2012
Annual Report

上海石化
SPC

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

Contents

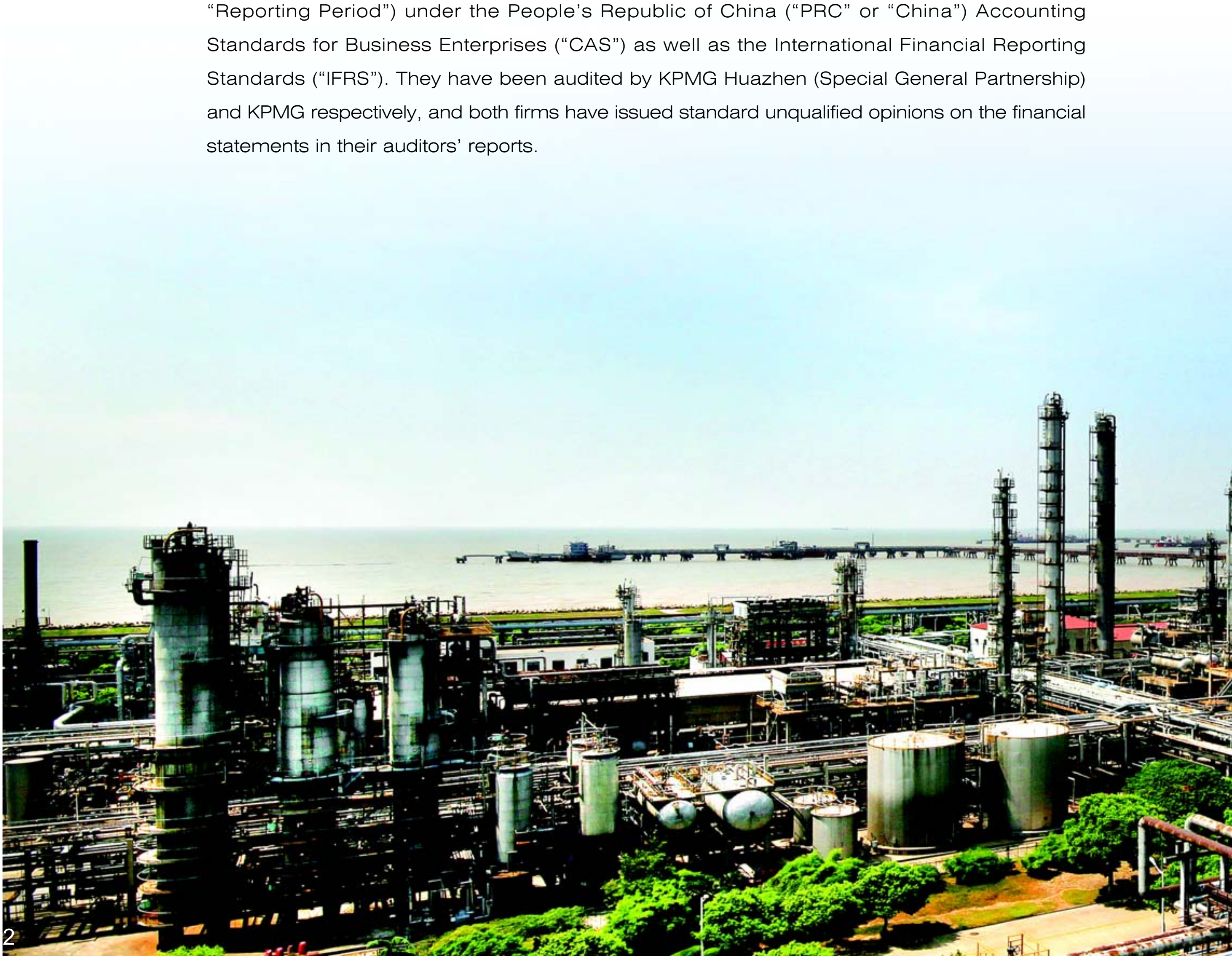
IMPORTANT MESSAGE:

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

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

Name of Director not Attending	Position	Reasons for the Absence	Name of Proxy
Shi Wei	Director	Business engagement	Rong Guangdao
Lei Dianwu	Director	Business engagement	Rong Guangdao
Wang Yongshou	Independent Non-executive Director	Engagement	Cai Tingji

(3) The Company prepared the financial statements for the year ended 31 December 2012 (the "Reporting Period") under the People's Republic of China ("PRC" or "China") Accounting Standards for Business Enterprises ("CAS") as well as the International Financial Reporting Standards ("IFRS"). They have been audited by KPMG Huazhen (Special General Partnership) and KPMG respectively, and both firms have issued standard unqualified opinions on the financial statements in their auditors' reports.



(4) Mr. Rong Guangdao, Chairman and the responsible person of the Company, Mr. Wang Zhiqing, Vice Chairman and President of the Company, and Mr. Ye Guohua, Director and Chief Financial Officer of the Company hereby warrant the truthfulness and completeness of the financial statements contained in the 2012 annual report.

(5) Plan for Profit Appropriation or Capital Reserve Capitalisation reviewed by the Board

In 2012, the net loss attributable to equity shareholders of the Company amounted to RMB1,548,466,000 under CAS (net loss attributable to equity shareholders of the Company of RMB1,528,397,000 under IFRS). The Board proposed that no dividend will be distributed and no capital reserve shall be converted into share capital.

(6) Forward-looking statements, such as future plans and development strategies in this report, do not constitute any substantive commitments of the Company to investors. Investors are advised to pay attention to investment risks.

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

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

(9) Potential risks are elaborated in this report, please refer to "Report of the Directors" for the details of the potential risks in the future.

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

"Company"	Sinopec Shanghai Petrochemical Company Limited
"Board"	the Board of Directors of Sinopec Shanghai Petrochemical Company Limited
"Supervisory Committee"	the Supervisory Committee of Sinopec Shanghai Petrochemical Company Limited
"PRC"	the People's Republic of China
"the Reporting Period"	the year ended 31 December 2012
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Group"	the Company and its subsidiaries
"Sinopec Group"	China Petrochemical Corporation
"Sinopec Corp."	China Petroleum & Chemical Corporation
"Hong Kong Listing Rules"	The Rules Governing the Listing of Securities on the Hong Kong Stock Exchange
"Shanghai Listing Rules"	The Rules Governing the Listing of Securities on the Shanghai Stock Exchange
"Model Code for Securities Transactions"	the Model Code for Securities Transactions by Directors of Listed Issuers
"Securities Law"	the PRC Securities Law
"Company Law"	the PRC Company Law
"CSRC"	China Securities Regulatory Commission
"Articles of Association"	the articles of association of the Company
"Hong Kong Stock Exchange website"	www.hkexnews.hk
"Shanghai Stock Exchange website"	www.sse.com.cn
"Website of the Company"	www.spc.com.cn
"HSE"	Health, Safety, and Environment
"SFO"	the Securities and Futures Ordinance of Hong Kong (Chapter 571 of the Laws of Hong Kong)

Sinopec Shanghai Petrochemical Company Limited is one of the largest petrochemical enterprises in the People's Republic of China based on sales in 2012. It is also one of the largest PRC producers of ethylene. Ethylene is one of the most important intermediate petrochemical products used in the production of synthetic fibres, resins and plastics.

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

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

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

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

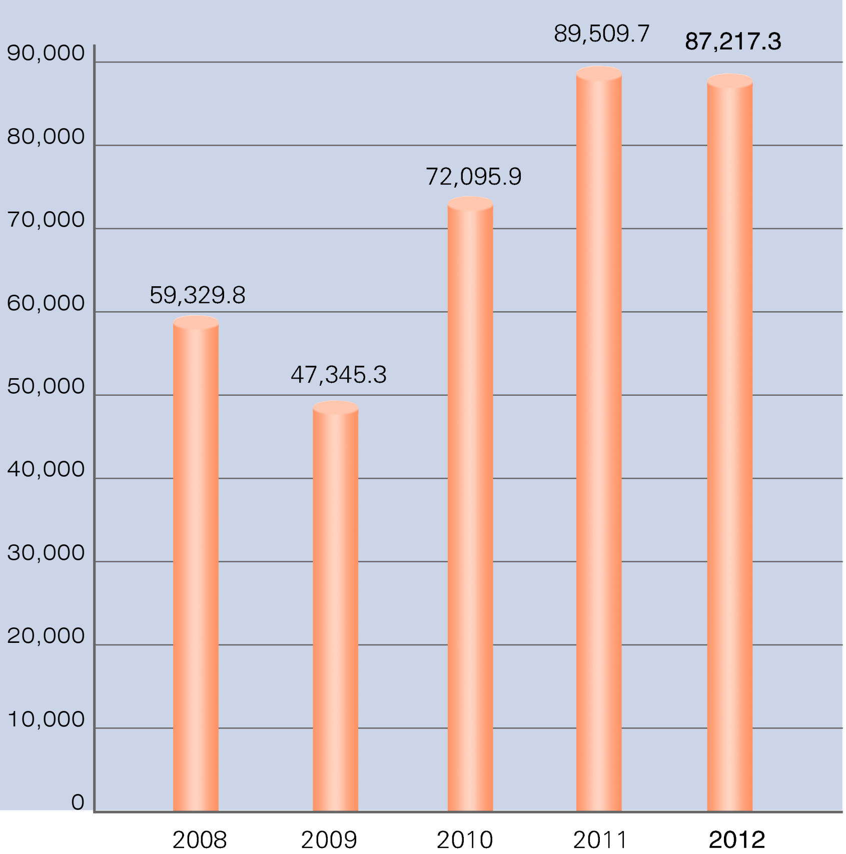
Financial Highlights

(Prepared under IFRS)

Expressed in RMB million	**2012**	2011	2010	2009	2008
Year ended 31 December:					
Net sales	**87,217.3**	89,509.7	72,095.9	47,345.3	59,329.8
(Loss)/profit before taxation	**(2,016.5)**	1,296.7	3,529.9	2,163.0	(8,017.9)
(Loss)/profit after taxation	**(1,505.1)**	986.5	2,794.4	1,652.8	(6,204.4)
(Loss)/profit attributable to equity shareholders of the Company	**(1,528.4)**	956.1	2,769.0	1,588.3	(6,241.1)
Basic and diluted (loss)/earnings per share	**RMB(0.212)**	RMB0.133	RMB0.385	RMB0.221	RMB(0.867)
As at 31 December:					
Total equity attributable to equity shareholders of the Company	**16,037.2**	17,925.6	17,689.5	15,136.4	13,630.9
Total assets	**36,462.5**	30,718.9	28,697.5	30,039.9	27,667.0
Total liabilities	**20,158.6**	12,523.2	10,748.2	14,609.2	13,771.7

Net sales

(RMB millions)



1. Major Accounting Data

(Prepared under CAS)

	For the years ended 31 December			
	2012	2011	Increase / decrease compared to the previous year	2010
	RMB'000	RMB'000	(%)	RMB'000
Operating income	**93,072,254**	95,601,248	-2.65	77,591,187
Profit before income tax ("-" for loss)	**-2,032,974**	1,292,291	-257.32	3,453,744
Net profit attributable to equity shareholders of the Company ("-" for net loss)	**-1,548,466**	944,414	-263.96	2,703,734
Net profit attributable to equity shareholders of the Company excluding non-recurring items ("-" for net loss)	**-1,719,496**	928,365	-285.22	2,771,632
Net cash inflow from operating activities ("-" for net outflow)	**-1,611,521**	2,481,431	-164.94	4,243,832

	As at 31 December			
	2012	2011	Increase / decrease compared to the end of the previous year	2010
	RMB'000	RMB'000	(%)	RMB'000
Total assets	**36,805,799**	31,110,085	18.31	29,158,104
Total equity attributable to equity shareholders of the Company	**16,190,419**	18,112,483	-10.61	17,913,040

(Prepared under CAS)

2. Major Financial Indicators

	For the years ended 31 December			
	2012	2011	Increase/decrease compared to the previous year(%)	2010
Basic earnings per share ("-" for loss) (RMB/Share)	**-0.215**	0.131	-263.96	0.376
Diluted earnings per share ("-" for loss) (RMB/Share)	**-0.215**	0.131	-263.96	0.376
Basic earnings per share excluding non-recurring items ("-" for loss) (RMB/Share)	**-0.239**	0.129	-285.22	0.385
Return on net assets (weighted average) (%)*	**-9.028**	5.243	Decreased by 14.271 percentage points	16.259
Return on net assets based on net profit or loss excluding non-recurring items (weighted average) (%)*	**-10.025**	5.154	Decreased by 15.179 percentage points	16.667
Net cash inflow per share from operating activities ("-" for net outflow) (RMB/Share)	**-0.224**	0.345	-164.94	0.589

	As at 31 December			
	2012	2011	Increase/ decrease compared to the end of the previous year(%)	2010
Net asset value per share attributable to equity shareholders of the Company (RMB/Share)*	**2.249**	2.516	-10.61	2.488
Liability-to-asset ratio (%)	**55.286**	40.911	Increased by 14.375 percentage points	37.675

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

3. Non-recurring Items

	2012 RMB'000	2011 RMB'000	2010 RMB'000
Net loss from disposal of non-current assets	**-14,319**	-18,006	-34,635
Employee reduction expenses	**-7,388**	-9,758	-3,646
Government grants recorded in profit or loss (except for government grants under the State's unified standards on quota and amount entitlements and closely related to corporate business)	**221,044**	76,965	37,211
Investment income from disposal of available-for-sale financial assets	**-**	685	215
Income from external entrusted loans	**2,093**	1,298	1,581
Other non-operating income and expenses other than those mentioned above	**23,044**	-27,045	-89,720
Income tax effect	**-52,482**	-7,606	21,427
Effect attributable to minority interests (after tax)	**-962**	-484	-331
Total	**171,030**	16,049	-67,898

4. Differences between financial statements 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	-1,548,466	944,414	16,190,419	18,112,483
Prepared under IFRS	-1,528,397	956,106	16,037,166	17,925,563

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



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

The following table sets forth the net sales of the Group's major products in 2012 as a percentage of total net sales and their typical uses.

Major products sold by the Group	% of 2012 net sales	Typical use
Manufactured products		
Synthetic fibres		
Polyester staple	0.72	Textiles and apparel
Acrylic staple	2.84	Cotton type fabrics wool type fabrics delre, and acrylic top
Others	0.24	
Subtotal:	3.80	
Resins and plastics		
Polyester chips	4.81	Polyester fibres, films and containers
PE pellets	6.42	Films, ground sheeting, wire and cable compound and other injection moulding products such as housewares and toys
PP pellets	4.93	Extruded films or sheets, injection moulding products such as housewares, toys and household electrical appliances and automobile parts
PVA	0.45	PVA fibres, building coating materials and textile starch
Others	0.25	
Subtotal:	16.86	



Major products sold by the Group	% of 2012 net sales	Typical use
Intermediate petrochemical products		
Ethylene	**1.06**	Feedstock for PE, EG, PVC and other intermediate petrochemicals which can be further processed into resins and plastics and synthetic fibre
Ethylene oxide	**1.73**	Intermediate for chemical and pharmaceutical industry, dyes, detergents and adjuvant
Benzene	**3.33**	Intermediate petrochemical products, styrene, plastics, explosives, dyes, detergents, epoxies and polyamide fibre
PX	**6.64**	Intermediate petrochemical, polyester
Butadiene	**2.44**	Synthetic rubber and plastics
Ethylene glycol	**2.16**	Fine chemicals
Others	**3.27**	
Subtotal:	**20.63**	
Petroleum products		
Gasoline	**7.95**	Transportation fuels
Diesel	**24.95**	Transportation and agricultural machinery fuels
Jet oil	**4.05**	Transportation fuels
Others	**6.97**	
Subtotal:	**43.92**	
Trading of petrochemical products	**13.78**	
Others	**1.01**	
TOTAL:	**100**	

(1) Change in share capital

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

(2) Issue and listing of shares

1. Issue of shares during the previous three years

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

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

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

3. Current employee shares

   The Company had no employee shares during the Reporting Period.

(3) Shareholders and controlling company of the controlling shareholder

1. Total number of shareholders

Total number of shareholders as at 31 December 2012	106,100
Total number of shareholders as at the end of five trading days before this annual report was published	103,139

2. Shareholding of the top ten shareholders as at the end of 2012

Name of Shareholders	Type of shareholders	Percentage of total shareholding (%)	Number of shares held (shares)	Increase(+)/ decrease(-) during the Reporting Period (shares)	Type of shares	Number of non-circulating shares held (shares)	Number of shares pledged or frozen (shares)
China Petroleum & Chemical Corporation	State-owned enterprise legal person	55.56	4,000,000,000	-	Non-circulating	4,000,000,000	Nil
HKSCC (Nominees) Limited	Foreign legal person	31.86	2,294,108,101	+158,000	Circulating	-	Unknown
China Construction Bank-CIFM China Advantage Security Investment Fund	Others	0.83	60,000,000	-11,924,157	Circulating	-	Unknown
Industrial and Commercial Bank of China - SWS MU New Economy Balanced Equity Fund	Others	0.24	17,118,622	-4,147,801	Circulating	-	Unknown
Shanghai Kangli Gong Mao Company	Others	0.23	16,730,000	-	Non-circulating	16,730,000	Unknown
Zhejiang Economic Construction Investment Co., Ltd.	Others	0.17	12,000,000	-	Non-circulating	12,000,000	Unknown
Shanghai Textile Development Company	Others	0.08	5,650,000	-	Non-circulating	5,650,000	Unknown
Shanghai Xiangshun Shiye Company Limited	Others	0.08	5,500,000	-	Non-circulating	5,500,000	Unknown
IP KOW	Others	0.08	5,432,000	-	Circulating	-	Unknown
Agricultural Bank of China - Xinhua Selected Growth Equity Securities Investment Fund.	Others	0.06	4,318,720	Unknown	Circulating	-	Unknown

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

3. Top ten shareholders of shares in circulation as at the end of 2012

Name of shareholders	Number of circulating shares held (shares)	Type of Shares
HKSCC (Nominees) Limited	2,294,108,101	Overseas listed foreign shares
China Construction Bank-CIFM China Advantage Security Investment Fund	60,000,000	RMB-denominated ordinary shares
ICBC-SWS MU New Economy Balanced Equity Fund	17,118,622	RMB-denominated ordinary shares
IP KOW	5,432,000	Overseas listed foreign shares
Agricultural Bank of China-Xinhua Selected Growth Equity Securities Investment Fund	4,318,720	RMB-denominated ordinary shares
Bank of China-Efund Resources Sector Equity Securities Investment Fund	4,172,508	RMB-denominated ordinary shares
Zhonghai Trust-No.11 Pujiang Star Trust Fund Scheme	3,965,661	RMB-denominated ordinary shares
China Construction Bank-CIFM Growth Pioneer Equity Securities Investment Fund	3,406,008	RMB-denominated ordinary shares
YIP CHOK CHIU	3,150,000	Overseas listed foreign shares
China Merchants Bank Co., Limited-Fortis Haitong Surging Return Mixed Type Fund	3,029,933	RMB-denominated ordinary shares

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

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

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

(i) Details of the controlling shareholder

Name of the controlling shareholder:	China Petroleum & Chemical Corporation
Legal representative:	Fu Chengyu
Registered capital:	RMB86.8 billion
Date of incorporation:	25 February 2000
Major business operation or management activities:	Exploration, exploitation, pipeline transportation and trading of crude oil and natural gas; production, trading, storage and transportation of chemical products such as refined oil, petrochemical products, chemical fibre, fertiliser and others; import and export of techniques and goods such as petroleum, natural gas, petroleum products, petrochemical products, and other chemical products; as well as import and export business agent of the aforementioned goods and techniques; research, exploration and application of techniques and information.

(ii) Controlling company of the controlling shareholder

Name of the controlling company of the controlling shareholder:	China Petrochemical Corporation
Legal representative:	Fu Chengyu
Registered capital:	RMB231.6 billion
Date of incorporation:	24 July 1998
Major business operation or management activities:	Provision of drilling, logging and downhole operation services, production and maintenance of manufacturing equipment; project construction service, and water, electricity and other public utility and social services.

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

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

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

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

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

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

↓ 100%

China Petrochemical Corporation

↓ 76.28%*

China Petroleum & Chemical Corporation

↓ 55.56%

Sinopec Shanghai Petrochemical Company Limited

* Includes 425,500,000 H shares of Sinopec Corp. held by Sinopec Century Bright Capital Investment Limited, a wholly-owned international subsidiary of Sinopec Group, through HKSCC (Nominees) Limited.

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

As at 31 December 2012, HKSCC (Nominees) Limited held 2,294,108,101 H shares of the Company, representing 31.86% of the total issued share capital of the Company.

6. Public Float

Based on the public information available to the Board, as at 26 March 2013, the Company had a sufficient public float which complied with the minimum requirement under the Hong Kong Listing Rules.

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

As at 31 December 2012, the interests and short positions of the Company's substantial shareholders and other persons who are required to disclose their interests pursuant to Part XV of the SFO (including those who are entitled to exercise, or control the exercise of, 5% or more of the voting power at any general meeting of the Company but excluding the Directors, Supervisors and Senior Management) in the shares and underlying shares of equity derivatives of the Company as recorded in the register required to be kept under Section 336 of the SFO were as set out below:

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

Name of shareholders	Number of share interests held or deemed as held (shares)	Percentage of total issued share capital (%)	Percentage of shareholding in the Company's total issued H shares (%)	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.	137,515,700 (L)	1.91 (L)	5.90 (L)	Beneficial owner; Investment managers; Other (Available-for-lending shares)
Blackrock, Inc.	127,333,214 (L) 22,949,017 (S)	1.77 (L) 0.32 (S)	5.46 (L) 0.98 (S)	Beneficial owner; Investment managers; Other (Available-for-lending shares)

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

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

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

As at 31 December 2012, no short positions of substantial shareholders or other persons (excluding the Directors, Supervisors and Senior Management) who are required to disclose their interests pursuant to Part XV of the SFO in the shares or underlying shares of equity derivatives of the Company were recorded in the register required to be kept under Section 336 of the SFO.

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

Name	Position	Sex	Age	Date of commencement and end of service term	Number of shares held at the beginning of the year (shares)	Number of shares held at the end of the year (shares)	change	Reason of change	Total remuneration received from the Company during the Reporting Period (RMB'000) (before taxation)	Total remuneration received from shareholder during the Reporting Period (RMB'000) (before taxation)
Rong Guangdao	Chairman	M	57	June 2011 to June 2014	3,600	3,600	-	-	688	0
Wang Zhiqing	Vice Chairman and President	M	50	June 2011 to June 2014	Nil	Nil	-	-	688	0
Wu Haijun	Vice Chairman	M	50	June 2011 to June 2014	Nil	Nil	-	-	0	0
Li Honggen	Director and Vice President	M	56	June 2011 to June 2014	Nil	Nil	-	-	602	0
Shi Wei	Director and Vice President	M	53	June 2011 to June 2014	Nil	Nil	-	-	645	0
Ye Guohua	Director and Chief Financial Officer	M	44	June 2011 to June 2014	Nil	Nil	-	-	586	0
Lei Dianwu	Director	M	50	June 2011 to June 2014	Nil	Nil	-	-	0	634
Xiang Hanyin	Director	M	58	June 2011 to June 2014	Nil	Nil	-	-	0	584
Shen Liqiang	Independent Non-executive Director	M	56	June 2011 to June 2014	Nil	Nil	-	-	0	0
Jin Mingda	Independent Non-executive Director	M	62	June 2011 to June 2014	Nil	Nil	-	-	150	0
Wang Yongshou	Independent Non-executive Director	M	72	June 2011 to June 2014	3,600	3,600	-	-	150	0
Cai Tingji	Independent Non-executive Director	M	58	June 2011 to June 2014	Nil	Nil	-	-	150	0
Gao Jinping	Chairman of the Supervisory Committee	M	46	June 2011 to June 2014	Nil	Nil	-	-	586	0
Zuo Qiang	Supervisor	M	50	June 2011 to June 2014	Nil	Nil	-	-	358	0
Li Xiaoxia	Supervisor	F	43	June 2011 to June 2014	Nil	Nil	-	-	365	0
Zhai Yalin	Supervisor	M	48	June 2011 to June 2014	Nil	Nil	-	-	0	548
Wang Liqun	Supervisor	M	55	June 2011 to June 2014	Nil	Nil	-	-	0	548
Chen Xinyuan	Independent Supervisor	M	48	June 2011 to June 2014	Nil	Nil	-	-	0	0
Zhou Yunnong	Independent Supervisor	M	70	June 2011 to June 2014	Nil	Nil	-	-	0	0
Zhang Zhiliang	Vice President	M	59	June 2011 to June 2014	Nil	Nil	-	-	631	0
Zhang Jianping	Vice President	M	50	June 2011 to June 2014	Nil	Nil	-	-	586	0
Jin Qiang	Vice President	M	47	November 2011 to June 2014	Nil	Nil	-	-	584	0
Zhang Jingming	Company Secretary and General Legal Counsel	M	55	June 2011 to June 2014	Nil	Nil	-	-	437	0
Tang Chengjian	Previous Vice President	M	57	June 2011 to May 2012	Nil	Nil	-	-	392	0

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

Profiles of Directors, Supervisors and Senior Management

Directors

Rong Guangdao, 57, is Chairman, Secretary of the Communist Party Committee of the Company. Mr. Rong joined the Shanghai Petrochemical Complex (the "Complex") in 1973 and held various positions, including Deputy Director of the No.1 Chemical Plant and Deputy Director and Director of the Ethylene Plant. In April 1994 he was appointed Vice President of the Company, and in June 1995 he was elected Director of the Company. From October 2003 to July 2010, Mr. Rong was President of the Company. In May 2004, Mr. Rong was elected Chairman of the China Jinshan Associated Trading Corporation. From June 2004 to June 2005, Mr. Rong was Vice Chairman of the Company. From April 2005 to July 2010, Mr. Rong was elected Deputy Secretary of the Communist Party Committee of the Company. In June 2005, Mr. Rong was elected Chairman of the Company. From November 2006 to February 2011, Mr. Rong was appointed Director and Vice Chairman of Shanghai Secco Petrochemical Company Limited. In August 2008, he was appointed Director and Chairman of Shanghai Chemical Industrial Park Development Company Limited. In July 2010, he was appointed Secretary of the Communist Party Committee of the Company. Mr. Rong has rich experience in management of large-scale petrochemical enterprise operations. In 1985, Mr. Rong graduated from the Automated Instrument Department of the Shanghai Petrochemical College for Workers and Staff Members. In 1997, he obtained an MBA from China Europe International Business School. He is a senior engineer by professional title.

Wang Zhiqing, 50, is Vice Chairman, President and Deputy Secretary of the Communist Party Committee of the Company. Mr. Wang commenced work in 1983 and held various positions including Deputy Leader of preparatory team for the chemical fibre plant of Luoyang Petrochemical Complex, Deputy Chief Engineer of Luoyang Petrochemical Complex cum Officer-in-Charge of the preparatory team for the complex's chemical fibre plant, and then Deputy Chief Engineer of the complex cum Director of the chemical fibre plant. From June 1999 to December 2001, Mr. Wang was Chief Engineer of Luoyang Petrochemical Complex. From February 2000 to December 2001, Mr. Wang was Vice President cum Chief Engineer of Sinopec Luoyang Company. From December 2001 to October 2006, Mr. Wang was President of Sinopec Luoyang Company. From July 2005 to May 2007, Mr. Wang was the Leader of the preparatory team for a Sinopec refinery project in Guangxi. From October 2006 to December 2008, Mr. Wang was manager of Sinopec Jiujiang Company. From December 2008 to July 2010, Mr. Wang was President of Sinopec Jiujiang Company. Mr. Wang was appointed President and Deputy Secretary of the Communist Party Committee of the Company in July 2010. Mr. Wang was appointed Director and Vice Chairman of the Company in December 2010. Mr. Wang was appointed Director and Chairman of Shanghai Secco Petrochemical Company Limited in February 2011. Mr. Wang graduated from the East China Petroleum Institute with a Bachelor of Engineering in 1983, majoring in refinery engineering, and graduated from China University of Petroleum (East China) with a Doctorate in Engineering in 2006, majoring in chemical engineering and technology. He is a professor-level senior engineer by professional title.

Wu Haijun, 50, is Vice Chairman of the Company, Director and Vice President of Shanghai Secco Petrochemical Company Limited. Mr. Wu joined the Complex in 1984 and held various positions including Deputy Director and Director of the Company's No.2 Chemical Plant as well as manager of the Chemical Division. He was Vice President of the Company from May 1999 to March 2006 and Director of the Company from June 2004 to June 2006. He was manager and Secretary of the Communist Party Committee of the Chemical Sales Branch Office of Sinopec Corp. from December 2005 to March 2008. From December 2005 to April 2010, he was Director of the Chemical Business Department of Sinopec Corp. In April 2010, he was Director of Shanghai Secco Petrochemical Company Limited. From April 2010 to February 2011, Mr. Wu was President of Shanghai Secco Petrochemical Company Limited. In June 2010, he was appointed Director and Vice Chairman of the Company. In February 2011, he was appointed Vice President of Shanghai Secco Petrochemical Company Limited. Mr. Wu graduated from the East China Institute of Chemical Technology in 1984, majoring in chemical engineering, and obtained a Bachelor of Engineering degree. In 1997, he obtained an MBA from the China Europe International Business School. He is a senior engineer by professional title.

Li Honggen, 56, is Executive Director and Vice President of the Company. Mr. Li joined the Complex in 1973 and held various positions including Deputy Director of No. 1 Chemical Plant and Deputy Director of the Ethylene Plant of the Complex, Director of the Ethylene Plant of the Company and Deputy Manager and Manager of the Refining and Chemical Division of the Company. From August 2000 to December 2003, he was Vice President of Shanghai Chemical Industrial Park Development Company Limited. From August 2002 to January 2006, he was Vice President of Shanghai Secco Petrochemical Company Limited. In March 2006, he was appointed Vice President of the Company. In June 2006, he was appointed Director of the Company. In August 2008, he was appointed Director of Shanghai Chemical Industrial Park Development Company Limited. In 1988, Mr. Li graduated from East China Institute of Chemical Technology majoring in engineering management and completed a post-graduate course majoring in engineering management at East China University of Science and Technology in 1998. He is an engineer by professional title.

Shi Wei, 53, is Executive Director, Vice President of the Company and Head of Sinopec Guizhou Zhijin Coal Chemical Projects Preparatory Group. Mr. Shi joined the Complex in 1982 and held various positions including Assistant to the Manager and then Deputy Manager of the Refining and Chemical Division of the Company, Manager of the Environmental Department, Secretary of the Communist Party Committee and then Manager of the Refining and Chemical Division of the Company. In October 2003, Mr. Shi was appointed Vice President of the Company. In June 2005, he was appointed Director of the Company. In May 2012, he was appointed Head of Sinopec Guizhou Zhijin Coal Chemical Projects Preparatory Group. In 1982, Mr. Shi graduated from East China University of Science and Technology majoring in oil refining engineering and obtained a bachelor's degree in engineering. Mr. Shi completed the post-graduate studies in Business Management at East China University of Science and Technology in 1998. Mr. Shi is a senior engineer by professional title.

Ye Guohua, 44, is Director and Chief Financial Officer of the Company. Mr. Ye joined Shanghai Gaoqiao Petrochemical Corporation in 1991 and held various positions, including Deputy Chief and Chief of the Cost Accounting Section of the Finance Office, Director of the Finance Office of the Refinery Plant of Shanghai Gaoqiao Petrochemical Corporation and Deputy Chief Accountant and Director of the Finance Department of Sinopec Shanghai Gaoqiao Branch. In October 2009, Mr. Ye was appointed Chief Financial Officer of the Company. Mr. Ye graduated with a major in accounting from the Shanghai University of Finance and Economics in July 1991. He is a senior accountant by professional title.

Lei Dianwu, 50, is Assistant to General Manager of Sinopec Group and Vice President and Director of Development and Planning Division of Sinopec Corp. In June 2005, Mr. Lei was elected External Director of the Company. Mr. Lei held various positions including Deputy Director of Planning Division of Yangzi Petrochemical Company, Director of the Preparation Office of the Joint Venture of Yangzi Petrochemical Company, Vice President and Manager of production division of Yangzi BASF Stylene Company Limited. He acted as Deputy Manager and Deputy Director of the Joint Venture Office at Yangzi Petrochemical Company, Director of Development and Planning Division in China Dong Lian Petrochemical Limited Liabilities Company, Deputy General Manager of Yangzi Petrochemical Limited Liabilities Company and Deputy Director of Development and Planning Division of Sinopec Corp. In March 2001, he assumed the current position of Director of Development and Planning Division of Sinopec Corp. In March 2009, he was appointed Assistant to General Manager of Sinopec Group. In May 2009, he was appointed Vice President of Sinopec Corp. Mr. Lei has rich experience in enterprise planning and investment development management. In 1984, Mr. Lei graduated from the East China Petroleum Institute with a major in basic organic chemicals and obtained a bachelori¯s degree in engineering. He is a senior engineer by professional title.

Xiang Hanyin, 58, is Deputy Director of Chemical Division of Sinopec Corp. In June 2005, Mr. Xiang was elected External Director of the Company. Mr. Xiang commenced work in February 1982 and was Deputy Director of the Chemical Plant of Yizheng Chemical Fibre Company and Director of Chemical Plant of Yizheng Chemical Fibre Co., Ltd.. In February 2000, he assumed the current position of Deputy Director of Chemical Division of Sinopec Corp. Mr. Xiang has rich experience in management of chemical enterprise operation. Mr. Xiang graduated from Nanjing Chemical College with a major in basic organic chemicals and a bachelor's degree in engineering in 1982. In 2000, he completed post-graduate studies in enterprise management at Nanjing University. He is a senior engineer by professional title.

Shen Liqiang, 56, is President and Secretary of the Communist Party Committee of the Shanghai Branch of the Industrial and Commercial Bank of China ("ICBC"). In June 2011, Mr. Shen was elected Independent Director of the Company. Mr. Shen has been engaged in financial business since December 1976, and has held various positions, including Deputy Director and Director of the Hangzhou Business Department of the ICBC; Deputy Director of the Accounting and Cashier Department, Deputy Director and Director of the Savings Department, Director of the Personnel Department and Assistant to the President cum Director of Personnel Department of the Zhejiang Branch of the ICBC; Vice President of the Zhejiang Branch of the ICBC; Vice President cum General Manager and Secretary of the Communist Party Committee of the Banking Department of the Zhejiang Branch of the ICBC. He was Vice President and Deputy Secretary of the Communist Party Committee of the Zhejiang Branch of the ICBC from October 2005 to March 2007, and was appointed President and Secretary of the Communist Party Committee of the Hebei Branch of the ICBC from March 2007 to June 2009. He has been President and Secretary of the Communist Party Committee of the Shanghai Branch of the ICBC since June 2009. Mr. Shen has long been engaged in banking business management and has both in-depth expertise on finance theory and extensive experience in finance practice. Mr. Shen holds a Master's Degree in Economics and is a senior accountant by professional title.

Jin Mingda, 62, is Chairman and Secretary of the Communist Party Committee of Shanghai Huayi (Group) Company. In June 2011, Mr. Jin was elected Independent Director of the Company. Mr. Jin started working in October 1968 and has held various positions, including Deputy Secretary of the Communist Party Committee, Deputy Director, Secretary of the Communist Party Committee and Director of Shanghai Power Station Auxiliary Equipment Works Co., Ltd.; General Manager cum Deputy Secretary of the Communist Party Committee of Shanghai Boiler Works Co., Ltd.; Vice President of Shanghai Electric (Group) Corporation; Vice President of Shanghai Electric Group Co., Ltd.; and General Manager and Secretary of the Communist Party Committee of Shanghai Mechanical & Electrical Industry Co., Ltd. He served as Director, President and Deputy Secretary of the Communist Party Committee of Shanghai Huayi (Group) Company from November 2005 to October 2007, and Chairman and Secretary of the Communist Party Committee of Shanghai Huayi (Group) Company from October 2007. He was appointed Independent Director of Shanghai Electric Power Co., Ltd. in November 2009. Mr. Jin has extensive experience in business decision-making and management of conglomerates. He possesses postgraduate qualifications and is a senior economist by professional title.

Wang Yongshou, 72, is Independent Director of the Company since June 2011. Mr. Wang started working in September 1964 and has held various positions, including Deputy Secretary of the Communist Party Committee, Deputy Director and Director of Plastics Factory of the Complex; Chief Economist of the Complex and Deputy General Manager of Sinopec Shanghai Jinshan Industrial Company. He served as General Manager of Shanghai Jinshan Industrial Investment and Development Co., Ltd. from September 1997 to November 2001. Mr. Wang has extensive experience in corporate operation and management. Mr. Wang graduated from Zhejiang Institute of Chemical Technology in September 1964, and is a senior engineer by professional title.

Cai Tingji, 58, is a Fellow of the Hong Kong Institute of Certified Public Accountants, a member of the Committee of the Chinese People's Political Consultative Conference of Jing'an District, Shanghai, and Honorary Vice-Chairman of the Federation of Returned Overseas Chinese of Jing'an District, Shanghai, and is Independent Director of the Company since June 2011. Mr. Cai graduated from the Department of Accounting, Hong Kong Polytechnic University in 1978. He joined KPMG in the same year and has held various positions, including Deputy Manager and Manager of the audit department of KPMG Hong Kong Office, Managing Partner of KPMG Shanghai Office, Senior Partner of KPMG Huazhen Shanghai Office as well as Senior Partner of KPMG Huazhen in Eastern and Western China. Mr. Cai retired from KPMG Huazhen in April 2010. Mr. Cai was responsible for IPO projects for a number of large Chinese domestic enterprises in China, Hong Kong or overseas, as well as for various projects for listed companies. He possesses a wealth of professional knowledge and experience.

Supervisors

Gao Jinping, 46, is Chairman of the Supervisory Committee, Deputy Secretary of the Communist Party Committee, Secretary of the Communist Party Discipline Supervisory Committee and Chairman of the Labor Union of the Company. Mr. Gao joined the Complex in 1990 and held various positions including Deputy Secretary of the Communist Youth League of the Company, Deputy Secretary of the Communist Party Committee of the Experimental Plant and Chemical Division of the Company, and Director of the Propaganda Department of the Company. In May 2003, Mr. Gao was appointed Deputy Secretary of the Communist Party Committee and Chairman of the Labor Union of the Company. From June 2004 to June 2006, Mr. Gao was elected Director of the Company. In April 2006, Mr. Gao was appointed Secretary of the Communist Party Discipline Supervisory Committee of the Company. In June 2006, Mr. Gao was appointed Supervisor and Chairman of the Supervisory Committee of the Company. Mr. Gao graduated from the Food Processing Faculty of Shanghai Aquatic Products University with a major in cooling and cold storage technology and obtained a bachelor's degree in engineering in July 1990. In 2001, he completed his post-graduate studies in business administration in the aspect of industrial economics at Shanghai Academy of Social Sciences. He has senior professional technical qualifications.

Zuo Qiang, 50, is Supervisor, Deputy Secretary of Discipline Inspection Commission, Director of the Supervisory Office, Director of Supervisory Committee Office, and Secretary of the Corporate Discipline Supervisory Committee of the Company. Mr. Zuo joined the Complex in 1981 and has held various positions, including archivist of the Command Division for the construction of Phase II of No. 1 Chemical Plant, Head of archives of the ethylene plant, Secretary of the Youth League Committee of the ethylene plant, Secretary of the Youth League Committee of the Refining and Chemical Division of the Complex, Secretary of the Youth League Committee of the Refining and Chemical Division, Secretary of General Branch of the Communist Party Committee of Ethylene Plant No. 1 of the Refining and Chemical Division of the Company, and Deputy Director of the Supervisory Office of the Company. He was appointed as Secretary of the Corporate Discipline Supervisory Committee of the Company in August 2008. He was appointed as the Director of the Supervisory Office in April 2011. He has been serving as Supervisor, Director of Supervisory Committee Office since June 2011, and has been serving as Deputy Secretary of Discipline Inspection Commission of the Company since October 2011. Mr. Zuo graduated from the Correspondence College of the Communist Party Committee School of the Central Committee in June 1993 with a major in Party & Administrative management. He is an ideologist by professional title.

Li Xiaoxia, 43, is Supervisor and Vice Chairman of the Labor Union of the Company. Ms. Li joined the Complex in 1991 and has held various positions, including Controller of the operation zone of the marine terminal of the Company, Assistant to the Workshop Director, Deputy Workshop Director and Deputy Section Chief of Storage and Transportation Area No. 2 of the Refining and Chemical Division, Deputy Secretary of the Youth League Committee of the Company, Secretary of Party General Branch for Staff Exchange and Relocation Centre, and Secretary of the Communist Party Committee and Deputy Manager of the Refining Division of the Company. In June 2011, she was appointed as Supervisor of the Company. In December 2011, she was Vice Chairman of the Labor Union of the Company. Ms. Li graduated from Liaoning University of Petroleum and Chemical Technology in August 1991 with a major in petroleum and natural gas transportation. She has senior professional technical qualifications.

Zhai Yalin, 48, is Deputy Director of the Auditing Bureau of Sinopec Group and Deputy Director of Auditing Department of Sinopec Corp., and has been External Supervisor of the Company since June 2008. Mr. Zhai began his career in 1986 and had been successively Deputy Head of the Head Office and Director of the Auditing Department of Qianguo Refinery, Deputy Director of the General Office of Sinopec Huaxia Auditing Company, Deputy Director of the General Administrative Office of the Auditing Bureau of China Petrochemical Corporation, Director of the General Administrative Office of the Auditing Bureau of Sinopec Group, and Director of the General Administrative Office of the Auditing Bureau of Sinopec Group (Auditing Department of Sinopec Corp.). Since December 2001, Mr. Zhai has been holding concurrently the posts of Deputy Director of the Auditing Bureau of Sinopec Group and Deputy Director of Auditing Department of Sinopec Corp.. Mr. Zhai graduated from Jilin Siping Normal College in 1986 and is a senior economist by professional title.

Wang Liqun, 55, is Deputy Chief of the Supervisory Bureau of Sinopec Group and Deputy Director of the Supervisory Department of Sinopec Corp., and has been External Supervisor of the Company since June 2011. Mr. Wang started working in 1976 and has held various positions, including Deputy Director of the Manager's Office of Beijing Yanshan Petrochemical Corporation, Director of the Personnel Department, Deputy Head and Head of the Department for Cadres of Beijing Yanshan Petrochemical Co., Ltd. He served as a member of the Standing Committee of the Communist Party Committee and Chairman of the Labor Union of Beijing Yanshan Petrochemical Co., Ltd. from August 2008 to April 2010. He has been serving as Deputy Chief of the Supervisory Bureau of Sinopec Group and Deputy Director of the Supervisory Department of Sinopec Corp. from April 2010. Mr. Wang graduated from Beijing Federation of Labor Unions University for Workers and Staff in 1984 with a major in environmental protection (Diploma), and graduated from Beijing University of Technology in 1997 with a major in business management (Bachelor). He is a senior economist by professional title.

Chen Xinyuan, 48, is Dean, Professor and Tutor to doctoral students of the College of Accounting, Shanghai University of Finance and Economics, and has been Independent Supervisor of the Company since June 2011. After graduation from the Accounting Faculty, Hangzhou College of Commerce in July 1985, Mr. Chen undertook post-graduate studies at the Accounting Faculty of Shanghai University of Finance and Economics and continued as a lecturer. He commenced his doctoral studies in accounting while teaching and received his doctorate in June 1994. He has been a tutor to doctoral students since December 1998. From June 2000 to June 2003, Mr. Chen was appointed Independent Supervisor of the Company. From June 2003 to June 2011, Mr. Chen was an Independent Director of the Company. Mr. Chen has also studied in West Germany for one year. He is an expert in financial reporting and accounting, given his experience in the teaching and academic aspects of accounting and notable achievements in accounting research. He is also experienced in business management.

Zhou Yunnong, 70, has been Independent Supervisor of the Company since June 2011. Mr. Zhou joined the Complex in October 1972 and held various positions, including Deputy President of the Complex, Deputy Director of the Human Resource Department of China Petrochemical Corporation, Deputy Secretary of Communist Party Committee of the Complex, Vice President of the Company, Secretary of the Communist Party Committee of Sinopec Jinshan Industrial Company and the Governor of Jinshan District of Shanghai. From November 1999 to April 2002 he was a bureau-class inspector to Shanghai Jinshan District. From June 2003 to June 2005, Mr. Zhou was appointed Independent Supervisor of the Company. From June 2005 to June 2011, Mr. Zhou was appointed Independent Director of the Company. Mr. Zhou has extensive experience in business management and public administration management. Mr. Zhou graduated from East China Normal University in August 1964, majoring in radio. He is a senior engineer by professional title.

Senior Management

Zhang Zhiliang, 59, is Vice President of the Company. Mr. Zhang joined the Complex in 1977 and held various positions including Deputy Director and Director of the No.1 Chemical Plant of the Complex, as well as Deputy Manager and Manager of the Company's Refining and Chemical Division. He was Vice President of the Company from April 1997 to March 2006. He was Director of the Company from June 1997 to June 2003. He was Director of Shanghai Secco Petrochemical Company Limited from November 2002 to April 2010, and Vice President of Shanghai Secco Petrochemical Company Limited from January 2006 to November 2006. He was President of Shanghai Secco Petrochemical Company Limited from November 2006 to April 2010. In April 2010, he was appointed Vice President of the Company. Mr. Zhang graduated from Fudan University in 1977, majoring in high molecular chemistry. He graduated from Shanghai No.2 Industrial University in 1999, majoring in Applied Computer Management. He is a professor-level senior engineer by professional title.

Zhang Jianping, 50, is Vice President of the Company. Mr. Zhang joined the Complex in 1987 and held various positions including Deputy Chief Engineer of the Aromatics Plant of the Refining and Chemical Division, Deputy Director of the Plastics Plant, Deputy Manager of Plastic Division of the Company, Director of the Petrochemical Research Institute, Director of the Production Department of the Company, Assistant to President of the Company and concurrently Director of the Production Department. In July 2004, Mr. Zhang was appointed Vice President of the Company. Mr. Zhang graduated in 1984 from East China Institute of Chemical Technology specialising in petroleum refining. He obtained a master's degree in 1987 from East China Institute professor level Chemical Technology specialising in oil processing. He is a senior engineer by professional title.

Jin Qiang, 47, is Vice President of the Company. Mr. Jin joined Zhenhai General Petrochemical Works in 1986 and held various positions including Deputy Chief of the atmosphere and vacuum distillation unit and Deputy Chief of the heavy oil catalytic cracking plant. He then became Deputy Head and Head of the Machinery and Power Section of the Refinery Plant of Zhenhai Refining & Chemical Co., Ltd. He was appointed Deputy Director of the Utilities Department of Sinopec Zhenhai Refining & Chemical Co., Ltd. (ZRCC) from June 2002 to April 2004, Deputy Director of the Machinery and Power Division of ZRCC from April 2004 to July 2005, Director of the Machinery and Power Division of ZRCC from July 2005 to October 2006, Director of the Machinery and Power Division of Sinopec Zhenhai Refining & Chemical Company from October 2006 to March 2007 and Deputy Chief Engineer of Sinopec Zhenhai Refining & Chemical Company from March 2007 to December 2011. He was appointed Vice President of the Company in December 2011. Mr. Jin graduated in July 1986 from the East China Institute of Chemical Technology specialising in chemical machinery, and graduated in July 2007 from the Graduate School of Central Party School specialising in economic management. He is a professor-level senior engineer by professional title.

Zhang Jingming, 55, is Secretary to the Board, General Counsel in-house and Director of Strategy Research Department of the Company. Mr. Zhang joined the Complex in 1978. He has held various positions including Project Manager of the International Department, the Company's Securities Affairs Representative in Hong Kong, Deputy Director of the International Department and Deputy Director of the Board Secretariat. In June 1999, Mr. Zhang was appointed Secretary to the Board. From June 1999 to June 2011, he was Director of the Board Secretariat. In June 2001, Mr. Zhang was appointed Director of Strategy Research Department of the Company. In January 2005, Mr. Zhang was appointed General Counsel in-house of the Company. Mr. Zhang graduated from the Shanghai Foreign Language Institute in 1987 majoring in English language. During 1992 and 1993, he enrolled at the fourth Sino-British joint MBA program at Northwestern Polytechnic University. Mr. Zhang subsequently left for the University of Hull in the United Kingdom to pursue his studies in an MBA program, and in July 1995, he was conferred an MBA by the University of Hull. In 2002, Mr. Zhang completed his studies in a master program in international economic law at East China University of Politics and Law. He is a senior economist by professional title.

Management Positions held at the Company's Shareholders

Name	Shareholder's name	Position held	Commencement of service term	End of service term
Lei Dianwu	Sinopec Corp.	Vice President cum Director of the Development and Planning Division	May 2012	May 2015
Xiang Hanyin	Sinopec Corp.	Deputy Director of Chemical Division	May 2012	December 2012
Zhai Yalin	Sinopec Corp.	Deputy Director of Audit Department	May 2012	May 2015
Wang Liqun	Sinopec Corp.	Deputy Director of Supervisory Department	May 2012	May 2015

Management Positions held in other companies

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

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

Remuneration of Directors, Supervisors and Senior Management

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

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

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

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

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

3. Remuneration payable of Directors, Supervisors and Senior Management

   Please refer to section "Changes in Shareholdings and Remuneration of Directors, Supervisors and Senior Management" in this section.

4. The total actual remuneration of Directors, Supervisors and Senior Management paid by the Company in the Reporting Period: RMB 7.60 million.

5. The five highest paid individuals

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

6. Pension scheme

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

Change of Directors, Supervisors and Senior Management

1. Change of Directors, Supervisors and Senior Management

Name	Position held	Change	Reason
Tang Chengjian	Vice President	Resigned	Work allocation

2. Description

   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.

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

In addition to the disclosure in this section "Changes in Shareholdings and remuneration of Directors, Supervisors and Senior Management", as at 31 December 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) 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.

As at 31 December 2012, none of the Company's Directors, Supervisors or Senior Management or their respective spouses and children under 18 years had been granted by the Company or had exercised any rights to subscribe for shares or debentures of the Company or any of its associated corporations.

Directors' and Supervisors' Interests in Contract

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

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

Model Code for Securities Transactions

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

Employees

The number of employees of the Company	14,894
The number of employees of the subsidiaries	113
Total number of employees of the Group	15,007
The number of retired workers who required the Group to bear the costs of retirement	14,910

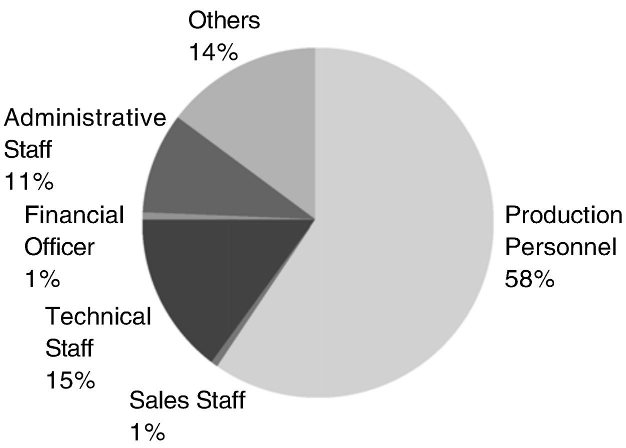
Professionals structure of the Company's employees:

Production personnel	8,689
Sales staff	105
Technical staff	2,271
Financial officers	144
Administrative staff	1,617
Others	2,068

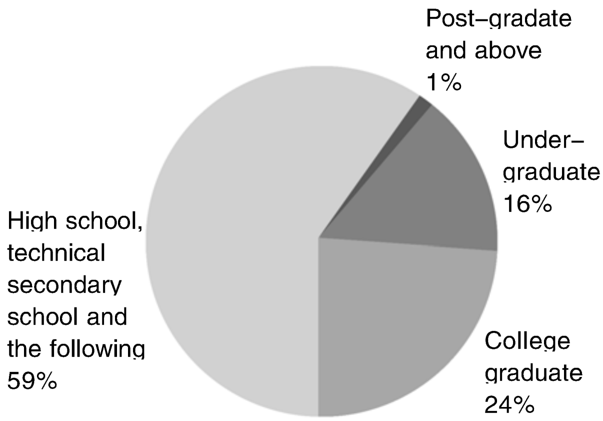
Level of education of the Company's employees:

Level of education (college or above)	41.33%
Post-graduate and above	178
Undergraduate	2,416
College graduate	3,561
High school, technical secondary school and the following	8,739
Total	14,894

Professional structure chart



The level of education chart



Staff remuneration

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

Training programs

Strengthen the staff training in safety, environmental protection, and quality system and other areas to improve the coverage of staff training, implementation rate of training program constantly. In addition, the Company promotes the enhancement of the skills of employee by strengthening the effort on training resources development and facilities construction, undertaking the business competition as well as promoting skills identification and others means.

(1) Notes for corporate governance and insider registration management

1. Corporate governance

In 2012, the Company strictly complied with the Company Law and Securities Law and the Corporate Governance Principles for Listed Companies issued by CSRC, as well as the relevant provisions and requirements of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the New York Stock Exchange. It continued to improve its corporate governance structure, strengthens its development of corporate system, standardise its corporate operation and enhance overall corporate image.

Improvement to the legal person governance structure: In 2012, the Company established the Nomination Committee according to the newly revised Hong Kong Listing Rules (including Appendix 14 - Corporate Governance Code). The Nomination Committee is accountable to the Board. Its major responsibilities are to study the criteria and procedures for the selection of Directors and Senior Management and to make recommendations thereon; extensively look for qualified candidates for directorships and Senior Management; and review candidates for directorship and Senior Management and make recommendations thereon.

Improvements to the development of governance system: During the Reporting Period, in accordance with the requirements of the relevant laws and regulations of the places, the Company amended and improved Articles of Association and their appendixes. The amendments were approved at the Company's 2011 Annual General Meeting. The Company formulated the "Rules of Procedures of the Nomination Committee of the Board" and amended the "Rules of Procedures for the Remuneration and Appraisal Committee of the Board", "Rules of Procedures of the Audit Committee of the Board", "Work System for Independent Directors", "Work System for Investor Relations" and "System Governing the Disclosure of Information". 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 held on 29 March 2012.

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

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

Not-Yet-Rectified Problem during the Year

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

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

In order to govern the registration and management of persons with access to the Company's inside information, strengthen the confidentiality of inside information and safeguard the fairness of information disclosure, the Company established the "System for the Registration and Management of Inside Information" during the Reporting Period, carefully inspected the status of the management of the Company's inside information, conducted a comprehensive review of outgoing information, and strengthened the confidentiality of inside information as well as the registration and management of, and submissions by, persons with access to inside information to prevent exceptional movements in share prices due to the leakage of inside information, and legal risks arising therefrom for further regulating the operation of the Company.

(2) The brief introduction of Annual General Meeting

Session of the meeting	Convening Date	Name of the motion	Resolutions	Websites for Publication of Resolutions	Date of Publication of Resolutions
The Company's 2011 Annual General Meeting	27 June 2012	1. 2011 Work Report of the Board of the Company 2. 2011 Work Report of the Supervisory Committee of the Company 3. 2011 Audited Financial Statements of the Company 4. 2011 Profit Distribution Plan of the Company 5. 2012 Financial Budget Report of the Company 6. The re-appointment of the Company's domestic and international auditors and the authorisation to the Board to fix their remuneration for the year 2012 7. The establishment of the Nomination Committee of the Board of the Company 8. Approval the amendments to the articles of association of the Company and appendixes of those articles	Endorsed	Websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company	28 June 2012

(3) Performance of Duties by the Directors

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

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

The Board meetings held during the year (no. of times)	5
Including: meetings held on site (no. of times)	2
meetings held by correspondence (no. of times)	3
meetings held by correspondence on site and by correspondence (no. of times)	0

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

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

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

As at 26 March 2013, the Audit Committee of the Board reviewed with management the accounting principles and standards adopted by the Company and studied audit, internal control and financial reporting matters, including the review of the financial statements for the year ended 31 December 2012.

As at 26 March 2013, the Remuneration and Appraisal Committee of the Board reviewed the remuneration of Directors, Supervisors and Senior Management included in the Company's annual report for the year ended 31 December 2012.

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

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

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

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

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

The Remuneration System for the Senior Management was considered and approved at the 2002 Annual General Meeting of the Company on 18 June 2003. In 2012, the Company continued to adopt this system as the basis of appraising and rewarding the Company's Senior Management.

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

1. Statement of responsibility for internal control

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

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

The Board has evaluated the internal control pertinent to financial reporting in accordance with the requirements under the Basic Standards for Enterprise Internal Control, and is of the view that such internal control was effective in the year 2012.

2. Establishment of the internal control system

Overall plan of internal control establishment

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

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

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

The Internal Control Manual (2011 Revised Edition) comprises 47 operation procedures in 20 categories and sets out 1,423 control points and 340 authorisation control indicators. The scope of control covers the major areas of the Company's production, operation and development and the key procedures of relevant business, such as financial management, accounting and auditing, procurement of raw materials, product sales, capital expenditure, human resources and information management. The scope of control also includes reviewing the sufficiency of the Company's resources of accounting, financial management and reporting function as well as employees' qualifications and experience and the adequacy of the training courses attended by the employees and the relevant budget.

In 2012, the Company conscientiously enforced the Internal Control Manual approved by the Board, and conducted self-review, walk-through test on procedures and integrated inspection on internal control in accordance with rules and regulations. The external auditors of the Company also reviewed the status of the Company's internal control system. The management of the Company considers that the internal control of the Company was effective during the Reporting Period.

Establishment of the department inspecting and supervising internal control

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

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

The Company sets up an internal control supervisor working network consisting of 45 members. These internal control supervisors, on behalf of their respective departments or administrative heads of second-tier units, conduct internal control work and activities within their respective supervisory scope and functionally report to the internal control office of the Company.

The Board's work arrangements for internal control

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

KPMG, the Company's external auditor, issued Auditor's Report on Internal Control over Financial Reporting according to "Sarbanes-Oxley Act". KPMG Huazhen (Special General Partnership), the Company's external auditor, issued Auditor's Report on Internal Control over Financial Reporting according to "Audit Guidelines for Enterprise Internal Control".

Improvements to the internal control system in relation to financial audit

According to the Accounting Law, Enterprise Accounting Standards and other laws and regulations, the Company has revised a series of financial and accounting management policies such as the Financial Management Policy, Comprehensive Budget Management Policy, Welfare Expenditure Management Rules and Procedures Governing Reimbursement of Travel Expenses. According to the management requirements of the Basic Standards for Enterprise Internal Control and Implementation Guidelines for Enterprise Internal Control, together with the recommendations of the external auditors on internal control inspections and the findings on the self-inspections of the Company's internal controls, the Company has improved and revised 34 sets of internal control operating procedures pertinent to financial management, accounting and auditing such as the "business process for the management of production costs of refinery and chemical production (other business)" and the "(other) business process" for general product sales. In addition, the "matrix table on the locus of control pertinent to financial reporting" has been revised according to the Company's Internal Control Manual. While continuing to carry out and improve the establishment of its internal control system, the Company has formed a leading group for comprehensive risk management for the planning and co-ordination of incorporating the comprehensive risk management as an essential aspect of internal control. Having identified Level 1, Level 2 and Level 3 risks, the Sinopec Group has revised and improved the lists of identified Level 4 risks which were all incorporated into the Company's Internal Control Manual for conducting corresponding controls and business processes at the company level.

Defects present in internal control and relevant rectification

The Company has conducted an assessment on its internal control work in 2012. The results of the assessment are: no material deficiencies were detected in the design or implementation of the internal control of the Company from 1 January 2012 to 31 December 2012.

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

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

2. KPMG was engaged by the Company to conduct an audit on its internal control over financial reporting of the Company as of 31 December 2012 pursuant to the requirements of the "Sarbanes-Oxley Act" and issued Auditor's Report on Internal Control over Financial Reporting according to the "Sarbanes-Oxley Act". For details, please refer to the appendixes to this annual report.

3. KPMG Huazhen (Special General Partnership) was engaged by the Company to conduct an audit on the effectiveness of the internal control over financial reporting of the Company as at 31 December 2012 pursuant to the requirements of "Audit Guidelines for Enterprise Internal Control" and issued Auditor's Report on Internal Control over Financial Reporting according to "Audit Guidelines for Enterprises Internal Control". For details, please refer to the appendixes to this annual report.

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

The Company's Information Disclosure Management System (2012 Revised Version) defined specific regulations for the accountability for major errors in the disclosure of information in annual report. During the Reporting Period, there were no major errors in the disclosure of information in the Company's annual report such as amendments to major accounting errors, supplements to material omission of information or amendments to results forecasts.

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

Corporate Governance Practices

During the Reporting Period, the Company applied and complied with all principles and code provisions set out in the Corporate Governance Practices Code (during 1 January 2012 to 31 March 2012) and the Corporate Governance Code (the "Corporate Governance Code") (during 1 April 2012 to 31 December 2012) contained in Appendix 14 to the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the "Hong Kong Listing Rules") except for certain deviations from Code Provision A.6.7 under the Code (independent non-executive directors and other non-executive directors should attend general meetings) listed below.

Mr. Lei Dianwu, a Non-executive Director of the Company, and Mr. Jin Mingda, an 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 reasons.

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

A. Directors

A.1 The Board

The Board meets at least once per quarter. In 2012, five Board meetings were held. Before each Board meeting, the Secretary to the Board would consult each Director for matters to be tabled at the relevant Board meeting. Any matters so raised by the Directors would be included in the agenda of the relevant regular Board meeting. During the year, all notices and draft agenda of all Board meetings were sent to all Directors no later than 14 days before the date of the meeting.

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

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

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

A.2 Chairman and President

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

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

In 2012, the Chairman of the Board and Non-executive Directors (including Independent Non-executive Directors) held a meeting without the attendance of Executive Directors, for exchanges and discussions on the Board's annual work plans and the implementation of such plans as well as the state of the Company's production and operations and its development prospects.

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

A.3 Board composition

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

A.4 Appointments, re-election and removal

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

A.5 Nomination Committee

The Company has established a nomination committee which is chaired by the Chairman of the Board and comprises two other members who are Independent Non-executive Directors.

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

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

The Company provides adequate resources to the Nomination Committee for the performance of its duties. If it needs to seek independent professional advice during the performance of its duties, the costs thereof will be paid by the Company.

A.6 Responsibilities of Directors

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

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

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

(1) Training of Directors

All Directors participated in continuing professional development to update their expertise and skills to ensure that they perform their duties better in contributing to the Board. Each of the Directors has provided the Company records of their participation in relevant training in 2012. The Company has also committed to organising training programmes for its Directors. In 2012, the Hong Kong Stock Exchange made substantial revisions to the Hong Kong Listing Rules and Corporate Governance Code, while the Shanghai Stock Exchange also amended its listing rules. The Company promptly engaged lawyers from these two places to provide a summary of the revised listing rules and distribute the summary to each Director for learning and reference.

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

Mr. Cai Tingji, an Independent Director of the Company, disclosed to the Company on 31 December 2012 that he was appointed an independent director of two listed companies in Hong Kong on 10 December 2012, namely YGM Trading Ltd. (00375) and Yangtzekiang Garment Ltd. (00294).

For details about the Directors' participation in the Board meetings and attendance at shareholder meetings, please refer to (3) Performance of Duties by the Directors in Section "Corporate Governance" of this annual report.

A.7 Supply of and access to information

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

B. Remuneration of Directors and Senior Management

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

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

C. Accountability and Audit

C.1 Financial reporting

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

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

C.2 Internal control

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

The Board ensures that the internal control system of the Company is sound and proper so as to safeguard shareholders' investments and the Company's assets through two reviews conducted annually by the Audit Committee on the Company's internal control system. The Audit Committee conducted these reviews on the Company's internal control for 2011 and the first half of 2012 in March and August 2012 respectively. They reported to the Board and adopted the recommendations provided by the Board to further enhance the Company's internal control system, thereby enhancing the effectiveness and efficiency of internal control.

C.3 Audit Committee

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

D. Delegation of Powers by the Board

D.1 Management functions

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

D.2 Board Committees

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

D.3 Corporate Governance functions

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

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

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

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

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

The Board and its special committees have performed the corporate governance duties listed above in 2012.

E. Communication with Shareholders

E.1 Effective communication

The Board is committed to maintaining smooth communications with the shareholders. The Company developed "Work System of Investor Relations" and "Information Disclosure Management System" which had been approved by the Board of Directors. Except Lei Dianwu, Non-executive Director and Jin Mingda, Independent Non-executive Director, all other Directors attended the 2011 Annual General Meeting so as to be able to directly communicate with the shareholders. Domestic auditor and international auditor also attended the 2011 Annual General Meeting.

The notice on convening the 2011 Annual General Meeting was dispatched to the shareholders at least 45 days before the meeting.

E.2 Voting by poll

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

During the 2011 Annual General Meeting, the Chairman of the meeting explained the detailed procedures of voting by way of a poll at the meeting and answered all questions from the shareholders regarding voting by way of a poll.

F. Company Secretary

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

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

Directors' Securities Transactions

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

Board of Directors

1. Composition of the Board

The Board consists of 12 Directors, including six Executive Directors, two Non-executive Directors and four Independent Non-executive Directors, among whom there is one Chairman and two Vice Chairmen. The personal particulars and terms of office of the Directors are set out in "Directors, Supervisors and Senior Management and Employees" of this annual report.

2. Functions of the Board

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

Subject to the Articles of Association, the Board shall convene at least four regular meetings every year. The Chairman serves as the convener of the Board meetings and is responsible for determining the topics to be considered. In practice, the Board convenes a minimum of five meetings each year and six Board meetings were held during 2012.

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

3. Qualifications and Independence of the Independent Directors

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

Board Committees

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

1. The Remuneration and Appraisal Committee

(i) Role and Functions of the Remuneration and Appraisal Committee

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

(ii) Members of the Remuneration and Appraisal Committee

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

Chairman: Wang Yongshou, Independent Non-executive Director

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

(iii) Meetings of the Remuneration and Appraisal Committee

The Remuneration and Appraisal Committee convenes at least one meeting each year. In 2012, the Remuneration and Appraisal Committee convened one meeting with record of attendance as follows:

Members of Remuneration and Appraisal Committee	Attendance in Person (no. of times)	Attendance by Proxy (no. of times)	% of Attendancy
Wang Yongshou	1	0	100%
Ye Guohua	1	0	100%
Jin Mingda	1	0	100%

(iv) Procedures and Basis for the Determination of Remuneration of Directors and Senior Management

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

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

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

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

2. The Audit Committee

(i) Role and Functions of the Audit Committee

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

(ii) Members of the Audit Committee

The Audit Committee of the seventh session of the Board comprises three Independent Non-executive Directors.

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

Members: Shen Liqiang, Independent Non-Executive Director, and Wang Yongshou, Independent Non-Executive Director

(iii) Meetings of the Audit Committee

The Audit Committee convenes at least two meetings each year. In 2012, the Audit Committee convened two meetings with record of attendance as follows:

Members of Audit Committee	Attendance in Person (no. of times)	Attendance by Proxy (no. of times)	% of Attendancy
Cai Tingji	2	0	100%
Shen Liqiang	2	0	100%
Wang Yongshou	2	0	100%

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

During the Reporting Period, the Audit Committee reviewed with the management the accounting principles and standards adopted by the Company and discussed matters regarding auditing, internal control and financial reporting, including reviews of the annual report for the 12 months ended 31 December 2011, the interim report for the period ended 30 June 2012 and so forth.

3. The Nomination Committee

(i) The role and functions of the Nomination Committee

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

(ii) Members of the Nomination Committee

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

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Chairman: Rong Guangdao, Executive Director

Members: Jin Mingda, Independent Non-Executive Director, and Wang Yongshou, Independent Non-Executive Director

(iii) Meetings of the Nomination Committee

The establishment of the Nomination Committee was endorsed at the fifth meeting of the seventh session of the Board on 29 March 2012, with the proposal submitted at the General Meeting. The establishment of Nomination Committee was approved at the 2011 Annual General Meeting on 27 June 2012. Nomination Committee was formally established on 27 June 2012. As there was no change to the Company's Board or appointment of new Directors or any exercise of the duties and power of the Nomination Committee, the Nomination Committee did not convene any meetings during the Reporting Period.

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

During the Reporting period, the Nomination Committee of the Board did not recommend or nominate any candidates for directorships or positions of Senior Management.

Supervisory Committee

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

During 2012, the Supervisory Committee of the Company convened five meetings with record of attendance as follows:

Name of Supervisor	Position	Number of meetings held during the Reporting Period	Number of attendance in person	% of attendance
Gao Jinping	Staff Supervisor and Chairperson	4	3	100% (attendance by proxy: 25%)
Zuo Qiang	Staff Supervisor	4	4	100%
Li Xiaoxia	Staff Supervisor	4	3	100% (attendance by proxy: 25%)
Zhai Yalin	External Supervisor	4	4	100%
Wang Liqun	External Supervisor	4	4	100%
Chen Xinyuan	Independent Supervisor	4	4	100%
Zhou Yunnong	Independent Supervisor	4	4	100%

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

Directors' Responsibilities in relation to the Financial Statements

The following statement, which should be read in conjunction with the domestic and international auditors' reports on pages 169 to 170 and pages 94 to 95, respectively, sets out the responsibilities of the Directors in relation to the financial statements.

- Annual reports and accounts

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

- Accounting policies

  During the preparation of the financial statements of the Company, the Directors should adopt appropriate accounting policies, namely the CAS issued by the Ministry of Finance of the PRC, and the IFRS, IAS, and in line with all applicable accounting standards.

- Accounting records

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

- Going concern

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

Company Secretary

The Company Secretary is elected by the Board, and his/her responsibilities are set out in the Articles of Association. Company Secretary Mr. Zhang Jingming, a fellow member of the Hong Kong Institute of Chartered Secretaries, attended professional training for a total of 15 class hours organised by the institute in 2012.

Auditors' Remuneration

At the 2011 Annual General Meeting of the Company held on 27 June 2012, it was approved that KPMG and KPMG Huazhen (Special General Partnership) would continue to be appointed as the international and domestic auditors of the Company for the year of 2012. It was also authorised that the audit fees would be determined by the Board. As of 2012, KPMG and KPMG Huazhen (Special General Partnership) have been providing audit services to the Company for 20 consecutive years since 1993.

Item	Amount	Auditor
Audit fees for the year of 2012	RMB 3.10 million	KPMG
Audit fees for the year of 2012	RMB 5.75 million	KPMG Huazhen (Special General Partnership)

The service terms of KPMG and KPMG Huazhen (Special General Partnership), the international and domestic auditors of the Company for 2012, will expire at the 2012 Annual General Meeting. As recommended by the Audit Committee, the Board has resolved at the eleventh meeting of the seventh session of the Board held on 27 March 2013 to appoint PricewaterhouseCoopers and PricewaterhouseCoopers Zhong Tian CPAs Limited Company (to be renamed as "PricewaterhouseCoopers Zhong Tian LLP") as the international and domestic auditors for the financial year 2013, respectively, subject to the approval at the 2012 Annual General Meeting.

Shareholders' Rights

The Company maintains normal communication with shareholders. The Company's major communication channels include shareholders' general meetings, the Company's website, email account and fax and telephone communication of the Secretary Office of the Board. Through the use of the above communication channels, the shareholders may adequately express their opinions or exercise their rights. For example, a shareholders' question and answer session was arranged at the 2011 Annual General Meeting, allowing direct communication between the shareholders, the Directors and the management.

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

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

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

(i) the number of Directors is less than the number required by the Company Law or less than two-thirds required by the Articles of Association;

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

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

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

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

Investor Relations

During the Reporting Period, the Company continued to strengthen the management of investor relations, implement conscientiously the "Work System of Investor Relations", interacted and communicated actively with investors and submitted investors' opinions and suggestions to the Company's management in a timely manner. In principle, the Company convenes results briefings every six months after the release of its annual and interim results. In 2012, the Company held two large-scale results briefings and press conferences in Hong Kong, while several "one-to-one" meetings were held within and outside China. The Company has also welcomed over 200 domestic and foreign investors at the Company's headquarters, as well as conscientiously replying to phone queries and letters from investors, intermediaries and fund managers. In addition, the Company also actively attended capital market meetings organised by securities research companies and investment banks, etc.

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

The Articles of Association and its appendixes were amended upon approval at the 2011 Annual General Meeting of the Company held on 27 June 2012. For details, please refer to the announcement on Resolutions Passed at the 2011 Annual General Meeting posted on "China Securities Journal", "Shanghai Securities News", the Shanghai Stock Exchange website, the Hong Kong Stock Exchange website and the website of the Company on 28 June 2012.

Management's Discussion and Analysis

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

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

In 2012, we witnessed a deceleration in the recovery of the global economy, an economic downturn in the developed countries, a general slowdown in economic growth in the emerging economies and a significant decline in the growth of international trade. Conditions were further complicated by severe volatility in the prices of major commodities and fluctuations in the global financial markets. The world's petrochemical industry stayed at a relatively low stage of the cycle as marked by a slower rate of growth in the demand for petrochemical products and diminishing gross profits in the industry. Economic growth in China was slowing down and stabilising due to the policy of maintaining growth and adjusting the structure of the economy, with the country recording an annual GDP growth of 7.8%, suggesting a further slowdown in growth. The production levels of China's petrochemical industry remained steady in general, albeit with a decline in its growth rate. The overall profitability across the industry declined significantly with a number of factors such as increased downward pressure on the economic growth, weakened growth in demand, high business costs, excessive growth of capacity expansion, and intensified competition from the homogeneous product market.

Despite the challenging business environment in 2012, the Group managed to focus its efforts on production, business operations and management; to accord priority to the quality and efficiency of its development; to continue to improve safety and environmental-friendliness and to maintain stable production and operations; and to continue to push forward its optimisation programme; the major plants of Phase 6 Project were successfully completed and went on stream. In 2012, international market crude oil price fluctuated violently at high levels, the Group's operating costs increased, and the Group's refining business suffered policy-factor losses. Petrochemical products prices fell sharply and output decreased due to the maintenance work for certain production facilities, thus resulting in a substantial loss in the Group's results for the year.

(1) Production and business operations remained safe and stable.

In 2012, the Group placed high priority to HSE, and implemented an HSE accountability system at each level to ensure that safety and environmental-friendly practices remain strong throughout its operations. There were no occurrences of accidents involving serious consequences such as major fires, explosions or environmental pollution during the year. Overall production remained stable: the number and duration of unplanned shutdowns of the major production plants decreased by 49.12% and 46.42%, respectively. Important technical and economic indicators improved, with 62.26% of such indicators exceeding those of the previous year, and 33.02% of such indicators reaching advanced levels in the industry.

In 2012, the Group maintained physical production volumes at stable levels, with the total volume of goods produced amounting to 11,844,100 tons, a decrease of 1.31% over the previous year. During the year, the Group processed 11,193,500 tons of crude oil (including 563,000 tons of crude oil processed on a sub-contract basis), representing an increase of 3.01%. Total production output of gasoline, diesel and jet fuel was 5,878,800 tons, representing an increase of 2.32%, among which the Group produced 1,020,300 tons of gasoline, 4,027,900 tons of diesel and 830,600 tons of jet fuel, representing increases of 5.35%, 1.21% and 4.18%, respectively. The Group produced 914,700 tons of ethylene and 504,400 tons of propylene, representing increases of 0.51% and 4.71%, respectively. The Group produced 866,200 tons of paraxylene, representing a decrease of 6.16%. The Group also produced 1,087,500 tons of synthetic resins and copolymers (excluding polyesters and polyvinyl alcohol), representing a decrease of 0.95%; 1,015,600 tons of synthetic fibre monomers, representing an increase of 7.33%; 636,100 tons of synthetic fibre polymers, representing a decrease of 4.23%; and 251,600 tons of synthetic fibres, representing an increase of 0.64%. Meanwhile, the Group continued to maintain the premium level of quality in its products.

In 2012, the Group's turnover amounted to RMB93,008.3 million, representing a decrease of 2.63% over the previous year. Its output-to-sales ratio and receivable recovery ratio were 100.06% and 100.05%, respectively. The value of the Group's annual imports and exports amounted to US$9,016 million, representing an increase of 18.40%.

(2) Growth in market demand decelerated, and prices of petrochemical products fell.

Against the backdrop of the slackened economic growth at home and abroad in 2012, the overall operation of the petrochemical industry tended to decline. The excessively expanded production capacity of bulk petrochemical products and the declined rate of growth in the demand in domestic and international markets led to more intense competition in the market and a substantial fall in the market prices of petrochemical products. Domestic oil consumption continued to grow while there was eased supply and demand of refined oil products. For the year ended 31 December 2012, the weighted average prices (excluding tax) of the Group's synthetic fibres, resins and plastics, and intermediate petrochemical products decreased by 20.92%, 9.98% and 3.81% , respectively, over the previous year. And the weighted average price (excluding tax) of petroleum products increased by 3.24% over the previous year.

(3) International crude oil prices fluctuated at high levels, and costs of crude oil processing increased.

In 2012, international crude oil prices fluctuated at high levels primarily due to instability in the Middle East, the macro economy in Europe and the United States, as well as significant changes in the supply and demand of crude oil in the United States. In 2012, the peak and the bottom closing prices of Brent crude oil futures on the London Intercontinental Exchange were US$128.17/barrel and $88.62/barrel, respectively (US$126.64/barrel and $93.69/barrel, respectively, in 2011). In 2012, the average price of WTI crude oil on the New York Mercantile Exchange was US$94.12/barrel, a decrease of 1.02% from US$95.09/barrel in 2011; the average price of Brent crude oil on the London Intercontinental Exchange was US$111.63/barrel, an increase of 0.61% from US$110.95/barrel in 2011, reaching a record high.

For the year ended 31 December 2012, the Group processed a total of 11,193,500 tons of crude oil (including 563,000 tons processed on a sub-contract basis), representing an increase of 326,800 tons, or 3.01% over the previous year. Among them, domestic offshore oil accounted for 324,000 tons and imported oil accounted for 10,869,500 tons. The average unit cost of crude oil processed (for its own account) was RMB5,224.38 per ton (RMB5,044.64 per ton in 2011), representing an increase of 3.56%. The Group's total costs of crude oil processing reached RMB55,538.0 million in 2012, representing an increase of 3.77% compared to RMB53,521.9 million for the previous year, representing 62.67% of the total cost of sales.

(4) Construction of Phase 6 Project was completed and put into operation.

In 2012, construction of the Group's Phase 6 Project, in which the Group made an investment of RMB3,811 million for the year, proceeded in full swing, with the Refinery Revamping and Expansion Project and the Technological Advancement Programme items as its key. In December 2012, Refinery Revamping and Expansion Project was completed and put into operation, enhancing the Group's production capacity in deep processing of crude oil, improving the mix of refined oil products and further optimising feedstock allocation. The whole process flow for the first stage of the Carbon Fibre Project, with a capacity of 1,500 tons/year, was interconnected and went on stream for trial operation. The Up-grading Project for the Optimisation of the system and reduction in energy and feedstock consumption of the No. 2 PTA plant, and the secondary desulfurisation facilities for Furnaces 5 and 6 under the thermoelectric division were completed and put into operation.

(5) Progress achieved in energy conservation and emissions reduction.

In 2012, the Group continued to carry out various energy conservation and emissions reduction measures in accordance with the relevant requirements in China, and during the year, reached all energy-savings and emissions reduction targets set by the government during the year. In 2012, the Company's overall level of energy consumption per RMB10,000 product value was 0.998 ton of standard coal, at par with year 2011. Total volumes of COD declined 2.97%. The Company provided 57,344,700 tons of water for production (2011: 58,069,200 tons), representing a decrease of 724,500 tons, or 1.25% year-on-year, while the intake amount of fresh water declined by 2.40%, and the recycling rate of industrial water reached 96.90%. The discharge volumes of wastewater, solid wastes and sulfur dioxide declined by 1.53%, 18.10% and 6.65%, respectively, while the comprehensive waste water discharge compliance rate reached 100%. Various indices for waste water discharge compliance rate and the hazardous waste treatment ratio met requirements for environmental protection compliance. The average heat efficiency of heaters improved by 0.27 percentage points to 91.89% over the previous year.

(6) Marked achievements in technological progress.

In 2012, the Group engaged in the technical development of new products and successfully developed a batch of new products such as polyethylene specialised materials with a high crystallisation rate for heat shrinkable films, moisture absorbing and quick-drying polyester, and superfine anti-pilling acrylic. The Group strived to adjust its product mix and increased production of various high value-added products such as ternary random co-polypropylene and binary random polypropylene. The high-performance PBO fibre project and industrial tests on the treatment of ethylene glycol wastewater using large biological fluidised bed have passed their examinations. Remarkable achievements were made in the industrial applications of YS-8810 silver catalysts. A total of 400,900 tons of new products were produced during the year, with a total product differential rate of 59.26%. A total of 44 patent applications were submitted and ten patent licenses were awarded, and 15 new and high-tech achievement projects received a total of RMB21.4 million as special financial support from the Shanghai Municipal Government.

The Group continued to push forward the perfection of its information system and improve its informatisation level. The APC for four plants - Coking Plant 2, Acrylonitrile Plant, Polyester Plant 1 and Polyester Plant 2 was completed and put into operation. The establishment of a process simulation system with three plants - the residue hydrogenation, catalytic cracking and gasoline adsorptive desulfurisation plants was completed. The implementation and application of the ERP system were extended to cover the whole Group. The application of information systems such as APC, HR and EM was further enhanced, maintaining the Group's leadership in the industry.

(7) Corporate management further reinforced, and achievements made in unleashing potential and boosting benefits.

In 2012, the Group carried out a comprehensive review of its corporate business and management relations by positioning the functions of the functional departments and secondary work units to further improve the corporate management system. A comprehensive integrated management system was established at the corporate level, having initially attained the objective that "a set of managerial document can support multiple management systems". The Group further strengthened performance appraisals to allow appraisals to play a better guiding role.

Potential was unleashed and benefits were increased further. The composition of crude oil resources was optimised with the establishment of a mechanism for measuring crude oil optimisation. Ethylene and aromatic feedstock was optimised to reduce feedstock costs. The sources of hydrogen-making feedstock and fuels were optimised to improve the utilisation of resources. The unleashing of potential and the increase in benefits amounted to RMB690 million during the year. The Group minimised various expenses, and actively used a variety of local fiscal incentive policies. The use of notes receivable was stepped up to boost the Company's cash flow.

As at 31 December 2012, the Group reduced its headcount by 648 people, including voluntary redundancies and retired staff. This accounted for 4.14% of the total 15,655 people on the payroll as at the beginning of the year.

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

In 2012, demand in the domestic petrochemical industry was sluggish due to the weak global economic recovery and the deceleration in China's economic growth. In addition to the Group's refining business policy-factor losses, the Group's petrochemical business saw profitability fall sharply as well. During the year ended 31 December 2012, the Group's net loss attributable to equity shareholders of the Company amounted to RMB1,528.4 million.

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

a. Domestic prices of refined oil products failed to be adjusted in an adequate and timely manner. In 2012, the domestic prices of refined oil products were adjusted not timely and fully in line with that of international crude oil due to a number of factors such as the regulation of inflation rate in China and the limited bearability of the downstream consumers, resulting in losses in the Group's refining business. Loss from operations of the refining business increased by RMB539.6 million over the previous year.

b. The slower growth in domestic demand, excessive expansion of capacity, sluggish market, further intensified market competition and a substantial decline in the prices of petrochemical products resulted in a decline in the profit for the Company's petrochemical business. In 2012, loss from operations of the Group's petrochemical business was RMB864.0 million, representing a decrease of RMB2,325.9 million over the previous year.

c. The Group's share of profit of associates and jointly controlled entities decreased. In 2012, the Group's share of profit of associates and jointly controlled entities amounted to RMB32.8 million (2011: share of profit of RMB152.7 million), representing a decrease of 78.52%. Of this amount, the share of loss of Shanghai Secco Petrochemical Company Limited amounted to RMB75.3 million (2011: share of profit of RMB9.8 million).

2. Accounting judgements and estimates

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

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

(1) Impairments for long-lived assets

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

(2) Depreciation

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

(3) 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.

(4) Allowance for diminution in value of inventories

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

(5) Income Tax

In June 2007, the State Administrative of Taxation issued a tax circular (Circular No.664) to the local tax authorities requesting the relevant local tax authorities to rectify the applicable enterprise income tax ("EIT") for nine companies listed in Hong Kong, which included the Company. After the notice was issued, the Company was required by the relevant tax authority to settle the EIT for 2007 at a rate of 33 percent. To date, the Company has not been requested by the tax authorities to pay additional EIT in respect of any years prior to 2007. There is no further development of this matter during the year ended 31 December 2012. No provision has been made in the financial statements at 31 December 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.

(6) Recognition of deferred tax assets

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

In making the assessment of whether it is probable the Group will realise or utilise the deferred tax assets, management primarily relies on the generation of future taxable income to support the recognition of deferred tax assets. In order to fully utilise the deferred tax assets recognised at 31 December 2012, the Group would need to generate future taxable income of at least RMB 4,210 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 2,260 million is required to be generated by 2017 prior to the expiration of the unused tax losses incurred in 2012. 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. Comparison and Analysis of Results of the Company's Operations (Prepared under IFRS)

3.1 Summary

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

	For the Years ended 31 December								
	2012			2011			2010		
	Sales Volume ('000 tons)	**Net Sales (Million RMB)**	**% of Total**	Sales Volume ('000 tons)	Net Sales (Million RMB)	% of Total	Sales Volume ('000 tons)	Net Sales (Million RMB)	% of Total
Synthetic fibres	**253.3**	**3,313.3**	**3.8**	250.9	4,150.2	4.6	255.9	3,906.6	5.4
Resins and plastics	**1,582.8**	**14,706.3**	**16.9**	1,590.7	16,418.6	18.3	1,620.2	14,900.0	20.7
Intermediate petrochemicals	**2,209.2**	**17,993.5**	**20.6**	2,246.7	19,023.2	21.3	2,386.5	17,206.4	23.9
Petroleum products	**6,921.0**	**38,301.4**	**43.9**	6,968.1	37,350.2	41.7	6,342.8	28,733.9	39.9
Trading of petrochemical products	**-**	**12,020.7**	**13.8**	-	11,617.0	13.0	-	6,565.9	9.1
Others	**-**	**882.1**	**1.0**	-	950.5	1.1	-	783.1	1.0
Total	**10,966.3**	**87,217.3**	**100.0**	11,056.4	89,509.7	100.0	10,605.4	72,095.9	100.0

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

	For the Years ended 31 December					
	2012		2011		2010	
	Million RMB	**% of Net sales**	Million RMB	% of Net sales	Million RMB	% of Net sales
Synthetic fibres						
Net sales	**3,313.3**	**3.8**	4,150.2	4.6	3,906.6	5.4
Operating expenses	**(3,718.6)**	**(4.3)**	(3,848.9)	(4.3)	(3,471.0)	(4.8)
Segment (loss)/profit from operations	**(405.3)**	**(0.5)**	301.3	0.3	435.6	0.6
Resins and plastics						
Net sales	**14,706.3**	**16.9**	16,418.6	18.3	14,900.0	20.7
Operating expenses	**(15,997.7)**	**(18.4)**	(16,406.6)	(18.3)	(13,908.9)	(19.3)
Segment (loss)/profit from operations	**(1,291.4)**	**(1.5)**	12.0	0.0	991.1	1.4
Intermediate petrochemicals products						
Net sales	**17,993.5**	**20.6**	19,023.2	21.3	17,206.4	23.9
Operating expenses	**(17,160.8)**	**(19.6)**	(17,874.6)	(20.0)	(16,841.3)	(23.4)
Segment (loss)/profit from operations	**832.7**	**1.0**	1,148.6	1.3	365.1	0.5
Petroleum products						
Net sales	**38,301.4**	**43.9**	37,350.2	41.7	28,733.9	39.9
Operating expenses	**(39,294.4)**	**(45.0)**	(37,803.6)	(42.2)	(27,593.6)	(38.3)
Segment (loss)/profit from operations	**(993.0)**	**(1.1)**	(453.4)	(0.5)	1,140.3	1.6
Trading of petrochemical products						
Net sales	**12,020.7**	**13.8**	11,617.0	13.0	6,565.9	9.1
Operating expenses	**(11,974.3)**	**(13.7)**	(11,602.0)	(13.0)	(6,551.8)	(9.1)
Segment (loss)/profit from operations	**46.4**	**0.1**	15.0	0.0	14.1	0.0
Others						
Net sales	**882.1**	**1.0**	950.5	1.1	783.1	1.0
Operating expenses	**(843.9)**	**(1.0)**	(914.2)	(1.0)	(765.7)	(1.0)
Segment (loss)/profit from operations	**38.2**	**0.0**	36.3	0.1	17.4	0.0
Total						
Net sales	**87,217.3**	**100.0**	89,509.7	100.0	72,095.9	100.0
Operating expenses	**(88,989.7)**	**(102.0)**	(88,449.9)	(98.8)	(69,132.3)	(95.9)
(Loss)/profit from operations	**(1,772.4)**	**(2.0)**	1,059.8	1.2	2,963.6	4.1
Net finance (costs)/income	**(283.3)**	**(0.3)**	83.5	0.1	(95.2)	(0.1)
Investment income	**6.4**	**0.0**	0.7	0.0	0.2	0.0
Share of profit of associates and jointly controlled entities	**32.8**	**0.0**	152.7	0.1	661.3	0.9
(Loss)/profit before taxation	**(2,016.5)**	**(2.3)**	1,296.7	1.4	3,529.9	4.9
Income tax	**511.4**	**0.6**	(310.2)	(0.3)	(735.5)	(1.0)
(Loss)/profit for the year	**(1,505.1)**	**(1.7)**	986.5	1.1	2,794.4	3.9
Attributable to:						
Equity shareholders of the Company	**(1,528.4)**	**(1.8)**	956.1	1.0	2,769.0	3.8
Non-controlling interests	**23.3**	**0.1**	30.4	0.1	25.4	0.1
(Loss)/profit for the year	**(1,505.1)**	**(1.7)**	986.5	1.1	2,794.4	3.9

3.2 Comparison and Analysis

The year ended 31 December 2012 compared to the year ended 31 December 2011

3.2.A Results of operations

(1) Net sales

In 2012, net sales of the Group amounted to RMB87,217.3 million, representing a decrease of 2.56% from RMB89,509.7 million over the previous year. For the year ended 31 December 2012, the weighted average prices (excluding tax) of the Group's synthetic fibres, resins and plastics, and intermediate petrochemical products decreased by 20.92%, 9.98% and 3.81% over the previous year, respectively, while the weighted average price (excluding tax) of petroleum products increased by 3.24%.

(i) Synthetic fibres

In 2012, the Group's net sales of synthetic fibres amounted to RMB3,313.3 million, representing a decrease of 20.17% compared to RMB4,150.2 million in the previous year. The weighted average sales price of synthetic fibres decreased by 20.92% as compared to the previous year. In particular, the weighted average sales price of acrylic fibre and polyester fibre, the principal products of synthetic fibres of the Group, decreased by 23.54% and 16.66% over the previous year, respectively. Sales of acrylic fibre and polyester fibre accounted for 74.66% and 19.01% of the total sales of synthetic fibres, respectively.

Net sales of synthetic fibre products accounted for 3.8% of the Group's total net sales in 2012, representing a decrease of 0.8 percentage points as compared to the previous year.

(ii) Resins and plastics

The Group's net sales of resins and plastics amounted to RMB14,706.3 million in 2012, representing a decrease of 10.43% as compared to RMB16,418.6 million in 2011, which is mainly driven by a 9.98% decrease of the weighted average sales price of resins and plastics in 2012. Among resins and plastics products, the weighted average sales price of polyethylene for 2012 decreased by 6.68%; the weighted average sales price of polypropylene for 2012 decreased by 8.15%; the weighted average sales price of polyester pellet for 2012 decreased by 16.35%. The sales of polyethylene, polypropylene and polyester pellet accounted for 38.01%, 29.29% and 28.57% of the total sales of resins and plastics, respectively.

Net sales of resins and plastics accounted for 16.9% of the Group's total net sales in 2012, representing a decrease of 1.4 percentage points as compared to the previous year.

(iii) Intermediate petrochemical products

The Group's net sales of intermediate petrochemical products amounted to RMB17,993.5 million in 2012, representing a decrease of 5.41% as compared to RMB19,023.2 million in 2011, with the weighted average sales price of intermediate petrochemical products decreased by 3.81% as compared to the previous year while sales volume decreased by 1.67%. Among the intermediate petrochemical products, weighted average sales prices of paraxylene, butadiene and ethylene glycol decreased by 5.25%, 12.22% and 13.90%, respectively, while weighted average sales price of benzene increased by 10.32%. The sales of paraxylene, butadiene, ethylene glycol and benzene accounted for 32.19%, 11.83%, 10.46% and 16.16% of the total sales of intermediate petrochemical products, respectively.

Net sales of intermediate petrochemical accounted for 20.6% of the Group's total net sales in 2012, representing a decrease of 0.7 percentage points as compared to the previous year.

(iv) Petroleum products

The Group's net sales of petroleum products amounted to RMB38,301.4 million in 2012, representing an increase of 2.55% as compared to RMB37,350.2 million in the previous year, with the weighted average sales price increased by 3.24% , while sales volume decreased by 0.68%.

Net sales of petroleum products accounted for 43.9% of the Group's total net sales in 2012, representing an increase of 2.2 percentage points as compared to the previous year.

(v) Trading of petrochemical products

The Group's net sales of the trading of petroleum products amounted to RMB12,020.7 million in 2012, representing an increase of 3.48% as compared to RMB11,617.0 million in the previous year. Such increase in the net sales was mainly attributable to a slight increase in the Group's trading volume of petrochemical products as compared to the previous year.

Net sales of trading of petrochemical products accounted for 13.8% of the Group's total net sales in 2012, representing an increase of 0.8 percentage points as compared to the previous year.

(vi) Others

The Group's net sales of others amounted to RMB882.1 million in 2012, representing a decrease of 7.20% as compared to RMB950.5 million in the previous year. Such decrease in the net sales was mainly attributable to a decrease in the Group's business of crude oil processed on a sub-contract basis.

Net sales of others accounted for 1.0% of the Group's total net sales in 2012, basically at par with the previous year.

(2) Operating expenses

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

Operating expenses of the Group were RMB88,989.7 million in 2012, representing a slight increase as compared with RMB88,449.9 million in 2011. The operating expenses of petroleum products and trading of petrochemical products were RMB39,294.4 million and RMB11,974.3 million, representing increases of 3.94% and 3.21%, respectively. The operating expenses of synthetic fibres, resins and plastics, intermediate petrochemicals, and others amounted to RMB3,718.6 million, RMB15,997.7 million, RMB17,160.8 million, and RMB843.9 million, representing a decrease of 3.39%, 2.49%, 3.99%, and 7.69% as compared to the previous year, respectively.

The Group's operating expenses of petroleum products in 2012 increased by 3.94% as compared to the previous year, primarily due to an increase of 3.56% in average unit cost of crude oil processed.

The Group's operating expenses of trading of petrochemical products in 2012 increased by 3.21% as compared to the previous year, primarily due to a slight increase in the Group's trading volume of petrochemical products as compared to the previous year.

The Group's operating expenses of synthetic fibres, resins and plastics, intermediate petrochemicals and others in 2012 declined primarily due to decreases in both sales volume and prices of certain petrochemical raw materials.

- **Cost of sales**

The Group's cost of sales amounted to RMB88,617.8 million in 2012, basically at par with RMB87,881.2 million in 2011. Cost of sales accounted for 101.61% of the net sales for 2012.

- **Selling and administrative expenses**

The Group's selling and administrative expenses amounted to RMB649.9 million in 2012, representing a decrease of 3.83% as compared to RMB675.8 million in the previous year, mainly due to a decrease in sales agency fees in routine (continuing) connected transactions in line with the decrease in sales volume.

- **Other operating income**

The Group's other operating income amounted to RMB333.8 million in 2012, representing an increase of 103.16% compared to RMB164.3 million in the previous year, mainly due to an increase of RMB144.1 million of government grants recognised in profit or loss after fulfilling the conditions in 2012 as compared to the previous year.

- **Other operating expenses**

The Group's other operating expenses was RMB55.8 million in 2012, basically at par with RMB57.2 million in 2011.

(3) (Loss) / profit from operations

The Group's loss from operations amounted to RMB1,772.4 million in 2012, representing a decrease in profit of RMB2,832.2 million as compared to the profit from operations of RMB1,059.8 million in the previous year.

(4) Net finance (costs) / income

The Group's net finance costs were RMB283.3 million in 2012, while there was a net finance income of RMB83.5 million in 2011. The change was mainly due to a decrease of RMB213.4 million in net foreign exchange gain during the Reporting Period as compared to the previous year resulting from the stability in the US Dollar to Renminbi exchange rate during the Reporting Period. Furthermore, a substantial amount of new borrowings was made by the Group, resulting in an increase of RMB140.6 million in interest expense.

(5) (Loss) / profit before taxation

The Group's loss before taxation was RMB2,016.5 million in 2012, representing a decrease in profit of RMB3,313.2 million as compared to the profit before taxation of RMB1,296.7 million in the previous year.

(6) Income tax

The Group's income tax credit was RMB511.4 million in 2012, while the Group's income tax expense was RMB310.2 million in the previous year. The change was primarily attributable to the deferred tax assets recognised in respect of the unused tax loss generated by the Company in 2012.

In accordance with the PRC Enterprise Income Tax Law (as amended) which took effect from 1 January 2008, the income tax rate of the Group in 2012 was 25% (2011: 25%).

(7) (Loss) / profit for the year

The Group's loss for the year was RMB1,505.1 million in 2012, representing a decrease in profit of RMB2,491.6 million as compared to the profit for the year of RMB986.5 million in the previous year.

3.2.B Liquidity and Capital Sources

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

(1) Capital Sources

(i) Net cash flow generated from operating activities

The Group's net cash outflows from operating activities amounted to RMB2,066.4 million in 2012, representing a decrease in cash inflows of RMB4,286.4 million as compared to net cash inflows of RMB2,220.0 million in the previous year. In particular, 1) due to the decline in the Group's profit from operations during the Reporting Period, net cash outflows from loss before taxation (net of depreciation and impairment losses on property, plant and equipment) amounted to RMB333.4 million in 2012, representing a decrease of RMB3,264.4 million of cash inflows compared to net cash inflows of RMB2,931.0 million in the previous year; 2) the Group's increased inventory balance led to a decrease in operating cash flow of RMB3,366.0 million in 2012 (as compared to a decrease in operating cash flow of RMB230.1 million in the previous year due to increased inventory balance at the end of the previous year); and 3) decrease in the balances of debtors, bills receivable and prepayments led to an increase in operating cash flow of RMB992.2 million in 2012 (as compared to a decrease in operating cash flow of RMB1,015.4 million in 2011 as a result of an increase in such year-end balances of the previous year).

(ii) Borrowings

The total borrowings of the Group at the end of 2012 amounted to RMB12,255.2 million, representing an increase of RMB6,583.1 million as compared to the end of the previous year, of which short-term borrowings increased by RMB5,511.8 million, and long-term borrowings increased by RMB1,071.3 million.

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

(2) Liability-to-asset ratio

As at 31 December 2012, the Group's liability-to-asset ratio was 55.29% (2011: 40.77%). The ratio is calculated using this formula: total liabilities/total assets.

3.2.C Research and Development, Patents and Licenses

The Group comprises a number of technology development units, including the Petrochemical Research Institute, the Plastics Research Institute, the Polyester Fibre Research Institute, the Acrylic Fibre Research Institute and the Environmental Protection Research Institute. These units are charged with various research and development tasks with respect to new technology, new products, new production processes and equipment and environmental protection. The Group's research and development expenditures for the years ended 2010, 2011 and 2012 were RMB58.2 million, RMB79.6 million and RMB72.2 million, respectively, all representing approximately 0.1% of the total turnover for those years.

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

3.2.D Off-Balance Sheet Arrangements

Please refer to note 27 to the financial statements prepared under IFRS in this annual report for details of the Group's capital commitments. The Group did not provide any guarantee to outside parties during the Reporting Period.

3.2.E Contractual Obligations

The following table sets forth the Group's obligations to repay loan principal in future as at 31 December 2012:

		As at 31 December 2012 payment due by period		
	Total (RMB'000)	Within 1 year (RMB'000)	After 1 year but within 2 years (RMB'000)	After 2 years but within 5 years (RMB'000)
Contractual obligations				
Short-term borrowings	11,023,877	11,023,877	-	-
Long-term borrowings	1,231,340	-	370,560	860,780
Total contractual obligations	12,255,217	11,023,877	370,560	860,780

3.2.F Analysis of Performance and Results of the Companies in Which the Company Has Controlling Interests or Investment Interests during the Reporting Period

As at 31 December 2012, the Company had more than 50% equity interests in the following principal subsidiaries:

Company	Place of registration	Principal Activities	Place for principal activities	Type of legal person	Percentage of equity held by the Company (%)	Percentage of equity held by subsidiaries (%)	Registered Capital ('000)	Profit/(loss) for 2012 (RMB'000)
Shanghai Petrochemical Investment Development Company Limited	China	Investment management	China	Limited company	100	-	RMB1,000,000	38,659
China Jinshan Associated Trading Corporation	China	Import and export of petrochemical products and equipment	China	Limited company	67.33	-	RMB 25,000	27,833
Shanghai Jinchang Engineering Plastics Company Limited	China	Production of polypropylene compound products	China	Limited company	-	74.25	US$9,153.8	246
Shanghai Golden Phillips Petrochemical Company Limited	China	Production of polypropylene products	China	Limited company	-	60	US$50,000	35,287
Zhejiang Jin Yong Acrylic Fibre Company Limited	China	Production of acrylic fibre products	China	Limited company	75	-	RMB 250,000	(30,048)
Shanghai Golden Conti Petrochemical Company Limited	China	Production of petrochemical products	China	Limited company	-	100	RMB 545,776	2,717

None of the subsidiaries has issued any debt securities.

The Group's equity interests in its associates comprised an equity interest of 38.26%, amounting to RMB947.6 million, in Shanghai Chemical Industry Park Development Co., Ltd., a company incorporated in the PRC; and an equity interest of 20%, amounting to RMB1,454.1 million, in Shanghai Secco Petrochemical Company Limited, a company incorporated in the PRC. The principal business of Shanghai Chemical Industry Park Development Co., Ltd. includes planning, developing and operating the Chemical Industry Park in Shanghai, while the principal business of Shanghai Secco Petrochemical Company Limited is the production and distribution of petrochemicals.

In 2012, none of the subsidiaries controlled by the Group had more than 10% effect on the net profit of the Group.

3.2.G Major Suppliers and Customers

The Group's top five suppliers in 2012 were China International United Petroleum & Chemical Co., Ltd., Sinochem Oil Co., Ltd., Sinopec Chemical Commercial Holding Company Limited, Heilongjiang United Oil & Chemicals Co., Ltd. and Shanghai Secco Petrochemical Company Limited. Total procurement costs from these suppliers, which amounted to RMB57,197.6 million, accounted for 69.31% of the total procurement costs of the Group during the year ended 31 December 2012. The procurement costs from the largest supplier amounted to RMB36,998.6 million, representing 44.84% of the total costs of purchases by the Group during the year ended 31 December 2012.

The Group's top five customers in 2012 were Sinopec Huadong Sales Company Limited, Sinopec Chemical Commercial Holding Company Limited, China Petroleum & Chemical Corporation, Shanghai Secco Petrochemical Company Limited and Oriental Petrochemical (Shanghai) Corporation. The total sales to these customers amounted to RMB51,225.1 million, representing 55.04% of the Group's total turnover during the year ended 31 December 2012. The sales to the largest customer amounted to RMB37,635.4 million, representing 40.44% of the Group's total turnover during the year ended 31 December 2012.

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

4. Discussion and Analysis of the Company's Operation (prepared under CAS)

4.1 Analysis of the Company's Major Business

4.1.A Analysis of Changes in the Consolidated Income Statement and the Consolidated Cash Flow Statement

Item	**For the year ended 31 December 2012 (RMB'000)**	For the year ended 31 December 2011 (RMB'000)	Change (%)
Operating income	**93,072,254**	95,601,248	-2.65
Operating costs	**86,041,072**	85,042,194	1.17
Business taxes and surcharges	**5,791,064**	6,009,203	-3.63
Selling and distribution expenses	**649,906**	675,771	-3.83
General and administrative expenses	**2,388,555**	2,556,011	-6.55
Financial expenses ("-" for financial income)	**283,257**	-83,542	-439.06
Net cash inflow from operating activities ("-" for net outflow)	**-1,611,521**	2,481,431	-164.94
Net cash outflow from investing activities	**-4,062,131**	-2,810,179	44.55
Net cash inflow from financing activities	**5,743,270**	320,370	1,692.70
Research and development expenditure	**72,174**	79,573	-9.30

Analysis of Major Changes in the Consolidated Income Statement

Item	For the years ended 31 December **2012 RMB'000**	2011 RMB'000	Increase/ decrease amount RMB'000	Change %	Major reason for change
Financial expenses ("-" for financial income)	**283,257**	-83,542	366,799	-439.06	Net foreign exchange gain decreased and increased loans and borrowings resulted in higher interest expenses in 2012.
Non-operating income	**279,838**	91,894	187,944	204.52	Refund of local taxes increased in 2012.
Operating profit ("-" for loss)	**-2,256,297**	1,260,377	-3,516,674	-279.02	Gross profit decreased in 2012.
Profit before income tax ("-" for loss)	**-2,032,974**	1,292,291	-3,325,265	-257.32	
Income tax	**-507,763**	317,461	-825,224	-259.95	
Net profit for the year ("-" for net loss)	**-1,525,211**	974,830	-2,500,041	-256.46	
Net profit attributable to equity shareholders of the Company ("-" for net loss)	**-1,548,466**	944,414	-2,492,880	-263.96	

Analysis of Major Changes in the Cash Flow Statement

Item	For the years ended 31 December 2012 RMB'000	2011 RMB'000	Increase/ decrease amount	Change (%)	Major reason for change
Net cash inflow from operating activities ("-" for net outflow)	**-1,611,521**	2,481,431	-4,092,952	-164.94	Gross profit decreased in 2012, with a marked decline in operating results.
Net cash outflow from investing activities	**-4,062,131**	-2,810,179	-1,251,952	44.55	Capital expenditure increased in 2012 mainly in the Refinery Revamping and Expansion Project.
Net cash inflow from financing activities	**5,743,270**	320,370	5,422,900	1,692.70	Loans and borrowings increased to replenish the working capital in 2012.

4.1.B Operating Income

(1) Analysis of Changes in Operating Income

Aside from the weighted average price (excluding tax) of petroleum products, which increased by 3.24% over the previous year, the weighted average prices (excluding tax) of the Group's synthetic fibres, resins and plastics, and intermediate petrochemical products fell by 20.92%, 9.98%, and 3.81% respectively, resulting in a lower operating income in 2012 compared to the previous year.

(2) Major Customers

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

4.1.C Operating Costs

(1) Analysis of Operating Costs

Operating costs of the Group were RMB86,041.1 million in 2012, representing a slight increase of 1.17% as compared with RMB85,042.2 million in 2011, which was mainly due to an increase in the average unit cost of crude oil processed.

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

	For the years ended 31 December				
	2012		2011		
	Million of RMB'000	**% of Total**	Million of RMB'000	% of Total	Change (%)
Cost of raw materials					
Crude oil	55,538.0	64.55	53,521.9	62.94	3.77
Ancillary materials	12,457.3	14.48	14,846.8	17.46	-16.09
Depreciation and amortisation	1,631.6	1.90	1,567.6	1.84	4.08
Staff costs	1,401.2	1.63	1,336.0	1.57	4.88
Costs of merchandise	11,886.3	13.81	11,480.9	13.50	3.53
Others	3,126.7	3.63	2,289.0	2.69	36.60
Total	86,041.1	100.00	85,042.2	100.00	1.17

(2) Major Suppliers

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

4.1.D Expenses

Please refer to Analysis of Changes in the Consolidated Income Statement and the Consolidated Cash Flow Statement of 4.1.A in this section during the Reporting Period for the analysis of expenses changes.

4.1.E Research and Development Expenditure

Unit: RMB'000

Expensed R&D expenditure during the Reporting Period	72,174
Capitalised R&D expenditure during the Reporting Period	-
Total	72,174
% of Net Assets	0.44
% of Operating income	0.08

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

4.1.F Cash Flow

Please refer to 4.1.A Analysis of Changes in the Consolidated Income Statement and the Consolidated Cash Flow Statement in this section for details of the changes in cash flow statement items.

4.2 Analysis of Business Operations by Segment, Product and Geographical Location

4.2.A Principal operations by segment or product

By segment or product	Operating income (RMB'000)	Operating costs (RMB'000)	Gross profit/ (loss) margin (%)	Increase/ decrease of operating income as compared to the previous year (%)	Increase/ decrease of operating costs as compared to the previous year (%)	Increase/ decrease of gross profit margin as compared to the previous year (percentage point)
Synthetic fibres	3,344,190	3,558,002	-6.39	-20.34	-1.26	-20.56
Resins and plastics	14,828,298	15,416,471	-3.97	-10.62	-3.27	-7.90
Intermediate petrochemicals	18,161,380	16,465,123	9.34	-5.62	-5.27	-0.33
Petroleum products	43,754,793	37,934,333	13.30 (note)	2.00	6.12	-3.37
Trading of petrochemical products	12,025,361	11,886,346	1.16	3.48	3.16	0.31
Others	958,232	780,797	18.52	-9.04	-8.41	-0.55

Note: The gross profit margin is calculated according to the price of petroleum products which includes consumption tax. The gross profit margin of petroleum products after deducting consumption tax amounted to 0.84%.

4.2.B Principal operations by geographical location

Geographical location	Operating income RMB'000	Increase/decrease of operating income compared to the previous year (%)
Eastern China	87,656,088	-1.77
Other regions in the PRC	4,354,211	-27.15
Exports	1,061,955	176.18

4.3 Analysis of Assets and Liabilities

	As at 31 December 2012		As at 31 December 2011			
Item	**Amount RMB'000**	**% of Total Assets**	Amount RMB'000	% of Total Assets	Change (%)	Major reason for change over 30%
Cash at bank and on hand	**160,962**	**0.44**	91,346	0.29	76.21	A surplus arose after net cash inflow from financing activities bridged operating and investing net cash outflow due to operating loss and capital expenditure in 2012.
Bills receivable	**2,065,483**	**5.61**	3,131,579	10.07	-34.04	Sales settled with bills receivable decreased.
Accounts receivable	**1,082,742**	**2.94**	609,906	1.96	77.53	Sales volume of petroleum products increased at the end of 2012, and receivables from related parties increased.
Inventories	**8,938,077**	**24.28**	5,582,425	17.94	60.11	Purchases of crude oil increased at the end of 2012.
Long-term equity investments	**3,057,153**	**8.31**	3,101,305	9.97	-1.42	-
Investment properties	**439,137**	**1.19**	452,555	1.45	-2.96	-
Fixed assets	**17,622,001**	**47.88**	12,659,332	40.69	39.20	Construction in progress was transferred to fixed assets after the completion and launch of the Refinery Revamping and Expansion Project in 2012.
Construction in progress	**612,388**	**1.66**	3,882,992	12.48	-84.23	
Short-term loans	**11,023,877**	**29.95**	5,512,074	17.72	100.00	Short-term loans were borrowed to replenish the working capital in 2012.
Accounts payable	**5,523,248**	**15.01**	4,650,007	14.95	18.78	-
Long-term loans	**1,231,340**	**3.35**	160,050	0.51	669.35	Long-term loans were borrowed for the construction of the Refinery Revamping and Expansion Project in 2012.

5. Others

(1) Group's employees

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

(2) Purchase, Sale and Investment

Save and except as disclosed in this annual report, there was no material purchase or sale of the Group's subsidiaries or associates or any other material investments in 2012.

(3) Pledge of assets

As at 31 December 2012, no fixed asset was pledged by the Group (31 December 2011: RMB nil).

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

As at 31 December 2012, the Group held foreign-currency denominated bank deposits and loans and borrowings, equivalent to RMB928,000 and RMB7,839,879,000 respectively.

7. Company Outlook on Future Development (Business Prospects)

(1) Development trends and market competition in the industry

In 2013, the global economic situation will remain complex and highly variable. The global economy will continue to grow at a slow pace. There will be a surge in various forms of protectionism, with potential inflationary pressures and asset bubbles. The global economy has switched from a period of rapid growth before the crisis to a period of deep transformation and adjustment. As China is still in an important period of strategic opportunity, it will continue to maintain its macro-economic policy to promote growth while ensuring stability by maintaining its proactive fiscal policy and prudent monetary policy, as well as actively boosting domestic demand to drive steady economic growth. The future of the global petrochemical industry is undergoing major changes as the large-scale development of shale gas in North America will reduce the costs of energy and petrochemical; the development of the coal chemical industry will pose challenges to the traditional petrochemical industry; and the petrochemical industry is facing more intense competition. The uncertainties in the international crude oil market, uncertain outlook on global economic growth, changes in the pattern of oil supply and turmoil in West Asia and North Africa will collectively impact international crude oil prices. Various factors such as the European debt crisis, the slow U.S. economic recovery which may continue to depress energy demand, worldwide quantitative easing policies and Middle East geopolitics will influence crude oil prices. The overall supply-demand equilibrium of the international crude oil market is expected to remain stable, with crude oil prices continuing to fluctuate at high levels. The overall Chinese domestic consumer market will maintain a stable growth; market demand for energy and major bulk chemical products will rise; and investment in the petrochemical industry will continue to grow at a fast pace. The operations of the petroleum and chemical industries are expected to maintain stable overall, and will pick up growth momentum as part of a steady and positive development trend.

(2) Business plans for 2013

In 2013, the Group aims to develop itself into an advanced refineries and petrochemicals enterprise. It will focus on improving the quality and efficiency of its development, adjusting its structure, deepening its reform and strengthening its management. The Group will also proactively work on various aspects of its business, such as its underlying competitiveness, production and operation competence, management capabilities, R&D strength, as well as improve its workforce and development environment. It will make the most of its advantages deriving from the operation of the Refinery Revamping and Expansion Project and the Technological Advancement programme items, and will strive to improve its economic returns.

To achieve its business objectives in 2013, the Group will carry out tasks in the following areas:

① Strengthening safety management and environmental protection as well as boosting safe, green and low-carbon development.

The Group will implement a green and low-carbon development strategy to further improve safety management and environmental protection. This includes adopting safety management initiatives and launching more safety campaigns to strengthen grid management at construction sites, HSE supervision and management during direct operation process, as well as emergency response management and HSE supervision over contractors. The Group will step up environmental control by establishing a long-term mechanism for environmental control; deepening and expanding deodorizing programme in the plant site; continuing to cut down the total amount of solid waste; strengthening emergency response management in the protection of water sources, prevention and control of air pollution and improvement in air quality; and measuring all carbon emissions.

② Enhancing plant operation competence so as to ensure a safe, stable, long-cycle, full capacity and excellent operation of the plants.

The Group will introduce advanced managerial concepts to improve plant operation management. It will strengthen plant operation management and run well the newly built plants of Phase 6 Project, strengthen the organisation and coordination of major production operations, and continue to roll out special campaigns of safe, stable, long-cycle, full capacity and excellent operation among the production units. It will implement the consolidated dispatching over production, electrical power and thermal power. The Group will promote energy conservation and feedstock consumption reduction, complete power balance tests on 20 integrated units, as well as use contract energy management to improve the Company's energy utilisation efficiency. It will improve its overall capability for equipment management, implement plans for the long-cycle plant operation, and strengthen the management of scheduled turnaround so as to lead the long-cycle operation to a higher level.

③ Strengthening operational optimisation and tackle the potential of economic return.

The Group will keep a close eye on the market and improve business operations, striving to maximise the advantages it enjoys in integrated refining and chemical operations, and improve its operation efficiency. It will optimise the procurement of crude oil for better economic return, improve its analytical capability of oil price trends, optimise and minimise the number of sources of crude oil so as to give a full play to the potential of the existing plants. The Group will optimise its intermediate feedstock and its product mix, its selection of raw material and material balancing, as well as its mix of refined oil products, and maximise the output of products with profit margin contribution. It will also optimise sales strategies and patterns of material supply, endeavour to improve the market share of Shanghai IV refined oil products, improve the sales and marketing of new products, implement a low-inventory strategy and improve the construction of a logistics circle accessible within two to three hours. By fully leveraging the operations of the Refinery Revamping and Expansion Project and the optimisation of the refinery and chemical systems, the Group will implement various cost and expense reduction measures, tighten cost management among all staff and exercise strict control over expenditure. It will establish an effective equipment maintenance strategy grounded in scientific theory to reduce expenditure in unnecessary inspection and maintenance costs, strengthen fund management and optimise fund operation.

④ Promoting technological advancement and IT application programmes to support future development.

The Group will continue to explore a technological innovation system in combination with universities and speed up its development of IT application to increase its strengths in R&D. It will develop more new products and technology, accelerate technological breakthrough in new carbon fibre products, launch a pilot project with a capacity of 1,000 tons for norbornene/ethylidene norbornene and hydrogenated petroleum resins, promote the development and application of new environmental protection technologies, and step up the marketing of new products. The Group will also improve the marketing of various new products such as specialised materials for binary random copolymer, fire-retardant polyester series, NEP polyester chips, gel dyed acrylic and precursor liquid coloring acrylic, as well as increase their output in a steady manner. It will continue to proceed with its IT application programme which includes APC systems for various plants such as those for online blending of diesel, aromatics complex, CDU and EO/EG plant, process simulation systems for various plants, such as No. 3 diesel hydrogenation plant and butadiene plant, a complete production and operation monitoring and analysis system will be built. With all above-mentioned IT systems being built, the Group will take a further step in application of information systems.

⑤ Strengthening corporate management and improving scientific management competence.

The Group will work out detailed and practical measures for various tasks, develop a mechanism of benchmarking, so as to regulate process management and improve the level of professional management. The Group will give full play to its integrated management systems so as to achieve higher standard of compliance. It will set up and work on improving a strategic goal-oriented performance appraisal system to maximise the role of orientation and incentives in performance appraisal, and improve the correlation between organisational performance and individual employee performance to enhance the effectiveness of performance appraisal.

⑥ Strengthening team building and creating a stable and harmonious environment for development.

The Group will carry out medium and long-term planning for human resources, constantly improve the setup of channels catering to the growth of all types of competent staff, and enhance staff training and human resource optimisation, aiming at building a first-class workforce. It will further refine and enrich the connotation of its corporate culture, actively cultivate corporate core values, take care for staff welfare and livelihood and promote the healthy, stable and harmonious development of the Group.

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

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

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

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

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

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

The petrochemical industry is a capital-intensive industry. The Group's ability to maintain and raise income, net income and cash flows has a bearing upon ongoing capital expenditures. The Group's estimated capital expenditures amount to approximately RMB2,600.0 million in 2013, which will be met by financing activities and by internal funding. The Group's real capital expenditures may vary significantly due to the Group's ability to generate sufficient cash flow from operations, investments and other factors that are beyond the control of the Group. Besides, there is no assurance of the completion of the Group's capital projects, of the costs required for completion, and of the success of completed projects.

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

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

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

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

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

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

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

⑦ Risks associated with control by the majority shareholder.

Sinopec Corp., the controlling shareholder of the Company, owns 4,000,000,000 shares of the Company, which represents 55.56% of the total number of shares of the Company and gives it an absolute controlling position. Sinopec Corp. may, by using its controlling position, exercise influence over the Group's production operation, funds allocations, appointment or removal of senior staff and so forth, thereby adversely impacting the Group's production operation as well as minority shareholders' interests.

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

The Company initiated share reform proposals commissioned by the shareholders of non-tradable shares, first in October 2006 and subsequently in December 2007. However, the two share reform proposals failed to obtain the approval of shareholders of tradable A shares. According to the relevant regulations, the Shanghai Stock Exchange started to adopt a special arrangement from 8 January 2007, of having a differentiated system for listed companies that were unable to complete the share reform, under which the range of share price movements for such A shares were unitarily adjusted up or down by 5% each day, with a trading information disclosure system equivalent to that of ST and *ST stocks applied to such stocks. It does not rule out the possibility that the CSRC and the Shanghai Stock Exchange may set more limits for companies which have not yet completed the share reform. Such regulations may have an adverse impact on the business environment, market image and market financing activities of the Company.

Investment by the Company

1. Entrusted Finance Management and Entrusted Loans

(1) Entrusted Finance Management

The Company did not have entrusted financial management.

(2) Entrusted Loans

Borrower	Amount of entrusted loan RMB'000	Term of loan	Interest rate of loan %	Whether it is overdue	Whether it is connected transaction	Whether it has been extended	Whether it is lawsuits related	Whether the capitals are proceeds	Connected relationship	Expected income RMB'000
Chevron Phillips Chemicals (Shanghai) Corporation	30,000	2012/4/30-2013/4/28	2.25	No	No	No	No	No	Nil	218
	12,000	2012/8/30-2013/8/29	3.25	No	No	No	No	No	Nil	258
	28,000	2012/11/28-2013/11/27	3.25	No	No	No	No	No	Nil	825

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

2. Application of Capital Raised

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

3. Projects not Funded by Proceeds from Share Issue

In 2012, the capital expenditure of the Group amounted to RMB3,811.0 million, representing an increase of 18.17% as compared to RMB3,225.0 million in 2011. Major projects include the following:

Project	Total project investment in RMB million	Project progress as at 31 December 2012
Refinery Revamping and Expansion Project	6,267	Completed and put into operation
The Carbon Fibre Project with a capacity of 1,500 tons/year	848	Completed the first phase and launched for trial operation
The Up-grading Project for the optimisation of the system and reduction in energy and feedstock consumption of the No. 2 PTA Plant	186	Completed and put into operation
Secondary Desulfurisation Facilities for Furnaces 5 and 6 under the thermoelectric division	129	Completed and put into operation
No. 2 and No. 3 Aromatic Hydrocarbon Energy-saving Upgrade Project	954	Under construction
Upgrade Project for the Optimisation of Energy Savings on SL-II Ethylene Cracking Furnace Project in New Ethylene Area	115	Under construction

The Group's capital expenditure for 2013 is estimated at approximately RMB2,600.0 million.

Plan for Profit Appropriation or Capital Reserve Capitalisation

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

Article 206 of the Articles of Association reads:

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

The profit distribution policies of the Company are as follows:

(1) 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.

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

(3) 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.

(4) If the Board of the Company does not make any cash profit distribution proposal, the Company shall disclose the reason(s) in its periodic reports."

The 2011 profit appropriation plan was considered and approved at the 2011 Annual General Meeting held on 27 June 2012 and thereafter implemented.

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

In 2012, the net loss attributable to equity shareholders of the Company amounted to RMB1,548,466,000 under CAS (net loss attributable to equity shareholders of the Company of RMB1,528,397,000 under IFRS). The Board proposed that no dividend will be distributed and no capital reserve shall be converted into share capital.

3. Status of the Company's Payment of Dividends or Capital Reserve Capitalisation over the Past Three Years (Including the Reporting Period)

Year of paying dividends	Amount of bonus shares allocated every 10 shares (share)	Amount of dividends paid every 10 shares (RMB) (including tax)	Amount of transferred shares every 10 shares (share)	Amount of cash dividends (including tax) RMB'000	Net profit attributable to equity shareholders of the Company prepared under CAS for the year ("-" for net loss) RMB'000	Percentage of net profit attributable to equity shareholders of the Company prepared under CAS for the year (%)
2012	-	-	-	-	-1,548,466	-
2011	-	0.50	-	360,000	944,414	38.12
2010	-	1.00	-	720,000	2,703,734	26.63

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

Please refer to Appendix 4 "Report on the Fulfillment of Corporate Social Responsibility of Sinopec Shanghai Petrochemical Company Limited for 2012" of this annual report for details of the fulfillment of social responsibility and environmental protection of the Company.

Other Disclosure Matters

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

(1) Material litigation, arbitration or media query

The Company was not involved in any material litigation, arbitration or media query during the Reporting Period.

(2) Events regarding bankruptcy and restructuring

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

(3) Major connected transactions of the Company during the Reporting Period

1. Connected Transactions in Relation to Daily Operation

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

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

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

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 same type of transaction (%)
Mutual Product Supply and Sales Services Framework Agreement				
Purchases of raw materials	Sinopec Corp. and its associates	57,700,000	52,230,820	63.30
Sales of petroleum products	Sinopec Corp. and its associates	52,000,000	37,618,198	40.42
Sales of petrochemical products	Sinopec Corp. and its associates	17,400,000	13,722,908	14.74
Property leasing	Sinopec Corp. and its associates	31,000	23,976	51.66
Agency sales of petrochemical products	Sinopec Corp. and its associates	310,000	160,903	100.00
Comprehensive Services Framework Agreement				
Construction, installation and engineering design services	Sinopec Group and its associates	640,000	436,082	38.88
Petrochemical industry insurance services	Sinopec Group and its associates	141,000	115,918	65.92
Financial services	Sinopec Group and its associates	229,000	29,761	6.37

2. 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 Group and its subsidiaries	Controlling shareholder and its related parties	(2,961)	896[note1]	3,330	15,851[Note2]

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

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

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

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

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

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

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

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

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

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

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

(4) Material contracts and the performing of obligations

1. Trust, sub-contract and lease arrangements

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

2. Guarantees

   There was no guarantee provided by the Company during the year.

3. Other material contracts

   There was no other material contract during the year.

(5) Performance of undertakings

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

(6) Appointment and dismissal of accounting firm

During the Reporting Period, the Company did not appoint new accounting firm. KPMG Huazhen (Special General Partnership) is appointed as domestic accounting firm of the Company. KPMG is appointed as international accounting firm of the Company.

In July 2012, the 2012 domestic auditor 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 license 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.

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

In 2012, the Company and its Directors, Supervisors, Senior Management, shareholders and controlling company of the controlling shareholder had not been investigated, administratively punished or publicly criticised by the CSRC or publicly censured by the stock exchanges.

(8) Tax rate

The charge for PRC income tax is currently calculated at the rate of 25% (2011: 25%).

(9) Deposits

The Company did not have any entrusted deposits during the Reporting Period. As at 31 December 2012, the Group did not have any due deposits which could not be collected upon maturity.

(10) The execution of the 2011 Profit Appropriation Plan

The profit appropriation plan for 2011 was considered and approved at the Company's 2011 Annual General Meeting on 27 June 2012. A dividend of RMB0.50 (including tax) per 10 shares was distributed to shareholders, based on the total share capital of 7.2 billion shares as at 31 December 2011. The relevant announcement was published on "Shanghai Securities News" and "China Securities Journal" on 28 June 2012. On 17 July 2012, the Company published an announcement on profit appropriation plan for A shares. In respect of the distribution of A-share dividend, the share right registration date was 20 July 2012 and the ex-dividend date was 23 July 2012. The dividend payment date for H shares and social public shares of A shares was 27 July 2012. Such profit appropriation plan was implemented as scheduled.

(11) Reserve

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

(12) Financial summary

A summary of the results, total assets, liabilities and shareholders' equity of the Group as at 31 December 2012 are set out on page 6 of this annual report.

(13) Bank loans and other borrowings

Details of bank loans and other borrowings of the Company and the Group as at 31 December 2012 are set out in note 20 to the financial statements prepared under IFRS.

(14) Interest capitalised

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

(15) Property, plant and equipment

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

(16) Purchase, sale and redemption of shares

During 2012, no purchase, sale or redemption was made by the Group.

(17) Pre-emptive rights

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

(18) Implementation of share option incentive scheme and the impact

Nil.

(19) Other important events

There was no other important event during the year.

Independent Auditor's Report

To the Shareholders of Sinopec Shanghai Petrochemical Company Limited

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

We have audited the consolidated financial statements of Sinopec Shanghai Petrochemical Company Limited ("the Company") and its subsidiaries (together "the Group") set out on pages 96 to 168, which comprise the consolidated and company balance sheets as at 31 December 2012, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2012 and of the Group's loss and cash flows for the year then ended in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

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

27 March 2013

Consolidated Income Statement

For the year ended 31 December 2012
(Prepared under International Financial Reporting Standards)

	Note	2012 RMB'000	2011 RMB'000
Turnover	29(b)	93,008,338	95,518,856
Sales taxes and surcharges		(5,791,064)	(6,009,203)
Net sales		87,217,274	89,509,653
Cost of sales		(88,617,789)	(87,881,160)
Gross (loss)/profit		(1,400,515)	1,628,493
Selling and administrative expenses		(649,906)	(675,771)
Other operating income	3	333,754	164,286
Other operating expenses	4	(55,779)	(57,184)
(Loss)/profit from operations		(1,772,446)	1,059,824
Finance income		86,545	299,036
Finance expenses		(369,802)	(215,494)
Net finance (costs)/income	5	(283,257)	83,542
Investment income		6,446	685
Share of profit of associates and jointly controlled entities		32,784	152,655
(Loss)/profit before taxation	6	(2,016,473)	1,296,706
Income tax	8(a)	511,331	(310,184)
(Loss)/profit for the year		(1,505,142)	986,522
Attributable to:			
Equity shareholders of the Company		(1,528,397)	956,106
Non-controlling interests		23,255	30,416
(Loss)/profit for the year		(1,505,142)	986,522
(Loss)/earnings per share	9		
Basic		RMB (0.212)	RMB 0.133
Diluted		RMB (0.212)	RMB 0.133

The notes on pages 106 to 168 form part of these financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2012
(Prepared under International Financial Reporting Standards)

	Note	2012 RMB'000	2011 RMB'000
(Loss)/profit for the year		(1,505,142)	986,522
Other comprehensive income for the year	11	-	-
Total comprehensive (loss)/income for the year		(1,505,142)	986,522
Attributable to:			
Equity shareholders of the Company		(1,528,397)	956,106
Non-controlling interests		23,255	30,416
Total comprehensive (loss)/income for the year		(1,505,142)	986,522

The notes on pages 106 to 168 form part of these financial statements.

Consolidated Balance Sheet

As at 31 December 2012
(Prepared under International Financial Reporting Standards)

	Note	31 December 2012 RMB'000	31 December 2011 RMB'000
Non-current assets			
Property, plant and equipment	12(a)	17,468,748	12,501,980
Investment property	13	439,137	452,555
Construction in progress	14	612,388	3,852,692
Interest in associates and jointly controlled entities	16	2,867,153	2,901,305
Lease prepayments and other assets		1,131,123	825,250
Deferred tax assets	8(b)	1,052,573	519,269
Total non-current assets		23,571,122	21,053,051
Current assets			
Inventories	17	8,938,077	5,582,425
Trade debtors	18	93,484	121,936
Bills receivable	18	2,046,657	2,988,010
Other debtors and prepayments	18	599,402	242,811
Amounts due from related parties	18,25(c)	1,052,842	639,286
Cash and cash equivalents	19	160,962	91,346
Total current assets		12,891,424	9,665,814
Current liabilities			
Loans and borrowings	20	11,023,877	5,512,074
Trade creditors	21	2,886,616	3,126,495
Bills payable	21	-	15,688
Other creditors		1,603,022	1,352,367
Amounts due to related parties	21,25(c)	3,411,279	2,242,868
Income tax payable		2,463	22,340
Total current liabilities		18,927,257	12,271,832
Net current liabilities		(6,035,833)	(2,606,018)
Total assets less current liabilities carried forward		17,535,289	18,447,033

The notes on pages 106 to 168 form part of these financial statements.

Consolidated Balance Sheet (continued)

As at 31 December 2012
(Prepared under International Financial Reporting Standards)

	Note	31 December 2012 RMB'000	31 December 2011 RMB'000
Total assets less current liabilities brought forward		17,535,289	18,447,033
Non-current liabilities			
Loans and borrowings	20	1,231,340	160,050
Deferred income	22	-	91,319
Total non-current liabilities		1,231,340	251,369
Net assets		16,303,949	18,195,664
Shareholders' equity			
Share capital	23	7,200,000	7,200,000
Reserves	24	8,837,166	10,725,563
Total equity attributable to equity shareholders of the Company		16,037,166	17,925,563
Non-controlling interests		266,783	270,101
Total equity		16,303,949	18,195,664

Approved and authorised for issue by the Board of Directors on 27 March 2013.

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

The notes on pages 106 to 168 form part of these financial statements.

Balance Sheet

As at 31 December 2012
(Prepared under International Financial Reporting Standards)

	Note	31 December 2012 RMB'000	31 December 2011 RMB'000
Non-current assets			
Property, plant and equipment	12(b)	16,952,346	11,979,120
Investment property	13	439,137	452,555
Construction in progress	14	604,866	3,781,922
Investments in subsidiaries	15	1,310,401	1,310,401
Interest in associates and jointly controlled entities	16	2,274,480	2,274,480
Lease prepayments and other assets		1,023,381	725,439
Deferred tax assets	8(b)	1,044,896	510,658
Total non-current assets		23,649,507	21,034,575
Current assets			
Inventories	17	8,615,644	5,281,885
Trade debtors	18	9,845	54,581
Bills receivable	18	1,896,731	2,841,979
Other debtors and prepayments	18	474,548	101,279
Amounts due from related parties	18,25(c)	862,139	599,654
Cash and cash equivalents	19	119,148	61,057
Total current assets		11,978,055	8,940,435
Current liabilities			
Loans and borrowings	20	11,092,877	5,571,574
Trade creditors	21	1,596,894	2,120,028
Bills payable	21	-	15,688
Other creditors		1,487,258	1,218,772
Amounts due to related parties	21,25(c)	4,762,170	3,525,614
Total current liabilities		18,939,199	12,451,676
Net current liabilities		(6,961,144)	(3,511,241)
Total assets less current liabilities carried forward		16,688,363	17,523,334

The notes on pages 106 to 168 form part of these financial statements.

As at 31 December 2012
(Prepared under International Financial Reporting Standards)

	Note	31 December 2012 RMB'000	31 December 2011 RMB'000
Total assets less current liabilities brought forward		16,688,363	17,523,334
Non-current liabilities			
Loans and borrowings	20	1,200,000	135,000
Deferred income	22	-	91,319
Total non-current liabilities		1,200,000	226,319
Net assets		15,488,363	17,297,015
Shareholders' equity			
Share capital	23	7,200,000	7,200,000
Reserves	24	8,288,363	10,097,015
Total equity		15,488,363	17,297,015

Approved and authorised for issue by the Board of Directors on 27 March 2013.

Rong Guangdao
Chairman

Wang Zhiqing
Vice Chairman and President

The notes on pages 106 to 168 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2012
(Prepared under International Financial Reporting Standards)

	Note	Share capital RMB'000	Share premium RMB'000	Reserves RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
		Attributable to equity shareholders of the Company						
Balance at 1 January 2011		7,200,000	2,420,841	5,085,494	2,983,122	17,689,457	259,853	17,949,310
Changes in equity for 2011:								
Profit for the year		-	-	-	956,106	956,106	30,416	986,522
Other comprehensive income		-	-	-	-	-	-	-
Total comprehensive income for the year		-	-	-	956,106	956,106	30,416	986,522
Dividends approved in respect of the previous year	10(b)	-	-	-	(720,000)	(720,000)	-	(720,000)
Appropriation of profits	24	-	-	70,456	(70,456)	-	-	-
Dividends paid by subsidiaries to non-controlling interests		-	-	-	-	-	(20,168)	(20,168)
Appropriation of safety production fund	24	-	-	21,777	(21,777)	-	-	-
Balance at 31 December 2011		7,200,000	2,420,841	5,177,727	3,126,995	17,925,563	270,101	18,195,664

The notes on pages 106 to 168 form part of these financial statements.

For the year ended 31 December 2012
(Prepared under International Financial Reporting Standards)

	Note	Attributable to equity shareholders of the Company						
		Share capital	**Share premium**	**Reserves**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total equity**
		RMB'000	RMB'000	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 2012:								
(Loss)/profit for the year		-	-	-	(1,528,397)	(1,528,397)	23,255	(1,505,142)
Other comprehensive income		-	-	-	-	-	-	-
Total comprehensive (loss)/ income for the year		-	-	-	(1,528,397)	(1,528,397)	23,255	(1,505,142)
Dividends approved in respect of the previous year	10(b)	-	-	-	(360,000)	(360,000)	-	(360,000)
Dividends paid by subsidiaries to non-controlling interests		-	-	-	-	-	(26,573)	(26,573)
Utilisation of safety production fund	24	-	-	(13,598)	13,598	-	-	-
Balance at 31 December 2012		7,200,000	2,420,841	5,164,129	1,252,196	16,037,166	266,783	16,303,949

The notes on pages 106 to 168 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2012
(Prepared under International Financial Reporting Standards)

	Note	2012 RMB'000	2011 RMB'000
Operating activities			
Cash (used in)/generated from operations	(a)	(1,568,561)	2,504,918
Interest paid		(454,864)	(261,437)
Income tax paid		(42,960)	(23,487)
Net cash (used in)/generated from operating activities		(2,066,385)	2,219,994
Investing activities			
Interest income received		86,545	99,345
Dividend income received		66,936	588,118
Proceeds from disposal of property, plant and equipment and other long term assets		24,504	70,344
Proceeds from disposal of investments		49,743	700,000
Capital expenditure		(4,259,859)	(3,481,235)
Purchase of investments and interests in associates		(30,000)	(786,751)
Net cash used in investing activities		(4,062,131)	(2,810,179)
Financing activities			
Proceeds from loans and borrowings		53,365,372	35,106,127
Repayment of loans and borrowings		(46,779,614)	(32,791,261)
Repayment of corporate bonds		-	(1,000,000)
Dividends paid to equity shareholders of the Company		(361,051)	(712,891)
Dividends paid by subsidiaries to non-controlling interests		(26,573)	(20,168)
Net cash generated from financing activities		6,198,134	581,807
Net increase/(decrease) in cash and cash equivalents		69,618	(8,378)
Cash and cash equivalents at 1 January	19	91,346	100,110
Effect of exchange rate fluctuations on cash held		(2)	(386)
Cash and cash equivalents at 31 December	19	160,962	91,346

The notes on pages 106 to 168 form part of these financial statements.

For the year ended 31 December 2012
(Prepared under International Financial Reporting Standards)

(a) Reconciliation of (loss)/profit before taxation to cash (used in)/generated from operations:

	2012 RMB'000	2011 RMB'000
(Loss)/profit before taxation	(2,016,473)	1,296,706
Interest income	(86,545)	(99,345)
Share of profit of associates and jointly controlled entities	(32,784)	(152,655)
Gain on disposal of investments by a subsidiary	(6,446)	-
Gain on sale of available-for-sale financial assets	-	(685)
Interest expense	356,103	215,494
Depreciation of property, plant and equipment	1,669,778	1,610,450
Depreciation of investment property	13,250	13,250
Impairment losses on property, plant and equipment	-	10,552
Amortisation of lease prepayments	18,323	18,401
Unrealised exchange gain	(16,887)	(50,480)
Loss on disposal of property, plant and equipment and other long term assets, net	20,765	18,006
Increase in inventories	(3,366,017)	(230,124)
Decrease/(increase) in debtors, bills receivable and prepayments	992,248	(1,015,449)
Increase in creditors and bills payable	131,269	297,014
Increase in balances due to related parties, net	754,855	573,783
Cash (used in)/generated from operations	(1,568,561)	2,504,918

The notes on pages 106 to 168 form part of these financial statements.

1. Significant accounting policies

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

(a) Statement of compliance

The consolidated financial statements of Sinopec Shanghai Petrochemical Company Limited ("the Company") and its subsidiaries (collectively "the Group") have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). IFRS includes International Accounting Standards ("IAS") and related interpretations. These financial statements also comply with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. These financial statements have been approved by the Board of Directors on 27 March 2013.

(b) Basis of preparation of the financial statements

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

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

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

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

1. Significant accounting policies *(continued)*

(c) Basis of consolidation

(i) Subsidiaries and non-controlling interests

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

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

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

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

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

1. Significant accounting policies *(continued)*

(c) Basis of consolidation *(continued)*

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

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

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

(ii) Associates and jointly controlled entities

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

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

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

1. Significant accounting policies *(continued)*

(c) Basis of consolidation *(continued)*

(ii) Associates and jointly controlled entities (continued)

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

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

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

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

(d) Other investments

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

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

1. Significant accounting policies *(continued)*

(e) Property, plant and equipment

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

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

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

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

Buildings	12 to 40 years
Plant and machinery	5 to 20 years
Vehicles and other equipment	4 to 20 years

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

(f) Investment property

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

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

(g) Lease prepayments and other assets

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

1. Significant accounting policies *(continued)*

(h) Construction in progress

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

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

No depreciation is provided in respect of construction in progress.

(i) Inventories

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

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

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

1. Significant accounting policies *(continued)*

(j) Trade receivables, bills and other receivables

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

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

(k) Interest-bearing borrowings

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

(l) Trade and other payables

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

(m) Cash and cash equivalents

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

1. Significant accounting policies *(continued)*

(n) Translation of foreign currencies

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

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

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

(o) Revenue recognition

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

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

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

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

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

1. Significant accounting policies *(continued)*

(p) Government grants

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

(q) Net finance (costs)/income

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

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

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

(r) Repairs and maintenance expenses

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

(s) Research and development costs

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

(t) Employee benefits

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

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

1. Significant accounting policies *(continued)*

(u) Impairment loss

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

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

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

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

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

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

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

1. Significant accounting policies *(continued)*

(u) Impairment loss *(continued)*

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

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

(v) Dividends payable

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

(w) Income tax

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

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

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

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

1. Significant accounting policies *(continued)*

(x) Provisions and contingent liabilities

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

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

(y) Related parties

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

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

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

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

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

1. Significant accounting policies *(continued)*

(z) Segment reporting

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

2. Changes in accounting policies

The IASB has issued a few amendments to IFRS that are first effective for the current accounting period of the Group and the Company. None of the developments are relevant to the accounting policies applied in the financial statements for the years presented.

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

3. Other operating income

	2012 RMB'000	2011 RMB'000
Income from pipeline transportation services	17,502	17,108
Gain on disposal of property, plant and equipment	3,905	3,119
Rental income from investment property	46,413	41,758
Government grants	211,044	66,965
Others	54,890	35,336
	333,754	164,286

4. Other operating expenses

	2012 RMB'000	2011 RMB'000
Employee reduction expenses	7,388	9,758
Loss on disposal of property, plant and equipment	24,670	21,125
Impairment losses on property, plant and equipment	-	10,552
Others	23,721	15,749
	55,779	57,184

5. Net finance (costs)/income

	2012 RMB'000	2011 RMB'000
Interest income	86,545	99,345
Net foreign exchange gain	-	199,691
Finance income	86,545	299,036
Interest on loans and borrowings	(466,409)	(246,326)
Less: Borrowing costs capitalised as construction in progress*	110,306	30,832
Net foreign exchange loss	(13,699)	-
Finance expenses	(369,802)	(215,494)
Net finance (costs)/income	(283,257)	83,542

* The borrowing costs during 2012 have been capitalised at a rate of 2.98%-6.21% per annum (2011: 2.75%-4.86%) for construction in progress.

6. (Loss)/profit before taxation

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

	2012 RMB'000	2011 RMB'000
Cost of inventories sold#	88,617,789	87,881,160
Depreciation of property, plant and equipment#	1,669,778	1,610,450
Depreciation of investment property#	13,250	13,250
Amortisation of lease prepayments#	18,323	18,401
Repairs and maintenance expenses#	984,486	1,093,339
Research and development costs#	72,174	79,573
Employee's pension costs#		
- Municipal retirement scheme costs	264,160	235,013
- Supplementary retirement scheme costs	68,763	59,922
Staff costs#	1,740,160	1,699,158
Rental income from investment property	(46,413)	(41,758)
Impairment losses		
- Trade and other receivables	371	(2,384)
- Property, plant and equipment	-	10,552
Gain on disposal of investment by a subsidiary	(6,446)	-
Gain on sale of available-for-sale financial assets	-	(685)
Share of profit of associates and jointly controlled entities	(32,784)	(152,655)
Auditors' remuneration - audit services	8,850	8,500

\# Cost of inventories sold includes RMB 4,773,243,000 (2011: RMB 4,752,353,000) relating to staff costs, depreciation and amortisation, repairs and maintenance expenses, research and development costs and pension costs, which amount is also included in the respective total amounts disclosed separately above for each of these types of expenses.

The consolidated loss attributable to equity shareholders of the Company includes a loss of RMB 1,555,003,000 (2011: a profit of RMB 798,355,000) which has been dealt with in the financial statements of the Company.

7. Directors' and supervisors' emoluments:

(i) Directors' and supervisors' emoluments:

	2012			
	Salaries and other benefits RMB'000	Retirement scheme contributions RMB'000	Discretionary bonus RMB'000	Total RMB'000
Executive Directors				
Rong Guangdao	187	14	487	688
Wang Zhiqing	187	14	487	688
Li Honggen	163	14	425	602
Shi Wei	180	14	451	645
Ye Guohua	163	14	409	586
Independent non-executive directors				
Jin Mingda	150	-	-	150
Wang Yongshou	150	-	-	150
Cai Tingji	150	-	-	150
Supervisors				
Gao Jinping	163	14	409	586
Zuo Qiang	104	11	243	358
Li Xiaoxia	108	14	243	365
	1,705	109	3,154	4,968

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

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

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

For the years ended 31 December 2012 and 2011, no emolument was paid to the directors or supervisors as an inducement to join or upon joining the Company or as compensation for loss of office.

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

(ii) Individuals with the highest emoluments

Of the five individuals with the highest emoluments, four (2011: four) are directors and supervisors whose emoluments are disclosed in note 7 (i). The emolument of the other one (2011: one) is as follows:

	2012 RMB'000	2011 RMB'000
Salaries and other benefits	175	157
Retirement scheme contributions	14	12
Discretionary bonus	442	391
	631	560

The emolument of the individual with the highest emoluments is within the band Nil to RMB 1 million for the year ended 31 December 2012 and 2011.

8. Income tax

(a) Taxation in the consolidated income statement represents:

	2012 RMB'000	2011 RMB'000
Current tax		
-Provision for PRC income tax for the year	21,841	30,280
-Under/(over)-provision in respect of prior years	132	(436)
Deferred taxation	(533,304)	280,340
Total income tax	(511,331)	310,184

8. Income tax *(continued)*

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

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

	2012 RMB'000	2011 RMB'000
(Loss)/profit before taxation	(2,016,473)	1,296,706
Expected PRC income tax at the statutory tax rate of 25%	(504,118)	324,177
Tax effect of non-deductible expenses	3,386	22,604
Tax effect of non-taxable income	(3,968)	(3,957)
Under/(over) - provision in prior years	132	(436)
Tax effect of share of profit recognised under the equity method	(8,196)	(38,164)
Tax effect of unused tax losses not recognised	7,455	10,582
Others	(6,022)	(4,622)
Actual income tax	(511,331)	310,184

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

8. Income tax *(continued)*

(b) Deferred taxation:

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

	The Group					
	Assets		Liabilities		Net balance	
	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000
Current						
Provisions	32,301	42,123	-	-	32,301	42,123
Non-current						
Provision for impairment losses	87,983	112,297	-	-	87,983	112,297
Capitalisation of borrowing costs	-	-	(17,431)	(20,395)	(17,431)	(20,395)
Tax losses carried forward	939,359	374,186	-	-	939,359	374,186
Others	10,361	11,058	-	-	10,361	11,058
Deferred tax assets/(liabilities)	1,070,004	539,664	(17,431)	(20,395)	1,052,573	519,269

	The Company					
	Assets		Liabilities		Net balance	
	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000
Current						
Provisions	32,066	41,832	-	-	32,066	41,832
Non-current						
Provision for impairment losses	87,983	112,297	-	-	87,983	112,297
Capitalisation of borrowing costs	-	-	(17,431)	(20,395)	(17,431)	(20,395)
Tax losses carried forward	939,359	374,186	-	-	939,359	374,186
Others	2,919	2,738	-	-	2,919	2,738
Deferred tax assets/(liabilities)	1,062,327	531,053	(17,431)	(20,395)	1,044,896	510,658

8. Income tax *(continued)*

(b) Deferred taxation: *(continued)*

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

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

	The Group		
	Balance at 1 January 2012 RMB'000	Recognised in income statement RMB'000	Balance at 31 December 2012 RMB'000
Current			
Provisions	42,123	(9,822)	32,301
Non-current			
Provision for impairment losses	112,297	(24,314)	87,983
Capitalisation of borrowing costs	(20,395)	2,964	(17,431)
Tax losses carried forward	374,186	565,173	939,359
Others	11,058	(697)	10,361
Net deferred tax assets	519,269	533,304	1,052,573

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

8. Income tax *(continued)*

(b) Deferred taxation: *(continued)*

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

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

	The Company		
	Balance at 1 January 2012 RMB'000	Recognised in income statement RMB'000	Balance at 31 December 2012 RMB'000
Current			
Provisions	41,832	(9,766)	32,066
Non-current			
Provision for impairment losses	112,297	(24,314)	87,983
Capitalisation of borrowing costs	(20,395)	2,964	(17,431)
Tax losses carried forward	374,186	565,173	939,359
Others	2,738	181	2,919
Net deferred tax assets	510,658	534,238	1,044,896

8. Income tax *(continued)*

(b) Deferred taxation: *(continued)*

(iii) Deferred tax assets not recognised

As at 31 December 2012, a subsidiary of the Company did not recognise the deferred tax assets in respect of the impairment losses on property, plant and equipment amounting to RMB 432,579,000 (2011: RMB 432,579,000) and the unused tax losses carried forward for PRC income tax purpose amounting to RMB 426,685,000 (2011: RMB 465,414,000), because it was not probable that the related tax benefit will be realised. The unused tax losses carried forward of RMB 197,952,000, RMB 107,292,000, RMB 49,294,000, RMB 42,328,000 and RMB 29,819,000 will expire in 2013, 2014, 2015, 2016 and 2017, respectively.

9. Loss/earnings per share

The calculation of basic loss/earnings per share is based on the loss attributable to equity shareholders of the Company of RMB 1,528,397,000 (2011: profit of RMB 956,106,000) and 7,200,000,000 (2011: 7,200,000,000) shares in issue during the year.

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

10. Dividends

(a) Dividends attributable to the year

	The Group and the Company	
	2012 RMB'000	2011 RMB'000
Final dividend proposed after the balance sheet date of RMB nil per share (2011: RMB 0.05 per share)	-	360,000

Pursuant to a resolution passed at the directors' meeting on 29 March 2012, a final dividend of RMB 0.05 per share totalling RMB 360,000,000 was proposed for shareholders' approval at the Annual General Meeting for the year ended 31 December 2011. No final dividend was proposed after the balance sheet date in respect of the year ended 31 December 2012.

10. Dividends *(continued)*

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

	The Group and the Company	
	2012	2011
	RMB'000	RMB'000
Final dividend in respect of the previous financial year, approved during the year, of RMB 0.05 per share (2011: RMB 0.10 per share)	360,000	720,000

11. Other comprehensive income

Reclassification adjustments relating to components of other comprehensive income

	2012	2011
	RMB'000	RMB'000
Available-for-sale financial assets:		
Changes in fair value recognised during the year	-	685
Reclassification adjustments for amounts transferred to profit or loss		
- gain on disposal	-	(685)
Net movement in fair value reserve during the year recognised in other comprehensive income	-	-

12. Property, plant and equipment

(a) The Group

	Buildings RMB'000	Plant and machinery RMB'000	Vehicles and other equipment RMB'000	Total RMB'000
Cost:				
At 1 January 2011	5,732,894	25,806,799	6,896,432	38,436,125
Additions	-	131,945	55,792	187,737
Transferred from construction in progress (note 14)	12,221	349,348	29,467	391,036
Disposal	(5,175)	(274,098)	(76,734)	(356,007)
At 31 December 2011	5,739,940	26,013,994	6,904,957	38,658,891
At 1 January 2012	5,739,940	26,013,994	6,904,957	38,658,891
Reclassfication	(2,154,455)	7,123,424	(4,968,969)	-
Additions	-	117,126	41,606	158,732
Transferred from construction in progress (note 14)	110,431	6,402,975	27,302	6,540,708
Disposal	(19,467)	(266,885)	(77,574)	(363,926)
At 31 December 2012	3,676,449	39,390,634	1,927,322	44,994,405
Accumulated depreciation and impairment losses:				
At 1 January 2011	3,761,918	16,193,524	4,910,124	24,865,566
Charge for the year	140,673	1,185,535	284,242	1,610,450
Impairment loss	542	8,629	1,381	10,552
Written back on disposal	(3,519)	(252,859)	(73,279)	(329,657)
At 31 December 2011	3,899,614	17,134,829	5,122,468	26,156,911
At 1 January 2012	3,899,614	17,134,829	5,122,468	26,156,911
Reclassification	(1,867,526)	5,449,167	(3,581,641)	-
Charge for the year	95,919	1,504,491	69,368	1,669,778
Impairment loss	-	-	-	-
Written back on disposal	(10,181)	(219,834)	(71,017)	(301,032)
At 31 December 2012	2,117,826	23,868,653	1,539,178	27,525,657
Net book value:				
At 31 December 2012	1,558,623	15,521,981	388,144	17,468,748
At 31 December 2011	1,840,326	8,879,165	1,782,489	12,501,980

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

(b) The Company

	Buildings RMB'000	Plant and machinery RMB'000	Vehicles and other equipment RMB'000	Total RMB'000
Cost:				
At 1 January 2011	4,686,121	23,826,021	6,595,579	35,107,721
Additions	-	96,101	51,533	147,634
Transferred from construction in progress (note 14)	12,221	345,833	22,672	380,726
Reclassification from investment property (note 13)	68,922	-	-	68,922
Disposal	(3,175)	(263,288)	(73,211)	(339,674)
At 31 December 2011	4,764,089	24,004,667	6,596,573	35,365,329
At 1 January 2012	4,764,089	24,004,667	6,596,573	35,365,329
Reclassification	(1,795,211)	6,755,611	(4,960,400)	-
Additions	-	117,126	40,956	158,082
Transferred from construction in progress (note 14)	110,431	6,339,567	16,934	6,466,932
Disposal	(5,113)	(214,763)	(34,008)	(253,884)
At 31 December 2012	3,074,196	37,002,208	1,660,055	41,736,459
Accumulated depreciation and impairment losses:				
At 1 January 2011	3,230,653	14,245,309	4,641,650	22,117,612
Charge for the year	129,410	1,160,668	275,729	1,565,807
Reclassification from investment property (note 13)	11,839	-	-	11,839
Impairment loss	542	8,629	1,381	10,552
Written back on disposal	(2,485)	(247,236)	(69,880)	(319,601)
At 31 December 2011	3,369,959	15,167,370	4,848,880	23,386,209
At 1 January 2012	3,369,959	15,167,370	4,848,880	23,386,209
Reclassification	(1,733,041)	5,300,483	(3,567,442)	-
Charge for the year	92,312	1,466,640	64,995	1,623,947
Impairment loss	-	-	-	-
Written back on disposal	(4,215)	(190,918)	(30,910)	(226,043)
At 31 December 2012	1,725,015	21,743,575	1,315,523	24,784,113
Net book value:				
At 31 December 2012	1,349,181	15,258,633	344,532	16,952,346
At 31 December 2011	1,394,130	8,837,297	1,747,693	11,979,120

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

(c) The analysis of net book value of properties is as follows:

	The Group		The Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
In mainland China				
- medium term leases	**1,531,605**	1,812,123	**1,322,163**	1,365,927
In Hong Kong				
- medium term leases	**27,018**	28,203	**27,018**	28,203
	1,558,623	1,840,326	**1,349,181**	1,394,130

13. Investment property

	The Group RMB'000	The Company RMB'000
Cost:		
At 1 January 2011	546,412	615,334
Reclassification to property, plant and equipment (note 12)	-	(68,922)
At 31 December 2011	546,412	546,412
At 1 January 2012	546,412	546,412
Disposal	(208)	(208)
At 31 December 2012	546,204	546,204
Accumulated depreciation:		
At 1 January 2011	80,607	90,774
Charge for the year	13,250	14,922
Reclassification to property, plant and equipment (note 12)	-	(11,839)
At 31 December 2011	93,857	93,857
At 1 January 2012	93,857	93,857
Charge for the year	13,250	13,250
Written back on disposal	(40)	(40)
At 31 December 2012	107,067	107,067
Net book value:		
At 31 December 2012	439,137	439,137
At 31 December 2011	452,555	452,555

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

The fair value of the investment property of the Group and the Company as at 31 December 2012 were estimated by the directors to be approximately RMB 970,565,000 by reference to market values of similar properties in the relevant region (2011: RMB 964,816,000). The investment property has not been valued by an external independent valuer.

Rental income of RMB 46,413,000 was received by the Group during the year ended 31 December 2012 (2011: RMB 41,758,000).

14. Construction in progress

	The Group		The Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
At 1 January	**3,852,692**	1,139,239	**3,781,922**	1,123,243
Additions	**3,656,121**	3,104,489	**3,645,593**	3,039,405
Transferred to property, plant and equipment (note 12)	**(6,540,708)**	(391,036)	**(6,466,932)**	(380,726)
Transferred to other assets - catalysts	**(355,717)**	-	**(355,717)**	-
At 31 December	**612,388**	3,852,692	**604,866**	3,781,922

15. Investments in subsidiaries (The Company)

	2012	2011
	RMB'000	RMB'000
Unlisted shares, at cost	**1,537,901**	1,537,901
Less: Impairment losses	**(227,500)**	(227,500)
	1,310,401	1,310,401

These amounts represent the investments made by the Company in its consolidated subsidiaries. At 31 December 2012, the following list contains the particulars of the subsidiaries, all of which are limited companies established and operating in the PRC, which principally affected the results and assets of the Group.

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

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

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

None of the subsidiaries have issued any debt securities.

16. Interest in associates and jointly controlled entities

	The Group		The Company	
	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000
Interest in associates				
- Unlisted shares, at cost	-	-	2,146,488	2,146,488
- Share of net assets	2,744,248	2,777,292	-	-
Interest in jointly controlled entities				
- Unlisted shares, at cost	-	-	127,992	127,992
- Share of net assets	122,905	124,013	-	-
	2,867,153	2,901,305	2,274,480	2,274,480

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

The particulars of the significant associates and jointly controlled entities, which are limited companies established and operating in the PRC, and which principally affected the results or assets of the Group at 31 December 2012 are as follows:

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

Summary financial information of the associates and jointly controlled entities is as follows:

	Assets RMB'000	Liabilities RMB'000	Equity RMB'000	Revenues RMB'000	(Loss)/profit RMB'000
2012					
100 per cent	**22,225,085**	**9,995,489**	**12,229,596**	**29,487,156**	**(108,583)**
Group's effective interest	**5,808,515**	**2,941,362**	**2,867,153**	**6,362,905**	**32,784**
2011					
100 per cent	24,339,685	11,867,334	12,472,351	30,222,018	353,774
Group's effective interest	6,574,718	3,673,413	2,901,305	6,558,197	152,655

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

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

17. Inventories

(a) Inventories in the balance sheet comprise:

	The Group		The Company	
	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000
Raw materials	5,491,654	2,042,098	5,339,409	1,926,576
Work in progress	1,995,301	1,980,028	1,987,380	1,962,208
Finished goods	1,056,490	1,167,872	931,683	1,036,685
Spare parts and consumables	394,632	392,427	357,172	356,416
	8,938,077	5,582,425	8,615,644	5,281,885

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

The cost of inventories recognised as an expense in the consolidated income statement amounted to RMB 88,617,789,000 for the year ended 31 December 2012 (2011: RMB 87,881,160,000), which included the write-down of inventories of RMB 203,556,000 (2011: RMB 109,666,000).

18. Trade and other debtors

	The Group		The Company	
	2012	2011	2012	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Trade debtors	94,366	126,671	10,727	55,950
Less: Impairment losses for bad and doubtful debts	(882)	(4,735)	(882)	(1,369)
	93,484	121,936	9,845	54,581
Bills receivable	2,046,657	2,988,010	1,896,731	2,841,979
Amounts due from related parties	1,052,842	639,286	862,139	599,654
	3,192,983	3,749,232	2,768,715	3,496,214
Other debtors and prepayments	599,402	242,811	474,548	101,279
	3,792,385	3,992,043	3,243,263	3,597,493

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

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

	The Group		The Company	
	2012	2011	2012	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Invoice date:				
Within one year	3,192,974	3,748,135	2,768,706	3,496,016
Between one and two years	9	1,097	9	198
	3,192,983	3,749,232	2,768,715	3,496,214

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

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

19. Cash and cash equivalents

	The Group		The Company	
	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000
Cash deposits with a related party	1,933	1,093	1,672	970
Cash at bank and in hand	159,029	90,253	117,476	60,087
	160,962	91,346	119,148	61,057

20. Loans and borrowings

Loans and borrowings are repayable as follows:

	The Group		The Company	
	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000
Long term bank loans (note a)				
- After 2 years but within 5 years	860,780	35,050	840,000	10,000
- After 1 year but within 2 years	370,560	125,000	360,000	125,000
	1,231,340	160,050	1,200,000	135,000
Loans due within one year				
- Current portion of long term bank loans (note a)	-	-	-	45,000
- Short term bank loans	10,803,877	4,852,074	10,872,877	4,866,574
- Short term loans from a related party	220,000	660,000	220,000	660,000
	11,023,877	5,512,074	11,092,877	5,571,574
	12,255,217	5,672,124	12,292,877	5,706,574

20. Loans and borrowings *(continued)*

Note (a):

Long term loans and borrowings of the Group and the Company comprise:

Final maturity date	Interest rate at 31 December 2012	Interest type	The Group 2012 RMB'000	The Group 2011 RMB'000	The Company 2012 RMB'000	The Company 2011 RMB'000
Arranged by the Company:						
Renminbi denominated:						
2012	2.25%	Fixed	-	-	-	45,000
2013	5.36%	Floating	-	125,000	-	125,000
2014	5.76%-6.21%	Floating	360,000	-	360,000	-
2015-2017	5.76%-6.21%	Floating	840,000	10,000	840,000	10,000
Arranged by subsidiaries:						
Renminbi denominated:						
2014	6.40%-6.90%	Floating	10,560	-	-	-
2015-2016	6.40%-6.90%	Floating	20,780	25,050	-	-
Total long term loans and borrowings outstanding			1,231,340	160,050	1,200,000	180,000
Less: Amounts due within one year			-	-	-	(45,000)
Amounts due after one year			1,231,340	160,050	1,200,000	135,000

The weighted average short term interest rates for the Group and the Company were 3.62% and 3.61% respectively at 31 December 2012 (2011: the Group and the Company 2.75% and 2.69% respectively).

At 31 December 2012, no loans and borrowings were secured by property, plant and equipment (2011: nil).

20. Loans and borrowings *(continued)*

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

	The Group		The Company	
	2012	2011	2012	2011
	'000	'000	'000	'000
United States Dollars	USD 1,247,296	USD 733,637	USD 1,247,296	USD 733,637

21. Trade payables

	The Group		The Company	
	2012	2011	2012	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Trade creditors	2,886,616	3,126,495	1,596,894	2,120,028
Bills payable	-	15,688	-	15,688
Amounts due to related parties	3,411,279	2,242,868	4,762,170	3,525,614
	6,297,895	5,385,051	6,359,064	5,661,330

The maturity analysis of trade payables is as follows:

	The Group		The Company	
	2012	2011	2012	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Due within 1 month or on demand	6,088,323	5,166,297	6,150,870	5,444,016
Due after 1 month and within 3 months	209,572	218,754	208,194	217,314
	6,297,895	5,385,051	6,359,064	5,661,330

22. Deferred income

Government grants of RMB 91,319,000 received in 2011 was recognised in profit or loss during 2012 in accordance with the accounting policy adopted for government grants set out in note 1(p).

23. Share capital

	The Group and the Company	
	2012	2011
	RMB'000	RMB'000
Registered, issued and paid up capital:		
4,870,000,000 A shares of RMB 1.00 each	4,870,000	4,870,000
2,330,000,000 H shares of RMB 1.00 each	2,330,000	2,330,000
	7,200,000	7,200,000

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

Capital management

Management optimises the structure of its capital, comprising equity and loans. In order to maintain or adjust the capital structure, management may cause the Group to issue new shares, adjust the capital expenditure plan, sell assets to reduce debt, or adjust the proportion of short term and long term loans. Management monitors capital on the basis of debt-to-equity ratio, which is calculated by dividing loans and borrowings by the total equity attributable to equity shareholders of the Company, and liability-to-asset ratio, which is calculated by dividing total liabilities by total assets. Management's strategy is to make appropriate adjustments according to the operating and investment needs and changes in market conditions, and to maintain the debt-to-equity ratio and the liability-to-asset ratio at a range considered reasonable by management. As at 31 December 2012, the debt-to-equity ratio and the liability-to-asset ratio of the Group were 76.42% (2011: 31.64%) and 55.29 % (2011: 40.77%), respectively. The Group's exposure to liquidity risk and the management policies and practices used by the Group are disclosed in note 31.

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

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

24. Reserves

Movements on reserves comprise:

	The Group		The Company	
	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000
Share premium				
At 1 January and 31 December (note (a))	2,420,841	2,420,841	2,420,841	2,420,841
Statutory surplus reserve				
At 1 January	3,871,256	3,800,800	3,871,256	3,800,800
Appropriation (note (b))	-	70,456	-	70,456
At 31 December (note (b))	3,871,256	3,871,256	3,871,256	3,871,256
Capital reserve				
At 1 January and 31 December (note (c))	4,180	4,180	4,180	4,180
Discretionary surplus reserve				
At 1 January and 31 December (note (d))	1,280,514	1,280,514	1,280,514	1,280,514
Specific reserve for safety production fund				
At 1 January	21,777	-	14,272	-
(Utilisation)/appropriation of safety production fund	(13,598)	21,777	(14,272)	14,272
At 31 December(note (e))	8,179	21,777	-	14,272
Retained profits				
At 1 January	3,126,995	2,983,122	2,505,952	2,179,993
(Loss)/profit for the year attributable to the equity shareholders of the Company	(1,528,397)	956,106	(1,448,652)	1,130,687
Dividend approved in respect of previous year	(360,000)	(720,000)	(360,000)	(720,000)
Appropriation of profits	-	(70,456)	-	(70,456)
Utilisation/(appropriation) of safety production fund	13,598	(21,777)	14,272	(14,272)
At 31 December (note (f))	1,252,196	3,126,995	711,572	2,505,952
	8,837,166	10,725,563	8,288,363	10,097,015

24. Reserves *(continued)*

Notes:

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

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

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

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

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

(e) According to the relevant PRC regulations, the Group is required to transfer an amount to specific reserve for the safety production fund based on the turnover of certain refining and chemicals products. This reserve represents unutilised safety production fund.

(f) According to the Company's Articles of Association, the reserve available for distribution is the lower of the amount determined under China Accounting Standards for Business Enterprises and the amount determined under IFRS. No final dividend (2011: RMB 360,000,000) in respect of the financial year 2012 was declared after the balance sheet date.

25. Related party transactions

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

Names of related parties	Relationship with the Company
China Petrochemical Corporation ("Sinopec Group Company")	Ultimate parent company
China Petroleum & Chemical Corporation ("Sinopec Corp")	Immediate parent company
Sinopec Huadong Sales Company Limited	Subsidiary of the immediate parent company
China International United Petroleum and Chemical Company Limited	Subsidiary of the immediate parent company
China Petrochemical International Company Limited	Subsidiary of the immediate parent company
Sinopec 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

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

25. Related party transactions *(continued)*

(a) *(continued)*

Transactions between the Group and Sinopec Corp, its subsidiaries and jointly controlled entities during the year ended 31 December 2012 were as follows:

	2012 RMB'000	2011 RMB'000
Sales of petroleum products	37,618,198	36,585,798
Sales other than petroleum products	11,975,071	14,117,834
Purchases of crude oil	41,173,864	35,795,694
Purchases other than crude oil	8,261,218	7,816,204
Sales commissions	160,903	195,606
Rental income	23,976	23,246

(b) Other transactions between the Group and Sinopec Group Company and its subsidiaries, associates and jointly controlled entities of the Group during the year ended 31 December 2012 were as follows:

	2012 RMB'000	2011 RMB'000
Sales of goods and service income		
- Sinopec Group Company and its subsidiaries	430,089	279,289
- Associates and jointly controlled entities of the Group	2,548,068	2,299,800
	2,978,157	2,579,089

25. Related party transactions *(continued)*

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

	2012 RMB'000	2011 RMB'000
Purchases		
- Sinopec Group Company and its subsidiaries	24,445	42,858
- Associates and jointly controlled entities of the Group	3,519,612	4,154,093
	3,544,057	4,196,951
Insurance premiums		
- Sinopec Group Company and its subsidiaries	115,918	115,910
Interest income		
- Sinopec Finance	555	859
Loans borrowed		
- Sinopec Finance	3,361,740	4,790,000
Loans repayment		
- Sinopec Finance	3,801,740	4,540,000
Interest expense		
- Sinopec Finance	29,716	22,148
Construction and installation cost		
- Sinopec Group Company and its subsidiaries	436,082	286,023

The directors of the Company are of the opinion that the transactions with Sinopec Corp, its subsidiaries and jointly controlled entities, Sinopec Group Company and its subsidiaries, associates and jointly controlled entities of the Group as disclosed in notes 25(a) and 25(b) were conducted in the ordinary course of business, on normal commercial terms and in accordance with the agreements governing such transactions.

25. Related party transactions *(continued)*

(c) The relevant amounts due from/to Sinopec Corp, its subsidiaries and jointly controlled entities, Sinopec Group Company and its subsidiaries, associates and jointly controlled entities of the Group, arising from purchases, sales and other transactions as disclosed in notes 25(a) and 25(b), are summarised as follows:

	The Group		The Company	
	2012	2011	2012	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Amounts due from related parties				
- Subsidiaries	-	-	16,793	22,502
- Sinopec Corp, its subsidiaries and jointly controlled entities	867,960	553,562	660,464	493,574
- Sinopec Group Company and its subsidiaries	3,884	1,910	3,884	1,910
- Associates and jointly controlled entities of the Group	180,998	83,814	180,998	81,668
Total	1,052,842	639,286	862,139	599,654
Amounts due to related parties				
- Subsidiaries	-	-	1,459,171	1,353,281
- Sinopec Corp, its subsidiaries and jointly controlled entities	3,211,906	2,027,816	3,125,184	2,014,702
- Sinopec Group Company and its subsidiaries	5,894	10,081	5,894	10,081
- Associates and jointly controlled entities of the Group	193,479	204,971	171,921	147,550
Total	3,411,279	2,242,868	4,762,170	3,525,614
Cash deposits, maturing within 3 months				
- Sinopec Finance	1,933	1,093	1,672	970
Short term loans				
- Sinopec Finance	220,000	660,000	220,000	660,000

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

25. Related party transactions *(continued)*

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

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

	2012 RMB'000	2011 RMB'000
Short term employee benefits	7,428	6,973
Post-employment benefits	170	147
	7,598	7,120

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

(e) Contributions to defined contribution retirement plans

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

	2012 RMB'000	2011 RMB'000
Municipal retirement scheme costs (note 26)	264,160	235,013
Supplementary retirement scheme costs (note 26)	68,763	59,922

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

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

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

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

- sales and 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.

25. Related party transactions *(continued)*

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

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

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

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

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

During the year ended 31 December 2012, the aggregate amount of crude oil purchased by the Group from the above state-controlled energy and chemical companies are as follows:

	2012 RMB'000	2011 RMB'000
Purchases of crude oil	13,243,442	16,987,956

As at 31 December 2012, there was no outstanding balance with the above state-controlled energy and chemical companies arising from purchases of crude oil (31 December 2011: prepayments of RMB 8,747,000).

(ii) Transactions with state-controlled banks

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

	2012 RMB'000	2011 RMB'000
Interest income	17,192	18,885
Interest expense	436,693	224,178

25. Related party transactions *(continued)*

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

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

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

	2012 RMB'000	2011 RMB'000
Cash and cash equivalents at state-controlled banks in the PRC	159,029	90,253
Short term loans and current portion of long term loans	10,803,877	4,852,074
Long term loans excluding current portion of long term loans	1,231,340	160,050
Total loans from state-controlled banks in the PRC	12,035,217	5,012,124

(g) Commitments with related parties

	2012 RMB'000	2011 RMB'000
Construction and installation cost:		
- Sinopec Group Company and its subsidiaries	53,690	408,664

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

26. Retirement schemes

As stipulated by the regulations of the PRC, the Group participates in a defined contribution retirement plan organised by the Shanghai Municipal Government for its staff. The Group is required to make contributions to the retirement plan at a rate of 22% of the salaries, bonuses and certain allowances of its staff in 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 of the PRC, the Group has set up a supplementary defined contribution retirement plan for the benefit of employees. Employees who have served the Group for more than one year may participate in this plan. The Group and participating employees make defined contributions to their pension saving accounts according to the plan. The assets of this plan are held separately from those of the Group in an independent fund administered by a committee consisting of representatives from the employees and the Group.

26. Retirement schemes *(continued)*

A member of the above plans is entitled to a pension amount equal to a fixed proportion of the salary prevailing at his or her retirement date. Both the Group and participating employees make defined contributions to the above two retirement plans. The Group has no other material obligation for the payment of pension benefits associated with these plans beyond the annual contributions described above. For the year ended 31 December 2012, the Group's contribution to the above two plans amounted to RMB 264,160,000 and RMB 68,763,000 respectively (2011: RMB 235,013,000 and RMB 59,922,000 respectively).

27. Capital commitments

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

	The Group and the Company	
	2012	2011
	RMB'000	RMB'000
Property, plant and equipment		
Contracted but not provided for	**123,310**	2,817,581
Authorised but not contracted for	**1,362,263**	2,708,271
	1,485,573	5,525,852

28. 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 year ended 31 December 2012. No provision has been made in the financial statements at 31 December 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.

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

29. Segment reporting

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

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

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

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

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

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

(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.

29. Segment reporting *(continued)*

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

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

(a) Segment results, assets and liabilities

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

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

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

29. Segment reporting *(continued)*

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

Turnover

	2012 RMB'000	2011 RMB'000
Manufactured Products		
Synthetic fibres		
- external sales	3,344,190	4,198,251
- intersegment sales	93	118
Total	3,344,283	4,198,369
Resins and plastics		
- external sales	14,828,298	16,589,438
- intersegment sales	108,618	136,352
Total	14,936,916	16,725,790
Intermediate petrochemicals		
- external sales (note a)	18,161,380	19,242,850
- intersegment sales (note b)	19,085,952	19,498,129
Total	37,247,332	38,740,979
Petroleum products		
- external sales (note a)	43,754,793	42,896,821
- intersegment sales	5,618,459	5,156,614
Total	49,373,252	48,053,435
Trading of petrochemical products		
- external sales (note a)	12,025,361	11,620,440
- intersegment sales	3,423,818	3,385,692
Total	15,449,179	15,006,132
Others		
- external sales (note a)	894,316	971,056
- intersegment sales	718,864	814,281
Total	1,613,180	1,785,337
Elimination of intersegment sales	(28,955,804)	(28,991,186)
Turnover	93,008,338	95,518,856

29. Segment reporting *(continued)*

(Loss)/profit before taxation

	2012 RMB'000	2011 RMB'000
(Loss)/profit from operations		
Synthetic fibres	(405,349)	301,334
Resins and plastics	(1,291,393)	11,994
Intermediate petrochemicals	832,675	1,148,572
Petroleum products	(993,026)	(453,368)
Trading of petrochemical products	46,448	14,969
Others	38,199	36,323
Consolidated (loss)/profit from operations	(1,772,446)	1,059,824
Net finance (costs)/income	(283,257)	83,542
Investment income	6,446	685
Share of profit of associates and jointly controlled entities	32,784	152,655
(Loss)/profit before taxation	(2,016,473)	1,296,706

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

	2012 RMB'000	2011 RMB'000
Sales to Sinopec Corp, its subsidiaries and jointly controlled entities		
Intermediate petrochemicals	4,355,455	4,851,962
Petroleum products	37,618,198	36,585,798
Trading of petrochemical products	6,999,471	8,721,026
Others	620,145	544,846
Total	49,593,269	50,703,632

29. Segment reporting *(continued)*

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

	2012 RMB'000	2011 RMB'000
Synthetic fibres	3,483,378	3,160,141
Resins and plastics	15,302,334	16,037,690
Petroleum products	300,240	300,298
Total	19,085,952	19,498,129

Assets	2012 RMB'000	2011 RMB'000
Segment assets		
Synthetic fibres	1,689,429	1,615,153
Resins and plastics	1,100,082	1,162,060
Intermediate petrochemicals	6,811,409	6,628,962
Petroleum products	18,661,951	14,401,380
Trading of petrochemical products	451,111	547,692
Others	2,715,605	2,238,739
Total segment assets	31,429,587	26,593,986
Unallocated		
Interest in associates and jointly controlled entities	2,867,153	2,901,305
Deferred tax assets	1,052,573	519,269
Investment property	439,137	452,555
Others	674,096	251,750
Total assets	36,462,546	30,718,865

29. Segment reporting *(continued)*

Liabilities	2012 RMB'000	2011 RMB'000
Segment liabilities		
Synthetic fibres	232,135	257,964
Resins and plastics	1,029,297	1,019,349
Intermediate petrochemicals	1,260,661	1,182,389
Petroleum products	4,927,935	3,795,554
Trading of petrochemical products	388,810	411,433
Others	62,079	70,729
Total segment liabilities	7,900,917	6,737,418
Unallocated		
Loans and borrowings		
-current	11,023,877	5,512,074
Loans and borrowings		
-non-current	1,231,340	160,050
Others	2,463	113,659
Total liabilities	20,158,597	12,523,201

29. Segment reporting *(continued)*

Depreciation and amortisation

	2012 RMB'000	2011 RMB'000
Synthetic fibres	143,742	120,257
Resins and plastics	161,764	165,499
Intermediate petrochemicals	583,280	572,200
Petroleum products	614,812	601,196
Trading of petrochemical products	330	601
Others	184,173	169,098
Segment depreciation and amortisation	1,688,101	1,628,851
Unallocated	13,250	13,250
Depreciation and amortisation	1,701,351	1,642,101

Impairment losses on long-lived assets

	2012 RMB'000	2011 RMB'000
Intermediate petrochemicals	-	10,552
Impairment losses on long-lived assets	-	10,552

Capital expenditure for segment long-lived assets

	2012 RMB'000	2011 RMB'000
Synthetic fibres	101,260	549,058
Resins and plastics	46,509	72,571
Intermediate petrochemicals	918,826	298,880
Petroleum products	2,571,457	2,212,855
Trading of petrochemical products	650	-
Others	621,157	347,871
Capital expenditure for segment long-lived assets	4,259,859	3,481,235

30. Accounting judgements and estimates

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

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

Impairments for long-lived assets

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

Depreciation

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

30. Accounting judgements and estimates *(continued)*

Impairment for bad and doubtful debts

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

Allowance for diminution in value of inventories

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

Recognition of deferred tax assets

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

In making the assessment of whether it is probable the Group will realise or utilise the deferred tax assets, management primarily relies on the generation of future taxable income to support the recognition of deferred tax assets. In order to fully utilise the deferred tax assets recognised at 31 December 2012, the Group would need to generate future taxable income of at least RMB 4,210 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 2,260 million is required to be generated by 2017 prior to the expiration of the unused tax losses incurred in the current year. Based on estimated forecast and historical experience, management believes that it is probable that the Group will generate sufficient taxable income before the unused tax losses expire.

31. Financial Instruments

Overview

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

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

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

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

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

Credit risk

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

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

31. Financial Instruments *(continued)*

Liquidity risk

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

At 31 December 2012, the Group's current liabilities exceeded its current assets by RMB 6,035,833,000. 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 31 December 2012, the Group had standby credit facilities with several PRC financial institutions which provided the Group to borrow up to RMB 18,196,000,000, of which RMB 7,850,000,000 was unutilised.

Management has carried out a detailed review of the cash flow forecast of the Group for the twelve months ending 31 December 2013. Based on such forecast, management believes that adequate sources of liquidity exist to fund the Group's working capital and capital expenditure requirements, and meet its short term debt obligations as they become due. In preparing the cash flow forecast, management has considered historical cash requirements of the Group as well as other key factors, including the availability of the above-mentioned banking facilities which may impact the operations of the Group during the next twelve-month period. Management is of the opinion that the assumptions used in the cash flow forecast are reasonable.

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

31. Financial Instruments *(continued)*

Liquidity risk *(continued)*

The Group

	2012				
	Carrying amount RMB'000	Total contractual undiscounted cash flow RMB'000	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000
Loans and borrowings (current)	11,023,877	11,110,694	11,110,694	-	-
Loans and borrowings (non-current)	1,231,340	1,403,074	74,037	428,298	900,739
Trade creditors	2,886,616	2,886,616	2,886,616	-	-
Other creditors	1,603,022	1,603,022	1,603,022	-	-
Amounts due to related parties	3,411,279	3,411,279	3,411,279	-	-
	20,156,134	20,414,685	19,085,648	428,298	900,739

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

31. Financial Instruments *(continued)*

Liquidity risk *(continued)*

The Company

	2012				
	Carrying amount RMB'000	Total contractual undiscounted cash flow RMB'000	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000
Loans and borrowings (current)	11,092,877	11,180,921	11,180,921	-	-
Loans and borrowings (non-current)	1,200,000	1,366,603	72,000	416,101	878,502
Trade creditors	1,596,894	1,596,894	1,596,894	-	-
Other creditors	1,487,258	1,487,258	1,487,258	-	-
Amounts due to related parties	4,762,170	4,762,170	4,762,170	-	-
	20,139,199	20,393,846	19,099,243	416,101	878,502

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

31. Financial Instruments *(continued)*

Market risk

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

(a) Currency risk

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

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

	The Group		The Company	
	2012	2011	**2012**	2011
	USD'000	USD'000	**USD'000**	USD'000
Gross exposure arising from loans and borrowings	**1,247,296**	733,637	**1,247,296**	733,637

A 5 percent strengthening/weakening of Renminbi against USD at 31 December 2012 would have increased/decreased net profit for the year and retained earnings of the Group by approximately RMB 293,995,000 (2011: RMB 173,347,000). This analysis has been determined assuming that the change in foreign exchange rates had occurred at the end of the reporting period and was applied to the foreign currency balances at that date to which the Group has significant exposure as stated above, and that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2011.

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

31. Financial Instruments *(continued)*

Market risk *(continued)*

(b) Interest rate risk

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

As at 31 December 2012, it is estimated that a general increase/decrease of 100 basis points in variable interest rates, with all other variables held constant, would decrease/increase the Group's net profit for the year and retained earnings by approximately RMB 66,827,000 (2011: RMB 35,185,000). This sensitivity analysis has been determined assuming that the change in interest rates had occurred at the end of the reporting period and the change was applied to the Group's debts outstanding at that date with exposure to cash flow interest rate risk. The impact on the Group's net profit for the year and retained earnings is estimated as an annualised impact on interest expense or income of such a change in interest rates. The analysis is performed on the same basis for 2011.

Fair value

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

The fair value of long term loans is estimated by discounting future cash flows thereon using current market interest rates of 5.76% to 6.40% offered to the Group for loans with substantially the same characteristics and maturities (2011: 5.90% to 6.21%). The following table presents the carrying amounts and fair values of the Group's long term loans at 31 December 2012 and 2011.

	2012		2011	
	Carrying amount RMB'000	Fair value RMB'000	Carrying amount RMB'000	Fair value RMB'000
Liabilities				
Long term loans	1,231,340	1,192,960	160,050	158,721

31. Financial Instruments *(continued)*

Fair value *(continued)*

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

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

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

Up to the date of issue of these financial statements, the IASB has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2012 and which have not been adopted in these financial statements.

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

33. Parent companies

The directors consider the immediate parent company and the ultimate parent company at 31 December 2012 to be China Petroleum & Chemical Corporation and China Petrochemical Corporation, respectively, which are incorporated in the PRC. China Petroleum & Chemical Corporation produces financial statements available for public use.

All Shareholders of Sinopec Shanghai Petrochemical Company Limited:

We have audited the accompanying financial statements of Sinopec Shanghai Petrochemical Company Limited ("the Company"), which comprise the consolidated balance sheet and balance sheet as at 31 December 2012, the consolidated income statement and income statement, the consolidated cash flow statement and cash flow statement, the consolidated statement of changes in shareholders'equity and statement of changes in shareholders' equity for the year then ended, and notes to the financial statements.

Management's Responsibility for the Financial Statements

The Company's management is responsible for the preparation and fair presentation of these financial statements. This responsibility includes: (1) preparing these financial statements in accordance with Accounting Standards for Business Enterprises issued by the Ministry of Finance of the People's Republic of China, and fairly presenting them; (2) designing, implementing and maintaining internal control which is necessary to enable that the financial statements are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the consolidated financial position and financial position of the Company as at 31 December 2012, and the consolidated financial performance and financial performance and the consolidated cash flows and cash flows of the Company for the year then ended in accordance with the requirements of Accounting Standards for Business Enterprises issued by the Ministry of Finance of the People's Republic of China.

KPMG Huazhen
(Special General Partnership)

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

Yu Xiaojun

Beijing, the People's Republic of China

Cheng Yujing

27 March 2013

Consolidated Balance Sheet

As at 31 December 2012
(Prepared under Accounting Standards for Business Enterprises)

Expressed in thousands of Renminbi Yuan

Assets	Note	2012	2011
Current assets:			
Cash at bank and on hand	5(1)	160,962	91,346
Bills receivable	5(2)	2,065,483	3,131,579
Accounts receivable	5(3)	1,082,742	609,906
Prepayments	5(4)	90,261	43,160
Other receivables	5(5)	40,765	46,994
Inventories	5(6)	8,938,077	5,582,425
Other current assets	5(7)	513,134	160,404
Total current assets		12,891,424	9,665,814
Non-current assets:			
Long-term equity investments	5(8)	3,057,153	3,101,305
Investment properties	5(9)	439,137	452,555
Fixed assets	5(10)	17,622,001	12,659,332
Construction in progress	5(11)	612,388	3,882,992
Intangible assets	5(12)	497,575	519,198
Long-term deferred expenses	5(13)	633,548	306,052
Deferred tax assets	5(14)	1,052,573	522,837
Total non-current assets		23,914,375	21,444,271
Total assets		36,805,799	31,110,085

The notes on pages 183 to 289 form part of these financial statements.

Consolidated Balance Sheet (continued)

As at 31 December 2012
(Prepared under Accounting Standards for Business Enterprises)

Expressed in thousands of Renminbi Yuan

Liabilities and shareholders' equity	Note	2012	2011
Current liabilities:			
Short-term loans	5(16)	11,023,877	5,512,074
Bills payable		-	15,688
Accounts payable	5(17)	5,523,248	4,650,007
Advances from customers	5(18)	758,796	706,835
Employee benefits payable	5(19)	48,008	46,140
Taxes payable	5(20)	671,231	507,938
Interest payable	5(21)	20,987	9,442
Dividends payable		21,548	22,599
Other payables	5(22)	859,562	801,109
Total current liabilities		18,927,257	12,271,832
Non-current liabilities:			
Long-term loans	5(23)	1,231,340	160,050
Other non-current liabilities	5(24)	190,000	295,619
Total non-current liabilities		1,421,340	455,669
Total liabilities		20,348,597	12,727,501
Shareholders' equity:			
Share capital	5(25)	7,200,000	7,200,000
Capital reserve	5(26)	2,914,763	2,914,763
Specific reserve	5(27)	8,179	21,777
Surplus reserve	5(28)	5,151,770	5,151,770
Retained earnings	5(29)	915,707	2,824,173
Total equity attributable to equity shareholders of the Company		16,190,419	18,112,483
Minority interests		266,783	270,101
Total equity		16,457,202	18,382,584
Total liabilities and shareholders' equity		36,805,799	31,110,085

These financial statements were approved by the Board of Directors of the Company on 27 March 2013.

Rong Guangdao	**Wang Zhiqing**	**Ye Guohua**
Chairman	Vice Chairman and President	Director and Chief Financial Officer

The notes on pages 183 to 289 form part of these financial statements.

Balance Sheet

As at 31 December 2012
(Prepared under Accounting Standards for Business Enterprises)

Expressed in thousands of Renminbi Yuan

Assets	Note	2012	2011
Current assets:			
Cash at bank and on hand	10(1)	119,148	61,057
Bills receivable	10(2)	1,914,007	2,941,248
Accounts receivable	10(3)	811,738	538,149
Prepayments		82,426	51,583
Other receivables	10(4)	15,569	10,592
Inventories	10(5)	8,615,644	5,281,885
Other current assets	10(6)	419,523	55,921
Total current assets		11,978,055	8,940,435
Non-current assets:			
Long-term equity investments	10(7)	4,069,891	4,105,694
Investment properties	5(9)	439,137	452,555
Fixed assets	10(8)	17,105,599	12,136,472
Construction in progress	10(9)	604,866	3,812,222
Intangible assets	10(10)	406,356	419,387
Long-term deferred expenses	10(11)	617,025	306,052
Deferred tax assets	10(12)	1,052,338	522,544
Total non-current assets		24,295,212	21,754,926
Total assets		36,273,267	30,695,361

The notes on pages 183 to 289 form part of these financial statements.

As at 31 December 2012
(Prepared under Accounting Standards for Business Enterprises)

Expressed in thousands of Renminbi Yuan

Liabilities and shareholders' equity	Note	2012	2011
Current liabilities:			
Short-term loans	10(14)	11,092,877	5,526,574
Bills payable		-	15,688
Accounts payable		5,175,493	4,377,765
Advances from customers		675,446	674,368
Employee benefits payable		42,959	41,506
Taxes payable	10(15)	663,603	481,854
Interest payable		20,987	9,434
Dividends payable		21,548	22,599
Other payables		1,246,286	1,256,888
Non-current liabilities due within one year	10(16)	-	45,000
Total current liabilities		18,939,199	12,451,676
Non-current liabilities:			
Long-term loans	10(17)	1,200,000	135,000
Other non-current liabilities	5(24)	190,000	295,619
Total non-current liabilities		1,390,000	430,619
Total liabilities		20,329,199	12,882,295
Shareholders' equity:			
Share capital	5(25)	7,200,000	7,200,000
Capital reserve	5(26)	2,914,763	2,914,763
Specific reserve	10(18)	-	14,272
Surplus reserve	5(28)	5,151,770	5,151,770
Retained earnings		677,535	2,532,261
Total equity		15,944,068	17,813,066
Total liabilities and shareholders' equity		36,273,267	30,695,361

These financial statements were approved by the Board of Directors of the Company on 27 March 2013.

Rong Guangdao
Chairman

Wang Zhiqing
Vice Chairman and President

Ye Guohua
Director and Chief Financial Officer

The notes on pages 183 to 289 form part of these financial statements.

Consolidated Income Statement

For the year ended 31 December 2012
(Prepared under Accounting Standards for Business Enterprises)

Expressed in thousands of Renminbi Yuan

	Note	2012	2011
Operating income	5(30)	93,072,254	95,601,248
Less: Operating costs	5(30)	86,041,072	85,042,194
Business taxes and surcharges	5(31)	5,791,064	6,009,203
Selling and distribution expenses	5(32)	649,906	675,771
General and administrative expenses	5(33)	2,388,555	2,556,011
Financial expenses ("-" for financial income)	5(34)	283,257	-83,542
Impairment losses	5(35)	203,927	284,574
Add: Investment income	5(36)	29,230	143,340
Including: Income from investment in associates and jointly controlled enterprises		22,784	142,655
Operating profit ("-" for loss)		-2,256,297	1,260,377
Add: Non-operating income	5(37)	279,838	91,894
Less: Non-operating expenses	5(38)	56,515	59,980
Including: Losses from disposal of non-current assets		24,670	21,125
Profit before income tax ("-" for loss)		-2,032,974	1,292,291
Less: Income tax expense	5(39)	-507,763	317,461
Net profit for the year ("-" for net loss)		-1,525,211	974,830
Attributable to: Equity shareholders of the Company ("-" for loss)		-1,548,466	944,414
Minority interests		23,255	30,416
Earnings per share:			
Basic and diluted earnings per share ("-" for loss)	5(40)	RMB -0.215	RMB 0.131
Other comprehensive income for the year	5(41)	-	-
Total comprehensive income for the year ("-" for loss)		-1,525,211	974,830
Attributable to: Equity shareholders of the Company ("-" for loss)		-1,548,466	944,414
Minority interests		23,255	30,416

These financial statements were approved by the Board of Directors of the Company on 27 March 2013.

Rong Guangdao
Chairman

Wang Zhiqing
Vice Chairman and President

Ye Guohua
Director and Chief Financial Officer

The notes on pages 183 to 289 form part of these financial statements.

Income Statement

For the year ended 31 December 2012
(Prepared under Accounting Standards for Business Enterprises)

Expressed in thousands of Renminbi Yuan

	Note	2012	2011
Operating income	10(19)	78,855,117	81,212,164
Less:Operating costs	10(19)	72,108,886	70,922,591
Business taxes and surcharges	10(20)	5,784,915	5,999,021
Selling and distribution expenses		545,185	575,691
General and administrative expenses		2,253,963	2,411,375
Financial expenses ("-" for financial income)	10(21)	264,962	-72,644
Impairment losses	10(22)	236,752	522,692
Add: Investment income	10(23)	101,698	102,819
Including: Income from investment in associates and jointly controlled enterprises		3,618	94,054
Operating profit ("-" for loss)		-2,237,848	956,257
Add: Non-operating income	10(24)	269,218	89,311
Less: Non-operating expenses	10(25)	55,890	53,324
Including: Losses from disposal of non-current assets		24,082	14,977
Profit before income tax ("-" for loss)		-2,024,520	992,244
Less: Income tax expense	10(26)	-529,794	287,681
Net profit for the year ("-" for net loss)		-1,494,726	704,563
Other comprehensive income for the year	5(41)	-	-
Total comprehensive income for the year ("-" for loss)		-1,494,726	704,563

These financial statements were approved by the Board of Directors of the Company on 27 March 2013.

Rong Guangdao
Chairman

Wang Zhiqing
Vice Chairman and President

Ye Guohua
Director and Chief Financial Officer

The notes on pages 183 to 289 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2012
(Prepared under Accounting Standards for Business Enterprises)

Expressed in thousands of Renminbi Yuan

	Note	2012	2011
Cash flows from operating activities:			
Cash received from sale of goods and rendering of services		109,890,063	111,087,715
Refund of taxes		56,207	71,454
Cash received relating to other operating activities		106,527	147,408
Sub-total of cash inflows		110,052,797	111,306,577
Cash paid for goods and services		-101,960,334	-96,541,704
Cash paid to and for employees		-2,543,488	-2,372,769
Cash paid for all types of taxes		-6,673,708	-9,365,576
Cash paid relating to other operating activities	5(42(a))	-486,788	-545,097
Sub-total of cash outflows		-111,664,318	-108,825,146
Net cash inflow from operating activities ("-" for outflow)	5(43(a)1)	-1,611,521	2,481,431
Cash flows from investing activities:			
Cash received from disposal of investments		46,000	700,000
Cash received from investment income		66,936	588,118
Net cash received from disposal of fixed assets and other long-term assets		28,247	70,344
Cash received relating to other investing activities		86,545	99,345
Sub-total of cash inflows		227,728	1,457,807
Cash paid for acquisition of fixed assets and other long-term assets		-4,259,859	-3,481,235
Cash paid for acquisition of investments		-30,000	-786,751
Sub-total of cash outflows		-4,289,859	-4,267,986
Net cash outflow from investing activities		-4,062,131	-2,810,179

The notes on pages 183 to 289 form part of these financial statements.

For the year ended 31 December 2012
(Prepared under Accounting Standards for Business Enterprises)

Expressed in thousands of Renminbi Yuan

	Note	2012	2011
Cash flows from financing activities:			
Cash received from borrowings		53,365,372	35,106,127
Sub-total of cash inflows		53,365,372	35,106,127
Cash repayments of corporate bonds		-	-1,000,000
Cash repayments of borrowings		-46,779,614	-32,791,261
Cash paid for dividends, profit distributions and interest		-842,488	-994,496
Sub-total of cash outflows		-47,622,102	-34,785,757
Net cash inflow from financing activities		5,743,270	320,370
Effect of foreign exchange rate changes on cash and cash equivalents		-2	-386
Net increase in cash and cash equivalents(“-” for decrease)	5(43(a)2)	69,616	-8,764
Add: cash and cash equivalents at the beginning of the year		91,346	100,110
Cash and cash equivalents at the end of the year	5(43(b))	160,962	91,346

These financial statements were approved by the Board of Directors of the Company on 27 March 2013.

Rong Guangdao
Chairman

Wang Zhiqing
Vice Chairman and President

Ye Guohua
Director and Chief Financial Officer

The notes on pages 183 to 289 form part of these financial statements.

Cash Flow Statement

For the year ended 31 December 2012
(Prepared under Accounting Standards for Business Enterprises)

Expressed in thousands of Renminbi Yuan

	Note	2012	2011
Cash flows from operating activities:			
Cash received from sale of goods and rendering of services		92,941,573	93,639,385
Cash received relating to other operating activities		101,882	144,908
Sub-total of cash inflows		93,043,455	93,784,293
Cash paid for goods and services		-85,342,824	-79,624,048
Cash paid to and for employees		-2,378,786	-2,211,455
Cash paid for all types of taxes		-6,581,316	-9,237,941
Cash paid relating to other operating activities		-441,755	-504,854
Sub-total of cash outflows		-94,744,681	-91,578,298
Net cash inflow from operating activities ("-" for outflow)	10(27(a)1)	-1,701,226	2,205,995
Cash flows from investing activities:			
Cash received from disposal of investments		-	700,000
Cash received from investment income		137,501	580,441
Net cash received from disposal of fixed assets and other long-term assets		6,525	8,130
Cash received relating to other investing activities		77,276	89,596
Sub-total of cash inflows		221,302	1,378,167
Cash paid for acquisition of fixed assets and other long-term assets		-4,248,681	-3,410,113
Cash paid for acquisition of investments		-	-700,000
Sub-total of cash outflows		-4,248,681	-4,110,113
Net cash outflow from investing activities		-4,027,379	-2,731,946

The notes on pages 183 to 289 form part of these financial statements.

Cash Flow Statement (continued)

For the year ended 31 December 2012
(Prepared under Accounting Standards for Business Enterprises)

Expressed in thousands of Renminbi Yuan

	Note	2012	2011
Cash flows from financing activities:			
Cash received from borrowings		53,422,184	35,059,077
Sub-total of cash inflows		53,422,184	35,059,077
Cash repayments of corporate bonds		-	-1,000,000
Cash repayments of borrowings		-46,843,915	-32,603,596
Cash paid for dividends, profit distributions and interest		-791,573	-957,353
Sub-total of cash outflows		-47,635,488	-34,560,949
Net cash inflow from financing activities		5,786,696	498,128
Effect of foreign exchange rate changes on cash and cash equivalents		-	-344
Net increase in cash and cash equivalents ("-" for decrease)	10(27(a)2)	58,091	-28,167
Add: cash and cash equivalents at the beginning of the year		61,057	89,224
Cash and cash equivalents at the end of the year	10(27(b))	119,148	61,057

These financial statements were approved by the Board of Directors of the Company on 27 March 2013.

Rong Guangdao
Chairman

Wang Zhiqing
Vice Chairman and President

Ye Guohua
Director and Chief Financial Officer

The notes on pages 183 to 289 form part of these financial statements.

Consolidated Statement of Changes in Shareholders' Equity

For the year ended 31 December 2012
(Prepared under Accounting Standards for Business Enterprises)

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 year															
1. Net profit for the year ("-" for net loss)		-	-	-	-	-1,548,466	23,255	-1,525,211	-	-	-	-	944,414	30,416	974,830
2. Other comprehensive income for the year	5(41)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sub-total of 1&2		-	-	-	-	-1,548,466	23,255	-1,525,211	-	-	-	-	944,414	30,416	974,830
3. Appropriation of profits															
(1) Appropriation for surplus reserve	5(28)	-	-	-	-	-	-	-	-	-	-	70,456	-70,456	-	-
(2) Distributions to shareholders	5(29)	-	-	-	-	-360,000	-26,573	-386,573	-	-	-	-	-720,000	-20,168	-740,168
4. Specific reserve															
(1) Accrued	5(27)	-	-	123,401	-	-	-	123,401	-	-	125,188	-	-	-	125,188
(2) Utilised	5(27)	-	-	-136,999	-	-	-	-136,999	-	-	-150,159	-	-	-	-150,159
Balance at 31 December		7,200,000	2,914,763	8,179	5,151,770	915,707	266,783	16,457,202	7,200,000	2,914,763	21,777	5,151,770	2,824,173	270,101	18,382,584

These financial statements were approved by the Board of Directors of the Company on 27 March 2013.

Rong Guangdao
Chairman

Wang Zhiqing
Vice Chairman and President

Ye Guohua
Director and Chief Financial Officer

The notes on pages 183 to 289 form part of these financial statements.

Statement of Changes in Shareholders' Equity

For the year ended 31 December 2012
(Prepared under Accounting Standards for Business Enterprises)

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 year													
1. Net profit for the year ("-" for net loss)		-	-	-	-	-1,494,726	-1,494,726	-	-	-	-	704,563	704,563
2. Other comprehensive income for the year	5(41)	-	-	-	-	-	-	-	-	-	-	-	-
Sub-total of 1&2		-	-	-	-	-1,494,726	-1,494,726	-	-	-	-	704,563	704,563
3.Appropriation of profits													
(1) Appropriation for surplus reserve	5(28)	-	-	-	-	-	-	-	-	-	70,456	-70,456	-
(2) Distributions to shareholders	5(29)	-	-	-	-	-360,000	-360,000	-	-	-	-	-720,000	-720,000
4.Specific reserve													
(1) Accrued	10(18)	-	-	117,960	-	-	117,960	-	-	117,960	-	-	117,960
(2) Utilised	10(18)	-	-	-132,232	-	-	-132,232	-	-	-147,068	-	-	-147,068
Balance at 31 December		7,200,000	2,914,763	-	5,151,770	677,535	15,944,068	7,200,000	2,914,763	14,272	5,151,770	2,532,261	17,813,066

These financial statements were approved by the Board of Directors of the Company on 27 March 2013.

Rong Guangdao
Chairman

Wang Zhiqing
Vice Chairman and President

Ye Guohua
Director and Chief Financial Officer

The notes on pages 183 to 289 form part of these financial statements.

1. Company status

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

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 31 December 2012 and the consolidated financial performance and financial performance and the consolidated cash flows and cash flows of the Company for the year then ended.

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

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

(3) Accounting 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 treatments for 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.

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

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

(6) Consolidated financial statements *(continued)*

When the Group loses control of a subsidiary due to the disposal of a portion of an equity investment, the Group derecognises assets, liabilities, minority interests and other related items in shareholders' equity in relation to that subsidiary. The remaining equity investment is remeasured at its fair value at the date when control is lost. Any gains or losses therefore incurred are recognised as investment income for the current period when control is lost.

Minority 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)).

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

(9) Financial instruments *(continued)*

(a) Recognition and measurement of financial assets and financial liabilities *(continued)*

- Other financial liabilities *(continued)*

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

(b) 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.

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

(9) Financial instruments *(continued)*

(d) Derecognition of financial assets and financial liabilities

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

Where a transfer of a financial asset in its 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.

(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 decline in the fair value (i.e. a decline of more than 60%) or a prolonged decline in the fair value (i.e. a decline in the fair value persisting for a year) of an investment in an equity instrument below its cost.

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

(9) Financial instruments *(continued)*

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

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.

(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 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.

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

(10) Impairment of receivables *(continued)*

If, after an impairment loss has been recognised on receivables, there is objective evidence of 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	Receivables which are individually larger than RMB10,000,000
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 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.

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.

(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.

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 *(continued)*

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale and relevant taxes. 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.

(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.

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

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

(a) Investment cost *(continued)*

(1) Long-term equity investments acquired through a business combination *(continued)*

- For a long-term equity investment obtained through a business combination not involving enterprises under common control, the initial investment cost comprises the aggregate of the fair value of assets transferred, liabilities incurred or assumed, and equity securities issued by the Company, in exchange for control of the acquiree. 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.

(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. 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

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)).

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

- Where the initial investment cost of a long-term equity investment exceeds the Group's interest in the fair value of the investee's identifiable net assets at the date of acquisition, the investment is initially recognised at the initial investment cost. Where the initial investment cost is less than the Group's interest in the fair value of the investee's identifiable net assets at the date of acquisition, the investment is initially recognised at the investor's share of the fair value of the investee's identifiable net assets, and the difference is charged to profit or loss.

- After the acquisition of the investment in a jointly controlled enterprise or an associate, the Group recognises its share of the investee's profit or loss after deducting the amortisation of the debit balance of the equity investment difference, which was recognised by the Group before the first-time adoption of CAS, as investment income or losses, and adjusts the carrying amount of the investment accordingly. Once the investee declares any cash dividends or profit distributions, the carrying amount of the investment is reduced by that amount attributable to the Group.

  The Group recognises its share of the investee's net profit or loss 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 profit or loss 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 loss resulting from transactions between the Group and its associates or jointly controlled enterprises are eliminated in the same way as unrealised profit but only to the extent that there is no evidence of impairment.

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

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

(b) Subsequent measurement *(continued)*

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

- The Group discontinues recognising its share of net loss 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 profit is subsequently made by the associate or jointly controlled enterprise, the Group resumes recognising its share of those profit only after its share of the profit equals the share of loss not recognised.

- The Group adjusts the carrying amount of the long-term equity investment for changes in shareholders' equity of the investee other than those arising from net profit or loss, 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;

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)*

- 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.

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.

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

(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 (year)	Residual value rate(%)	Depreciation rate (%)
Properties	40	3	2.43

(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.

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

(14) Fixed assets *(continued)*

(b) Depreciation of fixed assets

The cost of fixed assets, 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 rates and depreciation rates of each category of fixed assets are as follows:

Category	Estimated useful life (years)	Residual value rate (%)	Depreciation rate (%)
Buildings	12-40	0-5	2.4-8.3
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.

(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.

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

(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.

- 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.

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

(16) Borrowing costs *(continued)*

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:

Items	Amortisation period (years)
Land use right	50
Other intangible assets (including industrial proprietary technology and software, etc.)	2-28

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

Expenditure on the research phase is recognised in profit or loss when incurred. Expenditure on 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.

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

(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)
Catalysts	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 shareholders' 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

Revenues from sale of petroleum and chemical products are 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; and
- 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, are 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.

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

(24) Income Tax *(continued)*

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

- The taxable entity has a legally enforceable right to offset current tax liabilities and assets; and

- They relate to income taxes levied by the same tax authority on either:

  - the same taxable entity; or

  - different taxable entities which intend either to settle the current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

(25) Assets held for sale

A non-current asset is 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.

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

(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.

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.

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

(28) Segment reporting

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

- engage in business activities from which it may earn revenues and incur expenses;
- whose 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.

(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.

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

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

(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 circumstances 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 and precisely. In assessing value in use, significant judgements are exercised over the asset's (or the asset group's) production volume, selling price, related operating costs 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 volume, selling price and related operating costs based on reasonable and supportable assumptions.

(b) Depreciation

Fixed assets are depreciated on a straight-line basis over the useful lives of the assets, after taking into account the estimated residual values. Management 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.

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

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

(d) Allowance for diminution in value of inventories

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

(e) Recognition of deferred tax assets

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

In making the assessment of whether it is probable the Group will realise or utilise the deferred tax assets, management primarily relies on the generation of future taxable income to support the recognition of deferred tax assets. In order to fully utilise the deferred tax assets recognised at 31 December 2012, the Group would need to generate future taxable income of at least RMB 4,210 million, of which RMB 1,497 million is required to be generated by 2013, prior to the expiration of the unused tax losses generated in 2008, and RMB 2,260 million is required to be generated by 2017, prior to the expiration of the unused tax losses generated in 2012. 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.

(30) Changes in significant accounting policies

There is no material change in accounting policies of the Group during the year ended 31 December 2012.

3. Taxation

(1) The types of taxes and tax rate:

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 year.	6%,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 income tax rate applicable to the Company and each of its subsidiaries is 25% (2011: 25%).

4. Business combination and consolidated financial statements

(1) Principal subsidiaries

At 31 December 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 year end	Loss attributable to minority interests during the year
Shanghai Petrochemical Investment Development Company Limited	Wholly-owned	Limited company	Shanghai	Investment	RMB1,000,000	Investment management	1,338,456	-	100	100	Yes	-	-
China Jinshan Associated Trading Corporation	Holding	Limited company	Shanghai	Trading	RMB25,000	Import and export of petrochemical products and equipment	16,832	-	67.33	67.33	Yes	50,614	-
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	29,341	-
Shanghai Golden Phillips Petrochemical Company Limited	Holding	Limited company	Shanghai	Manufacturing	USD50,000	Production of polypropylene products	249,374	-	60	60	Yes	186,828	-
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	-	-

There is no material change in the consolidated scope during the year ended 31 December 2012.

5. Notes to the consolidated financial statements

(1) Cash at bank and on hand

Expressed in thousands of RMB/USD/HKD/CHF

Item	2012			2011		
	Original currency	Exchange rate	RMB	Original currency	Exchange rate	RMB
Cash on hand:						
RMB	—	—	47	—	—	75
Deposits with banks:						
RMB	—	—	159,382	—	—	88,047
HKD	962	0.8108	780	825	0.8107	669
USD	24	6.2855	148	233	6.3009	1,471
Other monetary funds:(Note)						
RMB	—	—	605	—	—	161
CHF	—	—	—	138	6.7085	923
Total	—	—	160,962	—	—	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	2012	2011
Bank acceptance bills	2,054,378	3,090,890
Commercial acceptance bills	11,105	40,689
Total	2,065,483	3,131,579

All of the above bills held are short-term acceptance bills due within six months. No bills receivables were pledged or transferred to accounts receivable due to non-performance of the issuers in 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 31 December 2012, the Group's discounted bank bills (with recourse) which were still undue amounted to RMB 1,137,223,000 (31 December 2011: RMB 222,169,000).

At 31 December 2012, the Group had no discounted commercial bills which were still undue (31 December 2011: RMB nil).

(c) At 31 December 2012, the Group's endorsed bank bills which were still undue amounted to RMB 532,090,000 (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	26/09/2012	09/01/2013	60,000	Bank acceptance bills
Jialong Petrochemical Fibre (Shishi) Company Limited	14/09/2012	07/01/2013	50,000	Bank acceptance bills
Xinpu Chemical (Taixing) Company Limited	26/12/2012	26/03/2013	25,000	Bank acceptance bills
Shanghai International Commerce Company Limited	20/12/2012	19/01/2013	23,600	Bank acceptance bills
Shanghai International Commerce Company Limited	26/11/2012	17/02/2013	14,400	Bank acceptance bills
Total			173,000	

At 31 December 2012, the Group had no endorsed commercial bills which were still undue (31 December 2011: RMB nil).

(3) Accounts receivable

(a) Accounts receivable by customer type

Expressed in thousands of Renminbi Yuan

Customer Type	Note	2012	2011
Amounts due from related parties	6(6)	989,258	487,970
Amounts due from third parties		94,366	126,671
Less: Provision for bad and doubtful debts		-882	-4,735
Total		1,082,742	609,906

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

(3) Accounts receivable *(continued)*

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

Expressed in thousands of Renminbi Yuan

Ageing	2012	2011
Within one year (inclusive)	1,082,733	608,809
Over one year but within two years (inclusive)	9	1,477
Over two years but within three years (inclusive)	7	8
Over three years	875	4,347
Less: Provision for bad and doubtful debts	-882	-4,735
Total	1,082,742	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	2012				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)	1,082,733	99.92	-	-	608,809	99.05	-	-
Over one year but within two years (inclusive)	9	0.00	3	30.00	1,477	0.24	384	26.00
Over two years but within three years (inclusive)	7	0.00	4	60.00	8	0.00	4	50.00
Over three years	875	0.08	875	100.00	4,347	0.71	4,347	100.00
Total	1,083,624	100.00	882	—	614,641	100.00	4,735	—

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

During the year, the Group assessed the impairment on an individual basis in accordance with the accounting policy as described in Note 2(10), and there were no 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 31 December 2012, the Group had no individually significant accounts receivable that aged over three years.

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

(3) Accounts receivable *(continued)*

(d) 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.	575,214	Due within one year	53.08
Sinopec Chemical Commercial Holding Company Limited	Subsidiary of Sinopec Corp.	185,201	Due within one year	17.09
Shanghai Secco Petrochemical Company Limited	Associate of the Company	155,486	Due within one year	14.35
BOC-SPC Gases Company Limited	Jointly controlled enterprise of the Company	22,621	Due within one year	2.09
Changzhou Dohow Chemical Company Limited	Third party	15,853	Due within one year	1.46
Total		954,375		88.07

(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	2012	2011
Prepayments to related parties	6(6)	41,370	3,890
Prepayments to third parties		48,891	39,270
Total		90,261	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 prepayment(%)	Ageing	Reason for unsettled account
China International United Petroleum & Chemicals Co., Ltd. Ningbo Branch	Subsidiary of Sinopec Corp.	38,631	42.80	Due within one year	Prepayment for goods
Shanghai Natural Gas Pipeline Network Company Limited	Third Party	38,470	42.62	Due within one year	Prepayment for goods
Shanghai International Company Limited	Third Party	4,605	5.10	Due within one year	Prepayment for goods
Ningbo Terry Logistics Company Limited	Third Party	2,642	2.93	Due within one year	Prepayment for goods
Sinopec Chemical Commercial Holding Company Limited	Subsidiary of Sinopec Corp.	952	1.05	Due within one year	Prepayment for goods
Total		85,300	94.50		

(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	2012	2011
Amounts due from related parties	6(6)	3,388	3,857
Amounts due from third parties		40,162	45,843
Less: Provision for bad and doubtful debts		-2,785	-2,706
Total		40,765	46,994

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

Expressed in thousands of Renminbi Yuan

Ageing	2012	2011
Within one year (inclusive)	40,453	46,833
Over one year but within two years (inclusive)	243	17
Over two years but within three years (inclusive)	12	45
Over three years	2,842	2,805
Less: Provision for bad and doubtful debts	-2,785	-2,706
Total	40,765	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	2012				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 collectively assessed for impairment								
Within one year (inclusive)	40,453	92.89	-	-	46,833	94.23	-	-
Over one year but within two years (inclusive)	243	0.56	73	30.00	17	0.03	5	30.00
Over two years but within three years (inclusive)	12	0.03	7	60.00	45	0.09	27	60.00
Over three years	2,842	6.52	2,705	95.00	2,805	5.65	2,674	95.00
Total	43,550	100.00	2,785	—	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 year, the Group assessed the impairment on an individual basis in accordance with the accounting policy as described in Note 2 (10), and there were no 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 31 December 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	7,385	Due within one year	16.96
Shanghai Yali Development Company Limited	Third Party	5,950	Due within one year	13.66
Shanghai Railway Station HangZhou Depot (North)	Third Party	2,071	Due within one year	4.76
BOC-SPC Gases Company Limited	Jointly controlled enterprise of the Company	1,882	Due within one year	4.32
China Ocean Shipping Agency (Shanghai) Company Limited	Third Party	862	Due within one year	1.98
Total		18,150		41.68

(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	2012			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	5,492,795	1,141	5,491,654	2,046,740	4,642	2,042,098
Work in progress	2,004,536	9,235	1,995,301	1,980,028	-	1,980,028
Finished goods	1,110,940	54,450	1,056,490	1,291,813	123,941	1,167,872
Spare parts and consumables	441,244	46,612	394,632	457,428	65,001	392,427
Total	9,049,515	111,438	8,938,077	5,776,009	193,584	5,582,425

All the above inventories are purchased or self-manufactured.

(b) An analysis of the movement of inventories for the year is as follows:

Expressed in thousands of Renminbi Yuan

Item	At 1 January 2012	Increases	Decreases	At 31 December 2012
Raw materials	2,046,740	84,952,683	-81,506,628	5,492,795
Work in progress	1,980,028	85,550,340	-85,525,832	2,004,536
Finished goods	1,291,813	85,525,832	-85,706,705	1,110,940
Spare parts and consumables	457,428	304,535	-320,719	441,244
Sub-total	5,776,009	256,333,390	-253,059,884	9,049,515
Less: Provision for diminution in value of inventories	-193,584	-205,416	287,562	-111,438
Carrying amount	5,582,425	256,127,974	-252,772,322	8,938,077

(c) Provision for diminution in value of inventories

Expressed in thousands of Renminbi Yuan

Item	At 1 January 2012	Provision made for the year	Decreases during the year		At 31 December 2012
			Reversal	Write-off	
Raw materials	4,642	90,536	-1,860	-92,177	1,141
Work in progress	-	43,750	-	-34,515	9,235
Finished goods	123,941	71,130	-	-140,621	54,450
Spare parts and consumables	65,001	-	-	-18,389	46,612
Total	193,584	205,416	-1,860	-285,702	111,438

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

(7) Other current assets

Expressed in thousands of Renminbi Yuan

Items	2012	2011
VAT deductible	396,991	44,639
Catalysts - current portion	46,143	29,765
Entrusted Loan due within one year	70,000	86,000
Total	513,134	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 enterprises	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)	-608	23,392	22,784	-	22,784
Dividends receivable/ received	-42,436	-24,500	-66,936	-	-66,936
Balance at 31 December 2012	2,934,248	122,905	3,057,153	-	3,057,153

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 RMB/USD

Name of investee	Company type	Investment cost	Registration place	Balance at 1 January 2012	Movement during the year	Balance at 31 December 2012	Legal representative	Business Scope	Registered capital	Effective shareholding percentage (%)	Effective voting right (%)	Total assets at year end	Total liabilities at year end	Net assets at year end	Total revenue during the year	Net profit during the year ("-" for net loss)
1, Equity method-jointly controlled enterprises																
BOC-SPC Gases Company Limited*	Limited company	RMB 127,992	Shanghai	124,013	-1,108	122,905	Xu Zhongwei	Production and sales of industrial gases	USD 32,000	50	50	515,804	203,351	312,453	399,221	39,807
2, Equity method-associates																
Shanghai Secco Petrochemical Company Limited*	Limited company	RMB 1,488,718	Shanghai	1,529,342	-75,251	1,454,091	Wang Zhiqing	Manufacturing and distribution of chemical products	USD 901,441	20	25	14,290,842	7,020,560	7,270,282	27,157,954	-349,032
Shanghai Chemical Industry Park Development Company Limited*	Limited company	RMB 907,770	Shanghai	1,097,051	40,556	1,137,607	Rong Guangdao	Planning, development and operation of the Chemical Industry Park in Shanghai	RMB 2,372,439	38.26	38.26	6,401,687	2,580,105	3,821,582	6,057	144,360
Shanghai Jinsen Hydrocarbon Resins Company Limited	Limited company	RMB 77,503	Shanghai	84,401	-1,380	83,021	Sun Xiaofeng	Production of resin products	USD 23,395	40	40	222,071	12,813	209,258	273,874	13,985
Shanghai Azbil Automation Company Limited	Limited company	RMB 9,776	Shanghai	70,089	2,554	72,643	Wang Weiguo	Service and maintenance of building automation systems and products	USD 3,000	40	40	241,430	61,080	180,350	275,879	36,145
Others				196,409	-9,523	186,886						553,251	117,580	435,671	1,374,171	6,152
Total				3,101,305	-44,152	3,057,153						22,225,085	9,995,489	12,229,596	29,487,156	-108,583

* 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 end of the year	546,412
Decrease for the year	-208
Balance at the end of the year	546,204
Accumulated depreciation	
Balance at the beginning of the year	93,857
Charge for the year	13,250
Decrease for the year	-40
Balance at the end of the year	107,067
Carrying amount	
At the end of the year	439,137
At the beginning of the year	452,555

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

(10) Fixed assets

(a) Fixed assets

Expressed in thousands of Renminbi Yuan

Item	Buildings	Plant and machinery	Vehicles and other equipment	Total
Cost				
Balance at the beginning of the year	5,805,187	26,360,321	6,912,238	39,077,746
Reclassification during the year	-2,154,455	7,123,424	-4,968,969	-
Additions during the year	-	117,126	41,606	158,732
Transfer from construction in progress	110,431	6,428,975	27,302	6,566,708
Disposal during the year	-19,467	-266,885	-77,574	-363,926
Balance at the end of the year	3,741,696	39,762,961	1,934,603	45,439,260
Accumulated depreciation				
Balance at the beginning of the year	3,791,463	16,591,407	5,045,491	25,428,361
Reclassification during the year	-1,858,420	5,415,113	-3,556,693	-
Charge for the year	97,061	1,533,040	69,776	1,699,877
Written off on disposal	-9,819	-216,172	-70,844	-296,835
Balance at the end of the year	2,020,285	23,323,388	1,487,730	26,831,403
Provision for impairment				
Balance at the beginning of the year	111,443	800,458	78,152	990,053
Reclassification during the year	-9,106	34,055	-24,949	-
Written off on disposal	-362	-3,662	-173	-4,197
Balance at the end of the year	101,975	830,851	53,030	985,856
Carrying amount				
Balance at the end of the year	1,619,436	15,608,722	393,843	17,622,001
Balance at the beginning of the year	1,902,281	8,968,456	1,788,595	12,659,332

(b) At 31 December 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

2012			2011		
Book Value	Provision for impairment	Carrying Amount	Book Value	Provision for impairment	Carrying Amount
612,388	-	612,388	3,882,992	-	3,882,992

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

Expressed in thousands of Renminbi Yuan

Project	Budget	Balance at 1 January 2012	Additions	Transferred to fixed assets	Transferred to long-term deferred expenses	Percentage of actual cost to budget (%)	Accumulated capitalised interest	Including: capitalised interest for the year	Interest capitalisation rate(%)	Source of funds	Balance at 31 December 2012
The Refinery Revamping and Expansion Project	6,266,550	2,687,879	3,126,350	5,458,512	355,717	92.78%	130,070	105,619	2.98-6.21	Equity funds and loans	-
1500 ton/year PAN-based Carbon Fibre Project (Stage I)	411,052	366,841	44,211	411,052	-	100.00%	8,185	4,687	2.98-6.21	Equity funds and loans	-
Jinchang 30,000 ton Modified Polypropylene Project	70,535	70,058	477	70,535	-	100.00%	691	-	-	Equity funds and loans	-
The Expansion Project for Main Transformer 4# and 6# of the Power Plant	71,776	51,153	15,770	66,923	-	93.24%	-	-	-	Equity funds	-
Upgrade Project for the Optimisation of Energy Savings on SL–II Ethylene Cracking Furnace Project in New Ethylene Area	114,950	-	79,992	-	-	69.59%	-	-	-	Equity funds	79,992
No.2 and No.3 Aromatic Hydrocarbon Energy Savings Upgrade Project	954,240	-	29,791	-	-	3.12%	-	-	-	Equity funds	29,791
Restructuring of 1# Ethylene Glycol Facility to Increase Ethylene Oxide Output	140,200	-	29,277	-	-	20.88%	-	-	-	Equity funds	29,277
Others		707,061	325,953	559,686	-		-	-	-	Equity funds	473,328
Total		3,882,992	3,651,821	6,566,708	355,717		138,946	110,306			612,388

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 year	748,867	95,339	844,206
Disposal during the year	-4,000	-	-4,000
Balance at the end of the year	744,867	95,339	840,206
Accumulated amortisation			
Balance at the beginning of the year	270,653	54,355	325,008
Charge for the year	15,404	2,919	18,323
Written off on disposal	-700	-	-700
Balance at the end of the year	285,357	57,274	342,631
Carrying amount			
Balance at the end of the year	459,510	38,065	497,575
Balance at the beginning of the year	478,214	40,984	519,198

(13) Long-term deferred expenses

Expressed in thousands of Renminbi Yuan

Item	At 1 January 2012	Additions for the year	Amortisation for the year	Reclassification to other current assets	At 31 December 2012
Catalysts	306,052	544,834	-171,195	-46,143	633,548

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	2012		2011	
	Deductable or taxable temporary differences ("-" for taxable temporary difference)	Deferred tax assets/ deferred tax liabilities ("-" for liabilities)	Deductable 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	66,104	16,526	145,064	36,266
Provision for impairment of fixed assets	351,932	87,983	449,188	112,297
Contribution of fixed assets and sales of assets to a jointly controlled enterprise	29,768	7,442	33,272	8,318
Deductible tax losses	3,757,434	939,359	1,496,744	374,186
Specific reserve accrued	-	-	14,272	3,568
Other deferred tax assets	74,776	18,694	34,388	8,597
Sub-total	4,280,014	1,070,004	2,172,928	543,232
Offsetting	-69,724	-17,431	-81,580	-20,395
After offsetting	4,210,290	1,052,573	2,091,348	522,837
Deferred tax liabilities:				
Capitalisation of borrowing costs	-69,724	-17,431	-81,580	-20,395
Offsetting	69,724	17,431	81,580	20,395
After offsetting	-	-	-	-

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

(14) 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 year	Balance at 31 December 2012
Deferred tax assets:			
Provision for bad and doubtful debt and diminution in value of inventories	36,266	-19,740	16,526
Provision for impairment of fixed assets	112,297	-24,314	87,983
Contribution of fixed assets and sales of assets to a jointly controlled enterprise	8,318	-876	7,442
Deductible tax losses	374,186	565,173	939,359
Specific reserve accrued	3,568	-3,568	-
Other deferred tax assets	8,597	10,097	18,694
Capitalisation of borrowing costs	-20,395	2,964	-17,431
Total	522,837	529,736	1,052,573

(c) Details of unrecognised deferred tax assets

Expressed in thousands of Renminbi Yuan

Item	Note	2012	2011
Provision for impairment of fixed assets	(i)	432,579	432,579
Deductible tax losses	(ii)	426,685	465,414
Total		859,264	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 (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 426,685,000 (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 2013 to 2017 under current tax law.

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

(14) Deferred tax assets *(continued)*

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

Expressed in thousands of Renminbi Yuan

Year	2012	2011
2012	-	68,548
2013	197,952	197,952
2014	107,292	107,292
2015	49,294	49,294
2016	42,328	42,328
2017	29,819	-
Total	426,685	465,414

(15) Provision for impairment

Expressed in thousands of Renminbi Yuan

Item	Note	At 1 January 2012	Charge for the year	Decreases for the year		At 31 December 2012
				Reversal	Write-off	
Accounts receivable	5(3)	4,735	280	-43	-4,090	882
Other receivables	5(5)	2,706	589	-455	-55	2,785
Inventories	5(6)	193,584	205,416	-1,860	-285,702	111,438
Fixed assets	5(10)	990,053	-	-	-4,197	985,856
Total		1,191,078	206,285	-2,358	-294,044	1,100,961

The reasons for recognising impairment losses during the year 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	2012	2011
Unsecured loans		
-Bank loans	10,803,877	4,852,074
-Loans from related party	220,000	660,000
Total	11,023,877	5,512,074

At 31 December 2012, the weighted average interest rate of the Group's short-term loans was 3.62% (2011: 2.75%).

(b) At 31 December 2012 and 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	Note	2012	2011
Related parties	6(6)	**3,374,912**	2,204,823
Third parties		**2,148,336**	2,445,184
Total		**5,523,248**	4,650,007

At 31 December 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	Note	2012	2011
Related parties	6(6)	**20,516**	25,524
Third parties		**738,280**	681,311
Total		**758,796**	706,835

At 31 December 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 year	Decreases during the year	At 31 December 2012
1. Salaries, bonuses and allowances	5,060	1,399,611	-1,399,611	5,060
2. Staff welfare	-	261,651	-261,651	-
3. Social insurances	32,353	532,874	-528,879	36,348
Including: 1) Medical insurance	10,494	144,751	-143,675	11,570
2) Basic pension insurance	19,236	264,160	-261,592	21,804
3) Unemployment insurance	1,485	20,570	-20,372	1,683
4) Staff and workers' injury insurance	437	6,120	-6,061	496
5) Maternity insurance	701	9,645	-9,551	795
6) Supplementary medical insurance	-	592	-592	-
7) Supplementary pension insurance	-	68,763	-68,763	-
8) Other insurance	-	18,273	-18,273	-
4. Housing fund	-	140,598	-140,598	-
5. Termination benefits	-	7,388	-7,388	-
6. Others	8,727	203,234	-205,361	6,600
Total	46,140	2,545,356	-2,543,488	48,008

At 31 December 2012, no amount in arrears was included in the balance of the employee benefits payable.

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%).

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

(19) Employee benefits payable *(continued)*

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 of the PRC, the Group has set up a supplementary defined contribution retirement plan for the benefit of employees. Employees who have served the Group for more than one year may participate in this plan. The Group and participating employees make defined contributions to their pension saving accounts according to the plan. The assets of this plan are held separately from those of the Group in an independent fund administered by a committee consisting of representatives from the employees and the Group.

A member of the above two plans is entitled to a pension amount equal to a fixed proportion of the salary prevailing at his or her retirement date. The Group has no other material obligation for the payment of pension benefits associated with these plans beyond the annual contributions described above. For the year ended 31 December 2012, the Group's contribution to the above two plans amounted to RMB 264,160,000 and RMB 68,763,000 respectively (2011: RMB 235,013,000 and RMB 59,922,000 respectively).

In accordance with the Group voluntary employee reduction plan, the Group recorded employee reduction expenses of RMB 7,388,000 (2011: RMB 9,758,000) during the year ended 31 December 2012.

(20) Taxes payable

Expressed in thousands of Renminbi Yuan

Items	2012	2011
Value added tax	289	592
Business tax	1,486	2,347
Income tax	2,463	22,340
Consumption tax	578,959	413,431
Education surcharges	29,026	20,628
City maintenance and construction tax	40,637	28,855
Others	18,371	19,745
Total	671,231	507,938

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

(21) Interest payable

Expressed in thousands of Renminbi Yuan

Item	2012	2011
Interest payable for long-term loans with interest paid in installments	2,200	277
Interest payable for short-term loans	18,787	9,165
Total	20,987	9,442

(22) Other payables

(a) Other payables by category

Expressed in thousands of Renminbi Yuan

Item	Note	2012	2011
Related parties	6(6)	15,851	12,521
Third parties		843,711	788,588
Total		859,562	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 31 December 2012, there were no significant other payables aged over one year.

(23) Long-term loans

(a) Long-term loans by category

Expressed in thousands of Renminbi Yuan

Item	2012	2011
Unsecured loans	1,231,340	160,050

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

(23) Long-term loans

(b) As at 31 December 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 31 December 2012**	At 31 December 2011
1. Industrial and Commercial Bank of China, Jinshan Branch	2012.05.17	2016.12.14	RMB	6.210	**200,000**	-
2.Construction Bank of China, Jinshan Branch	2012.09.14	2017.02.10	RMB	5.760	**200,000**	-
3. Industrial and Commercial Bank of China, Jinshan Branch	2012.06.20	2016.12.14	RMB	5.985	**100,000**	-
4. Industrial and Commercial Bank of China, Jinshan Branch	2012.07.18	2016.12.14	RMB	5.760	**100,000**	-
5. Industrial and Commercial Bank of China, Jinshan Branch	2012.08.16	2016.12.14	RMB	5.760	**100,000**	-
6. Construction Bank of China, Jinshan Branch	2012.04.09	2017.02.10	RMB	6.210	**100,000**	-
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	2012.06.06	2017.02.10	RMB	6.210	**100,000**	-
9. Construction Bank of China, Jinshan Branch	2012.07.30	2017.02.10	RMB	5.760	**100,000**	-
10. Industrial and Commercial Bank of China, Jinshan Branch	2012.03.12	2016.12.14	RMB	6.210	**90,000**	-
11. Industrial and Commercial Bank of China, Jinshan Branch	2011.12.27	2016.12.14	RMB	5.760	**10,000**	10,000
12. Industrial and Commercial Bank of China, Jinshan Branch	2011.11.29	2016.08.24	RMB	6.400	**6,400**	6,400
13. Industrial and Commercial Bank of China, Jinshan Branch	2011.09.28	2016.08.24	RMB	6.400	**5,830**	5,830
14. Industrial and Commercial Bank of China, Jinshan Branch	2011.10.27	2016.08.24	RMB	6.400	**4,700**	4,700
15. Industrial and Commercial Bank of China, Jinshan Branch	2011.09.16	2016.08.24	RMB	6.400	**4,680**	4,680
16. Industrial and Commercial Bank of China, Jinshan Branch	2011.12.29	2016.08.24	RMB	6.400	**3,440**	3,440
17. Industrial and Commercial Bank of China, Jinshan Branch	2012.01.13	2016.08.24	RMB	6.900	**2,180**	-
18. Industrial and Commercial Bank of China, Jinshan Branch	2012.01.18	2016.08.24	RMB	6.900	**2,140**	-
19. Industrial and Commercial Bank of China, Jinshan Branch	2012.02.28	2016.08.24	RMB	6.900	**1,970**	-
20. Industrial and Commercial Bank of China, Jinshan Branch	2008.12.25	2012.04.25	RMB	5.364	**-**	75,000
21. Industrial and Commercial Bank of China, Jinshan Branch	2008.11.27	2012.04.25	RMB	5.364	**-**	50,000
Total					**1,231,340**	160,050

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

(24) Other non-current liabilities

Expressed in thousands of Renminbi Yuan

Item	2012	2011
Deferred income	190,000	295,619

At 31 December 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 assets.

(25) Share capital

Expressed in thousands of Renminbi Yuan

Item	At 1 January 2012	At 31 December 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

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.

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

(25) Share capital *(continued)*

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.

(26) Capital reserve

The capital reserve of the Group is analysed as follows:

Expressed in thousands of Renminbi Yuan

Item	At 1 January 2012	Additions during the year	Decreases during the year	At 31 December 2012
Share premium	2,420,841	-	-	2,420,841
Government grants	412,370	-	-	412,370
Refund of harbour construction charge	32,485	-	-	32,485
Others	49,067	-	-	49,067
Total	2,914,763	-	-	2,914,763

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

(27) Specific reserve

Expressed in thousands of Renminbi Yuan

Item	At 1 January 2012	Accrued during the year	Utilised during the year	At 31 December 2012
Safety production costs	21,777	123,401	-136,999	8,179

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

(28) Surplus reserve

Expressed in thousands of Renminbi Yuan

Item	At 1 January 2012	Additions during the year	At 31 December 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

(29) Retained earnings

Expressed in thousands of Renminbi Yuan

Item	Note	2012	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)		-1,548,466	944,414
Less: Appropriation for statutory surplus reserve		-	-70,456
Dividends payable on ordinary shares	(a)	-360,000	-720,000
Retained earnings at 31 December	(b)	915,707	2,824,173

(a) Distribution of dividends of ordinary shares declared during the year

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.

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

(29) Retained earnings *(continued)*

(b) Notes to the ending balance of retained earnings

Surplus reserve attributable to the Company which is made by the subsidiaries during the year is RMB 10,285,000 (2011: RMB 10,505,000).

As at 31 December 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 (2011: RMB 118,506,000).

(c) Profit appropriation after the balance sheet date

No dividend is declared by the Company after the balance sheet date.

(30) Operating income and operating costs

(a) Operating income and operating costs

Expressed in thousands of Renminbi Yuan

Item	2012	2011
Operating income from principal activities	92,636,597	95,089,397
Other operating income	435,657	511,851
Sub-total	93,072,254	95,601,248
Operating costs	86,041,072	85,042,194

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)*

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

(d) Operating income from the top five customers for the year

Expressed in thousands of Renminbi Yuan

Name of customer	Operating income	Percentage of total operating income(%)
Sinopec Huadong Sales Company Limited	37,635,372	40.44
Sinopec Chemical Commercial Holding Company Limited	6,476,337	6.96
China Petroleum & Chemical Corporation	3,923,254	4.22
Shanghai Secco Petrochemical Company Limited	1,747,837	1.88
Oriental Petrochemical (Shanghai) Corporation	1,442,281	1.55
Total	51,225,081	55.04

(31) Business taxes and surcharges

Expressed in thousands of Renminbi Yuan

Item	2012	2011	Tax base
Consumption tax	5,064,648	5,085,746	In accordance with the relevant tax regulation, with effect from 1 January 2009, consumption tax rate for sale of gasoline and diesel oil have been adjusted to RMB 1,388 per ton and RMB 940.8 per ton respectively.
Business tax	5,927	9,971	5% of income entitled to business tax
City maintenance and construction tax	420,127	532,837	7% of consumption tax, VAT and business tax paid
Education surcharges and others	300,362	380,649	5% of consumption tax, VAT and business tax paid
Total	5,791,064	6,009,203	–

(32) Selling and distribution expenses

Expressed in thousands of Renminbi Yuan

Item	2012	2011
Transportation fee	326,683	320,982
Sales commission	160,903	195,606
Staff costs	57,449	55,959
Storage and logistics expenses	57,298	55,269
Others	47,573	47,955
Total	649,906	675,771

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

(33) General and administrative expenses

Expressed in thousands of Renminbi Yuan

Item	2012	2011
Repair and maintenance fee	984,486	1,093,339
Staff costs	860,678	840,795
Depreciation and amortisation	86,179	90,035
Tax	90,360	105,929
Administrative expenses	66,518	83,716
Research and development costs	72,174	79,573
IT system maintenance fee	20,948	29,001
Others	207,212	233,623
Total	2,388,555	2,556,011

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

Expressed in thousands of Renminbi Yuan

Item	2012	2011
Interest expense from loans and payables	466,409	246,326
Less: Borrowing costs capitalised	110,306	30,832
Interest income from deposits and receivables	-86,545	-99,345
Net foreign exchange loss (“-” for net gain)	3,835	-213,644
Others	9,864	13,953
Total	283,257	-83,542

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

Expressed in thousands of Renminbi Yuan

Item	2012	2011
Accounts receivable	237	-1,927
Other receivables	134	-457
Inventories	203,556	276,406
Fixed assets	-	10,552
Total	203,927	284,574

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

(36) Investment income

(a) Investment income by item

Expressed in thousands of Renminbi Yuan

Item	Note	2012	2011
Income from long-term equity investment accounted for using the equity method	(b)	22,784	142,655
Investment income on disposal of long-term equity investment		6,446	-
Investment income on disposal of available-for-sale financial assets	5(41)	-	685
Total		29,230	143,340

(b) For long-term equity investments accounted for using the equity method, the amount of investment income ("-" for loss) from an investee accounts 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	2012	2011
Shanghai Secco Petrochemical Company Limited(Note)	-75,251	9,792
Shanghai Chemical Industrial Park Development Company Limited	55,477	54,425
BOC-SPC Gases Company Limited	23,392	29,837
Shanghai Azbil Automation Company Limited	14,554	16,718
Shanghai Jinsen Hydrocarbon Resins Company Limited	4,131	22,258
Total	22,303	133,030

Note: For the year ended 31 December 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)*

(37) Non-operating income

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

Expressed in thousands of Renminbi Yuan

Item	Note	2012	2011
Gain on disposal of fixed assets		3,905	3,119
Government grants	(b)	221,044	76,965
Others		54,889	11,810
Total		279,838	91,894
Amount recognised in non-recurring items		279,838	91,894

(b) Government grants mainly include:

Expressed in thousands of Renminbi Yuan

Item	2012	2011
Local education surcharges refund	159,536	-
Subsidy for expenditure on research and development and environmental protection	51,508	66,965
Others	10,000	10,000
Total	221,044	76,965

(38) Non-operating expenses

Expressed in thousands of Renminbi Yuan

Item	2012	2011
Loss on disposal of fixed assets	24,670	21,125
Others	31,845	38,855
Total	56,515	59,980
Amount recognised in non-recurring items	56,515	59,980

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

(39) Income tax expense

Expressed in thousands of Renminbi Yuan

Item	Note	2012	2011
Current tax expense for the year based on tax law and regulations		21,841	30,280
Changes in deferred taxation		-529,736	287,617
Under-provision for income tax expense in respect of preceding years ("-" for over-provision)		132	-436
Total	(a)	-507,763	317,461

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

Expressed in thousands of Renminbi Yuan

Item	2012	2011
Profit before income tax ("-" for loss)	-2,032,974	1,292,291
Expected income tax expense at a rate of 25% (2011: 25%)	-508,244	323,073
Add: Tax effect of non-deductible expenses	3,386	22,604
Tax effect of non-taxable income	-3,968	-3,957
Under provision for income tax expense in respect of preceding years ("-" for over-provision)	132	-436
Tax effect of share of profit recognised using the equity method	-5,696	-35,664
Tax effect of unused tax losses not recognised	7,455	10,582
Others	-828	1,259
Income tax expense	-507,763	317,461

(40) Calculation of basic and diluted earnings per share

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

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

Expressed in thousands of Renminbi Yuan

Item	2012	2011
Consolidated net profit attributable to ordinary shareholders of the Company ("-" for net loss)	-1,548,466	944,414
Weighted average number of the Company's ordinary shares outstanding ('000)	7,200,000	7,200,000
Basic earnings per share (RMB) ("-" for loss)	-0.215	0.131

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

(40) Calculation of basic and diluted earnings per share *(continued)*

(b) Diluted earnings per share

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

(41) Other comprehensive income

Expressed in thousands of Renminbi Yuan

Item	2012	2011
Unrealised gain of available-for-sale financial assets	-	685
Reclassification adjustments for gain on disposal of available-for-sale financial assets transferred to profit or loss	-	-685
Total	-	-

(42) Notes to the cash flow statement

(a) Cash paid relating to other operating activities

Expressed in thousands of Renminbi Yuan

Item	Amount
Sales commission	160,903
Administrative expenses	66,518
Research and development costs	72,174
Storage and logistics expenses	57,298
IT system maintenance fee	20,948
Others	108,947
Total	486,788

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

(43) Supplemental information to the cash flow statement

(a) Supplement to the cash flow statement

Expressed in thousands of Renminbi Yuan

Supplemental information	2012	2011
1. Reconciliation of net profit to cash flows from operating activities:		
Net profit("-" for net loss)	-1,525,211	974,830
Add: Impairment losses	203,927	284,574
Depreciation of investment properties	13,250	13,250
Depreciation of fixed assets	1,699,877	1,639,836
Amortisation of intangible assets	18,323	18,401
Loss on disposal of fixed assets and other long-term assets	20,765	18,006
Financial expenses ("-" for income)	273,393	-97,495
Investment income	-29,230	-143,340
Decrease in deferred tax assets ("-" for increase)	-529,736	287,617
Increase in inventories	-3,569,573	-506,530
Decrease in operating receivables ("-" for increase)	578,321	-881,159
Increase in operating payables	1,247,971	898,412
Decrease in specific reserve	-13,598	-24,971
Net cash inflow from operating activities ("-" for outflow)	-1,611,521	2,481,431
2. Change in cash and cash equivalents:		
Cash and cash equivalents balance at the end of the year	160,962	91,346
Less: Cash and cash equivalents balance at the beginning of the year	91,346	100,110
Net increase in cash and cash equivalents ("-" for decrease)	69,616	-8,764

(b) Details of cash and cash equivalents

Expressed in thousands of Renminbi Yuan

Item	2012	2011
1. Cash		
- Cash on hand	47	75
- Bank deposits available on demand	160,310	90,187
- Other monetary fund available on demand	605	1,084
2. Closing balance of cash and cash equivalents	160,962	91,346

6. Related parties and related party transactions

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

Company name	Relationship With the Company	Entity type	Registration 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 Chaoyangmen North Street, Chaoyang District, Beijing	Fu Chengyu	Exploring for, extracting and selling crude oil and natural gas; oil refining; production, sale and transport of petrochemical, chemical fibres and other chemical products; pipe transport of crude oil and natural gas; research and development and application of new technologies and information.	RMB 86.8 billion	55.56	55.56	China Petrochemical Corporation	71092609-4

There are no material changes in the above registered capital during the year ended 31 December 2012.

At 31 December 2012, Sinopec Corp. held 4 billion shares of the Company. There were no changes during the year.

(2) Information on the Company's subsidiaries

See Note 4(1) for details of the Company's subsidiaries .

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

See Note 5(8)(b) for details of the Company's major jointly controlled enterprises and associates .

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

(4) Information of other related parties

Name of other related parties	Relationship with the Company	Organisation code
China Petrochemical Corporation	The ultimate parent company	10169286-X
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 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 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	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	49,593,269	53.28	50,703,632	53.04
Sinopec Corp., its subsidiaries and jointly controlled enterprises	Trade	Purchases	49,435,082	59.91	43,611,898	55.19
Sinopec Group and its subsidiaries	Trade	Sales/Service income	430,089	0.46	279,289	0.29
Sinopec Group and its subsidiaries	Trade	Purchases	24,445	0.03	42,858	0.05
Associates of the Group	Trade	Sales	2,309,682	2.48	2,019,155	2.11
Associates of the Group	Trade	Purchases	3,148,575	3.82	3,782,988	4.79
Jointly controlled enterprises of the Group	Trade	Sales	238,386	0.26	280,645	0.29
Jointly controlled enterprises of the Group	Trade	Purchases	371,037	0.45	371,105	0.47
Key management personnel	Compensation for services	Short-term employee benefits	7,428	0.40	6,973	0.35
Key management personnel	Compensation for services	Retirement scheme contributions	170	0.03	147	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	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	42,593,798	54.02	43,158,961	53.14
Sinopec Corp., its subsidiaries and jointly controlled enterprises	Trade	Purchases	48,636,304	70.07	42,840,205	66.58
Sinopec Group and its subsidiaries	Trade	Sales/Service income	325,319	0.41	151,531	0.19
Sinopec Group and its subsidiaries	Trade	Purchases	24,445	0.04	42,858	0.07
Subsidiaries of the Company	Trade	Sales	1,133,383	1.44	1,333,799	1.64
Subsidiaries of the Company	Trade	Purchases	1,459,561	2.10	1,235,483	1.92
Associates of the Company	Trade	Sales	1,968,324	2.50	1,152,936	1.42
Associates of the Company	Trade	Purchases	2,454,506	3.54	3,019,510	4.69
Jointly controlled enterprises of the Company	Trade	Sales	238,386	0.30	280,645	0.35
Jointly controlled enterprises of the Company	Trade	Purchases	371,037	0.53	371,105	0.58
Key management personnel	Compensation for services	Short-term employee benefits	7,428	0.42	6,973	0.35
Key management personnel	Compensation for services	Retirement scheme contributions	170	0.03	147	0.03

Most of the transactions undertaken by the Group during the year ended 31 December 2012 have been affected on such term as determined by Sinopec Corp. and the 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 year ended 31 December 2012, both the Group and the Company borrowed loans from Sinopec Finance Company Limited amounting to RMB 3,361,740,000 (2011: RMB 4,790,000,000).

For the year ended 31 December 2012, the Group and the Company repaid loans to Sinopec Finance Company Limited amounting to RMB 3,801,740,000 (2011: RMB 4,540,000,000 and RMB 4,340,000,000 respectively).

(c) Other related party transactions

The Group

Expressed in thousands of Renminbi Yuan

Transaction	Related Party	2012	2011
Insurance premiums	Sinopec Group	115,918	115,910
Interest received and receivable	Sinopec Finance Company Limited	555	859
Interest paid and payable	Sinopec Finance Company Limited	29,716	22,148
Construction and installation cost	Sinopec Group	436,082	286,023
Sales commission	Sinopec Chemical Commercial Holding Company Limited	160,903	195,606
Rental income	Sinopec Corp.	23,976	23,246

The Company

Expressed in thousands of Renminbi Yuan

Transaction	Related Party	2012	2011
Insurance premiums	Sinopec Group	115,918	115,910
Interest received and receivable	Sinopec Finance Company Limited	554	858
Interest paid and payable	Sinopec Finance Company Limited	22,694	15,124
Construction and installation costs	Sinopec Group	436,082	286,023
Sales commission	Sinopec Chemical Commercial Holding Company Limited	160,903	195,606
Rental income	Sinopec Corp.	23,976	23,246
Rental income	Subsidiaries of the Company	-	5,496

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	2012	2011
Bills receivable	Sinopec Corp., its subsidiaries and jointly controlled enterprises	18,826	143,569
Accounts receivable	Sinopec Corp., its subsidiaries and jointly controlled enterprises	807,267	404,796
Accounts receivable	Sinopec Group and its subsidiaries	3,884	1,908
Accounts receivable	Associates of the Group	155,486	59,358
Accounts receivable	Jointly controlled enterprises of the Group	22,621	21,908
Other receivables	Sinopec Corp., its subsidiaries and jointly controlled enterprises	497	1,307
Other receivables	Sinopec Group and its subsidiaries	-	2
Other receivables	Associates of the Group	1,009	483
Other receivables	Jointly controlled enterprises of the Group	1,882	2,065
Prepayments	Sinopec Corp., its subsidiaries and jointly controlled enterprises	41,370	3,890
Accounts payable	Sinopec Corp., its subsidiaries and jointly controlled enterprises	3,186,049	1,998,915
Accounts payable	Sinopec Group and its subsidiaries	-	4,139
Accounts payable	Associates of the Group	152,032	164,957
Accounts payable	Jointly controlled enterprises of the Group	36,831	36,812
Other payables	Sinopec Corp., its subsidiaries and jointly controlled enterprises	10,124	6,859
Other payables	Sinopec Group and its subsidiaries	5,727	5,655
Other payables	Associates of the Group	-	7
Advances from customers	Sinopec Corp., its subsidiaries and jointly controlled enterprises	15,733	22,042
Advances from customers	Sinopec Group and its subsidiaries	167	287
Advances from customers	Associates of the Group	4,616	3,195
Cash at bank and on hand	Sinopec Finance Company Limited	1,933	1,093
Short-term loans	Sinopec Finance Company Limited	220,000	660,000

As at 31 December 2012, no bad debt provision was provided for receivables from related parties (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

Items	Related Party	2012	2011
Bills receivable	Sinopec Corp., its subsidiaries and jointly controlled enterprises	15,276	99,269
Bills receivable	Subsidiaries of the Company	2,000	-
Accounts receivable	Sinopec Corp., its subsidiaries and jointly controlled enterprises	605,109	390,433
Accounts receivable	Sinopec Group and its subsidiaries	3,884	1,908
Accounts receivable	Subsidiaries of the Company	14,793	12,107
Accounts receivable	Associates of the Company	155,486	57,212
Accounts receivable	Jointly controlled enterprises of the Company	22,621	21,908
Other receivables	Sinopec Corp., its subsidiaries and jointly controlled entities	497	1,307
Other receivables	Sinopec Group and its subsidiaries	-	2
Other receivables	Subsidiaries of the Company(Note a)	-	268
Other receivables	Associates of the Company	1,009	483
Other receivables	Jointly controlled enterprises of the Company	1,882	2,065
Prepayments	Sinopec Corp., its subsidiaries and jointly controlled entities	39,582	2,565
Prepayments	Subsidiaries of the Company	-	10,127
Accounts payable	Sinopec Corp., its subsidiaries and jointly controlled entities	3,099,413	1,985,801
Accounts payable	Sinopec Group and its subsidiaries	-	4,139
Accounts payable	Subsidiaries of the Company	965,906	769,480
Accounts payable	Associates of the Company	130,474	107,560
Accounts payable	Jointly controlled enterprises of the Company	36,831	36,812
Other payables	Sinopec Corp., its subsidiaries and jointly controlled entities	10,124	6,859
Other payables	Sinopec Group and its subsidiaries	5,727	5,655
Other payables	Subsidiaries of the Company	492,274	580,988
Other payables	Associates of the Company	-	7
Advances from customers	Sinopec Corp., its subsidiaries and jointly controlled entities	15,647	22,042
Advances from customers	Sinopec Group and its subsidiaries	167	287
Advances from customers	Subsidiaries of the Company	991	2,813
Advances from customers	Associates of the Company	4,616	3,171
Cash at bank and on hand	Sinopec Finance Company Limited	1,672	970
Short-term loans	Sinopec Finance Company Limited	220,000	660,000

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

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

The Company *(continued)*

(a) At 31 December 2012, an accumulated bad debt provision provided for other receivables due from Jinyong, the Company's consolidated subsidiary, amounting to RMB 704,682,000 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	2012	2011
Construction and installation cost	Sinopec Group and its subsidiaries	53,690	408,664

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

7. Contingencies

(1) Income tax differences

In June 2007, the State Administrative of Taxation issued a tax circular (Circular No.664) to the local tax authorities requesting the relevant local tax authorities to rectify the applicable enterprise income tax ("EIT") for nine companies listed in Hong Kong in 1993, which included the Company. After the notice was issued, the Company was required by the relevant tax authority to settle the EIT for 2007 at a rate of 33 percent. To date, the Company has not been requested by the tax authorities to pay additional EIT in respect of any years prior to 2007. There is no further development of this matter during the year ended 31 December 2012. No provision has been made in the financial statements at 31 December 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	2012	2011
Purchases of fixed assets contracted but not provided for	123,310	2,817,581
Purchases of fixed assets authorised but not contracted for	1,362,263	2,708,271
Total	1,485,573	5,525,852

(b) At 31 December 2012, the Group did not have material operating lease commitments.

9. Other important 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 structure.

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

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

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

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

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

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

(vi) Other operating segments represent the operating segments which do not meet the quantitative threshold for determining reportable segments. These include sales of 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 expense, and corporate assets and expenses.

9. Other important items *(continued)*

(1) Segment reporting *(continued)*

(a) Segment results, assets and liabilities

Expressed in thousands of Renminbi Yuan

	2012	2011
Operating income		
Synthetic fibres		
External sales	3,344,190	4,198,251
Intersegment sales	93	118
Sub-total	3,344,283	4,198,369
Resins and plastics		
External sales	14,828,298	16,589,438
Intersegment sales	108,618	136,352
Sub-total	14,936,916	16,725,790
Intermediate petrochemicals		
External sales (Note (i))	18,161,380	19,242,850
Intersegment sales (Note (ii))	19,085,952	19,498,129
Sub-total	37,247,332	38,740,979
Petroleum products		
External sales(Note (i))	43,754,793	42,896,821
Intersegment sales	5,618,459	5,156,614
Sub-total	49,373,252	48,053,435
Trading of petrochemical products		
External sales(Note (i))	12,025,361	11,620,440
Intersegment sales	3,423,818	3,385,692
Sub-total	15,449,179	15,006,132
Others		
External sales(Note (i))	958,232	1,053,448
Intersegment sales	718,864	814,281
Sub-total	1,677,096	1,867,729
Elimination of intersegment sales	-28,955,804	-28,991,186
Total	93,072,254	95,601,248

9. Other important items *(continued)*

(1) Segment reporting *(continued)*

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

(i) 53% of the Group's operating income is contributed by Sinopec Corp., its subsidiaries and jointly controlled enterprises (2011:53%).

Expressed in thousands of Renminbi

	2012	2011
Intermediate petrochemicals	4,355,455	4,851,962
Petroleum products	37,618,198	36,585,798
Trading of petrochemical products	6,999,471	8,721,026
Others	620,145	544,846
Total	49,593,269	50,703,632

(ii) Intermediate petrochemicals' intersegment sales to other segments are as follows:

Expressed in thousands of Renminbi

	2012	2011
Synthetic fibres	3,483,378	3,160,141
Resins and plastics	15,302,334	16,037,690
Petroleum products	300,240	300,298
Total	19,085,952	19,498,129

9. Other important items *(continued)*

(1) Segment reporting *(continued)*

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

Expressed in thousands of Renminbi Yuan

	2012	2011
Operating expenses		
Synthetic fibres	3,753,679	3,895,752
Resins and plastics	16,138,046	16,572,844
Intermediate petrochemicals	17,351,186	18,130,905
Petroleum products	44,929,980	43,351,809
Trading of petrochemical products	11,978,913	11,605,471
Others	922,720	1,010,972
Total	95,074,524	94,567,753
Operating profit ("-" for loss)		
Synthetic fibres	-409,489	302,499
Resins and plastics	-1,309,748	16,594
Intermediate petrochemicals	810,194	1,111,945
Petroleum products	-1,175,187	-454,988
Trading of petrochemical products	46,448	14,969
Others	35,512	42,476
Total segment profit("-" for loss)	-2,002,270	1,033,495
Financial income ("-" for expenses)	-283,257	83,542
Investment income	29,230	143,340
Operating profit ("-" for loss)	-2,256,297	1,260,377
Non-operating income	279,838	91,894
Non-operation expenses	-56,515	-59,980
Profit before income tax ("-" for loss)	-2,032,974	1,292,291
Income tax expense	507,763	-317,461
Net profit ("-" for net loss)	-1,525,211	974,830

9. Other important items *(continued)*

(1) Segment reporting *(continued)*

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

Expressed in thousands of Renminbi Yuan

	2012	2011
Assets		
Synthetic fibres	1,719,229	1,649,234
Resins and plastics	1,123,660	1,193,992
Intermediate petrochemicals	6,840,287	6,666,002
Petroleum products	18,731,525	14,483,951
Trading of petrochemical products	451,111	547,692
Others	2,717,028	2,240,767
Total segment assets	31,582,840	26,781,638
Unallocated		
Long-term equity investments	3,057,153	3,101,305
Investment property	439,137	452,555
Deferred tax assets	1,052,573	522,837
Others	674,096	251,750
Total assets	36,805,799	31,110,085
Liabilities		
Synthetic fibres	228,469	240,037
Resins and plastics	1,013,045	948,510
Intermediate petrochemicals	1,240,755	1,100,221
Petroleum products	4,964,372	3,875,716
Trading of petrochemical products	388,810	411,433
Others	65,466	60,232
Total segment liabilities	7,900,917	6,636,149
Unallocated		
Short-term loans	11,023,877	5,512,074
Long-term loans	1,231,340	160,050
Others	192,463	419,228
Total liabilities	20,348,597	12,727,501

9. Other important items *(continued)*

(1) Segment reporting *(continued)*

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

Expressed in thousands of Renminbi Yuan

	2012	2011
Depreciation and amortisation		
Synthetic fibres	146,271	134,915
Resins and plastics	162,227	207,075
Intermediate petrochemicals	588,015	464,994
Petroleum products	633,416	675,838
Trading of petrochemical products	330	601
Others	187,941	174,814
Total segment depreciation and amortisation	1,718,200	1,658,237
Unallocated	13,250	13,250
Total depreciation and amortisation	1,731,450	1,671,487
Impairment losses on fixed assets		
Intermediate petrochemicals	-	10,552
Total impairment losses on fixed assets impairment	-	10,552
Capital expenditure for segment long-lived assets		
Synthetic fibres	101,260	549,058
Resins and plastics	46,509	72,571
Intermediate petrochemicals	918,826	298,880
Petroleum products	2,571,457	2,212,855
Trading of petrochemical products	650	-
Others	621,157	347,871
Total capital expenditure for segment long-lived assets	4,259,859	3,481,235

(b) Geographic information

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

9. Other important items *(continued)*

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

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.

9. Other important items *(continued)*

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

(a) Credit risk *(continued)*

The majority of the Group's accounts receivable arises 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 expectations.

(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 31 December 2012, the Group's current liabilities exceeded its current assets by RMB 6,035,833,000. 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 31 December 2012, the Group had standby credit facilities with several PRC financial institutions which provided the Group to borrow up to RMB 18,196,000,000, of which RMB 7,850,000,000 was unutilised.

Management has carried out a detailed review of the cash flow forecast of the Group for the twelve months ending 31 December 2013. Based on such forecast, management believes that adequate sources of liquidity exist to fund the Group's working capital and capital expenditure requirements, and meet its short term debt obligations as they become due. In preparing the cash flow forecast, management has considered historical cash requirements of the Group as well as other key factors, including the availability of the above-mentioned banking facilities which may impact the operations of the Group during the next twelve-month period. Management is of the opinion that the assumptions used in the cash flow forecast are reasonable.

9. Other important 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 date 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 prevailing rates current at the balance sheet date) and the earliest date the Group would be required to repay:

Expressed in thousands of Renminbi Yuan

Item	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	160,962	-	-	160,962	160,962
Bills receivable	2,065,483	-	-	2,065,483	2,065,483
Accounts receivable and other receivables	1,123,507	-	-	1,123,507	1,123,507
Entrusted loans due with one year	71,017	-	-	71,017	70,000
Sub-total	3,420,969	-	-	3,420,969	3,419,952
Financial liabilities					
Short-term loans	-11,110,694	-	-	-11,110,694	-11,023,877
Accounts payable and other payables	-6,382,810	-	-	-6,382,810	-6,382,810
Long-term loans	-74,037	-428,298	-900,739	-1,403,074	-1,231,340
Sub-total	-17,567,541	-428,298	-900,739	-18,896,578	-18,638,027
Net amount	-14,146,572	-428,298	-900,739	-15,475,609	-15,218,075

9. Other important 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	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 with one year	87,392	-	-	87,392	86,000
Sub-total	3,967,217	-	-	3,967,217	3,965,825
Financial liabilities					
Short-term loans	-5,603,336	-	-	-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 important 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. Loans carrying interest at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. The interest rates and terms of repayment of short-term and long-term loans of the Group are disclosed in Note 5(16) and 5(23). The Group determines the appropriate weightings of the fixed and floating rate interest-bearing instruments based on the current market conditions and performs regular reviews and monitoring to achieve an appropriate mix of fixed and floating rate exposure.

As at 31 December 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 year and retained earnings by approximately RMB 66,827,000 (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 the exposure to interest rate risk for interest-bearing financial instruments in existence at that date. The analysis is 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 the cash at bank and on hand as disclosed in Note 5(1) and short-term loan balances disclosed 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 short-term loans denominated in a currency other than the functional currency of the entity to which they relate:

Expressed in thousands of USD

Item	2012	2011
Loans and borrowings denominated in US Dollars	1,247,296	733,637

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

Item	Average rate		Reporting date mid-spot rate	
	2012	2011	2012	2011
USD	6.2932	6.4618	6.2855	6.3009

9. Other important items *(continued)*

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

(d) Currency risk *(continued)*

A 5 percent strengthening / weakening of USD against Renminbi at 31 December 2012 would have decreased/increased net profit for the year and retained earnings of the Group by approximately RMB 293,995,000 (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 is 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, including short-term loans, non-current liabilities due within one year 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 31 December 2012, the debt-to-equity ratio and the liability-to-asset ratio of the Group were 75.69% (2011: 31.32%) and 55.29% (2011: 40.91%) respectively.

The schedule of the contractual maturities of loans and commitments are disclosed in Note 5(16),5(23) and 8, respectively.

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

9. Other important 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 31 December 2012 and 31 December 2011.

Expressed in thousands of Renminbi Yuan

Item	2012		2011	
	Carrying amount	Fair Value	Carrying amount	Fair Value
Liabilities				
Long-term bank loans	1,231,340	1,192,960	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 5.76% to 6.40% (2011: 5.90% to 6.21%).

Except for the above items, the fair values of the Group's financial assets and liabilities at 31 December 2012 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.

9. Other important items *(continued)*

(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 year	Cumulative changes in fair value recongnised in equity	Impairment provided for the year	Balance at 31 December 2012
Financial assets						
1. Cash at bank and on hand		3,063	—	—	—	928
Sub-total		3,063	—	—	—	928
Financial liabilities	(a)	4,622,573	—	—	—	7,839,879

(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	2012			2011		
	Original currency	Exchange rate	RMB /RMB equivalent	Original currency	Exchange rate	RMB /RMB equivalent
Cash on hand:						
Renminbi	—	—	8	—	—	34
Deposits with banks:						
Renminbi	—	—	118,270	—	—	59,342
HKD	962	0.8108	780	825	0.8107	669
USD	14	6.2855	90	14	6.3009	89
Other monetary funds: (Note)						
CHF	—	—	—	138	6.7085	923
Total	—	—	119,148	—	—	61,057

Note: Other monetary funds represent deposit in credit cards.

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

(2) Bills receivable

(a) Bills receivable by category

Expressed in thousands of Renminbi Yuan

Item	2012	2011
Bank acceptance bills	1,914,007	2,936,348
Commercial acceptance bills	-	4,900
Total	1,914,007	2,941,248

All of the above bills held are short-term acceptance bills, due within six months. No bills receivables were pledged or transferred to accounts receivable due to non-performance of the issuers during the year ended 31 December 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.

(b) At 31 December 2012, the Company's discounted bank bills (with recourse) which were still undue amounted to RMB 698,201,000 (2011: RMB nil).

At 31 December 2012, the Company had no discounted commercial bills which were still undue (2011: RMB nil).

(c) At 31 December 2012, the Company's endorsed bank bills which were still undue amounted to RMB 209,150,000 (2011: RMB nil).

The Company's five largest endorsed bank bill which were still undue are as follows:

Expressed in thousands of Renminbi Yuan

Issuer	Issuing date	Due date	Amount	Note
Jialong Petrochemical Fibre (Shishi) Company Limited	26/09/2012	09/01/2013	60,000	Bank acceptance bills
Jialong Petrochemical Fibre (Shishi) Company Limited	14/09/2012	07/01/2013	50,000	Bank acceptance bills
Sichuan Senpu Pipe Company Limited	09/11/2012	08/01/2013	14,000	Bank acceptance bills
Jiangsu Zhongrun Fiber Technology Company Limited	07/11/2012	07/02/2013	11,300	Bank acceptance bills
Zhejiang Guanghua Chemical Company Limited	17/10/2012	17/01/2013	10,000	Bank acceptance bills
Total			145,300	

At 31 December 2012, the Company had no endorsed commercial bills which were still undue (2011: RMB nil).

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

(3) Accounts receivable

(a) Accounts receivable by customer type

Expressed in thousands of Renminbi Yuan

Customer Type	Note	2012	2011
Amounts due from related parties	6(6)	801,893	483,568
Amounts due from third parties		10,727	55,950
Less: Provision for bad and doubtful debts		-882	-1,369
Total		811,738	538,149

(b) Accounts receivable by ageing

Expressed in thousands of Renminbi Yuan

Ageing	2012	2011
Within one year (inclusive)	811,729	537,951
Over one year but within two years (inclusive)	9	278
Over two years but within three years (inclusive)	7	8
Over three years	875	1,281
Less: Provision for bad and doubtful debts	-882	-1,369
Total	811,738	538,149

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

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

(3) Accounts receivable *(continued)*

(c) Accounts receivable by category

Expressed in thousands of Renminbi Yuan

Category	2012				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)	811,729	99.89	-	-	537,951	99.71	-	-
Over one year but within two years (inclusive)	9	0.00	3	30.00	278	0.05	84	30.00
Over two years but within three years (inclusive)	7	0.00	4	60.00	8	0.00	4	50.00
Over three years	875	0.11	875	100.00	1,281	0.24	1,281	100.00
Total	812,620	100.00	882	—	539,518	100.00	1,369	—

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

During the year, the Company assessed the impairment on an individual basis in accordance with the accounting policy as described in Note 2(10), and there were 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 31 December 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 receivables

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.	575,214	Due within one year	70.79
Shanghai Secco Petrochemical Company Limited	Associate of the Company	155,486	Due within one year	19.13
BOC-SPC Gases Company Limited	Jointly controlled enterprise of the Company	22,621	Due within one year	2.78
China International United Petroleum & Chemical Company Limited	Subsidiary of Sinopec Corp.	14,364	Due within one year	1.77
Sinopec Refinery Product Sales Company Limited	Subsidiary of Sinopec Corp.	12,152	Due within one year	1.50
Total		779,837		95.97

(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	2012	2011
Amounts due from related parties	708,070	677,657
Amounts due from third parties	12,968	7,360
Less: Provision for bad and doubtful debts	-705,469	-674,425
Total	15,569	10,592

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

(4) Other receivables *(continued)*

(b) Other receivables by ageing

Expressed in thousands of Renminbi Yuan

Ageing	2012	2011
Within one year (inclusive)	45,800	252,856
Over one year but within two years (inclusive)	243,546	50,621
Over two years but within three years (inclusive)	50,604	97,850
Over three years	381,088	283,690
Less: Provision for bad and doubtful debts	-705,469	-674,425
Total	15,569	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	2012				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	704,682	97.73	704,682	100.00	673,532	98.32	673,532	100.00
Other receivables collectively assessed for impairment								
Within one year (inclusive)	14,650	2.03	-	-	10,478	1.53	-	-
Over one year but within two years (inclusive)	1,168	0.16	350	30.00	17	-	5	30.00
Over two years but within three years (inclusive)	-	-	-	-	-	-	-	-
Over three years	538	0.08	437	81.00	990	0.15	888	90.00
Sub-total	16,356	2.27	787	5.00	11,485	1.68	893	8.00
Total	721,038	100.00	705,469	—	685,017	100.00	674,425	—

During the year, the Company assessed the impairment on an individual basis in accordance with the accounting policy as described in Note 2(10), and there were individually significant other receivables provided for: the Company made a full bad debt provision of RMB 704,682,000 for the other receivables due from its consolidated subsidiary, Jinyong (31 December 2012: 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 31 December 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 accounts receivables(%)
Zhejiang Jinyong Acrylic Company Limited	Subsidiary of the Company	704,682	Partially over three years	97.73
Shanghai Railway Station HangZhou Depot (North)	Third party	2,071	Due within one year	0.29
BOC-SPC Gases Company Limited	Jointly controlled enterprise of the Company	1,882	Due within one year	0.26
China Ocean Shipping Agency (Shanghai) Company Limited	Third party	862	Due within one year	0.12
Shanghai Yali Development Company Limited	Third party	559	Due within one years	0.08
Total		710,056		98.48

(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	2012			2011		
	Book value	Provision for diminution in value	Carrying amount	Book value	Provision for diminution in value	Carrying amount
Raw materials	5,339,409	-	5,339,409	1,926,576	-	1,926,576
Work in progress	1,996,615	9,235	1,987,380	1,962,208	-	1,962,208
Finished goods	986,133	54,450	931,683	1,160,348	123,663	1,036,685
Spare parts and consumables	357,539	367	357,172	375,172	18,756	356,416
Total	8,679,696	64,052	8,615,644	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 year	Decreases during the year Write-off	At 31 December 2012
Raw materials	-	90,536	-90,536	-
Work in progress	-	43,750	-34,515	9,235
Finished goods	123,663	71,130	-140,343	54,450
Spare parts and consumables	18,756	-	-18,389	367
Total	142,419	205,416	-283,783	64,052

(6) Other current assets

Expressed in thousands of Renminbi Yuan

Item	2012	2011
VAT deductible	373,380	26,156
Catalysts-current portion	46,143	29,765
Total	419,523	55,921

(7) Long-term equity investments

(a) Long-term equity investments by category

Expressed in thousands of Renminbi Yuan

	Investments in associates	Investments in jointly controlled enterprises	Investments 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)	-19,774	23,392	-	3,618	-	3,618
Dividends receivable/received	-14,921	-24,500	-	-39,421	-	-39,421
Balance at 31 December 2012	2,591,698	122,905	1,582,788	4,297,391	-227,500	4,069,891

(i) As at 31 December 2012, the Company made cumulative impairment losses of RMB 227,500,000 for the long-term equity investment in its consolidated subsidiary, Jinyong (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)).

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

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

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

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

(8) Fixed assets

(a) Fixed assets

Expressed in thousands of Renminbi Yuan

Item	Buildings	Plant and machinery	Vehicles and other equipment	Total
Cost				
Balance at the beginning of the year	4,893,564	24,703,770	6,633,276	36,230,610
Reclassification during the year	-1,795,211	6,755,611	-4,960,400	-
Additions during the year	-	117,126	40,956	158,082
Transferred from construction in progress	110,431	6,365,567	16,934	6,492,932
Disposal during the year	-5,113	-217,088	-34,008	-256,209
Balance at the end of the year	3,203,671	37,724,986	1,696,758	42,625,415
Accumulated depreciation				
Balance at the beginning of the year	3,422,113	15,276,455	4,838,096	23,536,664
Reclassification during the year	-1,723,935	5,266,428	-3,542,493	-
Charge for the year	93,453	1,495,190	65,403	1,654,046
Written off on disposal	-3,853	-189,581	-30,737	-224,171
Balance at the end of the year	1,787,778	21,848,492	1,330,269	24,966,539
Provision for impairment losses				
Balance at the beginning of the year	60,253	465,837	31,384	557,474
Reclassification during the year	-9,106	34,055	-24,949	-
Written off on disposal	-362	-3,662	-173	-4,197
Balance at the end of the year	50,785	496,230	6,262	553,277
Carrying amount				
Balance at the end of the year	1,365,108	15,380,264	360,227	17,105,599
Balance at the beginning of the year	1,411,198	8,961,478	1,763,796	12,136,472

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

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

(9) Construction in progress

Expressed in thousands of Renminbi Yuan

2012			2011		
Book Value	Provision for impairment	Carrying Amount	Book Value	Provision for impairment	Carrying Amount
604,866	-	604,866	3,812,222	-	3,812,222

(10) Intangible assets

Expressed in thousands of Renminbi Yuan

Items	Land use rights
Cost	
Balance at the beginning and the end of the year	650,642
Accumulated amortisation	
Balance at the beginning of the year	231,255
Charge for the year	13,031
Balance at the end of the year	244,286
Carrying amount	
Balance at the end of the year	406,356
Balance at the beginning of the year	419,387

(11) Long-term deferred expenses

Expressed in thousands of Renminbi Yuan

Item	Balance at 1 January 2012	Additions	Charged for the year	Reclassed to other current assets	Balance at 31 December 2012
Catalysts	306,052	527,399	-170,283	-46,143	617,025

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

(12) 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	2012		2011	
	Deductable or taxable temporary differences ("-" for taxable temporary difference)	Deferred tax assets/ deferred tax liabilities ("-" for liabilities)	Deductable 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	65,721	16,430	144,681	36,170
Provision for impairment of fixed assets	351,932	87,983	449,188	112,297
Contribution of fixed assets and sales of assets to a jointly controlled enterprise	29,768	7,442	33,272	8,318
Deductible tax losses	3,757,434	939,359	1,496,744	374,186
Specific reserve accrued	-	-	14,272	3,568
Other deferred tax assets	74,220	18,555	33,598	8,400
Sub-total	4,279,075	1,069,769	2,171,755	542,939
Offsetting	-69,724	-17,431	-81,580	-20,395
After offsetting	4,209,351	1,052,338	2,090,175	522,544
Deferred tax liabilities:				
Capitalisation of borrowing costs	-69,724	-17,431	-81,580	-20,395
Offsetting	69,724	17,431	81,580	20,395
After offsetting	-	-	-	-

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

(12) 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 year	Balance at 31 December 2012
Deferred tax assets:			
Provision for bad and doubtful debt and diminution in value of inventories	36,170	-19,740	16,430
Provision for impairment of fixed assets	112,297	-24,314	87,983
Contribution of fixed assets and sales of assets to a jointly controlled enterprise	8,318	-876	7,442
Deductible tax losses	374,186	565,173	939,359
Specific reserve accrued	3,568	-3,568	-
Other deferred tax assets	8,400	10,155	18,555
Capitalisation of borrowing costs	-20,395	2,964	-17,431
Total	522,544	529,794	1,052,338

(c) Details of unrecognised deferred tax assets

Expressed in thousands of Renminbi Yuan

Item	Note	2012	2011
Provision for long-term equity investment	(i)	227,500	227,500

(i) As stated in Note 10(7)(a)(i), the Company has made full provision for the long-term equity investment in Jinyong. As it is not probable that future taxable income against which the losses can be utilised 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 (2011: RMB 227,500,000).

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

(13) Provision for impairment

Expressed in thousands of Renminbi Yuan

Item	Note	At 1 January 2012	Charged for the year	Decreases for the year		At 31 December 2012
				Reversal	Write-off	
Accounts receivable	10(3)	1,369	280	-43	-724	882
Other receivables	10(4)	674,425	31,554	-455	-55	705,469
Inventories	10(5)	142,419	205,416	-	-283,783	64,052
Long-term equity investments	10(7)	227,500	-	-	-	227,500
Fixed assets	10(8)	557,474	-	-	-4,197	553,277
Total		1,603,187	237,250	-498	-288,759	1,551,180

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

(14) Short-term loans

(a) Short-term loans by category

Expressed in thousands of Renminbi Yuan

Item	2012	2011
Unsecured loans		
-Bank loans	10,872,877	4,866,574
-Loans from a related party	220,000	660,000
Total	11,092,877	5,526,574

At 31 December 2012, the weighted average interest rate of the Company's short-term loans was 3.61% (2011: 2.69%).

(b) At 31 December 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)*

(15) Taxes payable

Expressed in thousands of Renminbi Yuan

Item	2012	2011
Business tax	961	1,502
Consumption tax	578,959	413,431
Education surcharges	28,998	20,549
City maintenance and construction tax	40,598	28,769
Others	14,087	17,603
Total	663,603	481,854

(16) 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	2012	2011
Long-term loans due within one year-entrusted loans from a subsidiary	-	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 31 December 2012	At 31 December 2011
Industrial and Commercial Bank of China, Jinshan Branch	2009.04.30	2012.04.28	RMB	2.250	-	45,000

(17) Long-term loans

(a) Long-term loans by category

Expressed in thousands of Renminbi Yuan

Item	2012	2011
Unsecured loans	1,200,000	135,000

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

(17) Long-term loans

(b) The details of long-term loans as at 31 December 2012 are as follows:

Expressed in thousands of Renminbi Yuan

Lender	Inception date	Maturity date	Currency	Interest rate (%)	At 31 December 2012	At 31 December 2011
1. Industrial and Commercial Bank of China, Jinshan Branch	2012.05.17	2016.12.14	RMB	6.210	200,000	-
2. Construction Bank of China, Jinshan Branch	2012.09.14	2017.02.10	RMB	5.760	200,000	-
3. Industrial and Commercial Bank of China, Jinshan Branch	2012.06.20	2016.12.14	RMB	5.985	100,000	-
4. Industrial and Commercial Bank of China, Jinshan Branch	2012.07.18	2016.12.14	RMB	5.760	100,000	-
5. Industrial and Commercial Bank of China, Jinshan Branch	2012.08.16	2016.12.14	RMB	5.760	100,000	-
6. Construction Bank of China, Jinshan Branch	2012.04.09	2017.02.10	RMB	6.210	100,000	-
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	2012.06.06	2017.02.10	RMB	6.210	100,000	-
9. Construction Bank of China, Jinshan Branch	2012.07.30	2017.02.10	RMB	5.760	100,000	-
10. Industrial and Commercial Bank of China, Jinshan Branch	2012.03.12	2016.12.14	RMB	6.210	90,000	-
11. Industrial and Commercial Bank of China, Jinshan Branch	2011.12.27	2016.12.14	RMB	5.760	10,000	10,000
12. Industrial and Commercial Bank of China, Jinshan Branch	2008.11.27	2012.04.25	RMB	5.364	-	50,000
13. Industrial and Commercial Bank of China, Jinshan Branch	2008.12.25	2012.04.25	RMB	5.364	-	75,000
Total					1,200,000	135,000

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

(18) Specific reserve

Expressed in thousands of Renminbi Yuan

Item	At 1 January 2012	Accrued during the year	Utilised during the year	At 31 December 2012
Safety production costs	14,272	117,960	-132,232	-

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

(19) Operating income and operating costs

(a) Operating income and operating costs

Expressed in thousands of Renminbi Yuan

Item	2012	2011
Operating income from principal activities	78,415,384	80,696,829
Other operating income	439,733	515,335
Sub-total	78,855,117	81,212,164
Operating costs	72,108,886	70,922,591

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 year ended 31 December 2012

Expressed in thousands of Renminbi Yuan

Name of customer	Operating income	Percentage of total operating income(%)
Sinopec Huadong Sales Company Limited	37,635,372	47.73
China Petroleum & Chemical Corporation	3,571,313	4.53
Oriental Petrochemical (Shanghai) Corporation	1,442,281	1.83
Shanghai Secco Petrochemical Company Limited	1,406,479	1.78
Jialong Petrochemical Fibre Company Limited	1,160,055	1.47
Total	45,215,500	57.34

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

(20) Business taxes and surcharges

Expressed in thousands of Renminbi Yuan

Item	2012	2011	Tax base
Consumption tax	5,064,648	5,085,746	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	4,707	6,749	5% of income entitled to business tax
City maintenance and construction tax	417,352	528,808	7% of consumption tax, VAT and business tax paid
Education surcharges and others	298,208	377,718	5% of consumption tax, VAT and business tax paid
Total	5,784,915	5,999,021	—

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

Expressed in thousands of Renminbi Yuan

Item	2012	2011
Interest expense from loans and payables	442,075	229,343
Less: Borrowing costs capitalised	110,306	30,141
Interest income from deposits and receivables	-77,276	-89,596
Net foreign exchange loss ("-" for net gain)	8,034	-185,345
Others	2,435	3,095
Total	264,962	-72,644

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

Expressed in thousands of Renminbi Yuan

Item	2012	2011
Accounts receivable	237	-1,826
Other receivables	31,099	241,791
Inventories	205,416	272,175
Fixed assets	-	10,552
Total	236,752	522,692

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

(23) Investment income

(a) Investment income by item

Expressed in thousands of Renminbi Yuan

Item	Note	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	(c)	3,618	94,054
Investment income on disposal of available-for-sale financial assets		-	685
Total		101,698	102,819

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

Expressed in thousands of Renminbi Yuan

Investee	2012	2011
Shanghai Petrochemical Investment Development Co., Ltd.	90,000	-
China Jinshan Associate Trading Corporation	8,080	8,080
Total	98,080	8,080

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

Expressed in thousands of Renminbi Yuan

Investee	2012	2011
Shanghai Chemical Industrial Park Development Company Limited	55,477	54,425
BOC-SPC Gases Company Limited	23,392	29,837
Shanghai Secco Petrochemical Company Limited (Note)	-75,251	9,792
Total	3,618	94,054

Note: For the year ended 31 December 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)*

(24) Non-operating income

Expressed in thousands of Renminbi Yuan

Item	2012	2011
Gain on disposal of fixed assets	2,598	3,036
Government grants	217,957	76,965
Others	48,663	9,310
Total	269,218	89,311

(25) Non-operating expenses

Expressed in thousands of Renminbi Yuan

Item	2012	2011
Loss on disposal of fixed assets	24,082	14,977
Others	31,808	38,347
Total	55,890	53,324

(26) Income tax expense

Expressed in thousands of Renminbi Yuan

Item	Note	2012	2011
Current tax expense for the year based on tax law and regulations		-	-
Changes in deferred taxation	(a)	-529,794	287,681
Total		-529,794	287,681

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

Expressed in thousands of Renminbi Yuan

Item	2012	2011
Profit before taxation("-" for loss)	-2,024,520	992,244
Expected income tax expense at a rate of 25% (2011: 25%)	-506,130	248,061
Add: Tax effect of non-deductible expenses	10,729	74,037
Tax effect of non-taxable income	-28,488	-5,977
Tax effect of share of profit recognised using the equity method	-905	-23,514
Others	-5,000	-4,926
Income tax expense	-529,794	287,681

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

(27) Supplemental information on the cash flow statements

(a) Supplement to the cash flow statements

Expressed in thousands of Renminbi Yuan

Supplemental information	2012	2011
1. Reconciliation of net profit to cash flows from operating activities		
Net profit ("-" for net loss)	-1,494,726	704,563
Add: Impairment losses	236,752	522,692
Depreciation of investment properties	13,250	14,922
Depreciation of fixed assets	1,654,046	1,590,410
Amortisation of intangible assets	13,031	13,031
Loss on disposal of fixed assets	21,484	11,941
Financial expenses ("-" for income)	262,527	-75,739
Investment income	-101,698	-102,819
Decrease in deferred tax assets ("-" for increase)	-529,794	287,681
Increase in inventories	-3,539,175	-444,024
Decrease in operating receivables ("-" for increase)	714,862	-1,460,428
Increase in operating payables	1,062,487	1,172,873
Decrease in specific reserve	-14,272	-29,108
Net cash inflow from operating activities ("-" for outflow)	-1,701,226	2,205,995
2. Change in cash and cash equivalents:		
Cash and cash equivalents balance at the end of the year	119,148	61,057
Less: Cash and cash equivalents balance at the beginning of the year	61,057	89,224
Net increase in cash and cash equivalents ("-" for decrease)	58,091	-28,167

(b) Details of cash and cash equivalents

Expressed in thousands of Renminbi Yuan

Item	2012	2011
1. Cash		
-Cash on hand	8	34
-Bank deposits available on demand	119,140	60,100
-Other monetary fund available on demand	-	923
2. Closing balance of cash and cash equivalents	119,148	61,057

(1) Non-recurring items for the year ended 31 December 2012 ("-" for loss):

Expressed in thousands of Renminbi Yuan

Non-recurring item	Amount	Note
Net loss on disposal of non-current assets	-14,319	Net loss on disposal of fixed assets and long-term equity investment
Employee reduction expenses	-7,388	Employee reduction expenses incurred according to the reduction plan
Government grants recorded in profit or loss (except for government grants under the State's unified standards on quota and amount entitlements and closely rated to corporate business)	221,044	Subsidy for expenditure on research and development and environmental protection and tax refund.
Income from external entrusted loans	2,093	Interest income from external entrusted loans
Other non-operating income and expenses other than those mentioned above	23,044	Other miscellaneous items
Tax effect for the above items	-52,482	
Effect attributable to minority interests (after tax)	-962	
Total	171,030	

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

(2) Reconciliation between financial statements prepared under CAS and International Financial Reporting Standards ("IFRS")

The reconciliation between the net profit and net assets of the consolidated financial statements prepared under CAS and IFRS ("-" for net loss):

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	
		2012	2011	**2012**	2011
Under CAS		**-1,548,466**	944,414	**16,190,419**	18,112,483
Adjustments under IFRS:					
Government grants	(i)	**30,099**	29,386	**-153,253**	-183,352
Safety production costs	(ii)	**-13,598**	-24,971	**-**	-
Effects of the above adjustments on deferred taxation		**3,568**	7,277	**-**	-3,568
Under IFRS*		**-1,528,397**	956,106	**16,037,166**	17,925,563

(2) Reconciliation between financial statements prepared under CAS and International Financial Reporting Standards ("IFRS") *(continued)*

The reconciliation between the net profit and net assets of the consolidated financial statements prepared under CAS and IFRS ("-" for net loss): *(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 figures are extracted from the consolidated financial statements prepared under IFRS, which have been audited by KPMG.

(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 year ("-" 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)	-9.028	-0.215	-0.215
Net profit attributable to equity shareholders of the Company excluding non-recurring items ("-" for net loss)	-10.025	-0.239	-0.239

Appendix 1 Assessment Report on the Internal Control of Sinopec Shanghai Petrochemical Company Limited for 2012

All members of the Board of Sinopec Shanghai Petrochemical Company Limited (the "Company") warrant that the information contained in this report is true, accurate and complete, and that there are no false representations or misleading statements contained in, or material omissions from, this report.

To: all the shareholders of Sinopec Shanghai Petrochemical Company Limited

The Board of Directors of Sinopec Shanghai Petrochemical Company Limited (the "Board") is accountable for establishing and maintaining an adequate internal control system in relation to financial reporting.

It is the responsibility of the Board and management to establish, improve and effectively implement a sound internal control system. Since 2004, the Company has established and implemented a comprehensive internal control system encompassing decision-making, execution, supervision and assessment.

The internal control of the Company primarily aims to achieve the following basic objectives: (1) to standardise how the Company conducts its business operations and prevent management risk in operations; ensure the truthfulness and completeness of financial reports and relevant information; improve operational efficiency and effectiveness, and facilitate the implementation of the Company's development strategy; (2) to plug loopholes and eliminate potential hazards so as to prevent, detect and correct mistakes and acts of fraud in a timely manner, thereby ensuring the safety and integrity of the Company's assets; (3) to ensure the thorough enforcement of relevant State laws and regulations, the articles of association of Sinopec Shanghai Petrochemical Company Limited (the "Articles of Association") and internal rules and regulations so as to satisfy the regulatory requirements for listed companies in both domestic and foreign capital markets and to protect the lawful rights and interests of the investors.

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

The Company has considered five basic elements, namely the internal environment, risk assessments, the control of activities, information and communication, and internal supervision in establishing its internal controls.

1. Internal Environment

   In accordance with the requirements of the modern enterprise system, the Company has established a corporate governance structure comprising general meetings of shareholders, the Board, the supervisory committee and managerial grade staff. In 2012, the Company organised and held a general meeting of shareholders, Board meetings and supervisory meetings in strict compliance with the relevant laws and regulations of the places in which the Company is listed and the Articles of Association; and the resolutions made at these meetings were lawful and valid. The Company continued to push forward the development of our corporate culture by pursuing the corporate objectives of "developing the company, contributing to the country, rewarding the shareholders, serving the society and benefiting the staff"; carrying out the corporate vision of "building a refining chemical company which is 'leading in China, and first-class in the world'"; living by the corporate spirit of "Love our motherland and boost the petrochemical industry"; working according to the corporate values of "Precise, Rigorous, Prudent and Innovative"; and operating according to the corporate principles of "trustworthy, disciplined and cooperative to achieve win-win" and the professional morals of "Professional with duty and devotion, honest with self-discipline, and civilised with etiquette and integrity". We aim to cultivate and guide our entire staff to recognise and observe the vision of the corporate core values, and to promote the sustainable, effective and harmonious development of the Company.

2. Risk Assessment

The Company has established an internal risk assessment mechanism. According to the designed control objectives, the Company collects relevant information in a comprehensive, systematic and continuous manner; identifies and realises controls over internal and external risks relating to relevant objectives; determines the relevant risk tolerance level according to the actual situation; and conducts risk assessment in a timely manner. Various functional departments of the Company and their subordinate units assign relevant personnel to set up a working network in light of the flow of the internal controls in order to conduct analysis regularly and to record the changes in potential risks. Internal control procedures can be adjusted in advance or in a timely manner according to the findings of the risk analysis upon the completion of appropriate supervision and authorisation, with all parties affected notified promptly. As such, new or previously un-controlled risks are properly managed.

3. Control of Activities

According to the Company's internal control objectives and in light of the findings of risk assessments, the Company exercises effective control over various businesses and matters by means of the ongoing optimisation of the flow of internal controls; the appointment of the departments responsible for the internal control process and the positions responsible for the control point; urging the personnel to perform internal control duties, regular inspections and tests; as well as the timely rectification and remedy of irregularities to infuse internal controls into the day-to-day management of the Company. The Company's Internal Control Manual (2011 revision) contains 47 sets of operational procedures covering 1,423 control points in 20 areas which include financing activities, procurement and production activities, asset management, the sales business, research and development management, construction projects, the guarantee business, business outsourcing, financial reporting, overall budget, contract management, the management of connected party transactions, tax management, human resources, safety and environmental management, product quality management, information resources management, information system management, information disclosure and internal audit.

4. Information and Communication

A system governing information and communications has been established to allocate and manage information resources by department. The Company actively implements information management, and all relevant internal information are centralised and integrated onto the Company's unified information platform and are shared upon authorisation. A system governing information disclosure has been formulated to regulate information disclosures by the Company so as to protect the lawful rights and interests of investors and to ensure that information disclosures are made in a truthful, accurate, complete, timely and impartial manner, as well as to continue to enhance the transparency of the Company. A system governing investor relations has been established to maintain ties and communications with shareholders, potential investors, the media and regulators.

5. Internal Supervision

The Company's internal supervision comprises routine supervision and specific supervision. Routine supervision refers to the Company conducting regular and ongoing supervision and inspection of the status of the establishment and implementation of the internal control system. It covers the entire production and operation process, including the daily management and supervision activities and actions taken by all employees in performing their duties. Specific supervision refers to the supervision and inspection of one or more aspects of the internal control system under circumstances in which there are relatively significant adjustments or changes in development strategies, organisational structure, operating activities, business flows and key personnel of the Company. The scope and frequency of the supervision depends on the scale of the risks and the effectiveness of the control. A two-tier internal control supervision and inspection mechanism has established for the Company, as well as for various functional departments and their subordinate units. Timely reports are submitted to the Internal Control Office of the Company when internal control defects are detected in the course of supervision. Significant defects and real loopholes in the internal control system are reported to the internal steering committee, the Board and the supervisory committee of the Company in succession. The Company has formulated inspection assessment and appraisal methods for internal control. The Company's Internal Control Office conducts a self-assessment of the effectiveness of the internal control system every quarter, while the Audit Department conducts an independent audit and assessment of the design and effectiveness of the enforcement of internal control and issues a report on the development of the internal control system as well as its enforcement inspection.

The Board conducted an assessment of the internal control system over financial reporting according to the Basic Standards of Corporate Internal Control, concluding that the internal controls as of 31 December 2012 were considered effective. The Board has determined that the Company's internal control system was integrated, reasonable, and effective through the optimisation of the internal control system from 1 January of the year to the end of this Reporting Period. Various systems were thoroughly and effectively implemented through the persistent implementation of various internal inspection activities in 2012 with corresponding rectifications and enhancement. The systems also met the requirements from the current management and the development needs of the Company to ensure the orderly operation of the Company, and are capable of further assuring the truthfulness, lawfulness, and completeness of its accounting information to ensure the safety and completeness of the assets of the Company as well as achieving the true, accurate, timely and integral disclosure of information, thereby ensuring the open, fair and justified treatment for all of its investors. From 1 January to 31 December 2012, no material deficiencies were detected in the design or implementation of the internal control of the Company. We did not detect any deficiencies in the internal control in relation to non-financial reporting during the internal control self-assessment process.

This report was duly considered and approved at the eleventh meeting of the seventh session of the Board on 27 March 2013. The Board and all members of the Board jointly and severally accept responsibility for the truthfulness, accuracy and completeness of the information contained in this report.

As a Chinese company listed on the New York Stock Exchange in the USA, the Company continues to engage KPMG to conduct an audit on its internal control over financial reporting of the Company as of 31 December 2012 pursuant to the requirements of the Sarbanes-Oxley Act. In a report (please refer to the Auditor's Report on Internal Control over Financial Reporting according to "Sarbanes-Oxley Act") issued by KPMG on 27 March 2013, KPMG is of the view that, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31 2012, based on criteria established in the Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Pursuant to the requirements of the Audit Guidelines for Enterprise Internal Control by Ministry of Finance, KPMG Huazhen (Special General Partnership), appointed by the Company, conducted an audit on the effectiveness of the internal controls over financial reporting of the Company as at 31 December 2012. In a report (please refer to the Auditor's Report on Internal Control over Financial Reporting according to "Audit Guidelines for Enterprise Internal Control") issued by KPMG Huazhen (Special General Partnership) on 27 March 2013, KPMG Huazhen (Special General Partnership) is of the view that, the Company maintained, in all material respects, effective internal control over financial reporting as at 31 December 2012 in accordance with the Basic Standards for Enterprise Internal Control and relevant requirements.

Chairman of the Board: Rong Guangdao
Sinopec Shanghai Petrochemical Company Limited
27 March 2013

KPMG

The Board of Directors and Shareholders of Sinopec Shanghai Petrochemical Company Limited:

We have audited Sinopec Shanghai Petrochemical Company Limited's internal control over financial reporting as of December 31, 2012, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Sinopec Shanghai Petrochemical Company Limited's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the management's Assessment Report on the Internal Control. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Sinopec Shanghai Petrochemical Company Limited maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Sinopec Shanghai Petrochemical Company Limited and subsidiaries as of December 31, 2011 and 2012, and the related consolidated statements of operations, comprehensive income, changes in equity and cash flows for each of the years in the three-year period ended December 31, 2012, and our report dated March 27, 2013 expressed an unqualified opinion on those consolidated financial statements.

KPMG
Hong Kong, China
March 27, 2013

The Shareholders of Sinopec Shanghai Petrochemical Company Limited:

We have audited the effectiveness of the internal control over financial reporting of Sinopec Shanghai Petrochemical Company Limited ("the Company") as at 31 December 2012 in accordance with the Audit Guidelines for Enterprise Internal Control and the relevant requirements of the Professional Standards for China's Certified Public Accountants.

1. The Company's responsibility for internal control

The Company's Board of Directors is responsible for establishing sound internal control, implementing such control effectively, and assessing its effectiveness in accordance with the Basic Standards for Enterprise Internal Control, the Implementation Guidelines for Enterprise Internal Control and the Assessment Guidelines for Enterprise Internal Control.

2. Auditor's responsibility

Our responsibility is to express an audit opinion on the effectiveness of internal control over financial reporting based on our audit and to describe material deficiencies in internal controls unrelated to financial reporting that have come to our attention.

3. Inherent limitations of internal controls

Because of its inherent limitations, internal control may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

4. Audit opinion on internal control over financial reporting

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as at 31 December 2012 in accordance with the Basic Standards for Enterprise Internal Control and relevant requirements.

KPMG Huazhen
(Special General Partnership)

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

Yu Xiaojun

Beijing, the People's Republic of China

Cheng Yujing

27 March 2013

(If there is any conflict of meaning between the Chinese version and English translation, the Chinese version will prevail.)

Appendix 4 Report on Fulfillment of Corporate Social Responsibility of Sinopec Shanghai Petrochemical Company Limited for 2012

The Board of Directors (the "Board") and all Directors of Sinopec Shanghai Petrochemical Company Limited warrant that there are no false representations or misleading statements contained in, or material omissions from, this report, and severally and jointly accept full responsibility for the truthfulness, accuracy and completeness of the information contained herein.

Located at Jinshanwei, Jinshan District of Shanghai and occupying an area of 9.4 sq. km, Sinopec Shanghai Petrochemical Company Limited ("SPC" or the "Company"), a refining-chemical integrated petrochemical enterprise, is an important base for the development of the modern petrochemical industry of the People's Republic of China ("PRC"). The Company produces more than 60 kinds of products categorized into four main groups, namely petroleum products, intermediate petrochemicals, synthetic resins and plastics, synthetic fibre monomers and polymers as well as synthetic fibres.

SPC has a corporate mission of "developing the company, contributing to the country, rewarding the shareholders, serving the society and benefiting the staff". It strives towards its goal of building "a refining-chemical company which is 'leading in China, and first-class in the world'", and "trustworthy, disciplined, and cooperative to achieve win-win" as the operating concepts of the Company. As one of the first batch of pilot enterprises having carried out standardised state-owned enterprise restructuring in 1993 and since the Company was listed concurrently in Shanghai, Hong Kong and New York, its production operation has been expanding with a continuous supply of quality products to the society. At the same time, the Company has abided by its corporate goal and earnestly fulfilled its social responsibilities. It emphasizes the importance of production safety, resources conservation, environment protection and caring about employees. The Company also supports public welfare and charities, assists and promotes the economic development of the region and strives for a sustainable development of the enterprise, the society and the environment.

The Report on Fulfillment of Corporate Social Responsibility of Sinopec Shanghai Petrochemical Company Limited for 2012 (the "Report") reflects a proactive fulfillment of its social responsibilities towards its stakeholders including shareholders, creditors, employees, suppliers and customers as well as the society in the course of conducting its production and business operations in 2012. The Report was prepared in accordance with the relevant laws and regulations such as the PRC Company Law, the PRC Securities Law and the Guidance on Environment Information Disclosure by Listed Companies on the Shanghai Stock Exchange, together with a due consideration to the actual circumstances of the Company.

I. Protecting the Interests of Shareholders and Creditors

Sound corporate governance provides a cornerstone for the sustainable development of SPC. The Company has strictly complied with the securities regulatory laws and regulations of the jurisdictions in which its shares are listed and the Articles of Association of Sinopec Shanghai Petrochemical Company Limited (the "Articles of Association") to continuously enhance its corporate governance structure. The Company has established and is continuously improving its corporate governance structure which comprises the shareholders' general meeting as the organ with the ultimate authority, the Board as the decision-making level, the general manager team as the execution level and the supervisory committee as the supervision level. The Company has established and strengthened its internal control system in compliance with the domestic and international laws and requirements; strengthened and enhanced the systems of the Communist Party Committee, labour union, and workers and staff representatives conference, thereby enabling their integration with the corporate governance structure; established an effective and balanced decision-making supervision system which comprised the clear delineation of the functions of the "Three New Committees" and the "Three Existing Committees" with the characteristics of SPC and joint stock enterprises, and which ensured effective division of labor and appropriate discharge of duties in a coordinated manner; and built a complementary job responsibility structure through the dual-appointment of Senior Management members by shareholders and the Party Committee and a position-interchange system so as to pool the wisdom of all parties concerned. All these measures enable the enterprise to operate in a democratic, lawful, regulated and transparent manner. For information about the corporate governance of the Company in 2012, please refer to the sections headed "Corporate Governance" and "Corporate Governance Report" in the 2012 annual report.

In order to be responsible to the investors at large and its creditors, the Company takes the initiative in complying with the stringent laws of the jurisdictions in which its shares are listed and strictly adopts the financial auditing and information disclosure systems. All annual operating results and financial indicators are audited by overseas and domestic independent accounting firms in accordance with the relevant international and domestic standards each year. All material operation activities and operating results are completely and accurately announced to the capital markets and investors at large in a timely manner. The Company adopts a number of ways to enhance its communication and exchange with its shareholders (particularly its public shareholders), including answering questions and enquiries from investors through its telephone hotline, email correspondence and letter correspondence as well as meetings. Investors may access the Company's information through the "Company News" and "Investor Relations" columns on the Company's website which was made to carry out timely disclosure on the Company's information. The disclosure of information in a truthful, timely, accurate and comprehensive manner and the regulated operations of SPC are acknowledged by the investors at large, securities regulatory authorities and the media. The Company has been awarded the Best Disclosure Award from the Hong Kong Stock Exchange. The Company has also been ranked first in investor relations in China by Thomson Reuter in the "Extel Survey" of the securities and investment community in Asia (excluding Japan). The Company has been nominated or awarded several times the Certificate of Excellence in Investor Relations by the internationally authoritative IR Magazine. The Company achieved excellence in 2010-2011 Annual Information Disclosure Assessment of Shanghai Stock Exchange.

The Company takes shareholders' returns seriously and maintains a stable profit distribution policy. Since its listing in 1993 to 2012, with the exception of 2001 (when the Company was in a low ebb of the industry cycle), 2008 and 2012 (when the Company incurred significant loss due to policy and external market reasons), the Company distributed dividends to all shareholders every year with an aggregate distribution of RMB9,808 million. Among the companies listed in Shanghai and Shenzhen, the Company is one of those enjoying higher cash dividend / fund-raising ratio (that is, the ratio between the aggregate amount of cash dividend distributed and the amount of funds raised).

Creditors of the Company are principally major commercial banks. The Company has taken into full consideration of the legal rights and interests of the creditors when making material operation decisions. The current AAA+ credit rating of the Company indicates the recognition from its creditors for its credibility, stability, pragmatism and responsible performance as no delay or default in the repayment of bank borrowings or interests has ever occurred. In 2012, the Company was named as one of the "Shanghai Contract-abiding and Trustworthy Enterprises 2010-2011", as well as "AAA-rated Enterprises in Contract Creditworthiness 2010-2011" (valid for 2 years) by the Shanghai Contract Creditworthiness Promotion Association.

II. Protecting the Interests of Employees

Employees are the most valuable assets of SPC. The Company upholds its employee-oriented corporate value and places all-round development of its employees as one of the major objectives in its corporate development. The Company relies on the collaboration of its employees to achieve the unification of corporate values with employee values.

1. Safeguarding employees' interests

In accordance with the relevant laws, regulations and stipulations such as the Labor Law of the People's Republic of China, the Labor Contract Law of the People's Republic of China, and the Trade Union Law of the People's Republic of China, SPC implemented the labor contract system. The Company signed with employees written labor contracts based on the principle of "fairness, self-willingness and consensus through negotiation". The rate of signing the labor contract is 100%. The Company has established and improved on an open and democratic factory management system, and has further enhanced its democratic management based on the workers and staff representatives' conferences, improved and enhanced the mechanism to handle expression of employees' petition and interest coordination. The Company values the establishment of labor unions at all levels. A fair negotiation system for collective contracts has been set up between representatives from labor unions and representatives from administrative departments for the discussion of policies involving the immediate interests of the employees. Through entering into collective contracts and collective contracts specifically for protecting female employees' interests, the Company has ensured harmony and stability at the workplace by setting out in the contracts the terms of labor employment, remuneration, working hours, rest, holidays, labor safety and hygiene, insurance and fringe benefits, staff trainings and protections for collective contracts as well as for the interests of female labor. The Company was named as a "National Advanced Unit with Transparent Factory Management" and was given the honor as "Nationwide Harmonious Labor Relations Enterprise".

In recent years, the Company has reformed its internal remuneration system through adopting coordinated planning, overall design and stage-by-stage implementation as its work target. Based on consolidated assessments of the major aspects of various job positions including job duties, responsibilities, work intensity and work environment, and having taken into account the wage levels of the labor market, the Company has established rankings and wage level indicators for its "three teams", namely business and operation managerial staff, specialised technical professionals and skilled operators, thereby establishing a remuneration allocation system which is primarily based on a base compensation wage system but which links individual income with job position and work performance at the same time. The Company has formulated a series of policies and systems such as employment, remuneration, performance and reward and sanction to strengthen and improve distribution management, and improved its basic remuneration policy to cover allowances and subsidies, and also strengthened merit-based bonus incentives to reinforce the fairness of internal income distribution. In 2012, the implementing measures for taking convalescent leave by on-the-job employees were formulated to govern the Company's existing convalescent rules and the distribution of convalescent subsidies to employees, so as to motivate the employees and build a harmonious labour relationship.

Pursuant to the relevant laws, regulations and stipulations, the Company has joined the basic social insurance plan for employees, including the Shanghai Municipality's pension insurance, medical, unemployment, maternity and work-related injury insurances. It made full contributions on time, and has continuously improved the supplemental social protection mechanism for employees. The Company made contributions to the housing fund and supplemental fund for all the employees; established corporate annuity system; implemented supplemental medical insurance coverage to reduce self-paid expenses by sick employees; set up a regular health check system with health check profiles created for all employees; commenced occupational health management work; and allotted a certain amount of funds to restore the collective welfare facilities every year, with a view to constantly improving the living standard and work environment of employees. The Company place great emphasis on helping employees in difficulty. The "Methods for the Management on Mutual Aid Funds for Helping the Needy Employees of the Company" was revised to help those needy employees.

2. Ensuring employees' occupational health and safety

The production operation of the petrochemical industry is characterised by high temperature and high pressure, as well as an inflammable and explosive environment. Some of the materials and work media are poisonous and harmful. In order to prevent occupational diseases, the Company has adopted various measures to ensure safety and health of its employees by complying with the "Law on Prevention of Occupational Diseases". This follows the revision of several rules and regulations, such as the Rules of Shanghai Petrochemical Governing Occupational Health and the Rules of Shanghai Petrochemical Governing Labour Protection Expenses and Individual Labour Protection Equipment.

The Company attaches great importance to the supervision of employees' health and to the identification and detection of any possible hazardous elements potentially existing at the job sites. It publishes on the bulletin boards its monitoring results on particular hazardous elements of known occupational diseases at monitor stations, and informs operational staff of those hazardous elements of occupational diseases, national codes and monitoring results. As to job sites with existence of hazardous elements, the Company places warning boards and notice cards to alert employees about highly toxic substances, and posted notice boards specifying "safe operation procedures, possible consequences, emergency rescue measures and floor plans" at obvious spots. As to employees who are exposed to detriments of occupational diseases, the Company explicitly sets out the possible exposure to such occupational diseases in the employment contracts and provides effective protective articles and apparatus during actual production processes. In addition, with the revised "Law on Prevention of Occupational Diseases" taking effect, the Company has stepped up publicity and built up employees' preventative knowledge, to ensure they understand the severity of occupational hazards and the importance of prevention and treatment, as well as to raise their awareness of self-protection. The Company was named as a "National Model Enterprise in Occupational Hygiene".

In 2012, the Company continued to reinforce control against an excessive level of potential hazards of occupational diseases, effectively managed poisoning and harmful gas and dust, and improved the on-site operation environment, for the protection of the employees' health condition. At the request of the Company, Jinshan Hospital of Fudan University and the Shanghai Municipal Centre for Disease Control & Prevention performed health check on 5,883 employees of the Company with possible exposures to hazardous elements of occupational diseases, achieving an examination rate of 100%. No diagnose of occupational diseases was found, but we found 4 employees with occupational contraindication, and 13 employees who need to be put under medical observation. The Company had timely redeployed such employees from their original positions and arranged medical visits and clinic treatment for them.

3. Career development for employees

In recent years, based on the goals of corporate reforms and development, SPC established three teams for employee development: the "operations and management" team, "specialised technique" team and "skilled operation" team. The Company adjusted its previous occupational titles and ranking levels, thus forming an advanced scientific system to standardise the development of talent. Meanwhile, SPC provides education and training for employees throughout their entire careers, and continues to push forward the project on enhancing employee quality. The Company actively supports education and training in various ways, such as the provision of systems, expenditures, training bases, resources and learning materials. The Company continuously enhances employees' moral and political quality, occupational ethics, professional expertise and integrated quality by providing training for various categories and levels respectively for the members of the "three teams", namely "business and operation managerial staff, specialised technical professionals and skilled operators", and by launching activities such as training for Internet study, skills competition and training for taking up new posts with great efforts. These measures facilitate human resource development and employee redeployment, which set a solid foundation for realising the goals of the Company's operations and reforms as well as social stability.

In 2012, the Company launched the long-distance educational system and provided training for employees with a significant increase in training intensity. The percentage of professional technicians in the proportion of all present staff increased to 33.42% from 32.81% in the previous year, whereas the percentage of senior skilled operators or above to the total number of skilled operators increased to 44.71% from 42.68%.

III. Protecting the Interests of Suppliers and Customers

SPC always recognises the importance of maintaining good relationships with suppliers and customers as a key to achieve long-term cooperation, mutual benefits and win-win results.

The Company set up 22 standardised management bylaws, such as the Measures of Shanghai Petrochemical Governing the Procurement of Materials. This was achieved by constantly integrating and improving various bylaws together with the process for the setup of an integrated system and meeting its requirements for normalisation, systematisation and standardisation. The bylaws cover various aspects of materials supply management, such as planning, procurement, supplier, price, quality, process control, payment and reserve management in terms of materials. The Company also published 41 standardisation record forms in support of the management system. The standardisation bylaws and standardisation record forms are now fully operational and in use. The focus of procurement management was fell more on controlling procurement risks, reducing procurement costs, pursuing optimal performance to price ratio and lowest total supply costs. The procurement methods changed from procurement based on comparisons of suppliers' price quotations and by invitation of tenders to procurement through framework agreements, dynamic bidding and other methods. According to the Company's regulations, for purchases of materials exceeding RMB500,000, a tender process is required. Tender purchases were conducted in an open, fair, just and honest manner and in strict compliance with relevant systems and operation procedures under the supervision of relevant management departments. With respect to the management of suppliers, the Company continued to enforce a policy for supplier pre-qualification and the management of catalogs of available products to systematise and routinise management work to safeguard the legitimate rights and interests of suppliers. Meanwhile, the Company has fully utilised the "e-commerce website platform of China Petroleum & Chemical Corporation" to continuously expand the scope and size of online purchasing, vigorously promoted online bidding and online dynamic bidding purchases for a large amount and general materials, and increase transparency in the purchase process. Leveraging the overall strengths of Sinopec Corp., the Company has improved its supplier structure and established long-term strategic partnerships with qualified and reputable suppliers offering quality products and services. In 2012, the online purchase ratio (excluding crude oil) of the Company reached 100%, thereby saving transaction costs for suppliers and the Company.

The Company has adhered to the quality policy of "quality always taking the lead in advance" and the quality target of "good quality, sufficient quantity and customer satisfaction". While expanding its production scale, the Company continuously intensifies its quality assurance management. In 2012, the Company completed the construction of an integrated management system that complies with the GB/T 19001 quality assurance management system, and passed its examination. The Company has improved the relevant quality management system to ensure its appropriate and effective operations, and to drive constant improvements. In the ordinary course of business, the Company, having taking adequate advantage of its technological and management strengths, provides users with quality and prompt technological consultancy services as well as guidelines for proper selection and use of the Company's products while providing users with "trustworthy" products. Through proactively conducting market research and product upgrading and replacement projects, the Company has secured trust and affirmation from customers by the on-going development and launch of products with high content of technology and high quality in response to market demands. Apart from collecting customers' opinions during products exhibitions and new products promotion fairs, in order to obtain more feedback on products quality and service quality so as to further enhance its products and service quality, the Company has also engaged the Customer Evaluation Centre of the Shanghai Municipal Quality Management Association to evaluate satisfaction of third-party users on its major products. In 2012, the Company was named as an "Advanced Work Unit in China's Petrochemical Quality Work for 2012". The following products by the Company earned a satisfactory rating for customers in Shanghai: butadiene for industrial use, butene-1 for industrial use, oil para-xylene, oxirane for industrial use, industrial sodium cyanide, polymer grade ethylene, acrylic tow, full-density polyethylene resin, low-density polyethylene resin, polyvinyl alcohol and polypropylene resin under the "Sanren" brand as well as polyester industrial filament under the "Chaoyang" brand. In addition, Oxirane and acrylic tow for industrial use were also rated as satisfactory products for nationwide customers.

To avoid competition with industry peers, enhance overall bargaining power and consolidate and expand market shares, the Company has entered into various transactions with its controlling shareholder, Sinopec Corp., and Sinopec Group, the controlling shareholder of Sinopec Corp. as well as its associates, pursuant to which these connected parties would provide the Company with various services such as raw material purchase, petrochemical product sales agency service, construction, installation and project design, and the Company would sell petroleum and petrochemical products to these connected parities. The aforesaid ordinary connected transactions and services are necessary for the ordinary production and operation activities of SPC and are conducted on normal commercial terms and relevant agreement terms. The ordinary connected transactions between the Company and Sinopec Corp. and Sinopec Group are conducted in strict compliance with the relevant laws and regulations of the jurisdictions of listings and the relevant requirements set out in the Articles of Association. All parties to the transactions have carried out necessary decision-making procedures and obtained approvals from their respective independent shareholders. The Group has also disclosed information in accordance with the requirements stipulated by the securities regulatory authorities in the jurisdictions where the Company is listed.

IV. Emphasis on Safe Production

Responsibility for safety is of the utmost importance. SPC always pays high regard to this, and manages the overall situation under the guidelines of "Scientific Outlook on Development" and safety development, and conscientiously perform the duty as an entity of production safety.

1. Safe production

As an enterprise engaging in a highly dangerous industry, the Company places safe production as its priority and adhere to the policy of "putting safety and prevention first, all staff be mobilized and involved, problems concerning safety be tackled in a comprehensive way". The Company implements standardised safety management by adhering to the principle that emphasises the involvement of all staff, all orientations, 24-hour and all work processes. The Company established the QHSE (Quality, Health, Safety and Environment) integrated management system, takes system standard as guidelines, and implements safety standardisation management. The Company has a comprehensive safety management system and organisation, as well as a set of sound production management rules and regulations and effective management methods for safety. The chief staff discharged safety responsibilities well in their routines. They conscientiously joined the leadership team to carry out grassroots inspections, guided and helped grassroots workers resolve production safety issues. The Company introduced HSE supervision and inspections along with other various inspections, while implementing a system of one-vote rejection and safety accountability in response to any accident. In accordance with the four instances of "not letting-off" (namely not letting off (i) accidents of which reasons not being verified thoroughly, (ii) persons accountable for accidents not being punished, (iii) rectification measures not being made and taken, and (iv) lessons not being learned by those relevant people involved in the accidents), the Company would investigate and find out the reasons of an accident, draw lessons therefrom and eliminate potential and hidden peril or danger, so as to enhance production safety. At the same time, the Company has strengthened employees' training for HSE education, enhanced employees' HSE awareness and skills, and reinforced the safety supervision management over certain highly hazardous sources existing in some key production facilities and vital production positions or sections. The Company has carried out risk identification and assessment, enacted major accident prevention measures and emergency rescue plans at all levels, and has organised emergency response drills, so as to enhance the capability for handling emergencies. The Company has strictly complied with the State's safety pre-assessment system, and implemented a "three concurrent" policy in newly-built, revamped and expansion projects: to ensure that safety facilities, firefighting facilities, environmental protection and occupational hygiene facilities are designed, constructed and put into operation concurrently with the core project development. In 2012, the Company implemented the safe production accountability system, signed HSE letters of responsibility level by level with all employees proceeding with the HSE undertaking, and actively introduced initiatives such as "Comparing, Learning, Surpassing the Advanced Levels and Assisting Under-Performers", and "Specific Competition in Safety, Environmental protection and Zero Accident". Through these initiatives, we enhanced safety management, improved the safety supervision of production and construction sites, and intensified third-party safety supervision of the direct production link. These helped to ensure the smooth and stable operation at the production facilities, and the safe operation of construction sites. In 2012, the Company achieved its objective of "zero in seven aspects": incidence of staff injury and fatal incidents, serious injury, significant fire or explosion accidents, major environmental pollution incidents, hazardous incidents causing significant occupational diseases, serious traffic accidents and incidents of significant accountability. The Company was accredited by Sinopec Group as an advanced unit in operational safety for ten consecutive years. In 2012, the Company received an award in the "Shenhua Cup" Quiz for National Hazardous Chemicals Regulations, the first prize in the Quiz for "Shanghai Safety Production Regulations", and was recognised as an advanced work unit in traffic safety in Shanghai.

2. Treatment of hidden defects

The Company pays special attention to finding out and removing hidden defects and rectification work. In this connection, the Company adheres to "four determining" principles, namely determining rectification solutions, determining capital sources, determining persons in charge and determining date of rectification completion, to ensure that items with hidden defects can be eliminated in time. In 2012, the Company continuously intensified efforts on finding out and removing hidden defects and carrying out rectification work. An aggregate amount of RMB70.53 million was used in the centralised rectification of 30 items of hidden defects and thereby the Company further improved the safety level of its facilities. Meanwhile, the Company actively carried out massive defects screening campaign and identified 2,727 items with hidden defects of all kinds, with 2,722 of them or 99.82% being rectified. For those which were not readily rectified temporarily, safe preventive measures were implemented to avoid accidents.

V. Emphasis on Environmental Protection

Environmental protection is a basic State policy in the PRC. Since its establishment, SPC has all along placed importance to environmental protection. Since the announcement of the "Guidelines on Environmental Information Disclosure by Companies Listed on the Shanghai Stock Exchange", the Company has conscientiously reviewed its own practice of environmental protection and has taken the initiative to undertake the due social responsibilities of listed companies in accordance with the requirements.

1. Approval of ISO 14001 Environmental Management System Certification

Taking into account the characteristics of the petroleum and petrochemical industry, the Company introduced in 2008 the management mode of ISO 14001 Environmental Management Standards, which is widely implemented by the international petroleum and petrochemical industry. Based on the environmental protection policy of "lawful operation, friendly environment, energy conservation, emissions reduction and green environmental protection", by means of setting up, promulgating, implementing and continuously improving the ISO 14001 Environmental Management System, the Company promoted clean production with full efforts. The Company has made a commitment to all employees and the public in the local district regarding the environment, continuously carrying out risk assessments and environmental effect assessments and systematically controlling factors which are hazardous to the environment, thereby effectively preventing the happening of various kinds of incidents and improving the environmental quality of the production area and nearby districts. Through the efforts made in the past two years, the Company obtained the certificate of ISO 14001 Environmental Management System Certification issued by China Quality Mark Certification Group in March 2010. In November 2010 and October 2012, the Company underwent twice monitoring and examination. After the rectification in strict compliance with the "PDCA" (plan-do-check-act) procedure for the non-compliance issues raised by the surveillance auditor, the Company has managed to pass the monitoring and examination smoothly. On 6 January 2012, the Company obtained a system confirmation certificate issued by China Quality Mark Certification Group Shanghai Co..

The continuous progress made by the Company in its environmental management system shows that it is aligned with the global practice in environmental management, having taken a new step in the pursuit of people-centric sustainable development.

In 2012, the total amount of industrial effluents discharged was decreased by 1.53% compared to that of the previous year. Emission of sulphur dioxide decreased by 6.65% and total COD discharge decreased by 2.97%. The composite achievement ratio of discharge of sewage increased by 0.16% to 100%. The combustion rate of exhaust gas and the optimal disposal rate of hazardous wastes were both 100%. The rate of recycling of industrial water increased by 0.06% to 96.9%.

2. Disposal of the "three wastes"

The "three wastes" that the Company needs to dispose of are categorized as exhaust gas, waste water and solid wastes.

Exhaust gas: The Company has cooperated with the Shanghai Environmental Protection Bureau for a continuing identification of sources of air pollution, and has implemented focal inspection of common and specific pollutants such as sulphur dioxide, nitrogen oxides and smog in the operations of the Company and has put forward rectification suggestions, thereby providing a technical base for rectification work in the future. In 2012, the flue-gas desulphurization project for furnaces of the coal-fired power plant of the Thermal Power Division, the removal of foul gas from the deaeration pool of the waste water treatment plant at the Environmental Protection Water Department, the Regenerative Thermal Oxidizer (RTO) in the Polyester Business Division, the flare gas recovery system and the renovation project of adding the cycle-hydrogen desulphurization facilities to the 550,000-ton/year diesel hydrogenation plant brought about better effects. The two automatic monitoring stations for the atmospheric environment and one automatic monitoring vehicle for the atmospheric environment provided real-time surveillance to the atmospheric environment of the district where the Company is located. In accordance with the objectives set by the Company to "eliminate peculiar odors in aromatic hydrocarbon department within one year, and eliminate peculiar odors in the Company within two years during its normal production" as well as the requirements of Sinopec Group's "Rules Governing the Commencement, Suspension, Inspection and Maintenance of Production Plants", the Company carried out temporary measures to seal valves for pollutant discharge with lead lining, and carried out leak, detection and repair ("LDAR") and airtight purging in 2012. Meanwhile, four environmental hazard projects were completed, including "the pretreatment project for the removal of oil from oily waste gas at oily wastewater stations", "waste gas biological deodorization", "rectification of terminal water risks and environmental hazards at railway tank farms" and "treatment of environmental hazards in the delivery of oily wastewater at the six workshops of the Storage and Transportation Department". The monitoring data pointed to a substantial improvement in air quality in 2012, where the Company was located.

Waste water: The Company has 28 waste water treatment facilities, of which 24 are pre-treatment facilities, three are in-depth-treatment facilities (with designed capacity of 188,000 cubic meters/day) and one is a waste water recycling facility (with designed capacity of 250 cubic meters/hour). The Company discharges waste water treated by a two-stage biochemical process into deep sea, so that its waste water discharge meets the relevant requirements at all times. Several waste water treatment facilities underwent modification in 2012, during which the project of oxidation waste water treatment and recycling of the Polyester Division became operational. The expansion project for the centralised treatment of oily sewage was completed in the same year. These facilities have ensured that the sewage treatment will be in place once the Refinery Revamping and Expansion Project becomes operational.

Solid wastes: Hazardous wastes and general industrial solid wastes produced during production processes of the Company are handled and treated by qualified subcontractors in the community. The Company has strengthened its control over its production processes and properly handled the disposal of its wastes, achieving a treatment rate of 100%.

In 2012, the Company was accredited by Sinopec Group as an advanced unit in environmental protection for eleven consecutive years.

VI. Contributing to the Society

Enterprises generate wealth from the society and thus it is their responsibilities to pay back to the society. SPC has sincerely devoted itself to fulfilling its social responsibilities since its establishment. It has zealously undertaken its responsibilities and obligations and established a sound corporate image. It was accredited as the National Model Civilized Unit by the Central Guidance Committee on Spiritual Civilization Cultivation in 2005, 2008 and 2011 in a row. In 2012, the Company was ranked the seventh in Shanghai Top 100 Tax Payment Enterprises 2012.

As one of the major producers and suppliers of refined oil products in the Yangtze River Delta region, the Company has complied with the requirements of the National Development and Reform Commission and the local governments throughout the years. It has carried out various measures to fully ensure supplies of refined oil products to the region, contributing to the steady and relatively fast growth of the regional economy and the society. In 2012, in order to satisfy the market demand for refined oil, the Company increased production of refined oil under a severe situation that international crude oil prices remained in a high level, domestic refined oil prices were controlled by the government, and refining business of the Company recorded losses. In 2012, the Company produced 1,020,300 ton of gasoline (including 804,900 ton of Shanghai IV standard gasoline) and 4,027,900 ton of diesel (including 565,100 ton of Shanghai IV standard diesel), with respective increases of 5.35% and 1.21% over the previous year, completed the mission of ensuring the market supply of refined oil products.

In addition to accelerating its own development, the Company proactively participated in public welfare activities. Since its listing, the Company has offered donations to the China Welfare Institute, the Shanghai Education Development Foundation, the Shanghai Children and Teenagers' Fund, the Shanghai Foundation for Justice and Courage, the Shanghai Foundation for the Aged, the Shanghai Women's Federation, the Shanghai Science and Technology Museum, the Shanghai Song Chingling Foundation as well as schools and hospitals. It has also provided substantial financial support to Jingshan District, Shanghai, where the Company is located, on its economic development and various public welfare affairs regarding cultural education and community development. Since its listing, total social donations of the Company amounted to several hundred millions of Renminbi, which has enabled a harmonious development of the enterprises and the society.

The Company was ranked 29 in The Fortune China CSR Ranking for 2013.

The above Report demonstrated that SPC has implemented various measures and achieved positive results in respect of protecting the interests of major stakeholders, ensuring safe production and environmental protection and facilitating sustainable economic and social development in 2012. In 2013, the Company will continue its work to duly fulfill its social responsibilities as usual, thereby further facilitating sustainable economic, social and environmental development.

The Report has been considered and approved at the eleventh meeting of the seventh session of the Board on 27 March 2013. The Company has not engaged any third party to verify the fulfillment of its social responsibilities.

The Board of Directors
Sinopec Shanghai Petrochemical Company Limited
27 March 2013

Pursuant to the requirements of Article 68 of the Securities Law and Regulation on the Preparation of Information Disclosure Contents and Format of Companies Issuing Public Shares, No. 2 revised by the China Securities Regulatory Commission (CSRC) in 2012, we, being Directors, Supervisors and the Senior Management of the Company, having carefully studied and reviewed the Company's 2012 annual report, are in the opinion that: the Company was in strict compliance with the standardised operation of financial system operation of joint stock companies and the 2012 annual report gave a true and fair view of the financial position and operating results of the Company. The unqualified auditors' reports of the Company issued by KPMG and KPMG Huazhen (Special General Partnership), respectively, were true and fair. We warrant that the information contained in the 2012 annual report is true, accurate and complete, and that there are no false or misleading statements contained in or material omissions from this report. We jointly and severally accept full responsibility for the authenticity, accuracy and completeness of the information contained in this report.

Signature:

Directors:

Rong Guangdao	Wang Zhiqing	Wu Haijun	Li Honggen
Shi Wei	Ye Guohua	Lei Dianwu	Xiang Hanyin
Shen Liqiang	Jin Mingda	Wang Yongshou	Cai Tingji

Supervisors:

Gao Jinping	Zhuo Qiang	Li Xiaoxia	Zhai Yalin
Wang Liqun	Chen Xinyuan	Zhou Yunnong	

Senior Management:

Zhang Zhiliang	Zhang Jianping	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

	Company Secretary	Securities Affairs Representative
Name:	Zhang Jingming	Tang Weizhong
Address:	48 Jinyi Road, Jinshan District, Shanghai, PRC	Suite B, 28/F, Huamin Empire Plaza, 728 West Yan'an Road, Shanghai, PRC
Postal Code:	200540	200050
Tel:	8621-57943143/52377880	8621-57943143/52377880
Fax:	8621-57940050/52375091	8621-57940050/52375091
E-mail:	spc@spc.com.cn	tom@spc.com.cn

(3) Basic Information

Registered address:	48 Jinyi Road, Jinshan District, Shanghai, PRC
Postal Code:	200540
Business address:	48 Jinyi Road, Jinshan District, Shanghai, PRC
Postal Code:	200540
Website of the Company:	www.spc.com.cn
E-mail address:	spc@spc.com.cn

(4) Information Disclosure and Place for Access to Information

Newspapers designated for publication of announcements of the Company:
"Shanghai Securities News" and "China Securities Journal"

Websites for the publication of the Company's annual reports:
Shanghai Stock Exchange website (www.sse.com.cn);
Hong Kong Stock Exchange website (www.hkex.com.hk); and
the website of the Company (www.spc.com.cn)

Place for access to the Company's annual reports:
Board Secretariat Office, 48 Jinyi Road, Jinshan District, Shanghai, PRC

(5) Shares Profile of the Company

Share Type	Place of listing of the shares	Stock abbreviation	Stock Code	Stock abbreviation before change
A Shares	Shanghai Stock Exchange	S 上石化	600688	-
H Shares	Hong Kong Stock Exchange	SHANGHAI PECHEM	00338	-
ADR	New York Stock Exchange	SHI	-	-

(6) Registration Changes during the Reporting Period

1. Basic Information
   There was no registration change during the Reporting Period. The basic information did not change.

2. Changes in Major Business since listing
   There was no change in major business since the Company was listed.

3. Changes in Controlling Shareholders since listing
   When the Company was listed in 1993, the controlling shareholder of the Company was China National Petrochemical Corporation, which underwent reorganisation and was renamed China Petrochemical Corporation in 1998. In 2000, China Petrochemical Corporation established China Petroleum & Chemical Corporation, and the controlling shareholder of the Company changed to China Petroleum & Chemical Corporation afterward.

(7) 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

Auditor engaged by the Company (domestic):

Name:	KPMG Huazhen (Special General Partnership)
Address:	8th Floor, Office Tower 2, Oriental Plaza, No. 1, East Chang An Avenue, Beijing, PRC, Postal Code: 100738
Signing Auditors:	Yu Xiaojun, Cheng Yujing

Auditor engaged by the Company (international):

Name:	KPMG
Address:	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 North 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 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 Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong

Depositary:

The Bank of New York Mellon
Shareowner Services
P.O. Box 358516
Pittsburgh, PA 15252-8516
Toll Free Number for Domestic Calls: 1-888-BNY-ADRS
umber for International Calls: 201-680-6825
Email: shareowners@bankofny.com
Website: www.stockbny.com

Documents for Inspection

1. Financial statements signed and sealed by the Company's Chairman, Vice Chairman and President and Chief Financial Officer;

2. Original copies of auditor's reports signed by the auditors;

3. Original copies of all documents and announcements of the Company which were disclosed in newspapers designated by CSRC during the Reporting Period; and

4. The written confirmation issued by the Directors, Supervisors and Senior Management.

Chairman: **Rong Guangdao**
Sinopec Shanghai Petrochemical Company Limited
27 March 2013

This annual report is published in both Chinese and English. Should any conflict regarding meaning arises, the Chinese version shall prevail (unless otherwise provided).