



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

(A joint stock limited company incorporated in the People's Republic of China)
Stock code: 00338 Hong Kong 600688 Shanghai SHI New York



2016
INTERIM REPORT

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IMPORTANT MESSAGE

- (1) The Board, the Supervisory Committee of Sinopec Shanghai Petrochemical Company Limited and its Directors, Supervisors and Senior Management warrant the truthfulness, accuracy and completeness of the information contained in this interim report, and warrant that there are no false representations or misleading statements contained in, or material omissions from, the 2016 interim report of the Company, and severally and jointly accept responsibility.
- (2) Absence of Directors at the Board meeting for considering and approving the 2016 Interim Report of the Company

| Position of Director | Name | Reasons for Absence | Name of Proxy |
|----------------------|-------------|---------------------|---------------|
| Director | Guo Xiaojun | Business engagement | Gao Jinping |
| Director | Lei Dianwu | Business engagement | Wang Zhiqing |
| Director | Mo Zhenglin | Business engagement | Wang Zhiqing |

- (3) The interim financial report for the six months ended 30 June 2016 is unaudited.
- (4) Mr. Wang Zhiqing, Chairman, President, Executive Director and the person in charge of the Company; Mr. Ye Guohua, Executive Director and Chief Financial Officer overseeing the accounting operations; and Mr. Hua Xin, Deputy Chief Financial Officer, person in charge of the Accounting Department (Accounting Chief) and Finance Manager, hereby warrant the truthfulness, accuracy and completeness of the financial report contained in the 2016 interim report of the Company.
- (5) There was no profit distribution for the first half of 2016 and no capitalisation of capital reserve.
- (6) The statements regarding the Company's plans for future development and operation are forward-looking statements and do not constitute any commitments to investors. Investors should pay attention to the relevant investment risks.
- (7) There was no incident of appropriation of funds by the controlling shareholder of the Company and its connected parties for non-operational purposes.
- (8) The Company did not provide any external guarantees in violation of the required decision-making procedures.
- (9) The 2016 interim report is published in both Chinese and English. In the event of any discrepancy between the English and Chinese versions, the Chinese version shall prevail.

DEFINITIONS

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

| | |
|--|---|
| “Company” or “SPC” | Sinopec Shanghai Petrochemical Company Limited |
| “Board” | the board of directors of the Company |
| “Director(s)” | the director(s) of the Company |
| “Supervisory Committee” | the supervisory committee of the Company |
| “PRC” or “China” | the People’s Republic of China |
| “Reporting Period” | the six months ended 30 June 2016 |
| “Hong Kong Stock Exchange” | The Stock Exchange of Hong Kong Limited |
| “Shanghai Stock Exchange” | The Shanghai Stock Exchange |
| “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 set out in Appendix 10 to the Hong Kong Listing Rules |
| “Securities Law” | the PRC Securities Law |
| “Company Law” | the PRC Company Law |
| “CSRC” | China Securities Regulatory Commission |
| “Articles of Association” | the articles of association of the Company |
| “Hong Kong Stock Exchange website” | www.hkexnews.hk |
| “Shanghai Stock Exchange website” | www.sse.com.cn |
| “Website of the Company” | www.spc.com.cn |
| “HSE” | Health, Safety, and Environment |
| “COD” | Chemical Oxygen Demand |
| “EVA” | Ethylene Vinyl Acetate |
| “SFO” | the Securities and Futures Ordinance of Hong Kong (Chapter 571 of the Laws of Hong Kong) |
| “Corporate Governance Code” | the Corporate Governance Code set out in Appendix 14 to the Hong Kong Listing Rules |
| “Share Option Incentive Scheme” | the Share Option Incentive Scheme for A shares of the Company |

MAJOR FINANCIAL DATA AND INDICATORS

Prepared under the People's Republic of China Accounting Standards for Business Enterprises ("CAS")

(1) Major Accounting Data and Financial Indicators

1. Major Accounting Data

Unit: RMB'000

| Major accounting data | The Reporting Period (January to June) | Corresponding period of the previous year | Increase/decrease as compared to the corresponding period of the previous year (%) |
|---|---|---|--|
| Revenue | 36,993,191 | 42,152,450 | -12.24 |
| Net profit attributable to equity shareholders of the Company | 3,096,675 | 1,731,166 | 78.88 |
| Net profit attributable to equity shareholders of the Company excluding non-recurring items | 3,117,585 | 1,736,231 | 79.56 |
| Net cash generated from operating activities | 4,645,024 | 1,924,239 | 141.40 |
| | As at the end of the Reporting Period | As at the end of the previous year | Increase/decrease at the end of the Reporting Period as compared to the end of the previous year (%) |
| Net assets attributable to equity shareholders of the Company | 21,906,328 | 19,838,862 | 10.42 |
| Total assets | 31,924,949 | 28,022,171 | 13.93 |

MAJOR FINANCIAL DATA AND INDICATORS (continued)

Prepared under the People's Republic of China Accounting Standards for Business Enterprises

2. Major Financial Indicators

| Major financial indicators | The Reporting Period (January to June) | Corresponding period of the previous year | Increase/decrease as compared to the corresponding period of the previous year (%) |
|--|---|---|--|
| Basic earnings per share (RMB/Share) | 0.287 | 0.160 | 79.38 |
| Diluted earnings per share (RMB/Share) | 0.287 | 0.160 | 79.38 |
| Basic earnings per share excluding non-recurring items (RMB/Share) | 0.289 | 0.161 | 79.50 |
| Return on net assets (weighted average) (%)* | 14.465 | 9.918 | Increased by 4.547 percentage points |
| Return on net assets excluding non-recurring items (weighted average) (%)* | 14.555 | 9.947 | Increased by 4.608 percentage points |

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

(2) Differences between Interim Financial Report Prepared under CAS and International Financial Reporting Standards ("IFRS")

Unit: RMB'000

| | Net profit attributable to equity shareholders of the Company | | Total equity attributable to equity shareholders of the Company | |
|---------------------|---|---|---|--|
| | The Reporting Period | Corresponding period of the previous year | At the end of the Reporting Period | At the beginning of the Reporting Period |
| Prepared under CAS | 3,096,675 | 1,731,166 | 21,906,328 | 19,838,862 |
| Prepared under IFRS | 3,148,609 | 1,770,880 | 21,877,241 | 19,797,282 |

Details of the differences between financial statements prepared under CAS and IFRS:

For a detailed description of the differences, please refer to the supplementary information of the interim financial statements prepared under CAS.

MAJOR FINANCIAL DATA AND INDICATORS (continued)

Prepared under the People's Republic of China Accounting Standards for Business Enterprises

(3) Non-recurring Items and Amount

Unit: RMB'000

| Non-recurring items | Amount |
|---|---------|
| Net loss from disposal of non-current assets | -23,977 |
| Employee reduction expenses | -4,647 |
| Government grants recorded in profit and loss (excluding government grants closely related to corporate business pursuant to the State's unified standard on quota and amount entitlements) | 14,280 |
| Income from external entrusted loans | 1,002 |
| Other non-operating income and expenses other than those mentioned above | -13,993 |
| Income tax effect | 6,853 |
| Effect attributable to non-controlling interests | -428 |
| Total | -20,910 |

REPORT OF THE DIRECTORS

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

The following discussion and analysis should be read in conjunction with the unaudited financial report of the Group and the notes in the 2016 interim report. Unless otherwise specified, the financial data involved hereinafter are extracted from the unaudited interim financial report prepared in accordance with IFRS.

Review and Discussion of Operating Results

During the first half of 2016, the global economy had a tortuous progress. The volatility of the financial market increased, growth of investment in international trade declined and the recovery of economy slowed down in general. The United States economy experienced moderate growth but lacked sufficient drive. The Eurozone economy was not expected to turn the table in the foreseeable future despite the continuing recovery. As downward pressure persisted, the growth of developed economies was less than expected. Emerging economies faced more severe challenges as a result of a prolonged downturn in staple commodities, global financial fluctuation and difficulties in resolving structural economic problems.

The economy of China, faced with complicated domestic and international environment and the increased downward pressure on the economy, accelerated its supply-side structural reform and advocated business start-up and innovation which facilitated the economy to achieve an overall steady development and recorded a gross domestic products (GDP) growth of 6.7% for the first half of 2016, representing a decrease of 0.3 percentage points as compared to the same period of last year. The petrochemical industry in China in general was steady for the first half of 2016 as consumption of major products increased steadily, profitability of refined oil products improved while profit from the petrochemical business grew comparatively rapid. However, downward pressure affecting the development of the industry remains. While investment decreased and a new growth drive had yet to come, the industry was in the process of bottoming out and regaining confidence.

REPORT OF THE DIRECTORS (continued)

In the first half of 2016, the Group endeavoured to achieve progress in safety and environmental protection, operation optimization, market exploration as well as cost and expenses reduction while facing the adverse and intensive market competition. Benefited from the significant year-on-year decline in the global crude oil price, the Group's cost of crude oil processing dropped, which led to an increase of the products' gross profits and further boosted the profitability remarkably. In particular, the "floor price"¹ for domestic refined oil contributed to the results of the Company in the first quarter of 2016. As international crude oil prices began to rebound in February 2016, the cost of crude oil in transit and in stock was relatively low due to the long procurement cycle for imported crude oil of the Group, which led to an increase in profit in the second quarter. As of 30 June 2016, the Group recorded turnover of RMB36,968.5 million, decreased by RMB5,157 million, representing a decrease of 12.24% compared to the same period of last year. The profit before tax was RMB4,101.9 million (profit before tax for the same period of last year was RMB2,279.9 million), representing an increase of RMB1,822 million from last year. Profit after tax and non-controlling shareholder interests was RMB3,148.6 million (profit for the same period of last year was RMB1,770.9 million), representing an increase of RMB1,377.7 million from last year.

In the first half of 2016, the total production volume of the Group reached 6,510,500 tons, representing a year-on-year decrease of 8.53%. From January to June of 2016, the Group processed 7,354,000 tons of crude oil (including 1,316,800 tons of crude oil processed on a sub-contract basis), which remained at the same level as last year. The production volume of refined oil products reached 4,437,200 tons, representing a year-on-year increase of 0.56%. Among which, the output of gasoline was 1,562,600 tons, representing a year-on-year increase of 4.79%; the output of diesel was 2,038,800 tons, representing a year-on-year decrease of 4.79%; and the output of jet fuel was 835,800 tons, representing a year-on-year increase of 7.20%. The Group produced 414,800 tons of ethylene and 330,800 tons of paraxylene, representing a year-on-year decrease of 2.05% and 2.96%, respectively. The Group also produced 527,200 tons of synthetic resins and plastic (excluding polyesters and polyvinyl alcohol), representing a year-on-year decrease of 0.88%; 333,300 tons of synthetic fiber monomers, representing a year-on-year decrease of 21.52%; 217,500 tons of synthetic fiber polymers, representing a year-on-year decrease of 0.09%; and 110,400 tons of synthetic fibers, representing a year-on-year decrease of 4.66%. For the first half of the year, the output-to-sales ratio and receivable recovery ratio of the Group were 98.25% and 100.00%, respectively.

¹ On 13 January 2016, the National Development and Reform Commission of the PRC announced the "Notice of the National Development and Reform Commission on Further Improving the Pricing Mechanism of Refined Oil" (Fa Gai Jia Ge [2016] No.64) (the "Notice"), stating that when the price of crude oil in the international market – with which the domestic refined oil price is affiliated – is lower than US\$40/barrel, the domestic refined oil price will not be adjusted downward further (the so-called "floor price"). The Notice states that "when the price of crude oil in the international market is lower than US\$40/barrel, which is the regulatory lower limit, the amount of refined oil price that has not been adjusted will be put into a risk reserve fund. A dedicated account will be set up which requires the approval of the government before using. The fund will mainly be used for energy conservation, emission reduction, oil product quality upgrading and oil supply security." Specific management measures will be announced separately. As at the date of this report, the specific management measures have not been announced yet.

REPORT OF THE DIRECTORS *(continued)*

The Group maintained control of safety and environmental protection in general and stable operation of its equipment. For the first half of the year, the Group thoroughly took full responsibility on and implemented safe production, strengthened hidden hazard identification and investigation as well as risk identification, carried out pollution reduction and environmental treatment, and proactively implemented Leak Detection and Repair (LDAR) measures. During the first half of the year, the Group inspected a total of 740,000 sealed spots of oil refining and petrochemical devices and fixed leakages that were identified. The Company performed volatile organic compounds (“VOCs”) emission checks on nine aspects, including storage tanks, loading and unloading, leakage and flue gas combustion, so as to advance the comprehensive VOCs treatment and keep reducing VOCs emission. The Group continued to meet its safety and environmental target of “Seven Zeros”, (i.e. zero in work related deaths, serious injuries, major fires or explosions, major environmental pollution accidents, major occupational hazard accidents, major traffic accidents and major safe production responsibility accidents). The compliance rate of waste water, waste solid and waste gas disposal (“Three Wastes”) reached 100%. The total emission of chemical oxygen demand (“COD”), ammonia nitrogen, sulfur dioxide and nitrogen oxides decreased by 4.05%, 16.88%, 14.50% and 11.11% respectively over the same period of last year. The Group maintained stable operation of production devices and strengthened the evaluation on production and operation performance with all technical and economic indicators improved effectively. During the first half of the year, out of the 83 major technical and economic indicators under assessment, 43 indicators improved over last year, representing a year-on-year improvement rate of 51.81%, while 20 were among the top of the industry. Industry advance ratio was 24.10%.

The Group further implemented production and operation optimization, cost and expenses reduction aiming at increasing profitability. The Group adhered to the dynamic optimization mechanism of “daily computation of gross profit margin and weekly exploration of plant potential” during the first half of 2016. Regarding the optimization of equipment workload, the Group adjusted the workload based on market changes and profitability forecast, suspended or limited the production of certain equipment, such as the 1# ethylene glycol, PTA, 1# polyester staple, polyester and acrylic plants to minimize the loss in profitability in the first half of 2016. At the same time, the Group optimized the raw material structure with a focus on raw material dry points and oil yield on hydrogen cracking devices, so as to ensure the quality of raw materials for ethylene. The Group streamlined the processing workflow by timely commencing the operation of the 1# coking devices to reduce production of asphalt, given the increasing gap in gross profit margin between coked products and asphalt products to reduce loss. In terms of product structure improvement, the Group adjusted the output of atmospheric vacuum equipment and ethylene cracker feed, reduced the output of diesel, as well as increased gasoline production and ratio of high-grade gasoline. During the first half of the year, the ratio of diesel to gasoline was 1.30:1 (ratio for 2015 was 1.38:1), while the proportion of high-grade gasoline reached 32%, representing a year-on-year increase of 6.82 percentage points. The Group further enhanced cost reduction and efficiency improvement. For the first half of 2016, it strived to procure crude oil types of high cost-effectiveness and centralized crude oil procurement to reduce cost. It also put more efforts in cost control over major areas on maintenance and costs on catalyst, additive and solvent. In terms of control over finance cost, the Group insisted on innovative management, which led to significant reduction in finance cost.

REPORT OF THE DIRECTORS *(continued)*

The Group facilitated the work of project construction and research and development (“R&D”). In the first half of the year, it steadily implemented major emission reduction projects, such as the desulfurization and denitrification of boilers in the Thermal Power Division and the start-up boiler renovation for the Olefins Division. It also completed the “Clear Water, Blue Sky” environmental protection project. In terms of technological development, on the foundation of developing high value-added new products and implementing marketing initiatives, the Group actively put in efforts to achieve an up-to-standard operation of carbon fiber equipment with a breakthrough in the industrial application of carbon fiber achieved. Currently, the carbon fiber products of the Company were widely used in a highway project in an overseas country and a high speed railway project in Northeastern China. The application of such products in an oilfield in China successfully replaced related overseas carbon fiber products in sucker rods. In the first half of the year, the Group developed and manufactured 117,300 tons of new products and 398,100 tons of new synthetic resins products and specialized polyolefin materials, with a differentiation rate for synthetic fibers reaching 73.44%. The Group also submitted 26 patent applications and obtained 28 patent rights.

In addition, the Group further enhanced corporate management. During the first half of the year, it actively optimized the management framework, adopted professional and centralized management of equipments while modified and improved the organization structure of certain workshops. It also advanced the digitalization of business operation when formulating strategic, core operation and supporting workflows on a systematic basis, so as to facilitate the transition from functional management to workflow management. The Group took initiatives in implementing the “three basics” (basic foundation-building, basic work and basic skill training), which resulted in better work performance, and established and optimized the “three basics” organizational structure and work standards.

The Group proactively fulfilled its corporate social responsibility. It actively addressed the issues raised in the “Notice Regarding Listed Supervision of Environmental Issue” by the Ministry of Environmental Protection through communicating and coordinating with the local government and environmental protection authorities. At the same time, the Group formulated the “Rectification Plan for Notice Regarding Listed Supervision of Environmental Issue of Sinopec Shanghai Petrochemical Company Limited by the Ministry of Environmental Protection”, prepared the contingency plan for cross-region environmental incidents and upgraded the management of warehouses storing dangerous chemicals. In the first half of 2016, it organized eight ‘Corporate Open Days’ for over 200 visitors, including government officials of the Jinshan District, media representatives in Shanghai and neighboring residents, and arranged visits to the production plants and green waste treatment sites of the Company. The Group continued to seek mutual benefit with stakeholders of the supply chain. It endeavored to safeguard the interests of employees and cooperate with the local government to ensure a harmonious and stable development.

REPORT OF THE DIRECTORS (continued)

The following table sets forth the Group's sales volume and net sales after business tax and surcharges for the Reporting Period:

| | For the six months ended 30 June | | | | | |
|-----------------------------------|--|-------------------------------|--------------|--|-------------------------------|-------|
| | 2016 | | | 2015 | | |
| | Sales Volume (^{'000} tons) | Net Sales (RMB Million) | % | Sales Volume (^{'000} tons) | Net Sales (RMB Million) | % |
| Synthetic fibers | 105.1 | 966.1 | 3.1 | 114.4 | 1,241.3 | 3.5 |
| Resins and plastics | 664.7 | 4,609.8 | 15.0 | 659.9 | 5,244.1 | 15.0 |
| Intermediate petrochemicals | 1,016.7 | 4,105.7 | 13.3 | 1,083.5 | 4,905.1 | 14.0 |
| Petroleum products | 4,100.2 | 11,669.6 | 37.9 | 4,751.6 | 16,449.8 | 46.9 |
| Trading of petrochemical products | – | 9,003.3 | 29.2 | – | 6,820.9 | 19.4 |
| Others | – | 427.8 | 1.5 | – | 403.4 | 1.2 |
| Total | 5,886.7 | 30,782.3 | 100.0 | 6,609.4 | 35,064.6 | 100.0 |

In the first half of 2016, net sales of the Group amounted to RMB30,782.3 million, representing a decrease of 12.21% over the same period last year. Among which, net sales of synthetic fibers, resins and plastics, intermediate petrochemical products and petroleum products decreased by 22.17%, 12.10%, 16.30% and 29.06%, respectively. Net sales from the trading of petrochemical products increased by 32.00%. The decrease in net sales was mainly due to the decrease in the unit prices of products during the period as compared to the same period last year. The increase in the Group's net sales from the trading of petrochemical products was mainly attributable to the increase in the business volume of Shanghai Jinshan Trading Corporation, a subsidiary of the Group, during the Reporting Period. In the first half of the year, the Group's net sales of "Others" increased by 6.05% over the same period last year, which was mainly attributable to the increase in the Group's revenue from oil processed on a sub-contract basis, as compared to the same period last year.

Most of the Group's products are sold in Eastern China.

In the first half of 2016, the Group's cost of sales decreased by 17.97% year-on-year to RMB26,814.8 million, representing 87.11% of total net sales.

REPORT OF THE DIRECTORS (continued)

The Group's main raw material is crude oil. The global crude oil market gradually picked up in the first half of 2016. The global crude oil prices rebounded after touching the bottom in the beginning of the year and showed a rising trend with fluctuations. In the first half of the year, the highest and lowest closing prices of Brent crude oil futures were US\$50.72/barrel and US\$26.27/barrel, respectively, and the average price during the Reporting Period was approximately US\$39.60/barrel, representing a year-on-year decrease of 31.56%. The highest and lowest closing prices of West Texas Intermediate crude oil were US\$50.90/barrel and US\$26.27/barrel, respectively, and the average price during the Reporting Period was approximately US\$39.55/barrel, representing a year-on-year decrease of 25.59%. The highest and lowest closing prices of Dubai crude oil futures were US\$48.81/barrel and US\$22.80/barrel, respectively, and the average price during the Reporting Period was approximately US\$37.06/barrel, representing a year-on-year decrease of 34.47%.

In the first half of 2016, the average unit cost of processed crude oil (on the Group's own account) was RMB1,745.24/ton, representing a decrease of RMB907.72/ton over the same period of last year, or a decrease of 34.22%. The Group processed a total of 6,037,200 tons of crude oil (excluding crude oil processed on a sub-contract basis), representing a decrease of 624,100 tons over the same period of last year. Taken together, the total costs of processed crude oil decreased by RMB7,136 million. Processing costs decreased by RMB1,656 million due to a decrease in the volume of crude oil processed. The decrease in unit cost of processed crude oil brought costs down by RMB5,480 million. From January to June this year, crude oil processed on a sub-contract basis reached 1,316,800 tons, representing an increase of 629,400 tons over the same period of last year. In the first half of the year, the Group's cost of crude oil accounted for 39.29% of the total cost of sales.

In the first half of 2016, the Group's expenses for other ancillary materials amounted to RMB4,084.5 million, which is basically the same as that of last year. During the Reporting Period, the Group's depreciation and maintenance expenses decreased by 12.31% year-on-year to RMB938.0 million, mainly due to the decrease in depreciation expenses during the Reporting Period as certain fixed assets were fully depreciated. Maintenance expenses grew by 8.25% year-on-year over the same period of last year to RMB625.0 million, mainly due to an increase in maintenance work during the Reporting Period, which led to the rise in maintenance costs. Fuel and power expenses declined by 16.05% year-on-year to RMB837 million during the Reporting Period, mainly due to the decrease in the unit purchase price of coal.

In the first half of 2016, selling and administrative expenses of the Group amounted to RMB254.2 million, representing a decrease of 8.53% as compared with RMB277.9 million over the same period of last year. This was mainly due to the decrease in transportation and loading fees during the Reporting Period.

In the first half of 2016, other operating income of the Group amounted to RMB34.5 million, representing a decrease of RMB7.0 million over the same period of last year. This was mainly due to a decrease in income from investment property and pipeline transportation Services during the Reporting Period.

In the first half of 2016, the Group's net finance income amounted to RMB7.0 million, compared to RMB137.2 million in net finance expenses over the same period last year. This was mainly due to a decrease in interest expenses during the period.

In the first half of 2016, the Group's profit after tax and profit attributable to non-controlling shareholders was RMB3,148.6 million, representing an increase of RMB1,377.7 million as compared with RMB1,770.9 million over the same period of last year.

REPORT OF THE DIRECTORS (continued)

Liquidity and Capital Resources

The Group's net cash generated from operating activities amounted to RMB4,613.4 million in the first half of 2016 as compared to net cash generated of RMB1,776.7 million over the same period of last year, which was primarily attributable to profit before tax during the Reporting Period which amounted to RMB4,101.9 million (profit before tax over the same period of last year was RMB2,279.9 million).

In the first half of 2016, the Group's net cash used in investment activities amounted to RMB5.9 million as compared to a net cash used of RMB258.9 million over the same period of last year. This was primarily attributable to a year-on-year increase in the dividends received by the Group from joint ventures and associated companies during the Reporting Period, resulting in a decrease of RMB162.1 million in net cash used in investment activities.

In the first half of 2016, the Group's net cash used in financing activities amounted to RMB1,235.9 million, compared to a net cash outflow of RMB1,496.0 million over the same period of last year, primarily attributable to a year-on-year increase in the Group's profit and a decline in demand for capital during the Reporting Period.

Borrowings and Debts

The Group's long-term borrowings are mainly used in capital expansion projects. In general, the Group arranges long-term borrowings according to its capital expenditure plans. On the whole, there are no seasonal borrowings. Short-term borrowings are used to replenish the Group's working capital requirements during the normal course of production. During the first half of 2016, the Group's short-term borrowings decreased by RMB1,210.3 million to RMB859.7 million as at the end of the Reporting Period as compared to the beginning of the Reporting Period.

Capital Expenditures

In the first half of 2016, the Group's capital expenditures amounted to RMB265 million, mainly on the desulfurization projects for furnaces No. 1 – No. 5 and No. 7 of the Thermal Power Division, the odor control project for the oil tanks of the Storage Division, the start-up boilers flue gas desulfurization and denitrification project in the Olefins Division, clean and waste water segregation system upgrading of water circulating plants, as well as latent hazard management of the petroleum coke yard of the Thermal Power Division in light of environmental protection.

In the second half of the year, the Group plans to complete the quality upgrading project for No. 2 diesel hydrogenation plant, long distance pipelines latent hazard management and the start-up boilers flue gas desulfurization and denitrification project in the Olefins Division, while projects such as the 100,000 tons/year EVA plant project will be continued. The Group endeavours to launch the cogeneration low emission and energy saving project and 300,000 tons/year alkylated project this year. The Group's planned capital expenditures can be appropriated from the cash generated from operation and from bank financing.

Liability-to-asset Ratio

As at 30 June 2016, the Group's liability-to-asset ratio was 30.20% (As at 31 December 2015: 27.77%). The ratio is calculated using the following formula: total liabilities/total assets.

REPORT OF THE DIRECTORS *(continued)*

The Group's Employees

As at 30 June 2016, the total number of enrolled employees of the Group was 11,490, among which the number of production staff was 6,781, the number of sales, financial and other staff was 3,157 and the number of administrative staff was 1,552. A total of 49.39% of the Group's employees were college graduates or above.

The Group's employees and Directors are remunerated with reference to their position, performance, experience and prevailing salary trends in the market. Other benefits include the Share Option Incentive Scheme and the state-managed retirement pension scheme. The Group also provides professional and vocational training to employees.

Income Tax

The PRC Enterprise Income Tax Law took effect from 1 January 2008, subsequent to which the income tax rate for enterprises was uniformly adjusted to 25%. The income tax rate for the Group in 2016 is 25%.

Disclosure Required by the Hong Kong Listing Rules

Save as disclosed herein, pursuant to paragraph 40 of Appendix 16 to the Hong Kong Listing Rules, the Company confirms that there were no material differences between the existing information of the Company relating to the matters as set out in paragraph 32 of Appendix 16 to the Hong Kong Listing Rules and the relevant information disclosed in the Company's 2015 annual report.

Market Outlook and Work Plans for the Second Half of the Year

In the second half of 2016, the global economy will face with more uncertainties. Given low prices for staple commodity, stagnant growth of developed countries, sluggish investment and trading, coupled with the impact of uncertainties such as geopolitics and Brexit (the United Kingdom leaving the European Union), the global economy will continue to be in a stage of profound adjustments and the challenges to economic recovery will still be severe. The fundamental long-term positive trend of China economic development remains unchanged. However, the downward pressure on the economy is still tremendous as the structural conflicts in China's economy is still prominent. New drives for economic growth are yet to emerge, and it will take time to come up with solutions to the overcapacity problem. Facing the serious structural overcapacity of the petrochemical industry in China, as well as the reform of resource tax in China and fees imposed on pollutants emissions, costs of petrochemical enterprises will definitely be increased. The increasingly stringent safety and environmental standards of the country and acceleration of oil products upgrade will also pose tremendous challenges to the industry.

In the second half of 2016, the prospect of global economy recovery does not look optimistic with the market's concern about the impact of Brexit on oil demand. Seasonal increase in oil demand in the third quarter, and the decreasing production of crude oil in the United States and Venezuela helps to bring a fundamental balance between demand and supply. Nevertheless, various negative factors in the crude oil market, such as the global inventory level which is still close to its record high, gradual resumption of production in Nigeria, possible slowing down of the growth rate of imported crude oil in China, strengthening of the US dollars boosted by a potential hiking of rates by the Federal Reserve, will alleviate the driving force of oil price increase. It is expected that the demand and supply of crude oil in general will strike a balance, and the price will remain at low level with fluctuations, but will be higher than the average price in the first half of the year.

REPORT OF THE DIRECTORS *(continued)*

In the second half of the year, the Group's approach will be more profit-oriented and market-oriented to ensure achievements in aspects including safety and environmental protection, optimization of system, reduction of cost and expenses, as well as corporate management, which in turn will bring a continuous improvement of effectiveness.

- (i) Further efforts in safety and environmental protection. The Group will proactively implement its principal obligations in safety and environmental protection, proactively foster the rectification of the listing and supervision of environment issues implemented by the Ministry of Environmental Protection of the PRC, focus its efforts on fostering on-schedule completion of projects such as latent management of long-distance pipelines, continuously promote standard checks for environmental protection risks, commence identification and governance in different aspects such as "emission indicators for sewage and waste gases" and "VOCs governance sessions", and practically resolve the bottlenecks in the development of enterprises. The Group will firmly strengthen direct safety supervision and management of operations, reinforce the management of sub-contractors and continuously enhance corporate safety and environmental protection standards.
- (ii) More profit-oriented system optimization works. The Group will strengthen its tracking on the marginal contribution of its plants, and adjust the respective workload at appropriate times based on changes in market and profitability as well as the inventory level. The Group will also strive to capture the consumption peak season for refined oil products in the third quarter, optimize and adjust the structure of refined oil products and continuously enhance the proportion of high-value-added products. The Group will further diversify its oil refining product structure, rationally arrange the production of oil refining products, optimize ethylene raw materials, enhance the recovery rate of olefins and reduce the production cost of ethylene.
- (iii) Continuous efforts to reduce costs and expenses. The Group will further improve its cost control on every aspect from crude oil procurement to production and operate with an aim to lower its costs and expenses; enhance marketing efforts and strengthen the link between production and sales of products at high inventory level, vigorously advocate the "Boost Income and Cut Cost" group-wide enhancement campaign, continuously foster the reduction of flare gas emission, energy consumption level of production devices and enhance the stability of device operation, while keep on lowering energy and materials consumption as well as enhancing technological and economic indicators.
- (iv) Implementation of investment projects and R&D projects as planned. The Group will focus on the implementation of projects such as the quality upgrading and modification project for No. 2 diesel and hydrogen devices; commence the construction project of ultra low discharge and energy conservation in cogeneration units as well as the project of 300,000 tons/year alkylation plant. The Group will also accelerate its progress on a number of key scientific research projects, and focus on projects such as the development of the integrated technology of PAN based carbon fiber as well as phase II technology optimization.

REPORT OF THE DIRECTORS (continued)

1. Analysis of the Company's Principal Business and Performance (Part of the following financial data was extracted from the unaudited interim report prepared under CAS)

(i) Analysis of Changes in the Company's Related Financial Data

Unit: RMB'000

| Item | As at 30 June 2016 | As at 31 December 2015 | Change (%) | Reason for change |
|---------------------------|--------------------------|------------------------------|------------|---|
| Cash and cash equivalents | 4,451,306 | 1,077,430 | 313.14 | Increases in profit in the Reporting Period and net cash generated from operating activities |
| Accounts receivable | 2,195,055 | 1,624,571 | 35.12 | Increases in business and revenue of the segment of trading of petrochemical products leading to an increase in accounts receivable |
| Short-term borrowings | 859,657 | 2,070,000 | -58.47 | Profit in the Reporting Period; decline in cash requirement |
| Accounts payable | 4,063,719 | 3,017,878 | 34.65 | Increase in business and purchase leading to an increase in accounts payable |
| Dividends payable | 1,099,119 | 19,119 | 5,648.83 | The declaration of the dividends for the year ended 31 December 2015 during the Reporting Period |
| Specific reserve | 40,394 | 953 | 4,138.61 | Increase in unutilised provisions for safety production costs |
| Undistributed profits | 6,044,700 | 4,028,025 | 50.07 | Profit for the Reporting Period |

REPORT OF THE DIRECTORS (continued)

Unit: RMB'000

| Item | For the six months ended 30 June | | Change (%) | Reason for change |
|--|-------------------------------------|------------|------------|---|
| | 2016 | 2015 | | |
| Revenue | 36,993,191 | 42,152,450 | -12.24 | Decrease in unit prices of products |
| Cost of sales | 25,177,628 | 31,233,864 | -19.39 | Decrease in cost of raw materials, leading to the decrease in unit costs of products |
| Finance expenses – net | 1,983 | 140,537 | -98.59 | Decreases in interest on borrowing and foreign exchange losses |
| Asset impairment losses | 150,004 | 61,411 | 144.26 | Increase in provision of fixed asset impairment |
| Income tax expenses | 948,241 | 491,686 | 92.85 | Increase in profit in the Reporting Period |
| Operating profit attributable to shareholders of the Company | 3,096,675 | 1,731,166 | 78.88 | Substantial decrease in costs of raw materials and increase in gross profit of products |
| Net cash generated from operating activities | 4,645,024 | 1,924,239 | 141.40 | Increase in profit in the Reporting Period |
| Net cash used in investment activities | -5,941 | -258,888 | -97.71 | Increase in dividends received from associated companies |
| Net cash used in financing activities | -1,267,427 | -1,643,510 | -22.88 | Reduced demand for cash during the Reporting Period |
| Research and development costs | 47,144 | 14,265 | 230.49 | Increase in R&D projects |

REPORT OF THE DIRECTORS (continued)

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

(i) Principal Business Operations by Segment or Product

Unit: RMB'000

| Business Segment/Product Segment | Revenue | Cost of sales | Gross profit margin (%) | Increase/decrease in revenue compared to last year (%) | Increase/decrease in cost of sales compared to last year (%) | Increase/decrease in gross profit margin compared to last year (%) |
|-----------------------------------|------------|---------------|-------------------------|--|--|--|
| Synthetic fibers | 999,011 | 929,160 | 6.99 | -21.82 | -26.29 | Increased by 5.64 percentage points |
| Resins and plastics | 4,747,017 | 3,352,638 | 29.37 | -11.68 | -18.20 | Increased by 5.63 percentage points |
| Intermediate petrochemicals | 4,245,716 | 2,724,786 | 35.82 | -15.91 | -27.03 | Increased by 9.77 percentage points |
| Petroleum products | 17,535,794 | 8,921,854 | 49.12 ^(*) | -24.37 | -41.04 | Increased by 14.39 percentage points |
| Trading of petrochemical products | 9,004,010 | 8,927,994 | 0.84 | 31.98 | 32.33 | Decreased by 0.26 percentage points |
| Others | 461,643 | 321,196 | 30.42 | 4.51 | 23.19 | Decreased by 10.55 percentage points |

* Gross profit margin is calculated according to the price of petroleum products which includes consumption tax. Gross profit margin of petroleum products after consumption tax was 18.78%.

(ii) Operating Segment by Geographical Location

Unit: RMB'000

| Geographical location segment | Revenue | Increase/decrease in revenue compared to the previous year (%) |
|-------------------------------|------------|--|
| Eastern China | 29,945,408 | -21.68% |
| Other regions in the PRC | 1,951,503 | 8.29% |
| Exports | 5,096,280 | 140.67% |

3. Analysis of Core Competitiveness

As one of the largest integrated petrochemical enterprises in China with highly integrated refining and petrochemical business operations, the Company possesses competitive strength in scale of operation, which has made it a major manufacturer of refined oil, intermediate petrochemical products, synthetic resins and synthetic fibers in the PRC. The Company also has its own utilities and environmental protection systems, as well as handling and transportation facilities for marine and inland waterways, railways and highways.

The Company's major competitive advantages include quality, branding, geographical location and vertically-integrated production. The Company has over 40 years of experience in petrochemical production and management, and has accumulated extensive resources in the petrochemical industry. The Company has won several quality product awards from the central and local governments. The Company is located in the core region of the Yangtze River Delta, the most economically active region in China with strong demand for petrochemical products, and has a comprehensive logistics system and supporting facilities with the close geographic proximity with most of its clients and the Company enjoys the advantage of its location for coastal and inland shipping. This gives it a competitive edge in terms of transportation costs and timely delivery. The Company has leveraged its advantages in integrated refining and petrochemical business operation to proactively enhance strengthen its product structure, while also continuously improving products quality and variety. It has also improved its production technology and boosted the capacity of its key upstream facilities to maximize the in-depth use and comprehensive efficiency of its corporate resources, and is therefore able to achieve strong and sustainable growth.

REPORT OF THE DIRECTORS (continued)

4. Analysis of Investments

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

(a) Entrusted wealth management

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

(b) Entrusted loans

Unit: RMB'000

| Borrower | Amount of entrusted loan | Loan period | Interest rate of loan % | Whether it is overdue | Whether it is a connected transaction | Whether it has been renewed | Whether it is under litigation | Source of funds and whether the funds are from fund-raising | Connected relationship | Expected income |
|----------------------------------|--------------------------|-------------------------|-------------------------|-----------------------|---------------------------------------|-----------------------------|--------------------------------|---|------------------------|-----------------|
| Chevron Phillips | 12,000 | 2015/8/28 – 2016/8/26 | 2.25 | No | No | No | No | No | Nil | 42 |
| Chemicals (Shanghai) Corporation | 12,000 | 2015/09/30 – 2016/09/26 | 2.00 | No | No | No | No | No | Nil | 60 |
| | 28,000 | 2015/11/27 – 2016/11/25 | 1.75 | No | No | No | No | No | Nil | 199 |
| | 12,000 | 2015/12/25 – 2016/12/23 | 1.75 | No | No | No | No | No | Nil | 101 |
| | 12,000 | 2016/1/29 – 2017/1/27 | 1.75 | No | No | No | No | No | Nil | 121 |
| | 12,000 | 2016/4/27 – 2017/4/27 | 1.75 | No | No | No | No | No | Nil | 173 |

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

(ii) Application of Fund Raised

During the Reporting Period, the Company did not raise fund, nor has it used the fund raised from the previous reporting periods.

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

Due to the decrease in the cost of raw materials and increase in gross profit of products, Shanghai Secco Petrochemical Company Limited, an associated company of the Group, recorded a net profit of RMB1,680 million during the Reporting Period, profit attributable to the Group is RMB336 million, representing 10.85% of net profit attributable to equity shareholders of the Company.

REPORT OF THE DIRECTORS (continued)

(iv) Major Projects from Non-raised Capital

Unit: RMB million

| Major Project | Estimated total project investment | Status as at 30 June 2016 |
|---|------------------------------------|---------------------------|
| The EVA production device with a capacity of 100,000 tons/year | 1,132 | Preliminary design |
| Desulfurization revamps for furnaces No. 1, No. 5 and No. 7 of the Thermal Power Division | 167 | Completed |
| Quality enhancement and transformation of the No. 2 diesel hydrogenation plant | 100 | Under construction |

(2) Plan for Profit Distribution or Capital Reserves Capitalization

1. Implementation or Amendment of Profit Appropriation Proposal during the Reporting Period

The 2015 Profit Distribution Proposal was considered and approved at the 2015 Annual General Meeting held on 15 June 2016: to distribute a dividend of RMB1.00 per 10 shares (including tax) totalling RMB1,080,000,000 based on the total issued share capital of RMB10.8 billion as at 31 December 2015. The relevant announcement was published in Shanghai Securities News, China Securities Journal and Securities Times on 16 June 2016 and was uploaded to the websites of the Hong Kong Stock Exchange, Shanghai Stock Exchange and the Company. On 8 July 2016, the Company published an announcement on the implementation of profit distribution for A shares for the year 2015. The record date for A shares dividend payment is 14 July 2016 and the ex-dividend date is 15 July 2016. The dividend payment date for both A shares and H shares is 15 July 2016. The Profit Distribution Proposal was implemented as scheduled.

2. Plan for Half-Yearly Profit Distribution and Plan for Conversion of Capital Reserves to Increase Share Capital

The Company will not distribute profit for the first half of 2016 and will not implement a plan for using capital reserves to increase share capital.

MAJOR EVENTS

(1) Material Lawsuits, Arbitration or Media Queries

On 14 April 2016, the Company published an announcement named “Clarification relating to media reports” in Shanghai Securities News, China Securities Journal and Securities Times dated 15 April 2016 and uploaded to the websites of the Hong Kong Stock Exchange, the Shanghai Stock Exchange and the Company. Subsequently, the Company actively implemented matters specified in the “Supervision List” issued by the Chinese Ministry of Environmental Protection. The Company also communicated and coordinated with local governments and environmental protection departments, prepared an “Improvement Proposal in relation to the Notice Regarding Listed Supervisions of the Environmental Issues of Sinopec Shanghai Petrochemical Company Limited Issued by the Chinese Ministry of Environmental Protection” as well as a cross-district environmental emergency plan.

(2) Events regarding Bankruptcy and Restructuring

The Company did not encounter events relating to bankruptcy or restructuring during the Reporting Period.

(3) Asset Trading and Corporate Mergers

There was no asset trading or corporate merger during the Reporting Period.

(4) Share Option Incentive Scheme and Its Impact

1. Date and Number of the Initial Grant of Share Options

Grant Date: 6 January 2015

Number of Participants: 214 persons

Number of A Shares Share Options Granted: 38,760,000

2. Share Options Granted to Directors, Senior Management or Major Shareholders

The Company granted a total of 2,540,000 A shares share options to six persons, including Executive Director, Chairman and President Mr. Wang Zhiqing, Executive Director, Vice Chairman and Vice President Mr. Gao Jinping, Executive Director and Chief Financial Officer Mr. Ye Guohua, Executive Director and Vice President Mr. Jin Qiang, Executive Director and Vice President Mr. Guo Xiaojun and former Secretary to the Board Mr. Tang Weizhong. Mr. Tang Weizhong has resigned as the Secretary to the Board on 23 October 2015. Pursuant to the Share Option Incentive Scheme, the share options granted to him have been cancelled.

3. Share Options Granted to Employees in addition to Those Mentioned in Item 2.

The Company granted a total of 36,220,000 A shares share options to 208 key business personnel.

Save as disclosed herein, no A shares share options were granted to or exercised by the employees or cancelled or lapsed during the Reporting Period.

MAJOR EVENTS *(continued)*

4. Exercise Price under the Initial Grant

In accordance with the determination principles for the exercise price, the exercise price under the initial grant is RMB4.20 per share. If, during the validity period of the share options, in case of, among others, payment of dividend, capitalization of capital reserves, distribution of bonus shares, subdivision or reduction of shares, and placing of shares, adjustment to the exercise price shall be made in accordance with the relevant provisions of the scheme. The 2015 Profit Distribution Proposal was considered and approved at the 2015 annual general meeting of the Company on 15 June 2016, pursuant to which a cash dividend of RMB1.00 was paid for every 10 shares. The adjusted exercise price is RMB4.10 per share.

5. Validity Period and Exercise Arrangement under the Initial Grant

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

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

MAJOR EVENTS *(continued)*

(5) Major Connected Transactions of the Company

1. Connected Transactions in relation to Daily Operations

(1) Items that have been disclosed in provisional announcements and there are no further updates or changes during the follow-up implementation

During the Reporting Period, pursuant to the Mutual Product Supply and Sales Services Framework Agreement entered into with the controlling shareholder of the Company, Sinopec Corp., and the de facto controller Sinopec Group, the Company purchased raw materials from Sinopec Group, Sinopec Corp and their associates, sold petroleum products and petrochemicals and leased properties to Sinopec Corp. and its associates, and received agency sales services for petrochemical products from Sinopec Corp. and its associates. Pursuant to the Comprehensive Services Framework Agreement entered into between the Company and the Company's de facto controller Sinopec Group, the Company received construction installation, engineering design, petrochemical industry insurance and financial services provided by Sinopec Group and its associates.

The abovementioned transactions under the Mutual Product Supply and Sales Services Framework Agreement and the Comprehensive Services Framework Agreement constituted continuing connected transactions under Chapter 14A of the Hong Kong Listing Rules and constituted day-to-day connected transactions under the Shanghai Listing Rules. The Company has disclosed the two agreements and the respective continuing connected transactions (i.e. day-to-day connected transactions; the same hereinafter) under the agreements in the announcement dated 25 October 2013 and the circular dated 1 November 2013. These two agreements and the respective continuing connected transactions under the agreements, together with the associated annual caps from 2014 to 2016, were considered and approved at the Second Extraordinary General Meeting for 2013 held on 11 December 2013.

During the Reporting Period, the relevant continuing connected transactions were fully conducted in accordance with the terms of the Mutual Product Supply and Sales Services Framework Agreement and the Comprehensive Services Framework Agreement. The transaction amounts of the respective continuing connected transactions did not exceed the caps in relation to the continuing connected transactions approved at the Second Extraordinary General Meeting for 2013.

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

MAJOR EVENTS *(continued)*

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

Unit: RMB'000

| Type of connected transactions | Connected parties | Annual cap for 2016 | Transaction amount during the Reporting Period | Percentage of the total amount of the same type of transaction (%) |
|---|---|---------------------|--|--|
| Mutual Product Supply and Sales Services Framework Agreement | | | | |
| Purchases of raw materials | Sinopec Group, Sinopec Corp. and its associates | 94,475,000 | 11,213,206 | 47.41% |
| Sales of petroleum products | Sinopec Corp. and its associates | 79,586,000 | 16,582,384 | 44.83% |
| Sales of petrochemical products | Sinopec Corp. and its associates | 31,156,000 | 2,665,568 | 7.21% |
| Assets and property leasing | Sinopec Corp. and its associates | 116,000 | 14,217 | 54.33% |
| Agency sales of petrochemical products | Sinopec Corp. and its associates | 309,000 | 46,872 | 100.00% |
| Comprehensive Services Framework Agreement | | | | |
| Construction installation and engineering design services | Sinopec Group and its associates | 1,824,000 | 64,212 | 65.87% |
| Petrochemical industry insurance services | Sinopec Group and its associates | 200,000 | 60,895 | 96.79% |
| Financial services | Sinopec Group and its associates | 300,000 | 2,405 | 3.23% |

MAJOR EVENTS *(continued)*

2. Credits and Liabilities with Connected Parties

Unit: RMB'000

| Connected party | Connected relationship | Funds provided to connected parties | | | Funds provided by connected parties to the listed company | | |
|---|---|-------------------------------------|-----------------------|-----------------|---|-----------------------|-----------------|
| | | Opening Balance | Amount of transaction | Closing Balance | Opening Balance | Amount of transaction | Closing Balance |
| Sinopec Corp., its subsidiaries and associates & Sinopec Group and its subsidiaries | Controlling shareholder and its related parties | 736 | (557) | 179 | 99,907 | (63,049) | 36,858 |

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

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

(6) Material Contracts and the Fulfillment of Obligations

1. Trusts, Sub-contracts and Lease Arrangements

The Company had no trusts, sub-contracts or lease arrangements that produced 10% or more of the gross profit of the Company during the Reporting Period.

2. Guarantees

There were no guarantees provided by the Company during the Reporting Period.

3. Other Material Contracts or Transactions

There were no other material contracts during the Reporting Period.

MAJOR EVENTS *(continued)*

(7) Performance of Undertakings

1. Undertakings Made by the Listed Company, Shareholders Holding More Than 5% of the Shares, Controlling Shareholders, and De Facto Controller during the Reporting Period or Continued up to the Reporting Period

(i) Undertakings about the Share Reform Proposal of the Company

The Company disclosed *The Explanatory Memorandum for the Share Reform Proposal of the Company (the Revised Draft)* on 20 June 2013, in which the Company's controlling shareholder, Sinopec Corp., made the following key undertakings that continued up to the Reporting Period:

1. Sinopec Corp. shall not, within 12 months from the date on which its non-circulating shares of the Company attain the right to circulate in the market (meaning the first trading day after the implementation of the A-share Share Reform Proposal), deal or transfer such shares on the relevant stock exchange. Upon the expiration of the aforesaid undertaking period, the number of existing non-circulating shares which may be disposed by Sinopec Corp through trading on the stock exchange shall not exceed 5% of the total number of issued shares of the Company within the next 12 months, and not exceeding 10% within the next 24 months.
2. Sinopec Corp. shall continue to support the development of the Company upon the completion of the A-share reform, and shall use the Company as a platform for the development of related businesses in the future.

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

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

MAJOR EVENTS *(continued)*

(ii) Major Shareholders' Undertakings not to Reduce Shareholdings

On 13 July 2015, the Company received a notice from the controlling shareholder Sinopec Corp. that for the purposes of maintaining and facilitating the sound development momentum of China's economy and the capital market, Sinopec Corp. will actively support the healthy development of listed companies as in the past and undertakes that it will not reduce its shareholdings in the Company within 6 months from the date of the announcement i.e. 13 July 2015.

With regard to the aforementioned two undertakings, the Company was not aware of any violation of the undertakings or any unfulfilled matters during the Reporting Period.

(8) Appointment and Dismissal of Accounting Firm

During the Reporting Period, the Company has not changed the accounting firms.

(9) Punishment and Rectification of the Listed Company and its Directors, Supervisors, Senior Management, Shareholders holding more than 5% of the Company's Shares, De Facto Controller and Purchaser

During the Reporting Period, the Company and its Directors, Supervisors, Senior Management, shareholders holding more than 5% of the Company's shares, the de facto controller and purchasers were not being investigated, administratively punished, publicly criticized by the CSRC or publicly censured by the stock exchanges on which the Company is listed.

(10) Convertible Bonds

Not applicable

(11) Corporate Governance

The Company acted in strict compliance with regulatory legislations such as the Company Law, the Securities Law, the Corporate Governance Principles for Listed Companies and the Guidelines for Establishing the Independent Directors System for Listed Companies issued by the CSRC, as well as the relevant requirements of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the New York Stock Exchange to push forward the advancement of the Company's system and management, to improve the corporate legal person governance structure, and to strengthen the establishment of the Company's system in order to enhance the overall image of the Company.

MAJOR EVENTS *(continued)*

(12) Event after the Reporting Period

The trading restrictions on the 4.38 billion trading restricted A shares of the Company held by Sinopec Corp., were uplifted and those shares were listed on 22 August 2016. For details, please refer to the “Announcement on the Listing of Trading Restricted Shares under the Sinopec Shanghai Petrochemical Company Limited Share Reform Proposal”, which was published in Shanghai Securities News, China Securities Journal and Securities Times on 13 August 2016 and uploaded to the websites of the Hong Kong Stock Exchange, the Shanghai Stock Exchange and the Company.

(13) Other Major Events

There were no other major events during the Reporting Period.

CHANGE IN SHARE CAPITAL AND SHAREHOLDERS STATUS

(1) Changes in Share Capital

1. Changes in Share Capital

The total number of issued shares and the share capital structure of the Company was not changed during the Reporting Period.

2. Changes in Restricted Trading Share Capital

There were no increase/decrease in the restricted trading shares of the Company during the Reporting Period.

(2) Shareholders of the Company

1. Total Number of Shareholders

| | |
|--|---------|
| Total number of shareholders as at the end of the Reporting Period | 144,417 |
|--|---------|

CHANGE IN SHARE CAPITAL AND SHAREHOLDERS STATUS *(continued)*

2. Shareholding of the Top Ten Shareholders and the Top Ten Shareholders of Shares in Circulation (or Those Without Trading Restrictions) as at the End of the Reporting Period

Shareholding of top ten shareholders

| Name of Shareholder (Full Name) | Class of shares | Increase/decrease of number of shares held during the Reporting Period (Shares) | Number of shares held at the end of the Reporting Period (Shares) | Percentage of total shareholding (%) | Number of trading restricted shares held (Shares) | Status of pledged/frozen shares | | Nature of shareholders |
|---|-----------------|---|---|--------------------------------------|---|---------------------------------|------------------|-------------------------------------|
| | | | | | | Status of shares | Number of shares | |
| China Petroleum & Chemical Corporation | A Shares | 0 | 5,460,000,000 | 50.56 | 4,380,000,000 | Nil | - | State-owned enterprise legal person |
| HKSCC (Nominees) Limited | H Shares | 1,096,000 | 3,454,462,321 | 31.99 | 0 | Unknown | - | Foreign legal person |
| China Securities Finance Corporation Limited | A Shares | -6,873,533 | 287,911,746 | 2.67 | 0 | Unknown | - | Others |
| Central Huijin Investment Ltd. | A Shares | 0 | 67,655,800 | 0.63 | 0 | Unknown | - | Others |
| NSSF Combination 414 | A Shares | Unknown | 24,999,948 | 0.23 | 0 | Unknown | - | Others |
| Shanghai Kangli Industry and Trade Co., Ltd | A Shares | 510,000 | 21,925,300 | 0.20 | 0 | Unknown | - | Others |
| Bank of China Limited – China New Economy Flexible Allocation Securities Investment Fund | A Shares | Unknown | 19,645,656 | 0.18 | 0 | Unknown | - | Others |
| Agricultural Bank of China Limited – BOCOM Schroder Growth Mixed Securities Investment Fund | A Shares | Unknown | 12,467,300 | 0.12 | 0 | Unknown | - | Others |
| China Life Insurance Company Limited-Dividend-Individual-Dividend-005L-FH002 Shanghai | A Shares | Unknown | 12,016,700 | 0.11 | 0 | Unknown | - | Others |
| Beijing Fengshan Investment Ltd | A Shares | Unknown | 10,994,720 | 0.10 | 0 | Unknown | - | Others |

CHANGE IN SHARE CAPITAL AND SHAREHOLDERS STATUS *(continued)*

Top ten shareholders of shares in circulation (without trading restrictions)

| Name of shareholder | Number of circulating shares (without trading restrictions) held (Shares) | Class of shares | Types of Shares |
|---|---|--------------------|---------------------------------|
| HKSCC (Nominees) Limited | 3,454,462,321 | H Shares | Overseas listed foreign shares |
| China Petroleum & Chemical Corporation | 1,080,000,000 | A Shares | RMB-denominated ordinary shares |
| China Securities Finance Corporation Limited | 287,911,746 | A Shares | RMB-denominated ordinary shares |
| Central Huijin Investment Ltd. | 67,655,800 | A Shares | RMB-denominated ordinary shares |
| NSSF Combination 414 | 24,999,948 | A Shares | RMB-denominated ordinary shares |
| Shanghai Kangli Industry and Trade Co., Ltd | 21,925,300 | A Shares | RMB-denominated ordinary shares |
| Bank of China Limited – China New Economy Flexible Allocation Securities Investment Fund | 19,645,656 | A Shares | RMB-denominated ordinary shares |
| Agricultural Bank of China Limited – BOCOM Schroder Growth Mixed Securities Investment Fund | 12,467,300 | A Shares | RMB-denominated ordinary shares |
| China Life Insurance Company Limited- Dividend-Individual-Dividend-005L-FH002 Shanghai | 12,016,700 | A Shares | RMB-denominated ordinary shares |
| Beijing Fengshan Investment Ltd | 10,994,720 | A Shares | RMB-denominated ordinary shares |
| Note on connected relationship or actions in concert of the above shareholders | Among the above-mentioned shareholders, China Petroleum & Chemical Corporation, a state-owned 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. | | |

CHANGE IN SHARE CAPITAL AND SHAREHOLDERS STATUS *(continued)*

Numbers and trading restrictions of the shares held by the top ten shareholders holding trading restricted shares

| Name of shareholder holding trading restricted shares | Class of shares | Number of trading restricted shares held (Shares) | Trading status of trading restricted shares | | Trading restrictions |
|---|-----------------|---|---|---|---|
| | | | Date on which the shares can be traded (Shares) | Number of additional shares that can be traded (Shares) | |
| China Petroleum & Chemical Corporation | A Shares | 4,380,000,000 | 22/08/2016 | 4,380,000,000 | <ol style="list-style-type: none"> 1. Shall not be traded or transferred in the twelve months commencing from the date of implementation of the Share Reform Proposal; 2. Upon the expiration of the first condition, the original trading restricted shares sold through the Stock Exchange shall not exceed 5% of the total number of shares of the Company within twelve months, and shall not exceed 10% within twenty-four months. |

CHANGE IN SHARE CAPITAL AND SHAREHOLDERS STATUS *(continued)*

(3) Change in Controlling Shareholder and De Facto Controller

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

(4) Interests and Short Positions of the Substantial Shareholders of the Company in Shares and Underlying Shares of the Company

As at 30 June 2016, so far as was known to the Directors of the Company, the interests and short positions of the Company's substantial shareholders (including those who are entitled to exercise or control the exercise of 5% or more of the voting power at any general meeting of the Company but excluding the Directors, chief executive and Supervisors) who are required to disclose their interests pursuant to Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance of Hong Kong (Chapter 571 of the Laws of Hong Kong) (the "SFO") in the shares and underlying shares of the Company or as recorded in the register required to be kept under Section 336 of the SFO were as set out below:

Interests in ordinary shares of the Company

| Name of shareholder | Interests held or deemed as held (Shares) | Note | Percentage of total issued shares (%) | Percentage of total issued H shares (%) | Capacity |
|--|--|------|---------------------------------------|---|--|
| China Petroleum & Chemical Corporation | 5,460,000,000 A shares (L) Promoter legal person shares | | 50.56 | — | Beneficial owner |
| BlackRock, Inc. | 217,237,625 H Shares (L) | (1) | 2.01 | 6.22 | Interest of controlled corporation |
| Citigroup Inc. | 1,221,664 H shares (L) | (2) | 0.01 | 0.035 | Interest of controlled corporation |
| | 170,979,411 H shares (P) | (2) | 1.58 | 4.89 | Custodian corporation/approved lending agent |
| | 2,701,925 H shares (L) | (2) | 0.03 | 0.08 | Person having a security interest in shares |
| | 1,001,950 H shares (S) | (2) | 0.01 | 0.03 | Interest of controlled corporation |

(L): Long position; (S): Short position; (P): Lending pool

Notes: (1) Of the H Shares held by BlackRock, Inc., 3,376,000 H Shares (long position) were held through cash settled unlisted derivatives.

(2) Of the H Shares held by Citigroup Inc., 876,000 H Shares (long position) and 876,000 H Shares (short position) were held through physically settled unlisted derivatives.

Save as disclosed above, as at 30 June 2016, the Directors have not been notified by any person (other than the Directors, chief executive and Supervisors) who had interest or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept by the Company under Section 336 of the SFO.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND OTHERS

(1) Change in Shareholdings

1. Shareholdings of the current Directors, Supervisors and Senior Management and those Resigned during the Reporting Period

| Name | Position | Number of shares held at the beginning of the Reporting Period (Shares) | Number of shares held at the end of the Reporting Period (Shares) | Change during the Reporting Period |
|----------------|--|---|---|------------------------------------|
| Wang Zhiqing | Executive Director, Chairman and President | Nil | Nil | No Change |
| Wu Haijun | Executive Director and Vice Chairman | Nil | Nil | No Change |
| Gao Jinping | Executive Director, Vice Chairman and Vice President | Nil | Nil | No Change |
| Ye Guohua | Executive Director and Chief Financial Officer | Nil | Nil | No Change |
| Jin Qiang | Executive Director and Vice President | Nil | Nil | No Change |
| Guo Xiaojun | Executive Director and Vice President | Nil | Nil | No Change |
| Lei Dianwu | Non-executive Director | Nil | Nil | No Change |
| Mo Zhenglin | Non-executive Director | Nil | Nil | No Change |
| Cai Tingji | Independent non-executive Director | Nil | Nil | No Change |
| Zhang Yimin | Independent non-executive Director | Nil | Nil | No Change |
| Liu Yunhong | Independent non-executive Director | Nil | Nil | No Change |
| Du Weifeng | Independent non-executive Director | Nil | Nil | No Change |
| Kuang Yuxiang* | Chairman of the Supervisory Committee | Nil | Nil | No Change |
| Zuo Qiang | Supervisor | Nil | Nil | No Change |
| Li Xiaoxia | Supervisor | Nil | Nil | No Change |
| Zhai Yalin | Supervisor | Nil | Nil | No Change |
| Zheng Yunrui | Independent Supervisor | Nil | Nil | No Change |
| Pan Fei | Independent Supervisor | Nil | Nil | No Change |
| Zhang Jianbo | Secretary of the Board, Joint Company Secretary | Nil | Nil | No Change |
| Wang Liquan | Former Supervisor | Nil | Nil | No Change |

* On 29 July 2016, Mr. Kuang Yuxiang requested to resign from his position as Supervisor and chairman of the Supervisory Committee due to a change of job assignments. Mr. Kuang's resignation took effect upon the submission of the resignation letter to the Supervisory Committee of the Company on 29 July 2016.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND OTHERS (continued)

2. Share Options Held by the Directors, Supervisors and Senior Management during the Reporting Period

Unit: Shares

| Name | Position | Number of | Number of | Number of | Number of | Number of | Number of |
|--------------|---|---|--|--|---|--|---|
| | | A shares share options held at the beginning of the Reporting Period | A shares share options granted during the Reporting Period | exercisable A shares share options during the Reporting Period | A shares share options exercised during the Reporting Period | A shares share option cancelled/ lapsed during the Reporting Period | A shares share options held at the end of the Reporting Period |
| Wang Zhiqing | Executive Director, Chairman and President | 500,000 | 0 | 0 | 0 | 0 | 500,000 |
| Gao Jinping | Executive Director, Vice Chairman and Vice President | 500,000 | 0 | 0 | 0 | 0 | 500,000 |
| Ye Guohua | Executive Director and Chief Financial Officer | 430,000 | 0 | 0 | 0 | 0 | 430,000 |
| Jin Qiang | Executive Director and Vice President | 430,000 | 0 | 0 | 0 | 0 | 430,000 |
| Guo Xiaojun | Executive Director and Vice President | 430,000 | 0 | 0 | 0 | 0 | 430,000 |
| Total | / | 2,290,000 | | | | | 2,290,000 |

3. Interests and Short Positions of the Directors, Chief Executive and Supervisors in the Shares, Underlying Shares and Debentures of the Company or Its Associated Corporations

As at 30 June 2016, the interests and short positions of the Directors, chief executive and Supervisors of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or to be recorded in the register required to be kept under Section 352 of the SFO; or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions set out in Appendix 10 to the Hong Kong Listing Rules were as follows:

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND OTHERS (continued)

Interests in shares and underlying shares of the Company

| Name | Position | Number of underlying shares held in respect of A shares share options under the Share Option Incentive Scheme | Percentage of total issued shares (%) | Percentage of total issued H shares (%) | Capacity |
|--------------|--|---|---------------------------------------|---|------------------|
| Wang Zhiqing | Executive Director, Chairman and President | 500,000 (L) | 0.005 | – | Beneficial owner |
| Gao Jinping | Executive Director, Vice Chairman and Vice President | 500,000 (L) | 0.005 | – | Beneficial owner |
| Ye Guohua | Executive Director and Chief Financial Officer | 430,000 (L) | 0.004 | – | Beneficial owner |
| Jin Qiang | Executive Director and Vice President | 430,000 (L) | 0.004 | – | Beneficial owner |
| Guo Xiaojun | Executive Director and Vice President | 430,000 (L) | 0.004 | – | Beneficial owner |

(L): Long position

Save as disclosed above, as at 30 June 2016, so far as was known to the Directors, chief executive and Supervisors of the Company, none of the Directors, chief executive or Supervisors of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or its associated corporations which were required to be disclosed or recorded pursuant to the SFO and the Hong Kong Listing Rules as mentioned above.

As at 30 June 2016, none of the Directors, Supervisors or senior management of the Company or their spouses or children under the age of eighteen had been granted by the Company or had exercised rights to subscribe for shares or debentures of the Company or any of its associated corporations.

(2) Changes in Directors, Supervisors and Senior Management during the Reporting Period

| Name | Position held | Change | Reason |
|--------------|--|----------|-------------------------------------|
| Wang Liquan | Supervisor | Resigned | Resignation due to personal reasons |
| Zhang Jianbo | Secretary to the Board, Joint Company Secretary | Elected | – |

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND OTHERS (continued)

(3) Changes in Directors' and Supervisors' Information

Disclosure of changes in Directors' and Supervisors' information according to Rule 13.51B(1) of Hong Kong Listing Rules:

1. Zuo Qiang, Supervisor of the Company, was appointed as Deputy Chief of Political Work, effective from April 2016;
2. Zheng Yunrui, Independent Supervisor of the Company, was appointed as independent director of Shandong Jiangquan Industry Co., Ltd (山東江泉實業股份有限公司), a company listed on the Shanghai Stock Exchange (Stock Code: 600212) in May 2016.

(4) Audit Committee

On 22 August 2016, the Audit Committee of the Eighth Session of the Board held its fifth meeting, primarily to review the interim financial report of the Group for the Reporting Period.

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

During the Reporting Period, the Group did not purchase, sell or redeem any of the Company's securities (for the definition of "securities", please refer to paragraph 1 of Appendix 16 to the Hong Kong Listing Rules).

(6) Compliance with Corporate Governance Code

During the Reporting Period, the Company applied the principles and complied with the code provisions of the Corporate Governance Code, except for the deviation from code provision A.2.1 of the Corporate Governance Code as set out below.

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

Deviation: Mr. Wang Zhiqing was appointed as the Chairman and the President (equivalent to chief executive officer) of the Company.

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

(7) Implementation of Model Code for Securities Transactions

The Directors confirm that the Company has adopted the Model Code for Securities Transactions. After making specific enquiries with all of the Directors and Supervisors of the Company, no incident of non-compliance with the Model Code for Securities Transactions by the Directors and Supervisors of the Company during the Reporting Period was noted by the Company.

DOCUMENTS FOR INSPECTION

The Company's documents available for inspection comprise the followings:

1. 2016 interim report signed by the Chairman;
2. Financial statements signed and sealed by the legal representative, chief financial officer and accounting chief of the Company;
3. Original copies of all documents and announcements of the Company which were disclosed in the newspapers designated by the CSRS during the Reporting Period; and
4. The Articles of Association.

The Company keeps all the documents listed above at the Company's Secretariat Department, the address of which is as follows:

No.48 Jinyi Road, Jinshan District, Shanghai, PRC
Postal code: 200540

The 2016 interim report prepared in accordance with Appendix 16 to the Hong Kong Listing Rules will be published on the websites of the Hong Kong Stock Exchange and of the Company.

Wang Zhiqing
Chairman
Sinopec Shanghai Petrochemical Company Limited
23 August 2016



REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

TO THE BOARD OF DIRECTORS OF SINOPEC SHANGHAI PETROCHEMICAL COMPANY LIMITED

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

Introduction

We have reviewed the interim financial information set out on pages 41 to 71, which comprises the interim condensed consolidated balance sheet of Sinopec Shanghai Petrochemical Company Limited (the "Company") and its subsidiaries (together, the "Group") as at 30 June 2016 and the related interim condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting" issued by the International Accounting Standards Board. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting".

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 23 August 2016

**A. Condensed consolidated interim financial information (unaudited)
Sinopec Shanghai Petrochemical Company Limited – 30 June 2016**

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

| | Note | Unaudited | |
|---|------|--------------------------------|------------------|
| | | Six-month period ended 30 June | |
| | | 2016 | 2015 |
| | | RMB'000 | RMB'000 |
| Revenue | 6 | 36,968,510 | 42,125,505 |
| Sales taxes and surcharges | | (6,186,162) | (7,060,938) |
| Net sales | | 30,782,348 | 35,064,567 |
| Cost of sales | | (26,814,760) | (32,687,731) |
| Gross profit | | 3,967,588 | 2,376,836 |
| Selling and administrative expenses | | (254,238) | (277,890) |
| Other operating income | | 34,497 | 41,461 |
| Other operating expenses | | (8,909) | (67,094) |
| Other (losses)/gains – net | 7 | (25,696) | 6,931 |
| Operating profit | 6 | 3,713,242 | 2,080,244 |
| Finance income | 7 | 41,500 | 23,457 |
| Finance expenses | 7 | (34,549) | (160,694) |
| Share of profit of investments accounted for using the equity method | | 381,745 | 336,853 |
| Profit before income tax | | 4,101,938 | 2,279,860 |
| Income tax expense | 8 | (948,241) | (491,686) |
| Profit for the period | | 3,153,697 | 1,788,174 |
| Profit attributable to: | | | |
| – Owners of the Company | | 3,148,609 | 1,770,880 |
| – Non-controlling interests | | 5,088 | 17,294 |
| | | 3,153,697 | 1,788,174 |
| Earnings per share attributable to owners of the Company for the period (expressed in RMB per share) | | | |
| Basic earnings per share | 9 | RMB0.292 | RMB0.164 |
| Diluted earnings per share | 9 | RMB0.291 | RMB0.164 |

The notes on pages 47 to 71 form an integral part of this condensed consolidated interim financial information.

Wang Zhiqing
Chairman and General Manager

Ye Guohua
Director and Chief Financial Officer

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | Unaudited | |
|---|--------------------------------|-----------|
| | Six-month period ended 30 June | |
| | 2016 | 2015 |
| | RMB'000 | RMB'000 |
| Profit for the period | 3,153,697 | 1,788,174 |
| Other comprehensive income for the period – net of tax | – | – |
| Total comprehensive income for the period | 3,153,697 | 1,788,174 |
| Profit attributable to: | | |
| – Owners of the Company | 3,148,609 | 1,770,880 |
| – Non-controlling interests | 5,088 | 17,294 |
| Total comprehensive income for the period | 3,153,697 | 1,788,174 |

The notes on pages 47 to 71 form an integral part of this condensed consolidated interim financial information.

Wang Zhiqing

Chairman and General Manager

Ye Guohua

Director and Chief Financial Officer

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

| | Note | Unaudited 30 June 2016 RMB'000 | Audited 31 December 2015 RMB'000 |
|---|----------|--------------------------------------|--|
| Assets | | | |
| Non-current assets | | | |
| Lease prepayment and other assets | | 735,295 | 783,016 |
| Property, plant and equipment | 11 | 13,750,082 | 14,383,319 |
| Investment properties | | 398,794 | 405,572 |
| Construction in progress | 11 | 570,733 | 722,520 |
| Investments accounted for using the equity method | | 3,464,789 | 3,311,139 |
| Deferred income tax assets | | 87,673 | 71,045 |
| | | 19,007,366 | 19,676,611 |
| Current assets | | | |
| Inventories | | 4,631,888 | 4,178,188 |
| Trade receivables | 12 | 1,086,626 | 488,560 |
| Bills receivable | 12 | 1,158,953 | 991,273 |
| Other receivables and prepayments | 12 | 228,770 | 245,401 |
| Amounts due from related parties | 12,19(c) | 1,175,953 | 1,163,128 |
| Cash and cash equivalents | 13 | 4,451,306 | 1,077,430 |
| | | 12,733,496 | 8,143,980 |
| Total assets | | 31,740,862 | 27,820,591 |
| Equity | | | |
| Equity attributable to owners of the Company | | | |
| Share capital | | 10,800,000 | 10,800,000 |
| Reserves | 18 | 11,077,241 | 8,997,282 |
| | | 21,877,241 | 19,797,282 |
| Non-controlling interests | | 276,618 | 297,038 |
| Total equity | | 22,153,859 | 20,094,320 |

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET *(continued)*

| | Note | Unaudited 30 June 2016 RMB'000 | Audited 31 December 2015 RMB'000 |
|-------------------------------------|----------|--------------------------------------|--|
| Liabilities | | | |
| Current liabilities | | | |
| Borrowings | 14 | 859,657 | 2,070,000 |
| Trade payables | 16 | 2,024,730 | 1,562,232 |
| Advance from customers | | 405,159 | 561,721 |
| Bills payable | 16 | 40,000 | – |
| Other payables | 16 | 3,546,609 | 1,898,754 |
| Amounts due to related parties | 16,19(c) | 2,087,419 | 1,573,967 |
| Income tax payable | | 623,429 | 59,597 |
| | | 9,587,003 | 7,726,271 |
| Total liabilities | | 9,587,003 | 7,726,271 |
| Total equity and liabilities | | 31,740,862 | 27,820,591 |

The notes on pages 47 to 71 form an integral part of this condensed consolidated interim financial information.

Wang Zhiqing

Chairman and General Manager

Ye Guohua

Director and Chief Financial Officer

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| Unaudited | | | | | | |
|--|--------------------------|---------------------------|-----------------------------|------------------|--------------------------------------|-------------------------|
| Attributable to owners of the Company | | | | | | |
| Note | Share capital RMB'000 | Other reserves RMB'000 | Retained profits RMB'000 | Total RMB'000 | Non-controlling interests RMB'000 | Total equity RMB'000 |
| Balance at 1 January 2016 | 10,800,000 | 4,201,666 | 4,795,616 | 19,797,282 | 297,038 | 20,094,320 |
| Total comprehensive income for the period ended 30 June 2016 | - | - | 3,148,609 | 3,148,609 | 5,088 | 3,153,697 |
| Dividends proposed and approved | 10 | - | (1,080,000) | (1,080,000) | - | (1,080,000) |
| Employees share option scheme | 18(a) | 11,350 | - | 11,350 | - | 11,350 |
| Dividends paid by subsidiaries to non-controlling interests | | - | - | - | (25,508) | (25,508) |
| Appropriation of safety production fund | 18(b) | 39,441 | (39,441) | - | - | - |
| Balance at 30 June 2016 | 10,800,000 | 4,252,457 | 6,824,784 | 21,877,241 | 276,618 | 22,153,859 |

| Unaudited | | | | | | |
|--|--------------------------|---------------------------|-----------------------------|------------------|--------------------------------------|-------------------------|
| Attributable to owners of the Company | | | | | | |
| Note | Share capital RMB'000 | Other reserves RMB'000 | Retained profits RMB'000 | Total RMB'000 | Non-controlling interests RMB'000 | Total equity RMB'000 |
| Balance at 1 January 2015 | 10,800,000 | 4,179,276 | 1,520,996 | 16,500,272 | 271,395 | 16,771,667 |
| Total comprehensive income for the period ended 30 June 2015 | - | - | 1,770,880 | 1,770,880 | 17,294 | 1,788,174 |
| Employees share option scheme | 18(a) | 11,901 | - | 11,901 | - | 11,901 |
| Dividends paid by subsidiaries to non-controlling interests | | - | - | - | (10,459) | (10,459) |
| Appropriation of safety production fund | 18(b) | 25,328 | (25,328) | - | - | - |
| Balance at 30 June 2015 | 10,800,000 | 4,216,505 | 3,266,548 | 18,283,053 | 278,230 | 18,561,283 |

The notes on pages 47 to 71 form an integral part of this condensed consolidated interim financial information.

Wang Zhiqing
Chairman and General Manager

Ye Guohua
Director and Chief Financial Officer

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

| | Note | Unaudited | |
|--|------|--------------------------------|--------------------|
| | | Six-month period ended 30 June | |
| | | 2016 | 2015 |
| | | RMB'000 | RMB'000 |
| Cash flows from operating activities | | | |
| Cash generated from operations | | 5,046,061 | 1,941,770 |
| Interest paid | | (31,576) | (147,511) |
| Income tax paid | | (401,037) | (17,531) |
| Net cash generated from operating activities | | 4,613,448 | 1,776,728 |
| Cash flows from investing activities | | | |
| Dividends received from joint ventures and associates | | 200,595 | 38,487 |
| Cash received from entrusted lending | | 42,000 | 30,000 |
| Interest received | | 42,435 | 23,454 |
| Net (payments)/proceeds from disposal of property, plant and equipment | | (1,730) | 4,417 |
| Purchases of property, plant and equipment and other long-term assets | | (265,241) | (313,246) |
| Cash payment of entrusted lending | | (24,000) | (42,000) |
| Net cash used in investing activities | | (5,941) | (258,888) |
| Cash flows from financing activities | | | |
| Proceeds from borrowings | | 1,864,657 | 20,725,975 |
| Repayments of borrowings | | (3,075,000) | (22,214,676) |
| Dividends paid to the Company's shareholders | | – | (106) |
| Dividends paid by subsidiaries to non-controlling interests | | (25,508) | (7,192) |
| Net cash used in financing activities | | (1,235,851) | (1,495,999) |
| Net increase in cash and cash equivalents | | 3,371,656 | 21,841 |
| Cash and cash equivalents at beginning of the period | | 1,077,430 | 279,198 |
| Exchange gains on cash and cash equivalents | | 2,220 | 22 |
| Cash and cash equivalents at end of the period | 13 | 4,451,306 | 301,061 |

The notes on pages 47 to 71 form an integral part of this condensed consolidated interim financial information.

Wang Zhiqing

Chairman and General Manager

Ye Guohua

Director and Chief Financial Officer

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

1 General information

Sinopec Shanghai Petrochemical Company Limited (“the Company”), located in Jinshan District of Shanghai, is one of the largest refining-chemical integrated petrochemical companies in China. It is one of the subsidiaries of China Petroleum & Chemical Corporation (“Sinopec Corp.”). It is also currently one of the most important domestic producers of refined oil products, intermediate petrochemicals, synthetic resins and synthetic fibers.

This condensed consolidated interim financial information is presented in thousands of Renminbi Yuan (RMB), unless otherwise stated. This condensed consolidated interim financial information was approved for issue on 23 Aug 2016.

This condensed consolidated interim financial information has been reviewed, not audited.

2 Basis of preparation

This condensed consolidated interim financial information for the six-month period ended 30 June 2016 has been prepared in accordance with International Accounting Standard 34 (“IAS 34”), ‘Interim financial reporting’. The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2015, which have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

3 Accounting policies

The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2015 as described in those annual financial statements.

(a) **New standards, amendments and interpretations to existing standards which are effective for accounting periods beginning on or after 1 January 2016 and adopted by the Group.**

The following new and amended standards and interpretations are effective for the financial year beginning on 1 January 2016. None of them have a material impact on the Group.

- Amendment from annual improvements – 2012 – 2014 cycle, on IFRS 7, ‘Financial instruments: Disclosures’ and IAS 34, ‘Interim financial reporting’;
- Amendment to IAS 1 – ‘Disclosure initiative’;
- Amendment to IAS 27 – ‘Equity method in separate financial statements’

There are no other amended standards or interpretations that are effective for the first time for this interim period that could be expected to have a material impact on this Group.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(continued)*

3 Accounting policies *(continued)*

(b) New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2016, and have not been applied in preparing these consolidated financial statements. Those applicable to the Group are listed below.

IFRS 9, 'Financial Instruments' on classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. The standard does not need to be applied until 1 January 2018 but is available for early adoption. It is expected to have no significant impact on the consolidated financial statement of the Group.

IFRS 15, 'Revenue from contracts with customers' will replace IAS 18 which covers revenue arising from the sale of goods and the rendering of services and IAS 11 which covers construction contracts, based on the principle that revenue is recognised when control of a good or service transfers to a customer. The new standard is effective for first interim periods within annual reporting periods beginning on or after 1 January 2018, and will allow early adoption. The Group is assessing IFRS 15's full impact.

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

4 Estimates

The preparation of interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial information for the year ended 31 December 2015.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(continued)*

5 Financial risk management

(a) Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The interim condensed consolidated financial information do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2015.

There have been no changes in the risk management policies since 31 December 2015.

(b) Foreign exchange risk

The Group's major operational activities are carried out in Mainland China and a majority of the transactions are denominated in RMB. The Group is exposed to foreign exchange risk arising from the recognised assets and liabilities (mainly trade receivables and trade payables), and future transactions denominated in foreign currencies, primarily with respect to USD. The Group's finance department at its headquarter is responsible for monitoring the amount of assets and liabilities, and transactions denominated in foreign currencies to minimise the foreign exchange risk.

As at 30 June 2016, if RMB had strengthened/weakened by 5% against the foreign currencies with all other variables held constant, the Group's net profit for the six-month period ended 30 June 2016 would have been 8,941 thousands increased/decreased (31 December 2015: RMB3,605 thousands increased/decreased in net profit) as a result of foreign exchange gains/losses which is mainly resulted from the translation of USD denominated trade receivables and trade payables.

(c) Offsetting financial assets and financial liabilities

(i) Financial assets

| | As at 30 June 2016 RMB'000 | As at 31 December 2015 RMB'000 |
|---|----------------------------------|--------------------------------------|
| Gross amounts of recognised amounts due from related parties | 1,251,158 | 1,227,020 |
| Gross amounts of recognised amounts due to related parties set off in the balance sheet | (75,205) | (63,892) |
| Net amounts of amounts due from related parties presented in the balance sheet | 1,175,953 | 1,163,128 |

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(continued)*

5 Financial risk management *(continued)*

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

(ii) Financial liabilities

| | As at 30 June 2016 | As at 31 December 2015 |
|---|-----------------------|---------------------------|
| | RMB'000 | RMB'000 |
| Gross amounts of recognised amounts due to related parties | 2,162,624 | 1,637,859 |
| Gross amounts of recognised amounts due from related parties set off in the balance sheet | (75,205) | (63,892) |
| Net amounts of amounts due to related parties presented in the balance sheet | 2,087,419 | 1,573,967 |

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(continued)*

6 Segment information

The basis of segmentation and the basis of measurement of segment profit or loss, and assets and liabilities are consistent with those of the annual financial statements for the year ended 31 December 2015.

| | Six-month period ended 30 June 2016 | | | Six-month period ended 30 June 2015 | | |
|-----------------------------------|-------------------------------------|----------------------------------|--|-------------------------------------|----------------------------------|--|
| | Total segment revenue RMB'000 | Inter segment revenue RMB'000 | Revenue from external customers RMB'000 | Total segment revenue RMB'000 | Inter segment revenue RMB'000 | Revenue from external customers RMB'000 |
| Synthetic fibres | 999,011 | - | 999,011 | 1,277,780 | - | 1,277,780 |
| Resins and plastics | 4,787,639 | 40,622 | 4,747,017 | 5,424,043 | 49,134 | 5,374,909 |
| Intermediate petrochemicals | 8,939,032 | 4,693,316 | 4,245,716 | 9,855,653 | 4,806,577 | 5,049,076 |
| Petroleum products | 19,059,944 | 1,524,150 | 17,535,794 | 24,857,847 | 1,670,932 | 23,186,915 |
| Trading of petrochemical products | 9,710,137 | 706,127 | 9,004,010 | 7,754,411 | 932,368 | 6,822,043 |
| All others segments | 701,252 | 264,290 | 436,962 | 802,051 | 387,269 | 414,782 |
| Total | 44,197,015 | 7,228,505 | 36,968,510 | 49,971,785 | 7,846,280 | 42,125,505 |

| | Six-month period ended 30 June 2016 RMB'000 | Six-month period ended 30 June 2015 RMB'000 |
|--|--|--|
| Profit/(loss) from operations | | |
| Synthetic fibres | (227,203) | (198,708) |
| Resins and plastics | 719,346 | 671,713 |
| Intermediate petrochemicals | 751,989 | 491,756 |
| Petroleum products | 2,457,516 | 1,038,809 |
| Trading of petrochemical products | 26,765 | 7,509 |
| Others | (15,171) | 69,165 |
| Total consolidated profit from operations | 3,713,242 | 2,080,244 |
| Net finance income/(expense) | 6,951 | (137,237) |
| Share of profit of investments accounted for using the equity method | 381,745 | 336,853 |
| Profit before taxation | 4,101,938 | 2,279,860 |

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(continued)*

6 Segment information *(continued)*

| | 30 June 2016 | 31 December 2015 |
|---|-------------------|-------------------|
| | Total assets | Total assets |
| | RMB'000 | RMB'000 |
| Allocated assets | | |
| Synthetic fibres | 1,565,924 | 1,624,351 |
| Resins and plastics | 1,624,808 | 1,578,493 |
| Intermediate petrochemicals | 4,379,081 | 4,557,760 |
| Petroleum products | 12,257,753 | 12,164,426 |
| Trading of petrochemical products | 1,455,364 | 924,622 |
| All others | 2,257,207 | 2,299,088 |
| Allocated assets | 23,540,137 | 23,148,740 |
| Unallocated assets | | |
| Investments accounted for using the equity method | 3,464,789 | 3,311,139 |
| Cash and cash equivalents | 4,451,306 | 1,077,430 |
| Deferred tax assets | 87,673 | 71,045 |
| Others | 196,957 | 212,237 |
| Unallocated assets | 8,200,725 | 4,671,851 |
| Total assets | 31,740,862 | 27,820,591 |

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(continued)*

6 Segment information *(continued)*

| | 30 June 2016 | 31 December 2015 |
|-----------------------------------|-------------------|-------------------|
| | Total liabilities | Total liabilities |
| | RMB'000 | RMB'000 |
| Allocated liabilities | | |
| Synthetic fibres | 316,374 | 272,717 |
| Resins and plastics | 867,937 | 646,347 |
| Intermediate petrochemicals | 901,151 | 675,470 |
| Petroleum products | 3,770,122 | 3,059,334 |
| Trading of petrochemical products | 1,571,094 | 948,775 |
| Others | 201,549 | 53,628 |
| Allocated liabilities | 7,628,227 | 5,656,271 |
| Unallocated liabilities | | |
| Borrowings | 859,657 | 2,070,000 |
| Dividend payable | 1,099,119 | – |
| Unallocated liabilities | 1,958,776 | 2,070,000 |
| Total liabilities | 9,587,003 | 7,726,271 |

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(continued)*

7 Profit before income tax

(a) Finance income/(expenses) – net

| | Six-month period ended 30 June | |
|--|--------------------------------|------------------|
| | 2016 RMB'000 | 2015 RMB'000 |
| Interest income | 39,989 | 23,457 |
| Net foreign exchange gain | 1,511 | – |
| Finance income | 41,500 | 23,457 |
| Interest on bank and other borrowings | (34,549) | (141,005) |
| Net foreign exchange loss | – | (19,689) |
| Finance expenses | (34,549) | (160,694) |
| Finance income/(expenses) – net | 6,951 | (137,237) |

(b) Other (losses)/gains – net

| | Six-month period ended 30 June | |
|---|--------------------------------|-----------------|
| | 2016 RMB'000 | 2015 RMB'000 |
| Loss on disposal of property, plant and equipment | (23,977) | – |
| Others | (1,719) | 6,931 |
| | (25,696) | 6,931 |

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(continued)*

7 Profit before income tax *(continued)*

(c) Operating items

| | Six-month period ended 30 June | |
|---|--------------------------------|---------|
| | 2016 | 2015 |
| | RMB'000 | RMB'000 |
| Amortisation of lease prepayments | 8,706 | 8,804 |
| Depreciation | 820,141 | 895,110 |
| Research and development costs | 47,144 | 14,265 |
| Write-down of inventories | 37,944 | 10,700 |
| Impairment of property, plant and equipment | 112,063 | 50,001 |
| Net loss on disposal of property, plant and equipment | 23,977 | 7,927 |

During the six-month period ended 30 June 2016, as a result of increasing market competition and low profit margin of the relevant products, the Company made impairment provisions of RMB112,063 thousands to reduce the carrying amounts of polyester and filament production lines to their estimated net realizable values (six-month period ended 30 June 2015: RMB50,001 thousands).

8 Income tax expense

| | Six-month period ended 30 June | |
|---|--------------------------------|---------|
| | 2016 | 2015 |
| | RMB'000 | RMB'000 |
| Provision for PRC income tax for the period | 964,869 | 14,773 |
| Deferred taxation | (16,628) | 476,913 |
| | 948,241 | 491,686 |

The provision for PRC income tax is calculated at the rate of 25% (six-month period ended 30 June 2015: 25%) on the estimated taxable income of the six-month period ended 30 June 2016 determined in accordance with relevant income tax rules and regulations. The Group did not carry out overseas business and therefore does not incur overseas income taxes.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(continued)*

9 Earnings per share

(a) Basic

The calculation of basic profit per share is based on the profit attributable to equity shareholders of the Company for the six-month period ended 30 June 2016 of RMB3,148,609 thousands (six-month period ended 30 June 2015: profit of RMB1,770,880 thousands) and 10,800,000,000 shares (six-month period ended 30 June 2015: 10,800,000,000 shares) in issue during the interim period.

(b) Diluted

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

The Company has dilutive potential ordinary shares from share options. A calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average market share price of the Company's A shares for the six-month period ended 30 June 2016) based on the monetary value of the subscription rights attached to outstanding share options. The number of ordinary shares in issue is compared with the number of shares that would have been issued assuming the exercise of the share options. The calculation of the diluted earnings per share for the six-month period ended 30 June 2016 and the six-month period ended 30 June 2015 was shown as:

| | Six-month period ended 30 June | |
|--|--------------------------------|-----------------|
| | 2016 RMB'000 | 2015 RMB'000 |
| Earnings | | |
| Profit attributable to owners of the Company | 3,148,609 | 1,770,880 |
| Weighted average number of ordinary shares in issue (thousands of shares) | 10,800,000 | 10,800,000 |
| Adjustments for share options granted (thousands of shares) | 6,961 | 6,954 |
| Weighted average number of ordinary shares for diluted earnings per share (thousands of shares) | 10,806,961 | 10,806,954 |
| Diluted earnings per share (RMB per share) | 0.291 | 0.164 |

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(continued)*

10 Dividends

Pursuant to a resolution passed at the Annual General Meeting held on 15 June 2016, a total dividend of RMB1,080,000 thousands was declared for the year ended 31 December 2015 and subsequently paid in July 2016.. The Board of Directors did not propose any dividend in respect of the six-month period ended 30 June 2016.

Pursuant to a resolution passed at the Annual General Meeting held on 18 June 2015, no dividend was declared for the year ended 31 December 2014. The Board of Directors did not propose any dividend in respect of the six-month period ended 30 June 2015.

11 Property, plant and equipment, construction in progress

Acquisitions and disposals

The acquisitions and disposals of items of property, plant and equipment and construction in progress during the six-month period ended 30 June 2016 and the six-month period ended 30 June 2015 are as follows:

| | Six-month period ended 30 June | |
|-----------------------------------|--------------------------------|----------|
| | 2016 | 2015 |
| | RMB'000 | RMB'000 |
| Cost of acquisition | 162,648 | 154,990 |
| Transfer to investment properties | – | (3,277) |
| Disposals (net carrying amount) | (22,247) | (12,344) |
| Impairment (Note 7) | (112,063) | (50,001) |

12 Trade and other receivables

| | As at | As at |
|---------------------------------------|--------------|------------------|
| | 30 June 2016 | 31 December 2015 |
| | RMB'000 | RMB'000 |
| Trade receivables | 1,086,643 | 488,584 |
| Less: allowance for doubtful debts | (17) | (24) |
| | 1,086,626 | 488,560 |
| Bills receivable | 1,158,953 | 991,273 |
| Amounts due from related parties | 1,175,953 | 1,163,128 |
| | 3,421,532 | 2,642,961 |
| Other receivables and prepayments (i) | 228,770 | 245,401 |
| | 3,650,302 | 2,888,362 |

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(continued)*

12 Trade and other receivables *(continued)*

- (i) For the six-month period ended 30 June 2016, the associates and joint ventures of the Group declared dividends with total amount of RMB228,095 thousands to the Group (six-month period ended 30 June 2015: RMB19,115 thousands). As at 30 June 2016, RMB27,500 thousands among the aforementioned dividends were not yet received and therefore were recorded in other receivables and prepayments (31 December 2015: all the aforementioned dividends were received).

As at 30 June 2016, entrusted lendings of RMB88,000 thousands included in other receivables and prepayments was made by the Group at interest rates ranged from 1.75% to 2.25% per annum, which will be due within twelve months from 30 June 2016 (31 December 2015: RMB106,000 thousands at interest rates ranged from 1.75% to 3.00% per annum).

As at 30 June 2016, the Group didn't have any trade receivable which was past due but not impaired (31 December 2015: Nil).

Amounts due from related parties represent trade-related balances.

The ageing analysis of trade receivables, bills receivable and amounts due from related parties (net of impairment loss for bad and doubtful debts) based on invoice date is as follows:

| | As at 30 June 2016 RMB'000 | As at 31 December 2015 RMB'000 |
|-----------------|----------------------------------|--------------------------------------|
| Within one year | 3,421,512 | 2,642,921 |
| Above one year | 20 | 40 |
| | 3,421,532 | 2,642,961 |

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

As at 30 June 2016, no trade receivables or bills receivable was pledged as collateral (31 December 2015: nil).

Sales to third parties are generally on cash basis and letter of credit against payment. Subject to negotiation, credit is generally only available for major customers with well-established trading records.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(continued)*

13 Cash and cash equivalents

| | As at 30 June 2016 | As at 31 December 2015 |
|---|-----------------------|---------------------------|
| | RMB'000 | RMB'000 |
| Cash deposits with a related party (Note 19(c)) | 21,315 | 5,394 |
| Cash at bank and in hand | 4,429,991 | 1,072,036 |
| | 4,451,306 | 1,077,430 |

14 Borrowings

| | As at 30 June 2016 | As at 31 December 2015 |
|--|-----------------------|---------------------------|
| | RMB'000 | RMB'000 |
| Short term loans | | |
| – Short term bank loans | 789,657 | 1,700,000 |
| – Short term loans from related parties (Note 19(c)) | 70,000 | 370,000 |
| | 859,657 | 2,070,000 |

At 30 June 2016, no borrowings were secured by property, plant and equipment (31 December 2015: nil).

The Group has the following undrawn facilities:

| | As at 30 June 2016 | As at 31 December 2015 |
|--------------------------|-----------------------|---------------------------|
| | RMB'000 | RMB'000 |
| Expiring within one year | 15,797,202 | 18,235,372 |
| Expiring beyond one year | 6,800,000 | 7,300,000 |
| | 22,597,202 | 25,535,372 |

These facilities have been arranged to finance the working capitals as well as ongoing investments on long-term assets.

The Company does not have any exposure to collateralised debt obligations. The Company has sufficient headroom to enable it to conform to covenants on its existing borrowings. The Company has sufficient undrawn financing facilities to service its operating activities and ongoing investments.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(continued)*

15 Fair value of financial assets and liabilities measured at amortised cost

Financial assets and financial liabilities not measured at fair value mainly represent cash and cash equivalents, bills receivable, trade receivables and other receivables (except for the prepayments), trade and other payables (except for the staff salaries and welfare payables and other taxes payables) and borrowings. As at 30 June 2016, the carrying amounts of these financial assets and liabilities not measured at fair value is a reasonable approximation of their fair value.

16 Trade and other payables

| | As at 30 June 2016 | As at 31 December 2015 |
|---|-----------------------|---------------------------|
| | RMB'000 | RMB'000 |
| Trade payables | 2,024,730 | 1,562,232 |
| Bills payable | 40,000 | – |
| Amounts due to related parties (Note 19(c)) | 2,087,419 | 1,573,967 |
| Subtotal | 4,152,149 | 3,136,199 |
| Staff salaries and welfares payable | 167,512 | 39,999 |
| Taxes payable(exclude income tax payable) | 1,508,027 | 1,308,821 |
| Interest payable | 430 | 1,642 |
| Dividends payable | 1,099,119 | 19,119 |
| Construction and maintenance payable | 356,804 | 205,714 |
| Other liabilities | 414,717 | 323,459 |
| Subtotal of other payables | 3,546,609 | 1,898,754 |
| | 7,698,758 | 5,034,953 |

As at 30 June 2016 and 31 December 2015, all trade and other payables of the Group were non-interest bearing, and their fair value, which are not financial liabilities, approximated their carrying amounts due to their short maturities.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(continued)*

16 Trade and other payables *(continued)*

As at 30 June 2016 and 31 December 2015, the ageing analysis of the trade payables (including amounts due to related parties of trading in nature) based on invoice date were as follows:

| | As at 30 June 2016 RMB'000 | As at 31 December 2015 RMB'000 |
|---------------------------|----------------------------------|--------------------------------------|
| Within one year | 4,119,881 | 3,110,638 |
| Between one and two years | 9,696 | 3,240 |
| Over two years | 22,572 | 22,321 |
| | 4,152,149 | 3,136,199 |

17 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 six-month period ended 30 June 2016. No provision has been made in this interim financial report for this uncertainty because management believes it is not probable that the Group will be required to pay additional EIT for tax years prior to 2007. (31 December 2015: Nil).

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(continued)*

18 Reserves

(a) Share option reserve

Pursuant to the resolution of the fifth meeting of the eighth session of the Board of Directors of the Company on 6 January 2015, the proposal regarding the list of participants and the number of share options under the share option incentive scheme was approved.

According to the Company's share option incentive scheme, the grant date of share options was 6 January 2015, and there were a total of 38,760 thousand share options granted to 214 participants (0.359% of the total ordinary share capital issued). Each share option has a right to purchase an ordinary A share listed in PRC on vesting date at an exercise price of RMB4.20 under vesting conditions. The options are exercisable starting two years from the grant date, subject to the following vesting conditions:

- RoE of the Group should be no less than 9% for 2015, 9.5% for 2016 and 10% for 2017 in respect to the three vesting periods;
- achieving the target compound annual growth rate of 5% in net profit for 2015, 2016 and 2017, respectively based on the net profit of 2013;
- proportion of the main business revenue in the total revenue should be no less than 99%;
- each of the above three conditions should be no lower than the 75% level of peer companies; and
- achieving the target budget set by the Sinopec Corp..

The fair value of the employee services received in exchange for the grant of this equity-settled, share-based compensation plan is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted excluding the impact of any service and non-market performance vesting conditions. When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital and share premium. As at 30 June 2016, no share option had been exercised yet.

The share options outstanding as at 30 June 2016 have the following vesting dates and exercise prices:

| Vesting date | Exercise price (per share in RMB) | Outstanding shares |
|---------------------|--|-------------------------------|
| 6 January 2017 | 4.20 | 15,504,000 |
| 6 January 2018 | 4.20 | 11,628,000 |
| 6 January 2019 | 4.20 | 11,628,000 |

The total fair value of share options at the grant date was RMB65,412 thousands, which has been valued by an external valuation expert using Black-Scholes valuation model.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(continued)*

18 Reserves *(continued)*

(a) Share option reserve *(continued)*

The significant inputs into the model were as follows:

| | Granting date |
|-------------------------|----------------------|
| Spot share price | RMB4.51 |
| Exercise price | RMB4.20 |
| Expected volatility | 41.20% |
| Maturity (years) | 5.00 |
| Risk-free interest rate | 3.39%~3.67% |
| Dividend yield | 1.00% |

Share option expenses of RMB11,350 thousands have been recognised in the condensed interim income statement for the six-month period ended 30 June 2016 (six-month period ended 30 June 2015: 11,901 thousands).

- (b) For the six-month period ended 30 June 2016, the Group transferred RMB39,441 thousands (six-month period ended 30 June 2015: RMB25,328 thousands) from retained earnings to reserves for the safety production fund determined according to relevant PRC regulations.
- (c) For the six-month period ended 30 June 2016 and six-month period ended 30 June 2015, no transfers were made to the statutory surplus reserve or the discretionary surplus reserve.

19 Related-party transactions

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

| Names of related parties | Relationship with the Company |
|---|--|
| China Petrochemical Corporation ("Sinopec Group") | Ultimate parent company |
| 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 Finance Company Limited ("Sinopec Finance") | Subsidiary of the ultimate parent company |
| Shanghai Secco Petrochemical Co., Ltd. ("Shanghai Secco") | Associate of the Group |
| BOC-SPC Gases Co., Ltd. | Joint venture of the Group |

The following is a summary of significant balances and transactions between the Group and its related parties except for the dividends receivable and payable as disclosed in Note 10, Note 12 and Note 16.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(continued)*

19 Related-party transactions *(continued)*

- (a) Most of the transactions undertaken by the Group during the six-month period ended 30 June 2016 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 Group provides Sinopec Corp. with petroleum products, petrochemical products and property leasing services.

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

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

Transactions between the Group and Sinopec Corp, its subsidiaries and joint ventures during the six-month period ended 30 June 2016 and the six-month period ended 30 June 2015 were as follows:

| | Six-month period ended 30 June | |
|-------------------------------------|--------------------------------|------------|
| | 2016 | 2015 |
| | RMB'000 | RMB'000 |
| Sales of petroleum products | 16,582,384 | 22,095,131 |
| Sales other than petroleum products | 2,548,304 | 2,026,945 |
| Purchases of crude oil | 9,190,466 | 13,127,913 |
| Purchases other than crude oil | 2,012,603 | 1,611,033 |
| Sales commissions | 46,872 | 57,921 |
| Rental income | 14,217 | 14,793 |

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(continued)*

19 Related-party transactions *(continued)*

- (b) Other transactions between the Group and Sinopec Group and its subsidiaries, associates and joint ventures of the Group during the six-month period ended 30 June 2016 and the six-month period ended 30 June 2015 were as follows:

| | Six-month period ended 30 June | |
|--|--------------------------------|-----------------|
| | 2016 RMB'000 | 2015 RMB'000 |
| Sales of goods and service fee income | | |
| – Sinopec Group and its subsidiaries | 33,577 | 83,371 |
| – Associates and joint ventures of the Group | 860,318 | 952,212 |
| | 893,895 | 1,035,583 |
| Purchases | | |
| – Sinopec Group and its subsidiaries | 74,350 | 383,645 |
| – Associates and joint ventures of the Group | 1,732,059 | 1,969,333 |
| | 1,806,409 | 2,352,978 |
| Insurance premiums | | |
| – Sinopec Group and its subsidiaries | 60,895 | 58,955 |
| Interest income | | |
| – Sinopec Finance | 127 | 310 |
| Loans borrowed | | |
| – Sinopec Finance | – | 3,550,000 |
| Loans repayment | | |
| – Sinopec Finance | 300,000 | 4,350,000 |
| Interest expenses | | |
| – Sinopec Finance | 2,278 | 22,566 |
| Construction and installation cost | | |
| – Sinopec Group and its subsidiaries | 61,316 | 44,730 |

The directors of the Company are of the opinion that the transactions with Sinopec Corp., its subsidiaries and joint ventures, Sinopec Group and its subsidiaries, associates and joint ventures of the Group as disclosed in notes 19(a) and 19(b) were conducted in the ordinary course of business, on normal commercial terms and in accordance with the agreements governing such transactions.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(continued)*

19 Related-party transactions *(continued)*

- (c) The relevant amounts due from/to Sinopec Corp., its subsidiaries and joint ventures, Sinopec Group and its subsidiaries, associates and joint ventures of the Group, arising from purchases, sales and other transactions as disclosed in notes 19(a) and 19(b), are summarised as follows:

| | As at 30 June 2016 RMB'000 | As at 31 December 2015 RMB'000 |
|--|----------------------------------|--------------------------------------|
| Amounts due from related parties | | |
| – Sinopec Corp., its subsidiaries and joint ventures | 1,121,892 | 1,098,872 |
| – Sinopec Group and its subsidiaries | 215 | 9,263 |
| – Associates and joint ventures of the Group | 53,846 | 54,993 |
| Total | 1,175,953 | 1,163,128 |
| Amounts due to related parties | | |
| – Sinopec Corp., its subsidiaries and joint ventures | 1,945,776 | 1,253,940 |
| – Sinopec Group and its subsidiaries | 28,619 | 91,342 |
| – Associates and joint ventures of the Group | 113,024 | 228,685 |
| Total | 2,087,419 | 1,573,967 |
| Cash deposits, maturing within three months | | |
| – Sinopec Finance (i) | 21,315 | 5,394 |
| Short-term loans | | |
| – Sinopec Finance (ii) | 70,000 | 370,000 |

(i) As at 30 June 2016 and 31 December 2015, cash deposits at Sinopec Finance were charged at an interest rate of 0.35% per annum.

(ii) As at 30 June 2016, short-term loans from Sinopec Finance were made by the Company at a weighted average interest rate of 3.94% per annum (31 December 2015: 3.92% per annum), which will be due in September and November 2016.

Except for cash deposits at Sinopec Finance and short-term loans from Sinopec Finance, the balances with related parties as above are unsecured, interest-free and repayable on demand.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(continued)*

19 Related-party transactions *(continued)*

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

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

| | Six-month period ended 30 June | |
|------------------------------|--------------------------------|---------|
| | 2016 | 2015 |
| | RMB'000 | RMB'000 |
| Short-term employee benefits | 3,267 | 3,299 |
| Post-employment benefits | 73 | 72 |
| Share-based payments | 671 | 703 |
| | 4,011 | 4,074 |

Post-employment benefits are included in “contributions to defined contribution retirement plans” as disclosed in note 19(e).

(e) Contributions to defined contribution retirement plans

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

| | Six-month period ended 30 June | |
|---------------------------------------|--------------------------------|---------|
| | 2016 | 2015 |
| | RMB'000 | RMB'000 |
| Municipal retirement scheme costs | 128,170 | 138,003 |
| Supplementary retirement scheme costs | 35,362 | 36,312 |

As at 30 June 2016 and 31 December 2015, there was no material outstanding contribution to the above defined contributions retirement plans.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(continued)*

19 Related-party transactions *(continued)*

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

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

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

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

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

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(continued)*

19 Related-party transactions *(continued)*

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

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

The Group's major domestic suppliers of crude oil are China National Offshore Oil Corporation and its subsidiaries, Sinochem International Group and its subsidiaries, Heilongjiang United Oil & Chemicals Co., Ltd., Zhuhai Zhenrong Company and Hunan New Hualian Import & Export Corp. Ltd., which are state-controlled entities.

During the six-month period ended 30 June 2016 and six-month period ended 2015, the aggregate amount of crude oil purchased by the Group from the above state-controlled energy and chemical companies are as follows:

| | Six-month period ended 30 June | |
|------------------------|--------------------------------|-----------|
| | 2016 | 2015 |
| | RMB'000 | RMB'000 |
| Purchases of crude oil | 731,181 | 5,172,806 |

No prepayments for purchases of crude oil was made to the above state-controlled energy and chemical companies as at 30 June 2016 (31 December 2015: Nil).

(ii) Transactions with state-controlled banks

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

| | Six-month period ended 30 June | |
|-------------------|--------------------------------|---------|
| | 2016 | 2015 |
| | RMB'000 | RMB'000 |
| Interest income | 19,781 | 6,377 |
| Interest expenses | 19,348 | 115,183 |

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(continued)*

19 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:

| | As at 30 June 2016 RMB'000 | As at 31 December 2015 RMB'000 |
|--|----------------------------------|--------------------------------------|
| Cash and cash equivalents at state-controlled banks in the PRC | 4,429,410 | 1,071,863 |
| Short-term loans from state-controlled banks in the PRC | 789,657 | 1,700,000 |

(g) Commitments with related parties

| | As at 30 June 2016 RMB'000 | As at 31 December 2015 RMB'000 |
|---|----------------------------------|--------------------------------------|
| Construction and installation cost: – Sinopec Group and its subsidiaries | 58,920 | 35,244 |

Except for the above, the Group had no other material commitments with related parties as at 30 June 2016 and 31 December 2015, which are contracted, but not included in the interim financial report.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(continued)*

19 Related-party transactions *(continued)*

(h) Investment commitments with related parties

| | As at 30 June 2016 | As at 31 December 2015 |
|--|-----------------------|---------------------------|
| | RMB'000 | RMB'000 |
| Capital contribution to Shanghai Secco | 111,263 | 111,263 |

Pursuant to the resolution of the 18th meeting of the 7th term of Board of Directors on 5 December 2013, it was approved to make capital contribution of USD30,017 thousands (RMB182,804 thousands equivalent) to Shanghai Secco, an associate of the Group. The capital to Shanghai Secco will be contributed in RMB by instalments. The capital contribution is mainly to meet the funding needs of the implementation of the “260,000 tons of AN-2 project” (“AN-2 project”), and “90,000 tons of BEU-2 project” (“BEU-2 project”).

As at 10 December 2013, the Company contributed the first instalment of RMB60,000 thousands for AN-2 project. As at 5 March 2014, the Company contributed the first instalment of RMB11,541 thousands for BEU-2 project. According to the approval by Shanghai Municipal Commission of Commerce as issued on 19 October 2015, the rest of the capital contribution to Shanghai Secco should be within 50 years starting from its registration date.

Except for the above, the Group and the Company had no other material commitments with related parties as at 30 June 2016, which are contracted, but not included in the financial statements.

20 Capital commitments

| | As at 30 June 2016 | As at 31 December 2015 |
|-----------------------------------|-----------------------|---------------------------|
| | RMB'000 | RMB'000 |
| Property, plant and equipment | | |
| Contracted but not provided for | 86,720 | 39,814 |
| Authorised but not contracted for | 1,046,475 | 1,124,660 |
| | 1,133,195 | 1,164,474 |

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

CONSOLIDATED AND COMPANY BALANCE SHEETS

AS AT 30 JUNE 2016

(All amounts in thousands of Renminbi Yuan unless otherwise stated)

[English Translation for Reference Only]

| ASSETS | Note | 30 JUNE | 31 DECEMBER | 30 JUNE | 31 DECEMBER |
|---------------------------------|--------------|-------------------|-------------------|-------------------|-------------------|
| | | 2016 | 2015 | 2016 | 2015 |
| | | (UNAUDITED) | Consolidated | (UNAUDITED) | Company |
| | | Consolidated | | Company | |
| Current assets | | | | | |
| Cash at bank and on hand | 4(1) | 4,451,306 | 1,077,430 | 3,881,881 | 942,264 |
| Notes receivable | 4(2) | 1,178,053 | 1,007,373 | 935,457 | 679,084 |
| Accounts receivable | 4(4), 14(1) | 2,195,055 | 1,624,571 | 1,000,699 | 1,034,286 |
| Advances to suppliers | 4(6) | 38,475 | 15,131 | 33,108 | 10,377 |
| Interests receivable | | 45 | 2,491 | – | 2,420 |
| Dividends receivable | 4(3) | 27,500 | | – | – |
| Other receivables | 4(5), 14(2) | 41,764 | 29,050 | 25,833 | 10,968 |
| Inventories | 4(7) | 4,631,888 | 4,178,188 | 4,298,548 | 3,955,550 |
| Other current assets | 4(8) | 169,410 | 209,746 | 59,240 | 86,481 |
| Total current assets | | 12,733,496 | 8,143,980 | 10,234,766 | 6,721,430 |
| Non-current assets | | | | | |
| Long-term equity investments | 4(9), 14(3) | 3,619,789 | 3,471,139 | 4,769,337 | 4,550,126 |
| Investment properties | 4(10) | 398,794 | 405,572 | 395,905 | 402,581 |
| Fixed assets | 4(11), 14(4) | 13,779,169 | 14,424,899 | 13,483,019 | 14,080,657 |
| Construction in progress | 4(12) | 570,733 | 722,520 | 570,733 | 722,520 |
| Intangible assets | 4(13) | 414,823 | 423,529 | 342,035 | 348,193 |
| Long-term prepaid expenses | 4(14) | 320,472 | 359,487 | 307,759 | 345,978 |
| Deferred tax assets | 4(15) | 87,673 | 71,045 | 79,933 | 62,867 |
| Total non-current assets | | 19,191,453 | 19,878,191 | 19,948,721 | 20,512,922 |
| Total assets | | 31,924,949 | 28,022,171 | 30,183,487 | 27,234,352 |

CONSOLIDATED AND COMPANY BALANCE SHEETS (continued)

AS AT 30 JUNE 2016

(All amounts in thousands of Renminbi Yuan unless otherwise stated)

[English Translation for Reference Only]

| LIABILITIES AND SHAREHOLDERS' EQUITY | Note | 30 JUNE | 31 DECEMBER | 30 JUNE | 31 DECEMBER |
|--|----------|-------------------------------------|----------------------|--------------------------------|-------------------|
| | | 2016 (UNAUDITED) Consolidated | 2015 Consolidated | 2016 (UNAUDITED) Company | 2015 Company |
| Current liabilities | | | | | |
| Short-term borrowings | 4(17) | 859,657 | 2,070,000 | 1,332,000 | 2,499,000 |
| Notes payable | 4(18) | 40,000 | – | 40,000 | – |
| Accounts payable | 4(19) | 4,063,719 | 3,017,878 | 2,575,675 | 2,275,922 |
| Advances from customers | 4(20) | 416,654 | 579,887 | 291,361 | 446,318 |
| Employee benefits payable | 4(21) | 167,512 | 39,999 | 156,943 | 34,264 |
| Taxes payable | 4(22) | 2,131,456 | 1,368,418 | 2,102,894 | 1,330,067 |
| Interest payable | 4(23) | 507 | 1,890 | 902 | 2,370 |
| Dividends payable | 4(24) | 1,099,119 | 19,119 | 1,099,119 | 19,119 |
| Other payables | 4(25) | 808,379 | 629,080 | 703,200 | 843,724 |
| Total current liabilities | | 9,587,003 | 7,726,271 | 8,302,094 | 7,450,784 |
| Non-current liabilities | | | | | |
| Deferred income | 4(26) | 155,000 | 160,000 | 155,000 | 160,000 |
| Total liabilities | | 9,742,003 | 7,886,271 | 8,457,094 | 7,610,784 |
| Shareholders' equity | | | | | |
| Share capital | 1, 4(27) | 10,800,000 | 10,800,000 | 10,800,000 | 10,800,000 |
| Capital surplus | 4(28) | 527,974 | 516,624 | 527,974 | 516,624 |
| Specific reserve | 4(29) | 40,394 | 953 | 37,366 | – |
| Surplus reserve | 4(30) | 4,493,260 | 4,493,260 | 4,493,260 | 4,493,260 |
| Undistributed profits | 4(31) | 6,044,700 | 4,028,025 | 5,867,793 | 3,813,684 |
| Total equity attributable to equity shareholders of the Company | | 21,906,328 | 19,838,862 | 21,726,393 | 19,623,568 |
| Non-controlling interests | 4(32) | 276,618 | 297,038 | – | – |
| Total shareholders' equity | | 22,182,946 | 20,135,900 | 21,726,393 | 19,623,568 |
| Total liabilities and shareholders' equity | | 31,924,949 | 28,022,171 | 30,183,487 | 27,234,352 |

The accompanying notes form an integral part of these financial statements.

Chairman and General Manager

Wang Zhiqing

Director and Chief Financial Officer

Ye Guohua

Deputy Chief Financial Officer
and Accounting Chief

Hua Xin

CONSOLIDATED AND COMPANY INCOME STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2016

(All amounts in thousands of Renminbi Yuan unless otherwise stated)

[English Translation for Reference Only]

| Items | Note | Six Months Ended 30 June | | Six Months Ended 30 June | |
|---|--------------|-----------------------------|-----------------------------|--------------------------|------------------------|
| | | 2016 | 2015 | 2016 | 2015 |
| | | (UNAUDITED) Consolidated | (UNAUDITED) Consolidated | (UNAUDITED) Company | (UNAUDITED) Company |
| 1. Revenue | 4(33), 14(5) | 36,993,191 | 42,152,450 | 27,195,559 | 34,274,347 |
| Less: Cost of sales | 4(33), 14(5) | 25,177,628 | 31,233,864 | 15,516,828 | 23,525,573 |
| Taxes and surcharges | 4(34) | 6,186,162 | 7,060,938 | 6,183,034 | 7,056,655 |
| Selling and distribution expenses | 4(35) | 235,672 | 261,581 | 184,934 | 198,924 |
| General and administrative expenses | 4(36) | 1,544,793 | 1,490,220 | 1,468,342 | 1,416,884 |
| Financial expenses – net | 4(37) | 1,983 | 140,537 | 5,359 | 150,364 |
| Asset impairment losses | 4(40) | 150,004 | 61,411 | 139,940 | 65,601 |
| Add: Investment income | 4(39), 14(6) | 376,745 | 338,784 | 397,411 | 325,776 |
| Including: Share of profit of associates and joint ventures | | 376,745 | 331,853 | 397,411 | 312,112 |
| 2. Operating profit | | 4,073,694 | 2,242,683 | 4,094,533 | 2,186,122 |
| Add: Non-operating income | 4(41) | 17,364 | 18,408 | 15,993 | 17,081 |
| Including: Profits on disposal of non-current assets | | 2,548 | 986 | 1,894 | 877 |
| Less: Non-operating expenses | 4(42) | 41,054 | 20,945 | 40,927 | 20,908 |
| Including: Losses on disposal of non-current assets | | 26,525 | 8,913 | 26,398 | 8,879 |
| 3. Total profit | | 4,050,004 | 2,240,146 | 4,069,599 | 2,182,295 |
| Less: Income tax expenses | 4(43) | 948,241 | 491,686 | 935,490 | 477,348 |
| 4. Net profit | | 3,101,763 | 1,748,460 | 3,134,109 | 1,704,947 |
| Attributable to shareholders of the Company | | 3,096,675 | 1,731,166 | – | – |
| Non-controlling interests | | 5,088 | 17,294 | – | – |
| 5. Other comprehensive income | | – | – | – | – |

CONSOLIDATED AND COMPANY INCOME STATEMENTS *(continued)*

FOR THE SIX MONTHS ENDED 30 JUNE 2016

(All amounts in thousands of Renminbi Yuan unless otherwise stated)

[English Translation for Reference Only]

| Items | Note | Six Months Ended 30 June | | Six Months Ended 30 June | |
|--|-------|-------------------------------------|-------------------------------------|--------------------------------|--------------------------------|
| | | 2016 (UNAUDITED) Consolidated | 2015 (UNAUDITED) Consolidated | 2016 (UNAUDITED) Company | 2015 (UNAUDITED) Company |
| Total comprehensive income | | 3,101,763 | 1,748,460 | 3,134,109 | 1,704,947 |
| Attributable to shareholders of the Company | | 3,096,675 | 1,731,166 | — | — |
| Non-controlling interests | | 5,088 | 17,294 | — | — |
| Earnings per share | | | | | |
| Basic earnings per share (RMB) | 4(44) | 0.287 | 0.160 | — | — |
| Diluted earnings per share (RMB) | 4(44) | 0.287 | 0.160 | — | — |

The accompanying notes form an integral part of these financial statements.

Chairman and General Manager

Wang Zhiqing

Director and Chief Financial Officer

Ye Guohua

Deputy Chief Financial Officer
and Accounting Chief

Hua Xin

CONSOLIDATED AND COMPANY CASH FLOW STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2016

(All amounts in thousands of Renminbi Yuan unless otherwise stated)

[English Translation for Reference Only]

| Items | Note | Six Months Ended 30 June | | Six Months Ended 30 June | |
|--|--------------|-------------------------------------|-------------------------------------|--------------------------------|--------------------------------|
| | | 2016 (UNAUDITED) Consolidated | 2015 (UNAUDITED) Consolidated | 2016 (UNAUDITED) Company | 2015 (UNAUDITED) Company |
| Cash flows from operating activities | | | | | |
| Cash received from sale of goods or rendering of services | | 40,959,820 | 46,893,886 | 30,642,588 | 38,627,647 |
| Refund of taxes and surcharges | | 19,829 | 26,203 | - | - |
| Cash received relating to other operating activities | 4(45) | 9,662 | 6,713 | 9,099 | 5,495 |
| Sub-total of cash inflows | | 40,989,311 | 46,926,802 | 30,651,687 | 38,633,142 |
| Cash flows from investing activities | | | | | |
| Cash paid for goods and services | | (26,427,676) | (34,564,026) | (16,365,281) | (26,437,199) |
| Cash paid to and on behalf of employees | | (1,191,300) | (1,221,286) | (1,108,144) | (1,143,494) |
| Payments of taxes and surcharges | | (8,467,073) | (8,942,004) | (8,415,782) | (8,884,167) |
| Cash paid relating to other operating activities | 4(45) | (258,238) | (275,247) | (562,958) | (186,347) |
| Sub-total of cash outflows | | (36,344,287) | (45,002,563) | (26,452,165) | (36,651,207) |
| Net cash flows generated from operating activities | 4(46), 14(7) | 4,645,024 | 1,924,239 | 4,199,522 | 1,981,935 |
| Cash flows from investing activities | | | | | |
| Cash received from entrusted lendings | | 42,000 | 30,000 | - | - |
| Cash received from returns on investments | | 200,595 | 38,487 | 178,200 | 19,372 |
| Net cash received from disposal of fixed assets | | - | 4,417 | - | 4,294 |
| Cash received relating to other investing activities | 4(45) | 42,435 | 23,454 | 27,952 | 16,592 |
| Sub-total of cash inflows | | 285,030 | 96,358 | 206,152 | 40,258 |
| Cash paid to acquire fixed assets and other long-term assets | | (265,241) | (313,246) | (264,844) | (314,223) |
| Net cash paid in disposal of fixed assets | | (1,730) | - | (2,407) | - |
| Investment in an associate | | (24,000) | (42,000) | - | - |
| Sub-total of cash outflows | | (290,971) | (355,246) | (267,251) | (314,223) |
| Net cash flows used in investing activities | | (5,941) | (258,888) | (61,099) | (273,965) |

CONSOLIDATED AND COMPANY CASH FLOW STATEMENTS *(continued)*

FOR THE SIX MONTHS ENDED 30 JUNE 2016

(All amounts in thousands of Renminbi Yuan unless otherwise stated)

[English Translation for Reference Only]

| Items | Note | Six Months Ended 30 June | | Six Months Ended 30 June | |
|---|------|-------------------------------------|-------------------------------------|--------------------------------|--------------------------------|
| | | 2016 (UNAUDITED) Consolidated | 2015 (UNAUDITED) Consolidated | 2016 (UNAUDITED) Company | 2015 (UNAUDITED) Company |
| Cash flows from financing activities | | | | | |
| Cash received from borrowings | | 1,864,657 | 20,725,975 | 2,276,000 | 21,081,005 |
| Sub-total of cash inflows | | 1,864,657 | 20,725,975 | 2,276,000 | 21,081,005 |
| Cash repayments of borrowings | | (3,075,000) | (22,214,676) | (3,443,000) | (22,583,166) |
| Cash paid for distribution of dividends or profits and interest expenses | | (57,084) | (154,809) | (31,806) | (152,665) |
| Including: Cash payments for dividends or profit to non-controlling shareholders of subsidiaries | | (25,508) | (7,192) | - | - |
| Sub-total of cash outflows | | (3,132,084) | (22,369,485) | (3,474,806) | (22,735,831) |
| Net cash flows used in from financing activities | | (1,267,427) | (1,643,510) | (1,198,806) | (1,654,826) |
| Effect of foreign exchange rate changes on cash and cash equivalents | | 2,220 | 22 | - | 6 |
| Net increase in cash and cash equivalents | | 3,373,876 | 21,863 | 2,939,617 | 53,150 |
| Add: Cash and cash equivalents at the beginning of the period | 4(1) | 1,077,430 | 279,198 | 942,264 | 186,348 |
| Cash and cash equivalents at the end of the period | 4(1) | 4,451,306 | 301,061 | 3,881,881 | 239,498 |

The accompanying notes form an integral part of these financial statements.

Chairman and General Manager

Wang Zhiqing

Director and Chief Financial Officer

Ye Guohua

Deputy Chief Financial Officer
and Accounting Chief

Hua Xin

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2016

(All amounts in thousands of Renminbi Yuan unless otherwise stated)

[English Translation for Reference Only]

| Items | Note | Attributable to equity shareholders of the Company | | | | | Non-controlling interests | Total shareholders' equity |
|--|-------|--|-----------------|------------------|-----------------|-----------------------|---------------------------|----------------------------|
| | | Share capital | Capital surplus | Specific reserve | Surplus reserve | Undistributed profits | | |
| Balance at 1 January 2015 | | 10,800,000 | 493,922 | 1,265 | 4,173,831 | 1,101,605 | 271,395 | 16,842,018 |
| Movements for the six months ended 30 June 2015 (unaudited) | | | | | | | | |
| Total comprehensive income | | | | | | | | |
| Net profit for the period | | - | - | - | - | 1,731,166 | 17,294 | 1,748,460 |
| Employees share option scheme | | - | 11,901 | - | - | - | - | 11,901 |
| Appropriation of profits | | | | | | | | |
| Distribution to the shareholders | 4(31) | - | - | - | - | - | (10,459) | (10,459) |
| Specific reserve | | | | | | | | |
| Accrued | 4(29) | - | - | 72,925 | - | - | - | 72,925 |
| Utilised | 4(29) | - | - | (47,597) | - | - | - | (47,597) |
| Balance at 30 June 2015 (unaudited) | | 10,800,000 | 505,823 | 26,593 | 4,173,831 | 2,832,771 | 278,230 | 18,617,248 |
| Balance at 1 January 2016 | | 10,800,000 | 516,624 | 953 | 4,493,260 | 4,028,025 | 297,038 | 20,135,900 |
| Movements for the six months ended 30 June 2016 (unaudited) | | | | | | | | |
| Total comprehensive income | | | | | | | | |
| Net profit for the period | | - | - | - | - | 3,096,675 | 5,088 | 3,101,763 |
| Employees share option scheme | 4(28) | - | 11,350 | - | - | - | - | 11,350 |
| Appropriation of profits | | | | | | | | |
| Distribution to the shareholders | 4(31) | - | - | - | - | (1,080,000) | (25,508) | (1,105,508) |
| Specific reserve | | | | | | | | |
| Accrued | 4(29) | - | - | 53,343 | - | - | - | 53,343 |
| Utilised | 4(29) | - | - | (13,902) | - | - | - | (13,902) |
| Balance at 30 June 2016 (unaudited) | | 10,800,000 | 527,974 | 40,394 | 4,493,260 | 6,044,700 | 276,618 | 22,182,946 |

The accompanying notes form an integral part of these financial statements.

Chairman and General Manager

Wang Zhiqing

Director and Chief Financial Officer

Ye Guohua

Deputy Chief Financial Officer
and Accounting Chief

Hua Xin

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2016

(All amounts in thousands of Renminbi Yuan unless otherwise stated)

[English Translation for Reference Only]

| Items | Share capital | Capital surplus | Specific reserve | Surplus reserve | Undistributed profits | Total shareholders' equity |
|--|-------------------|-----------------|------------------|------------------|-----------------------|----------------------------|
| Balance at 1 January 2015 | 10,800,000 | 493,922 | - | 4,173,831 | 938,823 | 16,406,576 |
| Movements for the six months ended 30 June 2015 (unaudited) | | | | | | |
| Total comprehensive income | | | | | | |
| Net profit for the period | - | - | - | - | 1,704,947 | 1,704,947 |
| Employees share option scheme | - | 11,901 | - | - | - | 11,901 |
| Specific reserve | | | | | | |
| Accrued | - | - | 69,960 | - | - | 69,960 |
| Utilised | - | - | (46,108) | - | - | (46,108) |
| Balance at 30 June 2015 (unaudited) | 10,800,000 | 505,823 | 23,852 | 4,173,831 | 2,643,770 | 18,147,276 |
| Balance at 1 January 2016 | 10,800,000 | 516,624 | - | 4,493,260 | 3,813,684 | 19,623,568 |
| Movements for the six months ended 30 June 2016 (unaudited) | | | | | | |
| Total comprehensive income | | | | | | |
| Net profit for the period | - | - | - | - | 3,134,109 | 3,134,109 |
| Employees share option scheme | - | 11,350 | - | - | - | 11,350 |
| Appropriation of profits | | | | | | |
| Distribution to the shareholders | - | - | - | - | (1,080,000) | (1,080,000) |
| Specific reserve | | | | | | |
| Accrued | - | - | 50,340 | - | - | 50,340 |
| Utilised | - | - | (12,974) | - | - | (12,974) |
| Balance at 30 June 2016 (unaudited) | 10,800,000 | 527,974 | 37,366 | 4,493,260 | 5,867,793 | 21,726,393 |

The accompanying notes form an integral part of these financial statements.

Chairman and General Manager

Wang Zhiqing

Director and Chief Financial Officer

Ye Guohua

Deputy Chief Financial Officer
and Accounting Chief

Hua Xin

NOTES TO THE FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2016

(All amounts in thousands of Renminbi Yuan unless otherwise stated)

[English Translation for Reference Only]

1 General information

Sinopec Shanghai Petrochemical Company Limited (“the Company”), formerly Shanghai Petrochemical Company Limited, was established in the People’s Republic of China (“the PRC”) on 29 June 1993 with registered capital of RMB4,000,000,000, invested by its holding company-China National Petrochemical Corporation; these shares were converted from assets of former Shanghai Petrochemical Complex.

H shares were listed on the Hong Kong Stock Exchange on 26 July 1993, and listed on the New York Stock Exchange in the form of American Depositary Shares at the same time; the A shares were listed on the Shanghai Stock Exchange on 8 November 1993.

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

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

As at 30 June 2016, total Share capital of the Company were 10,800,000 thousands, 1 Yuan per share.

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

Details of the Company’s principal subsidiaries are set out in Note 5(1).

These financial statements were authorised for issue by the Board of Directors on 23 August 2016.

2 Summary of significant accounting policies and accounting estimates

The Group determines the accounting policies and accounting estimates based on its production and management features, mainly reflecting in provision for decline in the value of inventories (Note 2(11)), depreciation of fixed assets(Note2(14)), impairment of long-term assets (Note 2(19)), share-based payments (Note 2(23)), revenue recognition (Note 2(25)) and income tax (Note 2(27)) etc.

The key assumptions adopted by the Group in evaluating significant accounting policies and accounting estimates are listed in Note 2(31).

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE SIX MONTHS ENDED 30 JUNE 2016

(All amounts in thousands of Renminbi Yuan unless otherwise stated)

[English Translation for Reference Only]

2 Summary of significant accounting policies and accounting estimates *(continued)*

(1) Basis of preparation

The financial statements have been prepared in accordance with the Basic Standard and each specific standards of the Accounting Standards for Business Enterprises issued by the Ministry of Finance on 15 February 2006 and subsequent period, and relevant regulations issued thereafter (hereafter referred to as “the Accounting Standard for Business Enterprises” or “CAS”) and disclosure requirements in the Preparation Convention of Information Disclosure by Companies Offering Securities to the Public No.15 – General Provisions on Financial Reporting issued by the China Securities Regulatory Commission.

The financial statements are prepared on a going concern basis.

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

The financial statements of the Company for the six months ended 30 June 2016 are in compliance with the Accounting Standards for Business Enterprises, and truly and completely present the financial position as of 30 June 2016 and the operating results, cash flows and other information for the period then ended of the Group and the Company.

(3) Accounting period

The Company’s accounting year starts on 1 January and ends on 31 December. The financial statements cover period from 1 January 2016 to 30 June 2016.

(4) Recording currency

The recording currency is Renminbi (RMB).

(5) Business combinations

(a) Business combinations involving enterprises under common control

The consideration paid and net assets obtained by the absorbing party in a business combination are measured at the carrying amount. The difference between the carrying amount of the net assets obtained from the combination and the carrying amount of the consideration paid for the combination is treated as an adjustment to capital surplus (share premium). If the capital surplus (share premium) is not sufficient to absorb the difference, the remaining balance is adjusted against retained earnings. Costs directly attributable to the combination are included in profit or loss in the period in which they are incurred. Transaction costs associated with the issue of equity or debt securities for the business combination are included in the initially recognised amounts of the equity or debt securities.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE SIX MONTHS ENDED 30 JUNE 2016

(All amounts in thousands of Renminbi Yuan unless otherwise stated)

[English Translation for Reference Only]

2 Summary of significant accounting policies and accounting estimates *(continued)*

(5) Business combinations *(continued)*

(b) Business combinations involving enterprises not under common control

The cost of combination and identifiable net assets obtained by the acquirer in a business combination are measured at fair value at the acquisition date. Where the cost of the combination exceeds the acquirer's interest in the fair value of the acquiree's identifiable net assets, the difference is recognised as goodwill; where the cost of combination is lower than the acquirer's interest in the fair value of the acquiree's identifiable net assets, the difference is recognised in profit or loss for the current period. Costs directly attributable to the combination are included in profit or loss in the period in which they are incurred. Transaction costs associated with the issue of equity or debt securities for the business combination are included in the initially recognised amounts of the equity or debt securities.

(6) Preparation of consolidated financial statements

The consolidated financial statements comprise the financial statements of the Company and all of its subsidiaries.

Subsidiaries are consolidated from the date on which the Group obtains control and are de-consolidated from the date that such control ceases. For a subsidiary that is acquired in a business combination involving enterprises under common control, it is included in the consolidated financial statements from the date when it, together with the Company, comes under common control of the ultimate controlling party. The portion of the net profits realised before the combination date is presented separately in the consolidated income statement.

In preparing the consolidated financial statements, where the accounting policies and the accounting periods of the Company and subsidiaries are inconsistent, the financial statements of the subsidiaries are adjusted in accordance with the accounting policies and the accounting period of the Company. For subsidiaries acquired from business combinations involving enterprises not under common control, the individual financial statements of the subsidiaries are adjusted based on the fair value of the identifiable net assets at the acquisition date.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE SIX MONTHS ENDED 30 JUNE 2016

(All amounts in thousands of Renminbi Yuan unless otherwise stated)

[English Translation for Reference Only]

2 Summary of significant accounting policies and accounting estimates *(continued)*

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

All significant intra-group balances, transactions and unrealised profits are eliminated in the consolidated financial statements. The portion of subsidiaries' equity and the portion of a subsidiaries' net profits and losses and comprehensive incomes for the period not attributable to Company are recognised as non-controlling interests, net profit attributed to non-controlling interests and incomes attributed to non-controlling interests and presented separately in the consolidated financial statements under equity, net profits and total comprehensive income respectively. Unrealised profits and losses resulting from the sale of assets by the Company to its subsidiaries are fully eliminated against net profit attributable to owners of the parent. Unrealised profits and losses resulting from the sale of assets by a subsidiary to the Company are eliminated and allocated between net profit attributable to owners of the parent and non-controlling interests in accordance with the allocation proportion of the parent in the subsidiary. Unrealised profits and losses resulting from the sale of assets by one subsidiary to another are eliminated and allocated between net profit attributable to owners of the parent and non-controlling interests in accordance with the allocation proportion of the parent in the subsidiary. Unrealised profits and losses resulting from the sale of assets by one subsidiary to another are eliminated and allocated between net profit attributable to owners of the parent and non-controlling interests in accordance with the allocation proportion of the parent in the subsidiary.

If the accounting treatment of a transaction which considers the Group as an accounting entity is different from that considers the Company or its subsidiaries as an accounting entity, it is adjusted from the perspective of the Group.

(7) Cash and cash equivalents

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

(8) Foreign currency translation

Foreign currency transactions

Foreign currency transactions are translated into RMB using the exchange rates prevailing at the dates of the transactions.

At the balance sheet date, monetary items denominated in foreign currencies are translated into RMB using the spot exchange rates on the balance sheet date. Exchange differences arising from these translations are recognised in profit or loss for the current period, except for those attributable to foreign currency borrowings that have been taken out specifically for the acquisition or construction of qualifying assets, which are capitalised as part of the cost of those assets. Non-monetary items denominated in foreign currencies that are measured at historical costs are translated into RMB at the balance sheet date using the spot exchange rates at the date of the transactions. The effect of exchange rate changes on cash is presented separately in the cash flow statement.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE SIX MONTHS ENDED 30 JUNE 2016

(All amounts in thousands of Renminbi Yuan unless otherwise stated)

[English Translation for Reference Only]

2 Summary of significant accounting policies and accounting estimates *(continued)*

(9) Financial instrument

(a) Financial assets

(i) Financial assets classification

Financial assets are classified into the following categories at initial recognition: financial assets at fair value through profit or loss, receivables, available-for-sale financial assets and held-to-maturity investments. The classification of financial assets depends on the Group's intention and ability to hold the financial assets.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for the purpose of selling in the short term.

Receivables

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

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories at initial recognition. Available-for-sale financial assets are included in other current assets on the balance sheet if management intends to dispose of them within 12 months after the balance sheet date.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed maturity and fixed or determinable payments that management has the positive intention and ability to hold to maturity. Held-to-maturity investments with maturities over 12 months when the investments were made but are due within 12 months at the balance sheet date are included in the current portion of non-current assets; held-to maturity investments with maturities no more than 12 months when the investments were made are included in other current assets.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE SIX MONTHS ENDED 30 JUNE 2016

(All amounts in thousands of Renminbi Yuan unless otherwise stated)

[English Translation for Reference Only]

2 Summary of significant accounting policies and accounting estimates *(continued)*

(9) Financial instrument *(continued)*

(a) Financial assets *(continued)*

(ii) *Recognition and measurement*

Financial assets are recognised at fair value on the balance sheet when the Group becomes a party to the contractual provisions of the financial instrument. In the case of financial assets at fair value through profit or loss, the related transaction costs incurred at the time of acquisition are recognised in profit or loss for the current period. For other financial assets, transaction costs that are attributable to the acquisition of the financial assets are included in their initially recognised amounts.

Financial assets at fair value through profit or loss and available-for-sale financial assets are subsequently measured at fair value. Investments in equity instruments are measured at cost when they do not have a quoted market price in an active market and whose fair value cannot be reliably measured. Receivables and held-to-maturity investments are measured at amortised cost using the effective interest method.

Gains or losses arising from change in the fair value of financial assets at fair value through profit or loss are recognised in profit or loss. Interests and cash dividends received during the period in which such financial assets are held, as well as the gains or losses arising from disposal of these assets are recognised in profit or loss for the current period.

Gains or losses arising from change in fair value of available-for-sale financial assets are recognised directly in equity, except for impairment losses and foreign exchange gains and losses arising from translation of monetary financial assets. When such financial assets are derecognised, the cumulative gains or losses previously recognised directly into equity are recycled into profit or loss for the current period. Interests on available-for-sale investments in debt instruments calculated using the effective interest method during the period in which such investments are held and cash dividends declared by the investee on available-for-sale investments in equity instruments are recognised as investment income, which is recognised in profit or loss for the period.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE SIX MONTHS ENDED 30 JUNE 2016

(All amounts in thousands of Renminbi Yuan unless otherwise stated)

[English Translation for Reference Only]

2 Summary of significant accounting policies and accounting estimates *(continued)*

(9) Financial instrument *(continued)*

(a) Financial assets *(continued)*

(iii) Impairment of financial assets

The Group assesses the carrying amounts of financial assets other than those at fair value through profit or loss at each balance sheet date. If there is objective evidence that a financial asset is impaired, an impairment loss is provided for.

Objective evidence indicating impairment of financial assets refers to the matter that actually occurs after the initial recognition of financial assets, it will affect estimated future cash flows of financial assets, and its impact can be reliably measured.

The objective evidence that indicate the impairment of available-for-sale investment in equity instruments includes a significant or prolonged decline in the fair value of available-for-sale investment in equity instruments. The Group assesses all kinds of available-for-sale investments in equity instruments individually at balance sheet date. Impairment loss should be recognised if the fair value of investments in equity instruments is less than 50% (50% inclusive) of its initial investment cost or in the case that the fair value has been less than the initial investment cost for more than one year (one year inclusive). The Group will consider other relevant factors, such as the price volatility, to determine whether an impairment loss should be recognised for the equity instrument if the decline in the fair value of an equity instrument is more than 20% (20% inclusive) but less than 50% of its initial investment cost.

When an impairment loss on a financial asset carried at amortised cost has occurred, the amount of loss is provided for at the difference between the asset's carrying amount and the present value of its estimated future cash flows (excluding future credit losses that have not been incurred). If there is objective evidence that the value of the financial asset recovered and the recovery is related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed and the amount of reversal is recognised in profit or loss.

In the case of impairment of available-for-sale financial assets measured at fair value, the cumulative loss arising from the decline in fair value that had been recognised directly in equity is removed from equity and recognised in impairment loss. For an investment in debt instrument classified as available-for-sale on which impairment losses have been recognised, if, in a subsequent period, it's fair value increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the previously recognised impairment loss is reversed and recognised in profit or loss for the current year. For an investment in an equity instrument classified as available-for-sale on which impairment losses have been recognised, the increase in its fair value in a subsequent period is recognised in equity directly.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE SIX MONTHS ENDED 30 JUNE 2016

(All amounts in thousands of Renminbi Yuan unless otherwise stated)

[English Translation for Reference Only]

2 Summary of significant accounting policies and accounting estimates *(continued)*

(9) Financial instrument *(continued)*

(a) Financial assets *(continued)*

(iii) Impairment of financial assets (continued)

If an impairment loss on an available-for-sale financial asset measured at cost incurs, the amount of loss is measured at the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. The previously recognised impairment loss will not be reversed in subsequent periods.

(iv) Derecognition of financial assets

A financial asset is derecognised when it meets one of the following conditions:

- If the Group's contractual rights to the cash flows from the financial asset expire.
- Or if the Group transfers substantially all the risks and rewards of ownership of the financial asset to another party.
- Or if the Group has neither transferred nor retained substantially all of the risks and rewards of the asset, but the Group has ceased the control over the financial asset.

On derecognition of a financial asset, the difference between the carrying amount and the aggregate consideration received and the accumulative amount of the changes of fair value originally recorded in the shareholders' equity is recognised in profit or loss.

(b) Financial liabilities

Financial liabilities are classified into two categories at initial recognition: financial liabilities at fair value through profit or loss and other financial liabilities. The financial liabilities of the Group mainly comprise other financial liabilities, including payables, borrowings.

Payables comprise accounts payables, notes payable and other payables and are recognised at fair value at initial recognition. Payables are measured at amortised cost using the effective interest method.

Borrowings and debentures payable are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE SIX MONTHS ENDED 30 JUNE 2016

(All amounts in thousands of Renminbi Yuan unless otherwise stated)

[English Translation for Reference Only]

2 Summary of significant accounting policies and accounting estimates *(continued)*

(9) Financial instrument *(continued)*

(b) Financial liabilities *(continued)*

Other financial liabilities with maturities no more than one year are classified as current liabilities. Other financial liabilities with maturities over one year but are due within one year at the balance sheet date are classified as the current portion of non-current liabilities. Others are classified as non-current liabilities.

A financial liability is derecognised or partly derecognised when the current obligation is discharged or partly discharged. The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished and the consideration paid, shall be recognised in profit or loss.

(c) Determination of fair value of financial instruments

The fair value of a financial instrument that is traded in an active market is determined at the quoted price in the active market. The fair value of a financial instrument that is not traded in an active market is determined by using a valuation technique which is applicable in the current situation and support with enough available data and other information. Valuation techniques mainly include market approach and income approach.

When a valuation technique is used to establish the fair value of a financial instrument, it chooses the inputs which are consistent with the asset or liability's characteristics considered by market participants in the transaction of the relevant asset or liability and makes the maximum use of relevant observable inputs. Unobservable inputs are used when it is unavailable or impracticable to obtain relevant observable inputs.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE SIX MONTHS ENDED 30 JUNE 2016

(All amounts in thousands of Renminbi Yuan unless otherwise stated)

[English Translation for Reference Only]

2 Summary of significant accounting policies and accounting estimates *(continued)*

(10) Receivables

Receivables comprise accounts receivable and other receivables. Accounts receivable arising from sale of goods or rendering of services are initially recognised at fair value of the contractual payments from the buyers or service recipients.

(a) Receivables that are individually significant and subject to separate provision

Receivables with amounts that are individually significant are subject to separate assessment for impairment. If there exists objective evidence that the Group will not be able to collect the amount under the original terms, a provision for impairment of that receivable is made.

Judgement basis or criteria for receivables that are individually significant is over RMB10,000 thousands.

The method of providing for bad debts for those individually significant amounts is as follows: the amount of the present value of the future cash flows expected to be derived from the receivable below its carrying amount.

(b) Receivables that are combined into certain groups and subject to provision by groups

Receivables with amounts that are not individually significant and those receivables that have been individually assessed for impairment and have not been found impaired are classified into certain groupings based on their credit risk characteristics. The provision for bad debts is determined based on the historical loss experience for the groupings of receivables with similar credit risk characteristics, taking into consideration of the current circumstances.

Basis for determination of groups is as follows:

| Group Name | Criteria |
|-------------------|---|
| Group 1 | Groups of receivables with similar credit risk characteristics |
| Group 2 | Receivables for related parties except for the accounts receivables that are individually significant and subject to separate provision |

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2016

(All amounts in thousands of Renminbi Yuan unless otherwise stated)

[English Translation for Reference Only]

2 Summary of significant accounting policies and accounting estimates (continued)

(10) Receivables (continued)

(b) Receivables that are combined into certain groups and subject to provision by groups (continued)

Methods of determining provision for bad debts by groupings are as follows:

| Group Name | Method for provision |
|------------|--|
| Group 1 | Ageing analysis method |
| Group 2 | Percentage of bad debt provision is 0% |

Ratios of provision for bad debts used in the ageing analysis method for groups are as follows:

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

(c) Receivables that are individually insignificant but subject to separate provision

The reason for making separate assessment for provision for bad debts is that there exists objective evidence that the Group will not be able to collect the amount under the original terms of the receivable.

The provision for bad debts is determined based on the amount of the present value of the future cash flows expected to be derived from the receivable below its carrying amount.

(d) When the Group transfers the accounts receivable to the financial institutions without recourse, the difference between the proceeds received from the transaction and their carrying amounts and the related taxes is recognised in profit or loss for the current period.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE SIX MONTHS ENDED 30 JUNE 2016

(All amounts in thousands of Renminbi Yuan unless otherwise stated)

[English Translation for Reference Only]

2 Summary of significant accounting policies and accounting estimates *(continued)*

(11) Inventories

(a) Categories of inventories

Inventories include raw materials, work in progress, finished goods, spare parts and consumables, and are measured at the lower of cost and net realisable value.

(b) Measurement of cost of inventories

Cost is determined using the weighted average method. The cost of finished goods and work in progress comprise raw materials, direct labour and systematically allocated production overhead based on the normal production capacity.

(c) Basis for determining net realisable value of inventories and method of provision for impairment of inventories

Provision for decline in the value of inventories is determined at the excess amount of the carrying amounts of the inventories over their net realisable value. Net realisable value is determined based on the estimated selling price in the ordinary course of business, less the estimated costs to completion and estimated costs necessary to make the sale and related taxes.

(d) The Group adopts the perpetual inventory system.

(e) Amortisation methods for low-value consumables

Low-value consumables are expensed upon issuance.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE SIX MONTHS ENDED 30 JUNE 2016

(All amounts in thousands of Renminbi Yuan unless otherwise stated)

[English Translation for Reference Only]

2 Summary of significant accounting policies and accounting estimates *(continued)*

(12) Long-term equity investments

Long-term equity investments comprise the Company's long-term equity investments in its subsidiaries, the Group's long-term equity investments in its joint ventures and associates

Subsidiaries are the investees over which the Company is able to exercise control. A joint venture is a joint arrangement which is structured through a separate vehicle over which the Group has joint control together with other parties and only has rights to the net assets of the arrangement based on legal forms, contractual terms and other facts and circumstances. An associate is the investee over which the Group has significant influence by participating in the financial and operating policy decisions.

Investments in subsidiaries are presented in the Company's financial statements using the cost method, and are adjusted to the equity method when preparing the consolidated financial statements. Investments in joint ventures and associates are accounted for using the equity method.

(a) Initial recognition

For long-term equity investments acquired through a business combination: The initial investment cost of a long-term equity investment obtained through a business combination involving enterprises under common control is the Company's share of the carrying amount of the subsidiary's equity at the combination date. For a long-term equity investment obtained through a business combination not involving enterprises under common control, the initial investment cost is the combined cost issued by the Company, in exchange for control of the acquire.

For long-term equity investment acquired other than through a business combination, the initial investment cost is recognised at the actual consideration paid if the Group acquires the investment by cash, or at the fair value of the equity securities issued if an investment is acquired by issuing equity securities.

(b) Subsequent measurement

Under the cost method of accounting, long-term equity investments are measured at initial investment cost, investment income is recognised in profit or loss for the cash dividends or profit distribution declared by the investee.

For long-term equity investments accounted for using the equity method, where the initial investment cost exceeds the fair value of the Group's share of the investee's identifiable net assets at the time of acquisition, the investment is initially measured at cost; Where the initial investment cost is less than the fair value of the Group's share of the investee's identifiable net assets at the time of acquisition, the difference is included in profit or loss for the current period and the cost of the long-term equity investment is adjusted upwards accordingly.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE SIX MONTHS ENDED 30 JUNE 2016

(All amounts in thousands of Renminbi Yuan unless otherwise stated)

[English Translation for Reference Only]

2 Summary of significant accounting policies and accounting estimates *(continued)*

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

(b) Subsequent measurement *(continued)*

Under the equity method of accounting, the Group recognises the investment income according to its share of net profit or loss of the investee. The Group discontinues recognising its share of net losses of an investee after the carrying amount of the long-term equity investment together with any long-term interests that, in substance, form part of the investor's net investment in the investee are reduced to zero. However, if the Group has obligations for additional losses and the criteria with respect to recognition of provisions under the accounting standards on contingencies are satisfied, the Group continues recognising the investment losses and the provisions. For changes in shareholders' equity of the investee other than those arising from its net profit or loss, the Group records its proportionate share directly into capital surplus, provided that the Group's proportion of shareholding in the investee remains unchanged. The carrying amount of the investment is reduced by the Group's share of the profit distribution or cash dividends declared by an investee. The unrealised profits or losses arising from the intra-group transactions amongst the Group and its investees are eliminated in proportion to the Group's equity interest in the investees, and then based on which the investment gain or losses are recognised. For the loss on the intra-group transaction amongst the Group and its investees attributable to asset impairment, and the related unrealised loss is not eliminated.

(c) Definition of control, joint control or significant influence over the investees

Control refers to the power to govern the financial and operating policies of an investee, so as to obtain benefits from their operating activities. In determining whether the Company is able to exercise control over the investee, the effect of potential voting rights of the investee shall be considered, such as convertible debts and warrants currently exercisable.

Joint control is the contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control.

Significant influence refers to the power to participate in making decisions on the financial and operating policies of an enterprise, but not the power to control, or jointly control, the formulation of such policies with other parties.

(d) Impairment of long-term equity investments

The carrying amounts of long-term equity investments in subsidiaries, joint ventures and associates are reduced to the recoverable amounts when the recoverable amounts are below their carrying amounts (Note 2 (19)).

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2016

(All amounts in thousands of Renminbi Yuan unless otherwise stated)

[English Translation for Reference Only]

2 Summary of significant accounting policies and accounting estimates (continued)

(13) Investment properties

Investment properties, including land use rights that have already been leased out, buildings that are held for the purpose of leasing and buildings that is being constructed or developed for future use for leasing, are measured initially at cost. Subsequent expenditures incurred in relation to an investment property are included in the cost of the investment property when it is probable that the associated economic benefits will flow to the Group and their costs can be reliably measured; otherwise, the expenditures are recognised in profit or loss in the period in which they are incurred.

The Group adopts the cost model for subsequent measurement of investment properties. Buildings and land use rights are depreciated or amortised to their estimated net residual values over their estimated useful lives. The estimated useful lives, the estimated net residual values that are expressed as a percentage of cost and the annual depreciation rates of investment properties are as follows:

| | Estimated useful lives | Estimated net residual values | Annual depreciation rates |
|-----------|---------------------------|----------------------------------|------------------------------|
| Buildings | 30-40 years | 3% | 2.43%-3.23% |

When an investment property is transferred to owner-occupied properties, it is reclassified as fixed asset or intangible asset at the date of the transfer. When an owner-occupied property is transferred out for earning rentals or for capital appreciation, the fixed asset or intangible asset is reclassified as investment properties at its carrying amount at the date of the transfer. The carrying amount before is deemed as the entry value after at the time of the transfer.

The investment property's estimated useful life, net residual value and depreciation method applied are reviewed and adjusted as appropriate at each year-end.

An investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. The net amount of proceeds from sale, transfer, retirement or damage of an investment property after its carrying amount and related taxes and expenses is recognised in profit or loss for the current period.

When the recoverable amount of investment properties is less than its carrying amount, a provision for impairment and an impairment loss are recognised for the amount by which the asset's carrying amount exceeds its recoverable amount (Note 2 (19)).

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE SIX MONTHS ENDED 30 JUNE 2016

(All amounts in thousands of Renminbi Yuan unless otherwise stated)

[English Translation for Reference Only]

2 Summary of significant accounting policies and accounting estimates *(continued)*

(14) Fixed assets

(a) Recognition and initial measurement of fixed assets

Fixed assets comprise buildings, plant and machinery, vehicles and other equipment, etc.

Fixed asset is recognized when it is probable that the associated economic benefits will flow to the Group and the related cost can be reliably measured. Fixed assets purchased or constructed by the Group are initially measured at cost at the time of acquisition. The fixed assets injected by the state-owned shareholder during the restructuring were initially recorded at the valuated amount approved by the relevant authorities managing state-owned assets.

Subsequent expenditures incurred for a fixed asset are included in the cost of the fixed asset when it is probable that the associated economic benefits will flow to the Group and the related cost can be reliably measured. The carrying amount of the replaced part is derecognised. All the other subsequent expenditures are recognised in profit or loss in the period in which they are incurred.

(b) Depreciation methods of fixed assets

Fixed assets are depreciated using the straight-line method to allocate the cost of the assets to their estimated residual values over their estimated useful lives. For the fixed assets that have been provided for impairment loss, the related depreciation charge is prospectively determined based upon the adjusted carrying amounts over their remaining useful lives.

The estimated useful lives, the estimated residual values expressed as a percentage of cost and the annual depreciation rates of fixed assets are as follows:

| | Estimated useful lives | Estimated net residual values | Annual depreciation rates |
|------------------------------|-----------------------------------|--|--------------------------------------|
| Buildings | 12-40 years | 0%-5% | 2.4%-8.3% |
| Plant and machinery | 12-20 years | 0%-5% | 4.8%-8.3% |
| Vehicles and other equipment | 4-20 years | 0%-5% | 4.8%-25.0% |

The estimated useful life, the estimated net residual value of a fixed asset and the depreciation method applied to the asset are reviewed, and adjusted as appropriate at each year-end.

- (c) When the recoverable amount of fixed assets is less than its carrying amount, a provision for impairment and an impairment loss are recognised for the amount by which the asset's carrying amount exceeds its recoverable amount (Note 2 (19)).

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE SIX MONTHS ENDED 30 JUNE 2016

(All amounts in thousands of Renminbi Yuan unless otherwise stated)

[English Translation for Reference Only]

2 Summary of significant accounting policies and accounting estimates *(continued)*

(14) Fixed assets *(continued)*

(d) Disposal of fixed assets

A fixed asset is derecognised on disposal or when no future economic benefits are expected from its use or disposal. The amount of proceeds from disposals on sale, transfer, retirement or damage of a fixed asset net of its carrying amount and related taxes and expenses is recognised in profit or loss for the current period.

(15) Construction in progress

Construction in progress is measured at actual cost. Actual cost comprises construction costs, installation costs, borrowing costs that are eligible for capitalisation and other costs necessary to bring the fixed assets ready for their intended use. Construction in progress is transferred to fixed assets when the assets are ready for their intended use, and depreciation begins from the following month. When the recoverable amount of construction in progress is less than its carrying amount, a provision for impairment and an impairment loss are recognised for the amount by which the asset's carrying amount exceeds its recoverable amount (Note 2 (19)).

(16) Borrowing costs

The borrowing costs that are directly attributable to the acquisition and construction of a fixed asset that needs a substantially long period of time for its intended use commence to be capitalised and recorded as part of the cost of the asset when expenditures for the asset and borrowing costs have been incurred, and the activities relating to the acquisition and construction that are necessary to prepare the asset for its intended use have commenced. The capitalisation of borrowing costs ceases when the asset under acquisition or construction becomes ready for its intended use and the borrowing costs incurred thereafter are recognised in profit or loss for the current period. Capitalisation of borrowing costs is suspended during periods in which the acquisition or construction of a fixed asset is interrupted abnormally and the interruption lasts for more than 3 months, until the acquisition or construction is resumed.

For the specific borrowings obtained for the acquisition or construction of a fixed asset qualifying for capitalisation, the amount of borrowing costs eligible for capitalisation is determined by deducting any interest income earned from depositing the unused specific borrowings in the banks or any investment income arising on the temporary investment of those borrowings during the capitalisation period.

For the general borrowings obtained for the acquisition or construction of a fixed asset qualifying for capitalisation, the amount of borrowing costs eligible for capitalisation is determined by applying the weighted average effective interest rate of general borrowings, to the weighted average of the excess amount of cumulative expenditures on the asset over the amount of specific borrowings. The effective interest rate is the rate at which the estimated future cash flows during the period of expected duration of the borrowings or applicable shorter period are discounted to the initial amount of the borrowings.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE SIX MONTHS ENDED 30 JUNE 2016

(All amounts in thousands of Renminbi Yuan unless otherwise stated)

[English Translation for Reference Only]

2 Summary of significant accounting policies and accounting estimates *(continued)*

(17) Intangible assets

Intangible assets include land use rights and patents, and are measured at cost. The intangible assets injected by the state-owned shareholder during the restructuring were initially recorded at the valuated amount approved by the relevant authorities managing state-owned assets.

(a) Land use rights

Land use rights are amortised on the straight-line basis over their approved use period of 30-50 years. If the acquisition costs of the land use rights and the buildings located thereon cannot be reasonably allocated between the land use rights and the buildings, all of the acquisition costs are recognised as fixed assets.

(b) Patents

Patents are amortised on a straight-line basis over the patent protection period of 10-28 years as stipulated by the laws.

(c) Periodical review of useful life and amortisation method

For an intangible asset with a finite useful life, review of its useful life and amortisation method is performed at each year-end, with adjustment made as appropriate.

(d) Research and development

The expenditure on an internal research and development project is classified into expenditure on the research phase and expenditure on the development phase based on its nature and whether there is material uncertainty that the research and development activities can form an intangible asset at end of the project.

Expenditure on the research phase is recognised in profit or loss in the period in which it is incurred. Expenditure on the development phase is capitalised only if all of the following conditions are satisfied:

- it is technically feasible to complete the research and development project so that it will be available for use or sale;
- management intends to complete the research and development project, and use or sell it;
- it can be demonstrated how the research and development project will generate economic benefits;

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE SIX MONTHS ENDED 30 JUNE 2016

(All amounts in thousands of Renminbi Yuan unless otherwise stated)

[English Translation for Reference Only]

2 Summary of significant accounting policies and accounting estimates *(continued)*

(17) Intangible assets *(continued)*

(d) Research and development *(continued)*

- there are adequate technical, financial and other resources to complete the development and the ability to use or sell the research and development project; and
- the expenditure attributable to the research and development project during its development phase can be reliably measured.

Other development expenditures that do not meet the conditions above are recognised in profit or loss in the period in which they are incurred. Development costs previously recognised as expenses are not recognised as an asset in a subsequent period. Capitalised expenditure on the development phase is presented as development costs in the balance sheet and transferred to intangible assets at the date that the asset is ready for its intended use.

(e) Impairment of intangible assets

When the recoverable amount of an intangible asset is less than its carrying amount, a provision for impairment and an impairment loss are recognised for the amount by which the asset's carrying amount exceeds its recoverable amount (Note 2 (19)).

(18) Long-term prepaid expenses

Long-term prepaid expenses mainly include the catalyst expenditures, leasehold improvements and other expenditures that have been incurred but should be recognised as expenses over more than one year in the current and subsequent periods. Long-term prepaid expenses with the book value net of estimated residual value are amortised on the straight-line basis over the expected beneficial periods and are presented at actual expenditure net of accumulated amortisation.

Catalyst expenditures are amortised on a straight-line method within 2 to 5 years.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE SIX MONTHS ENDED 30 JUNE 2016

(All amounts in thousands of Renminbi Yuan unless otherwise stated)

[English Translation for Reference Only]

2 Summary of significant accounting policies and accounting estimates *(continued)*

(19) Impairment of long-term assets

Fixed assets, construction in progress, intangible assets with finite useful lives, long-term prepaid expenses, investment properties measured using the cost model and long-term equity investments in subsidiaries, joint ventures and associates are tested for impairment if there is any indication that the assets may be impaired at the balance sheet date; intangible assets which are not ready for their intended use should be tested for impairment at least on an annual basis, irrespective of whether there is any indication that it may be impaired. If the result of the impairment test indicates that the recoverable amount of an asset is less than its carrying amount, a provision for impairment and an impairment loss are recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and the present value of the future cash flows expected to be derived from the asset. Provision for asset impairment is determined and recognised on the individual asset basis. If it is not possible to estimate the recoverable amount of an individual asset, the recoverable amount of a group of assets to which the asset belongs is determined. A group of assets is the smallest group of assets that is able to generate independent cash inflows.

Once the above asset impairment loss is recognised, it will not be reversed for the value recovered in the subsequent periods.

(20) Safety production costs

According to the decision of the State Council on Further Strengthening the work of production safety (Guofa No.2 2004), Shanghai Municipal Government to implement the State Council on Further Strengthening corporate safety work notice (Hufufa No.35 2010) and Safe production costs extraction and use of management practices (Caiqi No.16 2012) issued by the Ministry of Finance and the national production safety supervision administration on 2 February 2012, The Group extracted safety production costs in a certain percentage of sales revenue from the dangerous goods in previous year, which is used for safety costs.

The safety production costs, accrued in accordance with the above regulations, shall be charged in relevant costs or profit and loss, and in the specific reserve. Safety production costs, which belong to expenses, directly offset the special reserves. If the costs formed into fixed assets, the special reserves shall be offset according to the cost forming into fixed assets, and recognize the same amount of accumulated depreciation. This fixed asset shall no longer accrue depreciation in the following period.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE SIX MONTHS ENDED 30 JUNE 2016

(All amounts in thousands of Renminbi Yuan unless otherwise stated)

[English Translation for Reference Only]

2 Summary of significant accounting policies and accounting estimates *(continued)*

(21) Employee benefits

Employee benefits include short-term employee benefits, post-employment benefit and termination benefits provided in various forms of consideration in exchange for service rendered by employees or compensations for the termination of employment relationship.

(a) Short-term employee benefits

Short-term employee benefits include employee wages or salaries, bonus, allowances and subsidies, staff welfare, premiums or contributions on medical insurance, work injury insurance and maternity insurance, housing funds, union running costs and employee education costs, short-term paid absences. The employee benefit liabilities are recognised in the accounting period in which the service is rendered by the employees, with a corresponding charge to the profit or loss for the current period or the cost of relevant assets. Employee benefits which are non-monetary benefits are measured at fair value.

(b) Post-employment benefits

The Group classifies post-employment benefit plans as either defined contribution plans or defined benefit plans. Defined contribution plans are post-employment benefit plans under which the Group pays fixed contributions into a separate fund and will have no obligation to pay further contributions; and Defined benefit plans are post-employment benefit plans other than defined contribution plans. During the reporting period, the Group's post-employment benefits mainly include basic pensions, unemployment insurance and supplemental basic pensions, all of which belong to the defined contribution plans.

Basic pensions

Employees of the Group participate in the defined basic pension insurance plan set up and administered by local labour and social protection authorities. Monthly payments of premiums on the basic pensions are calculated according to prescribed bases and percentage by the relevant local authorities. When employees retire, the relevant local authorities are obliged to pay the basic pensions to them. The amounts based on the above calculations are recognised as liabilities in the accounting period in which the service has been rendered by the employees, with a corresponding charge to the profit or loss for the current period or the cost of relevant assets.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE SIX MONTHS ENDED 30 JUNE 2016

(All amounts in thousands of Renminbi Yuan unless otherwise stated)

[English Translation for Reference Only]

2 Summary of significant accounting policies and accounting estimates *(continued)*

(21) Employee benefits *(continued)*

(c) Termination benefits

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

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

Termination benefits expected to be paid in one year are listed as current liabilities.

(22) Profit distribution

Proposed profit distribution is recognised as a liability in the period in which it is approved by the Shareholders' meeting.

(23) Share-based payments

(a) Types of Share-based payment

The term "share-based payment" refers to a transaction in which an enterprise grants equity instruments or undertakes equity-instrument-based liabilities in return for services from employee or other parties. Equity instruments include equity instruments of the Company itself or its subsidiaries.

Equity-settled share-based payment transactions

The Group's share option incentive plans are equity-settled share-based payments and are measured at fair value of equity instruments granted to employees on the date of the grant. If the right cannot be exercised until the vesting period comes to an end and until the prescribed performance conditions are met, then within the vesting period, the services obtained in the current period shall, based on the best estimate of the number of vested equity instruments, be included in the relevant costs or expenses and the capital reserves shall be increased accordingly at the fair value of the equity instruments on the date of the grant. If the subsequent information indicates that the number of vested equity instruments is different from the previous estimate, an adjustment shall be made and on the vesting date, and the estimate shall be adjusted to equal the number of the actually vested equity instruments. On the vesting date, an enterprise shall, based on the number of the equity instruments of which the right is actually exercised, confirm share capital and share premium, and carry forward the capital surplus recognised within the vesting period.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE SIX MONTHS ENDED 30 JUNE 2016

(All amounts in thousands of Renminbi Yuan unless otherwise stated)

[English Translation for Reference Only]

2 Summary of significant accounting policies and accounting estimates *(continued)*

(23) Share-based payments *(continued)*

(b) Method for determining the fair value of share options

The Group uses Black-Scholes valuation model to determine the fair value of the share options.

(c) Estimate basis of the the number of options

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

(d) Accounting treatment for share-based payments exercise

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

(24) Provisions

Provisions for contingent liabilities etc. are recognised when the Group has a present obligation, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the obligation can be measured reliably.

A provision is initially measured at the best estimate of the expenditure required to settle the related present obligation. Factors surrounding a contingency, such as the risks, uncertainties and the time value of money, are taken into account as a whole in reaching the best estimate of a provision. Where the effect of the time value of money is material, the best estimate is determined by discounting the related future cash outflows. The increase in the discounted amount of the provision arising from passage of time is recognised as interest expense.

The carrying amount of provisions is reviewed at each balance sheet date and adjusted to reflect the current best estimate.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE SIX MONTHS ENDED 30 JUNE 2016

(All amounts in thousands of Renminbi Yuan unless otherwise stated)

[English Translation for Reference Only]

2 Summary of significant accounting policies and accounting estimates *(continued)*

(25) Revenue recognition

The amount of revenue is determined in accordance with the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of discounts and returns.

Revenue is recognised when the economic benefits associated with the transaction will flow to the Group, the related revenue can be reliably measured, and the specific revenue recognition criteria have been met for each type of the Group's activities as described below:

(a) Sale of goods

Revenue from sale is recognised when all of the general conditions stated above and the following conditions are satisfied: the significant risks and rewards of ownership of goods have been transferred to the buyer, as well as the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold. The Group recognises revenue when goods are sent to designated place and confirmed receipt by customers according to the terms of contract.

(b) Rendering of services

The Group provides service to external parties. The related revenue is recognised using the percentage of completion method, with the stage of completion being determined based on proportion of costs incurred to date to the estimated total costs.

(c) Transfer of asset use rights

Interest income is determined by using the effective interest method, based on the length of time for which the Group's cash is used by others.

Income from an operating lease is recognised on a straight-line basis over the period of the lease.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE SIX MONTHS ENDED 30 JUNE 2016

(All amounts in thousands of Renminbi Yuan unless otherwise stated)

[English Translation for Reference Only]

2 Summary of significant accounting policies and accounting estimates *(continued)*

(26) Government grants

Government grants are transfers of monetary or non-monetary assets from the government to the Group at nil consideration, including refund of taxes and financial subsidies, etc.

A government grant is recognised when the conditions attached to it can be complied with and the government grant can be received. For a government grant in the form of transfer of monetary assets, the grant is measured at the amount received or receivable. For a government grant in the form of transfer of non-monetary assets, it is measured at fair value; if the fair value is not reliably determinable, the grant is measured at nominal amount.

A government grant related to an asset means grant that used for acquisition, construction or otherwise to form long-term assets. A government grant related to income is grant in addition to government grant related to an asset.

A government grant related to an asset is recognised initially as deferred income and amortised to profit or loss on a straight-line basis over the useful life of the asset. A grant measured at nominal amount is recognised in profit or loss for the period immediately.

A government grant related to income that compensates the Group for expenses to be incurred in the subsequent periods is recognised initially as deferred income and recognised in profit or loss in the same periods in which the expenses are recognised. A grant that compensates the Group for expenses incurred is recognised in profit or loss immediately.

(27) Deferred tax assets and deferred tax liabilities

Deferred tax assets and deferred tax liabilities are calculated and recognised based on the differences arising between the tax bases of assets and liabilities and their carrying amounts (temporary differences). Deferred tax asset is recognised for the deductible losses that can be carried forward to subsequent years for deduction of the taxable profit in accordance with the tax laws. No deferred tax liability is recognised for a temporary difference arising from the initial recognition of goodwill. No deferred tax asset or deferred tax liability is recognised for the temporary differences resulting from the initial recognition of assets or liabilities due to a transaction other than a business combination, which affects neither accounting profit nor taxable profit (or deductible loss). At the balance sheet date, deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled.

Deferred tax assets are only recognised for deductible temporary differences, deductible losses and tax credits to the extent that it is probable that taxable profit will be available in the future against which the deductible temporary differences, deductible losses and tax credits can be utilised.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE SIX MONTHS ENDED 30 JUNE 2016

(All amounts in thousands of Renminbi Yuan unless otherwise stated)

[English Translation for Reference Only]

2 Summary of significant accounting policies and accounting estimates *(continued)*

(27) Deferred tax assets and deferred tax liabilities *(continued)*

Deferred tax liabilities are recognised for temporary differences arising from investments in subsidiaries, associates and joint ventures, except where the Group is able to control the timing of reversal of the temporary difference, and it is probable that the temporary difference will not reverse in the foreseeable future. When it is probable that the temporary differences arising from investments in subsidiaries, associates and joint ventures will be reversed in the foreseeable future and that the taxable profit will be available in the future against which the temporary differences can be utilised, the corresponding deferred tax assets are recognised.

Deferred tax assets and liabilities are offset when:

- the deferred taxes are related to the same tax payer within the Group and the same taxation authority; and,
- that tax payer within the Group has a legally enforceable right to offset current tax assets against current tax liabilities.

(28) Leases

A lease that in substance transfers substantially all the risks and rewards incidental to ownership of an asset is a finance lease. An operating lease is a lease other than a finance lease. Lease payments under an operating lease are recognised on a straight-line basis over the period of the lease, and are either capitalised as part of the cost of related assets, or charged as an expense for the current period.

(29) Related parties

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE SIX MONTHS ENDED 30 JUNE 2016

(All amounts in thousands of Renminbi Yuan unless otherwise stated)

[English Translation for Reference Only]

2 Summary of significant accounting policies and accounting estimates *(continued)*

(29) Related parties *(continued)*

- 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 ventures of the Group, including subsidiaries of joint ventures;
- g. associates of the Group, including subsidiaries of associates;
- h. principal individual investors of the Group and close family members of such individuals;
- i. key management personnel of the Group and close family members of such individuals;
- j. key management personnel of the Company's parent company;
- k. close family members of key management personnel of the Company's parents; and
- l. other enterprises that are controlled or jointly controlled by principal individual investors, key management personnel of the Group, or close family members of such individuals.

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

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE SIX MONTHS ENDED 30 JUNE 2016

(All amounts in thousands of Renminbi Yuan unless otherwise stated)

[English Translation for Reference Only]

2 Summary of significant accounting policies and accounting estimates *(continued)*

(30) Segment information

The Group identifies operating segments based on the internal organisation structure, management requirements and internal reporting system, and discloses segment information of reportable segments which is determined on the basis of operating segments.

An operating segment is a component of the Group that satisfies all of the following conditions: (1) the component is able to earn revenue and incur expenses from its ordinary activities; (2) whose operating results are regularly reviewed by the Group's management to make decisions about resources to be allocated to the segment and to assess its performance, and (3) for which the information on financial position, operating results and cash flows is available to the Group. If two or more operating segments have similar economic characteristics and satisfy certain conditions, they are aggregated into one single operating segment.

(31) Significant accounting policies and accounting estimates

The Group continually evaluates the critical accounting estimates and key judgments applied based on historical experience and other factors, including expectations of future events that are believed to be reasonable.

The critical accounting estimates and key assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next accounting year are outlined below:

(i) Estimated useful life and residual value of fixed assets

The Group assessed the reasonableness of estimated useful life of fixed assets in line with the historical experience on the basis of similar function or characteristic for the assets. If there are significant changes in estimated useful lives and residual value from previous years, the depreciation expenses for future periods are adjusted.

The Group reviews and adjusts the useful lives and estimated residual value of the assets regularly at the end of each year end.

(ii) Impairment of long-term assets

Long-term assets are reviewed for impairment at each balance sheet date when events or changes in circumstance have indicated that their carrying amounts may not be recoverable. If any such evidence indicated that their carrying amounts may not be recoverable, the carrying amounts exceed the recoverable amounts would be recognized as impairment loss and accounted in current profit or loss.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE SIX MONTHS ENDED 30 JUNE 2016

(All amounts in thousands of Renminbi Yuan unless otherwise stated)

[English Translation for Reference Only]

2 Summary of significant accounting policies and accounting estimates *(continued)*

(31) Significant accounting policies and accounting estimates *(continued)*

(ii) Impairment of long-term assets *(continued)*

The recoverable amount of an asset (or an asset group) is the greater of its net selling price and its present value of expected future cash flows. In assessing value in use, significant judgements are exercised over the assets' (or the asset group's) production and sales, selling prices, related operating expenses and discount rate to calculate the present value. All relevant materials which can be obtained are used for estimation of the recoverable amount, including the estimation of the production, selling prices and related operating expenses based on reasonable and supportable assumptions.

(iii) Inventory provision

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

(iv) Income taxes

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

In addition, the Group recognises deferred tax assets only to the extent that it is probable that future taxable profit will be available against the assets which can be realised or utilized. If profit forecasts deviate from original estimates, the deferred tax assets will need to be adjusted in future, which has significant impact on profit.

In making the assessment of whether it is probable the Group will realise or utilise the deferred tax assets, management primarily relies on the generation of future taxable income to support the recognition of deferred tax assets. In order to fully utilise the deferred tax assets recognised at 30 June 2016, the Group would need to generate future taxable income of at least RMB351 million (unaudited). Based on estimated forecast and historical experience, management believes that it is probable that the Group will generate sufficient taxable income.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2016

(All amounts in thousands of Renminbi Yuan unless otherwise stated)

[English Translation for Reference Only]

3 Taxation

(1) The main categories and rates of taxes applicable to the Group are set out below:

| Category | Tax base | Tax rate |
|---------------------------------------|---|---|
| Enterprise income tax | Taxable income | 25% |
| Value-added tax ("VAT") (a) | Taxable value-added amount (Tax payable is calculated using the taxable sales amount multiplied by the applicable tax rate less deductible VAT input of the current period) | 6%, 11%, 13% and 17% |
| Business tax (a) | Taxable turnover amount | 5% |
| Consumption tax | Taxable sales amount | Gasoline: RMB2,110 per ton; diesel oil: RMB1,411 per ton |
| City maintenance and construction tax | Consumption tax payable, business tax payable and VAT payable | 1% and 7% |

(a) Revenue from transportation industry, modern service industry, tangible asset leasing, port service and warehousing service are subject to VAT, the applicable tax rate of revenue from tangible assets leasing is 17%, revenue from transportation industry is 11%, and revenue from modern service, port service and warehousing service income is 6%.

4 Notes to the consolidated financial statements

(1) Cash at bank and on hand

| | 30 June 2016 (unaudited) | 31 December 2015 |
|----------------------|--------------------------------|---------------------|
| Cash on hand | 5 | 7 |
| Cash at bank | 4,450,725 | 1,077,229 |
| Other monetary funds | 576 | 194 |
| | 4,451,306 | 1,077,430 |

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2016

(All amounts in thousands of Renminbi Yuan unless otherwise stated)

[English Translation for Reference Only]

4 Notes to the consolidated financial statements (continued)

(2) Notes receivable

| | 30 June 2016 (unaudited) | 31 December 2015 |
|------------------------|--------------------------------|---------------------|
| Trade acceptance notes | 4,777 | 4,680 |
| Bank acceptance notes | 1,173,276 | 1,002,693 |
| | 1,178,053 | 1,007,373 |

All of the above notes held are short-term acceptance notes due within six months. No notes receivables, included in the above, were transferred to accounts receivable due to non-performance of the issuers for the six months ended 30 June 2016 (unaudited).

- (a) As at 30 June 2016, the Group has no notes receivable which are pledged for the issuance of letters of credit (unaudited) (31 December 2015: Nil).
- (b) As at 30 June 2016, the Group's endorsed or discounted notes receivable which are still undue are as follows (unaudited):

| | Derecognised | Not derecognised |
|-----------------------|--------------|------------------|
| Bank acceptance notes | 1,090,757 | – |

(3) Dividends receivable

| | 30 June 2016 (unaudited) | 31 December 2015 |
|---|--------------------------------|---------------------|
| BOC-SPC Gases Company Limited ("BOC-SPC") | 27,500 | – |

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2016

(All amounts in thousands of Renminbi Yuan unless otherwise stated)

[English Translation for Reference Only]

4 Notes to the consolidated financial statements (continued)

(4) Accounts receivable

| | 30 June 2016 (unaudited) | 31 December 2015 |
|--|--------------------------------|---------------------|
| Amounts due from related parties (Note 7(6)) | 1,108,429 | 1,136,011 |
| Amounts due from third parties | 1,086,643 | 488,584 |
| | 2,195,072 | 1,624,595 |
| Less: Provision for bad debts | (17) | (24) |
| | 2,195,055 | 1,624,571 |

(a) The ageing of accounts receivable is analysed as follows:

| | 30 June 2016 (unaudited) | 31 December 2015 |
|---------------------------------------|--------------------------------|---------------------|
| Within one year | 2,195,035 | 1,624,530 |
| Over one year but within two years | 26 | 55 |
| Over two years but within three years | 6 | 7 |
| Over three years | 5 | 3 |
| | 2,195,072 | 1,624,595 |
| Less: Provision for bad debts | (17) | (24) |
| | 2,195,055 | 1,624,571 |

As at 30 June 2016, the Group has no any significant overdue accounts receivable (unaudited) (31 December 2015: Nil).

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2016

(All amounts in thousands of Renminbi Yuan unless otherwise stated)

[English Translation for Reference Only]

4 Notes to the consolidated financial statements (continued)

(4) Accounts receivable (continued)

(b) Accounts receivable by categories are analysed as follows:

| | 30 June 2016 (unaudited) | | | | 31 December 2015 | | | |
|--|--------------------------|----------------|-------------------------|----------------|-----------------------|----------------|-------------------------|----------------|
| | Gross carrying amount | | Provision for bad debts | | Gross carrying amount | | Provision for bad debts | |
| | Amount | Percentage (%) | Amount | Percentage (%) | Amount | Percentage (%) | Amount | Percentage (%) |
| Individually significant and subject to separate provision | - | - | - | - | - | - | - | - |
| Subject to provision by groups: | | | | | | | | |
| - Group 1 | 1,086,643 | 49.50 | 17 | 0.01 | 488,584 | 30.07 | 24 | 0.01 |
| - Group 2 | 1,108,429 | 50.50 | - | - | 1,136,011 | 69.93 | - | - |
| Individually insignificant but subject to separate provision | - | - | - | - | - | - | - | - |
| | 2,195,072 | 100.00 | 17 | - | 1,624,595 | 100.00 | 24 | - |

Classification of accounts receivable: refer to Note 2(10(b)).

(c) Subject to provision by Group 1 are as follows:

| | 30 June 2016 (unaudited) | | | 31 December 2015 | | |
|---------------------------------------|--------------------------|-------------------------|----------------|-----------------------|-------------------------|----------------|
| | Gross carrying amount | Provision for bad debts | | Gross carrying amount | Provision for bad debts | |
| | Amount | Amount | Percentage (%) | Amount | Amount | Percentage (%) |
| Within one year | 1,086,606 | - | - | 488,519 | - | - |
| Over one year but within two years | 26 | 8 | 30.00 | 55 | 17 | 30.00 |
| Over two years but within three years | 6 | 4 | 60.00 | 7 | 4 | 60.00 |
| Over three years | 5 | 5 | 100.00 | 3 | 3 | 100.00 |
| | 1,086,643 | 17 | - | 488,584 | 24 | - |

There are no collateral over the above accounts receivable with provision for bad debts (unaudited).

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2016

(All amounts in thousands of Renminbi Yuan unless otherwise stated)

[English Translation for Reference Only]

4 Notes to the consolidated financial statements (continued)

(4) Accounts receivable (continued)

- (d) During the period, the Group assessed the impairment on an individual basis in accordance with the accounting policy as described in Note 2(10), and there were no provision for accounts receivable that are individually significant or insignificant but assessed for impairment individually (unaudited).
- (e) During the period, the Group had no accounts receivable with fully or substantially write-off or write-back of bad debts which had been fully or substantially provided for in prior years (unaudited).
- (f) There are no significant accounts receivable that are written off during the current period (unaudited).
- (g) As at 30 June 2016, the top five accounts receivable by borrowers are summarised as follows (unaudited):

| | Amount | Provision for bad debts | Percentage of total accounts receivable (%) |
|------------------------------------|-----------|-------------------------|---|
| Total top five accounts receivable | 1,429,851 | – | 65.14% |

- (h) Accounts receivable derecognised due to the transfer of financial assets this period amounted to RMB1,176,930 thousands (unaudited) (for the six months ended 30 June 2015: RMB382,109 thousands (unaudited)), the relating amount recorded in financial expenses was RMB3,495 thousands (unaudited) (for the six months ended 30 June 2015: RMB433 thousands (unaudited)).
- (i) As at 30 June 2016, the Group had no accounts receivable which are pledged for the issuance of letters of credit (31 December 2015: Nil).

(5) Other receivables

| | 30 June 2016 (unaudited) | 31 December 2015 |
|--|--------------------------|------------------|
| Amounts due from related parties (Note 7(6)) | 15,455 | 4,052 |
| Receivables from the third parties | 27,416 | 26,243 |
| | 42,871 | 30,295 |
| Less: Provision for bad debts | (1,107) | (1,245) |
| | 41,764 | 29,050 |

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2016

(All amounts in thousands of Renminbi Yuan unless otherwise stated)

[English Translation for Reference Only]

4 Notes to the consolidated financial statements (continued)

(5) Other receivables (continued)

(a) The ageing of other receivables is analysed as follows:

| | 30 June 2016 (unaudited) | 31 December 2015 |
|---------------------------------------|--------------------------------|---------------------|
| Within one year | 41,729 | 29,050 |
| Over one year but within two years | 50 | - |
| Over two years but within three years | - | - |
| Over three years | 1,092 | 1,245 |
| | 42,871 | 30,295 |
| Less: Provision for bad debts | (1,107) | (1,245) |
| | 41,764 | 29,050 |

As at 30 June 2016, the Group has no any significant overdue other receivables (unaudited) (31 December 2015: Nil).

(b) Other receivables by categories are analysed as follows:

| | 30 June 2016 (unaudited) | | | | 31 December 2015 | | | |
|--|--------------------------|----------------|-------------------------|----------------|-----------------------|----------------|-------------------------|----------------|
| | Gross carrying amount | | Provision for bad debts | | Gross carrying amount | | Provision for bad debts | |
| | Amount | Percentage (%) | Amount | Percentage (%) | Amount | Percentage (%) | Amount | Percentage (%) |
| Individually significant and subject to separate provision | - | - | - | - | - | - | - | - |
| Subject to provision by groups: | | | | | | | | |
| – Group 1 | 27,416 | 63.95 | 1,107 | 4.04 | 26,243 | 86.62 | 1,245 | 4.74 |
| – Group 2 | 15,455 | 36.05 | - | - | 4,052 | 13.38 | - | - |
| Individually insignificant but subject to separate provision | - | - | - | - | - | - | - | - |
| | 42,871 | 100.00 | 1,107 | - | 30,295 | 100.00 | 1,245 | - |

Classification of other receivable: refer to Note 2 (10(b)).

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2016

(All amounts in thousands of Renminbi Yuan unless otherwise stated)

[English Translation for Reference Only]

4 Notes to the consolidated financial statements (continued)

(5) Other receivables (continued)

- (c) The groups of other receivable in which provisions are made using ageing analysis method are analysed as follows:

| | 30 June 2016 (unaudited) | | | 31 December 2015 | | |
|---------------------------------------|--------------------------|-------------------------|----------------|-----------------------|-------------------------|----------------|
| | Gross carrying amount | Provision for bad debts | | Gross carrying amount | Provision for bad debts | |
| | Amount | Amount | Percentage (%) | Amount | Amount | Percentage (%) |
| Within one year | 26,274 | – | – | 24,998 | – | – |
| Over one year but within two years | 50 | 15 | 30.00 | – | – | – |
| Over two years but within three years | – | – | – | – | – | – |
| Over three years | 1,092 | 1,092 | 100.00 | 1,245 | 1,245 | 100.00 |
| | 27,416 | 1,107 | – | 26,243 | 1,245 | – |

- (d) During the period, the Group assessed the impairment on an individual basis in accordance with the accounting policy as described in Note 2(10), and there were no provision for other receivables that are individually significant or insignificant but assessed for impairment individually (unaudited).
- (e) During the period, the Group had no material other receivables with fully or substantially write-off or write-back of bad debts which had been fully or substantially provided for in prior years (unaudited).
- (f) There are no significant other receivables that are written off during the current period (unaudited).
- (g) As at 30 June 2016, the top five other receivables are as follows (unaudited):

| | Nature | Amount | Ageing | Percentage of total other receivables | Provision for bad debts |
|--|----------------------|--------|-----------------|---------------------------------------|-------------------------|
| Jiaxing Customs | Export tax refund | 8,447 | Within one year | 19.70% | – |
| BOC-SPC | Business transaction | 7,085 | Within one year | 16.53% | – |
| Sinopec-SK (Wuhan) Petrochemical Company Limited | Business transaction | 6,505 | Within one year | 15.17% | – |
| Jinshan Customs | Export tax refund | 5,962 | Within one year | 13.91% | – |
| Shanghai Jinshan Petrochemical Logistics Co., Ltd. | Business transaction | 4,016 | Within one year | 9.37% | – |
| | | 32,015 | | 74.68% | |

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2016

(All amounts in thousands of Renminbi Yuan unless otherwise stated)

[English Translation for Reference Only]

4 Notes to the consolidated financial statements (continued)

(6) Advances to suppliers

| | 30 June 2016 (unaudited) | 31 December 2015 |
|--|--------------------------------|---------------------|
| Amounts advance to related parties (Note 7(6)) | 32,969 | 6,966 |
| Amounts advance to third parties | 5,506 | 8,165 |
| | 38,475 | 15,131 |

(a) The ageing of advances to suppliers is analysed as follows:

| | 30 June 2016 (unaudited) | | 31 December 2015 | |
|-----------------|--------------------------|-------------------|------------------|-------------------|
| | Amount | Percentage (%) | Amount | Percentage (%) |
| Within one year | 38,475 | 100.00% | 15,131 | 100.00% |

(b) As at 30 June 2016, the top five advances to suppliers are summarised as follows (unaudited):

| | Amount | Percentage of total advances to suppliers (%) |
|--------------------------------------|--------|---|
| Total top five advances to suppliers | 36,761 | 95.55% |

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2016

(All amounts in thousands of Renminbi Yuan unless otherwise stated)

[English Translation for Reference Only]

4 Notes to the consolidated financial statements (continued)

(7) Inventories

(a) Inventories by categories are as follows:

| | 30 June 2016 (unaudited) | | | 31 December 2015 | | |
|-----------------------------|--------------------------|--|------------------|-----------------------|--|-----------------|
| | Gross carrying amount | Provision for declines in the value of inventories | Carrying amount | Gross carrying amount | Provision for declines in the value of inventories | Carrying amount |
| Raw materials | 2,682,672 | (1,564) | 2,681,108 | 2,517,806 | (1,564) | 2,516,242 |
| Work in progress | 982,610 | (30,488) | 952,122 | 898,694 | (28,081) | 870,613 |
| Finished goods | 822,606 | (14,837) | 807,769 | 554,171 | (25,424) | 528,747 |
| Spare parts and consumables | 284,802 | (93,913) | 190,889 | 332,652 | (70,066) | 262,586 |
| | 4,772,690 | (140,802) | 4,631,888 | 4,303,323 | (125,135) | 4,178,188 |

(b) Provision for declines in the value of inventories is analysed as follows:

| | 31 December 2015 | Increases | Decreases Sold | 30 June 2016 (unaudited) |
|-----------------------------|------------------|-----------|----------------|--------------------------|
| Raw materials | 1,564 | – | – | 1,564 |
| Work in progress | 28,081 | 14,097 | (11,690) | 30,488 |
| Finished goods | 25,424 | – | (10,587) | 14,837 |
| Spare parts and consumables | 70,066 | 23,847 | – | 93,913 |
| | 125,135 | 37,944 | (22,277) | 140,802 |

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2016

(All amounts in thousands of Renminbi Yuan unless otherwise stated)

[English Translation for Reference Only]

4 Notes to the consolidated financial statements (continued)

(7) Inventories (continued)

(c) Provision for declines in the value of inventories are analysed as follows:

| | Basis for determining net realisable value | Reason for sold (unaudited) |
|-----------------------------|--|--------------------------------|
| Raw materials | The estimated selling price in the ordinary course of business, less the estimated costs to completion and estimated costs necessary to make the sale and related taxes. | Not available |
| Work in progress | Same as above | Sold in current period |
| Finished goods | The estimated selling price in the ordinary course of business, less the estimated costs necessary to make the sale and related taxes. | Sold in current period |
| Spare parts and consumables | Same as above | Not available |

(8) Other current assets

| | 30 June 2016 (unaudited) | 31 December 2015 |
|--|--------------------------------|---------------------|
| Entrusted lendings due within one year | 88,000 | 106,000 |
| Long-term prepaid expenses – the current part (Note 4(14)) | 59,240 | 86,481 |
| VAT deductible | 22,170 | 17,265 |
| | 169,410 | 209,746 |

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2016

(All amounts in thousands of Renminbi Yuan unless otherwise stated)

[English Translation for Reference Only]

4 Notes to the consolidated financial statements (continued)

(9) Long-term equity investments

| | 30 June 2016 (unaudited) | 31 December 2015 |
|---|--------------------------------|---------------------|
| Joint ventures (a) | 177,547 | 236,983 |
| Associates (b) | 3,442,242 | 3,234,156 |
| | 3,619,789 | 3,471,139 |
| Less: Provision for impairment of long-term equity investment | – | – |
| | 3,619,789 | 3,471,139 |

There are no significant restrictions over the realisation of the Group's long-term equity investment.

(a) Joint ventures

| | 31 December 2015 | Current period movement | | | 30 June 2016 (unaudited) |
|--|---------------------|---------------------------------------|---|---|-----------------------------|
| | | Additional/ negative investment | Net profit/(loss) adjusted by equity method | Cash dividends declared in current period | |
| Joint ventures of subsidiaries | | | | | |
| Shanghai Jinpu Plastic Packing Materials Company Limited ("Jinpu") | 39,981 | – | (36,732) | – | 3,249 |
| Shanghai Petrochemical Yangu Gas Development Company Limited ("Yangu Gas") | 52,483 | – | (1,893) | (600) | 49,990 |
| BOC-SPC | 144,519 | – | 12,914 | (33,125) | 124,308 |
| | 236,983 | – | (25,711) | (33,725) | 177,547 |

Interests in joint ventures, refer to Note 5(2).

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2016

(All amounts in thousands of Renminbi Yuan unless otherwise stated)

[English Translation for Reference Only]

4 Notes to the consolidated financial statements (continued)

(9) Long-term equity investments (continued)

(b) Associates

| | 31 December 2015 | Current period movement | | | | 30 June 2016 (unaudited) |
|--|---------------------|---------------------------------------|---|---|---|-----------------------------|
| | | Additional/ negative investment | Net profit/(loss) adjusted by equity method | Cash dividends declared in current period | Impairment provided in current period | |
| Associates of the Company | | | | | | |
| Shanghai Secco | 1,778,760 | - | 335,951 | (178,200) | - | 1,936,511 |
| Shanghai Chemical Industry Park Development Company Limited ("Chemical Industry Park") | 1,280,859 | - | 61,460 | - | - | 1,342,319 |
| Associates of subsidiaries | | | | | | |
| Shanghai Jinsen Hydrocarbon Resins Company Limited ("Jinsen") | 82,794 | - | (1,866) | (2,936) | - | 77,992 |
| Shanghai Azbil Automation Company Limited ("Azbil") | 44,926 | - | 2,978 | (7,200) | - | 40,704 |
| Others | 46,817 | - | 3,933 | (6,034) | - | 44,716 |
| | 3,234,156 | - | 402,456 | (194,370) | - | 3,442,242 |

Interests in associates, refer to Note 5(2).

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE SIX MONTHS ENDED 30 JUNE 2016

(All amounts in thousands of Renminbi Yuan unless otherwise stated)

[English Translation for Reference Only]

4 Notes to the consolidated financial statements *(continued)*

(10) Investment properties

| | Buildings |
|---|------------------|
| <hr/> | |
| Cost | |
| 30 June 2016 (unaudited) and 31 December 2015 | 556,883 |
| <hr/> | |
| Accumulated depreciation | |
| 31 December 2015 | 151,311 |
| Depreciation charged in current period | 6,778 |
| <hr/> | |
| 30 June 2016 (unaudited) | 158,089 |
| <hr/> | |
| Carrying amount | |
| 30 June 2016 (unaudited) | 398,794 |
| <hr/> | |
| 31 December 2015 | 405,572 |
| <hr/> | |

For the six months ended 30 June 2016, depreciation charges amounted to RMB6,778 thousands (unaudited) (for the six months ended 30 June 2015: RMB6,769 thousands (unaudited)), without impairment provided (unaudited) (for the six months ended 30 June 2015: Nil (unaudited)).

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2016

(All amounts in thousands of Renminbi Yuan unless otherwise stated)

[English Translation for Reference Only]

4 Notes to the consolidated financial statements (continued)

(11) Fixed assets

| | Buildings | Plant and machinery | Vehicles and other equipment | Total |
|---|-----------|---------------------|------------------------------|------------|
| Cost | | | | |
| 31 December 2015 | 3,815,817 | 41,041,036 | 1,904,001 | 46,760,854 |
| Reclassification in current period | (76) | (3,311) | 3,387 | – |
| Increase in current period | – | 57,583 | 7,589 | 65,172 |
| Transfer from construction in progress (Note 4(12)) | – | 244,247 | 5,016 | 249,263 |
| Decrease in current period | (7,822) | (369,201) | (21,781) | (398,804) |
| 30 June 2016 (unaudited) | 3,807,919 | 40,970,354 | 1,898,212 | 46,676,485 |
| Accumulated depreciation | | | | |
| 31 December 2015 | 2,216,539 | 27,649,951 | 1,495,427 | 31,361,917 |
| Reclassification in current period | 667 | (781) | 114 | – |
| Current period charges | 53,791 | 740,161 | 31,904 | 825,856 |
| Decrease in current period | (7,511) | (292,927) | (20,663) | (321,101) |
| 30 June 2016 (unaudited) | 2,263,486 | 28,096,404 | 1,506,782 | 31,866,672 |
| Impairment provision | | | | |
| 31 December 2015 | 279,099 | 640,896 | 54,043 | 974,038 |
| Current period charges | – | 104,878 | 7,184 | 112,062 |
| Decrease in current period | – | (55,456) | – | (55,456) |
| 30 June 2016 (unaudited) | 279,099 | 690,318 | 61,227 | 1,030,644 |
| Carrying amount | | | | |
| 30 June 2016 (unaudited) | 1,265,334 | 12,183,632 | 330,203 | 13,779,169 |
| 31 December 2015 | 1,320,179 | 12,750,189 | 354,531 | 14,424,899 |

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2016

(All amounts in thousands of Renminbi Yuan unless otherwise stated)

[English Translation for Reference Only]

4 Notes to the consolidated financial statements (continued)

(11) Fixed assets (continued)

As at 30 June 2016 (unaudited) and 31 December 2015, the Group had no pledged fixed assets.

For the sixth months ended 30 June 2016, the depreciation expenses amounted to RMB825,856 thousands (unaudited) (for the sixth months ended 30 June 2015: RMB902,727 thousands (unaudited)), of which RMB781,309 thousands (unaudited), RMB4,468 thousands (unaudited) and RMB40,079 thousands (unaudited) (for the sixth months ended 30 June 2015: RMB861,461 thousands (unaudited), RMB38 thousands (unaudited) and RMB41,228 thousands (unaudited)) were charged in cost of sales, selling and distribution expenses and general and administrative expenses respectively.

The amount of fixed assets transferred from construction in progress was RMB249,263 thousands (unaudited) (for the sixth months ended 30 June 2015: RMB145,274 thousands (unaudited)).

(12) Construction in progress

| | 30 June 2016 (unaudited) | | | 31 December 2015 | | |
|--------------------------|--------------------------|-------------------------|--------------------|------------------|-------------------------|--------------------|
| | Original cost | Impairment provision | Carrying amount | Original cost | Impairment provision | Carrying amount |
| Construction in progress | 580,908 | (10,175) | 570,733 | 732,695 | (10,175) | 722,520 |

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2016

(All amounts in thousands of Renminbi Yuan unless otherwise stated)

[English Translation for Reference Only]

4 Notes to the consolidated financial statements (continued)

(12) Construction in progress (continued)

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

| Projects name | Budget | 31 December | Increase in | Transferred to | Provision | 30 June | Percentage | Project progress | Source of funds |
|---|-----------|-------------|--------------|---|--------------------------------|------------------|--------------------------|------------------|-----------------------------|
| | | 2015 | current year | fixed assets in current year (Note 4(11)) | for impairment in current year | 2016 (unaudited) | of actual cost to budget | | |
| 100,000 tons/year EVA production plant | 1,131,520 | 115,379 | - | - | - | 115,379 | 10.20% | 10.20% | Equity funds and borrowings |
| 1# ~ 5# and 7# boiler desulphurization project of Thermoelectricity Department | 167,050 | 113,959 | 3,600 | (117,559) | - | - | 100.00% | 100.00% | Equity funds and borrowings |
| Desulfurization and denitration project for the boiler of Olefins Department | 80,540 | 30,170 | 24,271 | (54,441) | - | - | 100.00% | 100.00% | Equity funds and borrowings |
| Oil Tank's odors control project of Storage and Transportation Department | 62,640 | 36,262 | 8,997 | - | - | 45,259 | 72.25% | 72.25% | Equity funds |
| The improvement works of circulating water's clean-up and shunting of Sinopec Shanghai Petrochemical | 41,670 | 24,769 | 1,182 | (25,951) | - | - | 100.00% | 100.00% | Equity funds |
| The fire station project of Weiliu Road | 24,920 | 22,424 | - | - | - | 22,424 | 89.98% | 89.98% | Equity funds |
| The improvement of control system and operation station centralized project for acrylic fibers department | 9,570 | 1,234 | 3,398 | - | - | 4,632 | 48.40% | 48.40% | Equity funds |
| The part four comprehensive reconstruction of air compressor station for plastic department | 9,340 | 969 | 1,664 | - | - | 2,633 | 28.19% | 28.19% | Equity funds |
| The transformation project for the chemical sewage pipeline, sewage of Unit 2# olefin device | 9,120 | 5,591 | 774 | - | - | 6,365 | 69.79% | 69.79% | Equity funds |
| The transformation project of burning tank of Unit 2# olefin device | 9,110 | 7,153 | 527 | (7,680) | - | - | 100.00% | 100.00% | Equity funds |
| Other Business Unit Minor Project | | 374,785 | 53,063 | (43,632) | - | 384,216 | | | |
| | | 732,695 | 97,476 | (249,263) | - | 580,908 | | | |
| Less: provision for impairment | | (10,175) | - | - | - | (10,175) | | | |
| | | 722,520 | 97,476 | (249,263) | - | 570,733 | | | |

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2016

(All amounts in thousands of Renminbi Yuan unless otherwise stated)

[English Translation for Reference Only]

4 Notes to the consolidated financial statements (continued)

(12) Construction in progress (continued)

For the sixth months ended 30 June 2016, the Group has capitalised borrowing costs amounted to RMB1,788 thousands on qualifying assets (unaudited) (for the sixth months ended 30 June 2015: RMB1,609 thousands (unaudited)).

In 2014, the Group ceased the construction of 50,000 tons per year ethanolamine project and fully provided impairment for this project at its carrying amounts of RMB10,175 thousands.

(13) Intangible assets

| | Land use rights | Other intangible assets | Total |
|--|-----------------|-------------------------|---------|
| Cost | | | |
| 30 June 2016 (unaudited) and 31 December 2015 | 708,972 | 95,370 | 804,342 |
| Accumulated amortisation | | | |
| 31 December 2015 | 314,776 | 66,037 | 380,813 |
| Charge in current period | 7,245 | 1,461 | 8,706 |
| 30 June 2016 (unaudited) | 322,021 | 67,498 | 389,519 |
| Carrying amount | | | |
| 30 June 2016 (unaudited) | 386,951 | 27,872 | 414,823 |
| 31 December 2015 | 394,196 | 29,333 | 423,529 |

For the six months ended 30 June 2016, amortisation expenses of intangible assets amounted to RMB8,706 thousands (unaudited) (for the six months ended 30 June 2015: RMB8,804 thousands (unaudited)).

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2016

(All amounts in thousands of Renminbi Yuan unless otherwise stated)

[English Translation for Reference Only]

4 Notes to the consolidated financial statements (continued)

(14) Long-term prepaid expenses

| | 31 December 2015 | Increase in current period | Amortisation in current period | Other decreases in current period (Note 4(8)) | 30 June 2016 (unaudited) |
|---------------------------|---------------------|-------------------------------|-----------------------------------|---|-----------------------------|
| Catalysts | 345,978 | 128,771 | (108,006) | (58,984) | 307,759 |
| Leaseholding improvements | 12,315 | 564 | (862) | (256) | 11,761 |
| Others | 1,194 | - | (242) | - | 952 |
| | 359,487 | 129,335 | (109,110) | (59,240) | 320,472 |

(15) Deferred tax assets and deferred tax liabilities

(a) Deferred tax assets before offsetting

| | 30 June 2016 (unaudited) | | 31 December 2015 | |
|---|---|------------------------|---|------------------------|
| | Deductible temporary differences and deductible losses | Deferred tax assets | Deductible temporary differences and deductible losses | Deferred tax assets |
| Provision for bad debts and inventory provision | 94,804 | 23,701 | 79,139 | 19,785 |
| Provision for impairment of fixed assets and depreciation difference | 212,050 | 53,013 | 176,174 | 44,043 |
| Provision for impairment of construction in progress | 10,175 | 2,544 | 10,175 | 2,544 |
| Investment with fixed assets and sales of fixed assets to a joint ventures | 17,515 | 4,379 | 19,267 | 4,817 |
| Share-based payments | 34,052 | 8,512 | 22,702 | 5,675 |
| Other deferred tax assets | 27 | 7 | 27 | 7 |
| Deductible tax losses | 11,500 | 2,875 | 11,500 | 2,875 |
| | 380,123 | 95,031 | 318,984 | 79,746 |
| Including: | | | | |
| To be recovered within 12 months (inclusive) | | 29,229 | | 31,862 |
| To be recovered over 12 months | | 65,802 | | 47,884 |
| | | 95,031 | | 79,746 |

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2016

(All amounts in thousands of Renminbi Yuan unless otherwise stated)

[English Translation for Reference Only]

4 Notes to the consolidated financial statements (continued)

(15) Deferred tax assets and deferred tax liabilities (continued)

(b) Deferred tax liabilities before offsetting

| | 30 June 2016 (unaudited) | | 31 December 2015 | |
|--|-------------------------------|--------------------------|-------------------------------|--------------------------|
| | Taxable temporary differences | Deferred tax liabilities | Taxable temporary differences | Deferred tax liabilities |
| Capitalised borrowing costs | (29,432) | (7,358) | (34,802) | (8,701) |
| Including: | | | | |
| To be recovered within 12 months (inclusive) | | (2,686) | | (2,889) |
| To be recovered over 12 months | | (4,672) | | (5,812) |
| | | (7,358) | | (8,701) |

(c) Deductible temporary differences and deductible losses that are not recognised as deferred tax assets are analysed as follows:

| | 30 June 2016 (unaudited) | 31 December 2015 |
|----------------------------------|--------------------------------|---------------------|
| Deductible temporary differences | 504,585 | 480,685 |
| Deductible losses | 449,832 | 411,284 |
| | 954,417 | 891,969 |

As accounting policies stated in Note 2(27), and it is not probable that future taxable income against which the deductible temporary differences and deductible losses can be utilised in some subsidiaries of the Company, such subsidiaries have not recognised deferred tax assets.

As at 30 June 2016, Zhejiang Jinyong Acrylic Fibre Company Limited ("Jinyong") has not recognised deferred tax assets in respect of its fixed assets impairment provision of RMB456,623 thousands, inventory provision of RMB46,190 thousands (unaudited) (31 December 2015: Jinyong has not recognised deferred tax assets in respect of its fixed assets impairment provision of RMB432,579 thousands, inventory provision of RMB46,190 thousands).

As at 30 June 2016, other subsidiaries of the Company have not recognised deferred tax assets of RMB1,772 thousands (31 December 2015: RMB1,916 thousands).

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2016

(All amounts in thousands of Renminbi Yuan unless otherwise stated)

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4 Notes to the consolidated financial statements (continued)

(15) Deferred tax assets and deferred tax liabilities (continued)

- (c) Deductible temporary differences and deductible losses that are not recognised as deferred tax assets are analysed as follows: (continued)

As accounting policies stated in Note 2(27), the Group not recognised deferred tax assets as it is not probable that future taxable profit against which the losses can be utilized will be available for the Group pursuant to latest tax laws, these accumulated losses will expire from 2016 to 2021.

| | 30 June 2016 | 31 December 2015 |
|--|-----------------|---------------------|
| Jinyong | 186,676 | 172,224 |
| Shanghai Golden Conti Petrochemical Company Limited ("Jindi") | 143,423 | 124,288 |
| Shanghai Petrochemical Investment Development Company Limited ("Toufa") | 85,383 | 81,363 |
| Jinshan Hotel | 34,350 | 33,409 |
| | 449,832 | 411,284 |

- (d) Deductible losses that are not recognised as deferred tax assets will expire in the following years:

| | 30 June 2016 (unaudited) | 31 December 2015 |
|------|--------------------------------|---------------------|
| 2016 | 79,526 | 79,526 |
| 2017 | 68,211 | 68,211 |
| 2018 | 63,733 | 63,733 |
| 2019 | 70,723 | 70,723 |
| 2020 | 129,091 | 129,091 |
| 2021 | 38,548 | – |
| | 449,832 | 411,284 |

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2016

(All amounts in thousands of Renminbi Yuan unless otherwise stated)

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4 Notes to the consolidated financial statements (continued)

(15) Deferred tax assets and deferred tax liabilities (continued)

(e) The net balance of deferred tax assets and liabilities after offsetting is as follows:

| | 30 June 2016 (unaudited) | | 31 December 2015 | |
|--------------------------|--|------------------------------|--|------------------------------|
| | Offsetting amount of deferred tax assets and deferred tax liabilities | Deferred tax assets – net | Offsetting amount of deferred tax assets and deferred tax liabilities | Deferred tax assets – net |
| Deferred tax assets | (7,358) | 87,673 | (8,701) | 71,045 |
| Deferred tax liabilities | 7,358 | – | 8,701 | – |

(16) Provision for assets impairment

| | 31 December | Increase in | Decrease in current period | | 30 June 2016 (unaudited) |
|---|-------------|----------------|----------------------------|----------------|-----------------------------|
| | 2015 | current period | Reversal | Sold/write-off | |
| Provision for bad debts | 1,269 | 12 | (14) | (143) | 1,124 |
| Including: Provision for bad debts of accounts receivable (Note 4(4)) | 24 | 7 | (14) | – | 17 |
| Provision for bad debts of other receivables (Note 4(5)) | 1,245 | 5 | – | (143) | 1,107 |
| Provision for declines in the value of inventories (Note 4(7)) | 125,135 | 37,944 | – | (22,277) | 140,802 |
| Impairment provisions for fixed asset (Note 4(11)) | 974,038 | 112,062 | – | (55,456) | 1,030,644 |
| Impairment provision for construction in progress (Note 4(12)) | 10,175 | – | – | – | 10,175 |
| | 1,110,617 | 150,018 | (14) | (77,876) | 1,182,745 |

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2016

(All amounts in thousands of Renminbi Yuan unless otherwise stated)

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4 Notes to the consolidated financial statements (continued)

(17) Short-term borrowings

Classification of short-term borrowings

| | Currency | 30 June 2016 (unaudited) | 31 December 2015 |
|---|----------|--------------------------------|---------------------|
| Unsecured | | | |
| – Bank borrowings | RMB | 789,657 | 1,700,000 |
| – Borrowings from related party (Note 7(6)) | RMB | 70,000 | 370,000 |
| | | 859,657 | 2,070,000 |

As at 30 June 2016, the weighted average interest rate of short-term borrowings is 2.90%-4.85% per annum (unaudited) (31 December 2015: 2.90%-5.60% per annum).

As at 30 June 2016, there are no short-term borrowings which are due but have not been repaid (unaudited) (31 December 2015: Nil).

(18) Notes payable

| | 30 June 2016 (unaudited) | 31 December 2015 |
|-----------------------|--------------------------------|---------------------|
| Bank acceptance notes | 40,000 | – |

(19) Accounts payable

| | 30 June 2016 (unaudited) | 31 December 2015 |
|-----------------------------|--------------------------------|---------------------|
| Related parties (Note 7(6)) | 2,038,989 | 1,455,646 |
| Third parties | 2,024,730 | 1,562,232 |
| | 4,063,719 | 3,017,878 |

As at 30 June 2016 (unaudited) and 31 December 2015, there are no individually significant accounts payable aged over one year.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2016

(All amounts in thousands of Renminbi Yuan unless otherwise stated)

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4 Notes to the consolidated financial statements (continued)

(20) Advances from customers

| | 30 June 2016 (unaudited) | 31 December 2015 |
|-----------------------------|--------------------------------|---------------------|
| Related parties (Note 7(6)) | 11,495 | 18,166 |
| Third parties | 405,159 | 561,721 |
| | 416,654 | 579,887 |

Advances from customers are mainly advances on sales.

As at 30 June 2016 (unaudited) and 31 December 2015, there are no advances from customers that are individually significant aged over one year (31 December 2015: Nil).

(21) Employee benefits payable

| | 30 June 2016 (unaudited) | 31 December 2015 |
|--------------------------------------|--------------------------------|---------------------|
| Short-term employee benefits payable | 146,205 | 16,813 |
| Defined contribution plans payable | 21,307 | 23,186 |
| | 167,512 | 39,999 |

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2016

(All amounts in thousands of Renminbi Yuan unless otherwise stated)

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4 Notes to the consolidated financial statements (continued)

(21) Employee benefits payable (continued)

(a) Short-term employee benefits

| | 31 December 2015 | Increase in current period | Decrease in current period | 30 June 2016 (unaudited) |
|--|---------------------|-------------------------------|-------------------------------|--------------------------------|
| Wages and salaries, bonuses, allowances and subsidies | – | 742,266 | (613,696) | 128,570 |
| Staff welfare | – | 154,211 | (154,211) | – |
| Social insurances | 12,887 | 86,571 | (86,872) | 12,586 |
| Including: Medical insurance | 11,338 | 65,859 | (67,056) | 10,141 |
| Work injury insurance | 516 | 5,390 | (4,643) | 1,263 |
| Maternity insurance | 1,033 | 6,254 | (6,266) | 1,021 |
| Supplementary medical insurance | – | 9,068 | (8,907) | 161 |
| Housing funds | – | 74,066 | (74,066) | – |
| Compensation for lay-off | – | 4,647 | (4,647) | – |
| Others | 3,926 | 75,408 | (74,285) | 5,049 |
| | 16,813 | 1,137,169 | (1,007,777) | 146,205 |

In accordance with the Group voluntary employee reduction plan, employee reduction expenses amounted to RMB4,647 thousands for the sixth months ended 30 June 2016 (unaudited) (for the sixth months ended 30 June 2015: RMB10,264 thousands (unaudited)).

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2016

(All amounts in thousands of Renminbi Yuan unless otherwise stated)

[English Translation for Reference Only]

4 Notes to the consolidated financial statements (continued)

(21) Employee benefits payable (continued)

(b) Defined contribution plans

| | 31 December 2015 | Increase in current period | Decrease in current period | 30 June 2016 (unaudited) |
|-----------------------------|---------------------|-------------------------------|-------------------------------|--------------------------------|
| Basic pensions | 21,644 | 128,170 | (129,527) | 20,287 |
| Unemployment insurance | 1,542 | 7,850 | (8,372) | 1,020 |
| Supplemental basic pensions | – | 35,363 | (35,363) | – |
| | 23,186 | 171,383 | (173,262) | 21,307 |

As stipulated by the regulations of the PRC, the Group participates in a defined contribution retirement plan organised by the Shanghai Municipal Government for its staff.

In addition, pursuant to the document “Order of the Ministry of Labour and Social Security No.20” dated 6 January 2004 issued by the Ministry of Labour of the PRC, the Group has set up a supplementary defined contribution retirement plan for the benefit of employees. Employees who have served the Group for more than one year may participate in this plan. The Group and participating employees make defined contributions to their pension saving accounts according to the plan. The assets of this plan are held separately from those of the Group in an independent fund administered by a committee consisting of representatives from the employees and the Group.

The Group has no other material obligation for the payment of pension benefits associated with these plans beyond the annual contributions described above. For the sixth months ended 30 June 2016, the Group’s contribution to the above two plans amounted to RMB128,170 thousands (unaudited) and RMB35,363 thousands (unaudited) respectively (for the sixth months ended 30 June 2015: RMB138,003 thousands (unaudited) and RMB36,312 thousands (unaudited) respectively).

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2016

(All amounts in thousands of Renminbi Yuan unless otherwise stated)

[English Translation for Reference Only]

4 Notes to the consolidated financial statements (continued)

(22) Taxes payable

| | 30 June 2016 (unaudited) | 31 December 2015 |
|---|--------------------------------|---------------------|
| Consumption tax payable | 919,398 | 1,001,250 |
| Enterprise income tax payable | 623,429 | 59,597 |
| Value added tax payable | 385,437 | 86,691 |
| City maintenance and construction tax payable | 92,246 | 76,656 |
| Educational surcharge payable | 65,814 | 54,843 |
| Land use tax payable | 6,736 | 23,263 |
| Housing property tax payable | 6,581 | 19,892 |
| Individual income tax payable | 3,875 | 14,136 |
| Business tax payable | – | 1,647 |
| Others | 27,940 | 30,443 |
| | 2,131,456 | 1,368,418 |

(23) Interest payable

| | 30 June 2016 (unaudited) | 31 December 2015 |
|--|--------------------------------|---------------------|
| Interest payable for short-term borrowings | 507 | 1,890 |

(24) Dividends payable

| | 30 June 2016 (unaudited) | 31 December 2015 |
|-------------------|--------------------------------|---------------------|
| A share dividends | 749,619 | 19,119 |
| H share dividends | 349,500 | – |
| | 1,099,119 | 19,119 |

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2016

(All amounts in thousands of Renminbi Yuan unless otherwise stated)

[English Translation for Reference Only]

4 Notes to the consolidated financial statements (continued)

(25) Other payables

| | 30 June 2016 (unaudited) | 31 December 2015 |
|-----------------------------|--------------------------------|---------------------|
| Related parties (Note 7(6)) | 36,858 | 99,907 |
| Third parties | 771,521 | 529,173 |
| | 808,379 | 629,080 |

(a) As at 30 June 2015 (unaudited), there are no other payables that are individually significant aged over one year besides unpaid guaranty deposit.

(b) Other payables by categories are analysed as follows:

| | 30 June 2016 (unaudited) | 31 December 2015 |
|--|--------------------------------|---------------------|
| Equipment project and repair charges | 356,804 | 205,714 |
| Accrued expenses | 101,712 | 45,788 |
| Guaranty deposit | 45,756 | 56,200 |
| Payable to related parties (Note 7(6)) | 36,858 | 99,907 |
| Sales discount | 17,002 | 19,297 |
| Deposits | 14,600 | 11,556 |
| Social insurance withholding | 10,199 | 10,194 |
| Others | 225,448 | 180,424 |
| | 808,379 | 629,080 |

(26) Deferred income

| | 31 December 2015 | Increase in current period | Recognised in non-operating income in current period | 30 June 2016 (unaudited) | Related to assets/ related to income |
|--|---------------------|-------------------------------|---|--------------------------------|---|
| Government grants project | | | | | |
| Investment subsidies for Chemical Industry | 160,000 | - | (5,000) | 155,000 | Related to assets |

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2016

(All amounts in thousands of Renminbi Yuan unless otherwise stated)

[English Translation for Reference Only]

4 Notes to the consolidated financial statements (continued)

(27) Share capital

| | 31 December 2015 | Current period movement | | | | | Subtotal | 30 June 2016 (unaudited) |
|--|---------------------|-------------------------|-------------------|--|--------|---|------------|--------------------------------|
| | | Issue new share | Stock dividend | Transfer from capital surplus to paid-in capital | Others | | | |
| Restricted shares – | | | | | | | | |
| Domestic legal persons shares | 4,380,000 | – | – | – | – | – | 4,380,000 | |
| Non-restricted shares – | | | | | | | | |
| RMB ordinary A shares listed in PRC | 2,925,000 | – | – | – | – | – | 2,925,000 | |
| Foreign investment H shared listed overseas | 3,495,000 | – | – | – | – | – | 3,495,000 | |
| | 10,800,000 | – | – | – | – | – | 10,800,000 | |

The Company was founded in Shanghai, PRC on 29 June 1993 with registered capital of RMB4,000,000,000 invested by its holding company-China National Petrochemical Corporation; these shares were converted from assets of former Shanghai Petrochemical Complex.

Approved by Zheng Wei Fa No. [1993]30 issued by the State Council Securities Committee, the Company launched its Initial Public Offering (“IPO”) in July 1993 and September 1993 in Hong Kong, New York and Shanghai to issue 2.23 billion shares, including 1.68 billion H shares and 550 million A shares. The 550 million A shares included 400 million individual shares (including 150 million shares issued to SPC employees) and 150 million legal person shares. H shares were listed on the Hong Kong Stock Exchange on 26 July 1993, and listed on the New York Stock Exchange in the form of American Depositary Shares at the same time; the A shares were listed on the Shanghai Stock Exchange on 8 November 1993.

After the IPO, the total quantity of shares issued by the Company was 6.23 billion, including 4 billion state-owned shares, 150 million legal person shares, 400 million individual shares, and 1.68 billion H shares.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

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(All amounts in thousands of Renminbi Yuan unless otherwise stated)

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4 Notes to the consolidated financial statements *(continued)*

(27) 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 ordinary A shares with a par value of RMB1 each at an issuing price of RMB2.4 each during the period from 5 April to 10 June 1994. These shares were listed on the Shanghai Stock Exchange on 4 July 1994. By then, the total quantity of shares issued was expanded from 6.23 billion to 6.55 billion.

On 22 August 1996, the Company issued 500 million H shares to overseas investors; on 6 January 1997, another 150 million H shares were issued to overseas investors. By then, the total quantity of shares issued was expanded to 7.2 billion, including 2.33 billion H shares.

In 1998, China National Petrochemical Corporation was restructured to Sinopec Group.

Sinopec Corp. was founded on 28 February 2000 based on the approved assets restructuring of Sinopec Group. As part of the restructuring, the shares of the Company held by the Sinopec Group were injected in Sinopec Corp.; after the restructuring, the ownership of 4 billion state-owned shares of the Company held by the Sinopec Group were transferred to Sinopec Corp., and the shares were changed to state-owned legal person shares in nature.

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

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

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

The resolution were approved by the extraordinary general meeting of shareholders, A share class shareholders meeting and H share class shareholders meeting on 22 Oct 2013, respectively. As at 30 June 2016, total shares of the Company were 10,800,000 thousands.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2016

(All amounts in thousands of Renminbi Yuan unless otherwise stated)

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4 Notes to the consolidated financial statements (continued)

(27) Share capital (continued)

Since the implementation of share segregation reform resolution on 20 August 2013, the Company's non-circulating A shares had been granted circulating rights. As part of the restricted conditions, 1,080,000,000 A shares (equivalent to ten percent of the total number of Sinopec Shanghai Petrochemical Company's shares) held by Sinopec Corp. and 225,000,000 A shares held by social legal persons had achieved circulation as at 30 June 2016.

| | 31 December 2014 | Current period movement | | | | | 30 June 2015 (unaudited) |
|--|---------------------|-------------------------|-------------------|--|--------|----------|--------------------------------|
| | | Issue new share | Stock dividend | Transfer from capital surplus to paid-in capital | Others | Subtotal | |
| Restricted shares – | | | | | | | |
| Domestic legal persons shares | 4,920,000 | – | – | – | – | – | 4,920,000 |
| Non-restricted shares – | | | | | | | |
| RMB ordinary A shares listed in PRC | 2,385,000 | – | – | – | – | – | 2,385,000 |
| Foreign investment H shared listed overseas | 3,495,000 | – | – | – | – | – | 3,495,000 |
| | 10,800,000 | – | – | – | – | – | 10,800,000 |

(28) Capital surplus

| | 31 December 2015 | Increase in current period | Decrease in current period | 30 June 2016 (unaudited) |
|---|---------------------|-------------------------------|-------------------------------|-----------------------------|
| Government grants | 412,370 | – | – | 412,370 |
| Refund of harbor construction charge | 32,485 | – | – | 32,485 |
| Share-based payment recognised in shareholders' equity (a) | 22,702 | 11,350 | – | 34,052 |
| Others | 49,067 | – | – | 49,067 |
| | 516,624 | 11,350 | – | 527,974 |

NOTES TO THE FINANCIAL STATEMENTS (continued)

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4 Notes to the consolidated financial statements (continued)

(28) Capital surplus (continued)

| | 31 December 2014 | Increase in current period | Decrease in current period | 30 June 2015 (unaudited) |
|---|---------------------|-------------------------------|-------------------------------|-----------------------------|
| Government grants | 412,370 | – | – | 412,370 |
| Refund of harbor construction charge | 32,485 | – | – | 32,485 |
| Share-based payment recognised in shareholders' equity (a) | – | 11,901 | – | 11,901 |
| Others | 49,067 | – | – | 49,067 |
| | 493,922 | 11,901 | – | 505,823 |

(a) Share-based payments

Pursuant to the resolution of the fifth meeting of the eighth session of the Board of Directors of the Company on 6 January 2015, the proposal regarding the list of participants and the number of share options under the share option incentive scheme was approved.

According to the Company's share option incentive scheme, the grant date of share options was 6 January 2015, and there were a total of 38,760 thousand share options granted to 214 participants (0.359% of the total ordinary share capital issued). Each share option has a right to purchase an ordinary A share listed in PRC on vesting date at an exercise price of RMB4.20 under vesting conditions. The options are exercisable starting two years from the grant date, subject to the following vesting conditions:

- RoE of the Group should be no less than 9% for 2015, 9.5% for 2016 and 10% for 2017 in respect to the three vesting periods;
- achieving the target compound annual growth rate of 5% in net profit for 2015, 2016 and 2017, respectively based on the net profit of 2013;
- proportion of the main business revenue in the total revenue should be no less than 99%;
- each of the above three conditions should be no lower than the 75% level of peer companies; and
- achieving the target budget set by the Sinopec Corp..

NOTES TO THE FINANCIAL STATEMENTS (continued)

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(All amounts in thousands of Renminbi Yuan unless otherwise stated)

[English Translation for Reference Only]

4 Notes to the consolidated financial statements (continued)

(28) Capital surplus (continued)

(a) Share-based payments (continued)

As at 31 December 2016, the outstanding share options which will expire in twelve months after the vesting dates and their exercise prices are as follows:

| Vesting date | Exercise price per share in RMB | Outstanding shares (unaudited) |
|----------------|------------------------------------|-----------------------------------|
| 6 January 2017 | 4.20 | 15,504,000 |
| 6 January 2018 | 4.20 | 11,628,000 |
| 6 January 2019 | 4.20 | 11,628,000 |

(b) Changes in number of share options in current year

| | As at 30 June 2016 (unaudited) and 31 December 2015 |
|----------------------------------|---|
| Outstanding stock options issued | 38,760,000 |

(c) Fair value of share options as at grant date

The total fair value of share options has been valued by an external valuation expert using Black-Scholes valuation model. As at the grant date, the significant inputs into the model were as follows:

| | |
|-----------------------------------|-------------|
| Exercise price (Renminbi: Yuan) | 4.20 |
| Maturity (years) | 5.00 |
| Spot share price (Renminbi: Yuan) | 4.51 |
| Expected volatility | 41.20% |
| Dividend yield | 1.00% |
| Risk-free interest rate | 3.39%-3.67% |

The total fair value of share options at the grant date was RMB65,412 thousands.

NOTES TO THE FINANCIAL STATEMENTS (continued)

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(All amounts in thousands of Renminbi Yuan unless otherwise stated)

[English Translation for Reference Only]

4 Notes to the consolidated financial statements (continued)

(28) Capital surplus (continued)

(d) Effect of share-based payment transactions on the financial position and financial performance

| | For the six months ended 30 June 2016 (unaudited) |
|---|---|
| Total expense recognised for the Equity-settled share-based payment in consolidated income statement | 11,350 |
| Accumulated amount recognised for the Equity-settled share-based payment in capital surplus | 34,052 |

(29) Specific reserve

| | 31 December 2015 | Accrued during the period | Utilised during the period | 30 June 2016 (unaudited) |
|-------------------------|---------------------|------------------------------|-------------------------------|--------------------------------|
| Safety production costs | 953 | 53,343 | (13,902) | 40,394 |

| | 31 December 2014 | Accrued during the period | Utilised during the period | 30 June 2015 (unaudited) |
|-------------------------|---------------------|------------------------------|-------------------------------|--------------------------------|
| Safety production costs | 1,265 | 72,925 | (47,597) | 26,593 |

Specific reserve represents unutilised safety production fund accrued in accordance with state regulations (Note 2(20)).

NOTES TO THE FINANCIAL STATEMENTS (continued)

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4 Notes to the consolidated financial statements (continued)

(30) Surplus reserve

| | 31 December 2015 | Increase in current period | Decrease in current period | 30 June 2016 (unaudited) |
|-------------------------------|---------------------|-------------------------------|-------------------------------|--------------------------------|
| Statutory surplus reserve | 4,391,905 | – | – | 4,391,905 |
| Discretionary surplus reserve | 101,355 | – | – | 101,355 |
| | 4,493,260 | – | – | 4,493,260 |

| | 31 December 2014 | Increase in current period | Decrease in current period | 30 June 2015 (unaudited) |
|-------------------------------|---------------------|-------------------------------|-------------------------------|-----------------------------|
| Statutory surplus reserve | 4,072,476 | – | – | 4,072,476 |
| Discretionary surplus reserve | 101,355 | – | – | 101,355 |
| | 4,173,831 | – | – | 4,173,831 |

In accordance with the Company Law and the Company's Articles of Association, the Company should appropriate 10% of net profit for the year to the statutory surplus reserve, and the Company can cease appropriation when the statutory surplus reserve accumulated to more than 50% of the registered capital. The statutory surplus reserve can be used to make up for the loss or increase the share capital after approval from the appropriate authorities. No Statutory surplus reserve was provided during current period (unaudited) (for the six months ended 30 June 2015: Nil (unaudited)).

The Company appropriates for the discretionary surplus reserve should be proposed by the board of directors and approved by the General Meeting of Shareholders. The discretionary surplus reserve can be used to make up for the loss or increase the share capital after approval from the appropriate authorities. No discretionary surplus reserve was provided in current period (unaudited) (for the six months ended 30 June 2015: Nil (unaudited)).

NOTES TO THE FINANCIAL STATEMENTS (continued)

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(All amounts in thousands of Renminbi Yuan unless otherwise stated)

[English Translation for Reference Only]

4 Notes to the consolidated financial statements (continued)

(31) Undistributed profits

| | Six months ended 30 June | |
|---|--------------------------|---------------------|
| | 2016 (unaudited) | 2015 (unaudited) |
| Undistributed profits at the beginning of the period | 4,028,025 | 1,101,605 |
| Add: Net profit attributable to equity shareholders of the parent company for the current period | 3,096,675 | 1,731,166 |
| Less: Ordinary shares dividends payable | (1,080,000) | – |
| Undistributed profits at the end of the period | 6,044,700 | 2,832,771 |

Pursuant to the resolution of the shareholders' meeting on 15 June 2016, a dividend in respect of the year ended 31 December 2015 of RMB0.1 per share, amounting to a total dividend of RMB1,080,000 thousands was declared (unaudited) (for the six months ended 30 June 2015: Nil (unaudited)).

(32) Non-controlling interests

Attributable to the non-controlling interests of the Group:

| | 30 June 2016 (unaudited) | 31 December 2015 |
|--|--------------------------------|---------------------|
| Shanghai Golden Phillips Petrochemical Company Limited ("Jinfei") | 173,378 | 196,067 |
| China Jinshan Associated Trading Corporation ("Jinmao") | 69,593 | 63,723 |
| Shanghai Jinchang Engineering Plastics Company Limited ("Jinchang") | 39,658 | 37,248 |
| Jinyong | (6,011) | – |
| | 276,618 | 297,038 |

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2016

(All amounts in thousands of Renminbi Yuan unless otherwise stated)

[English Translation for Reference Only]

4 Notes to the consolidated financial statements (continued)

(33) Revenue and cost of sales

| | Six months ended 30 June | | | |
|------------------|--------------------------|---------------|------------------|---------------|
| | 2016 (unaudited) | | 2015 (unaudited) | |
| | Revenue | Cost of sales | Revenue | Cost of sales |
| Main operations | 36,729,912 | 24,970,180 | 41,933,751 | 31,092,007 |
| Other operations | 263,279 | 207,448 | 218,699 | 141,857 |
| | 36,993,191 | 25,177,628 | 42,152,450 | 31,233,864 |

(a) Main operations revenue and main operations cost

The Group mainly operates in petrochemical industry.

Analysis by product is as follows:

| | Six months ended 30 June | | | |
|-----------------------------|--------------------------|----------------------|-------------------------|----------------------|
| | 2016 (unaudited) | | 2015 (unaudited) | |
| | Main operations revenue | Main operations cost | Main operations revenue | Main operations cost |
| Synthetic fibres | 999,011 | 929,160 | 1,277,780 | 1,260,478 |
| Resins and plastics | 4,747,017 | 3,352,638 | 5,374,909 | 4,098,680 |
| Intermediate petrochemicals | 4,245,716 | 2,724,786 | 5,049,076 | 3,734,009 |
| Petroleum products | 17,535,794 | 8,921,854 | 23,186,915 | 15,133,125 |
| Trading | 9,004,010 | 8,927,994 | 6,822,043 | 6,746,830 |
| Others | 198,364 | 113,748 | 223,028 | 118,885 |
| | 36,729,912 | 24,970,180 | 41,933,751 | 31,092,007 |

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2016

(All amounts in thousands of Renminbi Yuan unless otherwise stated)

[English Translation for Reference Only]

4 Notes to the consolidated financial statements (continued)

(34) Taxes and surcharges

| | Six months ended 30 June | | Tax base and rate |
|---------------------------------------|--------------------------|---------------------|---|
| | 2016 (unaudited) | 2015 (unaudited) | |
| Consumption tax | 5,294,575 | 6,082,783 | According to relevant PRC tax regulations, since 1 January 2009, the Group is required to pay consumption tax based on the Group's sales of gasoline and diesel rate according to the applicable tax rate (Note 3(1)) |
| City maintenance and construction tax | 514,502 | 566,892 | 1% and 7% of actual payments of consumption, business tax and VAT during the period |
| Educational surcharge and others | 374,731 | 407,321 | 5% of actual payments of consumption, business tax and VAT during the period |
| Business tax | 2,354 | 3,942 | 5% of taxable turnover amount |
| | 6,186,162 | 7,060,938 | |

(35) Selling and distribution expenses

| | Six months ended 30 June | |
|--------------------------------|--------------------------|---------------------|
| | 2016 (unaudited) | 2015 (unaudited) |
| Transportation fee | 122,574 | 139,870 |
| Sales commission | 46,872 | 57,921 |
| Storage and logistics expenses | 30,956 | 29,171 |
| Staff costs | 26,885 | 22,926 |
| Others | 8,385 | 11,693 |
| | 235,672 | 261,581 |

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2016

(All amounts in thousands of Renminbi Yuan unless otherwise stated)

[English Translation for Reference Only]

4 Notes to the consolidated financial statements (continued)

(36) General and administrative expenses

| | Six months ended 30 June | |
|---|--------------------------|---------------------|
| | 2016 (unaudited) | 2015 (unaudited) |
| Repair and maintenance expenses | 625,013 | 577,395 |
| Employee benefits | 551,828 | 568,198 |
| Administrative expenses | 74,918 | 81,580 |
| Depreciation and amortisation | 48,785 | 50,033 |
| Research and development costs | 47,144 | 14,265 |
| Taxation charges | 43,276 | 50,725 |
| Security and fire extinguishment expenses | 39,284 | 36,607 |
| Operation and maintenance expenses for information system | 15,756 | 15,003 |
| Others | 98,789 | 96,414 |
| | 1,544,793 | 1,490,220 |

(37) Financial expenses – net

| | Six months ended 30 June | |
|-----------------------|--------------------------|---------------------|
| | 2016 (unaudited) | 2015 (unaudited) |
| Interest expenses | 34,549 | 141,005 |
| Less: Interest income | (39,989) | (23,457) |
| Exchange loss – net | 208 | 18,581 |
| Others | 7,215 | 4,408 |
| | 1,983 | 140,537 |

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2016

(All amounts in thousands of Renminbi Yuan unless otherwise stated)

[English Translation for Reference Only]

4 Notes to the consolidated financial statements (continued)

(38) Expenses by nature

The cost of sales, selling and distribution expenses and general and administrative expenses in the income statement are listed as follows by nature:

| | Six months ended 30 June | |
|---|--------------------------|---------------------|
| | 2016 (unaudited) | 2015 (unaudited) |
| Changes in inventories of finished goods and work in progress | (374,628) | 577,162 |
| Consumed raw materials and low value consumables, etc. | 14,614,108 | 21,768,057 |
| Cost of trading products | 8,927,994 | 6,746,830 |
| Employee benefits | 1,319,902 | 1,319,805 |
| Depreciation and amortisation expenses | 950,450 | 1,084,111 |
| Repair and maintenance expenses | 625,013 | 577,395 |
| Transportation expenses | 153,530 | 169,041 |
| Agency commission | 46,872 | 57,921 |
| Auditing fees | 3,900 | 3,900 |
| Others | 690,952 | 681,443 |
| | 26,958,093 | 32,985,665 |

(39) Investment income

| | Six months ended 30 June | |
|--|--------------------------|---------------------|
| | 2016 (unaudited) | 2015 (unaudited) |
| Investment accounted for using the equity method | 376,745 | 331,853 |
| Forward exchange contract income (a) | – | 6,931 |
| | 376,745 | 338,784 |

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

- (a) For the six months ended 30 June 2016, the Group did not enter into any forward exchange contracts (unaudited) (For the six months ended 30 June 2015: the Group entered into the forward exchange contracts to avoid foreign exchange risk arising from borrowings denominated in EUR. The total realised income from forward exchange contracts is RMB6,931 thousands (unaudited)).

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2016

(All amounts in thousands of Renminbi Yuan unless otherwise stated)

[English Translation for Reference Only]

4 Notes to the consolidated financial statements (continued)

(40) Asset impairment losses

| | Six months ended 30 June | |
|---|--------------------------|---------------------|
| | 2016 (unaudited) | 2015 (unaudited) |
| Provision for impairment of fixed assets | 112,062 | 50,001 |
| Provision for decline in value of inventories | 37,944 | 10,700 |
| Provision for bad debts | (2) | 710 |
| | 150,004 | 61,411 |

(41) Non-operating income

| | Six months ended 30 June | | Amounts included in non-recurring profit or loss for the six months ended 30 June 2016 |
|---|--------------------------|---------------------|---|
| | 2016 (unaudited) | 2015 (unaudited) | |
| Government grants (a) | 14,280 | 7,155 | 14,280 |
| Gains on disposal of fixed assets | 2,548 | 986 | 2,548 |
| Advances from customers no need to be charged | – | 5,709 | – |
| Others | 536 | 4,558 | 536 |
| | 17,364 | 18,408 | 17,364 |

(a) Government grants mainly include:

| | Six months ended 30 June | |
|---|--------------------------|---------------------|
| | 2016 (unaudited) | 2015 (unaudited) |
| Fiscal subsidy for scientific research, energy saving and environmental protection | 8,900 | 535 |
| Amortisation of deferred income | 5,000 | 5,000 |
| Others | 380 | 1,620 |
| | 14,280 | 7,155 |

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2016

(All amounts in thousands of Renminbi Yuan unless otherwise stated)

[English Translation for Reference Only]

4 Notes to the consolidated financial statements (continued)

(42) Non-operating expenses

| | Six months ended 30 June | | Amounts included in non-recurring profit or loss for the six months ended 30 June 2016 |
|------------------------------------|--------------------------|---------------------|---|
| | 2016 (unaudited) | 2015 (unaudited) | |
| Losses on disposal of fixed assets | 26,525 | 8,913 | 26,525 |
| Allowances | 13,631 | 10,621 | 13,631 |
| Others | 898 | 1,411 | 898 |
| | 41,054 | 20,945 | 41,054 |

(43) Income tax expenses

| | Six months ended 30 June | |
|--|--------------------------|---------------------|
| | 2016 (unaudited) | 2015 (unaudited) |
| Current tax expense for the period based on tax law and regulations | 964,869 | 14,773 |
| Deferred income tax | (16,628) | 476,913 |
| | 948,241 | 491,686 |

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2016

(All amounts in thousands of Renminbi Yuan unless otherwise stated)

[English Translation for Reference Only]

4 Notes to the consolidated financial statements (continued)

(43) Income tax expenses (continued)

The reconciliation from income tax calculated based on the applicable tax rates and total profit presented in the consolidated income statement to the income tax expenses is listed below:

| | Six months ended 30 June | |
|---|--------------------------|---------------------|
| | 2016 (unaudited) | 2015 (unaudited) |
| Total profit | 4,050,004 | 2,240,146 |
| Income tax expenses calculated at applicable tax rates | 1,012,501 | 560,037 |
| Tax effect of share of profit of investments accounted for using the equity method | (94,186) | (82,963) |
| Tax effect of non-deductible expenses | 10,424 | 4,691 |
| Under provision for income tax expense in respect of preceding years | 3,890 | 1,741 |
| Utilisation of previously unrecognised temporary differences | (36) | – |
| Temporary differences for which no deferred income tax asset was recognised in the period | 6,011 | 8,180 |
| Tax losses for which no deferred income tax asset was recognized in the year | 9,637 | – |
| Income tax expenses | 948,241 | 491,686 |

(44) Earnings per share

(a) Basic earnings per share

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

| | Six months ended 30 June | |
|---|--------------------------|---------------------|
| | 2016 (unaudited) | 2015 (unaudited) |
| Consolidated net profit attributable to ordinary shareholders of the parent company | 3,096,675 | 1,731,166 |
| Weighted average number of the Company's ordinary shares outstanding (thousands) | 10,800,000 | 10,800,000 |
| Basic earnings per share | 0.287 | 0.160 |

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2016

(All amounts in thousands of Renminbi Yuan unless otherwise stated)

[English Translation for Reference Only]

4 Notes to the consolidated financial statements (continued)

(44) Earnings per share (continued)

(b) Diluted earnings per share

| | Six months ended 30 June | |
|---|--------------------------|---------------------|
| | 2016 (unaudited) | 2015 (unaudited) |
| Diluted consolidated net profit attributable to ordinary shareholders of the parent company | 3,096,675 | 1,731,166 |
| Weighted average number of the Company's ordinary shares outstanding (thousands) | 10,800,000 | 10,800,000 |
| Adjustment for share option incentive (thousands) (i) | 6,961 | 6,954 |
| Diluted weighted average number of the Company's ordinary shares outstanding (thousands) | 10,806,961 | 10,806,961 |
| Diluted earnings per share | 0.287 | 0.160 |

- (i) The Company has dilutive potential ordinary shares from share options. A calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average market share price of the Company's A shares for the six months ended 30 June 2016) based on the monetary value of the outstanding share options. The number of ordinary shares in issue is compared with the number of shares that would have been issued assuming the exercise of the share options.

(45) Notes to consolidated cash flow statement

(a) Cash received relating to other operating activities

| | Six months ended 30 June | |
|----------------|--------------------------|---------------------|
| | 2016 (unaudited) | 2015 (unaudited) |
| Subsidy income | 9,280 | 2,155 |
| Others | 382 | 4,558 |
| | 9,662 | 6,713 |

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2016

(All amounts in thousands of Renminbi Yuan unless otherwise stated)

[English Translation for Reference Only]

4 Notes to the consolidated financial statements (continued)

(45) Notes to consolidated cash flow statement (continued)

(b) Cash paid relating to other operating activities

| | Six months ended 30 June | |
|--|--------------------------|---------------------|
| | 2016 (unaudited) | 2015 (unaudited) |
| Administrative expenses | 74,918 | 81,580 |
| Research and development costs | 47,144 | 14,265 |
| Agency commission | 46,872 | 57,921 |
| Security and fire extinguishment expenses | 39,284 | 36,607 |
| Storage and logistics expenses | 28,535 | 29,171 |
| Operation and maintenance expenses for information system | 15,756 | 15,003 |
| Others | 5,729 | 40,700 |
| | 258,238 | 275,247 |

(c) Cash received relating to other investment activities

| | Six months ended 30 June | |
|-----------------|--------------------------|---------------------|
| | 2016 (unaudited) | 2015 (unaudited) |
| Interest income | 42,435 | 23,454 |

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2016

(All amounts in thousands of Renminbi Yuan unless otherwise stated)

[English Translation for Reference Only]

4 Notes to the consolidated financial statements (continued)

(46) Supplementary materials to consolidated cash flow statement

(a) Supplementary materials to consolidated cash flow statement

Reconciliation from net profit to cash flows from operating activities

| | Six months ended 30 June | |
|--|--------------------------|---------------------|
| | 2016 (unaudited) | 2015 (unaudited) |
| Net profit | 3,101,763 | 1,748,460 |
| Add: Asset impairment losses | 150,004 | 61,411 |
| Depreciation of investment properties | 6,778 | 6,769 |
| Depreciation of fixed assets | 825,856 | 902,727 |
| Amortisation of intangible assets | 8,706 | 8,804 |
| Amortisation of long-term prepaid expenses | 109,110 | 165,811 |
| Net losses on disposal of fixed assets | 23,977 | 7,927 |
| Financial (income)/expenses - net | (13,804) | 137,237 |
| Investment income | (376,745) | (338,784) |
| (Increase)/Decrease in deferred tax assets | (16,628) | 476,913 |
| Decrease in deferred income | (5,000) | (5,000) |
| (Increase)/Decrease in inventories | (491,644) | 134,730 |
| Increase in operating receivables | (824,979) | (482,562) |
| Increase/(Decrease) in operating payables | 2,096,839 | (937,433) |
| Increase in specific reserve | 39,441 | 25,328 |
| Share-based payment expenses | 11,350 | 11,901 |
| Net cash flows generated from operating activities | 4,645,024 | 1,924,239 |

(b) Net increase in cash and cash equivalents

| | Six months ended 30 June | |
|---|--------------------------|---------------------|
| | 2016 (unaudited) | 2015 (unaudited) |
| Cash and cash equivalents at the end of the period | 4,451,306 | 301,061 |
| Less: Cash and cash equivalents at the beginning of the period | 1,077,430 | 279,198 |
| Net increase in cash and cash equivalents | 3,373,876 | 21,863 |

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2016

(All amounts in thousands of Renminbi Yuan unless otherwise stated)

[English Translation for Reference Only]

4 Notes to the consolidated financial statements (continued)

(46) Supplementary materials to consolidated cash flow statement (continued)

(c) Cash and cash equivalents

| | 30 June 2016 (unaudited) | 31 December 2015 |
|---|--------------------------------|---------------------|
| Cash | | |
| Including: Cash on hand | 5 | 7 |
| Bank deposits available on demand | 4,450,725 | 1,077,229 |
| Other cash at bank and on hand available on demand | 576 | 194 |
| Cash and cash equivalents at the end of the period | 4,451,306 | 1,077,430 |

(47) Monetary items denominated in foreign currency

| | 30 June 2016(unaudited) | | |
|----------------------------|--|---------------|-----------------------------------|
| | Balances denominated in foreign currency | Exchange rate | Balances denominated in RMB |
| Cash at bank and on hand – | | | |
| USD | 15,291 | 6.6312 | 101,399 |
| Accounts receivable – | | | |
| USD | 163,652 | 6.6312 | 1,085,212 |
| Other receivables – | | | |
| USD | 2 | 6.6312 | 16 |
| Accounts payable – | | | |
| USD | (212,159) | 6.6312 | (1,406,869) |
| EUR | (17) | 7.3750 | (125) |
| | | | (1,406,994) |
| Other payables – | | | |
| USD | (2,722) | 6.6312 | (18,049) |

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2016

(All amounts in thousands of Renminbi Yuan unless otherwise stated)

[English Translation for Reference Only]

5 Equity in other entities

(1) Equity in subsidiaries

(a) Main structure of the enterprise Group

| | Operating place | Place of Registration | Business nature | Shareholding (%) | | Acquisition method |
|-----------------------------------|------------------|-----------------------|-----------------|------------------|----------|--------------------|
| | | | | Direct | Indirect | |
| | | | | | | |
| Toufa | Shanghai | Shanghai | Investment | 100.00% | - | Establish |
| Jinmao | Shanghai | Shanghai | Trading | 67.33% | - | Establish |
| Jinchang | Shanghai | Shanghai | Manufacturing | - | 74.25% | Establish |
| Jinfei | Shanghai | Shanghai | Manufacturing | - | 60.00% | Establish |
| Jinyong | Ningbo, Zhejiang | Ningbo, Zhejiang | Manufacturing | 75.00% | - | Investment |
| Jindi | Shanghai | Shanghai | Manufacturing | - | 100.00% | Establish |
| Shanghai Jinmao Trading Co., Ltd. | Shanghai | Shanghai | Trading | - | 67.33% | Establish |

- (b) As at 30 June 2016 (unaudited) and 31 December 2015, attributable to non-controlling interests of subsidiaries' non-controlling shareholders were not significant (Note 4(32)).

(2) Equity in joint ventures and associates

(a) Background information of joint ventures and associates

| | Main operating place | Place of Registration | Business nature | Strategic to the activities of the Group? | Shareholding (%) | |
|--------------------------|----------------------|-----------------------|---|---|------------------|----------|
| | | | | | Direct | Indirect |
| | | | | | | |
| Joint ventures - | | | | | | |
| BOC-SPC | Shanghai | Shanghai | Production and sale of industrial gas | Yes | - | 50.00 |
| Jinpu | Shanghai | Shanghai | Production of polypropylene film | Yes | - | 50.00 |
| Yangu Gas | Shanghai | Shanghai | Production and sale of industrial gas | Yes | - | 50.00 |
| Significant associates - | | | | | | |
| Shanghai Secco | Shanghai | Shanghai | Manufacturing and distribution of chemical products | Yes | 20.00 | - |
| Chemical Industrial Park | Shanghai | Shanghai | Planning, development and operation of Chemical Industrial Park | Yes | 38.26 | - |
| Jinsen | Shanghai | Shanghai | Production of resin products | Yes | - | 40.00 |
| Azbil | Shanghai | Shanghai | Service and maintenance of building automation systems and products | Yes | - | 40.00 |

Set out below are the summarised financial information for the above companies which are accounted for using the equity method.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2016

(All amounts in thousands of Renminbi Yuan unless otherwise stated)

[English Translation for Reference Only]

5 Equity in other entities (continued)

(2) Equity in joint ventures and associates (continued)

(b) Significant financial information of significant joint ventures

| | 30 June 2016 (unaudited) | | | 31 December 2015 | | |
|--|--------------------------|----------|-----------|------------------|----------|-----------|
| | BOC-SPC | Jinpu | Yangu Gas | BOC-SPC | Jinpu | Yangu Gas |
| Current assets | 104,642 | 17,262 | 37,092 | 84,451 | 32,676 | 32,149 |
| Including: Cash and cash equivalents | 49,541 | 856 | 22,460 | 28,563 | 1,790 | 19,224 |
| Non-current assets | 292,421 | 19,630 | 70,446 | 313,884 | 81,985 | 78,622 |
| Total assets | 397,063 | 36,892 | 107,538 | 398,335 | 114,661 | 110,771 |
| Current liabilities | (113,416) | (30,394) | (7,561) | (70,763) | (34,698) | (5,807) |
| Non-current liabilities | - | - | - | - | - | - |
| Total liabilities | (113,416) | (30,394) | (7,561) | (70,763) | (34,698) | (5,807) |
| Net assets | 283,647 | 6,498 | 99,977 | 327,572 | 79,963 | 104,964 |
| Share of net assets recognised at shareholding percentage (i) | 141,823 | 3,249 | 49,990 | 163,786 | 39,981 | 52,483 |
| Adjusted items – Offsetting the internal transactions unrealised | (17,515) | - | - | (19,267) | - | - |
| Carrying value of investments in joint venture | 124,308 | 3,249 | 49,990 | 144,519 | 39,981 | 52,483 |

| | Six months ended 30 June | | | | | |
|--|--------------------------|----------|-----------|------------------|----------|-----------|
| | 2016 (unaudited) | | | 2015 (unaudited) | | |
| | BOC-SPC | Jinpu | Yangu Gas | BOC-SPC | Jinpu | Yangu Gas |
| Revenue | 179,170 | 28,661 | 28,099 | 199,216 | 55,064 | 34,528 |
| Financial (expenses)/income – net | (397) | 418 | (89) | (2,224) | (524) | (102) |
| Income tax expenses | 7,612 | - | - | (9,365) | - | - |
| Net profit/(loss) | 22,326 | (73,465) | (3,787) | 27,682 | (11,201) | 1,506 |
| Other comprehensive income | - | - | - | - | - | - |
| Total comprehensive income/(loss) | 22,326 | (73,465) | (3,787) | 27,682 | (11,201) | 1,506 |
| Dividends received from associates by the Group for the current period | 33,125 | - | 600 | - | - | 650 |

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2016

(All amounts in thousands of Renminbi Yuan unless otherwise stated)

[English Translation for Reference Only]

5 Equity in other entities (continued)

(2) Equity in joint ventures and associates (continued)

(c) Significant financial information of significant associates

| | 30 June 2016 (Unaudited) | | | | 31 December 2015 | | | |
|--------------------------------------|--------------------------|-------------|----------|----------|------------------|-------------|---------|----------|
| | Chemical | | Jinsen | Azbil | Chemical | | Jinsen | Azbil |
| | Shanghai | Industrial | | | Shanghai | Industrial | | |
| | Secco | Park | | | Secco | Park | | |
| Current assets | 5,344,367 | 4,323,698 | 122,667 | 148,581 | 4,879,596 | 2,486,929 | 128,354 | 150,672 |
| Including: Cash and cash equivalents | 1,126,902 | 2,559,442 | 54,285 | 85,881 | 598,397 | 981,308 | 75,881 | 74,867 |
| Non-current assets | 7,263,864 | 2,890,494 | 82,639 | 3,210 | 8,033,469 | 3,111,311 | 86,514 | 3,444 |
| Total assets | 12,608,231 | 7,214,192 | 205,306 | 151,791 | 12,913,065 | 5,598,240 | 214,868 | 154,116 |
| Current liabilities | (2,428,336) | (1,113,411) | (10,326) | (50,032) | (3,532,247) | (404,115) | (7,882) | (41,801) |
| Non-current liabilities | (497,340) | (1,720,718) | - | - | (487,020) | (980,583) | - | - |
| Total liabilities | (2,925,676) | (2,834,129) | (10,326) | (50,032) | (4,019,267) | (1,384,698) | (7,882) | (41,801) |
| Net assets | 9,682,555 | 4,380,063 | 194,980 | 101,759 | 8,893,798 | 4,213,542 | 206,986 | 112,315 |
| Share of net assets recognised at | | | | | | | | |
| shareholding percentage (i) | 1,936,511 | 1,675,812 | 77,992 | 40,704 | 1,778,760 | 1,612,101 | 82,794 | 44,926 |
| Adjusted items (ii) | - | (333,493) | - | - | - | (331,242) | - | - |
| Carrying value of investments in | | | | | | | | |
| associates | 1,936,511 | 1,342,319 | 77,992 | 40,704 | 1,778,760 | 1,280,859 | 82,794 | 44,926 |

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2016

(All amounts in thousands of Renminbi Yuan unless otherwise stated)

[English Translation for Reference Only]

5 Equity in other entities (continued)

(2) Equity in joint ventures and associates (continued)

(c) Significant financial information of significant associates (continued)

| | Six months ended 30 June | | | | | | | |
|--|--------------------------|------------|---------|--------|------------------|------------|---------|--------|
| | 2016 (unaudited) | | | | 2015 (unaudited) | | | |
| | Chemical | | | | Chemical | | | |
| | Shanghai | Industrial | | | Shanghai | Industrial | | |
| Secco | Park | Jinsen | Azbil | Secco | Park | Jinsen | Azbil | |
| Revenue | 11,524,791 | 1,218,237 | 83,531 | 89,372 | 12,302,881 | - | 133,799 | 87,362 |
| Net profit/(loss) | 1,679,758 | 160,638 | (4,665) | 7,445 | 1,356,862 | 106,484 | 5,809 | 9,174 |
| Other comprehensive income | - | - | - | - | - | - | - | - |
| Total comprehensive income | 1,679,758 | 160,638 | (4,665) | 7,445 | 1,356,862 | 106,484 | 5,809 | 9,174 |
| Dividends received from associates by the Group for the current period | 178,200 | - | 2,936 | 7,200 | - | - | 2,926 | 12,000 |

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

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

(d) Summarised information of insignificant associates

| | Six months ended 30 June | |
|---|--------------------------|--------|
| | (unaudited) | |
| | 2016 | 2015 |
| Total carrying value of investment made on 30 June | 44,716 | 47,447 |
| Below total amount are calculated at shareholding percentages | | |
| Net profit (i) | 3,933 | 3,003 |
| Other comprehensive income (i) | - | - |
| Total comprehensive income | 3,933 | 3,003 |

(i) The effects of the fair value of identifiable assets and liabilities at the time of investment acquisition and the adjustment for collective accounting policies are taken into consideration in determining net profit and other comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE SIX MONTHS ENDED 30 JUNE 2016

(All amounts in thousands of Renminbi Yuan unless otherwise stated)

[English Translation for Reference Only]

6 Segment information

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

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

The Group evaluates the performance and allocates resources to its operating segments on an operating income basis, without considering the effects of finance expenses, investment income, non-operating income and non-operating expenses. The accounting policies adopted by the operating segments are the same with the policies in Note 2(30). The transfer price of intersegment is recognised with cost plus profit method.

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2016

(All amounts in thousands of Renminbi Yuan unless otherwise stated)

[English Translation for Reference Only]

6 Segment information (continued)

- (vi) All other operating segments represent the operating segments which do not meet the quantitative threshold for determining reportable segments. These include 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 at bank and on hand and its related interest income, interest-bearing borrowings, interest expenses, deferred income, corporate assets and related expenses.

(a) Segment information as at and for the six months ended 30 June 2016 is as follows (unaudited):

| | Synthetic fibres | Resins and plastics | Intermediate petrochemicals | Petroleum products | Trading of petrochemical products | Others | Unallocated | Elimination | Total |
|---------------------------------|---------------------|------------------------|--------------------------------|-----------------------|---|-----------|-------------|-------------|--------------|
| Revenue from external customers | 999,011 | 4,747,017 | 4,245,716 | 17,535,794 | 9,004,010 | 461,643 | - | - | 36,993,191 |
| Inter-segment revenue | - | 40,622 | 4,693,316 | 1,524,150 | 706,127 | 264,290 | - | (7,228,505) | - |
| Cost of sales | (929,160) | (3,352,638) | (2,724,786) | (8,921,854) | (8,927,994) | (321,196) | - | - | (25,177,628) |
| Interest income | - | - | - | - | - | - | 39,989 | - | 39,989 |
| Interest expenses | - | - | - | - | - | - | (34,549) | - | (34,549) |
| Investment income | - | - | - | - | - | - | 376,745 | - | 376,745 |
| Asset impairment losses | (57,624) | (81,155) | (11,225) | - | - | - | - | - | (150,004) |
| Depreciation and amortisation | (73,194) | (54,941) | (261,646) | (450,431) | (88) | (110,150) | - | - | (950,450) |
| Total (loss)/profit | (229,891) | 713,166 | 734,194 | 2,431,333 | 21,203 | (5,292) | 385,291 | - | 4,050,004 |
| Income tax expenses | - | - | - | - | - | - | (948,241) | - | (948,241) |
| Net (loss)/profit | (229,891) | 713,166 | 734,194 | 2,431,333 | 21,203 | (5,292) | (562,950) | - | 3,101,763 |
| Total assets | 1,583,385 | 1,624,808 | 4,390,672 | 12,257,788 | 1,455,364 | 2,257,207 | 8,355,725 | - | 31,924,949 |
| Total liabilities | 316,374 | 867,937 | 901,151 | 3,770,122 | 1,571,094 | 201,549 | 2,113,776 | - | 9,742,003 |

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2016

(All amounts in thousands of Renminbi Yuan unless otherwise stated)

[English Translation for Reference Only]

6 Segment information (continued)

(b) Segment information as at and for the six months ended 30 June 2015 is as follows(unaudited):

| | Synthetic fibres | Resins and plastics | Intermediate petrochemicals | Petroleum products | Trading of petrochemical products | Others | Unallocated | Elimination | Total |
|---------------------------------|---------------------|------------------------|--------------------------------|-----------------------|---|-----------|-------------|-------------|--------------|
| Revenue from external customers | 1,277,780 | 5,374,909 | 5,049,076 | 23,186,915 | 6,822,043 | 441,727 | - | - | 42,152,450 |
| Inter-segment revenue | - | 49,134 | 4,806,577 | 1,670,932 | 932,368 | 387,269 | - | (7,846,280) | - |
| Cost of sales | (1,260,478) | (4,098,680) | (3,734,009) | (15,133,125) | (6,746,830) | (260,742) | - | - | (31,233,864) |
| Interest income | - | - | - | - | - | - | 23,457 | - | 23,457 |
| Interest expenses | - | - | - | - | - | - | (141,005) | - | (141,005) |
| Investment income | - | - | - | - | - | - | 338,784 | - | 338,784 |
| Asset impairment losses | - | - | (50,001) | - | (10,700) | (710) | - | - | (61,411) |
| Depreciation and amortisation | (84,924) | (63,915) | (314,053) | (502,407) | (88) | (111,955) | (6,769) | - | (1,084,111) |
| Total (loss)/profit | (199,711) | 671,713 | 478,376 | 1,038,806 | 7,509 | 47,742 | 195,711 | - | 2,240,146 |
| Income tax expenses | - | - | - | - | - | - | (491,686) | - | (491,686) |
| Net (loss)/profit | (199,711) | 671,713 | 478,376 | 1,038,806 | 7,509 | 47,742 | (295,975) | - | 1,748,460 |
| Total assets | 1,779,242 | 1,755,600 | 4,942,535 | 13,690,774 | 1,351,049 | 2,009,000 | 4,813,057 | - | 30,341,257 |
| Total liabilities | 307,114 | 842,401 | 873,682 | 4,019,245 | 1,173,298 | 108,315 | 4,399,954 | - | 11,724,009 |

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

For the six months ended 30 June 2016, revenue from the same customer accounted for 44% (unaudited) of total Group revenue (For the six months ended 30 June 2015: 57% (unaudited)). The revenue from the customer derived from the following segments: intermediate petrochemicals, petroleum products, trading of petrochemical products and other segment.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2016

(All amounts in thousands of Renminbi Yuan unless otherwise stated)

[English Translation for Reference Only]

7 Related parties and related party transactions

(1) Information on the parent company

(a) General information of the parent company

| | Place of registration | Business nature |
|--|--|---|
| China Petroleum & Chemical Corporation | No.22 Chaoyangmen North Street, Chaoyang District, Beijing | Exploring for, extracting and selling crude oil and natural gas; oil refining; production, sale and transport of petrochemical, chemical fibres and other chemical products; pipe transport of crude oil and natural gas; research and development and application of new technologies and information. |

The Company's ultimate controlling party is China Petrochemical Corporation.

(b) Share capital and changes in share capital of the parent company

| | 31 December 2015 | Increase in current period | Decrease in current period | 30 June 2016 |
|--|------------------|----------------------------|----------------------------|------------------|
| China Petroleum & Chemical Corporation | RMB121.1 billion | - | - | RMB121.1 billion |

(c) The percentages of shareholding and voting rights in the Company held by the parent company

| | 30 June 2016 (unaudited) | | 31 December 2015 | |
|--|--------------------------|---------------|------------------|---------------|
| | Shareholding | Voting rights | Shareholding | Voting rights |
| China Petroleum & Chemical Corporation | 50.56% | 50.56% | 50.56% | 50.56% |

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2016

(All amounts in thousands of Renminbi Yuan unless otherwise stated)

[English Translation for Reference Only]

7 Related parties and related party transactions (continued)

(2) Information on the Company's subsidiaries

The general information and other related information of the subsidiaries is set out in Note 5.

(3) Information on joint ventures and associates

In addition to the major joint ventures and associates disclosed in Note 5(2), related transactions between the Group and other associates are as follows:

| | Operating place | Place of registry | Business nature | Whether it is strategic for group activities | Shareholding (%) | |
|--|-----------------|-------------------|--|--|------------------|------------|
| | | | | | Directly | Indirectly |
| Shanghai Nanguang Petrochemical Co., Ltd. | Shanghai | Shanghai | Petrochemical products import and export | Yes | – | 35% |
| Shanghai Jinhuan Petroleum Naphthalene Development Company Limited | Shanghai | Shanghai | Petrochemical products import and export | Yes | – | 25% |
| Shanghai Chemical Industry Park Logistics Company Limited | Shanghai | Shanghai | Products freight | Yes | – | 33.33% |

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE SIX MONTHS ENDED 30 JUNE 2016

(All amounts in thousands of Renminbi Yuan unless otherwise stated)

[English Translation for Reference Only]

7 Related parties and related party transactions *(continued)*

(4) Information on other related parties

| Names of other related parties | Relationship with the Group |
|--|--|
| Sinopec Chemical Commercial Holding Company Limited | Subsidiary of the holding company |
| Sinopec Huadong Sales Company Limited | Subsidiary of the holding company |
| Sinopec Huanan Sales Company Limited | Subsidiary of the holding company |
| Sinopec Huabei Sales Company Limited | Subsidiary of the holding company |
| Sinopec Yizheng Chemical Fibre Company Limited | Subsidiary of the holding company |
| China International United Petroleum and Chemical Company Limited | Subsidiary of the holding company |
| China Petrochemical International Company Limited | Subsidiary of the holding company |
| Sinopec Refinery Product Sales Company Limited | Subsidiary of the holding company |
| Sinopec Yangzi Petrochemical Company Limited | Subsidiary of the holding company |
| China Petrochemical International Beijing Company Limited | Subsidiary of the holding company |
| China Petrochemical International Ningbo Company Limited | Subsidiary of the holding company |
| China Petrochemical International Tianjin Company Limited | Subsidiary of the holding company |
| Sinopec Huadong Supplies and Equipment Company Limited | Subsidiary of the holding company |
| Petro-CyberWorks Information Technology Company Limited | Subsidiary of the holding company |
| Sinopec Qingdao Refining and Chemical Company Limited | Subsidiary of the holding company |
| Sinopec Fuel Oil Sales Corporation Limited | Subsidiary of the holding company |
| Sinopec SK (Wuhan) Petrochemical Company Limited | Subsidiary of the holding company |
| Nantong East China Sea Petroleum Chemical Company Limited | Subsidiary of the holding company |
| BASF-YPC Company Limited | Joint venture of the holding company |
| Zhejiang Baling Hengyi Caprolactam Limited Company | Joint venture of the holding company |
| Sinopec Petroleum Storage and Reserve Limited | Subsidiary of the ultimate holding company |
| Sinopec Assets Management Corporation | Subsidiary of the ultimate holding company |
| Shanghai Petrochemical Machine Manufacturing Company Limited | Subsidiary of the ultimate holding company |
| Sinopec International Petroleum Exploration and Production Limited | Subsidiary of the ultimate holding company |
| Sinopec Shanghai Engineering Company Limited | Subsidiary of the ultimate holding company |
| The Fourth Construction Company of Sinopec | Subsidiary of the ultimate holding company |
| The Fifth Construction Company of Sinopec | Subsidiary of the ultimate holding company |
| The Tenth Construction Company of Sinopec | Subsidiary of the ultimate holding company |
| Sinopec Engineering Incorporation | Subsidiary of the ultimate holding company |
| Sinopec Ningbo Engineering Company Limited | Subsidiary of the ultimate holding company |
| Sinopec Tending Company Limited | Subsidiary of the ultimate holding company |
| Sinopec Finance Company Limited | Subsidiary of the ultimate holding company |

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2016

(All amounts in thousands of Renminbi Yuan unless otherwise stated)

[English Translation for Reference Only]

7 Related parties and related party transactions (continued)

(5) Related party transactions

In addition to the related party transactions disclosed in Note 4(3), Note 4(9), Note 4(24), Note 4(28), Note 4(31) and Note 4(39), other major related party transactions of the Group are as follows:

(a) Purchases and sale of goods, rendering and receiving services

Purchases of goods and receiving services:

The Group

| Name of Related Parties | Category | Transaction type | Six months ended 30 June | | | |
|--|---------------------------------|---------------------------|--------------------------|-------------------------------------|------------------|-------------------------------------|
| | | | 2016 (unaudited) | | 2015 (unaudited) | |
| | | | Amount | Percentage of the same category (%) | Amount | Percentage of the same category (%) |
| Sinopec Corp., its subsidiaries and joint ventures | Purchases | Trade | 11,203,068 | 68.55% | 14,738,946 | 67.47% |
| Sinopec Group and its subsidiaries | Purchases | Trade | 74,350 | 0.45% | 383,645 | 1.76% |
| Associates of the Group | Purchases | Trade | 1,562,414 | 9.56% | 1,782,084 | 8.16% |
| Joint ventures of the Group | Purchases | Trade | 169,646 | 1.04% | 187,249 | 0.86% |
| Key management personnel | Short-term employee benefits | Compensation for services | 3,267 | 0.43% | 3,299 | 0.34% |
| Key management personnel | Retirement scheme contributions | Compensation for services | 73 | 0.03% | 72 | 0.02% |
| Key management personnel | Share option incentive | Compensation for services | 671 | 5.91% | 703 | 5.91% |

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2016

(All amounts in thousands of Renminbi Yuan unless otherwise stated)

[English Translation for Reference Only]

7 Related parties and related party transactions (continued)

(5) Related party transactions (continued)

(a) Purchases and sale of goods, rendering and receiving services (continued)

Sale of goods, rendering services:

The Group

| Name of Related Parties | Category | Transaction type | Six months ended 30 June | | | |
|--|----------------------|------------------|--------------------------|-------------------------------------|------------------|-------------------------------------|
| | | | 2016 (unaudited) | | 2015 (unaudited) | |
| | | | Amount | Percentage of the same category (%) | Amount | Percentage of the same category (%) |
| Sinopec Corp., its subsidiaries and joint ventures | Sales/Service income | Trade | 19,228,593 | 51.99% | 24,107,283 | 57.19% |
| Sinopec Group and its subsidiaries | Sales/Service income | Trade | 33,577 | 0.09% | 83,371 | 0.20% |
| Associates of the Group | Sales | Trade | 742,564 | 2.01% | 800,222 | 1.90% |
| Joint ventures of the Group | Sales | Trade | 117,754 | 0.32% | 151,990 | 0.36% |

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2016

(All amounts in thousands of Renminbi Yuan unless otherwise stated)

[English Translation for Reference Only]

7 Related parties and related party transactions (continued)

(5) Related party transactions (continued)

(b) Related party funding

For the six months ended 30 June 2016, the Group and the Company did not borrow from Sinopec Finance Company Limited (unaudited) (for the six months ended 30 June 2015: RMB3,550,000 thousands (unaudited)). For the six months ended 30 June 2016, the interest rate of RMB denominated borrowings ranged from 3.91% to 4.14% (unaudited) (for the six months ended 30 June 2015: the interest rate of RMB denominated borrowings ranged from 3.00% to 5.40% (unaudited)).

For the six months ended 30 June 2016, the Group and the Company repaid Sinopec Finance Company Limited amounting to RMB300,000 thousands (unaudited) (for the six months ended 30 June 2015: RMB4,350,000 thousands (unaudited)).

For the six months ended 30 June 2016, the Group and the Company did not lend any capital to joint ventures (unaudited) (for the six months ended 30 June 2015: Nil (unaudited)).

(c) Other related transactions

The Group

| | | Six months ended 30 June | |
|---|------------------------------------|--------------------------|-------------|
| | | 2016 | 2015 |
| | | (unaudited) | (unaudited) |
| Transaction Type | | | |
| Sinopec Group | Insurance premiums | 60,895 | 58,955 |
| Sinopec Finance Company Limited | Interests received and receivable | 127 | 310 |
| Sinopec Finance Company Limited | Interests paid and payable | 2,278 | 22,566 |
| Sinopec Group and its subsidiaries | Construction and installation cost | 64,212 | 44,730 |
| Sinopec Chemical Commercial Holding Company Limited | Sales commission | 46,872 | 57,921 |
| Sinopec Corp. and its subsidiaries | Rental income | 14,217 | 14,793 |

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2016

(All amounts in thousands of Renminbi Yuan unless otherwise stated)

[English Translation for Reference Only]

7 Related parties and related party transactions (continued)

(6) Receivables from and payables to related parties

Receivables from related parties:

The Group

| | | 30 June 2016 (unaudited) | 31 December 2015 |
|--------------------------|--|--------------------------------|---------------------|
| Cash at bank and on hand | Sinopec Group and its subsidiaries | 21,315 | 5,366 |
| Notes receivable | Sinopec Corp., its subsidiaries and joint ventures | 19,100 | 16,100 |
| Accounts receivable | Sinopec Corp., its subsidiaries and joint ventures | 1,062,136 | 1,074,194 |
| | Sinopec Group and its subsidiaries | 215 | 9,263 |
| | Associates of the Group | 18,657 | 23,826 |
| | Joint ventures of the Group | 27,421 | 28,728 |
| | | 1,108,429 | 1,136,011 |
| Other receivables | Sinopec Corp., its subsidiaries and joint ventures | 7,687 | 1,613 |
| | Associates of the Group | 179 | 735 |
| | Joint ventures of the Group | 7,589 | 1,704 |
| | | 15,455 | 4,052 |
| Advances to suppliers | Sinopec Corp. and its subsidiaries | 32,969 | 6,966 |
| Dividends receivable | Joint ventures of the Group | 27,500 | – |

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2016

(All amounts in thousands of Renminbi Yuan unless otherwise stated)

[English Translation for Reference Only]

7 Related parties and related party transactions (continued)

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

Payables to related parties:

The Group

| | | 30 June 2016 (unaudited) | 31 December 2015 |
|-------------------------|--|--------------------------------|---------------------|
| Short-term borrowings | Sinopec Group and its subsidiaries | 70,000 | 370,000 |
| Interest payable | Sinopec Group and its subsidiaries | 77 | 248 |
| Accounts payable | Sinopec Corp., its subsidiaries and joint ventures | 1,925,891 | 1,226,822 |
| | Sinopec Group and its subsidiaries | 1,787 | 1,330 |
| | Associates of the Group | 76,087 | 191,395 |
| | Joint ventures of the Group | 35,224 | 36,099 |
| | | 2,038,989 | 1,455,646 |
| Other payables | Sinopec Corp., its subsidiaries and joint ventures | 10,114 | 10,674 |
| | Sinopec Group and its subsidiaries | 26,744 | 89,233 |
| | | 36,858 | 99,907 |
| Advances from customers | Sinopec Corp., its subsidiaries and joint ventures | 9,771 | 16,444 |
| | Sinopec Group and its subsidiaries | 11 | 531 |
| | Associates of the Group | 1,713 | 1,191 |
| | | 11,495 | 18,166 |
| Dividends payable | Sinopec Corp., | 546,000 | – |

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2016

(All amounts in thousands of Renminbi Yuan unless otherwise stated)

[English Translation for Reference Only]

7 Related parties and related party transactions (continued)

(7) Commitments with related parties

Commitments with related parties contracted for by the Group at the balance sheet date but are not yet necessary to be recognised on the balance sheet are as follows:

(i) Construction and installation cost:

| | 30 June 2016 (unaudited) | 31 December 2015 |
|------------------------------------|--------------------------------|---------------------|
| Sinopec Group and its subsidiaries | 58,920 | 35,244 |

(ii) Investment commitments with related parties

| | 30 June 2016 (unaudited) | 31 December 2015 |
|--|--------------------------------|---------------------|
| Capital contribution to Shanghai Secco | 111,263 | 111,263 |

Pursuant to the resolution of the 18th meeting of the 7th term of Board of Directors on 5 December 2013, it was approved to make capital contribution of USD30,017,124 (RMB182,804 thousands equivalent) to Shanghai Secco, an associate of the Group. The capital to Shanghai Secco will be contributed in RMB by instalments. The capital contribution is mainly to meet the funding needs of the implementation of the "260,000 tons of AN-2 project" ("AN-2 project"), and "90,000 tons of BEU-2 project" ("BEU-2 project").

As at 10 December 2013, the Company contributed the first instalment of RMB60,000 thousands for AN-2 project. As at 5 March 2014, the Company contributed the first instalment of RMB11,541 thousands for BEU-2 project. According to the approval by Shanghai Municipal Commission of Commerce as issued on 19 October 2015, the rest of the capital contribution to Shanghai Secco should be within 50 years starting from its registration date.

Except for the above, the Group and the Company had no other material commitments with related parties at 30 June 2016, which are contracted, but not included in the financial statements (unaudited).

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2016

(All amounts in thousands of Renminbi Yuan unless otherwise stated)

[English Translation for Reference Only]

8 Contingency

In June 2007, the State Administrative of Taxation issued a tax circular (Circular No.664) to the local tax authorities requesting the relevant local tax authorities to rectify the applicable enterprise income tax ("EIT") for nine listed companies, which included the Company. After the notice was issued, the Company was required by the relevant tax authority to settle the EIT for 2007 at a rate of 33 percent. To date, the Company has not been requested by the tax authorities to pay additional EIT in respect of any years prior to 2007. There is no further development of this matter during the period ended 30 June 2016. No provision has been made in the financial statements at 30 June 2016 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 (unaudited) (31 December 2015: Nil).

9 Commitments

(1) Capital commitments

Capital expenditures contracted for by the Group at the balance sheet date but are not yet necessary to be recognised on the balance sheet are as follows:

| | 30 June 2016 (unaudited) | 31 December 2015 |
|--|--------------------------------|---------------------|
| Purchase of fixed assets contracted but not provided for | 86,720 | 39,814 |
| Purchase of fixed assets authorised but not contracted for | 1,046,475 | 1,124,660 |
| | 1,133,195 | 1,164,474 |

(2) Operating lease commitments

The Group had no material commitments under operating leases as at 30 June 2016, which are contracted, but not included in the financial statements (unaudited) (31 December 2015: Nil).

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2016

(All amounts in thousands of Renminbi Yuan unless otherwise stated)

[English Translation for Reference Only]

10 Financial risk

The Group's activities expose it to a variety of financial risks: market risk (primarily currency risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(1) Market risk

(a) Foreign exchange risk

The Group's major operational activities are carried out in Mainland China and a majority of the transactions are denominated in RMB. Nevertheless the Group is exposed to foreign exchange risk arising from the recognised assets and liabilities, and future transactions denominated in foreign currencies, primarily with respect to US dollars. The Group's finance department at its headquarters is responsible for monitoring the amount of assets and liabilities, and transactions denominated in foreign currencies to minimise the foreign exchange risk. The foreign exchange risk of the Group is arising from borrowings denominated in EUR. The Group purchased forward exchange contract to avoid foreign exchange risk arising from borrowing denominated in EUR. As at 30 June 2016, the Group does not have undue forward exchange contract (unaudited).

As at 30 June 2016 (unaudited) and 31 December 2015, the carrying amounts in RMB equivalent of the Group's assets and liabilities denominated in foreign currencies are summarised as follows:

| | 30 June 2016 (unaudited) | | |
|---|--------------------------|--------|-----------|
| | USD | Others | Total |
| Financial assets in foreign currencies – | | | |
| Cash at bank and on hand | 101,399 | – | 101,399 |
| Accounts receivable | 1,085,212 | – | 1,085,212 |
| Other receivables | 16 | – | 16 |
| | 1,186,627 | – | 1,186,627 |
| Financial liabilities in foreign currencies – | | | |
| Accounts payable | 1,406,869 | 125 | 1,406,994 |
| Other payables | 18,049 | – | 18,049 |
| | 1,424,918 | 125 | 1,425,043 |

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2016

(All amounts in thousands of Renminbi Yuan unless otherwise stated)

[English Translation for Reference Only]

10 Financial instrument and risk (continued)

(1) Market risk (continued)

(a) Foreign exchange risk (continued)

| | 31 December 2015 | | |
|---|------------------|--------|---------|
| | USD | Others | Total |
| Financial assets in foreign currencies – | | | |
| Cash at bank and on hand | 86,109 | – | 86,109 |
| Accounts receivable | 406,006 | – | 406,006 |
| | 492,115 | – | 492,115 |
| Financial liabilities in foreign currencies – | | | |
| Accounts payable | 588,123 | 121 | 588,244 |
| Other payables | 16,020 | – | 16,020 |
| | 604,143 | 121 | 604,264 |

As at 30 June 2016, if the currency had strengthened/weakened by 5% against other currencies while all other variables had been held constant, the Group's net profit for the period would have been approximately RMB8,941 thousands higher/lower (unaudited) (31 December 2015: RMB4,206 thousands higher/lower in net profit) for various financial assets and liabilities denominated in other currencies.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE SIX MONTHS ENDED 30 JUNE 2016

(All amounts in thousands of Renminbi Yuan unless otherwise stated)

[English Translation for Reference Only]

10 Financial instrument and risk *(continued)*

(1) Market risk *(continued)*

(b) Interest rate risk

The Group's interest rate risk arises from short-term and long-term interest bearing borrowings. Financial liabilities issued at floating rates expose the Group to cash flow interest rate risk. Financial liabilities issued at fixed rates expose the Group to fair value interest rate risk. The Group determines the relative proportions of its fixed rate and floating rate contracts depending on the prevailing market conditions. As at 30 June 2016, the Group's short-term and current portion of long-term borrowings were denominated with floating rates, amounting to RMB789,657 thousands (unaudited) (31 December 2015: RMB2,000,000 thousands).

The Group's finance department at its headquarters continuously monitors the interest rate position of the Group. Increases in interest rates will increase the cost of new borrowing and the interest expenses with respect to the Group's outstanding floating rate borrowings, and therefore could have a material adverse effect on the Group's financial position. The Group makes adjustments timely with reference to the latest market conditions and may enter into interest rate swap agreements to mitigate its exposure to interest rate risk. During the six months ended 2016 and 2015, the Group did not enter into any interest rate swap agreements (unaudited).

As at 30 June 2016, if interest rates on the floating rate borrowings had risen/fallen by 50 basis points while all other variables had been held constant, the Group's net profit would have decreased/increased by approximately RMB2,961 thousands (unaudited) (31 December 2015: RMB7,500 thousands).

(2) Credit risk

Credit risk is managed on the grouping basis. Credit risk mainly arises from cash at bank, accounts receivable, other receivables, notes receivable etc.

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2016

(All amounts in thousands of Renminbi Yuan unless otherwise stated)

[English Translation for Reference Only]

10 Financial instrument and risk (continued)

(3) Liquidity risk

Cash flow forecasting is performed by each subsidiary of the Group and aggregated by the Group's finance department in its headquarters. The Group's finance department at its headquarters monitors rolling forecasts of the Group's short-term and long-term liquidity requirements to ensure it has sufficient cash and securities that are readily convertible to cash to meet operational needs, while maintaining sufficient headroom on its undrawn committed borrowing facilities from major financial institutions so that the Group does not breach borrowing limits or covenants on any of its borrowing facilities to meet the short-term and long-term liquidity requirements.

As at 30 June 2016, the Group had standby credit facilities with several PRC financial institutions which provided the Group to borrow up to RMB25,623,980 thousands, of which RMB22,597,202 thousands was unutilised (unaudited).

The financial assets and liabilities of the Group at the balance sheet date are analysed by their maturity date below at their undiscounted contractual cash flows:

| 30 June 2016 (unaudited) | | | | | |
|--------------------------|---------------|--------------|--------------|--------------|-----------|
| | Within 1 year | 1 to 2 years | 2 to 5 years | Over 5 years | Total |
| Short-term borrowings | 859,657 | – | – | – | 859,657 |
| Notes payable | 40,000 | – | – | – | 40,000 |
| Accounts payable | 4,063,719 | – | – | – | 4,063,719 |
| Interest payable | 4,961 | – | – | – | 4,961 |
| Dividends payable | 1,099,119 | – | – | – | 1,099,119 |
| Other payables | 808,379 | – | – | – | 808,379 |
| | 6,875,835 | – | – | – | 6,875,835 |

| 31 December 2015 | | | | | |
|-----------------------|---------------|--------------|--------------|--------------|-----------|
| | Within 1 year | 1 to 2 years | 2 to 5 years | Over 5 years | Total |
| Short-term borrowings | 2,070,000 | – | – | – | 2,070,000 |
| Accounts payable | 3,017,878 | – | – | – | 3,017,878 |
| Interest payable | 35,771 | – | – | – | 35,771 |
| Dividends payable | 19,119 | – | – | – | 19,119 |
| Other payables | 629,080 | – | – | – | 629,080 |
| | 5,771,848 | – | – | – | 5,771,848 |

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2016

(All amounts in thousands of Renminbi Yuan unless otherwise stated)

[English Translation for Reference Only]

11 Fair value estimates

The level in which fair value measurement is categorised is determined by the level of the fair value hierarchy of the lowest level input that is significant to the entire fair value measurement:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Unobservable inputs for the asset or liability.

(1) As at 30 June 2016 (unaudited) and 31 December 2015, the Group does not have any assets measured at fair value on a recurring or non-recurring basis.

(2) Financial assets and financial liabilities not measured at fair value but with fair value disclosed

Financial assets and financial liabilities measured at amortised cost mainly include: notes receivable, receivables, current portion of entrusted lendings, short-term borrowings, payables and notes payables.

As at 30 June 2016, the carrying amount of these financial assets and liabilities not measured at fair value are a reasonable approximation of their fair value (unaudited).

12 Offsetting financial assets and liabilities

(1) Financial assets

The following financial assets are subject to offsetting arrangements:

| | 30 June 2016 (unaudited) | 31 December 2015 |
|---|--------------------------------|---------------------|
| Gross amounts of recognised amounts due from related parties | 2,270,260 | 1,688,463 |
| Gross amounts of recognised amounts due to related parties set off in the balance sheet | (75,205) | (63,892) |
| Net amounts of amounts due from related parties presented in the balance sheet | 2,195,055 | 1,624,571 |

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2016

(All amounts in thousands of Renminbi Yuan unless otherwise stated)

[English Translation for Reference Only]

12 Offsetting financial assets and liabilities (continued)

(2) Financial liabilities

The following financial liabilities are subject to offsetting arrangements:

| | 30 June 2016 (unaudited) | 31 December 2015 |
|---|--------------------------------|---------------------|
| Gross amounts of recognised amounts due to related parties | 4,138,924 | 3,081,770 |
| Gross amounts of recognised amounts due from related parties set off in the balance sheet | (75,205) | (63,892) |
| Net amounts of amounts due to related parties presented in the balance sheet | 4,063,719 | 3,017,878 |

For the financial assets and liabilities subject to the offsetting arrangements above, the relevant financial assets and liabilities of each operating agreement between the Group and the counterparty, Shanghai Secco Petrochemical Company Limited, are settled on a net basis.

13 Capital management

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

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

The Group's total capital is calculated as 'shareholder's equity' and 'total liabilities' as shown in the consolidated balance sheet. The Group is not subject to external mandatory capital requirements, and monitors capital on the basis of gearing ratio.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2016

(All amounts in thousands of Renminbi Yuan unless otherwise stated)

[English Translation for Reference Only]

13 Capital management (continued)

As at 30 June 2016, the Group did not have net debt as cash and cash equivalents was greater than short-term borrowings (unaudited).

As at 31 December 2015, the Group's gearing ratio is as follows:

| | 31 December 2015 |
|--|------------------|
| Short-term borrowings (Note 4(17)) | 2,070,000 |
| Less: Cash and cash equivalents at the end of the period (Note 4(1)) | (1,077,430) |
| Net debt | 992,570 |
| Add: Shareholder's equity | 20,135,900 |
| Total Capital | 21,128,470 |
| Gearing ratio | 4.70% |

14 Notes to major items of the Company's financial statements

(1) Accounts receivable

| | 30 June 2016 (unaudited) | 31 December 2015 |
|----------------------------------|--------------------------------|---------------------|
| Amounts due from related parties | 997,352 | 1,030,518 |
| Amounts due from third parties | 3,364 | 3,792 |
| Less: Provision for bad debts | 1,000,716 (17) | 1,034,310 (24) |
| | 1,000,699 | 1,034,286 |

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2016

(All amounts in thousands of Renminbi Yuan unless otherwise stated)

[English Translation for Reference Only]

14 Notes to major items of the Company's financial statements (continued)

(1) Accounts receivable (continued)

(a) The ageing of accounts receivable is analysed as follows:

| | 30 June 2016 (unaudited) | 31 December 2015 |
|---------------------------------------|--------------------------------|---------------------|
| Within one year | 1,000,679 | 1,034,245 |
| Over one year but within two years | 26 | 55 |
| Over two years but within three years | 6 | 7 |
| Over three years | 5 | 3 |
| | 1,000,716 | 1,034,310 |
| Less: Provision for bad debts | (17) | (24) |
| | 1,000,699 | 1,034,286 |

As at 30 June 2016 (unaudited) and 31 December 2015, the Company has no any significant overdue accounts receivable.

(b) Accounts receivables are analysed by categories as follows:

| | 30 June 2016 (unaudited) | | | | 31 December 2015 | | | |
|---|--------------------------|-------------------|-------------------------|-------------------|-----------------------|-------------------|-------------------------|-------------------|
| | Gross carrying amount | | Provision for bad debts | | Gross carrying amount | | Provision for bad debts | |
| | Amount | Percentage (%) | Amount | Percentage (%) | Amount | Percentage (%) | Amount | Percentage (%) |
| Individually significant and subject to separate provision | - | - | - | - | - | - | - | - |
| Subject to provision by groups: | | | | | | | | |
| - Group 1 | 3,364 | 0.34 | 17 | 0.51 | 3,792 | 0.37 | 24 | 0.63 |
| - Group 2 | 997,352 | 99.66 | - | - | 1,030,518 | 99.63 | - | - |
| Individually insignificant but subject to separate provision | - | - | - | - | - | - | - | - |
| | 1,000,716 | 100.00 | 17 | - | 1,034,310 | 100.00 | 24 | - |

Classification of accounts receivable: refer to Note 2(10(b)).

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2016

(All amounts in thousands of Renminbi Yuan unless otherwise stated)

[English Translation for Reference Only]

14 Notes to major items of the Company's financial statements (continued)

(1) Accounts receivable (continued)

(c) Subject to provision by group 1 are as follows:

| | 30 June 2016 (unaudited) | | | 31 December 2015 | | |
|---------------------------------------|--------------------------|-------------------------|----------------|-----------------------|-------------------------|----------------|
| | Gross carrying amount | Provision for bad debts | | Gross carrying amount | Provision for bad debts | |
| | Amount | Amount | Percentage (%) | Amount | Amount | Percentage (%) |
| Within one year | 3,327 | - | - | 3,727 | - | - |
| Over one year but within two years | 26 | 8 | 30.00 | 55 | 17 | 30.00 |
| Over two years but within three years | 6 | 4 | 60.00 | 7 | 4 | 60.00 |
| Over three years | 5 | 5 | 100.00 | 3 | 3 | 100.00 |
| | 3,364 | 17 | - | 3,792 | 24 | - |

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

- (d) During the current period, the Company assessed the impairment on an individual basis in accordance with the accounting policy as described in Note 2(10), and there were no provision for accounts receivable that are individually significant or insignificant but assessed for impairment individually (unaudited).
- (e) During the period, the Company had no material account receivables with fully or substantially write-off or write-back of bad debts which had been fully or substantially provided for in prior years (unaudited).
- (f) During the current period, the Company had no significant accounts receivable that are written off (unaudited).
- (g) As at 30 June 2016, top five accounts receivable are summarised as follows (unaudited):

| | Amount | Provision for bad debts | Percentage of total accounts receivable |
|--|---------|-------------------------|---|
| Total amount of top five accounts receivable | 948,237 | - | 94.76% |

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2016

(All amounts in thousands of Renminbi Yuan unless otherwise stated)

[English Translation for Reference Only]

14 Notes to major items of the Company's financial statements (continued)

(1) Accounts receivable (continued)

(h) Accounts receivable from related parties are analysed as below:

| | 30 June 2016 (unaudited) | | | 31 December 2015 | | |
|--|--------------------------|---|-------------------------|------------------|---|-------------------------|
| | Amount | Percentage of total accounts receivable (%) | Provision for bad debts | Amount | Percentage of total accounts receivable (%) | Provision for bad debts |
| Sinopec Corp., its subsidiaries and joint ventures | 960,230 | 95.95 | - | 988,850 | 95.60 | - |
| Sinopec Group and its subsidiaries | 215 | 0.02 | - | 1,454 | 0.14 | - |
| Subsidiaries of the Company | 2,883 | 0.29 | - | 11,275 | 1.09 | - |
| Associates of the Company | 6,603 | 0.66 | - | 211 | 0.02 | - |
| Joint ventures of the Company | 27,421 | 2.74 | - | 28,728 | 2.78 | - |
| | 997,352 | 99.66 | - | 1,030,518 | 99.63 | - |

(i) There are no accounts receivables derecognised due to the transfer of financial assets during the current period (unaudited).

(j) As at 30 June 2016, there are no accounts receivables pledged (unaudited) (31 December 2015: Nil).

(2) Other receivables

| | 30 June 2016 (unaudited) | 31 December 2015 |
|----------------------------------|--------------------------|------------------|
| Amounts due from related parties | 826,353 | 801,124 |
| Amounts due from third parties | 11,057 | 7,436 |
| | 837,410 | 808,560 |
| Less: Provision for bad debts | (811,577) | (797,592) |
| | 25,833 | 10,968 |

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2016

(All amounts in thousands of Renminbi Yuan unless otherwise stated)

[English Translation for Reference Only]

14 Notes to major items of the Company's financial statements (continued)

(2) Other receivables (continued)

(a) The ageing of other receivables is analysed as follows:

| | 30 June 2016 (unaudited) | 31 December 2015 |
|---------------------------------------|--------------------------------|---------------------|
| Within one year | 55,448 | 41,528 |
| Over one year but within two years | 31,260 | 30,950 |
| Over two years but within three years | 31,070 | 31,230 |
| Over three years | 719,632 | 704,852 |
| | 837,410 | 808,560 |
| Less: Provision for bad debts | (811,577) | (797,592) |
| | 25,833 | 10,968 |

(b) Other receivables by categories are analysed as follows:

| | 30 June 2016 (unaudited) | | | | 31 December 2015 | | | |
|---|--------------------------|-------------------|-------------------------|-------------------|-----------------------|-------------------|-------------------------|-------------------|
| | Gross carrying amount | | Provision for bad debts | | Gross carrying amount | | Provision for bad debts | |
| | Amount | Percentage (%) | Amount | Percentage (%) | Amount | Percentage (%) | Amount | Percentage (%) |
| Individually significant and subject to separate provision | 811,402 | 96.89 | 811,402 | 100.00 | 797,422 | 98.62 | 797,422 | 100.00 |
| Subject to provision by groups | | | | | | | | |
| – Group 1 | 11,057 | 1.32 | 175 | 1.58 | 7,436 | 0.92 | 170 | 2.29 |
| – Group 2 | 14,951 | 1.79 | - | - | 3,702 | 0.46 | - | - |
| Individually insignificant but subject to separate provision | - | - | - | - | - | - | - | - |
| | 837,410 | 100.00 | 811,577 | - | 808,560 | 100.00 | 797,592 | - |

Classification of other receivable: refer to Note 2(10(b)).

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2016

(All amounts in thousands of Renminbi Yuan unless otherwise stated)

[English Translation for Reference Only]

14 Notes to major items of the Company's financial statements (continued)

(2) Other receivables (continued)

(c) Subject to provision by group 1 are as follows:

| | 30 June 2016 (unaudited) | | | 31 December 2015 | | |
|---------------------------------------|--------------------------|-------------------------|----------------|-----------------------|-------------------------|----------------|
| | Gross carrying amount | Provision for bad debts | | Gross carrying amount | Provision for bad debts | |
| | Amount | Amount | Percentage (%) | Amount | Amount | Percentage (%) |
| Within one year | 10,847 | - | - | 7,266 | - | - |
| Over one year but within two years | 50 | 15 | 30.00 | - | - | - |
| Over two years but within three years | - | - | - | - | - | - |
| Over three years | 160 | 160 | 100.00 | 170 | 170 | 100.00 |
| | 11,057 | 175 | - | 7,436 | 170 | - |

- (d) As at 30 June 2016, separate testing for impairment was made in accordance with accounting policies stated in Note 2(10), the following amounts individually significant were subject to bad debt provision, the balance of other receivables from the Company's consolidated subsidiary Jinyong was RMB811,402 thousands (unaudited) (31 December 2015: RMB797,422 thousands). Jinyong stopped production till now since August 2008. The additions in this year included labor cost, tax expenses and other fixed expenditures, which were paid by the Company on behalf of Jinyong. The Company provided a full bad debt provision based on the assessment on the possibility of recovery of other receivables. No provision was recognised for other receivables which were not individually significant but subject to bad debt provision (unaudited) (As at 31 December 2015: Nil).
- (e) During the current period, the Company had no other receivable with fully or substantially write-off or write-back of bad debts which had been fully or substantially provided for in prior years (unaudited).
- (f) During the current period, the Company had no significant other receivable that are written off (unaudited).

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2016

(All amounts in thousands of Renminbi Yuan unless otherwise stated)

[English Translation for Reference Only]

14 Notes to major items of the Company's financial statements (continued)

(2) Other receivables (continued)

(g) As at 30 June 2016, the top five other receivables are as follows (unaudited):

| | Nature | Amount | Ageing | Percentage of total other receivables | Provision for bad debts |
|--|----------------------|---------|----------------------------|---------------------------------------|-------------------------|
| Zhejiang Jinyong | Business transaction | 811,402 | Partially over three years | 96.89% | 811,402 |
| BOC-SPC | Business transaction | 7,085 | Within one year | 0.85% | - |
| Sinopec-SK (Wuhan) Petrochemical Company Limited | Business transaction | 6,505 | Within one year | 0.78% | - |
| Shanghai Jinshan Petrochemical Logistics Co., Ltd. | Business transaction | 4,016 | Within one year | 0.48% | - |
| Sinopec Huadong Sales Company Limited | Business transaction | 1,182 | Within one year | 0.14% | - |
| | | 830,190 | | 99.14% | 811,402 |

(3) Long-term equity investments

| | 30 June 2016 (unaudited) | 31 December 2015 |
|--|--------------------------|------------------|
| Subsidiaries (a) | 1,718,007 | 1,718,007 |
| Associates (b) | 3,278,830 | 3,059,619 |
| | 4,996,837 | 4,777,626 |
| Less: Provision for impairment of long-term equity investments | (227,500) | (227,500) |
| | 4,769,337 | 4,550,126 |

As at 30 June 2016, the Company has made full provision for the long-term equity investments in its subsidiary Jinyong amounting to RMB227,500 thousands (31 December 2015: RMB227,500 thousands). Jinyong stopped production till now since August 2008. The Company has made full provision for the investment cost based on the estimate of recoverable amount of the Long-term equity investments in this subsidiary.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2016

(All amounts in thousands of Renminbi Yuan unless otherwise stated)

[English Translation for Reference Only]

14 Notes to major items of the Company's financial statements (continued)

(3) Long-term equity investments (continued)

(a) Subsidiaries

| | 31 December 2015 | Additional/ negative investment | 30 June 2016 (unaudited) | Impairment provision | Cash dividends declared in current period |
|---------|---------------------|---------------------------------------|-----------------------------|-------------------------|---|
| Toufa | 1,473,675 | – | 1,473,675 | – | – |
| Jinyong | 227,500 | – | 227,500 | (227,500) | – |
| Jinmao | 16,832 | – | 16,832 | – | – |
| | 1,718,007 | – | 1,718,007 | (227,500) | – |

(b) Associates

The information relating to the associates of the Company is disclosed in Note 4(9).

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2016

(All amounts in thousands of Renminbi Yuan unless otherwise stated)

[English Translation for Reference Only]

14 Notes to major items of the Company's financial statements (continued)

(4) Fixed assets

| | Buildings | Plant and machinery | Vehicles and other equipment | Total |
|--|------------------|---------------------|------------------------------|-------------------|
| Cost | | | | |
| 31 December 2015 | 3,235,000 | 39,034,533 | 1,674,921 | 43,944,454 |
| Reclassification in current period | (76) | (3,311) | 3,387 | – |
| Increase in current period | – | 57,583 | 7,563 | 65,146 |
| Transfer from construction in progress | – | 244,247 | 4,644 | 248,891 |
| Decrease in current period | (7,822) | (365,437) | (20,526) | (393,785) |
| 30 June 2016 (unaudited) | 3,227,102 | 38,967,615 | 1,669,989 | 43,864,706 |
| Accumulated depreciation | | | | |
| 31 December 2015 | 1,936,698 | 26,053,734 | 1,331,906 | 29,322,338 |
| Reclassification in the current period | 667 | (781) | 114 | – |
| Increase in current period | 45,050 | 726,087 | 30,423 | 801,560 |
| Decrease in current period | (7,511) | (289,275) | (19,446) | (316,232) |
| 30 June 2016 (unaudited) | 1,974,904 | 26,489,765 | 1,342,997 | 29,807,666 |
| Provision for impairment | | | | |
| 31 December 2015 | 50,785 | 484,536 | 6,138 | 541,459 |
| Increase in current period | – | 85,433 | 2,585 | 88,018 |
| Write-off in the current period | – | (55,456) | – | (55,456) |
| 30 June 2016 (unaudited) | 50,785 | 514,513 | 8,723 | 574,021 |
| Carrying amount | | | | |
| 30 June 2016 (unaudited) | 1,201,413 | 11,963,337 | 318,269 | 13,483,019 |
| 31 December 2015 | 1,247,517 | 12,496,263 | 336,877 | 14,080,657 |

As at 30 June 2016 (unaudited) and 31 December 2015, the Company had no pledged fixed assets.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2016

(All amounts in thousands of Renminbi Yuan unless otherwise stated)

[English Translation for Reference Only]

14 Notes to major items of the Company's financial statements (continued)

(4) Fixed assets (continued)

For the six months ended 30 June 2016, the depreciation expenses amounted to RMB801,560 thousands (unaudited) (for the six months ended 30 June 2015: RMB878,386 thousands (unaudited)). The amount of depreciation expense charged to cost of sales, selling and distribution expenses, general and administrative expenses were RMB758,425 thousands (unaudited), 4,450 thousands (unaudited) and 38,685 thousands (unaudited) (for the six months ended 30 June 2015: RMB838,526 thousands (unaudited), RMB20 thousands (unaudited) and RMB39,840 thousands (unaudited)).

The fixed assets with a carrying amount of RMB248,947 thousands (unaudited) (for the six months ended 30 June 2015: RMB145,261 thousands (unaudited)) were transferred from construction in progress.

(5) Revenue and cost of sales

| | Six months ended 30 June | | | |
|------------------|--------------------------|---------------|------------------|---------------|
| | 2016 (unaudited) | | 2015 (unaudited) | |
| | Revenue | Cost of sales | Revenue | Cost of sales |
| Main operations | 26,937,238 | 15,302,989 | 34,065,531 | 23,376,355 |
| Other operations | 258,321 | 213,839 | 208,816 | 149,218 |
| | 27,195,559 | 15,516,828 | 34,274,347 | 23,525,573 |

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2016

(All amounts in thousands of Renminbi Yuan unless otherwise stated)

[English Translation for Reference Only]

14 Notes to major items of the Company's financial statements (continued)

(6) Investment income

| | Six months ended 30 June | |
|---|--------------------------|---------------------|
| | 2016 (unaudited) | 2015 (unaudited) |
| Investment income accounted for using the equity method (a) | 397,411 | 312,112 |
| Investment income accounted for using the cost method (b) | – | 6,733 |
| Income from forward exchange contract | – | 6,931 |
| | 397,411 | 325,776 |

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

(a) Income from long-term equity investments accounted for using the equity method is as follow:

| | Six months ended 30 June | |
|--------------------------|--------------------------|---------------------|
| | 2016 (unaudited) | 2015 (unaudited) |
| Shanghai Secco | 335,951 | 271,371 |
| Chemical Industrial Park | 61,460 | 40,741 |
| | 397,411 | 312,112 |

(b) Income from long-term equity investments accounted for using the cost method is as follow:

| | Six months ended 30 June | |
|--------|--------------------------|---------------------|
| | 2016 (unaudited) | 2015 (unaudited) |
| Jinmao | – | 6,733 |

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2016

(All amounts in thousands of Renminbi Yuan unless otherwise stated)

[English Translation for Reference Only]

14 Notes to major items of the Company's financial statements (continued)

(7) Supplementary information on cash flow statements

(a) Reconciliation from net profit to cash flow from operating activities

| | Six months ended 30 June | |
|---|--------------------------|---------------------|
| | 2016 (unaudited) | 2015 (unaudited) |
| Net profit | 3,134,109 | 1,704,947 |
| Add: Provision for assets impairment | 139,940 | 65,601 |
| Depreciation of investment properties | 6,676 | 6,668 |
| Depreciation of fixed assets | 801,560 | 878,386 |
| Amortisation of intangible assets | 6,158 | 6,158 |
| Amortisation of long-term prepaid expense | 108,314 | 165,014 |
| Losses on disposal of fixed assets | 24,504 | 8,002 |
| Financial expenses – net | 3,018 | 149,082 |
| Investment income | (397,411) | (325,776) |
| (Increase)/Decrease in deferred tax assets | (17,066) | 477,348 |
| Decrease in deferred income | (5,000) | (5,000) |
| (Increase)/Decrease in inventories | (380,943) | 35,787 |
| Increase in operating receivables | (317,212) | (403,575) |
| Increase/(Decrease) in operating payables | 1,044,159 | (816,460) |
| Increase in specific reserve | 37,366 | 23,852 |
| Share-based payments expense | 11,350 | 11,901 |
| Net cash inflow generated from operating activities | 4,199,522 | 1,981,935 |

(b) Net increase in cash and cash equivalents

| | | |
|--|-----------|---------|
| Cash and cash equivalents balance at the end of the period | 3,881,881 | 239,498 |
| Less: Cash and cash equivalents balance at the beginning of the period | 942,264 | 186,348 |
| Net increase in cash and cash equivalents | 2,939,617 | 53,150 |

SUPPLEMENTARY INFORMATION TO THE FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2016

(All amounts in thousands of Renminbi Yuan unless otherwise stated)

[English Translation for Reference Only]

1 Non-recurring items

| | Six months ended 30 June | |
|---|--------------------------|---------------------|
| | 2016 (unaudited) | 2015 (unaudited) |
| Net losses on disposal of non-current assets | (23,977) | (7,927) |
| Government grants recognised through profit or loss | 14,280 | 7,155 |
| Termination benefits | (4,647) | (10,264) |
| Income from external entrusted lendings | 1,002 | 1,449 |
| Income from forward exchange contract | – | 6,931 |
| Other non-operating expenses other than those mentioned above | (13,993) | (1,765) |
| Tax effect for the above items | 6,853 | (1,202) |
| Effect on non-controlling interests after tax | (428) | 558 |
| | (20,910) | (5,065) |

Basis of preparation for extraordinary profit and loss

Pursuant to Announcement [2008] Explanatory Announcement No.1 on Information Disclosure for Companies Offering Their Securities to the Public issued by China Securities regulatory commission (CSRC), extraordinary profit and loss arises in various trading and issues that have no direct relation with the normal operations of a company, or that are related with normal operations but affect the users of the statement to make reasonable judgment of the Company's operation performance and profitability due to the special and occasional nature of such trading and issues.

SUPPLEMENTARY INFORMATION TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE SIX MONTHS ENDED 30 JUNE 2016

(All amounts in thousands of Renminbi Yuan unless otherwise stated)

[English Translation for Reference Only]

2 Reconciliation between financial statements prepared under CAS and IFRS

The Company is listed on the Stock Exchange of Hong Kong. The Group prepared financial statements under International Financial Reporting Standards (“IFRS”) which is audited by PricewaterhouseCoopers. There are reconciliation items in the consolidated financial report prepared under CAS and IFRS, the reconciliation items and the amount are listed as follows:

| | Net profit attributable to shareholders of parent company (Consolidated) | | Equity attributable to shareholders of parent company (Consolidated) | |
|-----------------------------|--|---------------------|--|-------------|
| | Six months ended 30 June | | 30 June | 31 December |
| | 2016 (unaudited) | 2015 (unaudited) | 2016 (unaudited) | 2015 |
| Under CAS | 3,096,675 | 1,731,166 | 21,906,328 | 19,838,862 |
| Adjustments under IFRS – | | | | |
| Government grants (a) | 12,493 | 14,386 | (29,087) | (41,580) |
| Safety production costs (b) | 39,441 | 25,328 | – | – |
| Under IFRS | 3,148,609 | 1,770,880 | 21,877,241 | 19,797,282 |

Notes:

(a) Government grants

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

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

(b) Safety production costs

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

SUPPLEMENTARY INFORMATION TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE SIX MONTHS ENDED 30 JUNE 2016

(All amounts in thousands of Renminbi Yuan unless otherwise stated)

[English Translation for Reference Only]

3 Return on net assets and earnings per share

| | Weighted average return on net assets (%) | | Earnings per share | | | |
|---|--|---------------------|--------------------------|---------------------|---------------------|---------------------|
| | | | Basic (RMB) | | Diluted (RMB) | |
| | Six months ended 30 June | | Six months ended 30 June | | | |
| | 2016 (unaudited) | 2015 (unaudited) | 2016 (unaudited) | 2015 (unaudited) | 2016 (unaudited) | 2015 (unaudited) |
| Net profit attributable to ordinary shareholders of the Company | 14.465 | 9.918 | 0.287 | 0.160 | 0.287 | 0.160 |
| Net profit attributable to shareholders of the Company excluding non-recurring items | 14.555 | 9.947 | 0.289 | 0.161 | 0.288 | 0.161 |

WRITTEN CONFIRMATION ON 2016 INTERIM REPORT ISSUED BY DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Pursuant to the requirements of Article 68 of the Securities Law and the relevant requirements of Contents and Formats of Information Disclosure by Listed Companies No.3 – Contents and Formats of Interim Reports (Revised in 2014), we, being Directors, Supervisors and the Senior Management of the Company, having carefully studied and reviewed the Company's 2016 interim report, are of the view that: the Company is in strict compliance with the standardised regulations of financial system of joint stock companies and the 2016 interim report gave a true and fair view of the financial position and operating results of the Company. We warrant that the information contained in the 2016 interim report is true, accurate and complete, and that there are no false or misleading statements contained in or material omissions from this report. We jointly and severally accept full responsibility for the authenticity, accuracy and completeness of the information contained in this report.

Signature:

Directors:

Wang Zhiqing

Wu Haijun

Gao Jinping

Ye Guohua

Jin Qiang

Guo Xiaojun

Lei Dianwu

Mo Zhenglin

Cai Tingji

Zhang Yimin

Liu Yunhong

Du Weifeng

Supervisors:

Zuo Qiang

Li Xiaoxia

Zhai Yalin

Zheng Yunrui

Pan Fei

Senior Management:

Zhang Jianbo

CORPORATE INFORMATION

(1) Corporate 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 | Wang Zhiqing |

(2) Contact Persons and Contact Details

| | <u>Secretary to the Board</u> | <u>Securities Affairs Representative</u> |
|---------|--|--|
| Name | Zhang Jianbo | Wu Yuhong |
| Address | 48 Jinyi Road, Jinshan District, Shanghai, PRC Postal Code: 200540 | 48 Jinyi Road, Jinshan District, Shanghai, PRC Postal Code: 200540 |
| Tel | 8621-57943143 | 8621-57933728 |
| Fax | 8621-57940050 | 8621-57940050 |
| E-mail | zhangjb@spc.com.cn | wuyh@spc.com.cn |

(3) Basic Information

| | |
|--|---|
| Registered Address | 48 Jinyi Road, Jinshan District, Shanghai, PRC |
| Postal Code of Registered Address | 200540 |
| Business Address in PRC | 48 Jinyi Road, Jinshan District, Shanghai, PRC |
| Postal Code of Business Address in PRC | 200540 |
| Principal Place of Business in Hong Kong | Room 1501, 15/F, AXA Centre, 151 Gloucester Road, Wanchai, Hong Kong |
| Website of the Company | www.spc.com.cn |
| E-mail address | spc@spc.com.cn |

(4) Information Disclosure and Place for Access to Information

| | |
|--|--|
| Designated Newspapers for the Publication of Company Announcements | Shanghai Securities News, China Securities Journal and Securities Times |
| Websites for the Publication of the Company's Interim Report | Shanghai Stock Exchange website, Hong Kong Stock Exchange website and the Website of the Company |
| Place for Access to the Company's Interim Report | Secretariat Office to the Board, 48 Jinyi Road, Jinshan District, Shanghai, PRC |

CORPORATE INFORMATION *(continued)*

(5) Share Profile of the Company

| Share Type | Place of Listing of the Shares | Stock Abbreviation | Stock Code |
|------------|--------------------------------|--------------------|------------|
| A Shares | Shanghai Stock Exchange | 上海石化 | 600688 |
| H Shares | Hong Kong Stock Exchange | SHANGHAI PECEM | 00338 |
| ADR | New York Stock Exchange | SHI | – |

(6) Changes in Registration

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

(7) Other Information

Auditors engaged by the Company (Domestic):

| | |
|---------|--|
| Name | PricewaterhouseCoopers Zhong Tian LLP |
| Address | 11/F., PricewaterhouseCoopers Center, 2 Corporate Avenue, 202 Hubin Road, Huangpu District, Shanghai 200021, PRC |

Auditors engaged by the Company (International):

| | |
|---------|--|
| Name | PricewaterhouseCoopers |
| Address | 22/F Prince's Building, Central, Hong Kong |

Legal advisors

| | |
|----------------|--------------------------------------|
| PRC Law: | Haiwen & Partners |
| | 20th Floor, Fortune & Finance Center |
| | No.5 Dong San Huan Central Road |
| | Chaoyang District, Beijing, PRC |
| | Postal Code:100020 |
| Hong Kong Law: | Freshfields Bruckhaus Deringer |
| | 11th Floor, Two Exchange Square |
| | Central, Hong Kong |

CORPORATE INFORMATION *(continued)*

United States Law: Morrison & Foerster
425 Market Street
San Francisco, California 94105 – 2482
U.S.A

Joint Company Secretaries:

Zhang Jianbo, Ng Sin Yee Clare

Authorised Representatives for Hong Kong Stock Exchange:

Wang Zhiqing, Zhang Jianbo

Major Bankers:

China Construction Bank – Shanghai Branch
No.900 Lujiazui Ring Road, Pudong New District, Shanghai, PRC
200120

Industrial and Commercial Bank of China – Shanghai Branch
No.9 Pudong Avenue, Pudong New Area, Shanghai, PRC
200120

H Shares Share Registrar:

Hong Kong Registrars Limited
Shops 1712 – 1716, 17 Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong

Depository:

The Bank of New York Mellon
Computershare
P.O. Box 30170
College Station, TX 77842-3170
Number for International Calls: 1 201-680-6921
Email: shrrelations@cpushareownerservices.com
Website: www.mybnymdr.com