — | — | 88,047 |
| HKD | 822 | 0.8152 | 670 | 825 | 0.8107 | 669 |
| USD | 15 | 6.3249 | 92 | 233 | 6.3009 | 1,471 |
| Other monetary funds:(Note) | | | | | | |
| RMB | — | — | 219 | — | — | 161 |
| CHF | 130 | 6.5900 | 855 | 138 | 6.7085 | 923 |
| Total | — | — | 191,896 | — | — | 91,346 |

Note: Other monetary funds represent deposits for credit cards.

(2) Bills receivable

(a) Bills receivable by category

Expressed in thousands of Renminbi Yuan

| Item | At 30 June 2012 | At 31 December 2011 |
|-----------------------------|------------------|---------------------|
| Bank acceptance bills | 1,279,553 | 3,090,890 |
| Commercial acceptance bills | 50,100 | 40,689 |
| Total | 1,329,653 | 3,131,579 |

All of the above bills held are short-term acceptance bills due within six months. No bills receivable were pledged or transferred to accounts receivable due to non-performance of the issuers during the six-month period ended 30 June 2012.

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

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

(2) Bills receivable *(continued)*

- (b) At 30 June 2012, the Group's discounted bank bills (with recourse) which were still undue amounted to RMB 1,245,834,000 (31 December 2011: RMB 222,169,000).

At 30 June 2012, the Group's discounted commercial bills amounted to RMB nil (31 December 2011: RMB nil).

- (c) At 30 June 2012, the Group's endorsed bank bills which were still undue amounted to RMB 370,900,000 (31 December 2011: RMB 44,849,000).

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

Expressed in thousands of Renminbi Yuan

| Issuer | Issuing date | Due date | Amount | Note |
|--|--------------|------------|---------|-----------------------|
| Jialong Petrochemical Fibre (Shishi) Company Limited | 23/05/2012 | 25/07/2012 | 50,000 | Bank acceptance bills |
| Jialong Petrochemical Fibre (Shishi) Company Limited | 04/06/2012 | 04/08/2012 | 40,000 | Bank acceptance bills |
| Tongkun Group Zhejiang Hengtong Chemical Fiber Company Limited | 12/06/2012 | 10/09/2012 | 30,000 | Bank acceptance bills |
| Tongxiang Zhongchen Chemical Fiber Company Limited | 14/05/2012 | 14/08/2012 | 12,000 | Bank acceptance bills |
| Tongkun Group Zhejiang Hengtong Chemical Fiber Company Limited | 05/06/2012 | 05/09/2012 | 10,000 | Bank acceptance bills |
| Total | | | 142,000 | |

At 30 June 2012, the Group had no endorsed commercial bills(31 December 2011: RMB nil).

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

(3) Accounts receivable

(a) Accounts receivable by customer type:

Expressed in thousands of Renminbi Yuan

| Customer Type | Note | At 30 June 2012 | At 31 December 2011 |
|--|------|-----------------|---------------------|
| Amounts due from related parties | 6(6) | 616,696 | 487,970 |
| Amounts due from third parties | | 90,582 | 126,671 |
| Less: Provision for bad and doubtful debts | | -4,426 | -4,735 |
| Total | | 702,852 | 609,906 |

(b) The ageing analysis of accounts receivable is as follows:

Expressed in thousands of Renminbi Yuan

| Ageing | At 30 June 2012 | At 31 December 2011 |
|---|-----------------|---------------------|
| Within one year (inclusive) | 702,733 | 608,809 |
| Over one year but within two years (inclusive) | 13 | 1,477 |
| Over two years but within three years (inclusive) | 275 | 8 |
| Over three years | 4,257 | 4,347 |
| Less: Provision for bad and doubtful debts | -4,426 | -4,735 |
| Total | 702,852 | 609,906 |

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

(c) Accounts receivable by category:

Expressed in thousands of Renminbi Yuan

| Category | At 30 June 2012 | | | | At 31 December 2011 | | | |
|--|-----------------------|---------------|--------------------------------------|---------------|-----------------------|---------------|--------------------------------------|---------------|
| | Gross carrying amount | | Provision for bad and doubtful debts | | Gross carrying amount | | Provision for bad and doubtful debts | |
| | Amount | Percentage(%) | Amount | Percentage(%) | Amount | Percentage(%) | Amount | Percentage(%) |
| Accounts receivable collectively assessed for impairment | | | | | | | | |
| Within one year (inclusive) | 702,733 | 99.36 | - | - | 608,809 | 99.05 | - | - |
| Over one year but within two years (inclusive) | 13 | 0.00 | 4 | 30.77 | 1,477 | 0.24 | 384 | 26.00 |
| Over two years but within three years (inclusive) | 275 | 0.04 | 165 | 60.00 | 8 | 0.00 | 4 | 50.00 |
| Over three years | 4,257 | 0.60 | 4,257 | 100.00 | 4,347 | 0.71 | 4,347 | 100.00 |
| Total | 707,278 | 100.00 | 4,426 | - | 614,641 | 100.00 | 4,735 | - |

There are no any collateral over the above accounts receivable with provision for bad and doubtful debts.

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

(3) Accounts receivable *(continued)*

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

During the period, the Group assessed the impairment on an individual basis in accordance with the accounting policy as described in Note 2 (10), and there were no provision for accounts receivable that are individually significant or insignificant but assessed for impairment individually; The Group had no individually significant write-off or write-back of bad debts which had been fully or substantially provided for in prior years. At 30 June 2012, the Group had no individually significant accounts receivable that aged over three years.

(d) Five largest accounts receivable

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 | 382,667 | Due within one year | 54.10 |
| Shanghai Secco Petrochemical Company Limited | Associate of the Company | 78,716 | Due within one year | 11.13 |
| Sinopec Chemical Commercial Holding Company Limited | Subsidiary of Sinopec Corp | 65,700 | Due within one year | 9.29 |
| China International United Petroleum & Chemical Company Limited | Subsidiary of Sinopec Corp | 22,663 | Due within one year | 3.21 |
| BOC-SPC Gases Company Limited | Jointly controlled enterprise of the Company | 21,938 | Due within one year | 3.10 |
| Total | | 571,684 | | 80.83 |

(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 customer type:

Expressed in thousands of Renminbi Yuan

| Item | Note | At 30 June 2012 | At 31 December 2011 |
|--------------------------------|------|-----------------|---------------------|
| Prepayments to related parties | 6(6) | 10,274 | 3,890 |
| Prepayments to third parties | | 45,498 | 39,270 |
| Total | | 55,772 | 43,160 |

(b) All prepayments are aged within one year.

(c) Five largest prepayments

Expressed in thousands of Renminbi Yuan

| Company's name | Relationship with the Company | Amount | Percentage of total prepayments(%) | Ageing | Reason for unsettled account |
|--|-------------------------------|--------|------------------------------------|---------------------|------------------------------|
| Shanghai Natural Gas Pipeline Network Company Limited | Third Party | 38,470 | 68.98 | Due within one year | Prepayments for goods |
| China International United Petroleum & Chemical Company Limited, Ningbo Branch | Subsidiary of Sinopec Corp | 9,557 | 17.14 | Due within one year | Prepayments for goods |
| Sinochem Oil Company Limited | Third Party | 952 | 1.71 | Due within one year | Prepayments for goods |
| Jiangchuan Electrical Hardware Department | Third Party | 834 | 1.49 | Due within one year | Prepayments for goods |
| Ningbo Liantong Equipment Manufacturing Company Limited | Third Party | 810 | 1.45 | Due within one year | Prepayments for goods |
| Total | | 50,623 | 90.77 | | |

(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) Other receivables

(a) Other receivables by customer type:

Expressed in thousands of Renminbi Yuan

| Customer Type | Note | At 30 June 2012 | At 31 December 2011 |
|--|------|-----------------|---------------------|
| Amounts due from related parties | 6(6) | 4,824 | 3,857 |
| Amounts due from third parties | | 60,272 | 45,843 |
| Less: Provision for bad and doubtful debts | | -2,501 | -2,706 |
| Total | | 62,595 | 46,994 |

(b) The ageing analysis of other receivables is as follows:

Expressed in thousands of Renminbi Yuan

| Ageing | At 30 June 2012 | At 31 December 2011 |
|---|-----------------|---------------------|
| Within one year (inclusive) | 62,453 | 46,833 |
| Over one year but within two years (inclusive) | 24 | 17 |
| Over two years but within three years (inclusive) | 15 | 45 |
| Over three years | 2,604 | 2,805 |
| Less: Provision for bad and doubtful debts | -2,501 | -2,706 |
| Total | 62,595 | 46,994 |

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

(c) Other receivables by category:

Expressed in thousands of Renminbi Yuan

| Category | At 30 June 2012 | | | | At 31 December 2011 | | | |
|---|-----------------------|---------------|--------------------------------------|---------------|-----------------------|---------------|--------------------------------------|---------------|
| | Gross carrying amount | | Provision for bad and doubtful debts | | Gross carrying amount | | Provision for bad and doubtful debts | |
| | Amount | Percentage(%) | Amount | Percentage(%) | Amount | Percentage(%) | Amount | Percentage(%) |
| Other receivable collectively assessed for impairment | | | | | | | | |
| Within one year (inclusive) | 62,453 | 95.94 | - | - | 46,833 | 94.23 | - | - |
| Over one year but within two years (inclusive) | 24 | 0.04 | 7 | 29.17 | 17 | 0.03 | 5 | 29.41 |
| Over two years but within three years (inclusive) | 15 | 0.02 | 9 | 60.00 | 45 | 0.09 | 27 | 60.00 |
| Over three years | 2,604 | 4.00 | 2,485 | 95.43 | 2,805 | 5.65 | 2,674 | 95.33 |
| Total | 65,096 | 100.00 | 2,501 | — | 49,700 | 100.00 | 2,706 | — |

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

(5) Other receivables *(continued)*

(c) Other receivables by category: *(continued)*

During the period, the Group assessed the impairment on an individual basis in accordance with the accounting policy as described in Note 2 (10), and there were no provision for other receivables that are individually significant or insignificant but assessed for impairment individually; The Group had no individually significant write-off or write-back of bad debts which had been fully or substantially provided for in prior years. At 30 June 2012, the Group had no individually significant other receivables that aged over three years.

(d) Five largest other receivables

Expressed in thousands of Renminbi Yuan

| Company's name | Relationship with the Company | Amount | Ageing | Percentage of total other receivables(%) |
|--|-------------------------------|--------|---------------------|--|
| Jinshan Customs | Third party | 12,644 | Due within one year | 19.42 |
| Shanghai Yali Development Company Limited | Third Party | 6,450 | Due within one year | 9.91 |
| Shanghai Jinshan Petrochemical Logistics Company Limited | Third Party | 6,060 | Due within one year | 9.31 |
| Shanghai Petrochemical Jinfu Property Management Company Limited | Third Party | 2,869 | Due within one year | 4.41 |
| Shanghai Petrochemical Asphalt Company Limited | Associate of the Group | 2,359 | Due within one year | 3.62 |
| Total | | 30,382 | | 46.67 |

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

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

(6) Inventories

(a) Inventories by category

Expressed in thousands of Renminbi Yuan

| Item | At 30 June 2012 | | | At 31 December 2011 | | |
|-----------------------------|-----------------|--|-----------------|---------------------|--|-----------------|
| | Book value | Provision for diminution in value of inventories | Carrying amount | Book value | Provision for diminution in value of inventories | Carrying amount |
| Raw materials | 4,029,587 | 92,077 | 3,937,510 | 2,046,740 | 4,642 | 2,042,098 |
| Work in progress | 2,107,207 | 34,515 | 2,072,692 | 1,980,028 | - | 1,980,028 |
| Finished goods | 1,318,877 | 135,017 | 1,183,860 | 1,291,813 | 123,941 | 1,167,872 |
| Spare parts and consumables | 453,841 | 65,001 | 388,840 | 457,428 | 65,001 | 392,427 |
| Total | 7,909,512 | 326,610 | 7,582,902 | 5,776,009 | 193,584 | 5,582,425 |

All the above inventories are purchased or self-manufactured.

(b) An analysis of the movements of inventories for the period is as follows:

Expressed in thousands of Renminbi Yuan

| Item | At 1 January 2012 | Increases | Decreases | At 30 June 2012 |
|--|-------------------|-------------|--------------|-----------------|
| Raw materials | 2,046,740 | 43,954,807 | -41,971,960 | 4,029,587 |
| Work in progress | 1,980,028 | 43,324,546 | -43,197,367 | 2,107,207 |
| Finished goods | 1,291,813 | 43,197,367 | -43,170,303 | 1,318,877 |
| Spare parts and consumables | 457,428 | 171,980 | -175,567 | 453,841 |
| Sub-total | 5,776,009 | 130,648,700 | -128,515,197 | 7,909,512 |
| Less: Provision for diminution in value of inventories | -193,584 | -187,185 | 54,159 | -326,610 |
| Carrying amount | 5,582,425 | 130,461,515 | -128,461,038 | 7,582,902 |

(c) Provision for diminution in value of inventories

Expressed in thousands of Renminbi Yuan

| Item | At 1 January 2012 | Provision made for the period | Decreases during the period | | At 30 June 2012 |
|-----------------------------|-------------------|-------------------------------|-----------------------------|-----------|-----------------|
| | | | Reversal | Write-off | |
| Raw materials | 4,642 | 90,536 | -1,459 | -1,642 | 92,077 |
| Work in progress | - | 34,515 | - | - | 34,515 |
| Finished goods | 123,941 | 62,134 | - | -51,058 | 135,017 |
| Spare parts and consumables | 65,001 | - | - | - | 65,001 |
| Total | 193,584 | 187,185 | -1,459 | -52,700 | 326,610 |

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

(7) Other current assets

Expressed in thousands of Renminbi Yuan

| Item | At 30 June 2012 | At 31 December 2011 |
|--|-----------------|---------------------|
| VAT deductible | 286,210 | 44,639 |
| Current portion of long-term deferred expenses | 10,493 | 29,765 |
| Entrusted loan due within one year | 70,000 | 86,000 |
| Total | 366,703 | 160,404 |

(8) Long-term equity investments

(a) Long-term equity investments by category

Expressed in thousands of Renminbi Yuan

| | Investment in associates | Investment in jointly controlled enterprise | Sub-total | Provision for impairment | Carrying amount |
|---|--------------------------------|--|-----------|--------------------------------|--------------------|
| Balance at 1 January 2012 | 2,977,292 | 124,013 | 3,101,305 | - | 3,101,305 |
| Share of profit of investments accounted for under equity method ("-" for share of loss) | -14,262 | 12,534 | -1,728 | - | -1,728 |
| Dividends receivable/ received | -35,701 | -24,500 | -60,201 | - | -60,201 |
| Balance at 30 June 2012 | 2,927,329 | 112,047 | 3,039,376 | - | 3,039,376 |

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

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

(b) Information about major associates and jointly controlled enterprises

Expressed in thousands of Renminbi Yuan/USD

| Name of investee | Company type | Investment cost | Registration place | Balance at 1 January 2012 | Movement during the period | Balance at 30 June 2012 | Legal representative | Business scope | Registered capital | Effective shareholding percentage (%) | Effective voting right (%) | Total assets at period end | Total liabilities at period end | Net assets at period end | Total revenue during the period | Net profit during the period(" - " for net loss) |
|--|-----------------|-----------------|--------------------|---------------------------|----------------------------|-------------------------|----------------------|---|--------------------|---------------------------------------|----------------------------|----------------------------|---------------------------------|--------------------------|---------------------------------|--|
| 1, Equity method-jointly controlled enterprise | | | | | | | | | | | | | | | | |
| BOC-SPC Gases Company Limited* | Limited company | RMB 127,992 | Shanghai | 124,013 | -11,966 | 112,047 | Xu Zhongwei | Production and sales of industrial gases | USD32,000 | 50 | 50 | 541,964 | 248,847 | 293,117 | 197,238 | 20,472 |
| 2, Equity method-associates | | | | | | | | | | | | | | | | |
| Shanghai Chemical Industry Park Development Company Limited* | Limited company | RMB 907,770 | Shanghai | 1,097,051 | 8,530 | 1,105,581 | Rong Guangdao | Planning, development and operation of the Chemical Industry Park in Shanghai | RMB2,372,439 | 38.26 | 38.26 | 6,763,136 | 3,049,848 | 3,713,288 | 2,908 | 63,279 |
| Shanghai Secco Petrochemical Company Limited* | Limited company | RMB 1,488,718 | Shanghai | 1,529,342 | -50,879 | 1,478,463 | Wang Zhiqing | Manufacturing and distribution of chemical products | USD901,441 | 20 | 25 | 14,959,880 | 7,597,024 | 7,362,856 | 13,514,440 | -257,721 |
| Shanghai Jinsen Hydrocarbon Resins Company Limited | Limited company | RMB 77,503 | Shanghai | 84,401 | -2,432 | 81,969 | Sun Xiaofeng | Production of resin products | USD23,395 | 40 | 40 | 219,601 | 14,020 | 205,581 | 151,233 | 10,308 |
| Shanghai Azbil Automation Company Limited | Limited company | RMB 9,776 | Shanghai | 70,089 | -3,590 | 66,499 | Wang Weiguo | Service and maintenance of building automation systems and products | USD3,000 | 40 | 40 | 237,234 | 72,637 | 164,597 | 140,442 | 20,393 |
| Others | | | | 196,409 | -1,592 | 194,817 | | | | | | 584,634 | 139,068 | 445,566 | 769,838 | 6,306 |
| Total | | | | 3,101,305 | -61,929 | 3,039,376 | | | | | | 23,306,449 | 11,121,444 | 12,185,005 | 14,776,099 | -136,963 |

* Represents associates/jointly controlled enterprises of the Company

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

(9) Investment properties

Expressed in thousands of Renminbi Yuan

| Item | Buildings |
|--|-----------|
| Cost | |
| Balance at the beginning and the end of the period | 546,412 |
| | |
| Accumulated depreciation | |
| Balance at the beginning of the period | 93,857 |
| Charge for the period | 6,625 |
| Balance at the end of the period | 100,482 |
| | |
| Carrying amount | |
| At the end of the period | 445,930 |
| At the beginning of the period | 452,555 |

Depreciation charged for the period on the investment properties of the Group amounted to RMB 6,625,000 (Six-month period ended 30 June 2011: RMB 6,625,000).

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

(10) Fixed assets

(a) Fixed assets

Expressed in thousands of Renminbi Yuan

| Item | Note | Buildings | Plant and machinery | Vehicles and other equipment | Total |
|--|------|------------|---------------------|------------------------------|------------|
| Cost | | | | | |
| Balance at the beginning of the period | | 5,805,187 | 26,360,321 | 6,912,238 | 39,077,746 |
| Reclassification during the period | (i) | -2,154,455 | 7,123,424 | -4,968,969 | - |
| Additions during the period | | - | 28,685 | 4,327 | 33,012 |
| Transfer from construction in progress | | 78,420 | 613,144 | 5,764 | 697,328 |
| Disposal during the period | | -19,242 | -163,258 | -7,968 | -190,468 |
| Balance at the end of the period | | 3,709,910 | 33,962,316 | 1,945,392 | 39,617,618 |
| Accumulated depreciation | | | | | |
| Balance at the beginning of the period | | 3,791,463 | 16,591,407 | 5,045,491 | 25,428,361 |
| Reclassification during the period | (i) | -1,858,420 | 5,415,113 | -3,556,693 | - |
| Charge for the period | | 47,945 | 752,797 | 37,416 | 838,158 |
| Written off on disposal | | -9,505 | -125,605 | -7,671 | -142,781 |
| Balance at the end of the period | | 1,971,483 | 22,633,712 | 1,518,543 | 26,123,738 |
| Provision for impairment | | | | | |
| Balance at the beginning of the period | | 111,443 | 800,458 | 78,152 | 990,053 |
| Reclassification during the period | (i) | -9,106 | 34,055 | -24,949 | - |
| Written off on disposal | | -362 | -222 | - | -584 |
| Balance at the end of the period | | 101,975 | 834,291 | 53,203 | 989,469 |
| Carrying amount | | | | | |
| Balance at the end of the period | | 1,636,452 | 10,494,313 | 373,646 | 12,504,411 |
| Balance at the beginning of the period | | 1,902,281 | 8,968,456 | 1,788,595 | 12,659,332 |

(i) For the six-month period ended 30 June 2012, the Group reclassified the categories of fixed assets in accordance with the revised "Classification and Standard Codes for Fixed Assets".

(b) At 30 June 2012 and 31 December 2011, the Group had no pledged fixed assets.

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

(11) Construction in progress

(a) Construction in progress

Expressed in thousands of Renminbi Yuan

| Project | At 30 June 2012 | | |
|--|-----------------|--------------------------|-----------------|
| | Book value | Provision for impairment | Carrying amount |
| The Refinery Revamping and Expansion Project | 4,761,531 | - | 4,761,531 |
| 5# 6# Furnace Secondary Desulfurisation Project for Department of Thermoelectric | 96,551 | - | 96,551 |
| The Expansion Project for Main Transformer 4# and 6# of the Power Plant | 66,531 | - | 66,531 |
| Numerous small projects of Synthetic Fibres segment | 133,671 | - | 133,671 |
| Numerous small projects of Resins and Plastics segment | 17,492 | - | 17,492 |
| Numerous small projects of Intermediate Petrochemicals segment | 159,307 | - | 159,307 |
| Numerous small projects of Petroleum Products segment | 64,482 | - | 64,482 |
| Numerous small projects of all others | 109,592 | - | 109,592 |
| Total | 5,409,157 | - | 5,409,157 |

Expressed in thousands of Renminbi Yuan

| Project | At 31 December 2011 | | |
|--|---------------------|--------------------------|-----------------|
| | Book value | Provision for impairment | Carrying amount |
| The Refinery Revamping and Expansion Project | 2,687,879 | - | 2,687,879 |
| The Carbon Fibre Project with a capacity of 1,500 tons/year (Stage I) | 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 |

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

(11) Construction in progress *(continued)*

(b) Movements of the Group's major construction in progress during the period

Expressed in thousands of Renminbi Yuan

| Project | Budget | Balance at 1 January 2012 | Additions | Transferred to fixed assets | Percentage of actual cost to budget (%) | Project progress (%) | Accumulated capitalised interest | Including: capitalised interest for the period | Interest capitalisation rate(%) | Source of funds | Balance at 30 June 2012 |
|--|-----------|---------------------------|-----------|-----------------------------|---|----------------------|----------------------------------|--|---------------------------------|------------------------|-------------------------|
| The Refinery Revamping and Expansion Project | 6,627,700 | 2,687,879 | 2,073,652 | - | 71.84 | 71.84 | 70,268 | 45,817 | 3.83-5.78 | Equity funds and loans | 4,761,531 |
| The Carbon Fibre Project with a capacity of 1500 tons/year (Stage I) | 411,052 | 366,841 | 44,211 | 411,052 | 100.00 | 100.00 | 8,185 | 4,687 | 3.83-5.78 | Equity funds and loans | - |
| 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 | 176,134 | - | 176,134 | 94.92 | 94.92 | 2,457 | - | - | Equity funds and loans | - |
| Jinchang 30,000 ton Modified Polypropylene project | 70,535 | 70,058 | 477 | 70,535 | 100.00 | 100.00 | 691 | - | - | Equity funds and loans | - |
| 5# 6# Furnace Secondary Desulfurisation Project for Department of Thermoelectric | 129,714 | 30,468 | 66,083 | - | 74.43 | 74.43 | - | - | - | Equity funds | 96,551 |
| The Expansion Project for Main Transformer 4# and 6# of the Power Plant | 71,776 | 51,153 | 15,378 | - | 92.69 | 92.69 | - | - | - | Equity funds | 66,531 |
| Numerous small projects of Synthetic Fibres segment | 766,852 | 143,376 | 7,223 | 16,928 | 19.64 | 19.64 | - | - | - | Equity funds | 133,671 |
| Numerous small projects of Resins and Plastics segment | 235,919 | 16,245 | 1,910 | 663 | 7.70 | 7.70 | - | - | - | Equity funds | 17,492 |
| Numerous small projects of Intermediate Petrochemicals segment | 720,314 | 149,012 | 10,944 | 649 | 22.21 | 22.21 | - | - | - | Equity funds | 159,307 |
| Numerous small projects of Petroleum Products segment | 359,206 | 67,656 | 1,168 | 4,342 | 19.16 | 19.16 | - | - | - | Equity funds | 64,482 |
| Numerous small projects of all others | 199,457 | 124,170 | 2,447 | 17,025 | 63.48 | 63.48 | - | - | - | Equity funds | 109,592 |
| Total | 9,778,095 | 3,882,992 | 2,223,493 | 697,328 | 62.45 | 62.45 | 81,601 | 50,504 | - | - | 5,409,157 |

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

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

(12) Intangible assets

Expressed in thousands of Renminbi Yuan

| Item | Land use rights | Others | Total |
|--|-----------------|--------|---------|
| Cost | | | |
| Balance at the beginning of the period | 748,867 | 95,339 | 844,206 |
| Disposal during the period | -4,000 | - | -4,000 |
| Balance at the end of the period | 744,867 | 95,339 | 840,206 |
| Accumulated amortisation | | | |
| Balance at the beginning of the period | 270,653 | 54,355 | 325,008 |
| Charge for the period | 7,702 | 1,460 | 9,162 |
| Written off on disposal | -700 | - | -700 |
| Balance at the end of the period | 277,655 | 55,815 | 333,470 |
| Carrying amount | | | |
| Balance at the end of the period | 467,212 | 39,524 | 506,736 |
| Balance at the beginning of the period | 478,214 | 40,984 | 519,198 |

Amortisation charged for the period amounted to RMB 9,162,000 (six-month period ended 30 June 2011: RMB 9,201,000).

(13) Long-term deferred expenses

Expressed in thousands of Renminbi Yuan

| Item | At 1 January 2012 | Additions for the period | Amortisation for the period | Reclassification to other current assets | At 30 June 2012 |
|-----------|----------------------|-----------------------------|--------------------------------|---|--------------------|
| Catalysts | 306,052 | 131,004 | -75,790 | -4,825 | 356,441 |

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

(14) Deferred tax assets

(a) Deferred tax assets or liabilities after offsetting and the corresponding deductible or taxable temporary differences

Expressed in thousands of Renminbi Yuan

| Item | At 30 June 2012 | | At 31 December 2011 | |
|---|--|--|--|--|
| | Deductible or taxable temporary differences ("-" for taxable temporary difference) | Deferred tax assets/deferred tax liabilities ("-" for liabilities) | Deductible or taxable temporary differences ("-" for taxable temporary difference) | Deferred tax assets/deferred tax liabilities ("-" for liabilities) |
| Deferred tax assets: | | | | |
| Provision for bad and doubtful debt and diminution in value of inventories | 281,322 | 70,331 | 145,064 | 36,266 |
| Provision for impairment of fixed assets | 400,332 | 100,083 | 449,188 | 112,297 |
| Contribution of fixed assets and sales of assets to a jointly controlled enterprise | 31,520 | 7,880 | 33,272 | 8,318 |
| Deductible tax losses | 2,929,912 | 732,478 | 1,496,744 | 374,186 |
| Specific reserve accrued | 48,075 | 12,019 | 14,272 | 3,568 |
| Other deferred tax assets | 35,658 | 8,914 | 34,388 | 8,597 |
| Sub-total | 3,726,819 | 931,705 | 2,172,928 | 543,232 |
| Offsetting | -75,652 | -18,913 | -81,580 | -20,395 |
| After offsetting | 3,651,167 | 912,792 | 2,091,348 | 522,837 |
| Deferred tax liabilities: | | | | |
| Capitalisation of borrowing costs | -75,652 | -18,913 | -81,580 | -20,395 |
| Offsetting | 75,652 | 18,913 | 81,580 | 20,395 |
| After offsetting | - | - | - | - |

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

Expressed in thousands of Renminbi Yuan

| Item | Balance at 1 January 2012 | Changes charged to profit or loss during the period | Balance at 30 June 2012 |
|---|---------------------------|---|-------------------------|
| Deferred tax assets: | | | |
| Provision for bad and doubtful debt and diminution in value of inventories | 36,266 | 34,065 | 70,331 |
| Provision for impairment of fixed assets | 112,297 | -12,214 | 100,083 |
| Contribution of fixed assets and sales of assets to a jointly controlled enterprise | 8,318 | -438 | 7,880 |
| Deductible tax losses | 374,186 | 358,292 | 732,478 |
| Specific reserve accrued | 3,568 | 8,451 | 12,019 |
| Other deferred tax assets | 8,597 | 317 | 8,914 |
| Capitalisation of borrowing costs | -20,395 | 1,482 | -18,913 |
| Total | 522,837 | 389,955 | 912,792 |

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

(14) Deferred tax assets *(continued)*

(c) Details of unrecognised deferred tax assets

Expressed in thousands of Renminbi Yuan

| Item | Note | At 30 June 2012 | At 31 December 2011 |
|--|------|-----------------|---------------------|
| Provision for impairment of fixed assets | (i) | 432,579 | 432,579 |
| Deductible tax losses | (ii) | 480,115 | 465,414 |
| Total | | 912,694 | 897,993 |

- (i) In accordance with the accounting policy set out in Note 2(24), the Group has not recognised deferred tax assets in respect of provision for impairment of fixed assets of RMB 432,579,000 (31 December 2011: 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 480,115,000 (31 December 2011: RMB 465,414,000) as it is not probable that future taxable profits against which the losses can be utilised will be available for Jinyong. The deductible tax losses will expire from 2012 to 2017 under current tax law.

(d) Expiration of deductible tax losses for unrecognised deferred tax assets

Expressed in thousands of Renminbi Yuan

| Year | At 30 June 2012 | At 31 December 2011 |
|------|-----------------|---------------------|
| 2012 | 68,548 | 68,548 |
| 2013 | 197,952 | 197,952 |
| 2014 | 107,292 | 107,292 |
| 2015 | 49,294 | 49,294 |
| 2016 | 42,328 | 42,328 |
| 2017 | 14,701 | - |

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

(15) Provision for impairment

Expressed in thousands of Renminbi Yuan

| Item | Note | At 1 January 2012 | Charge for the period | Decreases for the period | | At 30 June 2012 |
|---------------------|-------|----------------------|--------------------------|--------------------------|-----------|--------------------|
| | | | | Reversal | Write-off | |
| Accounts receivable | 5(3) | 4,735 | 58 | - | -367 | 4,426 |
| Other receivables | 5(5) | 2,706 | - | -205 | - | 2,501 |
| Inventories | 5(6) | 193,584 | 187,185 | -1,459 | -52,700 | 326,610 |
| Fixed assets | 5(10) | 990,053 | - | - | -584 | 989,469 |
| Total | | 1,191,078 | 187,243 | -1,664 | -53,651 | 1,323,006 |

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

(16) Short-term loans

(a) Short-term loans by category

Expressed in thousands of Renminbi Yuan

| Category | At 30 June 2012 | At 31 December 2011 |
|-----------------------------|------------------|---------------------|
| Unsecured loans | | |
| -Bank loans | 8,234,572 | 4,852,074 |
| -Loans from a related party | 453,883 | 660,000 |
| Total | 8,688,455 | 5,512,074 |

At 30 June 2012, the weighted average interest rate of the Group's short-term loans was 3.84% (31 December 2011: 2.75%).

(b) At 30 June 2012 and 31 December 2011, the Group had no past due short-term loans.

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

(17)Accounts payable

- (a) Accounts payable by category:

Expressed in thousands of Renminbi Yuan

| Item | At 30 June 2012 | At 31 December 2011 |
|-----------------|------------------|---------------------|
| Related parties | 2,840,678 | 2,204,823 |
| Third parties | 1,713,572 | 2,445,184 |
| Total | 4,554,250 | 4,650,007 |

At 30 June 2012, there were no significant accounts payable aged over one year.

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

(18)Advances from customers

- (a) Advances from customers by category:

Expressed in thousands of Renminbi Yuan

| Item | At 30 June 2012 | At 31 December 2011 |
|-----------------|-----------------|---------------------|
| Related parties | 20,079 | 25,524 |
| Third parties | 461,965 | 681,311 |
| Total | 482,044 | 706,835 |

At 30 June 2012, there were no significant advances from customers aged over one year.

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

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

(19) Employee benefits payable

Expressed in thousands of Renminbi Yuan

| Item | At 1 January 2012 | Accrued during the period | Decreases during the period | At 30 June 2012 |
|--|-------------------------|---------------------------------|-----------------------------------|-----------------------|
| 1. Salaries, bonuses and allowances | 5,060 | 702,794 | -702,794 | 5,060 |
| 2. Staff welfare | - | 107,246 | -107,246 | - |
| 3. Social insurance | 32,353 | 268,587 | -263,724 | 37,216 |
| Including: 1) Medical insurance | 10,494 | 70,016 | -68,439 | 12,071 |
| 2) Basic pension insurance | 19,236 | 128,042 | -125,150 | 22,128 |
| 3) Unemployment insurance | 1,485 | 9,948 | -9,724 | 1,709 |
| 4) Staff and workers' injury insurance | 437 | 2,939 | -2,874 | 502 |
| 5) Maternity insurance | 701 | 4,665 | -4,560 | 806 |
| 6) Supplementary medical insurance | - | 386 | -386 | - |
| 7) Complementary pension insurance | - | 34,245 | -34,245 | - |
| 8) Other insurance | - | 18,346 | -18,346 | - |
| 4. Housing fund | - | 64,064 | -64,064 | - |
| 5. Termination benefits | - | 7,153 | -7,153 | - |
| 6. Others | 8,727 | 79,848 | -81,907 | 6,668 |
| Total | 46,140 | 1,229,692 | -1,226,888 | 48,944 |

At 30 June 2012, no amount in arrears was included in the balance of employee benefits payable.

The balance of employee benefits payable as at 30 June 2012 was expected to be fully distributed or utilised in the second half year of 2012.

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, pursuant to a document "Hu Fu Ban Fa [2004] No. 45", 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 2012 (2011: 22%).

In addition, pursuant to a document "Order of the Ministry of Labour and Social Security No.20" dated 6 January 2004 issued by the Ministry of Labour and Social Security 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.

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

(19) Employee benefits payable *(continued)*

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 period ended 30 June 2012, the Group's contribution to the above two plans amounted to RMB 128,042,000 and RMB 34,245,000 respectively (Six-month period ended 30 June 2011: RMB 114,322,000 and RMB 29,500,000 respectively).

In accordance with the Group voluntary employee reduction plan, the Group recorded employee reduction expenses of RMB 7,153,000 (Six-month period ended 30 June 2011: RMB 1,158,000) during the period ended 30 June 2012, in respect of the voluntary resignation of approximately 70 employees (Six-month period ended 30 June 2011: 50 employees).

(20) Taxes payable

Expressed in thousands of Renminbi Yuan

| Item | At 30 June 2012 | At 31 December 2011 |
|---------------------------------------|-----------------|---------------------|
| Value added tax | 2,251 | 592 |
| Business tax | 873 | 2,347 |
| Income tax | 6,494 | 22,340 |
| Consumption tax | 374,242 | 413,431 |
| Education surcharges | 18,776 | 20,628 |
| City maintenance and construction tax | 26,285 | 28,855 |
| Others | 9,379 | 19,745 |
| Total | 438,300 | 507,938 |

(21) Interest payable

Expressed in thousands of Renminbi Yuan

| Item | At 30 June 2012 | At 31 December 2011 |
|---|-----------------|---------------------|
| Interest payable for long-term loans with interest paid in installments | 1,201 | 277 |
| Interest payable for short-term loans | 22,366 | 9,165 |
| Total | 23,567 | 9,442 |

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

(22) Dividends payable

Expressed in thousands of Renminbi Yuan

| Item | Note | At 30 June 2012 | At 31 December 2011 | Reason for unsettlement over more than one year |
|--------------|------|--------------------|------------------------|--|
| Sinopec Corp | 6(6) | 200,000 | - | — |
| Others | | 160,079 | 22,599 | — |
| Total | | 360,079 | 22,599 | — |

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

(23) Other payables

(a) Other payables by category

Expressed in thousands of Renminbi Yuan

| Item | At 30 June 2012 | At 31 December 2011 |
|-----------------|-----------------|---------------------|
| Related parties | 75,914 | 12,521 |
| Third parties | 1,028,075 | 788,588 |
| Total | 1,103,989 | 801,109 |

Other payables mainly represent construction fees payables.

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

(c) At 30 June 2012, there were no significant other payables aged over one year.

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

(24) Long-term loans

(a) Long-term loans by category

Expressed in thousands of Renminbi Yuan

| Item | At 30 June 2012 | At 31 December 2011 |
|-----------------|-----------------|---------------------|
| Unsecured loans | 731,340 | 160,050 |

(b) As at 30 June 2012, details of long-term loans were as follows:

Expressed in thousands of Renminbi Yuan

| Lender | Inception date | Maturity date | Currency | Annual Interest rate (%) | At 30 June 2012 | At 31 December 2011 |
|---|----------------|---------------|----------|--------------------------|-----------------|---------------------|
| 1. Industrial and Commercial Bank of China, Jinshan Branch | 2008.11.27 | 2013.11.25 | RMB | 5.364 | - | 50,000 |
| 2. Industrial and Commercial Bank of China, Jinshan Branch | 2008.12.25 | 2013.11.25 | RMB | 5.364 | - | 75,000 |
| 3. Industrial and Commercial Bank of China, Jinshan Branch | 2011.12.27 | 2016.12.14 | RMB | 6.210 | 10,000 | 10,000 |
| 4. Industrial and Commercial Bank of China, Jinshan Branch | 2011.09.16 | 2016.08.24 | RMB | 6.900 | 25,050 | 25,050 |
| 5. Industrial and Commercial Bank of China, Jinshan Branch | 2012.01.13 | 2016.08.24 | RMB | 6.900 | 6,290 | - |
| 6. Industrial and Commercial Bank of China, Jinshan Branch | 2012.03.12 | 2016.12.24 | RMB | 6.210 | 90,000 | - |
| 7. Construction Bank of China, Jinshan Branch | 2012.04.09 | 2017.02.10 | RMB | 6.210 | 100,000 | - |
| 8. Industrial and Commercial Bank of China, Jinshan Branch | 2012.05.17 | 2016.12.24 | RMB | 6.210 | 200,000 | - |
| 9. Construction Bank of China, Jinshan Branch | 2012.05.18 | 2017.02.10 | RMB | 6.210 | 100,000 | - |
| 10. Construction Bank of China, Jinshan Branch | 2012.06.07 | 2017.02.10 | RMB | 6.210 | 100,000 | - |
| 11. Industrial and Commercial Bank of China, Jinshan Branch | 2012.06.20 | 2016.12.24 | RMB | 5.985 | 100,000 | - |
| Total | | | | | 731,340 | 160,050 |

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

(25) Other non-current liabilities

Expressed in thousands of Renminbi Yuan

| Item | At 30 June 2012 | At 31 December 2011 |
|-----------------|-----------------|---------------------|
| Deferred income | 199,660 | 295,619 |

At 30 June 2012, deferred income mainly represented government grants related to assets, which are recognised initially as deferred income and amortised to profit or loss on a straight-line basis over the useful life of the asset. The local education surcharges refund of RMB 91,319,000 received at the year end of 2011 was recognised in profit or loss during the current period upon the fulfillment of conditions.

(26) Share capital

Expressed in thousands of Renminbi Yuan

| Item | At 1 January 2012 | At 30 June 2012 |
|---|-------------------|-----------------|
| (1) Non-circulation 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)*

(26) 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 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)*

(27) Capital reserve

Expressed in thousands of Renminbi Yuan

| Item | At 1 January 2012 | Additions during the period | Decreases during the period | At 30 June 2012 |
|---------------------------------------|-------------------|-----------------------------|-----------------------------|------------------|
| Share premium | 2,420,841 | - | - | 2,420,841 |
| Investment 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 |

(28) Specific reserve

Expressed in thousands of Renminbi Yuan

| Item | At 1 January 2012 | Accrued during the period | Utilised during the period | At 30 June 2012 |
|-------------------------|-------------------|---------------------------|----------------------------|-----------------|
| Safety production costs | 21,777 | 61,150 | -24,530 | 58,397 |

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

(29) Surplus reserve

Expressed in thousands of Renminbi Yuan

| Item | At 1 January 2012 | Additions during the period | At 30 June 2012 |
|-------------------------------|-------------------|-----------------------------|------------------|
| Statutory surplus reserve | 3,871,256 | - | 3,871,256 |
| Discretionary surplus reserve | 1,280,514 | - | 1,280,514 |
| Total | 5,151,770 | - | 5,151,770 |

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

(30) Retained earnings

Expressed in thousands of Renminbi Yuan

| Item | Note | At 30 June 2012 | At 31 December 2011 |
|--|------|-----------------|---------------------|
| Retained earnings at 1 January | | 2,824,173 | 2,670,215 |
| Add: Net profit attributable to equity shareholders of the Company ("-" for net loss) | | -1,194,489 | 944,414 |
| Less: Appropriation for statutory surplus reserve | | - | -70,456 |
| Dividends payable on ordinary shares | (a) | -360,000 | -720,000 |
| Retained earnings at 30 June /31 December | (b) | 1,269,684 | 2,824,173 |

- (a) Distribution of dividends of ordinary shares declared during the period

Pursuant to a resolution passed at the Annual General Meeting held on 27 June 2012, a final dividend of RMB 0.05 per share (2011: RMB 0.10 per share), totalling RMB 360,000,000 (2011: RMB 720,000,000) was declared and approved for the year ended 31 December 2011.

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

Surplus reserve attributable to the Company which is made by the subsidiaries during the period is RMB 10,285,000 (Six-month period ended 30 June 2011: RMB 10,505,000).

As at 30 June 2012, the consolidated retained earnings attributable to the Company included an appropriation of RMB 128,791,000 to surplus reserve made by the Company's subsidiaries (31 December 2011: RMB 118,506,000).

(31) Operating income and operating costs

- (a) Operating income and operating costs

Expressed in thousands of Renminbi Yuan

| Item | Six-month period ended 30 June | |
|--|--------------------------------|------------|
| | 2012 | 2011 |
| Operating income from principal activities | 46,266,708 | 49,295,528 |
| Other operation income | 205,886 | 229,464 |
| Sub-total | 46,472,594 | 49,524,992 |
| Operating costs | 43,448,096 | 43,007,104 |

Operating income represents sales of products after deduction of VAT.

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

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

(31) Operating income and operating costs *(continued)*

(d) Operating income from the top five customers for the six-month period ended 30 June 2012

Expressed in thousands of Renminbi Yuan

| Name of customer | Operating income | Percentage of total operating income(%) |
|---|------------------|---|
| Sinopec Huadong Sales Company Limited | 18,885,862 | 40.64 |
| Sinopec Chemical Commercial Holding Company Limited | 3,509,359 | 7.55 |
| China Petroleum & Chemical Corporation | 2,363,355 | 5.08 |
| Shanghai Secco Petrochemical Company Limited | 858,028 | 1.85 |
| Oriental Petrochemical (Shanghai) Corporation | 727,885 | 1.57 |
| Total | 26,344,489 | 56.69 |

(32) Business taxes and surcharges

Expressed in thousands of Renminbi Yuan

| Item | Six-month period ended 30 June | | Tax base |
|---------------------------------------|--------------------------------|-----------|---|
| | 2012 | 2011 | |
| Consumption tax | 2,497,763 | 2,657,270 | 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 | 2,689 | 3,315 | 5% of income entitled to business tax |
| City maintenance and construction tax | 196,447 | 288,839 | 7% of consumption tax, VAT and business tax paid |
| Education surcharges and others | 140,387 | 206,229 | 5% of consumption tax, VAT and business tax paid |
| Total | 2,837,286 | 3,155,653 | — |

(33) Selling and distribution expenses

Expressed in thousands of Renminbi Yuan

| Item | Six-month period ended 30 June | |
|--------------------------------|--------------------------------|---------|
| | 2012 | 2011 |
| Transportation fee | 155,790 | 162,189 |
| Sales commission | 99,763 | 103,970 |
| Storage and logistics expenses | 25,270 | 22,631 |
| Staff costs | 24,599 | 20,764 |
| Others | 24,385 | 25,891 |
| Total | 329,807 | 335,445 |

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

(34) General and Administrative expenses

Expressed in thousands of Renminbi Yuan

| Item | Six-month period ended 30 June | |
|----------------------------------|--------------------------------|-----------|
| | 2012 | 2011 |
| Repair and maintenance fee | 479,973 | 523,025 |
| Staff costs | 447,555 | 405,480 |
| Depreciation and amortisation | 52,016 | 50,206 |
| Tax | 49,460 | 66,889 |
| Administrative expenses | 28,011 | 41,197 |
| Security and fire prevention fee | 27,979 | 31,734 |
| Research and development costs | 16,232 | 25,138 |
| Others | 77,361 | 99,859 |
| Total | 1,178,587 | 1,243,528 |

(35) Financial expenses (“-” for income)

Expressed in thousands of Renminbi Yuan

| Item | Six-month period ended 30 June | |
|---|--------------------------------|---------|
| | 2012 | 2011 |
| Interest expenses from loans and payables | 233,356 | 133,451 |
| Less: Borrowing costs capitalised | -50,504 | -16,280 |
| Interest income from deposits and receivables | -48,948 | -42,874 |
| Net foreign exchange losses (“-” for net gains) | 53,690 | -94,585 |
| Others | 5,493 | 6,156 |
| Total | 193,087 | -14,132 |

The interest rates per annum, at which borrowing costs were capitalised for the period ended 30 June 2012 by the Group, were 3.83%-5.78%(2011: 2.75%-4.86%).

(36) Impairment losses (“-” for reversals)

Expressed in thousands of Renminbi Yuan

| Item | Six-month period ended 30 June | |
|---------------------|--------------------------------|---------|
| | 2012 | 2011 |
| Accounts receivable | 58 | -358 |
| Other receivables | -205 | -259 |
| Inventories | 185,726 | 146,646 |
| Fixed assets | - | 10,552 |
| Total | 185,579 | 156,581 |

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

(37) Investment income

(a) Investment income by item

Expressed in thousands of Renminbi Yuan

| Item | Note | Six-month period ended 30 June | |
|--|------|--------------------------------|---------|
| | | 2012 | 2011 |
| Income from long-term equity investments accounted for using the equity method("-" for losses) | (b) | -1,728 | 177,564 |
| Investment income on disposal of long-term equity investment | | 6,446 | - |
| Total | | 4,718 | 177,564 |

(b) For long-term equity investments accounted for using the equity method, the amount of investment income("-" for losses) from an investee accounted for more than 5% of profit before income tax, or included in the top five investment income when the amount accounted for less than 5% of profit before income tax, are as follows:

Expressed in thousands of Renminbi Yuan

| Investee | Six-month period ended 30 June | |
|---|--------------------------------|---------|
| | 2012 | 2011 |
| Shanghai Secco Petrochemical Company Limited(Note) | -50,879 | 98,565 |
| Shanghai Chemical Industrial Park Development Company Limited | 23,451 | 30,410 |
| BOC-SPC Gases Company Limited | 12,534 | 19,641 |
| Shanghai Azbil Automation Company Limited | 8,410 | 7,619 |
| Shanghai Jinsen Hydrocarbon Resins Company Limited | 3,079 | 15,415 |
| Total | -3,405 | 171,650 |

Note: For the period ended 30 June 2012, the decrease of investment income from long-term equity investments under the equity method of the Group was attributable to net loss 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)*

(38) Non-operating income

(a) Non-operating income by item is as follows:

Expressed in thousands of Renminbi Yuan

| Item | Note | Six-month period ended 30 June | |
|--|------|--------------------------------|-------|
| | | 2012 | 2011 |
| Gain on disposal of fixed assets | | 530 | 1,935 |
| Government grants | (b) | 138,064 | 5,240 |
| Others | | 22,669 | 1,488 |
| Total | | 161,263 | 8,663 |
| Amount recognised in non-recurring items | | 161,263 | 8,663 |

(b) Government grants mainly include:

Expressed in thousands of Renminbi Yuan

| Item | Six-month period ended 30 June | |
|---|--------------------------------|-------|
| | 2012 | 2011 |
| Local education surcharges refund | 114,343 | - |
| Subsidy for completed scientific research expenditure | 18,721 | - |
| Others | 5,000 | 5,240 |
| Total | 138,064 | 5,240 |

(39) Non-operating expenses

Expressed in thousands of Renminbi Yuan

| Item | Six-month period ended 30 June | |
|--|--------------------------------|--------|
| | 2012 | 2011 |
| Loss on disposal of fixed assets | 12,357 | 9,133 |
| Others | 12,428 | 12,102 |
| Total | 24,785 | 21,235 |
| Amount recognised in non-recurring items | 24,785 | 21,235 |

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

(40) Income tax expense

Expressed in thousands of Renminbi Yuan

| Item | Note | Six-month period ended 30 June | |
|---|------|--------------------------------|---------|
| | | 2012 | 2011 |
| Current tax expense for the period based on tax law and regulations | | 12,293 | 8,291 |
| Changes in deferred taxation | | -389,955 | 410,039 |
| Under-provision for income tax expense in respect of preceding years ("-" for over-provision) | | 132 | -436 |
| Total | (a) | -377,530 | 417,894 |

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

Expressed in thousands of Renminbi Yuan

| Item | Six-month period ended 30 June | |
|---|--------------------------------|-----------|
| | 2012 | 2011 |
| Profit before income tax ("-" for loss) | -1,558,652 | 1,805,805 |
| Expected income tax expense at a rate of 25% (2011: 25%) | -389,663 | 451,451 |
| Add: Tax effect of non-deductible expenses | 3,313 | 2,657 |
| Under provision for income tax expense in respect of preceding years ("-" for over provision) | 132 | -436 |
| Tax effect of share of loss recognised using the equity method ("-" for profit) | 432 | -44,391 |
| Tax effect of unused tax losses not recognised | 3,675 | 5,486 |
| Others | 4,581 | 3,127 |
| Income tax expense | -377,530 | 417,894 |

(41) Calculation of basic and diluted earnings per share ("-" for loss)

(a) Basic earnings per share ("-" for loss):

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

Expressed in thousands of Renminbi Yuan

| Item | Six-month period ended 30 June | |
|---|--------------------------------|-----------|
| | 2012 | 2011 |
| Consolidated net profit attributable to ordinary shareholders of the Company ("-" for net loss) | -1,194,489 | 1,381,533 |
| Weighted average number of the Company's ordinary shares outstanding ('000) | 7,200,000 | 7,200,000 |
| Basic earnings per share (RMB) ("-" for loss) | -0.166 | 0.192 |

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

(41) Calculation of basic and diluted earnings per share (“-” for loss) *(continued)*

(b) Diluted earnings per share (“-” for loss):

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

(42) Notes to the cash flow statement

(a) Cash received relating to other operating activities

Expressed in thousands of Renminbi Yuan

| Item | Amount |
|-------------------|--------|
| Government grants | 42,105 |
| Others | 2,669 |
| Total | 44,774 |

(b) Cash paid relating to other operating activities

Expressed in thousands of Renminbi Yuan

| Item | Amount |
|----------------------------------|----------|
| Sales commission | -99,763 |
| Administrative expenses | -28,011 |
| Security and fire prevention fee | -27,979 |
| Storage and logistics expenses | -25,270 |
| Research and development costs | -16,232 |
| Others | -50,896 |
| Total | -248,151 |

(c) Cash received relating to other investing activities

Expressed in thousands of Renminbi Yuan

| Item | Amount |
|-----------------|--------|
| Interest income | 48,948 |

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

(43) Supplemental information on cash flow statement

(a) Supplement to cash flow statement

Expressed in thousands of Renminbi Yuan

| Supplemental information | Six-month period ended 30 June | |
|--|--------------------------------|------------|
| | 2012 | 2011 |
| 1. Reconciliation of net profit to cash flows from operating activities ("-" for net loss): | | |
| Net profit ("-" for net loss) | -1,181,122 | 1,387,911 |
| Add: Impairment losses | 185,579 | 156,581 |
| Depreciation of investment properties | 6,625 | 6,625 |
| Depreciation of fixed assets | 838,158 | 829,079 |
| Amortisation of intangible assets | 9,162 | 9,201 |
| Loss on disposal of fixed assets and other long-term assets | 11,827 | 7,198 |
| Financial expenses ("-" for income) | 187,594 | -20,288 |
| Investment income | -4,718 | -177,564 |
| Decrease in deferred tax assets ("-" for increase) | -389,955 | 410,039 |
| Increase in inventories | -2,196,568 | -3,779,291 |
| Decrease in operating receivables ("-" for increase) | 1,677,819 | -356,572 |
| Increase in operating payables ("-" for decrease) | -247,259 | 2,604,947 |
| Increase in specific reserve | 36,620 | 38,058 |
| Net cash inflow from operating activities("-" for outflow) | -1,066,238 | 1,115,924 |
| | | |
| 2. Change in cash and cash equivalents: | | |
| Cash and cash equivalents balance at the end of the period | 191,896 | 337,006 |
| Less: Cash and cash equivalents balance at the beginning of the period | 91,346 | 100,110 |
| Net increase in cash and cash equivalents | 100,550 | 236,896 |

(b) Details of cash and cash equivalents

Expressed in thousands of Renminbi Yuan

| Item | Six-month period ended 30 June | |
|---|--------------------------------|---------|
| | 2012 | 2011 |
| 1. Cash | | |
| - Cash on hand | 86 | 124 |
| - Bank deposits available on demand | 190,736 | 336,020 |
| - Other monetary fund available on demand | 1,074 | 862 |
| 2. Closing balance of cash and cash equivalents | 191,896 | 337,006 |

6. Related parties and related party transactions

(1) Information on the parent of the Company

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

The above registered capital did not change during the period ended 30 June 2012.

At 30 June 2012, Sinopec Corp held 4 billion shares of the Company. There were no changes during the period.

(2) Information on the Company's subsidiaries

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

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

See Note5(8)(b) for details of the Group's major jointly controlled enterprises and associates .

6. Related parties and related party transactions *(continued)*

(4) Information on 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 Anqing Branch | Branch of the immediate parent company | 71398286-8 |
| Sinopec Corp Qilu Branch | Branch of the immediate parent company | 72326778-8 |
| Sinopec Chemical Commercial Holding Company Limited | Subsidiary of the immediate parent company | 68435353-5 |
| 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 |

6. Related parties and related party transactions *(continued)*

(5) Related party transactions

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

The Group

Expressed in thousands of Renminbi Yuan

| Name of related parties | Transaction type | Category | Six-month period ended 30 June | | | |
|---|---------------------------|---------------------------------|--------------------------------|-------------------------------------|------------|-------------------------------------|
| | | | 2012 | | 2011 | |
| | | | Amount | Percentage of the same category (%) | Amount | Percentage of the same category (%) |
| Sinopec Corp, its subsidiaries and jointly controlled enterprises | Trade | Sales/Service income | 25,530,076 | 54.94 | 26,294,057 | 53.09 |
| Sinopec Corp, its subsidiaries and jointly controlled enterprises | Trade | Purchases | 26,450,889 | 59.81 | 25,758,400 | 57.78 |
| Sinopec Group and its subsidiaries | Trade | Sales/Service income | 247,137 | 0.53 | 138,291 | 0.28 |
| Sinopec Group and its subsidiaries | Trade | Purchases | 8,877 | 0.02 | 16,143 | 0.04 |
| Associates of the Group | Trade | Sales | 1,067,117 | 2.30 | 1,066,563 | 2.15 |
| Associates of the Group | Trade | Purchases | 1,790,999 | 4.05 | 2,485,199 | 5.58 |
| Jointly controlled enterprises of the Group | Trade | Sales | 60,259 | 0.13 | 132,244 | 0.27 |
| Jointly controlled enterprises of the Group | Trade | Purchases | 183,837 | 0.42 | 195,118 | 0.44 |
| Key management personnel | Compensation for services | Short-term employee benefits | 5,494 | 0.57 | 4,833 | 0.57 |
| Key management personnel | Compensation for services | Retirement scheme contributions | 84 | 0.03 | 73 | 0.03 |

6. Related parties and related party transactions *(continued)*

(5) Related party transactions *(continued)*

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

The Company

Expressed in thousands of Renminbi Yuan

| Name of related parties | Transaction type | Category | Six-month period ended 30 June | | | |
|---|---------------------------|---------------------------------|--------------------------------|-------------------------------------|------------|-------------------------------------|
| | | | 2012 | | 2011 | |
| | | | Amount | Percentage of the same category (%) | Amount | Percentage of the same category (%) |
| Sinopec Corp, its subsidiaries and jointly controlled enterprises | Trade | Sales/Service income | 21,774,775 | 54.43 | 22,277,941 | 52.90 |
| Sinopec Corp, its subsidiaries and jointly controlled enterprises | Trade | Purchases | 26,274,687 | 73.77 | 25,264,504 | 72.86 |
| Sinopec Group and its subsidiaries | Trade | Sales/Service income | 189,593 | 0.47 | 69,061 | 0.16 |
| Sinopec Group and its subsidiaries | Trade | Purchases | 8,877 | 0.02 | 16,143 | 0.05 |
| Subsidiaries of the Company | Trade | Sales | 711,497 | 1.78 | 833,730 | 1.98 |
| Subsidiaries of the Company | Trade | Purchases | 651,542 | 1.83 | 468,621 | 1.35 |
| Associates of the Company | Trade | Sales | 870,356 | 2.18 | 632,806 | 1.50 |
| Associates of the Company | Trade | Purchases | 1,440,560 | 4.04 | 2,093,000 | 6.04 |
| Jointly controlled enterprises of the Company | Trade | Sales | 60,259 | 0.15 | 132,244 | 0.31 |
| Jointly controlled enterprises of the Company | Trade | Purchases | 183,837 | 0.52 | 195,118 | 0.56 |
| Key management personnel | Compensation for services | Short-term employee benefits | 5,494 | 0.60 | 4,833 | 0.61 |
| Key management personnel | Compensation for services | Retirement scheme contributions | 84 | 0.03 | 73 | 0.03 |

Most of the transactions undertaken by the Group during the period ended 30 June 2012 have been affected on such terms as determined by Sinopec Corp and relevant PRC authorities.

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

6. Related parties and related party transactions *(continued)*

(5) Related party transactions *(continued)*

(b) Related party funding

For the period ended 30 June 2012, both the Group and the Company borrowed loans from Sinopec Finance Company Limited amounting to RMB 2,143,883,000 (Six-month period ended 30 June 2011: RMB 2,570,000,000).

For the period ended 30 June 2012, the Group and the Company repaid loans to Sinopec Finance Company Limited amounting to RMB 2,350,000,000 (Six-month period ended 30 June 2011: RMB 2,970,000,000 and 2,770,000,000 respectively).

(c) Other related party transactions

The Group

Expressed in thousands of Renminbi Yuan

| Transaction | Related Party | Six-month period ended 30 June | |
|------------------------------------|---|--------------------------------|---------|
| | | 2012 | 2011 |
| Insurance premiums | Sinopec Group | 65,657 | 66,075 |
| Interest received and receivable | Sinopec Finance Company Limited | 260 | 361 |
| Interest paid and payable | Sinopec Finance Company Limited | 13,155 | 11,911 |
| Construction and installation cost | Sinopec Group | 244,816 | 55,348 |
| Sales commission | Sinopec Chemical Commercial Holding Company Limited | 99,763 | 103,970 |
| Rental income | Sinopec Corp | 11,611 | 11,639 |

The Company

Expressed in thousands of Renminbi Yuan

| Transaction | Related Party | Six-month period ended 30 June | |
|------------------------------------|---|--------------------------------|---------|
| | | 2012 | 2011 |
| Insurance premiums | Sinopec Group | 65,657 | 66,075 |
| Interest received and receivable | Sinopec Finance Company Limited | 260 | 361 |
| Interest paid and payable | Sinopec Finance Company Limited | 13,155 | 7,664 |
| Construction and installation cost | Sinopec Group | 244,816 | 55,348 |
| Sales commission | Sinopec Chemical Commercial Holding Company Limited | 99,763 | 103,970 |
| Rental income | Sinopec Corp | 11,611 | 11,639 |
| Rental income | Subsidiaries of the Company | - | 3,070 |

6. Related parties and related party transactions *(continued)*

(6) Receivables from and payables to related parties

The Group

Expressed in thousands of Renminbi Yuan

| Item | Related Party | At 30 June 2012 | At 31 December 2011 |
|-------------------------|---|--------------------|------------------------|
| Bills receivable | Sinopec Corp, its subsidiaries and jointly controlled enterprises | 58,979 | 143,569 |
| Accounts receivable | Sinopec Corp, its subsidiaries and jointly controlled enterprises | 506,352 | 404,796 |
| Accounts receivable | Sinopec Group and its subsidiaries | 2,246 | 1,908 |
| Accounts receivable | Associates of the Group | 86,160 | 59,358 |
| Accounts receivable | Jointly controlled enterprises of the Group | 21,938 | 21,908 |
| Dividends receivable | Associates of the Group | 14,921 | - |
| Other receivables | Sinopec Corp, its subsidiaries and jointly controlled enterprises | 98 | 1,307 |
| Other receivables | Sinopec Group and its subsidiaries | 192 | 2 |
| Other receivables | Associates of the Group | 2,813 | 483 |
| Other receivables | Jointly controlled enterprises of the Group | 1,721 | 2,065 |
| Prepayments | Sinopec Corp, its subsidiaries and jointly controlled enterprises | 10,074 | 3,890 |
| Prepayments | Sinopec Group and its subsidiaries | 200 | - |
| Accounts payable | Sinopec Corp, its subsidiaries and jointly controlled enterprises | 2,595,738 | 1,998,915 |
| Accounts payable | Sinopec Group and its subsidiaries | 1,935 | 4,139 |
| Accounts payable | Associates of the Group | 206,536 | 164,957 |
| Accounts payable | Jointly controlled enterprises of the Group | 36,469 | 36,812 |
| Other payables | Sinopec Corp, its subsidiaries and jointly controlled enterprises | 13,909 | 6,859 |
| Other payables | Sinopec Group and its subsidiaries | 60,520 | 5,655 |
| Other payables | Associates of the Group | 1,485 | 7 |
| Advances from customers | Sinopec Corp, its subsidiaries and jointly controlled enterprises | 16,383 | 22,042 |
| Advances from customers | Sinopec Group and its subsidiaries | 291 | 287 |
| Advances from customers | Associates of the Group | 3,405 | 3,195 |
| Dividends payable | Sinopec Corp | 200,000 | - |
| Short-term loans | Subsidiary of Sinopec Group | 453,883 | 660,000 |

As at 30 June 2012, no bad debt provision was provided for receivables from related parties (31 December 2011: RMB nil).

6. Related parties and related party transactions *(continued)*

(6) Receivables from and payables to related parties *(continued)*

The Company

Expressed in thousands of Renminbi Yuan

| Item | Related Party | At 30 June 2012 | At 31 December 2011 |
|----------------------|---|--------------------|------------------------|
| Bills receivable | Sinopec Corp, its subsidiaries and jointly controlled enterprises | 57,779 | 99,269 |
| Accounts receivable | Sinopec Corp, its subsidiaries and jointly controlled enterprises | 429,401 | 390,433 |
| Accounts receivable | Sinopec Group and its subsidiaries | 2,246 | 1,908 |
| Accounts receivable | Subsidiaries of the Company | 7,460 | 12,107 |
| Accounts receivable | Associates of the Company | 86,160 | 57,212 |
| Accounts receivable | Jointly controlled enterprises of the Company | 21,938 | 21,908 |
| Dividends receivable | Associates of the Company | 14,921 | - |
| Other receivables | Sinopec Corp, its subsidiaries and jointly controlled entities | 98 | 1,307 |
| Other receivables | Sinopec Group and its subsidiaries | 192 | 2 |
| Other receivables | Subsidiaries of the Company (Note a) | 354 | 268 |
| Other receivables | Associates of the Company | 2,813 | 483 |
| Other receivables | Jointly controlled enterprises of the Company | 1,721 | 2,065 |
| Prepayments | Sinopec Corp, its subsidiaries and jointly controlled entities | 9,584 | 2,565 |
| Prepayments | Sinopec Group and its subsidiaries | 200 | - |
| Prepayments | Subsidiaries of the Company | 34,576 | 10,127 |
| Accounts payable | Sinopec Corp, its subsidiaries and jointly controlled entities | 2,507,127 | 1,985,801 |
| Accounts payable | Sinopec Group and its subsidiaries | 1,935 | 4,139 |
| Accounts payable | Subsidiaries of the Company | 754,350 | 769,480 |
| Accounts payable | Associates of the Company | 182,476 | 107,560 |
| Accounts payable | Jointly controlled enterprises of the Company | 36,469 | 36,812 |
| Other payables | Sinopec Corp, its subsidiaries and jointly controlled entities | 13,909 | 6,859 |
| Other payables | Sinopec Group and its subsidiaries | 60,520 | 5,655 |
| Other payables | Subsidiaries of the Company | 597,618 | 580,988 |
| Other payables | Associates of the Company | 1,485 | 7 |

6. Related parties and related party transactions *(continued)*

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

The Company *(continued)*

Expressed in thousands of Renminbi Yuan

| Item | Related Party | At 30 June 2012 | At 31 December 2011 |
|-------------------------|--|--------------------|------------------------|
| Advances from customers | Sinopec Corp, its subsidiaries and jointly controlled entities | 6,139 | 22,042 |
| Advances from customers | Sinopec Group and its subsidiaries | 291 | 287 |
| Advances from customers | Subsidiaries of the Company | 1,295 | 2,813 |
| Advances from customers | Associates of the Company | 3,405 | 3,171 |
| | | | |
| Dividends payable | Sinopec Corp | 200,000 | - |
| | | | |
| Short-term loans | Subsidiary of Sinopec Group | 453,883 | 660,000 |

- (a) At 30 June 2012, an accumulated bad debt provision provided for other receivables due from Jinyong, the Company's consolidated subsidiary amounting to RMB 688,442,000 was included in the above balance of other receivables due from subsidiaries (31 December 2011: RMB 673,532,000). The Company provided a full bad debt provision based on the reasons stated in Note 10(4)(c). No provision was recognised for other receivables due from other related parties.

(7) Commitments with related parties

The Group and the Company

Expressed in thousands of Renminbi Yuan

| Item | Related Party | At 30 June 2012 | At 31 December 2011 |
|------------------------------------|------------------------------------|-----------------|---------------------|
| Construction and installation cost | Sinopec Group and its subsidiaries | 177,004 | 408,664 |

Except for the above, the Group and the Company had no other material commitments with related parties at 30 June 2012 and 31 December 2011, which are contracted, but not included in the financial statements.

7. Contingencies

(1) Income tax differences

In June 2007, the State Administrative of Taxation issued a tax circular (Circular No.664) to the local tax authorities requesting the relevant local tax authorities to rectify the applicable enterprise income tax ("EIT") for nine listed companies, which included the Company. After the notice was issued, the Company was required by the relevant tax authority to settle the EIT for 2007 at a rate of 33 percent. To date, the Company has not been requested by the tax authorities to pay additional EIT in respect of any years prior to 2007. There is no further development of this matter during the period ended 30 June 2012. No provision has been made in the financial statements at 30 June 2012 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 | At 30 June 2012 | At 31 December 2011 |
|--|-----------------|---------------------|
| Purchase of fixed assets contracted but not provided for | 881,300 | 2,817,581 |
| Purchase of fixed assets authorised but not contracted for | 2,672,580 | 2,708,271 |
| Total | 3,553,880 | 5,525,852 |

(b) At 30 June 2012, the Group did not have material operating lease commitments.

9. Other significant items

(1) Segment reporting

Segment information is presented in respect of the Group's business segments, the format of which is based on the structure of the Group's internal organisation, management requirement, and internal reporting system.

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

The Group evaluates the performance and allocates resources to its operating segments on an operating income basis, without considering the effects of financial expenses, investment income, non-operating income and non-operating expenses. The accounting policies adopted by the operating segments are the same with the policies in Note 2. The transfer price of intersegment is recognised with cost plus profit method.

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

9. Other significant items *(continued)*

(1) Segment reporting *(continued)*

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

- (i) The synthetic fibres segment produces primarily polyester and acrylic fibres, which are mainly used in the textile and apparel industries.
- (ii) The resins and plastics segment produces primarily polyester chips, low-density polyethylene resins and films, polypropylene resins and PVA granules. The polyester chips are used to produce polyester fibres, coating and containers. Low-density polyethylene resins and plastics are used to produce insulated cable, mulching films and moulded products such as housewares and toys. Polypropylene resins are used for films, sheets and moulded products such as housewares, toys, consumer electronics and automobile parts.
- (iii) The intermediate petrochemicals segment primarily produces p-xylene, benzene and butadiene. Most of the intermediate petrochemicals produced by the Group are used by the Group as raw materials in the production of other petrochemicals, resins, plastics and synthetic fibres. A portion of the intermediate petrochemicals as well as certain by-products of the production process are sold to outside customers.
- (iv) The Group's petroleum products segment is equipped with crude oil distillation facilities used to produce vacuum and atmospheric gas oils used as feedstocks of the Group's downstream processing facilities. Residual oil and low octane gasoline fuels are co-products of the crude oil distillation process. Part of the residual oil is further processed into qualified refined gasoline and diesel oil. In addition, the Group produces a variety of fuels for transportation, industry and household heating usage, such as diesel oil, jet fuel, heavy oil and liquefied petroleum gas.
- (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.

9. Other significant items *(continued)*

(1) Segment reporting *(continued)*

(a) Segment results, assets and liabilities

Expressed in thousands of Renminbi Yuan

| | Six-month period ended 30 June | |
|-----------------------------------|--------------------------------|-------------------|
| | 2012 | 2011 |
| Operating income | | |
| Synthetic fibres | | |
| External sales | 1,719,557 | 2,320,085 |
| Intersegment sales | 73 | 81 |
| Sub-total | 1,719,630 | 2,320,166 |
| Resins and plastics | | |
| External sales | 7,541,352 | 8,597,308 |
| Intersegment sales | 48,244 | 57,158 |
| Sub-total | 7,589,596 | 8,654,466 |
| Intermediate petrochemicals | | |
| External sales (Note (i)) | 9,314,678 | 10,317,965 |
| Intersegment sales | 9,734,781 | 10,588,623 |
| Sub-total | 19,049,459 | 20,906,588 |
| Petroleum products | | |
| External sales(Note (i)) | 22,135,936 | 21,806,087 |
| Intersegment sales | 3,886,484 | 3,409,625 |
| Sub-total | 26,022,420 | 25,215,712 |
| Trading of petrochemical products | | |
| External sales(Note (i)) | 5,278,623 | 5,989,376 |
| Intersegment sales | 1,256,624 | 1,735,103 |
| Sub-total | 6,535,247 | 7,724,479 |
| Others | | |
| External sales(Note (i)) | 482,448 | 494,171 |
| Intersegment sales | 407,376 | 512,269 |
| Sub-total | 889,824 | 1,006,440 |
| Elimination of intersegment sales | -15,333,582 | -16,302,859 |
| Total | 46,472,594 | 49,524,992 |

- (i) For the period ended 30 June 2012, 55% of the Group's operating income is contributed by one customer (Six-month period ended 30 June 2011:53%) from the segments of intermediate petrochemicals, petroleum products, trading of petrochemical products and others.

9. Other significant items *(continued)*

(1) Segment reporting *(continued)*

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

Expressed in thousands of Renminbi Yuan

| | Six-month period ended 30 June | |
|--|--------------------------------|-------------------|
| | 2012 | 2011 |
| Operating expenses | | |
| Synthetic fibres | 1,891,432 | 1,957,108 |
| Resins and plastics | 8,434,094 | 8,559,257 |
| Intermediate petrochemicals | 8,673,901 | 9,284,311 |
| Petroleum products | 23,298,541 | 21,674,566 |
| Trading of petrochemical products | 5,249,302 | 5,981,408 |
| Others | 432,085 | 441,661 |
| Total | 47,979,355 | 47,898,311 |
| Operating profit ("-" for loss) | | |
| Synthetic fibres | -171,875 | 362,977 |
| Resins and plastics | -892,742 | 38,051 |
| Intermediate petrochemicals | 640,777 | 1,033,654 |
| Petroleum products | -1,162,605 | 131,521 |
| Trading of petrochemical products | 29,321 | 7,968 |
| Others | 50,363 | 52,510 |
| Total segment profit("-" for loss) | -1,506,761 | 1,626,681 |
| Financial income ("-" for expenses) | -193,087 | 14,132 |
| Investment income | 4,718 | 177,564 |
| Operating profit ("-" for loss) | -1,695,130 | 1,818,377 |
| Non-operating income | 161,263 | 8,663 |
| Non-operation expenses | -24,785 | -21,235 |
| Profit before income tax ("-" for loss) | -1,558,652 | 1,805,805 |
| Income tax expense | 377,530 | -417,894 |
| Net profit ("-" for net loss) | -1,181,122 | 1,387,911 |

9. Other significant items *(continued)*

(1) Segment reporting *(continued)*

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

Expressed in thousands of Renminbi Yuan

| | At 30 June 2012 | At 31 December 2011 |
|-----------------------------------|-------------------|---------------------|
| Assets | | |
| Synthetic fibres | 1,461,562 | 1,649,234 |
| Resins and plastics | 758,979 | 1,193,992 |
| Intermediate petrochemicals | 6,053,464 | 6,666,002 |
| Petroleum products | 17,474,852 | 14,483,951 |
| Trading of petrochemical products | 574,392 | 547,692 |
| Others | 2,187,270 | 2,240,767 |
| Total segment assets | 28,510,519 | 26,781,638 |
| | | |
| Long-term equity investments | 3,039,376 | 3,101,305 |
| Unallocated | 1,932,242 | 1,227,142 |
| Total assets | 33,482,137 | 31,110,085 |
| | | |
| Liabilities | | |
| Synthetic fibres | 226,610 | 240,037 |
| Resins and plastics | 818,542 | 948,510 |
| Intermediate petrochemicals | 885,833 | 1,100,221 |
| Petroleum products | 4,147,519 | 3,875,716 |
| Trading of petrochemical products | 429,457 | 411,433 |
| Others | 58,632 | 60,232 |
| Total segment liabilities | 6,566,593 | 6,636,149 |
| | | |
| Short-term loans | 8,688,455 | 5,512,074 |
| Long-term loans | 731,340 | 160,050 |
| Unallocated | 644,240 | 419,228 |
| Total liabilities | 16,630,628 | 12,727,501 |

9. Other significant items *(continued)*

(1) Segment reporting *(continued)*

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

Expressed in thousands of Renminbi Yuan

| | Six-month period ended 30 June | |
|---|--------------------------------|----------------|
| | 2012 | 2011 |
| Depreciation and amortisation | | |
| Synthetic fibres | 63,346 | 62,385 |
| Resins and plastics | 82,420 | 87,150 |
| Intermediate petrochemicals | 300,639 | 300,372 |
| Petroleum products | 307,188 | 301,924 |
| Trading of petrochemical products | 248 | 315 |
| Others | 93,479 | 86,134 |
| Total segment depreciation and amortisation | 847,320 | 838,280 |
| | | |
| Unallocated | 6,625 | 6,625 |
| Total depreciation and amortisation | 853,945 | 844,905 |
| | | |
| Impairment losses on fixed assets | | |
| Intermediate petrochemicals | - | 10,552 |
| Total impairment losses on fixed assets | - | 10,552 |
| | | |
| Capital expenditures for segment long-lived assets | | |
| Synthetic fibres | 54,557 | 171,735 |
| Resins and plastics | 2,016 | 16,932 |
| Intermediate petrochemicals | 19,210 | 71,252 |
| Petroleum products | 2,201,773 | 395,247 |
| Others | 104,622 | 76,384 |
| Total capital expenditures for segment long-lived assets | 2,382,178 | 731,550 |

(b) Geographic information

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

9. Other significant items *(continued)*

(2) Risk analysis, sensitivity analysis, and fair value for financial instruments

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

(a) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Group's credit risk is primarily attributable to 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 institutions 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.

The majority of the Group's accounts receivable arise from sales of petroleum and chemical products to related parties and third parties within the petroleum and chemical industries. Management performs ongoing credit evaluation on 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 expectation.

9. Other significant items *(continued)*

(2) Risk analysis, sensitivity analysis, and fair value for financial instruments *(continued)*

(b) Liquidity risk

Liquidity risk is the risk that an enterprise may encounter deficiency of funds in meeting obligations associated with financial liabilities. The Group's approach in managing liquidity is to ensure, with its best efforts, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. The Group prepares monthly cash flow budget to ensure that they will always have sufficient liquidity to meet its financial obligation as they fall due. The Group arranges and negotiates financing with financial institutions and maintains a certain level of standby credit facilities to reduce the liquidity risk.

At 30 June 2012, the Group's current liabilities exceeded its current assets by RMB 5,392,334,000 (31 December 2011: RMB 2,606,018,000). For the six-month period ended 30 June 2012, 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 to support its working capital and meet its debt obligation when they become due. At 30 June 2012, the Group had standby credit facilities with several PRC financial institutions which provide the Group to borrow up to RMB 13,900,783,000 (31 December 2011: RMB 10,400,000,000) on an unsecured basis. At 30 June 2012, the Group's outstanding borrowings under these facilities were RMB 4,586,433,000 (31 December 2011: RMB 1,252,381,000) and were included in loans and borrowings.

Management has carried out a detailed review of the cash flow forecast of the Group for the future twelve months. 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. Management is of the opinion that the assumptions used in the cash flow forecast are reasonable.

9. Other significant items *(continued)*

(2) Risk analysis, sensitivity analysis, and fair value for financial instruments *(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 30 June) and the earliest date the Group would be required to repay:

Expressed in thousands of Renminbi Yuan

| Item | At 30 June 2012 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 | 191,896 | - | - | 191,896 | 191,896 |
| Bills receivable | 1,329,653 | - | - | 1,329,653 | 1,329,653 |
| Accounts receivable and other receivables | 765,447 | - | - | 765,447 | 765,447 |
| Entrusted loans due with one year | 71,030 | - | - | 71,030 | 70,000 |
| Sub-total | 2,358,026 | - | - | 2,358,026 | 2,356,996 |
| Financial liabilities: | | | | | |
| Short-term loans | -8,788,560 | - | - | -8,788,560 | -8,688,455 |
| Accounts payable and other payables | -5,658,239 | - | - | -5,658,239 | -5,658,239 |
| Long-term loans | -45,407 | -42,404 | -838,276 | -926,087 | -731,340 |
| Sub-total | -14,492,206 | -42,404 | -838,276 | -15,372,886 | -15,078,034 |
| Net amount | -12,134,180 | -42,404 | -838,276 | -13,014,860 | -12,721,038 |

9. Other significant items *(continued)*

(2) Risk analysis, sensitivity analysis, and fair value for financial instruments *(continued)*

(b) Liquidity risk *(continued)*

Expressed in thousands of Renminbi Yuan

| Item | At 31 December 2011 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 within one year | 87,392 | - | - | 87,392 | 86,000 |
| Sub-total | 3,967,217 | - | - | 3,967,217 | 3,965,825 |
| Financial liabilities: | | | | | |
| Short-term loans | -5,603,336 | - | - | -5,603,336 | -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 |

9. Other significant items *(continued)*

(2) Risk analysis, sensitivity analysis, and fair value for financial instruments *(continued)*

(c) Interest rate risk

The Group's interest rate risk exposure arises primarily from its short-term and long-term loans. Interest-bearing financial instruments at fixed rates and at floating rates expose the Group to fair value interest rate risk and cash flow 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(16) and (24). 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 30 June 2012, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would decrease/increase the Group's net profit for the period and retained earnings by approximately RMB 59,020,000 (31 December 2011: RMB 35,185,000). 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 re-measure those financial instruments held by the Group which expose the Group to fair value interest rate risk at the balance sheet date. The analysis was performed on the same basis for 2011.

(d) Currency risk

Currency risk arises from 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 cash at bank and on hand and loan balances as disclosed in Note 5(1) and 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 and borrowings are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

Expressed in thousands of USD

| Item | At 30 June 2012 | At 31 December 2011 |
|--|-----------------|---------------------|
| Loans and borrowings denominated in US Dollars | 1,158,873 | 733,637 |

9. Other significant items *(continued)*

(2) Risk analysis, sensitivity analysis, and fair value for financial instruments *(continued)*

(d) Currency risk *(continued)*

The following are the exchange rates for Renminbi against foreign currencies applied by the Group:

| Item | Average rate | | Reporting date mid-spot rate | |
|------|-----------------|---------------------|------------------------------|---------------------|
| | At 30 June 2012 | At 31 December 2011 | At 30 June 2012 | At 31 December 2011 |
| USD | 6.3129 | 6.4618 | 6.3249 | 6.3009 |

A 5 percent strengthening/weakening of USD against Renminbi at 30 June 2012 would have decreased/increased net profit for the period and retained earnings of the Group by approximately RMB 274,866,000 (31 December 2011: RMB 173,347,000). 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 was performed on the same basis for 2011.

(e) Capital Management

Management optimises its capital structure comprising equity and loans to maximise return on shareholders. In order to maintain and 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 to 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 and long-term loans, by the 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 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 30 June 2012, the debt-to-equity ratio and the liability-to-asset ratio of the Group were 56.76% (31 December 2011: 31.32%) and 49.67% (31 December 2011: 40.91%) respectively.

The schedule of the contractual maturities of loans and commitments are disclosed in Note 5(16), (24) and 8, respectively.

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

9. Other significant items *(continued)*

(2) Risk analysis, sensitivity analysis, and fair value for financial instruments *(continued)*

(f) Fair value

The following table presents the carrying amounts and fair values of the Group's long-term bank loans at 30 June 2012 and 31 December 2011.

Expressed in thousands of Renminbi Yuan

| Item | At 30 June 2012 | | At 31 December 2011 | |
|----------------------|-----------------|------------|---------------------|------------|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| Liabilities | | | | |
| Long-term bank loans | 731,340 | 727,841 | 160,050 | 158,721 |

The fair value of long-term bank loans is estimated by discounting future cash flows thereon using current market interest rates offered to the Group for loans with substantially the same characteristics and maturities ranging from 5.68% to 5.99% (31 December 2011: 5.90% to 6.21%).

Except for the above items, the fair values of the Group's financial assets and liabilities 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.

(3) Financial assets and liabilities denominated in foreign currency

Expressed in thousands of Renminbi Yuan

| Item | Note | Balance at 1 January 2012 | Changes in fair value for the period | Cumulative changes in fair value recognised in equity | Impairment provided for the period | Balance at 30 June 2012 |
|-----------------------------|------|------------------------------|---|--|---|----------------------------|
| Financial assets | | | | | | |
| 1. Cash at bank and on hand | | 3,063 | — | — | — | 1,617 |
| Sub-total | | 3,063 | — | — | — | 1,617 |
| Financial liabilities | | | | | | |
| | (a) | 4,622,573 | — | — | — | 7,329,756 |

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

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

(1) Cash at bank and on hand

Expressed in thousands of RMB/USD/HKD/CHF

| Item | At 30 June 2012 | | | At 31 December 2011 | | |
|-------------------------------------|-------------------|---------------|---------------------|---------------------|---------------|---------------------|
| | Original currency | Exchange rate | RMB/RMB equivalents | Original currency | Exchange rate | RMB/RMB equivalents |
| Cash on hand: | | | | | | |
| Renminbi | — | — | 46 | — | — | 34 |
| Deposits with banks: | | | | | | |
| Renminbi | — | — | 138,517 | — | — | 59,342 |
| HKD | 822 | 0.8152 | 670 | 825 | 0.8107 | 669 |
| USD | 13 | 6.3249 | 85 | 14 | 6.3009 | 89 |
| Other monetary funds: (Note) | | | | | | |
| CHF | 130 | 6.5900 | 855 | 138 | 6.7085 | 923 |
| Total | — | — | 140,173 | — | — | 61,057 |

Note: Other monetary funds represent deposits in credit cards.

(2) Bills receivable

(a) Bills receivable by category

Expressed in thousands of Renminbi Yuan

| Item | At 30 June 2012 | At 31 December 2011 |
|-----------------------------|------------------|---------------------|
| Bank acceptance bills | 1,242,587 | 2,936,348 |
| Commercial acceptance bills | - | 4,900 |
| Total | 1,242,587 | 2,941,248 |

All of the above bills held are short-term acceptance bills, due within six months. No bills receivable were pledged or transferred to accounts receivable due to non-performance of the issuers during the period ended 30 June 2012.

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.

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

(2) Bills receivable *(continued)*

- (b) At 30 June 2012, the Company's discounted bank bills (with recourse) which were still undue amounted to RMB 740,543,000 (31 December 2011: RMB nil).

At 30 June 2012, the Company had no discounted commercial bills. (31 December 2011: RMB nil).

- (c) At 30 June 2012, the Company's endorsed bank bills which were still undue amounted to RMB 320,400,000 (31 December 2011: RMB nil).

The Company's five largest endorsed bank bills are as follows:

Expressed in thousands of Renminbi Yuan

| Issuer | Issuing date | Due date | Amount | Note |
|--|--------------|------------|---------|-----------------------|
| Jialong Petrochemical Fibre (Shishi) Company Limited | 23/05/2012 | 25/07/2012 | 50,000 | Bank acceptance bills |
| Jialong Petrochemical Fibre (Shishi) Company Limited | 04/06/2012 | 04/08/2012 | 40,000 | Bank acceptance bills |
| Tongkun Group Zhejiang Hengtong Chemical Fiber Company Limited | 12/06/2012 | 10/09/2012 | 30,000 | Bank acceptance bills |
| Tongxiang Zhongchen Chemical Fiber Company Limited | 14/05/2012 | 14/08/2012 | 12,000 | Bank acceptance bills |
| Tongkun Group Zhejiang Hengtong Chemical Fiber Company Limited | 05/06/2012 | 05/09/2012 | 10,000 | Bank acceptance bills |
| Total | | | 142,000 | |

At 30 June 2012, the Company had no endorsed commercial bills (31 December 2011: RMB nil).

(3) Accounts receivable

- (a) Accounts receivable by customer type:

Expressed in thousands of Renminbi Yuan

| Customer type | Note | At 30 June 2012 | At 31 December 2011 |
|--|------|-----------------|---------------------|
| Amounts due from related parties | 6(6) | 547,205 | 483,568 |
| Amounts due from third parties | | 12,059 | 55,950 |
| Less: Provision for bad and doubtful debts | | -1,427 | -1,369 |
| Total | | 557,837 | 538,149 |

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

(3) Accounts receivable *(continued)*

(b) Accounts receivable by ageing

Expressed in thousands of Renminbi Yuan

| Ageing | At 30 June 2012 | At 31 December 2011 |
|---|-----------------|---------------------|
| Within one year (inclusive) | 557,718 | 537,951 |
| Over one year but within two years (inclusive) | 13 | 278 |
| Over two years but within three years (inclusive) | 275 | 8 |
| Over three years | 1,258 | 1,281 |
| Less: Provision for bad and doubtful debts | -1,427 | -1,369 |
| Total | 557,837 | 538,149 |

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

(c) Accounts receivable by category:

Expressed in thousands of Renminbi Yuan

| Category | At 30 June 2012 | | | | At 31 December 2011 | | | |
|--|-----------------------|---------------|--------------------------------------|---------------|-----------------------|---------------|--------------------------------------|---------------|
| | Gross carrying amount | | Provision for bad and doubtful debts | | Gross carrying amount | | Provision for bad and doubtful debts | |
| | Amount | Percentage(%) | Amount | Percentage(%) | Amount | Percentage(%) | Amount | Percentage(%) |
| Accounts receivable collectively assessed for impairment | | | | | | | | |
| Within one year (inclusive) | 557,718 | 99.72 | - | - | 537,951 | 99.71 | - | - |
| Over one year but within two years (inclusive) | 13 | 0.00 | 4 | 30.77 | 278 | 0.05 | 84 | 30.22 |
| Over two years but within three years (inclusive) | 275 | 0.05 | 165 | 60.00 | 8 | 0.00 | 4 | 50.00 |
| Over three years | 1,258 | 0.23 | 1,258 | 100.00 | 1,281 | 0.24 | 1,281 | 100.00 |
| Total | 559,264 | 100.00 | 1,427 | — | 539,518 | 100.00 | 1,369 | — |

There are no collateral over accounts receivable with bad and doubtful debts.

During the period, the Company assessed the impairment on an individual basis in accordance with the accounting policy as described in Note 2 (10), and there were no provision for accounts receivable that are individually significant or insignificant but assessed for impairment individually; the Company had no individually significant write-off or write-back of bad debts which had been fully or substantially provided for in prior years. At 30 June 2012, the Company had no individually significant accounts receivable that aged over three years.

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

(3) Accounts receivable *(continued)*

(d) Five largest accounts receivable

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 | 382,667 | Due within one year | 68.42 |
| Shanghai Secco Petrochemical Company Limited | Associate of the Company | 78,716 | Due within one year | 14.08 |
| China International United Petroleum & Chemical Company Limited | Subsidiary of Sinopec Corp | 22,663 | Due within one year | 4.05 |
| BOC-SPC Gases Company Limited | Jointly controlled enterprise of the Company | 21,938 | Due within one year | 3.92 |
| Sinopec Corp Baling Branch | Branch of Sinopec Corp | 10,826 | Due within one year | 1.94 |
| Total | | 516,810 | | 92.41 |

(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 | Note | At 30 June 2012 | At 31 December 2011 |
|--|------|-----------------|---------------------|
| Amounts due from related parties | 6(6) | 693,620 | 677,657 |
| Amounts due from third parties | | 18,648 | 7,360 |
| Less: Provision for bad and doubtful debts | | -689,130 | -674,425 |
| Total | | 23,138 | 10,592 |

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

(4) Other receivables *(continued)*

(b) The ageing analysis of other receivables is as follows:

Expressed in thousands of Renminbi Yuan

| Ageing | At 30 June 2012 | At 31 December 2011 |
|---|-----------------|---------------------|
| Within one year (inclusive) | 57,321 | 252,856 |
| Over one year but within two years (inclusive) | 245,356 | 50,621 |
| Over two years but within three years (inclusive) | 53,750 | 97,850 |
| Over three years | 355,841 | 283,690 |
| Less: Provision for bad and doubtful debts | -689,130 | -674,425 |
| Total | 23,138 | 10,592 |

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

(c) Other receivables by category:

Expressed in thousands of Renminbi Yuan

| Category | At 30 June 2012 | | | | At 31 December 2011 | | | |
|--|-----------------------|---------------|--------------------------------------|---------------|-----------------------|---------------|--------------------------------------|---------------|
| | Gross carrying amount | | Provision for bad and doubtful debts | | Gross carrying amount | | Provision for bad and doubtful debts | |
| | Amount | Percentage(%) | Amount | Percentage(%) | Amount | Percentage(%) | Amount | Percentage(%) |
| Other receivables that are individually significant and assessed individually for impairment | | | | | | | | |
| Sub-total | 688,442 | 96.66 | 688,442 | 100.00 | 673,532 | 98.32 | 673,532 | 100.00 |
| Other receivables collectively assessed for impairment | | | | | | | | |
| Within one year (inclusive) | 23,011 | 3.23 | - | - | 10,478 | 1.53 | - | - |
| Over one year but within two years (inclusive) | 24 | - | 7 | 29.17 | 17 | - | 5 | 29.41 |
| Over two years but within three years (inclusive) | - | - | - | - | - | - | - | - |
| Over three years | 791 | 0.11 | 681 | 86.09 | 990 | 0.15 | 888 | 89.70 |
| Sub-total | 23,826 | 3.34 | 688 | 2.89 | 11,485 | 1.68 | 893 | 7.78 |
| Total | 712,268 | 100.00 | 689,130 | - | 685,017 | 100.00 | 674,425 | - |

During the period, the Company assessed the impairment on an individual basis in accordance with the accounting policy as described in Note 2(10), and there were individually significant other receivables provided for: the Company made a full bad debt provision of RMB 688,442,000 for the other receivables due from its consolidated subsidiary, Jinyong (31 December 2011: RMB 673,532,000). Jinyong has periodically suspended its operations since August 2008 and has maintained such status under the current circumstance. The Company has assessed 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 30 June 2012, the Company recognised a full bad debt provision on the individually significant other receivables that aged over three years.

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

(4) Other receivables *(continued)*

(d) Five largest other receivables

Expressed in thousands of Renminbi Yuan

| Company's name | Relationship with the Company | Amount | Ageing | Percentage of total other receivables |
|--|--|---------|---------------------|---------------------------------------|
| Zhejiang Jinyong Acrylic Company Limited | Subsidiary of the Company | 688,442 | Over three years | 96.66 |
| Shanghai Jinshan Petrochemical Logistics Company Limited | Third party | 6,060 | Due within one year | 0.85 |
| Shanghai Petrochemical Asphalt Company Limited | Associate of the Company | 2,359 | Due within one year | 0.33 |
| BOC-SPC Gases Company Limited | Jointly controlled enterprise of the Company | 1,721 | Due within one year | 0.24 |
| Shanghai Railway Bureau Hangzhou North Repair Factory | Third party | 1,607 | Due within one year | 0.22 |
| Total | | 700,189 | | 98.30 |

(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

| Item | At 30 June 2012 | | | At 31 December 2011 | | |
|-----------------------------|-----------------|-----------------------------------|-----------------|---------------------|-----------------------------------|-----------------|
| | Book value | Provision for diminution in value | Carrying amount | Book value | Provision for diminution in value | Carrying amount |
| Raw materials | 3,932,517 | 90,536 | 3,841,981 | 1,926,576 | - | 1,926,576 |
| Work in progress | 2,096,680 | 34,515 | 2,062,165 | 1,962,208 | - | 1,962,208 |
| Finished goods | 1,210,929 | 135,017 | 1,075,912 | 1,160,348 | 123,663 | 1,036,685 |
| Spare parts and consumables | 369,438 | 18,756 | 350,682 | 375,172 | 18,756 | 356,416 |
| Total | 7,609,564 | 278,824 | 7,330,740 | 5,424,304 | 142,419 | 5,281,885 |

All the above inventories are purchased or self-manufactured.

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

(5) Inventories *(continued)*

(b) Provision for diminution in value of inventories

Expressed in thousands of Renminbi Yuan

| Item | At 1 January 2012 | Provision made for the period | Decreases during the period | At 30 June 2012 |
|-----------------------------|----------------------|----------------------------------|-----------------------------|--------------------|
| | | | Write-off | |
| Raw materials | - | 90,536 | - | 90,536 |
| Work in progress | - | 34,515 | - | 34,515 |
| Finished goods | 123,663 | 62,134 | -50,780 | 135,017 |
| Spare parts and consumables | 18,756 | - | - | 18,756 |
| Total | 142,419 | 187,185 | -50,780 | 278,824 |

(6) Other current assets

Expressed in thousands of Renminbi Yuan

| Item | At 30 June 2012 | At 31 December 2011 |
|--|-----------------|---------------------|
| VAT deductible | 271,948 | 26,156 |
| Current portion of long-term deferred expenses | 10,493 | 29,765 |
| Total | 282,441 | 55,921 |

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

(7) Long-term equity investments

(a) Long-term equity investments by category:

Expressed in thousands of Renminbi Yuan

| | Interests in associates | Interests in jointly controlled enterprise | Interests in subsidiaries | Sub-total | Provision for impairment losses Note(i) | Carrying amount |
|--|-------------------------|--|---------------------------|-----------|--|-----------------|
| Balance at 1 January 2012 | 2,626,393 | 124,013 | 1,582,788 | 4,333,194 | -227,500 | 4,105,694 |
| Share of profit of investments accounted for under equity method ("-" for share of loss) | -27,428 | 12,534 | - | -14,894 | - | -14,894 |
| Dividends receivable/received | -14,921 | -24,500 | - | -39,421 | - | -39,421 |
| Balance at 30 June 2012 | 2,584,044 | 112,047 | 1,582,788 | 4,278,879 | -227,500 | 4,051,379 |

(i) As at 30 June 2012, the Company made cumulative impairment losses of RMB 227,500,000 for the long-term equity investment in its consolidated subsidiary, Jinyong (31 December 2011: RMB 227,500,000). The Company recognised a full provision for the investment in Jinyong based on the reasons disclosed in Note 10(4)(c).

(b) The Company's major jointly controlled enterprise and associates:

For the information of the Company's major jointly controlled enterprise and associates, see note 5(8)(b).

(8) Investment properties

Expressed in thousands of Renminbi Yuan

| Item | Buildings |
|--|-----------|
| Cost | |
| At the beginning and the end of the period | 546,412 |
| Accumulated depreciation | |
| At the beginning of the period | 93,857 |
| Charge for the period | 6,625 |
| At the end of the period | 100,482 |
| Carrying amount | |
| At the end of the period | 445,930 |
| At the beginning of the period | 452,555 |

Depreciation charged for the period on the investment properties of the Company amounted to RMB 6,625,000 (Six-month period ended 30 June 2011: RMB 7,462,000).

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

(9) Fixed assets

(a) Fixed assets

Expressed in thousands of Renminbi Yuan

| Item | Note | Buildings | Plant and machinery | Vehicles and other equipment | Total |
|---|-------------|------------|---------------------|------------------------------|------------|
| Cost | | | | | |
| Balance at the beginning of the period | | 4,893,564 | 24,703,770 | 6,633,276 | 36,230,610 |
| Reclassification during the period | 5(10)(a)(1) | -1,795,211 | 6,755,611 | -4,960,400 | - |
| Additions for the period | | - | 28,685 | 4,327 | 33,012 |
| Transferred from construction in progress | | 78,420 | 544,231 | 3,767 | 626,418 |
| Disposal during the period | | -5,011 | -115,961 | -7,968 | -128,940 |
| Balance at the end of the period | | 3,171,762 | 31,916,336 | 1,673,002 | 36,761,100 |
| Accumulated depreciation | | | | | |
| Balance at the beginning of the period | | 3,422,113 | 15,276,455 | 4,838,096 | 23,536,664 |
| Reclassification during the period | 5(10)(a)(1) | -1,723,935 | 5,266,428 | -3,542,493 | - |
| Charge for the period | | 46,344 | 734,146 | 35,322 | 815,812 |
| Written off on disposal | | -3,630 | -102,417 | -7,671 | -113,718 |
| Balance at the end of the period | | 1,740,892 | 21,174,612 | 1,323,254 | 24,238,758 |
| Provision for impairment | | | | | |
| Balance at the beginning of the period | | 60,253 | 465,837 | 31,384 | 557,474 |
| Reclassification during the period | 5(10)(a)(1) | -9,106 | 34,055 | -24,949 | - |
| Written off on disposals | | -362 | -222 | - | -584 |
| Balance at the end of the period | | 50,785 | 499,670 | 6,435 | 556,890 |
| Carrying amount | | | | | |
| Balance at the end of the period | | 1,380,085 | 10,242,054 | 343,313 | 11,965,452 |
| Balance at the beginning of the period | | 1,411,198 | 8,961,478 | 1,763,796 | 12,136,472 |

(b) At 30 June 2012 and 31 December 2011, the Company had no pledged fixed assets.

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

(10) Construction in progress

Expressed in thousands of Renminbi Yuan

| Project | At 30 June 2012 | | |
|--|-----------------|--------------------------|-----------------|
| | Book value | Provision for impairment | Carrying amount |
| The Refinery Revamping and Expansion Project | 4,761,531 | - | 4,761,531 |
| 5# 6# Furnace Secondary Desulfurisation Project for Department of Thermoelectric | 96,551 | - | 96,551 |
| The Expansion Project for Main Transformer 4# and 6# of the Power Plant | 66,531 | - | 66,531 |
| Numerous small projects of Synthetic Fibres segment | 133,671 | - | 133,671 |
| Numerous small projects of Resins and Plastics segment | 17,492 | - | 17,492 |
| Numerous small projects of Intermediate Petrochemicals segment | 159,307 | - | 159,307 |
| Numerous small projects of Petroleum Products segment | 64,482 | - | 64,482 |
| Numerous small projects of all others | 109,592 | - | 109,592 |
| Total | 5,409,157 | - | 5,409,157 |

Expressed in thousands of Renminbi Yuan

| Project | At 31 December 2011 | | |
|--|---------------------|--------------------------|-----------------|
| | Book value | Provision for impairment | Carrying amount |
| The Refinery Revamping and Expansion Project | 2,687,879 | - | 2,687,879 |
| The Carbon Fibre Project with a capacity of 1,500 tons/year (Stage I) | 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 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 | 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 |

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

(11) Intangible assets

Expressed in thousands of Renminbi Yuan

| Item | Land use rights |
|--|-----------------|
| Cost | |
| Balance at the beginning and the end of the period | 650,642 |
| Accumulated amortisation | |
| Balance at the beginning of the period | 231,255 |
| Charge for the period | 6,516 |
| Balance at the end of the period | 237,771 |
| Carrying amount | |
| Balance at the end of the period | 412,871 |
| Balance at the beginning of the period | 419,387 |

Amortisation charged for the period amounted to RMB 6,516,000 (Six-month period ended 30 June 2011: RMB 6,516,000).

(12) Long-term deferred expenses

Expressed in thousands of Renminbi Yuan

| Item | Balance at 1 January 2012 | Additions | Charged for the period | Reclassified to other current assets | Balance at 30 June 2012 |
|-----------|---------------------------|-----------|------------------------|--------------------------------------|-------------------------|
| Catalysts | 306,052 | 116,568 | -75,630 | -4,825 | 342,165 |

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

(13) Deferred tax assets

(a) Deferred tax assets or liabilities after offsetting and the corresponding deductible or taxable temporary differences

Expressed in thousands of Renminbi Yuan

| Item | At 30 June 2012 | | At 31 December 2011 | |
|---|--|--|--|--|
| | Deductible or taxable temporary differences ("-" for taxable temporary difference) | Deferred tax assets/deferred tax liabilities ("-" for liabilities) | Deductible or taxable temporary differences ("-" for taxable temporary difference) | Deferred tax assets/deferred tax liabilities ("-" for liabilities) |
| Deferred tax assets: | | | | |
| Provision for bad and doubtful debt and diminution in value of inventories | 280,939 | 70,235 | 144,681 | 36,170 |
| Provision for impairment of fixed assets | 400,332 | 100,083 | 449,188 | 112,297 |
| Contribution of fixed assets and sales of assets to a jointly controlled enterprise | 31,520 | 7,880 | 33,272 | 8,318 |
| Deductible tax losses | 2,929,912 | 732,478 | 1,496,744 | 374,186 |
| Specific reserve accrued | 48,075 | 12,019 | 14,272 | 3,568 |
| Other deferred tax assets | 34,868 | 8,717 | 33,598 | 8,400 |
| Sub-total | 3,725,646 | 931,412 | 2,171,755 | 542,939 |
| Offsetting | -75,652 | -18,913 | -81,580 | -20,395 |
| After offsetting | 3,649,994 | 912,499 | 2,090,175 | 522,544 |
| Deferred tax liabilities: | | | | |
| Capitalisation of borrowing costs | -75,652 | -18,913 | -81,580 | -20,395 |
| Offsetting | 75,652 | 18,913 | 81,580 | 20,395 |
| After offsetting | - | - | - | - |

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

(13) Deferred tax assets *(continued)*

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

Expressed in thousands of Renminbi Yuan

| Item | Balance at 1 January 2012 | Changes charged to profit or loss during the period | Balance at 30 June 2012 |
|---|---------------------------|---|-------------------------|
| Deferred tax assets: | | | |
| Provision for bad and doubtful debt and diminution in value of inventories | 36,170 | 34,065 | 70,235 |
| Provision for impairment of fixed assets | 112,297 | -12,214 | 100,083 |
| Contribution of fixed assets and sales of assets to a jointly controlled enterprise | 8,318 | -438 | 7,880 |
| Deductible tax losses | 374,186 | 358,292 | 732,478 |
| Specific reserve accrued | 3,568 | 8,451 | 12,019 |
| Other deferred tax assets | 8,400 | 317 | 8,717 |
| Capitalisation of borrowing costs | -20,395 | 1,482 | -18,913 |
| Total | 522,544 | 389,955 | 912,499 |

(c) Details of unrecognised deferred tax assets

Expressed in thousands of Renminbi Yuan

| Item | Note | At 30 June 2012 | At 31 December 2011 |
|---|------|-----------------|---------------------|
| Provision for impairment of long-term equity investment | (i) | 227,500 | 227,500 |

(i) As stated in Note 10(7)(a)(i), the Company has made full provision for the long-term equity investment in Jinyong. As it is not probable that future taxable income against which the losses can be utilised will be available for Jinyong, the Company has not recognised deferred tax assets in respect of impairment loss on long-term equity investment of RMB 227,500,000 (31 December 2011: RMB 227,500,000).

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

(14) Provision for impairment

Expressed in thousands of Renminbi Yuan

| Item | Note | At 1 January 2012 | Charged for the period | Decreases for the period | | At 30 June 2012 |
|------------------------------|-------|----------------------|---------------------------|--------------------------|-----------|--------------------|
| | | | | Reversal | Write-off | |
| Accounts receivable | 10(3) | 1,369 | 58 | - | - | 1,427 |
| Other receivables | 10(4) | 674,425 | 14,910 | -205 | - | 689,130 |
| Inventories | 10(5) | 142,419 | 187,185 | - | -50,780 | 278,824 |
| Long-term equity investments | 10(7) | 227,500 | - | - | - | 227,500 |
| Fixed assets | 10(9) | 557,474 | - | - | -584 | 556,890 |
| Total | | 1,603,187 | 202,153 | -205 | -51,364 | 1,753,771 |

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

(15) Short-term loans

(a) Short-term loans by category

Expressed in thousands of Renminbi Yuan

| Category | At 30 June 2012 | At 31 December 2011 |
|-----------------------------|------------------|---------------------|
| Unsecured loans | | |
| -Bank loans | 8,290,872 | 4,866,574 |
| -Loans from a related party | 453,883 | 660,000 |
| Total | 8,744,755 | 5,526,574 |

At 30 June 2012, the weighted average interest rate of the Company's short-term loans was 3.83% (31 December 2011: 2.69%).

(b) At 30 June 2012 and 31 December 2011, the Company had no past due short-term loans.

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

(16) Taxes payable

Expressed in thousands of Renminbi Yuan

| Item | At 30 June 2012 | At 31 December 2011 |
|---------------------------------------|-----------------|---------------------|
| Business tax | 636 | 1,502 |
| Consumption tax | 374,242 | 413,431 |
| Education surcharges | 18,542 | 20,549 |
| City maintenance and construction tax | 25,959 | 28,769 |
| Others | 9,219 | 17,603 |
| Total | 428,598 | 481,854 |

(17) Non-current liabilities due within one year

(a) Non-current liabilities due within one year by category are as follows:

Expressed in thousands of Renminbi Yuan

| Item | At 30 June 2012 | At 31 December 2011 |
|---|-----------------|---------------------|
| Long-term loans due within one year-unsecured loans | - | 45,000 |

(b) The details of long-term loans due within one year are as follows:

Expressed in thousands of Renminbi Yuan

| Lender | Inception date | Maturity date | Currency | Interest rate (%) | At 30 June 2012 | At 31 December 2011 |
|---|----------------|---------------|----------|-------------------|-----------------|---------------------|
| Industrial and Commercial Bank of China, Jinshan Branch | 2009.04.30 | 2012.04.28 | RMB | 2.250 | - | 45,000 |

(18) Long-term loans

(a) Long-term loans by category

Expressed in thousands of Renminbi Yuan

| Item | At 30 June 2012 | At 31 December 2011 |
|-----------------|-----------------|---------------------|
| Unsecured loans | 700,000 | 135,000 |

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

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

(b) The details of long-term loans as at 30 June 2012 are as follows:

Expressed in thousands of Renminbi Yuan

| Lender | Inception date | Maturity date | Currency | Interest rate (%) | At 30 June 2012 | At 31 December 2011 |
|--|----------------|---------------|----------|-------------------|-----------------|---------------------|
| 1. Industrial and Commercial Bank of China, Jinshan Branch | 2008.11.27 | 2013.11.25 | RMB | 5.364 | - | 50,000 |
| 2. Industrial and Commercial Bank of China, Jinshan Branch | 2008.12.25 | 2013.11.25 | RMB | 5.364 | - | 75,000 |
| 3. Industrial and Commercial Bank of China, Jinshan Branch | 2011.12.27 | 2016.12.14 | RMB | 6.210 | 10,000 | 10,000 |
| 4. Industrial and Commercial Bank of China, Jinshan Branch | 2012.03.12 | 2016.12.24 | RMB | 6.210 | 90,000 | - |
| 5. Construction Bank of China, Jinshan Branch | 2012.04.09 | 2017.02.10 | RMB | 6.210 | 100,000 | - |
| 6. Industrial and Commercial Bank of China, Jinshan Branch | 2012.05.17 | 2016.12.24 | RMB | 6.210 | 200,000 | - |
| 7. Construction Bank of China, Jinshan Branch | 2012.05.18 | 2017.02.10 | RMB | 6.210 | 100,000 | - |
| 8. Construction Bank of China, Jinshan Branch | 2012.06.07 | 2017.02.10 | RMB | 6.210 | 100,000 | - |
| 9. Industrial and Commercial Bank of China, Jinshan Branch | 2012.06.20 | 2016.12.24 | RMB | 5.985 | 100,000 | - |
| Total | | | | | 700,000 | 135,000 |

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

(19) Specific reserve

Expressed in thousands of Renminbi Yuan

| Item | At 1 January 2012 | Accrued during the period | Utilised during the period | At 30 June 2012 |
|-------------------------|-------------------|---------------------------|----------------------------|-----------------|
| Safety production costs | 14,272 | 57,960 | -24,157 | 48,075 |

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

(20) Operating income and operating costs

(a) Operating income and operating costs

Expressed in thousands of Renminbi Yuan

| Item | Six-month period ended 30 June | |
|--|--------------------------------|------------|
| | 2012 | 2011 |
| Operating income from principal activities | 39,811,184 | 41,882,618 |
| Other operation income | 195,602 | 228,125 |
| Sub-total | 40,006,786 | 42,110,743 |
| Operating costs | 37,121,742 | 35,691,900 |

Operating income represents sales of products after deduction of VAT.

(b) The Company mainly operates in the petrochemical industry.

(c) Operating income from the top five customers for the six-month period ended 30 June 2012

Expressed in thousands of Renminbi Yuan

| Name of customer | Operating income | Percentage of total operating income(%) |
|--|------------------|---|
| Sinopec Huadong Sales Company Limited | 18,885,862 | 47.21 |
| China Petroleum & Chemical Corporation | 2,196,209 | 5.49 |
| Oriental Petrochemical (Shanghai) Corporation | 727,885 | 1.82 |
| Shanghai Secco Petrochemical Company Limited | 661,267 | 1.65 |
| Sinopec Yizheng Chemical Fibre Company Limited | 630,275 | 1.57 |
| Total | 23,101,498 | 57.74 |

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

(21) Business taxes and surcharges

Expressed in thousands of Renminbi Yuan

| Item | Six-month period ended 30 June | | Tax base |
|---------------------------------------|--------------------------------|-----------|--|
| | 2012 | 2011 | |
| Consumption tax | 2,497,763 | 2,657,270 | In accordance with the relevant tax regulation, with effect from 1 January 2009, the Company's sales of gasoline and diesel oil have been adjusted to a tax rate of RMB 1,388 per ton and RMB 940.8 per ton respectively |
| Business tax | 2,199 | 2,246 | 5% of income entitled to business tax |
| City maintenance and construction tax | 195,026 | 287,075 | 7% of consumption tax, VAT and business tax paid |
| Education surcharges and others | 139,304 | 205,052 | 5% of consumption tax, VAT and business tax paid |
| Total | 2,834,292 | 3,151,643 | — |

(22) Financial expenses ("-" for income)

Expressed in thousands of Renminbi Yuan

| Item | Six-month period ended 30 June | |
|---|--------------------------------|---------|
| | 2012 | 2011 |
| Interest expenses from loans and payables | 223,034 | 124,790 |
| Less: Borrowing costs capitalised | -50,504 | -15,999 |
| Interest income from deposits and receivables | -43,979 | -37,757 |
| Net foreign exchange losses ("-" for net gains) | 47,561 | -77,146 |
| Others | 1,368 | 1,575 |
| Total | 177,480 | -4,537 |

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

(23) Impairment losses ("-" for reversals)

Expressed in thousands of Renminbi Yuan

| Item | Six-month period ended 30 June | |
|---------------------|--------------------------------|---------|
| | 2012 | 2011 |
| Accounts receivable | 58 | -358 |
| Other receivables | 14,705 | 222,723 |
| Inventories | 187,185 | 146,646 |
| Fixed assets | - | 10,552 |
| Total | 201,948 | 379,563 |

(24) Investment income

(a) Investment income by item

Expressed in thousands of Renminbi Yuan

| Item | Note | Six-month period ended 30 June | |
|--|------|--------------------------------|---------|
| | | 2012 | 2011 |
| Income from long-term equity investments accounted for using the cost method | (b) | 98,080 | 8,080 |
| Income from long-term equity investments accounted for using the equity method("-" for losses) | (c) | -14,894 | 148,616 |
| Total | | 83,186 | 156,696 |

(b) Long-term equity investment income accounted for using cost method is as follows:

Expressed in thousands of Renminbi Yuan

| Investee | Six-month period ended 30 June | |
|---|--------------------------------|-------|
| | 2012 | 2011 |
| Shanghai Petrochemical Investment Development Co., Ltd. | 90,000 | - |
| China Jinshan Associated Trading Corporation | 8,080 | 8,080 |
| Total | 98,080 | 8,080 |

(c) Long-term equity investment income("-" for losses) accounted for using equity method is as follows:

Expressed in thousands of Renminbi Yuan

| Investee | Six-month period ended 30 June | |
|---|--------------------------------|---------|
| | 2012 | 2011 |
| Shanghai Secco Petrochemical Company Limited (Note) | -50,879 | 98,565 |
| Shanghai Chemical Industrial Park Development Company Limited | 23,451 | 30,410 |
| BOC-SPC Gases Company Limited | 12,534 | 19,641 |
| Total | -14,894 | 148,616 |

Note: For the period ended 30 June 2012, the decrease of investment income from long-term equity investments under the equity method of the Company was attributable to net loss of Shanghai Secco Petrochemical Company Limited.

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

(25) Non-operating income

Expressed in thousands of Renminbi Yuan

| Item | Six-month period ended 30 June | |
|----------------------------------|--------------------------------|-------|
| | 2012 | 2011 |
| Gain on disposal of fixed assets | 512 | 1,935 |
| Government grants | 138,031 | 5,240 |
| Others | 21,874 | 913 |
| Total | 160,417 | 8,088 |

(26) Non-operating expenses

Expressed in thousands of Renminbi Yuan

| Item | Six-month period ended 30 June | |
|----------------------------------|--------------------------------|--------|
| | 2012 | 2011 |
| Loss on disposal of fixed assets | 12,357 | 9,125 |
| Others | 12,428 | 12,091 |
| Total | 24,785 | 21,216 |

(27) Income tax expense

Expressed in thousands of Renminbi Yuan

| Item | Note | Six-month period ended 30 June | |
|---|------|--------------------------------|---------|
| | | 2012 | 2011 |
| Current tax expense for the period based on tax law and regulations | | - | - |
| Changes in deferred taxation | (a) | -389,955 | 410,039 |
| Total | | -389,955 | 410,039 |

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

(27) Income tax expense *(continued)*

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

Expressed in thousands of Renminbi Yuan

| Item | Six-month period ended 30 June | |
|---|--------------------------------|-----------|
| | 2012 | 2011 |
| Profit before taxation ("-" for loss) | -1,504,796 | 1,564,750 |
| Expected income tax expense at a rate of 25% (2011: 25%) | -376,199 | 391,188 |
| Add: Tax effect of non-deductible expenses | 7,040 | 58,025 |
| Tax effect of non-taxable income | -24,520 | -2,020 |
| Tax effect of share of loss recognised using the equity method ("-" for share of profit) | 3,724 | -37,154 |
| Income tax expense | -389,955 | 410,039 |

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

(28) Supplemental information on cash flow statements

(a) Supplement to the cash flow statement

Expressed in thousands of Renminbi Yuan

| Supplemental information | Six-month period ended 30 June | |
|--|--------------------------------|------------|
| | 2012 | 2011 |
| 1. Reconciliation of net profit to cash flows from operating activities ("-" for net loss): | | |
| Net profit ("-" for loss) | -1,114,841 | 1,154,711 |
| Add: Impairment losses | 201,948 | 379,563 |
| Depreciation of investment properties | 6,625 | 7,462 |
| Depreciation of fixed assets | 815,812 | 804,174 |
| Amortisation of intangible assets | 6,516 | 6,516 |
| Loss on disposal of fixed assets | 11,845 | 7,190 |
| Financial expenses ("-" for income) | 176,112 | -6,112 |
| Investment income | -83,186 | -156,696 |
| Decrease in deferred tax assets("-" for increase) | -389,955 | 410,039 |
| Increase in inventories | -2,236,040 | -3,555,589 |
| Decrease in operating receivables ("-" for increase) | 1,597,647 | -612,464 |
| Increase in operating payables ("-" for decrease) | -193,662 | 2,465,799 |
| Increase in specific reserve | 33,803 | 32,258 |
| Net cash inflow from operating activities("-" for outflow) | -1,167,376 | 936,851 |
| 2. Change in cash and cash equivalents: | | |
| Cash and cash equivalents balance at the end of the period | 140,173 | 270,802 |
| Less: Cash and cash equivalents balance at the beginning of the period | 61,057 | 89,224 |
| Net increase in cash and cash equivalent | 79,116 | 181,578 |

(b) Details of cash and cash equivalents

Expressed in thousands of Renminbi Yuan

| Item | Six-month period ended 30 June | |
|---|--------------------------------|---------|
| | 2012 | 2011 |
| 1. Cash | | |
| - Cash on hand | 46 | 67 |
| - Bank deposits available on demand | 139,272 | 269,892 |
| - Other monetary fund available on demand | 855 | 843 |
| 2. Closing balance of cash and cash equivalents | 140,173 | 270,802 |

Supplemental Information

(1) Non-recurring items for the six-month period ended 30 June 2012 (“-” for loss):

Expressed in thousands of Renminbi Yuan

| Non-recurring items | Amount | Note |
|---|---------|--|
| Net loss on disposal of non-current assets | -5,381 | Net loss on disposal of fixed assets and long-term equity investments |
| Employee reduction expenses | -7,153 | Employee reduction expenses incurred according to the reduction plan, varying from period to period. |
| Government grants recognised through profit or loss (excluding those having close relationships with the Group’s operation and enjoyed in fixed amount or quantity according to uniform national standard) | 138,064 | Local education surcharges refund and etc. |
| Income from external entrusted loans | 1,059 | Interest income from external entrusted loans |
| Other non-operating income and expenses other than those mentioned above | 10,241 | Other miscellaneous items |
| Tax effect for the above items | -32,630 | |
| Effect on minority interests after taxation | -512 | |
| Total | 103,688 | |

Note: The non-recurring items above are presented in amount before tax.

(2) Reconciliation between interim financial report prepared under CAS and International Financial Reporting Standards (“IFRS”)

The reconciliation between the net profit and net assets of the interim financial report prepared under CAS and IFRS:

Expressed in thousands of Renminbi Yuan

| | Note | Net profit attributable to equity shareholders of the Company (“-” for net loss) | | Net assets attributable to equity shareholders of the Company | |
|---|------|--|-----------|---|---------------------|
| | | Six-month period ended 30 June 2012 | 2011 | At 30 June 2012 | At 31 December 2011 |
| Under CAS | | -1,194,489 | 1,381,533 | 16,594,614 | 18,112,483 |
| Adjustments under IFRS: | | | | | |
| Government grants | (i) | 14,796 | 14,193 | -168,556 | -183,352 |
| Safety production costs | (ii) | 36,620 | 38,058 | - | - |
| Effects of the above adjustments on deferred taxation | | -8,451 | -8,065 | -12,019 | -3,568 |
| Under IFRS* | | -1,151,524 | 1,425,719 | 16,414,039 | 17,925,563 |

Supplemental Information *(continued)*

(2) Reconciliation between interim financial report prepared under CAS and International Financial Reporting Standards (“IFRS”) *(continued)*

The reconciliation between the net profit and net assets of the interim financial report prepared under CAS and IFRS:
(continued)

(i) Government grants

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

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

(ii) Safety production costs

Under CAS, safety production costs should be recognised in profit or loss with a corresponding increase in reserve according to PRC regulations. Such reserve is reduced for expenses incurred for safety production purposes or, when safety production related fixed assets are purchased, is reduced by the purchased cost with a corresponding increase in the accumulated depreciation. Such fixed assets are not depreciated thereafter. Under IFRS, expenses are recognised in profit or loss when incurred, and property, plant and equipment are depreciated with applicable methods.

* The above figures are extracted from the unaudited consolidated interim financial report prepared under IFRS.

(3) Return on net assets and earnings per share (“-” for loss)

In accordance with “Regulations on the Preparation of Information Disclosures of Companies Issuing Public Shares No.9 - Calculation and Disclosure of the Return on Net Assets and Earnings Per Share” (2010 Revised) issued by China Security Regulatory Committee, return on net assets and earnings per share are calculated as follows:

| Net profit during the period (“-” for net loss) | Weighted average return on net assets (%) | Earnings per share (“-” for loss) | |
|--|--|-----------------------------------|---------------|
| | | Basic (RMB) | Diluted (RMB) |
| Net profit attributable to equity shareholders of the Company (“-” for net loss) | -6.883 | -0.166 | -0.166 |
| Net profit attributable to equity shareholders of the Company excluding non-recurring items (“-” for net loss) | -7.481 | -0.180 | -0.180 |

Written Confirmation Issued by Directors, Supervisors and Senior Management

Pursuant to the relevant requirements of Article 68 of the PRC Securities Law and Standards No.3 Concerning the Contents and Formats of Information Disclosure by Companies Offering Securities to the Public - Contents and Formats of Semi-Annual Reports (Revised in 2007), we, being directors, supervisors and the senior management of the Company, having carefully studied and reviewed the Company's 2012 interim report, are of the opinion that: the Company was in strict compliance with the financial system operation of listed companies and the 2012 interim report gave a true and fair view of the financial position and operating results of the Company. We warrant that the information contained in the 2012 interim report is true, accurate and complete, and that there are no false or misleading statements contained in or material omissions from this report. We jointly and severally accept full responsibility for the authenticity, accuracy and completeness of the information contained in this report.

Signature:

Directors:

Rong Guangdao

Wang Zhiqing

Wu Haijun

Li Honggen

Shi Wei

Ye Guohua

Lei Dianwu

Xiang Hanyin

Shen Liqiang

Jin Mingda

Wang Yongshou

Cai Tingji

Supervisors:

Gao Jinping

Zhuo Qiang

Li Xiaoxia

Zhai Yalin

Wang Liqun

Chen Xinyuan

Zhou Yunnong

Senior Management:

Zhang Zhiliang

Zhang Jianping

Jin Qiang

Zhang Jingming

Corporate Information

(1) Company Information

| | |
|---|--|
| Legal Chinese Name of the Company: | 中國石化上海石油化工股份有限公司 |
| Abbreviation for Legal Chinese Name of the Company: | 上海石化 |
| Legal English Name of the Company : | Sinopec Shanghai Petrochemical Company Limited |
| Abbreviation for Legal English Name of the Company: | SPC |
| Legal Representative of the Company: | Rong Guangdao |

(2) Contact Persons and Contact Methods

| | 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 interim report: | www.sse.com.cn, www.hkex.com.hk and www.spc.com.cn |
| Place for access to the Company's interim report: | 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 | Hong Kong Stock Exchange | SHANGHAI PECHEM | 00338 | - |
| ADR | New York Stock Exchange | SHI | - | - |

(6) Other Information

| | |
|---|----------------------------|
| Date of the Company's initial registration: | 29 June 1993 |
| Initial registered address of the Company: | Jinshan Wei, Shanghai, PRC |

First time: Date of change of the Company's registration: 12 October 2000
Change of the registered address of the Company: 48 Jinyi Road, Jinshan District, Shanghai, PRC
SAIC registration number of the Company: 310000000021453
Tax registration number of the Company: 310228132212291
Company and Organization Code: 13221229-1

Name of domestic auditor engaged by the Company: KPMG Huazhen (Special General Partnership)
Address of the domestic auditor engaged by the Company: 8th Floor, Office Tower 2, Oriental Plaza,
No. 1, East Chang An Avenue, Beijing, PRC
Postal Code: 100738

Name of international 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, PRC
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, PRC
Postal Code: 200120
Industrial & Commercial Bank of China, Shanghai Branch
No.9 Pudong Avenue, Pudong New Area
Shanghai, PRC
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